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Executive Intelligence Review

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Founder and Contributing Editor:  
*Lyndon H. LaRouche, Jr.*  
Editor-in-chief: *Criton Zoakos*  
Editor: *Nora Hamerman*  
Managing Editor: *Susan Johnson*  
Features Editor: *Christina Nelson Huth*  
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# EIR

## From the Managing Editor

Henry Kissinger once growled to a European interlocutor, "LaRouche does not exist." This attitude toward the *EIR* founder and former presidential candidate seems to have persisted at the State Department. The day after LaRouche held an official meeting with President José López Portillo, during a recent visit to Mexico, *Novedades* carried a report that DOS subordinate Stan Zuckerman had issued a press release from the U.S. Embassy stating that Mr. LaRouche "does not speak in the name of any political organization in the North American nation, nor does he represent anyone in U.S. political life."

On May 28, the National Democratic Policy Committee (NDPC), an officially registered political action committee of the Democratic Party with over 550 chapters around the country, registered a formal demand for disciplinary action against any embassy official who may have issued falsehoods. It is a violation of U.S. law for a government official to issue lying statements about a U.S. citizen abroad, the State Department itself confirms. Mr. LaRouche heads the NDPC's advisory board.

We thought this episode was especially piquant in light of the 20 percent vote for NDPC candidate Steven Douglas in the four-way gubernatorial primary race in Pennsylvania this May, where Douglas took 35 percent in Philadelphia. Next week, our Special Report will bring you up to date on the NDPC and its significance. We will also publish an exclusive interview with the Foreign Minister of Argentina, Nicanor Costa Méndez.

This week's Special Report is a byproduct of Mr. LaRouche's April trip to India, where he met with Prime Minister Indira Gandhi. The State Department, which for years has maintained its Kissingerian "tilt" against India, has deprived the United States of one of its greatest potential partners. As in the case of Latin America, restoring productive ties will require careful attention to the policy outlook we present.

*Susan Johnson*

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Uwe Parpart/NSIPS

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## The way out of Mexico's financial disaster

by Timothy Rush

U.S. economist and Democratic Party leader Lyndon LaRouche, on a visit to Mexico at the end of May which included a meeting with President José López Portillo and an address to the Fourth Congress of the Mexican Labor Party (PLM), told Mexico it had to go on the offensive to preserve its economy and institutions from the danger of what he termed "Iranization."

The specific action he urged was that Mexico join with its sister Latin American nations to use the region's combined \$200 billion-plus debt as a reverse weapon against those Malthusian financial interests, based in London, Switzerland, and New York, who are counting on the debt as a weapon against Latin America instead.

LaRouche specified how the Latin American countries, which are being destroyed one by one through genocidal financial conditionalities, could use their debt to impose conditions on the foreign bankers:

Latin America: "We want a gold-based monetary system!"

Bankers: "No, no, no."

Latin America: "You just lost \$200 billion."

Bakers: "Well, I guess we have no choice."

Latin America: "We want credit at 2 percent interest!"

Bankers: "No, no, no."

Latin America: "You just lost \$200 billion."

### Twofold crisis

Mexico is simultaneously under the gun of foreign bank efforts to collapse its finances and the cumulative effects of crippling errors in its own development strategy.

As outlined by PLM Secretary-General Marivilia Carrasco in her keynote presentation to the PLM congress, Mexico has committed three major errors in its growth strategy. First, despite the effort put into capital goods and heavy industry, the bulk of growth of imports were part of continuing import substitution efforts with overall negative economic value. Second, Mexico indulged in planning efforts of such a disproportionate nature relative to actual building that the development projects of the planners remain largely on paper four years later. A nuclear program which should have been restarted four years ago is a prime example.

And third, the government never took effective control of the national banking and credit apparatus, which remained largely in the hands of speculators and anti-growth strategists. This failing has contributed to the government's current impotence in the face of flight capital, which should properly be contained by exchange controls.

What has now happened is that the foreign financial sector, exploiting these weaknesses in the Mexican model, is taking advantage of the Volcker high-interest-rate regime and slack world oil markets to collapse the whole situation, and hold up a gutted Mexico as an object lesson for any country which dares to aspire to rapid industrial growth.

Rather than attempting to straighten out the internal situation and take on the external enemies along the lines suggested by LaRouche, government officials are for the most part capitulating to the pressures.

Mexican Finance Minister Jesús Silva Herzog called in the foreign press May 18 to announce that Mexico's



Carlos de Hoyos/NSIPS

*The Ciudad Netzahualcoyotl area of Mexico City, where speculation has given rise to a shantytown.*

pledge to cut a whopping \$6 billion from its imports was being carried out, and that the official estimate for growth over the next year is zero percent, after growth of 8 percent per year for the last four years. He stated "Perhaps the fundamental problem is that we grew too fast."

Silva Herzog also made the first official suggestion that Mexico may put off its big nuclear energy program, set to move into its next stage in August with the award of \$2 billion in new contracts. "We probably are going to postpone a decision on the nuclear program until the next government," he was reported to have stated. That means a moratorium on nuclear development until well into the next presidential term, which begins Dec. 1, 1982, unless other officials intervene. Scrapping the nuclear program has been aleading demand from New York and London.

### **Abject Finance Minister**

Silva Herzog's willingness to surrender what has been initiated of Mexico's development plans is symptomatic of many officials who believe that such surrender will buy time until economic progress can be resumed. This is the same illusion that guided the Shah of Iran and his more loyal advisers. If Mexico had learned anything from the experience of Iran—where the Shah's nuclear program was one of the first high-technology pillars of the economy knocked out—it would know that one capitulation to such nation-wrecking demands only leads to another.

In Mexico, LaRouche listed four phases of this process now under way: 1) devalue the peso to 90 to the

dollar (it is currently 47 to the dollar); 2) put Mexico under GATT dictatorship; 3) use the economic crisis to destabilize Mexico politically; and 4) create a blow-out in the Middle East, as a pretext for military occupation of the Mexican oil fields.

### **'Poor old López Portillo'**

A top official of Security Pacific Bank made it clear that it was not Mexico's growth errors, but the attempt to develop the country at all, which was the issue. President López Portillo was responsible for bringing on "disaster" with "expansionist, growth-oriented policies," he told *EIR*. "Now poor López Portillo has had to swallow a bitter political pill. He is humbly trying to undo what he had done. His administration will go down in the history books as a disaster. And I must say it is fitting that this should happen." He chortled that "once in a while, a terrible thing happens: a country falls into the fatal embrace of foreign bankers. Financial factors come to determine everything else, including political and social policy."

A credit cut-off and new forced devaluation of the peso—down to 65 to the dollar as an interim level, says the U.S. Federal Reserve in private—are on the immediate agenda. How little either has to do with objective conditions in the Mexican economy was rubbed in by an official of a leading New York bank who is close to the Council on Foreign Relations. A new devaluation "will almost certainly come sometime in June," he assured *EIR*, despite the fact that the peso is almost universally regarded as *undervalued* after the first devaluation of February. The banker's fundamental motivation was revealed when he added, "This new devaluation will be politically devastating to the ruling PRI party and to López Portillo, coming just weeks before the July 4 national elections."

The maneuverings for a credit cut-off—which, as *EIR* has reported, the U.S. Federal Reserve declared privately in March it was orchestrating with private banks for the May-June period—focus on a "jumbo" \$2.5 billion loan credit on the international markets Mexico is now seeking, preceded by a \$1 billion bridge loan.

The purpose of the credit is to restructure current debt into longer-term maturities at attractive rates, and help meet some of the \$11 billion on interest alone that Mexico owes this year. Not a penny is for continuing any of Mexico's development projects.

Officials at the New York Federal Reserve, Citibank, and Security Pacific said the last week of May that they were working to shoot the loan down. The New York and London financial press suddenly sprouted articles casting doubt on whether "the little banks" were going to join the syndication. This was the same kind of press scare tactic used against the \$1.2 billion

## Mexico's economy at a glance

**GNP:** 1982 growth officially projected at 2-3 percent, said Finance Minister, Silva Herzog on May 18. For the year April 1982-April 1983, zero percent. Business and labor sectors are protesting that these figures are set too low, and designed to please foreign bankers.

**Imports:** Government is pledged a drop of \$6 billion in imports for 1982, divided 50-50 between the public and private sectors. This is a 25 percent collapse over 1981 levels of \$24 billion. The kind of ravaging of U.S. exports involved is indicated by Washington estimates of U.S. export of oil-related equipment to Mexico for 1982: \$500 million, down from \$2.0 billion in 1981.

The Bank of Mexico announced May 24 that import levels for the first four months of 1982 are close to meeting the government goals. In January-February, imports fell 15 percent. This rate accelerated and in March-April, the fall was 33 percent. Over the four months, imports were down \$1.9 billion.

**Exports:** Oil and gas revenues are heading toward \$14 billion at best, approximately \$1 billion off last year's levels. Non-oil exports are substantially down as well, proving the bankruptcy of the argument that the February devaluation was required to make Mexican exports competitive. The manufacturing association Canacintra reports manufacturing exports are off 50 percent so far this year.

**Interest rates:** The last week in May the Bank of Mexico hiked domestic interest rates 1.9 percent, raising the cumulative increase since Easter week to 6.9 percent. The minimum now for government paper (CETES) is 40.1 percent, and for 30-day commercial paper, 50.0 percent; business loans are effectively at 50-55 percent.

**Inflation:** Rising over the first four months at an annualized 60 percent rate, as a result of the February devaluation. Inflation for April 1981-April 1982, 40 percent. 1981 inflation: 28 percent.

**Prices:** Price controls on some 5,000 items extended May 24 for three more months. CTM labor confederation pushing for permanent price controls; business associations warning of spreading bankruptcies if price controls are not lifted.

**Projects axed:** Completion of six major government offices in Mexico City, including the 58-story Pemex tower; one subway-line extension (unconfirmed).

**Projects threatened:** Next phases of nuclear development and the Las Truchas steel mill; the industrial port projects at Altamira and Laguna del Ostion.

Pemex loan signed April 2. It didn't work then, and so far it does not appear to be working now. But the spread Mexico has to pay is rising fast. The second part of the jumbo package specifies rates of 1.5 points over LIBOR, a 75 percent jump over the  $\frac{7}{8}$  points above LIBOR of the Pemex loan. And the tactic is to keep building the "doubt" with each loan until one does fall through in the near future.

Then what happens? "Mexico would be forced to go to the IMF directly, and that's the kind of 'performance guarantee' on an austerity program that we want to see," declared the Security Pacific executive.

It's a calculated strategy of playing with fire, since if Mexico fails to get new cash, it could mean default on all of Mexico's \$50 billion in public debt and \$20 billion in private debt. "Yes, it could be the next Poland," acknowledged one of the Latin American desk officers for the New York Federal Reserve, glibly passing over the fact that the amounts involved are three times those of Poland, and debt almost all held by U.S. banks.

### Plan for a new Chile

The New York Fed official confided that the crucial policy objective was to force Mexico to reverse its long-standing opposition to GATT. Mexico's vital capital-goods imports are already going; the GATT demand is to allow a flood of cheaper foreign manufactured imports which would bankrupt whole sectors of Mexican industry currently enjoying government protection. The "import substitution" skew of the Mexican economy makes it particularly vulnerable to this kind of operation. Already, government cuts of up to 8.3 percent in most areas of productive activity are leading to waves of layoffs in non-contract labor. What you will see will be "just like Chile," the Fed official promised.

The Fed plan got a boost from the U.S. Ambassador to Mexico, John Gavin, who told a meeting of the American Chamber of Commerce of Mexico May 17 that "if the Mexican government continues subsidizing" its exports, the U.S. would impose countervailing duties on a broad scale, and "bilateral trade could be reduced." He offered Mexico a "ready market" for its goods in the United States—provided the country "moved toward trade liberalization."

Gavin's threats of trade war drew outrage from Mexican business leaders of all viewpoints, even the followers of Friedmanite neo-liberal doctrine.

The U.S. Department of Commerce, after giving definitive authorization for a 15 percent countervailing duty to be levied on import of Mexican ceramic tiles the first week in May, has now suspended high-level trade talks with Mexico scheduled for June 9. Commerce officials told *EIR* that maximum pressure is being prepared for Dec. 1, when the presidency of Miguel de la Madrid begins.



# The Venetian intelligence directorate and the Hapsburgs' financial empire

by David Goldman, Economics Editor

*On the evening of April 26, the head of what is perhaps the wealthiest family in the world, Karl August, Sovereign Prince of Thurn und Taxis, died at his palace in Regensburg, West Germany. By coincidence, EIR Economics Editor David Goldman had spent that afternoon at the Thurn und Taxis palace in the company of Karl August's heirs, Crown Prince and Princess Johannes and Maria Gloria von Thurn und Taxis. Below is the second part of his account of the visit.*

*In Part I, Mr. Goldman describes how the Prince told him that the secret of the family's survival was never to wield political power as such, and thus to survive all political changes, while diversifying its financial holdings geographically. Even if the United States were annihilated in a nuclear war, the Prince said, "there will always be something left over for us."*

*Mr. Goldman emphasized in Part I that the family controls the Benedictine Abbey in central Bavaria near Regensburg which serves as the chief training ground in Germany for the schismatic Lefebvrist Roman Catholics. It was from those Lefebvrist circles that the latest would-be assassin of Pope John Paul II came (see article, page 42).*

Wealth as such was never the key to the family's power. According to its privately published official history, the ascension to control over the Imperial postal service put the founding father of the present Regensburg line, Franz of Thurn und Taxis, into business relations with the Augsburg-based Venetian bankers, the Fuggers and Welsers, and established the basis of a huge commercial fortune. But that step upwards came after the family, whose origins go back to the 13th-century Bergamo in northern Italy, became the chief agents of the foreign intelligence of the Republic of Venice, the landless octopus that spread its influence throughout Europe. Nine years after Franz of Thurn und Taxis obtained the postal concession, gaining control of most of Europe's com-

munications, the Fugger banking house paid 600,000 thaler for the election of Charles V as Holy Roman Emperor, in the greatest exercise of foreign influence in the history of Venetian special operations.

Hapsburg power was driven back only a century and a half later, after the Thirty Years War of 1618-48, and the conclusion of the Peace of Westphalia, which established the principle of the sovereign nation-state for the first time in international law, as against the Hapsburg notion of nationless "universal monarchy." As the greatest of all historians, Friedrich Schiller, reported in his history of the war, horrible conflict began with a provocation on the part of the Viennese imperial court: the "Defenestration of Prague," when Imperial agents were thrown out of a 100-foot-high window in Prague, onto the castle dungheap. The "defenestration" gave the Hapsburg forces the pretext to crush their opposition inside German-speaking Europe. Only with French and Swedish intervention after 1628, under the guidance of Cardinal Richelieu, was the Hapsburg power driven back. Schiller concluded that although the war destroyed one-third of the entire German-speaking population, "the hand of industry has wiped out all traces of this destructive war, and the beneficial consequences which accompanied it . . . the community of principle of nations, remain."

### The Inquisition

Walking through the castle's endless galleries later that day with the family's professional historian, we stopped before a portrait of the famous general Wallenstein, the imperial strategist whose hordes of half-starved beggars, recruited through hunger and destruction, nearly won the Thirty Years' War for the Emperor. "The portrait was done for the family in 1628, when Wallenstein came to Regensburg for the Imperial Congress," the historian explained. A Wallenstein associate

was a certain Count Thurn of Bohemia, a firebrand rebel who started the war by setting up the "Defenestration," according to Schiller's report. "Was the Count Thurn related to the family?" I asked the historian. "Most certainly: he is the founder of the Bohemian line of Counts Thurn und Taxis, whose present-day descendent is Max von Thurn und Taxis."

All doubt left my mind at that instant that the Inquisition of the Republic of Venice still exists. Max von Thurn und Taxis is the world chairman of the Mont Pelerin Society, whose Vice-President is Milton Friedman. As this journal has reported, and as Lyndon LaRouche and I documented exhaustively in a recent book, *The Ugly Truth About Milton Friedman* (Benjamin Franklin House, New York, 1981), the Mont Pelerin Society is the world high priesthood of monetarism. The Hoover Institution of Stanford University, the economics think tank for the Reagan administration, the present home of Friedman, and of Reagan's former domestic affairs adviser Martin Anderson, is controlled by the Mont Pelerin Society. The private college of the Mont Pelerin Society, Hillsdale College in Michigan, sent David Stockman into Congress in the style of an 18th-century British pocket borough, the same Stockman who lured Reagan into the trap of "supply-side economics." To say nothing of Stockman's influence, Friedman's ex officio ties to the White House make him a considerable force in the Oval Office. What is worse, as Jude Wanniski has reported to me on many occasions, the Oval Office debate has occurred between Stockman and Friedman, that is, has been controlled by the Mont Pelerin Society on both sides.

The Mont Pelerin Society, LaRouche and I documented, is the economics branch of Count Coudenhove-Kalergi's Pan-European Union, the grandfather of all the European fascist movements. Its influence penetrates as deeply into the foreign-policy apparatus of the Reagan administration as does its sister organization, the Mont Pelerin Society, in economics policy-making.

The chief surviving aide to Coudenhove, who, like the Thurn und Taxis, was a German-speaking transplanted Venetian nobleman, is Fritz Kraemer, the Pentagon official who molded the careers of both Henry Kissinger and Alexander Haig. It was Kissinger, the hagiographer of Hapsburg Chancellor Prince Metternich, the man who gave the postal service of the Empire back to the Thurn und Taxis after 1816 (until the Prussians took it back from them in 1867), who promoted Haig from military obscurity. Richard Allen, the former National Security Adviser to the President, is a product of the University of Munich, whose Chancellor, Prince Lobkowitz, is a close friend still of Prince Johannes of Thurn und Taxis. Another associate of the old Hapsburg circuit, Robert Strausz-Hupe, former



*Prince Johannes Thurn und Taxis at the funeral of the head of the family, Karl-August.*

Chairman of the Foreign Policy Research Institute of Philadelphia, transition-team adviser on foreign policy for Reagan, is presently Ambassador to the crisis zone of Turkey.

Otto von Hapsburg, the current pretender to the defunct Austro-Hungarian throne, and the figurehead of the Pan-European Union networks, is treated with some condescension by its older and nastier members. Haig's Svengali, Fritz Kraemer, once responded to my inquiry concerning his opinion of Otto von Hapsburg, "Otto? Otto? If Otto were not of the blood royal, he would have made a very good . . . foreign correspondent!" Indeed, Otto von Hapsburg spent part of the 1960s writing private intelligence reports for David Rockefeller typed on onionskin paper, which made the cheapest spy novels seem lucid by comparison, according to acquaintances who had access to the originals. But the Hapsburgs—at least two and (including the dubious Maeterlinck hunting-lodge suicide) perhaps three leading members of which family were assassinated by Venetian-controlled anarchists during the last forty years of their reign, including the 1914 death of Archduke Ferdinand, the trigger for World War I—have always been figureheads. Their intelligence chiefs, the Thurn und Taxis among others, have always been more important.

I had asked the Prince earlier what had become of the intelligence and diplomatic service of the Venetian Republic after Napoleon dissolved it in 1798. He re-

sponded that the Vatican, which had always despised the Venetian oligarchy as dangerous cultists, used the opportunity to chop up the fortunes and capabilities of the leading families. What survived then did so through connections to Austria, which absorbed (as a matter of historical record) the Venetian intelligence service. The Thurn und Taxis fortune, he concluded, represented the principal continuation of the Venetian intelligence, which the family had in any event guided for the preceding four centuries.

But now, viewing Wallenstein's tortured expression, I became convinced that the man with whom I had just had dinner had as much power now as did his forefathers at the height of Hapsburg power, and perhaps more power in the American government than any other individual. This is not the power to build, but the power to lame, to disorient, to confuse: the great talent of the Venetian Republic, which always set all against all, never claiming large territories, never tying itself to fixed positions, and always emerging on top of the pile of rubble. The activities of such lesser relations as Count Max von Thurn und Taxis in promoting the sort of ideology that prevents nations from functioning are of use to him, although he doesn't necessarily believe in such ideology.

### **View of current events**

"I heard some 18 months ago a speech by your relation, Max von Thurn und Taxis, the count, who predicted the world would trend toward liberalization, and that what is called the underground economy, in Italy, Latin America, or other places, would find its rightful place in the sun," I had told Prince Johannes earlier, referring to Count Max's speech at the 1980 meeting of the Mont Pelerin Society at the Hoover Institution. The old count had predicted the end of national control over national economic affairs in favor of the "Hong Kong" model of free enterprise. Did the Prince see events moving this way?

"Actually, I do not," he replied. "Possibly in America, where you have a far stronger economy, and a market that is almost sufficient unto itself. But in Europe, I see the structures changing. Look at Thatcher. She was just about to manage it, and now she gets into this disastrous thing over the Falkland Islands."

He continued, "It's very hard for the English to do anything else. It's very peculiar: if the thing had happened two years from now, the English could have not sent a fleet at all. One of the carriers is already sold to the Australians, and the other is due to be scrapped, along with a good deal of the rest of the fleet. It we look closely at this Falklands situation, Mrs. Thatcher was in the process of giving up a large part of her defense expenditures when this Falklands affair

emerged. The next time they will have to attack the Falklands with canoes! On the one hand, the English can't afford politically to make any more defense-budget cuts, and on the other, the British economy is so fragile that they cannot rearm."

After the resignation of Lord Carrington, the outgoing British Foreign Minister, Prince Johannes continued, the British had no leadership left. What the British can no longer do, he said, "is what we have always tried to do: to think logically, to deal with others in a predictable fashion. And that Lord Carrington, realistic thinker that he is, could do. He had something essentially logical and intelligent about him; when he had an opponent, he could recognize that his opponent, too, was intelligent."

He added, "The situation in Latin America is influenced by various circumstances, of course. They have great internal political problems. But may I say: if I were the king of Spain, and I thought of my countrymen's needs, I would overrun Gibraltar, and revise all my agreements with Britain to free myself from my foreign debts! The Spanish have great economic difficulties, and this were their only chance to get out of them. Naturally, Gibraltar is a part of the Spanish mainland. And Galtieri went and did it."

It was not a surprise that Thurn und Taxis backed the Argentines. On April 20, the chairman of the board of the most Venetian of all firms, the giant Assicurazione Generali of Venice, Cesare Merzagora, had published an article in the Milan daily *La Repubblica* defending the Argentine position. But the central issue remained: what would happen to the postwar institutions of the Atlantic Alliance as a result of the Anglo-Argentine war? I asked the Prince, "Do you see the possibility that out of this, NATO might find a way to resolve its differences, and regroup itself on some basis that would enable it to continue to function?"

"You see," responded Thurn und Taxis, "the point is again, in turn, if you take all these countries, like Greece, and Turkey, and Spain, all together in the new NATO, I think it's very complicated for the next 10 years. A war could come up between Greece and Turkey; certainly the Argentine crisis disaster was something that people never expected. It's very difficult for the Europeans to restructure, you see. The French economy is going to be completely destroyed in three or four years. They won't be able to make it. Of course, the French are not the Germans. For Spain, France, and these other countries, it's much harder to do."

"The result of this," concluded the Prince triumphantly, "will be that the misguided efforts to industrialize countries like Argentina or Brazil will be suspended forever!"

*To be continued.*

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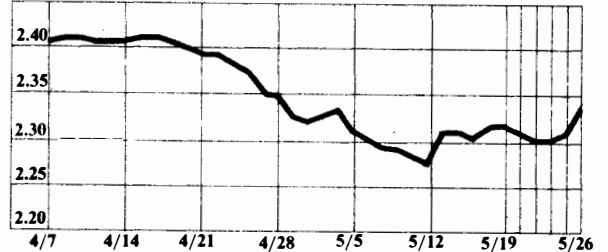
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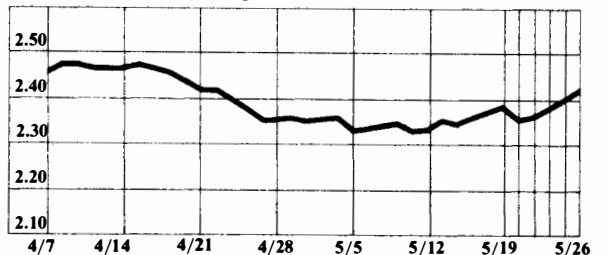
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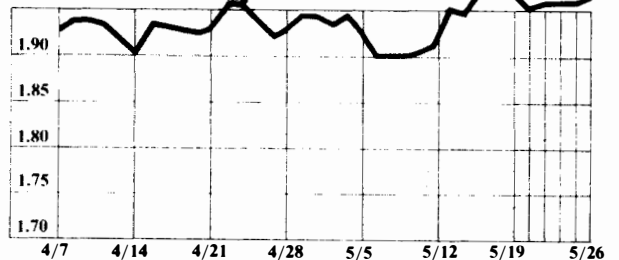
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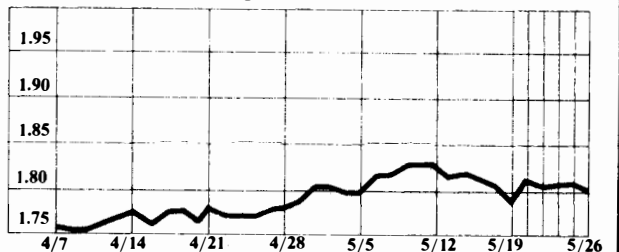
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## Davignon assesses the global slump

*Viscount Etienne Davignon, Vice-President of the European Community in charge of industrial affairs, energy, research, and science, talked with EIR European Economics editor Laurent Murawiec on April 1 at the Brussels EC headquarters. A Belgian, the Viscount was responsible for the Davignon Plan to "rationalize" EC steel output.*

**Murawiec:** According to Club of Rome member Jean Saint-Geours [now an economic adviser to President Mitterrand], "sunset" industries, as they are phased out, take many jobs away with them which are not being replaced by "sunrise" industries, which are of little benefit for employment. Can large, permanent underemployment be averted?

**Davignon:** Let me make a few remarks. First—Saint-Geours acknowledges it, and he helped us define some points; he did several studies for us on the notion of economic strategy within a changed energy environment—we are only slowly coming along this idea that the economic model we are dealing with is not an old model subjected to new pressures, but a new situation, a structurally changed situation. It is a nasty and very worrisome, disquieting situation. . . .

My second remark is that this structural analysis sheds light on some positive elements that had not been noticed before that. For instance, the fact that there has been a decoupling between energy consumption and growth. This phenomenon has been occurring for the last three years. While the curves of growth and energy consumption were parallel—this holds for the United States as well as Europe—when there is actual growth, nowadays, the energy curve is flat or even inflected downward. . . .

**Murawiec:** These are curves for non-manufacturing activities, services, so-called "soft" technologies. . . .

**Davignon:** No, no. There are also manufacturing elements! It is not well known yet. We must distinguish between what results from a decrease in production and what results from a structural transformation. This decoupling is a fact. . . . The real distinction is between

those industries that will not adapt and those that will adapt. This holds for high-technology industries as well as others. Our Manichean mind would like to have clear-cut solutions—it does not work.

**Murawiec:** The United States is plunging headlong into economic depression. How will Europe react?

**Davignon:** When so large a market as America's undergoes such difficulties, global trade undergoes difficulties too. Insofar as the problem persists in the United States, we will find ourselves faced with the problems posed by the monetary setup, the interest rates. . . . Whatever efforts are made, it is extremely difficult for a European country, whichever it is, to dissociate itself from U.S. interest rates, lest the penalty is paid by the currency. If our interest rates climb, our currencies will not fall too much, but productive investment will suffer. . . .

