

EIR

Executive Intelligence Review

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EIR

From the Managing Editor

LLyndon H. LaRouche, Jr., *EIR*'s founder and the chairman of the National Democratic Policy Committee's advisory board, had the following to say on Nov. 11 about the new East-West configuration: "Henry A. Kissinger today babbled publicly, that the 'West' should exploit potential instabilities in the Soviet leadership following the death of President Leonid I. Brezhnev. Kissinger, that dangerous, deluded babbler, should keep his foolish mouth shut for once.

"No one, including the Soviet leadership, can precisely foresee the result of kaleidoscopic adjustments in the Soviet leadership over the period ahead. It is to be admitted that the difference in emphasis represented by different currents and leading personalities in the Soviet leadership have long-term significance.

"However, any leadership combination which becomes dominant during the period ahead will become more or less dominant by proving itself a loyal servant of the developing consensus within the Soviet leadership as a whole. Any attempt to meddle in the internal affairs of the Soviet Union, especially if this appears to be directed by loud-mouthed fools such as Kissinger, will harden the unity of the Soviet leadership consensus, and will mobilize the support of the Soviet population to support that consensus.

"Rather than continuing the repeatedly failed Kissinger policies, such as the recently collapsed 'China Card' policy, the United States, in particular, must concentrate on developing a policy which is actually in the self-interests of the U.S.A., rather than presuming that we can continue to destroy the economy of the West with accompanying assurance that the Soviet 'Empire' will collapse at the same or more rapid rate than we destroy ourselves.

"Specifically, we should support the policy recently proposed publicly by Dr. Edward Teller. Both the U.S.A. and Soviet Union have the ability to develop and deploy anti-missile, space based beam-weapons. This potential, to destroy more than 99 percent of all nuclear missiles deployed against either superpower, can mean an end to the age of mutually assured nuclear destruction.

"We of the U.S.A., should negotiate agreement with Moscow on ending the age of mutually assured destruction in this way. That must be the basis for new East-West arms negotiations.

"We must go further, as Dr. Teller also stressed quite rightly. We must proceed to foster the high-technology development of developing nations, and attempt to engage Moscow in cooperating with us in achieving these 'common aims of mankind.'

"To Kissinger and his ilk, we must say: '*Hau ab, du Spinner!*' —'Shut your mouth, you madman!'"

Susan Johnson

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Time for emergency measures.

Corrections: In our Nov. 2 issue, the article titled "A Roy Cohn Link to the Dalla Chiesa Murder?" contained an editorial error. The second paragraph should have read, "A fugitive since June 16, when he killed rival Mafia 'don' Alfio Ferlito and his three police escorts, Santapaola used a Kalaschnikov machine gun in this hit as well. Alvaro, while maintaining his innocence, has remained faithful to the Mafia code of silence. . . ." By omitting copy, the article gave the impression that Santapaola, not Alvaro, is a fugitive.

In our Oct. 5 issue, the author of the article titled "American System Economics and the Roots of Mexican Republicanism," Lufs Vásquez Medina, was inaccurately identified as a member of the Mexican Labor Party. He is a member of the Andean Labor Party, and an *EIR* correspondent in Mexico City.

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How long can the dollar bubble last?

by David Goldman, Economics Editor

The dollar's 10-year high as of this month coincides with a contraction of world trade faster than that of the early 1930s, including an American trade deficit which, according to the warnings of the director of the Institute for International Economics in Washington, will reach \$100 billion during 1983 at present rates of deterioration. As the economists of the Swiss Bank Corporation explained in their Nov. 9 report, the dollar's present value has little to do with objective conditions of any kind; it has become "a full-fledged currency of flight capital," drawing in speculative and portfolio funds from around the world.

In principle, the current rise of the dollar (and of American securities markets) is not much different from the 1928 inflows of capital into the United States, which puffed the domestic markets, while throwing much of Europe (which had been dependent on earlier *outflows* of capital from the U.S.) into depression, a year before the stock market bubble burst. But the present bubble is different, and much worse, for one fundamental reason: the dollar (unlike 1928) is the unit of account of world trade and lending, and its value ultimately depends upon the functioning of the world trade and lending system. In other words, the currency as unit-of-account for trade and debt claims is ultimately worth only as much as those claims themselves.

A 20 percent trade drop

The value of foreign trade, reported the International Monetary Fund Nov. 1, fell by over 20 percent in the months of July and August alone; part of this is the result of currency devaluations against the dollar, which understate the physical volume of the exports of the industrial countries, and part of

this is due to normal seasonal factors. Even taking these mitigating factors into account, the two months showed a currency- and seasonally-adjusted decline in industrial nations' exports of about 15 percent. The collapse of trade is the result of the continued sharp rate of economic contraction in the United States and West Germany and the slowdown of growth in Japan, and, more pronouncedly, the collapse of lending to developing nations.

The importance of the collapse of exports to the developing sector is shown by the fact that whereas exports of industrial nations fell by 20 percent, their imports fell by only 11 percent during the same two months, i.e., their exports to each other fell less than their total exports. While data are not yet available on the imports of the developing nations, it would appear that their fall during the summer exceeded 30 percent. A large part of this may be due to the virtual cessation of imports into Mexico, whose total import level during September 1982 was barely one-fifth of its imports during September 1981; however, to one extent or another, all the developing nations are under the same financial pressure that Mexico now faces in an extreme fashion.

There are also indications that the import levels of the industrial nations will fall in tandem with their more rapidly declining export levels. For the moment, the United States and Britain have represented a growing import market. American imports grew by 16 percent in August alone, largely due to the momentary pumping of domestic demand through the June tax cuts; but the import level had already fallen back in September, and must continue to fall, as the recession worsens (*EIR* projects a 7 to 10 percent range of decline for physical output of the economy between the fourth quarter of

1982 and the fourth quarter of 1983). French imports had already fallen by 20 percent during August (much more than the usual seasonal fall), and the worsening of the French trade balance by more than half between 1981 and 1982 ensures a continuing decline of French imports; Italy's payments crisis ensures a decline there, and the continued contraction of the West German economy raises few encouraging prospects for the West German market.

Fraud and chicanery

These facts, as the IMF reports them, identify the most recent round of debtor-creditor negotiations involving the major Ibero-American nations as a dangerous type of hoax. Brazil is now appealing to its creditors to provide the \$3 billion it needs to meet its obligations through the end of 1982, using the following reasoning: Planning Minister Delfim Netto (see article, page 7) has used a Wharton Econometrics forecast of 2 percent world trade decline in 1982 and a 2 percent rise in world trade in 1983 to argue that Brazil, with brutal economic stringency, might produce a \$6 billion trade surplus in 1983, and therefore is creditworthy.

Wharton's economists know this is a hoax, but say it in order to persuade Brazil not to collaborate with other Ibero-American nations who are also in debt negotiations with private and official creditors; Mr. Delfim Netto knows this is a fraud, but says it to squeeze as much money out of the banks while there still is money out there. As Brazil's President Figueiredo told the United Nations General Assembly in September, Brazil cannot pay its debts if world trade were to go to pieces. Brazil and the banks both know this. However, both feel themselves too weak to call the question just now.

The same aura of fraud by mutual agreement surrounds the "tentative agreement" announced by Mexico and the International Monetary Fund Nov. 10. In a press conference that day, Mexican central bank governor Carlos Tello Macias told reporters flatly that exchange controls would *not* be lifted, while the letter of intent released to the press describes the exchange controls as "temporary." Exchange controls were not the only, but were unquestionably the most important, issue between Mexico and the Fund, who have been circling around an agreement since Sept. 1. As a senior Federal Reserve official put the matter, "It's a question of precedent; the IMF can't possibly sanction the kind of controls that Mexico imposed without giving up the entire principle of the liberal world trading system, and will never bend on this point." As the *Wall Street Journal* noted Nov. 11, there appears to be "confusion" over what was actually agreed to.

The same applies to the repeated announcements of an Argentine deal with the IMF, which in each case turned out to be no deal whatsoever. One advisor to the Ibero-American delegation to the International Monetary Fund cautioned against taking any reports of deals, signings, loans, and compromises too seriously. "You know what happens when Delfim Netto and a banker go into the negotiating room," he added. "Both walk out with each other's wallet. And both

the wallets turn out to be empty!"

Nothing has changed since the finance ministers of the developing world warned the industrial nations at the International Monetary Fund Annual Meeting at Toronto the first week of September that the "entire financial and trading system" of the world might break down unless the extant policies of the industrial nations were turned around; nothing, that is, except the statistical confirmation that the developing nations' means of paying their debts are falling only slight faster than the industrial nations' means to refinance these debts. The present round of "negotiations" is a *Sitzkrieg*, a phony war, which ultimately cannot favor either side, but weakens both as it postpones a resolution of the real issue.

Dangers for the industrial nations

The collapse of trade has not only thrown discussions of debt refinancing for the developing sector into the realm of fantasy, but raised the spectre of industrial nations' bankruptcy for the first time since the shock of the oil crisis in 1974. As the leading Swiss financial daily pointed out Nov. 10, the Securities and Exchange Commission's refusal to register a \$150 million bond issue for the French state-owned *Caisse Nationale des Telecommunications* marked something of a turning point. The SEC demanded further information on the total quantity of French external indebtedness, a matter of fierce dispute inside France at the moment. The leading national daily *Le Monde* revealed Nov. 6 that the actual foreign indebtedness of France at reached 320 billion francs (about \$52 billion), half again as much as the country's total gold and currency reserves, and considerably more than the official estimate.

Swiss commercial banks began to boycott French official loans in September. The *Neue Zürcher Zeitung* explains:

"With its present level approaching 10 percent of Gross National Product, France's foreign debt has reached the first level of alarm. The payments balance on current account, whose deficit in 1981 consumed 53.6 billion francs in reserves and will consume another 85 billion this year, has caused the monetary authorities justifiable concern. The question of whether France's international credit standing has been broken appears, at the moment, to be of limited current value indeed. However, the rise of indebtedness in the present year demonstrates that danger threatens."

This is the Republic of France; consider the position of Spain, Italy, or Greece.

Although no such figures are readily available, it is likely that the United States itself has been the major foreign borrower during 1982, as a number of economic advisors to the President (e.g., former Council of Economic Advisers economist Michele Frattiani) advocated as a matter of principle. The flight of capital from Eurodollar deposits to ultra-safe Treasury securities (and, to a limited extent, into the stock market bubble) financed perhaps \$40 billion of the \$217 billion borrowing requirement of the United States Treasury (including all items—see Domestic Credit, page 19). Treas-

ury and Federal Reserve officials complain that they do not have the apparatus to determine what portion of securities transactions involve foreign funds, and therefore cannot estimate the precise amount.

The irony is that the principal funding source for the Treasury was not portfolio shifts from Europe and Japan to the United States, but a change in "preference" among different types of dollar assets, Treasury bills rather than Euro-dollar market deposits. The Treasury funded itself at the expense of the developing sector, producing the collapse of international trade, and, within the few weeks or few months it requires, the international banking system.

The dollar has been buoyed, artificially, by the same factors that threaten to destroy it in the relative short run. As the denominator of the world's debt, it benefits from the deflation cycle, in which the earnings ability of debtors falls, and dollars to pay debt service become relatively scarce. The continued inflow into the dollar is less a matter of investor preference than of compulsion: the requirement to convert other currencies into dollars in order to meet dollar-denominated payments obligations. As this situation worsens in the short-run, a sharp rise in the dollar remains possible; it is not to be excluded that the dollar could rise from about DM 2.58 to DM 3.00 by the end of the year, despite the rising American trade deficit, despite the fact that the American current account balance has finally fallen into deficit, and despite the fact that a large portion of dollar obligations is ultimately worthless.

Once the domestic credit market bubble bursts, either through major commercial bankruptcies (and the Canadian situation, e.g., the Chrysler strike, is a point to be watched closely), or through a retreat of the major institutions who rigged the stock market rally, or through a political crisis in Washington, the decline of the dollar would be startling. The immense network of hedging and futures-market devices that grew in the wake of floating exchange rates during the past decade guarantee that the pendulum must swing dramatically in the direction of dollar *undervaluation*. The Institute for International Economics' director C. Fred Bergsten told a Philadelphia conference Nov. 9, the process could produce a "world slump"; but Bergsten, as usual, has got matters backwards. The dollar collapse will be the *result* of a world depression that has been in progress for three years, since Paul Volcker went monetarist, and finally ran out of control through the contraction of international credit during the third quarter of 1982.

Within a few months, if not weeks, the monetary issue that dropped out of public discussion will resurface with a vengeance: gold. If the American authorities are compelled to resort to a return to gold payments on the wrong sort of terms, the type that Bank for International Settlements former President Jelle Zijlstra proposed a year ago, the victors will be big gold hoarders among the European *fondi*, who dominate private holdings of above-ground gold, and the United States will be restored, *de facto*, to its pre-1776 owners.

Chile crisis could be a debt bomb fuse

by David Goldman

Chile's fascist government, installed in 1973 as a model debt-collectors' dictatorship, has become the unwilling fuse for the Ibero-American debt bomb. The collapse of Chile's currency, banking sources fear, could push the dangerously balanced Ibero-American debt situation over the edge, even before Mexico's confrontation with the International Monetary Fund goes into its next phase during the first week of December.

Although Chile's \$20 billion in outstanding foreign debt is small compared to Mexico's or Brazil's \$90 billion, a financial collapse in the country most willing to butcher its own population in favor of creditors would have devastating political repercussions for the rest of the continent, bankers fear. Chile's creditors shut down basic industry after the bloody overthrow of the Allende government in 1973, leaving the country dependent on copper exports for foreign debt service payments. Now, the world depression has pushed the copper price down to about half of its peak price, destroying Chile's international payments position.

Chicago boys run out

After losing \$1 billion of its \$3 billion in foreign exchange reserves, setting the country on track for total bankruptcy, the Chilean government this summer purged the "Chicago boys," the students of Milton Friedman, who had put the country through the meatgrinder following the 1973 coup. Milton Friedman turned out to be the only man who could make fascist dictator Augusto Pinochet throw up.

As hundreds of millions of dollars of flight capital fled the country, worsening the drain on Chile's cash reserves, new Economics Minister Rolf Luders dumped the "Chicago boys" free-markets program and imposed exchange controls Sept. 30, demanding postponement of debt-principal payments from Chile's nervous creditors. At the same time, Luders applied to the IMF for a \$900 million loan.

Despite the controls, banking sources report, huge amounts of capital are still leaving the country—up to \$45 million per day, according to one estimate. "We hadn't heard it was that big," said a source in the Latin American delegation to the International Monetary Fund, "but we knew it was really bad."

Worst of all, the \$900 million Chile hoped to receive from the IMF—half of it during 1982—is still talk, well-informed IMF sources revealed. The Fund's executive directors, who must decide on all such loans, have not even made room in their agenda for Chile during November. Chile is left with its own attempts to persuade private bankers that its new financial salvation plan will work. This plan consists of attempting to raise its exports of goods other than copper by 50 percent during 1983, an impossible task during a world trade collapse. "That's almost as ridiculous as the Brazilian claim that they will achieve a \$6 billion trade surplus during 1983," one banker scoffed.

IMF in overload

Hanging over the heads of IMF directors is the ongoing showdown with Mexico, whose three-month debt moratorium on principal payments expires on Nov. 23. Although a letter of intent was signed with Mexico on Nov. 10, the IMF must now spend four to six weeks deciding on whether it will accept the letter as terms for a new set of loans. The IMF Board of Directors is unlikely to reject the plan; nonetheless there are certain elements of the accord that remain to be fought out. Previous IMF demands that Mexico agree to abandon its exchange-control program, instituted Sept. 1, were rejected by outgoing President José López Portillo on Oct. 27. The letter of intent now signed dropped the demand for phasing out exchange controls, but the Fund can be expected to renew its pressures once Miguel de la Madrid takes office Dec. 1.

Apart from the IMF's difficulties in getting Latin America to bend to the totality of its austerity demands, the IMF itself has heavy limitations on its ability to respond to the debt crisis. "The problem is that the IMF is in overload," one banking source complained. "They now have four major Latin American countries asking for money—Mexico, Argentina, Ecuador, and Chile, and maybe Brazil to follow—and they have never come up against this sort of situation before. The truth is that nothing can be done until the Mexican business is settled," a matter which, at best, is "settled" only temporarily.

Confident predictions on the part of Federal Reserve officials that Mexico would agree to IMF austerity drifted away into tough talk that the United States is ready to force Mexico to default on its \$90 billion debt (\$70 billion of which is owed to U.S. banks) unless Mexico fully complies. Right before the letter of intent was announced, a senior Federal Reserve economist boasted, "We have put this on the computer, and we estimate that we could absorb one \$90 billion default. For example, the biggest exposure to Mexico at any single bank is \$5 billion; they could write it off over ten years, and bring the loss for any single year down to \$500 million per year."

A senior Reagan administration economist said, "The main problem is to make sure that no one else follows Mexico. That's why we are working constantly with Brazil and Argentina to make sure there is no concerted moratorium."

"That's really stupid," said a senior Ibero-American representative at the IMF. "If Mexico defaults, everybody is going to do the same thing."

No sure agreements

Several times over the past month, premature reports that Argentina had struck a deal with the International Monetary Fund were debunked, before Argentina's central bank chief flew to Washington Nov. 8 in the hope of persuading the IMF to finally cough up some money. The IMF responded, reported the *Journal of Commerce* Nov. 9, that it would first need to send another team to Argentina. The IMF suspects, probably with justice, that Argentina could take the money and tear up its austerity promises. On Nov. 10, undoubtedly timed to coincide with the announcement of agreement with Mexico, IMF Executive Director de Larosière approved a letter of intent with Argentina. This agreement too must now be negotiated for four to six weeks by the rest of the IMF executive board.

Everything is equally up in the air with Brazil. Brazilian Finance Ministry sources are circulating reports that Brazil has lined up \$2 to \$3 billion in additional financing, enabling it to get through the last two months of this year. However, these assertions are not being born out in fact. "You know what happens when [Brazilian Planning Minister] Delfim Netto goes into a room with a banker," one financier complained. "They walk out with each other's wallet—and both wallets are empty." On Nov. 10, perhaps not accidentally, the same day the Mexican letter of intent with the IMF was signed, Brazil received \$600 million in bank financing. Simultaneously, however, the leading banks of West Germany told Delfim Netto that despite these funds, they would take no part in any new loans to Brazil, since providing such loans would be tantamount to Germany bailing out the New York banks.

Brazil's coffers are so bare, the London *Financial Times* reported Nov. 9, that it may have to go to the Swiss-based Bank for International Settlements for money, as Mexico did Sept. 2—a strong indication that the bankers have kept their purse-strings tied.

All go out together

If the Chilean situation blows up during the next four weeks, the resulting financial mayhem will pre-empt the problems that Mexico, Argentina, and Brazil represent in different ways.

"You can't define the motion towards an Ibero-American joint debt renegotiation by any single event. It's a process," economist and Democratic Party leader Lyndon H. LaRouche, Jr., commented recently. "It's like a bunch of guys drinking in a bar; none of them has any money, but none of them knows the others don't have any money. So every time the bartender gives them the bill, they order another round. This can go on for some time. But they all have to go home some time, and you know they are going to walk out together."

German industry: six months to live

by George Gregory from Wiesbaden

The abrupt downturn that *EIR* forecast for the West German economy (Sept. 14, 1982) is under way. Total production in the West German economy fell from August to September by 3 percent. From the second to third quarter of 1982, production in manufacturing sectors fell, according to official reports of the Bonn Economics Ministry, by 4.5 percent, in the basic-materials sectors by 7 percent, and in the investment-goods area by 4.5 percent.

Total orders for industry fell in one month also by 3 percent, and orders for exports are currently 12.5 percent below last year's third-quarter show that insolvencies and bankruptcies are increasing at a rate of 44.7 percent above last year, in manufacturing by 36.5 percent, in construction by 38.9 percent, and even in services by 45.9 percent.

Such data are not surprising. The crucial fact about the process of collapse is that there is no "island" in the world economy that can generate demand for West German exports. It is often said that only 25 percent of the jobs in the German economy are "export-dependent." In fact, jobs in the productive economy carry everything else, private and public services, on their backs. The German economy must export 40 to 45 percent of its real production to be able to pay for essential imports of fuel, raw materials, semi-finished goods, etc. There is no "domestic economic demand" that can balance out the collapse of exports which is now catching up with the fall in orders since this spring.

The machinery sector is 75 percent export-dependent. Here, orders for exports are currently 23 percent below last year. The rate of contraction overall, and the collapse of exports means that the German economy has, under present international monetary and economic conditions, approximately six months to live as an industrial economy.

Unemployment on the rise

The refusal of the Kohl government to take emergency action to support exports, and reliance on such gimmicks as "forced loans" from income-tax surcharges, domestic housing programs, and cable-television schemes, mean that the Christian Democratic-Liberal government has written itself a one-way, six-month ticket to hell.

There is therefore absolutely nothing temporary about the 42 percent increase in September to 828,000 workers on

short work weeks. An honest economist must add this figure to the official 1.9 million (7.9 percent) West German unemployed. Short-work in the machinery area is now increasing most rapidly of all, with 123,000, followed by metals with 102,500. Overall Ruhr-area unemployment of 10.9 percent (versus the national average of 7.9) is overshadowed by the steel city of Dortmund (12.7 percent), Gelsenkirchen at 11.8 percent, Duisberg at 11.5 percent, and Bochum at 11.3 percent. These rates will jump again over the course of November as steel production is cut, and layoffs and short-work begin to affect the coal mines.

The rate of unemployment increase in the Ruhr is "slower" because the collapse is not so sudden. The rate of unemployment in the state of Baden-Württemberg is now accelerating at a rate of 46 percent, and Munich is being pulled in too. The AGFA plant has announced 3,800 layoffs, and another 2,000 at the Messerschmidt works in Munich alone.

One optimistic Frankfurt banker tells us that "we and the steel industry can hold on until the third quarter of 1983. Then there has to be an upswing." But there will be no upswing, we reply. "Then we will go into the trenches, for 10 years."

'The economic equivalent of world war'

The policy of the Kohl government was more honestly expressed by Dr. Heiko Vogeler, a manager of the giant Thyssen steel firm: "There is no way that we should or will produce steel in Germany. We must orient to the new industries, like electronics, services, engineering, and stop pouring money into the old industries. Everything in the Ruhr that has to do with high energy and heavy industry will be restructured and disappear. We must be grateful for this depression . . . historically, it is war that has fulfilled the function of eliminating excess capacities, excess people, excess cities and excess countries." He then explained that depression is the "economic equivalent of world war. There are too many capacities and too many people involved in those capacities."

Thyssen is distinguished from other steel firms not only by this unrepentant philosophy, but also because the firm is financially powerful enough to put 50 percent of its workforce, some 18,000 in steel production, on short-work for the next three months. Others have announced increasing layoffs and short-work. Saarstahl, with 20,000, may well be declaring bankruptcy in the next few weeks. Krupp has shed 4,000 from its workforce this year. "Dortmund," says a Ruhr steel expert, "is dead, but then the dead live a long time, as the case of England shows."

Within three months, most of West Germany's steel firms will be so financially weakened that they will not be able to hold on to their manpower with short-work. Even now, manpower is too short to be able to produce at the technical capacity of 58 million tons. At the end of January 1983, the real manpower capacity will be much lower—and Thyssen will dominate the collapsed market. Auto is headed down fast, in the footsteps of steel, and so is machinery.

The U.S. economic collapse will wreck Brazil's 1983 plan

by Mark Sonnenblick

Brazil will not be able to fulfill the "Brazil Foreign Sector Programme in 1983" which was approved and published by its National Monetary Council on Oct. 25. These plans hinge on improvement in the U.S. economy, permitting Brazil to increase its exports by at least 9.5 percent, reversing this year's 10-14 percent export drop.

EIR tested that axiomatic assumption by means of the LaRouche-Riemann econometric model which has been exceptionally accurate in its predictions of U.S. economic performance. (Model projects for 1983 were summarized in *EIR*, Nov. 2). Dr. Uwe Parpart, *EIR*'s Contributing Editor, summarized the results in statements widely circulated in Brazil.

Parpart explained, "Brazil will not achieve the projected \$6 billion foreign trade surplus in 1983, because the United States economy, and therefore world trade, will collapse by close to 10 percent next year. It is not Brazil's fault that this will happen," he cautioned, "but it is certainly foolish for Brazil to premise national planning, as the National Monetary Council document does, on 'the prospect of some recovery in commodity prices as a result of the fall in interest rates, as well as some improvement in the economy of industrialized countries.' "

Over recent weeks, Brazil has been encouraged to believe this fraud by leading U.S. bankers who are coordinating closely with Secretary of State George Shultz. Shultz hopes to put the recovery myth into the mouth of President Reagan when they visit Brazil Nov. 30-Dec. 2.

By inducing Brazilian leaders to believe that "U.S. recovery is just around the corner," they seek to prevent Brazil from allying with other Ibero-American nations to force a favorable renegotiation of their foreign debt.

A top-level Morgan Guaranty Trust source confided to *EIR* in early November that the entire financial community is worried about joint debt action in Ibero-America. "We now have a definite threat of the Andean Pact, Mexico, Argentina, and Brazil jointly defaulting on their debts. The problem is that we have already shot our one bullet. The only threat we have to convince them not to default is that they will be cut off from all loans and trade. But the stupid banks have already cut them off, so now we are forced into a negotiating situa-

tion. . . . It may all hinge on what we can do with Brazil now, on what Brazil will do. If we don't win the Brazilians over, they will bring down the whole damn thing. . . . The bottom line is that the only thing we have to offer them is to get U.S. interest rates down right now and massively change the world economy. We have to give them evidence of a U.S. recovery."

Some in Brazil may choose to pin their hopes on a U.S. recovery, but the *fact* is that Brazil's only choice for 1983 is between such unified debt action or austerity so severe that it would shake the stability of the government.

Brazil did not formulate its 1983 policy from the starting point of its development needs, of the need to provide productive jobs, tools, food, and housing to a growing population. Planning Minister Delfim Netto is explicit in his "Programme" booklet that he started planning from what the bankers might be willing to lend Brazil next year, and calculated backwards.

"In this year, we try to reconcile the available amount of foreign loans, estimated as the feasible increase of exposure of international banks to Brazil, with the maximum level of current account deficit which may be financed, thus determining the minimum surplus needed in the balance of trade implied by these considerations. . . . In this way, next year's current account deficit cannot go above \$6.9 billion, which represents a fall of 51 percent in relation to the estimated result for 1982 (\$14 billion). With this reduction, Brazil's financial loan needs will be limited to US \$10.6 billion, and the growth in foreign debt 8.9 percent in contrast with an estimated 17.6 percent in 1982.

"Thus, the surplus of US \$6 billion in the trade balance . . . must be understood not as an approximate estimate, which may or may not be reached as a result of conditions in international trade, but as the *minimum* level of trade surplus needed to make compatible the deficit in the service account (dominated as it is by interest outlays and thus practically a given fact) with the *maximum* volume of credit Brazil may safely obtain from the international financial community."

"We have been killing ourselves, but the markets just dried up," a Brazilian export leader lamented recently. Delfim had set a target to increase exports from \$23.3 billion in 1981 to \$28 billion this year. Not only has this 20 percent increase proved elusive, but Brazil's exports plummeted 9.9 percent to \$21.0 billion in the National Monetary Council's Oct. 25 predictions (see chart). A few days later, Finance Minister Galvêas suggested both imports and exports could each fall short of these "optimistic" figures by another \$1 billion.

Paul Volcker's high interest rates and the resulting international depression have caused 20-50 percent reductions in commodity prices; markets in the developed countries have erected protectionist barriers to Brazil's manufactured exports which have to be heavily subsidized to compete in today's tiny market; and one after another of its blossoming markets in Ibero-America and Africa has been compelled by debt constraints to stop importing. Brazil's exports to its Ibero-American neighbors were down by \$650 million during the first six months of this year.

Clearly, there is no expectation of anybody increasing sales to developing countries next year, so long as they are all forced to have International Monetary Fund-style austerity programs.

Yet, Delfim has pledged that Brazil would "balance" its payments with a \$6 billion trade surplus next year and an \$8

billion surplus in 1984—no matter how badly exports perform. That means, either there is some miracle of U.S. market expansion, or Brazil will have to slash its imports beyond the bone.

Even the 17 percent import cuts contemplated by the Delfim plan will cause a 4-6 percent decline in Brazilian GNP. That follows a 10 percent fall in industrial production in 1981 and stagnation this year. Money market association head and former central bank president Carlos Brandão predicts the import cuts and the commitment to reduce public sector deficits from 5.7 percent to 2.5 percent of GNP will result in a 4 percent GNP decline in 1983 and 15 percent unemployment. Brandão says he ardently favors Delfim's plan, since further recession would halve inflation from the 95 percent level of the last two years. Corporate economist Luiz Carlos Bresser expects a 6 percent GNP fall, while academic Carlos Lessa estimates 5 percent, with increased inflation from shortages of formerly imported necessities.

If Brazil's military and civilian decisionmakers were honestly informed that they would be expected to impose even more severe import cuts that these, they would be up in arms. The prospects of having to abandon development projects for which they have sacrificed so much; the prospects of having to systematically repress a population whose aspirations for sharing in Brazil's industrial progress were shattered by brutal austerity; would be repulsive to almost every officer. The

Figure 1

Brazil's balance of payments

(in billions of dollars)

	1980	1981	Proj. 1982	Est. 1982	Proj. 1983	Proj. 1984
TRADE BALANCE (FOB)	-2.8	1.2	3.0	0.5	6.0	8.0
Exports	20.2	23.3	28.0	21.0	23.0	26.0
Primary products	9.5	9.6	11.0	9.3	10.5	
Industrialized products	10.7	13.7	17.0	11.7	12.5	
Imports	23.0	22.1	25.0	20.5	17.0	18.0
Crude oil	9.4	10.6	10.3	10.1	9.0	
Other imports	13.6	11.5	14.7	10.4	8.0	
SERVICES	-9.8	-12.4	-13.3	-14.5	-12.9	-12.9
Interest (net)	-6.3	-9.2	-9.5	-10.7	-9.1	-8.8
CURRENT ACCOUNT	-12.4	-11.0	-10.1	-14.0	-6.9	-5.0
CAPITAL MOVEMENTS	8.9	11.6	10.1	13.6	6.9	
Amortization	-6.7	-7.7	-7.2	-7.4	-7.2	
Private bank loans	12.1	15.3	13.6	17.0	10.6	8.0
Net investments	1.1	1.6	1.9	1.5	1.5	
Government loans, suppliers' credits, etc.	2.4	2.4	1.8	2.5	2.0	
CHANGE IN RESERVES	-3.5	0.6	0	-0.4	0	

Source: Central bank of Brazil in "Brazil Foreign Sector Programme in 1983," National Monetary Council, Brasilia, Oct. 25, 1982; except for column marked "Projected 1982" which was forecasted by the central bank at the start of 1982.

Note: EIR considers most of the 1983 and 1984 projections to be over-optimistic. EIR also believes there has been some fudging of the 1982 estimated figures to cover deterioration of reserves.

concept of "national security" would dictate uniting the nation with other nations caught in similar traps and dropping "the debt bomb" on the external forces which dictate Brazil's destruction.

