

# EIR

Executive Intelligence Review

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Mexico answers Helms—fires Wall Street stooge!  
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As this report shows, the principal figures in the "democratic opposition" movement are drug-money launderers, lawyers for cocaine and marijuana traffickers, terrorists, and gun-runners. Their presidential candidate, Arnulfo Arias Madrid, is a life-long Nazi.

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The report includes:

- A "Who's Who" in the drug mob's campaign to overthrow Panama's government;
- The facts on how "conservative" Jesse Helms has joined with State Department one-worlders to implement a destabilization campaign designed by the U.S. Liberal Eastern Establishment;
- How David Rockefeller's Trilateral Commission and the New York Council on Foreign Relations created the "off-shore" banking center in Panama, to handle their debt-and-drug looting of South America;
- Proposals on how the United States can help secure Panama, through a series of Canal-centered development projects, which break Panama's economic dependence on the "off-shore" economy run by the international banking cartel.

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# EIR

## From the Editor

**N**ews is breaking fast on the debt front, putting back on the agenda Lyndon LaRouche's 1982 "Operation Juárez." That is a program to stop the crash by reorganizing the debt, and extending new credits for massive economic development, centered on large-scale infrastructure projects, which would start in Ibero-America.

• As reported on page 4, Mexican Finance Minister Jesus Silva Herzog, a long-time target of *EIR*'s criticism, was forced out. The Mexican newspaper *El Nacional* revealed on June 20, in a rare front-page editorial, that Silva Herzog was canned for failing to carry out the assignment given to him by President de la Madrid, to adjust Mexican debt payments to an appropriate level. Rumors are rife in Mexico that he had made a secret accord with Citibank's William Rhodes to implement International Monetary Fund demands, flouting the President's directives.

• Peru's ambassador to the United Nations, Carlos Alzamora, said on June 19 in Paris that Silva Herzog's ouster reasserts the position on the debt of the Latin American Economic System, which was to fight the International Monetary Fund. This position coincides with Operation Juárez, and underscores the potential for a Peruvian-Mexican alliance that could catalyze the entire continent against the bankers.

The question is: Can Washington be made to respond positively to these developments, or will the insane policies dictated by the international banking fraternity continue to prevail?

This week's cover story documents the rotted state of U.S. banking and the schemes of the major money-center banks, led by *Citibank*, to survive in the financial blowout ahead, by devouring the regional banks. This has devastating implications for national security. The same Wall Street boys are scheming with the Soviets to kill the Strategic Defense Initiative (see page 42). In addition, as the *Investigation* (page 34) details, they are operating through Capitol Hill dupes like Senator Helms to pull U.S. troops out of Europe and send them into Central America to fight for the drug mafia's "freedom."

Hours after the Peruvian government retook control of prisons where the Shining Path terrorists were staging an all-out revolt (page 40), there was an attempt to assassinate President Alan García. Soviet pawprints are all over this affair. Where does the United States stand?

Nora Hamerman

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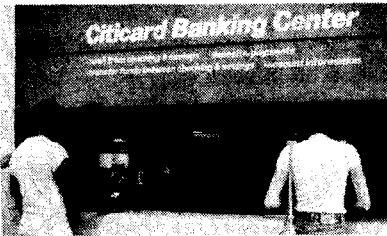
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**Correction:** In our June 13, 1986 issue, a chart on page 17 mistakenly attributed to NASA a plan for colonizing the inner solar system. The plan is that proposed by the President's National Commission on Space.

## Mexico hits Helms outrage; fires Wall Street darling

by D. E. Pettingell

Senator Jesse Helms (R-N.C.) has called for a stop to all economic aid to Mexico until the Mexican government agrees to turn over power to the Nazi-communist opposition party. In public hearings on June 17 sponsored by his Subcommittee on Western Hemisphere Affairs, Helms charged: "Mexico deserves no help from the international community until" the Mexican government "opens up its electoral process to review and inspection."

Helms presented what he called "secret statistics" on the 1982 Mexican presidential election results, showing the Nazi-communist opposition gaining over 55% of the national vote! "I believe that this is a scandal sufficient to impeach the legitimacy of the government," he said, apparently fully convinced of his allegations.

This is the first time anyone, in or out of Mexico, has challenged the legitimacy of the Mexican President and openly called for the overthrow of Mexico's democratically elected government. In doing so, Helms based his allegations on pure lies.

The June 17 hearings are the latest in a series of Mexico-bashing sessions that Helms is determined to continue until he brings Mexico to its knees on behalf of the international banking community.

Mexico's response to Helms's outrage could not have been more appropriate. Hours after Helms fired his broadside against Mexico, President Miguel de la Madrid fired back; he fired Finance Minister Jesus Silva Herzog, increasing fear among international bankers over the Mexican government's plans to pay—or not pay—Mexico's \$97 billion debt. Silva Herzog was widely seen by financial circles as their "darling."

De la Madrid assumed personal control over debt negotiations, by naming a lifelong friend, Gustavo Petricoli, who has headed the government's credit institution, Nafinsa. At his swearing-in as new finance minister, Petricoli said that

the priority is to "keep the economy from falling into a recessionary process. . . ."

The change of ministers sent shock waves through the international banking community. "By replacing Mr. Silva Herzog," one banker is quoted by the *Wall Street Journal*, President de la Madrid is laying the groundwork for "pressure for a unilateral moratorium."

### Black propaganda

At the hearings, Helms claimed that there are two different sets of electoral results, "one public, one private." According to "secret" statistics which Helms says are in the possession of the Joint Chiefs of Staff of the Presidency of Mexico, the "opposition" in Mexico, that is, the fascist National Action Party (PAN), in alliance with the communist PSUM party and several other smaller groups, won 55.14% of the vote in the 1982 presidential elections. The 50-year-old ruling Institutional Revolutionary Party (PRI), and two allied parties, according to Helms, got only 39.78%.

One must ask Helms, or his staff who apparently "got" the documents, how does he explain that President de la Madrid has ruled Mexico for three years with no one, in or out of Mexico, challenging his legitimacy? Not even the Nazi PAN, nor the communist PSUM have gone as far as the senator. Both parties know that Helms is lying. The most these parties have claimed is that the PRI "stole" some municipal elections and one gubernatorial election from the PAN, but never the presidency. The Mexican Embassy in Washington put out a brief statement noting that the Helms charges are "groundless and most probably are intended to confuse public opinion."

Helms argued that "electoral fraud" is the "prime cause of the economic and social crisis in Mexico." He demanded that Mexico "open up the system" in such a way that foreign banks and speculative capital can go in and buy off Mexico's



wealth, including Mexico's state-owned oil monopoly, Pemex.

"We had the Chinese Communists go to market processes, we had the French Socialists admit that they were wrong, even the Russians talk about decentralization, and Mexico still wouldn't face up," the "confirmed bachelor" writer Sol Sanders, a witness at Helms's hearings said, in demanding the total "privatization" of the Mexican economy.

### Who is to be rescued?

Helms's latest charges come as Mexico is in the midst of negotiations with the International Monetary Fund (IMF) to try to work out an arrangement for debt servicing. Financial circles fear that Helms's Mexican-bashing orgy will push Mexico into either a moratorium or a Peru-style approach to the debt. This will collapse several of America's major banks. In an effort to prevent, or at least postpone such an outcome, Federal Reserve chief Paul Volcker and Treasury Secretary James Baker have opted for a "soft-talk" approach in dealing with Mexico.

As a result of Volcker's secret June 9 trip to Mexico, Mexico agreed to go back to the negotiating table with the IMF. But despite talk that Volcker and Baker are pressuring the IMF into offering a more "flexible" deal to Mexico, no agreement has been reached, and the day nears when Mexico has to pay second-quarter interest.

The impasse has been reached over the IMF demands that Mexico cut by over half, its budget deficit of 13% of the nation's output. Mexico cannot afford to lay off thousands of public employees as the IMF wants. "Most of the \$424.4 billion that Mexico owes U.S. banks is held by the 10 biggest financial institutions in this country," wrote syndicated columnist Jack Anderson June 19. "They have so much money tied up in Mexico that a default by the Mexican government would have a serious, possibly catastrophic effect on the U.S. banking industry."

According to Anderson's information, in 1985, Bankers Trust and Manufacturers Hanover had more than half its capital tied up in Mexican loans outstanding. Bank of America has 48.6% and Citibank 43.5% exposure.

Before Silva Herzog's dismissal, the bankers at least had his personal guarantee that somehow Mexico would not default. Now, the dream is over.

"The news of his resignation worried Mexico's international creditors, who have long felt that Mr. Silva Herzog was easier to work with . . . than some of the country's more nationalistic officials," the *Wall Street Journal* complained June 18. His departure, the financial daily went on, "appears to add strength to the faction arguing that growth is more crucial than keeping interest payments current on the nation's debt."

As Helms and the bankers know, Mexico simply does not have the money to pay debts due on July 1. The greatest fear of the creditors is that Mexico might decide not to spend more than one-half of its export earnings on debt payments, but set

a reasonable limit, as President Alan García has done in Peru. They know that, if Mexico did this, other big debtor nations would follow. Argentina will not sign with the IMF "until the Mexican crisis is solved," a spokesman for the Argentine economic ministry said June 18. Brazil is reported to be considering the same approach.

### Consensus for moratorium

Mexico's press of June 18 attributed the expulsion of Silva Herzog to persistent pressure from Mexico's labor organizations. "Foreign debts must not be the nation's priority," the Confederation of Mexican Workers (CTM) asserted in a June 18 proclamation. "It is intolerable to ask the people for more sacrifices." The CTM demanded an end to "orthodox economic theories and policies which in reality have failed." It sought an end to austerity and the beginning of growth policies with "stricter exchange controls" to stop capital flight. The CTM is the most powerful section of the ruling PRI, which elected Miguel de la Madrid.

Porfirio Muñoz Ledo, a PRI leader, warned on June 16 that if Mexico accepted the bailout deal concocted in Washington, it would solve nothing, but would violate the commitment de la Madrid himself has made to his party, his country, and to the Cartagena Group, which represents all the major debtors in Latin America.

"As far as the PRI is concerned," he stated, "structural change means . . . satisfying the basic needs of the population. This implies Mexico making a clear break with IMF prescriptions. . . . If the financial packet were accepted, we would in fact be applying the Baker Plan, with which a financial protectorate would be set up to intervene in the country's internal policies." Instead, Muñoz Ledo urged, Mexico should set a limit to its debt service, as Peru has done, and pay interest at the "historic rates" of the past. "As Miguel de la Madrid said, nobody is obliged to do the impossible."

He stressed that the PRI party congress in May promised de la Madrid total support of the party and Mexico's patriots "to confront the pressures and assaults from abroad."

The Mexican government is politically unable to commit itself to any deal with the creditors that would bring more IMF austerity on the population. Right now, the Mexican population is distracted with the World Cup games taking place in Mexico during the rest of June. But come July, any government attempt to impose more austerity can be politically suicidal in times when the PRI is committed to defeating the PAN in gubernatorial elections in the northern state of Chihuahua. An unpopular economic package can only benefit the PAN and set the conditions for widespread political unrest along the U.S.-Mexican border. Violence in Mexico, as the *Washington Post* flaunted June 18, "would require U.S. troops to be deployed along the border." This would be the long-awaited justification for pulling troops out of Western Europe and deploying them in the Western Hemisphere, as dictated by a "New Yalta" deal with the Soviets.

# Egypt's summer economic crisis

by Thierry Lalevée

When the ruling National Democratic Party, chaired by President Hosni Mubarak, gathers for its congress on July 20, it may be confronted by one of Egypt's deepest-ever social and economic crises. According to some, the congress may never even take place. Pessimists predict a social upheaval in the immediate weeks ahead.

Bureaucrats in the U.S. administration and at the Washington headquarters of the International Monetary Fund are playing with fire, and threatening to lead Egypt into a general disaster. According to intelligence reports coming from both Washington and Cairo, the IMF has given the Egyptian government an ultimatum to implement a drastic austerity program, whose main pillar would be a 75% reduction in state-sponsored subsidies for basic foodstuffs such as bread, rice, and sugar.

The lifting of such a subsidy system, or the mere threat of it, has been enough to provoke major riots in the past 10 years. Notwithstanding, the IMF has sent no fewer than four special teams to Cairo since the beginning of the year to drive their threat home. The last was at the beginning of June, a visit of the IMF director for the region, Dr. Abdel Shakour Shaalan, a man who likes to see himself as Egypt's "real prime minister." In private discussions with the government as well as in interview with the press, Shaalan warned that unless the IMF demands were implemented, Egypt would be cut off from any further loans. He gave Egyptian Prime Minister Ali Lufti until July 1 to put together such an austerity package.

Enhancing the IMF ability to blackmail Cairo, has been its deepening economic crisis. Egypt's foreign debts stand at a \$32 billion high, divided between some \$4 billion in military debts, primarily to the United States, and other debts owed to the United States, France, Spain, and West Germany. Cairo is facing a \$4 billion interest payment this year.

But Egypt's income has shrunk. Oil exports, worth \$2.3 billion in 1985, are expected to drop to \$1.5 billion and probably lower—at least a \$1 billion total loss. Remittances from the Suez Canal are collapsing, from \$885 million in 1985 to perhaps as low as half that sum in 1986.

More dramatic for both its economic and social consequences, has been the collapse of remittances from Egyptian workers abroad. From \$200 million a month, this declined to \$50 million a month in the first six months of this year. As this might indicate, thousands of Egyptian workers have been forced to return home, jobless. Between the end of 1985 and the first months of this year, those affected were primarily

working in Saudi Arabia and the Gulf, but a new blow came recently from Iraq. For its own austerity reasons, Baghdad imposed a regulation allowing Egyptian workers to transfer no more than \$1,000 a year back to Egypt. For the 1.25 million Egyptian workers in Iraq, this has meant disaster. Many will have no choice but to leave, rather than be unable to feed their families back home.

As Prime Minister Ali Lufti addressed these economic issues last March 25 in front of the parliament, an Egyptian "White Paper" presented to the U.S. government stated that, on average, a 50% collapse in all income was to be expected this year.

There have been two immediate consequences. All major industrial projects have been stopped, and it is now unlikely that Egypt will ever be able to sign the final contract for its first nuclear power plant. Similarly, Cairo has been unable to meet its foreign debt payments, missing several deadlines since last June. Furthermore, the United States has not only not increased economic aid, it has reduced it, thanks to Gramm-Rudman. Current aid has been reduced by \$35 million. Of a \$265 million special fund agreed upon in late 1984, Egypt received no more than \$150 million, and only as a political gesture after the Feb. 25 military riots.

While avoiding suicidal implementation of the IMF demands, the Egyptian government proposed an alternative in the spring: to conclude as soon as possible negotiations with the IMF for a \$1.5 billion standby facility, and to establish bilateral negotiations with its main creditors for rescheduling its debts. Both have been rejected by the IMF. Instead the IMF wants a global negotiation within the framework of the Club of Paris; a proposal described by Ali Lufti in an interview with the June 17 *Financial Times* as "unacceptable. . . . It would be like engaging in a striptease." For whoever has an historical memory, a Club of Paris dictatorship over the Egyptian economy, cannot but remind one of the infamous "Caisse de la Dette," which sold Egypt to British colonialism at the last century. How would this differ?

On June 14, Lufti announced that a special team led by Egyptian Deputy Prime Minister and Minister of Planning Dr. Gamal al Ganzoury would leave for Washington to present Egypt's austerity package. Besides proposals for more agricultural and industrial production, a curb on imports, and "reforms" of the foreign exchange rate regime, it also includes an attempt at reducing the budget deficit by cutting down on state expenditures such as education. It addresses the issue of the subsidies by proposing that "assistance be restricted to the needy"—a vague declaration meaning that while subsidies are phased out, wages would be increased and cash-money distributed to the poorest strata of the population. This sort of system has little chance to work. In fact, were these proposals implemented, Egypt's stability will be at risk. Do people in Washington care about the survival of the Mubarak government, or of Egypt itself? Perhaps talks beginning June 16 between U.S. officials and Egypt's ambitious defense minister, Abu Gazala, will give an answer.



# Trilateral business leaders pay tribute to the Soviet Empire

by Mark Burdman

While the Soviets intensify their low-intensity warfare against West Germany and their military buildup against the West in general, suddenly, a spurt of offers is coming from Moscow, for "joint ventures" with Western companies.

The partner in the carrot-and-stick game is that group of industrial and financial leaders in the West known as the Trilateral Commission, created by David Rockefeller in 1973 for the purpose of creating a "New Yalta" world order in which the Soviet Empire would play a dominating role. This Western partner's willingness to negotiate "East-West trade deals" amounts to payment of tribute to the rulers of the emerging world empire. Concretely, it means building up the Soviet war machine, or, as Pepsico's Donald Kendall put it, "infusing the new and more sophisticated technology of the non-communist world into the East."

From June 16 to 18, Vienna, Austria was the site of a meeting of almost 300 businessmen and government officials, East and West, under the auspices of the International Council for New Initiatives in East-West Trade, headed by Dzhermen Gvishiani, deputy chairman of the Soviet State Planning Committee and son-in-law of the late Soviet premier, Aleksei Kosygin. This "New Initiatives" group was founded by Gvishiani and the late head of the Club of Rome International, Italy's Dr. Aurelio Peccei, during the 1973-74 period. Its creation coincided with that of the Trilateral Commission, and it had a similar purpose: to provide a framework for negotiating the New Yalta arrangement, premised on the economic buildup of the U.S.S.R. and its satellites.

To the June 16-18 meeting, the Soviets sent a delegation of over 20, including representatives from economic, trade, shipping, and research agencies and companies. Other Warsaw Pact nations were also well-represented: the Bulgarians, for example, had individuals from the Bulgarian Foreign Trade Bank, the Bulgarian Chamber of Commerce, and the ministries of transport and of trade.

From the United States, Donald Kendall of Pepsico led the pack, accompanied by Amory Houghton of Coming Glass, Jack Reed of Archer Daniels Midland, and others. The biggest representation of all, according to conference organizers, was from West Germany, the country now most intensively targeted for Soviet destabilization: directors or man-

agers from Siemens, BASF, RuhrGaz, Daimler-Benz, CommerzBank, DeutscheBank, and more. The mover and shaker was Otto Wolff von Amerongen, whose family has been in the forefront of building up the U.S.S.R. since the Bolshevik Revolution. He is an executive committee member of the Trilateral Commission and director of the East Commission of German Industry, based in Cologne.

The conference keynote was supposed to have been delivered by West German Economics Minister Martin Bangemann, who was obliged to pull out because of the coincidence with the Lower Saxony elections. Bangemann, one of the leaders with Foreign Minister Hans-Dietrich Genscher of West Germany's Free Democratic Party, sent a telegram of support to the event.

Others at the event included Hannes Androsch, director of Austria's KreditAnstalt bank; Jean-Baptiste Doumeng, the "Red Billionaire" of France, head of the Inter-Agra company; and Jean de Flassieux, a French Trilateraloid and head of Crédit Lyonnais, the French bank most involved in East-West economic deals.

## 'Most sophisticated technology' to the East

According to an aide to von Amerongen at his East Commission in Cologne, von Amerongen had been involved in a pre-planning meeting for the Vienna conference on May 15 in Cologne, attended by the U.S.S.R.'s Ivan Frolov, editor of *Kommunist* magazine.

Praising Frolov as a "forward-looking thinker," the aide said that Soviet economic strategy toward the West was changing under the Gorbachov team. This was partially due to Gorbachov's shift from "extensive economic development" to "intensive economic development and modernization." Because of this, the old days of discussions about large gas-pipeline deals and energy supplies to the West were coming to an end, replaced by "innovative" ideas, particularly "joint ventures"—Western firms being allowed into the U.S.S.R., for specific projects. This would, Frolov told the Cologne group, help build a "community of cooperation for survival" in Europe.

On June 18, Gvishiani told the Vienna meeting that Moscow was seeking "new forms" of economic cooperation and

was "very close" to working out specific joint ventures with Western companies, whose identities he did not reveal.

In response, Pepsico's Kendall declared: "The joint venture seems to be one of the ways to *infuse the new and most sophisticated technology of the non-communist world into the East*. Both East and West should place higher emphasis on the use of joint ventures."

According to a report in the June 19 *Financial Times* of London, "the most interest in the idea in the West" has been expressed by West Germany.

To wit: On June 9, one week before the Vienna event, the Soviet news agency Tass reported that Soviet Central Committee member Geydar Aliyev received a "prominent representative of West German business circles, president of the board of Deutsche Bank, Friedrich Wilhelm Christians." Christians, said TASS, also met with other Soviet leaders. "Matters of the deepening of mutually advantageous economic, scientific, and technical cooperation of Soviet organizations with West German firms was discussed." Deutsche Bank was in attendance in Vienna, at the June 16-18 meeting.

On June 18, the *Financial Times* reported that Soviet Prime Minister Nikolai Ryzhkov was proposing "joint venture" projects in select high-technology areas, and the modernization of Comecon-bloc projects, with firms from Japan, Sweden, Great Britain, and elsewhere.

### **The special cases of Vienna, Varna . . .**

The June 16-18 meeting was nicknamed "Vienna Three." It is third in the New Initiatives conference series in the Austrian capital (1974 and 1979). Vienna is by no means a fortuitous site. In recent years, it has become an absolutely central point of Soviet operations and spying into the West, a role that will expand with the building of a large United Nations complex in the city, at which, reportedly, the Soviets plan to station an enormous staff. In autumn of this year, the Conference on Security and Cooperation in Europe (CSCE) talks will be shifting venue to Vienna from Helsinki, Finland, and, according to an aide to Gvishiani, the June 16-18 meeting results will be forwarded as a working paper to that CSCE meeting.

Historically, Viennese banks, particularly KreditAnstalt, played a key role in the financial arrangements that helped bring the Bolsheviks into power.

The Soviets already have a cluster of organizations associated with intelligence specialist Gvishiani in Vienna. Gvishiani is chairman of the International Institute for Applied Systems Analysis (IIASA), which he set up in 1967 with then U.S. National Security Council chief McGeorge Bundy, the unofficial head of the U.S. Eastern Establishment. During the week of the New Initiatives meeting, IIASA scheduled an international governing board meeting in nearby Laxenbourg.

In the spring of 1985, IIASA was the leading sponsor of a conference on "East-West trade" at Duke University in

North Carolina. Conference documents stated that the future of American industry lay toward the East bloc, because the Third World debt crisis and the growing industrial depression in the United States foreclosed opportunities in these sectors. In effect, American industrialists were advised to "go East" on the basis of the computer evaluation of an Institute headed by a leading figure in the Soviet state-planning apparatus!

From June 24-25, IIASA will be sponsoring a conference on "world economic modeling" in Sofia, Bulgaria. The parameters for this model have been developed at the University of Bonn, in West Germany, with the assistance of the Academies of Science of Moscow and Sofia, among others.

Aside from "Vienna 1," "Vienna 2," and "Vienna 3," the New Initiatives group has also had its "Varna 1" and "Varna 2" East-West trade conferences in the Bulgarian port city of Varna. "Varna 2," held Sept 28-30, 1985, was entitled, "East-West Trade: Status and Prospects," and convened 140 participants from 24 countries as well as representatives from IIASA, *Business International* magazine, and others.