In the field of energy, of construction, we need considerable increases of productive investment. How can savings be convinced to flow in this direction if it will be rewarded by rates several points above the rate of inflation without taking the slightest risk? This increasingly shifts to public authorities the burden of investment—but there are limits to what public investment should do.

**Murawiec:** Do you intend to subject other sectors of European industry to the same fate as steel?

**Davignon:** The steel problem must be distinguished from usual industrial problems. In the case of steel, it was a classical case of worldwide structural overcapacity. . . . The Japanese extricated themselves better than the others, but at the price of huge sacrifices. But as they did the sacrifices in time, the results [success] drew more attention than the sacrifices. The situation of steel in the United States is complex. Some states there did not succeed in their post-industrial adjustment any better than some European regions.

**Murawiec:** Is there a concrete perspective of the European Monetary System [EMS] for creating the European Monetary Fund [EMF]?

**Davignon:** The EMS question is this: when it was set up, the EMS drew quite some skepticism. But the services it rendered compelled the member states to consolidate it. It's an old story: if you don't have a car, you find it's normal to use public transportation; when you've enjoyed the benefits of a car, but you have no money to buy another one, your organizing of a good maintenance for your car becomes an essential element. . . . Today we have a generalized sentiment, politically, that the EMS should be strengthened. . . . Should it be—that's the choice to be made—a fund, or an enhanced solidarity with more operating modes? The fund, it is true, has an important quality, symbolic, subjective. . . .

## European Community sets CAP prices

*British manipulation of the EC forced a compromise that means more trouble for European agriculture.*

After nearly two months of stalling, the European Community on May 18 went ahead with a majority vote over Britain's bitter protestations to set a new agricultural price package for 1982-83.

Throughout the meeting, the British had insisted that there was no legal basis for such a vote, but that did not stop the Nine from forcing through, at long last, a voice vote denying the United Kingdom any right of protest. The new prices take effect on May 20.

The package gives the farmers an average 10.7 percent price increase, somewhat lower than the French demands and not quite keeping pace with inflation. Britain wanted only a 6 percent increase.

Then, in what the British portray as a magnanimous concession, the United Kingdom has agreed to accept the EC's offer of a £450 million rebate, instead of the £570 million they had demanded. That is a 75 percent reduction from their regular contribution to the EC budget.

Though the agreement settles this year's budget, the issue is not settled. By the end of the summer, discussion will begin on next year's budget, and Britain will no doubt raise the demand for a long-term agreement. Another pending issue is West Germany's refusal to continue to be the sole "net" contributor to the Common budget to the current extent. At this point all EC members other than the United

Kingdom and West Germany are net beneficiaries from the budget.

Britain's demand to pay less to the EC than the Nine stems from the fact that they import over 60 percent of their food needs from Commonwealth nations outside the Community, which require heavy customs duties although the food products are relatively cheap. Western Europe's concession to continue the sanctions against Argentine imports indefinitely enables Britain to milk the EC for what it can get, while purporting to have done the gentleman-like thing by settling the budget so quickly.

This situation has prompted France to raise the issue of renegotiating Britain's status in the EC, and there is talk of reviving de Gaulle's plan of "association." De Gaulle's plan and the current one differ in a vital regard. Both agree that Britain should have a free-trade relationship with the EC, but the new plan also allows Britain to have a political say in the European affairs, creating a "two-tier" Community the West German claim will degenerate rapidly. Britain will then have gone a long way in achieving its goal of turning the EC into a free-trade association.

British Agricultural Minister Walker haughtily described the voice vote tactic used to override the British veto of the price increases as "a very remarkable steamrolling operation which will reflect very badly on the Brussels Commission

and the Community. I pointed out that the event overturned a basic understanding of the way the Community works and reaches decisions, and that method is no longer in existence, having been totally violated for the first time in 16 years."

The annual price increase for the Common Agricultural Policy (CAP) is based factors including the cost of production, prevailing market prices, and a fair profit for farmers, resembling the American system of parity.

Because inflation has been at an average 11 percent, ranging from 6 to 19 percent at the extremes, any price increase per country below inflation rates will erode farmers' incomes and profits and force borrowing at high interest rates.

The combination of reduced world trade plus high interest rates and increased costs has brought down real incomes for EC farmers by 12 percent since 1979. This puts pressure on individual countries to support their own farmers, or see the collapse of their agricultural sectors. The new budget provides for a 7 percent increase in farm spending.

The three-week delay in setting the new price cost European farmers, including Britain, some \$400 million is reduced income.

Europe's militant farmers became extremely discontented. In the traditional European way, Belgian farmers staged two tractor blockades at the Common Market Foreign Ministers meeting in Brussels on May 9. The demonstrators carried placards reading "European farmers do not want to pay for Britain's War in the Falklands" and "eight million EC farmers are more important than 1,800 Falklanders."

## Fear of the unknown

*Chase Manhattan's acknowledgement of the 'end of distress borrowing' means bankruptcies have only started.*

For the first time a major bank, Chase Manhattan, has put the bankruptcy wave in perspective, a noteworthy event because banks' willingness to carry along struggling borrowers is at the moment the principal near-term determinant of how the financial crisis will proceed.

In its May 24 *International Finance* newsletter, Chase entitled a commentary, "Distress Borrowing Cannot Last." The relevant portions read:

"The surge in short-term corporate borrowing so far this year has exceeded most observers' expectations [although not ours—R.F.]. The levels of commercial and industrial bank loans and non-financial commercial paper outstanding have grown at an annual rate of nearly 23 percent since January. By normal standards this growth is unusual, given the weakness in the economy, the sizeable inventory liquidations that have occurred, and the depressed state of corporate investment spending plans. . . .

"Debt-to-total-asset ratios on a book value basis have risen from an average of less than one-third in the early 1970s to over one-half today . . . firms have been reluctant [and unable—R.F.] to commit themselves to long-term debt obligations at existing high interest rates . . . requir[ing] them to refinance periodically at historically high interest rates, swelling the magnitude of their interest payments.

"As profits and cash flow have deteriorated because of sagging consumer spending, these firms have found themselves in financial distress, needing to borrow an increasingly greater amount to finance their heavy interest commitments in order to avoid bankruptcy. . . . If economic activity does not rebound, more over-leveraged firms will go bankrupt."

Only the fact that this is stated by a major lender, not the content as such, makes it news. It confirms, after the Braniff failure and the media preparations for an International Harvester failure in August, that banks are gritting their teeth and preparing to take major losses. This slight policy shift is occasioned by the fact that some major debtors, like International Harvester, operating at less than 30 percent of capacity and losing money at a \$1 billion annual rate, simply cannot be sustained by bending the normal rules of banking.

The policy shift is also evident in the spectacular increase in the rate of corporate bankruptcies, already 80 per 10,000 corporations, "within shot of" the 100 per 10,000 record set in 1933, as the *Wall Street Journal* put it.

But what bankers fear is not the handful of airlines or floundering behemoths like Harvester or Chrysler that have made the headlines, but rather the unknown: in a corporate environment in which two-thirds of the cash flow of the *aver-*

*age* corporation is consumed by debt service, and corporate repayment capabilities continue to sink with the depression, the number of potential Chryslers is in the high hundreds. This was not the case during the 1930s, when large numbers of smaller banks folded, but virtually all the "name" corporations made it through unscathed.

Corporations are sustained not only by banks, but by the highly volatile market for unsecured commercial paper, whose holders stand to gain nothing (unlike the bankers) in the course of a bankruptcy, and by suppliers' credits. Commercial paper has been funded, to a great extent, by the burgeoning growth of the money-market funds. A significant shift of "preference" towards Treasury securities on the part of the money-market funds, who may fear withdrawal by safety-conscious investors of their own unsecured funds, could tip the entire apple cart.

As the depression deepens, banks themselves will find that the attrition of their capital compels them to shut off loans at an accelerating pace, pushing more debtors under, and further attriting their capital. This point has been made with a vengeance by British commentators in the public press, although treated somewhat gingerly on this side of the Atlantic.

Combined with another market incident like the May 19 Drysdale failure (see Banking), which could occur on virtually any of the financial or commodity markets with equal ease, or a significant default of a Third World borrower, the above weaknesses could surface within hours. The economy is marching towards a fall crisis which no central bank can control.

## A not untypical case

*Chase and Manufacturers Hanover's role in Drysdale is the proverbial tip of the iceberg.*

**A**lthough Chase Manhattan, at the expense of a large share of this year's earnings, managed to swallow the Drysdale Government Securities problem, sophisticated market participants believe the problem has only started.

Ongoing Senate Finance Subcommittee and SEC investigations may provide answers to the big question, namely, how it was possible for an unknown operator to start business with \$5 million in capital and rack up \$320 million in losses within only four months of operations, and unpleasant revelations about Chase Manhattan's back office may come out.

Whatever opprobrium attaches itself to Chase Manhattan, however, the important lesson is that market practices of the sort Drysdale was engaged in are typical of the post-Volcker financial era.

The annual volume of futures in government paper is three times in excess of the U.S. national debt. And the replacement of commercial bank lending by commercial paper lending through money market funds and other forms of quasi-bank, reserve-free, unsecured business means that the actual leverage of the financial system is many times in excess of the typical 20-to-1 assets-to-capital ratio prevailing among the commercial banks.

In 1980, the panic threat came from the silver market and the Hunt brothers; after two years of Volcker and deregulation the principal

threat is on the financial side. Not merely Chase, but, to a lesser degree, Manufacturers Hanover and U.S. Trust were "throwing their names around" in support of Drysdale and "were guilty as hell," said one well-informed bank analyst.

Not merely banks, but also industrial corporations, have been driven to establish as independent profit centers such exotic entities as money-trading desks, foreign-exchange divisions, captive insurance subsidiaries, and commodity-trading operations, as the profit stream from normal business operations has dried up.

This is "zero-sum" business, where one corporation's gain represents another's loss, and volatile swings in securities, commodities, and currency values are typical. Thus a large section of corporate and banking activity has been structured to make the Drysdales of this world as indispensable as they are vulnerable.

To the extent that banks rely on what are speculative financial activities to supplement otherwise declining or risky profits, ordinary controls must go out the window.

Chase is a notoriously badly managed bank, and its managers had no idea what their trading room was doing; nor did they want to know. But the problem is not merely at Chase. At Citibank—the supposed administrative miracle of Wall Street—Chairman Walter Wriston called into the bond trad-

ing room to find out what exposure the bank actually had, after he heard the news about Drysdale. None of the control offices at the bank were able to give him a report. To one group of New York bank analysts, the Drysdale affair merely demonstrates that the system has run out of control.

The suspicion remains unproven that Chase may have been set up by financial competitors who wanted the relative parvenu to get the worst of a banking crisis that a growing plurality of financial opinion considers imminent.

The circumstances are certainly lurid: Peter Wasserman and Joseph Ossorio, the latter from the Amstar Sugar fortune, buy out a small old-line firm, Drysdale Securities, in mid-1981. At the turn of the year, they put \$5 million into preferred stock of Drysdale Government Securities, whose equity they totally control, but whose management they leave exclusively in the hands of a notoriously unstable hot-shot bond trader, Robert Heuwerker.

In four months Heuwerker manages to rack up losses 70 times the size of his capital with the help of unnamed individuals in the Chase back office. Wasserman and Ossorio, as mere "investors" in the subsidiary, have no responsibility, and Chase is left holding the bag.

The Federal Reserve officials who managed the rescue operation, i.e., pinned Chase to the wall, are dumbfounded by this chain of events, for which they can offer no explanation.

Even if the "conspiracy" hypothesis, now popular on Wall Street, turns out to be correct, no such devilry could take place except in a situation where such disasters were able to occur on their own.



# Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$223 mn.	Japan from Taiwan	Eight large containerships, each capable of hauling 1,600 containers, will be built by Japan's IHI and Onomichi for Taiwan's largest shipping operator, Evergreen Marine Corp. This is the biggest single order ever given Japan's shipbuilding industry, the world's largest, and is equal to a year's construction volume for IHI and Onomichi. Financing is in yen terms.	Japan has been losing contracts to South Korea yards which give export financing in devalued dollar terms. Japan's total orders fell 10% in year ending March to 391 ships at 8.4 mn. gross tons. Export orders down 17%.
\$145 mn.	Taiwan from U.K.	Northern Engineering Industries signed letter of intent for generators for Taiwan's Yenlieo nuclear power plant. Deal is for two 1,020 MW turbines. NEI beat Westinghouse, GE, Brown Boveri, Mitsubishi, and Hitachi.	U.K. Exports Credit Guarantee Department is subsidized credit to 7.75%.
\$3 mn.	Brazil from Denmark	Brazilian Navy bought from J. Lauritzen of Denmark a 25-yr. old ship reinforced for arctic operations. The 82-meter Thala Dan will be leased by Brazil to Danish govt. for summer research around Greenland with two Brazilian officers aboard; will be delivered to Brazil in Sept. and begin Brazil's first Antarctic exploration in December, before deadline set by multinational Antarctic peace treaty.	Brazil's long negotiations for Antarctic capabilities have been hastened by South Atlantic crisis. Brazil's navy plans permanent research site in Antarctica, probably near Germans. Base needed to have future voice in Antarctic affairs.
\$800 mn.	Indonesia from France/Spain	Indonesian govt. awarded contract for 600,000 tpy steel cold rolling mill to Creusot Loire of France, Centurion and Technicas Reunidas of Spain. Mill is expansion of big Krakatau complex on West Java; will be owned by Indonesian govt., the overseas Chinese Liem group and Ciputra construction company. Turnkey project.	Financing includes \$270 mn. from France and \$100 mn. from Spain at 7.75% for 10 years; \$200 mn. bank credit and \$240 mn. equity capital.
\$42 mn.	Australia from U.S.A./West Germany	GE and AEG will each build 4 gas turbine generators for New South Wales Electricity Commission. GE's local subsidiary will install them.	Mitsui & Co. of Japan is running the deal.
\$150 mn.	Tunisia from Japan	Tunisia has bought a 340 MW electric power plant from Mitsubishi.	Runs on either heavy oil or gas.
<b>UPDATE</b>			
\$2.5 bn.	Israel from U.S.A.	Reagan administration asking for Congressional approval for sale of 75 more F-16 fighter jets to Israel to complement 75 received under 1978 deal. Plane is made by General Dynamics, which is contracting \$300 mn. in aviation equipment and parts from Israeli producers as part of 3-yr. buy-back arrangement linked to F-16 contract.	
\$663 mn.	U.S.A. from Canada	Budd of Michigan is expected to file injunction against New York's MTA which gave contract for 825 subway cars to Bombardier of Canada. Budd price was \$33,000 per car less than Bombardier with a U.S. domestic content of 80% vs. 40% for Bombardier.	Bombardier total cost, financed by 9.7% Canadian govt. export credits, was lower, while Budd stuck with Volcker rates.

# Business Briefs

## Foreign Exchange

### Thatcher advisers fear sterling collapse

Leading economic advisers to British Prime Minister Margaret Thatcher now believe that the London markets may "collapse" when the government is compelled to float a major new loan to pay the costs of the current war in the South Atlantic.

Although the pound sterling has held steady at \$1.80 or slightly lower since the fighting began, much of sterling's strength is due to short-term support for the pound from European central banks, who have elected to help the British even though the British are the only European Community member who have not joined the European Monetary System. Such support can neither work indefinitely nor can be expected to continue without limit.

Thus far, one top adviser said, the cost of the war has been \$1.8 billion, or one billion pounds, and the threat of a protracted war—which London has recognized since the May 25 attacks by Argentina on the British fleet—threatens to raise the costs out of hand. Another assistant to Thatcher says simply, "You could say that we are in bad shape."

*EIR* rarely makes specific predictions about currency rates, but it appears that in this case a significant fall in the sterling rate against other lending currencies is unavoidable.

## Agriculture

### U.S. press lies about Soviet-Argentine grain

Press stories that the Soviets are delaying grain imports from Argentina, and that the Soviets will be seeking to buy more grain from the United States, are lies emanating from "Western diplomats" in the Soviet Union.

The truth is that the Soviets have contracted to buy, with cash, not credit,

12.7 million tons. This is some three-quarters of their total production.

According to the U.S. Department of Agriculture, as of March 1, the Soviets had picked up 10 million tons and had made an extra large pick-up in May.

The other lie that the Soviets will now be begging the United States for extra grain is mere wishful thinking.

During the weekend of May 22, U.S. Deputy Undersecretary for Agriculture Lodwick met his counterpart in Paris to discuss future grain sales to the Soviets. U.S. grain sales have fallen drastically since the 1980 grain embargo, and bumper crops are overflowing storage facilities. Yet the talks merely emphasize the abundant U.S. supply and that the Soviets could order and pick up any time. Since the Polish invasion, the United States is refusing to discuss a renewal or extension of the six-year grain agreement that expires Sept. 30.

## East-West Relations

### Moscow to push pipeline through, Swiss report

The Swiss daily *Neue Zürcher Zeitung* reported May 26 that the Soviet Union will force through development of the Siberian gas pipeline to Western Europe before the April 1983 deadline, supplanting embargoed U.S. technology shipments with its own substitutes which, in some cases, represent technological advances over what America might offer.

"In the machinery factory at Sterlitamaksk in the Bashkir Soviet Republic, development of a pipe-layer with a capacity of 50 tons is being accelerated," the *NZZ* reported. "It is supposed to be the equivalent of the American Caterpillar Company product which was affected by the U.S. embargo. Simultaneously a 30-ton transport for use in marshy areas will be developed. According to *Rude Pravda*, its contact weight with the ground will be no greater than that of a grown man on skis. . . .

The Academy of Sciences of the Ukrainian S.S.R. has developed a multi-

layer pipe which makes possible a doubling of pipeline pressure, and gas facilities will, in the future, have twice the throughput capacity of present ones. . . .

"As an example for the rapid progress in the pipeline construction, it is reported that the Soviets have completed the link between Urengoy and Cheliabinsk (1,470 kilometers) under difficult climatic and geographical conditions in only one year. In comparison, the Soviets say, the Alaska pipeline, with a length of 1,300 kilometers, took seven years to build."

## International Credit

### Bank of England warns of potential disaster

Bank of England Deputy Governor Christopher McMahon, in a major London speech May 26, has warned international bankers not to panic and pull back on lending to the Third World, because a world banking crisis could ensue. The Bank of England is apparently responding to increasing threats by Argentina and its Latin American allies that if British and U.S. bankers push them too far, they will declare a moratorium on their multibillion-dollar foreign debts.

"International bankers should not develop excess prudence," McMahon told a financial audience. "Rather, the Eurodollar market needs more liquidity, not less. International bankers need not withdraw from world lending at this time," he said, adding that the central banks and governments of the world, "should back them up."

Reached for comment, a Bank of England spokesman told *EIR* that Governor McMahon is reacting to the call by the faction in Washington around U.S. Treasury Secretary Donald Regan for even tighter conditions on world credit. "These people in the U.S. are total fools," the Bank spokesman said. "Tighter lending now to the Third World will cause a world banking disaster." The spokesman said that McMahon is speaking for the Group of 30 advisers to the

IMF and the Bank for International settlements. The Group of 30 proposes to gather private bankers at the BIS and set careful guidelines to control lending, to try to prevent panic.

Similar warnings were given by British and allied bankers speaking at the International Monetary Conference of the American Bankers' Association in Vancouver May 28.

### Trade

## Japanese report on EIR's Olmer interview

JIJI PRESS, one of the two top wire services in Japan, put out a May 26 dispatch on the recent *EIR* interview with Commerce Undersecretary Lionel Olmer. The JIJI dispatch says, in part, "A ranking government official says the United States is using trade friction with Japan to retain the 'remnants' of America's supremacy by precluding Japan's challenge. In an interview with Richard Katz published in the May 25 issue of the *Executive Intelligence Review*, an American political and economic journal, Undersecretary Lionel Olmer explained the domestic economic strategy lying behind the recent escalation in Washington's economic pressure on Japan.

"The *EIR* said 'Olmer hopes to preserve the remnants of America's technological, economic, and political supremacy—not through direct promotion of U.S. industrial-technological progress—but by using trade friction to prevent Japan from challenging what remains of America's economic advantage' . . .

"Olmer, who believes that 'technological leadership translates into political leadership' told the magazine, 'I doubt we will need to come to the point where we view that free flow of technology as potentially damaging to either our national security or our position and responsibility as the major Western industrial power. But if you [Japan] want free access to U.S. technology . . . then you have to give free access to American companies.'"

### Monetary Policy

## Reagan to be set up at Versailles summit

President Reagan is being set up for a break with America's continental European allies and a strategic humiliation at the June 4-6 economic summit in Versailles. As a result of U.S. adherence to the British policies of tight money at home and colonialism in the Third World, the United States is now viewed in Europe as a drunken elephant bent on wrecking the world economy. "In Europe, Japan is only enemy Number 2," one European bureaucrat said May 23. "It's the U.S. that is Number 1."

U.S. high interest rates are viewed as the greatest danger to the Western alliance, and West German Chancellor Helmut Schmidt is expected to demand Reagan "put into practise his promise" that U.S. rates will be brought down, the *Los Angeles Times* reported May 22. While Schmidt will surely maintain his pro-American stance, the French and others are expected to use the issue to create anti-Americanism in Europe.

In London the weekend of May 22, the Swiss-leaning President of the West German central bank, Karl-Otto Poehl, told the International Association of Foreign Exchange Dealers that the present "exotic" levels of American interest rates were the principal problem in the world economy. Poehl's intervention makes the Versailles summit even more likely to blow up.

The supranational "consultative group" of central banks and finance ministers will be created at Versailles, the *Los Angeles Times* reports, to "set up a recognized mechanism for airing views" about U.S. policy, a place, at least, where the Europeans can go to complain about U.S. economic bungling.

This plays into the British plan to submit the entire world to IMF "surveillance" and zero-growth policies. The *Times* report was one of the first to appear in the mass media, though *EIR* has reported on the plan since the days of the Carter administration.

## Briefly

● **'BUY GOLD'** was the advice to *EIR* readers May 27 by a knowledgeable international business consultant. "Especially if Iran invades Iraq. . . . Private Arab investors are diving into gold."

● **U.S. BANKS** could try to distance themselves from British banking partners if Argentina and other Latin American nations declare a moratorium on their foreign debt payments to Britain, senior officials of a New York bank told *EIR* May 27. Although most such loan agreements have "cross-default" clauses, which would force U.S. creditors to declare default if British creditors were defaulted upon, such contracts may not apply. "When one of the creditors i.e., Britain, is militarily attacking the debtor, Argentina, then it's unclear whether the other creditors have any obligation to the attacker," one banker said. "That goes well beyond *force majeure*."

● **'CENTRAL BANKERS,'** a top source close to the Swiss-based Bank for International Settlements told *EIR* May 27, "are working together beautifully to prevent an international financial collapse." "It's the finance ministries of the world, which are creating disarray." The central banks, he added, are already prepared for limited numbers of bankruptcies of bank branches in international markets such as the Euromarket. "We will force the home-country headquarters bank to take responsibility," he said.

● **THE FRENCH FRANC** may withdraw from the European Monetary System, the London *Financial Times* reported May 27. OPEC will withdraw or borrow a huge net sum of \$24 billion from the world banking system during 1982, the Economic Research Institute of the Middle East announced May 26 in a special study. OPEC will have a current account deficit, in aggregate, of at least that amount, the survey said.

## India is vital to reversing the world depression

by Daniel Sneider, Asia Editor

Speaking before the Indian Council on World Affairs in New Delhi last month, the well-known economist and American political leader Lyndon H. LaRouche, Jr. issued a major new policy proposal on "North-South relations." In the midst of world economic and strategic crises, Mr. LaRouche told his audience, it is imperative that "the nations of the so-called South, or some of them, make a unilateral statement on the nature of the crisis and what must be done to stop the world depression and to stop war."

"If you of the developing sector begin to give leadership," Mr. LaRouche concluded, "perhaps we can stop World War III—perhaps your intervention will succeed where previous paths of negotiation have failed."

Mr. LaRouche's choice of India as the location for this policy address, which we present in full below, was deliberate. India is the most strategic location from which to address the leadership of the developing nations, whose populations make up two-thirds of humanity. In every respect—economically, politically, and from the viewpoint of culture and historical understanding—India is the most important single nation among those of the so-called South. Without India, even the best-led among those nations will not be able to move forward in a decisive fashion, nor be able to effectively intervene into the crisis gripping world affairs at this moment.

India's decisive leadership role is even more critical now at a time when other leading developing nations are under sustained attack in the form of economic destabilization and warfare. Mexico, one of the most important nations in the developing sector, has been subjected to all-out economic warfare by the International Monetary Fund, which has set back Mexico's ambitious plans for industrial growth and quieted Mexico's leaders in their usual role as spokesmen for the entire developing sector. Iraq, another important case, has been hit with sustained, draining military attack, carried out by the fanatics of Khomeini's Iran acting with the military backing and encouragement of the Anglo-American circles, the Israelis, and even the Soviet Union. Once situated through its large-scale commitment to economic development to play the key leadership role among the Arab nations, Iraq is



Paul Zykoſky/NSIPS

*Indira Gandhi campaigning in December 1979. Her return to power has restored leadership to the nation and the Non-Aligned.*

now facing possible dismemberment.

There is nothing new in the pattern of such attacks. In this century, every attempt by nations and individual statesmen from among the developing nations to step into the arena of world affairs has been met with unremitting hostility by the oligarchic financial forces who created the current world economic order. The developing sector demand for a new world economic order, best expressed in the resolutions of the Non-Aligned Nations heads of state summit held in Colombo, Sri Lanka in August 1976 was met with a wave of destabilization operations piloted by the likes of Henry Kissinger, aimed at developing sector governments and leaders. Ultimately, the goal is to destroy economic development itself, to impose Malthusian genocide upon those populations to maintain the power of the financial interests who control the present world order.

India, precisely because of its size, development, and historic tradition is no stranger to such attacks. Because of these qualities, however, it has shown a strength and staying power under attack that few other developing countries can match. India's leadership, steeled in the crucible of a mass struggle for freedom against the British Empire, has a healthy understanding of the enemy they face. Almost 200 years of British colonialism provided a bitter lesson on that subject.

The key to India's strength and confidence in itself as a nation, is that it is the product of 6,000 years of a great civilization, the historic mother of what we know as Western civilization. The Sanskrit language, the basis of the modern Indian languages, is the oldest written lan-

guage, and the most advanced in conceptual terms, in the world. The development of profound ideas, of science and philosophy, first reached heights in Indian civilization. This is not a dead past. Such traditions were evoked and understood by the leaders of the independence struggle, men like Tillak, Gandhi, and Nehru, as the weapon they wielded to defeat their imperial oppressors.

Contrary to the widespread U.S. view that India is a land of poverty, cows, and Hindu mystics, India today has capabilities and achievements in the field of economic development—both industry and agriculture—and in scientific and technological development that are unmatched in their breadth in the non-industrial world. With the third largest number of scientists and engineers in the world, India can do things—from putting a satellite into space to producing nuclear power plants—that only a few "advanced" nations can do. Its economic development, which we update in this Special Report, puts India on the verge of an economic takeoff that could make it an economic superpower by the beginning of the next century.

In late July, Indian Prime Minister Mrs. Indira Gandhi will visit the United States at the invitation of the Reagan administration. In September, she will visit the Soviet Union. There is a clear possibility, and desire, that she and India play a crucial role in bringing about an East-West/North-South understanding, the kind of "new agenda" which Mr. LaRouche called for in his New Delhi speech. Mrs. Gandhi will be making her visit in good faith, desirous of better world economic and political relations. We urge that she be well received.