Therefore, the cultural propensity of Brazilians to be optimists is being cynically exploited to disguise the reality.

Morgan Guaranty has led a parade of bankers and other charlatans who have put more effort into making Brazilians rather than Americans believe the U.S. recovery hoax. Recent Morgan visitors to Brazil have included:

- Dennis Weatherstone, Executive Committee chairman;
- Richard Dale, Brookings Institution, Morgan adviser;
- Tony Gebauer, Latin America chief.

On the latest of his visits, Gebauer intoned, "Brazil does not need to renegotiate its debts. . . . But, there is no sin in going to the International Monetary Fund."

Aside from the British-run Morgan group, no one has been more insidious in propagating the recovery myth in Brazil than Wharton Econometrics, which simultaneously tells its U.S. clients that such a recovery is merely a possibility.

Gazeta Mercantil, Brazil's leading business daily, reported Oct. 7 that Wharton's Brazil director Gabriel Gutiérrez, was telling groups of São Paulo businessmen that the U.S. GNP would grow by 3.9 percent next year. *Gazeta* paraphrases Wharton, "The main U.S. economic indicators will be more favorable in 1983. . . . With economic recuperation, the market for Brazilian exports will increase; and with reduced interest rates. . . . Brazilian debt service will be alleviated. With this perspective, Gutiérrez believes Brazil could administer its foreign accounts in 1983 without necessarily taking recourse to a violent adjustment which would imply a strong recession."

On his return to the United States, Gutiérrez told *EIR*, "For Brazil, there will be enough of a recovery for Delfim's program to work. There will be a modest U.S. recovery, 2.9 percent growth in GNP. . . . Our actual physical model of world trade further shows that it will grow by 1-2 percent in 1983, compared to a fall in world trade in 1983. . . . That will mean a rise in Brazil's trade of 8 percent or more. . . . So, overall, we consider the Brazilian program to be feasible. We think they can keep their trade surplus up to \$5 billion or \$6 billion."

Gutiérrez gave the same line to Wharton's semi-annual Brazil update for \$6,000-per-year corporate clients, held in Philadelphia, Nov. 4-5.

This assertion prompted *EIR*'s Dr. Parpart to respond, "People who are peddling in Brazil the tale of a U.S. recovery for 1983, like Secretary of State George Shultz or the Wharton econometric forecasting service, are either blind to actual developments in the U.S. economy, or are deliberately misinforming the Brazilian government and public in order to keep the lid on the situation. Let me remind you that *EIR*'s record on this count is unmatched by any other econometric service: For 1982 we forecast a 7 percent decline in industrial

Figure 2

Brazil's foreign debt

(in billions of dollars at end of year)

	Published long- and medium-term	Hidden short- term debt	Total debt
1977	32.0	2.1	34.1
1978	43.5	1.6	45.1
1979	49.9	3.6	53.5
1980	53.9	9.4	63.3
1981	61.4	12.9	74.3
1982	76.3	12.9	89.2

Source: *Folha de São Paulo*, Oct. 17, 1982. The first column are the official figures issued by the central bank for debts over one year, except for the 1982 figure, which is *Folha*'s calculation. Note that it differs from the latest official estimate of \$72.2 billion. The second column was published until 1980; U.S. banks have an estimate even higher than *Folha*'s current guess on short-term debt. But *Folha* does not consider the \$3 billion reduction in foreign reserves this year, which would make the debt \$86 billion. The *Wall Street Journal* estimate is \$87 billion. What is undisputed is that Brazil's foreign debt is the world's largest.

production in the United States, and statistics covering January through September of this year show precisely that annual rate of collapse. The Wharton model, on the other hand, had predicted a 3 percent increase in American industrial output for 1982. They weren't even in the right ballpark."

Parpart concluded: "Wharton is now forecasting a 3.5 percent growth of U.S. industrial output for 1983; but they will be as wrong for 1983 as they were for 1982. The *EIR*'s LaRouche-Riemann model shows that, not only will U.S. industrial output decline by up to 10 percent, but that 1983 U.S. imports will also contract by 10 percent—with world trade dropping at about half that rate. Under these circumstances, Brazil doesn't have a prayer of making a \$6 billion export surplus; they will be lucky to come up with a \$1 billion surplus—unless, of course, Brazil slashes imports so severely that the domestic industrial plant shuts down."

It is just as easy for Delfim Netto to promise savage austerity to the bankers as it is for them to promise they will not force violent recession on Brazil. But in the real world, neither Delfim nor the bankers will fulfill their marriage vows. The International Monetary Fund will visit Brazil Nov. 22-28 to work out austerity conditionalities.

Ronald Reagan will follow on the 30th. *The Guardian* of London claims he will offer Brazil \$3-6 billion U.S. government backing for banks rolling over Brazil's \$86 billion debt, in return for Brazil supporting various State Department military adventures in Central America and black Africa.

Or, Reagan could confront reality, and help Brazil restructure its debt in such a way that it—and the United States—could grow in genuine partnership.

What the IMF says

An official of the International Monetary Fund offered the following views to a nervous banker a few days *before* Planning Minister Delfim Netto obtained approval from the Brazilian National Monetary Council for Brazil's 1983 program. "Banks are irresponsible in classing Brazil with Mexico. Brazil and Mexico are worlds apart! . . . Don't push Brazil into a corner!"

"Delfim has agreed to demand from the banks to bring down the public sector deficit from 6 percent of GDP [about \$20 billion] in 1982 to 2.5-3 percent of GDP [\$9-10 billion] in 1983. In order to do this, public sector spending on the big development projects will be cut to *zero* next year. There will be no government spending on capital investment, on imports. . . . This means the big Amazon projects will either be slowed down or stopped—unless the private sector wants to finance them. . . . If the international banks decide not to finance the projects, then they will all just have to be shut down. They will die a natural death. . . . The Japanese are the key to the Amazon projects. Volcker is concerned to get their priorities in order. . . . But the U.S. banks are pulling out altogether."

What Brazil's leaders say

Luiz Carlos Bresser Pereira, economist for the Pão de Açúcar conglomerate, declared in Rio, Nov. 4: "The country is in the midst of renegotiating its foreign debt. Soon we will be at the International Monetary Fund and I know that, if we don't negotiate hard with our creditors, we won't get out of this situation. . . . It is worthless to go to the IMF to solve temporary liquidity problems and then suffer renewed spasmodic crises in the near future."

"In any showdown, Brazil should take advantage of its Third World leadership and of the problems of the creditor countries themselves, whose banks would go under with a new crisis of non-payment in order to reschedule our debt."

Bresser Pereira considers it "stupidity" to deal with the debt crisis through deep recession. "Obtaining a \$6 billion trade balance surplus is giving too much gratification to the international bankers, while we have responsibilities to our country and our people," concluded the executive.

Sidney Latine, chief economist of the Brazilian Association of Chambers of Commerce, argues that "going to the IMF would bring us more harm than good." In an interview with Rio's daily *Jornal do Commercio*, Nov. 4, Latine condemned the Fund for demanding impossible social and economic conditions, including wage cuts, public spending cuts, credit squeeze, and tight controls on money supply.

The economist stressed that it is absurd for Brazil to try to solve its debt crisis by itself, "since no country is able to

do that alone. It is a world problem. That debt cannot be paid in less than 50 years, and—inevitably—there will be a new international arrangement."

"I think the Third World should renegotiate its debts as a bloc, with Brazil assuming its natural leadership role. That is what was shown by the position taken by President Figueiredo at the United Nations," he insisted.

The vice-president of the Rio Chamber of Commerce, Amaury Teporal, warned, "Brazil is a sovereign country and is not going to subordinate itself to anything that is not good for its people and its economy. . . . To politically destabilize Brazil would be an enormous error."

What the debt crunch is

Gold is all Brazil has left to pay debts coming due in November; and Brazil put seven tons of gold, worth about \$100 million, on a plane to a Swiss bank in Zurich, according to the *Financial Times* of Nov. 12. Some experts believed Brazil could be forced to default on its \$86 billion foreign debt on the eve of the Nov. 15 elections, or that the threat of such default could be used to drive Brazil into the arms of the International Monetary Fund. David Rockefeller will be promoting an IMF deal and savage austerity during his Nov. 18 inspection of Brazil.

At the end of July, when the Central Bank suspended all official information on foreign accounts, reserves stood at \$6.97 billion. Now, gross reserves are around \$3 billion, but except for whatever fragment remains of the \$766 million in gold Brazil had in June, the reserves are composed of illiquid trade debt owed by Argentina, Mexico, Poland, Nigeria, Bolivia, etc.

In August, the banks decided to "pull the plug." By the time President Figueiredo spoke at the United Nations, Sept. 27, the dozen Brazilian banks operating in New York were unable to find lenders to refinance paper coming due. They were bailed out by foreign associate banks and by the Brazilian central bank, which started "burning reserves." Planning Minister Delfim Netto was later quoted, "It seems we lost \$2 billion in one week."

The mystery factor in Brazil's debt crisis is the size of short-term debt, which the government has kept secret for several years. Wharton's October *Brazilian Economic Outlook* calculates it at \$8 billion. A Finance Ministry source informed the authoritative daily *O Globo* of Nov. 12, however, that the short-term debt was double that: \$12 billion in trade debt and \$4 billion in high-cost overnight funds. The source reported that Brazil would thus have to amortize \$4 billion in January, the same in February, and larger amounts monthly thereafter. . . . if, that is, Brazil accepts the harsh conditionalities tied to Wall Street "bridge loans" and the International Monetary Fund.

That would postpone the crash of the Brazilian debt situation until January.

How the restructuring of America's farms threatens world food supplies

by Cynthia Parsons

Despite record surpluses in current production, the basic structure of American agriculture, both the most productive and most rapidly developing in the world, is changing in a way that could prove disastrous for the nation's food supply over the next five years. These changes, forced by Federal Reserve Chairman Paul Volcker's interest rates, the deregulation of transportation, and the skyrocketing of energy costs, are closing down the most productive and stable farms in the United States: the middle-sized family owned and operated

farms. It is these farms that have been at the forefront in utilizing new techniques and technology, with the result that a U.S. farmer today produces 76 percent more on the same land his predecessor farmed a generation ago.

The critical factors threatening the family farm include an increasing proportion of farmers' income being earned off the farm itself, rising median ages of full-time farmers, and an increase in particularly smaller farms, which are either operated on a part-time, non-commercial basis, or just held

Figure 1
The growth of farm debt compared to the growth of gross and net farm income, 1972-82
(in billions of current dollars)

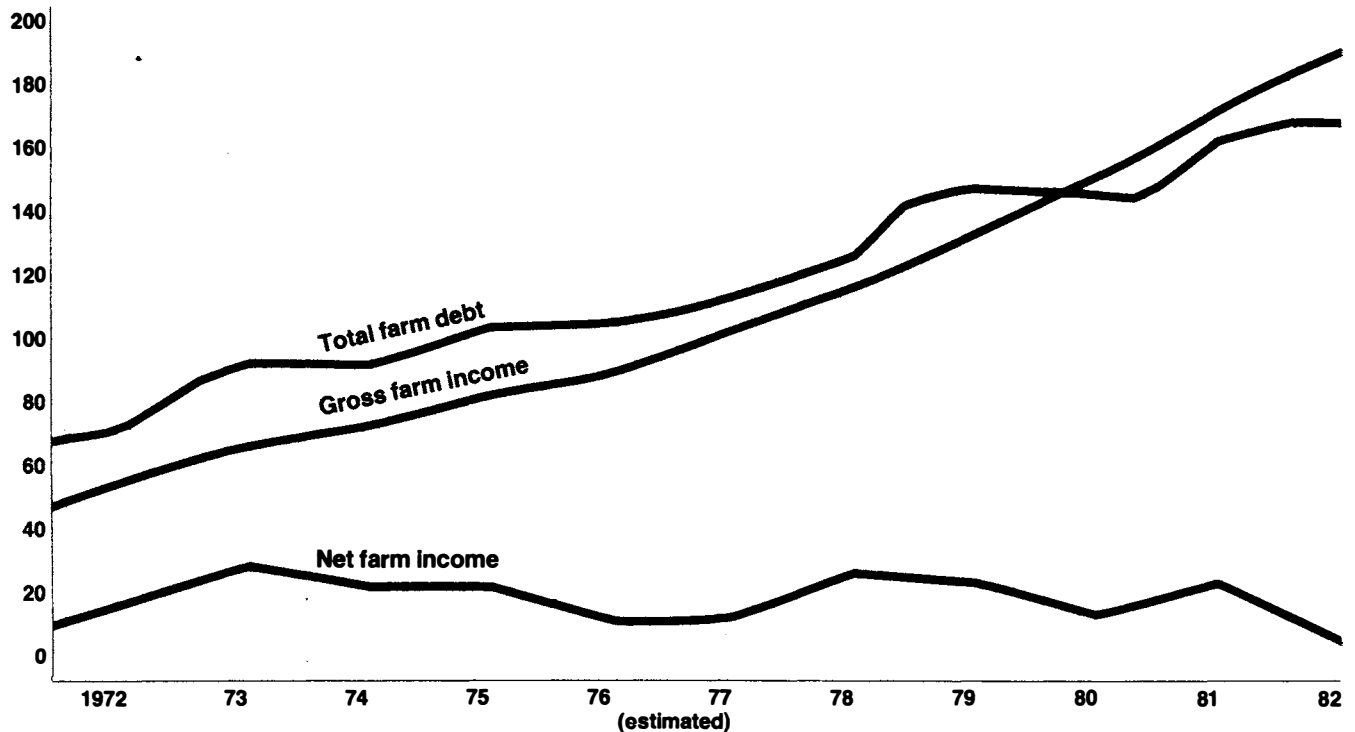
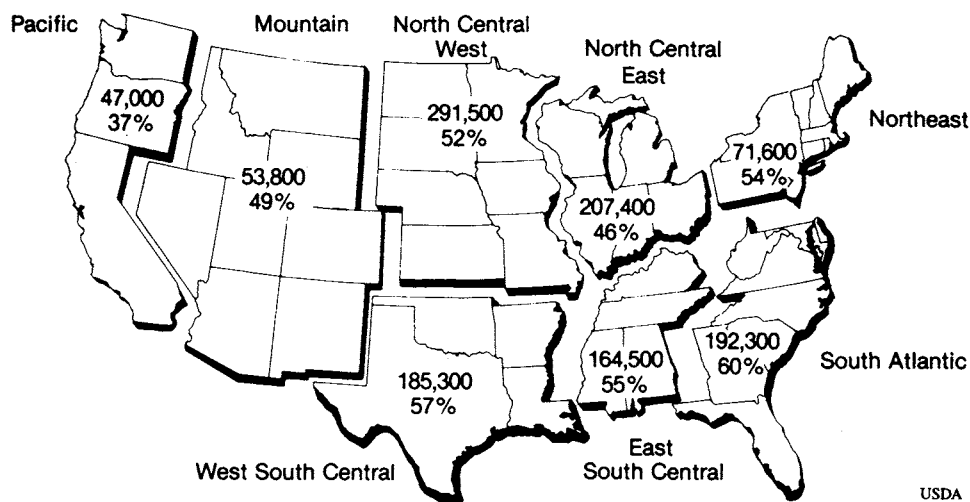


Figure 2

Number of Small Farms and Percentage of Total Farms



Large farms produced most of the nation's cotton, orchard crops, eggs, broilers, and turkeys. In 1980, large farms took in 69 percent of all cash receipts from agriculture.

Half of all corn and soybean farms and more than two thirds of all potato farms are small. Median acreage of small farms is less than half that of larger farms.

Only 31.7 percent of all farms took in 74 percent of the total cash receipts for farming in 1980, while 68.3 percent of farms took in just 25.6 percent of cash receipts, showing that the bulk of farm production is done on a small sector of total farm acreage in the United States.

as tax shelters or speculative investments in land. With the minimal figures available on the current situation, *EIR* has put the following picture together.

According to U.S. farm organizations, 100,000 farmers per year are leaving agriculture, at the fastest rate since the 1930s Great Depression. This is a five-fold increase since 1981. At the same time, production costs rose 8 percent in 1981, while total cash receipts for all agriculture increased by only 4 percent, meaning a 7 percent decrease in net farm income. Net farm income in 1981 was the lowest in 50 years. Only by increasing their off-farm income, and, worse, by cutting into production costs, have farmers been able to survive.

The middle-sized 600 to 2,000 acre family-owned farm, those which gross \$10,000-\$99,000 in sales per year, grow 60 percent of all U.S. agricultural produce. The largest 1 percent of these farms produce approximately 25 percent of the nation's food.

Until the recent period, family farms were generally very stable economic entities, able to continue producing at high rates through periods of economic fluctuations. Most owner-operated farms had low variable costs, particularly for labor, and high equity. The 1973 oil and fertilizer price increases, the 1979 high-interest rate policy, and the current fall in land values have totally undermined this capacity to continue production. Farmers' ability to borrow, even to cover operating costs, has been destroyed. Crop prices falling 50 percent below the cost of production, the collapse of rural infrastructure, making transport and storage costs prohibitive, and debt, have undermined use of fertilizer, replacement of equipment, and the farm family's living standard over the past decade. The 1 percent decline of land values in 1982, by undercutting farmers' collateral for operating loans, means

that, following a decade of undermining productive capability, family farmers will have to abandon agriculture. As a Colorado wheat farmer was quoted recently, "People say that farmers who have owned their land for 20 years will survive, but heck, they're dying off at the same rate that young farmers are being forced off the land."

Who owns the farms?

Farmers who cannot continue to operate at a loss have been selling their land to banks and real estate companies, and leasing back just to keep farming. New York and Pennsylvania dairy farmers have led this trend. In Illinois, Continental Illinois Bank is buying up farmland and selling it to "investors" who use the operating losses of the farmers who lease the land as a tax write-off. Full-ownership of farms fell throughout the 1970s, from 62.5 percent of all income categories in 1969 to 57.5 percent in 1979. Part-ownership farmers who lease some proportion of farmland increased to 30.2 percent in 1979, from 24.9 percent average throughout the 1960s.

The U.S. Department of Agriculture's 1981 *Report on the Economic Well Being of Farms* states that the farms in the best economic shape, i.e., those able to continue production, are those which are fully owned and debt-free. The weakest are the tenant-operated farms with little equity, usually new farmers, and farmers with only 50 percent equity, whose land and equipment is heavily mortgaged.

Young career farmers are finding it increasingly difficult to even enter the field. The Farm Home Administration, the agricultural lender of last resort, has essentially stopped funding new farmers. As of September, the FmHA is "dealing with" the problem of oversupply in dairy farming by cutting off any funding for new farmers in the field. "The FmHA will

finance only those situations where a son may be coming into partnership or taking over a family operation and where the expansion of an existing operation is critically needed to maintain adequate income for the family," stated FmHA Administrator Charles Shuman. "We've taken similar steps in the past as far as the broiler industry is concerned, and I'm sure there are other examples for the agency."

Currently, 4 percent of all farm land changes hands each year. Sixty-two percent of these sales are to farmers who already operate farms, 14 percent to landlords and 15 to tenant farmers. Only 15-20 percent of these sales, or less than 1 percent of land sales in the United States, are to entry-level farmers. The USDA predicts that the total number of new farmers under the age of 35 will shrink from 377,000 in 1978 to 233,000 in 2000.

Off-farm income

What the farmer and his family have been able to earn off their farm has consistently played an important role in sustaining family farms in periods of low prices. Until recently, this was a more important factor in sustaining the small farmer than the middle-sized one. But in 1981, net off-farm income for farmers in the large \$40,000 plus annual sales category exceeded on-farm income for the first time. Even the largest-sales farms show a consistent increase in off-farm income as compared to on-farm income since 1979, the year Paul Volcker instituted his high interest rates. For the \$40,000-plus group of farmers, 1981 on-farm income was half that of off-farm income, a 51 percent decrease from the previous year. (see Fig. 5)

Off-farm income as a percent of total farm income has increased rapidly over the past 30 years. Average off-farm

income rose to 30.8 percent of total income for all farms in 1950, to 48.1 percent in 1970. By 1981, off-farm income was 55 percent of the total.

With 71.5 percent of all farms recording a loss on their income from agriculture, this trend will have to continue. Without detailed analysis, it is clear that loss of farmers' production time must become a serious factor in the productive capacity.

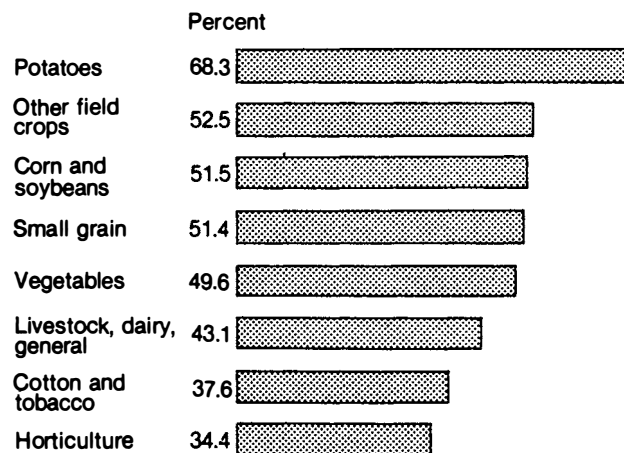
With the decreased ability to invest in new equipment, this loss of production will be multiplied. Smaller farms have depended on off-farm income to continue to produce. The combination of jobs which range from teaching to running small businesses, with a heavier use of time- and labor-saving devices than larger farms, has meant that farms in the category of \$20,000-or-less gross annual sales, or over 70 percent of all farms, have been able to continue producing. This group, facing the economic collapse of entire agricultural regions, could be forced to stop producing in the coming years.

Changed definition of a farm

Since the early 1970s, the legal definition of a farm has changed several times, to the extent that the Department of Agriculture (USDA) was able to publish figures in 1981 showing an increase of 8,000 farms in the United States, the first increase in nearly 40 years. But this figure actually masks the real situation, which is that the middle-sized farms are disappearing. To date, most of the land in these farms is remaining in production, as it is either bought up by larger farms, leased back by the farmer forced to sell due to financial collapse, or bought up as part-time small farms.

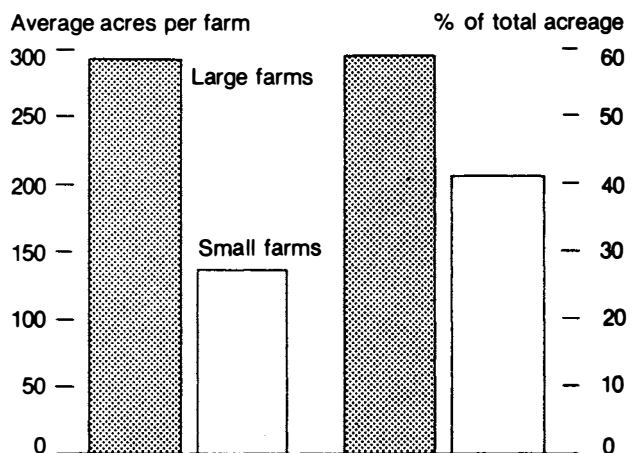
"If these trends continue," stated USDA analyst Donn

Figure 3
Small Farms as a Percentage of Total Farms



Small farms are those on which (1) total family income does not exceed the median income of nonmetro families in that State, (2) farming is a significant source of income, and (3) most of the labor and management is provided by the family. 1979 data. USDA

Figure 4
Acreage in Small and Large Farms



Small farms are those on which (1) total family income does not exceed the median income of nonmetro families in that State, (2) farming is a significant source of income, and (3) most of the labor and management is provided by the farm family. Median; 1979 data. USDA

Reimund this spring, "U.S. agriculture will be increasingly characterized by two major classes of farms—large farms producing the nation's output, and small, part-time farms producing little and serving primarily as rural residences. Many of these, particularly those in the lowest sales class, aren't farms at all in the traditional sense. . . . They are primarily rural residences with the minimum amount of agricultural production, enough to get them classified as farms."

The changing definition of a farm is actually a cover for another trend in U.S. land ownership: land being held for tax shelters or speculation. A spot-check of various regions showed that the so-called increase in farms was chiefly in the \$10,000-a-year gross sales category, non-commercial ranches or "hobby farms."

The real situation in farming is shown by the number of farmers leaving the sector in the recent period, not the purported reversal of loss of farms. Although recent USDA figures indicated that the rate of the decline in numbers of farms has been decreasing since 1965, and currently has become an actual increase, recent reliable figures from the state of Ohio show a different trend.

The Ohio State Director of Agriculture announced in July that usually 500 farmers a year left the farm in that state, but that it would reach 2,000 farmers in 1982. If this figure can be generalized, taking into account that a number of states have much smaller farm populations, the national figure comes close to the 100,000 per year leaving farms cited by the national farm organizations.

Fig. 5

Increasing off-farm income as compared to on-farm income, 1979-81

Farms with annual sales of	Net on-farm income	Net off-farm income	Number of farms	Percent of total farms
1979				
\$500,000 +			22,000	.9
200,000 +			77,000	3.1
100,000 +	\$81,610	\$11,643	167,000	6.9
40,000 +	11,954	7,334	377,000	15.5
20,000 +	3,365	8,721	283,000	11.6
10,000 +	-1,105	12,028	288,000	11.9
5,000 +	47	15,627	327,000	13.5
2,500 +	-840	18,906	326,000	13.4
less than 2,500	-851	19,030	563,000	23.2
1980				
\$500,000 +			24,000	1.0
200,000 +			84,000	3.4
100,000 +	\$76,692	\$12,840	180,000	7.4
40,000 +	7,835	7,959	389,000	16.0
20,000 +	1,177	9,484	279,000	11.5
10,000 +	-13	13,080	286,000	11.8
5,000 +	-508	17,102	332,000	13.7
2,500 +	-1,104	2,657	329,000	13.6
less than 2,500	-910	2,780	525,000	21.6
1981				
\$500,000 +			25,000	1.0
200,000 +			87,000	3.6
100,000 +	\$66,790	\$13,772	186,000	7.6
40,000 +	3,816	8,543	396,000	16.3
20,000 +	-880	10,165	278,000	11.4
10,000 +	-1,022	14,021	286,000	11.7
5,000 +	-988	18,418	335,000	13.8
2,500 +	-1,389	22,220	332,000	13.6
less than 2,500	-982	22,425	511,000	21.0

Who owns America: the increasing concentration of land ownership

by Renée Sigerson

Billions of dollars have flowed into the United States in recent years from foreign investors intent on acquiring land. Alongside such foreign acquisitions, ownership of the United States' land surface is becoming increasingly concentrated under the control of just a few hundred corporations. Many of these firms have large foreign participations, or are interlocked.

What is under way, in fact, is a modern rerun of the land grab of the late 19th century. This is occurring because of the deepening world economic depression. International investors, including the directors of a few dozen major U.S. corporations, as well as wealthy private investors abroad, are acquiring U.S. land—and the resource wealth it holds—to position themselves against the eventual collapse of financial markets. By and large, the investments now being made in rural land holdings are not short-term speculative ventures; they are long-term investments, through which powerful financial groups aim to weather a collapse whose effects they expect to persist for decades.

The outlook which governs these investments is one which says: even in a depression, populations must have access to the most basic necessities, food, clothing, and shelter. He who controls access to these most basic needs will continue to earn on his investments even under conditions of economic collapse—and furthermore, will tend to emerge after some years in a dominating financial position over everyone else.

Back to the House of Morgan

The U.S. land policies which allow such a concentration of land ownership to occur date back to the emergence of the British-controlled House of Morgan in the late 19th century. Following a series of extraordinary gold swindles against the U.S. Treasury, the Morgan interests used the financial wealth they acquired to build up a controlling position in U.S. railway development.

Dating from that point until 1940, railway companies received huge parcels of U.S. land from the federal government in return for railway construction. By 1940, 10 percent of the entire continental U.S. land surface, 177.2 million acres, was owned by the railway firms. This concentration of land ownership, which occurred to the benefit of the Morgans, the Harrimans, and their closest associates in the Boston financial community—all of whom in turn were closely linked to British financial interests—was the first phase in the

concentration of land ownership. What is occurring today is a new phase, a further evolution, in landholding patterns which date back a hundred years.

Much of what the railway companies came to own by 1940 was land with little mineral or resource wealth, what industry people refer to as “dirt.” After 1940, the railroads began a process of divesting of these holdings in order to acquire land with more intrinsic wealth, and to set up more profitable financial holding arrangements.

Today, the four largest U.S. railroads own or lease 27.8 million acres of land. Union Pacific, which has 9 million acres, earns up to 50 percent of its total after-tax earnings from natural resources. Santa Fe, which has 12,000 miles of track, has mineral rights on over 4 million acres of land, off of which it collects royalty payments from Southwest utilities for coal development. Santa Fe also owns 654,000 acres of timberland. Burlington Northern, which has mineral rights on 6 million acres, and owns 2.4 million acres, has timberland operations on nearly 1.5 million acres of land.

These land and mineral holdings allow the railroads to maintain profitable earnings even when their transportation sectors are losing money due to disinvestment. The outcome of this policy is exemplified by Penn Central, which after its bankruptcy, and a huge government bailout, was transformed into a real estate-land holding operation with \$1 billion in assets. The chief beneficiary of the Penn Central reorganization was Morgan Guaranty.

Timberlands grab

Among the old wealthy oligarchical families of Europe, one of the favorite investments to be made anywhere in the world today is in U.S. timberlands properties. Since 1978, such foreign investors have placed \$5 billion in investments in this industry. At currently depressed stock price levels, this comprises about 10 percent of the total stock value of all U.S. timber-producing corporations.

There are somewhat over 345 million acres of commercially developed timberlands in the United States. This forms about 25 percent of the nation's 1.35 billion acres land surface (including Alaska and Hawaii) which is not owned by the federal or state governments. The assets of the timber companies holding this land are estimated by experts to be about \$150 billion. This means that for every dollar placed

by a foreign investor in U.S. timber stocks, that investor acquires on average \$3 in potential returns. Although the return on timber investments is not short-term and occurs over decades, this is still a handsome sum, bolstered by the fact that, as the U.S. industry is currently organized, it is viewed largely as "recession-proof."

Foreign investors argue that timber is "recession-proof" only partly because it is a "basic needs" industry. Just as important, they insist, is the regional structure of the industry. After decades of overharvesting in the Pacific Northwest, the leading supply source in the country, a boom in timber development is beginning to take off in the U.S. southern states. The U.S. Forest Service forecasts that by 1990, the Pacific Northwest will produce 32 percent less than it did in 1976, and that supplies will drop an additional 16 percent from 1990 to 2000. The Forest Service is also planning to withdraw an unstated volume of current commercial timberland acreage for wilderness designation.

This means that even with depression-related declines in demand, the supply of timber should fall more rapidly, and prices for Southern timber rise faster than average inflation rates. Under such conditions, anyone moving into Southern timber today expects to gain guaranteed earnings over two decades on that investment—whatever happens to the rest of the economy.

Concentration of farmland

The largest volume of privately-held land in the United States is viable farmland, spanning 1.049 billion acres. The spreading bankruptcy wave among independent U.S. agricultural producers is fueling the concentration of land ownership in the hands of fewer and fewer individuals.