Varna is one of the most important Warsaw Pact training centers for intelligence and subversion operations against the West. It is a favorite meeting ground for special joint planning operations of the Bulgarian and East German secret services.

Varna was the locale of a Sept. 27-29, 1983 New Initiatives group seminar on "Problems of European Transport Infrastructure," co-sponsored by representatives of the Bulgarian Transport Ministry and such West German industrial firms as Daimler-Benz.

### **. . . and, of course, Venice**

The third "V," in the New Initiatives group's itinerary, after Vienna and Varna, is Venice. In autumn 1987, Gvishiani's group will meet on "Five Year Plans of the East bloc countries" in Venice, under the co-sponsorship of the Agnelli-Fiat group of Turin.

According to a report in the Italian financial daily, *Il Sole 24 Ore* June 15-16, Gianni Agnelli was one of several prominent Italians—all of them members of the Trilateral Commission—who were to attend the June 16-18 meeting in Vienna. *Il Sole* called this part of a "new Ostpolitik," that could help bring about "stable East-West relations." The paper's lead editorial, entitled, "Italy Looks East (and toward its markets)," cited recent overtures by Soviet leader Gorbachov to Italian Prime Minister Bettino Craxi for overall talks on the Mediterranean.

Fiat kingpin Gianni Agnelli has been key in this season's spurt of East-West trade initiatives. It could reasonably be said that the kickoff event in the series was an April 18-20 conference in Milan of the New York-based Institute for East-West Security Studies, co-sponsored by the Italian foreign ministry and financed, in part, by Fiat. This institute's head, John Mroz, was scheduled to fly in from the United States to attend the Vienna meeting.

# Hepatitis outbreak highlights India's water infrastructure problem

by John Grauerholz, M.D.

An epidemic of hepatitis now raging through India's eastern Bihar state has claimed at least 210 lives, and another 11,000 persons are suffering from the disease. At least 205 villages in the districts of Singbhum, Ranchi, Palamu, and Chotanagar, have been hit with the disease because of contaminated water. The immediate cause, apparently, is a heat wave, which has dried up potable water supplies in the area.

Bihar is no stranger to outbreaks of environmentally transmitted disease, having hosted outbreaks of Leishmaniasis in 1976, which subsequently grew into full-blown epidemics in 1977-78.

Rural villages are not the only places suffering from deficiencies in water supply and sanitation infrastructure. V. Ramalinpaswami, head of the Indian Council for Medical Research, told a science conference on Jan. 5, 1986 that up to half the people in big Indian cities are likely to be living in disease-ridden and unsanitary slums by the turn of the century. He said that millions of people were already prone to tuberculosis and worms because of overcrowding and open sewers. He noted that only one-third of India's 160 million urban dwellers have a drinking water supply or sanitary facilities. Forty percent of urban households live in one room. He said that India's estimated 13 million slum children are prone to lung infections, diarrhea, and malnutrition, and nearly one-third of all urban children under the age of nine do not attend school.

## The common denominator: water

The common denominator in these situations is the lack of water. Ironically, by virtue of the majestic Himalayas, the highest mountain range in the world, the Indian subcontinent is blessed with some of the greatest water resources in the world, and older civilizations in India had highly developed water-management and irrigation systems. However, in the 19th century, under British colonial rule, the infrastructure and population of the subcontinent were depreciated to the point that the Ganges-Brahmaputra river delta served as the breeding ground for no fewer than seven cholera pandemics which swept around the world.

Water is essential to life. The human body is approxi-

mately 70% water, and while the average human can survive for weeks, and sometimes months, without food, total restriction of water will lead to death within one week. In addition to physiological requirements for consumption of water, water is essential for numerous hygienic functions,



United Nations

including washing of the body and its garments and assisting in the sanitary disposal of solid and liquid wastes. To a great extent, the growth and development of civilized societies has been predicated on the development of infrastructure and institutions designed to separate what we eat from what we excrete. When such institutions and infrastructure have deteriorated under cultural and economic collapse, the result has been epidemics of disease which accompanied the dénouement of that society.

Because of its role in both ingestion and excretion, as well as its importance to life processes of all sorts, water, while essential to life, may act as the vehicle for various disease agents which are inimical to life. According to a report prepared for the U.S. Agency for International Development entitled *Water and Human Health*:

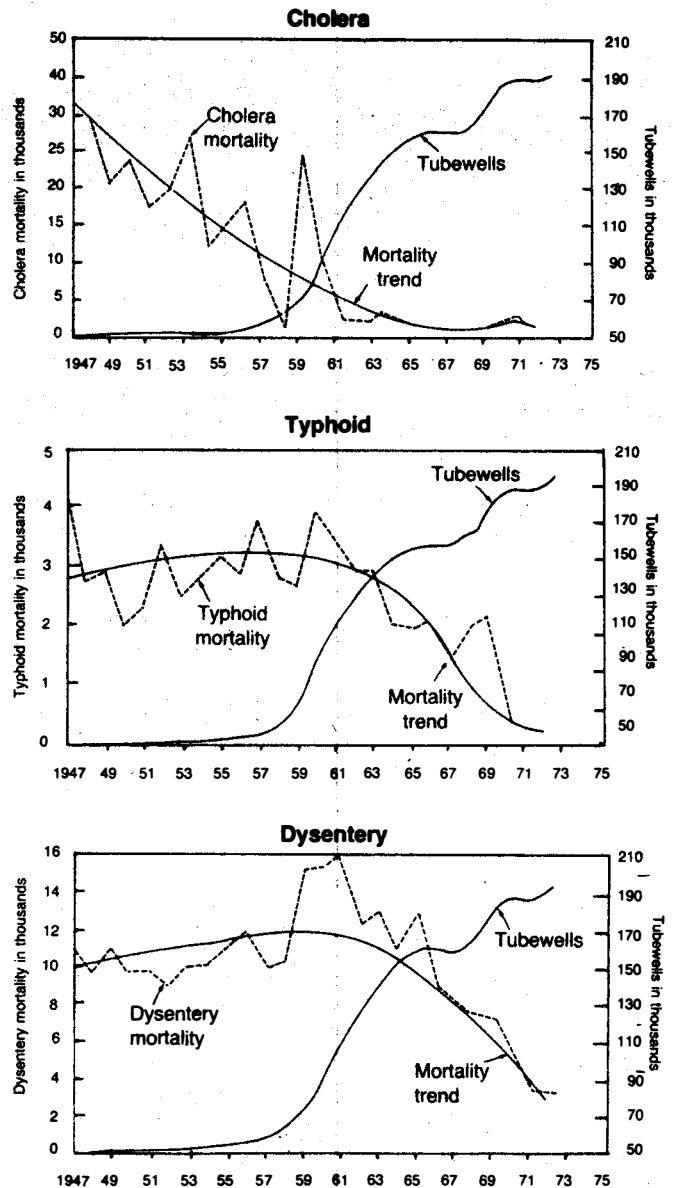
“Sufficient water must be available for hand washing, bathing, laundering, and cleaning of cooking and eating utensils. This quantity is needed in addition to that used for drinking. A fallacious argument is sometimes advanced that quantity of water is important, quality is not. Economically, only one water supply is often feasible; this must provide waters for *both* drinking and hygiene. With judicious selection and protection, particularly of groundwaters sources, microbiologically safe water can often be found to satisfy *both* purposes: Even large quantities of unsafe water cannot. Even where waterborne transmission does not appear to be endemic, the epidemic risk of common source outbreaks in piped community water supply systems should be avoided by public agencies. In most instances, the cost difference is negligible [emphasis in original].”

The impact of tube wells, as opposed to open water supplies, is shown in Figure 1. Numerous studies in India, and many other developing countries, have shown the impact of sanitary water supplies on the level of disease. A study of water supply in seven rural villages in Uttar Pradesh showed that the incidence of dysentery declined by 76%, diarrhea by 77%, scabies by 98%, trachoma by 90%, and typhoid disappeared completely, when piped water was supplied to in-house taps. An earlier study in Uttar Pradesh found significant reductions in deaths from cholera, typhoid, dysenteries, and diarrhea, after the installation of water treatment plants.

The government of India has attempted to improve the supply of clean water to urban and rural populations. As a result, the number of urban dwellers without safe water declined from 44.24 million in 1970 to 32.075 million in 1983, while the number of rural dwellers without safe water declined from 391.667 million in 1970 to 287.553 million in 1983. On the other hand, whereas 16.5 million rural dwellers lacked sanitation facilities in 1970, by 1983 that number had increased to 114.3 million, and 425 million urban dwellers also lacked sanitary facilities in 1983.

The main problem in India is lack of infrastructure to manage the seasonal variations of water availability inherent in the monsoon rain pattern. The Bihar hepatitis outbreak is a consequence of the dry season, but the flip side of this is

FIGURE 1



outbreaks of cholera and other diarrheal diseases occasioned by flooding of water and waste-disposal systems during the rainy season. Thus, a combination of flood control, reservoirs, and irrigation is necessary to tap the agricultural potential of the water, while insuring a steady nonpolluted supply.

It is precisely in the ancestral home of the cholera pandemics that the potential for creating the necessary water-management infrastructure for the entire subcontinent exists. In 1972, Dr. K. L. Rao, once irrigation and power minister of India, drafted a comprehensive Ganges revitalization and Brahmaputra control plan. His plan looked forward to the production of an additional 1 billion tons of food grains

annually, eight times the present level, with 130 million hectares of land under cultivation. He foresaw at least 40 gigawatts of new hydroelectric capacity, compared to 5 gigawatts presently.

Drawing on Dr. Rao's plan, the Fusion Energy Foundation, in 1979, proposed modifications of the Ganges-Brahmaputra Canal proposal of Mitsubishi Industries Global Infrastructure Fund. The GIF proposal involves "damming the Sanpo river on the upper reaches of the Brahmaputra in the frontier area between China and the Indian province of Assam to make it flow into India through a tunnel across the Himalayas," and projects an annual hydroelectric generating capacity of 240 to 300 billion kilowatt hours.

It is only through this sort of comprehensive approach to water management, combined with the industrialization necessary to build such a project, that the required infrastructure to eliminate recurrent epidemics of infectious disease in the Indian subcontinent will exist.

In contrast, the United Nations inaugurated the International Water Supply and Sanitation Decade (1981-90) with the ostensible goal of providing available, readily accessible, safe, and reliable community sanitation and water supply by 1990. However, the provision of this water was to be made by low technology, clean-your-own-latrines sanitation, compatible with "primary health care," as defined by the 1978 WHO conference at Alma Ata in the U.S.S.R. Since water supply and sanitation are, by WHO and UNICEF definition, a component of "primary health care," this meant that no major capital investment in water or sanitary infrastructure would be made.

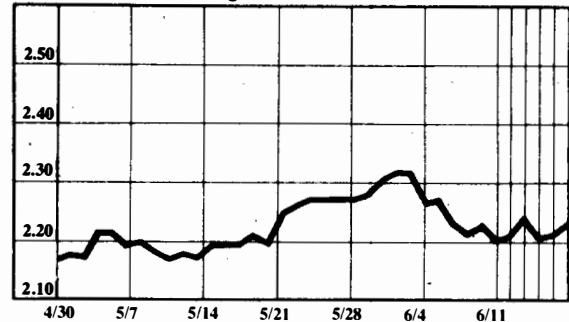
In a paper presented at a meeting on Health and Population in Developing Countries, Kenneth Warren, M.D. of the Rockefeller Foundation stated: "Proper sanitation and clean water make a substantial difference in the amount of disease in an area, *but the financial investment is enormous*. The success of such projects also depends on rigorous maintenance and alteration of engrained cultural habits." The ludicrousness of such a statement in regard to India, which was the home of highly developed industrial civilizations, prior to the depredations of the British, and which currently ranks behind only the United States and the Soviet Union in total number of Ph. D. s in science, needs little comment.

The basic premise underlying the WHO approach to the developing countries is that the populations of these countries are, in themselves, undesirable, and anything which would materially improve their existence, and thus increase their numbers, is anathema. There is little doubt that, historically, good water and sewer systems preserved and extended more lives than all the physicians who have populated this planet. Thus the emphasis on clean-your-own-latrines sanitation, in the guise of "primary health care," is a method of ensuring that the major water-management projects, such as the Ganges-Brahmaputra Canal proposal, necessary to actually deal with the disease and famine now rampant in the developing sector, will not come into existence.

## Currency Rates

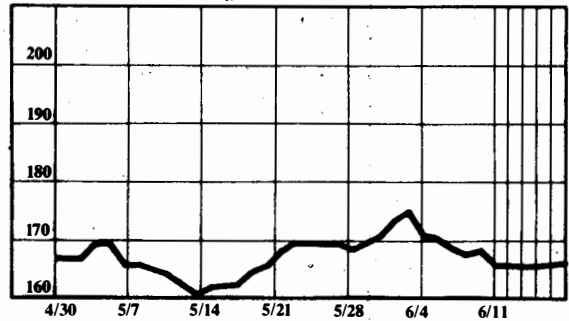
### The dollar in deutschemarks

New York late afternoon fixing



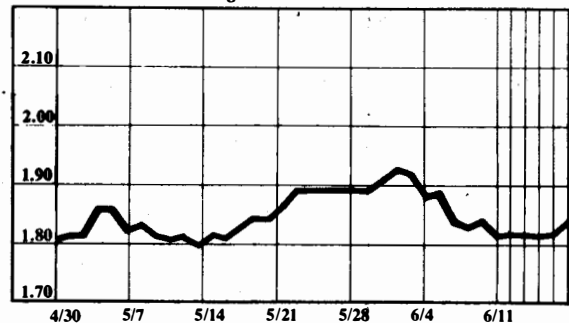
### The dollar in yen

New York late afternoon fixing



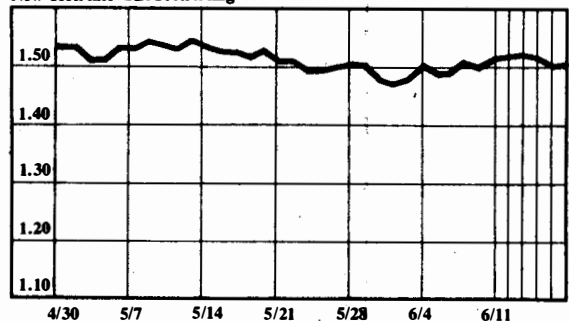
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



# Why the banking systems will experience a blow-out in 1986-87

by Lyndon H. LaRouche, Jr.

*The following is a letter sent to the London Economist on June 16 by Lyndon H. LaRouche, Jr.*

Subject: "Leviathan," June 14 edition

Gentlemen:

Your analysis of trends in government spending is dominated by two popularized, but blundering assumptions: the assumption that GDP, as currently defined, is anything but a very misleading yardstick for indices of economic output; and, the failure to distinguish the positive role of basic infrastructure expenditure within the total mass of governmental expenditure. In brief: A very different picture of this matter is presented, if one employs the yardsticks of physical economy, rather than the monetarists' yardsticks embedded in your piece. Not only does the analysis differ fundamentally, but the policy options implied are mutually exclusive.

In simple first approximation, the proper yardstick for computing relative value of outputs and inputs, is 1967 "per-capita market-baskets" for both producers' and households' goods. Such outputs must be measured for 1) Total population, 2) Total labor-force, and 3) Total of Operatives' component of labor-force. By this standard, U.S. productivity slowed from Kennedy-era levels about 1966, reached a level about 1970, and has been in a roller-coaster sort of downslide from 1970-71 to the present date. During the so-called "Reagan economic recovery" of the 1983-85 period, the average rate of contraction of the economy was approximately 2.5% per annum, and the rate of contraction is now accelerating.

The fallacy of GNP/GDP modes of national income accounting, is most readily recognized, if one analyzes a national economy as analogous to a consolidated agro-industrial enterprise. In this way, we distinguish between components of cost of production of physical output per-capita, and the sundry expenses analogous to a private enterprise's "overhead burden." From this vantage-point, the outstanding feature of the U.S.A. and United Kingdom economies over the post-war period as a whole, but especially since the mid-1960s, is a relatively exponential growth of the ratio of "overhead burden" expense to direct costs of physical output. On the continent of Europe, the same trend prevails, but more slowly; the same trend exists for the case of Japan, but has developed much more slowly than in Western Europe.

There are two outstanding features of this process of transition toward the sort of economic scrap-heap called a

"post-industrial paradise." The collapse of the turnover in capital-goods industries, especially the critical machine tool sector, and a post-1966-70 collapse of investment in basic economic infrastructure. This physical-factors effect has been exacerbated on the monetary side, by the inherent instabilities of the "floating exchange-rate system," and the intensification of this instability by policies akin to Mr. Paul Volcker's "controlled disintegration of the economy" dogmas. The combined effect: Our monetary order has taken the form of "creative financial" modes of building a chain-letter in nominal assets, resting upon a process of contraction in the physical-economic basis.

In reality, since 1970-71, the effective policies of OECD governments have been, to maintain public services at an approximately constant level (after adjusting for inflation). These portions of expenditure, including defense expenditures, have been approximately constant over the recent 15 years, if physical yardsticks are employed to compute the true rate of inflation. Recently, since about 1982, U.S. total expenditures on these accounts have actually been declining in total amount. However, the constant-dollar tax-revenue base, at prevailing rates, has been contracting at an accelerating rate, while the debt-service obligations of governments have been spiraling upward as a percentile of total governmental revenues.

All sensible observers tend to concur: "We can not simply continue in this way." The difference lies in the analysis of the fault, and, correspondingly, in the proposed remedies.

The view more popular among governments today, is simply to cut away flesh and bone from government budgets, as needed, to attempt to overtake the rate of collapse of the tax-revenue basis. The contrary analysis leads to the recommendation, that all governmental expenditures but national defense and basic economic infrastructure ought to be frozen, while forcing an expansion of the tax-revenue basis.

The difference in outlook, is thus centered around the issue of expansion of the tax-revenue basis. During Mrs. Thatcher's campaign for reelection, I had hoped that her government would be committed to a sharp turnabout in that direction, as she had appeared to adopt the gist of Mr. Norman Bailey's report on the "spill-over" impact of SDI. As you may recall, the grounds for my optimism on this account were swept away during the August-September period of that year.



During March of this current year, the relevant gentlemen of Switzerland, had pointed to the portents of the post-1982 build-up of off-balance-sheet-lending accounts in the U.S. banking system, and had added the somewhat wishful view, that the Swiss and German banking systems were somewhat insulated from the disasters looming for the U.S. financial community. It is to be conceded, that since 1982 the Swiss and German banks have disengaged from the degree of risk which caused their trembling during August 1982; in that degree, a blow-out of the Ibero-American debt, or of portions of the U.S. domestic debt, would have far greater direct impact upon the more exposed U.S. financial system, than in Europe. However, no part of the non-communist world is prepared to withstand the chain-reaction impact of a U.S. financial blow-out.

This year, or next, the U.S. financial system will experience a blow-out, assuming that no radical change in policies intervenes to prevent this. Thus, measures aimed at patching-up governmental deficits of OECD nations have about the relevance of rearranging deck chairs on the Titanic: the substitution of very short-lived cosmetics, for actually facing the real problem. Given the fact, that governments currently seem to have the concentration-span of a very nervous grasshopper, exercises such as Gramm-Rudman-Hollings are clinically comprehensible, if not exactly sane.

On governmental expenditures. Over the post-war period into approximately 1970, there was a precise correlation between increased U.S. investment in basic economic infrastructure and rises in productivity of operatives. The two curves were separated by a lag-factor of, approximately, 18 months, and otherwise represented the most precise fit to be found in economics statistics. Over the 1966-70 interval, the rate of growth, of both, attenuated, and contraction set in after 1970-71. Today, not less than U.S. \$3 trillion would be required to repair basic economic infrastructure to the quality of 1970.

What is needed, is the quality of tough decisions which reverse that 20-years policy-trend leading into the presently looming disaster, rather than the hysterical efforts of the U.S. Liberal Establishment to stake everything on continuing the old policy structures yet another few months.

It is not the Muscovite empire that is crumbling, but our own. True, the Russian system does not actually work by Western standards; excepting short-lived reforms by Peter the Great and Alexander II, it never did. Moscow could prevail only if we virtually destroyed ourselves, which is what Moscow has always believed, essentially, since before Ivan Grozny. Like ancient Rome, and Byzantium afterward, what might doom us is our propensity to destroy ourselves, by refusing to consider abandoning policy-matrices which a rational mind would view as massively discredited.

I do not believe that better seating arrangements at the captain's table would have prevented the Titanic from sinking.

Cutting government expenditures, as a substitute for addressing the failures of that policy which the cuts are intended to prolong another few months, is the symptom of an elite which has lost its capacity to rule effectively. Empires are not destroyed by conquerors, but by stubborn adherence to those customary opinions through which the empires destroy themselves.

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## Documentation

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*The following is excerpted from the June 14 London Economist's "The gorging Leviathan" cover story.*

For longer than most voters in the rich democracies can remember, the growth of state spending has been one of life's certainties. Suddenly, it seems to be stopping. Politicians who have longed for this day may be tempted to conclude that Leviathan, once tamed, is now shrinkable. Others think the taming has upset so many people that they will soon be electing governments that promise to spend more on just about everything. Both shrinkers and boosters are going to be disappointed. . . .

State spending has too long been increasing as a proportion of gross domestic product in all the countries belonging to the Organisation for Economic Cooperation and Development. In 1960 it exceeded one-third of GDP in only two of the 24 OECD countries; now it does so in 23 of them. . . . The ratio jumped most in the 1970s, when GDPs grew less rapidly but governments forgot the old saw about cutting their coats to fit their cloth. . . .

The ratio of public expenditure to GDP would not have risen as fast as it did in the 1970s if economic growth had retained its earlier zip. If the real GDP of, for example, Japan had grown in 1975-84 by the 8% a year it averaged in 1965-74, then the Y100 trillion that the Japanese government spent in 1984 would have been only 25% of GDP instead of the 33% it actually was. . . . Assuming that the world is not going to have two more oil shocks or a new bout of double-digit inflation that will have to be stopped by a slump, the chances of faster GDP growth—hence of there being room for more state spending without higher taxes—seem, on the face of it, quite bright.

Appearances deceive. One reason is the black economy. It allows people to earn and spend without paying taxes. . . . As taxes rise, more people decide to evade them. . . .

Such figures suggest that every OECD country has already exceeded the limits of taxation. . . .

Though voters expect the state to go on doing most of the things they are used to, they also want to pay lower taxes. This paradox is not new, but will become immeasurably more important. Those politicians who respond to it best will prove the most successful governors of the next few generations.

# Soviets say nuclear unsafe . . . for West

While the Soviets keep the world peace movement supplied with propaganda and funds about the U.S. "weapons arsenal," they don't mention their own plutonium production capability—the dual-purpose nuclear reactor of the Chernobyl type.

There is no disagreement among nuclear experts in the West that the graphite-moderated reactor at Chernobyl is capable of producing weapons-grade plutonium. The question is: What did the production of weapons-grade plutonium have to do with the Chernobyl accident?

Short of a full, open inspection of the 20 or so graphite-moderated water-cooled nuclear reactors, known as the RBMK-1,000 series, no one can dismiss the charge that the Soviets were using these units to produce significant quantities of weapons-grade plutonium for their nuclear arsenal.