# ‘Developing nations must be responsible for economic growth and war-avoidance’

by Lyndon H. LaRouche, Jr.

*Executive Intelligence Review Founder Lyndon H. LaRouche, Jr. addressed the Indian Council on World Affairs in New Delhi, India, April 23, during a two-week trip to India which brought the Democratic Party leader back to the subcontinent for the first time since his service in the U.S. Army 36 years ago. LaRouche was accompanied by his wife Helga Zepp-LaRouche, chairman of the European Labor Party in West Germany, and EIR Contributing Editor Uwe Parpart on a tour that included stops at the Bhandarkar Institute in Pune, the National Institute for Science, Technology, and Development Studies, the Jawaharal Nehru University School of International studies, and a meeting with Indian Prime Minister Indira Gandhi.*

*We print here an edited transcript of LaRouche’s April 23 address to the Indian Council on World Affairs, which was titled “A New Approach to North-South Relations.”*

Thank you, Mr. Chairman, members, and guests.

I have been involved in a significant way in the question of North-South economic development since approximately the beginning of 1974, with the aid of Helga Zepp-LaRouche, who has been my wife for the past three years. In 1974, Helga intervened in the Lower Saxony, Germany state elections campaign on behalf of the Social Democratic Party (SPD). She told the voters that despite everything—referring to the leadership of the Social Democratic Party—they should vote for the SPD. But the particular policy which she introduced, which has been our policy ever since, was to propose that Germany at that point take the leadership in developing what we called a “golden ruble.” The concept of the golden ruble was to establish cooperation between Western Europe and the Soviet Union along traditional world power lines, but this was to be somewhat differently defined than in past world-power efforts. The difference was that East-West relations had to be tied to North-South relations. That is that both Eastern nations and

Western nations, and the so-called mythical divide—which is unreal, and indeed mythical—should not concentrate on cooperating among themselves economically as the basis for political security. Instead, they should bring into play questions of high-technology economic development to the developing sector.

What we argued in particular was this: the Soviet Union did not have at that point, and still does not have, largely because of its military expenditures, a significant export capability relative to the needs of the developing sector. Therefore, it was necessary that the United States, Western Europe, and Japan assist the Soviet Union in developing in the Urals and Siberia certain large industries, which fit the needs of the Soviet labor force and so forth, which would give them the capacity for capital goods production in excess of what they would require domestically. Then we could say to the Soviets: “You don’t have to pay us back directly for this. You can pay for some of the credits that you received from Japan, the United States, and Western Europe by delivering certain exports of capital goods to the developing nations for joint projects, creating a three-way trade.

What we’ve achieved is a general comprehensive agreement along broad policy planning lines, of project objectives, over a period of 25 to 50 years. We agree, North-South and East-West, that certain general things have to be accomplished in the way of economic development projects over the next two generations; that we will organize economic cooperation, both East-and-West and North-and-South, toward the point of fulfilling those objectives; that we will organize credit mechanisms to facilitate meeting those objectives; and that we predicate our political relations and the resolution of problems of military confrontation and other problems upon this combined East-West/North-South trade.

In this process I have made many efforts and have become, in Western Europe and in the United States at

least, and in a few other places, perhaps the most controversial public figure in certain precincts. At the beginning of 1975, according to official U.S. government records, Henry Kissinger made himself my avowed personal enemy, and devoted a good deal of the time of persons assigned to his office to doing nasty things against me because of this. But apart from Henry Kissinger, and several fellows like Richard Hambros who approached us in 1975 and told us that he was going to do bad things to us, apart from this sort of thing, there are two basic problems that have so far prevented the success of either my own efforts or the efforts of anyone else in North-South relations. This lack of success will continue, as long as these two conditions exist. I submit to you that all new proposals on North-South cooperation are pointless insofar as these problems are not tackled.

### **The Anglo-American stranglehold**

First of all, the dominant institutions of Western Europe and the United States are controlled by what we might call Anglo-American forces centered around the Swiss Bank for International Settlements, the International Monetary Fund, etc. These forces are absolutely determined not only to crush the developing sector, but to significantly depopulate it, using economic means to facilitate the depopulation. Therefore, under no circumstances while these institutions have power—while they can determine the policies of the United States and Western European countries and can dominate the international monetary system—is there a peaceful means by which the developing sector could secure significant improvement in North-South relations. Any attempt to find a pathway under these conditions is merely the search for a pathway to failure.

These institutions apply brute force. The Rambouillet agreement of 1975 is exemplary. Henry Kissinger and the British got the OECD nations together at Rambouillet palace outside of Paris, and they agreed to ignore any demands from the developing sector along the lines of those actually submitted and adopted the following summer, in August 1976, at the Non-Aligned Nations summit in Colombo, Sri Lanka. What had been put together at Sri Lanka was probably the model, for the whole, or a large part, of the developing nations for development.

After this deployment of brute force, the other main obstacle to economic development is the economists themselves—the so-called professional economists. This is perhaps one of the most important things, because economists in the developing sector are often susceptible to the arguments of such paid traitors to the cause of humanity as Gamani Corea of UNCTAD, whom I know personally to be an enemy and saboteur of efforts to create rational North-South relations. According to the blandishments of the Oxbridge economists, the

developing sector governments should be advised that economically sound proposals are in fact unworkable, and that therefore these governments should not make themselves 'silly' in the eyes of enlightened Oxbridge politicians of the United States and Britain by submitting such silly proposals. In point of fact it is the case that many of these proposals, as typified by those included in the Sri Lanka agreement of 1976, are eminently sound.

Therefore some special conditions must be created, before we can talk seriously—except in ineffable rhetoric—about achieving any significant improvement in North-South economic relations. We have to somehow eliminate the factor of institutions of the kind that Henry Kissinger used to work for, and still does, in his deployments against North-South development. We also have to neutralize the professional economists of the Oxbridge and related London School of Economics varieties, whose doctrines shape the policies against development in the industrialized countries and poison the policy-making of the developing nations.

I shall address myself as summarily as possible to both of these propositions, and indicate how I propose we approach this.

### **1982 deadline for East-West showdown**

Some months ago, some people of my own government talked to me about the coming East-West crisis, a crisis which is to be worse than the Cuban Missile Crisis of 1962. The crisis was scheduled to occur on the basis of the emplanting of medium-range thermonuclear missiles, targeting the Urals and other parts of Russia, in West Germany, Britain, and elsewhere. This is a totally unacceptable proposition for the Soviet Union. The Soviets will not allow the emplacement of thermonuclear, i.e., strategic, missiles in Western Europe within a few minutes' range of the major industrial and population centers of the U.S.S.R.—and any American who thinks otherwise is crazy.

Therefore, this means that we have the Cuban Missile Crisis in reverse, because of the present determination of the United States to carry out the Schlesinger counter-force doctrine by emplacing Pershing II missiles in West Germany. So everyone in the United States was assuming that the 1983 deadline for the missile emplacement would bring us into a crisis-management showdown situation against the Soviets.

I said, no, that is not when the crisis is going to come. The crisis is going to break out between April and May of 1982—as it is now breaking out. We will soon find out that the Malvinas crisis is not the only one set to explode. (The Falklands crisis is simply the result of the British trying to reclaim territory that they stole years ago, and which is the property of Argentina under U.S. law and international law. Lord Carrington

deliberately manufactured this crisis.)

The Malvinas crisis is only part of a constellation of crises, which includes several crises in the Middle East. Israeli Prime Minister Menachem Begin is either resigning or he is playing another trick. But according to my best information, Begin will be out within a matter of days. Lord Caradon's protégé Ariel Sharon will be running Israel, and if Sharon is running Israel, we are going to have madness and bloodshed all over the Middle East.

The London press is already picking the bones of Iraq, before that nation is dead. Iraq holds the Gulf coast, but it will not for long if it loses its present war with Iran.

Greek Prime Minister Andreas Papandreou has a very strange notion of the proper way to run his government. He has organized a military coup against himself, which is now in preparation—a royalist military coup. The atmosphere is also beginning to be heated up for a confrontation between Turkey and Greece over Cyprus. All it takes is a bloody shirt on Cyprus and the entire Greece-Turkey-Cyprus conflict blows up, in which case the right-wing forces associated with Colonel Turkish inside Turkey will tend to make a play for power as they have in past Cyprus crises.

Yugoslavia is marked for destruction. The entire Venetian-British-run Albanian operation is to be cranked up.

### North-South relations in today's crisis

We are now in the middle of a depression which began during the period between October of 1981 and February of 1982. The depression is about to go into phases like the Kreditanstalt of spring of 1931; we're just waiting for blowup, a structural collapse in some part of the U.S. economy which might be triggered in any number of ways. One that is most likely is a debt default, rolling out of war between Britain and South America; and Britain will be at war with most of South America if it shoots at Argentina. This is of course a rolling, chain-reaction of debt default, and the entire international monetary structure would collapse.

So we're in that kind of situation. We're headed for a depression; in fact, we're in it already; it's just that the structural damage is not yet done. We're headed toward war, we're headed toward thermonuclear war—not because anybody is *planning* thermonuclear war, but because the conditions are developing in the world in which we're going toward a point at which somebody will not be able to back down.

That's the only way you can have a thermonuclear war: you create an aggravated situation of crisis, a crisis in which one party cannot back down. Particularly, nations cannot back down from war when they believe their political existence is in jeopardy. If you convince

the United States or the Soviet Union that the *political existence* of the United States or of the Soviet Union is in jeopardy, then that nation *will go to thermonuclear war*. It has no other military option. Therefore, the trick is not to allow the condition to develop under which that can happen.

Now I'm going to come back to the question of North-South relations in this context. What we have to do is intervene in this process: a plunge toward confrontation, depression, and possible thermonuclear war. To prevent these things, then, we must situate the effort to achieve a new world economic order in the effort to avoid war. How do we propose to do that?

### The problem of littleness

What does the fact that we are going into a depression mean to the average citizen in Western Europe and North America? It means that the institutions and policies which have governed the United States and Western Europe over the past decade have proven themselves incompetent. The problem is this: In society—as Plato correctly observed, as St. Augustine correctly observed, and as Dante Alighieri documents in his *Commedia*—we have three possible moral levels of development of the citizens of society, that is, qualitative moral development. We have on the lowest level, the beastlike existentialist, the hedonist, irrationalist, the philosophical anarchist, who does as he pleases, who does not believe in the law of reason, who does not believe that the universe is lawfully ordered, or that if it is lawfully ordered it ought not to be, from his standpoint. With this sort, you can't do much of anything. Morally, they're very close to animals.

We have two other levels. We have a few people—well, we hope, at least a few—in society, who dedicate their lives to making some contribution to the condition of future generations, who see themselves as a positive instrument of history, using their mortal lives to contribute good. They understand that it's absolutely critical that what has been given to them be passed on to other generations. These people who locate their identities so are only a handful in any society today.

The majority of citizens—who are *decent* citizens—are moral in their personal and family lives. They can't go much beyond that, at least not realistically. They don't wish to achieve anything which they consider immoral as an objective. They don't want to achieve anything by what they would consider immoral means. But otherwise, their motivation is hedonism, in the broad sense of hedonism. That is, what they consider the material and related interests of their family and friends is paramount. They cannot *think* about politics on a national level; they cannot really *think* about politics on an international level; because their souls and stomachs just won't allow them to grasp such ideas.





Uwe Papart/NSIPS

*Lyndon H. LaRouche, Jr. addressing the Indian Congress on World Affairs. At his immediate left is the President of the Council, M. Josh.*

And therefore in society, even the moral citizens of society, on whom we depend if we're going to have anything but a dictatorship of the enlightened few, behave irrationally on large issues. They define their relationship to policy in terms of institutions—political parties, religious associations, trade unions, and so on. They allow these institutions to do their thinking for them, and they express their relationship to these institutions in terms of slogans and simple kinds of notions. They say, "I am of such and such an institution; I therefore embrace this policy." You ask them to rate the policy? They can't. In the final analysis, they simply have confidence in their institution and its policies.

The problem is that among the industrialized nations—in the United States, for example—approximately three-quarters of the population are essentially good people. Their minds are limited, but they're good people. But they're *little*. They're concerned with their own family and personal and related affairs. They cannot think, their emotions cannot be mustered to force their intellect to think in the long span about the nation as a whole, about the consequences of policy for more than the next year ahead.

You tell them, for example: look, we must do something because the entire pension funds of the trade unions are about to be wiped out, which means that you and all the other fellows who have been investing for years in these pensions won't have any pensions. He says, well look, I agree with you, it's a very important issue, but I haven't got time to become involved in it; I've got to worry about my future, you see.

That is a typical response! I don't exaggerate; that's the kind of response you get. They're good people, but they are very *little*. Like the good people of most nations, they're little when it comes to attempting to comprehend the relationship between cause and effect on the scale of a nation as a whole, or on the scale of international relations. They're not immoral in that sense; they just don't think about it. They can't think about it even when you try to get them to think about it, ordinarily; they just can't do it.

Therefore, if they adhere to institutions which have bad policies, you can change the people only by reforming those institutions, or by causing them to become disaffected from those institutions if the institutions cannot be reformed. Therefore, the only time that you can produce what we might call a nonlinear change in the course of policies of nations are those conditions of crisis in which the little people themselves begin to question those institutions. Under those circumstances, if a people is inspired, great enterprises may be accomplished. I saw the people of India inspired in my small contact with them in 1946, by the great enterprise of Independence. Even the coolie making four or eight dollars a day, was inspired to think of nation-building and the industrial development of India.

So, in periods of crisis, it is possible under the best circumstances to evoke in the people—the little people—a passion and the ability to comprehend great issues. As Shelley says (I'm not anti-English, I'm only anti-British), there are periods in which the power for receiving and imparting profound and impassioned

ideas concerning man and nature is increased. In such times of crisis this is possible. However, also in such times of crisis there is a peril: lacking leadership for great enterprises, mankind will often turn itself into beasts. The same little people will destroy themselves. We saw that in Europe in the case of Mussolini's Italy. We saw what happened to Germany. We saw what happened to other nations during the 1930s period.

A crisis is approaching at which the failed institutions of the previous period must either change their policies or be replaced. According to the alternatives presented, mankind will take the lower branch toward Hell, or mankind will embrace a great enterprise and take the higher road toward progress. And therefore, I propose that the question of North-South relations be situated in the conception of this branch point.

### **The folly of disarmament**

The two superpowers have got themselves into a fix, as I told my contacts in the United States from the relevant Soviet government. Therefore I understand some of their problems; I understand the things they're saying; I understand their complaints, their concerns. However, I point out to them that as long as they adhere to their present policies, and adhere to those policies in the deepening crisis, we shall have thermonuclear war. I also concede to them that if the United States continues its present policies, and tries to negotiate on the basis of present policies in the crisis we're in, we shall also have thermonuclear war. The two superpowers, if they attempt to negotiate their present respective positions under crisis-management conditions, will only negotiate war, because they can make no negotiation, no compromise with their existing agenda, which will prevent war.

You cannot disarm. These people who talk about disarmament—it's nonsense! Ten percent of the existing thermonuclear arsenals would generate sufficient radioactivity, if detonated, to wipe out all higher forms of life on earth within two years after their detonation. If present calculations of the behavior of radioactive caesium are true, the world weather pattern will simply take the radioactive caesium produced by a thermonuclear warhead explosion, run it around the globe, and deposit it in various parts of the world. The caesium will replace iodine in people's systems. It gets into the system, and people die a particularly horrible death, along with their animals, along with the birds and fish as well.

So what's the sense of a 5 percent or a 10 percent or a 50 percent disarmament? What good is it going to do? It does no good whatsoever. What's the sense of a peace movement? The present peace movement is a fraud. As a matter of fact, the peace movement is a war move-

ment. It's just against nuclear war; it's for conventional war. As Paul Warnke, who is the leader of it, has said, and as Senator Kennedy has said quite clearly in his public statements in support of the peace movement, as people in West Germany who are in the leadership of the peace movement have said: the peace movement is a conventional-war movement.

War against whom? War against the developing sector—that's *quite* peaceful! And war against the developing sector will lead to war between the superpowers; there's no way you can avoid this, as Iran illustrates. Britain and the United States decided to destroy Iran. And what is Iran now? Iran is now a vacuum which is sucking the two superpowers into a point of conflict. If you destroy other sections of the world, and you will suck the two superpowers into a point of conflict. Britain decided to destroy Argentina. Argentina is a major supplier of Soviet grain. Can we avoid some degree of conflict there? Perhaps not war full-scale, but a heated up confrontation is on the agenda. Will the Soviet Union allow its citizens to go hungry because of a British blockade of Argentina?

Look what's happening in Africa: *genocide*. Let's stop calling it by any other name; it's deliberate genocide against the black population of Africa. I've seen the plans to reduce the population of Nigeria by half and eliminate most of Africa. The plan is in the United States, in the offices of Gen. Maxwell Taylor and William Westmoreland, among others; in sections of the State Department. These plans were laid down in the Office of Population Affairs of the State Department and the National Security Council of Henry A. Kissinger. I've seen them, and their operation. And they lead to war.

### **A competent system of economics**

Which brings us back to the question: what is the positive policy which would substantiate my proposal—the proposal, again, that we establish an East-West/North-South three-way agreement on long-term economic development, and that we predicate political détente between and among the systems on the basis of that agreement to 20 to 50 years of development in the period ahead.

Let's turn to the second obstacle: economic theory. Contrary to the mythologies that are taught in every university in the United States and Western Europe today, the British system of economics and its derivatives, like those that are taught today, made not one single bit of contribution to the development of industrial states in Western Europe and Japan or North America. If the British system of economics had been used, we should not have gotten out of feudalism. Britain is the only industrialized nation which did not develop under



Uwe Parpart/NSIPS

*Mr. and Mrs. LaRouche examine an ancient iron pillar at the Qutub Minar site outside New Delhi.*

Lincoln's period, every period of successful economic development in the United States was done under the aegis and under the policies directly following from the American System. The successful industrialization of France was accomplished in two phases, under the influence of Colbert during the 17th century up until Colbert was ousted, and then, in one of the greatest explosions of industrial and military power in modern history, during a few years from 1793 to about 1798. During this short period, the Ecole Polytechnique, under the leadership of Lazare Carnot and Gaspard Monge, made a revolution in science and conducted an industrial revolution—they did things in four years that people say you couldn't do today in the extent of 20. People talk to me about ten-year projects, and I laugh. If you have to, you can do it in three. You can mobilize a nation and get it done.

The successful industrialization of Germany was accomplished on the basis of the American System as represented in Germany by Friedrich List, in the 1830s and 1840s. The successful industrialization of Japan was carried out on the basis of the same American System. Japan is the model of reference for the developing sector today, that is for all sensible nations of the developing sector—I'm not saying you should imitate everything Japan does, but Japan is clearly the proof that for a developing nation, particularly a nation like India, which has greater advantages today than Japan had in 1868, Japan is always the model of reference for comparison. Japan's industrialization under the Meiji Restoration was based entirely and consciously on the American System. Any literate Japanese will tell you that the only competent economics is that of Hamilton, Mathew and Henry Carey, and List. The Americans say that Japan is very unfair—Japan is unfair not to be stupid like those Americans who have abandoned the American System for the sake of the British system.

Now let me just turn to the basics of this: British economics is monetarist economics. It starts with the assumption that the fund of money as such is the source of wealth. Let me just indicate to you what is the issue and what is the possibility of mobilizing for example, Americans, and people in Western Europe, for an American System economic policy as the internal feature of this East-West/North-South development effort.

### **The significance of potential relative population density**

In scientific economics, we start with only one metric. That metric is *potential relative population density*.

By that we mean the average number of persons we can sustain per average square mile through the productive labor of that population alone. That is, what is the ability of the population to reproduce and to maintain

the aegis of what was called a mercantilist policy—the economics of Leibniz, the economics of Hamilton, and so forth, or the economics of Colbert. Britain did it by looting its colonies. History therefore shows that no nation can develop as an industrial power without looting other nations, except by following the mercantilist policies of Colbert and Leibniz, that is, what later became known as the American System.

The American economy was developed under the American System, as laid out by Alexander Hamilton in a series of reports to the Congress from 1789 to 1791, concluding with the December 1791 *Report to the Congress on the Subject of Manufactures*, in which the term American System was used for the first time. Up to

itself? That's the fundamental measure of economics. To give some indication of what this means: according to the anthropologists—I wasn't there—some millions of years ago our ancestors were living pretty much as gifted baboons, talking pretty much like hippies in the United States today. They had a mode of hunting and gathering which, as I read it, if sustained as a culture would have permitted the human race never to exceed at most several million individuals. Yet contrary to that, the human species today is estimated four-and-a-half billion individuals, and with the existing technology or technology we ought to have developed during the past 20 years, we could sustain quite comfortably tens of billions of people on this earth, at standards of living in excess of those found in Western Europe and the United States today.

We have the technology. The first thing we have to do is make sure that about 35,000 to 40,000 kilowatt hours of electricity is generated per capita. If we start with this energy supply, the developing sector can very quickly bring the standard of living up to that comparable to Western Europe and the United States. We have the technology—we just have to have a little nuclear energy, otherwise we can't do it.

In the future, we can go into space. And with what we know now, we could build earth-habitable locations in space sometime during the next century, at social costs not in excess of the social costs of maintaining a person on earth today.

So there are no limits to resources; there are no limits to population. The more creative people we have, the more creativity we're going to have, and the faster we're going to grow. Resources are not a problem. Our problem is to determine what policies will actively increase both the potential of the population density and the quality and opportunities of the individual in society. That's what economics ought to be concerned with. And the monetary side of the thing comes in as a secondary consideration. That is what I define as economic science.

The way society achieves an increase in potential relative population density is chiefly by injection of new technologies, or advanced technologies, which represents man's mastery of the lawful ordering of the universe in a more perfect way. By injecting these more powerful ideas about the universe into the practice of production in high-technology industry and basic infrastructure, we increase the average person's power to produce, increase the number of persons we can sustain, and increase the standard of living which we are able to provide by means of that labor.

The problem is to sustain this process of injecting technology. First of all it means we have to have institutions which make technological progress the efficient instrument of national policy. Technological prog-

ress is the first proper instrument of policy of any nation. Secondly, within that, we must promote education and science comparable to what that requires. We must educate to produce individuals in whom all creative potentialities are optimized, as citizen as well as producing persons. We must educate to the level that our technology and technological progress require. We must realize that progress results from investment and reinvestment. We must have policies under which the margin of wealth—which is comparable to profit measured on a national scale—is invested in improving the scale and quality of production.

We must be dirigist, we must plan to cause this surplus to go into the areas which are of greatest benefit to the nation. This means technological progress in agriculture, in industry, and in basic economic infrastructure. The other investments will have to go tagging along at a lower priority.

### **Why we are called mercantilists**

How do we mobilize, then, this profitable part of our production and capacity in order to foster growth? Here is where we come into direct conflict with the British Oxbridge economists.

We are called by the British mercantilists, neo-mercantilists, and protectionists, as the Americans were when they were still Americans—before they became British. We believe in protecting our industries, our agriculture, and our infrastructure—protecting them by tariff policies and protecting them with fair prices. That is, we do not expect agriculture to prosper if we demand that the farmer sell his product at a price below his cost of production. Therefore, we must ensure that our farmers have fair prices, so that they may prosper and reinvest. We will even subsidize our farmers to make sure that they can progress and not fall behind the rest of the world. We demand that our vital national industries be protected by tariffs, be protected by international agreements with friendly nations for cooperation on this question, and be protected by our providing fair prices for the products of those industries. So those industries which are doing a good job maintaining competitive standards, will not be ruined by foreign dumping.

We also differ with the British on a second point: on the creation and use of credit. We are opposed to usury—that is, the lending of money as a resource. We insist that the power to create credit must be reserved to the government alone, the government of sovereign states. The government of a sovereign state prints money. It does not itself spend the money that it prints. Rather, it loans this money, in currency notes, to a well-regulated banking system, so that the capital is made available for a few categories of projects of public and private investment, so that the capital may be available

on a medium- and long-term basis at low interest rates to meet those objectives which are agreed to be in the national interest and require capital.

This arrangement must be put on a gold-reserve basis, otherwise we would have trouble with international relations. We require gold-reserve issues of currency by the state through a regulated banking system to provide ample credit for medium- and long-term investment at reasonable interest rates for those categories of improvement of agriculture, industry, and infrastructure which we have agreed are in the national interest. If somebody wants to borrow for something else, that's their business, but they shall not use the funds of the state for that purpose. If somebody wants to loan their savings for that purpose, they may. These restrictions are necessary to prevent inflation and to maintain national priorities.

This is not inflationary, contrary to what the British say. If I were the head of the government of the United States, I could print as much money as I chose, and by this system I could never inflate the economy. Because before any money is spent, it must be lent to utilize idle resources, or otherwise idle parts, labor, and capacity. And it is lent only to create economic infrastructure or to create improvements in agriculture and improvements in industry, all of which are beneficial to the economy. These improvements increase national productivity, which increases national wealth per capita. And that is our credit policy.

The creation of a new economic system may be simply accomplished if those industrialized nations which either have or can have a large surplus capacity in high technology capital goods or production issue credit on a gold-reserve basis. Since they don't have to borrow from anybody, these nations can lend it at any price they choose. The new credit could be lent at 1 percent interest, it could be lent on deferred payment terms; it's no problem. If the state creates credit, that's not a problem. Then this created fund, which corresponds to the otherwise idled productive capacity of the industrialized countries, is lent for long-term and medium-term credit for investment by the developing countries. I estimate that the order of magnitude of this credit-generating capacity should be between \$200 and \$400 billion per year added to the present level of development. That means that the governments of the developing sector will, through their national banking systems, borrow part of this amount, which is essentially borrowing the currencies of the exporting country in order to purchase exports of the type that they require from these countries. This means that these imports will be over and above the purchases that the nation would make on the basis of its current balances.

This mechanism, if it were agreed to, would ensure, I believe, an adequate level of investment. It is quite

feasible in terms of the productive capacities of the industrialized countries. Adding \$200 to \$400 billion a year to the present level of capital goods exported from the industrialized to the developing nations I think would be adequate to reverse the pattern of the developing sector, if we are patient. In some cases it will take longer than others.

Furthermore, this would cause an economic boom in the industrialized nations—not because of profits on sales to the developing sector, but because the increased turnover of capital goods in producing industries would accelerate productivity and generate great profitability through increased productivity. This becomes now—at a point when the present international monetary system is breaking apart in a depression—the only alternative for the industrialized countries, particularly the capitalist industrialized countries, to the depression, which if it is unleashed will be worse than that of the 1930s and much longer. It also represents, if followed through, a basis for common interest in economic development and in peace among nations of East and West and North and South.

I propose that people in the developing sector ignore this piece of nonsense known as the Brandt Commission and all these other pieces of diversionary nonsense. The nations of the so-called South, or some of them, must make a unilateral statement on the nature of the crisis and what must be done to stop the world depression and to stop war. They must declare that the solution to the crisis is to be found not by peace negotiations, not by disarmament, but by creating the conditions under which peace negotiations are unnecessary and in which disarmament does not require negotiation, it simply happens. Therefore I propose that the developing nations, and the spokesmen of them, either official or unofficial, make a unilateral statement to this effect: that there be international cooperation on East-West/North-South development interrelatedly; that conditions of political stability and peace be premised upon the mutual self-interests of the parties in promoting economic development.