During the 1970s, there was a surge of enthusiasm by private foreign investors for acquiring U.S. farmland. Specialists report, however, that these foreign investors have become increasingly disenchanted, having discovered that the relatively high levels of mechanization of U.S. agricultural output demands high-cost, continuous management expertise and investment.

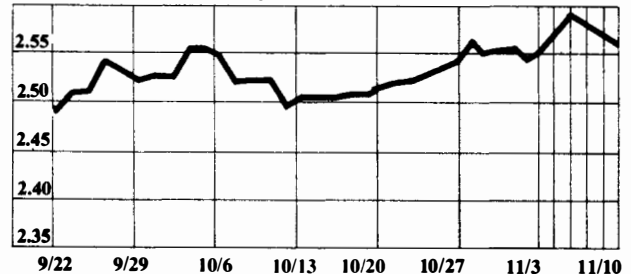
The push towards concentration of ownership, however, has not abated. Larger concerns, including insurance and energy companies are now pushing into the market, aiming to transform increasing volumes of acreage from productive activity into profitable real-estate holdings.

Immediately, the concentration of ownership of farmlands will be affected by a fight brewing in Washington over proposals for the federal government to sell off about 1 million acres in grazing lands used by ranchers. There is a "hush" climate around implementation of this policy. A core group of ranching interests around Sen. Malcolm Wallop of Wyoming are attempting to use the measures as a way of closing competing, independent ranchers out of government grazing lands. Wallop, a cousin of the British House of Windsor, has been a leading figure in manipulating the concentration of land ownership in an ever smaller number of hands.

Currency Rates

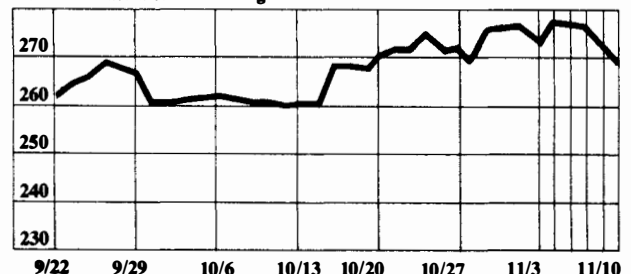
The dollar in deutschemarks

New York late afternoon fixing



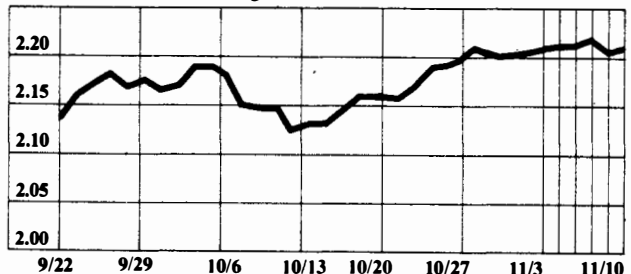
The dollar in yen

New York late afternoon fixing



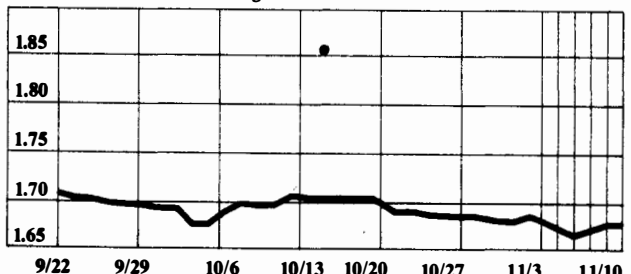
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



A new rise in interest rates?

The bond and stock markets' dependency on foreign flight capital shows vulnerability to another rate rise.

Some commercial bank money analysts are now speaking of another sharp rise in interest rates, and the fear of a rate rise apparently produced the poor results on the stock market Nov. 10 and 11. According to the standard scenario, the fact that the annualized rate of increase of the narrowly defined money supply jumped from 10 percent in August to 20 percent in October threatens the Federal Reserve's "credibility," and the Fed will have to react by raising rates—at which point the Duke of York will march up the hill again.

However, the situation is considerably more complex than this might suggest: first of all, the money-supply explosion has little to do with either Federal Reserve creation of monetary reserves (which have been flat for months), or with excessive commercial bank lending (lending fell during October); it appears to be principally the result of inflows of foreign money. Since the Fed and Treasury have no accurate means to track such inflows, particularly foreign purchases of securities, the precise amount cannot be estimated; but process of elimination leaves no other credible conclusion.

The conclusion is reinforced by the estimate of Manufacturers Hanover Trust (in its *Financial Digest*, Nov. 8) that 99.5 percent of the total volume of domestic savings will have been absorbed by federal financing during 1982. This compares to 50.5 percent of domestic savings absorbed into federal debt financing in 1977. (The total

volume of financing estimated by MHT is \$213 billion, including \$117.6 billion of direct Treasury borrowing; off-budget borrowings brings it to \$134.9 billion; federally-sponsored agencies to \$172.9 billion; and guaranteed loans to \$212.6 billion).

Since credit expansion, i.e., monetization of debt, represents a negligible sum, the critical factor in financing the debt clearly shifts from Euro-dollar market deposits, foreign portfolios, and so forth into Treasury securities.

Since, as Manufacturers Hanover Trust argues, the federal deficit next year "would absorb more net savings than the economy is likely to generate next year, and comprise a record proportion of total funds raised in the credit markets," this appears to be a hard act to follow.

First, since the main source of foreign funding for the deficit was the deposit base of offshore banking centers, the result of the "successful" financing of the deficit has been a collapse of international lending, and a resulting collapse of international trade.

Secondly, since the contraction of internal trade and foreign economies has reduced global liquidity and investible funds, starting with the now-extinct OPEC oil surplus, the funds are no longer out there to be brought into the United States.

This means that the ease with which the deficit was handled is, to a great extent, illusory: the financing of

the deficit depended on a speculative bubble whose continuation has certain obvious limits.

It is difficult to say what might trigger a collapse of the bubble, whose result would be a sharp increase in long-term interest rates, and the virtual extinction of the corporate bond market for the succeeding period. Should the Fed feel compelled to raise interest rates, that alone might set the first stones falling down the mountainside.

Another consideration is the political campaign on the part of George Shultz, David Stockman, Martin Feldstein, and other administration officials, who are now seeking to persuade the President that he must cut the defense budget. Feldstein sermonized Nov. 9 that there could be no recovery as long as the deficit remained at present record-breaking levels.

This suggests that the Fed might be inclined to give the market a couple of test shocks, in order to send a strong message to the White House concerning the defense budget. However, such shocks might become amplified, rather than dampened, in the supercharged atmosphere of the current markets.

More likely is that the foreign interest will, at a certain point, take their profits and run, and wait for the down-phase of the dollar before moving additional funds into the United States. The dollar is highly vulnerable (see article, page 4), and the sharp rate of contraction of international trade implies a sharp fall of the dollar sometime during the next several months; the timing of such a move is, however, utterly incalculable.

In either case, the long-term markets must show a major rise in interest rates, with the obvious consequences for the domestic economy.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
	Colombia from Argentina/Japan	Colombian Instituto de Asuntos Nucleares signed letter of intent with Argentina National Atomic Energy Commission for a research reactor, radio-isotope production facility, and pilot plant for processing Colombia's abundant uranium reserves. The agreement excludes other suppliers from this specific project. Japanese govt. is donating a hot cell for handling radioactive materials at Colombian Institute.	Colombia's nuclear program has stagnated since U.S. provided Atoms for Peace research reactor in 1965. New Betancur govt. seems intent on getting things moving.
\$43 mn.	Nigeria from U.S.A.	The Nigerian state of Anambra has signed contract with Garland Enterprises for a 130,000-ton steel-rolling mill and upgrading of old 2,000 ton mill to 20,000 tons. Anambra was once part of Biafra. Garland claims this is largest trade deal ever won by a black-owned U.S. company.	Anambra will pay 15% of cost in advance with remainder of financing provided by Gulf Credit of Houston.
\$100 mn.	Egypt from U.S.A.	Water and sewage systems being built in Fayoum, Beni Suef and Minya by Wilber Smith of Columbia, S.C.	
UPDATE			
\$720 mn.	Brazil from Japan	Completion of Alunorte, the 800,000 tpy alumina plant being built near the mouth of the Amazon by Nippon Amazon Aluminum Co. and Brazilian government's CVRD, will be delayed. Partners currently negotiating terms of delay, forced by Brazil's debt problems and aluminum glut. CVRD is proposing the facility be built in two stages with a 400,000 tpy plant operating in 1986 and full capacity 2 yrs. later. Alunorte is to supply alumina for further refining into aluminum by Albrás plant, under construction nearby and by Valesul near Rio. CVRD denies media reports that Japanese want to abandon project, which uses the world's least expensive hydroelectricity.	Completion of 4 mn. kilowatt first stage of Tucuruí Dam has also been postponed at least a year due to budget cuts. Tucuruí will supply both aluminum plants, the \$61 bn. Carajás mining-industrial complex. Output could be doubled when Amazon industrialization advances. Postponement means delays in French-supplied generating equipment.
\$2 bn.	U.S.A. from Japan	California super bullet train project is advancing. 6 Japanese trading companies led by Sumitomo are financing \$2 of \$6 mn. cost of second feasibility study for high-speed rail link between L.A. and San Diego. Train would use Sumitomo technology and components. California legislature has approved up to \$1.125 bn. tax exempt bonds for project and has excluded it from "environmentalist" restrictions.	
CANCELLED DEALS			
\$570 mn.	New Zealand from France	Aramoana aluminum smelter project cancelled, when Pechiney (France) could not agree with New Zealand govt. on price of electricity from new Clyde hydro plant, and because of world depression.	EIR reported Alusuisse abandoning this project in Oct. 1981.
\$2.5 bn.	Nigeria from France/Britain/Brazil/Yugoslavia/Italy/China/Switzerland	British press claims Nigerian govt. has secretly dropped plans to build a modern railroad from Port Harcourt to near-complete Soviet-aided steel plant at Ajaokuta. Letters of intent for sections of \$2.5 bn. standard-gauge railroad have already been signed with construction companies and railroad suppliers of countries at left and most financing has been arranged.	Nigeria has not reported any postponement of project. British reports could be effort to scare away investors from Nigeria, which is fighting with London banks on debt terms.

KISSINGER'S DRIVE TO TAKE OVER THE REAGAN ADMINISTRATION

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Since at least May 1982, following an under-publicized visit to London, Henry Kissinger has been coordinating a drive to consolidate control of the Reagan administration for the Tri-lateral Commission wing of the Republican Party. Secretary of State George Shultz is fully collaborating with this effort, which will put Kissinger in charge of enforcing the "controlled disintegration" economic collapse and depopulation of the developing sector.

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Business Briefs

Trade Policy

Mexico pays debts to Brazil through barter

The state oil companies of Mexico and Brazil have set up a trading system which ends the need for hard currency—in short supply in both nations. Mexico will pay off its \$200 to \$250 million arrears to Brazilian exporters primarily with “reciprocal credits” which will be used to buy Mexican oil, petrochemicals, etc. Brazil is providing Mexico with credits to permit its exports to Mexico of machinery and other items.

This forward-looking solution was negotiated by Petrobrás president Shigeaki Ueki and Eliezer Batista, head of Brazil’s state mining company, on their early November trip to Mexico which included a meeting with the future president, Miguel de la Madrid. On his return, Ueki promised that Brazil would increase purchases from Mexico as fast as Mexico bought needed equipment and materials from Brazil.

Brazilian finance minister Ernane Galêas, announced that the Latin American Development Association is studying expanding its present system of reciprocal credits to be able to handle most intra-regional trade. That would short-circuit bankers from threatening trade cut-offs to bankrupted nations. It would be a giant step toward the Ibero-American common market proposed by EIR founder Lyndon LaRouche.

International Credit

‘Debt: world at the edge of tragedy?’

The leading French news magazine *Le Point*’s cover story and lead article the week before Thanksgiving carries the headline cited above, with the drawing of a world with a short, burning fuse attached.

“How can we avoid posing the question: Is it not the whole world which is now bankrupt? Officially not . . . but a retired leading Swiss banker says, ‘Nobody can deny it, the international banking system is bankrupt.’ ”

“The very large debtors such as Mexico,

Brazil, perhaps Argentina, Venezuela . . . have debts so enormous that they become a genuine lever used against banks and creditor countries. So much that the word is that something like an OPEC of debtors is being formed, which holds, with its debt, a redoubtable weapon for blackmail: ‘If you don’t grant us this or that condition, we won’t pay. . . .’ Things have not gone that far. Not quite yet. But U.S. banks with more than \$61 billion worth of loans out in Latin America, \$30 billion to Mexico alone, could not withstand a series of large-scale defaults. ‘It would be the financial equivalent of a nuclear bomb,’ says an expert.”

In conclusion, *Le Point* writes: “Having reached that point, two pathways are emerging for the future. The financial way: recover the assets, and therefore exert all required pressures on debtor countries for them to repay, at whatever price for them internally, with drastic austerity, in other words, with the risk of violent action and political change. Or a political way: to avert explosions, the required financial sacrifices should be made, moratoria should be used, with all the risks that it might spread wide and far: why should I pay if my neighbor has not? The most likely is a creeping moratorium,” a French expert says.

“At any rate, a unanimous consensus is that a whole part of this debt Himalaya will never be paid back.”

Great Britain

Thatcher attempts recovery propaganda

British Prime Minister Margaret Thatcher and her Chancellor of the Exchequer, Geoffrey Howe, are attempting to create a “recovery” in the decimated British economy, by the very measures of lowered interest rates and pumping funds into nationalized industry so deplored by Thatcher to date. Her most recent moves were to throw nearly \$2 billion into the subsidized housing market, a move the Group of Eight, a consortium of construction industry leaders, denounced as “too little too late.” When the Group of Eight then charged that the nationalized industries were withholding a billion

dollars worth of capital expenditures they were obligated to spend, Thatcher immediately ordered the funds spent.

Howe announced a 1 percent reduction in unemployment taxes to industry, a freeze on industrial energy prices and a local tax reduction in his Nov. 8 budget message, in an effort to stimulate industry. But the response of the Confederation of British Industries was that all unemployment taxes and most local taxes would have to be abolished to have any impact on industry.

Howe himself predicted that unemployment would rise in the new year to 3.5 million from the current 3.3 million.

The bank lending rate fell to 9½ percent the first week in November, the lowest since early 1978. The home mortgage rate will fall to 10 percent on Dec. 1. Both rates have fallen a full 5 percent over the past 11 months, and it is predicted that the bank rate will fall to 7½ percent by early 1983. Yet even the *London Telegraph*, a paper close to Thatcher, expressed concern in a recent editorial that the population is asking when the “spontaneous recovery” the ministers promise will “actually occur. . . . It is by no means clear that a fiscal boost will have the desired impact on output.”

Asia

South Korean economy in doldrums

The trade-dependent economy of South Korea is being hit hard by the world trade decline. A country that has averaged 20 percent annual growth rates in exports, Korea suffered from a dismal 3 percent growth during the first nine months of this year. As a result industrial production as of June was only 2 percent above June of 1981 and, according to the *Korea Herald*, production in August actually fell 2.7 percent from July.

Both of these figures are far below the Korean government’s expectations, and revisions are now being made in the 1982-86 Five-Year Plan. Originally, the plan—which saw 7-8 percent annual GNP growth as a necessity if unemployment was to be avoided—called for foreign borrowing of \$65 billion. Now, various capital investment proj-

Briefly

ects are being cut back in order to lower the borrowing need to \$50 billion. At present, debt service on long-term foreign debt equals 15 percent of exports, while the addition of short-term debt servicing brings the total to nearly 20 percent of exports.

The Korean government is resisting calls by the International Monetary Fund to deal with this problem by devaluing the won by 10 percent. Seoul says since exports are not being hurt by overpricing, but by the world recession, devaluation would simply make the debts worse without aiding exports, according to Korean sources.

At the same time, in order to cut import needs, Korea is continuing its nuclear energy program. The second plant just began operation with seven more already under construction. By the early 1990s, Korea plans for 40 percent of its electricity to be supplied by nuclear energy.

Industrial Strategy

Egypt seeks U.S. dialogue on economic development

Lutfi Abdel Azim, the editor of the influential Egyptian economic weekly *Iktisadi*, is making it clear that his magazine's recent attacks on the U.S. AID program in Egypt are not part of an "anti-American campaign" but instead constitute an effort to open up a discussion with Washington on what Egypt's economic development priorities should be. "You [Americans] are spending billions of dollars [in Egypt]," said Abdel Azim in a recent interview. "But in the end, you are not satisfied and we are not satisfied. Our task is to tell you what we want." The AID projects, he said, "must be matched with our priorities."

In mid-October, *Iktisadi*, which is published by the semi-official *Al Ahram* newspaper, began a series of articles exposing AID for operating as an "American shadow government" and for subverting Egypt's economic development. "I am not anti-American," said Azim in explanation of the series. "I am merely pro-Egypt."

The U.S. AID program has pegged billions of dollars in projects to the Open Door economic policy adopted by the late Presi-

dent Anwar Sadat under the rubric of Camp David. The Open Door blueprint was aimed at turning Egypt into a Hong Kong-style free-enterprise sweatshop economy.

Last year, when President Hosni Mubarak visited Washington, Egypt's displeasure with the AID program was expressed. Mubarak's recent crackdown on the Egyptian mafia, who profited handsomely from the Open Door policy, is tied to Egypt's new demands that the billions of dollars of AID money not be wasted.

Of the more than \$5 billion so far allocated for Egypt since 1974, \$2.8 billion has never been absorbed. This is because the Egyptians have rejected the "small is beautiful" orientation, mandated by U.S. law, of the AID projects. What is required for Egypt, many Egyptian planners feel, is putting already allocated U.S. funds into a grand scheme like the Qattara Depression project, which would revive Egypt's foundering economy and clear the way for rapid growth.

Energy

Philippines get U.S. nuclear loan guarantee

The Philippines have obtained a new \$204.5 million loan guarantee from the U.S. Export Import Bank for its state-owned National Power Corporation, which commissioned the nation's first nuclear power plant. The power corporation will use the guarantee to borrow funds from Swiss and Japanese commercial markets for the 620-MW plant, being built by Westinghouse. The plant is now scheduled to come on line in 1985.

The plant was originally started in 1979, at an estimated cost of \$1.9 billion. As a result of the incident at the Three Mile Island plant in Pennsylvania, the Carter administration cut its funding. Construction was halted into 1980 when the U.S. Nuclear Regulatory Commission withheld Westinghouse's license to export the main plant components to the Philippines, on the basis of the plant being built in a region of volcanic activity.

Philippine President Marcos made the loan guarantee a major issue during his late September visit to the United States.

● **IMF OFFICIALS** admit privately that the year-on-year decline in trade, in nominal dollar terms, might reach 10 percent between 1981 and 1982. Even this might be too cautious.

● **FRIEDRICH VON HAYEK**, the Nobel Laureate economist who heads the Mont Pelerin Society, told a Venezuelan audience Nov. 10 that all would be well in the local economy if there were 20 percent unemployment for the next few months.

● **GERMAN BANKERS** reportedly told Brazilian debt negotiators, after refusing any new loans: "It's not you we're against—we don't want to bail out the bad debts of the New York banks."

● **A SENIOR Ibero-American diplomat** says the following about current negotiations between Mexico, Argentina, and other nations and the International Monetary Fund: "It's like Manuel in Buenos Aires, who finally gets a job, at a railroad switching station. His first day on the job, the foreman asks, 'Manuel, what do you do if you see the Buenos Aires Express and the Córdoba Express heading towards each other on the same track.' 'I pull the switch, and shunt one of them to the other track.' 'What if the switch jams?' 'I turn on the emergency lights and warn them.' 'What if the electricity fails?' 'I—I'll get some kerosene from the shed and light a bonfire on the track!' 'What if it's raining, and you can't light a fire?' 'I'll go flag them down myself!' 'What if it's night, and they can't see you?' Manuel is silent for a few seconds, and then says, 'I'll call my mother.' The foreman says, 'What good will that do?' Manuel replies: 'Well, there's going to be a big crash—she might as well come and watch!'"

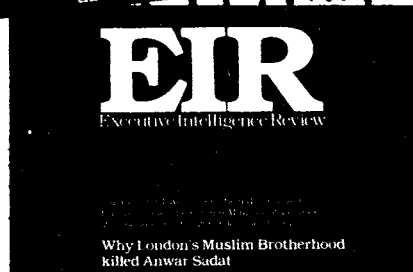
Prime spy scandal: end of the Anglo-American 'special relationship'?

by Criton Zoakos, Editor-in-Chief

Lights have been burning into the morning hours at Buckingham Palace. Turmoil is evident at 10 Downing Street, at Chatham House, in the back rooms of London's Grand "Mother" Lodge of the Scottish Rite, on Threadneedle Street, in the clubs, and at the great ducal houses of the United Kingdom, English and Scottish. The uninformed might imagine that this flurry of concern is related to the Geoffrey Prime spy scandal which the "damned Yanks" forced upon Her Majesty's government. But when, on Nov. 9, 1982, the alleged "Soviet spy" was sentenced to 35 years in jail and was whisked away behind a thick blanket of mystery and secrecy, none of the policy-making portion of the British oligarchy dared breathe with relief, despite the total silence in the press, despite the official coverup and their continuing, childish, refusal to supply the United States government with officially required damage-assessment reports. Her Majesty's government, including Her Majesty's Secret Service and Her Majesty herself, are acting, in a most blatant fashion, as a protective screen which is concealing from the United States secrets and operations of the Soviet KGB.

But this is merely the superficial, spectacular aspect of the affair. The real story is that the U.S. government is about to initiate a revolutionary national security and science policy which Her Majesty's government has been trying to prevent since the premature death of President Roosevelt. The U.S. policy in question, known, so far, to a mere handful of high-ranking Washington insiders, will involve a national commitment to push forward with a crash program for the development of space-based relativistic-beam anti-ballistic-missile weapons, a renewed commitment to accelerate the nation's fusion-energy research programs, and a new policy to put an end to the ludicrous, British-imposed secrecy and classification procedures which are heavily constraining the American scientific community.

The relevant background information on this imminent policy shift can be obtained from either of two sources. One is Dr. Edward Teller's public statements over the last three years; the other is past writings on this subject by the *Executive Intelligence Review* and *Fusion* magazine, going back to 1976 and 1977. Our own



EIR's on-the-mark exposés of the British domination of U.S. foreign policy. September 1980, "Oil Shutoff Phase II: London Targets Saudi Arabia"; September 1981, "The Commonwealth: Queen Elizabeth's Malthusian Redcoats"; October 1981, "Why London's Muslim Brotherhood Killed President Sadat"; May 1982, "The British Empire: Menace to Peace."

standpoint on this policy has been presented in a March 1982 policy memorandum authored by this magazine's chief officer, Lyndon H. LaRouche, Jr., and titled *Only Beam Weapons Could Bring to an End the Kissingerian Age of Mutual Thermonuclear Terror: A Proposed Modern Military Policy of the United States*, and a July 1982 *EIR* Special Report prepared by Dr. Steven Bardwell titled *Beam Weapons: The Science to Prevent Nuclear War*. Dr. Teller's own views on this subject are best obtained from his recent public pronouncements, especially his Oct. 26 speech at the Washington National Press Club. In summary, Dr. Teller argues that either the U.S.A. moves forward with a crash program to develop space-based relativistic beam weapons or it might as well sign its surrender to the U.S.S.R. as the last remaining resort to avoid war. Dr. Teller argues two further points of great discomfort to the British: the beam-weapon effort must be an integral part of a more broad-based program to obtain a breakthrough in fusion-energy research, and this program will not get off the ground unless the ridiculous secrecy codes strapping the scientific community are lifted.

A new 'Sputnik' shock

Now as to the strategic and political implications of this proposed U.S.A. policy: Developments internal to the U.S.S.R., especially since its 26th Communist Party Congress two years ago and various Politburo statements over the past two weeks, leave no doubt that the U.S.S.R. is about to deliver a new "Sputnik" shock to the U.S.A., perhaps imminently. The U.S.S.R. is known to be many years ahead of the U.S.A. in both beam-weapons and fusion research,

both of which are currently under military administration in the Soviet Union and both of which are unanimously supported by all different political factions in the so-called "succession fight." The U.S.S.R., in short, is leaving no other option to the U.S.A. but to capitulate, or adopt the policies of national security and science development proposed by the *EIR* and Dr. Teller.

According to our own information, if current British efforts in this domain are successfully frustrated, then, unquestionably, the United States government will soon proceed with a crash program indicated above. The world is about to enter into a new arms race which will primarily be a science and technology race. The eventual initial deployment of this new type of weapon three to five years from now will produce an entirely different kind of world political system. It will be a world in which only the two superpowers can play: A U.S.A.-U.S.S.R. condominium which will adopt the form of intense, Cold War technological competition or, preferably, the form of scientific and technological cooperation. In either case, the British special capability for diplomatic manipulation will be entirely negated by the imminent advances in military and civilian technology. This new era of scientific developments will permanently obliterate those special margins of advantage which the British oligarchy has continuously, successfully employed since the 1815 Congress of Vienna to this very day.

The British methodology to date

Since the founding of the British Round Table in the 19th century and the Milner Group in the early 20th century, the

British oligarchy's central concern has been to maintain these special margins of advantage. They maintained them by ensuring that they were not outclassed in matters of science and technology. They succeeded in not being outclassed not by themselves advancing but primarily by preventing their rivals and potential rivals from moving ahead. During and after World War II, Sir Winston Churchill and his chief science advisor, Sir Solly Zuckerman, launched a policy to attempt to put the genie of atomic science back in the bottle. The resulting "Baruch Plan" of Bernard Baruch and "Operation Dropshot" of Lord Bertrand Russell are now part of history. The manipulations around the British-engineered "atomic spy" scandals and around J. Robert Oppenheimer, against which a much younger Dr. Teller fought, also belong to this part of history. This led, in the 1950s, to a serious decline in U.S. scientific endeavors until, suddenly, on Oct. 4, 1957, the Soviet Sputnik delivered its shock.

It is well known that without the Sputnik challenge, there would not have been a U.S.A. space program, nor NASA, nor the Apollo Project, nor Americans on the moon. However, with the 1963 assassination of President Kennedy, the British oligarchy launched a new strategy for bridling and eventually stopping scientific advances in both the U.S.A. and the U.S.S.R. The rationale for this British strategy was included in the 1967 "Rapoport Report," written by Britain's Tavistock Institute, and specifying the dismantling of the U.S. space program.

The Kissinger connection

Henry Kissinger was Britain's principal instrument in this policy. The Kissingerian doctrine of mutual thermonuclear terror argued that to eliminate war, the two superpowers must enter into agreements to first limit their weapons and then limit their technologies and then limit their science. The fact that Kissinger had been an "asset" jointly owned by British and Soviet intelligence since his days at the European Command Intelligence School at Oberammergau, Germany in the mid-1940s, made him a natural instrument for implementing this policy.

In 1968, on British inspiration, a joint East-West clearing house for this anti-science policy was established in Vienna, the International Institute for Applied Systems Analysis. From the Western side, it was controlled by the British-dominated NATO Science and Technology Committee. From the Soviet side, it was controlled by the then-appointed KGB head Yuri Andropov. Within months, Kissinger was made National Security Adviser and later Secretary of State. His original controller, Sir Isaiah Berlin of the original Milner Group, was still in contact with H.A.R. "Kim" Philby, the British triple-agent who was deployed by Buckingham Palace to Moscow under the guise of a "defection" arranged by Lord Astor, also of the original Milner Group.

So, 1968 was the critical year. If one looks at the Geoffrey Prime affair from this perspective, one then realizes that Geoffrey Prime's activities at the Cheltenham communications monitoring center from 1968 to 1977 are significant

only because they threaten to expose Henry Kissinger's activities from 1968 to 1977. In turn, Kissinger's own activities are significant because they expose the real meaning of his recruiters' activities. How did the Milner Group, i.e., Sir Isaiah Berlin, recruit Kissinger, then a Soviet stringer at Oberammergau, into British intelligence in 1945? How did the Milner Group, i.e., Lord Halifax at Her Majesty's embassy in Washington, set up the Philby Affair, while Sir Isaiah Berlin was also at the embassy? What involvement did the Milner Group, i.e., Lord Harlech, then Ambassador to Washington, have in the Kennedy assassination which set in motion the events which led to the Rappoport Report and the scuttling of the U.S. space program? What involvement did the Milner Group, i.e., Lord Cromer (Evelyn Baring), then Ambassador to Washington, have in the watergating of President Nixon, which gave Kissinger total dominance over U.S. policies?

These are questions which naturally arise out of the Prime Affair. Those activities of Geoffrey Prime which are in the public domain and not denied by Her Majesty's government, strongly indicate that all the British-supplied intelligence to the U.S. government pertaining to the thinking and intentions of the Soviet leadership from 1968 to 1977 is fabrications and deceptions shaped by the Soviet government and laundered by the British.

This is why Her Majesty's government is refusing to supply Washington with damage-assessment reports. What is the fear gripping Her Majesty's government? If the Reagan administration proceeds with the plans to announce a crash program for space-based beam weapons, fusion development and an end to secrecy/classification policies in science, the ensuing arms/technology race of the two superpowers will reduce an outclassed British oligarchy to a marginal, if annoying pimple on the map. The world will be entering a new era. It will be exclusively up to the United States and the Soviet Union to decide whether they wish to cooperate in joint fusion development or to compete; it will be up to the two of them exclusively to decide for either cooperation in space-colonization ventures or competition; up to them exclusively to decide on joint cooperative development of beam weapons, or a new Cold War competition.

In either case, both the U.S.A. and U.S.S.R. are about to move ahead again in a way which qualitatively outclasses all other nations, and returns the strategic situation to a bipolar U.S.A.-U.S.S.R. condominium. And then, there is Dr. Teller's very interesting concept of how to pursue war avoidance between the two superpowers. For years, the good doctor has been saying to whomever would listen, that treaties such as Kissinger's arms-control nonsense, which commit the two superpowers to *not do* something, are no good for avoiding war. Treaties which commit the two superpowers to jointly *do* things, such as joint scientific projects, are reliable instruments of war avoidance.

Might it be that the two superpowers could become capable of ganging up against the British oligarchy? "Shades of Suez" wrote the *Daily Telegraph* of London on Nov. 7.

Simmering policy differences are now coming to a head

by Vivian Freyre Zoakos, European Editor

"Shades of Suez" blared the London *Guardian* and London *Times* the week before Thanksgiving, amid a plethora of articles describing the current state of relations between the United States and its "closest ally," Great Britain. "Britain Losing Faith in U.S." announced London's *Sunday Telegraph* on Nov. 7, reporting the results of a hastily gathered Gallup poll. The poll, whose findings constituted the lead article of that newspaper, indicated "a marked deterioration in British confidence in the Atlantic Alliance and also in President Reagan. Less than a quarter of the British public think he is a 'good President.'"

These announcements of British displeasure with Washington were further elaborated in the *Telegraph's* accompanying editorial, which emphasized that the real problem lay not only in America's anti-British vote at the United Nations Nov. 5 on the Malvinas resolution submitted by Argentina. Rather, "much more worrying and fundamental are differences of perception about how to cope with the Russian threat, since these really could strike at the heart of the Alliance, affecting its very *raison d'être*." The London *Guardian* on the preceding day noted that "the special relationship between the United States and Britain . . . has been put under more strain than at any time since Suez. . . . That vote [at the U.N.] is the culmination of months of tension in the Anglo-American relationship. . . . The family quarrel described by President Reagan was becoming a violent domestic dispute. . . . Other serious strains exist, not least the fears in the American intelligence community about security in the wake of the infiltration of the [U.K.] government communications headquarters at Cheltenham."