The Soviets have admitted that Viktor Sidorenko, deputy chairman of the State Committee for the Safe Conduct of Work in the Atomic Power Industry, was at Chernobyl just three hours after the explosion, and it is he who told the press that the accident occurred "at the state of experimental research work" being carried out during a routine shutdown of the reactor. The chairman of Sidorenko's committee is Yevgenii Kulov, formerly of the Ministry of Medium Machine Building, which oversees "military applications of nuclear energy" and fuel-cycle operations at all Soviet nuclear power plants.

Why is Moscow still basing its nuclear program overwhelmingly on the graphite reactor? They have acknowledged that the graphite-moderated channel reactors require greater capital investment than the pressurized water reactor type used in the West for civilian power production. And some 40% of present Soviet nuclear capacities are already similar to Western pressurized water reactors, which do not have the inherent instability problems of the graphite reactor design.

The Western civilian nuclear reactor program developed on an entirely different track—adaptation of the pressurized water reactor first used by Adm. Hyman Rickover to power the U.S. nuclear submarine *Nautilus* in the 1950s. This design, together with modified versions such as the GE boiling water reactor, constitutes the basic civilian reactor design in use today in the West. These reactors are inherently incapable of direct production of weapons-grade plutonium.

In fact, nuclear scientist Dr. Edward Teller told a Montreal audience June 3 that he chaired a U.S. committee in

1950 that had ruled out the graphite design for commercial power production, because the graphite moderated reactors were considered unsafe.

## Making propaganda out of Hamm

As the Soviets pursue the cleanup at Chernobyl and announce that the undamaged plants at the site will be back on line in October 1986, they have accelerated their campaign to shut down nuclear power in the West. The Soviet "big lie" disinformation campaign went so far as to accuse West Germany of covering up a nuclear accident at the Hamm high temperature reactor by blaming the alleged radiation release from Hamm for the massive radiation from the Chernobyl disaster! The Soviet daily *Pravda* reported June 3: "There is much discontent in West Germany over the nuclear plant incident near Hamm. . . . The management tried to conceal the nuclear plant accident from the public to attribute the release of radioactivity in the area to the Chernobyl reactor."

*Pravda* reported that the accident was "covered" up by Germany only to "maintain their campaign of anti-Soviet lies" around Chernobyl. TASS on June 4 stated, for export only: the "nuclear reactor accident [at Hamm] . . . resulted in contamination of the environment. The current indignation and protest in the Federal Republic is understandable and justifiable."

While the Greens and the Soviets yell "accident," what actually happened was routine and well within the safety limits of normal operation for the Hamm plant. The so-called incident took place May 4, when a small fuel pellet got stuck in one of a series of valve-locks in a pipe leading to the reactor core. The procedure in such a case is to release some of the reactor's helium gas coolant into the locks of the valves to push the pellet toward the reactor. Then the plant operator has to move that helium gas, which is very slightly radioactive, back into the helium circuit or release it through the plant's smokestack. Both actions are routine operating procedure.

In this case, the operator vented the small amount of helium gas; the total amount of radioactivity released was approximately 2.2 millicuries, about one-half of the official limit for the reactor *per day*—4 millicuries. In other words, the so-called accident was not an accident, but within normal operating procedure.

Nevertheless, the pro-Moscow Social Democratic Party state administration in North Rhine-Westphalia, where the Hamm plant is located, ordered the reactor closed until the utility produces a full safety report.

One of West Germany's leading nuclear scientists, Rudolf Schulten, professor of reactor technology at the Technical University at Aachen and a leader of the Institute for Reactor Development, characterized the event as follows: "On May 4 in Hamm, nothing happened that was not allowed to happen. . . . What was released through the chimney was nothing but a fart."

## Mexico: a \$3 trillion trigger?

*Regulators fear that a cessation of payments could detonate the "off-balance-sheet liabilities" bomb.*

**R**eports just issued by the world's highest financial authorities admit, in effect, that the world banking system is insolvent, by the standard used by every bankruptcy-court judge in the United States. The Bank for International Settlements (representing the industrial nations' central banks) and the Group of 10 (representing their governments) issued identical reports recently, warning that the banking system might run "out of control," because the banks' liabilities exceed their assets by about 250%.

The Bank for International Settlements' *Annual Report*, issued June 9, warns, that "off-balance-sheet liabilities" represent "a continuing cause for concern," adding, "there is always the danger of things getting out of control."

Last month, a study issued by senior officials of the Group of 10, the committee formed by Treasury Secretary James Baker III and his colleagues from other industrial nations, warned that "financial innovations are making it harder for monetary authorities to effect policy."

The 270-page study, entitled, *Recent Innovations in International Banking*, singled out off-balance-sheet activities, such as note issuance facilities, forward rate agreements, currency and interest rate swaps, and foreign currency and interest rate options. Not only can the regulators no

longer regulate: They cannot even find out how far the banks are in the hole, because the off-balance-sheet liabilities are not all reported.

The result is that "even bank statements are potentially misleading," the report complains. "Large off-balance-sheet movements could make the system less responsive to sudden liquidity needs, complicate debt-rescheduling problems by increasing the distance between debtor and creditor, and destroy the distinction between banks and other financial institutions," the Group of 10 study concludes.

What that means, in plain English, is that the whole shebang could go.

What worries British and Swiss central bankers is that the Mexico crisis could trigger an uncontrollable problem in the international banking system, given the system's overextension.

The Bank of England fears the combined outbreak of a new debt crisis, and a crisis in the expanding "off-balance sheet" high-risk bank liabilities. "It would be difficult to predict how severe an impact it could have. British banks have direct exposure to Mexico, but even more, indirectly they are tied into the major U.S. banks with exposure," according to a senior British central banker. The explosion of off-balance-sheet liabilities ties the major international banks even more closely together than did the system of

interbank deposits, the subject of the 1982 crisis in the banking system.

Meanwhile, the British central bank is following the Mexican situation with growing alarm. The key indication they are watching is whether the Bank of Mexico head will leave in the wake of fired Finance Minister Jesus Silva Herzog. "If that happens, then we really have cause to worry."

America's top 15 banks have about \$800 billion in assets, and over \$2 trillion in liabilities. These 15 banks are insolvent by normal bankruptcy-court rules, but not "illiquid," for the simple reason that they are still able to increase their liabilities. They have reached this miserable condition by that device known as "off-balance-sheet liabilities," the subject of the panic reflected in the central bank and government reports.

International lending collapsed between 1982 and 1985, from over \$100 billion per year to barely \$10 billion last year. It collapsed because the banks' existing international loans, to Third World borrowers and others, became worthless. The banks could not earn sufficient income to pay interest on their existing deposits, much less show a profit, because a large proportion of their existing loan-portfolio died.

What they could not earn in interest from dead loans, the banks took in by issuing loan guarantees and similar commitments, in return for up-front fees. The volume of loan guarantees in the United States has grown from almost nothing, to \$500 billion in 1985, as a result.

In effect, the banks expanded their liabilities in return for one-shot current income, which is the most dangerous and irresponsible thing banks can do. For a bank, a loan guarantee is no less a liability than a loan; if the borrower fails, the bank will have to pay off the loan.

## Who elected Orville Freeman?

*The cartels officially take over U.S. food policy, for the explicitly genocidal aims of Freeman, et al.*

The "Agexport '86" exhibit and conference at the U.S. Department of Agriculture on June 16-20, officially marked the takeover of U.S. agriculture production and foreign food policy by the international cartel companies, tied to the current "New Yalta" orientation to the Soviet Union. Most prominent in this brazen usurpation of U.S. food power is former Secretary of Agriculture Orville Freeman, who for decades has been the helping hand for the cartel companies, and their needs around the world.

Since his days in Washington in the Kennedy and Johnson administrations in the 1960s, Freeman has done his dirty work from New York, through his company, Business International, Inc. Now, since January of this year, Freeman has moved back to Washington, D.C., joined the Washington office of his old Minneapolis-based, Cargill-connected law firm, and assumed the chairmanship of a new base of operations, the Agriculture Council of America.

It was announced at the Agexport conference on June 17, that the Agriculture Council of America, and Orville Freeman, will "voluntarily" serve as the policy-formulation and action group on food exports for the government, beginning this summer, after the expiration of the two-year term of the current policy advisory committee, the National Commission on Agriculture Trade and Export Policy.

You may ask, who elected Freeman? No one even appointed him. But he intends to run the show. Since January, he has been shuttling around the country, and between Washington government offices, using his rhetoric

about how an "action triangle" of food, commercial trade, and economic programs for selected countries, should be pursued by combining the powers of the State Department, the USDA, and the Trade Commissioner for the purpose—which he does not say—of totally controlling their food supplies and guaranteeing profits to the cartels.

In the case of Mexico, for example, Freeman says it should be made into multibillion-dollar food importers from the United States. He calls for a special agriculture adviser to the government (mandated by the new farm law). The Commission itself calls for a new department of trade for this purpose.

At the Agexport conference, the Commission released a document with the same Freeman policy perspective, "Executive Summary of the Report to the President and Congress of the United States of America, Concluding Recommendations of the National Commission on Agricultural Trade and Export Policy," containing their proposals for trade policy.

The food export policy now being implemented in Washington, D.C., under the new farm law, "Food Security Act of 1985," was heavily influenced by the Commission and is directed in the way Freeman intends: Cut U.S. food output, drastically reduce the number of independent farms, turn over control of food production and distribution to the cartel group, alienate our NATO and other food-producing allies, and watch people starve.

However, in the doublespeak terminology of the conference, this policy was described as: "eliminating food

surpluses, lowering farm prices to be more competitive, and using export enhancement 'tools' to fight back foreign-export competition."

A State Department speaker at the conference, Dennis Avery, agriculture specialist, said, "Without more effective farm trade rules in the future, the world runs the risk of diverting badly needed capital into more and more high-cost farm production, storage of yet more expensive farm surpluses, and more debilitating farm trade conflicts."

Variations on this theme were repeated over and over again throughout the conference sessions, in which many congressmen and farm representatives also participated to add an aura of public approval.

However, the exhibit was just the public window dressing for private policy drives that are already, literally, treasonously undermining the economic and strategic interests of the nation.

Look at the hosts of the conference—the National Commission on Agriculture Trade and Export Policy, officially formed in August 1984, by mandate of Congress, to design new foreign trade policies in the face of declining U.S. exports. The Commission was funded and led by international cartel interests, who made certain over the last two years to ignore or play down the role of their associated agencies, such as the International Monetary Fund and World Bank, in imposing the loan conditionalities and looting policies that led to the food trade decreases. The backers of the Commission in this category includes: Garnac Grain Co., Inc. (the U.S. arm of André, the Swiss-based grain cartel), W. R. Grace & Co., and Continental Grain Co. (the European oligarchy-owned grain cartel, based in New York since World War II).

## Re-hire the air traffic controllers!

*A GAO report indicates "serious problems" in the air traffic control workforce.*

The United States General Accounting Office (GAO) submitted a comprehensive report to the U.S. Secretary of Transportation on March 6, 1986, which is a sweeping condemnation of the current status of the air traffic control work force. The main conclusion of this report, which has sparked intense controversy on Capitol Hill, is that since the August 1981 strike, in which the Reagan administration fired all 11,700 striking controllers and broke the controllers union, there has been a serious decline in staffing by fully qualified personnel. This has led, according to the extensive survey done by the GAO, on which the report was based, to "serious concerns" on the part of controllers and their supervisors "about their ability to continue to maintain the proper margin of safety."

The report was commissioned from the Resources, Community, and Economic Development Division (RCEDD) of the GAO by the Subcommittee on Transportation, House Committee on Appropriations. It was released by Herbert R. McLure, Associate Director of the RCEDD, at a hearing before the Subcommittee on Investigations and Oversight of the House Committee on Public Works and Transportation, and simultaneously presented to Elizabeth H. Dole, the administration's Secretary of Transportation.

Even before the report's findings were released, Secretary Dole announced that FAA will add 1,000 more controllers—500 each in fiscal years

1986 and 1987. However, as the GAO report points out, it will still take these new hires two years or more to progress to fully trained status.

The hottest political issue raised by the report, and by those who rightly view the breaking of the controllers' union as the opening shot of a war by Wall Streeters inside the administration to break the nation's unions, is the question of rehiring the fired controllers.

In early June, Rep. Guy Molinari, (R-N.Y.), introduced a bill that would provide a mechanism for the FAA to give priority in hiring the 1,000 new controllers, to those fired after the strike. In June 13 hearings on the bill before the House Post Office and Civil Service Subcommittee, Molinari said, "We are engaged in a dangerous game—literally a race against time—to avert major air disasters which would result in a substantial loss of life. . . . We have a system that is dangerously stressed due to lack of experience. This is directly impacting safety. There is only one source available where the FAA can buy that experience and that is from the group that was fired in 1981."

Walter Luffsey, the FAA's Associate Administrator for Air Traffic, responded immediately: "Rehiring the controllers who were terminated for striking is not a consideration nor, for that matter, will it be."

The GAO report does not deal with this issue, per se. It simply makes a solid case for the need to do something immediately to remedy the situation.

Its major findings, based on FAA data for the period from July 1981 through September 1985, and an extensive questionnaire survey of some 4,500 radar qualified controllers, 1,000 first-line supervisors, and the managers of the 20 air route traffic control centers and the 54 busiest terminal facilities in the continental United States, include the following:

- "FAA does not have as many fully qualified, experienced controllers at major air traffic control facilities as managers, supervisors, and controllers believe are needed, and as are called for by FAA's standards and goals. . . ."

- "Air traffic activity has reached record levels and is at the point where controllers and their supervisors believe they are overworked during peak periods, especially at centers. Moreover, air traffic is expected to continue to grow."

- "Overtime is likely to remain high at the centers and controllers and supervisors we sampled feel the overtime being worked is negatively affecting controllers' ability to perform their duties."

- "There are problems with the quality and amount of on-the-job training being given to new controllers."

- "There are fairly widespread communications and other employee/management problems at the facility level that are adversely affecting the morale of controllers and supervisors."

The report's major recommendation is to-the-point: "We recommend that FAA impose restrictions on air traffic until both the number of fully qualified controllers and overtime requirements meet FAA's goals."

*EIR* recommends careful study of this report, and a strong lobbying effort to ensure its implementation, as rapidly as possible.

# Business Briefs

## Defense & Aerospace

### Pentagon: Europe to get SDI contracts

A Pentagon official told British defense correspondents in London on June 17 that European countries would play a leading role in constructing ground-based defenses against short-range Soviet missiles, and that contracts of up to \$2.6 billion could be involved.

The unidentified official said that the Strategic Defense Initiative was beginning to win wide acceptance in Western Europe, where the debate about the program was "more rational than in the United States, because there is a more sophisticated understanding of the issues of nuclear deterrence." The official denied reports that the SDI would be seriously delayed following the Space Shuttle disaster, but acknowledged that the United States would have to develop alternative ways of launching satellites into orbit.

## Transportation

### Conrail union leader: Stock sale blocked

Numerous American railroads are willing to participate in a public stock offering to sell Conrail, but top administration officials have prevented the plan from coalescing, Fred Hardin, a railway-union leader, said on June 17.

Speaking before the House Subcommittee on Commerce, Transportation, and Tourism, Hardin said that seven or more railroads have "indicated a willingness" to buy Conrail stock to ensure the success of a public offering, providing the government with \$1.6 billion to \$2.3 billion.

"Everytime we get them [the railroads] almost to the kitchen door, somebody calls them and they run away," Hardin told the subcommittee. "There are high-ranking officials who don't want this thing to get going too fast."

One railroad official did admit to interest in Conrail: Ron Raimenn, vice-president for

corporate affairs for Burlington Northern, said his railroad had attended preliminary discussions on the Conrail sale. "We're interested in a strong, independent Conrail. We're willing to participate in any proposal that would lead to that."

Transportation Secretary Elizabeth Dole has opposed a public offering of Conrail stock, and has urged Congress to approve a \$1.9 billion offer for Conrail by Norfolk Southern Corp., a Conrail competitor.

## Austerity

### West Germany adopts new budget cuts

West German Finance Minister Gerhard Stoltenberg announced a program of austerity measures, Gramm-Rudman-style, following a federal cabinet meeting in Bonn on June 18.

All ministerial budgets will be affected by a cut of expenses, which will freeze 1 billion deutschmarks in expenditures. Since additional compensation payments have been promised to farmers, because of income losses related to the Soviet Chernobyl nuclear disaster, the budgetary freeze will hit hardest at non-agricultural budgets.

The cuts of DM 1 billion are not great, seen against a total budget of DM 260 billion, but the Stoltenberg decree will set a precedent for a new round of harsh fiscal austerity and budgetary cuts.

## Oil

### Libya not worried about U.S. pullout

"Frankly, this will not affect us at all," said Abdullah al-Badri, head of the Libyan National Oil Co., in an interview with Reuter in mid-June about the effect of five U.S. oil companies pulling out of Libya.

"We've been working for the past two months to try to find avenues for selling our oil, and we have," he said. The Libyan official added that the five American oil companies are not keen on selling, but were

forced to by U.S. government action.

"They found it a silly idea," he said. "It is not profitable for them." Al-Badri said that three of the firms have interests in a 60% Libyan-owned company, Oasis Petroleum: Marathon has 16%, Conoco 16%, and Amerada Hess, 8%. "Customers are used to our oil. If they don't buy from the Americans, they will buy directly from us."

## International Trade

### U.S. technology restrictions eased

The U.S. Commerce Department has published a proposed radical change in its export licensing procedures which, if not blocked in the next 60 days, will effectively end attempts to restrict sensitive technology sales to the Soviet bloc nations.

Paul Freedenberg, assistant secretary for trade at Commerce, said a new "gold card" system will use a list of thousands of certified foreign users which it "trusts" would not pass sensitive technology to the East bloc. These select firms would then need no special export license.

Initially, according to a report in the European edition of the *Wall Street Journal*, the system will cover buyers in Japan and 14 other countries, but would be expanded to such neutrals as Sweden, Austria, and Switzerland. Sweden recently has become notorious for allowing advanced technology to be exported into the Soviet Union.

A major backer of the project, according to the report, is Pentagon export-control official Stephen Bryen. Bryen's name has come up in connection with the Jonathan Pollard espionage revelations recently.

## Domestic Credit

### Louisiana closes down more banks

Louisiana banking officials on June 13 ordered the Bank of Commerce in Shreveport and Bossier Bank and Trust Co. in Bossier



city to close operations, while a search began for new owners.

Bad loans were blamed for the failures which caused the banks to shut their doors on the afternoon of June 13. Large numbers of depositors tried to make withdrawals from the banks, and some were still trying when the doors were locked.

Both banks were under consent decrees to refrain from what were described as bad loan practices. Gus Mijalis, chief fundraiser of Louisiana Gov. Edwin W. Edwards (D), is a former officer of the Bank of Commerce. He resigned when he and several others were indicted, along with Governor Edwards, in a federal racketeering case. All were eventually acquitted.

Herman K. Beebe, a Shreveport businessman, convicted of conspiracy, wire fraud, and other felonies in 1955, had sold his interest in Bossier Bank and Trust. He had been acquitted of charges of conspiracy and misapplication of Bossier Bank and Trust funds.

## Agriculture

### Argentine production declines

In 1986, Argentina, one of the richest agricultural nations in the world, will lose \$1.2 billion in income from agricultural exports, given that production will drop from 44 million tons in 1985 to 37 million in 1986, at the end of the current harvest, and that international prices have dropped.

Private researchers told *Somos* magazine that, as of next year, taxes on agricultural exports will stabilize at 15%; the drop in number of hectares under cultivation will lead to a further drop in production, down to 30 or 32 million tons.

Worsening conditions resulted in an agricultural producers' protest strike in mid-June, lasting four days. The strike was effective, despite the fact that two of the four agricultural confederations did not participate. The Sociedad Rural (SRA) and the Rural Confederation (CRA) organized the nationwide protest around a series of demands which include: elimination of taxes on exports; fewer taxes overall; suspension

of "dirigist and interventionist" measures; more credit; resolution of problems of infrastructure (ports, storage, and transport); measures to avoid bankruptcies; reduction of public expenditures.

In several parts of the country, producers organized tractorcades on major highways and handed out leaflets. The CRA and SRA issued a statement saying that support for the strike was total among the membership of those organizations. All agricultural entities are considering further protest action, claiming that the government has failed to respond to their demands, and that agriculture in the country is collapsing.

## Armaments

### Lavi jet program delayed

In mid-June, Israeli Prime Minister Shimon Peres and Defense Minister Yitzhak Rabin received "almost identical letters" from U.S. Secretary of State George Shultz and Defense Secretary Caspar Weinberger, indicating a "major shift" in the Reagan administration's attitude toward Israel's Lavi jet program, and indicating an increasing U.S. unwillingness to commit itself to a \$300 million investment in the Lavi over the next 15 years, the *Jerusalem Post* reported June 10.

The Lavi program has been the center of intense controversy since 1983, with Weinberger and Shultz on opposite sides. The conflict centered around the fact that the Lavi program could not be implemented without the Israelis receiving sophisticated component designs from the United States that had been previously protected by U.S. national security classification.

Following receipt of the letter addressed to him, Rabin, on June 9, called an "urgent meeting of the top echelons of the Defense Ministry, the Air Force, and the Israel Aircraft Industries to reassess the Lavi fighter jet program," the next day's *Jerusalem Post* reported. The *Post* quoted an unnamed Israeli source saying that Rabin had been "more than upset" at the "unbending attitude" of a Pentagon delegation in Israel during the first part of June, headed by Assistant Deputy Secretary Dov Zakheim, toward the Lavi project.

## Briefly

● **EIGHT MIDWEST** governors called free trade a "mystical dream" in a message to President Reagan on June 17. "We live in a world of quotas, export subsidies, and government incentives," the governors said. "Clearly, the mystical dream of world 'free trade' is a world that never was and never will be."

● **EGYPT'S ARMS DEBT** is the subject of ongoing negotiations between the United States and Egypt, said Frank Wisner, the U.S. ambassador-designate to Egypt, in testimony to the Senate Foreign Relations Committee on June 19. The United States had begun, in 1985, to give Egypt outright grants to make arms purchases. "Now it's important to go beyond that and find other options," such as rewriting existing 14% loans at a lower interest rate, Wisner said.

● **MULTI-FAMILY** housing starts in the United States dropped by 21.9% during May, to bring the overall rate of housing starts down 7.4% in May, to 1,888,000, the lowest level for the year. This was predicted by the housing industry in response to the elimination of tax breaks for apartment buildings.

● **AN AGRICULTURE** Department survey indicates that farm foreclosures accounted for more than one-fifth of all farmland that changed hands in the United States during 1985. The report indicates that there is an upward trend in foreclosures, showing 3.8% of farmers were in bankruptcy last year.

● **GENERAL MOTORS** is considering closing 6 of its 25 North American plants by 1990, according to *Metalworking News* magazine. The closings could occur because GM has scaled back its GM-10 program, aimed at putting out a new line of GM intermediate-sized cars starting in 1988. The program was intended to counter the opening of new Japanese car plants in the United States.