Because this is a time of crisis, that which I have been proposing since 1974, which has been suppressed, rejected, which used to make me a figure of attack precisely because of prevailing institutions, may now be proven the useful solution. Now that these institutions have weakened themselves in depression and crisis, perhaps we can intervene to appeal to the conscience of nations which now themselves may despise these institutions. And if you of the developing sector begin to give leadership in this matter, at this time when your intervention is needed, perhaps we can stop World War III. Perhaps your intervention will succeed where previous paths of negotiation have failed.

Thank you.

# Indian economy back on the track under the Gandhi government

by Susan Brady and Ramtanu Maitra

In a gloomy world economic situation, the performance of the Indian economy has been a relative bright spot. After two years in power, the government of Prime Minister Indira Gandhi has succeeded in putting the economy "back on the rails," showing substantial gains in production and lowering the rate of inflation following the three-year debacle of rule by the coalition Janata government. During those years output stagnated and inflation soared as the government pursued a ruralist, anti-industrial policy.

## The next step

India is now situated to make new strides toward the goal originally set forth after independence by Jawaharlal Nehru: consolidation of a strong industrial base utilizing advanced science and technology, alongside a self-sufficient, productive agricultural sector. The Gandhi government appears committed to such a path, but it faces enormous obstacles and risks, not the least being the reality of world depression. While India's performance is to be applauded, it will quickly face nightmarish conditions if world economic collapse shrinks Indian export markets and dries up the sources of essential credit and capital investment from outside India needed to meet the targets of the Sixth (1981-85) Five-Year Plan and future plans.

Within the world economic context, there are two dangers in Indian economic thinking and planning which must be confronted. The first is the potential for pressures on foreign-exchange holdings to become a point of almost total fixation, such that a foolish approach to export development and promotion is established to the detriment of other needs. In a worst-case scenario, the Sixth Plan itself would be subordinated to forex-earning concerns.

The second danger is a lack of clear focus in economic planning, an absence of a clearly determined set of priorities for major projects and investments. This is already a problem in regard to the power sector, in particular nuclear-energy development, where the priority of electrical energy generation and of even small but catalytic funding for advanced scientific research and development has been insufficiently understood.

## A progress report for 1981-82

The distinct economic improvement that began with Mrs. Gandhi's resumption of power in January 1980 has continued during 1981-82 (fiscal year April-March). As shown on page 30, the major production indicators in industry and agriculture are up, import costs have been moderated, and inflation has dropped from almost 17 percent to 3 percent (with latest figures showing a zero rate of growth of inflation). The one clear trouble spot is the plummeting of the Indian foreign-exchange balance, a situation which prompted the government to negotiate a three-year, \$5.7 billion balance-of-payments credit from the International Monetary Fund (IMF), a move which prompted a great deal of controversy inside India reflecting fears that the IMF would dictate changes in Indian government economic policy.

## Agriculture

The agricultural situation has been a major source of strength during the past year. After a bad year in 1979-80, the past two years have produced good crops and the 1981-82 foodgrain production is expected to reach 134 million tons (mt), an all-time high surpassing the 1978-79 level of 132 mt. Projections for the current year are also good although weather conditions, including unseasonably cold and rainy conditions this spring in the northern wheat-producing region, could lower estimates somewhat.

In general India has achieved something few other developing nations have, and with 700 million population: basic foodgrain self-sufficiency. The prospects for the major cash crops are also good—sugarcane, groundnuts, cotton, jute, mesta, and tea—and steady progress has been made in allied rural activities such as animal husbandry, poultry development, and fisheries.

In the area of animal husbandry generally, the emphasis has been on improving the quality of cattle and other animal stocks, improving the processing capacity, and establishing the institutional framework for making animal and poultry products available throughout the country. India's "Operation Flood," which has increased milk production by 50 percent between 1970 and 1980, from 20 mt to 30 mt, is

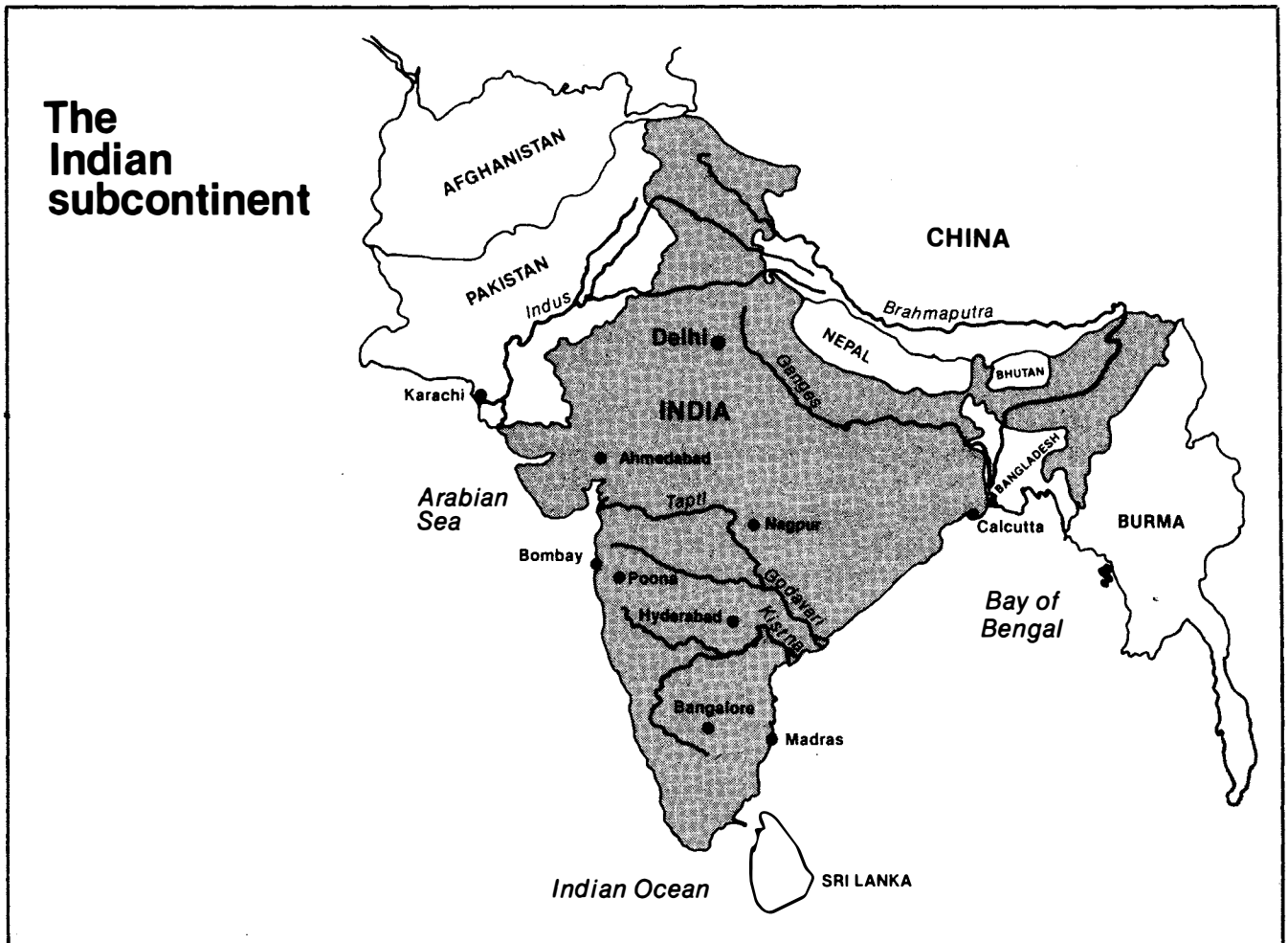
exemplary of this type of effort. This will be a model for a similar effort to gear up oilseed production and the edible oil industry (edible oil is one of the top three or four items imported by India).

In the crucial grains-production sector, the emphasis has continued to focus on a high-technology "package" approach involving the efficient use of existing irrigation systems and further irrigation development, coupled with increased fertilizer use and the continued spread of high-yielding varieties of seeds. The policy is aided by the provision of electricity to farmers on a priority basis, necessary for running electric pumpsets and thus mitigating the effects of shortages of rainfall, particularly in high production areas like the Punjab and Haryana in the northwest. There are also new initiatives to assure credit availability to farmers and to provide adequate price supports through the government's grain purchasing program.

Within this "package," irrigation development has been given priority. In 1980-81, 2.46 million hectares of land were provided irrigation, 1.6 million through "minor" and .86 million through "major" irrigation proj-

ects. At the end of 1981 the total irrigated land area in India was 55.02 million hectares. The target of 2.63 million hectares in new irrigated land for 1981-82 is expected to be "substantially" achieved despite local shortages of cement and steel, and cost escalation.

On the fertilizer front, usage in 1981 was up 5 percent from the previous year, to 5.52 mt of which 2.8 mt are imported. The government plans include a major effort to increase domestic fertilizer production, motivated in part by increased domestic needs and by the desire to reduce the import bill for fertilizers. Those efforts are centered in the establishment of two huge new projects in the public sector—the Thal Vaishet and Hazira projects in Maharashtra and Gujarat respectively will include four large gas-based ammonia plants that are harbingers of a new network of gas-based fertilizer plants presently being sited by a specially appointed export committee. The idea is to combine coal with use of gas from the Indian offshore oil fields in Bombay High and Bassein as feedstocks, and to pipe the gas directly to plants in farm areas, so that transport of increased fertilizer supplies does not aggravate the



## Selected indicators of the Indian economy

(Percentage change over previous year)

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82 (1982 estimated)
Gross National Product at 1970-71 prices .....	1.2	9.6	1.3	8.6	5.3	-4.8	7.5	4.5
Agricultural production .....	-3.2	15.2	-7.0	14.5	3.4	-15.5	15.4	3.0
Foodgrain production .....	-4.6	21.2	-8.1	13.7	4.3	-17.1	18.4	9.0
Industrial production .....	3.2	7.2	9.6	3.3	7.6	-1.4	4.0	9.8
Electricity generated .....	5.2	12.9	11.5	3.4	12.2	2.1	5.0	11.6
(Utilities only)								
Wholesale prices .....	10.1	-6.5	12.0	0.3	4.6	21.4	16.7	3.0
(on point to point basis)								
Monetary resources .....	10.9	15.0	23.6	18.4	21.9	17.7	17.6	11.3
Imports .....	52.9	16.5	-3.6	18.7	13.2	32.4	38.2	4.0
(in current prices)								
Exports .....	31.9	21.4	27.2	5.2	5.9	12.8	3.9	14.1
(in current prices)								
Foreign exchange assets .....	5.1	144.3	91.9	57.2	16.0	-1.1	-6.6	-27.2
(excluding gold and SDRs)								

Source: Indian Ministry of Finance

already serious rail-transport bottlenecks.

### Industry

Overall Indian industrial output will increase by about 8 percent during 1981-82, a significant rate of growth (see above). All three major industrial sectors contributed to the growth—manufacturing increased 8.6 percent; mining 17.7 percent; and electricity generation 11.8 percent.

This growth, however, is largely a product of increased utilization of existing capacity, the figures reflecting recovery from a depressed condition rather than any significant net additions to productive capacity. This improvement is attributed to the recovery of the functioning of vital infrastructure—mainly power and transport—a focus of major concern by the Gandhi government, with the Prime Minister herself monitoring the performance in these areas.

Virtually every industry group in the manufacturing sector registered growth, with the exception of food manufacturing, textiles, and electrical machinery, apparatus, and appliances. Mining growth is accounted for by the 62 percent growth in crude petroleum output—a stunning tribute to the preliminary successes of India's ambitious oil development program, with some help from the restarting of oil flows from the Assam fields in northeast India which had been blocked by political destabilization in that region. There was also a 12 percent jump in coal production, a result of great

efficiency in the coal fields and increased power availability to the mines.

One of the principal areas of concern is the steel industry. Despite a longstanding Indian commitment (since Nehru's days) to self-sufficiency in steel production, steel remains one of the four major import items. Total availability of steel in 1981 was about 10 mt—including 6.9 mt produced by the six integrated steel mills in the country, 1.6 mt produced by the mini-steel industry, and 1.5 imported. Steel output was affected both by power cuts and by lack of high-quality coking coal. The power problem is particularly acute in the eastern region where all six major mills are located.

The obvious problems in steel are being taken on in part by a decision to construct two new integrated steel plants, the first new steel plants started since the 1960s. These are the 3.4 mt capacity Vizag project, to be built with Soviet assistance (the third Soviet-assisted plant), and a plant in Paradeep, the \$2.8 billion contract for which was originally awarded to the British steelmaker Davy McKee but was terminated just recently when the British attempted to renegotiate the terms of the contract. The plant will now be built by the Indians themselves with the most advanced technology imported wherever it is available.

The decision to build the two new plants, combined with projects to increase the capacity of existing steel facilities, are looked to as hopeful signs that the long stagnation in steel production has ended. The govern-



ment is working with conservative estimates that steel demand will reach 18.4 mt by 1990, and plans to increase installed capacity in the integrated plants to about 20 mt. This will be difficult to achieve, however, unless parallel efforts are made to improve the infrastructure needed to support it.

## Energy

The weak point of the Indian economy remains in its energy and transportation infrastructure. The growth of power generation capacity and the performance of that sector have continued to lag behind the rest of the industrial—and agricultural—economy, and act as a drag on overall growth. There are vast areas of the country plagued by lack of power; and power cuts continue to afflict urban areas and industry with regularity. Efforts to improve rail transport of coal to power plants and to construct coal-fired thermal plants at the coal pithead to reduce transport problems have helped, but the basic problem remains.

The most recent figures show the gap in the power sector in 1981-82. Despite an increase of 11.6 percent in electricity generation, there will be nearly an 11 percent gap between requirements and availability for the year. In 1980-81, the addition to generating capacity was 1,600 megawatts (Mw), compared to a target of 2,600 Mw, and in 1981-82 no more than 2,300 Mw is to be commissioned against a target of 3,200 Mw. Slippages in the construction time of power projects is chronic, due to many factors including the inability of the main domestic power-generation equipment supplier, Bharat Heavy Electricals and Instrumentation (BHEL) to supply on time and in sequence. (See page 32 for graphs of selected industrial and energy production figures.)

The Indian government is working within the framework of estimates that power demand will increase to 32.7 (gigawatts) Gw by the end of the Sixth Plan, and to 52.6 Mw by the end of the Seventh in 1990. As of March 1980 total installed generating capacity stood at 31 GW, and according to present plans new capacity amounting to 19 Gw is to be commissioned during the period of the Sixth Plan, achieving an installed capacity of 48 GW by 1985. This framework already imposes constraints on industrial development because targets are so low. Recognition of the situation and of the fact that even these low targets may not be achieved is evidenced in the government's decision this year to allow public-sector undertakings in the core sectors to set up their own captive thermal power plants.

The realities of the power picture are also reflected in the government's plans regarding coal production: the bulk of power generation will depend on coal-fired thermal power plants. In 1981-82, coal production jumped 11 percent to about 124 million tons, and the Sixth Plan sets a target of 165 mt by 1985 which would

require 10 percent annual growth rate for the rest of the Plan period. Central allocations for coal are to increase, and there are efforts to improve and modernize technology with assistance from many countries including France, the United Kingdom, the U.S.S.R., and Poland. The increased use of coal poses severe problems, however, for already strained rail transport. As well, most Indian coal has a high ash content, making for great maintenance problems in existing thermal plants.

The obvious solution is to increase India's nuclear-power generation program, already the largest in the developing sector, and backed up by the third-largest storehouse of scientists and engineers in the world. At present, plans call for gradual increase of nuclear-powered electrical generation to a level of 10 Gw by 2000, well below earlier estimates and hopes. In large part this is the result of U.S. sabotage by means of a cutoff of supplies of equipment and fuel under the guise of the discriminatory "non-proliferation" policy. India has tried to compensate with development of indigenous technical capabilities; but while the Indians are now theoretically capable of constructing a heavy-water moderated nuclear plant from top to bottom, the construction time is quite long, and capacity is limited. The nuclear program, despite considerable success, has been put on the defensive in favor of more "practical" alternatives like coal. But if there were a new commitment from the government to a thorium-based fuel cycle (India has the largest thorium reserves in the world) utilizing high-temperature gas-cooled reactor technology, progress could accelerate.

## Transportation

Transport, which principally means rails and, less important, water surface and port development, is pivotal to the Indian economy. Though showing improvement, it is acknowledged to be unable to achieve Plan targets with currently available resources. The railways the most extensive system in Asia, have suffered from prolonged underinvestment that has left them with inadequate capital stock (rolling stock, track, and other equipment) and with extensive repair and modernization needs. The track bed and rails are in need of large-scale overall inputs to allow for increased freightage, higher speed of transport with reduced accident rates.

In the area of rolling stock, despite a large wagons-producing industry in India, wagon production has lagged behind targets.

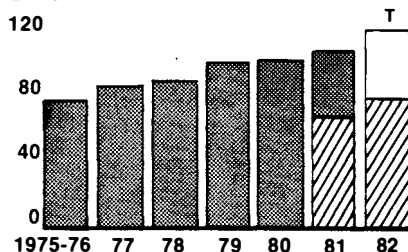
Inadequate traffic-handling capacity at major ports, which has emerged as a major constraint in recent years, is being dealt with through a construction program and the opening of new ports for exclusive handling of containers and bulk carriers. A Japanese firm has just secured a contract for upgrading of the key Cochin port on the west coast.

## Production of selected industries in India

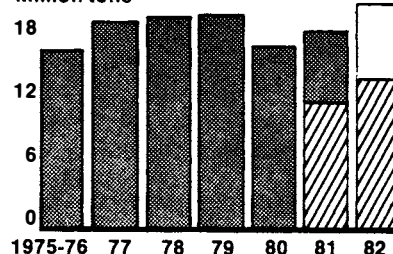
▨ April-November T=Target

Source: Indian Ministry of Finance, economic division

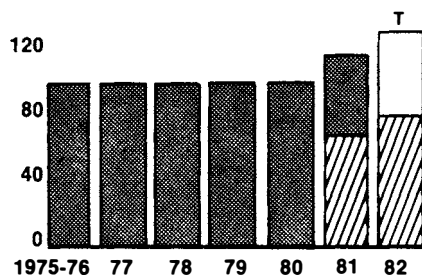
**Electricity**  
Billion KWH



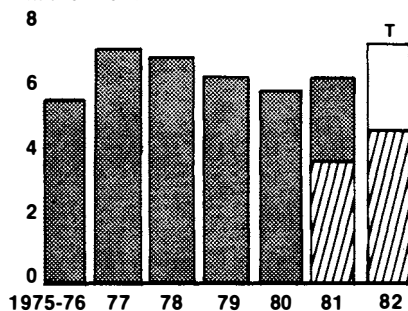
**Cement**  
Million tons



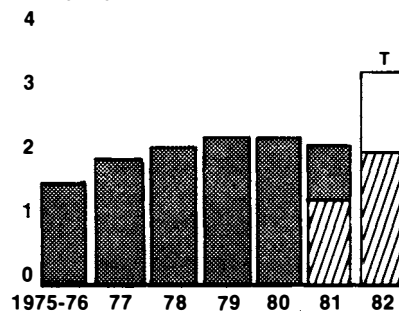
**Coal**  
Million tons



**Saleable steel**  
Million tons



**Nitrogenous fertilizers**  
Million tons



### The balance of payments 'problem'

About 60 percent of India's imports are accounted for by oil, fertilizers, steel, and edible oils. That is the beginning and the end, in essence, of India's "balance-of-payments problem." Increasing trade deficits, likely to exceed 50 billion rupees (about \$5.5 billion) for the second year in a row, have put pressure on Indian foreign exchange reserves.

This pressure has left India open to the intervention and manipulation of international financial circles who gain a foot in the door through India's need for international credit to finance its payments deficit and maintain even the modest pace of capital investment called for in the current Plan. Over the past two years, India has entered the commercial credit market in a significant fashion for the first time—prompted in part by decisions to finance large industrial projects, and by the cutbacks in available credit from multilateral facilities (and lower interest facilities) like the World Bank's International Development Association (IDA):

The concern over the balance of payments has shaped the investment decisions of the government. The value of imports has doubled in the three years from 1979, principally due to the escalation of oil prices during 1979-80 (a problem augmented by the need to import a larger volume of oil due to the destabilization of Assam). Other essential items like fertilizers, steel, and edible oils are imported in volumes dictated by the

gaps left by domestic production. This has left an inadequate amount of foreign exchange for the import of capital goods and industrial raw materials, the categories which need to be vastly expanded if development is to move forward as rapidly as it can.

The basic strategy at present is to increase the production of the principal import items, reducing the import and foreign-exchange burden they pose, and freeing resources for capital goods imports. This is coupled with a vigorous program to promote Indian exports and increase forex earnings.

The centerpiece of the first part of the strategy is the massive investment in oil exploration and development inside India. Budget allocations for this program in the 1981-82 budget were increased 30 percent from the previous year and the 1982-83 budget raises this allocation another 90 percent to 20 billion rupees.

The major part of the oil-development effort is being carried out by the Indian state oil companies, which have developed an impressive capability including research and development. However, in addition it was decided to supplement their effort by opening up oil concessions to foreign oil companies on a production-sharing contract basis. Some interest has been evoked—Chevron which is involved in a drilling project—interest spurred by several new oil discoveries in offshore areas. In addition, the Soviets have agreed to assist in further onshore development.

Revised estimates for proven oil reserves in India's offshore areas now stand at 2.5 billion tons, an increase of 300 million tons over previous estimates. It is expected that by the last year of the Sixth Plan, indigenous oil production will reach a level of 30 million tons (compared to 14.5 mt in 1981), meeting about 70 percent of total crude demand. The state-owned Oil India Ltd. (OIL) has formulated an ambitious plan which calls for the production of 60 million tons of crude annually by the year 2000. The Indian government is hopeful that their efforts will bear fruit and relieve India's oil-import requirements in the immediate future.

On the income-generating side of the BOP equation, India has launched an export promotion drive. Significantly, the "boom" in Indian exports from 1974-77 was largely due to the price run-up for agricultural products such as oil cakes, marine products, and sugar. Otherwise India's major traditional exports—jute, tea, and textiles—are heavily dependent on world commodity markets and increasingly subject to protectionist barriers in advanced sector markets.

The government is emphasizing the development of exports that are both competitive internationally and for which world demand is rising. There is also a push to increase India's exports of engineering goods and manufactured items which have risen as a portion of total exports in the past decade, and for which there is an expanding market in other developing countries, in Eastern Europe, and in the Soviet Union.

Incentives have been provided to promote exports, including the establishment of two "free-trade zones," where a complete tax holiday for the initial five years is granted to industrial units set up for 100 percent export, including foreign companies. Those producing in these areas, or even outside them, for export are eligible for special credit facilities; for waiving of import duties on capital goods, raw materials, and so forth imported for export processing; and for exemption from central excise duties and other levies. Very recently the sale of 25 percent of output from the free-trade zones to domestic markets was approved, subject to duties. Other tax credits and exemptions are also available, some recently introduced in the 1982-83 budget by Finance Minister Mukherjee.

It is the balance-of-payments problem, viewed in the light of the requirements of the Sixth Plan, that prompted the Indian government to arrange the huge IMF credit last year. The Plan assumes the availability of foreign aid and loans of more than 93 billion rupees (about \$10 billion), probably an underestimate. Under the circumstances, a large loan was a necessity for maintaining the pace of development; and as Indian authorities have explained, the average interest rate on the entire IMF package works out to below 10.5 percent, considerably below the 18 percent-plus prevail-

ing currently in commercial markets.

The IMF is clearly calculating that within a year the Indian economy will be in deteriorated condition, along with the rest of the world economy, and that the loan is a "foot in the door" to dictating stringent conditionalities for the Indian economy, including abandonment of large-scale industrial and agricultural development plans. At present the loan is subject to "adjustment criteria" and "performance criteria," including checking inflation, curtailing non-bank credit to the public sector, reduction in public expenditure, and improvement in the functioning of public sector enterprises. In many instances the Indian government is already pursuing some variation of these goals, and there is no evidence that the Indian government has taken steps contrary to its own objectives, particularly regarding austerity measures, due to IMF pressures. Mrs. Gandhi has made it clear that the IMF will in no way be allowed to contravene parliamentarily approved decisions on the economy and that future installments of the credit will be abandoned rather than bow to such dictates.

Yet the discovery and development of oil in India remains the collateral for the IMF loan and hence an Achilles heel of sorts. Failure in this effort will put extreme pressure on the export-promotion side of things, distorting the economy, and will also mean pressure to adopt austerity measures including curbing development spending and imports of capital goods. The Indian economy has built up a tempo of growth which under favorable world conditions could rise even more rapidly, but under depression conditions India will be no less immune to the consequences of global collapse.

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## The Anglo-American strategic miscalculation

by Criton Zoakos, Editor-in-Chief

The war in the south Atlantic, part of a larger strategy by Great Britain to redirect NATO military forces in "out-of-area deployments" to crush developing world nations, is rapidly driving the already calamitous world situation to a point where senior personalities of international political life see a "world catastrophe." In the past week, the potential for a superpower confrontation and for the use of nuclear weapons has become the subject of public concern as I write on May 28.

It is a confirmed fact that Britain's naval task force in the South Atlantic is equipped with nuclear weapons and that its commander, Admiral Woodward, has received authorization to employ them in case of "dire need." It is also confirmed that some seven Soviet submarines are prowling the area of combat with an as yet undetermined assignment. Numerous responsible international leaders, including former Venezuelan President Carlos Andrés Pérez, have warned repeatedly that the danger of a nuclear superpower confrontation continues to mount every day that Britain pushes forward its colonial cause.

In the past few days, Argentinian leaders, including that nation's Defense and Foreign Ministers, stated clearly that, given the massive U.S. military support for Britain, Argentina will not exclude the possibility in the future of seeking Soviet military aid, if Argentina's survival is put to question by the war. The Soviet Union, so far, has limited itself to strident denunciations of the

British colonial war and the support it receives from the United States.

The extent to which the nuclear confrontation threat becomes a likelihood, is defined by the following overall strategic factors.

### RDF in the Gulf

In the course of the next week or so, there is the strong likelihood that large military forces under NATO jurisdiction may be deployed in the Persian Gulf under the rubric of Rapid Deployment Force policies. The collapse of the Iraqi military effort in the Iran-Iraq war, orchestrated by Britain with United States and Israeli participation, is threatening to ruin every Arab state in the area. U.S. Secretary of State Haig, in a Chicago speech on May 26, made it clear that the State Department will not attempt to avert such a destruction of the existing regimes in the region but rather will try to use their expected destruction for the purpose of introducing the Rapid Deployment Force in what he expects to become a classic NATO "out-of-area" deployment. The stupidity and recklessness of the scheme bears the imprimatur of Her Majesty's government, the usual supplier of policy to the foolish Mr. Haig.

As a senior Egyptian military source emphasized after the collapse of Iraq's military effort, "nobody knows what the Soviet Union will do." The fact of the

matter is that the U.S.S.R. currently has the military capability, based on its verified current deployments, of putting some 22 divisions into any spot of the Gulf they desire. By comparison, the RDF is as effective as a USO troupe commanded by Bob Hope. Iraq's defeat has created a situation in which the Soviets have the option of taking over the Middle East. Whether they shall take this option or not is not known at this time. Further, it cannot be predicted what general course of action the Soviets will select. *EIR* founder Lyndon LaRouche, the Democratic Party leader, upon receiving the news of Khorramshar's fall to the Iranian army, commented: "The entire region is now going into a rapid qualitative transformation, a phase change, in which no expert can predict the consequences. All we can say at this time is that the Soviets have been given the option of picking off the Middle East. But how the Soviet Union will move cannot be known at this time by anyone. Over the next 30 days the Soviets themselves will be deciding on how to take advantage of their new opportunities."