The violent tenor of Anglo-American relations at present has reached such a pitch, and cuts across so many policy areas, that even the most cautious observers are forced to admit that something qualitatively new is going on, even as most Britons and American anglophiles hasten to add that similarities still far outweigh differences.

The Anglo-American "domestic dispute" resurfaced most recently when Prime Minister Margaret Thatcher made a stinging response to the Nov. 5 United Nations vote in which the United States voted in favor of Argentina's resolution without informing or even consulting London, as Washington otherwise is wont to do on most significant matters. Prior to that, difficulties had arisen in the complex area of intelligence-sharing which constitutes the core of the London-Washington special relationship.

Spy scandal or coverup?

As the cited *Guardian* quotation referenced, American intelligence has become wary of trusting Britain with sensitive information for fear that it would be leaked to the Soviet Union—at Britain's convenience. To patch things up, the British in July arrested a secondary figure in their Cheltenham communications center, one Geoffrey Prime, as being the source of the leaks, putting him through a speedy trial that ended this month. Additionally, London went through a series of motions to "tighten up the security apparatus." A sop, in other words, was thrown to the Americans to quell much more broad-ranging concern over the wisdom of intelligence-sharing as practiced at present.

Still another quarrel surfaced this week over the New York trial of members of Noraid, the Irish Northern Aid Committee, which has been accused of funneling weapons into the IRA. The defense argued during the trial that the CIA had supported the Noraid group, an accusation immediately picked up by the British and which has generated a gigantic amount of rage, intersecting the broader Anglo-American political-intelligence warfare.

In an article entitled "CIA and IRA Arms Link Denial Sought," the *Telegraph* reports that "The United States government should be asked to give 'very definite and binding assurances' that the CIA has not been involved in supplying arms to terrorists in Northern Ireland, a Conservative Mem-

ber of Parliament demanded yesterday.”

The M.P. in question was Dr. Brian Mawhinney, a secretary of the Tory Northern Ireland Committee. An accompanying article lumped together last week's United Nations vote and the acquittal of the Noraid group as being two contributing factors to “the present anti-Americanism in Britain.”

What is clear from the above is that there is an across-the-board gnashing of teeth going on in Britain with respect to the United States. The underlying reasons for that British state, however, are not disclosed by focusing on the public side of the quarrel. These are only known to the higher levels of British and American elite circles.

Particle-beam weapons

The just-published 1982-83 edition of *Jane's Weapons Systems*, the British world survey of arms, for the first time includes “particle beams” as being under development in both the U.S. and U.S.S.R. The authoritative and nominally impartial *Jane's* nonetheless reveals the British point of view by dubbing these weapons “potentially destabilizing” in East-West relations and points to the secrecy with which both sides are shrouding these programs.

A series of interviews conducted by *Executive Intelligence Review* with the highest circles of the British think tanks turned up the following information and perceptions: that London is not only concerned about an American decision to move with a rapid development of space-based, particle-beam weapons, but is also planning a campaign to have such weapons internationally outlawed; that London is against the existence of the United States as a superpower, seeking instead to organize a multipolar world as rapidly as possible, taking advantage of the collapsing monetary system; that the philosophy of this new world would be hedonism; finally, that London, as part of creating the new, multipolar age, wishes to revamp NATO military policy to do away with the first-strike doctrine and replace it with a massive conventional arms buildup.

On Nov. 9 *EIR* spoke with Dr. Jasani, director of a major project on the implications of beam-weapon technologies conducted by the Stockholm International Peace Research Institute (SIPRI), an anglophile think tank for the world “peace” movement. Jasani reported that until recently he had been in a minority at SIPRI and the London International Institute for Strategic Studies (IISS) in his insistence that the arguments used thus far against beam weapons were no longer adequate. Jasani referenced the recent speeches by the American Dr. Edward Teller urging the development of such weapons, and the fact that it is now admitted that only “technical problems” remain to be solved for the production and deployment of the weapons. Therefore, he said, those arguments originating with Dr. Costas Tsipis at the Massachusetts Institute of Technology, that attempt to pooh-poo the technical feasibility of these weapons, must be urgently revised on more realistic, sophisticated grounds. These new argu-

ments, according to Jasani, are not yet fully elaborated, but “We must somehow stop it [beam weapons].”

Jasani indicated that he and others who are advanced enough in their understanding of the physics of these weapons are moving to agitate for some kind of “anti-satellite treaty.” He is hoping that the next session of the Geneva Committee on Disarmament will include this on its agenda.

Hatred for American technology

Col. Jonathan Alford, director of the IISS, refused at first to acknowledge the hideous possibility that the United States might actually move in the direction of beam-weapons development, at least for the immediate future. Having said this, however, he proceeded to unburden himself of his hatred for “the American tendency to expect technology to solve problems. . . . I think the Americans are always searching for technical solutions to save them from uncomfortable decisions.”

Asked by *EIR* what these uncomfortable decisions might be, Alford responded, “Keeping up conventional forces. You're not doing much of that, are you?” What is wrong with the American approach, he added, voicing his fears of the present situation, is that “in America there is a technological optimism. . . . What has the space program done? For Christ's sake . . . why are you [Americans] so worried now about what the Russians are doing in space? Why does [Defense Secretary] Weinberger keep getting up and expressing concern over the Soviet space program?”

Alford's colleague at the IISS and a senior staff member at the Bavarian-based Max Planck Institute, Dr. Horst Afheldt, went further in discussing the military implications of space-based beam-weapon development. “If you introduce particle-beam weapons, you create the possibility for the superpowers to defend themselves and wage war and fight their war on our own ground. . . . [In other words, British and allied policy becomes irrelevant—ed.] There should not be any superpowers. Right now we still must accommodate ourselves to the fact of their existence, but . . . Europeans know that only a multipolar world, without superpowers, without bipolarity, can be a peaceful one. . . . See [Henry] Kissinger's studies on the matter.” In short, said Afheldt, “I'm 90 percent with McNamara; I'm against Teller.” (See *International Intelligence*.)

Afheldt also saw the current global economic collapse as helping to achieve his aims. He gleefully predicted that “The world economy has 100 percent chance of collapsing.”

The McNamara-Kissinger multipolar world advocated by Afheldt would have hedonism as its foundation, according to Dr. Michael Foster, director of the Tavistock Institute, the most infamous of British psychological manipulation centers.

To the world in which beam weapons would spur rapid growth, Foster counterposed the “black market economy”-dominated world, with “people working for themselves and avoiding the whole system of paying taxes . . . a general tendency to hedonism.”

The British press takes a look at disobedient American decisions

Ever since the United States voted against the British on the issue of the Malvinas in the United Nations on Nov. 5, the British press has begun to speak openly of the rift in the "special relationship between London and Washington." Here are some examples of the British complaints that the United States might break its special alliance with London, an alliance that has in fact subverted U.S. interests.

Guardian, Nov. 6, 1982: "The Growing Strain of a Beautiful Friendship": Few leaders in the world are ideologically more on the same wavelength than Mrs. Thatcher and Ronald Reagan. It is therefore even more remarkable that under their stewardship the special relationship between the United States and Britain should have been put under more strain than at any time since Suez. . . .

That [United Nations] vote, however, is the culmination of months of tension in the Anglo-American relationship. . . .

The Falklands dispute, the pipeline and trade disputes . . . have without doubt put pressure on the special relationship [between Britain and the United States]. Other serious strains exist, not least the fears in the American intelligence community about security in the wake of the infiltration of the [U.K.] Government communications headquarters at Cheltenham. But the special relationship is not skin deep. . . . It is a military relationship which gives Britain unique access to American nuclear technology such as the Trident submarine. . . . It is a relationship in which successive Secretaries of State from Kissinger to Schultz have used Britain as a sounding board and intermediary on such delicate matters as détente with the Soviet Union. . . .

Daily Telegraph, Nov. 6, editorial: "Stirring the Teacup": Too much is being made by some people of the fact that the United States voted for the United Nations General Assembly resolution calling for resumption of negotiations between Britain and Argentina on Falkland Islands sovereignty. Mrs. Thatcher said in Paris yesterday that she found the American vote "incomprehensible and disappointing." Disappointing it may be, but incomprehensible it was not. Mr. Pym was nearer the mark when he described the U.N. debate and the resolution as a sham and a charade, and said it would make no difference to Britain's attitude. . . . Justly

nationalistic feelings of pride over the outstanding performance of Britain's armed forces in the South Atlantic should not be allowed to create the delusion that Britain is capable of "doing anything and going anywhere" entirely on her own. Britain's alliance with the United States remains the bedrock of all our defense planning. An alliance between two such mature democracies must imply readiness to accept minor differences along the way.

Sunday Telegraph, Nov. 7: "Britain Losing Faith in U.S.": The *Sunday Telegraph* lead story reports on a Gallup Poll commissioned by the newspaper denoting a shift in the British population's perception of the status of the "special relationship" today as compared to the period of the Malvinas war. The *Telegraph* sums up the poll's results as showing "a marked deterioration in British confidence in the Atlantic Alliance and also in President Reagan. Less than a quarter of the British public think he is a "good President."

Sunday Telegraph, Nov. 7: "How 'Dear Ron' Upset No. 10": The American vote at the United Nations on the Argentine resolution "has made much more questionable whether Britain can convert her military triumph [in the Malvinas] into a lasting political victory. Britain's moral backing, abetted by the United States, has been publicly ended. . . . Shades of Suez!"

Sunday Telegraph, Nov. 7, editorial: "Friends Apart": The dispute over the United Nations vote is not the most serious issue confronting the special relationship. "Much more worrying and fundamental are differences of perception about how to cope with the Russian threat, since these really could strike at the heart of the Alliance, affecting its very raison d'être."

London Observer, Nov. 7, editorial: "Talking to Argentina": By announcing its vote at the United Nations well in advance, the United States actually encouraged others to follow its lead. The vote can be defended by the United States on grounds of "expediency", although whether upholding dictatorships will be shown to be expedient in the long run is another matter. Although the vote itself is not mandatory, "it should not be dismissed altogether as one of those empty flourishes of which the United Nations is so richly capable. . . ."

U.K.'s Malthusian doctrine for NATO

by Lonnie Wolfe

For the past several weeks, NATO Supreme Commander Gen. Bernard Rogers has been publicly repeating arguments used by the leadership of the so-called nuclear freeze movement in support of what he calls a “conventional arms build-up.” The American general, with the apparent backing of the Brussels NATO command, has stated that NATO must seek to lessen its reliance on “destabilizing” nuclear weapons, in favor of what he calls a “realistic conventional deterrent.”

Rogers's statements show how determined the same Anglo-American cabal behind the Prime espionage fiasco is to force the effective disarming of the Western alliance and its transformation into a British colonial police force for population-butcherings wars in the developing sector.

While the talk of a conventional deterrent has been floating around more lunatic military circles in the Western alliance for some time, it exploded into prominence with the publication last spring of an article in *Foreign Affairs*, the journal of the New York Council on Foreign Relations (CFR), by former U.S. Defense Secretary and raving Malthusian Robert McNamara and three other cold warriors from the Kennedy-Vietnam era. The article by this “gang of four” proposed that the United States and NATO pledge a unilateral non-first use of nuclear weapons, but only after the alliance built up a “credible” conventional deterrent.

McNamara, who placed most of the battlefield nuclear forces in Europe, knows very well that the Soviets have no intention of launching a “conventional attack” on Europe that would be met by conventional NATO forces. McNamara is in fact not concerned about the defense of Europe at all. He believes that the major theater of conflict is the developing sector.

By pledging to not use nuclear weapons, McNamara is looking for an unlimited license for conventional wars, outside the NATO area in the developing sector. To hook the Soviets on this proposition, McNamara and his British sponsors must stop the development of new generations of weapons technology, including the beam ABM systems. He is in fact proposing unilateral strategic disarmament.

Laundering the garbage

No self-respecting military officer or national policymaker would dare believe any of this nonsense if it were presented in this fashion. Therefore, the McNamara strategy had to be presented in another form.

At the same time that the *Foreign Affairs* article was being drafted and circulated through CFR and London International Institute for Strategic Studies policy circles, the British launched their own “conventional build-up” lobby.

In early 1982, a few dozen British and American defense policy experts and former officers were put together under the “European Security Study” or as it is more commonly called, ESECS. The purpose of ESECS, headed by MIT professor and Club of Rome executive member Carroll Wilson, was to study the balance of forces along NATO's central front. In typical British fashion the ESECS crew, which included Field Marshal Lord Carrer and McNamara coauthor McGeorgy Bundy, added the numbers of weapons and troops and came up with the idea that NATO should build up its conventional forces to avoid reliance on its nuclear weapons. In that way the McNamara scheme is being laundered, as the Rogers statements demonstrate. ESECS will be releasing part of its findings soon and the plan is to use them to force changes in alliance policy.

At the same time, sources close to the NATO command report that there are several plans floating around for a broad reorganization of the alliance. A London-backed plan, which has the support of the McNamara crowd in the United States calls for the creation of a British-dominated European defense community. Meanwhile, the British-manipulated United States would join with mother England and France in a more informal directorate that would facilitate deployments into the developing sector. This latter would be the action arm of NATO, de facto, while the main role for the former would be to shift supplies, troops, etc. to assist the out-of-area deployments. Sources close to the Brussels NATO command report that plans are ready for the first stages of implementation of this proposal, awaiting only the full approval of the U.S. government and the White House to go ahead.

The Prime connection

There is an immediate connection to the Prime affair in this.

One of the architects of the Vietnam War and the new Malthusian warfare doctrine, retired General Maxwell Taylor, stated in an interview published in *Executive Intelligence Review* in 1981 that he and his sponsors in the genocidal Draper Fund/Population Crisis Committee had “written off” more than a billion people in the developing sector. The oligarchical-controlled Draper Fund, Taylor asserted, had assurances from sections of the Soviet leadership that it would tolerate the butchery of more than a billion people in the developing sector, provided nuclear weapons were not used. The channel for collaboration on this genocide is the same British channel exposed by the Prime affair, and before it by the Philby and McLean affairs.

While the conventional build-up scheme has made dangerous inroads in U.S. policy circles, it has yet to achieve total success. Should the Prime affair cause some patriotic Americans to sober up, it need not ever succeed.

Will Whitehall provoke a new Suez backlash in the Mideast?

by Judith Wyer

The Middle East has again become an arena for Anglo-American rivalry just as it was in the 1956 Suez Canal crisis. London has been working overtime, both diplomatically and through a number of covert adventures, to eliminate U.S. "assets" and influence in the region, a policy that has been most visible in recent weeks through the aggressive anti-U.S. diplomacy on the part of Foreign Secretary Francis Pym.

Of immediate concern to the British is the momentum surrounding President Reagan's Sept. 1 peace initiative, a policy which could end Britain's traditional "Great Game" manipulation of the region if aggressively pursued by the White House. Up to now, the London-controlled State Department has maintained day-to-day oversight of the peace initiative, working to ensure that any future negotiations lead to no genuine settlement, but rather are kept in a "crisis management" mode, in which all the parties involved—the United States, the Soviet Union, Israel, and the Arabs—are divided in a classical British "balance-of-power" arrangement. Typical of the State Department's sabotage of the Reagan initiative is the work of Henry Kissinger, whose collaborator George Shultz strikes a friendly pose to the Arab world while Kissinger himself is helping to fund the Sharon-led Israeli program to expel the Palestinians from the disputed West Bank!

Despite State's work to undermine the White House, London still has images of Eisenhower's 1956 anti-British policy being revived under Reagan, and is taking no chances this time around. Since the Sept. 1 announcement, Foreign Secretary Pym has spared no effort to discredit the United States as the mediator of the Arab-Israeli conflict. The *Wall Street Journal* reported Nov. 5 that the British are "upset" about U.S. eagerness to pursue Middle East negotiations and quotes from a series of Pym authored diplomatic cables: "While we understand the American need to keep up the momentum, we would be unhappy to see King Hussein [of Jordan] forge ahead without adequate Arab support. . . The Americans may see attractions in a split in the Arab ranks leaving Jordan with a free hand. That would in our view be a step backwards. It would be a tragedy if Jordan were to abandon her efforts to bring the Arabs with her towards moderation. If she did, the PLO, who are in a weakened and indecisive state, would drift back to those whom the King describes as the 'Soviet surrogates.' "

Since mid-October Pym has made three unexpected visits to the Mideast, first to Syria and Egypt, and then a Nov. 9 visit to Jordan. *EIR* has learned that Pym urged Hussein to back off from a written request from President Reagan that the Jordanian monarch use his influence to push the Palestine Liberation Organization to recognize Israel in order to alleviate the last obstacle to establishing a U.S.-PLO dialogue.

In addition to Pym's presence, Arab sources report that British intelligence is utilizing its more than hundred years of experience to activate "every mafia in the area to ensure that any honest effort at solving the Mideast problem fails." The sources also point out that the British efforts have intersected Soviet activities in the area, as certain elements in the Soviet leadership are not unhappy with the prospect of giving the Reagan administration a "bloody nose" in the context of the tense U.S.-Soviet relationship. The contact now ongoing between Soviet officials and Israeli leaders such as Defense Minister Sharon and Foreign Minister Shamir are properly viewed in this context.

Below are summarized case-by-case aspects of the ongoing Anglo-American fight.

Lebanon

In the short term, Lebanon represents the most volatile ground for British operations against the United States. Both London and Israel are committed to the removal of Lebanese President Amin Gemayel, a strong ally of the United States and are using the octogenarian mafioso Camille Chamoun in this effort.

Chamoun is known to be a shared asset of London and Moscow, run through his positions on the board of the London-Moscow Norodny Bank and with the Bulgarian-tied Byblos Bank of Beirut. The old warlord Chamoun vocally opposed the recent parliamentary vote of confidence which gave Gemayel unprecedented powers to rule by decree. Having won by a narrow majority, Gemayel is said to have achieved the vote only by making concessions to Chamoun, who is reported to control the majority of the Lebanese parliament.

Lebanese sources report that Chamoun was mimicking Pym's anti-American rhetoric during his tour of the United States and Europe in late October, praising Britain and the Soviets as the only viable mediators in the Mideast. In mid-

October, Chamoun's brother, Charles, chaired a secretive meeting in Camille Chamoun's Chouf Mountains headquarters. The meeting was attended by a number of Israeli mafiosi and British notables including Sharon, who set up a new round of Lebanese violence to take place in the Chouf between rival Druze Muslims and the nominally Christian Falange. Since the 1850s the British have been the masterminds of inciting Druze-Christian violence to serve colonial ends.

In recent months, Britain has reopened its intelligence center in the Chouf town of Shemlan, giving Britain renewed on-site capabilities in Lebanon. Meanwhile, Ariel Sharon is overseeing Israeli occupation of the Chouf region and is reported to be arming the Druze on the pretext of creating a separate Druze militia to patrol the volatile region.

On Nov. 11, Amin Gemayel called an urgent meeting of Druze and Christian leaders following an eruption of fighting which left 13 dead and 35 wounded. Gemayel told the press that Israel's refusal to withdraw from the Chouf is a "point of pressure" against his government.

One of the concessions that Chamoun is thought to have extracted from Amin Gemayel in order to win the vote of confidence was that British troops join the multinational force in Lebanon, a proposal put forth by Lord Chelwood, the

chairman of the Conservative Middle East Committee. Lebanese sources report that Amin Gemayel, who has no love for the British, opposes the presence of British troops in Lebanon, and prefers an increase of American forces.

The Gulf

On Nov. 7, days after a secretive visit to Israel by British Parliamentarian Julian Amery to confer with Israeli intelligence (the Mossad), the British-backed Khomeini dictatorship launched its second ground invasion of Iraq this year. All accounts of the Iraqi invasion conform to a blueprint which Amery and his Mossad collaborators have worked out to split off the Persian Gulf port town of Basra from Iraq, and create a separate Shi'ite Muslim entity.

The establishment of a separate Basran entity meets several requirements of the British design in the Gulf region. First, it offers the opportunity for the re-establishment of the British-allied freemasonic lodge in Basra, which thrived prior to the 1958 Iraqi revolution, as a crucial component of British colonial rule over the area. Second, it establishes a radical Shi'ite base within striking distance of the pro-American regime of Saudi Arabia. Third, it weakens the Iraqi regime of Saddam Hussein, which London is determined to capture.

British strategist: 'We run the region'

Britain's Vice Air Marshal Stewart Menaul, a member of the Committee for the Free World, in a discussion Oct. 29 with *EIR*, flaunted the determination of British strategists to usurp American influence in the Middle East.

Asked first about the ongoing international intelligence warfare between Britain and the United States, Menaul insisted, "There is *no* battle going on between the U.S. and Britain at all." When given the example of British-run Oman's decision recently to cancel American-coordinated military maneuvers in the Gulf and to cozy up to the Soviets, Menaul began denying that this was an example of British undercutting of the U.S., then declared:

"Recently, Oman signed security agreements with Saudi Arabia in that region, and I'll tell you what that means: The British have damned far sight more influence and political savvy in Oman, and Saudi Arabia, than does the United States! The British have been in that region for a hundred years. The Americans have influence with military equipment and weaponry, but the British have great influence with diplomacy. Some of the Saudi royal family live in Britain. The whole of the ruling family of Saudi Arabia sends their children to be educated in Britain. The

British have a great deal of influence in Saudi Arabia. Saudi diplomats come regularly for consultations to London. In Oman, the air force and navy are virtually run by the British, there are British advisers all over the place. Oman is literally run by the British!

"The Americans have no monopoly," Menaul went on. "During the Falklands crisis, we demonstrated that we have a rapid deployment force, so it's not the Americans alone in this."

He added, "Britain has been active in the formation of the Gulf Coordination Council, the attempt to form an integrated defense system for the region that could be linked up with other western defense systems. British relations are *particularly* good with Saudi Arabia."

Menaul was challenged to comment on the fact that the heirs of the American military tradition of Douglas MacArthur have always disliked the idea of American muscle being guided by British brains, and that this relationship is now being questioned more than ever. He replied: "You talk of General MacArthur! Look at the mess he made with the Japanese peace treaty. Article Nine, forbidding Japan to have an armed forces, is the most ludicrous clause in a long time. I read MacArthur's history and background, and it was not a laudable performance. I won't criticize his military expertise, but as a diplomat he was in the wilderness. He has put a noose around America's neck."

Iraq is the object of Anglo-American rivalry, and Iraqi President Saddam Hussein has opted for closer ties with the United States as the foundation of his effort to continue Iraq's economic development.

A Kuwaiti source reports that recently the British have been "whispering in the ears" of various wealthy Arab heads of state to stop funding Iraq's war effort since Iraq is bound to lose the war. Though the Nov. 7 Iranian invasion was repelled, Iran announced that it is continuing to shell the highways linking Baghdad and Basra in order to cut off Basra from the capital. Khomeini has made no secret of his design to capture the port town and create a pro-Khomeini government there.

The escalation of the Gulf war is timed with a series of ministerial meetings of the British-created Gulf Cooperation Council (GCC). Comprised of Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman, and Bahrain, the GCC is the institutional focus of a London-authored plan to create an Arab military and economic bloc.

As the accompanying interview with British Air Marshal Menaul indicates, the British consider the Arab world, most importantly the Persian Gulf, to be their preserve. A recent interview with another high-level British officer expressed the same view regarding the Gulf: "It's not the kind of description that I would want written down, but what in fact has happened is that the British have penetrated very deeply into the day-to-day management levels of the military and diplomatic world of the Gulf. We have to press forward in this regard."

Egypt

Beginning last month, Egyptian President Hosni Mubarak restarted a purge of the Egyptian mafia which he began shortly after coming to power on Oct. 6, 1981. Those who are targets of the purge center around the mafia boss Osman Ahmed Osman, a member of the London-created Propaganda 2 Italian-based Freemasonic Lodge. Mubarak is challenging the nouveau riche elites which backed and profited from the Kissinger-inspired Open Door economic policy, the companion to the Camp David Accords, which was introduced into Egypt to transform its emerging industrial economy into a Hong Kong-style free enterprise system.

Egyptian military sources characterize the ongoing war against the Kissinger-London allied Egyptian mafia as crucial to the "life or death" of Egypt. According to Lebanese sources, behind the mafia being targeted by Mubarak, which includes the exiled widow of Anwar Sadat is the old British-leaning monarchist networks of the Farouk family. These sources say that London intends to weaken Egypt to the point where the monarchy can be re-instituted and U.S. influence in Egypt will be destroyed. Egypt, along with Saudi Arabia, are the two pillars of U.S. influence in the Arab world.

As *EIR* has exposed, Mubarak has become the target of an assassination campaign which intelligence sources report is being organized in London. It is reported that recent agree-

ments between the British and Egypt in areas of riot control, and police and military security have given British intelligence added capabilities to stage an assassination through their Muslim Brotherhood operatives, the same capability that killed Sadat.

Jordan

King Hussein's encouragement of the Reagan peace plan was most powerfully demonstrated on Nov. 8, the day before Pym's arrival in Jordan, when Hussein announced his Dec. 21 trip to Washington. Reagan had requested that Hussein come to Washington in order to advance the prospects for a direct PLO-U.S. dialogue, something Britain and Israel are determined to prevent.

Inside the Jordanian court both Hussein's eccentric brother, the Heir Apparent Prince Hassan, and the Queen Mother are acting to restrain Hussein from cooperating with the United States. Both London and Israel favor Prince Hassan assuming power, since Hassan is vocally anti-American. Hassan is also the titular head of the elite Arab Thought Forum, the Arab arm of the Club of Rome, the neo-Malthusian organization that favors reducing the population of the world by 2 billion by the year 2000.

Saudi Arabia

Though reliable information from the highly secretive Saudi royal family is sparse, it is generally acknowledged that since the death of Saudi King Khalid in June, the longstanding rivalry between the newly crowned King Fahd and his Heir Apparent, First Crown Prince Abdullah, known in the intelligence community as "Britain's boy," has intensified. Fahd remains one of the strongest allies of the United States in the Arab world. However, London banking sources say Fahd's prestige within the royal family now rests upon whether or not the United States can deliver some motion with respect to resolving the Palestinian issue and can restrain the regime of Menachem Begin.

Prior to Khalid's death Fahd and his full brother Defense Minister Sultan had struck the bargain with Abdullah that once he was named Crown Prince he would renounce his powerful position as head of the National Guard. Abdullah's refusal to now do so is widely interpreted as indicating that Abdullah is building up his own power base within the kingdom. Arab sources report that because Fahd does not feel strong enough to isolate Abdullah he has attempted to mollify Abdullah by sharing more and more power with him.

If the British succeed in eliminating Mubarak, then Mubarak's good friend King Fahd will be seriously exposed to a threat from the British, working through radical Arab networks like those that seized the Grand Mosque of Mecca in 1979.

Abdullah's seizing control of power in Saudi Arabia would mark the end of the U.S. in the Persian Gulf, putting the flow of oil to continental Europe and Japan directly under the control of British surrogates; and creating a deadly threat to world stability.

Witness fingers Kissinger in the Moro murder trial

by Nora Hamerman, Editor

This journal's charges that Henry Kissinger was behind the murder of Italian statesman Aldo Moro in 1978 have received startling corroboration in sworn testimony in an Italian court.

Testifying Nov. 10 at the ongoing Rome trial of the Red Brigades members who kidnapped and killed former Italian Prime Minister Moro, Moro's press aide Corrado Guerzoni named Henry Kissinger as the "important American politician" who tried to intimidate Moro and make him change his political line. Guerzoni also said that Aldo Moro, before his death, had discovered that Kissinger's networks in the U.S. State Department tried to spread false rumors to the Italian media implicating Moro in the Lockheed payoff scandal that rocked world politics and toppled governments in the middle 1970s.

Guerzoni's testimony was front-page news in every Italian paper and a leading item on radio and television newscasts. It confirms charges made in a legal brief submitted last August to the Rome tribunal by Fiorella Operto, head of the European Labor Party in Italy and a close collaborator of *EIR* founder Lyndon H. LaRouche, Jr. In that brief (translated in full in the Oct. 19, 1982 issue of *EIR*), Operto arrayed massive evidence that Henry Kissinger, operating on behalf of a private oligarchical network hostile to the interests of the United States and every allied sovereign government, had the motive, means and capability to order the murder of Aldo Moro. Operto asked the court to open an investigation of Kissinger.

The exposure of Kissinger's relationship to the "crime of the century"—the Moro murder—could blow the lid off a

carefully contrived plan by Kissinger and the British oligarchical circles behind him to make millions in speculative dollars off the Israeli takeover of the occupied West Bank, and simultaneously carve up the Middle East between the resurgent British Empire and certain cooperative circles in the Soviet Union after driving out the United States. Although Kissinger persistently has disguised his brutal methods of implementing policy as necessary to the crusade against communism and particularly the Soviet Union, it is clear that the international conspiracy against Aldo Moro brought together the ultra "left" Red Brigades with their documented ties to Eastern European intelligence services as well as the U.S. AFL-CIO leadership, and the intimates of the "ultra-right" Black International with whom Dr. K. openly consorts. Moro himself understood this.

Operto, in the cited legal brief, said that Henry Kissinger must have been the "important American politician" who, according to the testimony of Moro's widow, told Moro on a trip to the United States that he must "either change his political line or pay dearly for it." According to Eleonora Moro, the politician whose name she did not know added, "See for yourself how you want to understand this advice."

Asked in court Nov. 10 who had made the threats, Corrado Guerzoni, one of Moro's closest political collaborators, said "Henry Kissinger, who at the time was U.S. Secretary of State."

Guerzoni said that following the threats, made in 1974, Moro became suddenly ill, cut short his visit to the U.S.A., and considered leaving public life. He then decided not to

give in to the Kissinger diktat, but tried to take measures to assure the security of his wife and children against terrorist attacks.

In March of 1978, after an escalating series of threats to his life, Aldo Moro was kidnapped in an ambush on a Rome street and his five bodyguards instantly murdered. Moro was held and tortured nearly two months by the Red Brigades, and then was atrociously murdered himself.

Guerzoni's courageous testimony adds another name to the list of leading statesmen from among America's most valuable allies who were threatened by Henry Kissinger—and against whom the threats were brutally carried out. In 1977, Pakistan's last legally elected Prime Minister Z. A. Bhutto was overthrown and replaced by the military dictatorship of Zia ul-Haq, which judicially murdered Bhutto in 1979 on the same kind of trumped-up "corruption" charges Kissinger tried to use against Moro.

Before he died, Bhutto wrote a White Paper in his defense. He wrote that Kissinger had told him "I will make a horrible example of you" if Bhutto continued his independent nation-building efforts. Reporting on a conversation with Kissinger over Pakistan's nuclear energy program, which Kissinger opposed, Bhutto wrote, "Thus I received my death sentence."

Middle East was the issue

At the time of his death, Aldo Moro, then the president of Italy's Christian Democratic Party, was working closely with Pope Paul VI on a plan to create a "national unity" government in Italy, bringing into some government role the Italian Communist Party, Italy's second largest party. It was this plan that Kissinger openly and vehemently opposed.

