

# EIR

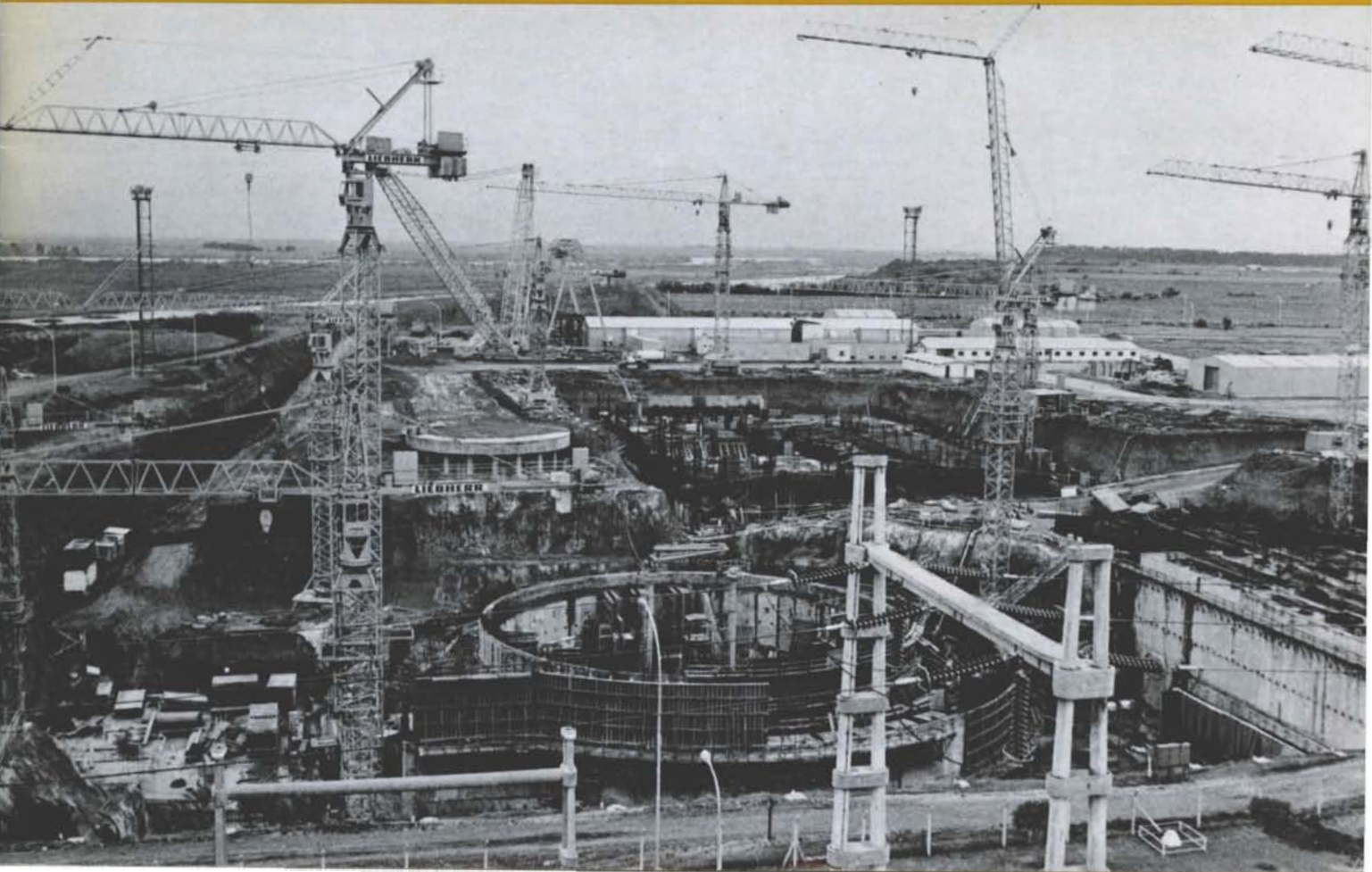
Executive Intelligence Review

August 3, 1982

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# EIR

## From the Managing Editor

Our Special Report this week is a byproduct of recent visits to Argentina, Venezuela, and Brazil by one of our Ibero-America Editors, Dennis Small. This exclusive assessment is shaped by his appreciation of the common roots of North and South American accomplishments in the Hamilton-Lincoln tradition which specified that “mechanical improvements,” not “natural resources,” are the fulcrum of industrial development—in turn the prerequisite for the expansion and the moral and intellectual development of populations.

Mr. Small was interviewed by, among many other media outlets, the Argentine monthly journal *Búsqueda*, an intelligence review for the country’s pro-industrial factions. Alongside the lengthy interview, the July issue of *Búsqueda* carried a report on the Club of Life, an institution which is in the process of being formed internationally by Helga Zepp-LaRouche, Chairman of the European Labor Party and wife of *EIR* founder Lyndon H. LaRouche, Jr. The Club of Life, *Búsqueda* emphasized, is intended to act as a counterpole to the Club of Rome, which continues to coordinate the effort to eliminate billions of people from the earth over the coming two decades.

Mr. Small and Mr. and Mrs. LaRouche are in Mexico, and we expect some journalistic fruits of their visit. We also plan extensive coverage this month of Spain and Colombia. *EIR*’s European Editor, Vivian Zoakos, and Paris Bureau Chief Katherine Kanter amassed exclusive interviews—and judgments—during their recent visit to Spain. Colombia has been the subject of a LaRouche-Riemann economic model study, generating programmatic recommendations for economic advancement.

And, from what we have already heard about Special Services Director Peter Ennis’s current trip to Japan, we anticipate not-to-be-missed political and economic reportage by that veteran of our Asia desk.

*Susan Johnson*

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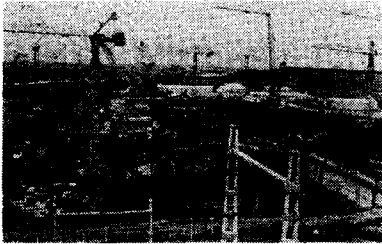
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The Atucha II nuclear power plant under construction 100 kilometers north of Buenos Aires, Argentina. This photograph was taken from the site of Atucha I, the only operational nuclear power plant in Ibero-America.

Dennis Small/NSIPS

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**Corrections:** The credit for *EIR*'s July 27 cover photograph was inadvertently omitted. The picture of four giant U.S. Steel blast furnaces being demolished at Youngstown, Ohio on April 28, 1982 was taken by Ken Mengay of UPI.

## Central-bank bailout plan in tatters as crash nears

by Laurent Murawiec, European Economics Editor

The conditions that prevail on the world financial markets can only be described as the symptom of a pre-crash period. That period will be short, highly unstable, and highly destabilizing for markets as well as for the actors and witnesses of the drama. The old, post-1971 system built on the ruins of the Bretton-Woods institutions, is in its turn dissolving, and the shape of the future is as yet unclear.

The astonishing series of incidents, accidents, and limited earthquakes that have hit the financial markets in the last two weeks bears witness to their fragility, to the imminence of their demise. Penn Square and its spillover onto leading U.S. banks; Canada's Dome Petroleum's troubles and their implications for at least three top Canadian banks; the strained finances of Germany's AEG Group and its creditors' accounts; the many and troubled rescheduling processes affecting sovereign borrowers, from Eastern Europe to Latin America. . .

The idea for which this journal and its founder have been notorious for many years—that the world's debt could not and would not be paid, that the Europmarkets were bankrupt, and the day of reckoning was predictable within specific time brackets—has become universally known and accepted.

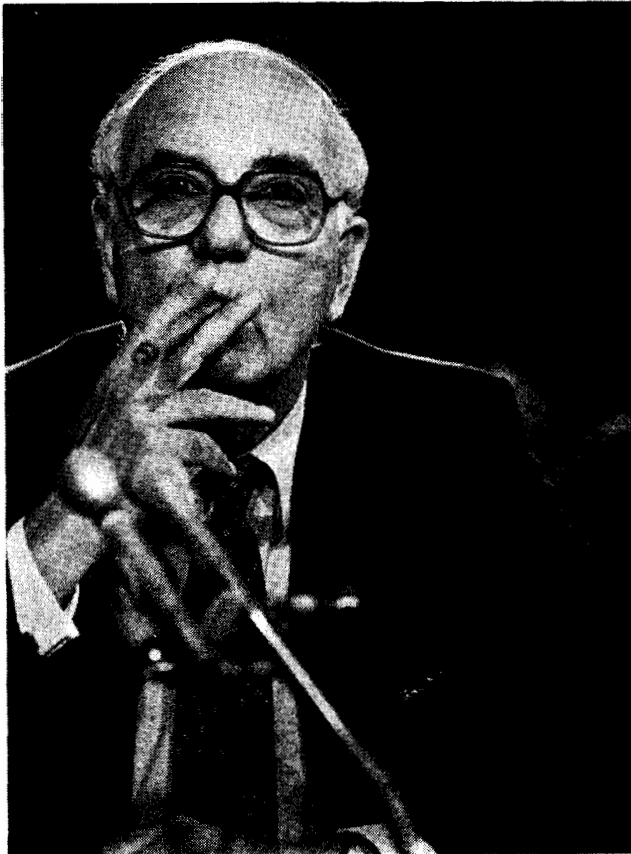
But while the perception that the collapse of the \$1.5 trillion Euromarket is imminent is feeding a race into

highly liquid and reliable assets, it also generates a battle for the minds—whose *political* solution to the great debt reorganization of 1982 will triumph?

### Advocates of the 'controlled collapse'

Let us enter the conference room of one of the world's most clandestine institutions, the Bank for International Settlements in Basel, Switzerland. On July 12 and 13, the world's leading central bank governors were meeting, including, quite unusually, U.S. Federal Reserve Chairman Paul Volcker, and, very unusually, IMF managing director Jacques de Larosiere. Main item on the agenda: how to face the imminent banking and financial crash.

A group of Fritz Leutwiler (BIS chairman and Swiss National Bank head), Christopher McMahon (Deputy Governor of the Bank of England) and Henry Wallich (number two on the Federal Reserve Board), led the pack demanding the immediate establishment of detailed emergency plans, and of a "safety net" laid by central banks. The Bank of England was the most insistent, and its attitude verging on discourteous frenzy—because of the extreme fragility of the City of London, the world's biggest "offshore" center. "The Bank of England wanted other central banks to shoulder part of their responsibility—they are very scared that a collapse will fall mainly



Stuart Lewis/NSIPS

Paul Volcker

on them," a Swiss official commented, not without some sarcastic pleasure. In truth, it was rather unusual for the Old Lady of Threadneedle Street to resort to armtwisting tactics such as leaks to the press to get its way.

In spite of their differences, however, the Swiss, the British, and the foreign agents who run the Federal Reserve fell into basic agreement on the following plan: each central bank would "take care of its own flock," its own banks and their offshore extensions, and provide liquidity to stave off a collapse in case of a crisis on the interbank markets. At first, each central bank would draw on its own dollar reserves to do so, then extend emergency help in its own currency to the banks, which then would have to acquire dollars themselves. If that did not suffice—and in a Euromarket panic, it certainly would not—normal swap lines with the Federal Reserve would be activated: the Fed would print billions of cash dollars which it would swap against pounds sterling, Swiss francs, etc. Some sources even report that special swap lines were arranged at the BIS meeting.

In other words, Paul Volcker and Henry Wallich agreed that the Fed—to bail out the world's biggest casino and funny money establishment, the Euromarket created by British and Swiss financiers—would accept what it has brutally and consistently refused to do to

save U.S. industry and farms, make more liquidity available! Volcker's congressional testimony on July 21 only confirmed this, when the Fed chief stated that "under special circumstances," money would be printed. A Geneva banker explained the meaning of Volcker's views: "The Volcker-Wallich clique is all prepared to break U.S. industry apart, they don't care; but they won't let the banks go."

Everything seemed to be in the best of all worlds for the central bankers, whose view it is that the world economy is inevitably headed for a "controlled collapse," with increasing control, that is, for the BIS and the "elite" of financiers and banks that are its collaborators.

A monkey wrench was thrown into their game. Of the world's three largest and most powerful economies, two refused to play. If the United States, through the treasonous Federal Reserve, has agreed to place its economic might as the guarantor of the Euro-fortunes of continental European and British oligarchic financiers, Germany and Japan flatly refused to do so. Japan, whose leadership believes that only a general and orderly debt moratorium for the developing sector can avoid a total collapse and relaunch world economic growth, and Germany, which obstinately refuses to bail out the mistakes of others, simply refused to enter the "safety net." Without Germany and Japan, the virtues of any "safety net" are dubious at best, nonexistent at worst.

As a result, the communiqué, which as an unusual measure had been prepared by the BIS, was not published. "Any preparation you make will be destroyed by a collapse, you will be overtaken by events," the argument went. A leading London merchant banker commented: "The central bankers don't have much going. They might think they have something of a preliminary safety net, for some of them, but they are hopelessly behind events."

### The homage paid by vice to virtue

In times of crash and crisis, investors turn to what are the most liquid and trustworthy assets in the world. The bills of the Treasury of the United States are that—which demonstrates that it is nation-states, and particularly the strongest of them that generates the most secure and best-backed financial assets. All the oligarchs' financial managers who have been quietly converting their assets into U.S. T-bills recognize the fact.

In the last two months, portfolio managers throughout the world have started to switch their investment from bank deposits to U.S. Treasury bills. Geneva's leading private banks, which manage much of the world's largest fortunes (Lombard, Odier; Ferrier, Lullins; Pictet; Hentsch & Co.; etc.), had completed this process before that. The drug-linked Hongkong and Shanghai banking group is now starting to do the same.

Only the extreme discretion and the gradual nature of the conversion, explain why there has not been an explosion on the markets: this is a slow-motion collapse.

"The switch from bank deposits to Treasury securities creates massive problems for the banks," a London broker said. "Clearing banks pay  $\frac{1}{16}$  percent over LIBOR, but merchant banks, which have no deposit base, have to pay  $\frac{3}{16}$  percent already. The smaller the bank, the weaker, the higher the premium it has to pay. The differentials are already impressive, and they apply to all non-U.S. banks." There, too, the command of the dollar deposit market—the continental United States and its economy—is a principle of reality which even speculators are forced to acknowledge, even if only to be better able to loot it.

One schedule on which the best-informed London financiers operate was summed up as follows by one of them: "If nothing happens before the end of this month, then August should be quiet. You never know, but it should be quiet, because people will be drawing their battle plans. Then, the next deadline is the early autumn, when a lot of things could simply explode. And if the big crash is averted in September-October, then watch the year-end closing of accounts of the banks. Banks report only several months before, but shifts in their pattern of behavior will appear and be quickly spotted by the markets, like heavier than normal drawing on credit and interbank lines. . . ."

Sources close to the Bank of England are circulating rumors that Paul Volcker's more flexible attitude has been motivated by a run on "one major New York bank, the week of the Penn Square collapse, which was squelched quickly by the Fed which started pumping liquidity into the banking system." It is true that the Fed has been adding reserves to the system in the last few weeks, and even cutting the discount rate, in no proportion that could be of any help to industry, but simply to prevent an uncontrolled banking panic.

"The tension at present is worse than in 1974," commented the chief economist of a Geneva bank. Understandably. "The bankruptcy of the [Third World] debtors has now become the bankruptcy of its [Western] creditors," as *EIR* founder Lyndon LaRouche pointed out. The accumulation of bad debts caused by the Malthusian policies of the world's dominant monetary and financial institutions, the central banks, the International Monetary Fund, the World Bank and the private and commercial banks that go with them, has not only made the desperate debtors insolvent—it threatens to blow away the whole system of their creditors.

The political fight in Brazil to oust austerity-minded Planning Minister Delfim Netto, and reschedule the country's \$75 billion debt; the debate throughout Latin America on the use of the "debt-bomb," or the common

approach of the continent to debt renegotiation, are among the most positive signs of that bankruptcy, or of the efforts to overcome it. The financial scene is more dominated, however, by desperate efforts to "pass the buck" and ensure one's neighbor's demise rather than one's own. British bankers, for instance, are especially keen on the destruction of the industry-oriented German banking system, for which reason they spread no end of rumors (which they later delicately attribute to U.S. sources.) The BIS central bankers' own operation, be it called "safety net" or "Basel Concordat" (a document agreed upon in 1975 to define the areas of responsibility and the tasks of the central banks in case of a global liquidity crisis), is commonly described as "full of holes," especially after the collapse of Italy's Banco Ambrosiano's Luxembourg holding. Italian banks have rightfully refused to take responsibility for the losses of a holding company located in an offshore center, and whose demise does not endanger the liquidity of any bank. The specter of "subsidiaries being dumped, offshore centers with no regulatory authorities to control them being cut off from their sources of funds" is haunting the masters of the Euromarkets. LaRouche's (and Charles de Gaulle's economic adviser Jacques Rueff's) oft-repeated assertion that unregulated (Euro) markets are ruining the good currencies and the hard-commodity-oriented banking systems, is being borne out with a vengeance.

Now that the global financial crash that this journal has foreseen and analyzed in detail for many years is a palpable reality, the point must be made that the holier-than-thou central bankers are the ones who want to decide when and how the crash will occur. As a Brussels financier commented, "A liquidity crisis can only develop if one bank has been rebuffed by other banks and by its own central bank when it was in dire and urgent need of liquidity. A liquidity crisis will only occur if the central banks let it go." With all their protests of prudent virtue, the BIS central bankers intend to do exactly that—and they cling desperately to their illusion that they will indeed be able to "control" what will be the worst financial explosion since the 14th century!

There is very little time left for the world to escape the tragic "choice" it is presented with, of surrendering to the central bankers' "controlled collapse" or being precipitated with the sorcerer's apprentices into the tempest. The fact that the Reagan administration, after having "settled its foreign policy problem," is now "focusing on economic problems" with a personnel reshuffle being mooted, presents us with a desperately needed opportunity to be taken: even if President Reagan has no articulate program to propose, the mid-term political reshuffle must be turned into the entry point for the sweeping reforms of the monetary system proposed by LaRouche since 1975.



## The view from London

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### 'The question is, can confidence be maintained?'

*From a discussion with a top London investment banker on July 19:*

**EIR:** What are the prospects for a banking collapse?

**A:** If nothing happens before the end of this month, then nothing will happen before September. August is a quiet month which people will spend planning things out (of course they could choose to make the big announcements then on grounds that the markets would react less, but I doubt it).

U.S. banks, Canadian banks, and German banks are the most likely to be hit. So the banks there will hold extensive talks with the banking and supervisory authorities on writeoffs, reschedulings, and so on. The year-end closing of annual accounts is the next danger point after September. By then, national authorities will have to have consistent policies on writeoffs, what can be classified as recoverable assets and so on.

U.S. banks report quickly, by January or February. Other banks are slower, but by February-April 1983, once the trend is apparent, the cat is out of the bag—which banks are suffering strains on their cash-flow comes out quickly. Markets are very quick to spot out if you're make extensive, unusual use of short-term borrowing, if you overuse your credit lines on the interbank market. . . .

My feeling is that the central banks have discussed that each would look after their own problems and their own banks. For example, in Germany—where Dresdner Bank is the prime candidate for crisis—the Bundesbank would sort it out. Of course there will be a chain reaction of some sort, but each central bank would handle their own areas, with the primary responsibility of being a lender of last resort for that area.

The second stage is this: in the event of a liquidity shortage, the central banks would presumably draw on the existing swap lines with the Fed, the Bundesbank, the Banque de France. . . . It is possible that special swap lines have been established in anticipation of events. In

the short term, at any rate, the [central] banks would print money to cover their domestic problems, which would be highly inflationary. The result would also be a serious fall in stock markets. Recession would be sharp. So, a combination of high inflation and recession all depends on whether confidence can be maintained. You told me some time ago that [Hitler and Schacht's] Rentenmark was a spurious means to conceal a collapse, but it worked.

If it won't work, then there will be defaults by all major sovereign borrowers. Their debts of course could be rescheduled, but new money—except very short-term trade credits—would be nil.

**EIR:** How serious do you think the consequences of the Banco Ambrosiano bankruptcy will be?

**A:** It is generally thought that the case is peculiar to that bank. It would have gone under anyway, even without the present climate. The British banks called the default because Ambrosiano Holdings Luxembourg is not a bank, it is not covered by the lifeboat, lenders had no reason to believe that there was any money in Italy earmarked for paying its liabilities. So they decided to go ahead with a freeze, a default would be safer. With the freeze, assets are being checked into, there is time, creditors can agree whether to dismantle or reconstruct the non-Italian assets of Ambrosiano—they don't want Ambrosiano Luxembourg to be able to go on wheeling and dealing, and some more assets to disappear. . . . If IOR [the bank of the Vatican] had guaranteed some of the overseas loans, there might be something, but it really lies outside the lifeboat's scope. The Italians, and IOR, have no obligation to pay, a moral obligation perhaps, or something to do in order to avert a crisis of confidence. . . .

**EIR:** How do you see the Third World debt situation now?

**A:** It is quite likely that Brazil will go to the IMF, even though the Brazilians did raise in the first half the proportion of their borrowing requirement for the year that they needed. It is now getting stickier. They need more. If they go to the IMF (and there is only one thing really that the IMF could tell them, to cut public spending, otherwise, their policies are such that there is little that could be asked that they have not done already), Brazil could then draw on the IMF, and tide themselves over for this year. But there will be a rescheduling of some sort, just like Mexico. Even though the Mexicans have improved their situation since spring, when, as has been revealed, they had to draw on credit lines with the Fed, they have pulled some money in since then, they'll have to reschedule. Whether, in both cases, it is a formal rescheduling or rollovers is another matter. The Mexicans have a worse problem, given the imbalances in their

internal structure. Either they drastically reduce government spending, not easy, or get a major increase in oil prices, which is beyond their control. . . .

A united front [on debt] cannot be held [in Latin America]. The Argentine debt rescheduling will come imminently anyway, they have no other choice. And lenders are not prepared to deal with a joint approach by debtors. The method of rescheduling still uses very primitive methods—they deal with one year of maturities only; the mechanisms available are not sufficient or appropriate.

[A debt moratorium threat] could be a formidable weapon, but it will not be. The Latin Americans dislike each other too much. The Argentines have not coordinated anything with anyone. The Brazilians are a pragmatic race—if it suits their purpose they would approach the Mexicans for talks and review of debt renegotiations. . . .

I was discussing with a friend that private banks—which have no exposure to the interbank markets—will be immune from the banking crisis, or big Swiss banks with their huge deposit base and tiny interbank exposure.

Everybody is very jumpy. It is not clear to me that the central bankers have collectively taken a decision to support those that will go under. I fear that the central banks would let go some “small banks,” with the argument that they reserve their ammunition for defending the big ones—and thus start the chain reaction they want to avert. Maybe in some months we’ll have a central declaration about their plans of intervention. By that time, they will have been overtaken by events.

## **The view from Geneva**

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### **‘The system can’t absorb a refusal to make loans’**

*From a July 19 discussion with a top Swiss banker:*

For a chain reaction to develop, there is a need for one central bank to have let it develop first. A bank turns to its peers, and to the central bank, and it is rebuffed—then it goes bust, because it was not helped. That’s exactly what happened in 1974 with Herstatt, when the banks told Herstatt to go to hell and the Bundesbank refused to lift a finger. The Bundesbank compelled Herstatt to declare itself in default. Then trouble started.

Now if there’s an international agreement to allow the banks to keep assets on their books, even if these are nonperforming, for the duration of a crisis, then a chain reaction can be averted.

My first question about the BIS meeting is this: are there cat-and-dog fights among the central bankers? Their grand plans are bunk in any case, but the key is whether some of them feel like opting out of participation. The BIS is concerned whether the Germans, the Bundesbank, would participate. The Bundesbank is not equipped and does not have the tradition for this kind of intervention, and they are the most susceptible to be uncooperative at the international level.

So the Bundesbank—and the Japanese, who want a general debt moratorium, so that the Western banks chalk up the old debts, and they [the Japanese] can then sell their stuff throughout the world. It’s their clients that are indebted to us after all. And Bundesbank-Japanese cooperation is totally open; they are now openly cooperating to manage the yen-deutschemark rate. . . .

In the case of a run on a big bank, if there is will to do so, it is very easy to stave it off: other banks immediately recycle the deposits lost by the bank under attack. And the Fed can help at the [accounting] level.

It is very serious that the Banco d’Italia and so on are not covering Ambrosiano losses—it will increase the spreads between deposits in subsidiaries and deposits with main offices. If banks start dumping the subsidiaries. . . .

This period is more tense than 1974. The Basel Concordat is in bad shape—the Italians must cover Ambrosiano. The Banco d’Italia, if need be, will be assisted by the Bundesbank and the Fed, but they must support Ambrosiano Luxembourg. I have heard figures ranging from \$600 mn to \$2.4 billion and even more for the liabilities. The markets are boiling hot. There is no managing committee in any banks that is not reviewing their loans and deciding to cut credits here or there. The system could absorb 10 or 15 “Franklin National Bank” shocks—but not the refusal to lend, which turns into a default of payments on \$400 billion of debt, especially since there is no concerted protocol for a moratorium, not even the beginning of one.

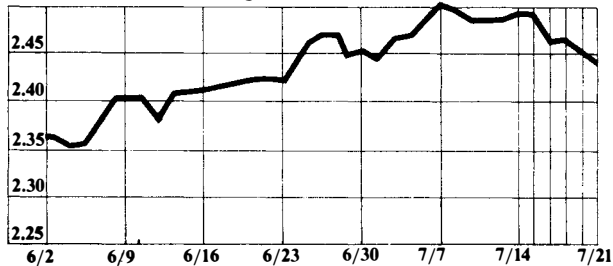
Even the clique of Volcker and [Fed Governor Henry] Wallich, who’re all willing to dump U.S. industry without a blink, don’t mean to let the banks go—they’ll save the banks. The same with Bank of England. . . . I don’t think that the Bundesbank has a mastery of the juridical mechanisms that is required for the time of crisis. In the U.S., when Penn Central went bust, the Constitution was violated by [Fed Chairman] McChesney Martin. The Germans could not overrule regulations. . . . Central bankers were fighting at Basel. The Bank of England was trying to force the hand of someone, to impose a detailed elaboration of emergency “planning.”

Here [in Geneva], all precautions have been taken. In the portfolios, there are no bank deposits anymore. Only Treasury bills.

# Currency Rates

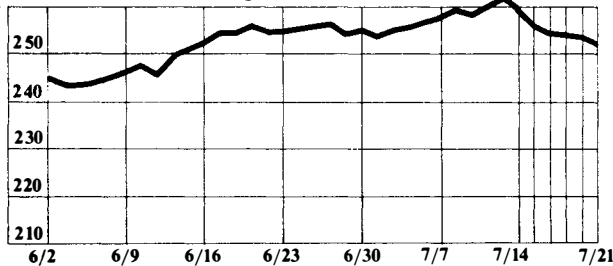
## The dollar in deutschemarks

New York late afternoon fixing



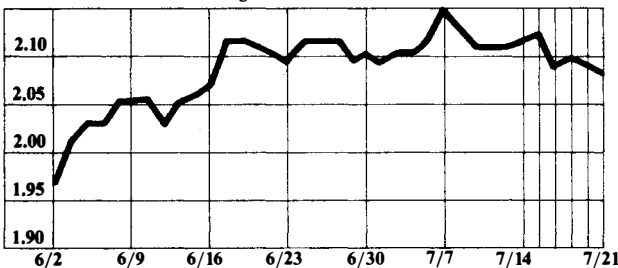
## The dollar in yen

New York late afternoon fixing



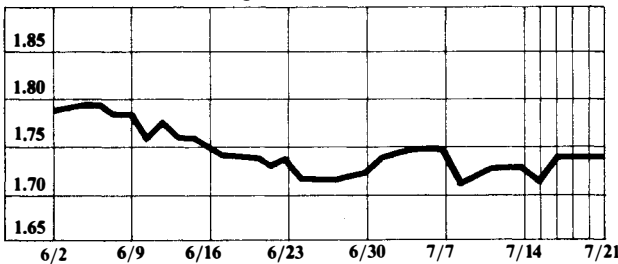
## The dollar in Swiss francs

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



# STOPPING THE DEPRESSION AND REBUILDING THE STEEL VALLEY

A Conference on Economic Development sponsored by  
The National Democratic Policy Committee

Wednesday, Aug. 25  
9:00 A.M. to 9:00 P.M.

Marriott Hotel  
Monroeville, Pa.

## CONFERENCE SCHEDULE

8:30 a.m. Registration

9:00 a.m. Welcoming Remarks

9:15-10:45 a.m. "High Interest Rates, Industrial Collapse and  
the Coming Monetary Blowout"

**SPEAKER:**

David Goldman, Economics Editor, *Executive Intelligence Review*

**PANEL:**

Gene Mahoney, President, Central Labor Council, Fayette County

Emil Dicembre, President, Cement Masons Local #56

10:45-11:00 a.m. Break

11:00 a.m.-12:30 p.m. "The 'Post-Industrial Society' Threat to  
the Steel Industry; the Causes of its Current Collapse"

**SPEAKER:**

Richard Freeman, Economics writer, *Executive Intelligence Review*

**PANEL:**

Jim Olson, Field Engineer, U.S. Tubing Specialties, Gary, Ind.

John Balian, USWA Local 1397

12:30-2:00 p.m. Lunch break

2:00-5:00 p.m. "Creating a U.S. Capital Goods Boom: Great Enterprises,  
City-Building and Trade Expansion in the Developing Sector,"

**SPEAKER:**

Uwe Parpart, Director of Research, Fusion Energy Foundation.