### **North versus South**

The process occurring in the Gulf area is being repeated throughout the globe: British or British-assisted forces have put into effect a grand strategy of using military force to destabilize and ruin all governments and nations of the developing sector. The war of the Malvinas was used by Britain as a level to oblige NATO adopt its current "out-of-area deployment" posture. When the NATO Defense and Foreign Ministers unanimously approved this fateful resolution, they took the step of proclaiming a war of the "North" against the "South." Most influential governments of the "South" are now proceeding from the fact that NATO poses a military threat to their existence.

This North-South conflict has in fact now become the central issue in politics and diplomacy. Broadly, the non-aligned, developing sector will be wide open to Soviet influence, in pursuit of military safety from NATO's "out-of-area deployments." What is being done to Argentina could be done to any one of them, is the generally accepted sentiment. The ways in which the Soviet Union will move to provide backup militarily will to a large extent determine whether the world will face a thermonuclear nightmare, or whether it will fall under Soviet hegemony, or whether it will allow its "Southern" portion to be exterminated by British-led RDF-style "out-of-area deployments."

### **Her Majesty's miscalculation**

The conduct of British strategists in the case of the Malvinas War identifies conclusively the source of the kind of "strategic miscalculation" which may well lead to thermonuclear war. According to the British scena-

rio, Argentina should have been a "pushover." It was supposed to have collapsed early on, thus demonstrating to reluctant NATO allies the efficacy of "out-of-area deployments," and giving a terrible lesson to other, presumably awed, nations of the "South."

Instead, Argentina has put forward a gallant and inspiring resistance. This resistance has now caused a strategic earthquake—virtually all of Latin America is moving in the direction of a break with the United States. Latin America is about to become the most influential sector of the non-aligned movement. Nations of the "South" are demonstrating a resiliency far greater than British planners had assumed. NATO's threat to launch out-of-area deployments, rather than destroying the "South," is now functioning as a stimulus, driving these nations toward the objective of strengthening their defenses and reinforcing their societies. They have to do so in order to survive the British-inspired NATO onslaught. To be able to do so, they shall need, at least temporarily, outside assistance. Given present realities, such assistance would only be forthcoming from the Soviet bloc.

This is the gist of Her Majesty's strategic miscalculation: NATO'S military adventures, insufficient to destroy the better-developed nations of the "South," are enough of a threat to compel these nations to seek the means of their self-defense in the Soviet bloc. The whole strategy, instead of producing broken, servile client-states, is now about to produce resurgent, mobilized nations which, in a world of "East" and "West," view the British-dominated "West" as their destroyer and pronounce themselves non-aligned.

Thus the West has now two options open before it. Either it removes Her Majesty from the driver's seat and restores the United States to the status of a super-power committed to the rapid economic, industrial, and technological development of the "South," or it escalates, under the leadership of Her Majesty, its military provocations to the only level at which the West's military power is credible: nuclear confrontation with the Soviet bloc.

The pace of developments in the Gulf and in Latin America indicate that in the course of the coming month these issues will be on their way to being resolved. No one should entertain the delusion that a British military victory over Argentina in the Malvinas would in any way abate the crisis. As the Bank of England well knows, the minute the British forces capture the islands, some \$250 billion worth of Latin American debt will be declared in default against British banks, with far-reaching strategic consequences. If the Bank of England knows what is good for it, it should issue explicit orders to Admiral Woodward not to dare win his assigned military task.

# Iraqi defeat would clear the way for Khomeini to take over Mideast

by Robert Dreyfuss, Middle East Editor, and Nancy Coker

Iran's victory against Iraq in the decisive battle for the city of Khorramshahr marks the start of a new phase of Great Britain's effort to impose a new Dark Ages on the Middle East and the Islamic world.

Like the Mongol hordes that swept out of central Asia in alliance with Venetian and Byzantine intelligence during the Middle Ages, the Khomeini mob threatens to destroy civilization in the entire Arab world and beyond.

At the start of the Khomeini era in Iran in 1979, quondam U.S. presidential candidate Lyndon H. La-Rouche warned that only a ruthless and uncompromising campaign of extermination could end the Khomeini plague. But Iraq, fearful of casualties and with few international allies, waged a half-hearted and inconclusive campaign that has now ended in disaster.

The fall of Iraqi President Saddam Hussein, a pro-development nationalist who opposed Khomeini's fascists from the beginning, is now highly probable. Unless sufficient backing, including Arab military support, is rushed to Iraq's aid, the collapse of the Iraqi regime will, in turn, lead to the Iranization of the entire Persian Gulf, jeopardizing world oil supplies.

In a press conference May 26 in Mexico City, La-Rouche, now Advisory Board Chairman of the National Democratic Policy Committee, stated that despite the gravity of the situation in the Middle East in the wake of Iran's victory, the battle is not lost. What is required, he stated, is the launching of a full-scale mobilization by Iraqi nationalists and their allies to crush the Khomeini menace once and for all.

Egypt, Turkey, and India have a singular role to play in this fight. It is these three countries that have the strongest republican tradition in the region—a tradition that is now threatened head-on by the spread of Khomeinism. If Iraq is wiped out, the very future of the nation-state is at stake in the Middle East, bringing to fruition a centuries-long British intelligence commitment to prevent the consolidation of modern sovereign republics in the region. For it was Britain, along with its U.S. hangers-on, which installed Khomeini's regime in 1979, and which orchestrated international support for Iran in its

“human-wave” war against the Iraqis.”

## Oil blackmail

The threat of a Persian Gulf oil cutoff has been cleverly used to force Western Europe to capitulate to London on support for the British against Argentina. Failure to back the British war in the South Atlantic, the Europeans were told, would result in the cutoff of their oil supplies.

At the NATO foreign ministers' meeting May 17, Secretary of State Alexander Haig reportedly delivered a statement to the allies predicting spreading chaos and an immediate threat to oil supplies as a result of Iran's victory. Such a threat, Haig said, would require urgent NATO cooperation to secure the oilfields, through the establishment of an entirely new system of military bases, naval deployments, and construction of a Middle East Treaty Organization.

The core of that plan, first envisaged by the Carter administration, is the so-called Rapid Deployment Joint Task Force, whose assigned task is to secure the Persian Gulf from the Soviet threat.

As most insiders know, the Haig call to action is based on utter deception and lies, since the Iranian military victory against Iraq was made possible only by the massive arming of Iran, chiefly by the British, Israelis, and Americans. Despite some Soviet military support to Iran, the leading source of Khomeini's arms was British intelligence-allied in the West and the associated black-market arms dealers.

With his crocodile tears over Iraq's defeat—a defeat he himself helped to cause—Haig is trying to overcome NATO and Arab opposition to the Rapid Deployment Force concept and to the idea of installing a network of bases in the Middle East. West Germany, Turkey, Saudi Arabia, and other states oppose, some vehemently, the extension of NATO into the Middle East.

The reality is that Haig's support for the spread of Iranian-style fundamentalism in the Gulf will mean the real winner is the Soviet Union. No RDF can secure the Gulf, as the Soviets know; Moscow can afford to wait

patiently, while encouraging the "Islamic fundamentalists" in order to weaken actual American interests in the area.

### **Fanatics on the move**

Inside Iraq, dissident and pro-Iran subversives, including communists, Kurdish tribesmen, and Shiite extremists, are poised to stage a rebellion against Saddam Hussein.

And in the rest of the Arab world, radical elements are foolishly celebrating Iran's defeat of Iraq. In Algiers, foreign ministers of the Steadfastness Front—Algeria, Syria, Libya, and the PLO—met and issued a communiqué welcoming Iran's victory and called upon other Arab states to "support the Iranian revolution." Libyan leader Muammar Qaddafi personally called for the overthrow of the Saudi regime and the liberation of the holy sites in Saudi Arabia!

The mobilization of Arab radicals in support of Khomeini means that Iraq may find itself in severe difficulty if it tries to get Arab League members to abide by their commitments to defend a fellow Arab nation. Although Iran has succeeded in driving out Iraq from occupied territory, there is a strong likelihood that Khomeini's hordes will not stop at the border but will continue into Iraqi territory. Both Iran and Syria have pledged to overthrow Saddam Hussein and will receive support from Israel.

In the wake of the Iraqi announcement that it had lost Khorramshahr, the Khomeini regime announced that its demands included the ouster of Saddam Hussein, the payment of \$50 billion in war reparations to Iran from the Arabs, and the establishment of Khomeini-style "Islamic regimes" in Iraq and all the states of the Gulf.

Despite the claims of Khomeini's sympathizers in the U.S. State Department that Iran would cool down after Iraqi troops left Iran, Khomeini's demands signal no moderation on Iran's part.

### **Iraq invokes treaty**

With the fall of Khorramshahr on May 25, Baghdad called upon its Arab neighbors to remember their obligations under the 1950 Arab League defense treaty to come to Iraq's aid. However, of all the Arab states, only Egypt has the capability to support the Iraqi war effort substantially. Immediately necessary is a full-scale mobilization by Egypt to send its air force and several divisions of troops to join Iraq's fight and to carry the battle against Iran into Teheran itself, and if necessary, to topple Khomeini's regime. President Mubarak reportedly favors such action, but he is being threatened with "the Sadat treatment" from terrorist sympathizers of the Khomeini group allied with London and Israel's Defense Minister Ariel Sharon should he decide to join

the war on Iraq's side.

Saudi Arabia, caught in between, is in a serious crisis. With both Khomeini and Qaddafi threatening to join in supporting the overthrow of the Saudi royal family, and with the Israelis threatening an attack on the Saudi oil fields, the Saudis are concerned with propitiating the source of danger rather than with confronting the Iran threat aggressively.

In mid-May, when Iraq requested that Saudi Arabia lead a boycott of Syria because of Syria's support for Iran, the Saudis refused. Following the fall of Khorramshahr, the Saudi Foreign Minister, Prince Saud, flew to Damascus to discuss with the Syrians a "compromise solution"—despite the fact that a compromise with the Khomeini regime is impossible.

### **The Israel-Iran axis**

Israel is not concealing which side it is on in the Iran-Iraq war. Sharon wound up a visit to Washington on May 25 defending Israel's alliance with Iran and attacking those moderate Arabs supporting Iraq. Describing Iraq as "one of the most radical countries of the region," Sharon called the Arab coalition of Egypt, Saudi Arabia, and Jordan that has taken a position against Khomeini's Iran "a threat to peace."

Sharon's statements were seconded by Prime Minister Begin, who rejected the idea that Jordan is being "squeezed" by a hostile Syria and Iran, and therefore must be supported. "Jordan is not squeezed," said Begin. "Jordan by its own choice decided to join Iraq in its war of aggression against Iran."

Thus, Begin and Sharon have placed Israel in the camp of the radical, pro-terrorist, pro-Khomeini Arab countries of Syria and Libya—Israel's so-called sworn enemies—and against Egypt.

Despite Sharon's strange bedfellows, Secretary of State Haig and Defense Secretary Weinberger tripped over themselves to accommodate Sharon by reactivating the strategic Memorandum of Understanding between the United States and Israel. The MOU is expected to be ratified in June when Begin visits the United States.

Although the contents of the MOU are under tight wraps, insiders reveal that the essence of the agreement is to make Israel the centerpiece of an expanded NATO into the Middle East and Africa. Specifically, Haig, Weinberger, and Sharon are using their support for Iran to force the Arabs, terrified by Iran's ascendancy, to come crawling for a deal. The price: dropping their resistance to Camp David and an Israel-centered regional strategic consensus.

Haig and Weinberger are not the only top figures involved with Sharon in this operation. On May 23, Sharon met with Henry Kissinger, at the latter's request, to coordinate Israel's enlarged regional—and super-regional—role in the aftermath of the Iranian victory.

## Latin Americans opt for a new diplomacy

by Cynthia Rush

As *EIR* goes to press, Latin American foreign ministers and diplomats meeting at the Organization of American States (OAS) in Washington are concluding their debate on what course of action their nations should adopt in the Malvinas crisis. Despite the wishful thinking of some U.S. media and political observers that all has been “quiet” at the OAS, the two days of meetings reflected the depth of Latin America’s anger at U.S. support for Great Britain and the damage done to the inter-American system as a result of this.

The question Latin American leaders have been debating is how far to take their anger over the role the United States has played in backing Great Britain’s colonial warfare against Argentina. Although the draft resolution introduced by Argentina does not represent a total break with the United States, its strong language was enough to send the U.S. delegation and its allies scurrying to obtain a “watered-down” version.

The Argentine resolution urges the foreign ministers to “vigorously condemn the unjustifiable armed aggression perpetrated by the United Kingdom against the Argentine Republic,” and proposes that Latin American states “adopt those measures they deem appropriate to assist the Argentine Republic in combating the armed aggression perpetrated by the United Kingdom.” The resolution also calls on the United States to “order the immediate lifting of the sanctions applied against the Argentine Republic and to refrain from providing the United Kingdom with any material assistance.”

Whether this or a less strongly worded resolution is passed is less important than the process that was set in motion at the OAS meeting, a process that could have lasting effects on the structure of the inter-American system.

Since the Malvinas crisis erupted, the State Department and leading media have continuously lied that the damage to inter-American relations as a result of the U.S. alliance with Great Britain is inconsequential. Once the crisis blows over, they have smugly predicted, things can be “patched up” without too much difficulty. The harshness of the Latin American response, which has largely been blacked out of the U.S. media, shows otherwise.

In his speech before the United Nations Security

Council on May 22, Venezuelan Foreign Minister José Alberto Zambrano described what is at stake in this crisis. The U.S. decision to back Britain’s aggression against Argentina has had an “unpredictable” effect upon the OAS, Zambrano said, and warned that “world equilibrium and intercontinental relations are seriously affected by this tragic conflict.” The British Empire, he concluded, “extended its colonial domination across the planet with the brutal, systematic, and calculated use of force. . . . The British aggression is not a struggle for the defense of law, but an effort to reimpose the law of the Empire.”

Panamanian Foreign Minister Jorge Illueca condemned British military aggression as “monstrous and abominable” and told the United States that “it is repulsive to learn that Argentine youth are dying from the arms, technology and plans provided by the United States—a country which has signed a military alliance [the 1947 Rio Treaty]—with Latin America. Those who think they can play with the countries of Latin America are very mistaken.”

Due largely to manipulations by Great Britain and the United States, that Security Council session produced a contentless resolution which gives U.N. secretary general Pérez de Cuellar seven days in which to “continue the search for a ceasefire.” The meeting also saw a shameful alliance between the governments of Chile and Mexico, both of whom demanded that the “first use of force” be condemned. *EIR*’s evaluation is that the resolution is intended only to buy time for Great Britain while it escalates military activity in the South Atlantic.

The responsibility for formulating effective action against Britain and the United States was left to the Organization of American States. During the Security Council sessions, Argentine Foreign Minister Nicanor Costa Méndez mooted that his government might invoke Article 8 of the 1947 Rio Treaty, by which signator nations must respond collectively with economic or military sanctions to any aggression against a member nation.

To prevent the kind of “embarrassment” that the invoking of Article 8 or some other unified denunciation of the United States would represent, Alexander Haig canceled a scheduled appearance before the World Affairs Council on May 26 in Pittsburgh in order to be present at the OAS meeting. While the Secretary of State intoned to the gathered delegates that the “Rio Treaty is an inappropriate mechanism” for dealing with the crisis, and that they “should return to the United Nations,” the State Department exerted what Latin American military sources described as “terrible and unrestrained” pressure against the smaller nations of Central and South America to prevent them from fully supporting Argentina.

The crude nature of the blackmail, which in the case



of the Central American nations was based on threats of withdrawing the meager "benefits" of the administration's Caribbean Basin program, was revealed in the public statements of El Salvador's representative to the OAS: "We regret that the United States seems to feel that the smaller countries are susceptible to pressure. We have always been an ally of the United States, but we are a brother to Argentina. We are deeply disturbed at what the United States is doing, and by its perception that we are second-class allies. . . ."

**Backfire potential**

There is no guarantee that Haig's blackmail will produce the desired results. Sources at the OAS meeting report that even if a softer version of Argentina's resolution is approved, solid allies like Venezuela, Peru, and Panama might act together and take further action, such as breaking diplomatic relations with Great Britain and providing military aid to Argentina through bilateral arrangements. Argentina has maintained a tough stand in defense of its position—Foreign Minister Costa Méndez received a standing ovation after his OAS speech—and earlier in the week of May 22-28 the Galtieri government announced the withdrawal of its military representatives from the Inter-American Defense Board in Washington and from training facilities in the Panama Canal Zone, as a protest against U.S. policy.

News of increased U.S. military aid to Great Britain—now including Sidewinder air-to-air missiles and Hawk surface-to-air missiles—has greatly increased tensions between the United States and Latin America. American military aid to Britain will only prolong the conflict in the South Atlantic and threatens in addition to internationalize it, Costa Méndez told an ABC-TV interviewer on May 26. At the opening session of the OAS meeting on May 27, the foreign minister reiterated his warning that the United States was "shattering" the inter-American system by turning its back on its treaty obligations.

The OAS meeting is important because it leads into the conference of non-aligned nations scheduled to begin in Havana on May 30, and will help to shape the debate that takes place there. Argentina is a member of the non-aligned movement and Costa Méndez will reportedly fly to Havana via Lima and Caracas to meet with Cuban President Fidel Castro and other Cuban government officials. According to Argentine diplomatic sources, discussions will focus on how the Malvinas crisis has affected the stability of the inter-American system. Argentine President Galtieri wrote on May 25 to Castro—the president of the non-aligned movement—thanking him for the support the non-aligned nations had shown Argentina, and denouncing Britain's colonial warfare "to the detriment of the developing sector nations."

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## France revives the 'Spirit of Suez'

by Mark Burdman from Wiesbaden

An "Entente Cordiale" has recently been consolidated between the Tory government of Britain and the Socialist government of France. Harkening back to the colonialist Middle East adventure of 1956, Europeans are commenting on the renewed "spirit of Suez." As President François Mitterrand slavishly supports Britain's piracy in the South Atlantic, the partnership and its Israeli allies have their eyes set on two other strategic zones: the oil- and mineral-rich continent of Africa and the Indian Ocean/Persian Gulf theatre.

In Africa, Mitterrand, for all his "Third Worldist" rhetoric, is carving up the continent with British, Israeli, and U.S. interests, to secure raw materials and trade routes; indigenous populations are to be sacrificed if need be in fratricidal wars to secure these aims. Some 15,000 French troops have been readied by the Socialist regime for this strategy.

For the Indian Ocean/Gulf theatre, the French have 4,000 men and 20 warships in the East African country of Djibouti. Six thousand troops are on the French Island of Reunion east of Madagascar for contingency actions in tandem with those British frigates left after deployments to the South Atlantic, and with American capabilities at the British-owned base on the island of Diego Garcia in the Indian Ocean, as well as base facilities in Mombasa, Kenya and Berbera, Somalia.

French Prime Minister Mauroy made a lightning visit to Lebanon May 26, reportedly linked to the announcement that France is sending 2,000 more troops to Lebanon, supposedly for the U.N. peacekeeping force there.

To underscore its commitment to NATO's out-of-area deployments, France has agreed to act as host for the NATO summit in 1983. While France is a member of the North Atlantic Treaty Organization, this marks a reversal of President de Gaulle's strategy of pulling the country out of NATO's military command, in the interests of French sovereignty. Last month the French, for the first time in years, also led a high-powered multinational naval exercise in the Mediterranean.

That Franco-British relations have reverted to the pre-World War I Entente Cordiale was openly discussed in the pages of France's pro-Socialist *Le Monde* during

the week of May 17, in light of the fact that Mitterrand has been the most intense backer within the European Community of sanctions against Argentina.

As one of France's leading commentators stated in a private discussion on May 21, "There is no contradiction at all between the farm-price issue and complete French-British agreement on North-South issues," i.e., on neo-colonialism. Four days later, French Foreign Minister Claude Cheysson himself told French radio broadcasters that ties between the two countries were "never so close and so good" as they are now, a judgment confirmed from the British side by arch-Tory parliamentarian Julian Amery to *EIR* on May 21. Simon May, a senior aide to Tory Edward Heath, under whose premiership in the early 1970s Franco-British antagonisms were in large part reversed, said, "There is a major shift from the Giscard era. There is a genuine entente. There are similar outlooks on the world."

And the same judgment was voiced to *EIR* on May 25 by Britain's Sir Philip Zulueta, who incorporates the Anglo-French-Israeli axis, as a top man in the British-based Rio Tinto Zinc raw-materials-plundering conglomerate and a director of two drug-revenue clearing-houses, the Hongkong and Shanghai Bank and the Leumi Bank of Israel. He also presides, from the British side, over the Franco-British Council, which held its latest meeting in mid-May in Edinburgh, Scotland.

The council was established in 1972, following the precedent-making visit of Queen Elizabeth to France, at a time when French President Georges Pompidou was operating under the illusion that a "British card" would be useful, to his regret in later years. At this point, the council is an obscene mélange of oligarchs and Socialist functionaries. Zulueta's counterpart on the French side is Robert Pontillon, a Socialist Senator with extensive connections to the British Foreign Office and the British-controlled U.S. State Department. In London, the prime movers of the council include Lord Duncan-Sandys, the early-1970s architect of the "East of Suez" strategy for multinational Rapid Deployment Forces to supplant departing British units in the Persian Gulf; Lord Thomson, head of the Independent Broadcasting Authority, an intelligence branch; Lord Polwarch, Chairman of the Bank of Scotland; and Lord Strabolgi, whose name is the Scottish equivalent of "Lord of the Bogey."

### Re-colonialization strategies

The Entente Cordiale now has its eyes set on intervention into the "hotspots" erupting around the world, as planned by the British Foreign Office. In the explosive Persian Gulf region, the British are playing a two-vector game of blackmail, with the connivance of France, the Israeli Defense Ministry, and the U.S. State Department.

On the one hand, the British are telling the rest of the EC that the mounting Khomeini threat to Saudi Arabia and its neighbors following the Iraqi debacle at Khorramshar signifies that continental Europe must drop objections to a NATO move into the Gulf, in order to secure oil supplies; and in the face of this blackmail, terrified European governments are increasingly responsive to the out-of-area push. On the other hand, the British are telling the Saudis and their Gulf neighbors that a British (or Anglo-French) protectorate is the only thing that can save their skins, a magnanimous offer is known in Foreign Office parlance as re-colonization.

Washington think tankers like to fantasize about the "projection of American power" in the Gulf. But the United States is so discredited in the region that this is hardly the real game. It is the Entente Cordiale that has the inside track, and will only invite the United States into the Gulf as the crisis peaks if it is necessary to draw on the "dumb giant."

This means, however, that imminent military interventions into the area by Rapid Deployment Forces cannot be excluded. There exists a 1980 tripartite naval accord among France, Britain, and the United States which calls for joint actions in the event of a blockage of the oil flow from the Straits of Hormuz. A three-nation armada with three aircraft carriers is readying movement into the upper reaches of the Gulf at any moment. All the dynamics are in place for a NATO-Warsaw Pact confrontation in that area, and there are upwards of 20 army divisions contiguous to the Gulf-Mideast region.

### **The African opening**

In Africa, the British and their allies in France also see a "window of opportunity" for re-colonization, given the continent-wide economic devastation inflicted by the collapse of raw-materials prices, rising debt-repayment burdens, and the self-feeding brutalization caused by what are euphemistically termed austerity measures.

A Paris source commented, "What is happening now in Africa is frightening. The whole continent is being carved up, with French connivance, by Israel, Britain, and the United States. The NATO extension policy is operating, and all the tensions of the Mideast and the Gulf are becoming interchangeable with Africa's, and vice versa."

A focal point for the militarized re-colonization push was the extended end-of-May visit by Mitterrand to Western Africa—Niger, Ivory Coast, Senegal, Mauritania—a coastal area rich in oil and other raw minerals. According to a highly informed Belgian source, the aim of the trip was to consolidate "a French military buildup in Africa to oversee the commodity flows. It is the

French correlate of the British operation in the South Atlantic, which is a show of force to control raw materials and sea lanes."

Oligarchic circles in France label this an "Atlantic Ocean strategy": British, French, and American coordination to militarize coastal zones as the core of a grand strategy. Senegal has granted port-refueling rights to Britain's Falklands fleet; it was Senegal which most wholeheartedly welcomed Mitterrand. Another instance is the effort to incorporate the Republic of South Africa into a new "South Atlantic Treaty Organization."

Recent developments in the former Belgian Congo are part of the pattern. In mid-May, Zaire's President, Mobutu Sese Seko, at the prodding of Paris and Washington, suddenly resumed diplomatic relations with Israel, causing a break with Arab countries—which Mobutu denounced for "neo-slavery"—and thus ending a substantial flow of Arab financial assistance. Mobutu has reportedly been promised American and possibly French aid—to buy Israeli military equipment and advisory services.

Belgian sources told *EIR* that "this is the official burial of the triologue," referring to the policy of Mitterrand's predecessor, Valéry Giscard d'Estaing, who mooted the use of Arab petrodollars and French technology to develop Africa.

Instead, Mobutu will have a twofold policy, thanks to French, Belgian, and Israeli influence in his army, and Israeli influence in his palace guard: repression of his own population under conditions of aggravated economic pressure, and the transformation of Zaire into a geopolitical gendarme, for military actions—possibly in conjunction with South Africa—against "the communist threat" emanating allegedly out of Angola, Mozambique, and the neighboring Congo. "This will make Zaire part of SATO," one source summed up.

It is reliably reported that should Mobutu balk at any point, he will be replaced with the exiled former Foreign Minister, Karl-I-Bond, a favorite of the International Monetary Fund and the re-colonizers.

Other countries in Africa are supposed to follow Zaire's lead. According to a senior French military analyst, "French-Israeli collaboration in secret-service and other fields is very close. It extends into both francophone and anglophone Africa." Israeli sources emphasize that Defense Minister Ariel Sharon is intent on expanding Israel's "sphere of influence" throughout Africa. One likely target is the Ivory Coast, which was visited by Mitterrand as part of his assignment to expedite Israel's entrée into Africa. A second target is strongly British-linked Kenya; one leading Kenyan newspaper, *The Standard*, published an editorial in late May lauding Mobutu's action, and praising the Israeli government as "a dependable ally of Africa."

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## Investigative Leads

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# Fatima networks target the Pope

by Scott Thompson

On May 12, a suspended priest named Juan Fernández Krohn attempted to assassinate Pope John Paul II with a bayonet during the Pope's visit to the shrine of Our Lady of Fatima in Portugal. Father Krohn, the 34-year-old would-be assassin, had been ordained as a priest by the schismatic arch-feudalist **Bishop Lefebvre** of France.

Security analysts' review of videotapes of the attempt found that, contrary to initial reports, Father Krohn had actually come within inches of stabbing the Pontiff before he was subdued. International security agencies believe that this latest attempt upon the Pope marks the beginning of a new outburst of assassination attempts, whose targets are especially President Reagan and West German Chancellor Helmut Schmidt. Within weeks of the May 13, 1981 shooting of the Pope in Rome, assassination projects were uncovered or attempted against Mr. Reagan, Indian Prime Minister Indira Gandhi, Mexican President José López Portillo, and French President Valéry Giscard d'Estaing.