As reported in court by Guerzoni, Kissinger told Moro in 1974, "I am not a Catholic, I do not believe in dogmas, and I cannot believe in your political line which I consider a strongly negative element."

But Moro himself was not deceived into believing that Kissinger's opposition had anything to do with "anti-communism." Moro's son testified last summer that Moro perceived that a certain network in the Soviet Union agreed with the Kissinger forces in the United States and Britain in opposing the "national unity" plan, for broader strategic reasons. According to published reports of the "confessions" extracted from Moro by his Red Brigades captors, Moro dated Kissinger's personal hostility to him from 1973, when as Italian Foreign Minister Aldo Moro had denied the United States permission to land on Italian bases to resupply Israel in the Yom Kippur war. Moro noted that Kissinger could not digest the European effort to open a dialogue with the Arab countries as well. It was then that Kissinger opened up the slander campaign depicting Moro as soft on communism.

In the murdered statesman's own words, "I was portrayed as bent on an indiscriminate accord with the Italian Communist Party, whereas it is well known that my attitude is a

carefully thought-out and measured political evaluation. . . ."

The West Bank real-state scam

A scandal that began to surface days before Guerzoni's Rome testimony makes clear what kind of interests Henry is protecting in the Middle East. The Kuwaiti daily newspaper *As-Siyassah* of Nov. 6 ran a six-column article exposing Henry Kissinger's planned Nov. 15 meeting in London with former British Foreign Secretary Lord Carrington, now a member of "Kissinger Associates, Inc.," former U.K. Ambassador to Washington Lord Harlech, and others to coordinate land speculation on the Israeli-occupied West Bank. A press release published by the Kuwaiti News Agency the same day stated:

"According to well-informed French political sources quoted today in the daily newspaper *As-Siyassah*, a major scandal is about to erupt that could lead to the dismissal of both Menachem Begin and Ariel Sharon. It has been revealed that there will be a series of secret meetings in London Nov. 14-15 involving Dr. Kissinger, Alexander Haig, Lord Carrington, and various British personalities such as Lord Harlech and Julian Amery as well as Miles Copeland, a former CIA agent in Egypt, living in London for the last 15 years."

"The meeting will aim at establishing a \$10 million fund to buy land in the West Bank and Gaza. In the recent period the Israeli government has been increasing its economic and political pressures on Palestinian families to leave their lands. These lands are then sold to pro-Israeli Palestinians, who are then selling them to dummy companies in France and Britain, which are exploiting them on behalf of the Israelis. According to French sources, this is the same operation as was done at the turn of the century by the Rothschild family.

"The London meetings will aim at gathering the necessary money for such investments in the West Bank and Gaza, and their exploitation for real estate speculation. The sources have pointed out that the early release of the news of the meeting may lead to its cancellation, as it also establishes a direct link with Israeli Defense Minister Ariel Sharon, who, it should be remembered, is responsible for the massacre in Lebanon."

Investigation of the reported real estate "scam" shows that in addition to Henry Kissinger and Lord Harlech, it involves former World Bank director Robert McNamara; two leading members of the Trilateral Commission, Ireland's Garrett Fitzgerald and Roy Jenkins, head of the British Social Democratic Party; and Copeland, who recently admitted to a close associate his involvement in the assassination in September of Lebanese President Bashir Gemayel, the incident that "triggered" the Beirut massacre. These individuals are operating through Lord Harlech's "Trust for International Development," a business front with operations in many parts of the globe. Heading the Trust is George Assoussa, former director of the now defunct Foundation for Arab-Israeli Reconciliation.

According to one intelligence source close to Israeli Defense Minister Sharon, large combines based in the United States, Israel and France have been formed to buy huge tracts of privately owned Arab land in the West Bank. The lands are then being unloaded in one-dunum and five-dunum plots for Israeli buyers at 100 percent mark-up.

It is estimated that 60 percent of privately owned land in the West Bank will be in Jewish hands in three years.

While agencies such as the Jewish National Fund and the Jewish Agency are refraining from direct involvement in the deals, other groups, such as the fanatical Gush Emunim, are conduiting millions of dollars into West Bank real estate. Organizations like the Jewish National Fund are putting money into land reclamation once the land is purchased. In one combine described to *EIR* investigators, the minimum investment is a quarter of a million dollars.

Complicit in the real-state scheme are a number of leading West Bank Arab families, many of whom, such as the Husseinis and Nuseibehs, maintain extensive connections to British intelligence. The Israeli-sponsored West Bank Village Leagues under the titular leadership of Mustafa Dudin are operating as an Israeli-controlled "Palestinian movement" to convince West Bank Palestinians to emigrate.

An anti-U.S. plot

In explaining Kissinger's involvement in West Bank real estate speculation, one insider explained, "It's simple. Kissinger likes money, and this is a damn good way to make it. Secondly, if Israel owns the West Bank, it means the West Bank problem is effectively settled—to the detriment of the United States."

Sharon and most of the Begin government are firmly behind the real-estate operation, which coheres with recently publicized government plans to settle 100,000 Jews on the West Bank by 1985. Such "Israeli expansionism" was roundly condemned by the U.S. administration in an unusually strong statement issued on Nov. 5. There can be no question in anyone's mind but that playing Sharon's "Greater Israel" game will undermine all remaining U.S. influence and credibility in the Arab world.

The Kissinger itinerary

This leads to the broader strategic goals of Henry Kissinger and the men behind him. *EIR* has discovered that Kissinger is slated to travel to London in the middle of November to put the finishing touches on an Anglo-Soviet sponsored plan to eliminate American influence in the Middle East. Kissinger's trip is the follow-up to a session he held with senior British aristocrats in London last May, when he was assigned the task of redirecting U.S. foreign policy to discredit the United States in the Middle East. He was given advance information of Israel's invasion of Lebanon at that time.

EIR learned of several high-level secret meetings recently

convened or scheduled to occur, with the involvement of Henry Kissinger and his associates:

1) On Nov. 15 in London, Henry Kissinger is scheduled to meet with Lord Harlech (David Ormsby-Gore) and others to discuss, among other things, "financial investments into the West Bank," according to one inside source. Those slated to attend the meeting include Ariel Sharon; Prince Johannes von Thurn und Taxis; former Secretary of State Alexander Haig; Lord Carrington, former British foreign secretary and a principal of Kissinger Associates; British parliamentarian Julian Amery, a top-level Freemason and a member of the secret Le Cercle group; Swiss intelligence operative Ernst Kux of the *Neue Zürcher Zeitung*, also reputed to be a member of Le Cercle; Robert Moss of the *Daily Telegraph* and British intelligence; Sir Edmund Peck, a British intelligence operative from World War II days when he was active in the Balkan theater, currently a visiting professor at Aberdeen University; Armin Gutowski, director of the Hamburg World Economic Archives; and Nicholas Elliott, former British intelligence station chief in the Middle East and currently a senior official in MI6.

2) In mid-October, Sharon held a private meeting in the village of Dir-el-Kamar in the Chouf Mountains in Lebanon with Charles Chamoun, a relative of Camille Chamoun. Present at this meeting were: Rupert Murdoch, owner of the *New York Post* and long-time British intelligence operative; Charles Douglas-Home, editor of the *London Times*; *New York Post* foreign editor Bruce Rothwell; Uri Dan, formerly of the *New York Post*, official biographer (and apologist) for underworld crime figure Meyer Lansky, and currently official spokesman for Ariel Sharon; Israeli Consul-General to New York, Naf-tali Lavi; and Lebanon's ambassador to China, A. Bustani.

The purpose of the meeting, sources report, was to discuss building up Chamoun's Chouf Mountain headquarters in Dir-el-Kamar and the Chamoun clan as a battering ram against the presidency of Amin Gemayel. Chamoun is known in Lebanon for his strong British intelligence connections as well as for his strong East bloc banking connections. Other topics included the West Bank, the importance of keeping the Lebanon-Israel border open, and real estate and water diversion schemes for southern Lebanon. The meeting was followed by a helicopter tour of the West Bank (reportedly to survey the premises); meetings with Prime Minister Begin and other government and opposition leaders; and a party at Sharon's ranch, hosted by Rupert Murdoch. Joining the festivities was American Jewish Congress head Howard Squadron, Rupert Murdoch's lawyer.

3) British parliamentarian and intelligence operative Julian Amery arrived in Israel in early November for one week on the pretext of attending celebrations commemorating Balfour Day. The real purpose of the visit, sources report, was to meet secretly with Israeli intelligence, Mossad. (See article, page 31.)

International pressure forces Zia to release opposition leader Begum Bhutto

by Susan Brady

Nov. 11—Pakistani military authorities announced today that they would allow Mrs. Nusrat Bhutto to go abroad for advanced medical treatment. The decision was made after a government medical commission confirmed that Mrs. Bhutto had lung cancer.

The official spokesman for U.S. Secretary of State George Shultz has placed the Secretary and his department on record in effective collusion with Pakistani dictator Zia ul-Haq's ongoing effort to murder Mrs. Nusrat Bhutto by denying her request to travel to Europe for urgent medical care. In response to a question from *EIR* correspondent Stan Ezrol at the regular press briefing in Washington on Nov. 9, U.S. State Department spokesman John Hughes lied that Mrs. Bhutto was "no longer interested" in leaving Pakistan for treatment of suspected cancer.

This outright lie, stated for the record, poses the question: is the State Department engaged in a "preparatory coverup" for Pakistani dictator Zia ul-Haq's decision to murder Mrs. Bhutto, the leader of the banned Pakistan People's Party (PPP) and the individual State Department officials acknowledge would win hands-down in a free election in Pakistan today?

Mrs. Bhutto is the widow of Pakistan's only elected Prime Minister, Zulfikar Ali Bhutto, whom Zia overthrew in a 1977 coup, imprisoned and had judicially murdered in 1979. Mrs. Bhutto, who took over leadership of the PPP, has been diagnosed by her doctors as suffering from advanced lung cancer requiring treatment abroad. Lung cancer is one of the fastest-acting cancers, particularly when not treated properly.

On Nov. 10, Mrs. Bhutto collapsed and was rushed to the intensive care unit of a hospital in Karachi, Pakistan. The medical reporter of the London *Times*, having looked over the medical records, said she needed to be immediately removed to the best possible facilities, which Pakistan does not have.

Nonetheless, Zia is trying to prevent Mrs. Bhutto from leaving the country, clearly hoping that cancer will do to Mrs. Bhutto what Zia needed a hangman to accomplish with her husband. Zia was asked by the press in Malaysia, where he is currently touring, if he would let Mrs. Bhutto seek medical care abroad. Zia told the press that his own appointed

health boards' tests had produced a negative result. In fact, the health board said nothing and simply ordered the tests to be repeated. "If they were positive," Zia told the press conference, "the woman could go and take a holiday."

The British-born U.S. State Department spokesman's feigned ignorance of the Bhutto case is hardly credible, since a widely publicized international campaign for Mrs. Bhutto's release has been gaining momentum daily. From London, to Europe and Ibero-America, as well as within the United States, pressure is building on both Gen. Zia and President Reagan, scheduled to host Zia's state visit in early December, through a series of press conferences, a letter and telegram campaign, and demonstrations.

The European-based Club of Life—with active branches in the United States, Asia, Africa, and Ibero-America—has joined the campaign. The Club of Life has initiated a five-continent letter-writing drive addressed to Gen. Zia, and announced a demonstration at the Pakistan Embassy in Bonn, West Germany for Nov. 12. In London the Pakistan People's Party will hold a demonstration at 10 Downing Street, where Margaret Thatcher is scheduled to be meeting with Henry Kissinger, Secretary of State Shultz's mentor.

On Nov. 1, in what some British press referred to as "an unusual departure from protocol," Indian Prime Minister Indira Gandhi interceded directly on behalf of Begum Bhutto with Martial Law Administrator Zia during the brief talks the two held during Zia's stopover in New Delhi en route to Southeast Asia. During the week a "Save Begum Bhutto Campaign" was launched at a press conference in London, where Conservative Member of Parliament Jonathan Aitken announced he would enter a motion in the House of Commons calling on the Pakistan government to allow Mrs. Bhutto to travel abroad for medical treatment. The London *Times* ran an editorial urging Zia to let her leave.

By contrast with the pretensions of the State Department, Gen. Zia is clearly under no illusions about Mrs. Bhutto's desire to leave the country to save her life. He has not only masterminded the months-long stalling on her request, including demands that a specially appointed medical board examine her case, but in recent days and weeks he has taken every possible opportunity to reiterate that he will not accede to demands to save her life. In Bangkok on Nov. 1, after his

flight from New Delhi, Zia told the press that he would not respond to Mrs. Gandhi's pleas to save Mrs. Bhutto's life unless his medical examiners tell him that she is suffering from terminal cancer.

Professions of concern

As Ezrol pointed out in his exchange with State Department spokesman Hughes, a month ago the State Department had told Ezrol in the same forum that they "would not be surprised" if Mrs. Bhutto were allowed out of the country very soon. When Ezrol reminded Hughes that a month had passed, and asked him what had happened, Hughes said: "No, nothing on that. But, ah, it seems to me I saw something recently, I'm not sure where, indicating that she is no longer interested in leaving."

Ezrol responded: "The latest information we have from her family is that she is very much interested in leaving. If someone else is putting out a different story, I would be interested to hear it." Hughes refused to answer and proceeded abruptly to the next question.

Someone must have later realized that Hughes's remark was too "imprudent," because the next day a written response to Ezrol's inquiry was posted at the State Department stating: "We have discussed this matter with the government of Pakistan and continue to take an interest in it. It would not serve our interests in the matter to reveal the details of our discussion."

Hughes's protests that Mrs. Bhutto does not want to leave Pakistan contrast sharply with the State Department's own professions of concern in recent months for the "human rights" record of the Zia dictatorship, a concern which many observers trace directly to the upcoming state visit of the Pakistani dictator to Washington Dec. 7. Many Congressmen and Senators opposed the provocative political and military alliance with Pakistan that the U.S. administration has given every indication it is intent upon maintaining at any cost.

State Department deskmen have been anxious in recent days to puff the agency's "intensified" campaign to encourage the Zia regime to "clean up its act"—which, besides an odious "human rights" record, includes the distinction of being the world's number-one supplier of heroin. U.S. Ambassador Speirs stated publicly in Islamabad that the issues of human rights, narcotics, and Pakistan's reported efforts to gain a nuclear-weapons capacity may point to a future conflict between the United States and Pakistan.

Another "horrible example"?

Mrs. Bhutto's simple and urgent request has put the State Department's public relations to the test.

Her late husband, Zulfikar Ali Bhutto, presented a similar challenge to American diplomacy when, as Prime Minister of Pakistan, he insisted on the sovereign development of nuclear energy technology for Pakistan. For this kind of stubborn independence in defense of modern industrial and scientific development for nation-building, that could have

set the pace for the rest of the developing-sector nations, Z. A. Bhutto was delivered the threat from Henry Kissinger that "I will make a horrible example of you." One year later Bhutto, the democratically elected leader of Pakistan, was overthrown by Gen. Zia, and two years later Bhutto was murdered by Gen. Zia's judicial system.

Mrs. Bhutto is not alone in fearing that Zia, with possible State Department connivance, has the same fate in store for her. She has continued to speak out about her case, attempting to counter the Pakistani government propaganda which has recently turned toward attempting to imply that Mrs. Bhutto is the one holding up a decision.

Zia's stalling game

Mrs. Bhutto first requested permission to leave the country for medical treatment in August when her condition had worsened and her own doctors had advised her that they could not administer the necessary treatment. At the time, she stated publicly her willingness to answer any and all inquiries the government might have concerning her request. She also stated publicly that she had no intention of engaging in political activity while abroad.

For more than two months, she received no response at all. Then, in late October Zia declared that a specially appointed medical board would be established to rule on her case. Finally, on Oct. 31, Mrs. Bhutto was put through a series of strenuous tests following which she fainted and later reported a significant loss of blood. Nearly two weeks later the government still has not issued its report, and there is little reason to believe that when and if it does the report will be honest. According to one of Mrs. Bhutto's doctors who was allowed to attend the interview board meeting, chairman of the board Major-General Iqbal Chaudhuri made a vague and ambivalent statement about her disease.

Now Major-General Chaudhuri has ordered Mrs. Bhutto to undergo yet another round of taxing and potentially dangerous bronchoscopy and biopsy tests—this, when fresh clinical tests and x-rays are already before the board, and when the full reports of Mrs. Bhutto's doctors, who had administered these tests earlier, are also before the board.

Since August, when her doctors determined that she most likely was suffering from lung cancer and advised her to seek foreign treatment, further tests have clearly showed a mass in Mrs. Bhutto's left lung and she continues to cough up blood, according to Dr. Thelma Bates of St. Thomas's Hospital in London, who has reviewed Mrs. Bhutto's medical records and addressed the London press conference this past week. Mrs. Bhutto has undergone three courses of chemotherapy. "The more time that goes by the less chance there is of saving this patient," Dr. Bates told the press.

Mrs. Bhutto's doctors have strongly advised her against a new round of the bronchoscopy and biopsy tests. Not only is it likely to cause a flair-up of her disease, they warn, but if Mrs. Bhutto were to undergo general anesthesia at this point, they say, it might well result in cardiac arrest.

Weinberger's visit to Southeast Asia: an anti-Soviet mission that failed

by Ramtanu Maitra

The Reagan administration has shown a renewed interest in Southeast Asia, following a decade of American kowtowing to Peking. Yet Defense Secretary Caspar Weinberger's recently concluded seven-day trip through Singapore, Thailand, Indonesia, Australia, and New Zealand failed to reassure some of the ASEAN nations that the United States is earnestly seeking to stabilize the region. Weinberger during his trip, as all available reports indicate, put up a strong rhetorical front against the Soviet Union, but avoided the issue of Chinese threat of expansion in the area, a threat which most of the Southeast Asian nations consider their gravest concern.

In the past two months, two of the United States' friends in the region, President Marcos of the Philippines and President Suharto of Indonesia, met with President Reagan in Washington. Both made it clear that they would welcome efforts to increase the U.S. military capability in the Pacific. The Philippines is a signatory of the 1954 Manila Pact, which provides for automatic U.S. involvement in case of armed aggression by any communist nation against the pact members; President Marcos was assured by the State Department that the United States will stand by its commitments. Weinberger brought up the U.S. commitment to the Manila Pact countries in the context of a general Soviet threat and a specific hypothetical armed aggression by Vietnam against Thailand.

Yet most of the leaders in Southeast Asia are preoccupied with containing Peking. Given the recent cooling-off of U.S.-China relations, the ASEAN (Association of South-East Asian Nations) members, Indonesia and Malaysia, in particular, are looking for a much more constructive approach from the United States.

Recently, President Suharto, who severed Indonesia's diplomatic relations with China in 1967 and has shown no sign of reviving ties, stated that Washington's strategic and economic links with Peking might make it easier for China to spend its resources subverting the region's elected governments. Another ASEAN official told the press, while Weinberger was in Singapore: "On the Kampuchean issue, the

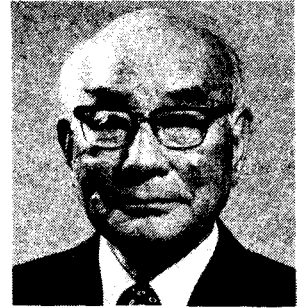
question is whether the United States will support us [ASEAN] or China."

The Defense Secretary was clearly pushing for support for the Chinese approach to Cambodia. In Thailand, which is considered by Peking and Washington a "front-line state" against Vietnam, Weinberger pledged \$12.2 million in military aid to Bangkok, which would bring the total U.S. military aid to Thailand in this final year to \$80 million.

Although Weinberger was elusive as to whether the United States will supply arms to the newly formed coalition group of Sihanouk, Son Sann, and Pol Pot—which is dominated militarily by Pol Pot's monstrous Khmer Rouge—against the Heng Samrin regime in Cambodia, it is widely known that both China and Thailand are the main arms conduits to the Khmer rebels.

Weinberger's emphasis on Vietnam as the major source of threat in the region was out of step with the region in light of the fact that Vietnam's Foreign Minister Nguyen Co Thach left Indonesia three days before Weinberger arrived in Jakarta after long talks with President Suharto and Foreign Minister Mochtar. Thach's talks hinged on finding a peaceful solution for Cambodia and on expanding Vietnam's economic cooperation with the ASEAN nations, Indonesia in particular. Following these meetings, Thach extended an invitation to Mochtar to hold the next round of talks at Hanoi, which the Indonesian Foreign Minister accepted.

Diplomatically, perhaps, Weinberger's chief blunder was in holding a three-hour closed door meeting with Singapore Prime Minister Lee Yuan Kew. Liked by few and trusted by even fewer ASEAN leaders, Lee Yuan Kew is closer to China than any other leader in the region. Last July while he was visting Washington, he asked the U.S. Secretary of State to station an aircraft carrier in the region. What rankled most other ASEAN leaders was that Lee had never bothered to raise the matter with his regional counterparts before proposing it to the United States. In Singapore, where Lee gave him profuse support, Weinberger told reporters that what he sees as a Soviet threat "is clearly increasing in the Pacific, and it is obviously the thing we discuss with each of the countries."



Japan's 'prime minister of business' discusses the economy's dilemma

For the leadership of Japan, now enmired in a crucial national election campaign that will name a new prime minister, no issue is of greater importance than the decline of the world economy, which is creating severe difficulties for the previously-vibrant Japanese economy. As a nation highly dependent on world trade, especially exports of capital goods to the developing countries, Japan's declining export levels are causing the usual symptoms of recession in the country: reduced tax revenues, growing budget deficits, and stagnating living standards.

Without a revival of world trade to boost Japanese exports, conditions in the Japanese economy can only worsen.

Confronted by this crisis, a heated debate has broken out in Japan. Should fiscal and monetary stimulation be used to boost the economy and "tide over" the world crisis? Or is the crisis longer-term, requiring government cutbacks and social austerity? Profoundly related, but rarely discussed in public, is the politically acute question of whether Japan can make independent initiatives to help revive the world economy.

No one in Japan is more central to this debate than 86-year-old Toshio Doko. Formerly the chairman of Japan's leading business federation, Keidanren, Doko is one of the most powerful men in the country, and is sometimes referred to as the "prime minister of the business world." It was for good reasons that outgoing prime minister Zenko Suzuki named Doko to oversee efforts to carry out "administrative reform" in Japan as chairman of the government's Administrative Reform Commission. A program to promote efficiency and reduction in government expenditures, the campaign for "administrative reform" is the chief attempt currently being made in Japan to "adjust" the economy to the global economic downturn.

An engineering graduate of the Massachusetts Institute of Technology, Doko was one of the central figures responsible for the remarkable post-war recovery of the Japanese economy. He made his mark in the business world as president of Ishikawajima-Harima, one of Japan's foremost ship-

building companies. He pioneered the building of oil super-tankers, repeatedly astounding skeptics by making them larger than conventional wisdom held possible. He pioneered the building of the first 50,000-ton tanker, then the 100,000-ton tanker, and finally the 200,000-ton tanker. He later moved on to become president of Toshiba, a giant manufacturer whose products range from washing machines to nuclear reactors.

The dilemma

Now, in heading up the administrative reform campaign, Doko may have met his match—an impossible task of using budget cuts and other efficiency programs to reconcile the Japanese desire for continued economic growth and prosperity with the declining world economy. No matter what, the two just don't go together.

The dilemma involved is that, in the face of stagnating world trade since 1973, then absolute declines in world trade due to the Khomeini oil shock and high U.S. interest rates, the Japanese economy has become dependent on huge government stimuli to make up for the demand previously provided by trade.

Massive cuts in the budget could end up simply deepening an already serious recession in Japan. At the same time, the policy of using government spending to tide over the recession has led to giant budget deficits, which by 1977-78 had reached more than 30 percent of the entire budget. Under conditions of stagnation in the economy's industrial base, such deficits simply cannot be maintained. Unless the world economy and Japanese exports grow, economic disruptions will continue in Japan whether the budget is cut or expanded.

Prior to the 1973-74 oil crisis, Japan did not have to worry about budget deficits. The high-growth economy was producing such large public revenues that Japan was able to make sizeable tax cuts quite regularly, in addition to large government outlays for infrastructure and capital investment.

The first oil crisis changed this. Japan faced its first seri-

ous recession of the post-World War II period, suffering zero growth in exports in 1975, which in turn forced large cuts in imports so as to avoid unmanageable trade deficits. Successive premiers decided to "buy time" until a hoped-for world trade recovery, by running ever-larger budget deficits.

No one in Japan expected this situation to become permanent.

Then came the Khomeini oil shock in 1980 and Paul Volcker's high interest rates, which caused additional declines in world trade. So far this year, Japan's exports in physical quantity are down more than five percent from 1981, and industrial production levels are also down. The continued recession has wreaked havoc with the already large government budget deficits, leading the government to introduce the demand for zero growth in expenditures in the 1982 budget, save for several priority items.

The budget question

For fiscal 1983, the outgoing Suzuki government has planned for a 5 percent budget cut. Moreover, with the recession continuing, even these cuts will not be sufficient to meet government guidelines; failed expectations for recovery of the U.S. economy in 1982 caused over-estimation of government revenues, promising a higher-than-expected deficit.

Doko's Administrative Reform Commission was charged with finding ways to meet the government desire to reduce the budget deficit *without raising taxes*. Prime Minister Suzuki, who staked his political life on ending the deficits by 1984, resigned in part in realization that the budget problem was still out of control.

One candidate to replace Suzuki as premier, Economic Planning Director Toshio Komoto, is an opponent of the administrative reform program; he is strongly arguing that Japan must take any measures necessary, including continued budget stimulation, to maintain at least 5 percent domestic growth rates. However, like the administrative-reform advocates, Komoto has said little on how to revive world trade and Japanese exports.

Among Mr. Doko's many distinguished positions, he is chairman of the advisory commission studying the Global Infrastructure plan (GIF) proposed by Masaki Nakajima of the Mitsubishi Research Institute (see *EIR*, Feb. 23, 1982). A plan for huge investments especially in the developing countries, the GIF plan and similar plans provide a readily feasible—if politically controversial—means to revive the world economy.

EIR Asia Editor Daniel Sneider interviewed Toshio Doko in Tokyo on Oct. 21.

Sneider: You have been directing the Administrative Reform Commission which is dealing with some of the economic problems of Japan. From that standpoint, I would like to ask you two questions. First, how serious is the problem in the Japanese economy today, and, secondly, do you think

that the problems of Japan are basically internal problems, or are they the result of conditions outside of Japan, the international situation?

Doko: Basically, I think the problem is domestic in nature. Of course, it has something to do with international conditions, but basically the problem is domestic. Since three years ago when we suffered from the rise in oil prices, I have kept saying to the Japanese government that we should proceed with administrative reform.

It has been more than 100 years since Admiral Perry arrived in Japan, and it's now 30 years since World War II. The changes that have taken place in the 30 years since the war have been very significant. However, the organization of the government in Japan has not adjusted very well to these changes. During these years, there have been several attempts to proceed with the administrative reforms, yet unfortunately, because of serious fiscal problems, no such plan has been successful. But now, the situation is such that without administrative reform Japan will be faced with a really serious problem. So, this time, I was asked by Prime Minister Zenko Suzuki to take care of the administrative reform. There will be many difficult problems to be overcome. To make the reform successful, we will have to make the big decision to maintain the reforms even if there is really strong resistance from various circles.

Mr. Suzuki expressed his strong willingness to proceed with the administrative reform, so I have accepted this request.

As I mentioned, there have been very significant changes in Japan since the war. Japan was completely destroyed by the end of the war, so many people thought it would take at least 30 to 50 years for Japan to recover from the serious damage. However, due to favorable cooperation from the United States, Japan is now in a greatly improved situation.

During the 1960s, the Japanese economy achieved growth rates of more than 10 percent annually, and Japan enjoyed a large surplus in revenues. During this growth period, the government grew very large. When the situation changed after the 1960s, Japan entered a stable, or low-growth, period economically, and the government and private industry were urged to learn to cope with the new situation. Changes were made in the industrial structure of Japan to meet the new situation. At the time of the oil shock, Japan had to import close to 100 percent of all its oil, and oil supplied upwards of 73 percent of Japan's total energy supply. Industries had no real choice but to undertake reforms.

So, the oil shock of the 1970s created problems following the period of high growth of the 1960s, and Japanese companies tried to take action to cope with the problems.

On the other hand, the government did not take any counter-measures to cope with the changes. I asked the Japanese government to undertake administrative reform, since during a period of stable economic growth we cannot expect a large increase in revenues, and we could not rely upon a tax increase. In order to cope with the new situation, we urged the

government to try to cut down its size.

Also, by the end of the 1960s, the Western countries had established well-organized social welfare systems, and Japan also started to introduce such a system domestically. Now, Japan has a social welfare system functioning quite similar to those in the West. But these systems gave rise to an increase in expenditures, to which industry had to contribute to maintain the system. The cost burden for the Japanese government to maintain our social welfare system is quite comparable to that in the United States.

Trade relationships in the world have also changed, so Japan has also had to take effective counter-measures to cope with these trade relationships. We have less than 20 years until we enter the next century, so for Japan to be successful and to prosper in the 21st century we have to take some drastic action at this moment.

We have experienced a large increase in the number of elderly people in Japan. Japan is perhaps the country with the highest life expectancy in the world and this trend will become more serious in the next 10 years to come.

The larger the Japanese government becomes, the more the people have to pay in expenses. As much as 35 percent of the Japanese people's income is paid in taxes or to support welfare programs, and this ratio is expected to go up to 50 percent in the near future. Fifty percent is the level in the Western countries, and we can not afford to do that!

After the oil shock, Japanese industry was revitalized to cope with the problems, and at this stage we have a more favorable situation with regard to unemployment and inflation than other countries in the world. However, the government did not take reasonable counter-measures to deal with the problems, and they are still headed on the same course they pursued during the high-growth period, including intervening with private industry a little too much. There are many examples of inefficient government-run enterprises, such as the railway, and there are an additional, over 200 special government corporations, most of which operate in the red. Sometimes, some of the interferences by the government halt the vitality of the private industry.

So, this is the domestic problem. There are also the increases in government bonds issued, which now total 100 trillion yen, or something like \$370 billion.

Sneider: The world economic situation is very critical at this time. What do you see can be done by Japan in this situation, perhaps an "administrative reform" of the world monetary and trade system? And, do you see the possibility of regaining high economic growth in the future, perhaps by developing the less-developed countries as new markets?

Doko: Since the end of the war, at which time Japan was destroyed, Japan has grown to the point that we have now approximately 10 percent of the world's economy. Japan has to assume the international responsibility comparable with its weight in the world economy. This is the responsibility of

the government.

The Japanese government has been providing economic assistance to the developing countries, but for the government to increase this assistance to the Third World the Japanese economy must be in a healthy state. This is one of the main purposes of the administrative reform.

Regarding high growth rates, we do not think that this will be necessary or desirable. We would like to have more stable economic conditions, with less inflation and less unemployment, and we should have a reasonable level of social welfare. Beyond that, if we have extra funds, maybe we should investigate the kind of contributions we will be able to make to the developing countries.

So, we are now looking at what should be done over the next 20 years, leading into the 21st century. We do not expect high economic growth; maybe what we expect is an increase in the rate of 3 to 4 percent annually.