**PANEL:**

Representatives from India, Latin America, and Africa

5:00-7:00 p.m. Dinner break

7:00-9:30 p.m. "Creating a U.S. Capital Goods Boom: Great Enterprises  
and Infrastructural Improvement Projects in the U.S.A."

**SPEAKER:**

Paul Gallagher, Executive Director, Fusion Energy Foundation

**PANEL:**

Tom Shetterley, Vice President, Central Labor Council, Fayette County

John McIlvaine, Labor Arbitrator, Compensation Council, UMW District 4;

farmer; and a director of the American Beefalo Association

Organization affiliation for identification purposes only

For more information contact the

National Democratic  
Policy Committee

2215 Arch Street, Philadelphia, Pa.  
or Call (215) 561-5585



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## The East bloc question

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# Compromise sought on the sanctions and the problem of Polish debt

by David Goldman, Economics Editor

Highly placed administration sources July 2 characterized Polish Premier Jaruzelski's measures to ease martial law conditions as "a step in the right direction," indicating that the administration saw the measures as the basis for a re-evaluation of the sanctions against exports directed toward Soviet energy development. "We will not jump into anything, and we are still waiting for details," said one ranking official. "But it is certainly the basis for a review of the policy."

Other Washington sources expected that the first step of any administration retreat on trade sanctions would involve the elimination of "extraterritorial" sanctions, i.e., the ban on use of American-licensed products in exports related to the Soviet-European natural gas pipeline or the Japanese-Soviet plan for development of the oil potential of the Sakhalin Islands.

### Tensions among allies

It is much too early to predict the lifting of sanctions, which have become the potential *casus belli* for trade war between the United States and its Western European and Japanese allies. As *EIR* reported in some detail July 20, the administration became victim of a nasty judo trick played by certain British and Central European circles already committed to a "Third Way" approach toward the Soviets; through spurious intelligence and strategic estimates supplied to the administration by these circles, the White House elected to shoot itself in the foot over the unenforceable and divisive sanctions policy.

Despite the strident refusal of any of the Europeans to abandon the pipeline project, and continued Japanese commitment of the Sakhalin development, the administration has followed its regrettable profile on the matter, and held fast to a clearly self-defeating posture as a matter of face-saving.

Although the allies are not willing to bend to Washington, only the French Mitterrand government has actually taken steps to make relations worse. West German Chancellor Helmut Schmidt has not budged

from his policy of the past eight years; alliance with the United States and correct relations with Moscow. West German banks July 12 signed their biggest loan deal ever, lending DM 4.5 billion to the Soviet Union for completion of the pipeline project.

In addition, the West German government has provided the troubled AEG corporation, severely affected by sanctions which forbid it to use General Electric license to ship turbines to the Russians, with a special \$250 million export bond, in conjunction with a \$110 million bank loan—which will keep AEG out of trouble until at least year's end.

At the same time, the West German, Japanese, and Italians appear to have had a role in Jaruzelski's decision to moderate the martial law situation in Poland; the announcements July 21 were more than fortuitously timed with three European-Japanese initiatives relating to the sanctions program. First, Chancellor Schmidt and his Economics Minister, Count Otto Lambsdorff, arrived in the United States on July 20, with one major purpose, to eliminate the sanctions disaster. Lambsdorff is working in Washington, while Schmidt is scheduled to spend a week at the home of his old friend, Secretary of State George Shultz, apart from speech-making stops in Houston and San Francisco.

Meanwhile, Italian Foreign Minister Emilio Colombo arrived in Washington July 21 for an unscheduled four-day visit, the principal announced purpose of which was to persuade the administration to drop the pipeline sanctions. Colombo is scheduled to meet with President Reagan, Secretary Shultz, and Commerce Secretary Baldrige.

Finally, the Japanese Ambassador to the United States, Yoshio Okawara, delivered a verbal and written protest note July 20 to the State Department against the exercise of the sanctions against the Sakhalin Islands project—extraordinarily forthright behavior for the Japanese. These three countries' actions appear well coordinated, and there are strong indications that both the West Germans and the Vatican made representa-

tions to the Poles and Russians that now might be a good time for a good-will gesture from the Polish government. "If Schmidt had a role in this," conceded an administration hard-liner, "it is welcome."

Among other things, the West Germans have made clear to the East bloc that they are prepared to provide additional financial aid to Poland, whose de facto bankruptcy on foreign debts has prevented her from purchasing needed raw materials and spare parts, and crushed the national economy.

To a certain extent the Germans have little choice in the matter; following the renewal of sanctions decisions and the July 15 passage of the Kasten-Moynihan bill by Congress, which gives the President a mandate (which he need not immediately exercise) to declare Poland in default, the Polish government has been deliberating on the possible merits of straight-out debt repudiation. Polish action of this sort would leave the West Germans with the unpleasant choice of suffering a banking crisis, which the German banks already suspect the United States of wishing upon them, or splitting with the Americans and setting up a separate deal with the Poles, further undermining European-American relations.

### **West Germany's and Japan's viewpoints**

Low-keyed but important financial ties between West Germany and the Poles have survived the debt crisis. The Poles have been careful to pay their West German corporate suppliers, even though they are in no position to pay the bankers. Poland still has about \$800 million in foreign deposits, and most of this is in West Germany; against the German portion, West German banks have continued to make available a small but significant volume of trade credits.

According to well-placed German industry sources, negotiations are underway to expand the existing volume of trade credits by the following ruse: German banks will lend the Poles the wherewithal to pay their 1982 interest payments (at least to West German, and probably to Swiss and Austrian banks), and then use the repayment as leverage to extend additional trade credits. According to a Japanese wire-service report July 21, Japanese banks have also been approached, and are equally concerned to avoid debt repudiation, which they fear the Americans are moving toward.

Perhaps more important is a proposal now under discussion, according to Viennese banking sources close to the negotiations, to put off the entire Polish interest and principal for an 8-to 10-year period, in order to give the economy a chance to get back on its feet. This is the approach overwhelmingly favored by the Germans and the Austrians; how the American and other Polish creditors will respond is not yet known.

While the principals in these negotiations have withheld details, it is nonetheless clear that the Europeans

and Japanese have delivered a clear political message to the East bloc: it is in the latter's interest to take no drastic action on the debt issue at this time. What further may have been aired during the intense mid-July Vatican-Polish diplomacy remains a matter of speculation.

The results of the European effort in Washington will not be known for some weeks. Much depends on the reaction of the new Secretary of State, whose views are known only to himself. The administration has continued to play rough. Japan's Kyoto News Service cited official American warnings to Japan against violation of sanctions procedures in a July 21 dispatch; according to Kyoto, it is not to be excluded that firms violating the sanctions against use of American technology in goods directed towards prohibited Soviet projects might face seizure of their assets in the United States.

### **The Mitterrand flap**

Also disturbing is the July 21 action of the French government which ostentatiously announced that it would order commercial firms engaged in the pipeline project to make good on their projects. Foreign Minister Claude Cheysson lamented the fact that the United States and France "no longer speak the same language," in the bitterest public criticism of the administration yet directed from a European government. The French have played the provocateur since the Versailles summit meeting; allegedly, a motivation of the Reagan administration in making the pipeline sanctions extra-territorial was the sense that Mitterrand had played Reagan false at Versailles, promising strictness on Soviet credits, and then turning around immediately afterward to extend further loans to the Russians.

The fanfare about France's decision to flout the sanctions in the American press is suspicious, particularly as the British had made an identical announcement two weeks prior, which went entirely ignored in America news reports. By the typical standards of the East Coast media, it is one thing for the "good" British to order *American* firms in the United Kingdom to make good on contracts to the Soviet Union despite the instructions of the American government—which the Thatcher government has—and another thing for the "bad" French to do the same to French firms!

The administration's querulous eye towards France is not unjustified; the Mitterrand government is an instrument of the same oligarchic circles in Europe who plotted U.S. embarrassment in the first place. Whether President Reagan will be baited into an aggravation of his original blunder is not clear. What remains certain is that the West Germans and Japanese, with apparent Vatican support, have given him a face-saving means of stepping out of a trap before it closes for good.

## The U.S. banking system

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# Penn Square: the folly of Volcker's strategy

by Richard Freeman

On Friday, July 9, the Federal Reserve had to intervene and pump large masses of funds into the American banking system to prevent a generalized banking collapse. Just four days earlier, the insolvent Oklahoma Penn Square Bank had been shut down. In Europe that day, investors dumped the bonds and certificates of deposit of American banks. Simultaneously, a spokesman for the London *Financial Times* reported privately July 19, "there was a run on one of New York's largest banks."

A Federal Reserve bailout procedure continued for the entirety of the following week. The Fed's brush with catastrophe subsided, but no one knows for how long. The failure of Penn Square is termed by Federal Deposit Insurance Corporation head William Isaac an "aberration." But only two months ago, the same people were explaining away the case of Drysdale Government Securities, a firm with a mere \$35 million in capital that was allowed to trade \$6 billion a day in government securities. After Drysdale Government folded, and stuck Chase Manhattan with over \$300 million in losses, it was said that the Drysdale case was likewise one of a kind. Perhaps the St. Valentine's Day massacre was really a series of muggings?

### A decision on bailouts

"There are lots of potential bankruptcies out there, some name institutions and some surprises," said a former high-ranking Federal Reserve Board official July 19. "Many of these corporations will go, and this will mean that there are many more Penn Squares about to occur in the banking system. The decision was to let Penn Square go under, and not bail out some of the depositors, because there will be other banks in that situation and the Fed wants to get the right kind of precedent for not bailing out every failing institution."

Of the \$450 million of deposits deposited at Penn Square, \$190 million, or 40 percent, were not insured by the Federal Deposit Insurance Corporation (FDIC). An intense debate occurred at an emergency meeting on Saturday, July 3, at which the fate of Penn Square was decided. Fed Chairman Volcker, FDIC head William Isaac, and Controller of the Currency C. Todd Conover discussed policy for what they knew would be a wave of

failing banks in the coming period. Although since the 1930s not a single American bank had been allowed to fail without action being taken to cover all its deposits—even in the case of the 1974 failure of the scandal-ridden Franklin National Bank—Volcker, Isaac, and Todd agreed to let the holders of the \$190 million of uninsured deposits at Penn Square to take their lumps.

A source close to the Bank of England stated July 22, "What the Fed did at Penn Square was good. Most of the U.S. banks, with the exception of the large ones, will not be bailed out. This will cleanse the American banking system."

Thus the Fed's action in pumping emergency liquidity into the American banking system July 5-15 was not motivated by concern for the majority of the banks, but only the top 50.

Volcker may think he can let smaller banks go by the board while propping up the biggest ones through liquidity injections and book manipulations. The fact is that the largest banks are so vulnerable that if he were to bail them out it would be a matter of covering billions in assets.

Let's look again at the Penn Square case. First, while several top banks are wailing that they got "taken" by Penn Square, that is most emphatically not the case. One source noted July 18, "Continental Oil ran Penn Square. Conti wanted oil loans and used Penn Square as a funnel." It is well known that since early 1980, the Controller of the Currency had placed Penn Square on its "to be seriously watched" list.

Of course it is true that Penn Square ran a sham, profiling itself as a banker to independent Oklahoma drilling rig and exploration firms. Eighty percent of its loans were to the energy industry. As is well known, it resold \$2 billion of these loans, based on inflated estimates of suspected oil reserves, to Chase Manhattan (\$200 to \$300 million), Continental Illinois (\$1 billion), and Seafirst of Chicago (\$400 million), as well as Northern Trust Bank of Chicago and Michigan National Bank of Bloomfield Hills, Michigan. All of these banks are on the list of America's 50 largest.

The energy loans brought down Penn Square. About \$600 million worth of the total Penn Square energy loans the above banks took down have turned bad.

Now consider that Fed Chairman Paul Volcker has rigged the American banking system so that bank lending predominated in precisely such unsecured areas as energy lending, real estate speculation, commodity futures trading, lease-back agreements, etc. How many of these loans do large American banks have on their books? Plenty. Volcker may believe that he can quarantine the largest banks in America from disaster while letting the rest go under. While he is showing where his loyalties lie, he is also showing his incompetence, at the expense of the survival of the U.S. economy.

## Latin American debt

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# The IMF scurries to fill policy vacuum

by Cynthia Rush

The last-minute postponement of the meeting of the Latin American Economic System (SELA), the Latin American-wide organization founded in 1975, does not augur well for the future of the continent. This is not because SELA itself was expected to produce spectacular results. *EIR*'s sources reported a few weeks back that the group's leading members did not see it as the most appropriate vehicle through which to forge the economic and political unity of the continent sought in the aftermath of the Malvinas crisis.

Now postponed to Aug. 25 from its original July 19 date, the meeting would nonetheless presumably have served as a useful forum for discussion of such questions as foreign debt and the reorganization of the inter-American system. Our sources in Caracas and Washington report that the postponement was attributed to the need for "more preparation" and requests from other member governments for specific proposals from Venezuela based on the recent speech by its Ambassador to the Organization of American States, Hilarión Cardozo (see *EIR*, July 20). In that speech, Cardozo identified the role of the International Monetary Fund (IMF) in impeding the sovereign economic development of Ibero-American nations and made several proposals for coordinating the economic self-defense of the continent.

*EIR* suspects there may be something more adverse than the need for "more preparation" behind the postponement, particularly since the host country, Venezuela, has been the most aggressive in demanding Latin American coordination.

The delay in putting together a post-Malvinas economic and political strategy for the continent gives the British the freedom to move ahead with plans for picking off every nation on the continent—one by one—and forcing them to surrender to the IMF's "conditionalities." The collapse of the Chilean, Bolivian, and Costa Rican economies offers irrefutable evidence of where adherence to IMF policy leads.

But, as a British aristocrat who acts as chairman of one of the City of London's most important investment houses explained to *EIR*, Britain's major concern is the bigger fish like Mexico, Argentina, and Brazil, whose foreign debt collectively amounts to close to \$170 billion dollars. If several of these debtors were to drop the "debt

bomb"—the threat of debt moratorium unless the debt is reorganized on terms favorable to economic growth—proposed by *EIR* founder Lyndon LaRouche, "it would be a formidable weapon," he said. "But it will not be. The Latin Americans dislike each other too much. Argentina isn't coordinating anything with anyone. . . . A united front cannot be kept together."

### 'They have no choice'

This source went on to predict that Argentina, Brazil, and Mexico will all eventually end up at the IMF. With more belt-tightening, Mexico might be able to hold off for a while, but "the Argentinian debt rescheduling will come imminently, anyway. They have no other choice."

In the absence of coordinated resistance from Ibero-America, the IMF has intensified its assault on the continent, clearing away the debris from the collapsed smaller nations and sending missions to the larger ones to demand their capitulation.

In the case of Brazil, the fear of the international oligarchy is, as *EIR*'s London source reported, that "the Brazilians are a pragmatic race—they would approach the Mexicans for talks and review of debt renegotiation if it suits their purpose." To ensure that doesn't happen, the IMF had a mission scheduled to arrive in Brazil the week of July 19-24. There are already signs that the government may be preparing to scrap its decision not to go to the IMF, despite the sensitive political situation created by this year's elections.

In the past the Fund was content to let Brazil implement what were in fact IMF austerity measures without making the relationship official. But the government's recent reassessment of its borrowing needs for 1982—up from \$14 billion to \$19 billion—with no willing lenders in sight, may change all this. Planning Minister Delfim Netto was in New York and Washington in early July meeting secretly with the IMF as well as with New York bankers to try to raise money. He will return again before the end of July.

An IMF mission is also in Argentina, and the line from the international banking community is that "sooner or later" the country will have to resort to a standby loan. Japanese financial circles told the Jiji wire service that Argentina has ceased servicing at least 10 foreign loan syndications since June 30.

A standby loan "is the only way Argentina can improve its credit standing in the international community," one banking source reported. The IMF visit takes place in the midst of a brawl between the backers of dirigist economics and the crowd around Swiss-tied former finance minister Roberto Alemann, who predicts that the current program will produce the results predicted by Alemann in order to justify a return to IMF policy.

## The dollar and the banking crisis

*The key to the U.S. currency's fortunes is not interest-rate margins but the possibility of a debt blow-out.*

Some well-placed money-market operators at New York commercial banks are projecting a 40 percent devaluation of the American dollar over the next 12 to 18 months, to about DM 1.50 against about DM 2.47 now.

Presuming that the Federal Reserve and the administration do nothing to alter the present disaster course, such expectations are well within the range of reason.

Nonetheless, these currency specialists caution that no gradual decline is to be expected in the near term; on the contrary, it would be possible for the dollar to rise another 10 percent before sinking like a stone toward the end of the year.

Far too much attention has been focused on the relation of American interest rates to the exchange rate. In fact, the failure of the dollar to move more than marginally when Eurodollar three-month deposit rates fell from nearly 16¾ percent on July 1 to below 14 percent on July 20 should indicate that something entirely different is at work.

The real mechanism has to do with the implications of the fact that the dollar is the currency of denomination of most international debt—in a period when it is uncertain debts will ever be paid.

The Eurodollar market is now undergoing a rapid phase of contraction, in which portfolio managers dive for safety, i.e., into Treasury bills, and this acts as a

“reverse multiplier” for total Euro-dollar credit.

That is to say in plain terms that many banks, mostly non-American ones, cannot refinance their liabilities at any price. Therefore they have no choice but to convert non-dollar currency deposits into dollars in order to repay their skittish depositors.

That creates a powerful, but temporary, source of support for the dollar. The situation thus has less to do with the price of credit than the absolute availability of credit (see article, page 4).

As the crisis worsens, the demand for dollars might also become stronger; one New York bank economist, analyzing the interbank market contraction, thinks the dollar may peak at DM 2.80.

Since the banking crisis is likely to coincide with a renewed rise in interest rates by early fall, there may be a double impetus for a stronger dollar.

None of this has anything whatever to do with perceptions or what economics mystifyingly call “expectations.” It is all sheer necessity, the rip-tide of credit flows. No economist at any institution in the world, whatever his glaring faults, would disagree that the dollar is ridiculously overvalued in real terms.

However, a world in crisis does not behave by the normal rules based on real terms.

The dollar's problems emerge

following a banking crisis. Such a contraction cannot last for many weeks or months before it is finally established which dollar-denominated paper will remain good and which will go through the banking equivalent of the shredder.

There are three possible end-states, with respect to the future value of the dollar, of a banking crisis:

1) In the event of a major central-bank bailout of the Eurodollar market, which amounts to replacing bank money with Federal Reserve money, the deposits left in the system would constitute the reserve base for a credit expansion many times in excess of the pre-crisis situation, and the foreign liabilities of the U.S. authorities would have risen spectacularly; that is to say that the dollar would be a drug on the market, and collapse.

2) The Eurodollar market would be left to its own fate, and the demand for dollars occasioned by the dollar's role as international lending currency would no longer exist; the demand for dollars would then dry up and the dollar would hit bottom.

3) The American authorities, either alone or with the cooperation of America's allies, would institute a gold-backed reorganization of the international markets to dry out the Eurodollar mess and substitute, in its place, new institutions for low-interest hard-commodity investment and trade finance.

Under these last mentioned conditions, presuming that America took suitable steps at home to outfit the American economy for aggressive exporting, the dollar would no longer be overvalued in real terms, and would be pegged at approximately the present value.



## A statistical hoax

*The U.S. Agriculture Department has braked the decline in farm income—on paper. The real situation is devastating.*

**F**or the past two months or so, the Reagan administration has been saying that the only way to turn around the farm crisis is to increase farm income. The data released July 21 by the Agriculture Department go a long way towards doing just that. When all previous data back to 1978 are revised, it appears that farm income has not taken the precipitous collapse from 1979 to 1980 which was confirmed by the old figures.

I do not take issue with the fact that USDA withheld these figures for six months, nor that they chose an election years to revise the data to reflect the 1978 census. I do, however, take issue with the method used for these revisions.

The USDA calculated their new figures by the same unscientific means as GNP, which counts as income receipts from bingo halls and brothels. The department now dubs "income" all unsold inventory such as grain sitting in reserves.

These reserves are overflowing because exports are declining, and farmers prefer to pay to hold their grain in storage until prices rise rather than lose money.

According to the revised figures, net farm income for 1981 was down to \$25.1 billion from a high-point of 1979 at \$32.4 billion, a decline of 22 percent. Many USDA and private economists' own calculations had set the 1981 income between \$23 billion and \$16 billion, a total I think is more realistic.

Let's say that income was \$19.9 billion; the decline from the unrevised 1979 high of \$32.7 billion income would be almost 40 percent. It is probably safe to say that between 1979 and 1981 farm income dropped by that magnitude. Even with the new methods, the slide from 1978 to 1981, measured in constant dollars, is 30 percent.

A March 1982 Federal Reserve report on farm income claimed that contrary to all scare stories, farmers were very prosperous. The picture was distorted because the number of farmers had decreased greatly since the Depression years, said the Fed.

Prepared for an uproar from farmers who, the USDA believed, would ridicule these new methods, calculations have been provided showing a net cash income, i.e., excluding inventories. Though the revised figures change the picture slightly, the 1981 income was \$31.5 billion, down from \$35.8 billion in 1980, or a mere 12 percent decline.

Then there is the debt question, which the USDA's focus on income omits to address.

Debt payments, in the words of an agricultural economist from Oklahoma State University, "for some farmers is taking almost every penny they have just to pay on their loans, leaving little to live on." Total farm debt rose 11.5 percent during 1981, the fastest rate since the Great Depression, to \$200 billion. During the past decade, total debt

rose 400 percent. Interest on that debt rose 24 percent in 1981.

Thus the amount of debt rose three times as much as income. The Oklahoma State economist has calculated that, in 1950, for each \$1 of debt there was 70 cents of net farm income for consumption, expenditures, capital investment, or debt support. In 1980 there was only 7 cents left to spend.

The debt burden is currently becoming unbearable because of the fall in prices paid to farmers relative to the cost of production. Farmers get \$3.42 per bushel of wheat; it costs them \$7.30 to produce. Rice brings \$8.21 cwt, yet costs \$21.20 to produce. Soybeans and sorghum are paying 50 percent below the cost of production.

For the past five years, farmers have been borrowing money on the value of their equity, mainly land, which has skyrocketed because of speculation in most parts of the country. That speculative bubble is being deflated. Land values dropped 4.4 percent in the first quarter of this year. Lending institutions are beginning to demand stricter conditions for such loans.

"You have a situation," explained an economist at the USDA, "where current income is cut off from cash receipts, and loan income is also cut off. It is not that there is no money out there, but that borrowers aren't qualifying. . . ."

This overall situation of "non-qualifying" farmers is exactly what the Federal Reserve predicted to me back in April—that some 10-15 percent of farmers will go out of business by the end of the year. The exit is planned to be very selective, so that the banks do not get into a 1930s situation of wild defaults, foreclosures, panic, and failures.

## Nuclear power in the Comecon

*Installed capacity is certainly greater in the United States—  
but we have fallen behind the U.S.S.R. in every other respect.*

**I**t is fashionable these days especially in certain corners of the Defense Department to argue for withholding certain technologies from the Soviet Union as a way to put economic pressure on that particular part of the world.

While a convincing case can be made that the sum of all our "sanctions" since Jackson-Vanik and Jimmy Carter have been to shoot ourselves in the foot, I want to focus attention on a little-known aspect of Comecon nuclear power development.

Most of what follows is based on Western sources. The most comprehensive unclassified review has been done by the Los Alamos National Laboratory in New Mexico by William G. Davey.

Overall, Davey concludes, "the inescapable conclusion is a major commitment by the Soviet Bloc to the widespread use of nuclear energy whenever and in whatever form is advantageous. It is not viewed as an energy form that must be used reluctantly, but as a well-proven boon that can be used to replace more expensive and depleting energy from other sources."

Right now, the U.S.S.R. itself has somewhat more than 14 gigawatts of installed nuclear capacity. Eastern European Comecon countries have about 3 GW more for a total of some 17 GW of nuclear electrical generation. Compared with some 55 GW of nuclear power for the United States, we might feel

complacent, especially if we consider problems with ongoing construction. (Thus a Radio Free Europe press wire from Jun 23 was titled, "The [Soviet] plan for construction of nuclear power plants falls behind schedule.")

I asked Davey to comment on this. He pointed out that "it fundamentally is not a race, or should not be, but a question of what they are actually doing. The Russians are quite open and public about the problems in the nuclear program. But one conclusion I found inescapable, they are going like hell to build up their nuclear-power generation, and that's a fact."

Until now, as Davey's analysis shows, the overall Soviet nuclear program has been characterized as testing and sorting the optimal reactor design from several different types and sizes, starting with a smaller 440 megawatt size in the 1960s as a spin-off of their nuclear submarine experience, much as we did. Now, 1,000 MW is the average-sized unit as in the United States with plans clearly indicating the conclusion of a 1,500 MW standardized pressurized water reactor design in the next several years. The Soviets do not suffer the need to make certain political concessions to an hysterical anti-nuclear lobby. As a result, as Davey points out, "nuclear plants not only have no separate containment structure, but are situated where needed, and not, for example, remote from cities."

With the advantage of centralized planning, whatever the Soviet problems in that sphere, it is clear that the situation is primed for exponential growth. "Constraints will be only such factors as the rate of increase of electricity production," Davey concludes. So, with 14 GW nuclear electricity today, he calculates that by the year 2000 they will have an exponential tenfold increase to approximately 150 GW nuclear. At the present rate, the U.S. will do well to complete 120 GW by then.

In the United States, the most advanced method for assembly-line production of nuclear plants, the Westinghouse Offshore Power Systems floating nuclear plant facility in Jacksonville, Florida, has been scrapped. The U.S.S.R. is within months of completing the Atomash plant on the Volgodonsk River which initially will be able to mass-produce three of the 1,000 MW nuclear plants per year, reaching a final capacity of eight per year by about 1990, according to Davey's conservative calculations.

Simultaneously, the U.S.S.R. is proceeding aggressively on a liquid metal fast breeder reactor program similar to the stalled Clinch River program in the United States. The Soviets intend to thereby increase useable uranium by 20- to 60-fold. Since 1980, they have had a 600 MW prototype in Beloyarsk operating successfully. In addition, since Jimmy Carter's psychotic nuclear "nonproliferation" policy became law in 1978, the United States has refused to enrich uranium for other countries such as India, but the U.S.S.R. now enriches about 50 percent of all Western European uranium fuel, mainly French and German.

# Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$35 mn./yr.	Spain from Colombia	Colombia has signed its first export contracts for coal from the El Cerrejón pit, which goes on stream the week of July 19-24. First contract is for 350,000 tons by December to Spain's Carboex. Second contract, also with Carboex, is for 600,000 tpy for 10 yrs., starting 1986 when 2nd phase of pit is completed. El Cerrejón is joint venture of Exxon and Colombian state-owned Carbocol.	Carbocol is engaged in big coal exploration program; it plans to supply 10% of world's 600 mn. tpy coal trade expected in year 2000.
\$47 mn.	Australia from Japan	Coal-handling system for new coal port at Newcastle, New South Wales, ordered from IHH and Mitsui & Co. Consists of two 8,000 ton per hour reclaimers and four 6,600 ton per hour stackers.	Broken Hill Property's port will ship 15 mn. tpy coal, starting 1984.
	China from Japan	Shanghai University has ordered a sophisticated robot with a microprocessor for a brain from Dainichi Kiko of Japan. Shanghai University is zealous to use robots to relieve human beings of dangerous jobs.	
\$45 mn.	Jamaica from U.S.A.	Cable Belt Conveyors won contract for nine-mile single-drive conveyor system to carry bauxite from the Manchester plateau to refinery.	Kaiser-Reynolds-Anaconda partnership developing new bauxite pit.
\$3 mn.	Nigeria from U.K.	Nigerian Agricultural Ministry has ordered 250 rotary drilling rigs from Duke and Ockenden.	For irrigation wells in dry northern Nigeria.
\$66 mn.	Egypt from Spain	Buildings and other installations at Shoubrah-El Kheima thermal electric plant were contracted to Dragados and Entrecanales y Tavora, two Spanish construction companies.	Egyptian market is returning to normal, after disruption by Sadat murder.
\$1.2 bn	Bahrain from U.S.A.	A consortium of Bahrain and Kuwait govts. plan a \$1.2 bn. plant to convert 80,000 bpd of heavy oil into fuel.	Lummus Co. is making feasibility study.
	West Germany/Japan/Mexico/Brazil	Volkswagen and Nissan are beginning integrated operations with Nissan's producing and marketing VW's "Santana" compact car in Japan in late 1983.	Also considering joint ops. in Mexico and Brazil.
<b>UPDATE</b>			
	Venezuela from U.K.	Venezuelan Air Force has reaffirmed its order for 24 British Skyhawk jets. Order had been suspended to protest British aggression against Argentina.	
\$30 mn.	Nicaragua from France	French Socialist govt. reaffirmed contracts to sell Sandinista regime \$15 mn. in arms. French made new \$15 mn. credit offer for paper plant and cocoa coop. machinery.	Part of Socialist International political offensive to "take over" Ibero-America after Haig scuttled U.S. influence in region.

# Business Briefs

## Foreign Exchange

### Yen-deutschemark link under consolidation?

Japanese and West German central banking sources are giving suspiciously evasive answers to inquiries concerning a reported link between the yen and the German mark on international markets. According to well-informed and usually reliable Swiss banking sources, the two central banks are jointly intervening to stabilize the values of their currencies with respect to each other on the international market.

The reason for the action, the Swiss sources said, is that there is a growing volume of trade financing in the two currencies for third-country purposes, and the central banks wish to facilitate the growth of such financing.