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## The automobile engine: test bed for fine ceramics

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*The automobile industry is merely a good avenue for introducing ceramic technologies with far broader applications, reports Thoula Frangos, an engineer with the Fusion Energy Foundation.*

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The high temperature tolerances of ceramic materials have been useful to man for a variety of purposes since the beginning of civilization. One of the earliest energy-related uses was for refractories in ovens and furnaces. Today, high-technology ceramic technologies are emerging for many diverse applications, from prosthetics to insulating blankets for the Space Shuttle (Figure 1). The development of high-performance heat-engine ceramics has received a great deal of attention in the past 10 years. There are presently joint government-industry programs in the major industrial nations, coupling development of advanced heat engines and ceramic materials.

The automobile industry is a good test bed for high-technology structural ceramics for two reasons. First, many components of the heat engine go through intense thermal and mechanical stresses, which the ceramic materials must survive. Second, due to the efficient mass-production of millions of cars a year, this is a good industry to develop production techniques very rapidly, once the economic benefits are perceived. This industry, being one of the largest, will more immediately realize the financial benefits of such an investment in improved engine efficiency. This makes the automobile industry a good avenue by which to introduce these ceramics to other parts of the economy.

The payback in investment in advanced heat engines for automobiles, is potentially enormous. In 1984 dollars, with 1984 fuel prices, a 20% increase in fuel efficiencies alone would reduce the U.S. balance of payments deficit by \$15 billion. Argonne National Laboratory did an economic study in 1983, which estimated a gain of \$278.9 billion to the U.S. economy over the seven-year period until 1990, were the United States to achieve hegemony in the world ceramics market—with a gain to the economy of 250,000 new jobs.

The Japanese currently have the greatest national commitment to ushering in the "new ceramic age." If the United States is to compete and realize the potential benefits of ceramic technologies, a major long-term government-sponsored program must also be launched.

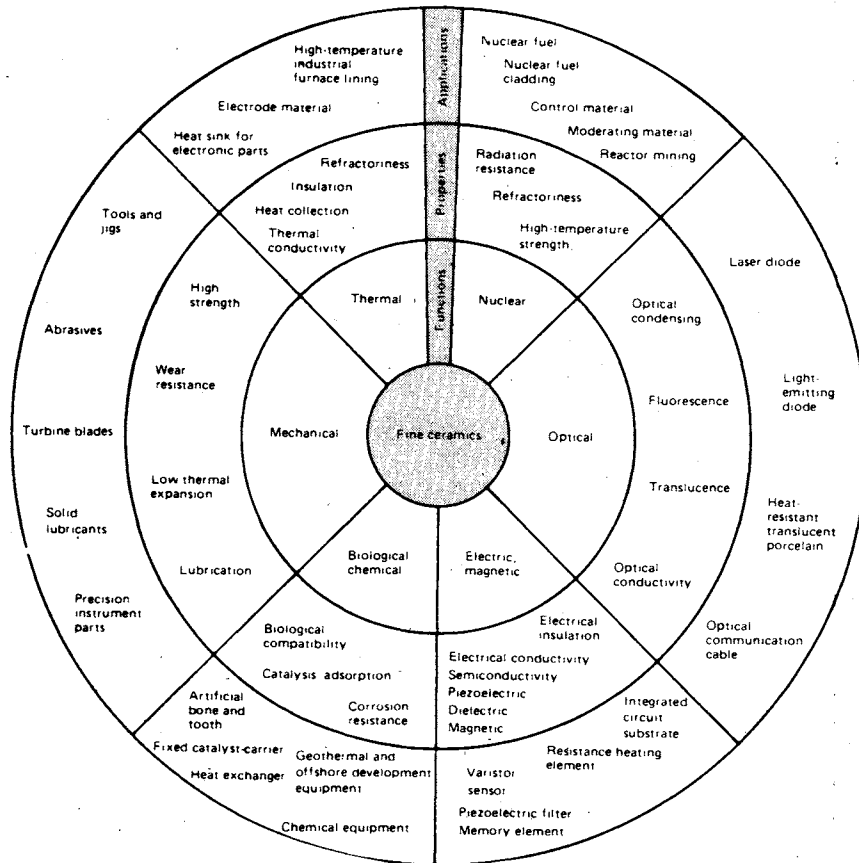
The materials for ceramics are very abundant, making up about 90% of the Earth's crust. What defines high-technology, or fine ceramics, is a highly controlled composition and structure of crystalline solids composed of metallic and non-metallic elements. The extreme strength, chemical inertness, and heat and abrasion resistance of the technical ceramics stems largely from their structures. The atoms are typically locked in rigid lattices. The application of heat and pressure in processing causes these already strong microcrystals to interlock and fuse, forming an extremely tough network. However, the rigidity of the crystal lattices in ceramics results in their brittle characteristic.

The strength of a given ceramic is strongly dependent on the size of its crystal grains. A material with large particles or with a random distribution of particle sizes is generally weaker than a ceramic with fine-grained or uniform-size particles. This is because large or random-size grains fit together with relatively large spaces in between; smaller or more uniform grains can fit together more closely.

The ceramics of interest for heat engine applications are silicon nitride, silicon carbide, sialons, and more recently, partially stabilized zirconium. These new industrial ceramics can operate at about 2,500°F without cooling gear, while similar "hot parts" made of metal superalloys operate only at 1,900°F and require costly heavy cooling systems. These ceramics are also lightweight, have a low coefficient of thermal expansion, and low frictional properties, making the components of the machines very durable, and reducing en-

FIGURE 1

Uses and properties of fine ceramics



National Materials Advisory Board

gine wear and extending longevity.

The U.S. Departments of Energy and Defense are currently funding a two-pronged program, supporting development of advanced heat engines on the one hand, and the development of ceramic materials capable of withstanding the high-temperature, stressful regime of the heat engine on the other (Table 1).

Oak Ridge National Laboratory is the major center of research planning. Its Ceramic Technology for Advanced Heat Engines Program Plan is a five-year, \$140-million research plan, under the initiation of the Department of Energy (DOE), with 60% of the funding to be carried out by private industry, and the rest of the bill to be picked up by the national labs (30%) and universities (10%).

The goal of the program is to develop an industrial-technology base capable of providing reliable and cost-effective high-temperature ceramic components for application in advanced heat engines. The three major development areas are materials and processing, design methodology, and data base and life prediction.

While ceramic parts have been and will continue to be introduced into engine design, to construct a ceramic engine

as such there will have to be significant gains in fracture toughness and high strength margins. The specific objectives of this program are to develop improved, and new, synthesis and fabrication technology and to improve the reliability and performance of monolithic and toughened carbide- and nitride-base ceramics for structural applications; to develop technology for the synthesis and fabrication of improved high-temperature-toughened oxide ceramics primarily for thermal barrier and wear applications; to develop the ceramic joining technology base required by industry to design and fabricate reliable ceramic attachments; to develop the mechanisms controlling those ceramic bulk properties that govern long-term reliability in advanced heat engine environments; and to determine the mechanisms controlling static and dynamic interface behavior of bulk ceramics and coatings to provide long-term reliability under heat engine conditions. Another offshoot of the program is advances being made in introducing sophisticated non-destructive evaluation techniques into the automobile industry.

A method of strengthening ceramics by fiber reinforcements has been developed at Los Alamos National Laboratory. Here, silicon-carbide crystals, referred to as whiskers,

TABLE 1

**Applications of fine ceramics**

Fields of application	Parts	Demands and characteristics
<b>Engines</b>		
Gas turbine	Blade	Oxidation resistivity, thermal shock resistivity, high temperature strength
	Rotors	Strength, creep rupture resistivity
	Stators, shroudings, combustion cylinders	Oxidation resistivity, high-temperature strength, thermal shock resistivity
	Bearings	Wear resistivity, tenacity
Diesel engine	Pistons	Oxidation resistivity, high strength, low thermal conductivity, thermal shock resistivity
	Cylinders	Wear resistivity, strength, low heat conductivity
	Preheating chambers, nozzles	Thermal shock resistivity, oxidation resistivity, corrosion resistivity
	Valves	Strength, mechanical shock resistivity, corrosion resistivity, wear resistivity
	Tappets, cams	Wear resistivity
	Turbochargers, rotors	High-temperature strength, thermal shock resistivity, oxidation resistivity
	Bearings	Wear resistivity

are being grown to reinforce ceramics that will replace metals in mechanical parts such as valves, turbine blades, and heat exchangers with the advantage of being more resistant to corrosion, heat, and wear than metals. George Hurley, manager of the whiskers project, predicts that ceramics with these whiskers incorporated could be potential replacements for strategic materials such as superalloys and other exotic metals.

The most important factor determining the strength of a given ceramic is the method of processing and production. New methods of processing and powder production are being developed to overcome the weaknesses of ceramics, such as brittleness.

The most promising method at this time, is injection molding. This process not only minimizes brittleness of ceramics; it results in a near net shape which avoids or drastically reduces the need to machine the final product, and permits, for the first time, the mass production of industrial ceramic objects that have complex shapes, like turbine rotors. Machining which requires diamond-tipped tools, will exacerbate a ceramic's brittleness. Any time a ceramic surface is machined, its surface integrity is destroyed and the material is sensitized to the initiation of fracture.

Another process to reduce the susceptibility of structural ceramics to fracture is hot isostatic pressing (HIP), pioneered by Battelle in the mid-1950s for joining nuclear fuel elements. It relies on high temperatures and high pressures applied in three dimensions simultaneously.

In its June 1984 report, *Ceramic Technology for Advanced Heat Engines*, the Martin Marietta Corporation described the U.S. strategy for joint development of structural

ceramics and advanced heat engines.

The authors wrote: "The most promising advanced heat engines for highway vehicle propulsion have been identified from research and assessment analysis by industry and government over the past decade. These engine types include the internal continuous combustion gas turbine, the internal intermittent combustion adiabatic diesel, and the external continuous combustion Stirling engine. In all of these advanced engines, in fact in almost any advanced energy conversion system—overall cycle efficiencies are increased greatly by increased operating temperatures. The realization of these increased efficiencies necessitates the development of materials such as ceramics, that can withstand the higher operating temperatures."

The United States has demonstration programs for all three: the Stirling engine, being built by General Motors (with Mechanical Technologies Incorporated, and the Swedes); the advanced gas turbine engines, AGT 100 and AGT 101, supported by the DOE and administered by NASA, which were begun in 1979 and should be completed by 1986; and a joint project of Cummins Engine and the U.S. Army Tank Command, for a ceramic diesel engine.

### **The Adiabatic Diesel**

The Adiabatic Diesel Engine is an advanced design which seeks to maximize the conversion of heat to mechanical energy or operate at near adiabatic conditions. (The term adiabatic means a system which does not lose heat as it operates). It is probably the best candidate for the marketable ceramic automotive engine. The goal is to ultimately increase fuel efficiencies by 50% because of ceramics' tolerance of

higher temperatures in the combustion chamber (see **Figure 2**).

The engine accomplishes work by taking air into a turbocharger where it is compressed and then forwarded to an insulated, high-temperature combustion chamber, located in the piston unit. Combustion occurs and useful energy is extracted from the piston unit. The high-temperature exhaust gas is then expanded through two turbine wheels to extract as much as possible of the remaining energy. One wheel is used to drive the compressor, and the second is connected by gears—in a turbocompounding system—to the engine crankshaft to further increase the useful power output of the engine.

With the part-ceramic diesel, the goal has been to retain the roughly one-third of an engine's heat output for useful work, which must normally be bled off by the engine's cooling system. This heat content is recovered from the exhaust gas through the use of a turbocompound concept providing additional shaft power. Heat loss is trimmed by insulating key engine components with ceramics, which allows the water-cooling system to be entirely eliminated. Among the diesel components that have been ceramic-insulated on a trial basis are pistons, liners, cylinder heads, valve seats, and valve guides. With these ceramic components, the Adiabatic Engine can operate at 2,210°F. The most successful materials used to date have been partially stabilized zirconia and silicon nitride and silicon carbide.

By greatly reducing lost energy and essentially eliminating the need for a conventional cooling system, the Adiabatic Engine improves fuel economy and provides a 40% reduction in weight and volume over all metal diesel engines. Engine testing has shown that the Adiabatic Engine is the most fuel-efficient of the diesels, and has the highest thermal efficiency of any engine under design.

The engine is presently being adapted to use as a V-8 engine, used in tracked combat vehicles. The aim of the program is to remove the radiator, water pump, fan belts, and coolants. The long-term redesign goal is to also eliminate the engine block and cylinder head cooling. Since the radiator is thin-walled, it is extremely vulnerable on a tank, and its removal will mean a sharp increase in combat efficiency, as well as a 10% to 15% increase in fuel economy. Maintenance down-time will also be reduced, since half of heavy engine failures are cooling system related.

Cummins Engine Company has road-tested a five-ton truck over 8,000 miles. This zirconia-insulated diesel was not turbocompounded, but it had no radiator, fan, or water pump, and had 361 fewer parts than the standard diesel. Engine volume was reduced by 20 cubic feet, and 338 pounds. On-the-road fuel consumption decreased by 50%, from 6 to 9 miles per gallon. There was a 42% reduction in heat loss (heat not converted into work), with a present goal of 70% reduction. Another direction of development is the elimination of the lubricant system due to the low coefficient of

friction of ceramics.

The higher combustion efficiency of the Adiabatic Diesel lowers the nitrogen oxide in emissions: Due to the more complete oxidation rate, particulates formed in early stages of combustion are reduced by as much as 50%.

## The Stirling engine

The advantages of the Stirling are that it can use absolutely any fuel for combustion, has low emissions, low noise, and low vibrations (see **Figure 3**).

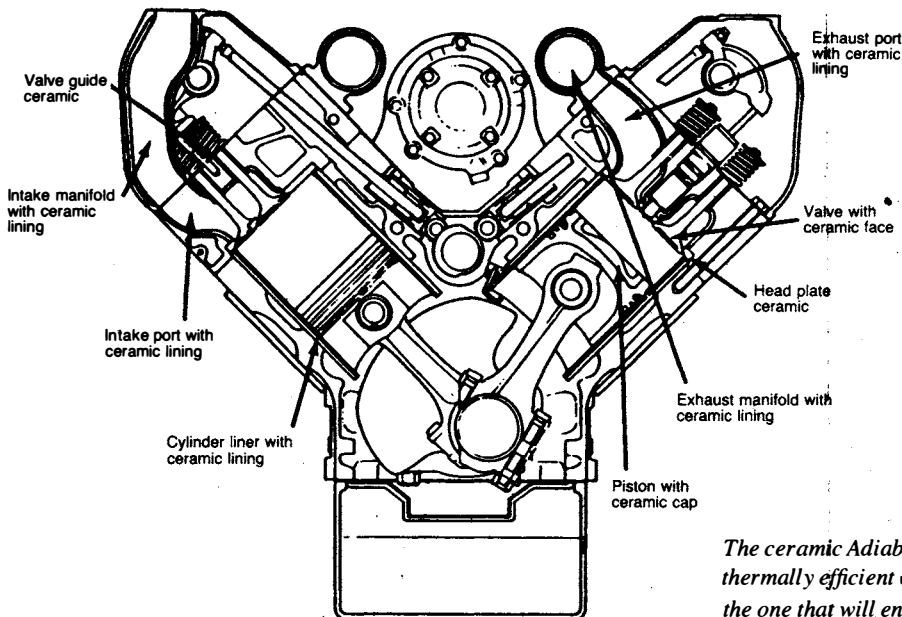
The Stirling engine is an external rather than internal-combustion heat engine—in that sense, like the steam engine; however, unlike the steam engine, it does not vent its working fluid to the atmosphere. The fluid, usually hydrogen, is contained in a cylinder, through which it circulates as it alternately contracts and expands. Usually, the Stirling passes the fluid through a "regenerator" which cools the fluid by capturing its heat, and then on the return pass, heats the fluid, by releasing that heat to it. The gaseous hydrogen working fluid is passed through a series of small thin-walled tubes, which are required for efficient heat transfer from the combustion gases to the working fluid. The hot hydrogen expands in the cylinder to drive a piston which activates the drive system. At the opposite end of the tubes, in addition to the regenerator, which absorbs heat from the hydrogen working fluid, there may be a cooler that permits contraction of the hydrogen. This process of heating and cooling the working fluid and extracting work forms the Stirling cycle.

Today, Stirlings have a wide application as stationary engines, and in situations where there is a premium on reducing noise, as in submarines. They also are of particular value in space applications because they can run in a vacuum. They are used today for irrigation systems, particularly in remote areas where there is not an adequate electrical grid, as in India, and for heat pumps and refrigeration; and are planned for certain military and space applications. During the Second World War, they were used in tanks which had to fight under desert conditions, because of the fact that the working fuel in a Stirling is sealed off from the environment, in contrast to the internal-combustion engine. They have also been used in remote outposts to power radio receivers and transmitters.

They are being studied in the Ceramic Heat Engine program, for application to automotive transport, because they can operate at high temperatures; and they can burn any fuel: wood, kerosene, alcohol, gasoline, or use new fuels like lithium fluoride. Lithium fluoride changes state in the neighborhood of 1,550°F. This transformation property can be utilized in place of combusting the fuel to release the heat.

General Motors is developing the automotive Stirling, in cooperation with Mechanicals Technologies, Inc., for placement in its Chevrolet Celebrity. They claim success for their second-generation (mod II) Stirling-powered car, scheduled for demonstration in 1987. It will operate with pressurized

FIGURE 2



*The ceramic Adiabatic Diesel is the most thermally efficient engine and probably the one that will enter the marketplace first.*

hydrogen, and at a temperature of 1,508°F. The most critical component in the engine is the heater head, which consists of the cylinders, heater tubes, and regenerator housing. The materials now being used for the "hot parts," such as the cylinder and regenerator, and the heater tubes are alloys of cobalt, a strategic metal. Obviously this is a good candidate for the substitution of ceramics, but the Stirling engine program, per se, has as its narrow goal the use of only those technologies which can be implemented in hardware by 1987.

The critical components for cost and performance are the preheater, combustor, and fuel nozzle. The preheater alone contains 1,000 very thin corrugated stainless steel plates. When these are replaced by oxide ceramics, it is estimated that costs will be reduced from \$245.48 to \$43.10. One saving is immediately realized by the fact that neither the Stirling nor the diesel engine need catalytic converters or emission controls.

### The Advanced Gas Turbine engine

In the United States, Garrett Engines and Ford Motor Company, in cooperation with NASA, are working on developing a ceramic Advanced Turbine Engine, and General Motors Diesel Allison Division is working on its own model (see Figure 4).

The AGT is the most powerful engine of the three models. Aircraft engine rotors, and gas and furnace turbines, as well as turbochargers, already utilize ceramics. Clearly, advances in ceramic turbines will have immediate applications far beyond automotive and airplane engines, for example, in power generation.

The gas-turbine engine is an internal-combustion heat engine which utilizes turbomachines, rather than conventional pistons, for compression and expansion of fuel substances. Fuel is burned in a combustor located between the compressor and the expander. Compressed air from a turbocompressor enters one end of the combustor; fuel is sprayed into the other end. The fuel-air mixture ignites, creating hot gases which can be directed against the surfaces of a turboexpander, in order to turn it. The mechanical energy of the turboexpander can then be transferred to a rotating shaft by which useful work is performed.

The advantage of the gas turbine is the greater power to weight ratio which it has in comparison with other engines. It consumes a wide range of fuels, and with its simple rotational motion, runs without the problems of vibration and inertia inherent in reciprocating engines of the piston type. The efficiency of the gas turbine engine increases with increasing temperatures; however, because of its high fuel consumption, high cost of manufacture, and high noise level it has so far been restricted to use on aircraft, except in experimental designs.

The mechanical and thermal stresses of the gas turbine engine are much higher than for other engines, especially in the hot section. Besides the high stresses (25 kilopounds per square inch—ksi; and temperatures of 2,500°F), turbine components are exposed to high velocity oxidative or corrosive combustion gases. Over a period of engine operation, these factors can lead to time-dependent failure. The turbine must also meet challenges such as: high combustor inlet temperature; high centrifugal stress; thin wall structure for



the regenerator; good sealing to prevent leakage; temperature measurement for engine control. To achieve higher temperatures, the hot parts of the engine are being replaced by ceramics in the demonstration models AGT 100 and AGT 101 conducted under the DOE. These parts are the combustor, regenerator, flow transition lines, turbine stator, diffuser, turbine rotor, bolts, and compressor. The models are operated at inlet temperatures of 2,500°F and maximum stress of 44 ksi, and achieve 100,000 revolutions per minute.

It is for these reasons of very high thermal and mechanical stresses that the DOE considers the AGT as the test bed for structural ceramics. It is the most highly funded of the three demonstration programs.

GM's AGT 100 engine, is a lightweight, 100-horsepower two-shaft motor with a regenerative system that reuses exhaust gases with the aid of a rotary ceramic heat exchanger. The ceramics used were: sintered alpha silicon carbide for the fabrication of the turbine rotors, turbine vanes, combustors, scrolls, exhaust diffusers, and seals; reaction-bonded silicon carbide for the turbine rotors, scroll vanes, and flow-path walls; sintered silicon nitride for the turbine rotors, and aluminum silicate for the regenerator disks.

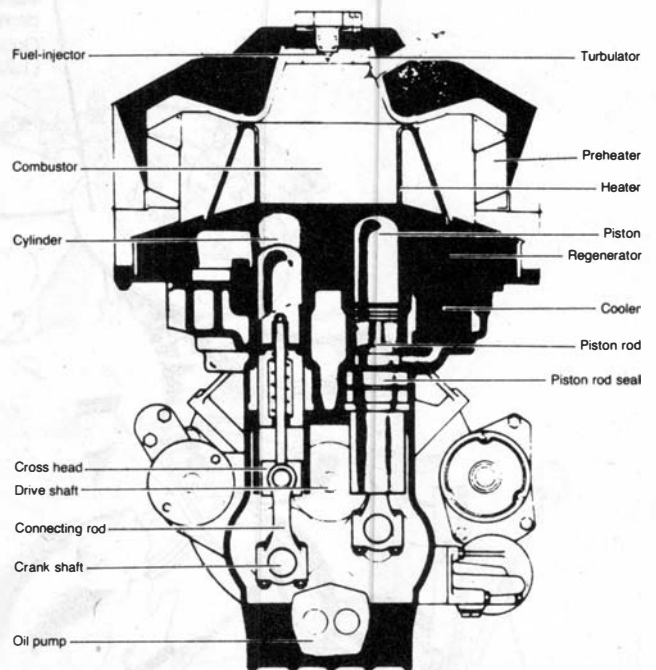
These ceramics held up to the 2,350°F turbine inlet temperature, while earlier, superalloy-metal gas turbine engines could only operate at 1,800°F. When the engine is incorporated into a 3,000-pound passenger car, these higher temperatures permit a 30% increase in fuel efficiency (42.5 miles per gallon) over standard spark-ignition engines and superalloy gas turbines. The specific fuel consumption was .326 lb/hp-hr (pounds per horsepower hour).