Japan has no natural resources, no significant energy source, and Japan has to import a large amount of food. So, Japan has to rely upon trade for its future prosperity, and we will continue to have trade relations with the countries that have abundant natural resources. What Japan should do is add very high value to the products imported from the Third World and other countries. But Japan should not just buy natural resources and export products to other countries in the world. Perhaps in the future Japan should import the natural resources after some value has been added, and then Japan should add even more value to the product, and then re-export.

So, to summarize: The first thing we have to do is make our domestic economy as healthy as possible. Japan will continue to rely on imports from other countries, so we must assume more international responsibility for the world economy. Five years from now, Japan would not be in a position to undertake the administrative reform. We must make the reforms at this very moment. That is why I am working so hard on this right now. This is not only the task of the government; the Japanese people must not overly rely on the government, they must stand on their own feet and be as autonomous as possible.

We will have to have a mutually beneficial relationship with the Third World in the future. The government is saying we will have to have a 5 percent growth rate, but I think 4 percent will be enough.

Sneider: As my final question, I would like to know your view on the future industrial structure of Japan. What do you envision to be the "leading technology" of the next 20 years?

Doko: The steel industry is not growing any more, and the aluminum industry relies so much on imported materials. Since Japan has to have a trade relationship with foreign countries, perhaps Japan should place more emphasis on the high-value-added productive areas in the future. Japan has a lot of problems to be solved.

Betancur uses bank nationalization threat

by Valerie Rush

"If they force us to nationalize, we are prepared to do so without regard to particular interests, no matter their size or origin." With this statement, designed to shock Colombia's rebel banking sector into conforming to national interests, Colombian President Belisario Betancur has fired another salvo in what is fast becoming open warfare between the new nationalist head of state and the country's financial czars whose interests have coincided for at least a decade with those of the international narcotics cartel known as Dope, Inc.

On the occasion of Betancur completing his first 100 days in office, former President and number one Dope, Inc. asset in Colombia López Michelsen announced that the honeymoon with the new administration has ended. "What are we going to do with unpayable debts and interest rates which lead to total industrial paralysis?" accused López, whose own 1974-78 government had first introduced the monetarist economics of Milton Friedman into Colombia. López called on the opposition Liberal Party to follow him in forging an active resistance front to the Betancur administration. In response to López's challenge, Betancur issued an open letter to the press last week in which he charged that his administration had inherited a financial disaster from previous administrations of such proportions that to reveal the figures of the fiscal deficit created by López and his successor-puppet Turbay Ayala "would be subversive."

In his latest warning to the bankers, Batancur declared that upon taking office, his government found the country in the midst of a "cataclysm" worse than any geologic disaster, a cataclysm which "destabilized the entirety of the economy and caused a fatal metastasis in both general economic activity and . . . in the pocketbooks of every Colombian family. . . . We don't wish to resort to the rigors nor the extremes of other nations, but if necessary, we are prepared to nationalize because the interests of the community come first."

What triggered Betancur's threat was the refusal of the banks to follow the government's latest effort to bring the financial crisis under control, a decree ordering an initial 3 percent decrease in official government lending rates which Betancur expected to be reflected in a similar lowering of private-banking interest rates. The bankers responded to the executive initiative by announcing that lower interest rates would have to wait until after the Christmas season, when a rush of consumer borrowing at the current 45 percent would

bring a windfall to the banks. The bankers then called on Betancur to withdraw the government bonds which compete with their private paper on the commercial market.

After nearly a decade of Friedmanite austerity combined with a deliberate stimulation of the illegal drug trade, the desperate Colombian population cried 'Enough!' and voted Betancur. He started out trying to be all things to all people, while genuinely trying to pull his country out of its crisis. He has been fought at every turn by agents of the drug-linked oligarchy, both from within his own cabinet and from without. He has now started to fight back.

The job Betancur faces is enormous. Consider Colombia's inherited financial problems:

- the government's present fiscal deficit is an incredible one-half of the total 1982 operating budget of 320 billion pesos (64 pesos/dollar);

- the country's number one export earner, coffee, is in a bad slump; Colombia expects next year to store as many sacks of coffee as it will export, a low 8 million;

- the country's second-largest export earner, textiles, is bankrupt; the giant Celanese, indebted to 94 percent of its capital, was bailed out this year, but the two textile companies Coltejer and Fabricato have debt/capital ratios of 81 percent and 76 percent respectively;

- Colombia's largest industries report the following debt/capital ratios: Cervecería Andina-76 percent; Compañía Nacional de Cigarrillos-76 percent; Cementos del Valle-86 percent; Metálicas de Palmina-70 percent; Avianca-75 percent.

- state agencies are all staring bankruptcy in the face as well: the Agricultural Fund (Caja Agraria) owes 7.6 billion pesos; Ecopetrol, 2.5 billion; railroads 4.6 billion; Education Ministry 50 billion.

Betancur is being offered two solutions to the crisis. One, which has been endorsed by prestigious members of the political, economic, and government communities, is to give the billions of dollars of drug money that has illegally entered the economy or been deposited in Swiss or offshore accounts an "amnesty"—register your dollars with no questions asked—in return for which the government gets a tax windfall with which to pay off its debts. This approach has been encouraged by the Justice and Finance Ministries, the nation's Comptroller General, the head of the national industrialists association, politicians and senators from left and right, and even personal advisers of President Betancur.

The other solution is being proposed by labor leaders who are being urged by the oligarchy to accept their "quota of sacrifice" while the banks get their "amnesty." The country's four labor federations plan a show of force Dec. 2, when one faction hopes to present Betancur with a program for nationalizing the corrupt banks, lowering interest rates across-the-board by executive decree, imposing strict exchange controls, launching a brute-force industrialization drive and joining the rest of the continent in its fight for joint renegotiation of their foreign debts.

Argentina offers 'South-South' cooperation on nuclear energy

by Cynthia Rush

Argentina's Vice-Admiral Carlos Castro Madero, the director of that country's National Atomic Energy Commission (CNEA), reported at the early-November Second International Conference on the Transfer of Technology in Buenos Aires that his government was discussing the transfer of nuclear technology to several Ibero-American nations. Emphasizing that all nations have the "unquestionable right" to develop independent nuclear programs. Castro Madero charged that "unequal scientific-technological development had created . . . a kind of neo-colonialism, through dependence on critical materials . . . which affects the sovereignty of each state."

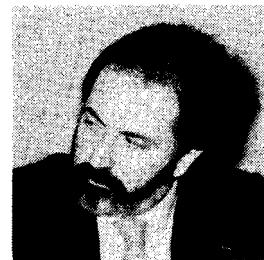
With the most advanced nuclear program in Ibero-America, Argentina is well situated to make this offer. As detailed in the following article written especially for *EIR* by Luís Fernando Calviño of *Energeia* magazine in Buenos Aires, the Argentine government consciously set out to develop its nuclear program in the late 1940s with the understanding that it would be a vital safeguard for its national sovereignty. The program suffered the ravages of violent monetarism imposed by pro-British Finance Minister José Martínez de Hoz (1976-81), and has also come under increasing attack by Malthusian forces who have come to inhabit the U.S. Congress in recent years. Nonetheless, Argentina's CNEA is committed to advancing the program, if not in collaboration with the United States, then with the nations of Europe or the developing sector.

The CNEA recently signed a letter of intent with Colombia's Institute of Nuclear Affairs whereby it offers to provide that country with an experimental reactor, build a plant for the production of radioisotopes, and a pilot plant for treatment of radioactive minerals. The CNEA will also help train Colombian personnel.

Agreements for nuclear cooperation also exist with Peru, and according to Castro Madero there have been "several requests" from other Ibero-American nations seeking similar agreements. Unlike agreements offered by some advanced sector nations, Castro Madero reported that Argentina will

sell technology on terms that do not constitute "an additional financial burden" on those countries.

Mr. Calviño, who is a member of the Buenos Aires chapter of the Club of Life, is currently the interim director of *Energeia* magazine. He also works as a researcher at the Fundacion Latina in Buenos Aires, and teaches courses in political science and international affairs at the Universidad del Salvador. Part I of his article details the beginnings of the Argentine nuclear program and its development through the end of the 1960s. The conclusion will appear in a future issue of the *EIR*.



Luís Fernando Calviño

Courtesy of *Energeia*

Argentina's nuclear plan: history and perspectives

by Lic. Luís Fernando Calviño

Argentina's interest in nuclear energy dates from 1945, barely a month after the atomic explosions at Hiroshima and Nagasaki. At that time the Ministry of War issued a decree ordering the preventive conservation of existing national uranium deposits. Nonetheless, the period from then until 1950 can really only be considered the pre-history of Argentina's

nuclear development. For purposes of analysis, the evolution of Argentina's nuclear development can be broken down into three basic periods: 1) the gestation period (1950-1966); 2) the consolidation period (1966-1976); and the expansion period (from 1976 on).

The gestation period

This stage began on May 31, 1950 with the creation of the National Atomic Energy Commission (CNEA), whose authorized functions were the promotion and control of official and private research, drafting of proposals for the national government on the protection of the population from the effects of radioactivity, and measures to ensure the proper use of atomic energy. It also noted the inalterable objective of using this energy source for peaceful purposes.

In the years that followed, other complementary organizations to the National Atomic Energy Commission were created, among them the National Atomic Energy Laboratory under the direction of Dr. Ronald Richter; uranium resources began to be systematically exploited through Fabricaciones Militares [the state-run military industries enterprise—ed.] to study treatment technology and use of radioisotopes for medical and occasionally, industrial applications.

In 1953, when President Eisenhower launched his "Atoms for Peace" program, Argentina and the United States signed the first agreement for cooperation in the peaceful application of nuclear energy, including a commitment to exchange information on design, construction and maintenance of research reactors. This agreement was possible thanks to changes in the Atomic Energy Act in 1954.

The decisiveness with which the Peronist government took up initiatives related to nuclear development during those years—a period of truly pioneering efforts—was responsible for the fact that at the United Nations-sponsored International Conference on Atomic Energy for Peaceful Purposes in Geneva in 1955, Argentine professionals presented close to 40 projects.

When the Peronist regime was overthrown in 1955, the government decreed an important basic standard which remains in effect today. Decree 22.477 established that while uranium resources could be exploited and industrialized by private concerns, the state retained ownership of the mines and minerals.

In the framework of a bilateral agreement signed with the United States, construction of the RA-1 reactor was begun in 1957, and inaugurated one year later at the Constituyentes Atomic Center. Its design was that of the U.S.-built "Argonaut" 100 Kw reactor. Through the U.S. Atomic Energy Commission, the CNEA had obtained 36,248 Kg. of 20 percent enriched uranium oxide, and agreed to pay \$5,000 annually for its leasing. According to the agreement, the uranium oxide would also be returned to the AEC.

This was the first reactor in Latin America to reach this critical stage—on January 20, 1958—and was the first dem-

onstration of feasible autonomy in an international context for that period. Rather than acquiring a reactor from abroad, as many others had done, Argentina resolved to build its own.

After the completion of RA-1, RA-0 was built and is currently used for teaching purposes at the University of Córdoba. Together with the RA-2, this reactor helped in gathering information on the design of the reactor core and acquiring experience in increasing the potency of RA-1 to 150 Kw, leading to the construction of RA-3—without foreign aid. The latter also required enriched uranium, but unlike earlier cases, it was enriched at 90 percent. The reactor was built for purposes of experimentation and production of radioisotopes, and is located at the Constituyentes Atomic Center.

This stage was characterized by a commitment to adequate administrative infrastructure and the development of research reactors, thanks to changes in U.S. legislation which permitted the release of information pertaining to specific areas of nuclear development. Transfer of technology relating to any stage of the fuel cycle had always been previously prohibited.

The period of consolidation

In 1965, the CNEA defined projects of even greater scope. In 1966, it proposed to the national government a 'Pre-Investment Study' for the construction of a 500 Mw nuclear facility for installation in Zarate or Magdalena in the province of Buenos Aires, that would supply electricity at a cost somewhere between \$90 and 100 million dollars.

The decision-making process which culminated in the awarding of the contract to Siemens Corp. is a clear example of the benefits of knowing the international nuclear system in depth, so as to gauge the margin of maneuverability in terms of what is desirable and what is possible, in the area of autonomous nuclear development.

The CNEA promoted the natural uranium line as the most convenient for Argentina, as it would facilitate the development of a fuel cycle independent of foreign sources, providing the country possessed enough uranium resources to meet its own needs.

While the establishment of a domestic enrichment process was rejected because of its high cost, it was emphasized that any international agreement with the sole supplier—the United States—would be subject to political contingencies that would affect the functioning of the reactors built and operated in the country.

Hence the great international interest in heavy water reactors; it was determined that programs of this nature existed not only in Canada and Sweden, but also in Germany, Spain and Czechoslovakia. Although what stood out at the time was the country's limited experience in this field, the government also foresaw the great potential for development, taking into account the capability of Argentine technicians and industry to keep pace with such a project. After determining

that the HWR offered the greatest potential for future perfection, it was pointed out that since the nuclear development of other countries tended toward use of the fast-breeder reactor, which produces more plutonium than it consumes, the HWR line would be most appropriate to supply these as it produces the greatest amount of plutonium as a residue.

Finally, it was determined that the heavy water line of reactors could be established in the future with the greatest degree of participation by national industry.

Ten offers were presented, although a discrepancy developed between those who supported the natural uranium option (the CNEA and the National Security Council), and those who opted for enriched uranium (the Secretary of Energy & Mining).

The CNEA backed up its position with technical arguments; from the national security standpoint it was decided that it would be better to assume the risk implied in the selection of a research reactor if that guaranteed the country's technological development without foreign "umbilical cords," particularly with the perspective of supplying plutonium to breeder reactors.

But political considerations also entered into the final decision, given that both Argentina and the Federal Republic of Germany—the country awarded the contract—held similar positions regarding non-proliferation. The German position on the Non-Proliferation Treaty coincided on several points with the Argentine stand in the negotiation of the Tlatelolco Treaty (the "denuclearization" of Latin America), especially with regard to rejecting all types of discrimination and having recourse to peaceful nuclear explosions.

The political factors were such that the final decision tended toward a 319 Mw reactor, instead of the projected 500 Mw one, with the stipulation that Siemens' sole experience in this area was the 50 Mw reactor at Karlsruhe. It was preferable to pay the cost of an additional 180 Mw and assume the risk of advancing a prototype reactor to industrial scale, provided the necessity of producing electricity was subordinated to a basic political strategy to assure a genuinely Argentine technological-industrial development.

On Wednesday, March 20, 1974 at 11 minutes after 12, the Atucha nuclear facility began to deliver electricity to the interconnected Buenos Aires-Litoral system. Thus General Juan Perón, then President of the Republic, had the satisfaction of seeing the efforts begun almost 30 years earlier during his first term in office, realized.

The second plant

On January 6, 1967, at the urging of the Provincial Energy Company of Córdoba (EPEC), a contract was signed authorizing the CNEA to do a feasibility study on the construction of a nuclear plant in that province. A year and a half later, the CNEA delivered a pre-investment study to the government motivating the construction of an 85-150 Mw plant, without making specific recommendations on the most appropriate reactor line. Both the natural water reactors—the

BWR and PWR—and the heavy water variants, PHWR, HWR, BGHWR and the VULCAIN, were considered.

The document rejected the possibility of producing enriched uranium domestically, but noted the policy shift in the United States regarding supply, leaving open this alternative which had appeared definitively closed as a result of studies done for Atucha.

Done in conjunction with the Secretary of Energy and the EPEC, these studies concluded that the Córdoba electrical system should be linked to the Greater Buenos Aires-Litoral system, and that the proposed plant should have a 600 Mw capacity.

In April of 1971, the military Junta decided to build the country's second nuclear plant and ordered CNEA to open bidding without a predetermination as to the type of reactor or the supplier. It should be pointed out that in the bidding, begun in December of that year, the specifications were published in Spanish for the first time.

The bidders were essentially narrowed to General Electric and Westinghouse (for enriched uranium) and Atomic Energy of Canada, Ltd. (AECL), and KWU Siemens for the natural uranium reactor. The Junta's indecision over the choice of a natural uranium line led to a game of intense pressures as reflected in the document issued by the Association of CNEA Professionals arguing that the use of enriched uranium would jeopardize the country's future. Once more, strategic considerations prevailed and the decision was made to build a natural uranium plant.

On December 20, 1973 the CNEA signed a contract for the plant's construction with the AECL consortium (nuclear island) and Italimpianti (conventional island), later approved by Decree 706 of March 7, 1974. Prior to the final decision, the AECL announced publicly that authorities in Ottawa were open to signing a technical agreement with Argentina for development of nuclear reactors. For various reasons, the Canadian government then chose to ignore its responsibility to transfer technology, stressing that Argentina had not offered explicit guarantees not to detonate any nuclear devices.

In March of 1976 the contractors convinced the CNEA that unforeseen circumstances—international and domestic inflation—had fundamentally altered the contractual relationship to the point that if changes weren't made, the project would come to a halt.

At the end of that year, an additional agreement was made changing the original terms of the contract and incorporating the higher costs. In this agreement, the AECL once again agreed to the transfer of technology as in the original contract, but this arrangement remained unfulfilled due to Premier Pierre Trudeau's clear anti-proliferation stand.

This incident led the CNEA to favor the KWU alternative for the construction of the third reactor, since the nuclear relationship with Germany offered the advantage that both countries held similar positions on the issue of non-proliferation.

to be continued

Naming names

The neo-fascist clique behind a speculator's protection racket called "Mexico in Liberty" has met with some surprises.

Things are pretty grim these days in Mexico, as everyone knows. One of the few things that provides relief to Mexicans is the spectacle of the vast oligarchic business and latifundist interests who took upwards of \$20 billion out of Mexico, now coming bitterly complaining to the government that they have no dollars to pay for imports—"because of government corruption and malfeasance."

The neo-fascist clique that is preparing a "civic insurrection" for next year (see *EIR* Nov. 2) has been organizing a traveling roadshow called "Mexico in Liberty" to unite the complaining business, middle-class, and student forces in six key states.

President López Portillo, starting the last week of October, embarked on a series of lightning trips of his own around the country, to counter this shock troop organizing effort by maintaining the morale of the population and the momentum of his Sept. 1 emergency economic decrees.

In the central state of Guanajuato the President delivered a stinging attack Oct. 31 on those who demand "liberty" only to be able to "continue looting the country."

Six days later, in the capital of the southern state of Guerrero, the President scored those who, "with reactionary cynicism, demand foreign currency from the Mexican state, complaining about the situation, when they have currency stored away on the other side of the border, and at the service of a different allegiance."

On Nov. 6, in the Pacific state of

Nayarit, it was the "minority forces which claim their organized functions of egoism and rapaciousness as a right" which came under the President's attack. "We categorically reject the right of egoism to usurp the state's sovereign power to declare what is in the general interest."

Manuel Buendía, a Jack Anderson type here who writes for *Excelsior* and maintains high-level government contracts, praised the President's tour as well and good, but insufficient; now we must name names, he said.

Not one to hang back, Buendía started himself with the corpulent, bearded ex-latifundist, Manuel Clouthier, who currently heads the "Mexico in Liberty" speaking circuit and directs a group of speculators controlling the Businessmen's Coordinating Council (CCE).

Clouthier had heightened his war of words with President López Portillo at a Sinaloa "Mexico in Liberty" session Nov. 8, where he stated that "we, like López Portillo, are opposed to the egoists and rapacious ones"—but also "to the demagogues and the opportunists, the paternalists and the infantile ones" in government who have wrecked the economy.

Buendía revealed that Clouthier's rice-processing company is heavily indebted in dollars—at the same time Clouthier has personal dollar accounts abroad, one with \$460,000 on deposit. Another case of "failing business, rich businessman," noted Buendía.

The next stop in the President's itinerary was Sonora, where he ar-

rived Nov. 10. The governor of the state, Samuel Ocaña, also has begun to name names. In an explosive interview in the weekly *Siempre*, he documents what *EIR* first published last summer: that the local U.S. consulate; the archbishop of Sonora, Quintero Arce; and border assembly plant personnel collaborated in shunting votes to the opposition PAN party in July national elections, in an effort to discredit the ruling PRI party.

Ocaña charges that U.S. Ambassador John Gavin, part of whose family comes from Sonora, and who is visiting Sonora himself Nov. 12, was privy to the pro-PAN operation.

The arrival of the "Mexico in Liberty" roadshow to Sonora Nov. 23 should continue the fireworks. Already public documentation by the Mexican Labor Party (PLM) of the fascist connections of the meeting's promoters prompted the local organizer, Sonora Chamber of Commerce director Guillermo Tapia Calderon, into a serious page-one defense of the event and attack on the PLM.

One of the great shocks for the "Mexico in Liberty" crowd, and such foreign sponsors as John Bircher Rep. Larry McDonald (D.-Ga.), was President-elect de la Madrid's appearance Nov. 9 at a ceremony at the Cuban embassy in Mexico City, where former Mexican Ambassador to Cuba Gonzalo Martínez Corbalá was honored with a medal presented by Cuban Vice-President Carlos Rafael Rodríguez. On hand for the splashy event was not just de la Madrid, but also López Portillo and former President Luis Echeverría—a threesome that *nobody* expected to see, ever, in the same public room. Back to the drawing boards for anyone who doubted de la Madrid's commitment to Mexico's traditional "detente" posture toward Cuba.

International Intelligence

London frets about Irish elections

The Nov. 24 elections for prime minister in the Irish Republic pit incumbent Charles Haughey, who bucked British policy during the Malvinas period and who has opposed certain elements of Britain's Northern Ireland Policy, against opposition leader Garrett Fitzgerald.

Fitzgerald has recently turned up in investigations as a business partner of Lord Harlech, Robert McNamara, and Kissinger Associates in the now-notorious "West Bank Land Scam."

He is also the co-author of the most recent Trilateral Commission report on the Middle East, with Kissinger-clone Joseph Sisco of Washington. The British press, spearheaded by the *Times* of London Nov. 9, is openly coming out in support of Fitzgerald and hoping for a Haughey defeat.

According to the London *Financial Times*, the key issue in the campaign is the question of Ireland's foreign debt, which is "per capita higher than that of Poland or Mexico."

Says the *Times*: "The next 18 months could well decide whether Ireland remains a prosperous, paid-up member of the European family, or slides into a spiral of debt usually associated with Third World or East bloc countries."

Arrests spotlight Pakistani drug trade

Employees of Pakistan International Airlines (PIA) were arrested by European authorities with large quantities of heroin in their possession in three separate instances within one week in early November.

The arrests give the lie to the protestations of the government of military dictator Zia ul-Haq over the past year that Pakistani authorities are cracking down on the country's growing drug traffic.

A year or more ago, when Pakistan's rapid rise to the position it now holds as number-one supplier of heroin to the United States and Western Europe became a subject

of concern, Pakistani authorities carried out what they claimed to be a "housecleaning" of PIA and the national shipping lines, both well-known channels for the lucrative traffic. More than 1,200 employees at PIA were fired, and the government instituted its own regular "inspections" of both the airlines and the shipping lines.

The Pakistani government and its defenders in the U.S. State Department like to point to this as evidence of the sincerity of the Pakistani authorities. But by all accounts, the Pakistani drug trade has increased dramatically over the past year. These same authorities—the generals and civilian kingpins around Zia ul-Haq—are the ones who, as *EIR* has documented, control and reap the benefits from this murderous traffic.

Tavistockians fear beam-weapons debate

Directors of the London-based International Institute for Strategic Studies (IISS) and the Tavistock Institute for Human Relations are worried that Edward Teller's endorsement of particle-beam weapons will ruin the "special relationship" between Britain and the United States.

IISS Director, Col. Jonathan Alford dismissed the significance of the Teller speech in a discussion with *EIR* on Nov. 8. But after giving "technological" objections to the feasibility of E-beam weaponry, Alford began an unsolicited tirade against the American ideology: "I think the Americans are always searching for technical solutions to problems to save them from uncomfortable decisions, like keeping up conventional forces. . . . Investing heavily in E-beam weapons strikes me as pouring money down a tube."

Alford was asked whether his attacks of this sort were reminiscent of the 1960s British attacks on the American space program led by the Tavistock Institute. "Maybe we were right," Alford answered, "What has the space program done? . . . Off the record, I would say that the American tendency is technological optimism, and this can't work for reasons of time and cost constraints."

In an ensuing discussion, Tavistock Institute Director Michael Foster told *EIR*: "There is a dramatic change in people's confidence in growth. This is likely to produce conservatism, more individualism, less national investment in national projects, fewer great projects. From the trends around the World Bank, I would say that there are planned smaller types of projects in the Third World. This will happen because of the change of psychology mediated through a sociological change.

"You get the benefits and you pay the costs. It might not be entirely Hobbesian, since there are also collective moments, but of a less gross kind, we are seeing smaller types of systems. The Benthamite idea means more of the black market will be recognized as a way of living, more of the black economy, people working for themselves and avoiding the tax system altogether."

Foster ended the discussion when *EIR* suggested that the beam-weapon debate could undo forty years of work by Tavistock and its American spinoffs on creating a controlled environment against American cultural optimism.

Bavarian strategist: 'I'm 90% with McNamara'

"I'm 90 percent with McNamara, I'm against Teller," said strategic expert and International Institute for Strategic Studies member Dr. Horst Afheldt this month. A senior staff member at the Max Planck Institute of Starnberg, Bavaria, Afheldt is an associate of oligarchic thought-controller Carl-Friedrich von Weiszäcker, whose father was Hitler's deputy foreign minister.

"I'm very skeptical about these [advanced anti-missile] weapons, [whose development Teller is urging] but of course if it means both sides reducing their ICBM's, and if it means a shift towards defensive weapons. . . . but you see, we oppose starting a debate on beam weapons, because the feasibility of a NATO common defense is already in question. . . ."

"If you introduce particle-beam weapons, you create the possibility for the superpowers to defend themselves and wage war and fight their war on our own ground."

Briefly

● **MAURICE STRONG** has proposed that "the Third World should punish the industrialized world for its economic hostility by flooding it with hard drugs, if that was the only homegrown product it could get a decent price for." Strong, a Canadian, was the chief organizer of the 1972 United Nations conference on the Human Environment in Stockholm, the launching pad for the worldwide environmentalist movement.

● **TEN MILLION** sterilizations a year are not enough, according to John Newton, a professor of obstetrics and gynecology at England's Birmingham University, in an interview with the London *Guardian*. Newton is upset that some of his countrymen are being turned down for vasectomies, while others were put on a two-year waiting list.

● **LORD CHALFONT**, member of the Committee for the Free World and head of the House of Lords' all-party defense study group, has endorsed a conventional-weapons strategy for NATO. He claims in an interview with *Astronautics and Aeronautics* magazine that precision-guided missiles and technetronic gadgets make anti-missile weaponry unnecessary.

● **ANTI-DRUG** Coalition president in Italy Cristina Fiocchi was the object of an apparent threat from organized crime when her luggage was ransacked and robbed at the Frankfurt International Airport on Nov. 5. Mrs. Fiocchi was in West Germany as a co-sponsor of the Club of Life.

● **ITAIPU**, the world's most powerful dam, was inaugurated Nov. 5 by the presidents of Brazil and Paraguay. Shedding few tears for the wildlife displaced by the 520-square mile lake created in the process, nationalists view the 12.6-million-kilowatt-capacity hydroelectric dam as a milestone in the industrialization of Brazil.

Asked whether he thought there should be superpowers at all, the think-tanker stated "No, there should not be any superpowers. Right now we still must accommodate ourselves with the fact of their existence, but . . . we Europeans know that only a multipolar world, without superpowers, without bipolarity, can be a peaceful one. A bipolar world generates war. See Kissinger's studies on the matter.

"The world economy has 100 percent chances of collapsing and the world financial system has 100 percent chances of collapsing . . . the problem is with the developing countries: they flood us with goods with which we cannot compete because we shipped them the technology. We cannot have both free trade and prosperity. That must stop."

When asked whether he knew of the "New Hitler Project," Dr. Afheldt said "Er, I've heard of it, although I have not read the report. Can you tell me more?"

North Korean infight threat to South?

Reports from South Korea and Japan say that a power struggle over the succession to 70-year-old North Korean dictator Kim Il Sung is mounting.

Reportedly 10 top generals have been purged in the struggle, some of whom have fled to China. Other politicians are said to have been jailed.

South Korean officials are watching the situation very closely, because they believe the greatest danger of a new North Korean attack on the South may come during a time of internal instability in North Korea.

Kim Il Sung—described in his government's press as 'the greatest man ever known in history'—is trying to pass his mantle on to his son, Kim Jong Il Kim, Jr., is regarded by South Korean intelligence as even more "hardline" than his father.

Many North Korean leaders, for various reasons, oppose this first attempt in communist history to create a hereditary succession.

According to an AFP dispatch from Peking, earlier this year 10 generals were purged at a time when the anti-Kim Jr. forces

were stronger. It is not known which side they were on. Later, when the pro-Kim Jr. forces strengthened some other politicians were jailed, according to South Korean papers.

A Japanese reporter returning from South Korea told *EIR* that the latest estimates are that the elder Kim can succeed in imposing his son permanently only if the elder Kim lives at least another 10 years to ensure Kim Jr.'s gradual succession. If Kim Sr. dies sooner, the younger Kim may take over, but he is likely to be thrown out of power after some time. The intervening period would be one of great political turmoil, with potential international dangers, assuming the Soviet Union and China were involved in the succession struggle.

Why Costa Rica is attracting dirty money

Israeli foreign minister Yitzhak Shamir arrived in the much-touted Central American democracy of Costa Rica in mid-October to strike a bargain: a six-month extension of a \$7 million loan to the cash-starved country. The government of President Luis Monge had become the only one in the world to endorse the Israeli genocide in Lebanon. The money for "combating terrorism" had initially been loaned in exchange for Costa Rica moving its embassy in Israel from Tel Aviv to Jerusalem.

It is also reported that a secret meeting took place in Paris on Oct. 1, between French and German officials and a Costa Rican delegation headed by former president Daniel Odúber.

Odúber is pushing a "free-enterprise zone" plan for his country which would make the anything-goes offshore banking centers in the Caribbean appear relatively well-regulated.

Certain elements within the U. S. administration see the plan "as a possible model for the other countries in the Central American region," a source reports. It was for that reason that the State Department's roving ambassador Gen. Vernon Walters went to Paris to "have a look at the plan and to talk to Odúber and the Argentine financier Hector Villalón.

The U.S. electoral outcome: Reagan versus Kissinger

by Lyndon H. LaRouche, Jr.

The following article was released on Nov. 5.

This past week's congressional elections in the U.S.A. were, in the words of a popular U.S. idiom, a "Mexican stand-off." The Democrats gained 25 seats in the lower House, a gain of no trend-setting significance, while the Republicans held their majority in the Senate. As a result, the real factional issues in the nation's capital at this moment are not between the two major parties, but across party lines. The major fight at this moment is between backers of a Kissinger-guided State Department and backers of a push for the development of space-based antimissile beam weapons.

Otherwise, the important feature of the elections is a profound discrediting of the right-wing conservative factions of both major parties, and also a significant, if indecisive weakening of the left-wing forces of the Democratic Party. Under the pressure of a new economic depression, increasing portions of the electorate are looking back affectionately to the memory of President Franklin D. Roosevelt, and are turning their backs to both right-wing and left-wing varieties of political eccentricities.