Since the Japanese central bank relaxed its rules against yen-denominated loans three months ago, a huge volume of export financing, estimated at \$750 million to \$1 billion per month, has emerged from the Japanese market. Some central bankers speculate that the Japanese and West Germans are preparing a fallback option in case of a crisis in the dollar-based international market; should the major sources of dollar lending dry up, then at least yen and mark financing would be available for a certain volume of international trade.

## Banking

### Swedish banker: scrap second-tier banks

Svenska Handelsbanken chairman Jan Ekman, speaking for Sweden's largest bank, recently told the Stockholm daily *Svenska Dagbladet* that "banking collapses lie ahead, but major banks are strong enough to survive and even strengthen themselves." The present situation would "lead to a triage of banks, in which only the strongest will survive and grow," Handelsbanken chairman

Ekman boasted.

A source close to the Swedish banker said in a July 22 interview in Stockholm that the system is endangered by "Banco Ambrosiano, Penn Square Bank, and other bankruptcies where the banks are extremely exposed." The source added that Poland, Rumania, Argentina, and many more nations are "on the verge of actual bankruptcy." Now, however, some bankers are talking of cutting off credits until they demonstrate their ability to manage their economies. "This is really the most dangerous of all ideas," the Swedish banker continued. "This would really trigger an international collapse. Those who want to order such strong medicine would kill the patient."

## Fiscal Policy

### Japan budget crisis forces suspension of bond issue

The Japanese government was forced to suspend issuance of deficit-covering bonds in July because the banks refused to buy the low-interest notes, report Japanese banking sources. The banks were afraid to purchase their allotted share of the bonds for fear of losing money.

The reason is that: 1) interest rates on government bonds are usually set up to 0.5 percent lower than commercial rates; and 2) at this time it is hard for the banks to resell the bonds because interest rates in Japan, now averaging 8 percent, have risen by 0.5 percent in the past month and are expected to rise further. Therefore the margin between the rates on these notes and commercial rates would expand even further.

Beyond that, the banks, along with other institutions, have accused Prime Minister Zenko Suzuki of failing to execute his plan to balance the budget by 1984. Due to miscalculation of economic growth, the tax revenue in the fiscal year ending March 1982 was approximately \$12 billion less than the budget had planned.

The Suzuki administration is drawing

up a budget now for fiscal 1983 based on a general cut of 5 percent for most ministries, excepting defense, energy, foreign aid, and science and technology.

Political observers in Tokyo have informed visiting *EIR* correspondent Peter Ennis that Suzuki could fall if he is unable to resolve the budget crisis.

## Agriculture

### FAO head: Stop exports of farm commodities

Edouard Saouma, Director General of the U.N. Food and Agriculture Organization, speaking at the June 14-16 General Conference of the International Federation of Agricultural Producers in London, told the predominantly farm-organization audience that he hoped that farmers in the industrialized countries would avoid producing commodities produced more cheaply in the Third World, but denied equitable access to markets by tariffs and other barriers.

"In the short term these adjustments could cause local hardships, but in the long term, widespread benefits," he said.

Saouma's call for the destruction of advanced-sector agriculture, which is essential for maintaining and increasing world consumption, has been the long-term goal of the U.N. and was outlined in the FAO's *Agriculture: Toward 2000* document.

## Export Strategy

### Brazil's trade with the Third World declines

A year ago, Planning Minister Delfim Netto and other clever pragmatists in Brazil argued that Brazil would gain markets for its exports at the expense of smaller developing countries. They have been proven dead wrong.

Brazil's first-half export performance was 8.5 percent down from last year. In order to meet promises to bankers to run a trade surplus, imports had to be cut by

# Briefly

13.4 percent, at the expense of a continuing economic recession and resurgence of inflation.

Some of Brazil's losses come from falling commodity prices as millions around the world can no longer consume. But the most dramatic collapse has been in the exports of Brazilian manufactures to other LDCs. Exports of consumer durables and capital goods to countries like Argentina, Mexico, and Nigeria not only permitted 20-30 percent export growth annually from 1979 to 1981, but kept Brazilian industry going even as local consumption was repressed.

Argentina's imports from Brazil are running at far less than half the rate before the 1980 Argentine peso devaluations and economic bubble bursting. Mexico and Nigeria, struck by oil market shrinkage, have banned many imports. Brazil may save some dollars by buying cheap oil on the Rotterdam spot market, but it loses the ability to export to the oil producers.

## World Trade

### A global contraction in 1981, reports the IMF

The International Monetary Fund's *Direction of Trade* yearbook confirmed a reduction of world trade during 1981 by 2 percent, measured by exports. The major factor in the decline was a major contraction of industrial countries in trade with each other, reflecting growing world depression. Industrial countries' exports to each other fell by \$44 billion, or 5.2 percent.

In addition, imports from the oil-producing countries into the industrial countries fell by 8 percent. Most significant, however, is that basic industries' exports fell by almost as much as oil, which has fallen steadily since the doubling of oil prices in 1979.

More recent data than the IMF's indicate, however, that the actual decline in trade may have been steeper. According to Chase Manhattan Bank's *International Finance* newsletter, developing nations' imports fell 7 percent between the

first quarter of 1981 and the first quarter of 1982. By contrast, the IMF tables, relying on incomplete data for Third World nations, which report more slowly than the industrial nations, projected growth in Third World imports in 1981.

## Public Policy

### Schmidt in Houston: U.S. must act as a superpower

West German Chancellor Helmut Schmidt addressed 1,000 Houston businessmen July 22 on the topic of "The Atlantic Alliance in the Fourth Decade." In covering both the East-West crisis and the world economic crisis, Schmidt hit the U.S. hard on its responsibility to solve its economic problems: "The U.S. may deny the global consequences of its economic behavior, but it will not escape responsibility for those consequences," Schmidt concluded.

The way to stop war is by solving the economic crisis, he repeated. If the recession is not stopped, it will become a world depression.

The Chancellor began by attacking the high interest rates as the highest real interest rates in the U.S. since the Civil War, although he fallaciously cited the cause of those interest rates to be the huge federal budget deficit.

In dealing with the pipeline issue, Schmidt stressed the minimal dependence which the deal would create for Germany on the Soviet Union, and then reiterated his attack on the U.S. for interfering with European national sovereignty by extending the embargo abroad.

Following the speech, *EIR* bureau chief Harley Schlanger attended the press conference, and asked Schmidt about the recent BIS decision to bail out the Euro-dollar market. Schmidt insisted that there was no immediate crisis in the Euro-market, but also he elaborated the dangers of the \$1.8 trillion dollar "artificial market" with "no reserve requirements," which is "80-90 percent denominated in dollars"—a fact that could be a cause for real concern.

● **BUNDESBANK** officials quietly support Italy's decision not to bail out the Luxembourg branch of Banco Ambrosiano. "It's not really a bank, just a holding company, so the central bank has no obligation," one official said.

● **THE U.S. NATIONAL** Foreign Trade Council has warned its members to expect an administration embargo on grain sales to the Soviet Union.

● **POLAND'S DEBT** will be the subject of a July 27 meeting of American banking creditors in New York City.

● **DENMARK'S** bond market collapsed after a parliamentary committee July 23 recommended a long-term consolidation of the national debt.

● **CANADA'S** banking system will experience a major liquidity problem in the fall, which will "spread like brush-fire into the U.S. and the rest of the world," Richard Coughlin, editor of the Toronto-based *Bank Credit Analyst*, reported July 23.

● **THE COMMERCE** Department engaged in a deliberate subterfuge July 21 when it reported that the U.S. GNP had grown by a 1.7 percent annualized rate in the second quarter. According to Federal Reserve Board figures, industrial production fell at a 9.6 percent annualized rate in the second quarter. Aside from interest income nothing grew in the economy in the second quarter. *EIR* predicts that in two months, the Commerce Department will note its fraud by issuing a "revised" figure showing second quarter GNP to have been negative.

## Argentina's future: a first-hand appraisal

by Dennis Small, Ibero-America Editor

The third week in July marked 30 days since Argentina lost the battle for the Malvinas Islands against Great Britain, and two weeks since President Gen. Leopoldo Galtieri paid the price of defeat by ceding the reigns of power to Gen. Reynaldo Bignone. These events ushered in the most profound crisis in Argentina's post-war history.

Inflation has skyrocketed by 40 percent in the past two weeks. Despite a 25 percent official devaluation, the black market U.S. dollar has soared from 24,000 pesos one month ago to an astounding 48,000 today. Capital is fleeing the country, and there are reports that up to half of the peso savings in the banking system have been withdrawn in favor of real estate and other speculative activity. A strike wave is widely expected, with port workers already hitting the streets last week to protest inadequate wage increases to compensate for the stunning inflation.

Worst of all, there seems to be no force on the political scene capable of rallying the nation to stop the downward spiral.

This forced descent into chaos is no "sociological phenomenon." It is the precise policy objective of the British. Having militarily defeated Argentina, the British have now shifted into the second stage of their war to destroy that nation. As *EIR* reported from the very beginning of the Malvinas crisis, and as this writer explained personally to many top Argentine leaders during a recent visit to that country, the British objective was *never* that of merely retaking some God-forsaken pieces of rock in the South Atlantic, as they so piously proclaimed. Rather it was to use the Malvinas battle as an excuse to strategically reorient NATO's deployments as a whole toward militarily defending the City of London's crumbling financial empire. With hundreds of billions of dollars of non-performing debt sitting on the shoulders of Third World nations, a precedent had to be set: the British, with the pliant United States in tow, was prepared to employ bald-faced gunboat diplomacy to enforce the repayment of their debt—regardless of the cost in lives to the



Courtesy of Biaguera.

*A Buenos Aires crowd during the Malvinas crisis: Argentina's battle now is against the British monetarist economics that are destroying its labor force and industry.*

unfortunate nations who are to be forced to pay.

With such strategic objectives guiding their actions, it was evident from the start that the British would not content themselves with merely retaking the Malvinas. Now they are out to shatter Argentina internally and make it ungovernable, to humiliate it strategically. They want to make of Argentina a "horrible example," so no Third World nation will ever dare challenge Britain's right to exact debt tribute. Should any try, they will be threatened: "Remember Argentina."

### **Britain's IMF strategy**

It is this which is behind Britain's current campaign, executed with the aid of a local Argentine oligarchy which has always been pro-British, of financial warfare to blow out the peso. Despite the current government's attempts to halt the speculative tide, the *Journal of Commerce* reported laconically earlier this month, "the system will be subverted by Argentina's exporters and importers." Roberto Alemann, Argentina's outrageously pro-British Finance Minister until July 1, 1982, was even more explicit: "The country will first experience an initial hyperinflation; then the rate of inflation will diminish; and finally it will worsen and provoke a great economic explosion."

The club that the British wield is Argentina's foreign debt. Currently topping \$35 billion, over \$8 billion is owed in debt service payments alone this year. Argentina is expected to use up its available credit lines to try

to pay this debt by the fall of 1982, at which point the International Monetary Fund (IMF) will step in to offer a "standby credit" of about a billion dollars—with strings attached. The IMF, which, as reported in this week's Economics section, is heavily pressuring other governments on the continent (see page 13), will demand of Argentina sharp austerity and reduction of industrial output, which is in turn calculated to lead into another round of social explosions and the eventual disintegration of the country in the same fashion as Iran.

The IMF and their British allies hope in this way to finish off the job begun by former Finance Minister José Martínez de Hoz, whose monetarist policies succeeded in wiping out whole chunks of Argentina's relatively advanced industrial base between 1976 and 1981.

### **Argentina's other option**

Britain, however, has a problem in putting Argentina through the wringer: the social chaos they themselves have unleashed could well boomerang against them. At the height of the Malvinas crisis in late June, this writer found in Argentina a nation in profound ferment, whose every institution had cracked under the weight of the crisis. Countless Argentines told me that they were admittedly at war with Britain, but that they were far more profoundly hurt and outraged at the "treacherous" behavior of the United States in backing

the British. Their contempt for the duplicitous former American Secretary of State, Alexander Haig, frequently approximated my own.

Under these conditions, there was scarcely an Argentine I talked with whose mind was not open to new, and even radical, solutions to their national problems. All were thinking about how to build the necessary new institutions to accomplish these goals; they were seriously evaluating Argentina's fundamental options.

This was the case, for example, with the "Multipartidaria" umbrella grouping of the country's five main political parties. In conversations with representatives of these parties, including the Peronists and the MID party, two central concerns were repeatedly raised: first, the need to end the country's six-year-old military government, and return to democracy; and second, the urgency of jettisoning Martínez de Hoz's disastrous economic policies and rebuilding Argentina's industry and labor force with a dirigist program. The same sentiments were expressed by literally every industrialist consulted; by important leaders in the Navy and Air Force; and only to a lesser degree by those I spoke to within the Army.

### **Nationalists' push for dirigism**

It was this loose coalition of interests which in early July pushed the caretaker Bignone government to adopt a dirigist package of economic measures. Authored by Central Bank President Domingo Cavallo, the packet was designed to end Martínez de Hoz's speculative binges, and reassert the primacy of productive economic activity.

It is this laudable policy which is now under attack by the IMF and the British. The international financial offensive is succeeding so far due to two principal weaknesses of Argentina's pro-development forces:

1) Because the caretaker Bignone government itself is an uneasy coalition of pro- and anti-development forces, the nationalists have not put adequate domestic *political* muscle behind what are otherwise technically competent economic measures. To succeed, the local oligarchy would have to be crushed; their speculative assaults rewarded with stiff jail terms; and their defenders in the military (who reportedly had much to do with Argentina's poor battle performance in the Malvinas) tried for treason.

2) Argentina has also refused to attack the British internationally on their weakest strategic flank: the vulnerability of the bankrupt pound sterling. Argentina—in concert with its allies in Ibero-America and elsewhere—could bankrupt London overnight by wielding its foreign debt like a weapon, along the lines urged by *EIR* founder Lyndon H. LaRouche.

The British are less concerned about what Argentina's nationalists are *doing* today, than about their

potential. Despite the country's deep historical economic ties to Great Britain (Argentina has on occasion been referred to as "The Fifth Dominion"), the British know that it is also a nation with enormous potential for industrial development. As recently as the 1960s, Argentina was a nearly industrialized nation, with a per capita GNP, and per capita domestic steel production equal to Japan's. Even today, it has levels of literacy (93 percent) and of protein consumption (99 grams per day per capita) that are higher than those of most industrialized nations.

### **An 'American System' tradition**

But perhaps most offensive of all to the British is the fact that there is a historical tradition in Argentina of a faction committed to modernizing their nation—a faction which has always despised the British colonial system of economics.

At the end of the 19th century, for example, President Pellegrini fought to apply in Argentina what he termed "American System economics," and cited the seminal works of such republican economists as Alexander Hamilton, Henry Carey, and Friedrich List. Today, this orientation is very much alive, through the influence of outstanding individuals such as Gen. Juan Guglielmelli whose views on the necessity for a strong national industrial base are quoted below, and like-minded thinkers in the country's military and political parties.

### **The nuclear issue**

One of the strongest redoubts of Argentina's development tendency is that nation's decades-old nuclear energy program. This program is the pride of Argentina's nation-builders, as Admiral Carlos Castro Madero, the chief of Argentina's nuclear program, makes clear in the exclusive interview included in this Special Report. Mexico and Brazil, two other nations of Ibero-America which stand with Argentina on the threshold of urbanization and industrial development, have also placed nuclear energy at the center of their plans for national economic growth.

It is the nuclear development plans of these nations which most antagonize the International Monetary Fund and its City of London representatives. As the following reports on recent setbacks to Mexico and Brazil's nuclear programs attest, the British have determined to use Ibero-America's growing debt burden, which is now approaching \$200 billion for Brazil, Argentina, and Mexico, to destroy these programs before they can get off the ground. Let London beware. The "debt bomb" proposal to collapse the bankrupt pound sterling with a united front refusal by Ibero-American creditors to honor their debts to the British is on the agenda, and the tables may be turned.





Philip Ulanowsky/NSIPS

## EIR's Dennis Small tours Argentina and Venezuela

EIR's Latin America Editor Dennis Small recently returned from a two-week visit to Argentina and Venezuela. Small was in these countries at the height of the Malvinas crisis, and used the occasion to inform his hosts that a strong faction exists in the United States—centered around *EIR* founding editor Lyndon H. LaRouche—opposed to Secretary of State Alexander Haig's support for the British in the Malvinas war. Small explained that Haig had violated basic American law, such as the Monroe Doctrine, by backing the British colonial expedition, and called for Haig's resignation from office in order to restore good U.S. relations with Ibero-America.

The receptiveness to these ideas is best indicated by the broad media recognition granted to the *EIR* editor's visit in both nations. Small was on various television and radio talk shows in Argentina, and was covered in the major daily press of both countries.

The Buenos Aires daily *La Nación*, for example, reported Small charging that "U.S. foreign policy today is totally manipulated by Great Britain." The June 14 issue of *Convicción* of Argentina quoted Small as asserting that the United States "needs a strong Argentina and a strong Brazil; otherwise Latin America is going to go the way of Iran." The *Convicción* article explained who LaRouche is to its readership: "The National Democratic Policy Committee is a sector of the Democratic Party headed by Mr. Lyndon LaRouche, who was a presidential precandidate in 1980. In the recent Democratic gubernatorial primary

in Pennsylvania, the fifth state of that country, the grouping's candidate won 20 percent of the vote."

But the press coverage which caused most political commotion in the course of Small's tour was a lengthy story which appeared in the June 24 issue of the Caracas, Venezuela daily, *El Universal*, one day before Alexander Haig was fired. The prominent article was headlined: "Reagan Must Fire Haig or Lose Latin America." Excerpts from the article follow:

"Dennis Small, spokesman for the LaRouche current [in the Democratic Party—ed.], arrived in Caracas from Buenos Aires . . . because their view is that Venezuela has led the Latin American movement in support of Argentina in its battle against Britain. . . .

"Small believes that Great Britain has unleashed a continuation of the Malvinas war, in two regards: first, by internally destabilizing the Argentine government in order to provoke a maximum of institutional chaos in that country; and second, by seeking to disunite Latin America, so that the support Argentina received from a unified Latin America throughout the war will not continue. This they are trying to do, he continued, by provoking long-standing border conflicts among the Latin American nations. . . .

"Small argues that, before anything else, 'the first essential step to reconstruct relations between the U.S. and Latin America that Haig has destroyed, is that the Secretary of State must resign from his post. It is impossible to improve relations between North and South America if this is not done. . . . In addition, medium and long term measures are required to solve the economic problems between North and South America. LaRouche has proposed the creation of a Latin American Common Market to cooperate towards the most rapid possible industrialization of the region. We believe that this must be not only a commercial matter, but must have a credit aspect as well: that is, that new long-term low-interest credits must be issued, with gold backing. We also recognize the urgency of renegotiating the astounding quantity of foreign debt that the Latin American nations hold—more than \$300 billion.'

"Small made reference to the economic forecasts that Mr. LaRouche has issued for many years, and asserted that they have been largely correct. They currently forecast for the end of 1982 and early 1983 a profound crisis in the foreign debt of the developing sector, which 'urgently' requires renegotiation: 'there will be a collapse of the foreign debt of the developing sector, there will be a collapse of U.S. corporate debt; and there will also be a collapse of the New York City real estate market.' "

## Argentine sponsor of an American System

*The following remarks were made by Gen. (Ret.) Juan E. Guglielmelli during a roundtable discussion on June 15, 1970. At the time, Guglielmelli was the director of Argentina's National Development Council (Conade), the government agency responsible for formulating economic development policy, and a strong critic of the monetarist policies espoused by then Finance Minister Moyano Llerena and his predecessor Adalbert Krieger Vasena. Guglielmelli directed his remarks to the tasks facing the new government of Gen. Roberto M. Levingston.*

*Because he found the monetarist economic policy to be inimical to the goal of making Argentina a strong, sovereign, industrialized nation, Guglielmelli resigned his post at Conade in November of 1970. Since that time he has served as a leading spokesman for nationalist military and political layers through his magazine Estrategia. Many of the writers for Estrategia share Guglielmelli's view that the development and protection of national industry is vital to the defense of national sovereignty.*

[Orthodox liberal economic policy] in the medium or long term cannot resolve the fundamental problems of the population; it creates substantial vulnerabilities for national security, in addition to affecting in a preponderant manner the future destiny of the Argentine nation as a power, even though it be only in the Southern Cone.

I'm going to give you an example. After World War II, the great powers of the West met to decide on Germany's future. The punishment they imposed on Germany's aggressiveness translated in what was called the Morgenthau Plan. . . . What was the essence of the plan? To "ruralize" Germany, to leave her as a producer primarily of raw materials and foods, and possessor of only light industry. . . . As it was explained to Churchill, [Germany] would remain dependent on England to provide it with capital goods in exchange for food and raw materials. . . . That is, they subjected her to a neocolonial system, permitting her to survive to produce raw materials for the economies of the developed nations, and above all to shut her off from a future as a great power.

A country that has no basic industry is a castrated nation. . . . We cannot hope to resolve the problems of the economy in the long term, nor problems of security, nor problems of our relative weight in the environment that is familiar to us here in the Southern Cone of Latin America if we don't have this [basic industry]. . . .

As a priority, we must rapidly develop all of the country's natural resources: mining, industry, especially basic industry (steel, iron, petrochemical, heavy chemicals, cellulose, etc.). . . .

We should further [develop] the entire area of services, principally energy and roads. It is for this reason that I warn against any solution that seeks to reduce investment in the public sector.

It comes as no surprise that the Argentine economy is in a recession . . . and, what is worse, that unprotected Argentine industry, especially small- and medium-sized and not a few large national industries, have fallen into the hands of those who are not Argentine, those who have taken advantage of the recession, of the lack of credits, of tax pressures, etc., etc.

In these three years, we have witnessed the decapitalization of the national productive sector; our industries have fallen into the hands of foreign capital that bought up healthy businesses because they were in a bad *financial* situation, *not* a bad economic situation; this happened in the banking sector, in industry, it has happened for example in the wine industry, and we are also witnessing it in the agricultural sector, where today large foreign firms come in and, taking advantage of the [depressed] situation, buy out those old agricultural leaders who have for so long really defended a national industry. . . .

Progress and development awaken the realities of life and the potentialities of each individual. Undoubtedly in the Middle Ages it was only the rulers who had aspirations, but today one cannot prevent the rest of the population from having them.

I address you economists. I am not one; I love my country; I love it based on what I am—a man of this nation—and on what I have here, and have not resorted to Switzerland or to anywhere else. I speak in the name, not of those who take their dollars from one place to another, but of those who have to live and die here and have established their industries in the Republic of Argentina. . . .

If the new government wants to develop the country, it will have to adopt basic measures for the protection of national industry, and for stimulating the agricultural sector; it will have to fix wages at the levels of the real cost of living index . . . and above all, it will have to approach these problems with the new and imaginative criteria indicated by the Holy Father [Pope Paul VI in his *Populorum Progressio*] who has charged us with the task of development and who has shown us which measures can solve them.

# Why London fears the nuclear program

by Dennis Small

On June 19 I was invited by Argentina's Atomic Energy Commission (CNEA) to tour their 335 MW nuclear facility known as "Atucha I," located about 100 kilometers north of the capital city of Buenos Aires. Atucha I is the first, and currently the only operational, nuclear plant in all of Ibero-America—and has been functioning without any significant problems since 1974.

It today produces 10 percent of the country's energy output. Argentina's nuclear project dates back to the immediate post-war period, but it began to be implemented only under the stimulus of Eisenhower's 1950 "Atoms for Peace" program. Now the country has an ambitious nuclear project stretching forward to the year 2000, whose mere mention raises the hackles of anti-development oligarchs far and wide, especially those based in the City of London.

What is more significant about the Argentine nuclear program is not its quantitative features—in fact, it envisions the construction of only six plants by the year 2000 producing 3,400 MW—but its commitment to procure for Argentina the full fuel-cycle in order to guarantee national self-sufficiency. Thus, the CNEA has opted for the heavy water/enriched uranium technology for all of its plants; has a heavy water plant of its own under construction, slated for completion in 1984; and is also building a reprocessing facility in order to recycle spent nuclear fuel.

### Increasing national participation

Another top priority of the Argentine nuclear program is to achieve increasing participation of Argentine national capital and technology in nuclear plant construction. Thus at Embalse, Argentina's second plant now 85 percent complete, Argentine participation in design engineering was 40 percent, in civil engineering 100 percent, 95 percent in assembly, and 40 percent in the provision of electromechanical equipment. In Atucha II, the third plant slated for completion in the late 1980s, Argentine participation is expected to increase significantly.

As the President of the CNEA, Admiral Carlos Castro Madero, told *EIR* in an exclusive interview on June 16: "We hope this will enable Argentina to reach

the end of this century with the capacity to construct her own nuclear plants and to fuel them herself. . . . In this way, we will be relatively free from possible pressures in the political field which would restrict our access to nuclear technology."

Castro Madero's fears of foreign intervention to sabotage Argentina's nuclear development are well-founded. During the Carter administration, Argentina's alleged "violation of human rights" was repeatedly cited as justification for American attempts to stop the country's nuclear industry. During the same period, and surely inspired by Carter's antics, the Canadian suppliers of the CANDU technology for Argentina's second plant at Embalse, unilaterally and illegally embargoed shipments of heavy water until political changes to their liking occurred on the domestic Argentine scene. And most recently during the Malvinas war, the pro-British media in the United States resurrected a hackneyed propaganda campaign to convince the world that Argentina's only interest in nuclear energy was in order to build an atomic bomb. Argentina's refusal to sign the Non-Proliferation Treaty, on the grounds that it was an excuse to delimit the country's nuclear development, was repeatedly cited as "proof" of these charges.

On top of these political operations, Argentina has been placed under economic pressure to abandon or cut back on its nuclear program. Budget reductions—the result of international and domestic monetarist policies—have led to significant delays. The real reason that the British and other oligarchs so hate the Argentine nuclear program is that they correctly view it as the keystone project around which all of the country's pro-development forces are rallied—most especially including a powerful nation-building faction within the armed forces. These layers are convinced that Argentina must have nuclear energy, in the words of Castro Madero, because "Argentina necessarily will need a sustained growth in electricity demand because it is a country with lots to do, with some very unpopulated areas . . . Argentina is going to need energy for its development."

There is another feature of the Argentine nuclear approach which has earned it London's hatred. The CNEA maintains a large and growing program of nuclear cooperation with the other nations of Ibero-America. Peru, for instance, recently received its first nuclear test reactor from Argentina, and is also receiving invaluable assistance in manpower training. Brazil and Argentina have similarly embarked on a nuclear cooperation program which promises to qualitatively improve both nations' efforts in this direction. And in the Non-Aligned movement as well, Argentina has led up a campaign for the right of all developing sector nations to have nuclear energy, and for the transfer of nuclear technology from the advanced sector.



## 'Atomic energy is the motor for our economic growth'

*The following interview with Admiral Carlos Castro Madero, the President of Argentina's National Atomic Energy Commission, was conducted by EIR's Latin America Editor Dennis Small on June 16, 1982 in Buenos Aires, Argentina.*

**Small:** Admiral Castro Madero, what are the basic elements of Argentina's nuclear plan?

**Castro Madero:** The nuclear plan was established in February 1979 and included construction of four heavy-water nuclear centers of 600 MW each, using natural uranium. The first would go into commercial operation in 1987, the second in '91, the third between '94 and '95, and the fourth in 1997. The plan also included installing all the facilities, or factories, needed to control the full fuel cycle. These four nuclear centers would be added to the Atucha I nuclear center of 368 MW which has been in operation since 1974, and to the nuclear center in Embalse which we hope to put in operation between the end of this year and the beginning of the next.

With this plan we hope, on the one hand, to complement our hydroelectric development. There is presently an underutilization of hydroelectric potential, and we hope to substitute the consumption of hydrocarbons with hydroelectricity and nuclear energy. At the moment, conventional thermal power accounts for 59 percent of total installed capacity, which includes primarily oil, gas, and also coal. We hope to reach the end of the century with a proportion of 70 percent hydroelectric, 15 percent conventional thermal, and 15 percent nuclear.

The nuclear plan also serves to prepare the nation so that, by the end of this century—when it is expected that the principal hydroelectric sources will already be under exploitation and we will have to turn to nuclear electric generation as the only alternative to continue to promote development—then these installations, which we hope will reach between 600 and 1200 MW a year, will enable us to face the new century with a high proportion of national participation in our nuclear industry.

The nuclear program also aims at maximum self-sufficiency in our use of nuclear energy. That is why we have chosen to use the natural uranium and heavy-water process, which does not require the costly and sophisti-

icated process of uranium enrichment, but which will give Argentina access to the full fuel-cycle. Thus this nuclear program also provides both Argentine industry and engineering, which are two fundamental pillars for achieving self-sufficiency, a future and a continuity of action which are invaluable for these two private sectors to determine their own necessary levels of investment. All this, then, we hope will enable Argentina to reach the end of this century with the capacity to construct her own nuclear plants and to fuel them herself. Regarding the construction of nuclear plants, we believe we can achieve 100 percent capability in engineering, 100 percent in site preparation, 90 percent in actual construction, and 65 percent of the required electromechanic components. In this way we will be relatively free from possible pressures in the political field which would restrict our access to nuclear technology.

**Small:** There are people who say that the countries of the developing sector don't need nuclear energy. There are people who say that it is a luxury, that Argentina has oil and so doesn't need nuclear energy. Nonetheless, Argentina was the first country in Latin America to enter the nuclear age. Why?