### Who wants to kill the Pope?

Investigation into the latest attempt to assassinate the Pope has led into the highest levels of branches of the European "black nobility" and of the Anglican Communion, including especially the crypts of the Cathedral of St. John the Divine in New York. Among those continental oligarchs now placed in the plot against the Pope with the British Secret Intelligence Service are the **Thurn und Taxis** family of Regensburg, Bavaria; the **Lobkowitz** family; and the royal house of Portugal, the **Braganzas**, closely related by marriage to, and close political affiliates, of **Otto von Hapsburg**, pretender to the throne of the Holy Roman Empire and head of the Pan-European Union, an explicitly fascist group founded by Count Coudenhove-Kalergi. These European oligarchs oversee a feudal network of cults and paramilitary groups that burrowed within the Catholic Church, including: the **Sovereign Military Order of Malta**, which relies heavily upon funding from the Thurn und Taxis family, who in turn share control with

the Italian **House of Savoy**; the followers of Bishop Lefebvre who personally ordained Father Krohn; the 25-million-member **Blue Army of the Lady of Fatima** cult; and **Tradition, Family, and Property**, a paramilitary group whose members have been photographed using a picture of Pope Paul II for target practice.

This European oligarchic subgroup and its British allies have found the Papacy—most especially the policies enunciated by Pope Paul VI in his encyclical *Populorum Progressio* and by Pope John Paul II in his encyclical *Laborem Exercens*—a major impediment to its plans to bring the world to a new dark age through regional wars, famine, and plague. This depopulation policy is today embodied in the Carter administration's *Global 2000 Report*, which advocates the death of two billion people by the year 2000.

It is the Pope's immovable opposition to this policy that has made John Paul II a target for repeated assassination attempts. In September 1981, Episcopalian **Canon Edward West**, the Queen's Protocol Officer and a prelate of the British Order of St. John working under **Bishop Paul Moore** at the Cathedral of St. John the Divine in New York, told an interviewer that he found the Pope's advocacy of technological progress and population growth "disastrous." West made the intent of the Anglican hierarchy perfectly clear when he added: "Given the system as it is, you have no methods of dealing with the problem. Death is the only solution."

Likewise, New York investment banker **George Ball**, a protégé of the late U.S. eugenicist **William Draper, Jr.** and who helped write the *Global 2000 Report*, told an interviewer shortly after the spring 1981 attack on the Pope: "There is strong pressure from the Vatican not to do anything at all to encourage population control in Latin America. . . . This Pope is too strong. It's too hard to do anything at all with him. He is absolutely dead set against any population policy, and he is very powerful." Ball, a Lehman Brothers Kuhn, Loeb partner, is a banking associate of **Licio Gelli**, whose Propaganda-2 Masonic Lodge—sponsored by the "black nobility" of the Sovereign Military Order of Malta and the **Duke of Kent** of the British royal family—is believed to have coordinated the 1981 attempt to assassinate the Pope.

### Tools of the Inquisition

The Thurn und Taxis, Lobkowitzs, and Braganzas, together with British SIS, still run what must be described as the Inquisition. Its tools include:

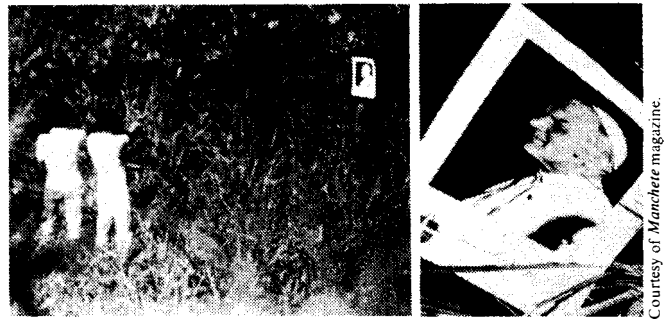
- **The traditionalists of Bishop Lefebvre.** Father Krohn was trained as a priest at the **Econe, Switzerland** seminary of Bishop Lefebvre. From there, he joined *Sedes Vacantes* ("Vacant Seat"), an extremist faction of Lefebvrists which believes that no Pope since Pius XII has been legitimate. According to intelligence sources,

Krohn has been implicated in two previous murders in France and Switzerland. He received special training as an assassin at a facility maintained by the Portuguese and Spanish oligarchy in **Malaga, Spain**. Similar facilities are maintained by the Sovereign Military Order of Malta at castles in **Geneva** and **Luxembourg**, partially funded by the Thurn und Taxis family, whose private wealth is estimated at \$6-\$10 billion. One of the most powerful if least-known patrons of Bishop Lefebvre is **Father Emmeram**, a Prince of Thurn und Taxis and Benedictine priest who presides at a seminary in the family's seat in Regensburg.

- **The cult of Our Lady of Fatima.** This cult was founded in 1917 as part of a religious war against "atheistic Russia," which the 1917 prophecy of "Our Lady of Fatima" says would be converted to Christianity following a collegial act of consecration at the shrine by the Pope. Steps toward consecrating this cultish prophecy, which brought the Pope to Fatima, were set into motion two years ago by **Cardinal Ratzinger** of Munich, now head of the Congregation of the Doctrine of the Faith, who is a close associate of **Prince Nicholas Lobkowitz** of Munich. Patrons of the Fatima cult include the House of Braganza, who are also patrons of the **Abril 25** (named after the date of the 1974 Spínola coup in Portugal), which warned that the Pope would be assassinated one month before Pope John Paul II's trip to Portugal. The current Infante of the Braganza family has been a frequent visitor to the Thurn und Taxis estate in Regensburg.

Attached to the cult of Fatima is a "Blue Army" with 25 million members in 110 countries. It maintains an International Secretariat under **Albert Setz-Degen** in Basel, Switzerland, and it has other international centers in Portugal and in Washington, New Jersey. The latter is the headquarters of **John Haford**, international lay director of the Blue Army, who is an intimate friend of the **Duke and Infante of Braganza**. The cult nature of the Army is underscored by the fact that **Father James LeBar**, Master of Ceremonies at the New Jersey shrine, is a close collaborator of Rabbi Maurice Davis. Davis, nominal head of an anti-cult parents network, was, in fact, responsible with Bishop Paul Moore for promoting **Rev. Jim Jones**, 900 of whose People's Temple cult members committed suicide in Guyana in 1978.

- **Tradition, Family, and Property (TFP).** This paramilitary pseudo-religious group, which has publicly proclaimed its hatred of the Pope, overlaps closely with the Lefebvrists, and handles recruitment to the Blue Army in Brazil. It was founded in July 1960 by a German priest under the patronage of **Prince Luís de Orléans e Bragança**, pretender to the throne of Brazil, whose cousins in the Thurn und Taxis family own vast landholdings in that country. TFP leaders work closely with the **World Anti-Communist League** and the Madrid-based **European Center for Documentation and Informa-**



Courtesy of *Manchete* magazine.

*Tradition, Family and Property's target practice against the Pope in Brazil.*

tion of Otto von Hapsburg. Both WACL and ECDI are centers for deploying explicitly fascist terrorist groups, including the **Ordine Nero** ("Black Order") of Italy, and other groups linked to the Propaganda-2 Masonic Lodge of Licio Gelli.

### 'Reopen Hinckley case'

At a press conference in Mexico City on May 25, *EIR* founder Lyndon H. LaRouche, Jr. called for reopening the case of **John W. Hinckley, Jr.**, the Manchurian candidate who attempted to assassinate President Reagan in March 1981, based upon new evidence uncovered in a probe of the latest attempt upon the Pope.

One of the principal new leads involves **Prince Paul Lobkowitz**, a second cousin of Prince Nicholas of Munich, who runs a hospice in **Lakewood, Colorado**—the town where John Hinckley received his programming as an assassin. The hospice movement practices euthanasia, which is referred to as "death with dignity" (the same slogan chanted by members of the Jonestown cult as they committed suicide). A further investigation is now underway to uncover links between the hospice of Prince Paul Lobkowitz, named the **Georgian House**, and the network of psychiatrists and hospitals implicated in the programming of Hinckley during his stay in the Lakewood, Colorado region.

Prince Paul Lobkowitz, a priest in the **Chaldean Rite** ("Nestorian cult"), has spent several months at Regensburg meeting with Father Emmeram and other members of the Thurn und Taxis family. Lobkowitz is also a member of the **Russian order of St. John of Jerusalem**. On May 21 a branch of this Order, the **Knights of St. John of Jerusalem** based at 7 St. Anne Street in **Floriana, Malta**, sent a death threat to Mr. LaRouche, phrased in the fashion the old Inquisition was accustomed to employ. This particular branch was created by **King Peter of Yugoslavia**, an asset of British SIS under the direct control of Prime Minister Winston Churchill, Lord Beaverbrook, and Fitzroy MacLean. While in exile, King Peter is known to have maintained a network of Croatians, some trained as assassins.

## The truth behind separatism

*How the federal government under Trudeau incites it, and uses it for purposes of social and political control.*

Contrary to popular belief, separatism in Canada is not a grassroots movement.

The separatist tendencies in the Parti Quebecois and in the recently created Western Canada Concept (WCC) organization are both a creation of the federal government in Ottawa, using British psychological-warfare methods to intercept and undermine legitimate impulses toward nation-building among the population, and to maintain the crisis-management policy of Prime Minister Pierre Trudeau.

The truth about separatism is that Trudeau's Liberals are running it in the East, while Joe Clark's conservatives run it in the West. In between is the federally owned province of Ontario—the strategic center for royalism, which over the course of Canadian history has adopted whatever political coloration it finds expedient.

Trudeau's form of psywar is to launch obviously unacceptable initiatives so he can have them rejected, and then to exploit the reformation of the targeted population.

A case in point is his ludicrous proposal for full bilingualism in Alberta and other English-speaking provinces, without any educational backup to introduce French, and costly, impossible-to-meet regulations.

This Jesuit method Trudeau learned from Father François Her-

tel, S.J., as early as the 1930s, when he became a member of the secret separatist society called the Loge des Chasseurs (Hunters' Lodge). This was noted in an open letter to Trudeau written in 1979 by a leading Quebec separatist, businessman François J. Lessard, who called Trudeau not only "the fifth column" of separatism "inside the federal system," but also a "double agent" who is "simultaneously betraying Quebec and English Canada."

The WCC movement is similarly overseen by the Conservative Party of Joe Clark. Except for separatism, the Conservatives and the WCC have the same formulas: free enterprise, reduced government activity, and less social welfare. They also have basically interchangeable memberships.

For example, the newly elected Conservative Premier of Saskatchewan, Grant Devine, had been preceded at the head of his party by a former "Western separatist," Richard Collver. Similar swaps have occurred with the synthetic Social Credit Party.

A close watcher and supporter of the WCC, editor-in-chief of the *Toronto Sun* Peter Worthington, told me recently that the separatist movement in the West exist only on the basis of hatred for Trudeau. "When Trudeau is gone," he said, "Western separatism will go also." As for the Conservatives, he added,

the problem is that they have no leadership, and that is why "the benign despot" [Trudeau] is in by default."

However, he concluded, "If Peter Lougheed [Alberta's Conservative Premier] were to capitalize on WCC, he could be the next Prime Minister." Lougheed said in mid-May that he was considering a bid for the leadership of his party at the federal level.

The answer to the question "who benefits?" from the recent WCC surge was pointed to by Dalton Camp in the *Montreal Gazette* on March 2: "Thus far," he wrote, "no one has blamed Clark for the triumph of separatism in Olds-Disbury [Alberta, where WCCer Gordon Kesler won a seat in the provincial assembly earlier this year], although Clark has joined those who have blamed the Prime Minister."

The rationale behind this federally supervised separatism is thus twofold. On the one hand, if the main opposition to Ottawa is separatism, there can be no serious national challenge to its policies.

Secondly, since the policies in Ottawa are made by "administrative discretion and consensus" of the Queen's Privy Council, encompassing both the Liberals and the Conservatives, separatism takes the form of a radicalized opposition whose impotence and frustration make parliamentary theatrics seem reasonable by comparison.

In this context, separatism can be exploited by both British-run parties, and a "Canada of regions" can be more easily controlled by the central government. If separatism became a serious threat, however, the emergency powers of the War Measures Act would be invoked by Trudeau.

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### No winners in state elections

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*Mrs. Gandhi and the Congress Party must correct serious weaknesses in local organization and leadership.*

**T**he ruling parties in four states of India were put on notice by over 37 million voters in elections for state assemblies held May 19. In the two states which have been under the rule of the Communist Party of India—Marxist (CPI-M), the opposition parties led by the Congress-I (for Indira Gandhi) made significant gains. Meanwhile the ruling Congress-I suffered setbacks in the other two states under its rule.

The elections took place at the mid-point in Prime Minister Gandhi's five-year term of office; some observers referred to them as "mini-national elections" and voters turned out in record numbers in most of the 592 constituencies being contested.

Unlike the 1980 national elections, which were basically reduced to a referendum "for" or "against" Mrs. Gandhi, the state polls involved more complex local factors. Nevertheless they supply some indications of voters' mood and general political trends.

It is clear that in the two states with the largest communist following—Kerala and West Bengal—the Maoist-leaning CPI-M was dealt a blow. In the coastal southwestern state of Kerala, the United Democratic Front (UDF) coalition led by the Congress-I won 77 out of 140 seats in the state assembly, a gain of 8 seats, giving them a firm majority after a period of unstable government in the state.

These gains, observers think, are a negative reaction to the ruralist policies of the previous CPM government and charges of widespread corruption. A similar, though less pronounced, trend can be seen in West Bengal, where although the Left Front government retained a two-thirds majority, with 238 seats out of 294, the Congress more than doubled the seats it and its close allies hold to 56, making a strong showing in Calcutta where it took half the 22 seats. Six of the CPM's state government ministers were defeated including Finance Minister Ashok Mitra, a Maoist economist who worked for the World Bank for many years. The Congress would have done much better had it not been for the factionalism and poor quality of its state leadership.

In the smaller northern states of Haryana and Himachal Pradesh, the Congress-I's greatest enemy was also the divisions within its own ranks and problems of its leadership, problems which extensive personal campaigning by Mrs. Gandhi could not fully overcome. At this time it seems almost certain that the Congress will retain rule in those states, but only with the help of elected independents, many of whom are Congress members who ran as independents after being left off the official list of party candidates. In both states as well, the Congress majority slipped.

In Haryana, part of the grain-producing breadbasket of the northwest, the Congress won 36 out of 90 seats (1 is undecided); the regional farmer-based Lok Dal party won 31 seats; the Hindu-chauvinist RSS-linked Bharatiya Janata Party (BJP) won 6 seats; 4 seats went to smaller parties; and 12 to independents. The Governor of the state has already asked the Congress Chief Minister Bhajan Lal to form a new state government. Six of the state cabinet ministers lost.

In the northern state of Himachal Pradesh, the BJP took 29 seats out of 68 and the Congress 31. The balance of power is held by six elected independents, five of whom are former Congressmen, so it is likely that here also the Congress Party will be able to retain power, but barely.

There were also by-elections for seven seats in the Lok Sabha, the lower house of the national parliament. The Congress won three of theseven.

The overall results indicate several things. The right-wing BJP did more poorly than they expected, particularly in Kerala, where they failed to win a seat and in West Bengal. The Congress Party organization has shown serious weakness in its state and grassroots organizations, a weakness which cannot be compensated for by the continued popularity and mass appeal of Mrs. Gandhi. There are other states, such as in the south, where Congress governments are suffering from similar problems of weak and incompetent leaderships.

The Congress and Mrs. Gandhi have an opportunity to correct those problems; they must do so if the central government is to be effective in "delivering the goods."

## **Khomeini's blackmail**

*Iranian demands for Gulf War reparations dovetail with larger plans for an Islamic bloc with "Islamic banking."*

In early May, just before Iran began "Operation Jerusalem" to end Iraq's occupation of Iran, Iranian President Khomeini informed a mediator that Iran wanted \$50 billion in war reparations as a precondition for beginning serious negotiations to end the 21-month Gulf war. The \$50 billion demand is expected by the Ayatollah Khomeini regime to come from the wealthy Gulf states aligned with Iraq.

If the Ayatollah Khomeini succeeds in ousting the Iraqi regime of Saddam Hussein, as he pledges to do, Iran calculates it can blackmail Saudi Arabia and its oil-producing neighbors, whose only military defense against Iran has been Iraq.

A well-placed Middle East analyst in Washington confirmed to *EIR* that with the defeat of Iraq, Khomeini is now preparing for phase two of his strategy of spreading his evil revolution throughout the Persian Gulf.

The source reports that the Ayatollah "intends to bleed the Gulf states financially, by blackmailing them with the threat of destabilization through Shiite Muslim minorities allied with Khomeini throughout the region and Arab extremists within the PLO along with Syria that have vowed support for Khomeini."

The *Wall Street Journal* reported on May 26 that Saudi Arabia and the five other states of the Gulf Cooperation Council are already considering Khomeini's financial

demand for reparations.

But if the Gulf states cave in to Iran's outrageous demand they will walk into a trap laid not by Khomeini but by the same British intelligence service and its assets in the State Department who installed Khomeini and keep him in power for certain deadly strategic objectives.

London is committed to the creation of an Islamic bloc, the so-called Umma, which would supersede the sovereignty of the nations of the Muslim world, and impose the genocidal policies carried out by Khomeini, and Pakistan's Islamic dictator and narcotics trade protector Zia Ul-Haq.

Key to this scheme is to cut the Muslim world loose from the world monetary system, leaving it dependent upon a gang of corrupt Islamic bankers, who are puppets of neo-colonialists in London and Geneva. A source associated with the Persian Gulf project of Georgetown University's Center for Strategic and International Studies revealed that "London now sees the prospects for an Islamic solution to the Gulf conflict which will greatly advance the Islamicization of the entire region."

Two weeks after President Khomeini set his price of \$50 billion, the central bank governors of the 42-nation Islamic Conference met in Istanbul. The *Wall Street Journal* reported May 24 that one of the proposals put to the conference was

that wealthy Muslim nations cease depositing their surplus funds in Western banks, whose high interest rates are hurting the developing Muslim states, and instead directly deposit their billions in Islamic institutions.

Should the Iranian ploy succeed, London calculates that a new Islamic banking system may come into being.

Over the past five years, a vast network of Muslim banks has emerged under the titular leadership of Saudi Prince Muhammed al Faisal, the eccentric son of the late King Faisal, who has been an outcast in the Saudi royal family since he proposed that the kingdom tow icebergs from Antarctica to solve its water problem.

An ardent supporter of Khomeini's revolution, Prince Muhammed is controlled by a clique of elite European-based Muslim ideologues associated with such groups as the Geneva-based Islam and the West and London's Islamic Foundation. These groups in turn are fronts for the likes of the Club of Rome and the Swedish-based International Federation of Institutes of Advanced Studies, open advocates of the drastic population reduction for the developing sector outlined in the State Department's *Global 2000 Report*.

The State Department, *EIR* has learned, is involved in efforts to get the Gulf states to pay war reparations to Iran through Islamic financial institutions. If this should occur it will give "Islamic banking" a tremendous political boost.

Khomeini has spread the motto that "the Saudis make the petrodollars and the Muslim people should spend it," reports a Mideastern source.



## Security forces on alert

*The U.S.-Mexico border becomes a focus of efforts to prevent outbreaks of terrorism.*

This capital is still buzzing with reactions to the speech delivered by the Undersecretary of the Interior for security affairs, Fernando Gutiérrez Barrios, in a ceremony commemorating the anniversary of President Lázaro Cardenas's birthday May 21, an occasion traditionally used by the government to deliver a key message to the nation. The security chief warned left and right forces now, inducing lack of confidence in national institutions that the government will not allow them to use the present economic weaknesses to provoke social discontent and chaos.

The speech was widely commented upon here in the press and among political circles. It came at a moment of heightened political tension fed by wild rumors of an eventual military coup and by bomb threats in several parts of Mexico City.

Gutiérrez Barrios' speech followed another warning a week before by the Secretary of Defense, Felix Galván López. In a ceremony commemorating the anniversary of the execution of Hapsburg emperor Maximilian in 1867, Galván blasted those "who dream or rumor-monger about possibilities of military participation [in anti-government activities] . . . don't count on any of us soldiers! . . . [W]e shot Maximilian, but also—and let this be clear—Miramón and Mejía [the traitorous Mexican generals who collaborated with him—JM]"

The next day Galván showed that the commitment to maintain internal security was more than rhetoric. A contingent of 800 soldiers moved in to the Superior School of Agriculture in Ciudad Juárez, Chihuahua, the city bordering El Paso, Texas. For several years, the school has been a seed-ground for terrorist gangs, and days before a group of students had kidnapped the director and taken over the school demanding increased federal funds.

In a message to other ultra-radical groups at several universities of the country, Galván López and Raúl Mendiola Cereceres, head of the Federal Judicial Police, personally oversaw the clean-up.

The move also signals security forces' awareness that the U.S.-Mexico border has become a flank for destabilization by radical and terrorist networks.

Security agencies on both sides of the border are now paying attention to two meetings of radical groups in the area. One is a meeting of the so-called National Liberation Movement and other ultra-radical groups in Denver, Colorado, according to propaganda leaflets, on May 28-30. The purpose is to map out a strategy to "liberate" Mexican-American, Puerto Rican and black populations from "U.S. occupation forces" in the South and Southwest of the United States. A topic of discussion will be how to confront the "repressive" forces of

the U.S. border patrol and other security forces.

NLM hooks up with the Comité de Defensa Popular (CDP) in Mexico, a Maoist movement based in squatter centers in several cities of Chihuahua. The CDP's modus operandi is to manipulate impoverished inhabitants of urban slums as a battering ram against Mexican authorities. They are seen here as a possible launching pad for urban chaos in the country.

Many attendees of the Denver meeting will go on to a second meeting of the American Indian Movement in the Papago reservation of Arizona, 40 miles away from the Sonora border, on June 3-13. Here they expect to manipulate the Papagos' old claim that the border line established by the Guadalupe Hidalgo Treaty of 1848 be changed because it dispossessed the Papagos of part of their ancestral land. Environmentalist, radical, and terrorist groups from all over the world will descend on Arizona for this meeting.

In this regard, collaboration between U.S. and Mexican security forces will be crucial. Such collaboration has already proven successful. Last month, U.S. intelligence agencies passed on a warning to Mexican authorities that Syrian, Palestinian, South American, Mexican and Chicano commandos would meet secretly in Ciudad Juárez to map out a strategy to destabilize the country. Mexican authorities placed the warning prominently in the local Juárez press. From there it was picked up in national and international wires, which noted that the information had "been processed" in New York and had been corroborated by the State Department.

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# International Intelligence

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## ***Bechtel unlikely for Basque nuclear project***

A spokesman for the Bechtel corporation declared on May 22, that it was highly unlikely that the international construction/engineering firm would take charge of completing the nuclear reactor at Lemoniz. The entire technical staff at the site resigned after the assassination of their head, Angel Pascual, by Basque separatist ETA terrorists two weeks earlier. Bechtel's specialty is projects that have to be built under aversive conditions.

Spain currently has 8 percent of its energy supplied by nuclear sources, and plans to hit 20 percent by 1985.

Meanwhile, having taken credit for a rocket attack on the Basque National Police Comisariat on May 24, the ETA-Military met with other Basque factions, legal and illegal, in Bayonne, France. The terrorist connections of the ruling Socialists in France have been well documented by *EIR*.

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## ***Juan Carlos hails role of classical culture***

King Juan Carlos of Spain has undertaken a series of diplomatic moves which show that Spain is not following the rest of Europe in obeisance to Great Britain.

On May 23, Juan Carlos was in Aachen, West Germany to receive the Charlemagne Award, a symbol of the European Renaissance and humanist development. He used the occasion to outline the roots of Hispanic culture in world history.

Ties between Spain and the Americas, he cited, derive from the tradition of the great humanist philosophers Philo and St. Augustine, who established links between Spain and Africa. As an outcome of those ties, Spain's monarchy soon became the "Hispanic monarchy, integrated in both hemispheres, beneath a single crown."

"Spain is not just a European, but it is a trans-European country," he added.

"From the very time of its birth as a modern nation, it has been projected beyond the old continent to be one of the members—the original and oldest member—of a community of independent Hispanic nations. . . . If Europe were to be closed, selfish, disdainful of others, Europe would be less European. . . . This is how I understand being King; this is how I understand my country and its historical duty. We must increase liberty for men, . . . for various countries beyond our frontiers which under no pretext whatsoever must be violated, dominated, or invaded."

Juan Carlos next went to Bonn, where he reported he had just sent a "personal, urgent, and private" letter to President Reagan, urging him to fulfill the United States' role as a world power, to restore peace in the South Atlantic.

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## ***German unions hogtied by scandal***

The mid-May congress of the Deutsche Gewerkschaftsbund (DGB), West Germany's equivalent of the AFL-CIO, demonstrated that the trade union movement in that country is in no better condition than management in facing world economic disaster. The gathering was dominated by continued discussion of the months-long "Neue Heimat" scandal—in which *Der Spiegel* magazine sought to implicate the construction firm of that name, wholly owned by the DGB, in financial wrongdoing—rather than economic policy.

Observers note that the scandal, which has caused the resignation of top Neue Heimat board members as well as the withdrawal of DGB chairman-designate Alois Pfeiffer, could have been handled easily by a DGB labor press which has a circulation about 15 times as great as the scandal-mongering *Stern* or *Spiegel* weeklies. *Spiegel* publisher Rudolf Augstein (arrested for possession of hashish) and *Stern* publisher Henri Nannen (once an employee of Josef Goebbels) should have little credibility as mor-

al crusaders against "corruption."

The new national chairman, Ernst Breit of the postal workers, is considered a "solid unionist." If so, he will have to rid the federation of the "post-industrial" outlook cultivated by his long-serving predecessor, Heinz-Oskar Vetter.

Meanwhile, the "safety first" resolution on the cautious development of nuclear energy, which the DB delegates voted up, indicates that the federation is in approximately the same morass as the ruling SPD party.

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## ***Chinese divided over Soviet policy***

Peking is caught in a policy split on whether or not to heal the rift with the Soviet Union, according to an unnamed Chinese official cited in the overseas Chinese press. According to this official, the Foreign Office would like to improve state-to-state relations and economic ties. However, the International Liaison Department of the Chinese Communist Party insists on maintaining the current policy.

The same Chinese official reported that in 1979 when the Soviets made their first rapprochement overture, Chinese Ambassador Wang Youping received instructions from Marshal Ye Jianying to "go ahead and adopt a 'warm' attitude." However, Party Vice-Chairman Deng Xiaoping countermanded Ye's instructions and told Wang to "be firm and hard." As a result, the talks failed.

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## ***French celebrate 'Decline of West'***

As the world political situation deteriorates, the Socialist regime of French President François Mitterrand has become increasingly redolent of "cultural pessimism," a disease which historically paved the way for fascism.

Socialist Party international relations chief Jacques Huntzinger, writing in the March issue of *Politique Etrangère* (the French equivalent of *Foreign Affairs*) draws hope from the fact that the economic depression is leading to the weakening of Western culture, so that "so-called universal values are being shrunk and becoming local values only." Huntzinger is also happy to see America through an analogous process become a mere "local power."

Huntzinger also says that the underdeveloped nations are the cause of their own problems because of their "inegalitarian" regimes, and sees the rise of "regional" powers like Iran as a hopeful sign.