Although candidates of the National Democratic Policy Committee (NDPC) were shut out of the Democratic tickets, through a massive effort by Democratic chairman Charles B. Manatt and AFL-CIO President Lane Kirkland, the NDPC's demonstrated support among approximately one-third of Democratic voters did have decisive effects in several elections, especially in California and New York.

In California, NDPC efforts during 1982 to date destroyed the political career of Governor Edmund "Jerry" Brown, and nearly sank the "nuclear freeze" referendum in that state. In New York, NDPC efforts sank the political ambitions of Lewis Lehrman, Roy M. Cohn's candidate for governor. This significant "negative" strength of the NDPC is best understood as based on the NDPC's growing image among voters as the Democratic faction leading a return to the standpoint of President Roosevelt's war-time leadership.

The beam-weapon issue

Although the proposal to develop space-based antimissile beam weapons is only one among many major issues dividing forces in Washington, D.C., it is at the present moment the single issue upon which the entirety of near-term U.S. policy directions will turn.

A summary of the history of the beam-weapon policy helps to make the issue and its connections clearer.

The discussions leading to the proposal of beam weapons began during the summer of 1977, through collaborative deliberations between retired Air Force Intelligence chief Major-General George Keegan and Dr. Steven Bardwell of the Fusion Energy Foundation. Putting their heads together, Keegan and Bardwell established beyond doubt that both superpowers had the scientific and technological means to launch crash programs to develop and deploy beam weapons capable of destroying large parts of the nuclear-missile arsenal of the opposing superpower.

Although Keegan broke off direct collaboration during autumn 1977, over the issue of this writer's opposition to the "Camp David" policy, Keegan's and Bardwell's collaborators separately launched public campaigns for beam-weapon development during that autumn period, over hysterical opposition to both from the London International Institute for Strategic Studies (IISS).

During early 1982, this writer composed a comprehensive strategic policy-draft, centered around a detailed proposal for a U.S. space-based antimissile beam weapons development. This policy draft was circulated in prepublished form to key military and other circles, and later published with wide circulation as a policy study issued by the NDPC. A concerted effort of support for this policy proposal was launched during April-May 1982. Despite difficulties of collaboration arising as by-product of U.S. support for Britain in the Malvinas war, knowledge of and support for the NDPC proposal spread.

As Dr. Edward Teller reported during an October 26 public address in Washington, D.C., some of his "younger friends" won him over to becoming a spokesman for this policy. Dr. Teller has adopted the full range of proposed features of the policy. Defense Secretary Caspar Weinberger has publicly supported, at the very least, the military hardware features and implications of the same policy.

Currently, the opposition to the policy comes chiefly by the applied forces of Henry A. Kissinger and AFL-CIO President Lane Kirkland, both supported by the "conventional weapons" buildup liberal faction of Governor Averell Harri- man, Senator Edward Kennedy, and Senator Gary Hart.

In layman's terms, the NDPC's beam-weapons policy has the following leading points:

(1) That the only possible means for ending the age of nuclear terror is the development of technologies through which nuclear missiles can be destroyed with more than 99 percent effectiveness in mid-flight. Without beam weapons, under present or foreseeable political conditions, neither superpower would be willing to reduce nuclear capability below its estimate of assured minimal capability for total physical destruction of the home-base of the opposing power.

(2) That the science and technology for such weapons systems deployment exist at the established or early-potential capacity of both superpowers.

(3) That a "crash effort" to develop and deploy such antimissile defenses would incur no net cost to the U.S. economy, since the civilian-technological by-products of the development effort would stimulate a high technology economic boom in the U.S.A.

(4) That the only foreseeable trigger for actual thermonuclear war between the two superpowers now in sight would be a combination of "conventional wars" among regions of the developing sector and a significant weakening of the relative strategic power of one of the two superpowers. A weakened and threatened superpower, either the U.S.A. or

the U.S.S.R., would fall back on the last resort of its thermonuclear arsenal, using thermonuclear blackmail to correct the imbalance. Thus, the savage weakening of the West through the present world economic depression, combined with regional conventional warfare in the developing sector, makes the otherwise unthinkable thermonuclear war increasingly a possibility for the years immediately ahead.

(5) That the agenda of arms negotiations between Washington and Moscow must be scrapped and replaced with a new agenda based on a policy of development of defensive beam weapons to the end of ending the age of thermonuclear terror (mutually assured destruction—MAD).

Although the general U.S. public is only dimly aware of the crucial policy issues up to the present moment, there has been an eruption of rage against the effects of Federal Reserve Chairman Paul Volcker's policies among the population generally. The voters voted less frequently for candidates than against candidates. The voters are not to be blamed for this; with few exceptions, they had no candidate or party policy worth voting for. Now, whether President Reagan capitulates to Kissinger will probably determine the way the United States and the world go.

(6) That this qualitative change in military technology will, by itself, merely postpone the danger of nuclear war. We must include a feature which carries us beyond mere war-postponement into circumstances of durable peace.

(7) The basis for durable peace, as Dr. Teller emphasized in his own choice of terms, is a U.S. commitment to high technology economic development of the developing nations, seeking to win the Soviet Union to cooperating in this effort on behalf of "the common aims of mankind."

The additional special feature of the NDPC policy outline is that it specifies that the research and development for this be civilian-based, rather than locked away in secret military

projects. The NDPC has proposed that the United States launch several civilian-economy crash programs to perfect the technology used in antimissile beam weapons. For example: NASA should be given the assignment for keystone tasks, including the development of manned Earth-orbiting space laboratories, and a manned Mars-landing objective, as well as manned moon stations. Such civilian research will develop all the technology required to be properly repackaged as space-based beam-weapon systems.

An intensive schedule of speaking engagements by Dr. Steven Bardwell substantially weakened the cause of the "nuclear freeze" movement in California during the two weeks immediately preceding the election. That view of Bardwell's influence has been offered by leading spokesmen for the "nuclear freeze" referendum.

Bardwell's speaking tour had two significant kinds of effects. Although Dr. Bardwell was one of the designers of the beam-weapons project, he has done his work outside the bounds of secret research. Therefore, Dr. Bardwell is free to offer the kind of technical-scientific clarifications of beam-weapons principles which Dr. Teller is not presently legally free to reveal publicly. Second, Dr. Bardwell succeeded in winning a significant number of university students and some specialists away from the "nuclear freeze" cause, by convincing them that beam-weapon deployment is the effective approach to ending the age of thermonuclear terror.

The general line-up

At the highest level of U.S. circles, the practical division of forces is between the supporters and adversaries of the "New Yalta" policy of Britain's Lord Carrington. Carrington, a long-standing controller of Henry A. Kissinger, is at the center of an Anglo-Soviet game intended to break Europe away from the U.S.A., and to kick U.S. influence out of the Middle East and other parts of the world.

The principal bastion of pro-Carrington policies in the U.S. government is the State Department. Kissinger allies in the State Department and ultra-liberals in the Democratic Party are the principal backers of Neo-Malthusian policies concerning population reductions, technology, and economic policy. This faction opposes beam-weapons development, and proposes to develop a reduced U.S. conventional military establishment, designed to conduct regional wars against nations in South and Central America and elsewhere in the developing sector.

This division of forces along policy lines overlaps a second division within U.S. leading circles. This second issue centers around the publicized case of alleged Soviet spy, Geoffrey Arthur Prime, alleged to have delivered detailed NATO plans and U.S.-NATO codes to Moscow. British refusal to inform the U.S. government of the massive leak of U.S. secrets by Britain's secret services, and massive other indications of Anglo-Soviet collaboration against the U.S.A., have infuriated large parts of leading military, intelligence, and other circuits in and around Washington, D.C.

Informed sources indicate that the Prime affair is generally viewed as a British smoke-screen, a diversionary operation, covering up a much more serious business. The fingers point in the direction of Lord Carrington's "New Yalta" package, viewed as "treasonous" by some critics, and also repeated charges to the effect that Kissinger was a Soviet-intelligence asset during the period of his postwar service in the Oberammergau center in occupied Germany: the so-called Odra Cell affair.

Although the general U.S. public is only dimly aware of such issues up to the present moment, the lines of cross-parties' divisions in and around Washington, D.C. circles, intersects an eruption of rage against the effects of Federal Reserve chairman Paul Volcker's policies among the population generally.

Vote fraud and vote rigging are significantly influenced by the relatively low participation in elections among U.S. voters, relative to behavior of European voters. In the Federal Republic of Germany, where election participation is approximately twice that of the U.S. electorate, traditional party attachments determine all but a small margin of voter behavior so far. In the United States, party loyalties are much less significant influences on vote totals. This partisan liability of U.S. voters, combined with low-percentage participation makes large-scale vote fraud and vote rigging an easy matter in most parts of the U.S.A., especially in urban centers. One of the favorite methods of vote fraud, especially by trade-union-linked political machines, is to cast votes on behalf of union members who do not appear at the polls. This is done by aid of computer-monitoring and check-offs of names of union members as they enter their local polling-place.

So, as in last Tuesday's U.S. elections, the factor to watch closely is tendencies among voters to resist or overwhelm the substantial margin of voting which is either rigged or fraudulent. This resistance occurs chiefly as sections of the population not normally voting turn out to the polls in relatively increased numbers, or as sections of the public traditionally supporting the machine candidates stay away from the polls.

In last Tuesday's elections, the voters voted less frequently for candidates than against candidates. With relatively few exceptions, voters in last Tuesday's elections voted for candidates not because they liked those candidates, but because they wished to destroy the political career of the opponent. The voters are not to be blamed for this; with few exceptions, they had no candidate or party policy worth voting for.

At the top, and among the electorate, the politics of the U.S.A. are wobbling on a political knife's-edge. Both the government and the electorate could easily fall to one side or the other, to the side of beam-weapons supporters, or to the side of Kissinger's friends. Whether President Reagan capitulates to Kissinger and Kirkland, or, overrides Kissinger's State Department-centered backers, will probably determine the way the United States and the world go during the months immediately ahead.

Federal anti-drug plan: chance for a cleanup

by Robert Greenberg

The war on drugs and crime announced by President Reagan in mid-October offers an opportunity to take serious and long overdue action to wipe out this plague infecting the United States, particularly its youth. This is the assessment of law enforcement professionals who are ordinarily skeptical of political promises to crack down, which they regard as mere vote hustling.

Their optimism is partly caused by the fact that the Reagan program specifically targets "those responsible for transporting and distributing drugs, *as well as the financiers and organizers*" (emphasis added). This is taken to mean that the administration is committed to directing investigations and prosecutions of the "citizens above suspicion," the well-protected types (the name of Detroit's Max Fisher, of the United Brands Caribbean drug-running combine, comes to mind) who usually remain untouched, while street-level "small fry," or middle-level merchandisers, take the heat for the planners and big moneymen.

Supplied with a \$200 million budget, the war on drugs will be fought by 13 task forces, combining the intelligence investigations and technology of every relevant federal law enforcement agency and intelligence agency, as well as the Defense Department, and the offices of the U.S. Attorneys from coast to coast. In overall command will be Attorney General William French Smith. Sources say the task forces will have the benefit of vastly upgraded intelligence and a flexible, case-by-case approach to allow the drug-hunters to maximize their impact. Another \$100 million may come as a result of administration-supported Congressional actions on the Hughes Bill providing state and local drug assistance.

Of potentially ever greater importance are signals that the administration may be getting ready to play diplomatic "hard ball" with drug networks outside the United States who have been able to buy and sell governments in Europe and the developing sector nations for years. An estimated 90 percent of the illegal drugs on the U.S. market originate abroad. New agreements with Thailand and other nations are reportedly a model for cooperation between America and other countries to stop drugs at the source. Attorney General Smith is currently on an international tour to explain the new approach to the top law enforcement officers of several nations.

A key test for the new policy will be the administration's willingness to offer political and logistical support to Bolivia's recent crackdown on the crime-and-terrorist nests which have long made their home there. Assistance to the new Bolivian government would bring the U.S. drug-fighters into direct conflict with the U.S. State Department and the FBI, which have been playing ball with the P-2 networks since Henry Kissinger was Secretary of State.

FBI weakened?

No tears are being shed in "law and order" government circles over the apparent sharp rebuff to the FBI and its director William Webster which the new program represents. It is said that President Reagan was persuaded to act to put the new war on drugs into effect by White House adviser Ed Meese, after Meese's own review of the government's existing anti-drug efforts, in which the FBI had considerable clout, showed him that they weren't working. Webster and Budget Director Dave Stockman were said to be telling the President the U.S. could not "afford" a drug crackdown, perhaps because it might cut into the FBI's massive budget for Abscam and other "sting" operations.

The FBI's response to this rebuff has been to either attempt to take control over the entire program, or to sabotage it. Thus far this has taken the form of an extremely aggressive publicity campaign launched by the Bureau, to the effect that they will be running the newly formed statewide task forces. That claim, which they released to the wire services, is patently false, since the exact way in which the task forces are to be run has not yet been determined.

The FBI has staged several well-publicized drug busts in order to create the impression in the mind of the U.S. public that they should be in charge of the overall program. Among these busts was the sensationalist arrest of sports-car magnate John DeLorean on cocaine charges, and the announcement of the U.S. Attorney in Southern Florida of the indictment of four officials of the Cuban government for conspiracy to traffic marijuana and Quaaludes.

The FBI's attempt not to be cut out of the action, may be hurting them more than helping them. Sources in the Drug Enforcement Administration have told *EIR* that the DeLorean arrest was conducted so poorly that DeLorean could very well get off, and the whole affair might blow up in the Bureau's face. Nonetheless, the FBI has the ability to sabotage the administration's new effort, through lack of cooperation with other law-enforcement agencies. It has been pointed out to *EIR* that the FBI has more access to domestic intelligence than any other agency in the federal government, and failure to cooperate could undercut the entire program.

The potential for such sabotage has more recently been dramatically demonstrated in a recent edition of ABC television's *20/20* in which an FBI special agent in Indiana was exposed as having been cooperating with a known drug trafficker in the area, by tipping him off on the moves by local law enforcement authorities against him.

Where does NCPAC's money actually go?

by Anita Gallagher

Lyndon LaRouche's National Democratic Policy Committee proved the most effective political action committee in the 1982 national general election, following stunning showings of between 20 and 40 percent of the vote in four Democratic primaries earlier this year. On Nov. 2, the NDPC's mobilization was the decisive element in defeating zero-growth symbol Jerry Brown in the California senatorial election and Lew Lehrman's right-wing variety of fascist economics in the New York gubernatorial contest.

The other leading "independent" political action committees (those not affiliated with trade or labor union associations such as the National Conservative Political Action Committee [NCPAC] not only failed abysmally in their election objectives, but have been exposed as spending in some cases over 90 percent of their contributions for "overhead"—running in some cases into millions of dollars.

NCPAC raised \$9 million in 1982 and contributed only 2 percent of that sum directly to candidates for federal office. NCPAC also spent over \$400,000, or 45 percent of its income, on "independent expenditures"; that is, TV ads and direct mail efforts targeting incumbent liberal Democrats. All of NCPAC's targets were re-elected handily except for Sen. Howard Cannon (D-Nev.), the victim of a two-year Abscam-style targeting in the press because of his opposition to trucking deregulation.

NCPAC elects Sarbanes

NCPAC's prime target, Sen. Paul Sarbanes (D-Md.), was reelected by a 65 percent margin, after NCPAC spent \$660,000 in a long TV advertising campaign against him.

Prince George's County Executive Larry Hogan, Sarbanes's Republican challenger, blamed NCPAC publicly for his election loss. Hogan's Montgomery County campaign manager, Anne Bastian, explained: "If NCPAC had stayed out of Maryland, Larry Hogan would have won the election." First, said Mrs. Bastian, "NCPAC's commercials promoted Sarbanes's identity . . . Sarbanes then very cleverly used it [NCPAC] as the only issue he would speak to when Larry tried to debate him."

NCPAC's ads not so cleverly proclaimed in heavily Democratic Baltimore that Sarbanes had "voted to give away the Panama Canal" and that "Sarbanes voted for busing but he sends his daughter to a private school." The Baltimore TV networks then ran NCPAC's off-target ads back-to-back with

Hogan's own ads, ignoring complaints from Hogan's staff.

In contrast, Hogan's main campaign thrust, said Mrs. Bastian, was to dredge Baltimore's port to revive its shipping, and educate the voters that Sarbanes had abstained on a funding vote for the dredging. NCPAC enabled Sarbanes to elude this, the Hogan staff charged, and also enabled him to gain a sympathy vote and raise much more money.

NCPAC failed nationally as well. It failed against Sen. Ted Kennedy (D-Mass.) on whom NCPAC spent \$520,000; and against Sen. Lloyd Bentsen (D-Texas), whom NCPAC targeted with \$300,000 as a "free-spending liberal" (even Texas Republican Gov. Clements was embarrassed enough to declare "I've known Senator Bentsen a long time, and he's not a free-spending liberal." Other NCPAC targets who won include: Sen. John Melcher (D-Mont.) (\$220,000) the sponsor of a bill to reduce interest rates; Sen. Quentin Burdick (D-N.D.) (\$69,000); Sen. Robert Byrd (D-W.Va.) (\$300,000); Sen. Howard Metzenbaum (D-Oh.) (\$77,000); and Sen. Daniel P. Moynihan (D-N.Y.) (\$70,000). Only Senator Cannon was defeated (\$170,000).

The pattern

Sen. Jesse Helms's (R-N.C.) National Congressional Club, the number-one fundraising PAC with over \$9 million in 1982, has a policy, according to its press spokeswoman Anna Knight, of "not talking to reporters about our activities." However, the Nov. 3 *New York Times* reports that Helms's PAC gave only 1.4 percent of the \$9 million it raised to candidates for federal office. All the Republican congressional challengers it supported in North Carolina lost.

The same pattern prevails in "liberal" PACs. Sen. Ted Kennedy's Fund for a Democratic Majority raised \$2.1 million in 1982, and dispensed only 6.3 percent of its money in direct contributions to candidates for federal office. Although all PACs make some "in-kind" contributions to candidates, such as poll-taking, advice, and perhaps campaign appearances, Fund for the Majority spokesman Michaela Fanning said, "The reason we gave out such a small percentage of the money [to candidates] relative to what we raised is that we were working this year to develop our direct mail program." The majority of the Kennedy PAC's \$2.1 million went to Richard Parker and Associates, a San Francisco direct mail consultant—on the Richard "50 Percent" Viguerie model.

Walter Mondale's Committee for the Future of America did little better, distributing only 12.3 percent of its money directly to candidates. None of the 10 largest independent PACs number among the top 10 PACs that did so.

Lyndon LaRouche's National Democratic Policy Committee, by contrast, has raised \$630,000 in 1982, approximately 85 percent of which has gone to produce policy papers on issues, such as beam-weapons development, fusion energy, interest rates, and anti-depression policies. Nevertheless, the NDPC contributed 6.4 percent, proportionally more than NCPAC or the Helms and Kennedy PACs, to candidates.

Bohemian Grove, Jack London, and the cultishness of California's politics

by Brian Lantz

In the black of night, into a clearing of a redwood forest, come red-hooded priests, their way lit by the fire of wooden torches. A funeral dirge moans from the shadows as a casket carrying the corpse of Dull Care follows in procession. Over 1,000 men, waiting in the clearing, solemnly fall in behind the passing casket, as the hooded ones lead their following through towering redwoods and out into another clearing alongside a lake. In the distance towers a huge owl, the goddess Athena, illuminated by fire. Moss hangs from this figure, a grey mass which towers almost 30 feet from the ground.

At the edge of the lake, the bier is transferred by the priest to the Ferry of Care which crosses the lake to the owl shrine. Hamadryads, Greek tree spirits, burst into song as a single huge redwood tree near the shrine is suddenly illumined. The High Priest chants incantations as the corpse of Care is placed upon the funeral pyre before the shrine. But suddenly the torches are snuffed out by a sudden wind and the voice of Dull Care fills the woods! "Fools, Fools Fools! When will ye learn that me ye cannot slay?! The High Priest turns to the great owl, who responds and orders the High Priest to light his torch from the one remaining flame: the Torch of Fellowship. Igniting the funeral pyre, the High Priest throws his torch upon the fire. A chorus of voices among the surrounding trees sings forth as flames illumine the owl and the surrounding priests: "Begone, Dull Care! Midsummer sets us free!" Across the lake from where the cult's followers have watched their rites, the voice of Care can still be heard, gasping for a last breath.

Thus begins each year's gathering at the Bohemian Grove. Among the hooded priests and followers are the United States' most powerful government and business leaders. Xerox, Bank of America, Bechtel, Weyerhaeuser; there is hardly a major corporation that is not well represented. Robert McNamara, George Shultz, George Bush, A. W. Clausen, William F. Buckley, Gerald Ford. They are among those gathering for these druidic rites.

It was at the Bohemian Grove this July that West German Chancellor Helmut Schmidt made his illusory deal with Secretary of State Shultz, a man he considered a friend—that Schmidt would not be toppled if he accepted the International Monetary Fund's plans for a "controlled depression," in the advanced sector and mass extermination in the underdeveloped world.

Origins of the phenomenon

In March of 1872, a group of writers and reporters—many associated with the *San Francisco Examiner*, flagship of the Hearst chain—met in San Francisco to form the Bohemian Club. Today, the waiting list to join this 1,500-member club is over one thousand, each being sponsored by at least three Bohemian members. A 15-man membership committee will pass judgment on each one. The wait could easily be 15 years. There has never been a black member and only two Hispanics. There are few even nominally Jewish members.

The name of the club is a first revealing hint. It is named after the Paris bohemians, the left-over "gypsies" of the Jacobin revolution of 1830. A romanticized counterculture creation of Madame de Staël, Balzac wrote of them in *A Prince of Bohemia*. Puccini in turn glorified them in his anti-republican opera *La Bohème*, launching the bohemians as a full-blown model in the midst of the mid-later-century pogrom against the remnants of neo-Platonic republican culture. And so, in 1882, the entire city of San Francisco welcomed that British pervert, Oscar Wilde, who stepped from his train wearing a Spanish sombrero, velvet suit, puce cravat, yellow gloves, and buckled shoes. "Culture" had come to the "Wild West"!

This event, barely one hundred years after the signing of the Declaration of Independence, is symbolic. For California, it was the wedding, so to speak, of "49er" gold, silver, and railroad money with the likes of Oscar Wilde which makes the state's politics what they are—with all their na-

tional ramifications. The Bohemian Club has played a role in this as part of a broader operation: the anglophile takeover of the United States in the aftermath of the Specie Resumption Act of 1879, a takeover that could not have occurred if not for the oafish anglophile susceptibilities of America's newly monied elite. Visiting San Francisco in 1889, Rudyard Kipling, a young British journalist, made use of the Bohemian Club and sneered at its members' pretensions. "It was magnificent," Kipling later wrote. "It was stupendous, and I was conscious of a wicked desire to hide my face in a napkin and grin."

Democratic Sen. Alan Cranston, A. P. Giannini and his Bank of America, Gov. Jerry Brown (whose father Pat is a long-time Bohemian member), Hollywood—the major figures and institutions of California are the creations of this process of aquarianization put in place at the turn of the century. The United States will not be won back to republican principles until the doors of the anti-Semitic, racist Bohemian Club close, and the Bohemian Grove, 2,700 acres of redwood forest, are deeded over to serve some useful national purpose.

'Good government' and dynamite

In September 1901, when President William McKinley was fatally shot by anarchist Leon Czolgosz, connected to Emma Goldman's Settlement House, William Randolph Hearst was hung in effigy in New York, Chicago, and San Francisco, not without reason. The anglophile Hearst, seeking the Democratic presidential nomination for 1904, had stated months before the assassination in an anti-McKinley editorial in his *New York Journal* newspaper, "If bad institutions and bad men be got rid of only by killing, then the killing must be done." Months earlier, Ambrose Bierce, Hearst-chain writer, Bohemian Club charter member and cultural lion of San Francisco's "art" community, had some of his verse printed in the *Journal* in the aftermath of the assassination of William Goebel, the just-elected governor of Kentucky:

The bullet that pierced Goebel's breast
Cannot be found in all the West
Good Reason, it is speeding here
To stretch McKinley on his bier.

Around the country Hearst newspapers were seized by angry citizens and burned.

The progressive movement, in which the Hearst family has played such an active part, is what made California politics what it is today. By 1910, its "good government" movement, slyly using the Southern Pacific "Octopus" as its foil, had taken control of state politics and elected Hiram Johnson governor. The Bohemian Club, then and now, reflects the nexus of Social Darwinist progressives (Republican and Democrat) and the bohemian counterculture of San Francisco. Terrorism was part of their arsenal.

In 1905, Fremont Older, editor-provocateur of the *San Francisco Bulletin* newspaper, launched a campaign against

the "Reuf-Schmitz Combine," the Union Labor Party-backed circle that had gained control of San Francisco City Hall politics out of the bitter 1901 general strike. The charge was corruption.

Older, who had come from the East to work on the just-launched *San Francisco Examiner*, was a friend of Emma Goldman, Jane Addams of Chicago's Hull House, and Stanford University President David Starr Jordan. That same year, Older traveled to Washington, D.C. and met with Theodore Roosevelt to elicit aid in the campaign. Following this up, Roosevelt sent Victor Metcalf, Secretary of Commerce and Labor, to San Francisco. Metcalf, reporting back in the aftermath of the San Francisco earthquake and fire, warned, "This man [Mayor] Schmitz has turned out pure gold in this emergency."

In California, the marriage between '49er gold, silver, and railroad money, and the likes of Oscar Wilde, has made the state's politics what they are. The Bohemian Club has played a role in this as part of a broader operation: the anglophile takeover of the United States after the Specie Resumption Act of 1879.

That year, Roosevelt arranged for William J. Burns, the famous private investigator, to arrive in San Francisco and begin a "private investigation." Older bankrolled the operation, to the tune of \$100,000, through progressive Rudolph Spreckels, sugar baron and banker; and James D. Phelan, ex-mayor and inheritor of a Comstock silver fortune.

Others brought in were Walter Blum, later of the Secret Service, and A. P. Giannini, an up-and-coming young produce operator and banker who, by then, controlled the 44th District Italian vote. Giannini was a close friend of James Phelan and had been involved in "good government" effort since the 1890s. (In fact, one year after Phelan's election as mayor in 1899 in an earlier anti-corruption campaign, Phelan-backer Giannini had opened up his Bank of Italy and accumulated \$1 million dollars in deposits.)

On Nov. 7, 1906, the graft prosecution was launched. In the course of the trials which lasted five years, the prosecuting attorney was shot and wounded in open court (a young attorney, Hiram Johnson, replaced him), his assailant committing "suicide" in jail; Fremont Older was kidnapped; and San

Francisco County Supervisor Gallagher, providing “vital testimony” against the “combine,” had his home blown up with dynamite! The Combine was swept from power in 1908. In a maneuver that reminds one of Alan Cranston’s “damage control” to keep the Harrison Williams case from exposing Justice Department crimes in Abscam, Fremont Older then turned around and led a “valiant” fight to free Reuf, the behind-the-scenes “brains” of the Schmitz administration, from the penitentiary! The “Octopus,” the by-then Harriman-owned Southern Pacific, who had been the foil against which Hearst, Older, and Phelan and others had railed, publicly supported the operation against Reuf-Schmitz. Labor was disciplined and the progressives came to power in San Francisco.

The coming to power of the progressives in San Francisco was the leading edge of a state-wide effort. Similar campaigns, with similar tactics, were carried out in Stockton, and Los Angeles. In Los Angeles the Good Government and City Club organizations successfully orchestrated the municipal elections of 1910, pitting Harrison Gray Otis, the knee-jerk racist of the *Los Angeles Times*, against the Socialist Party. In October of 1910, in the middle of hotly contested state and local races, the *Los Angeles Times* building was dynamited, killing 21 employees. The trial of the indicted perpetrators, the MacNamara Brothers, orchestrated with Clarence Darrow as defense attorney, changed direction suddenly with a meeting arranged by Lincoln Steffens who was “covering” the trial. Bringing Otis and his son-in-law Chandler together with Otis’s enemies, the Good Government group, Darrow announced to the group that the MacNamara brothers would switch their plea to guilty in return for certain nominal guarantees. The next day in court the change in plea was announced. The socialist election juggernaut, which was threatening to carry the city elections, collapsed, and Otis dropped his longstanding opposition to the progressives, who carried the elections and consolidated control.

With Hiram Johnson’s election as governor that year, Progressive Republicans consolidated power in the state. Johnson produced California’s state constitution and went on to become U.S. Senator. The repercussions of this progressive consolidation have been enormous. The results of Johnson’s new state constitution, along with the “good government” reforms of city election codes and bylaws which had begun in the 1890s, guaranteed that no constituency-based “machine” could consolidate its power. This explains in good part why California is such a hothouse for creations like Jerry Brown.

As well, the Progressive networks were to be the basis of the California Democratic Council, Cranston’s vehicle, which for all intents and purposes created the state Democratic Party starting in 1950—exactly as the progressive Republicans had built theirs 50 years earlier.

Cranston is personally a product of this progressive/bohemian nexus. Cranston’s parents, wealthy real estate operators in the San Francisco Bay Area, were close friends of

Fremont Older and his wife. Cranston credits the Olders with inspiring his politics and landing him his first job—which led to Cranston going to Italy with INS, the Hearst news chain. He wrote back glowing reports of Mussolini’s wonderful government.

Spearheading the Bohemian Club ideology was the first president of Stanford University, David Starr Jordan, with his “blood and soil” mythos. Stanford also promoted the narrow British conception of engineers as adjuncts of resource-looting,

The Bohemian Club is never far from all of this. Otis and Chandler were and are members. James Phelan was president of the club from 1891-1892 playing de Medici, as one author put it, to the Bay Area’s theosophic existentialist “art” community. Frank Norris, the author of *The Octopus*, the muck-raking book about the Southern Pacific, was an active member as well. And, of course, Fremont Older. Mark Twain was made an honorary member in 1873; Theodore Roosevelt was made an honorary member in 1903.

Progressive culture: the Bohemians

Jack London, the most widely read living writer in the world in the period leading up to World War I, exemplified the “artists” in the Bohemian Club. The son of an astrologist father and a seance-sponsoring mystic, his father skipped town before Jack’s birth, claiming he could not be Jack’s father because he was impotent at the time! That Jack’s parents were members of a free-love sex cult confused matters further. Driven from home by poverty and his mother’s Indian war whoops during seance, London became a pirate and drunk before he ever got out of his teens. Turning to writing, London became a Socialist Party member and propagandist whose writings mirrored the outlook of Mussolini (see *The Iron Heel*). A racist of the first degree, London covered the Russo-Japanese War for the Hearst chain, reporting back in horror that it was up to America to defeat the Yellow Peril. A rabid Social Darwinist and follower of Friedrich Nietzsche, he modeled his writing style on Rudyard Kipling, naming many of his main characters—those that weren’t wolves or dogs—Saxon. Obeying his own call of the wild, London committed suicide with morphine.