**Castro Madero:** In Argentina we have given great importance to nuclear energy since this energy form first appeared. Recall the year 1955, when the first conference was held in Geneva, and where Argentina participated with various studies. There was at the time great optimism that nuclear energy could advantageously replace the traditional energy sources that had been used until that time—oil, coal, gas. With the passage of time this idea was confirmed, such that it motivated Argentina to continue developing her capabilities in the nuclear field. Then in 1968 we decided to install our first nuclear plant. That plant, which is Atucha I, has been functioning normally since June of 1974 and has demonstrated, first, how economical energy produced by nuclear means is, to the point that it is the plant that generates the cheapest electricity of all the installations in the country. Therefore, to say that nuclear plants are a luxury for developing countries is, I would say, a mistake.

I believe that the countries of the Third World have

an important responsibility to reduce consumption of hydrocarbons, since they are running out and are now going to cost more, and to utilize them instead exclusively for irreplaceable functions, such as in the petrochemical industry. On the other hand, nuclear energy, beyond cost comparisons, has significant other advantages in terms of developing human resources: it fosters a very large number of disciplines at the highest level, with which we can answer the training needs of our youth. At the same time, the nuclear sector enforces higher quality standards which will improve industry generally, which in turn is being translated into a greater reliability of the different components produced not only for the nuclear field but for other applications as well.

**Small:** Argentina, then, by committing itself to a nuclear plan for the future of the sort you have described, is asserting that its economic growth will move forward. It is saying that Argentina's idea is to industrialize and modernize itself for the 21st Century.

**Castro Madero:** That is the fundamental objective. A few years ago we forecast a 10 percent annual growth in demand for electrical energy. Those predictions were not fulfilled; we entered a recession. But I believe that period will reach its end and that Argentina necessarily will need a sustained growth in electricity demand, because it is a country with lots to do, with some very unpopulated areas. And I believe that to become a nation of relevance, of weight in this world, Argentina is going to need energy for its development

**Small:** Then what do you think of neo-Malthusian theories such as those of the Club of Rome?

**Castro Madero:** I understand that that study is a very pessimistic one. It is precisely technology which can provide solutions to many of these questions, that it is going to solve the problems that the book *Limits to Growth* poses.

**Small:** In other words, there are no real limits to growth?

**Castro Madero:** I, at least, don't see such limits. I certainly don't see them with the gravity they are posed there.

**Small:** Besides, after nuclear *fission* development, there will follow thermonuclear *fusion* power, the next technological leap forward.

**Castro Madero:** Of course. Nuclear fusion seems to be the definitive solution to the electricity problem, since its fuel source, isotopes of hydrogen, is found in infinite quantities in sea-water.

**Small:** Does Argentina have plans for fusion? Is research under way?

**Castro Madero:** Yes. We have a very modest nuclear fusion research program. We recognize that a huge quantity of money would have to be invested to play a relevant role in this. But we have experience in fission reactors; we have already trained teams of professionals so that, when fusion power becomes commercial and can be efficiently introduced as an energy source in Argentina, then we will have the specialists so that the country can make decisions based on its own criteria, adaptable to Argentine needs. Just as we chose the natural uranium route, which I consider a correct decision, will we also be able—through this group of professionals—to make similar decisions advantageous to the country.

**Small:** There is a theory which surfaced in the U.S. and has been widely circulated, stating that energy growth can be "de-linked" from economic growth generally.

**Castro Madero:** I believe, and all past experience proves this, that there is a direct correlation between economic growth and the consumption of electrical energy. . . .

**Small:** In the U.S. we have several serious problems in the nuclear field. One of these is the high interest rates and economic recession that have seriously damaged sectors such as nuclear. Another problem is the failure to export nuclear plants. And a third problem, which I would like you to comment on, is the ecology or environmentalist movement, the "green" movement.

**Castro Madero:** Fortunately, we have no such movements in Argentina, although we don't lack ecology groups per se. As far as I know, in Argentina we have had no problems with these groups, and I attribute this to two fundamental factors. One is that our nuclear plan has become a question of national pride, and people understand that this enables us to project ourselves towards advanced levels of technological development. And the second very important factor is that the National Atomic Energy Commission, aside from its regulatory functions, has maintained permanent contact with the ecology groups, with scientific groups, with groups of citizens in the areas where we installed the nuclear projects. And those groups have participated in ecological studies on how the nuclear installations affect the environment. Far from having them in the opposition, these groups support the development of nuclear energy.

I think that in other countries there is a component of the left in the ecology movements which is out to stop the growth of the West, and by presenting this in ecological garb they have achieved a certain success in turning public opinion against nuclear energy—which, among all the energy sources, is the least contaminating.

**Small:** What can you tell me of the nuclear waste question, which has caused so much alarm, and what are the

plans to solve this here in Argentina?

**Castro Madero:** Regarding the venting of radioactive wastes into the atmosphere, we do this at such diluted levels that they actually fall well below the minimally acceptable levels. Regarding highly active radioactive wastes, as you know they are handled through fuel reprocessing, or stored in underground containers. We think the most adequate means of treating radioactive wastes is, first, through reprocessing, and then vitrification, storing them in stable granite formations which are not affected by radiation. We have done studies throughout Argentina and have discovered some 200 such likely zones, of which we have chosen one in the province of Chubut. There we have already begun drillings to determine if the place is truly appropriate for storing highly active radioactive wastes. The moment we can set up a reprocessing plant in Argentina, the wastes can more conveniently be dealt with, again without any danger either for the population or for the environment.

**Small:** What are these reprocessing plans, and where do you hope to obtain this technology?

**Castro Madero:** We are in an advanced stage of construction of a reprocessing plant, I would say a pilot plant, through which we hope to acquire all the "know-how" required for reprocessing. It will perhaps be ready to enter into "cold" operation by next year, and into "hot" operation by the middle of 1984. With it we will reprocess the fuel elements of the first nuclear plants, and this will give us the basis, when the moment arrives, to build a larger plant. Reprocessing is what is called a "sensitive" technology, which no advanced-sector country will offer, and which we have therefore faced with our own capabilities.

We will continue going forward ourselves, given that it is a technology which has been available since 1955. Our country conducted its own study; we built an experimental plant and reprocessed some plutonium; and all this laid the basis for today facing the task of constructing this more significant pilot plant.

**Small:** What type of technological assistance has Argentina received for its nuclear program, and what do you think of the international environment regarding the development of nuclear energy?

**Castro Madero:** We have basically received technology from two sources. One is Canada, by which means we are constructing the nuclear plant at Embalse; and the other is Germany, through its KWU [Kraftwerk Union] company, which built Atucha I and is now jointly building Atucha II with us.

We have another source in the field of heavy water, which we get through the company Sulzer Suisse. Regarding the fabrication of fuel elements, we have a factory operating with German technology. Our plant

for producing uranium dioxide is also of German origin.

We have been faced with difficulties in developing an independent nuclear program without getting tied up in treaties which we consider discriminatory, such as the Non-Proliferation Treaty, or which deprive us of freedom of action.

We truly believe that the policy followed by the industrialized countries—of denying technology transfer in specific areas such as reprocessing, or in demanding conditions beyond the normal safeguards that should accompany all transfer of technology—works against the very objectives they seek to achieve. Our position is that the best means to avoid proliferation is through the intensification of international trade, such that technology transfer is intensified, and that this technology transfer should be accompanied by safeguards of the International Atomic Energy Agency, creating a network of safeguards on all installations under development. Thus all the nuclear activities of a country would have great transparency.

All these restrictions and additional demands, what do they produce? That countries, like Argentina, must then decide to develop on their own account and at their own risk, certain technologies that escape the network of safeguards. This in turn shrouds the nuclear activities that develop in such countries, and thereby works against the very objectives pursued. Soon many countries will begin to build plants outside of all safeguards, and one will be unable to determine what they are up to.

**Small:** In other words, the non-proliferation movement leads to proliferation.

**Castro Madero:** I think that it leads precisely to proliferation. You can see that Argentina has its reprocessing plant, which is not under any safeguard, when, had it received aid from abroad, it would undoubtedly be under safeguards.

**Small:** Then what is the motivation of those people who use the argument of non-proliferation? Could it possibly be the same as the ecologists?

**Castro Madero:** I think there is a general idea shared by all of humanity, which is to avoid nuclear proliferation because it undoubtedly increases the risk that the world will be involved in nuclear war. But behind this idea, which I think the entire world shares, some hide their goals of political, military, and economic domination. Therefore by denying technologies, a gap in technological development between the developed and developing countries is maintained. Therefore, we developing countries are suspicious of the true motives behind the anti-proliferation measures.

**Small:** I would imagine that following the Malvinas crisis, this orientation of Argentina's has been strength-

ened, in the sense that it wants to be truly self-sufficient because it is not going to receive help from where it had hoped to receive it.

**Castro Madero:** Of course. In the light of this Malvinas war—which has put an entire system of concepts and international relations, as well as our internal ideas with respect to industry, in crisis—we have proven that our nuclear policies have been the most appropriate. Thus, a nuclear industry has been developed which has practically made the embargo measures taken by the European Community against our country useless. Being able to produce fuel inside the country is also comforting in that it cannot be used for political ends to pressure Argentina to subject its will to others. The fact that we have been very open about transferring nuclear technology to Latin American countries, means that we have in turn received strong solidarity. The same has been the case regarding our role in promoting nuclear energy in the Non-Aligned group. The fact that we did not sign the treaties to which so many countries of good faith adhere, has also proved us right, because signing such treaties would have prevented us, for example, from ever using nuclear submarines, as Great Britain did against our country. All of this shows clearly that this non-proliferation policy leaves the developing sector nations dangerously unprotected.

**Small:** What did you say in Vienna on this subject? And how do you respond to the charges that you are developing the atomic bomb?

**Castro Madero:** In Vienna I said that all the countries meeting there had formed the International Atomic Energy Agency whose objective was to accelerate the contributions of nuclear energy to the peace, well-being, and progress of humanity. That Argentina had fully adhered to this policy, in that all its relevant institutions are submitted to safeguards which obligate us not to use them for military purposes. That is to say, we cannot develop a nuclear submarine. Nonetheless, Great Britain did not hesitate to use nuclear energy to fuel submarines which gave them a significant war-fighting superiority—such that we have not been able to use our fleet.

Thus, this disadvantage is a consequence of the policy of non-proliferation. Therefore, I believe that what will happen is that the developing nations will grow increasingly skeptical, since non-proliferation measures are not intended for the stated high ideal of avoiding holocaust, but rather for the preservation of military, political, and economic domination. And I therefore explained that Argentina maintained its assumed commitments to not use nuclear energy [for military ends—ed.] in those installations where the commitment has already been made; but that in the future we will feel free of all commitments to not use nuclear energy for so-called permitted military ends, such as that of propulsion. This

does not imply in any way that there is going to be [military—ed.] nuclear development; just that we will consider the possibility of developing a greater use of nuclear propulsion.

But with respect to the bomb, the Argentine position is clear. Our objective is a united America, an integrated America. And if a Latin American country develops a nuclear bomb, a nuclear artifact, this will undoubtedly produce suspicion or distrust among the countries of America, that would in turn lead to an arms race among the countries of Latin America. This arms race would only aggravate the problems of Latin American underdevelopment. Thus we firmly believe that [military—ed.] nuclear development would be totally negative for Latin America. It would give only an ephemeral advantage to those having nuclear development; because in two, three, or four years it would be progressively matched by the other Latin American countries, and would truly go against our development and would annul something which today is a privilege for this continent, which is the total absence of nuclear weapons.

**Small:** When you referred to the kind of international agreements that should exist to have technology transfer and transparency as well, this reminds me very much of Eisenhower's "Atoms for Peace" program. Are you referring to this?

**Castro Madero:** Of course. It was a golden era, Atoms for Peace, until India's explosion in May 1974. Then there was the promotion of commercial interchange in the nuclear field which helped all countries to have the possibility of access to a more rapid development of nuclear energy by sharing their experiences. Starting in 1974, when they had the explosion in India, which was not an explosion for bellicose ends, all sorts of restrictions began: the creation of the London Club, secret meetings in which they took measures of technology transfer to the detriment of the developing countries; and the creation of sensitive areas, where there is practically a ban on transfer of technology. And I reiterate that this translates into an increase in the technology "gap" which separates us from the industrialized countries.

**Small:** Do you have some message, some last words, to direct to the United States?

**Castro Madero:** I think that the role of the United States in nuclear development is relevant. I wish that the United States would reassume the leadership in the nuclear field which it once had, but that it has lost today. I believe that this loss will not only reflect on the United States, in terms of its own economic development, but will undoubtedly also reflect on all the developing nations, who will not be able to count on the possibility of scientific and technical advances that they could have made with the capability the United States has.

# Why nuclear bids were suspended

by Timothy Rush

On June 10, 1982, Mexico's foreign creditors killed the next phase of the Mexican nuclear program. The government announced that due to financial pressures, bidding for the next 2,400 MW of nuclear energy is being canceled.

The cancellation of the bidding sets back by a minimum of two years completion of the second reactor complex in Mexico—the first, Laguna Verde's 1,300 MW, is now due for completion in 1985-86—and makes it virtually impossible to meet Mexico's goal of 20,000 MW nuclear by the year 2000, as put forth in the 1980 National Energy Plan.

No technical problems, or domestic environmentalist opposition, killed off the program. It was Mexico's debt, which is heading toward \$60 billion on public account and some \$20 billion on private account, by the end of the year. Mexico is currently facing gross borrowing needs of \$2 billion *per month*; except for a small portion that will go to meet a \$2-\$3 billion trade deficit, the rest is going into debt financing and re-financing. Mexico was told by its creditors that this minimum borrowing need would not be met unless it took a hatchet to its principal capital-intensive development programs, and nuclear was at the top of the list.

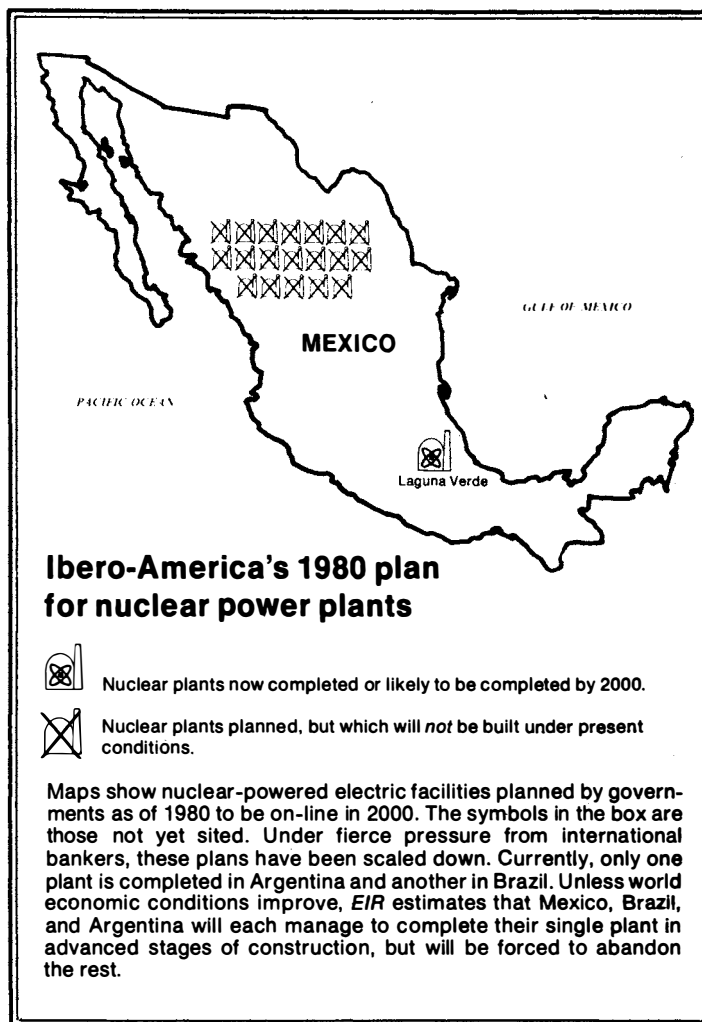
Three U.S. companies, General Electric, Westinghouse, and Combustion Engineering, had stood near the top of the ranks of the bidders. The immediate contract lost was worth some \$2 billion to a contract-starved U.S. nuclear industry.

The bidding process for the now canceled 2,400 MW in new nuclear power was suddenly put in gear by President José López Portillo in a Sept. 22, 1981 cabinet meeting of his economic ministers, including the current president-elect, Miguel de la Madrid. It was a period of major decisions. The bottom had fallen out of the oil markets three months before. López Portillo wanted his cherished dream of a major Mexican nuclear energy program to move ahead while there was still a chance; and he wanted his chosen successor, de la Madrid, to be lined up behind it.

Malthusian enemies of Mexico's modernization drive, particularly the branch headquartered in the City

of London financial district, immediately began agitating against the Mexican program, and took only three months of intense financial squeeze to force Mexico to give up its nuclear plans. In May, rumors began to circulate that a devastating maxi-devaluation of the peso would come just before the July 4 national elections. Mexico was simultaneously going into the market for a desperately needed "jumbo loan" of \$2.5 billion. The pressure was unbearable for Mexico to make a substantial demonstration of its willingness to cut back its development efforts. On June 10, Finance Minister Jesus Silva Herzog made the announcement that the financial bids on the nuclear deal were being handed back to the bidders unopened, and the bidding put off indefinitely.

The only hope that the Mexican nuclear program can be revived in less than three to four years' time—at best—is if coordinated programs of debt relief are put through across the continent. *EIR* has received indications that some of the nuclear supplier companies are looking into possibilities of barter deals—oil for nuclear—with Mexico. This is a promising possibility if the overall debt pressure can be lifted.





# An array of problems

by Mark Sonnenblick

Brazil entered the nuclear age when the Angra I power station achieved critical mass on March 14, 1982. Yet the future of nuclear energy in Brazil is quite uncertain.

Angra I was built by Westinghouse under the Atoms for Peace program. Then in 1975, Brazil signed "the nuclear deal of the century" with the Kraftwerke Union run by West Germany's Siemens. That contract provided for eight nuclear plants, and enrichment and reprocessing facilities to be built by 1990. Brazil is using the world's most modern nuclear engineering facility to make components for this program and for export to countries such as Argentina. The objective of the program is to develop in Brazil the capabilities to make 100

percent of the nuclear stations by its completion.

The nuclear program, however, has been stretched out—first to a 1995 deadline and then to 2000. Brazil is suffering a sharp recession as a result of high U.S. interest rates. International bankers and local leftists are demanding that Brazil abandon its commitment to become an advanced industrial nation by the end of the century. "If Brazil is not to continue rapid industrial growth, why should it invest in electricity?" the bankers ask.

On March 3, 1982 the government announced a new energy-investment plan which scrubbed the schedule of Nuclebras, the state nuclear energy company, for 14 plants by 2000. Under the government's new *Plan for Meeting Year 2000 Energy Needs*, only eight new plants will be built by the year 2000. Angra II, presently under construction, will be finished in 1987. Only one other plant will be started before President João Figueiredo leaves office in 1984, while the fate of the others.

One of the reasons why the Brazilian government insists it will eventually build the eight contracted plants is that the West Germans have repeatedly stated that the enrichment and reprocessing facilities come only with the full package. Wall Street bankers, however, claim confidently that no additional power stations will be started, and they hold up the steady erosion of the nuclear budget as their evidence.

Despite this pressure, Brazil's pro-development spokesmen remain committed to the necessity of nuclear-energy development. Such is the case, for instance, with Dr. Shigeaki Ueki, the President of Petrobrás, Brazil's state-owned petroleum company, who in a recent exclusive interview with *EIR* (see Special Report, May 18), stated the following:

"Since it is a form of energy that demands profound technological knowledge and requires high rates of capital investment, we have to prepare ourselves intensely for the use of nuclear power. Even with our ample supply of hydroelectric energy—and we still have many hydroelectric sources to take advantage of—there is always the necessity of a thermal complement. Before nuclear energy became commercial worldwide, Brazil based its electrical system on hydroelectric and thermal derived from either coal or oil. . . . [Now] we are going to have more thermal energy based on coal and nuclear power, and less on oil, which has become the most expensive energy source in the world.

"Brazil must immediately begin to not only invest in new nuclear plants as a complement for the electrical system, but also to develop its technicians so that when we have finally taken advantage of all our hydroelectric potential—and this, of course, depends on the [rate of] development of our country—we are going to have to intensively use the uranium deposits that we have in the country through the construction of thermonuclear plants."



## Will the Middle East be thrown into flames?

by Robert Dreyfuss, Middle East Editor

The Israeli military under General Ariel Sharon and Prime Minister Menachem Begin will destroy Beirut and then move into Syria and/or Jordan, after an act of terror blamed on Palestinian guerrillas but staged by the Mossad, Israel's secret service, according to intelligence sources. The Begin-Sharon regime intends to seize what it views as the existing opportunity to transform the Middle East for several generations to come, and it will not be stopped by the United States—unless the Reagan administration is prepared to play rough.

Issam Sartawi, a top PLO official and a leader of the PLO's moderate wing, charged in Paris that renegade Palestinian terrorist Abu Nidal was an agent of the Mossad. Meanwhile, from several world capitals, *EIR* has received information to indicate that Jordan—a key ally of Iraq in its war with Khomeini's Iran and a moderate Arab voice—is slated for invasion by Sharon.

According to intelligence sources, Israel's secret service, the Mossad, and David Kimche (Director General of the Foreign Ministry and General Sharon's candidate to head the Mossad) are planning to stage an act of terrorism inside Israel, to be blamed on the PLO, that would serve as a pretext for an invasion of west Beirut. Kimche, according to these sources, is shuttling back and forth into Lebanon to arrange with Lebanese and Palestinian mercenaries to carry out the attack. Kimche and Foreign Minister Yitzhak Shamir made a quick trip to Europe for secret talks in London and Switzerland,

returning to Israel on July 21.

It was, of course, the attempted assassination of the Israeli ambassador in London on June 3 that gave Sharon his long-sought excuse to carry out the Lebanon invasion. That terrorist assault was run by renegade Palestinian terrorist Abu Nidal, an Israeli agent in Syria.

"We have been warning for a long time about links between Abu Nidal and the Mossad," said Issam Sartawi of the PLO, at a Paris press conference on July 20, in response to a question from *EIR*. "This group has specialized in going after PLO targets, and they also attack Jewish religious institutions in Europe. We refer to the cowardly attack on the Vienna synagogue and on Jewish children in Antwerp." Noting that the PLO had warned that "as early as January of this year" Abu Nidal would be used by Sharon in this manner, Sartawi added, "Abu Nidal struck two or three days after Haig and Sharon made a deal for Israel to invade Lebanon. I will tell you people in the press that Abu Nidal used his own nephew in the attack, because he did not have his usual two weeks notice!" Less than 48 hours after Sartawi made these startling charges, one of his aides in Paris was killed in a grenade attack on a Paris street.

Sartawi continued: "I welcome with particular relief and pleasure the letter of the Iraqi Ambassador to France in *Le Monde* affirming that the attackers of Argov are a Mossad-connected group. This shows an Iraqi government recognition of the true identity of Abu Nidal, and

that measures are being taken to win Iraq to liquidate the officers and secret headquarters of the criminal gang. I hope that the government of Iraq will announce this act to the world. I also hope that the Abu Nidal branches in Damascus will be dismantled. There is no longer any excuse for any Arab government to harbor this criminal. In the same way that certain Arab government ask for help when they are in need, it is necessary that these governments cease harboring the Mossad agent Abu Nidal."

### **Israel tightens squeeze**

Following President Reagan's meetings with Arab foreign ministers from Syria and Saudi Arabia on July 20—talks which reportedly did not go well—the Israelis began to set the stage for new attacks into west Beirut. Amid a number of warnings from Israeli officials that the time for diplomacy was running out, Shamir said: "All the terrorists are going to be finished off and nothing can change that."

The mood in Israel is edging toward an eerie replay of Adolf Hitler's Nuremberg rallies. Speaking to a fanatic crowd of 250,000 supporters of the war who gathered under the stars in Jerusalem on July 18, Begin said that he has killed or captured "90 per cent of the terrorists, and we are not going to let the other 10 per cent get away." In open defiance of Secretary Shultz's remark that Habib's diplomacy might take 30 days, Begin stated, "The murderers in Beirut do not have 30 days to leave." As he spoke, the crowd chanted: "Begin, Begin, King of Israel!"

Even more ominous, Begin and Sharon began talks to bring Yuval Neeman's fascist Renaissance ("Tehiya") Party into the government coalition. Neeman, one of Israel's top intelligence czars, opposed both the return of Sinai to Egypt and the Camp David accords, and his official party position is that the occupied West Bank and Gaza be annexed as Israeli land. In agreeing to join the coalition, the Neeman party declared that southern Lebanon up to the Litani and Zahrani rivers, is also integrally part of "Eretz Israel." Neeman is also the architect of the Israeli nuclear weapons strategy and father of the Israeli hydrogen bomb. Through his connections to the pro-Dark Ages Muslim Brotherhood secret societies throughout the region—including in Iran—Neeman is committed to "defending" Israel by destroying the nations around Israel's borders.

Israel has put out several signals that it intends to open a second front, after Lebanon, against King Hussein's Jordan. During his secret trip to Europe, Shamir reportedly held a meeting with Hussein to issue an ultimatum to the king: either join Camp David's discredited bloc or Israel will activate the "Sharon plan"

to establish a "Palestinian state" in Jordan. Inside Israel, there are reports that Sharon plans to inaugurate a reign of terror on the West Bank that would send thousands of refugees into Jordan and destabilize things there. In an interview, Menachem Milson, Sharon's West Bank overlord, announced plans to exterminate the PLO in the West Bank, including total controls over the press and elimination of all officials and aides who support the PLO. Israel has already banned the shipment of fruits and vegetables grown in the West Bank and Gaza on Israeli markets.

Joining Sartawi at his press conference in Paris, Israeli General Matti Peled warned: "Sharon now says that he wants to depose King Hussein, and displace a large number of Palestinians to Jordan, to create a Palestinian state there under Israeli tutelage. I advise everybody to believe this as a very serious intention," said Peled.

### **Will Reagan act?**

The fate of the region now rests on whether the U.S. administration decides to challenge the Israelis' evident belief that they can emerge as the "superpower of the Middle East."

In his talks with Saudi Foreign Minister Prince Saud and Syrian Foreign Minister Abdel-Halim Khaddam President Reagan reportedly did not budge on the issue of the PLO. Although key PLO officials had signaled their readiness to accept Israel, and although Sartawi announced this as the official position of the PLO, Reagan stuck to the Kissinger-era U.S. view that the United States will not talk to the PLO until the PLO renounces "terrorism," recognizes Israel unilaterally, and supports U.N. Resolution 242 of 1967. But almost no one believes that the PLO will do that without U.S. guarantees of support for a Palestinian state.

In fact, according to several sources, the U.S. stubbornness on this issue has strengthened the hand of PLO radicals like Abu Nidal and George Habash of the PFLP, who have reportedly joined forces to demand that PLO Chairman Yasser Arafat take a hard line. An Israeli diplomat in Washington said smugly, "We are not afraid of any U.S.-PLO dialogue, because the radicals, the Syrians, and the U.S.S.R. will sabotage it."

Nevertheless, there are hints that international forces are pushing for a Washington-Moscow dialogue on the Middle East. In an interview with *Time* magazine, King Hussein called for an "international conference" bringing together all parties to the conflict, including the PLO. That statement was endorsed by the USSR, and then, on July 21, Soviet President Brezhnev gave an interview to *Pravda* in which he called for a Geneva-style conference sponsored jointly by Moscow and Washington.

# Italian Socialist role in terrorism confirmed by the Moro trial

by Fiorella Operto

*The Secretary-General of Italy's European Labor Party (Partito Operaio Europeo) filed this eyewitness report from the ongoing trial of Aldo Moro's killers in Rome. A collaborator of EIR founder Lyndon LaRouche, Fiorella Operto and her party have earned the respect of Italy's anti-terrorist magistrates and law enforcement community for their precisely targeted investigations of terrorism since the mid-1970s.*

“‘Honorable,’ you had better stop pursuing your political plan of bringing together all the forces of your country in direct collaboration. See to it that you stop, or you will pay dearly. You will see how you want to understand this.”

These words, reported by Aldo Moro's widow Eleonora Moro, were hissed by a very famous American political figure to the Christian Democratic Party president during Moro's last trip to the United States. There is no doubt that this political figure was Henry Kissinger.

A few months later, on March 16, 1978, Moro was kidnapped by the terrorist Red Brigades and his bodyguards assassinated. Aldo Moro was put on “trial” and finally, after 52 days of captivity, assassinated atrociously. All this occurred on the eve of consolidation of that government of “national unity” which Moro and others had projected, to reinforce the Italian State in the face of a series of international threats and the great, urgent task of development the Mediterranean region.

These and other crucial bits of information and evidence are today among the thousands of pages of acts and documents that make up the trial record of the “Moro Trial” which opened in April in the gymnasium converted into a courtroom in the Foro Italico of Rome. For Italy, it is the trial of the century. There have been other major terrorism trials in recent years, the trials that brought up the bombers of Piazza Fontana in Milan in 1969, which inaugurated the “strategy of tension”; or the promoters of the 1974 coup attempt of the “Black Prince” Junius Borghese; or the perpetrators of the Bologna train station bombing which claimed 80 victims. But *this* trial should bring to light the truth about the strategy that shook Italy and all Europe in spring 1978.