The AGT 101 program, carried out by the Garrett Corp. and the Ford Motor Co., has goals of successful engine operation at 100 horse power and a very low specific fuel consumption of 0.3 lb/hp-hr. The conceptual design completed in 1980 has the following characteristics: complete hot flow path designed for ceramics; single-shaft, single-stage design to minimize complexity and number of ceramic components; one-piece ceramic radial rotor attached at the coil end to a metal shaft; rotating components (ceramic rotor, metal compressor, and output gear) supported by an air-lubricated ball bearing; exhaust heat reclaimed by a rotary ceramic heat exchanger (regenerator) to preheat the compressed inlet air; symmetrically designed ceramic components designed to provide more uniform stress distribution and to ease component fabrication; inlet airflow surrounding and counterflow to combustion gas flow to cool engine casing and minimize heat loss. Like the AGT 100, the turbine inlet temperature was 2,500°F and with similar ceramic materials it has achieved, at this point in time, a similar fuel efficiency of .32 lb/hp-hr.

Unfortunately, road tests for the AGT 100 and AGT 101 have been eliminated from the current program due to DOE budget cuts.

Current and prior programs have demonstrated that it is possible to design with brittle materials and that ceramic

FIGURE 3



*The ceramic Stirling engine has potentially many applications besides the automobile.*

components can operate in the severe environment of a gas turbine, but these programs have not been able to demonstrate a degree of component reliability adequate for industry to commit to production. To achieve reliability and durability will require continued extensive effort in design, material property improvement, component fabrication, and quality control.

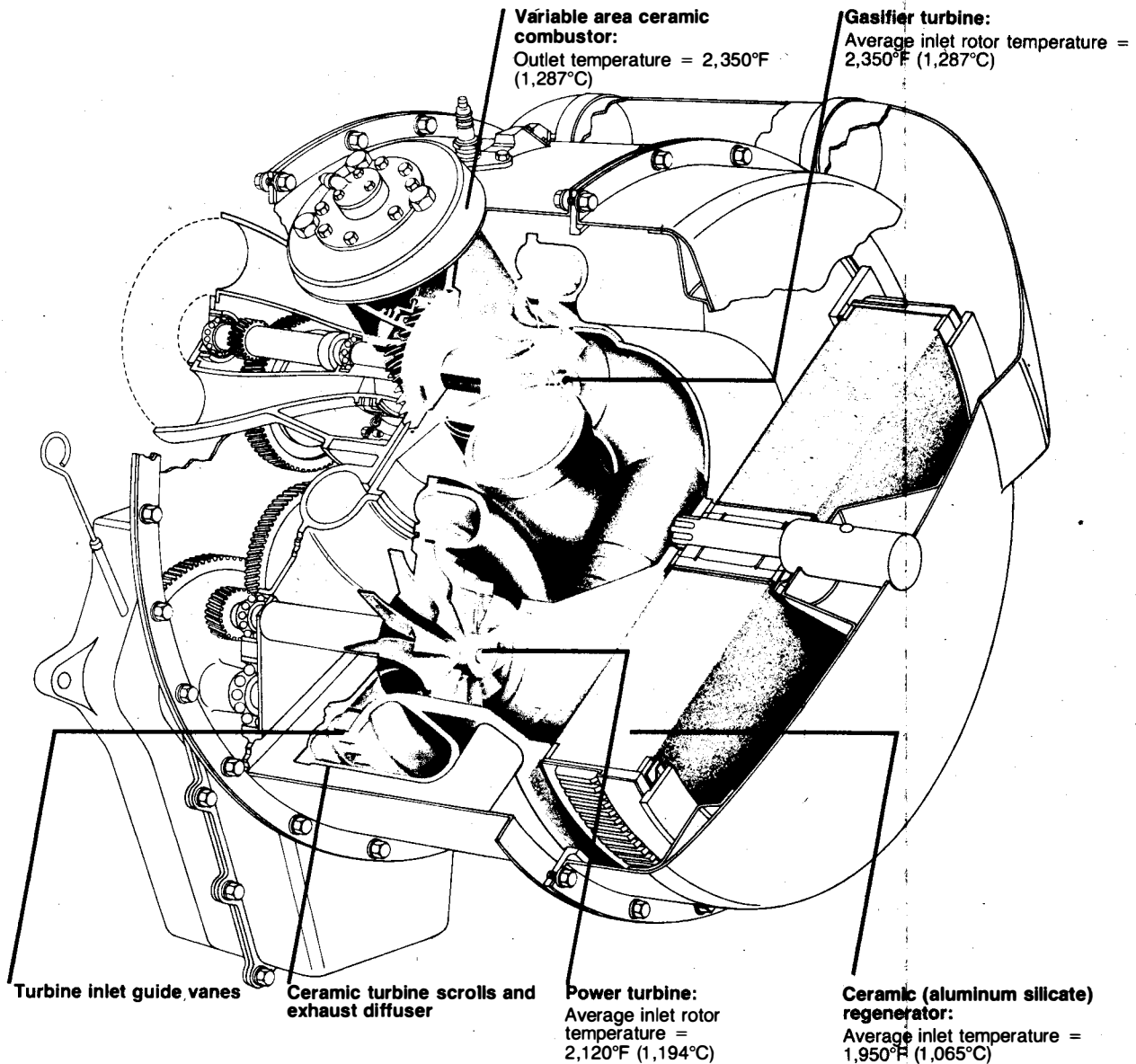
Looking at the overall significance of high technology ceramics, well perceived by the Japanese, the United States needs a more concerted effort in research and development of these new materials. Such an effort particularly in the initial phases, must inevitably be government-sponsored.

### The Japanese lead

Japan has the greatest national commitment to development of structural ceramics of any industrial nation. The majority of recent growth in the ceramic market and currently half of global production is located in Japan. In fact, Japan outnumbers the United States in the number of patents on ceramics by 10 to 1.

The Japanese already lead the world in the production of ceramic electronic components such as sensing devices now widely used in automobiles. Such parts as glow plugs, which give engines a quick-start capability, buzzers, fuel-level switches, and the mechanical seal for the water pump are also presently made of ceramics. What is now under devel-

FIGURE 4



*The ceramic Advanced Gas Turbine is the Department of Energy's major program. It has applications in aircraft and power generation as well as in automobiles. Of all the models, the AGT undergoes the most intense thermal and mechanical stresses.*

opment is the application of ceramics as structural substitutes for metals, in situations where they will undergo major thermal and mechanical stresses.

The Japanese Ministry of International Trade and Industry (MITI), with the aid of universities and industries, has developed a grand strategy for moving Japan into the "new ceramic" age.

There are two major programs, coordinated by MITI's Agency of Science and Technology, devoted to the development of an all-ceramic heat engine. The first, now concluded, was known as the Moonlight Project; the other, on-

going, is the Industrial Base Technology Development Project. Another Japanese ministry, the Ministry of Education, is also contributing by providing research funds for universities. In addition, Japan's Agency of Industrial Science and Technology initiated a five-year program to promote scientific and technological research in materials, with special emphasis upon ceramics.

The Moonlight Project was a large-scale, energy-conservation technology development project which began in 1978 and concluded in 1984. One of its five sub-projects was the development of a ceramic advanced gas turbine, with a spe-

cial look at sialon and fiber-reinforced ceramics, and manufacturing technologies for these.

The Industrial Base Technology Development Project, which includes research in ceramic materials, began in 1981 and will continue for 10 years. The materials covered in the research and development of "fine ceramics" (as they are designated in Japan to differentiate them from ordinary potteries) are silicon nitride, sialons, silicon carbides, boron nitride, several oxide ceramics, and zirconia. The requisites for the above materials are the capability to fabricate complex sintered parts of corrosion resistance, wear resistance, high strength, high dimensional accuracy, and material reliability. Japanese demonstrations:

Hitachi has already built a complete passenger car powered by a silicon carbide-insulated diesel and has run it through 50 hours of road tests. This material consists of SiC powder with special aluminum sintering additives and maintains its high strength under 1,600°C, 100 kg/mm<sup>2</sup>, which is twice as high as the conventional SiC.

- Kyocera has manufactured and marketed silicon nitride glow plugs for light-weight diesel engines in Japan. They have greatly reduced the "waiting time" for diesel engine start-up because of the materials capability for rapid temperature increase.

- Isuzu (Tokyo) is developing a turbocharged Adiabatic Engine with a reported 30% improvement in fuel economy. Production is set for 1990.

- NGK Spark Plug has succeeded in the trial manufacture of an all-ceramic "Dream Engine." All parts except the bearings and piston rings are made of ceramics. The crankshaft, which is most difficult to form, has been reduced to a monoblock ceramic construction. The crank case alone is made of alumina ceramics, and all other parts are made of silicon nitride. The engine has performed very well in its test running for 50 hours.

- The most recent and significant development is Nissan's production of a silicon-nitride turbocharger which has been incorporated into its 300 ZX sports car, considerably improving turbo performance. The advantage of the ceramic turbocharger rotors is the low density of the material used—sintered silicon nitride. The low energy decreases the turbocharger response time by lowering the inertia, through increasing the intake of air. In future cars, engines should simply be made stronger and more thermally efficient without the need for turbochargers.

Judging by the current level of U.S. investment, the Japanese will gain in their lead in advanced engineering ceramics. The U.S. Department of Commerce cited the following as probable reasons: domination of the electronic components business and the supply of advanced ceramic powders, a larger and more organized effort, initial performance-cost characteristics of demonstration products, a long-term commitment to market development, and an outstanding record in developing and implementing superior commercial manufacturing processes and process technologies. There are

about 2,000 engineers and 4,000 technicians actively engaged in advanced ceramics technology in Japan. Based on these figures, their annual expenditure is between \$300 and \$400 million. Using similar reasoning, the Department of Commerce estimates annual U.S. advanced ceramics research and development at about \$100 million.

The U.S. government must make long-term commitments to funding, which will, along with better protection of patents and proprietary rights, ensure the continued participation of industry. The Department of Commerce has called for a five-to-ten-year budgetary commitment by government, which would allow American industry, like the Japanese, to engage in long-range planning.

## Ceramics can revive the failing auto industry

Despite reductions in auto production, which are due to a shrinking economy, the programs for high-technology structural ceramics in heat engines are continuing in the United States. A breakthrough in ceramic heat engines will bring an economic revival to the industry.

According to *Ward's Automotive Reports* of April this year, General Motors Corp., saddled with a million-car oversupply in recent weeks, has cut its third-quarter vehicle production plans by more than 8%. Nummi Corp., the joint venture between GM and Toyota Motor Corp. in Fremont, California, trimmed its third-quarter projections by almost 60% from a year ago. American Motors Corp. plans to slash output by almost 36.5%, and Volkswagen of America is planning a 21% reduction.

This economic situation is not holding back the research projects that have already begun in the United States for structural ceramics and their application to heat engines.

The Advanced Gas Turbine (AGT) project will be completed this year. This is the government's main demonstration ceramic heat engine. It will be followed up next year with the Advanced Turbine Technology applications project, which will further test the durability of ceramics. The AGT, because of its high thermal and mechanical stresses, is considered by the Department of Energy to be a test bed of structural ceramic technologies. It is hoped, of course, that the success of the AGT in automobiles will make it applicable also to aircraft which presently use turbines made of strategic metals. The second demonstration model is the Adiabatic Diesel Engine, which will continue to be funded next year. The third is the Stirling engine, the MOD II, which will be completed in FY87.

## The bank regulators' conspiracy against regional finance

by David Goldman and Kathy Wolfe

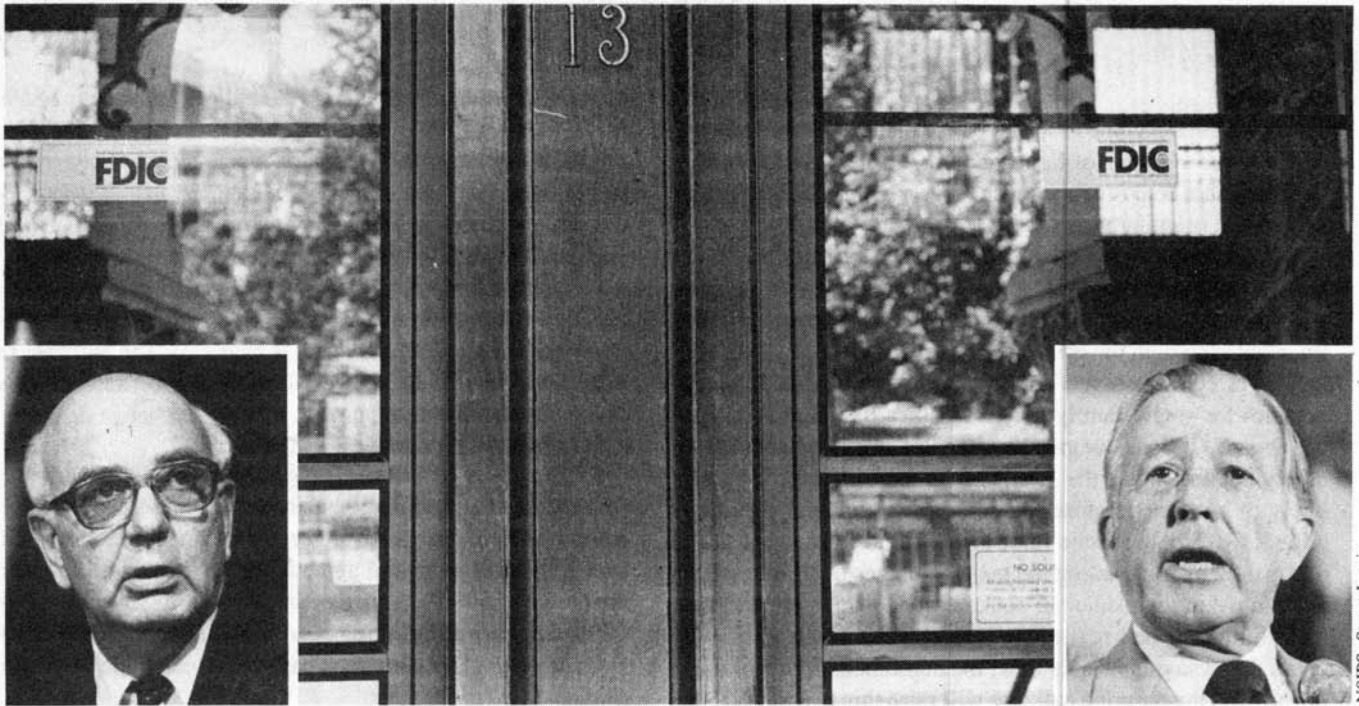
"The financial area is probably next to nuclear war; the kind of area that can get out of control, and once out of control cannot be contained and will probably do more to upset the civilized world than about anything you can think of," said William Seidman, the chairman of the Federal Deposit Insurance Corporation, March 13.

Seidman and his counterpart at Treasury, Controller of the Currency Robert L. Clarke, are in a race against time. Mexico's impending bankruptcy, the renewed collapse of oil prices, and related debt problems, put a new global banking crisis on the agenda for this year or early 1987. The major banks intend to cushion themselves against a crash by absorbing huge amounts of banking assets from troubled, or not-so-troubled, commercial and savings banks in the regions. The regulators are determined to break the regions' opposition to such takeovers, under the cover of the oil and agriculture shocks, before the major institutions themselves go under.

As we will report below, they are also prepared to abuse the powers of government, threatening regional bankers with fraud prosecution should they fail to cooperate in their own absorption by the money-center banks.

A poignant reminder of what the regulators can do was provided in the recent sentencing of Tennessee banker Jake Butcher, who pleaded guilty to fraud charges in a series of 1983 bank failures. Bankers and industrialists caught up in the Jake Butcher bankruptcy have given *EIR* evidence that White House Chief of Staff Donald Regan and Federal Reserve chairman Paul Volcker are using the Federal Deposit Insurance Corp. (FDIC) to run political witchhunts against competitors and enemies. Watergate involved only a few dirty tricks; "Bankgate" may finish by bankrupting thousands of small banks nationwide:

"The big question every banker wants answered," the London *Financial Times* concluded in its annual banking survey published May 29, "is whether Mr. Bill Seidman and his colleagues are prepared to allow a reasonably sized bank in mid-America to fail? It is the sort of tough medicine that many bankers feel should be given to the patient—along with liberalization of the banking rules. In particular,



If you thought the FDIC sticker on your bank's door means that your deposits are safe, Fed chairman Paul Volcker (inset left) and White House Chief of Staff Don Regan (right) are among those conspiring to bankrupt regional institutions and turn them over to the New York megabanks.

they argue it would send a signal to the large uninsured depositors who have provided much of the funding for the growth of the more aggressive banks in the region. However, it is also the type of treatment which could have some unexpected side-effects in a U.S. financial system which is marked by increasing volatility. Given this caveat it seems unlikely that the regulators would be prepared to take such a gamble until they are satisfied that they have adequate contingency plans in place."

In fact, such a signal went out in the first week of May, when Houston's billion-dollar Mainland Savings failed, leaving depositors with accounts exceeding the federally guaranteed \$100,000 level in the lurch—the first time that either the FDIC or its sister agency, the Federal Savings and Loan Insurance Corporation (FSLIC), have permitted big depositors to suffer losses.

A second signal went out two weeks later, when news media *incorrectly* reported that the Bank of Commerce in Tulsa, Oklahoma, had suffered the biggest (and best-publicized) run since the 1930s. The same *Financial Times* survey revealed, "There was a traffic jam in the center of Tulsa, Oklahoma, as nervous depositors rushed to withdraw their federally-insured deposits from the failing Bank of Commerce." But the signal was less from depositors, than from the regulators themselves: There was no traffic jam, and not so much a run as a small crowd of curious onlookers, who assembled in front of the bank after morning-news radio reports warned of a depositors' stampede against the failing institution. The onlookers did not have much time to watch, since the federal regulators closed the bank a half-hour after

its normal 9:00 a.m. opening.

The regulators were the apparent source for the news radio reports of an impending run, and the whole affair resembles an exercise in mass-profiling of popular reactions. Bill Seidman and his colleagues already have the experience of the 1985 freeze on savers' deposit withdrawals from thrift institutions in Ohio and Maryland, where real runs occurred. In Maryland, savers beat down the doors of S&Ls after Federal Reserve chairman Paul Volcker himself warned that the Ohio experience was about to be repeated.

The Regan-Volcker combination has postponed the financial reckoning for the 1,200 national banks on the Controller's "problem list," just as the nation's chief savings-bank regulator, the Federal Home Loan Board Bank (FHLBB), has permitted almost 500 savings and loans to continue to operate in the red. But the administration's economic policy, including the soon-to-be-passed tax reform, creates conditions under which these and many more cannot outlast 1986. The bank regulators and the policy-makers are the same people, and they have positioned themselves to control a banking crisis worse than that of the 1930s.

### Matters come to a head

The FDIC tied its full faith and credit to the safety of large commercial banks in the spring of 1983, when it and the Fed offered virtually unlimited resources to protect Continental Illinois Bank of Chicago, the nation's 20th largest. Continental Illinois had suffered a mass withdrawal of funds from largely overseas depositors, and was on the point of stopping payments, due to its inability to fund short-term

deposits.

Matters have come to a head since then. For a variety of reasons, the collapse of large sections of the U.S. banking system cannot be postponed much longer, perhaps not through the present calendar year:

1) The collapse of the oil price June 6 back to the \$12 range, following the misleading rise in prices during the preceding two weeks, has written the death warrant for the financial system in the oil belt;

2) The collapse of real-estate values, including 40% price declines for single-family homes in cities like Houston and Oklahoma City, accompanying the oil price collapse has barely begun. Either the House or Senate tax reform bills, likely to be signed before the end of the summer, stand to wipe out 40% of the resale value of debt-financed commercial real estate, by eliminating the tax advantages of commercial and multi-family residential construction. There are perhaps \$100 billion of bad real-estate loans on the books of commercial and savings banks now; the combined effects of the tax bill and the oil price collapse will raise this to about \$250 billion.

3) The unraveling of the Mexican debt in the wake of the renewed collapse of oil prices threatens not only the major international banks, some of whom still have loans to Mexico approaching their total shareholders' capital, but most of all the same Texas banks who are hit worst by the oil-belt real-estate catastrophe.

## The federal budget blowout

EIR's current *Quarterly Economic Report* (1st quarter 1986) warns that the combined expense to the banking regulators in the event of a general bank crisis would approach \$50 billion, an impossible sum for the U.S. Treasury, in light of the present squeeze on the budget. It appears that the bank regulators' actions are guided by cost-saving above all: If it is possible to prop up major institutions by feeding them the deposit bases of weaker institutions, and thereby increase their profitability, they will do so, rather than risk having to pay cash to sustain the smaller institutions. It is not that such a strategy is likely to succeed; it is that the regulators, swimming in the goldfish-bowl confines of the Gramm-Rudman-Hollings budget legislation, do not have any other idea.

In this light, Controller of the Currency Robert C. Clarke told the Boston Economic Club on May 14 that the solution to collapsing bank profitability was to permit the largest banks to expand in all possible directions, through so-called diversification.

The national banking system, Clarke said, is "trapped in an industry that is becoming less and less profitable with each passing year—both in an absolute sense and relative to the risks banks assume. As a result, the *system* is losing strength."

Banking profitability is at the lowest level in 20 years. The average return on assets for America's 4,200 national

banks with assets of less than \$300 million, representing 85% of the total regulated by Clarke's office, declined in 1985 for the sixth consecutive year. The average return on assets for these banks fell from 1.13 in 1980 to 0.53 in 1985. During the same period, the average return on assets for all national banks fell by more than half, from 1.08% to 0.45%.

Clarke also dismissed the apparent rise in bank profits reported for the first quarter of 1986, as the result of "side-shows to traditional banking." He said that the increase in profits was largely due to capital gains on government bonds portfolios, bond-trading profits, foreign-exchange dealings, sales of assets, service fees, and so forth.

These types of income are generated by the creation of what the regulators call off-balance-sheet liabilities. In other words, a bank may earn a fee for setting up a so-called foreign-exchange "swap" agreement, but it remains liable for the performance of the parties involved during the entire life of the agreement. Or, it may earn a so-called service fee for guaranteeing a loan, but must pay on the loan if the borrower cannot.

In that sense, Clarke did not go far enough in making his own case: The banks showed short-run profits, both in market speculation and in the creation of liabilities, which could turn into much greater losses in the future. The 15 largest American banks have more than \$1.25 trillion in "off-balance-sheet liabilities," in addition to the \$850 billion or so in balance-sheet liabilities. That is, their total liabilities are two-and-a-half times larger than their listed assets, and perhaps three times their earning assets!

"As a bank supervisor," Clarke said, "I see an *omen*—tremors in the banking system. The tremors tell me that things are not as steady as they used to be. At this point, they don't indicate an *eruption*. They *do*, however, indicate an *erosion*. And that *erosion* is of concern to me."

So, the answer to a weakening population of banks, in Clarke's view, is to feed the weak ones to the strong ones. That corresponds precisely to Italian Finance Minister Nino Andreatta's warning to a banking seminar in Venice in mid-May, that only 25 or 30 banking institutions will exist by the end of the century. Andreatta was a participant in the Trilateral Commission's annual meeting May 17-19, where the reorganization of the banking system was a prominent agenda item.

FDIC chief Bill Seidman, a Michigan accountant whose chief qualification for his 1970s White House post was a long-standing friendship with Gerry Ford, replaced William Isaac as chairman of the bank insurance agency last October. Isaac, the apostle of bank deregulation, had been viewed by regional bankers the way chickens look at a fox. The irony is that Seidman, a souvenir of the comparatively halcyon days of the Ford administration, came across as a more sympathetic figure. Nonetheless, the amiable Bill Seidman may become an Attila to the regional banks.