The Jesuit-educated James Duval Phelan exemplified the second-generation gold, railroad, and silver money that cultivated epicurean tastes and bankrolled this counterculture—which was the culture of San Francisco. Educated by Jesuits or sent East, they attempted to distance themselves as quickly

as possible from their past. The gold strike and railroad money being Protestant, they became Unitarians and Episcopians. The Comstock silver money was largely Irish Catholic. They were trained by the Jesuits. They were leaders in the Bohemian Club and active in politics. James Phelan's political career did not end with the Reuf-Schmitz Abscam operation. He went on to serve as U.S. Senator from 1915-1921.

Stanford University: engineering the Empire

Psychopaths like Jack London have their creators and shamans. London's was David Starr Jordan, the first president of Stanford University.

In March of 1884, Leland Stanford, Jr. died of pneumonia unexpectedly in Venice, Italy. He was 15. Leland Stanford, Sr. was heartbroken. Stanford was one of the "Big Four" Sacramento dry goods merchants who gained sudden wealth and power by building the Southern Pacific Railroad, the western half of the first trans-continental railroad. Like his partners Huntington and Hopkins, he would die without children. Upon their return from Europe to the States, Stanford and his wife, "Unitarian Methodists," were invited by President Grant and his wife to a seance. In this seance, Stanford and his wife were visited and told that they must start a university as an acceptable memorial to their dead son. Such were the dark beginnings of Stanford University.

Touring the United States and England to locate a university president and gain knowledge, the Stanfords, by then among the wealthiest people in the world, visited Columbia, Harvard, MIT, and Oxford offering huge sums of money to win away a major East Coast university president for their college taking shape among the cow pastures of Palo Alto. None would agree, but all seemed to recommend the young president of Indiana State University, David Starr Jordan. Jordan was to serve as Stanford University's president from its founding in 1891 to until the mid 1920s. Perhaps no individual shaped the fascist California ethos more than David Starr Jordan. Jordan explicated a specific Western "blood and soil" cult outlook, the outlook one associates today with back-packing, golden-haired and tanned Sierra Club members, an ethos prevalent up and down the West Coast as well as in Colorado. Stressing the blending of eastern Aristotelian education with a rugged Aryan outdoors naturalism, Jordan, who attempted to live his ethos, argued that this combination yielded the man of "direct action." Jordan's raving eugenics were part and parcel of this outlook. Jack London avidly read and followed Jordan, even sitting in on his classes on "evolution." Jordan is the Bohemian Club ideology put on public display.

In Stanford's first graduating class was a young man named Herbert Hoover, a Quaker who grew up with relatives in Oregon. Hoover, as Jordan was fond of pointing out, was personally molded by Jordan as a model of the Western Aryan man, part of an emerging "natural elite" who, being men of "direct action" and rugged independence, would shoulder the

white man's burden in the emerging frontiers of Asia and Latin America. By the time Hoover was plucked out of a Bohemian Grove gathering to run for President, he was the highest-paid engineer in the world with offices in London, New York, and San Francisco. For Jordan the mining engineer represented his man of direct action, representing civilization in the hinterlands where the new resources were to be found. (This specifically British conception of the engineer, promulgated at Stanford, explains a great deal about the Bechtels, who received their PhD's in engineering from Stanford. (The electrical engineers of Silicon Valley, beginning with Hewlitt and Packard, are a new variant.) While many today view Hoover as a dry, stodgy man who brought the depression down upon our heads, among Bohemians he is revered as a mother figure. The fact that Hoover Institute squats in the middle of Stanford University is not an anomaly.

William Shockley and his sperm bank may be a little embarrassing for some of his colleagues at Stanford but he is no fluke. He stands on David Starr Jordan's shoulders. Jordan, as a board member of the Human Betterment Foundation, helped oversee California's sterilization program, upon which the Nazi's modeled their own! Totally preoccupied with applying Darwinist and Social Darwinist principles to social, political, and biological life, Jordan even kept detailed records of arrests and convictions in Santa Clara County where Stanford was located. He took outspoken satisfaction that County Court Records "confirmed" his race theories. The I.Q. research and tests developed by Tierman and others, including the Sanford-Binet Test, put the university on the frontiers of race science from its beginning. To insure that his students' education would not be too narrow, Jordan brought a number of guest professors west. Among them were William James, who challenged the school to become research-oriented, and Thorsten Veblen. Veblen in particular seemed to have taken Jordan's exultations of the great outdoors to heart. Converting an actual chicken coop and moving it into the forests near the ocean, Professor Veblen made a scandalous habit of "shacking-up" with his students at every opportunity. Jordan had the awkward responsibility of calming Mrs. Stanford, who modeled herself on Queen Victoria, over this seemingly irrepressible faculty problem.

Given Jordan's "blood and soil" fascism, it is not surprising that he was on the founding board of directors of the Sierra Club when the Scotch mystic, John Muir, launched it in 1892. At its founding, the Sierra Club, a more populist version of the Bohemian Club, was made up of 162 college-educated men drawn from Berkeley and Stanford. Five professors including Jordan sat on its board. Jordan's upbringing was in line with this sort of role. From New England stock, Jordan was related to Ralph Waldo Emerson on the side of his mother, Anne Waldo. (Raised a Unitarian, Jordan chose his middle name after Thomas Starr King, the San Francisco Unitarian minister whose book *Christianity and Humanity*, had 'inspired' Jordan as a youth.) David Starr Jordan was made an honorary member of the Bohemian Club in 1899.

Meyer Lansky's Fantasy Island: what America is seeing at the movies

by Michael J. Minnicino

In Part V of EIR's exposé of the modern film industry, Michael Minnicino documented the takeover of Hollywood by the international drug cartel-linked U.S. Mafia interests, who incorporated America's movie industry into their giant post-World War II media conglomerates. This is the concluding section of our series.

The Mafia-fantasies imbibed by today's "entertainment" society go far beyond the forms of psychological manipulation pioneered by the classic Western. In fact, the films that are being produced in America today—particularly the low-

The movies: psychological warfare as a fine art Sixth of a six-part series

budget horror films and the "sword-and-sorcery" epics—are conditioning the population the way the Weimar population was conditioned for Nazism. These films dull the mind to homicidal violence and lend an air of unreality to that violence.

This situation had its origins in the 1960s, when as the old studio structure disintegrated and all movie production was taken over by the six organized-crime linked multinationals. Three trends came out: (1) romanticization of crime, (2) demonic possession, and (3) sword and sorcery.

The criminal film

The Gangster Film of the 1930s—really a variant of the Western—had always tended to romanticize the criminal element, but crime was never really allowed to "pay." At the end of the 1950s this changed. Arthur Penn directed *The Left-Handed Gun*, publicized as the first "Freudian Western"; this was a sympathetic study of Billy the Kid. In 1967, Penn directed *Bonnie & Clyde*. This was the first film to imply that criminals are simply poor revolutionaries who lack more intellectual outlets. Penn was the third director to take over

the production of *Bonnie*; the first two were François Truffaut and Jean-Luc Godard, both of the European avant-garde film movement known as the New Wave, and some of their scenes remain in the final version.

The 1970s were dominated by films in which crime did pay or criminals are overwhelmingly sympathetic:

1969: *Butch Cassidy & the Sundance Kid*—turn of the century bank robbers, a remake was released two years ago by *Superman* director Richard Lester.

1972: *Boxcar Bertha*—Martin Scorsese's first film, a Depression-era female trainrobber, *McCabe & Mrs. Miller*—Robert Altman was the director; the heroine is an opium-addict madam.

1973: *Badlands*—Altman's *Thieves Like Us*, a Depression-era fictional version of *Badlands*.

1972-74: *The Godfather*, Parts I & II—crime begins to pay very well.

All of the above are by major directors, most were hits. Almost all are roughly based on factual incidents; the narration in *Badlands*, for instance, is based on the diary of George Wallace failed-assassin Arthur Bremer. This romanticization has led to films in which there is a deliberate blurring of the identities of criminal psychotics, terrorists, and revolutionaries.

The demonic possession film

Satan becomes a major film topic in the 1970s, prepared for by a series of films in the 1960s which began discussing psychosis *from the point of view of the psychotic*. Thus, when the real demonic possession films like *Rosemary's Baby* came along, audiences asked: is it a psychotic fantasy, or is she possessed? The lines, again, became significantly blurred.

The transitional film was Don Siegal's 1956 *Invasion of the Body Snatchers* (re-made in a druggy, special-effects version two years ago). Whereas many horror films had previously shown evil forces taking over the mind, here for the first time the bad guys were never clearly defined. The actual source of what followed was Hitchcock's 1960 *Psycho* followed in 1963 by *The Birds* (in which evil takes over the bird population of a California town). Then:

1963: *Dementia 13*—Francis Ford Coppola's first film, an explicit, low-budget remake of *Psycho*.

1965: *Repulsion*—child-molester Roman Polanski's first film in the West; Salvador Dali advised on the rape-fantasy sequences.

1968: *Rosemary's Baby*—Polanski again, first real demonic possession film.

1971: *Duel*—made originally for TV; Steven Spielberg's first film, a truck becomes possessed and homicidal.

1973: *Sisters*—Brian De Palma.
The Exorcist—Billy Friedkin.

1975: *Jaws*—Spielberg, *The Birds* under water; *Jaws III* is now released; a thousand variants have been produced starring whales, ants, piranhas, bees, etc.

1976-8: *Obsession*—mass murder; *Carrie*—telekinesis; *The Fury*—telekinesis. All by De Palma.

Exorcist II—by *Excalibur* director John Boorman.

From about 1976 on, it would take too long to list the hundreds of low-budget horror films released all involving psychotic and/or demonically possessed murderers. These films are very popular and their low cost (under \$3 million) makes them enormously successful financially. Their primary audience is 14 to 18 year olds, 60 percent women, 40 percent men. The invariable plot device is: coed group of fourteen to eighteen year olds is off having fun; couples go off for sex, often first sex; murderer discovers them and brutally kills them. The most important thing is that the deaths in these films are absolutely graphic—hatchetings, disfigurement, etc.—the kind of thing that would make the gleeful kids watching it vomit if they saw it for real. *This is cold-blooded conditioning to violence.*

It has been suggested that another root of these films is the so-called “snuff film.” Snuff films are a kind of super-pornography which show or purport to show the *actual* death of a person (sometimes a dog) by beheading or hanging . . . the kinkiest of the kinky. Los Angeles District Attorney Bugliosi has suggested that Charles Manson knew Roman Polanski and his wife Sharon Tate *before* the former arranged Tate's murder, because they had collaborated on snuff films.

Sword and sorcery

This genre is the most recent and closest to the original theories of early film theorists Lindsay, Münsterberg, et al. In effect, you combine the romantic villain/criminal with demon aliens in a Western-style “shoot-em-up” environment. Magic is arbitrarily thrown in.

The first real such film was not officially sorcery oriented: *2001*. *2001* (1968) started as a sci-fi film in which the computer becomes demonically possessed; by the end of the film an alien monolith has magically intervened. (Kubrick went through several versions until he came up with the famous monolith. He said later that it was the closest thing he could find to “a Jungian archetype”).

Star Wars and *Close Encounters of the Third Kind* (starring François Truffaut as an actor) came in 1977, setting off the current mania. *Star Wars* and its sequel, the first two of a planned seven-part series scheduled over 14 years, are very

much Westerns if full of Zen Buddhism. An interesting note is that the first *Star Wars* was composed of filmic “tributes” (i.e., thefts) to other films; *Star Wars*'s last scene is lifted from Leni Reifenstahl's paean to Hitler, *Triumph of the Will*.

The last years of the 1970s were filled with more explicit sorcery films: *Excalibur*, *Dragonslayer*, etc., and the early 1980s will see over two score such monstrosities released.

It was from *Star Wars* and its imitators that the entertainment industry controllers spun off today's video-game hysteria, a form of fantasy manipulation that has proven extraordinarily profitable as well as potentially addicting for youth.

Specialty films

Several films that don't fit these categories are worthy of special note:

Anti-religion films: The first was Robert Altman's *M*A*S*H*, on which the popular TV series is based. Even the *New York Times* noted this was the first film in U.S. history to ridicule a legitimate belief in God. The motif has been picked up since that time (1970), most recently in *True Confessions* (1981), a *roman a clef* of the Cardinal Cody watergate attempt, and *Monsignor* (1982), another portrait of “clerical corruption.”

Political films: Mike Ritchies's *The Candidate* (1972), starring Tom Hayden's buddy Robert Redford, is the earliest. The plot featured an environmentalist super-liberal challenging a California machine politician. At the time it was noted that the film curiously mirrored the career of Jerry Brown; Brown tried to buy the rights to the film and he and Redford arranged to have it shown to the delegates to the 1972 Democratic National Convention.

Watergate/CIA conspiracy films: *Three Days of the Condor* (1975; Redford); *All the President's Men* (1976; Redford again); *The Conversation* (1974; Coppola). Finally, there are several films that have discussed actual assassinations. The first was *Targets* (1968; Peter Bogdanovich's first film, based on the Texas University tower murders); *Greetings* (1968; Brian De Palma's first film, the Kennedy assassination); *Badlands* (1973; George Wallace assassination attempt); *Nashville* (1975; Altman; Wallace assassination attempt); *Taxi Driver* (1976; Scorsese, Wallace assassination attempt); *Blow-Out* (1981; De Palma, Chappaquiddick as assassination-attempt).

Who produces these films?

The directors of these films are quite insane; it remains to be seen whether they are witting conspirators or themselves so zombified that this stuff comes out “naturally.” The most important factor is the influence of film schools—University of Southern California, UCLA, NYU, Columbia University, and the American Film Institute in Hollywood. All these directors, with the exception of the older Penn and Kubrick, have spent years doing papers on Münsterberg and Jacques Barzun's theories. By 1968 there were 100,000 film students in 205 colleges, taking 3,000 film courses; by now that figure

is much higher.

Francis Ford Coppola: UCLA; most deeply influenced by Eisenstein; started doing soft-core porn films; wrote screenplay for *Patton*; chosen for *Godfather* because he was only major director at time with Italian surname; Jerry Brown's media advisor in 1980 presidential bid; took over *Apocalypse Now* from friend George Lucas and had nervous breakdown while trying to complete this modern remake of Conrad's *Heart of Darkness*.

Arthur Penn: trained at Black Mountain College, a project of Walter Gropius of Bauhaus; studied under John Cage, Wilhelm de Kooning, Buckminster Fuller; a recent film is the drug-saturated *Altered States*.

Martin Scorsese: flunked out of Fordham Divinity School; says Catholicism is like "an acid trip"; major figure behind documentary *Woodstock* which greatly helped to popularize counterculture; in 1976 joined New York's Cinetracts Collective, a super-left film group; speaking of the hero/psychotic of his *Taxi Driver*, he said, "Well, I'm not homicidal, but both Bob [the star, Robert De Niro—MM] and I identify with the character. The guy is very quiet but intense." Scorsese himself played a bit role in the film—a psychotic. *Raging Bull* came next.

Brian De Palma: Columbia, Sarah Lawrence; gave first roles to current superstars Jill Clayburgh and Robert De Niro; "I'm very turned on by Hitchcock . . . Godard."

Roman Polanski: convicted child-molester; National Film School of Poland; "I've seen all of Bunuel's films. Like him, I'm an anarchist."

The New Left/radical-terrorist connections of all these people is very strong. Haskell Wexler, America's leading cameraman—who gave many of these people their start by getting their films distributed by the underground distribution company Grove Press Films—was arrested after he made a documentary featuring then-underground Weatherman Bernadine Dohrn (1975). The three British directors who made films here—Lindsay Anderson, Karel Reisz, and Tony Richardson—were all part of the Maoist-Trotskyist "Free Cinema" group at Oxford. The Frenchmen are notorious and most of the current Italian directors (Antonioni, Bertolucci, the late Pasolini) are close to the wing of the Italian Communist Party which is soft on terrorism.

The Americans, particularly the California-based ones, are part of the Jerry Brown set, as are many of the starring actors. There is one politically coherent group, the Zoetrope group (named after Coppola's short-lived American Zoetrope directors' collective), which includes Coppola, Spielberg, Lucas, Scorsese, Milius (writer/director), and Lawrence Kasdan (screenplay, *Raiders of the Lost Ark*.)

The European New Wave

It was with the postwar European developments that the phenomenon later replicated in the United States originated: the university departments of anthropology and psychology took over filmmaking, and turned films into little more than

experiments honing down the techniques originally described in 1915. The most notorious case is France, where *Cahiers du Cinema* was founded in 1951 by Andre Bazin. Bazin was trained in epistemology by Teilhard de Chardin at the "Christian Socialist" journal *Esprit*, which Teilhard ran. Godard, Truffaut, et al. were recruited out of the university to be the *Cahiers* staff. The whole affair was sanctioned by the University of Paris, which gave Bazin the first chair for studying films, and by the French Government, which set up the Institut des Hautes Etudes Cinematographiques (IDHEC).

Using Teilhard, Merleau-Ponty, and Bertrand Russell as textbooks, Bazin claimed that filmic images should not simply be left as "signs" or mere potentials for language; they must become real in themselves, replacing language. Thus Hemingway and Dos Passos are the best writers, since their minimal language forces the reader to invest what few words there are with deep emotion.

Inspired by this high genius, the New Wave youngsters made some of the most minimal—and boring—films in history. (It is a tribute to the immersion of the French population in post-war existentialism that possibly the slowest-moving film ever commercially released, Eric Rohmer's *Claire's Knee*, was a big hit in that country.) These films conditioned filmmakers and audiences to produce and expect even less by way of content or dialogue, thus enhancing the brainwashing potential in film. For instance, Ingmar Bergman's dialogue-free *The Silence*, the grunting "spaghetti Westerns" of Italy or "kung-fu" films of Hong Kong—even Martin Scorsese's 300-word vocabulary *Raging Bull*—followed the path cleared by Bazin's minimalists.

When Bazin died unexpectedly in 1958, his mantle was given to Jean Mitry, an instructor at IDHDC. Mitry threw off Bazin's niceties and openly proclaimed that Münsterberg had said "all there was to say about film." Mitry also officially introduced the then-new techniques of linguistics into film study. (Bear in mind that whatever was done at IDHDC was soon heard of and replicated in Nancy, Berlin, Berkeley, UCLA. Most Americans got the scoop from *Cahiers du Cinema in English*, founded and run by the *Village Voice*'s film critic Andrew Sarris.) The work of British SIS's Tavistock think-tanker Michel Foucault started being taught at film schools, and European filmmakers used anything, no matter how mundane or revolting, so long as it was all "real" and contained its own "language." The key, as Mitry stressed, was to be realistic so that the objects could be more powerfully desired as objects, as Münsterberg had stressed.

After Mitry comes almost complete incoherence. The terrorist sympathizing Jean-Luc Godard is one variant. Godard is a follower of the Althusser *Tel Quel* group in Paris; they claim that the use of perspective in camera shots is "propagating the visual codes of Renaissance humanism" and thus serves the ruling class! Christian Metz now runs the IDHDC; his book *Film Language: A Semiotics of the Cinema*, attempts to find linguist Noam Chomsky's phoneme, morpheme, and "deep structure" in films.

National News

New fiscal crisis hits New York City

New York City has been hit with a fiscal crisis potentially more severe than that of 1975-76. According to a Nov. 6 report released from the State Comptroller's office, the city faces a budget gap of \$400 million this year and at least \$1.2 billion in 1984—and these figures are merely the most recent in a series of deficit projections that has spiraled upward due to an unexpectedly sharp decline in tax revenues.

Mayor Edward Koch has imposed an across-the-board budget cut of 6 percent for all departments, a hiring freeze, and more service reductions. But with New York City's workforce slashed nearly 40 percent since 1975, any significant reduction imperils every city service.

The main target for budget-cutting has therefore become the city labor unions, which negotiated a moderate 7-8 percent wage increase this summer. New York's financial community is demanding that the unions reopen the contracts, or take massive layoffs if they refuse.

Unlike the 1975 crisis, the city can expect no help from the state. What makes the crisis even worse than 1975 is that New York State's budget is on course for a nearly \$600 million deficit. Standard & Poor's has dropped the state's rating to the lowest of any state in the nation, calling into question its ability to finance capital projects and short-term cash flow needs, let alone provide any assistance to the city.

Donald Hodel: new man at Department of Energy

Donald Paul Hodel, the man President Reagan has decided to appoint to the position of Secretary of Energy, comes to his new post with a past record of strong advocacy of nuclear energy, and other forms of high technology energy development necessary

for national economic growth.

Hodel has also been an outspoken opponent of the Club of Rome and its various "environmentalist" subgroups, for which reason a cabal of such is currently preparing to testify against Hodel's appointment during his upcoming confirmation hearings.

Hodel was appointed in 1969 by President Nixon as deputy administrator of the Bonneville Power Administration, a huge hydro-electric development project in Oregon. Rising to the post of administrator in 1972, Hodel soon became an international spokesman for energy development, and pushed hard for Bonneville to initiate a series of nuclear plans to supplement its hydro capacity.

He also served on the Board of Directors of the National Electric Reliability Council and the Electric Power Research Institute, two leading research and development arms of the nation's electric power utilities, and was on the Advisory Committee on Energy Facility Siting of the National Science Foundation. In 1980, Hodel was elected to the Board of Directors of the U.S. National Committee of the World Energy Conference.

With such a background, Hodel was newly appointed Interior Secretary James Watt's first choice to serve as his number two man as Undersecretary of Interior in the new Reagan Department of Interior in 1981.

NDPC's Jones launches mayoral race in Chicago

Sheila Jones, who challenged Democratic Congressman Sidney Yates in Illinois's 9th Congressional District running on the Anti-Drug Party line, announced her campaign for Mayor of Chicago against incumbent Jane Byrne in a press conference Nov. 4. Jones will run in the Feb. 22 Democratic primary with the slogan "This time elect a woman."

Mrs. Jones, who polled between 11 and 15 percent of the vote in several precincts despite a nearly successful blackout of her campaign by the media, will run on a program of revitalizing industry in the Midwest

through "great enterprises" such as the Chicago deep tunnel project. Jones, already identified as the "LaRouche candidate" because her solutions to the depression parallel National Democratic Policy Committee leader Lyndon H. LaRouche's emergency anti-depression program, is backed by the National Democratic Policy Committee.

Richard M. Daley Jr., whose father forged a powerful Democratic political machine in Chicago, on Nov. 4 made it official that he will also challenge Mrs. Byrne in the primary. Two years ago, Daley was elected chief prosecutor of Cook County, which includes Chicago, despite opposition from Mayor Byrne.

A fourth candidate, black congressman Harold Washington, announced for Mayor on Nov. 10 with the support of Field family anti-black counterinsurgency expert Jesse Jackson, in an apparent effort to split the minority vote away from Jones, who is also black.

The Chicago mayoral race is bound to be a bitter fight, with the Byrne machine determined to squash all competition. The national press has printed the first of an expected series of attacks against Daley, with the *Washington Post* quoting Chicago *Sun-Times* columnist Mike Royko, who also slandered LaRouche, on Daley's "inarticulateness."

State Department fears Kissinger exposé

Despite highly damaging material and embarrassing questions on Henry Kissinger raised by *EIR* at State Department briefings, State Department spokesman John Hughes continues to embrace Kissinger on George Shultz's behalf. However, the heat is on, as a Nov. 11 exchange between *EIR*'s Ronald Kookinda and Hughes attests:

EIR: My journal, the *Executive Intelligence Review*, has been informed by prominent French citizens that the content of the meetings and the purpose of Henry Kissinger's trip to Europe is to undermine support

for the Reagan Administration. Just how closely is Secretary Shultz working with Kissinger on his trip?

Hughes: (As the press chuckles) The Secretary continues to consult closely with Mr. Kissinger and rely upon his advice. I don't know about this specific trip, but I'm sure that the Secretary will continue to rely on Mr. Kissinger's advice.

EIR: Let me follow up on that. Has the Secretary been informed of the testimony, in the trial of [former Italian Prime Minister] Aldo Moro's murderers', of a close friend of Mr. Moro, Mr. Corrado Guerzoni, who testified that the individual who was threatening Moro shortly before he was kidnapped and killed was Henry Kissinger?

Hughes: No, the Secretary has not been informed. We certainly have no intention of bringing every charge and wild allegation that may be made about Mr. Kissinger to the Secretary's attention.

A National Democratic Policy Committee leaflet on the Italian court testimony so disturbed the former Secretary of State's former colleagues in Washington that on Nov. 12 a State Department security guard threatened an NDPC organizer with illegal arrest for distributing the leaflets on public property.

A Committee representative had been passing out leaflets for half an hour to several hundred State Department personnel, when a security guard approached her, informed her that she was on "federal property," and told her that she would be arrested if she did not leave. The security guard falsely claimed that the sidewalk was federal property, and when the NDPC organizer inquired about the status of other sites nearby, extended that claim even to a gathering place for vagrants across the street.

A subsequent discussion with Robert Bannerman, chief of domestic operations for State Department security, confirmed that the guard had no authority to stop the leafletting and that the organizer was indeed standing on public property. "Even if you had been standing under the awning, which is State Department property, it is not our policy to stop anyone from leafletting," Bannerman said.

Kissinger aide Solomon to be named to State post?

Richard Solomon, formerly an aide to Henry Kissinger at the National Security Council and now an analyst at the RAND Corporation, may be named Director of Policy Planning at the State Department, according to Republican Party circles. Solomon is being considered to replace Paul Wolfowitz, who was named last week Assistant Secretary of East Asian and Pacific Affairs.

Both of these nominations seem rather curious. Wolfowitz in the words of one member of the U.S. intelligence community, "knows diddley about Asia."

Wolfowitz had been a member of the famous "Team B" group appointed in the mid-1970s by then-CIA Director George Bush, which warned of a Soviet military buildup and advocated a rapid U.S. military buildup. However, since Wolfowitz has written numerous articles opposing nuclear energy in the developing countries and advocating slowing down technological progress in those countries, he seems to believe that pure military efforts can substitute for economic development in America's security posture—a position hardly calculated to win friends in Southeast Asia.

According to his colleagues, Solomon's credentials are even less impressive. A fervent devotee of the China Card—including U.S. cooperation in developing China's nuclear delivery capacity—Solomon is not regarded by his colleagues as one of the brighter fellows at RAND. They tell of the time that a senior RAND Sovietologist was conducting a seminar on his recent trip to the Soviet Union. Solomon, always eager to show his knowledge, interrupted to point out, "You know, the last time I was in the Soviet Union, the thing that interested me was the fact that all the rivers ran from south to north."

"Yes, Dick," Solomon's senior colleague patiently replied, "just like on the map."

It is possible that Solomon will rise to the occasion—but which one?

Briefly

● **TYRONE FAHNER**, the Illinois Attorney General who for the past year has worked closely with pro-drug forces at the Chicago *Sun-Times* and the Anti-Defamation League to close down the Illinois Anti-Drug Coalition, was booted out of office Nov. 2, when he lost his re-election bid to Democrat Neil Hart. Fahner had earned the nickname "Tylenol Ty" through his attempts to use the recent Tylenol murder case to grandstand as the savior of the public.

● **WILLIAM FRENCH SMITH** has signed an agreement to facilitate extradition of major criminals between Italy and the United States. Aimed at organized crime, the treaty's first application may well prove to be the extradition of Henry Kissinger, following the former Secretary of State's exposure in a Rome court Nov. 10 for involvement in the kidnapping and murder of former Italian Prime Minister Aldo Moro.

● **WILLIAM BUNDY'S** International Institute of Applied Systems Analysis (IIASA) in Vienna was exposed by journalist Tad Szulc Nov. 7 as a center used by the Soviet Union for advanced electronic spying on the United States. Szulc detailed in *Parade* how IIASA, a branch of the Club of Rome, had tapped into the U.S.-built CRAY-1 computer at the University of Reading in England, securing top-secret U.S. defense information for the Soviet KGB.

● **PAUL LAXALT**, Republican Senator from Nevada, announced Nov. 6 that he would be assuming the General Chairmanship of the GOP, overseeing the Republican National Committee and all Republican campaign committees. Laxalt confirmed observations that the appointment signifies President Reagan's intention to run for re-election. "If I didn't think he was running for President, I wouldn't be taking this position," said Laxalt, who was Reagan's campaign chairman in 1980.

Editorial

Time for emergency measures

"Everyone is waiting for the sound of the crash. They won't hear it. Brazil has already crashed, but the Brazilians haven't perceived it. The banks have not lent the country anything since September."

—Prof. Adroaldo Moura, adviser to
Brazilian Planning Minister Delfim Netto

The genteel hoax announced by the International Monetary Fund, Mexico, and Argentina last week notwithstanding, the world is on course towards the biggest monetary blowout of world history, with a probable deadline of February 1983—as *EIR* argued last August. Whatever short-term refinancing arrangements may be thrown together between now and year's end, the disastrous decline in international trade reported in this issue guarantees that the problems will come back with a vengeance the following quarter, like Antaeus after falling to earth.

Whether the new plaster will hold the crumbling bricks for even the next two months appears questionable; Brazil, the biggest debtor of all, has run out of reserves, and is now scrambling for 90-day money, selling gold, and otherwise failing to raise much of the \$4 billion it needs to ride out the year, as reported elsewhere in this issue.

And despite the spectacular rise of the dollar during the past two years, the irony is that the United States, as the major absorber of foreign credit during 1982, is most vulnerable to the coming shock. With virtually all domestic savings absorbed by a net federal financing requirement of over \$200 billion this year, the U.S. capital markets are now dependent on the foreign capital inflows generated by pre-panic shifts in deposits. Of course, the same flight-capital flows that financed the American deficit at relatively low interest rates (but still-high real interest rates) drained the deposit base of the international banks, and prepared the crisis now unfolding. The dollar and associated capital markets are now the most vulnerable in the world.

It is time to consider the dollar-defense policy this publication advocated when the dollar ran out of control

in October 1979. Fed Chairman Volcker, it will be remembered, left the Belgrade International Monetary Fund meeting early, to announce the "monetarist" package that did, temporarily, rescue the dollar, but only at the expense of destroying its real basis in world trade.

At the time Contributing Editor Lyndon H. LaRouche, Jr., argued that the dollar must be backed by an expansion of international trade, including a program for high-technology American capital-goods exports to the developing sector, and a return to gold settlement of current accounts deficits among the leading industrial nations: substantially the same recommendations that President de Gaulle and his economic adviser, Jacques Rueff, had made to us in 1965. We may have only one opportunity, sometime during the next several months, to accept this advice before the situation deteriorates past all counsel.

The principles of such a re-organization are elementary, and known to every businessmen who ever conducted a competent bankruptcy proceeding for a potentially sound company. A cutoff date must be assigned to the entire mass of developing-sector obligations past which they will not pay debt service; this debt must be exchanged for 2 to 4 percent nominal-interest long-term bonds to be held by creditors; and a rediscount market for such bonds must be created by the monetary authorities of cooperating nations.

Successful reorganizations work only if the future income stream can diminish the relative burden of carrying the existing debt—which is why all the reorganization plans circulating on the Bank for International Settlements circuit are fraudulent. The re-organization will work if and only if treaty arrangements between nations facilitate the issuance of long-term export credits for specific development projects in the developing sector; commercial banks may be integrated in this system through the rediscount function of central banks.

The entire issue boils down to transforming the dollar into an export currency, rather than a rentier currency, once again, and rooting its value in the productive power of American industry and labor.

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