We are convinced that out of the papers and testimony of the Moro Trial must emerge the truth about those days: not only the revelations, always partial and “internal,” of the so-called repentant terrorists turned informers—although these are always useful and interesting—but the Truth with capital T, which can explain why and how international centers with supranational structures and capabilities and complex networks should have targeted Italy. The Truth that will explain why they chose, with great political intuition (certainly more acute than many politicians around at the time) their victim in Aldo Moro, the “political personnel” who would have responded not to the narrow interests of cliques and factions, but to those of the State, in the words of the State's star witness, “repentant” terrorist Antonio Savasta.

We are convinced of this not only because terrorism has by no means been vanquished, even though some of its networks have been severely damaged, but also because, while the republics and nations of the world are quivering under the blows of the economic crisis or the “mass terrorism” represented by Khomeini's human hordé, or are threatened by the resurgence of British colonialism, the Italian government, magistrates, law enforcement officials, and intelligence services have a unique opportunity to denounce those centers and forces that planned that “attack on the heart of the State” which was intended to be fatal.

Through their courage and competence, Italy's magistrates and police have already contributed decisively toward cutting off many tentacles of the terrorist monster. We can mention the exposure of the Propaganda-2 lodge, Judge Imposimato's revelations on the role of Israeli intelligence in the international terrorist network last January; Judge Calogero's probe of the “Autonomy,” the above-ground arm of the Red Brigades, in Padua, Italy; Judge Pierluigi Dell'Osso's investigation of the drug trafficking networks and P-2 dirty-money operations; and so many other cases, conducted by magistrates and police who often, themselves, became victims of terrorism.

Not only have these operations resulted in the freeing of General Dozier (Savasta confirmed that Moro would

still be alive had the same actions been taken in 1978) but in a partial defeat for the centers of "destabilization" in the world. Now we must aim higher, lift more of the veils that cover the structure of terrorism, and as we shall try to indicate, completely master the "LaRouche method" against terrorism, the method that enabled the American political leader to know precisely, without ever having witnessed the "scene of the crime," what has since been confirmed by the investigations and the revelations of the terrorists who have turned state's evidence.

### Why Kissinger hated Aldo Moro

At the time of his death Aldo Moro was working on an effort sponsored by Pope Paul VI to stabilize Italian politics after nearly a decade of upheaval. He proposed a relaunching of the Christian Democracy, the party which had ruled Italy for 30 years but was wracked by scandal and internal factionalization, and a progressive democratization away from Marxism of the Italian Communist Party, the largest in the West. It would have been a historical precedent of the greatest importance.

Henry Kissinger, the former U.S. Secretary of State, had already made it clear he did not approve.

Kissinger is not known for his subtlety in communicating disapproval. In 1976 he had warned Zulfikar Ali Bhutto, the President of Pakistan, that he would "make a horrible example of him" if Bhutto persisted in developing Pakistan's independent nuclear capability. Bhutto was overthrown in 1977, and judicially murdered in April 1979 by the military dictatorship that took his place. It was in this same period that Moro and others, among them the Prime Minister who was inaugurated the day Moro was kidnapped, Giulio Andreotti, began public preparations for gradually bringing the Communists into a responsible role in the Italian government. During the Moro Trial, Eleonora Moro has specified that it was her husband's determination to include the Communist Party that led to his ordeal at the hands of the Red Brigades.

When Henry Kissinger boasted to a London audience on May 10, 1982 that he had been an agent of British interests throughout his career as a U.S. public official, he was confirming the charges made by the European Labor Party (POE) during and immediately after the Moro kidnap and murder. Four years earlier, while Moro was still languishing in the hands of his Red Brigades captors, POE members carried a banner in the May Day parades of Milan and Rome charging that Kissinger and Gardner (then the U.S. ambassador to Rome) had kidnapped Aldo Moro. Later, the POE's dossier on the crime pointed to the British monarchy as the controller of Kissinger, Gardner, and the terrorists. Kissinger's self-incrimination, delivered almost simultaneously with the testimony of Eleonora Moro here in

Rome, closes the investigative circle.

Moro's project for a government of national unity would also have ended the illusions of taking power of London's chief political asset in Italy, the Italian Socialist Party (PSI), which scraped by each election with a scant 10 percent of the vote. The PSI banked on parlaying the U.S. prohibition on the Communist Party into a revolution in which PSI leader Bettino Craxi would seize the reins of an "ungovernable" Italy from the weakened, disoriented Christian Democrats.

No sooner had Moro been kidnaped on March 16, 1978 than Franco Piperno, a radical protégé of the PSI, wrote an editorial hailing the "geometric perfection" of the ambush in *Metropoli*, a magazine founded with money from the Socialist Party's Senate leader, Sen. Antonio Landolfi. During the long months of Moro's captivity, the Socialist Party leaders, including Secretary-General Bettino Craxi personally, had been in constant touch with Piperno and the *Metropoli* group.

This only came out after Moro was already dead. Craxi asserted that he had tried to mediate with the terrorists for "humanitarian" motives, and accused those Christian Democrats who opposed negotiations of "insensitivity." The Red Brigades demanded that the State surrender and free imprisoned terrorists in exchange for Moro's release. But a surrender would have signaled internationally that "terrorism pays," setting off new acts of violence. For this reason, Pope Paul VI himself opposed negotiations.

### The accused at the bar

Among the 58 defendants at the Foro Italico are not only the 23 who must answer for the slaughter in Via Fani, when Moro was taken, but all those accused of the crimes committed by the Red Brigades' "Rome Column" since 1977. These crimes include the assassination of Judge Riccardo Palma and magistrate Girolamo Tartaglione; the assault on Christian Democratic Party headquarters in Piazza Nicosia, where two policemen were killed; the murders of police Colonel Varisco, and of magistrates Vittorio Bachelet and Girolamo Minervini. Two days before the trial opened, a commando squad of the Red Brigades attacked the bunker-like courtroom set up in the stadium.

Seated in white cages on the left side of the court, until they are ejected by presiding magistrate Severino Santiapichi, are the "Executive Committee" of the Red Brigades. They are Moretti, Micalotto, Azzolini, and Bonisoli, who according to Antonio Savasta—the terrorist turned state's evidence after he was captured in the liberation of NATO Gen. James Dozier last January—selected their victim by the principle of "democratic centralism." There are Prospero Gallinari and Barbara Balzarini, the actual killers of Moro. There are Valerio Morucci and Adriana Faranda, who "left" the

Red Brigades after the Christian Democratic Party president was kidnapped, and whose position as “dis-senters” allowed them to function as an indispensable link in the chain of negotiations; there are Bruno Seghetti and Luca Nicolotti of the “Naples Column,” and others.

The Moro trial had been long awaited and opened in a climate of tension, owing to the assault on the courtroom that preceded it. Meanwhile, on April 27, the city commissioner of Naples, Raffaele de Cogliano, was assassinated, and defendant Luca Nicolotti claimed the hit in the name of the “Hards” of the Red Brigades military wing. On April 30 in Sicily Pio La Torre, parliamentary deputy and leader of the region’s Communist Party, who had spearheaded the anti-Mafia offensive, was killed together with his bodyguard.

The words shouted by Luca Nicolotti, who had hurled dark threats days before the murder, made it clear that the fight against terrorism was by no means over, even though the “chiefs” of the Brigades were sitting in the dock of the accused, inside cages and behind bulletproof glass.

### **Moro trial confirms POE dossier**

How many in that courtroom and outside it must have thought back to the POE dossier, *Who Killed Aldo Moro*, as they listened to the monotonous sequences of the informer Savasta, phrases scanned with the tones of a being that has ceased to be human? They must have been thinking of it, not only, I believe, because of Savasta’s facts and references which confirmed in large part the POE’s analysis, but above all because out of Savasta’s colorless phrases emerged confirmation of the hypotheses which Lyndon LaRouche and the POE were the first to elaborate on the how and why of the Moro affair.

The POE dossier, published in October 1978, with more than 100 pages of text, maps, and organizational charts of the terrorist networks, was the result of a summer’s intense work by a group of party investigators led by Leonardo Servadio. The dossier had taken its point of departure from Lyndon LaRouche’s leaflet, “Now Is the Time for Justice,” dedicated to the memory of Aldo Moro and issued the day Moro’s body was found. LaRouche had outlined the method of combating terrorism at every level; the dossier backed up LaRouche’s detailed outline with facts, leads, and suggestions related to the Moro case. This dossier sent tremors through the various “forests,” from self-styled terrorism expert Claire Sterling to the Italian journalist Mario Scialoja of *Espresso* weekly (could he be the contact between the Red Brigades and *Espresso* cited by another terrorist-turned-informer, Cianfanelli, in the trial?), to the oligarchical Pallavicini family, and many other “interested persons” who read it with suspense.

Often in these four years of war against terrorism in Italy, it has been proven to me that without the POE dossier, the POE campaigns, and LaRouche’s international political operations, the discoveries and revelations which have enabled Italy to make progress against its enemies in these past two years would not have been possible.

### **Why Moro?**

The question which the presiding judge, Severino Santiapichi, kept putting to Savasta was: Why the Christian Democrats? And why Moro? At first, Savasta answered. Then, as the judge’s questions became more precise, he stonewalled. Either he knows no more, or he does not want to say. But what he said is already very useful: “The Christian Democracy retains political and economic power. It is the party that forms the State. This party must face a great crisis which would call into question the nature and form of its power: Only a certain type of political personnel, typified by Moro, could respond not to the particular interests of the various cliques but the higher ones of the imperialist State of the Multinationals.”

The language is contorted, not unlike the style of many contemporary journalists; the tone of voice expresses not the slightest emotion. It is the voice of someone so “programmed” that the “decoding” process does not make a dent. But in Savasta’s words resound the echoes of the U.S. political figure, Henry Kissinger, who threatened Aldo Moro that he should not carry out any function which would go beyond the “cliques.”

Moro was killed, as the POE dossier said, because he was the author of a design of national harmony for Italy’s development.

Who opposed it? *The Red Brigades?*

Hearing Savasta in this courtroom fortified to the teeth, and reflecting on his colorless confession full of bloodcurdling references, no one could maintain that “those” Red Brigades projected the plan for kidnapping Moro, the negotiations, and the complicated game of terror which held Italy for 52 days on the brink of the abyss as a nation, to then feed the remains of the nation-state to the very same party—eminently the PSI—which had woven the “political” threads of that game of terror in a complex and elaborate scenario.

Neither Savasta, a member of the leadership of the Roman column who did not join the action against Moro, nor those who participated, Balzarini, Gallinari, or the so-called stage director Moretti, are the authors of this plan. As Eleonora Moro said, we must find the true “stage director” behind the “strategic leadership,” the Red Brigades “executive.” The investigation must go beyond the creatures in the cages.

*To be continued.*

# Banning the Greens

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*Susan Welsh reports on the West German effort to declare the neo-fascists unconstitutional, and the Christian Democrats' cowardice.*

The political life of West Germany has become increasingly polarized around the issue of the Greens since the radical environmentalist party won nine seats on the City Council in Hamburg on June 6. This party, which goes under different names from one state to another, calls itself the "anti-party party." The Greens have organized violent demonstrations against nuclear power plants, against construction projects like the expansion of the Frankfurt Airport, and against President Reagan's visit to West Berlin in June (the violence generally attributed after the fact to "fringe elements." Yet leading officials of the left wing of the Social Democratic Party (SPD) from Chairman Willy Brandt on down are mooting electoral alliances or unofficial collaboration with them.

Even the firebombing July 20 of construction companies involved in the Frankfurt airport expansion has apparently awakened no second thoughts in Brandt et al., since they are committed to using the Greens to topple the government of Chancellor Helmut Schmidt and to purge the SPD of Schmidt's supporters, i.e., advocates of economic growth. Up-and-coming SPD leftist leader Oskar Lafontaine, mayor of Saarbrücken, went so far as to denounce Schmidt in an interview in *Stern* magazine dated July 15, saying that the Chancellor's so-called virtues of "calculability and constancy" are "virtues which would also allow one to run a concentration camp."

While Brandt, Lafontaine, and other leftists are courting the Greens because they share their zero-growth ideology, there are others in the SPD who have convinced themselves that alliances with the Greens are necessary to keep the SPD in power, now that the party's Bonn coalition partner, the Free Democratic Party, is making overtures to the Christian Democrats and has disappeared from several state parliaments. As for the Christian Union parties, they too are refusing to forthrightly attack the Greens. The Christian Democratic Union (CDU), ostensibly the conservative opposition party, is becoming more and more a vehicle for the anti-technology, genocidal zero-growth ideas of the Club of Rome,

which ideas the Green Party shares in an even more overt and radicalized way.

## 'A new Sturmabteilung'

Only the European Labor Party (EAP) in West Germany is demanding an alliance of all parties to combat the Green danger and to declare the Greens unconstitutional. The Greens are a fascist party, like the shock troops of Hitler's Sturmabteilung (SA), whose ideology was a similar blend of "back to nature" communalism and political violence, declares the EAP. While courageous individuals from the other political parties have stepped forward to demand action against the Green fascists, the party hierarchies remain committed to one version or another of an appeasement policy.

The EAP's campaign on this issue has begun to draw blood; sources report that Petra Kelly, national head of the Greens, is preparing a lawsuit and a defamation campaign against the EAP.

An SPD member of the European Parliament, Fritz Gautier, has filed a complaint against Kelly with the European Commission in Brussels. Kelly is an employee of the EC, yet "she doesn't seem to work very often in Brussels," he said. "I would like to know whether Ms. Kelly's continuous travels around Germany are known about in Brussels and why they are tolerated." Kelly is in fact campaigning for a parliamentary seat in Bavaria in upcoming elections.

A Christian Democratic (CDU) Senator in West Berlin, Rupert Scholz, has issued a call for an investigation of the legal basis of the Alternative List (AL), Berlin's version of the Greens. Referring in an editorial published in *Die Welt* newspaper July 10 to the riots against President Reagan which the AL helped organize, Scholz questioned the right of such a party to keep its seats in the city council. "If parliamentarism means recognizing the priority of parliamentary democracy," he said, "and the acceptance of parliamentary codes of conduct, we can say that no such values are held by the Alternative List."

The West Berlin Small Shopowners Association (AGS) of the SPD demanded the expulsion of the AL from the city council, since "the Alternatives are neither mature [enough] for democracy, nor are they acceptable as a coalition partner." The AGS demand was blocked, however, by West Berlin SPD chairman Hans-Jochen Vogel, who insisted that the SPD must become "a party of emotions, of a policy which moves with the mainstream of the masses, and the masses are afraid of technology. They want conservation of nature." Vogel subsequently indicated his agreement with Lafontaine's drive to topple Schmidt and "strengthen" the SPD in the opposition.

### The CDU punts

Leading spokesmen for the Christian Democrats have refused to make more than token attacks against the Greens. Alfred Dregger, the CDU's candidate for governor in the state of Hesse, where elections are set for Sept. 26, called for all parties in the state parliament to make a pact against the Greens, allowing whichever party has the most votes to form a government, even if it does not have a majority (Dregger naturally expects this tactic to yield him the governorship). Yet when interviewed in *Der Spiegel* magazine July 19 on this subject, Dregger indicated that his proposal was not "anti-Green," but is a temporary measure to bridge the time until the Greens become mature enough to be treated with respect.

"I do not want to put the Greens in quarantine," he said, "I am not the one to keep the doors closed to them. They are the ones to lock themselves out from the formation of a government. . . . I do not want to ally with the other parties against the Greens. . . . I have always been much more moderate toward them than anyone else. I do not want to lock them out; they are not extremists; they are not Nazis; they are, apart from a few exceptions, not Communists." Asked whether the Greens are enemies of the constitution, Dregger replied: "No, not at all. They adhere to a conservative utopianism with an essential concern which I share, namely, to protect nature and the landscape. I love nature like I love the arts."

Christian Democrat Walter Leisler Kiep from Hamburg also refused to attack the Greens in an interview with *Der Spiegel*. CDU demands for nuclear energy development have anyway been "too undifferentiated" in the past, he said, so it is not surprising when the Greens capitalize on popular discontent.

Lothar Spaeth, the CDU Minister President of the state of Baden-Württemberg, declared that among the Greens are "young people with good ideas," and that the Green deputies in Stuttgart, the state capital, are "especially joyful individuals who are doing their jobs, sometimes badly, sometimes well."

## Soviet military chief: 'upgrade our defense'

by Rachel Douglas, Soviet Union Editor

In a 5,000-word *Pravda* article published July 12, Soviet Defense Minister Dmitrii F. Ustinov gave a view of the danger of nuclear war and of strategic doctrine in which he identified an upgrading of Soviet military posture that may be said to "tighten the hair-trigger" on nuclear war.

Ustinov drew a strategic line on which all Soviet factions converge, upon perceived threats to the existence of the Soviet state. It dictates not only a war-fighting strategic doctrine that rejects every version of "limited nuclear war" cooked up by NATO, but—under conditions of world economic collapse and brushfire wars in the underdeveloped sector—a global attempt to expand Soviet power at every point of opportunity, at the expense of the United States.

If the countervailing political impulse in the West and the developing world, a drive for a growth-centered new world economic order, were to defeat the collapse, there could still be a Soviet response of détente. But neither the military message or the political narrowness of Ustinov's survey pointed that way; rather, he conveyed the Soviet command's assessment that the world is in a pre-war phase.

Ustinov set about to justify, in military terms, the pledge made by Leonid Brezhnev in June never to use nuclear weapons first. Alluding to possible objections to this pledge from within the U.S.S.R., he asserted that even if the United States struck first, the Soviet armed forces would be capable of a full nuclear strike-back. Ustinov linked a U.S. effort to achieve a "first strike" capability to the installation of new medium-range rockets in Western Europe, the Pershing IIs that have a five-minute flight time to Moscow.

The Defense Minister's words about an "all-crushing retaliatory strike" referred to a Soviet Politburo decision that "countermeasures" against the Pershings, already threatened by Brezhnev months ago, will consist not in





Defense Minister Ustinov (l) with the late Mikhail Suslov.

merely matching the United States in existing technologies (e.g., by placing missiles in Cuba), but rather in *increased readiness for total war*. At the first detection of a Pershing launch from Western Europe, there is a full-scale strategic strike against United States weapons and territory.

In his political summary, Ustinov allowed very little room for war-avoidance as it might emerge from countries other than the United States. Sounding like the “two camps” rhetoricians of the Cold War, Ustinov said, “There are two lines in world politics—the U.S.S.R. and the U.S.” And the latter, he concluded from President Reagan’s speech to British parliament in June, seeks “the annihilation of socialism as a socio-political system.”

This analysis provides theoretical justification for Soviet backing of all sorts of wrecking operations in the developing sector—as long as they appear to set back American interests. Thus Ustinov pointed to the Iranian and Nicaraguan revolutions—extremely destructive for those countries—as thorns in the side of U.S. policy and hence, according to his demarcation, “on the Soviet side of world developments.”

*Excerpts from Defense Minister Ustinov's Pravda article, translated by EIR, follow. Subtitles have been added.*

The absence of real results in curbing the arms race at the end of the 1970s and beginning of the 1980s was conditioned by the latest review of U.S. military policy in favor of greater reliance on force, and cruder and more varied use of it even in peacetime. The United States moves nuclear war into the category of the possible, and under certain circumstances the expedient, and preparations for it are carried out, proceeding from the task of “taking the upper hand,” i.e., gaining victory.

From this flows a special emphasis on the creation of

a first strike capability, reducing the distance from which it would be inflicted, and removing the nuclear danger created by this policy as far as possible from U.S. territory. . . .

This arrogant imperial policy built—as the present American leaders stress themselves—on the unpredictability of Washington’s actions, naturally destabilizes the situation. . . .

### **Military actions beyond NATO’s sphere**

President Reagan directly states that U.S. military might remain the main, and practically the sole “precondition for peace.” As President, he is prepared to use that might without wavering. It is asserted that reliable security is impossible without a reorganization of the socio-economic systems in an American way. And under this pretext, a “crusade” is declared against communism, against social progress on Earth, against social revolutions, which are defamed as “international terrorism.” . . .

In their entirety, U.S. actions are directed at creating preconditions for a struggle “to annihilate socialism as a socio-political system” (so the Pentagon writes. . .) . . . According to Defense Minister Weinberger, in the event of war arising in any region of the world, the United States and its allies ought to be prepared for military actions outside their limits and for extending wars to other regions of the world, where the enemy may be dealt the greatest injury.

In other words, the new strategy of so-called direct confrontation has not only subsumed all the extremes of previous military tenets of the “balancing on the brink of war” type, but sharpened them still more. . . .

In light of the growing aggressivity of U.S. and NATO policy, it was not easy for the Soviet Union to assume the unilateral obligation not to use nuclear weapons first. And it is entirely natural that Soviet people, our friends, and progressive people of the world are asking themselves whether or not the right moment was chosen for such a step and whether we will not subject our people, our homeland and the cause of socialism and progress in the whole world to excessive danger with this unilateral obligation.

After all, we have had difficult historical experience with an aggressor who stopped at nothing and launched his destructive arsenal at us full tilt. Can we ignore all that?

Indeed, the above-listed features of U.S. doctrine and U.S. actions on the international scene are components of the present dangerous tension in the world. We soberly evaluate both the adventurous thinking of the Pentagon and the combat readiness and capabilities of the U.S. strategic offensive forces. If the aggressor makes first use of nuclear weapons, this will inflict incalculable calamities on our peoples.

However, the aggressor too should know that the advantages accruing from the first use of nuclear weapons will not lead him to victory. Committing a crime against humanity, he will not obtain tangible spoils. With modern detection systems and the combat readiness of Soviet strategic nuclear forces, there will be no disarming strike against the socialist countries. The aggressor will not escape an all-crushing retaliatory strike. He who invents a "flawless recipe" for waging nuclear war victoriously and counts on . . . "decapitating" the enemy with one knock-out blow, condemns himself. . . .

Washington and the capitals of NATO countries should understand clearly that the U.S.S.R., in rejecting the first use of nuclear weapons, also rejects all those who harbor plans of nuclear attack, counting on victory in nuclear war. The status of military potentials and military-technological capabilities of the sides is such, that imperialist forces will not succeed in achieving military superiority, neither at the stage of preparing for nuclear war, nor at the moment when they try to begin this war. . . .

While assuming the unilateral obligation not to use nuclear weapons first, we, of course, will take into account that there are aggressive forces in the world, prepared to gamble with the vital interests of humanity for the sake of their narrow, mercenary goals and to embark upon nuclear adventures for this. Therefore our state will continue to construct its policy and maintain its defenses, taking into account how the United States behaves. . . . Knowing the habits and character of the aggressive forces, the U.S.S.R. will maintain high vigilance and constant combat readiness of its armed forces on the level of current requirements.

Our defensive military doctrine, intended exclusively to repulse an external threat, will not be passive in nature. As always, it will rest on the inviolable foundation of Lenin's teaching about the defense of the socialist fatherland. In the event of aggression, our armed forces, together with the fraternal socialist armies, will defend socialist achievements without wavering and with all decisiveness, making use of the entire defense and economic might of our states.

At the same time, the adopted obligation objectively imposes stiff demands for further raising the combat readiness of our armies, their technical equipment, perfection of command and communications, reinforcement of the troops' moral and political steeling. It is necessary that the factor of surprise be reduced to a minimum, so that the aggressor not be seduced into the first use of nuclear weapons with impunity. . . .

The peoples of the world can convince themselves that there exist two lines in world politics—the U.S.S.R. and the U.S.A. . . .

## South Africa readies 'Israeli-style' moves

by Douglas DeGroot, Africa Editor

The government of South Africa appears to be scuttling the U.S.-led negotiating process over the independence of Namibia and is opting instead for an Israeli-style military policy against the rest of the nations in southern Africa.

What the Israelis have gotten away with in Lebanon has encouraged the South Africans to devise pretexts for military action to establish control of the entire mineral-rich region of southern Africa. "There is tremendous admiration for the Israelis' mode of operation in South Africa," said one Washington-based Africa expert, and added: "Now more people in South Africa are saying 'We're going to do it too, and what are you going to do about it?'" A British source predicted that "in three to four months the South Africans will go to war" from Namibia into Angola, and "clean the whole thing up."

The British intelligence-run Heritage Foundation in Washington is putting out the line that no face-saving deal for the mutual withdrawal of Cuban troops from Angola and South African troops from Namibia is possible, because the South Africans won't go with such a deal. Heritage's scenario calls for the blame to be shifted to the Angolans for rejecting immediate withdrawal of all Cuban troops, expecting the Reagan administration to "quickly point the finger at the Angolans." South Africa has over 20,000 troops in Namibia to counter the activity of the SWAPO liberation group, whose goal is the independence of Namibia. SWAPO's members seek refuge in Angola and operate from there.

"Then we will see," said a Heritage spokesman, "an independent Namibia under Dirk Mudge, with South African military support, and the end of SWAPO. If there is no agreement, there will be no SWAPO." Mudge, a member of the 10 percent of the 1 million Namibian

population that is white, is closely allied to South Africa.

Unless the Reagan administration pressures South Africa to abandon its hopes of regional military dominance, South Africa is likely to become a marcher-lord on behalf of the Global 2000 outlook: securing raw materials for the Anglo-Saxons and depopulating the Southern Hemisphere of dark-skinned "useless eaters."

U.S. endorsement of this policy in southern Africa would be a disaster for both Africa and Washington, D.C. Africans have always considered the United States the only hope for the development of Africa, since the Africa policies of European countries have rarely challenged policy guidelines established by the anti-development "Empire Faction." What is needed is an economic-development commitment as the basis of U.S. foreign policy in the region. That would entail an end to apartheid.

### **Namibia talks**

A group of five Western countries—the United States, Britain, France, West Germany, and Canada—has been negotiating with SWAPO (which is recognized by the U.N. as the official representative of the Namibian population) and SWAPO's African backers on the one hand, and with South Africa on the other. The negotiations have proceeded by fits and starts; the U.S. administration should not have included the colonially-minded British and French, or the duplicitous Trudeau government, while Bonn is irrelevant unless it returns to the African economic development plans of Jürgen Ponto of the Dresdner Bank, who was murdered in 1977.

For the United States, Assistant Secretary of State for African Affairs Chester Crocker and roving ambassador Vernon Walters continue to be the central figures in the Namibian negotiations.

But Crocker avowedly espouses the Global 2000 policy line. British policy conduits such as the Heritage Foundation are hoping that the new Secretary of State, George Shultz, "will leave Africa policy up to Crocker, as Haig did." As for Walters, who has criss-crossed southern Africa in recent months, returning to Luanda July 21, he is reportedly closely connected to the European neo-fascist monarchist circles who formulated Global 2000 and run the Tradition, Family and Property butchers in Ibero-America.

Crocker has been putting out the line that a negotiated settlement will lead to elections in Namibia by March 1983. A South African delegation was in Washington in late June, and discussions began July 6 in New York between the five Western nations and SWAPO. The only real issues involved, according to a Washington-based Africanist close to Crocker, "are the Cuban troops in Angola and whether the Savimbi

operation gets dismantled or is left in place in Angola." Jonas Savimbi, who runs an extensive counterinsurgent operation inside Angola against the government, is supported by South Africa as one of their "cards."

### **Mass murder**

In Mozambique, South Africa is sponsoring an armed operation of about 5,000 tribal members. 80 percent of Zimbabwe's foreign trade passes through South Africa, and the disturbances in Mozambique prevent Zimbabwe from increasing the amount that could pass through Mozambique, thus giving South Africa more leverage against Zimbabwe.

Southern Mozambique has been described by Washington sources as the most likely target for a southern Lebanon-style attack by the South Africans. An earlier attack into this region by the South Africans in early 1981 drew no comment from the Reagan administration, prior to Crocker's confirmation.

According to African sources, there are 5,000 elite Selous Scout counterinsurgents from Rhodesia prior to that country becoming independent, that are now in South Africa to be used in countries in southern Africa by the South African government. In addition, recruits for South Africa have come from Angola, Zambia, Zimbabwe and Mozambique to carry out dirty tricks and chaos operations in their countries of origin.

Internally, South African policy has become equally vicious. South Africa has just announced its intention to give a few strips of land to a tiny neighboring country, Swaziland. This will serve as a pretext for the P. W. Botha government to expel nearly a million people of the reputedly same ethnic origins as the people of Swaziland. In the words of the South African Minister of Cooperation and Development (which deals with policy for the black part of the population), Dr. Piet Koornhof, this is only a policy of "bringing together people who belong together," and he has reportedly announced intentions of carrying out similar kinds of activities inside South Africa, forcing people not essential for the economy as presently constituted to be dumped in what the South Africans call homelands or bantustans, which are reserves for the black population. The homeland population has grown by 3 million in the last decade, and there is almost no prospect of employment at all.

South Africa is currently in its deepest recession since the 1930s. The slump in gold prices and the highest inflation in 50 years have led to record central-bank borrowing to meet balance-of-payments deficits. This will certainly lead the South African government to speed up the process of pushing blacks out of white South Africa into the impoverished, disease-ridden homelands.

## NATO science and environmental official lauds the 'greening' of the alliance

In the June 15 issue of *EIR*, European Economics Editor Laurent Murawiec demonstrated how NATO created environmentalism and the peace movement. Speeches and policy documents by NATO's "movers and shakers"—including former U.S. ambassador to NATO and Aspen Institute executive Harlan Cleveland, NATO Secretary-General Joseph Luns, and Club of Rome founder Aurelio Peccei—revealed that NATO's major objective is to control and contain the development of technology. NATO is only secondarily concerned with military matters.