Economist Yves Laulan (with a following in both Socialist and opposition circles) speculates in the French National Defense Review for May on whether a "renaissance" might not follow in the wake of a nuclear war. Although casualties would be high, says Laulan, the ensuing scarcities might force man to become more contemplative, in a way the Chinese are particularly suited for. Laulan is the top economic adviser to the powerful Société Générale de Banque.

## **Self-criticism for Chinese Premier?**

According to Hong Kong news sources, Chinese Premier Zhao Ziyang engaged in "self-criticism" following the recent revelation that three of his sons were conducting illegal economic dealings with foreigners from their base in Guangzhou, Guangdong (Canton) province.

Though the phenomenon is rampant throughout the country, especially in the coastal areas where there is frequent contact with foreigners, the story is believed to be part of factional mud-slinging tactics, currently being used by rival groups in the Chinese leadership to embarrass opponents.

Similar rumors are rife about the family and doings of Ye Jianying, an

opponent of Chinese leader Deng Xiaoping whom Deng has been trying to pressure into retirement for some time, thus far unsuccessfully.

## **Piperno charged in Moro murder**

The political and legal forces who have been protecting terrorist controller Francesco Piperno in Canada for the last eight months, preventing his extradition to Italy, suffered a setback on May 18 when lawyer Joseph Nuss, representing the Italian and Canadian governments at Piperno's hearing in the Quebec Supreme Court, charged that he "participated" in the kidnapping and murder of former Italian Prime Minister Aldo Moro in 1978.

At the Montreal hearing, Nuss said that Piperno had indirectly participated in both the kidnapping and murder of Moro through two Red Brigade terrorists currently on trial in Rome. "The proof shows that Valerio Morucci and Adriana Faranda participated materially in the kidnapping," said Nuss. "Piperno was aware and participated in this act." This is the first time since last September, when Piperno was first arrested, that a Canadian lawyer has responded to the official request of Italian Judge Imposimato, the leading judicial officer in the Moro case, for the extradition of Piperno on 44 charges, including the kidnap-murder of Moro and the killing of five of his bodyguards.

At the hearing, Nuss said that he will be introducing in court the proof that the gun used to kill Moro, "a Skorpion, a Czech gun used for several murders," was in Morucci's possession when his residence was raided by police in 1979. "We are not contending that Piperno actually went to the scene and participated concretely, materially, in the kidnapping. . . . But the proof will show that to be part of a crime, it is not necessary that the person participates actively."

## **Briefly**

● **EUROPEAN** governments should stop their "silly chatter about U.S. budget cuts and deficits," *EIR* founder Lyndon LaRouche said on May 28. "While I do not have total agreement with President Reagan on these matters, the budget is absolutely not the problem. If the Europeans want to talk about the economic problems of the U.S., let them first kick out the Mont Pelerin Society agents who are entrenched within their own governments."

● **JOHN VINOCUR**, the *New York Times* correspondent in Bonn, is part of the clique of Americans working to bring down West German Chancellor Helmut Schmidt, according to a source with extensive NATO connections. Vinocur is working with ambassador Arthur Burns, the source said, to convince the Free Democratic Party to break with its Social Democratic Party coalition partners over the budget, which will be debated beginning June 12.

● **THE ECONOMIST** magazine of London May 22 compared the Iran-Iraq war to the Thirty Years War which devastated Central Europe in the 17th century. "Ayatollah Khomeini matches the Emperor Ferdinand, 'The Crowned Jesuit,' in the ferocity of his fanaticism, and the Gulf has the same strategic importance the Baltic once had."

● **RUDOLF AUGSTEIN**, publisher of the popular German pornography weekly, *Der Spiegel*, was forced to cancel his appearance as featured speaker at this year's *Roemerberggesprache* radical-chic symposium in Frankfurt May 22. The European Labor Party, which distributed a satirical leaflet at the event with a cartoon of the degenerate Augstein, said that the last-minute cancellation was due to "either our leaflet, or what we wrote in the leaflet: that he drinks too much, smokes hashish, and walks around in the street in his negligé."

## Bush and Baker place the President in danger

by Kathleen Klenetsky

Contrived pressures and manipulations on the part of the George Bush-James Baker III group within the White House have convinced President Reagan that the key to reversing his real and imagined popularity loss at home is a public-relations triumph at the heads-of-government summits in Europe this month. The Bush-Baker group has thus succeeded in exposing the President to a very serious security threat indeed.

Working with Baker have been Deputy Chief of Staff Michael Deaver and Baker's aide Richard Darman, as well as Alexander Haig. They have brainwashed the President into clutching at the sugarplum of staged diplomatic successes abroad at the Versailles economic summit June 4-6 and the NATO summit in Bonn June 10, while even those most loyal to Mr. Reagan have foolishly downgraded the security risks there (see article, page 42).

Perhaps the worst risk comes June 8-9 in England, whose elite is resolved to wreck the American presidency. There Mr. Reagan will meet with the Royal Family, the Prime Minister, and address the British Parliament. And the President's stop on June 7 in Rome, where he will meet with Pope John Paul II, is beset with security risks, assuming that no harm comes to him at Versailles—under the Mitterrand government, terrorists are enjoying a free-fire zone in France. Also on the itinerary is a publicity stunt in West Berlin on June 11, modeled on John F. Kennedy's legendary appearance there; West Berlin is "a security nightmare," in the words of one member of the U.S. national-security apparatus.

The Baker-Bush group has specifically manipulated

the President around the staggering failure of his economic policy by offering the hope that a beefed-up "leadership image around foreign policy" will recoup that loss. For this purpose, they have told Mr. Reagan that a number of polls show Sen. Edward Kennedy leading him were presidential elections to be held now, adding that—as with Nixon and Carter before him—the polls signify not a rise in the Senator's popularity, but a serious decline in his own.

### The fifth column

Meanwhile, the man who served as Texas finance chairman for Ronald Reagan's 1980 presidential campaign has accused White House Chief of Staff James Baker III of deliberately undermining the President. In a letter sent to Reagan last month, Houston lawyer Clymer Wright accused Baker of helping to "create the image of Ronald Reagan as a vacillating President who can't formulate a program and stick to it."

Wright's letter, which was also circulated to other early Reagan supporters and contributors, charged that Baker is working at cross purposes to Reagan's economic policies and has contributed to a portrayal of the President as "an amiable, uninformed, lazy, slightly confused politician . . . a far cry from the genuine, courageous statesman we know Ronald Reagan to be."

Wright's denunciation of Baker is the latest and probably the most politically important in a series of attacks which grassroots Reagan loyalists and some conservative groups have made at Baker and Vice-President George Bush since the two Reagan rivals



James Baker III (r) with Michael Deaver.

(Baker ran Bush's primary campaign in 1980) were brought into the Reagan White House inner circle.

Since that time, Baker and Bush, old friends and political allies, have been charged with attempting to manipulate Reagan into scuttling his campaign platform and into adopting policies cooked up by the Eastern Establishment wing of the Republican Party.

The President rushed to defend Baker from Wright's attacks—going so far as to claim that his former Texas finance chairman is “sabotaging” his Chief of Staff. But Wright's allegations are right on the mark.

### **Baker's role**

As soon as Baker persuaded Reagan to name him head of White House operations instead of Ed Meese back in January 1981, he proceeded to set his own agenda for the administration. Despite his carefully-cultivated image as a “non-ideological technocrat,” Baker was the first administration official to oppose the President on issues—including the tax cut and increased military spending—which Reagan had made the cornerstone of his policies.

He also staffed key White House posts with his own people. Typical of the appointments he made was that of Richard Darman as his top assistant. Darman, a protégé of Boston Brahmin and Club of Rome member Elliot Richardson, now controls the paper flow to the President, meaning that Reagan only gets to read what Darman thinks he should read. Baker, meanwhile, sets the President's schedule: according to a recent White House visitor, Baker has Reagan engaged in a nonstop

round of three-minute, ceremonial hand-shaking encounters, making it virtually impossible for the President to sit down and think seriously about the multitude of problems facing the nation.

Baker has also been careful to keep Reagan loyalists out of positions of influence, especially presidential counselor Ed Meese. According to a profile of Baker published in the May issue of *Texas Monthly*, Baker has consistently leaked to his media friends stories detrimental to Meese, and has teamed up with his Deputy Chief of Staff Mike Deaver to limit Meese's policymaking input.

### **The Anglophile element**

James Addison Baker III is the scion of an old Confederate family which has been part of the British-linked Houston aristocracy for decades. His great-grandfather founded Baker & Botts, one of the top three Houston law firms. Its clients have ranged from the Gould and Harriman railroad interests to the Schlumberger Corporation, whose former head, Jean de Menil, belonged to the Permindex organization which assassinated President John F. Kennedy.

Baker's grandfather, Capt. James Baker, was a business partner and intimate friend of the notorious Col. E. M. House, the British agent who controlled the Wilson administration and promoted Britain's control over U.S. foreign policy by bringing the United States into World War I on Britain's side.

Baker is widely believed to want an even more powerful post. According to *Texas Monthly*, there are rumors that he is considering running for the Republican presidential nomination in 1984—which would mean having to do something about George Bush, who is also eyeing the spot.

Last month, the major media ran their first “exposé” of Bush since he became vice president. The story claimed that Bush had become improperly involved in lobbying to retain a tax abatement for pharmaceutical firms, even though he has held major blocks of stock in two drug companies. The *New York Times* version contained a particularly interesting note: Bush had become involved only when James Baker urged him to.

This wouldn't be the first time Baker has undercut Bush to advance his own political interests. When Bush insisted on remaining in the primary contest during the 1980 presidential campaign, even though it was clear Reagan had the nomination sewn up, Baker, his campaign manager, called a rump meeting while Bush was on the road to put an end to the campaign. Baker then held a press conference to announce that Bush was effectively out of the campaign, which the candidate only found out about when he heard it on the radio. Said another Bush aide of Baker's actions: “Baker had to cut his best friend off at the knees, and he did it.”

## A debate over ties to Taiwan and Peking

by Gregory F. Buhyoff

The Reagan administration is caught up in a debate on whether or not to seek a "face-saving subterfuge" which would allow the United States to bow out of its commitments to Taiwan, in order to salvage its dwindling hopes of an anti-Soviet "strategic alliance" with the Peking regime.

Sources close to the administration complain that President Reagan is being urged into "mediating" a reconciliation between Peking and Taipei on the former's terms. The advocates of that policy include Secretary of State Haig, Vice-President Bush, Assistant Secretary of State for East Asian Affairs John Holdridge, and neo-conservatives close to U.N. Ambassador Jeane Kirkpatrick. This group is also advising Reagan to give Peking some assurance that arms sales to Taiwan will not continue indefinitely.

Among those resisting this line, the sources say, are the President himself, National Security Adviser William Clark, and NSC deputy Robert MacFarlane, the latter despite a past affinity to Kissingerian policies. The recent appointment of Gaston Sigur, director of George Washington University's Sino-Soviet Institute, to head the Asia desk at the NSC adds to the list of officials who, while amenable to using China against Moscow, are unwilling to sacrifice all other American interests in Asia to this end.

It appears that the Haig-Bush-Holdridge group won a victory when the Vice-President went to China in early May. They warned Reagan of increasingly tough Chinese threats over the Taiwan issue, and of the undesirable message that might be conveyed to Moscow if Bush's tour of Asia did not include a stop in Peking. Reagan finally agreed to cajole Peking into allowing Bush to visit China by sending him with a "new package." The Chinese Foreign Ministry claims this included a promise that U.S. arms to Taiwan would end at some point.

If the Foreign Ministry's claim is true, it is believed that Bush went beyond the President's wishes. Bush has declined comment.

Mr. Reagan allowed his name to be appear on three letters carried by Bush to Chinese leaders, one of which stated "we welcome your nine-point initiative [referring to a proposal for "peaceful reunification" issued by

Chinese leader Ye Jianying last fall—G.B.] and adding that "in the context of progress toward a peaceful solution there would naturally be a decrease in the need for arms by Taiwan." Both formulations are unprecedented for Reagan, and they shocked Taiwanese officials, who had been kept totally in the dark. Many are interpreting these passages as the first sign of pressure from Washington for Taipei to begin to talk with Peking.

Washington sources report that Haig has been urging Reagan to initiate U.S. "mediation" between Taiwan and Peking. NSC head Clark and Reagan personally have opposed this. However, the public release of the letters is in itself now seen as a form of pressure on Taiwan to enter talks.

Nonetheless, Taiwanese officials agree that as long as Ronald Reagan is President, U.S. commitments to Taiwan will at least minimally be honored.

However, Taiwan is hedging against the 1984 presidency. The prospects of a Bush-versus-Mondale candidacy do not bode well for Taiwan, given the strong China Card orientation of both men.

According to *Aviation Week*, Taiwan is planning major investment in the production of its own advanced fighter aircraft and weapons technology. That report was corroborated by Lt.-Gen. Tang Chun-po, director of Taiwan's Chung Shan Institute of Science and Technology in a message he delivered to the Society of Strategic Studies. Taipei is currently scouting international markets for military hardware and is known to be interested in France's Mirage fighter jet. Should Paris balk at arms sales to Taiwan in favor of its relations with Peking, a likely substitute could be the Israeli-made Dagger jet, a copy of the Mirage which, because it has no U.S. components, does not need Washington's approval for export.

While the Taiwanese would rather not go elsewhere for their defense needs, all options are being considered, and if the U.S. "washes its hands of us," as one Taiwanese source put it, "we'll manage to survive." Some sources suggest that circles in the administration may be subtly encouraging Taipei to go this route in order to justify ending arms sales to Taiwan on the basis that they are no longer needed.

While such arrangements may buy more time for China Card advocates, those in the administration who fixate on Taiwan as the fundamental obstacle to desired relations with Peking may find that they come up empty handed. Recent shifts in Chinese foreign policy, i.e., a toned-down anti-Sovietism and a more pro-Third World stance, suggest that there is much more dividing Washington and Peking than Taiwan. Instead of obtaining a "strategic alliance" with Peking in exchange for Taiwan, and for just about all that is left of U.S. credibility with respect to its commitment to traditional friends, if the United States succeeds in pressuring Taiwan into "reunification" talks, Peking may get Taiwan for nothing.

Excerpts from Judge Bryant's decision follow.

# 'Abscam subjected victim to outrage'

by Sanford Roberts

Judge William Bryant of the Federal District of the District of Columbia acquitted former Florida Rep. Richard Kelly May 13 of the bribery and conspiracy charges he had been convicted of under the Carter Justice Department's Abscam operation. Kelly's conviction was overturned because the court ruled that his Fifth Amendment due process rights were violated by the "outrageous" conduct of the government in initiating and carrying out Abscam.

Judge Bryant is the first to overturn an Abscam conviction based upon FBI "outrageousness," a legal term that signifies gross violation of due process of law guaranteed in the U.S. Constitution's Bill of Rights. Most defense cases to date have relied on the argument of "entrapment"—that the FBI had no evidence of any predisposition to crime on the part of the defendant before making its bribe offer.

The question of due process goes to the heart of the issue that governmental misconduct in Abscam is an assault on constitutional government in the United States. Even in cases where the victim of the Abscam frameup is shown to be predisposed to criminal behavior, which could defeat a defense based on entrapment, the consideration of due process can mandate acquittal. If the government uses tactics which exceed the barest standards of fair and honest law enforcement, as Judge Bryant found was done throughout the Abscam operation against Representative Kelly, such "outrageousness" violates the due process clause of the Fifth Amendment. In Kelly's case, the court determined unequivocally that Abscam represents precisely this sort of outlawed "outrageous" misconduct, based on the FBI's persistent offers of bribery after repeated refusals by Kelly.

The Bryant decision has profound implications for other Abscam cases now in various stages of appellate review, especially for that of Harrison Williams of New Jersey, who was forced to resign from the Senate March 11 after a courageous year-long fight in which he demonstrated his innocence of any misconduct. Unlike Kelly, who finally succumbed to FBI bribery when \$25,000 was spread before him, Williams never accepted any money. The FBI succeeded only in videotaping him repeatedly saying "No" to insistent offers of bribes.

[A]s Abscam affected [Rep. Richard] Kelly, it was not the type of carefully devised and supervised covert operation generally accepted by the courts. . . .

I know of no reported case where at least some inkling of corruption was not the forerunner of undercover activity in a bribery prosecution. When Weinberg first passed the word that money would be paid to a Congressman for immigration help and that large amounts of money were available for investment, no one in the government had even the remotest suspicion about the existence of any prior, on-going, or imminent criminal activity of this type either as to its existence in general or the participation of any individual. In other words, there was nothing to trigger traditional law enforcement activities until the government made its overtures through those who were attracted to the honey pot. . . .

[A]s it affected Kelly, Abscam was not a traditional sting operation. It had a feature unknown to any sting operation that I know of. This consisted of a recruiting agent who was programmed to go out and use a formula supplied by the point man of the operation, which included a strong legitimate attraction. This formula containing legal and illegal bait was used. . . .

The ordinary sting, on the other hand, is nothing more than a passive operation which serves as an attraction for those who become criminals under their own power, certainly with no help from anyone connected with the sting. . . . Persons who patronize a "fence" operation set up by police are thieves who have already committed crimes when they contact the sting. In another standard motif, police officers disguise themselves as elderly persons sitting in a park which has been plagued by robberies and muggings. . . . In neither instance do we have officers, or persons programmed by them, canvassing the neighborhood with legitimate incentives designed to encourage apparently innocent persons to take advantage of the sting operation. . . .

Although the Department of Justice and the FBI disavow any purpose of testing the virtue of members of Congress, that in fact appears to have been the sole objective of the operation. In the case of the defendant Kelly the evidence points unwaveringly to this conclusion. Given the concession that there was not even a scent of suspicion of criminal conduct, past, present, or imminent, or of criminal behavior by Kelly or any other individual, that no investigation in this regard was underway, and the firm belief that if Cuzio got his hands on the money the Congressman would never know anything about it, no other objective can emerge except that of testing virtue, or as Judge Kaufman [of the Second Circuit Court of Appeals] stated in *Alexandro*, [one of the early Abscam convictions] "to test the faith of those in the high echelons of government." Either that, or the patently unacceptable objective—prosecution for the

sake of prosecution. . . .

When improper proposals are rejected in these virtue-testing ventures, the guinea pig should be left alone. In ordinary real life situations, anyone who would seek to corrupt a Congressman would certainly not continue to press in the face of a rejection for fear of being reported and arrested. The FBI of course had no such restraints in this case. . . .

I believe that in the circumstances of this case, any further pursuit and pressure on the part of government agents was nothing short of outrageous. A suspicion-free subject should be exempted from further testing on the basis of winning the first battle against temptation. He should not be required to win a prolonged war of attrition against chicanery. Human nature is weak enough and sufficiently beset by temptations without government adding to them and generating crime. If the government had no knowledge of Kelly doing anything wrong up to his rejection of illicit money, its continuing role as the third man in a fight between his conscience and temptation rises above the level of mere offensiveness to that of being "outrageous." No concept of fundamental fairness can accommodate what happened to Kelly in this case. . . .

The function of law enforcement is to prevent crime and catch criminals. Conversely, law enforcement exceeds its bounds when it manufactures crime and creates criminals. The manufacture of crime and creation of criminals have been specifically prohibited by numerous cases. . . .

To reiterate, I do not believe that testing virtue is a function of law enforcement. But this personal belief aside, and assuming that it is, the method of testing must be fair. If after an illegal offer is made, the subject rejects it in any fashion, the government cannot press on. Certainly when a person recognizes the dif-

ference between the legal and the illegal, and rejects the latter, the person should be free of further testing by a device which only government agents could have the audacity to use in the face of the penalties provided for their conduct. This standard creates a workable, discernible line separating the merely offensive and the constitutionally impermissible. Crossing this line is patently outrageous. A person corrupted under circumstances which only police officials can create or by a process which only the authorities are licensed to use, has been made into a criminal by his own government. . . .

During the course of the trial, in an apparent attempt to escape conviction and at the same time hang on to some remnant of respectability, Congressman Kelly presented the bizarre, nearly farcical defense that he was conducting his own investigation of the reason why he had been surrounded by shady characters. He suggested that he was being targeted for destruction by his political enemies who resented his independence and courage in the political arena. Not a scintilla of evidence which would support this theory ever surfaced in this case.

However, as the case unfolded I was plagued with the unsettling realization that with this loose cannon rolling around on the deck of the criminal justice system such a thing could indeed occur. Also, I became aware that even if a victim successfully invoked the defenses of selective prosecution and/or entrapment, this would be of little solace to him, for he nevertheless has been destroyed as a voice in public affairs. This great potential for a type of mischief, which hopefully will always remain alien to our system, standing alone, may be a compelling justification for outlawing the government's conduct against Kelly as a law enforcement procedure. If we condone such a measure, the fall-out might well be intolerable for us all.

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## A challenge to the Jerry Brown machine

by Andrew Rotstein

Because the California Democratic Primary and ensuing 1982 congressional elections are broadly viewed as a bellwether for the 1984 presidential campaign, Gov. Jerry Brown, a presidential hopeful, needs a clear victory in his June 8 primary bid for the Democratic senatorial nomination to prove that wide support exists for his ultra-liberal, environmentalist zero-growth kookery. But as of this writing, Brown has had to keep looking back over his shoulder at a challenger, William Wertz, whose support has been growing stronger by the day.

Wertz, for several years the West Coast coordinator of the multi-candidate National Democratic Policy Committee, has a sizeable machine to call upon in the NDPC's 6,000 members in over 100 chapters throughout California. His goal is to produce a mandate for the NDPC's four-point emergency program—water projects, nuclear plants, low-cost gold-backed credit, and Third World development—and, he states flatly, to end the political career of Jerry Brown.

Wertz strategists are now talking of pulling together the ingredients for a real political upset. A fundamental economic breakdown is beginning to make itself felt in California, after eight years of Brown's no-growth economic administration, which killed both water-development and nuclear-power projects. This has created openings for the Wertz campaign, especially among labor. Over 30 trade-union officials, primarily building trades and teamsters, have bucked the state AFL-CIO leadership by endorsing Wertz.

The Brown machine is based in Charles Manatt's chairmanship of the Democratic National Committee, in the state's Democratic Council, and in Tom Hayden and Jane Fonda's "Campaign for Economic Democracy" organization. They are already disquieted by the results of the Pennsylvania gubernatorial primary, where NDPC Democrat Steve Douglas, like Wertz a "political unknown," won 147,000 votes (20 percent statewide, 35 percent in Philadelphia) on a program identical to Wertz's.

The Brown machine is also running Tom Hayden for State Assembly; on that front, too, they are showing signs of wear under attack from the Wertz forces.

The NDPC has pulled together a broad coalition to oppose Hayden and his "economic democracy" euphemisms for zero-growth socialism. "Hell no, we won't go—for Hayden!" chanted over 50 picketers—who modified Hayden's own 1960 chants as they marched in front of the former SDS leader's campaign headquarters in a recent demonstration.

"Those LaRouche people are giving Jane Fonda fits," commented a trade-union leader, referring to NDPC founder Lyndon LaRouche. "They're forcing her to dig deep into her pocketbook." According to articles in the *New York Times* and elsewhere, funds for Hayden's campaign and other CED activities like campaigning for Brown have had to come from Jane Fonda's exercise salons and sales of her *Workout* book.

Other picket lines have been thrown up at the site of Hayden's new home by Santa Monica and Los Angeles building trades councils. The house is being built with non-union labor.

The anti-Hayden sentiment spills over into anti-Brown sentiment; even the scandals surrounding the two are the same. DNC chief Manatt and Mickey Cantor, Brown's campaign manager, were caught building their new law office with non-union labor—with the result that chunks of Brown's nominal labor support are threatening to desert him. "If something isn't done about this," said one union president, "we may have to reconsider our endorsement of Brown."

The challenger's prospects began growing late in the fall, when he blanketed the state with a pamphlet, "The Campaign for Economic Democracy [Hayden's]: Brownshirts of the 80s," whose impact was to define the primary campaign's issues in advance. The pamphlet defined the character of the Hayden-Brown apparatus as "authentically fascist" in both economic- and social-policy terms. A Republican primary candidate excerpted portions for circulation under his own signature. Now, Wertz has issued a half-million copies of a leaflet naming Brown as an advocate of genocide. Wertz has denounced the British and called for the invocation of the Monroe Doctrine, making much of Brown's support for the British colonial adventure in the South Atlantic, a precedent for NATO's "population-reduction wars" in the Third World.

On May 22 and May 27, Wertz appeared with LaRouche in half-hour television spots in San Francisco and Los Angeles, generating dozens of supportive calls from viewers of all political persuasions. He has now purchased \$15,000 worth of one-minute radio spots.

Although Jim Jones People's Temple is no longer around to provide bodies for counting in the Brown vote, Wertz strategists fear vote fraud. Although he has raised over \$150,000, the *Los Angeles Times* omitted him from a candidate-financing article, and from an opinion poll—characteristic preparation for vote-theft.

# How Haig and Kissinger ran Watergate against the U.S.

by Kathleen Klenetsky

When Secretary of State Alexander Haig announced to the nation that "I'm in control here" mere hours after President Reagan had been wounded by a would-be assassin last March, most Americans were appalled. But to those who had carefully studied the pattern of American political developments particularly over the last decade, Haig's power grab took on overtones beyond the ex-general's overweening ambition and total disregard for the U.S. Constitution. To them, Haig's performance smacked of an attempt to replay the cold coup d'état which he and his patron, avowed British agent Henry Kissinger, had helped carry out against the presidency of Richard Nixon.

Far from being an "impartial campaign" to rid the U.S. government of corruption and the abuse of power, Watergate was a London-instigated plot to destroy America's constitutional institutions. No matter what Nixon's flaws may have been, he did nothing that could possibly be construed as an impeachable offense; it was Watergate itself which represented the real offense against the Constitution. It contravened all accepted constitutional procedures; it discredited the office of the Presidency, not simply Mr. Nixon personally; it weakened the morale of the entire nation; and it opened the door for Kissinger and a host of fellow British operatives and fellow travelers to consolidate their grip over the essential policy-making institutions of the United States.

## The treachery of Haig and Kissinger

Although it was ultimately London which directed the Watergate proceedings from the top, it would have been impossible without the traitorous complicity of Haig, Kissinger, and their co-conspirators at the *Washington Post* and on Capitol Hill—especially among Democrats allied with the Kennedy family and such anglophilic conservatives as then Sen. James Buckley.

Working from a sophisticated psychological profile that stressed Nixon's paranoia both about the Eastern Establishment and communist infiltration of the United States (the latter exemplified by Nixon's complete misreading in the 1950s of Alger Hiss, whom he labeled a communist, when Hiss was actually working for the British), Haig and Kissinger manipulated Nixon into extending the Vietnam War—over the opposition of then-Defense Secretary Melvin Laird. This provided the impetus for an expanded anti-war movement, the development in the Nixon administration of a liberal anti-war "counter-government" (composed primarily of Kissinger protégés like National Security Council staffer Morton Halperin), and a series of major "leaks" to the press, including most importantly the Pentagon Papers. In turn, conditions were created under which Kissinger, with Haig in tow, could persuade Nixon that "national security" required countermeasures, including the wiretapping, break-ins, and other offenses for which Nixon was hounded from office.

## The wiretaps

The Watergate scenario took off in earnest in May 1969, when Kissinger instigated a steady flow of intelligence leaks to his friends at the *New York Times*. The purpose was to convince Nixon that a nest of subversives intent on sabotaging his foreign-policy initiatives was operating from the White House itself. As soon as the first leak—an exposé of the U.S. covert bombings in Cambodia that Nixon had ordered at Kissinger's urging—appeared in the May 9 *New York Times*, Kissinger stormed into Nixon's office, accused Laird of the leak, and ranted that U.S. diplomacy was at stake.