## The stretchout trap

Supposedly, bank regulators at the U.S. Treasury and Federal Reserve eased accounting standards early into the 1986 oil price collapse, in order to permit regional banks to "carry" energy and agricultural borrowers who might otherwise fail. In fact, the regulators eased the rules while preparing a reaction against such easing, permitting regional banks to dig themselves deeper into a financial hole, in preparation for a crackdown later this year.

"The Comptroller of the Currency and the FDIC are coming in and simply shutting down many banks," a Minnesota farm banker said May 30. "It seems that they don't want anyone to have our assets—they don't want there to be any assets. If you quote me, they'll finish me off.

"The way it's done is that the Republicans in Washington, like Senator Boschwitz and Senator Durenberger, both Re-

publicans from Minnesota, tell us farm bankers that they want us to show forbearance to the farmers, not to collect or close the loans. So we stretch the loans out. Then, wham, the Comptroller or FDIC examiners come in and classify the loans substandard and kill us, make us write them off.

"My bank in particular has been turned from a viable bank into a wreck by this. In late 1984, we were negotiating with a St. Paul bank to buy us up, so we could get more capital and clean out these loans. The Fed approved it in December 1985, but then the Regan Treasury's Comptroller refused, and in March 1986 they finally told us no. Well, during that time they had bled our loans down to the point where no one would buy us out now, and we can't get new capital.

"The only thing I can conclude is that they wanted the bank just shut down. They didn't want any bank, small or

## The FBI hands Oklahoma banks to organized crime

The drop in the price of oil and farm commodities has flattened the economy of Oklahoma, where the top three banks are in deep financial trouble, and five banks have already gone under in 1986. Farm foreclosures occur at record rates, and the state government faces a record budget deficit. In this context, with the aid of U.S. bank regulators and the U.S. Justice Department and FBI, the state is falling prey to organized crime, and those who launder its drug proceeds, the big money-center banks.

The first step in the organized-crime takeover was legalization of race tracks with pari-mutuel betting, a move sold to legislators as a way to enhance state revenue. The state's political leaders offered to license Oklahoma's first race track to the notorious Edward J. DeBartolo group, known to be connected to organized crime. DeBartolo agreed to build the first race track if he were granted a monopoly and if all his financial reports were kept secret, in violation of state law. State officials agreed.

The project ran into opposition in the legislature, most notably from Rep. Kevin Cox, one of two blacks in the State House. The track was to be built in Cox's district.

The next step for Dope, Inc. was to establish interstate banking. In April, the Oklahoma Bankers Association proposed emergency legislation to allow out-of-state banks to take over Oklahoma banks. There was resistance, but assaulted by media scare stories of imminent bank failures, pressure tactics from the OBA, and FBI intima-

tion, the resistance to interstate banking collapsed. In April, the bill was passed under an emergency suspension of the rules, allowing virtually no debate.

Opponents of all this have been subject to a Justice Department witchhunt. Since 1982, the FBI, through the office of U.S. Attorney William Price, has used wiretaps and informants to engineer the indictment and conviction of almost every county commissioner in the state. Price had an FBI informant wired for sound, pose as a construction contractor, and induce a targeted county commissioner to take a kickback. After getting one conviction, Price intimidated the others into pleading guilty. Said one attorney familiar with the case, "There were guys pleading guilty out of pure fear, who hadn't done anything illegal."

In early May 1986, Price indicted Sen. Bernard McIntyre, the chairman of the Banking Committee, on charges of distribution of cocaine. McIntyre, a colleague of Cox and one of only two blacks in the State Senate, had killed legislation favorable to out-of-state bankers, and opposed the interstate banking bill.

Price's case against McIntyre stems from tape recordings made by an FBI informant linked to drug-dealers. On the tapes, one hears an FBI agent telling the informant "Get him to ask you for some cocaine," and the informant asking the FBI, "How do I get him to take the cocaine?"

After being indicted, McIntyre made a speech on the floor of the Senate saying that before he was indicted, Price offered to go easy on him if he would agree to being wired for sound, and help Price make a case against other state legislators. One of Price's primary targets, McIntyre said, was State Rep. Kevin Cox, the opponent of the DeBartolo race track!



medium, loaning any money up here to the farmers.”

In interviews throughout the oil belt and the farm belt, bankers described “incomprehensible” practices on the part of the FDIC and OCC. In some cases, like the one described above, the federal regulators delayed approval for mergers until the bank’s capital was exhausted, and then moved in like gangbusters. In other cases, the FDIC insisted on “classifying” (assigning negative ratings to) loans in cases where borrowers were still current on payments. Perhaps \$40 billion of U.S. banks’ lending is collateralized by oil deposits in the ground, at a collateral value established when the oil price exceeded \$30 per barrel. The collateral value has since collapsed, and bank examiners have insisted that banks make preparations to write down loans whose collateral has evaporated, even if the borrower is still current in payments.

### ‘What hidden agenda?’

Congress is still balking at legislation prepared by the Controller of the Currency’s office in April, which would permit shotgun takeovers of failing regional institutions by out-of-state money-center banks. Fed chairman Volcker, OCC Director Clarke, and White House Chief of Staff Donald Regan are less concerned about congressional opposition than appearances suggest: They have set Congress up to take the fall for a generalized banking panic, should Congress refuse to sacrifice regional constituencies in advance. As matters stand, Congress would have no choice under conditions of panic, except to grant the regulators the emergency powers they have demanded.

This was the background to congressional debate over legislation (H.R. 4701 and S. 2372) introduced jointly by the OCC, the FDIC, and the Federal Reserve, to permit out-of-state takeovers of banks exceeding \$250 million in deposits, where the regulators deem such takeovers necessary. The Treasury had to defend itself against charges of a “hidden agenda” from the outset; on April 28, Undersecretary for Finance George Gould told the spring meeting of the Independent Bankers Association of America, “We are not trying to use this as some hidden agenda for interstate banking.”

The regions think different, whether or not they support the bill. Oklahoma, hit by 28 bank failures since the July 1982 collapse of the Penn Square Bank, including 5 so far this year, pre-emptively passed legislation in April permitting out-of-state takeovers, and on June 2 Louisiana’s lower house passed phase-in legislation for interstate banking.

Texans are less convinced. On May 8, Texas Bank Commissioner James Sexton told the House Banking, Finance, and Urban Affairs Committee that he is more worried about the regulators than he is about the banks, and cautioned the committee to think twice before approving the emergency banking bill. Sexton said the new rules would “lubricate” deals that would allow big, multi-state banks to expand their empires. Sexton would prefer the FDIC to take over problem banks and operate them temporarily, while shopping for local

ownership. “I’m advocating an in-state solution being sought first,” he said. Asked if the committee should delay acting until the need became clearer, he replied: “Well, that would be exciting.”

### The Spanish Inquisition

Texan recalcitrance may have persuaded FDIC chief Seidman to wait for a May 28 address to the Southwestern Graduate School of Banking at Dallas’ Southern Methodist

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*Most banking business in most towns in the United States brings together a relatively small circle of long-term acquaintances, including real-estate men and their bankers. Under the type of fraud-statute FDIC chief Seidman threatens to employ, any banker who loses money on a loan to a developer with whom he has personal financial ties, could go to jail for fraud.*

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University, before showing the bankers the instruments of torture.

Seidman noted that, according to a recent FDIC survey of 75 bank failures between 1980 and 1983, “Criminal misconduct by insiders was a major contributing factor in 45% of the failures.” Therefore, regulators “must take the view that finding fraud is a primary objective of bank examinations—not an incidental activity.” Seidman also cited the Justice Department’s current proposals to make money laundering a crime, adding that prosecutors would have to build their case against banks merely on the strength of banks’ failure to file reports of large cash transactions.

The Justice Department’s money-laundering bill, however, makes no distinction between money-laundering related to a serious crime, e.g., narcotics traffic, and legally hazy transfers of funds unrelated to serious crime. That, however, appears to be what the FDIC and OCC want: They worked with the Justice Department to draft the legislation. The ill-defined legislation offered by Justice provides regulators with the means to break down political opposition to their plans, using the threat of jail sentences.

Most banking business in most towns in the United States brings together a relatively small circle of long-term acquaintances, including real-estate men and their bankers, whose personal financial interests often overlap. Under the

type of fraud—statute Seidman threatens to employ, any banker who loses money on a loan to a developer with whom he has any personal financial tie, could go to jail for fraud.

Seidman, in his address to Southern Methodist University business graduates, referred to the 1983 failure of the group of Tennessee banks owned Jake Butcher, a prominent Democratic party funder. If the FDIC's anti-fraud campaign resembles the handling of the Butcher affair, then regional bankers will have a right to suspect that the Spanish Inquisition is back in business.

"I do business all over Latin America and nothing is worse than the corruption right here in this administration," a Tennessee manufacturer who formerly did business with Butcher's banks complained May 30.

The "Bank-gate" scandal, first exposed in *EIR*'s 1983 Special Report, *The Coming Reorganization of U.S. Banking*, has now grown into a multi-billion dollar version of Watergate. Manufacturers and farmers complain that the FDIC deliberately bankrupted Penn Square Bank in Oklahoma, Midland Bank in Texas, the Butcher banks of Tennessee, and thousands of smaller farm-belt banks in Minnesota and other states.

The FDIC spent some \$1 billion in taxpayers' money in each closing, they charge, much of which was kicked back to RNC cronies in Republican-run "survivor" banks.

Sources assume Jake Butcher and others were bankrupted because they were Democrats, but as *EIR*'s 1983 report noted, the motive is that Dope, Inc.'s largest institutions, like Regan's Merrill, Lynch and David Rockefeller's Chase Manhattan, are themselves bankrupt. Regardless of the victim's party preference, the big banks need to eat up billions in smaller banks' deposits, to survive.

The plan, we wrote, was to "shut down, permanently, thousands of smaller banks . . . to limit the amount of credit to be issued to the U.S. economy and the number of banks."

Bankgate began in 1982 when then Treasury Secretary Regan wrote his Financial Institutions Deregulation Act, to create megabanks modeled on the 1920s Morgan syndicate, whose cartel abuses helped cause the Crash of 1929. "Worries are overblown, that the Crash of 1929 could come back," Regan told the Senate in July 1983. He set out to implement a plan written by Jimmy Carter's Controller of the Currency, C. Todd Conover, for a system which has "an acceptable number of bank failures, but avoids the collapse of a larger member. . . ."

Irate Tennessee industrialists say that the Regan FDIC's "dry out" of Jake Butcher's United American Bank (UAB) of Knoxville was "pure politics." The FDIC shut the bank in February 1983 without even a minor depositors' run. "There is no doubt the regulators intended to stick it to the Butchers," locals said then.

The Butcher case "is the model for what is going to happen to small banks all over the United States," Barry Putman at the Washington Federal Reserve Regulation De-

partment told *EIR* in February 1983. "It's time for a shake-out."

The Treasury moved in when, in November 1982, Jake Butcher challenged for control over the state and won, backing Democratic candidates against not only Republican Gov. Lamar Alexander, but even against the daughter of Republican Senate leader Howard Baker. "Baker, a top member of the Trilateral Commission, said 'That's it for Butcher!'" one source stated. "He put the word out to the RNC, starting with RNC Chairman Bill Brock, another Trilateral from Tennessee, and to Governor Alexander.

"Regan and Volcker came in, and had the FDIC shut UAB," he continued. "Why didn't they shut Continental Illinois, Seafirst, or Chase? They were much more bankrupt!

"The FDIC could have spent a mere \$50 million by accepting B. Ray Thompson's offer to re-capitalize the bank, but instead spent \$1 billion.

"After the FDIC closed UAB, they brought in a Republican bank, First Tennessee from 390 miles west in Memphis, turned over all UAB's assets to them, and gave them a payoff. Instead of encouraging First Tenn to help UAB's borrower companies, like mine, the FDIC paid them to bankrupt some \$458 million in perfectly good loans to all the corporate borrowers of UAB. The FDIC paid First Tenn 40¢ on the dollar—over \$183 million in taxpayers' money.

"The FDIC made First Tenn into bounty hunters—just because they were a Republican bank. First Tenn could only earn 12-15% interest on the loans—versus the 40% they were paid off for bankrupting not only the bank, but all the borrowers! First Tenn deliberately lied to all the companies for 18 months, telling us that our loans were just fine and they wanted our business. Meanwhile, they cut all our credit lines, and construction projects like mine simply failed. Then, they put me in involuntary bankruptcy, and took my dead skin to the FDIC for the payoff.

"They actually shut down the entire economy of eastern Tennessee doing this. You figure manufacturers with \$458 million in loans were put in involuntary bankruptcy, each of whom owed their vendors three to five times that, and you've put all of Knoxville into a 10-year depression. We have more than 10 bankruptcies a day here.

"Mike Edwards, the liquidator for the FDIC, told me personally in front of my lawyer, 'I'm going to break you. I'm going to ruin you in this community and no one will ever do business with you again,' he said.

"The FDIC and the FBI down here have made it perfectly clear to the Democrats involved that if we say a word to anyone, they'll put us away," he said. "If you use my name, in 90 days I'll be indicted for something."

"I heard a man from Washington tell the FDIC guys that they had created a 'billion-tax dollar bubble' from nothing. He added it up: \$458 million in lost loans, plus \$183 million payout to First Tenn, plus \$70 million in lost interest, plus eight years paying the FDIC and FBI on the case."

## U.S. caught backing Mob 'democrats' in Panama

by Gretchen Small

Calling upon the name of the U.S. State Department's "Project Democracy," Reagan administration officials have put out the word that Gen. Manuel Antonio Noriega, commander of Panama's Defense Forces, is now considered a strategic obstacle to U.S. plans in Central America, who must be forced from power. "Panama is the asterisk in the whole democracy plan of the [Reagan] administration for Central America. We would like to say that all the countries in the Central American isthmus are democratic, except Nicaragua, and we can't say that now because of Noriega in Panama," an administration official told the *Miami Herald*, the paper reported June 14.

A June 12 article in the *New York Times*, penned by veteran intelligence hand Seymour Hersh, set the removal operation into motion. The *Times* piece charged that U.S. officials—none of them willing to be named—consider General Noriega to be involved in narcotics, money-laundering, arming Colombia's M-19 terrorists, and passing information to the Castro government in Cuba.

The National Broadcasting Corporation featured a similar slanderous story against Noriega. U.S. congressmen immediately called new hearings on the crisis in Panama. On June 13, Hersh indicated some in the United States have decided Noriega must go—by any means necessary. Hersh reported that the Nixon administration had considered ordering "the complete immobilization"—assassination—of Noriega, when he headed Panama's intelligence service.

No facts were given in the article to back up the charges. One U.S. intelligence official complained to Hersh that Noriega is "brilliant in masking much of his direct involvement" in the alleged illegal activities! The Panamanian government released a letter sent by U.S. Drug Enforcement Administration head John C. Lawn, to General Noriega on May 8, barely a month before, in which he praised Noriega for "the vigorous

anti-drug trafficking policy that you have adopted." (See *Documentation*).

A syndicated column by a regular intelligence conduit, Georgie Anne Geyer, appearing June 19 in the *Washington Times* points to the real issue underlying the "get Noriega" campaign. Entitled "Five Minutes to Midnight," Geyer's article demands that the U.S. Establishment act now to "stave off tragedy" in Panama, asserting that the stakes in the current Panama crisis "are even higher than they were in Cuba" in the 1950s. What Geyer targets as the looming tragedy, is the entry of U.S. presidential candidate Lyndon LaRouche into the battle over Caribbean policy—specifically, LaRouche's defense of Panama and General Noriega.

LaRouche has led a battle in the past two years for the nations of the Western Hemisphere to formally declare war on the narcotics empire, and prosecute that war with an alliance of the governments and militaries of the region modeled on the alliance that defeated fascism in World War II. Under the LaRouche doctrine, the institutions of the military on the continent must be strengthened, so as to defend national sovereignty.

The "danger" foreseen by Geyer, is the possibility of support for LaRouche's policies developing in Ibero-America. Geyer, a member of the Aspen Institute's Western Hemisphere Governance Project two years ago, serves as a mouthpiece for the Liberal Eastern Establishment. Today, the Establishment's stated policy is that Ibero-America's military institutions must be *weakened*, not strengthened. The policy was spelled out this spring as a priority for the Establishment by the Inter-American Dialogue, a group of Trilateral Commission members and bankers headed by Xerox founder Sol Linowitz.

Two interrelated, policies are contained in the Dialogue's 1986 Report: one, that the Dialogue group will establish a

special task force dedicated to the “problem” of the Ibero-American military as a threat to democracy, and two, a proposal that fighting a war on drugs be replaced, by the “selective legalization” of narcotics.

Democratic institutions throughout the hemisphere *are* under attack—by narco-terrorist armies deployed by the drug-mob. In some countries, the terrorist armies of the mob are larger, and better equipped, than the militaries upon whose shoulders rest the defense of national institutions. As we report elsewhere in this issue, Colombia’s M-19 has now threatened to kill every member of the Colombian cabinet, while Shining Path terrorists in Peru seized the country’s largest prisons, in a wave of terror which includes attacks on churches.

To disarm the continent now, in the name of “democracy,” is to hand the region to the drug mafia. Yet there is no question that that “disarmament” policy in the face of the narcotics mafia is the broader issue standing behind the attack on General Noriega. The policy was repeated again, by Assistant Secretary of State Elliot Abrams, most recently.

Speaking to a graduating class of officers at the Inter-American Defense College on June 13, Abrams called the region’s military institutions a threat to democracy. “Democracy is on the rise in our hemisphere. . . . Gone are the days,” Abrams said, when military leaders can “arrogate to themselves the right to decide for their nations,” and he warned that “enlargement of military forces to protect democratic institutions can threaten those very institutions, when the military dwarfs civilian institutions and assumes some of their functions.” Abrams then lectured the Ibero-American military men on how narcotics was “your” problem and a threat to “your” institutions!

## Destabilizing Panama

In Panama, there was no doubt the *Times* article forms part of a broader attack on the institutions of the region. The charges were meant to weaken the government of Panama, Panama’s President Eric Delvalle charged. Panama’s ambassador to the Organization of American States, Roberto Leyton, called the accusations part of a “conspiracy” against the Contadora nations: “It is significant that the attacks on Noriega follow the criticisms against Mexico,” he stated on June 12.

“I personally think that they, the *New York Times*, have lied,” President Eric Delvalle stated. “What’s the importance of a publication in the *New York Times*—however big the name of the *New York Times* might be—if they don’t dare to say who said it?” On June 12, Delvalle held a four-hour meeting with his cabinet, the leadership of the Defense Forces, legislators and leaders of the parties backing the government. “We will never permit nor tolerate, that the name of General Noriega, or that of the Armed Forces, of Panama, or of this government, be sullied,” the President said afterwards.

The government will demand a “clarification” from the U.S. government, Delvalle said, because Panama, its De-

fense Forces, and General Noriega are being “denigrated” in the United States by a campaign whose “basic purpose” is to “discredit and divide the Armed Forces.”

Foreign Minister José Abadía summoned in U.S. Ambassador Arthur Davis. “Once and for all,” Abadía said, “the U.S. should make known its official position with respect to these declarations,” which he called “unjust, unfounded, and totally alien to the reality of our country.”

Noriega identified civic-military cooperation in Panama as the target. “The action isn’t against me, it’s against Panama,” Noriega stated. “We have a great alliance between men in uniform and civilian power, which we are going to maintain. They want to see President Delvalle weakened, left without force, but he has the power of the Defense Forces behind him, and this burns them.” He added, that he thought some people in the United States did not plan to return control of the Panama Canal to Panama, as agreed in the treaties.

Panama’s leading political party, the Revolutionary Democratic Party, placed a resolution before the Legislative Assembly which warned that “the campaign against Gen. Manuel Antonio Noriega is highly pernicious and dangerous for the good relations that should prevail between the United States and Panama.” The PRD called the accusations “false, and slanderous.”

Opponents of the regime who place patriotism over politicking, also protested. Dulcido González, president of the National Private Business Council, is known as an “acerbic critic” of the government, UPI, reported, but he, too, fired off a letter of complaint to the executive director of the *New York Times*, saying that the paper made charges “without presenting the relevant proofs which confirm the supposed facts. . . . As businessmen and Panamanian citizens,” González wrote, “we feel we have the right to request, from you, that you impose truth in your news stories, since the absence of this is destabilizing our nation.”

## Who’s supporting narco-terrorism?

To portray the ouster—or assassination—of General Noriega as the key to ending the “Panamanian connection” to international crime, as one unnamed White House official asserted to the *New York Times*, goes beyond cynicism—and into treason. Perhaps no single other action can more quickly secure Central America for the narcotics mafia, or aid Soviet plans to pin the United States down in Central American carnage. Noriega has become an activist in three areas critical to securing the Caribbean:

- Rebuilding cooperation between the Colombian and Panamanian military in the war on narco-terrorism. Relations between the two militaries had been damaged by the activities of Noriega’s predecessor as head of the Defense Forces, Gen. Rubén Darío Paredes. Paredes, whose career was promoted by Henry Kissinger, was recently revealed to be linked with the Ochoa drug family in Colombia, and reportedly protected operations of Colombia’s narco-terrorist M-19 in Panama.

- Central American stabilization. Noriega has been a

leading strategist of the doctrine that national security depends on economic development, and that therefore the economy is of military concern. Noriega built a network within Central America's military around that conception, and recently began organizing to establish a military support group for Contadora's peace efforts.

- Defense of the Panama Canal. Noriega heads military preparations to take over defense of the Panama Canal in 14 years, when, on Dec. 31, 1999, sovereignty over the Canal Zone reverts to Panama.

### Mob democracy

The narcotics mafia immediately jumped to take advantage of the U.S. greenlight for attacks on the military. On June 14, Panama's Christian Democratic party issued a call for a military uprising. It is "urgent that responsible officers and troops recognize as soon as possible the need for a new military command," read the statement by party Secretary General Ricardo Arias Calderón. "It is urgent that responsible political, labor, and civic forces find the way, as soon as possible, to establish a new civilian government, with legitimate authority and the popular support of the majority." Arias Calderón told the *New York Times* that "remilitarization" is the major threat facing Panama.