The redirecting of NATO into an instrument for steering members into a common post-industrial future took a giant step forward in 1969 with the creation, by Henry Kissinger and Daniel Patrick Moynihan, among others, of the NATO Committee on the Challenges of Modern Society (CCMS). They sold President Nixon on adding "a new social dimension" to NATO, concerned with "the degradation of national environments under the impact of technologically based industrialization."

The role of NATO's non-military adjuncts, such as CCMS and the Science Committee, are a theme of the interview Murawiec conducted on June 15 with the NATO Assistant Secretary General for Scientific and Environmental Affairs, Dr. Philip W. Hemily, who explains the symbiotic relationship between NATO "technology assessment" projects run by those committees, and peace-protest/terrorist movements such as the Green Party in West Germany. The interview took place at NATO headquarters in Brussels. Excerpts follow.

**Murawiec:** At the end of the April 1978 NATO conference commemorating the 20th anniversary of the NATO Science Committee, Harlan Cleveland demanded that the committee provide "more policy input" to NATO activities in general. What has happened since then?

**Hemily:** The focus of Harlan's remarks was only implicitly the NATO Science Committee; in fact he addressed himself very much to the NATO governments. But a good deal has happened. We have seen the end of a cycle of 20 years during which we built a good base of support for basic sciences, especially with our [NATO] exchange programs. After the Sputnik, there had to be a lot of science and technology; our programs provided a unique basis for transatlantic interaction.

In the latter part of the 1970s, with the economic downturn, the slowdown of the growth period had its consequences. Questions were asked about new needs and new priorities. . . .

The conference demonstrated the third dimension of NATO. We're picking up that thrust: in fact, the foundations of the Atlantic alliance are much, much broader than usually portrayed; they're economic, they're political. They must be taken one step further: We are peoples that share a common heritage, a common patrimony. We want to stress this ingredient of the alliance.

We propose—and it will be accepted in the next few months by the North Atlantic Council, the highest body of the alliance—to create a Foundation for Science, the Environment, and Culture, as an umbrella, a general mechanism for all the non-military aspects of the alliance, an umbrella under which the Science Committee will continue, the Committee on the Challenges of Modern Society (CCMS), etc. In fact we already have inside NATO a small cultural committee, working under the information department, which deals with . . . people who research the political-economic aspects of defense and security policies. It is a nucleus from which we can build.

The Foundation will group the existing institutions. Its board will be the North Atlantic Council. It will provide the basis for establishing an endowment, much

like the U.S. national foundation for the arts and humanities. . . . It will permit us to bring in private funds, new funds from the outside.

**Murawiec:** Back in 1978, what did the ad hoc group you referred to work on?

**Hemily:** We did two things to promote interaction, with a new option of addressing social problems, and successfully so. We became concerned with the welfare of the developing countries who belong to the alliance, and their scientific institutions. In spite of some resistance, by 1980 the North Atlantic Council endorsed the program.

The distinguished member of the Club of Rome who is also on the board of the [NATO] Science Committee, former minister Eduard Pestel, pushed a lot for this.

We changed the Science Committee, made it more operational. It now sends an annual message, for example to the political, economic, and scientific communities of the alliance. The first message was on the management of research systems in a period of zero growth.

We need to maintain a healthy system of industrial research, without isolationism. We're a forum for that, and we work with the European Science Foundation, which is based in Strasbourg. It's sponsored by the European Community, so with them and the U.S. National Academy of Science, the Academy of Engineering, we—the NATO Science Committee—did a lot of work on this quarter. We concluded that interaction must be promoted, especially for industrial researchers.

We decided to choose those areas which were not a priority elsewhere. Nuclear physics, for example, was a preferred area: well covered, well funded by governments, by other institutions, so there was no point in our supporting nuclear physics; medical research is a low priority for us too.

Until quite recently, we still devoted some effort to basic science, but there has been a shift. We looked into what one could call "science, technology, and zero growth." We looked at new areas of science and engineering, especially what we call "oriented research," a targeted area of interest for an industry, a product. So you'll have NATO Advanced Studies Institutes [ASIs] on the designing and manufacturing of microcircuits, chips. . . .

**Murawiec:** What about social sciences?

**Hemily:** Ah! These sciences are commonly looked at as "soft," but Pestel and others have always insisted that without much more input from the social and behavioral sciences, many of the problems posed by technology cannot be understood, like unemployment. . . . One should not take the social sciences as "instant social sciences" like you make instant coffee, as Dr. Henry David said at the 1978 conference. David is a very good man. He was at Cambridge, at the LBJ school [The

Lyndon Baines Johnson School of Public Affairs of the University of Texas at Austin], at Columbia University and the National Science Foundation, and the president of the New School for Social Research. He will be coming here early July to critique our wisdom. . . .

So, we're reinventing parts of Futures Research here, in the social-behavioral field—like our human factors panel working on ergonomics, the man-machine relationship, how to civilize the machines. . . . We've done studies on the adjustment process for Turkish workers returning from Germany to Turkey, to their village.

**Murawiec:** What about demographic studies?

**Hemily:** It's come up very much recently. We look more at the population problems within the alliance, since the Club of Rome is looking at the worldwide trends. We're looking at the current resource assessment. The [NATO] economics directorate has examined East bloc demographics, but the panel on eco-social sciences will be examining the demographic analysis. The *Global 2000 Report* of the Carter administration has been discussed here a great deal under CCMS especially.

But there's a problem with CCMS. At the beginning, in 1969, when Nixon gave his speech in Washington which called for establishing this "third dimension of NATO"—the speech had been written by Moynihan and his staff—CCMS had a broad-based perspective.

[Now] it's really looking for a role. Of course, CCMS did great work on energy conservation, and solar energy—they were real pioneers, but the International Energy Agency has picked up the work of CCMS where CCMS had left it. We celebrated the tenth anniversary of CCMS in Washington in 1979, and some countries were very reluctant to get into politically sensitive areas.

In the past, the French had been very reluctant but recently French interest has increased enormously. Think how significant it is that the Deputy Secretary General of NATO for Scientific and Environmental Affairs is a Frenchman now!

**Murawiec:** What issues should be tackled by CCMS?

**Hemily:** Issues such as terrorism. It's sensitive, sure, but questions should be raised: What are the experiences of various countries? Another subject that ought to be discussed is drugs. That's a worldwide problem.

CCMS meetings are now at a very senior level, at a political level, if you wish. Our annual "roundtables," like the 1980 roundtable on technology assessment, have turned out to be quite controversial. At first, European governments are very reluctant to go into this—and then the [West German] Green Party, the environmentalist party, put pressure on the governments and forced them to establish units that will assess technological developments. So we outlined the manner of doing it.

To come back to the *Global 2000 Report*; it was good,

comprehensive; it invited stimulating criticism. As Peccei had said for *Limits to Growth*, it was a good commando raid. The time had come for the ideas that are in it. What was needed was to make outrageous statements, to get people concerned. Not that *Global 2000* was outrageously wrong, but it got people arguing the right way.

*Global 2000* was a result of the process initiated by *Limits to Growth*, and it stimulated the debate afresh throughout the world. There has been a difficult problem with the new [U.S.] administration, which either had a different approach or rejected initially that of *Global 2000*. Now they reassessed *Global 2000*. . . .

Then, last fall, we decided to start working on an assessment of the assessment. In November, CCMS will hold a roundtable discussion on the real challenges facing the Western societies that can be coped with in a short time-frame. We don't want to look at problems of the oceans in a hundred years, but at problems posed right now. . . . [Club of Rome collaborator] Jacques Lesourne has helped us a lot.

**Murawiec:** What questions will you address?

**Hemily:** Questions like the atmosphere at work, technological unemployment, demographic trends in an aging population, the bankruptcy of social security systems, the work ethic, the peace movement—certainly the peace movement! Apart from the efforts by the Soviets and the extreme left to manipulate it—the rest, many people in that movement, are very sincere. We must deal—that's one theme—with the youth movement, the alienation of the young. . . .

**Murawiec:** So now NATO's priority goes to "out-of-area" deployments in the social-cultural field?

**Hemily:** That's exactly right, I could not agree more. Those are the really serious problems facing mankind in the longer term, barring the risk of nuclear war, and they represent a worldwide bomb with a slow fuse; it's already burning. The lesson of the May 7 [NATO defense ministers'] resolution and the June 10 [NATO summit] resolution [at which NATO out-of-area deployment was approved—ed.] is that it is issues outside our little family of nations that have an increasingly serious impact on us. It is now understood by everyone. France and Germany did not want to discuss these problems before, now they do. The Middle East, Africa. . . .

**Murawiec:** With which institutions did CCMS originally work?

**Hemily:** Well, it's very informal. Russell Train, with Moynihan, was the first U.S. representative at CCMS. Now he leads the World Wildlife Fund. So. WWF, NATO, the OECD, the Club of Rome, IIASA [the International Institute for Applied Systems Analysis in Vienna, a joint NATO-KGB think tank—ed.], IFIAS

[International Federation of Institutes for Advanced Studies], all work together, without any of the constraints and formalisms. There is a network of like-minded people that are interacting together—there is a symbiotic relationship among these organizations.

**Murawiec:** Is there work with the Soviets on these issues?

**Hemily:** Yes, through UNEP [the U.N. Environmental Program] in particular, and through ECE [the U.N.'s Economic Commission on Europe]. The Russians had a hard time admitting it at the beginning; they said there is no pollution here, only capitalism produces pollution. Then they were hit by this Lake Baikal affair [the pollution of the world's largest fresh-water lake by paper mills—ed.] and then they saw good reasons for collaborating. A lot of bilateral agreements of cooperation on ecology were signed between the U.S. and the Soviet Union during the détente years until 1978. There was extensive interaction with the Soviet Union, through the U.N., ECE especially. Now it's at a standstill. Sadly enough, IIASA is in trouble. What stupidity to have put a KGB man [Djermen Gvishiani] at the helm there! Such an amateur spy! It's sad. It has given a pretext for the U.S. to cut off its participation, the British are withdrawing too. . . . This network of communications, my God, we've got to keep it alive! And the Soviets, they have problems, they must deal with these: they have alienation, youth alcoholism. . . .

[In a 1981 interview with *EIR*, Club of Rome co-founder Alexander King revealed that he had collaborated with IIASA head Gvishiani since the founding of the Club in 1969. Gvishiani officially joined the Club of Rome in 1981—ed.]

This relationship between King and Gvishiani, how close! CCMS has links with the East bloc countries. In our [NATO] advanced science institutes—there are 80 a year, with 10-15 percent of the attendees not coming from NATO countries, and a good deal of these from the Eastern countries—we talk with them. This creates networks, a network of people who know each other. What counts is not just the two weeks they spend together, but the years after. Symbiotic relationships are established, long-lasting ties. We should have more of these—that's also what Basket Two of the CSCE [Conference on Security and Cooperation in Europe, the Helsinki Summit] called for, science, education, and the environment. In fact, we should have NATO and the Warsaw Pact sponsor jointly 8 or 10 such interacting projects every year.

**Murawiec:** How did you operate the transition from the era of the "Sputnik Gap" to that of "Limits to Growth"?

**Hemily:** Well, there was the period of the "technological gap"—King can tell you a lot about that, after all, Servan-Schreiber's book [Le Defi Américain—ed.] was

essentially OECD texts he appropriated. There was this meeting in Deauville on the management of technology on both sides of the Atlantic. I was involved. Out of this was decided to establish an International Institute for the Management of Technology. It was established in Milan in 1971, with Olivier Giscard d'Estaing, the brother [an executive of IBM-France—ed.], Aurelio Peccei, Umberto Colombo, top Germans, Britons, and Dutch. But it never worked. It failed and it disappeared. We could not get the European industries to be integrated. Perhaps the concept was wrong—why separate “technology” from management in general? There was already the INSEAD [Institut Supérieur Européen d'Administration des Affaires, located in Fontainebleau, France, near the former NATO headquarters—ed.]; then, King also helped a lot to establish the EIRMA, the European Industrial Research Management Association, which I always call Irma La Douce. There was Peccei and [Trilateral Commission member Humberto] Colombo and King and Casimir the Dutchman—the 100 top high-technology firms in the world linked together through that institute, which trains managers.

For the last 20 years we've had these fantastic people, King, Peccei—what can we do when they disappear? Before the Club of Rome, in NATO, there had been the report of the three wise men, Lester Pearson, Gaetano Martino, and Halvard Lange [the foreign ministers of Canada, Italy, and Norway, respectively, who were commissioned by the North Atlantic Council in 1956 to write a report on “non-military cooperation in NATO.” They wrote that the nation-state “is inadequate for progress or even survival in the nuclear age.”—ed.] on non-military cooperation within NATO. Then later, a study sponsored by the (NATO) Science Committee, funded by the Ford Foundation, the Armand report, and then the Kilian report. It called for the establishment of a European MIT. . . . It almost came up! Pierre Aigrain [a physicist who served in various high research administrative posts under French President Charles de Gaulle—ed.] was instrumental in that—he was carrying very strict instructions from le general—[De Gaulle]—to kill it.

**Murawiec:** What other institutions do you work with?

**Hemily:** There is the European Science Foundation, [Lord] Brian Flowers was its first president. We work closely with them, on this informal basis of a network. We could have more useful links with OECD, officially, if it were not for this “neutrality” thing.

But at staff level, the interaction is total. One of our staffers here with NATO is the man who originally set up the FAST program [Forecasting and Assessing Science and Technology] at the European Community. He was a graduate of SPRU [Science Political Research Unit, Sussex University, Tavistock Institute—ed.], and stayed some while with IIASA. . . . It's all the same network.

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## Book Review

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# The crimes of Lord Mountbatten

by Uma Zykofsky

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### Mountbatten and the Partition of India

by *Dominique Lapierre and Larry Collins*

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The British Crown has always cosmeticized its imperialist design as an effort to uplift impoverished and backward peoples. This myth has been cultivated most energetically by the British East India Company and its kept historians in regard to India, the jewel of the far-flung British Empire from the 18th century until 1947.

The idea that British imperialism is a cheerful acceptance of “the white man's burden” was forcibly imported to the colonies, by means of the re-education of the indigenous elites. While India's poor “natives” were victimized by British Malthusian looting and taxation policies, the subcontinent's leadership was taken to Great Britain and anglicized. At Oxford and Cambridge Universities, they were taught to believe that before the British set foot in India, their native land was steeped in bestiality and irrationalism.

Of course, the British were lying. The true history of the Indian subcontinent includes a great contribution to world civilization, stretching with unbroken continuity over 5,000 years. Sanskrit, the world's oldest language, was a product of this rich history and culture. Throughout their rule of India, the British conspired to destroy this culture as a living tradition, going so far as to hide crucial historical and archaeological data from the Indians, to better press their case that the country was savage, uncultured, and in need of colonial rule.

India's leaders in the fight for independence—notably Mahatma Gandhi, Jawaharlal Nehru, and Maulana Kalam Azad—considered the rediscovery of India's history central to their freedom struggle. Only upon the base of India's millennia-old traditions and philosophical wealth could a new nation-building effort be carried out in the post-World War II period, they believed. A foremost figure in his effort was Bal Gangadhar Tilak, the anti-British philologist, historian, and lawyer who began the project to revive and re-energize India through a writing of its actual history.

India has been free of British rule for 35 years, but the Crown's attack on its history continues. Dominique Lapierre and Larry Collins's *Mountbatten and the Partition of India*, a sequel to their 1976 bestseller *Freedom at Midnight*, is a prime example of the British method of censorship, distortion, and slander in historiography. Lapierre and Collins are known to American readers as the authors of the recent thriller *The Fifth Horseman*, a fictionalized British intelligence scenario for nuclear terrorism involving Libya's Muammar Qaddafi. In *Mountbatten* they mix a lot of British intelligence-inspired fiction with a few facts and purport to tell the story of how Britain gave independence to India.

The story that neither this book nor *Freedom at Midnight* tells is how Mountbatten, Britain's last Viceroy in India and the man responsible for the transition of power in 1947, carried out a decades-old British Colonial Office plan to subdivide the subcontinent on communal and religious lines with the establishment of Muslim Pakistan and a Hindu India, and created the conditions for instability and bloodshed in the region for many years after Britain relinquished her precious colony.

### A racist in his own words

Both *Freedom at Midnight* and *Mountbatten* are heavily based on interviews with the late Lord Mountbatten, the cousin of Queen Elizabeth, the mentor of her husband Prince Philip, and a longtime adviser to the House of Windsor. Mountbatten is portrayed as "the greatest statesman of the 20th century"; next to him India's national leaders appear as midgets.

When *Freedom at Midnight* first hit the bookstores in 1976, it was promptly banned in both India and Pakistan. The governments' grounds were that the book was a gross distortion of history which incorporated viciously slanderous portrayals of all the subcontinent's freedom leaders. *Mountbatten and the Partition of India* is represented by its authors as a response to this bitter criticism. In addition to the interviews in which the Viceroy speaks for himself, the book contains an appendix of selected documents released by the British India Office on the discussions preceding the partition.

The collection is worth reading. The authors let Mountbatten speak for himself to a surprising and revealing extent, and he lets slip some notable views of, in particular, the subcontinent's national leaders. M. A. Jinnah, the founder of Pakistan, was in Mountbatten's words a "bastard" and a "lunatic." Of his dealings with Mahatma Gandhi and Sardar Patel the Viceroy reports: "I used tactics like getting Gandhi to fast and kicking Patel to sign." Gandhi, he adds at a later point, was like a "bird happily chirping on the sidelines."

Of Jawaharlal Nehru, India's first Prime Minister and the builder of that nation's now-considerable scientific and industrial capabilities out of the ruin left

behind by the British, Mountbatten speaks at length and with a transparent racist condescension: "He [Nehru] used to get difficult to contain and I used to say 'You're not helping yourself. You're not helping me. You're not improving your image.'

"'I can't bear it. I must speak out!' [Nehru would answer.] 'I said 'I know. . . . You're letting off steam and I understand why. But if you're going to be Prime Minister without me—while I'm there I can do it—if one day you're going to run this place on your own, you've got to control yourself.'

"The funny thing was that on this he always came and cried on my shoulder. He wanted someone to go back to. *I had a sort of funny feeling that Nehru actually required my presence in order to be able to function, and after Gandhi it was me.* He used to go back to Gandhi, and Gandhi was less and less use to him in the end, and then he [Gandhi] was assassinated" [emphasis Mountbatten's].

It is widely believed in India that the British assassinated Mahatma Gandhi because he was the one leader of the independence movement unshaken in his view that India should not be partitioned. It is in this light that one should read this last statement.

### The making of British neo-colonial policy

*Mountbatten and the Partition of India* is also recommended reading for those seeking a sharper understanding of the strategic considerations shaping the British Crown's colonial policy, up to its present-day dealings with the Commonwealth nations and the developing sector. The circumstances leading to the partition of India and the creation of an independent Pakistan illustrate graphically that even during a period of ostensible retreat, British colonial policy makers were carrying out plans to maintain control over the region in the post-war period. The references to their machinations in Collins and Lapierre's book are few and slight, but sufficient to give the reader a picture of the evil schemes the British oligarchy has devised over the centuries to subdue the subcontinent.

Lord Mountbatten himself was among the elite of British policy makers who knew that the "sun was setting" on British India. Since the late 19th century, the communal weapon had been freely wielded to maintain British control in the region. Now it was Mountbatten's assignment to exploit the conditions created by this divide-and-conquer tactic to ensure that if India was to win freedom, that freedom would be granted largely on British terms.

The groundwork for Mountbatten's operation had been under way since at least as early 1905, when the British India Office devised the partition of Bengal to set Hindus against Muslims, and began the process of creating a separatist consciousness between Indians of



different religious backgrounds. Through careful manipulation of this emerging nationalism, the British inspired and promoted the creation of the Muslim League in 1906.

In his memoirs, Viceroy Mountbatten never once mentions the role of Sir Reginald Coupland, who in 1941 prepared the thorough profiles of Indian Hindu and Muslim leaders and communities from which the British Foreign Office worked to prepare the final partition plan. Coupland described his intentions as follows: "The partition threatens to throw India back to the condition it was in after the breakup of the Moghul Empire, to make it another Balkans. This would negate the development of democracy in India. Partition would also prevent a free India from taking its due place in the world as a great Asiatic power, for it would mean disruption into several states ranking from Egypt to Siam. . . . It would convert the whole subcontinent into a complex of quasi-national sovereignties, walled off from one another, by political and economic frontiers. India in fact would be balkanized and instead of being a peaceful and stable element in the new international structure, it might well become like the Balkans in the past, a breeding ground for world war."

Mountbatten arrived in India in March 1947 to put Coupland's mandate into effect. He chose Lord Ismay as his chief of staff for the India operation. It was Ismay who produced the final document on the administrative consequences of partition and the transfer of power, and who carried the working drafts of "Plan Balkan" back and forth from Mountbatten in New Delhi and London's Foreign Office. Lord Ismay's role in the partition operation dispels the popular myth that Mountbatten fought for independence on behalf of India and against the hardline Tory colonialism of Sir Winston Churchill, who was well-known to have referred to Mahatma Gandhi as "a half-naked fakir." Lord Ismay was Churchill's protégé, and in 1940-46 served as Churchill's top commander and confidante.

Mountbatten met separately with Hindu and Muslim leaders to work out the partition plan. The coming into being of Pakistan and India was carried out at the cost of millions of lives. Ten million Hindus and Muslims, ordered to migrate from their homes to territories now declared appropriate for their religious group, were displaced. This most massive migration in human history resulted in such atrocities as the deaths by starvation and disease of entire trainloads of immigrants, and the piling up of the corpses of those who could not be transported at railroad stations.

This policy of partition and genocide was fundamentally the same as that the British carried out in the Middle East during the same post-war period. The creation of a permanent condition of tension between Arabs and Jews in that region was also designed, as

Coupland intended for India, to be a potential trigger for international conflict.

In fact, the men who carried out the partition of India remained on the subcontinent post Independence to carry on with the profiling and manipulation that they hoped would lead to the further balkanization of the region. Among these were Sir Olaf Caroe, who played the Muslim side of the British partition game, and Charles Lamb, who collaborated with Mountbatten on the Hindu side of the deception.

### **The Commonwealth link**

Mountbatten's post-Independence role in bringing India into the newly created British Commonwealth of Nations is revealing on two counts. On the more obvious level, it brings to mind the great degree to which the British still dominate their former colonial dominions, politically as well as economically and financially. When one considers that Mountbatten forged the Commonwealth with the full collaboration of Winston Churchill, who was during the same period launched the anti-Soviet Cold War, the less obvious point is made: it has been the British Crown's complete post-war grip on both East-West and North-South relations that has repeatedly poisoned the waters for a post-colonial new world economic order.

There is a strong tendency among Commonwealth members to dismiss the Commonwealth's power, but reading Mountbatten's memoirs makes one aware of just how central the British considered this new organization to their post-war strategy. Mountbatten treats the continued link to Britain as a favor done for India, in his typical condescending fashion, but also reveals the depth of the Crown's desire to maintain its grip on the subcontinent: "I had a feeling that if the Indians went out on a limb, without the advantage of the British connection, they would probably not be able to carry on. . . . We had people who could help them in their universities, in their police, everywhere, the connection simply couldn't just be cut. . . ." It might be suggested that India was blackmailed into joining the Commonwealth, considering the depth of anglophile operations-in-place which Mountbatten has described.

Finally, it is worth noting that Lapierre and Collins studiously avoid a discussion of the Viceroy's morality outside the political arena. This is another among numerous efforts since Mountbatten's death to protect him from charges that he was a homosexual, who prided himself on using his wife's extramarital affairs for political ends. But the subject of morality need not be broached in this sphere to be efficiently addressed. The horrible deaths of the millions of Indians butchered and rendered homeless by the partition policy say all there is to say about the morality of Mountbatten and the British imperial ruling structure.

## Peking looks for a 'Third Way'

*P.R.C. leaders are courting the underdeveloped nations, scorning U.S. trade, and boosting the "peace movement."*

The People's Republic of China has been increasingly sending signals of its desire to distance itself from the United States and position Peking as the leader of a "Third Way." In line with more traditional Maoist rhetoric, Peking is proclaiming its status as a Third World country, sympathetic to the oppressed and opposed to "both superpowers."

Peking's diplomacy includes not only the Third World—it also includes courtship of the Europeans and Japanese including increasing contacts with the European Social Democracy, with independent "Eurocommunists," and with the oligarchies of the Old World. Peking's latest policy line in fact converges with the current Anglo-French moves toward positioning Europe "between" Moscow and Washington.

The Chinese policy is not an ideological shift; it is for the most part a pragmatic assessment of the decline of the United States as a power and hence its declining usefulness to China as a weapon to keep the Soviet Union at bay.

The gloomy Chinese view of the United States first came into public view at the beginning of this year and has since become more obvious. In January the Xinhua News Agency declared in various releases, "The United States is no longer what it was in the 1940s or 1950s. . . . In its contentions with the Soviets over the past year, the

United States has not freed itself from its passive, disadvantageous position. The reason is its many weaknesses." On June 25 another official release said that Washington is "on the defensive and Moscow on the offensive" in the battle for world hegemony.

The apparent thaw in Sino-Soviet relations over the recent period should be seen less as a unified move in Peking toward rapprochement than a move to cover its position vis-à-vis the Soviets in light of the erosion of the U.S. capabilities.

Earlier this year, its growing reservations about U.S. military might notwithstanding, Peking still expressed a desire for economic relations to be increased. China at the time still saw a role for the United States as a source of technology and investment. However, even this has been called into question.

According to the Hong Kong-affiliated Overseas Chinese media, a high-level conference of P.R.C. economists and scholars took place this May in Peking during which a detailed critique was made of the U.S. economy, noting particularly inflation, high interest rates, low productivity, and unemployment. It was concluded, according to these reports, that since there is presently little U.S. investment in China and little could be expected in the future, given U.S. economic problems, it would not matter if there were no trade with the United States. The *People's Daily* said at

the end of June that "the U.S. economy will still stagnate in the second half of this year." China is now courting closer economic ties with Japan to supplant the role assigned to the United States.

China is engaged in furious diplomacy throughout the Third World, particularly Africa and the Mideast, upholding Third World interests and "solidarity" in the best tradition of Mao Tse-tung. The shift was confirmed most clearly in a recent issue of the important analytical journal *Ban Yue Tan*, which said, "China's foreign policy can be summed up in three sentences: strengthen unity and cooperation with the Third World; opposes hegemonism; and preserve world peace." These three basic points specifically echo on Chairman Mao Tse-tung's theory of the "three worlds." On the question of hegemonism Vice-Premier Wan Li told a visiting Japanese newspaper editor that U.S. "hegemonism" rivals that of the Soviet Union.

Consistent with such Third Way developments, China has made an about-face in its assessment of the international "peace movement," which as late as this spring was the object of Peking's apprehension as a "Kremlin-inspired" plot to put the West at a disadvantage.

But on June 2, the official *People's Daily* approvingly described the movement as a "broadly based" upsurge, stating, "The spearhead of the peace movement in Europe and America is directed against the Soviet Union and the United States. . . . All people know that it is precisely these two superpowers—the Soviet Union and the United States—which are frenziedly engaged in an arms race that is threatening world peace."

## 'Feed Pepin to the Crow'

*Higher shipping costs will wipe out already weakened grain producers. Is that Ottawa's intent?*

**A**t a time when grain production for export should at least double to feed an increasingly hungry world, the Trudeau government, in cahoots with the railway companies, is planning to cut grain production for export by raising the farmers' shipping costs. By abolishing the traditional low railway rates known as the Crow's Nest, Transport Minister Jean-Luc Pepin will not only raise the domestic price of grain but simultaneously increase their costs, contracting their markets, income, and investment.

The Crow's Nest rate is an 85-year-old agreement between railroads and grain producers which established statutory freight rates for grain shipped across Canada to export terminals. The 1897 rate agreement stipulates "equal rate for equal distance": a farmer anywhere on the prairie will pay the same rate as another farmer living the same number of miles from the port to which his grain is shipped.

The low rate was maintained to build up Thunder Bay as a Canadian shipping center and prevent north-south commerce with the United States, as part of the British Crown's effort to limit economic relations between the two countries. Canada's railroads are not otherwise known for their philanthropic impulses.

Saskatchewan Premier Allan Blakeney charges that if the Crow's Nest is abolished, grain farmers will be made to subsidize coal transport.

But this is not a question of railroads' incomes, either. It appears to be a strategic decision to phase out Canada's role as a grain producer and concentrate on raw-materials manipulation. Prof. Alan Aboucher of the University of Toronto coyly wrote last spring in the *Toronto Globe and Mail*: "If it is true that high grain transportation costs cannot be repaid by the world's grain importers, perhaps we should contemplate a retrenchment from grain production or shift to other activities which are more efficient from a national point of view."

The already burdened grain growers who may end up paying "13 times the current rate by 1990," according to Saskatchewan Agriculture Minister Gordon MacMurchy. "That would mean an average freight rate for Saskatchewan, which produces 60 percent of the nation's grain, of \$1.62 a bushel by 1990. The bill for the movement of prairie grain would jump to \$2.6 billion," he said. On July 15, Saskatchewan MP Victor Althouse leaked a memo which Pepin submitted to the federal cabinet last January proposing that Ottawa pay as little as possible while forcing each farmer to pay an average \$2,000 more every year. The secret memorandum specifies that in this whole affair, Ottawa "must be seen to be taking the initiative," and it "should emphasize its desire for a 'made-in-Western Canada' solu-

tion," adding that "provinces [should] not participate directly in the formal negotiations." The memo then concludes that Ottawa should provide the railroads with no more than \$600 million a year in running costs while the farmers fund the rest "as well as all future cost increases."