Later that day, Kissinger got on the phone to FBI director J. Edgar Hoover, demanding that taps be placed on the phones of suspect administration officials.

The individuals pinpointed by Kissinger for taps fell

into two categories. The first: trusted Kissinger aides, some of whom, like Morton Halperin, were being laundered into left-wing networks like the Institute for Policy Studies, to give a modicum of credibility to the Kissinger charge of a "counter-government."

The second category included aides to Laird and Secretary of State William Rogers, who were trying to stabilize the Mideast and Vietnam. The point of the latter category of taps was to insure that Kissinger knew in advance every policy-making initiative prepared by State and Defense, so that he could walk into NSC meetings with point-by-point refutations of every constructive proposal offered by Laird and Rogers.

Although Kissinger has always maintained that he was simply a passive participant in the wiretappings, the opposite is true. In addition to his four calls to Hoover May 9, Kissinger (either personally or through his top NSC assistant, Alexander Haig) requested a wide range of taps on people ranging from Rogers's closest aide Richard F. Pederson through Morton Halperin. Some of the taps were so patently absurd that by themselves they tend to blow Kissinger's cover. The cases of Morton Halperin and another NSC staffer, Helmut Sonnenfeldt, are exemplary: both men were long-time colleagues of Kissinger; Sonnenfeldt and Kissinger worked together as early as 1946, while Kissinger had hired Halperin to plan the entire restructuring of the NSC apparatus after Nixon's election in 1968. Indeed, Halperin was later forced to admit that Kissinger had warned him in advance that the FBI was placing a tap on his phone. So much for Kissinger's vaunted concern for "national security."

### The 'plumbers' and Ellsberg

One of the most important aspects of the Watergate scheme was the Daniel Ellsberg affair. Without the Ellsberg-Pentagon Papers fiasco, there would have been no "plumbers' unit," and no handle for bringing down Nixon.

It is therefore notable that the operative chosen for this assignment had been trained at Cambridge, England (a well-known recruiting ground for British intelligence); then became a protégé and close friend of Kissinger's at Harvard. The two remained so intimate that even *after* Ellsberg had transformed himself from a nuclear superhawk into an anti-war liberal and was preparing the Pentagon Papers for publication while dashing off letters to the *Times* and *Washington Post* denouncing the Vietnam War, the two continued to meet regularly. There is even reason to suspect that Kissinger—who had prepared the outline for the Pentagon Papers project when it was commissioned in 1967—might have given Ellsberg access to some of this secret material that found its way into Ellsberg's exposé, which was published by the *Times* in June 1971.

Kissinger not only supplied the motivation for the plumbers' unit's creation, he also supplied its director. Two weeks after the Pentagon Papers broke, Kissinger transferred his appointments secretary, a young Cornell University graduate and former Nelson Rockefeller aide named David Young, to the White House basement to oversee the day-to-day deployment of the plumbers' staff. As chief liaison to the unit, Kissinger assigned Alexander Haig.

(Although Kissinger would later deny any knowledge of Young's White House activities, he was forced to admit in sworn testimony before the Senate that Young was kept on the NSC payroll a full two years after he had transferred from that unit to the plumbers. And new evidence obtained by former *New York Times* reporter Seymour Hersh and published in the May issue of *Atlantic Monthly*, shows that Haig was directly receiving progress reports on the plumbers' activities from Young, while Kissinger was known to be concerned that Young might reveal Kissinger's hand in the plumbers' unit and related operations.)

The immediate task assigned to the plumbers was to "plug the leaks" which Kissinger claimed were jeopardizing U.S. secret diplomacy with the Soviets. This inevitably led to the bungled break-in of Ellsberg's psychiatrist's office. Meanwhile, the plumbers were busy making plans to bungle another break-in—Democratic Party headquarters at the Watergate Hotel itself—and set the stage for the public phase of the Nixon Watergating.

### Kissinger and Haig seize power

It was the break-ins, devised and carried out by Kissinger's plumbers, that inaugurated the final phase of Watergate.

In April 1973, Nixon aides Haldeman and Ehrlichman, along with Attorney General Richard Kleindienst, were forced to resign after testimony at the Ellsberg trial implicated them in the burglary of Ellsberg's psychiatrist. On April 30, Nixon surrendered the Attorney General's office to Elliot Richardson, a Boston Brahmin with close ties to the George Bush-James Baker wing of the Republican Party and a leading member of the Club of Rome. With the office came the license to appoint a special Watergate prosecutor. Richardson promptly named long-time Kennedy ally Archibald Cox to the post. Four days later, Haig replaced Haldeman, and was soon officially named White House Chief of Staff.

On May 17, the special Senate panel headed by Sam Ervin opened its hearings into Watergate, and Cox was sworn in.

From this point on, Nixon operated in a "controlled environment," increasingly isolated from outside advice and more and more dependent upon the "options"

offered by Kissinger and Haig, who by now were essentially running the government. The two began to place their own people (or, more properly, fellow Anglophiles) in key positions of influence. James Schlesinger (a protégé of both Kissinger and Daniel Ellsberg) took over Defense after Laird was forced out. Kissinger himself finally wrenched the State Department away from Bill Rogers, and was sworn in as Secretary of State on Sept. 19. Three weeks later, war broke out in the Middle East.

On Oct. 10, Vice-President Agnew was forced to resign as a result of a "get-Agnew" investigation undertaken by Richardson's Justice Department. The stage was set for Nixon's impeachment or overthrow.

From Oct. 22 to 25, Kissinger and James Schlesinger, all alone in the White House Situation Room, held a rump NSC meeting and declared a worldwide nuclear-war alert. Nixon was not involved in the decision. From here on, Kissinger acted as though he were the President of the United States and Commander in Chief of the U.S. Armed Forces.

As Chief of Staff, Haig took over the organization of Nixon's legal defense, widely conceded to be one of the most incompetent mounted. No staff was ever organized: the legal arguments were an unmitigated disaster; and Nixon's lawyers were continually handing over material to the prosecution that could only damage the President's case. As early as November 1973, Nixon's attorney, Fred Buzhardt, a Pentagon lawyer whom Haig had known since West Point, called on the President to resign—even though Gerald Ford had not even been confirmed as Vice President.

By July 1974, the Watergate schemers were moving in for the kill. But they wanted Nixon to resign rather than go through with the impeachment proceedings, for fear that the latter could backfire in the President's favor. This wasn't so easy to accomplish. As pressure began to build on Nixon to resign, he responded by insisting that to do so would be unconstitutional. When Haig went to Nixon at the end of July and told him point-blank that he should resign, Nixon replied that he would "let the constitutional process run its course."

Realizing that they needed a more subtle tack, Kissinger and Haig overnight created the myth of the "smoking gun" tape in an effort to convince Nixon he had no choice but resignation. Haig argued that this tape proved Nixon's guilt and would make his case before the Senate untenable. Nixon brushed off Haig and his lawyers, telling them "It's utter nonsense to make such a big deal as this."

On Aug. 5, Nixon totally shocked Haig and Kissinger by convening a cabinet meeting to announce that he was determined to see it through: "My view," he said, "is that I should not take the step that changes the Constitution and sets the precedent for the future. . . . I

have not found an impeachable offense and therefore resignation is not an acceptable course." He then stated he would hold an "economic summit" to tackle the growing problem of inflation. Republican National Committee head George Bush implored Nixon to hold off on the summit. Nixon angrily snapped back, "No, this is too important a problem."

After the meeting broke up, Kissinger spent two hours trying to make Nixon change his mind and resign, arguing that the Soviets would use the impeachment proceedings as an occasion to launch foreign-policy adventures. Nixon refused to accept Kissinger's advice.

Later that evening, Kissinger and Schlesinger completely usurped presidential authority by putting the U.S. military command on an "internal alert" and ordering all commands not to accept any orders coming from the White House without the countersignature of the Secretary of Defense.

In the face of Nixon's adamant refusal to step down, Kissinger and Haig resorted to a final piece of treachery. Unbeknownst to the President, Haig had already had the White House staff type up unedited transcripts of the "smoking gun" tape. The transcript was then sent to Nixon's closest supporters in Congress and the Republican Party. As news of this supposedly devastating tape began to circulate, panic began to spread, a panic compounded by the fact that it was the President's own Chief of Staff who was pulling the rug out.

Haig then began to bring the remaining Nixon loyalists to the White House, where he told them that an anti-impeachment fight would be futile, and that Nixon must be forced to resign in order to save the party. On Aug. 7, Haig brought Rep. John Rhodes and Sens. William Scott and Barry Goldwater to the White House to inform the President that he had lost his political base of support. Earlier, George Bush had sent Nixon a letter urging him to resign.

These were the final blows. The President submitted his resignation to none other than Henry Kissinger. London's cold coup had been effectively carried out against the U.S. government. And the two men most responsible for that, as well as for all the offenses for which Nixon took the fall, were left unscathed by the media and by the official bodies constituted to investigate Watergate. Kissinger sold himself to Gerry Ford as an indispensable foreign-policy adviser, while Haig deployed to Europe to head up the NATO forces and to prepare his own future political career.

The worst part of the Watergate tragedy is that, as Nixon had warned, it set the precedent for future operations against U.S. Presidents. All the elements for "Reagagate" are already being put into place. And Reagan is surrounded by the same people who were instrumental in Watergating Nixon.

## Space command group proposed

Declaring that "we need a fundamental new national commitment to develop such space defense systems" as directed energy weapons, Rep. Ken Kramer (R-Colo.) called on the House Armed Services Committee to back his legislation, H.R.5130, to establish an Air Force Space Command.

The proposed Command will coordinate all work on space programs in the Air Force and ultimately act as the coordinating center for the 29 fragmented government departments now dealing with space questions.

Kramer made his plea May 19 in testimony before the Committee's Investigations subcommittee which was reviewing the legislation first introduced on Dec. 7. Others who testified in support of the bill included Gen. James J. Hill, former head of NORAD, and Dr. Barry Smernoff, a consultant on space strategy for the GAO. Kramer developed his proposal after extensive discussion at the Air Force Academy and with officials at NORAD in Colorado and specialists in allied space technologies.

In his testimony Kramer called for the Command to have "behind it the full organizational resources and organizational power of a four-star billet" which could thus become a "powerful advocacy for space." Kramer motivated the need for such a high-level group to promote space defense systems with a declaration that the development of space-based defense weapons systems would have a revolutionary effect on military doctrine. As *EIR* founder Lyndon

LaRouche has stated, development of space-based anti-ICBM beam weaponry would end the threat of nuclear terror and thus would be a critical development for both the U.S. and Soviets.

"Doctrine is of such importance in determining the operational requirements for, and the ultimate funding paths toward, new space capabilities that we dare not let it evolve willy-nilly."

## Undercover FBI operations tripled over four years

Making a preliminary report to the Senate Select Committee investigating Abscam on May 26, committee counsel James Neal told the stunned Senators that FBI undercover operations between 1978 and 1981 totaled 1,192. Neal described the growth over the four-year period as follows: 176 operations in 1978; 239 in 1979; 314 in 1980; and 463 in 1981. Committee chairman Charles Mathias commented, "if you had told us that there were 500 or 600 operations of that period, it might have been expected. But neither the growth in population or in crime seems to justify that expansion."

Neal noted that there were two levels of undercover operations—those approved by the Director of the FBI, which go through an undercover operations review committee, and those approved by the Special Agent in Charge of an operation. The first category comprised 327 of the 1,192 undercover operations. Dennis DeConcini (D-Ariz.) mused that it was questionable whether the Director would

be able to stay on top of so many operations.

## 'Psychological stress' not valid bloc to nuclear plant

Senate Energy Committee Chairman James A. McClure (R-Ida.) announced May 21 that he intends to pursue the adoption of an amendment to the National Environmental Protection Act (NEPA) which would prohibit the consideration of "psychological stress" as a factor in environmental decision-making. McClure's action comes as a response to a May 19 U.S. Court of Appeals decision in January which ordered the Nuclear Regulatory Commission to prepare an environmental assessment of the effects of restart of the Three Mile Island nuclear reactor on the "psychological health of neighboring residents and on the well-being of the surrounding communities." The unprecedented decision ignored court rulings in similar cases that psychological factors could not be taken into account in such matters.

McClure pointed out that the "psychological environmental impact statement" mandate under an incorrect reading of NEPA, could add as much as a year and a half to the start-up of the Three Mile Island reactor. In addition, he warned, "[This] could very likely lead to a flood of psychological-stress contentions in other pending and future NRC proceedings. If the courts decision extends to other agencies as well, virtually every major construction or development project requiring federal ap-

proval—from airports, to bridges and roads to military installations—would become targets.”

## **Pell pushes 'paper tiger' drug reorganization**

Senator Claiborne Pell (D-R.I.), Congress' only card-carrying Club of Rome member, introduced the "International Narcotics Control Board Act of 1982" (S.2571) on May 25. According to Pell, his bill "will remedy the greatest single impediment to an effective international narcotics-control strategy—the lack of a single entity in the executive branch with the authority to coordinate overseas drug-enforcement activities, and to marshal the resources of agencies within four executive departments with responsibility for controlling the flow of illegal narcotics into the United States."

Pell's reorganization will create an international narcotics control board, consisting of the heads of the six agencies principally concerned with drug enforcement: the Assistant Secretary of State for International Narcotics Matters, the Administrator of the Drug Enforcement Administration, the Director of the FBI, the Commission of the U.S. Customs Service, the commandant of the Coast Guard, and the Commission of the Immigration and Naturalization Service. The Board would operate on a tiny budget of \$500,000.

Sources familiar with behind-the-scenes battles in the narcotics-enforcement arena pointed out that several weeks earlier, an inter-

nationally respected former DEA agent sent a letter to members of Congress denouncing the FBI-DEA merger of last year as an abysmal failure, and calling for the creation of a de facto "drug czar" to give the United States a real war on drugs. The proposal has reportedly caused substantial commotion, and the Pell initiative is probably an attempt to blunt the "drug czar" proposals with a paper reorganization.

## **Reciprocity removed from trade bill**

The "reciprocity" concept has effectively been taken out of S.8094, the trade bill sponsored by Sen. John Danforth (R-Mo.).

Congressional sources told *EIR* that the bill no longer contains language that would have added denial of "substantially equivalent market access" by foreign countries as a basis for U.S. retaliation under Section 301 of the 1974 trade bill.

The substitute language arrived at in negotiations between the Senate and the administration now refers only to lack of "fair and equitable market opportunities." Denial of substantially equivalent market access is only in the bill's statement of purpose.

U.S. Trade Office officials told *EIR* they feared "equivalence" language could lead to interpretations that lack of sector-by-sector trade balances constituted unfair trade practices, and that this interpretation could set off a cycle of retaliatory trade restrictions.

With "reciprocity" removed,

the major effect of the bill would be to add services, investment, and high-technology goods to the 1974 Trade Act provisions. Alleged "trade-distorting" requirements of other countries toward foreign investment, such as local content provisions, could not be considered in violation of U.S. law.

## **Defense Department to aid NASA**

Senator Harrison Schmitt (R-N.M.), one of the staunchest supporters of NASA, succeeded in adding a proposal onto the FY 1983 NASA authorization bill which may become the means to save many of NASA's programs from extinction. The Schmitt plan is to have the Defense Department pay the full cost of using the Space Shuttle to orbit its payloads.

"The Department of Defense should not be subsidized at the expense of our nation's civil aeronautics and space programs, which have contributed enormously to our country's leadership in technology and space, its economic strength, prestige, and quality of life," declared Schmitt.

The proposal was endorsed by the Senate Committee on Commerce, Science and Transportation when it passed the NASA FY1983 authorization bill May 11. The total authorized for NASA was \$6.612 billion, the amount requested by the administration, a figure which puts a number of important NASA programs in jeopardy. The Schmitt proposal is expected to add approximately \$409 million to the NASA budget in FY1983.

# National News

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## Harriman Tories plan strategy

At a recent private dinner party given by Pamela Churchill Harriman, the assembled Democrats discussed how to capitalize on what they are confident will be the self-destruction of President Reagan and with him the Republican Party. For what was billed as a "strategy" meeting, the guest list included Sens. Alan Cranston of California and Russell Long of Louisiana, along with former Democratic National Committee Chairman Robert Strauss, who is rumored to be having an extramarital affair with Pamela Harriman, the mother of Winston Churchill III. Pamela Harriman runs the political action committee Democrats for the '80s, which remains an arm of influence for her husband Averell Harriman, even though he is 90.

One East Coast Democrat in attendance was so outraged at the lack of an adequate program in the discussion that he is considering issuing a White Paper charging that the party is politically bankrupt. Averell Harriman has been telling anyone who will listen that Bob Strauss would make a fine presidential candidate in 1984.

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## Democrat hails Confederate constitution

Lloyd Cutler, counselor to former President Jimmy Carter and a longtime Democratic Party honcho, is openly advocating that the U.S. Constitution be changed to incorporate key elements of the Confederate constitution, the document adopted by the British-backed Southern secessionists.

Cutler, who wrote a notorious article for the September 1980 issue of the Council on Foreign Relations journal *Foreign Affairs*, urging that the U.S. adopt a parliamentary form of government, and was a founding member of

Ted Kennedy's "Project '87" constitution-changing scheme—told a Brookings Institution conference May 26 that the Confederate Constitution contained several elements that should be included in the U.S. Constitution, among them a six-year-term for the President; permitting Cabinet members to speak on the floor of Congress (a variant on the British parliamentary system); giving the president a line-item veto on the budget; and prohibiting Congress from raising spending levels over those approved by the President without a two-thirds vote of both houses.

In an interview May 27, Cutler stressed that "it's essential to change the Constitution so as to get control over the federal budget,"—that is, to take it out of the hands of constituency-oriented politicians—and that the Confederate constitution, "minus its regrettable position on slavery," could serve as a model for accomplishing this.

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## NDPC's vote: a political analysis

When the National Democratic Policy Committee-endorsed candidate for Democratic gubernatorial candidate, Steven Douglas, won 20 percent of the vote in Pennsylvania's May primary, his vote was concentrated in the Democratic strongholds of the state: Philadelphia, the Bethlehem-Allentown steel cities, and Delaware and Chester counties.

This vote in particular reflects the tremendous impact on the electorate of an election-eve telecast of a half-hour address by Douglas and by NDPC Advisory Committee Chairman Lyndon H. LaRouche endorsing Douglas and presenting one of the vital strategic issues of the campaign: the takeover of the United States by Tories within the Democratic Party.

In Philadelphia itself, Douglas won 34.6 percent and took 18 out of 66 wards. The voter composition of the wards Douglas won—evenly divided between white and black blue-collar workers, with significant Hispanic communities in sev-

eral of the wards—demonstrates that voting for Douglas was on the basis of issues, not "racial interests" lines.

In the western part of the state, Douglas got significant returns—in the range of 20 percent—in those counties where NDPC campaign committees had been built. (Vote fraud on the part of the liberal Republican machine of incumbent Richard Thornburgh is suspected there.) Douglas's campaign, although hampered by lack of media coverage and funding, was the biggest grassroots campaign run in the state in decades.

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## NDPC: space a 'great enterprise'

Before the HUD and independent agencies subcommittee of the Senate Appropriations Committee May 24, National Democratic Policy Committee spokesman Susan Kokinda presented the proposal of NDPC Advisory Board Chairman Lyndon H. LaRouche that the United States embark on the conquest of space as a "great enterprise" essential to rebuilt the nation both economically and morally, in her testimony on the NASA budget.

Kokinda told subcommittee chairman Jake Garn (R-Utah) and a group of university and private-sector scientists engaged in space research that, "If we look at what drugs, rock music, and Pac man [video games] have done to the current generation of our youth, it is eminently clear that nothing less than such a great enterprise as conquering space will restore a sense of mission to our nation. . . ."

Earlier, scientists' testimony detailed the effect of the current budget cuts on space research. Prof. James Elliott, speaking in behalf of the Planetary Science Division of the American Astronomical Society, pointed out that "no new planetary missions are currently being planned. Planetary exploration is heading for a drought after the Galileo encounter in 1990. . . . The budget cuts proposed by the administration amount



to an abrupt change in our national policy . . . toward the dismantling of our facilities."

Professor Eugene Parker, representing the Space Science Working Group of university-based space scientists, warned that "after the middle of 1983, it will not be possible to reestablish an effective American space science program."

Kokinda's testimony cited the analysis of the performance of the U.S. economy over the past two decades done with the LaRouche-Riemann economic model (see *EIR*, March 23) that established that real productivity and economic growth were a function of infrastructural investment and the Apollo effort, not balancing the U.S. budget.

## Mondale disturbed at Carter endorsement

Former Vice-President Walter Mondale was the featured speaker at a Stockholm Chamber of Commerce seminar on the future of U.S. economic development on May 23-24. Mondale met with Swedish Prime Minister Falldin and former Prime Minister and Socialist International leader Olof Palme, and was accurately presented by the Swedish press as a possible presidential contender for 1984.

At a press conference sponsored by the Chamber of Commerce, Mondale attempted to portray himself as a promoter of economic growth; but his social-democratic background (he admitted to "knowing Olof for a long time") was conspicuous. His economic proposals were enforcing current tax laws and cutting defense expenditures, with a nominal attack on high interest rates aimed at the Reagan administration. When Stockholm *EIR* bureau chief Clifford Gaddy asked Mondale if as President he would fire Fed Chairman Volcker, Mondale termed himself unable to deal with the "very peculiar system" of the Fed.

Mondale supported the Haig stance on the Malvinas crisis: "The Argentine government is a police state. They are guilty of severe human rights

violations"—an almost word-for-word repetition of former President Jimmy Carter's position.

However, when his own candidacy for the presidency was brought up, Mondale was far less comfortable with his past associations. One reporter mentioned that Carter, when in Stockholm two weeks prior to Mondale's visit, had stated that he would endorse Mondale as soon as he announced his candidacy. Mondale winced visibly and muttered, "He didn't say that, did he?" When several Swedish newsmen answered in chorus, "Oh, yes, he did," Mondale was heard to comment, "He didn't clear that with me."

## Nancy Kissinger loses round one

An attempt by Nancy Kissinger's attorneys to force the court to throw out assault charges against Mrs. Kissinger without a trial or the presentation of evidence fell flat May 21 in New Jersey Superior Court. The assault charges were filed by Ellen Kaplan of the Fusion Energy Foundation, who says Mrs. Kissinger grabbed her by the throat in a Newark, New Jersey airport Feb. 7, when she asked Henry Kissinger whether it was true that he slept with young boys at New York's Carlyle Hotel.

The Kissingers attempted to invoke a virtually untested statute which allows the chief judge to term a crime so insignificant and dominated by extenuating circumstances that it should not be presented for hearing or trial. The Essex County prosecutor's office, which had shown little interest in the case until the Kissinger's attempted to use this statute, came into court strongly opposing the defense motion. The prosecutor charged that if the Kissinger motion was granted, it would undermine prosecutorial discretion and an orderly system of criminal justice in Essex County.

A subsequent offer by Miss Kaplan to settle out of court was rejected unilaterally by the Kissingers.

## Briefly

● **EDWARD A. McDONALD**, named May 21 as Abscam Prosecutor Thomas Puccio's successor, says he "intends to pursue the same types of cases we've pursued in the last five years." McDonald has been on the staff of Puccio's Brooklyn-based Organized Crime Task Force since 1977.

● **HENRY REUSS (D.-Wisc.)**, Chairman of the Joint Economic Committee, admitted in a May 23 speech to the annual dinner of the Federal Reserve Bank Governors that "as you know, I am not a Governor of the Federal Reserve. I'd be the first to admit that the mere mention of that possibility could cost the nation 100 points on the Dow Jones."

● **THE AFL-CIO Executive Council**, at its spring meeting in Washington, endorsed a freeze on nuclear weapons deployment and identified itself with the synthetic "peace movement." On economic matters, the Federation rewarmed its pathetic call for credit controls as the remedy for the Federal Reserve's interest-rate strangulation, which is leading to the elimination of union jobs in unprecedented numbers.

● **A NASA engineer** has designed a mapping camera that can photograph the Earth from an altitude of 160 miles and produce pictures that identify houses and buildings. According to Bernard H. Mollberg, the camera's inventor, who lobbied for 10 years to get the \$5 million needed to develop and build the 900-pound device, the camera will make its first flight into space within two years. The lens will resolve photos down to about 48 feet, compared to 270 feet in photos made by Landsat satellites, currently the main source of data about the Earth's resources.

# The new North-South potential

Diplomatic circles have reverberated since *EIR* founder Lyndon H. LaRouche, Jr., spokesman for the prodevelopment wing of the Democratic Party in the United States, and his wife Helga Zepp-LaRouche, Chairman of the European Labor Party, held an official meeting on May 27 with Mexican President José López Portillo. The 45-minute discussion, to whose contents we are not privy, was followed by Mr. LaRouche's press conference at Los Pinos, the Mexican presidential residence.

At a May 26th press conference earlier, Mr. LaRouche had told newspaper, television, and radio journalists that he is convinced that President Reagan should not travel to Europe for the June summits, because of the assassination threats that have surfaced there. He cited new intelligence linking the President's would-be 1981 assassin, John Hinckley, Jr., to threats against his own life relayed officially by the Knights of Malta on May 21 and to the attempt against the Pope on May 13. Dr. John J. Hopper, who recently testified that when Hinckley was under his care in Evergreen, Colorado, he refused to order Hinckley institutionalized, is linked through the Evergreen Clinic to Paul Lobkowitz, a Central European prince whose family controls various branches of the Maltese order. Hinckley spent the final days before his attack on Mr. Reagan in Lakewood, Colorado, where security specialists believe he received his final programming as a "Manchurian Candidate" assassin.

These threats, LaRouche told the May 26th press conference, are of relevance to the war in the South Atlantic, and to the attempt to destroy republican government in Mexico. The British and the continental oligarchy are determined to keep the "inferior" people of the so-called Third World from economic and social advancement; they intend to make the globe below the Tropic of Cancer and its resources a game preserve for themselves.

Alexander Haig and Henry Kissinger, LaRouche emphasized—making headlines in the Mexico City dailies the next morning—are British operatives dedicated to this policy, and to eliminating anyone they judge to be an obstacle, including Mr. Reagan, whom LaRouche termed "basically decent and good." Their program for Mexico, he said, is to further devalue the peso (which he termed undervalued) drastically, impose a General Agreement on Trade and Tariffs dictatorship that would wreck Mexico's industrial base in favor of "tourism," use this economic warfare to foment political upheavals, and trigger a Middle East crisis which among other things would offer a pretext for military occupation of the Mexican oil fields.

Noting that he is the chief American political figure opposing Secretary Haig's violation of the Monroe Doctrine, LaRouche said that "sinking the entire British fleet" is required to bring the United States to its senses. Asked what Mexico and the rest of Latin America can do, he stressed that the current crisis makes it possible to create the kind of economic cooperation among underdeveloped nations that will counteract the world depression. The Organization of American States, he said, can deliver a shock to the "North" and activate the Non-Aligned Movement to act on the true self-interests of both "South" and "North."

It is far from common to see an out-of-office American political leader at Los Pinos, but of course this is an uncommon leader, whose warnings to the "South" that the oligarchic controllers of NATO are bent on its destruction have been so visibly borne out, and whose proposals for a new world monetary system devoted to generating development credits are so clearly counterposed to the economic havoc now threatening all sectors of the globe. Mr. LaRouche is now at the center of world diplomacy, and the rules of the diplomatic game will never be the same.

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