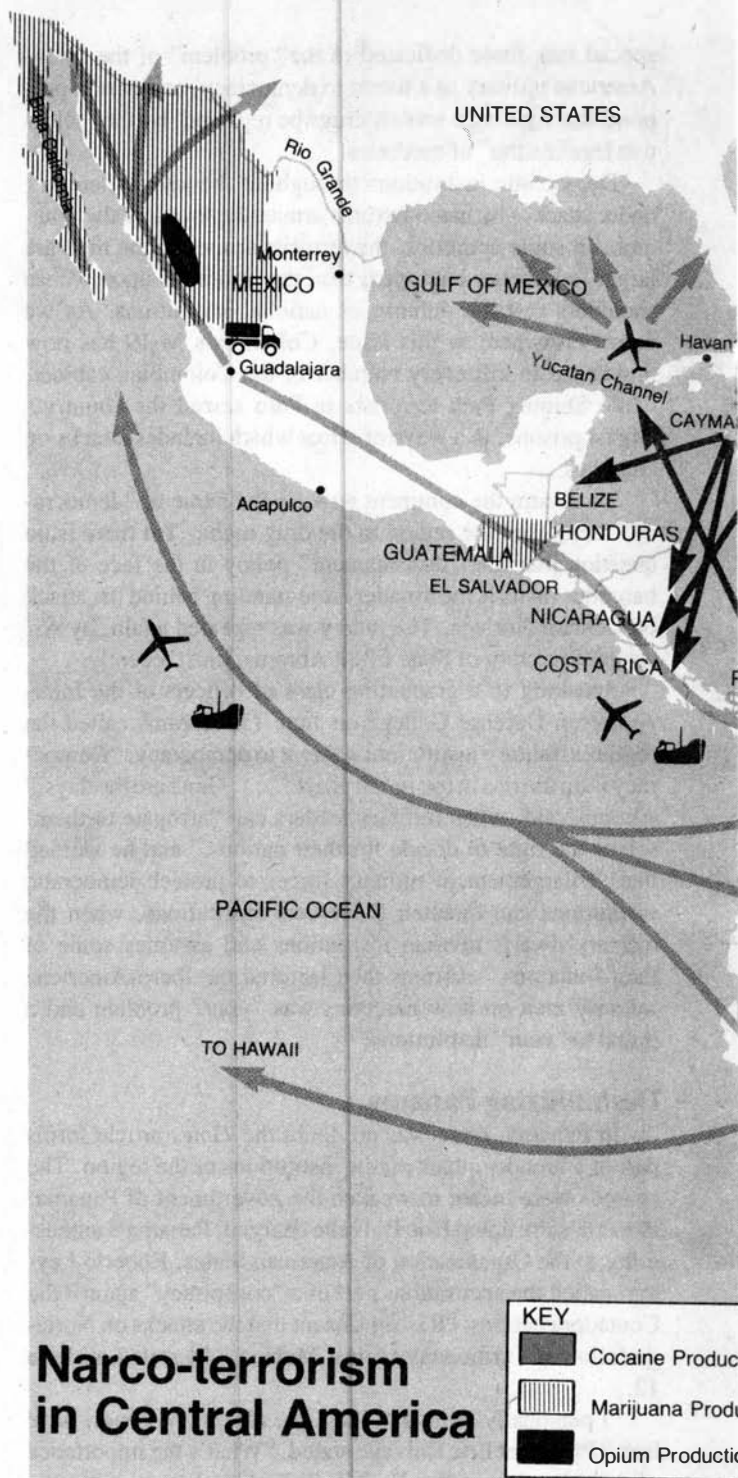
On June 15, Arnulfo Arias, head of the Democratic Opposition Alliance, issued his statement, asserting that Panamanians have the "duty to rid themselves of the military leadership which is the source of corruption and decadence in the country."

Who are these "democrats" picking up the State Department flag? *EIR* has just released a 96-page *Special Report* documenting how the opposition leaders are terrorists, drug-runners, and anti-Americans. Arias, now in his 80s, is a self-avowed gnostic cultist, whose background as an agent for the Third Reich during World War II fills cabinets still today at the U.S. National Archives. In 1941, the U.S. supported the overthrow of Arias as president of Panama, as a threat to freedom in the Americas and to the security of the Panama Canal.

The Christian Democrats have been partners with Arnulfo Arias in his efforts to overthrow the government for more than a year. In May, one leader of the Christian Democrats told the *Washington Times* that his party is actively "preparing the soil" to turn Panama into an "El Salvador or Nicaragua. People . . . are going into the mountains soon," raved Guillermo Códchez, a former secretary general of the Christian Democrats, who now represents the party in Panama's Legislative Assembly.

The Christian Democrats now find themselves enmired in scandal over their financial angels in the drug mob.

The Christian Democratic connection first surfaced in March 1985, when the First Interamericas Bank scandal broke. The story came out that First Interamericas was owned by Colombian cocaine traffickers, Jorge Luis Ochoa and Rodríguez Orejuela. One of the messengers of the Orejuela mafia



arrested by the Panamanian authorities, a Colombian named Jairo González Mendieta, reported that, in addition to using First Interamericas, he had helped arrange the laundering of some \$40 million through the Banco Continental de Panamá, Colón branch, via a member of the bank's board of directors, César Tribaldos.

The news was shocking: Banco Continental had been a conduit of funds for the Christian Democrats' campaign in



## Documentation

*U.S. media portrayed the April 21, 1986 testimony of Drug Enforcement Administration official Raymond J. McKinnon before the Senate Foreign Relations Subcommittee on Western Hemisphere Affairs, as an attack on Panama. Excerpts of that testimony and a letter sent by DEA head John C. Lawn, to General Noriega on May 8, 1986, tell a different story.*

*From John C. Lawn, May 8, 1986, to General Noriega:*

... I would like to take this opportunity to reiterate my deep appreciation for the vigorous anti-drug-trafficking policy that you have adopted, which is reflected in the numerous expulsions from Panama of accused traffickers, the large seizures of cocaine and precursor chemicals that have occurred in Panama and the eradication of marijuana cultivations in Panamanian territory.

Regarding the question of attacking the profits accumulated by drug traffickers, I look forward to the day when all governments develop the means to systematically identify and seize those illegal profits. . . .

*From the testimony of Raymond J. McKinnon:*

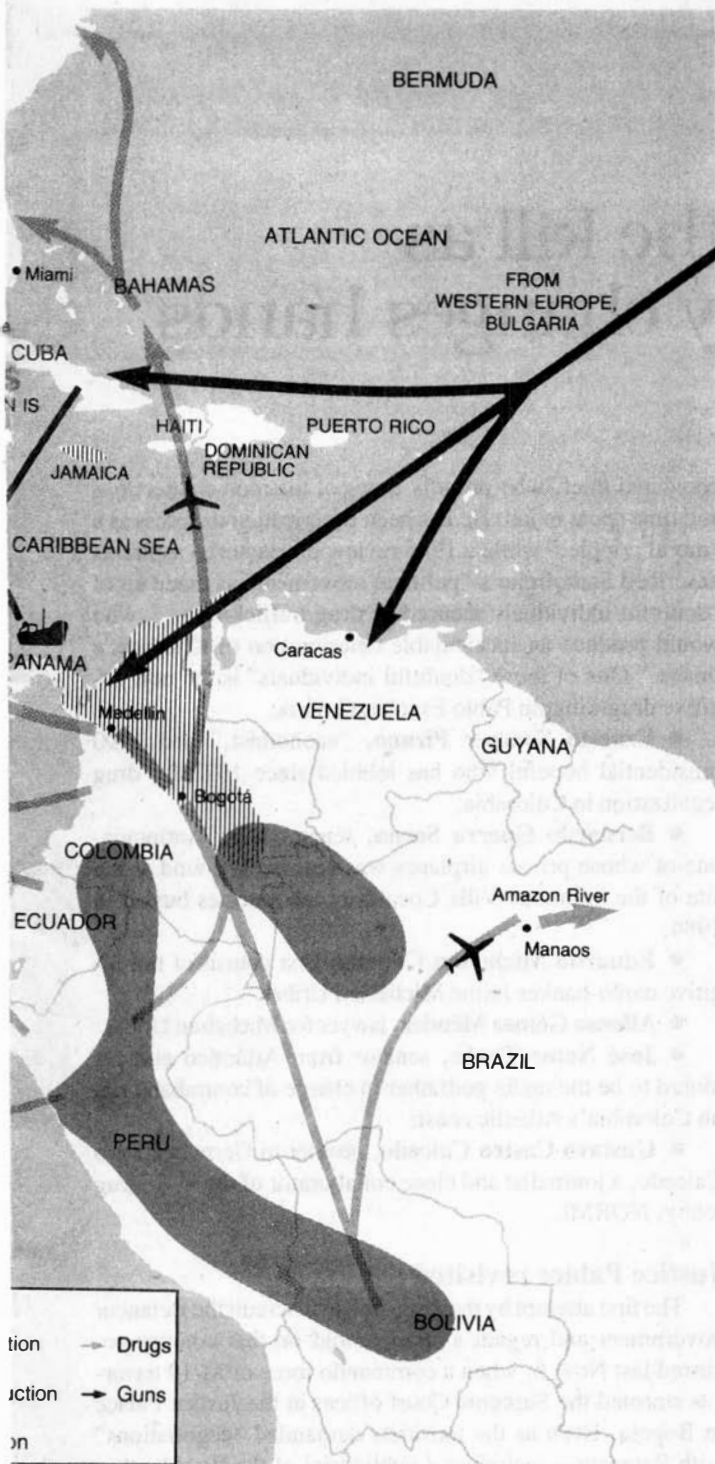
There has been progress made this year in several aspects of the drug situation in Panama. . . .

One of Panama's chief industries is international banking. . . . In May 1985, U.S. and Panamanian negotiators met to discuss a possible Mutual Legal Assistance Treaty (MLAT) whereby the United States could obtain information on bank accounts belonging to drug traffickers. The last round of talks ended early last summer without any progress on the matter, and we have been unsuccessful in getting Panama to schedule new talks.

There is considerable resistance in Panama to any lifting of the bank secrecy laws, even to deal with the laundering of money from narcotics. It is likely that the Panamanians fear that removing any of the secrecy and security of bank accounts would cause a widespread withdrawal of money from the banks. Therefore, any further discussion of the MLAT needs the support of the private bankers who want the secrecy provisions of the law to continue. . . .

Panamanian authorities have seized and destroyed large shipments of precursor chemicals . . . attesting to Panama's commitment to interdict such material. . . .

With regard to DEA fugitives, Panamanian authorities have been very cooperative in expelling directly to the U.S. the fugitives caught in Panama, provided they are not Panamanian citizens. Since Panama is a crossroads country, a disproportionate number of our fugitives appear in Panama, thus, Panama's policy on this matter works to the benefit of the United States. . . .



the 1984 elections. Then, on June 15, the Panamanian daily *La República* published a photograph of a receipt made out to Christian Democrat C6chez, from Steven Samos—one of Panama's leading money-launderers for the drug mafia. Samos laundered millions for a marijuana syndicate associated with the Colombian drug family the Gavirias, until he turned state's evidence in 1984, to avoid prosecution in the United States.

# Drug runners go for the kill as Colombian presidency changes hands

by Valerie Rush

The battle to decide who will control the next government of Colombia is already being fought out, nearly two months before President Belisario Betancur steps down from power. But this time, instead of the usual back-room deals, the battle is being waged with bombs and machine-guns, and the protagonists have never been more clearly identified.

On June 17, the narco-terrorist M-19 claimed responsibility for that morning's assassination attempt against Colombian Interior Minister Jaime Castro Castro, one of the key men behind the government's peace program. Castro escaped unharmed, but a policeman was killed, and a bodyguard and chauffeur wounded by the 12-person assault team. The M-19 also announced plans to form "suicide squads" to murder Betancur and his entire cabinet.

Colombia's top drug traffickers were forced to flee in 1982, when Betancur took the presidency out from under the drug-running oligarchy, and earned his reputation as a political maverick by declaring an all-out war on drugs, while offering a political amnesty to Colombia's multiple guerrilla forces. Now, at the end of his term, Betancur has more or less accomplished what he set out to do: The hard-core narco-terrorists have been separated from the historically disaffected and largely peasant-based guerrilla movements adhering to the amnesty. Their eradication is the urgent next step.

However, this vulnerable moment of transition from one President to the next has been seized upon by Dope, Inc. to launch a drive to capture key national institutions. They have deployed their narco-terrorist armies to murder some of their opponents and terrify others. At the same time, the political front-men for the mafia have moved to capture leading positions in President-elect Barco's transition team.

In fact, the list of transition-team members just released includes such a heavy dose of known mafia allies that the daily *El Espectador*, associated with Barco's own political party, was forced to editorially protest that Barco's "honeymoon" with the largely Liberal population will be short, indeed, if he continues to capitulate to the *caciques*, drug-tainted political bosses such as former Presidents López Michelsen and Turbay Ayala.

Among the list of transition-team members appear:

- **Alberto Santofimio Botero**, senator from Tolima and

convicted thief, who proudly brags of his mob connections and time spent in jail. He has been described in the press as a "moral cripple," while a 1986 review of senatorial aspirants described Santofimio's "political movement" as made up of "doubtful individuals accused of drug trafficking . . . who would produce an incalculable deterioration of Congress's image." One of those "doubtful individuals" is the now fugitive drug-kingpin Pablo Escobar Gaviria;

- **Ernesto Samper Pizano**, "economist," and 1990 presidential hopeful who has lobbied since 1978 for drug legalization in Colombia;

- **Bernardo Guerra Serna**, senator from Antioquia, one of whose private airplanes was reportedly found at the site of the infamous Villa Coca drug laboratories busted in 1984;

- **Eduardo Michelsen Concha**, first cousin of the fugitive narco-banker Jaime Michelsen Uribe;

- **Alfonso Gómez Méndez**, lawyer for Michelsen Uribe;

- **José Name Terán**, senator from Atlántico and rumored to be the mafia godfather in charge of contraband run on Colombia's Atlantic coast;

- **Gustavo Castro Caicedo**, brother to German Castro Caicedo, a journalist and close collaborator of the U.S. drug lobby, NORML.

## Justice Palace revisited

The first attempt by the drug mob to discredit the Betancur government and regain a stranglehold on that country occurred last Nov. 6, when a commando force of M-19 terrorists stormed the Supreme Court offices at the Justice Palace in Bogota. Even as the terrorists demanded "negotiations" with Betancur—including a public trial of the President!—the M-19ers were executing, one by one, the captive Supreme Court judges and deliberately burning sections of the country's legal archives.

The fact that the judges had been receiving death threats for months due to their approval of the constitutionality of an extradition treaty under which drug traffickers were being sent to trial in the United States, and the fact that the national archives burned held the criminal files of those extradition requests, convinced honest members of Betancur's govern-



ment that the M-19 was indistinguishable from the drug mafia.

The military and labor sections of the country, among others, stood firm behind President Betancur's decision to safeguard the national interest. The ensuing army assault on the Justice Palace terminated the bloody two-day narco-terrorist siege, with a final toll of nearly 100 deaths, including 11 Supreme Court judges and the majority of the M-19 terrorists. Betancur's refusal to yield to the terrorists' blackmail won him the opprobrium of Amnesty International and the liberal media, but the republic of Colombia had fought a major battle with Dope, Inc., and won.

Buoyed by Betancur's lame-duck status, Dope, Inc. now intends to use the public debate stirred by release of a seven-month investigation into the Justice Palace incident to discredit and set him up for assassination.

Even before the release of the findings, which have confirmed the legality of Betancur's handling of the Justice Palace siege, mafia spokesmen began surfacing with accusations against the Betancur government. On June 4, the pro-drug daily *El Tiempo* prominently carried an article taken from the leftist Madrid daily *El País*, which argued that the military—and not the terrorists—had murdered the Supreme Court judges and other hostages. Madrid is the other end of the Colombian mafia's cocaine transmission belt into Europe.

Santofimio Botero, the mafioso from Tolima, on June 12 demanded a congressional trial of President Betancur for mishandling last November's M-19 siege. In addition, he has demanded that Congress prohibit Betancur from departing the country after leaving the presidency.

Attorney-General Carlos Jiménez Gómez, the same who confessed to meeting clandestinely with the drug godfathers shortly after their April 1984 assassination of Justice Minister Rodrigo Lara Bonilla, and who has been an open opponent of the President's war on drugs, has called for the trial of President Betancur and Defense Minister Vega Uribe by the Accusations Commission of the House of Representatives.

## **Papal intervention?**

Despite the ugly odds which Betancur and the nationalist forces standing with him face, an intervention in their favor by Pope John Paul II during his upcoming visit to Colombia July 1 can tip the balance against Dope, Inc. An example of the effect a Papal intervention might have is clearly seen in neighboring Peru, where President Alan García's own war on drugs is modeled on and inspired by that of his Colombian colleague.

The Pope visited Peru in February 1985, two months before presidential elections in that country. During his tour of some of the worst hellholes of terrorism and economic deprivation in Peru, John Paul II gave the demoralized and cynical population a renewed sense of cultural optimism, while calling on political leaders to be "innovative" in taking on the debt crisis on the continent. On July 28, Alan García

took office, and shocked the financial world with his declaration of a 10% limit on debt payments drawn from Peru's export revenues.

The drug traffickers are well aware of the potential of Papal intervention in an intensely Catholic nation like Colombia, and thus the conspiracy is already set to contain the Pope's influence or, if that fails, murder him.

The M-19 held an underground press conference in Bogotá June 14 to call on the Pope to serve as a "mediator" between themselves and the incoming Barco government, a move which would give the narco-terrorists the legitimacy they have been unable to win thus far. They also declared their readiness to discuss a truce with President-elect Barco during the Papal visit next month, insisting, "We are partisans of dialogue, and believe that one can dialogue with Virgilio Barco."

Threats, some subtle and others not, are also being issued. An early May edition of the weekly magazine *Consigna*, associated with former President Turbay Ayala, editorialized violently against the Pope and Colombia's Cardinal Alphonso López Trujillo, saying the Pope's "election" was the result of "right-wing machinations" and that the Colombian population would not heed his words anyway. Why is he bothering to come, ask *Consigna*'s editors.

An early June edition of the Colombian Communist Party newspaper, *Voz*, denounced the Pope for having sided with "capitalism and imperialism," and attacked the Pope's closest collaborator in Colombia, Cardinal López Trujillo, as "the retrograde head of the most backward sector of the Colombian Church." The commentary ominously warned that the Pope's visit would "tilt the balance" to favor López Trujillo.

In the daily *El Tiempo* of June 5, pro-drug journalist Enrique Santos Calderón attacked President Betancur for allowing the Papal visit, while having denied Colombia the status of host country to the 1986 World Cup Soccer matches. Santos lamented that "the already monotonous trips of the Pope who visits various countries each year" could not "even distantly compare to a World Soccer Cup."

At the same time, the cardinal has been targeted for assassination at least twice while preparing for the Papal visit. A powerful explosive was discovered and deactivated in the reception room outside the Cardinal's Medellín office, according to an official Church communiqué issued May 15. The communiqué added that the Popular Liberation Army (EPL), a narco-terrorist cousin of the M-19, had claimed responsibility for the attempted bombing in protest against the Pope's visit.

On June 12, a seminary the Cardinal was to have visited in Medellín was stormed and harangued by 35 guerrillas from the National Liberation Army (ELN), whose leadership ranks are made up of "guerrilla-priests" from the "theology of liberation." Church spokesmen said the assault was directly aimed at López Trujillo.

## Alan García smashes terrorist uprising

by Valerie Rush

At 6 a.m. on June 18, nearly 1,000 crazed "Shining Path" narco-terrorists launched simultaneous uprisings in three Peruvian prisons, in what high-level sources are suggesting was part of a much larger insurrection plan that was aborted when a ship anchored off the Peruvian coast suddenly abandoned plans to unload 250 tons of Soviet weaponry that had been brought aboard at the Rostock port in East Germany.

The ship, under a Danish captain, was seized by Panamanian authorities during its return trip through the Canal, on a tipoff from the Peruvian presidency. Its shipment included AK-47 assault rifles, hand-held rocket-launchers, some 1,500 machineguns, and 32 civilian light trucks painted olive drab. Panamanian officials estimate that the equipment could have supplied a battalion of up to 1,500 terrorists.

The uprisings, which took place on the eve of an international congress of the Socialist International being held in Lima, were organized by the Shining Path (*Sendero Luminoso*) prisoners inside Lurigancho, El Frontón and the women's Santa Barbara prisons, where the narco-terrorists have maintained virtual control for years. When troops were sent in to crush the uprisings, they encountered brick and cement barricades, trenches, underground escape tunnels, automatic FAL rifles, submachineguns and dynamite. Anti-tank missiles had to be used by the troops to breach the terrorist defenses and rescue the near dozen hostages being held.

The latest official report is that somewhere between 100 and 150 *senderistas* were killed in the two-day battle to retake the prisons, including the leading Shining Path ideologue Guillermo Díaz Martínez: 24 at Lurigancho, three at Santa Barbara, and possibly 100 or more at El Frontón. Despite protests from officials of the ruling APRA party that the number of casualties was being grossly exaggerated by the international news media, those exaggerations continue. England's Reuter news service of June 20 cites "a government source" that nearly all guerrilla inmates of El Frontón were killed, supposedly 300 of them, and quotes an alleged "military communiqué" saying 124 were killed at Lurigancho. The June 20 edition of the *New York Times* says 400 *senderistas* were killed.

The uprisings were comparable in many ways to last November's occupation of the Colombian Supreme Court by the M-19 narco-terrorists who, together with Shining Path, form part of a continental terrorist army deployed on behalf of drug mafia interests. As in Peru, the two-day M-19 siege was designed to humiliate and blacken the prestige of the Colombian government. And like García, President Betancur's refusal to yield to terrorist blackmail protected the integrity of the national institutions of his country. Colombia's enemies today are seeking to revive a scandal around the Justice Palace incident (see article, page 38), and García's enemies will no doubt attempt the same.

### A coordinated assault

The prison uprisings were preceded by an unprecedented escalation of labor disturbances and terrorist attacks. In fact, the uprisings occurred the same morning that prison employees and guards decided to strike—a fact which is under investigation by government authorities. Bombings or attempted bombings of the Education Ministry, Labor Ministry, Lima airport, several churches, the Socialist International's Crillon convention center and elsewhere occurred on the eve of the prison riots, and several police officers were gunned down on the streets of Lima.

The García government took a firm stance toward the *Sendero* lunatics. According to Fernando Cabieses, president of the peace commission sent to the prisons to talk with the *senderistas*, "all dialogue was rejected." According to Cabieses, who otherwise expressed "respect for the ideas and convictions" of the Shining Path, President García had offered guarantees of no reprisals against the prisoners if they surrendered.

The terrorists had reportedly declared that the government's planned transfer of Shining Path inmates to the new maximum-security prison Cantón Grande would only take place "over our dead bodies." The transfer program was part of an effort by the García government to break up the virtual fiefdoms that Shining Path has established in the prisons where, according to eyewitness accounts, no guards were permitted in *Sendero*-dominated portions of the jails, daily *Sendero* meetings were held including chants and hymns to Mao Tse-Tung, and the walls were bedecked with Shining Path flags, banners, and posters. Lawyers and family members regularly brought everything from weapons to cement and bricks during visits to the *Sendero* jails.

With his usual "prescience," the *New York Times*'s Alan Riding wrote June 15 about the "shadow of terrorism darkening Peru," and observed that the García government might be "trapped between pressures for tougher action from the military and complaints of human rights violations" from the left—precisely the bind the uprising was intended to create, as with the actions of Shining Path's M-19 colleagues in next-door Colombia. Riding concludes hopefully that should he rely on the military, García risks "losing his political capital," and with it, the presidency.

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# How Shultz and Gorbachov connived to bury the SDI

by Criton Zoakos

The characterization, in Washington, of Soviet leader Mikhail Gorbachov's latest arms-control proposals as "constructive," and "unexpected," is the result of treason, especially in the State Department and Congress, and widespread folly which might soon produce the collapse of President Reagan's Strategic Defense Initiative, the West's last remaining, workable response to the continuing buildup of Soviet strategic superiority.