The Western provinces, Manitoba, Saskatchewan, and Alberta, have reacted with outrage. Some protest signs read "Feed Pepin to the Crow" (*pepin* is French for seed). According to Blakeney, "If the railways no longer have to respect the principle of equal rates for equal distance, [they] can decide which county elevators will go, which branch lines will stay, which towns will live or die."

Saskatchewan, which produces 60 percent of Canada's export grain, will be hit hardest. Arvin Bunker, an agriculture economist for the U.S. Department of Agriculture, says that not only will the new policy "increase the price of wheat in Canada, but it will also decrease production and discourage purchases."

In an interview with the *Globe and Mail*, David Kirk, executive secretary of the Canadian Federation of Agriculture, said that high interest rates are already hitting especially young farmers who use advanced technology. High freight costs could push them over the edge.

Figures from the Department of Consumer and Corporate Affairs show that Canadian farm bankruptcies have increased by 60 percent over the first half of 1981. Kirk concluded that unless farmers across Canada get \$1 billion available to them at a 10 percent interest rate, the whole sector will go.

### IMF's man axed in Turkey

*Now that Turgut Ozal is out, will the Fund continue to rule the economy and wreck its industrial base?*

There may have been no dancing in the streets of Turkey on July 14, but most Turks felt immense relief and pleasure upon hearing the news that Deputy Prime Minister Turgut Ozal had resigned.

For almost three years, as Turkey's economics czar and the International Monetary Fund's top operative in the Turkish government, Ozal systematically wrecked the Turkish economy by imposing harsh austerity measures and monetary constraints in an effort to extract debt repayments for his IMF controllers. In his zeal, Ozal plunged the Turkish economy into the deepest depression in the country's history.

Accompanying Ozal in his exit from power were Turkey's Finance Minister and the Minister of Public Works, both long-time cronies.

During Ozal's tenure, Turkey's "unprofitable" state sector enterprises, contributing 50 percent of the country's industrial output, were deliberately undermined. Businesses that failed to switch into export-oriented and hence foreign-currency-earning ventures found themselves cut off from credit and pushed into bankruptcy. Businesses also collapsed under the sheer weight of the cost of borrowing—70 to 80 percent!

Under these conditions, economic activity in Turkey screeched to a halt, and unemployment climbed to record-high levels.

On the recommendation of the IMF, Ozal lifted interest-rate ceilings, setting off warfare among the commercial banks. With Ozal's encouragement, hundreds of unlicensed money brokers then hastily set up shop, attracting thousands of small savers by offering returns of as high as 160 percent on demand deposits.

The game was up for Ozal when the largest of these brokerage firms, an outfit called Banker Kastelli, went under in June. Five million Turks, many of them army families, had placed their savings with Kastelli, and they faced financial obliteration as a result of the collapse.

To prevent the unraveling of the entire economy, Kenan Evren's military government stepped in to guarantee the deposits and bail out the banks that had marketed certificates of deposit through Kastelli. Ozal and his friends were summarily axed.

Ozal's removal clears the way for a shift in economic goals in Turkey. The new finance minister, Adnan Kafaoglu, has been an adviser to Evren since the 1980 military takeover, and has long opposed Ozal's tight-money policy and austerity measures. Kafaoglu believes Turkey must take a fresh look at its relations with the IMF; he is currently preparing a new 12-month economic stabilization program to replace Ozal's.

"Major changes are in the

works," one New York banker told a reporter wistfully. "I doubt there will be a total break with the IMF, but something big definitely is up."

One sign of change is a government decision to bail out Asilcelik, a specialty steel company, reversing Ozal's—and the IMF's—policy of letting firms go under. The high cost of borrowing is also expected to be cut down.

The demise of Ozal will also have political ramifications. In addition to his role as IMF hatchetman, Ozal was the pro-Khomeini inside man in the Turkish cabinet who favored closer relations with Iran. A member of the fundamentalist Nursi sect and a behind-the-scenes leader of the pro-Khomeini National Salvation Party, Ozal recently traveled to Syria, Iran, and Libya to promote cooperation with Turkey.

General Evren, in contrast, is much more closely tied to Saudi Arabia and Iraq. Evren reportedly has worked out a deal with these two states to send troops to the Iraqi border area to ensure security there against the rebellious Kurds while Iraq deals with Iran's invasion in the south.

The ouster also removes from the scene a key figure in Turkey's black-market economy. Through the now-outlawed National Salvation Party, Ozal was reputed to be intimately involved in international drug trafficking and terrorism, an involvement that the military did not look upon kindly.

Ozal apparently does not intend to fade into the sunset. Rumor has it that he has not lost his political aspirations, and is planning to form his own political party in preparation for elections in Turkey next year.

## European-style separatism in the works

*Anthropologists, Jesuits, and other "social engineers" are planning the dismemberment of the country.*

I can scarcely read any foreign press source these days on Mexico which does not predict its balkanization into Indian separatist entities. One of the most elaborate scenarios appeared in the June 14 issue of *Business Week*. "Leftists have resurrected propaganda for an old 'independent Chiapas' movement," the journal reports, speculating that separatism "could become a back door through which Central America's problems infiltrate Mexico."

As my regular readers know, these so-called movements have nothing "indigenous" about them; they are part of the Malthusian armamentarium for breaking Mexico's national unity, and thereby its resistance to anti-industrial designs. Chiapas, with its large Indian population and proximity to civil-war-torn Guatemala, has been made a laboratory for that effort.

In July, a group of Harvard University anthropologists descended upon Chiapas to celebrate the 25th anniversary of their "Chiapas Project," i.e., intense profiling of the local Indians' susceptibilities.

Alongside their indelible foreign trademark, these plans have active promoters here, not only among leftist academics, but in some government circles. The Education Ministry, in particular, has become an active funder and sponsor of "anti-integrationist" Indians.

At a July 5-9 seminar at the

Jesuit-run Universidad Autónoma Metropolitana (UAM) of Xochimilco, environmentalist leaders and education ministry officials met to attack government efforts to bring the Indians into the mainstream of modern Mexican civilization.

The government should not bother to teach Spanish to these tribes, a ministry official said at the seminar; he proposed instead the publication of government textbooks in 46 different dialects, under the rationale that "there is no such thing as universal culture."

Attending the sessions were Irene Rojas, an environmentalist leader who last year led a group of Tarascán Indians in a successful campaign to stop construction of a nuclear research plant at the Patzcuaro Lake in Michoacán; anthropologists from Harvard University and the Mexico City-based National Institute of Anthropology and History (INAH); teachers from the Jesuit-controlled Ibero-American University; and members of the PSUM leftist alliance.

Mexican authorities have called my attention to the heavy European input into these discussions—which is, more accurately, European fascist input. The attendance of several "experts" on Basque, Corsican, and similar separatist causes leaves no doubt in their minds that a plan is in the works to bring European-style separatism, with its death-dealing terrorist component, to

Mexico, on the model of the Basque ETA and other such terrorist operations.

It is rather ironic to see how leftist "social engineers" are exerting themselves to bring to Mexico the feudal structures behind the "Europe of the Regions" movement. That movement is headed by Otto von Hapsburg and other titled oligarchic families of Europe. As my colleagues have extensively documented (see, e.g., *EIR*, July 20), the destruction of nation-states is the prerequisite for these families' program. Otto von Hapsburg, to boot, comes from the same dynasty which tried unsuccessfully at that time to impose its imperial negative-growth regime on Mexico in the 19th century under Emperor Maximilian.

The UAM meeting, I am told, was a sort of spinoff from a June 12 UNESCO meeting of Ministers of Culture and Education from Ibero-American and European countries held at the palace of the sinister Cini foundation in Venice.

To the dismay of nationalist officials in the federal government, the news here is that Mexico's Education Minister, Fernando Solana, joined the kooky French Minister of Culture, Jack Lang, in a diatribe against industrialization as a phenomenon "alien to Latin countries!" These plans for mass murder—for that is what lack of industrialization means for the population of the developing sector—are to be pursued in a second UNESCO meeting of Culture Ministers in Mexico City on July 26.

In a future column, I will explain how the notion of Mexico's "Indian roots" has been planted in Mexico, and what institutions and individuals are involved.

# International Intelligence

## **Britain plays with 'Baluchistan' card**

There are strong indications, in the midst of the Gulf war between Iraq and Iran, that British strategists are preparing the ground for the coordinated balkanization of Iran and Pakistan. Thus the recent activation of the Baluchi separatist movement, which seeks to create an independent Baluchistan nation covering the Baluch tribal regions of both Iran and Pakistan.

According to Pakistani sources in London, Baluch emigrés there have launched a newspaper called *Azad (Free) Baluchistan*. In its premier issue, *Azad* called for the independence of Baluchistan, and carried a map showing its boundaries including the Iran Baluch province and the Baluchistan province in Pakistan.

Meanwhile Muslim Brotherhood sources in London are putting out the false story that the Pakistan People's Party headed by the Bhutto family is talking to Baluch emigrés in London about a deal which would include "autonomy" for Baluchistan. The source linked this to ties with the Soviets—which probably indicates British intentions to draw the Soviets into a deal based on carving up Iran and Pakistan into separate entities.

## **Zail Singh becomes new President of India**

The candidate of the ruling Congress-I party, Zail Singh, won an overwhelming victory in the July elections for the Indian presidency. Singh, a veteran Sikh politician, is former Chief Minister of the Punjab and currently Home Minister of the Gandhi government. He took 73 percent of the vote against the joint opposition candidate, former Supreme Court Judge H. R. Khanna. The Indian president, the

ceremonial head of state and constitutional commander-in-chief of the armed forces, is chosen by an electoral college composed of the members of the state legislatures and the national parliament.

Zail Singh's victory was expected, but his margin was larger than the total Congress strength in the electoral college. Reports from New Delhi say that significant sections of the opposition voted for Singh, including some supporters of the Communist Party of India, the Tamil regional parties, and the Sikh regional party, the Akali Dal. The vote was therefore a victory for Prime Minister Indira Gandhi and a defeat for the opposition, which had tried to use the presidential election as a dry run for establishing a unified anti-Gandhi front of left- and right-wing parties.

The position of the president can be crucial at a time of political crisis or collapse of a parliamentary majority when the President selects the leader of a party to form a new government.

## **Scenes from the SID zero-growth conclave**

The Society for International Development (SID) conference of depopulation advocates in Baltimore which started on July 19 offered the following glimpses:

Dudley Seers, former head of the misnamed SID, made an unscheduled appearance at the panel on East-West relations to announce that "economic expansion" in Western Europe "can't be done without detaching Western Europe's economy from the U.S. economy. Otherwise we can't get interest rates down."

World Bank Vice-President for External Affairs Benjenk begged his audience to "avoid apocalyptic descriptions of the situation in the Third World" because, according to this Turkish monetarist's logic, this would make the situation appear hopeless. Benjenk went on to prescribe Brandt-Commission-type ap-

propriate technology remedies.

First Boston Corporation guru Irving Friedman, formerly of Citibank, maintained that despite the virtual bankruptcy of the less-developed nations, "nothing drastic is about to happen; only six countries have had to reschedule," and that by 1990, LDC debt will reach one trillion dollars.

"We have to be careful when we use the word default," said Friedman, whose other credentials include his former chairmanship of SID, and a stint at the World Bank.

*EIR* will report on the conference in an upcoming issue.

## **Guatemalan Ayatollah launches bloodbath**

In the little more than three months since he was handed power in a bloodless coup, "born-again" Guatemalan fundamentalist strongman Gen. Efraim Rios Montt has displayed the magnanimous statesmanship of Jimmy Carter and the sentimental enthusiasm of Ayatollah Khomeini. When the general announced July 1 that any Guatemalan found with an unauthorized weapon would be shot immediately in the nearest town square, this cemented his friendships in the U.S. State Department and certain Protestant sects.

One Texas missionary working closely with Rios Montt confided July 20, "My friends in the government tell me there is going to be a bloodbath in the next few weeks." Rios Montt himself is merely modestly proclaiming the "last stages" of a "final war" against guerrilla opposition to his government.

The missionary went on to praise Rios Montt as a "true believer" whose government embodies his evangelical beliefs, and argued that people must "submit to the authorities that be and let God handle the rest." He added that the Guatemalan army plans to "use a good bit

more force than that used by the Salvadorans," and "as in any war, a lot of innocent people will be killed."

After 40 peasants were found decapitated, the Mexican press reported on July 21 denunciations made by the EGP (Guerrilla Army of the Poor) charging Rios Montt with waging "bacteriological warfare" against the civilian population. According to the EGP, Rios Montt is using such warfare against three towns in the northern part of the country. Fundamentalist missions representing 22-plus sects have pumped dozens of missionaries and upwards of several hundred thousand dollars into Guatemala since March. Most prominent among these is the Pasadena, California-based World Vision, which funds Rios Montt and a very large international network of missionaries. *EIR* is preparing a Special Report on this topic.

### **Argentina turns heat on economic saboteurs**

In recognition of the fact that British-allied monetarists in Argentina are determined to wreck any efforts to stabilize the economy, government officials have taken a series of initiatives to keep creatures like former Finance Ministers José Martínez de Hoz and Roberto Alemann in line.

According to the Buenos Aires daily *Clarín*, when Martínez de Hoz met privately in mid-July with Interior Minister Llamil Reston, he reported that he and other members of his economic "team" were being "persecuted" by banking investigations. Martínez de Hoz and many of the collaborators who helped him destroy the economy during his tenure as finance minister (1976-81) are in fact the objects of an investigation that dates back to April 1980.

At that time, former President Lanusse told then-Army Commander Galteri to investigate reports that the government's economic team included indi-

viduals who "served the interests of national or foreign sectors and companies, rather than the nation." The Army has reportedly decided to continue with the investigation and has informed the Bignone government's economic team of this fact. Although nothing is being said about this publicly, the situation has apparently gotten hot enough to have obliged the ex-Vice-President of the Central Bank and a former economics official under both de Hoz and Alemann to leave the country.

*Busqueda*, an Argentine, monthly linked to anti-monetarist circles, published a lengthy interview with *EIR*'s Latin America editor, Dennis Small, in its July issue. Detailing the work of the National Democratic Policy Committee and Lyndon LaRouche, *Busqueda* calls LaRouche "the anti-monetarist voice in the United States."

### **Aspen questions if Palme can win**

Putting Socialist International leader Olof Palme back into power in Sweden may not be an easy task, judging from discussions made available to *EIR* from the Aspen Institute's annual trustees meeting, held in June in a secluded castle in Saltsjöbaden outside of Stockholm. The Aspen Institute is one of the controlling agencies for the European oligarchy's environmentalist movement.

Zygmunt Nagorski, a friend of Palme's and a prominent executive of the Council on Foreign Relations, noted that he expected Palme to win easily "before I got to Sweden [in June], but I am not so sure after my discussions. . . ."

The same perspective was echoed by another attendee who has ties into Sweden's current government, who noted that Palme's "early and close identification with the wage-earners fund"—a proposal for taxing profits to give worker's equity—"is now being backed off from by the Socialists."

## **Briefly**

● **THE BRITISH SPY** scandal shows that while the British government was demanding U.S. military support in its war against American hemispheric ally Argentina on the basis of "the special relationship," the British were simultaneously allowing (at best) gross amounts of American-gained information to be leaked to the Soviet Union. The Cheltenham center operates in close collaboration with the U.S. National Security Agency, the supersecret agency set up by British spymaster William Stephenson.

● **ALEXANDER HAIG** is a member of the so-called fourth order of the Knights of Malta, the organization that has threatened by letter the life of Lyndon LaRouche, according to sources in Rome, who say that shortly before his resignation from the State Department, Haig tried suddenly to withdraw his membership from the order. Investigations are continuing.

● **VITALII Korionov**, *Pravda* political commentator, revealed unsurpassed but not unprecedented lack of understanding in a July 14 article where he cites Cold War founders Averell Harriman and George Kennan as two sane voices in opposition to President Reagan. Harriman's reputation among his employers is as a "Moscow-handler," and among *EIR* readers as a thoroughgoing racist and genocidalist.

● **QUEEN ELIZABETH** should step down from her throne in favor of Prince Charles, said the July 21 issue of the Swiss newspaper *Weltwoche*. Elizabeth is to blame for the recent violation of her bedroom, according to the paper, because she refused to have a modern security system installed. But "the magic can be restored by Prince Charles and Diana," says *Weltwoche*.

# Congress punts on the Volcker bailout issue

by Ronald Kokinda, Washington, D.C. correspondent

Something worse than the dog days descended upon Washington the fourth week in July. 1) Federal Reserve Chairman Paul Volcker announced to the Senate that he intends to bail out the offshore Eurodollar markets with American liquidity, if need be, while denying interest-rate relief to the domestic economy—and he went unchallenged in Congress. 2) The White House attempted to divert attention from the entire Volcker issue by puffing the ludicrous balanced-budget amendment proposal—even though the malignant size of the deficit is largely due to the burden of Volcker's rates on the Treasury. And 3) the Harrimanite wing of the Democratic Party leadership re-launched its proposals for top-down post-industrial rationalization and economic controls—while privately saying they welcome the continuation of Volcker's rates.

## The Euromarket question

Not that Capitol Hill has been devoid of talk about financial and economic collapse. The talk is of two kinds. One is impotent, if sincere, wailing about the domestic effects of high interest rates. Despite the fact that Lyndon LaRouche's National Democratic Policy Committee has saturated Congress with material on the danger of a Euromarket crash and an inflationary U.S. backup for these bad offshore loans, the subject has not come into the open. Congressmen who were warned a year ago by the NDPC that the interest rates were wiping out industry have finally caught up with that reality, but seem utterly unequipped to deal with the danger of a Euromarket crash. The second kind of

doom-mongering are warnings of a U.S. banking collapse that are designed to create the climate for Volcker to take whatever emergency action he chooses, above all bailing out the Eurodollar debt.

Before the Senate Banking Committee on July 20, ranking Democratic Senator Donald Riegle of Michigan addressed Volcker, who was testifying there: "We are in a jeopardy not seen since the 1930s. There have been quiet runs on financial institutions. A top banking officer told me that the U.S. economy is on the edge, and there is a 50 percent chance that we will go over."

Volcker replied that, while "I think the financial system is a strong one in this country," "the Federal Reserve is well aware of its responsibilities as lender of last resort and provider of liquidity to the economy if necessary."

If there were any illusions that Volcker intends to begin providing adequate credit for American industry and agriculture, it should have been dispelled when he stated that 1983 monetary targets would remain at this year's level, that he was pleased by the decline in U.S. real wages, and—on July 21 to the House Banking Committee—that the Federal Reserve would not intervene to save smaller banks like Penn Square (see article, page 12).

A parade of witnesses flanked Volcker to lay out the gory state of the economy due to high interest rates. The picture presented led Sen. Henry Jackson (D-Wash.) to comment that if things continue the way they are, "the next thing we'll have is a financial panic." A source close to Riegle confirmed that the panic talk was



designed to create the conditions to enable Volcker, the man who has destroyed the economy, to dictate the emergency action, on the basis that "the President has no emergency powers" and that the "Congress will recess soon for the elections."

Being saddled with Volcker's high interest rates is recognized by many Republicans as a tremendous election-year liability, but even those most hostile to Volcker did not raise the issue of a bailout of the Eurodollar market. Rep. Stan Parris (R.-Va.) told Volcker on July 21 that "if the nation's economy is reduced to a pile of rubble the battle [against inflation] may be won but the war lost . . . if you are wrong in your policies you will have done a great and irreparable harm to the American economy . . . you may be remembered as the Benedict Arnold of monetary policy. . . ." President Reagan's close friend in the House, Rep. Tom Evans (R-Del.) made a rare appearance before the House Banking committee to tell Volcker that he had "avoided using you as a whipping boy, but I now think that your policies are too rigid." The best that Parris could suggest, however, was to refer to Arthur Burns's tenure at the Fed a "historical justification" for "loosening money supply without inflation."

The consistent theme among the Harriman-controlled Democratic Party leadership, a theme which was initiated by Sen. Ted Kennedy (D-Mass.), is that the high rates are just what the Reagan administration wants, that Volcker is only following administration wishes. Spokesmen for the administration have lent credibility to such charges. Hours after Volcker appeared before the Senate Banking committee, presidential press spokesman Larry Speakes told the press that "we want interest rates to come down, but we agree with the Fed's existing monetary targets." Murray Weidenbaum, as chairman of the President's Council on Economic Advisers, appeared before the Senate Banking committee the day after Volcker on July 22. As Sen. Paul Sarbanes (D-Md.) reported, "Weidenbaum made clear that the Fed was pursuing the policy that the administration wanted." It is possible, but not likely, that Weidenbaum's abrupt departure was related to his endorsement of Volcker.

Casting himself in the role of the Washington "outsider" attacking big government, the President was also taking the heat off of the Fed by addressing a top-down organized rally on the Capitol steps July 20 for a Constitutional amendment for a balanced federal budget. *EIR* has heard for the last five months from Volcker supporters on how the balanced budget campaign would get the Fed off the hook. The White House views it as an easy means of political gains in popularity, although it would be an unconstitutional farce at best and a terrible blow against defense, Social Security, infrastructure, and other necessities at worst.

As the Republicans and the White House reduced themselves to the appearance of total complicity with the Fed, the real Democratic gameplan was summarized once more by a staffer on the House Banking Committee. "The last thing we want is for the Fed to change its monetary policy," the staffer said. Volcker has done a very good job on the economy. He's done a good job bringing down inflation, and a very good job bringing down wages. We don't think credit should be growing any faster," he said, arguing that all that is needed is a "limited bailout" of Eurodollar banks, not a general increase of credit to the economy. The aide further confirmed that "the Democratic leadership is not interested in any change of Fed policy and if Reagan attacks the Fed, we'll defend the Fed. . . . Reagan knows that we will do this, and that is why he has not come out openly against Volcker."

While the Democratic leadership focus has been on the panic, a drumbeat continues for the Democratic National Committee's program of credit controls, wage and price controls, and a surrender of the U.S. economy to the International Monetary Fund. Hearings held in July on national urban policy in the congressional Joint Economic Committee organized by Rep. Henry Reuss (D-Wis.) laid out the alternative. Felix Rohatyn, author of New York's Big MAC, demanded of Congress that a Reconstruction Finance Corporation be set up to bail out the large banks "whose fragility is cause for serious concern." Sen. Daniel Moynihan (D-N.Y.), an early advocate of the "benign neglect" approach to minorities, urged that some financial institution was needed to ease the formerly industrialized, formerly urban centers into the post-industrial society. "The great manufacturing cities that grew up in the 19th century had entered a period of sharp decline for the simple reason that the economic functions they once served—especially those associated with density—are no longer decisive. The cities would no longer serve the economic function they once had done, and there would be much social disruption." Another witness Reuss brought before the committee was Chase Manhattan Bank's Philip Braverman, who was even more explicit: "A national financial entity may be appropriate to provide assistance to the cities willing to make hard sacrifices. The IMF provides such assistance to nations; we should be prepared to do no less for our own cities."

Volcker openly affirmed his agreement with Moynihan in a response to Rep. Stan Lundine (D-N.Y.) at the House Banking Committee hearing. Lundine warned Volcker that "the future of American industry is at stake. . . ." Volcker's reply: "Our manufacturing base has been declining for a period of time. This is becoming a less important section of our economy—which may be a reflection of a trend toward a post-industrial society." That statement went unchallenged by the committee.

# When will the United States launch a productive policy toward Asia?

by Daniel Sneider, Asia Editor

It is no secret that there has been a continuing dispute within the Reagan administration over U.S. policy toward China, a dispute which figured in the ouster of Alexander Haig. It is a better-kept secret that in reality the United States has *no* policy—no official policy toward China and no policy for relations with all of Asia, which comprises almost two-thirds of humanity.

In his final days as Secretary of State, Al Haig was rushing to gain presidential approval of a draft between the United States and the People's Republic of China (P.R.C.) to resolve the issue of the U.S. ties to the Republic of China on Taiwan, including the question of continued U.S. arms sales to the Taiwan regime. The P.R.C. has been threatening "grave consequences" if the United States does not agree to end arms sales to Taiwan, recognize the sovereignty of the Peking regime over the island, and terminate even semi-official ties between Washington and Taipei maintained under the Taiwan Relations Act.

## How much to give Peking?

Under the impetus of Peking's threats, the State Department has been conducting negotiations with the Chinese over the past months. Vice-President Bush's spring visit to China was part of that process, and talks have continued under the direction of Ambassador Hummell in Peking.

Haig and the State Department were simultaneously negotiating with the White House. Drafts of a final joint communiqué with Peking—called by some "Shanghai II" (the first Shanghai communiqué was issued at the conclusion of Richard Nixon's first visit)—have been flowing from State to the National Security Council. According to various sources, two principal formulations were offered as alternatives. The more extreme formulation agreed to a specific date for cutoff of arms sales to Taiwan (the administration had already offered the concession of withholding advanced systems, particularly certain aircraft, to Taiwan) and to some acknowledgement of Peking's sovereignty over the island. The "lesser of the two evils" agreed to an eventual termination of sales in principle, with no specific date, and an agreement to meanwhile merely supply parts for systems already sold to Taiwan.

According to all accounts, Haig was prepared to go as far as Peking wanted. Haig's argument was essentially the same geopolitical one which has motivated the U.S.-P.R.C. link since the Kissinger days: the dubious proposition that the strategic weight of the P.R.C. as a de facto military/political ally against the Soviet Union outweighs all other considerations, including U.S. commitments embodied in U.S. law to Taiwan.

The State Department's problem was that the White House simply preferred to put off a real decision. The word from the top, filtering through to State from Donald Gregg on the NSC, was "go slow." The President, under pressure from Haig on one side and from conservatives, like Sen. Barry Goldwater warning against a "sellout" of Taiwan on the other, kept sending back the drafts in search of other "options." The word from National Security Adviser William Clark was that a way should be found to satisfy Peking *and* to avoid any abandonment of Taiwan. Already the President had refused Taiwan's demands for purchase of advanced fighter aircraft to replace their F5E tactical fighters, built under a co-production agreement with Northrup. That agreement expires soon, and the administration is faced with a November deadline for notifying Congress that it wants to renew the agreement.

Certainly the removal of Haig, the number-one booster of the U.S.-P.R.C. alliance, creates a new situation regarding China policy and policy toward Asia as a whole. George Shultz is said by sources close to him to favor an "even-handed" approach on the P.R.C.-Taiwan dispute. According to one source, citing a discussion during a visit to Taiwan in Schultz's capacity as Bechtel president, Shultz favors maintaining the status quo concerning Peking, and opposes any overt abandonment of U.S. commitments to Taiwan.

## Looking beyond China

Unconfirmed reports from conservative circles, however, are that a draft has finally been sent to Peking, accompanying a letter to Deng Xiaoping. Those sources say the draft contains the "lesser-evil" formulation, agreeing to an eventual "termination" of arms sales, and that the President "signed off" on the formulation. This may be less than what Haig wanted, and also less

than what Peking wants, but it reveals the real problem: the lack of official policy toward Asia—a situation which has permitted the Global 2000 advocates of mass depopulation within State to disgrace the United States by advancing the cause of the monstrous Khmer Rouge and Chinese Communist Party, which share their hatred of growth and industrial civilization.

The State Department, whose senior ranks are almost entirely dominated by Sinophiles schooled in the Henry Kissinger approach of utter adoration for Han Mandarin culture, has been able to push through its pro-Peking policies due to the absence of alternative policy conceptions from the White House or any other source. “Going slow” in pursuit of a pragmatic desire to “have your cake and eat it too” is *not*, repeat *not*, a policy alternative.

The focus on the Taiwan issue obscures what is really under dispute. Whether Taiwan existed or not, the United States would still be faced with an array of circumstances compelling it to determine what American national interests are in Asia, particularly East Asia, and to face the necessity of choosing clearly between the *national* interest, and that of the P.R.C.

A glance at the region reveals that while Haig was fiddling in Peking, U.S. relations with Japan have been set afire by the anti-growth trade warriors at the Commerce Department (with a supporting role now played by the Justice Department). This is part of a familiar pattern—since Kissinger sat at the feet of Chou En-lai in 1972, Japan, once the pillar of American policy in Asia, has been relegated to the back burner, and lately to the status of a virtual adversary. Only one senior State Department official, Senior Deputy Assistant Secretary Thomas Shoemith, has any depth of knowledge of Japan, and it has become an unwritten rule that the Assistant Secretary must be a “China man.” At NSC, East Asia policy is looked at by Donald Gregg, a CIA man who knows Japan and Korea but is considered a China Card enthusiast (which may be why he is moving over to join the staff of Vice-President Bush), and, as of July, by Gaston Sigur, formerly director of the Sino-Soviet Institute at George Washington University. Though Sigur’s appointment was considered a concession to conservative opponents of the China policy, he is a “lightweight” in Washington policy circles.

Apart from Japan, perhaps the most important litmus test in coming months of whether Haig’s departure will mean anything for the creation of a real Asia policy, will be found in Southeast Asia. The standard State Department press-release formulation of U.S. policy is that “we support ASEAN,” the Association of South-East Asian Nations (Thailand, the Philippines, Singapore, Malaysia and Indonesia)—particularly in the dispute between ASEAN and the Indochinese countries following the Vietnamese-backed overthrow of the

murderous Pol Pot regime in Cambodia.

There is an appearance of a unified position—against Vietnam—on the part of ASEAN, the United States and the P.R.C. in this dispute. In reality, the ASEAN approach differs from China’s. Put in simple terms, ASEAN seeks to negotiate a political agreement with Vietnam over Cambodia and the future status of relations among all the Southeast Asian nations. To this end, ASEAN has kept alive the Khmer “resistance,” including backing the unholy and untenable alliance of Prince Sihanouk (China’s frontman), the Pol Potists, and former Premier Son Sann’s miniscule forces against the Cambodian government of Heng Samrin. For most of ASEAN these are bargaining chips to be dealt away in a prolonged diplomatic game in which eventually ASEAN must reach some accommodation with the Indochinese countries (see *EIR*, July 20).

Peking’s goals are totally different. Its rulers seek the reimposition of Pol Pot rule in Cambodia, and are prepared to make only cosmetic concessions to ASEAN’s desire for a negotiated path to prevent ASEAN from making a deal with Hanoi. As clarified in recent conversations by this writer with ASEAN diplomatic sources, many in ASEAN, like the Indonesians, see China as the real threat to the region and would oppose Peking’s desire to militarily destroy Vietnam.

### Diplomacy for what?

The real problem is that the United States, which proclaims its support for ASEAN, has linked up with China. This was manifest at the U.N. conference on Cambodia last year, when, with U.S. support, Peking blocked an ASEAN resolution clearly opposing a Khmer Rouge return to rule. Eventually, ASEAN will seek a way out of its impasse with Vietnam and reach an agreement. China will then put forward its opposition. What will Washington do?

The administration needs not only to halt its backing in the U.N. for a universally acknowledged perpetrator of genocide, the Khmer Rouge, and its allies, but also to formulate the principles of an active Asia policy that would go beyond the current quest for largely imaginary chips against the Soviet Union. Such an undertaking requires reflection on the tradition of Gen. Douglas MacArthur, the great sponsor of modernization, education, republican government, and economic development in Asia, and the enemy of feudalism—whether Japanese or Chinese “communist”—and colonialism—whether official or unofficial. An American diplomacy premised on mutual pursuit of capital-intensive trade and investment would find itself quickly superseding the dead ends and dilemmas perpetuated under Alexander Haig and his Global 2000 policy coaches. Such a policy must be pursued in concert with our best ally in Asia, Japan.

# Aquarians brainwash U.S. businessmen

by Helen Tiefmann

How do the backers of America's decline into the "post-industrial society" intend to organize the panoply of environmentalist sects, consciousness-raising societies, and liberal peacenik grouplets that have appeared on the landscape in recent years into a mass-based movement unified behind their objectives? Since attending a June 26-27 weekend seminar series at Tarrytown House on the former Mary Biddle Duke estate in Westchester County, New York, I am convinced that the Tarrytown Group, which frequently organizes such events, and the regional counterparts of this "Esalen East" training center for counterculture kookery, are playing a critical but little-publicized role in the creation of a new fascist movement aimed at replacing America's governing political and economic institutions.

Tarrytown House and the Tarrytown Group which runs its activities were founded formally in 1963 as the Executive Conference Center by Robert L. Schwartz, a former *Time* magazine editor with ties to military intelligence and the Scientology cult, with huge loans from IBM and AT&T. During the course of the 1960s and 1970s, the Center dabbled in everything from transcendental meditation to transactional analysis, Jungian analysis, rebirthing, biofeedback, Zen Buddhism, yoga, "polarity massage," LSD research, and Erhardt Sensitivity Training (the EST cult). Schwartz himself devoted these years to joint projects with the Stanford Research Institute, the base of operations of futurologist Willis Harmon, and the southern California Esalen Institute brainwashing center, as well as to collaboration with the engineers of the MK-Ultra drug dissemination project, including Aldous Huxley, Gregory Bateson, and his wife, the late anthropologist Margaret Mead.

Schwartz's Executive Conference Center was in fact the first fulltime center for corporate meeting and seminars in the United States, and it had, by the early 1970s,

processed through its programs hundreds of executives and managers of the nation's Fortune 500 companies. To this day, such firms as AT&T, Citibank, CBS, Mathew Bender, IBM, Chase Manhattan, General Foods, and American Machinist, run their employees through the center's brainwashing programs—at fees of up to \$750 a head for weekend seminars, in the process financing the center's activities.

## Subversion of the military

The session I attended late in June convinced me that the controllers of the kook counterculture movement in the United States have achieved an advanced degree of success in insinuating their ideas into the highest levels of American business, the nation's military, and even the highest levels of our federal government bureaucracy. Five hundred people came to Tarrytown or the meeting, which—in between juggling lessons, magic shows, tarot card readings, jazz workshops, and disco concerts—presented a lineup of speakers on behalf of a new anti-science, anti-technology movement that will replace what one conference speaker characterized as "the old answers which are not working, and the old institutions, which are breaking apart."

The most celebrated of the conference participants was Marilyn Ferguson, author of *The Aquarian Conspiracy*, the 1979 bestselling book which charts a path away from a modern, reasonably ordered society into the new Age of Aquarius, a post-industrial society dominated by political pluralism. Ferguson keynoted the conference with a report on the dissemination of *The Aquarian Conspiracy's* perspective, which she said is circulating widely in the German Sociological Association, in the leadership of Poland's Solidarity movement, and among "chief executive officers of top corporations." She added "the response from politicians like Jerry Brown has been enthusiastic."

Most telling however, was Ferguson's account of the penetration of the U.S. military leadership by the ideas in her book:

"I was the keynote speaker at an Army think tank, 'Taskforce Delta,' at the Army War College on the topic of 'What would a transformed military look like?' I advanced the idea of the 'First Earth Battalion,' an ecotopian, holistic grouping that would be concerned with the planet and with futuristic scenarios. This battalion would win wars through non-violent conflict resolution. The idea really caught on. When I proposed that the generals take the leadership of the peace movement, they gave me a standing ovation."

If Ferguson and her associates have made as great an impression on the U.S. military as she did on one conference participant, who argued all during lunch that nuclear war is impossible because the United States and the U.S.S.R. have developed "telsa machines" capable of destroying nuclear warheads, it is no exag-

generation to say that our nation's defense forces have been destroyed by this rash of insanity.

An afternoon "rap session" for conference attendees with John Nesbitt, publisher of the pricey intelligence weekly *The Trend Report* from Washington, D.C. betrayed the wider subversive scope of the conference organizers: to destroy what basis is left in the American economy and the nation's political institutions for mounting a competent defense of the United States and its allies. Nesbitt presented the thesis that the United States is "moving toward a monarchy, like in Britain," and a governing system in which "the Congress, the White House, and the courts,"—in fact all of America's constitutionally mandated institutions—"will become merely symbolic and ritualistic." This, Nesbitt said, will constitute true "participatory democracy." Referring repeatedly to President Reagan as "Bonzo's keeper," Nesbitt asserted that the American people "do not care who is President, half of them don't vote anyway."

America's economic future, said Nesbitt, is suggested by growing motion "away from the nation-state" and toward the break-up of the United States into "smaller and smaller power centers," possibly into multiple nations. We must substitute for "the nation-state a geographical, ecological state of mind," he said. Nesbitt not only endorsed the end of nation-states, but the end of industrial development as the goal of national entities. The United States, in particular, he said, will move away from a concentration on heavy industrial activity: "Auto, steel, and housing will never revive again. . . . Buffalo, Cleveland, Pittsburgh, and Detroit—the old industrial centers—will die. . . . We are moving toward the information society. There is—and there will continue to be—a lot of pain. . . . But on the whole, this economy is in much better shape than it was a decade ago."

For the nations of the developing sector which pin all hopes of rescuing their populations from mass starvation and backwardness on the capital goods manufacturing capacity and agricultural export capability of the United States, Nesbitt had this proposal: "Third and Fourth World countries will leap over the industrial stage altogether and go directly to the post-industrial informational society."

### **The perfect brainwashing environment**

By and large, conference participants sat through Ferguson's kookery and Nesbitt's prescriptions for industrial collapse and genocide with nary a whimper. And why not? Preconditioned by their daily newspaper and television news campaigns marketing the same insanity, these victims found no hint of political or economic reality within the environment created by Schwartz and his friends that might lead them to suspect that they were being brainwashed.

Most sat quietly while Frijof Capra, author of the

Eastern mysticism-peddling *Tao of Physics* and *The Turning Point*, attacked the Space Shuttle as an attempt to further America's military ambitions by putting deadly weapons into space. Capra, a Vienna-born quantum physicist with the Lawrence Berkeley Institute, also told the audience that "undifferentiated economic growth . . . is leading us to social breakdown and nuclear war. In Chinese terminology, the *yin* has been neglected in favor of the *yang*." Capra praised the recent years' growth of religious cult movements in the U.S. and Western Europe as a return to "a feminist *yin* perspective," and asserted that the breakdown of broadscale social and religious institutions confirms British historian Arnold Toynbee's theory of the cyclical collapse and renewal of civilizations. As Western civilization collapses, said Capra, its members should give up their pretension to literate language and literature. "The Hopi language is much simpler than English, and I think that should be our model," he said.

The audience also put up with Robert Sheldrake, an Oxford-trained biochemist who now resides at a Buddhist monastery in India and lectures with his shoes off. Sheldrake's thesis is that people can "tune into other peoples' memories and this results in telepathy." They sat through an address of Dr. Sandra McLanahan, who was introduced by center founder Robert Schwartz himself. McLanahan runs a holistic health center in Putham, Connecticut. She had this to say: "Our whole planet is like a brain floating in space: 'doingness' is like the left side of the brain, and 'beingness' is like the right side of the brain. . . . It has been shown that if you feed people with biscuits that contain meat, their health will not be as good as those who eat meatless biscuits."

The only thing ordinary about lunch was the roast beef. One person at my table turned to me and confided: "You know, I can teach you to bend metal with your mind like Uri Geller in less than an hour." I took out my keys and replied, "Okay, here's metal, bend it." He exclaimed: "I wouldn't even try to do it while you're thinking the kind of thoughts that you're thinking now." Someone else at the table added: "Don't you know anything? Don't you know that a negative thought cancels out a positive thought? No one can bend metal if there is someone thinking negative thoughts in the room."

I left the seminar at the end of the first day's session, but not before I had heard John Nesbitt's frightening synopsis of the "new paradigm" that he and his fellow Aquarian conspirators intend to establish through such events; including the change "From industrial to informational; economies of scale to appropriateness of scale; left versus right, to the radical center; conquerors of nature to partners of nature; capitalism to entrepreneurialism; from the myth of the melting pot to the celebration of diversity; and from machismo to an androgynous society."

## Hatch and Sheridan push Reagagate

Despite concerns expressed by Sens. John East (R-N.C.) and Jeremiah Denton (R-Ala.), Orrin Hatch's Senate Labor Committee voted to investigate events surrounding the confirmation hearings of Labor Secretary Ray Donovan and to give committee investigators Walter Sheridan and Frank Silbey wide-ranging powers of independent investigation. Kennedy staffer Sheridan is intent on using the Donovan investigation to promote a "Reagagate" climate.

During the preliminary skirmish on July 21, East and Denton warned that the resolution was, in effect, creating "surrogate Senators" by allowing staff members to conduct independent questioning of individuals with only the precondition of a Senator's initial presence at the questioning. In an effort to block consideration of the resolution, East invoked a Senate rule which prohibits committees from conducting business while the Senate is in session, and the vote was delayed one day. Hatch reconvened the hearings the next morning at 8:30 a.m. and succeeded in passing the resolution.

The National Democratic Policy Committee (NDPC) has countered Hatch's efforts to get Donovan with a call to "investigate the investigators." In a memorandum circulated to the entire Senate, the NDPC documented Walter Sheridan's previous role in covering up the connection of the international assassination bureau, Permindex, to the murder of President Kennedy as well as Silbey's possible connections to the Israeli Mossad.

Denton and East also questioned the jurisdiction of the Sen-

ate Labor Committee in investigating charges that FBI officials withheld information from the Committee concerning Donovan during the confirmation process. That jurisdiction lies in the Senate Judiciary Committee which oversees the FBI, the Senators argued.

A mid-August target is set for completion of the investigation.

## Bill on Joint Chiefs drafted in subcommittee

The House Armed Services Committee Subcommittee on Investigations has drafted a bill regarding the much-discussed reorganization of the Joint Chiefs of Staff. The issue, raised prominently by proposals by recently retired Joint Chiefs chairman David Jones and by Army chief General Meyer, involves strengthening the Joint Chiefs' role.

General Jones has proposed enhancing the power of the chairman of the Joint Chiefs while General Meyer has emphasized creating a military policy body somewhat comparable to the German General staff.

The subcommittee bill, however, does not include any significant strengthening of the body. Subcommittee Chairman Richard White (D-Tex.) admitted following its drafting that the bill just does "minimal things" to the existing structure.

In opposition to these suggestions is retired Gen. Maxwell Taylor. Taylor, testifying before the subcommittee on July 1, made the following proposals: 1) dissolve the Joint Chiefs and send the chiefs back to their respective branches; 2) place the staff under the Secretary of Defense. Its chief would be

the senior officer in the armed forces, and would become a member of the National Security Council; and 3) the President and the Secretary of Defense would be advised by a National Military Council consisting of a chairman on five members selected from retired officers and one or more civilians. Taylor's proposals would clearly weaken military input into defense decisions.

## Senate Abscam Committee: arms tied behind its back

The Senate Select Committee created in the wake of the FBI's Abscam Operation began its public hearings July 20 with statements by some Senate members of the committee, including its chairman Charles Mathias (R-Md.), that indicated a vastly self-circumscribed role for the committee.

Mathias threw cold water on the anticipated investigation of executive branch wrongdoing and abrogation of constitutional rights in Abscam as he said, "Most emphatically that our mandate is this inquiry is *not* to punish the executive branch of government, *not* to exempt members of Congress from application of any proper and effective law-enforcement technique, and *not* to terminate the use of undercover operations."

The narrowly self-defined role has come from chief committee counsel James Neal, whose associations with Walter Sheridan and other corrupt elements of the Justice Department go back at least to his role as Chattanooga prosecuting attorney in the Jimmy Hoffa trial. At the July 20 hearings, Neal's big "story," obviously choreographed with the FBI and De-

partment of Justice to direct and shape the committee's work, was on just "how many FBI internal guidelines we've found since the committee began its work."

Patrick Leahy (D-Vt.) strongly reminded his colleagues and the press that they were in business to answer whether "the U.S. Government was out to stop crime or out to create crime, whether the U.S. government was out to catch known criminals or create new criminals. . . ."

Daniel Inouye (D-Hawaii) also motivated a thorough investigation as necessary to restore confidence in the institutions of government by relating how puzzled he was when several colleagues congratulated him on how "courageous" he had been to defend the Abscammed Senator Williams. "When I asked why they thought I was courageous," Inouye said, "they asked me 'aren't you afraid of being put on the FBI's hit list? To think,'" Inouye continued, "that this is an accepted way of thinking by members of the Senate!"

## **NDPC to House: 'water development is all-American'**

A National Democratic Policy Committee spokesman told the House Subcommittee on Water Resources of the House Public Works Committee July 21 that the \$200 billion North American Water and Power Alliance project coupled with the rest of Lyndon LaRouche's four-point program provides the only resolution of the economic crisis gripping the United States and the world.

This mini-educational on the economics of infrastructure was warmly welcomed by subcommit-

tee chairman Robert Roe (D-N.J.), who said, "You have made some very important points, and we appreciate your remarks. The generalized economic impact of these kind of project is often missed in the debate over their feasibility."

The NDPC testimony was preceded by a line of desperate Congressmen and local officials and businessmen pleading for pennies to carry on vital operations and maintenance, and flood-control projects in the current austerity climate. Some, including Wes Watkins (D-Okla.), attacked the administration's current emphasis on forcing local communities to share the cost of federally built infrastructure projects, warning that "this demand for cost-sharing will shut down water development—especially in rural areas. Over a period of time these projects pay for themselves, but communities just don't have the up-front money to contribute at the beginning."

The NDPC's call for the \$200 billion NAWAPA project pulled the group out of its hapless mood. "Some might think we have lost our senses in calling for a project of this magnitude at this time," said the spokesman. "There was a time when the average American citizen and Congressman knew that there was an American System of economics and that internal improvements were a cornerstone of it." The spokesman then detailed the analysis of the LaRouche-Riemann econometric model of the impact of infrastructural spending on overall economic productivity—speeding up the economy in thermodynamic terms.

The subcommittee is conducting hearings on national river and harbors in anticipation of the introduction of the first Omnibus

Rivers and Harbors bill in many years.

## **JEC hearings: bailout for banks, IMF rule for cities**

A full round of hearings on national urban policy, organized by Rep. Henry Reuss (D-Wis.) in his Joint Economic Committee, amounted to an organizing drive for the International Monetary Fund's plans for the U.S. economy.

The hearings were orchestrated by Reuss after a "draft urban policy" document had been leaked from the Reagan administration, who called for a "free market" abandonment of federal help for the cities. Witnesses at the hearings castigated that policy, proposing IMF dictatorship in its stead (see article, page 54). Sen. Daniel Moynihan (D-N.Y.), the author of the original "benign neglect" approach to the nation's minorities, shamelessly attacked the administration's current version of his own policy.

Chase Manhattan Bank's Philip Braverman was blunt about the nature of the new institutions needed to ease the troubled urban centers into the brave new world: "a national financial entity may be appropriate to provide assistance to the cities willing to make hard sacrifices. . . ."

It was left to Felix Rohatyn, author of New York City's Big MAC, to lay out the policy in detail. Royatyn argued that the national financial entity—a Reconstruction Finance Corporation-type institution, was also necessary to bail out the major banks, which could be hurt by, for example, "an unexpected default by a large debtor like Argentina, caused by political rather than economic events."

# National News

## Right-to-Life leader reveals eugenicist policy

Proceedings at the July 15-17 national convention of the National Right-to-Life Committee show why the U.S. "pro-life" movement, despite its 10 million members, is not able to stop the imposition of infanticide and euthanasia in the United States. The sociologists, sexologists, and corrupt clergy who run the "pro-life" organization and "movement" have ruled out any effective fight against the deliberate economic commitment of the IMF, World Bank, and Paul Volcker's Federal Reserve to world depopulation.

An interview with Dr. Jack C. Wilke, conducted by *EIR* at the conference, makes clear the eugenicist policies espoused by certain leaders of the right-to-life movement. Wilke, President of the National Right-to-Life Committee, is a sexologist by profession. The following are excerpts from his statements:

"We've decided to limit ourselves to the questions of abortion, infanticide, and euthanasia. . . ."

"We are concerned about the declining birth rate in this country. . . . This nation's indigenous—native—population is dying out. Unless we start having babies, then the population in this country is going to change radically. We will be replaced by the immigrant peoples who have babies. I'm not making any judgments, I'm just saying what will happen. The same is true in Australia and New Zealand. . . ."

## Computer 'education' plan set back in Baltimore

A plan to install PLATO computerized education in Baltimore, Maryland public schools has been stalled as a result of a year-long campaign by citizens and educators who protested the brainwashing effects of the electronic curriculum.

PLATO, developed by the University

of Illinois and the Control Data Corporation, combines the medium of today's video games with a drill-and-grill curriculum. Evaluated separately, the video and the drill-and-grill have been found by educators to be damaging to a child's cognitive development. The combination of the two into a public-school curriculum aroused alarm from a broad spectrum of Baltimore residents.

Word that the PLATO installations would not proceed as planned came during a school board meeting in June where Debra Freeman, a leader of the citizens' protest and a Democratic candidate for Congress in the Third District, denounced Board of School Commissioners head David Deneker for deceiving the citizens of Baltimore when he insisted last fall that no teachers would be laid off due to the computerization scheme. The topic of the June meeting was the layoff of 900 teachers. Following Mrs. Freeman's speech, Deneker told the candidate that "as a result of what you did, PLATO will not be implemented."

## Minnesota farmer declares for Congress

Patrick O'Reilly, a family farmer from Canby, Minnesota, announced his candidacy on July 19 for the Democratic nomination for Minnesota's Second Congressional District seat. After filing with the Minneapolis Secretary of State, O'Reilly declared, "It has been my firm conviction that you don't have to support being gay or killing babies to be a candidate of the Democratic Party"—referring to the fact that his opponent, State Senator Jim Nichols, and the state Democratic Farmer-Labor Party have supported homosexual "rights" and liberalized abortion as major planks in their platforms.

O'Reilly contends that the Democratic organization, which has historic ties to Walter Mondale and Hubert Humphrey, are out of step with the mainstream of Democratic voters. O'Reilly has been endorsed by the National Dem-

ocratic Policy Committee, and supports NDPC Advisory Committee Chairman Lyndon H. LaRouche's four-point program to end the depression.

O'Reilly called Mondale and his Democratic allies "damned fools" who "are delighted the economy is about to go under," as they operate under the delusion that this will sweep them into office. "I want to remind my fellow Democrats that Jimmy Carter put Paul Volcker in office, and Volcker's high interest rates have caused farm debt alone to rise to \$30 billion this year, while farm income sinks to the \$15 billion level. Total farm debt is now over \$200 billion."

## A victory for EIR in Murphy's censure

Patrick Vincent Murphy, President of the Washington, D.C.-based Police Foundation, was censured the week of July 19 by an executive body of the International Association of Chiefs of Police (IACP). The censure was the result of a year-long campaign directed by a traditionalist faction within the IACP and by *Investigative Leads* (IL) newsletter—*EIR*'s publication on law-enforcement concerns and intelligence developments.

The move for Murphy's censure originated during the September 1981 88th IACP annual convention, where *IL* personnel organized the membership of the IACP to oust Murphy and his allies. An *IL* memorandum of Sept. 22, 1981 distributed to that meeting read:

"The Police Foundation has been involved in various attacks on local police departments using such 'issues' as police brutality. . . . Be it resolved, that this body hereby informs the Reagan administration that the Police Foundation and the Police Executive Research Forum (PERF) in no way represent the interests or voice of American law enforcement."

Murphy's three-year tenure as police commissioner of New York City was dedicated to destroying the effectiveness of the NYPD. Murphy has acted as a long-term agent of the Ford Foundation,



carrying out its policies of wrecking municipal services and allowing drug traffic to proliferate by weakening law enforcement.

*IL* editor Robert Greenberg commented on the censure of Murphy:

"This was a baby-step against the 'police reformers' whose aim is to turn our streets over to the terrorists and felons and turn over our police forces to 'Guardian Angels' and other 1984-style 'youth gang police.' While Murphy is taking the heat, his Vice-Chairman, James Q. Wilson, is presently bending Ed Meese's ear and directing a large portion of the Reagan administration's law-enforcement policy."

*IL* is offering a \$10 packet—which includes the three-part series on the Police Foundation and a report on the IACP 88th annual convention. Write to Investigative Leads, 304 W. 58th St., 5th floor, New York, N.Y. 10019.

## Fusion budget to be taken down another ratchet?

Spokesmen for the Office of the Science Adviser, headed by Dr. George Keyworth, and the Office of Management and Budget have joined ranks in an effort to dismantle the magnetic fusion-energy program. Representatives from Keyworth's office have recently said that magnetic fusion will not be ready for commercial deployment for another 70 years, which is contrary to the conclusions of every review of the fusion program which has been made in the last five years.

It also defies the law of the land, the Magnetic Fusion Energy Engineering Act of 1980, which mandated an accelerated development program for fusion.

The OMB has instructed scientists at the Department of Energy to submit their FY84 fusion budget plans based on the assumption that budgets will be flat for the next five years.

The dispute is not centered solely on the amount of money in the budget. The primary issue is whether the fusion pro-

gram moves into the engineering phase, which will take the program out of the laboratory and into industry. The Fusion Act mandated that by the year 1990 a Fusion Engineering Device (FED) would be operational so that the new technologies and engineering design needed for future commercial power plants can be developed.

Various proposals are circulating in Washington on how to avoid building the FED. In late May the DOE even discussed delaying *the decision* on any new major facility until late in the 1980s or even into the next decade.

Congressional backers of the Fusion Bill have at least verbally reaffirmed their commitment to the bill's goals. On June 17 a joint resolution was introduced into both Houses of Congress to try to put pressure on the executive branch to live up to the intent of the Fusion Act. The resolution, introduced by Marilyn Bouquard (D-Tenn.) in the House, currently has 31 signators, and the Senate version, introduced by John Danforth (R-Mo.) has 11.

## Jersey City infrastructure undercut by Volcker

More than 30,000 residents of Jersey City, New Jersey were without water in 100-degree heat following a water main break July 16—a direct result of the high interest-rate policies of the Federal Reserve. City officials have admitted that the city's water system is in disrepair due to municipal budget cuts—one official stated July 17 that the cost of borrowing to pay for infrastructure repair is prohibitive. The municipal tax base in Jersey City, once one of the most industrialized cities in the state, is now collapsing.

Jersey City's infrastructure has been collapsing for a long time. The city loses close to 25 percent of its water supply due to leaking water mains, but this is the first time that a disaster on this scale has occurred.

## Briefly

● **MARYLAND'S** Court of Appeals ruled July 20 that state courts have the power to authorize sterilization of mentally incompetent minors. The court set standards requiring evidence that sterilization is necessary for the "life, mental health, or well-being of the minor." Director of the Association for Retarded Citizens of Maryland Elmer L. Cerano warned of the great danger of abuse of such a policy, citing cases of institutionalized persons who have been re-diagnosed as having curable problems.

● **VICE-PRESIDENT BUSH** is scheduled to be the keynote speaker at the 1982 Woodlands Conference which will be held in Houston in November. The conference will be a major gathering for the Global 2000 population-reduction crowd. One of the key organizers for the Houston event is the author of the Carter administration's *Global 2000 Report*, Gerald Barney.

● **THE CENTER** for National Policy, a Washington-based Harimanite think tank, announced July 15 that it will conduct a 12-to 18-month study of "U.S. Industrial Policy as a Means Toward Restoring the Vitality of the U.S. Economy." The study will be chaired by Felix Rohatyn. Lane Kirkland will also participate.

● **MIKE GELBER**, former New England Coordinator for the National Democratic Policy Committee, announced his candidacy July 16 for Mayor of Boston. "My campaign will explode the myth that this city has ever been ruled by its elected officials," the candidate stated. "Boston is held hostage by the same racist Anglo-Saxon families that made their fortunes in the China opium trade."

## Editorial

# A diplomatic turning point?

The visit of Indian Prime Minister Indira Gandhi to the United States is a welcome event. The very fact of the visit—the first by an Indian Prime Minister since 1971—is encouraging.

There is a clear desire on both sides to make the eight-day visit a success—particularly to establish a relationship of understanding and friendship between the President and Mrs. Gandhi. There is a belated recognition in the White House that India, a stable, functioning democracy of 700 million, is of importance to American interests in the world. There is a recognition that Prime Minister Gandhi is one of the leading statesmen in the world today, and that her words, as the leader of India, carry great weight, particularly among the two-thirds of humanity in the so-called South.

Yet a “friendly” visit which ends in mere generalities and expressions of good will can prove to be illusory. There are hard issues to be dealt with. The U.S. decision to massively arm the military dictatorship in Pakistan, on the pretext of responding to the Soviet intervention into Afghanistan, is a principal source of tensions. The Indians contend that those arms will only be used against them, and that the Afghanistan crisis cannot be resolved through inviting superpower confrontation in the South Asian region. India has already made efforts to facilitate political negotiations toward removing Soviet forces from Afghanistan; in Washington, Mrs. Gandhi will seek some understanding of this approach.

Issues also include the U.S. cutoff of nuclear fuel supplies to the U.S.-built power reactor at Tarapur. While the Reagan administration has talked about being a “reliable supplier of nuclear fuel,” in practice, they have not carried out contractual obligations to India. A broader question is future U.S. support for economic development in India and throughout the developing sector: on “free-market” grounds, the United States has blocked even multilateral aid loans to India.

Mrs. Gandhi however is not coming to the United States to ask for “aid” or even to dwell on bilateral problems. She is coming with more global concerns. For the past two years she has been speaking strongly

all over the world about the danger of global war, a danger triggered by instability and confrontation in Third World arenas.

The events in Lebanon, in the Arabian Gulf, in Latin America are of great concern to India, as a nation and as a leader of the Non-Aligned nations. Mrs. Gandhi will be traveling to Moscow in September, and she is ready to do what she can to promote a relaxation of East-West tensions and their extension into the Third World.

For India and for Mrs. Gandhi, therefore, the North-South issue, in its broadest sense of the link between economic development, the creation of a new world economic order, and ensuring peace, is what is really on the agenda. The administration must be prepared to deal forthrightly with these issues.

In this context it is worth recalling two previous visits by Mrs. Gandhi, in 1966 and 1971. In 1966 President Johnson assured her that he was seeking a way out of the Vietnam war—she called him “a man of peace.” There was talk of improved Indo-U.S. relations. What followed was an expanded war and U.S. backing for the imposition of a World Bank-IMF austerity policy in India, including a forced devaluation of the rupee, which brought about an economic and political destabilization of India and a wave of anti-American sentiment.

In 1971 Mrs. Gandhi came seeking President Nixon's support in ending the Pakistani military's bloodbath in then East Pakistan, a bloodbath that sent millions of refugees streaming across the border into India and threatened to spread chaos in the entire region. The press proclaimed a “meeting of the minds” between the two leaders. What followed was Kissinger's “Pakistan tilt,” the creation of a Pakistan-China-U.S. military alliance against India and the fledgling Bangladesh liberation movement, and the wrecking of Indo-U.S. relations to the point where Kissinger deployed the 7th Fleet into the Bay of Bengal threatening to intervene against India and its Bangladeshi allies.

The signs now are relatively good that progress can be made. But we warn against illusions and sabotage of good intentions.

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