As is known, the latest Soviet proposals, first made privately to the negotiating teams in Geneva June 10, and later publicized by Gorbachov in Moscow June 16, set as their absolute precondition an extension of the 1972 Anti-Ballistic Missile Treaty up to the year 2000. Provided this precondition is met, Moscow will, afterward, be willing to discuss reduction of nuclear warheads to 8,000 for each side and of ballistic missiles to 1,600. Moscow also, according to the proposals, is willing to not raise the issue of "forward based" U.S. nuclear weapons, such as those on aircraft stationed in countries near the Soviet Union or on aircraft carriers.

Immediately upon publication of these Soviet proposals, Shultz's State Department and the major liberal media launched a campaign to present them as "surprising," "unexpected," and, of course, "positive." Senate and House leaders, both Democrats and Republicans, made statements to the press indicating that Gorbachov's latest moves are "signals," indicating a "new willingness" by Moscow to "return to arms control."

The Soviet proposals were nothing of the sort, and what the public is being subjected to is a public sham, a charade, a "con job" orchestrated between Gorbachov and Shultz, with the mediation of Central Committee Secretary Anatolii Dobrynin, who now coordinates all Soviet policies respecting the United States.

According to Western circles close to developments at the Geneva strategic arms-control negotiations, nothing is new in these latest Soviet proposals. They are a rehash of

what has been discussed for two years now, namely, in Shultz's and Max Kampelman's favorite expression, to "use the President's Strategic Defense Initiative as a bargaining chip."

According to the same sources, the Soviets' absolutely minimal objective at the Geneva talks is to create the political/diplomatic conditions in which congressional dupes and traitors will be enabled to obliterate the SDI program through budget cuts. Moscow has been advised by Dobrynin that, in the current budget-cutting hysteria in Washington, no congressman will vote any money for the SDI, a program which would be prohibited from being used until the year 2000, if the latest Soviet negotiating offer is taken up.

So, when Shultz's State Department proclaimed these latest proposals "unexpected" and "positive," an eye was winking in the direction of Congress. And lo and behold, within days, namely on June 20, the Senate Armed Services Committee voted to cut \$1.45 billion from the SDI budget, reducing it to \$3.95 billion. The House Armed Services Committee had already cut it down to \$3.7 billion. Defense Secretary Caspar Weinberger had requested a minimum of \$5.4 billion for FY 1987, were the program to meet its assigned deadline for deployment decisions by 1990. If these cuts are implemented by October of this year, and if no other compensating action is taken, then, for all practical purposes, the SDI could be pronounced dead.

Should this prove to be the case, Moscow will enter the year 1987 with the satisfaction of knowing that the last remaining impediment to its overwhelming, and still growing strategic superiority, is forever removed.

The following interesting feature should be noted of the collaboration between Moscow and fools and traitors in Washington: The Senate Armed Services Committee, when it voted to cut the SDI budget, was told by the chief sponsors of the cut, Sen. Sam Nunn (D-Ga.) and Sen. William Cohen

(R-Maine), that the SDI is "in trouble," because "the President's program is vague and confusing. . . . Confused descriptions of the SDI's goals are leading Congress to make deep cuts in the program."

Why confused descriptions? A few samples from the past: President Reagan said that the SDI is *not* a "bargaining chip." Shultz said that he "supports the SDI because it is such a wonderful bargaining chip." Weinberger has insisted that the SDI is not a "bargaining chip." Chief arms-control negotiator Max Kampelman has insisted that the SDI is only a "bargaining chip."

Moreover, the President, Caspar Weinberger, and Gen. James Abrahamson, the SDI's director, have insisted, on every public occasion, that the SDI is designed for general defense against the launching of Soviet missiles, regardless of whether these missiles are ultimately trained at U.S., European, or any other targets, as the program is designed to intercept launched missiles in their "boost phase," before they exit the atmosphere. However, traitors inside both the State and Defense departments, such as Undersecretaries of Defense Richard Perle and Fred Iklé, and their friends, Max Kampelman, Zbigniew Brzezinski, and the Georgetown/CSIS crowd, have insisted that the SDI will be for "point defense," only protecting U.S. land-based ICBM missiles.

Since 1983, this publication has warned that persons such as Perle and Kampelman were acting as traitors and saboteurs on the matter of the SDI in particular. The rationalization given by Sam Nunn in cutting the SDI budget on June 20, demonstrated in exactly what fashion these persons in the Reagan administration act as traitors: They supplied to the public nonsensical, irresponsible, and contrary-to-policy statements on the SDI, whose sole function was to enable Nunn and others to argue that the "SDI is too vague and confusing," and that "confused descriptions of the SDI's goals are leading Congress to make deep cuts."

In short: Unless President Reagan fires those, such as Perle, Iklé, Kampelman, Shultz, et al., who are responsible for "confused descriptions," there will be no SDI by the fall of 1986.

### **Current Soviet ploys**

In terms of the Geneva negotiations, the State Department's Soviet partners' immediate objective is to both derail the SDI and weaken the position of Defense Secretary Weinberger—an objective shared by Shultz.

During an "extraordinary" session on June 10, in Geneva, Soviet chief-negotiator Victor Karpov, following a quick, unscheduled trip to Moscow for consultations with Dobrynin and Gorbachov, reformulated the standing Soviet demand for the scrapping of President Reagan's Strategic Defense Initiative.

Since the reconvening of the so-called "third round" of the Geneva arms-control negotiations early this spring, Secretary of State Shultz and arms-negotiator Kampelman have, according to Western circles, been endeavoring to strike up

a formula for abandoning the SDI in a way that both satisfies Soviet demands and allows a "face saving" way out for President Reagan. The rehashed proposals made by Mr. Gorbachov at the June 16 Central Committee meeting are, according to Western sources, identical with those discussed in Geneva in recent months.

Between June 10, the day of the "extraordinary session" in which Karpov formally presented these proposals, and June 16, when Gorbachov made them public through Tass, George Shultz's State Department, the *Washington Post*, the *New York Times*, and other liberal establishment media have been working overtime to cultivate the impression that Gorbachov's proposals "caught the administration by surprise."

To summarize the considerations shaping the arms control talks at present:

The Soviets are proceeding, as they have since 1983, from the single-minded objective of eliminating President Reagan's SDI. They shall not move an inch at the negotiations, unless the SDI's destruction is guaranteed.

The Soviets are already in possession of a devastating, absolute strategic superiority in offensive nuclear weapons and are increasing their advantage.

The State Department and its chiefs are committed to a policy of United States retrenchment to approximately 25% of the post-war American sphere of influence and view President Reagan's SDI as an obstacle to this perspective.

The State Department has adopted the self-appointed role of promoting, on behalf of the Soviet leadership, reformulations of the Soviet demands which would give President Reagan a face-saving way out of the SDI.

According to the same Western sources, the appearance of a certain flexibility in Soviet proposals on the matter of "reductions" in offensive weapons, is based on certain major developments in the capabilities and deployments of the Soviet Navy. According to these sources, the Politburo, prior to the latest spate of activity at Geneva, received "absolute guarantees" from the Soviet naval chiefs that their nuclear missile submarine fleet now has the fully developed capability of a) expanding the number of silos in each submarine, from which ballistic missiles can be launched; b) reloading submarine missile silos after they have fired; c) resupplying submarines with nuclear missiles after they have fired their initial load; and d) maintaining an SLBM resupply system, by means of pre-positioned mini-submarines, especially in the Atlantic Ocean.

Much of this intelligence has been either ignored or avoided by the State Department's arms-control negotiators. It may or may not have received adequate attention at the Defense Department. The fact of the matter is, that if there is any "new element" at all in the latest Soviet proposals at Geneva, it may be this: Could it be the case that after two decades of relentless Soviet naval buildup, the Soviet nuclear submarine navy may be moving into modes of ballistic missile deployment matching the awesome Soviet land-based ICBM force?

## U.S. State Department ordered vote fraud in German election

U.S. Secretary of State George Shultz personally ordered vote fraud against the Patriots for Germany party in the June 15 state election in Lower Saxony, according to the evaluation of a U.S. intelligence career professional specializing in West German political affairs. The U.S. embassy in Bonn is the only force in West Germany with the power to enforce the uniform pattern of fraud observed, he said, and while Ambassador Richard Burt was undoubtedly charged with direction of the operation, the orders would have had to have come from the very top. Only a total commitment of U.S. resources "would make the troops on the ground salute and say, 'Yes, Sir!'"

Why would the U.S. State Department go out on a limb, in a German regional election, against a party which had come into existence as an electoral force only one month before? The Patriots grew up virtually overnight on May 12, filing a slate of 100 candidates—one in each of Lower Saxony's electoral districts. But in the weeks of campaigning before and since that date, the Patriots emerged as the principal obstacle in the Federal Republic of Germany to the plan for a "New Yalta" deal with Moscow. Backed by George Shultz, Henry Kissinger, German Foreign Minister Hans-Dietrich Genscher, NATO Secretary-General Lord Carrington, and others of that ilk, the deal envisions a U.S. military disengagement from Germany, termination of the U.S. Strategic Defense Initiative for anti-missile defense, and further erosion of American political and economic power.

The Patriots provoked an immediate positive response among voters, through their campaign against the threat of a Moscow-sponsored "Red-Green coalition" on the state level, and their demand that Chancellor Helmut Kohl abandon the disastrous economic policies which have driven the farmers and small businessmen of Lower Saxony into bankruptcy. In the last weeks of the election campaign, escalating violence by the Green Party, combined with new losses suffered by German farmers because of the Chernobyl nuclear disaster, confirmed for many the truth of what the Patriots had been saying.

Even a 5% vote for the Patriots would have had an explo-

sive impact on the national political scene, since this would have qualified the party to hold seats in the state legislature, and made it a viable federal coalition partner for Chancellor Kohl's Christian Democratic Union (CDU), replacing the treacherous Free Democratic Party (FDP) of Genscher.

From the standpoint of the "New Yalta" crowd, such an outcome had to be prevented at any cost—the more so, given the role of Helga Zepp-LaRouche as co-initiator of the Patriots for Germany. A new "LaRouche break-out" was the last thing that Shultz and company wanted to see. The intelligence officer cited above, speaking of the State Department-run vote fraud, had this to say: "Shultz probably did it after Illinois; the West Germans were probably told, 'We can't have that happen here.'"

And so the election results came in: After pre-election opinion polls showed the Patriots at 8-20% of the vote, they were officially accorded only 0.3%, with perfect consistency from one district to the next. Just weeks before the election, the polls were forecasting defeat for the ruling CDU and its partner the FDP, as the FDP was expected to vanish below the 5% threshold required for representation in the parliament. Instead, although the CDU's vote dropped 6.4 percentage points from the 50.7% it received in 1982, the governing coalition survived. Three percent of the CDU's votes were siphoned off to the FDP, in a blood transfusion which allowed the two parties to continue their coalition on the state level, but with a majority of only one seat in the parliament. The opposition Social Democrats, who took 36.5% of the vote in 1982, came out with 42.1%, and the Greens stabilized their position at 7.1%.

The CDU's victory, as national party manager Heiner Geissler pointed out in an interview with the weekly *Der Spiegel* on June 16, was won "in the last 14 days only." Geissler was referring to a dramatic change in the CDU's campaign strategy, as the party began to imitate the Patriots' attacks on the Green party and the threat of a Red-Green coalition. Clearly the "New Yalta" advocates realized that the Patriots were gaining such support through their challenge to the Greens, that a Socialist-Green victory would

## A statement by Helga Zepp-LaRouche

*Helga Zepp-LaRouche, chairman of the international Schiller Institute and co-initiator of the Patriots for Germany, issued the following statement on the results of the Lower Saxony elections on election evening, June 15:*

For me, there is no doubt that the election results represent a total fabrication. We Patriots know exactly the mood of the population, and no one can make us believe that the Christian Democratic Union (CDU), in only one week, suddenly got so many votes, as to be able even to give some to the Free Democratic Party (FDP). When it comes down to it, things are now just as bad economically for the farmers and the middle class as before.

Clearly, the result of this election was manipulated by, and in favor of, those who wish to barter off the Federal Republic of Germany—and, therewith, ultimately, the free Western world—to the Soviet Union. Exemplary was (Un)American Ambassador to Germany Richard Burt, who announced this loudly and clearly, when he declared, shortly before the election, to the Konrad Adenauer Foundation, which is close to the CDU, that the Federal Republic of Germany must play the leading role in building new bridges to the countries of the East bloc.

I question that there is actually any way in which this election result corresponds to reality. The result is the expression of a consensus within the Trilateral Commission to engage in slimy horse-trading with Moscow (Motto: Disarmament and Overcoming the Division of Eu-

rope). Quite openly, it is feared—and our experience unambiguously confirms this—that a Red-Green coalition government in Lower Saxony until the national parliamentary elections, would have set off a sharp reaction among the population. And so, they can temporize on accepting the “generous offer” of Moscow, and then, in the fall, when the effect of the Gramm-Rudman amendment on the question of pulling out the American troops from Europe becomes acute, they can carry through the decoupling of Europe from the United States.

Against the background of this horse-trading, it seems to me that the Gulag Archipelago has extended so far toward the West that it also produces “100%” electoral results here.

We Patriots reserve the right to thoroughly investigate the electoral result. It is, of course, not long ago that in Lower Saxony whole ballot boxes disappeared from election sites. Above all, those media who participated in the “conspiracy of silence” against the Patriots, those collaborators of Soviet-directed terrorists who did not print a single syllable on the terrorist attack against our election workers, as in Braunschweig, must have it on their conscience, if the freedom of the West and our Western civilization together are destroyed.

We Patriots know better than anyone, that our candidates’ movement created the ferment for a republican mass movement in the Federal Republic—despite the campaign of dead silence by the media and politicians against us. We will not capitulate, for on us depends the creation of a republican movement to save Western civilization. Our motto for the coming federal parliamentary elections has already gone out: “Now, more than ever!”

only build the credibility of the Patriots.

The Patriots’ campaign drew international attention, as the election deadline neared. From Italy, Sen. Vincenzo Carullo, a prominent Christian Democratic politician, sent a telegram of endorsement to the Patriots. From the United States, Janice Hart, the “LaRouche Democrat” and nominee for the office of secretary of state in Illinois, traveled to Lower Saxony to assist directly in the campaign. Letters and telegrams of support from other Americans poured in.

In Lower Saxony itself, the Patriots’ events drew crowds that none of the other parties could, an indication of the depth of support which the new movement had gained. For example, an event with Adm. (ret.) Karl-Adolf Zenker, the former commander-in-chief of the West German Navy, attracted 60 persons in Wilhelmshaven, while another rally in the state capital of Hanover, featuring Janice Hart, drew 150. The Patriots have vowed to build on this support to create a national movement, and to campaign for the national elections in January 1987, under the slogan, “Now, more than ever!”

### A conspiracy of silence

The theft of the Patriots’ vote and the bolstering of the Free Democrats ensured, however, that there will be no decisive moves against the Greens, either in Lower Saxony or from the Kohl government nationally, unless the grip of the “New Yalta” grouping is broken. The last 14 days of the campaign were characterized by an impenetrable “conspiracy of silence” in the media, as the press gave no coverage whatsoever to the Patriots, and even refused to run paid ads. Only when the Patriots agreed to soften the ads’ criticism of the other parties and delete direct attacks on Moscow, were the ads printed!

Under the cover of the media blackout, physical attacks were carried out against candidates and campaign workers of the Patriots, by groups of “punkers” deployed by the Greens. In the worst case, a campaign rally in the city of Braunschweig had to have heavy police protection, and even then had to be canceled when 200 “punkers” tried to storm the place.



# Gorbachov declares war on bureaucratism

by Konstantin George

On June 16, the Soviet Central Committee held a full-membership session in Moscow, with the keynote address delivered by General-Secretary Mikhail Gorbachov. While Gorbachov used his address to make another big splash of strategic nuclear weapons disarmament "proposals," the bulk of his speech, and the main point on the Central Committee's agenda, was the question of ensuring the actual implementation of the "Plan B" high technology-based modernization and reorganization of the Soviet economy, proclaimed over a year ago by Gorbachov and the Russian military high command. In short, the "business" under discussion was the progress and problems of the industrial economic base to Moscow's war buildup.

Gorbachov was clearly heavily dissatisfied over the sluggishness exhibited by the party, government, and management apparatus, in delivering on the demands set forth by the Politburo since spring 1985. His speech was nothing less than a declaration of war against any and all bureaucratic obstacles impeding the required pre-war transformation of the economy.

Gorbachov told the 300 Central Committee members, in language taken from Stalin's lexicon: "Everything standing in the way of reorganizing the economy must be swept aside." The Soviet leader underscored that things can no longer continue in the same mode:

"There are signs of a tendency for economic growth, but, the planned restructuring of the economy [along high-technology lines] is proceeding only slowly till now." Gorbachov denounced what he termed "braking factors" blocking the reorganization of the economy, and then issued a warning to the party and government apparatus: "The past months have shown that a reorganization [of the economy] is not possible without changing the work style of the party. . . . At all levels, the party must free itself of bureaucratic elements. That holds true for all levels, from the base up to the Central Committee apparatus."

This warning that higher-ups will not be spared if goals are not fulfilled, was made very concrete in the following passage: "A special role is required of the Republic party secretaries [party heads of each Republic], Oblast [regional]

party secretaries, and city party secretaries." The party first secretaries of republics, regions, and major cities, are without exception members of the Central Committee, and were therefore in the audience Gorbachov was addressing.

Gorbachov denounced the failure of the Soviet leadership "during the 1970s and 1980s [to] make the jump from extensive to intensive economic growth." This was more than an attack on the "errors" of the Brezhnev era, as his statement also included a stinging criticism of the inability to implement "Plan B" at the required tempo up to the present time.

While the Central Committee session did not announce any personnel changes, it did adopt proposals submitted by the Politburo on "organizational questions," a sign that the three-day session of the Supreme Soviet, which began on June 18, would announce personnel changes already passed behind closed doors by the Politburo and Central Committee.

## Ryzhkov opens Supreme Soviet

The keynote address to the Supreme Soviet was delivered on June 18 by Politburo member and prime minister, Nikolai Ryzhkov. Ryzhkov, following Gorbachov's lead, lashed out against "bureaucratic elements" in the party and government apparatus, outdoing Gorbachov in the harshness of his attacks on the "complacency" permeating the party. Ryzhkov elaborated the focus on "intensive economic growth" to overhaul Soviet industry and agriculture during the current Five-Year Plan.

The Soviet prime minister also used the language of a war declaration against the way the economy has been run: "We simply cannot accept the fact that only 29% of our serially manufactured machinery products do not meet world standards. It has been decided to bring the portion of such products up to between 80 and 95% by 1990."

He detailed a program of industrial investments which shows that a crash program is underway to achieve the modernization of Russia's relatively backward civilian industrial economy. During the 1986-90 time-frame, 51% of the total planned 994 billion rubles of investments are to be for "intensive" industrial modernization of existing plant and equipment, as opposed to the previous "norm" of about one-third of all investments going for "intensive" modernization programs. The 994 billion ruble figure represents an increase of 190 billion rubles over the total investment allocation picture for the 1981-85 Five Year Plan.

Thus, in rough terms, instead of about 270 billion rubles invested in "intensive" modernization in 1981-85, 1986-90 will see 507 billion rubles in such plant and equipment modernization investments—a near doubling.

Ryzhkov went out of his way to stress the Five Year Plan's primacy assigned to nuclear energy as composing the principal addition to Russia's energy capacity during the next 5 and 15 years. The next phase of the Gorbachov "transformation" of Russia, for the crucial late-1980s peak phase of Moscow's war plan, is under way. Cadres will implement the "Plan B" Five Year Plan, or they will not survive it.

# In southern Africa, the Soviets are tightening the military vise

by Thierry Lalevée

The June 16 celebrations of the 10th anniversary of the Soweto riots, expected by the Soviet-controlled African National Congress of Oliver Tambo to become the "beginning of the mass upheaval" against the South African regime, failed to fulfill the ANC's wishes for a bloodbath. The South African regime, which had announced at the beginning of June a ban on all political meetings, imposed on June 12 a national State of Emergency. The entire police and armed forces were deployed to prevent any unrest, as some 2,000 persons considered to be township agitators were arrested.

Though impressive, such a deployment could not have met its goals alone. Credited with having ensured that mass rioting did not take place, was the meeting between President P. W. Botha and Anglican Bishop Desmond Tutu on June 13—the first such meeting ever.

One day earlier, as he announced the State of Emergency, Botha warned, "We have learned the lessons of Vietnam and Angola; we will not allow our 300-year-old heritage to collapse into chaos." According to BBC, he also revealed that among the papers seized by the South African army during its recent raids in Zambia, Zimbabwe, and Botswana, was a set of ANC internal memoranda, reportedly describing how the ANC is to remain the "only leader of the anti-apartheid fight," and saying that although the "work of the UDF [United Democratic Front] and of other organizations is useful, they have to accept our leadership." True to Leninist dogma, the UDF and others were described as mere "useful fools."

Though the content of the Botha-Tutu talks was not made public, the memos were clearly a topic. Describing his meeting as a "private one" which didn't require a public communiqué, Tutu said afterward they had discussed their convergences: "We are both South Africans, we are both Christians, and we are both anti-communists." Hence, whatever Botha presented as evidence to Tutu was enough for the Bishop to find it necessary to stress his convergence with Botha and his divergence with the ANC, whose leadership is staffed by members of the outlawed South African Communist Party.

During Tutu's sermon on June 16, he dropped for a moment the radical tone he has adopted in the last year, calling for a "reconciliation between white and black." But while the mass rioting predicted by the ANC did not materialize, South

Africa remains a ticking time bomb. Unless such a reconciliation is permitted to occur, there is no way the conflict can be resolved. Preparations have already begun for South Africa to "go it alone," in defiance of international pressures, which will mean a bloodbath and the destruction of any potentially positive role for the most economically powerful country in Africa.

## Soviets tighten the noose

A fight has broken out internationally over economic sanctions against South Africa, heralded by an international conference sponsored by the "U.N. Commission for Economic Sanctions against South Africa" in Paris June 16-20. Dozens of organizations and church groups staged demonstrations throughout the world. On June 15, the Pope demanded an immediate end to apartheid.

Using the fight against apartheid, which obviously must be eradicated, the Soviet have built up their strategic position in southern Africa through these meetings. On June 16, the Front Line states (bordering South Africa) called on the U.N. Security Council to implement economic sanctions to commemorate the Soweto riots. On June 18, another Security Council session was called on the issue of sanctions, this time to protest South Africa's alleged June 5 raid on the Angolan port of Namibe.

The Paris U.N. conference then became a forum dominated by the ANC, with many countries jumping on the anti-apartheid bandwagon. But with the United States, West Germany, and Britain absent, and France present only as observer, the conference was doomed to fail. An EC foreign ministers conference, the same day in Luxembourg, decided to postpone any decision on sanctions until the heads of state meeting at the end of June.

Further economic sanctions against South Africa will mean genocide—as Inkatha, the largest black-liberation movement in the country, has stressed. South Africa's industrial power is the only basis in the region for large-scale, rapid economic development, but the "disinvestment" policy pushed by the United Nations, the World Council of Churches, and the Soviet front groups would dismantle that capability. The Soviets have never shown the least concern for such

life-and-death economic issues, as the catastrophe in the countries closest to them, such as Ethiopia, betrays.

In Britain, the country responsible for establishing apartheid in the first place, the resistance to sanctions is hanging by a thread. On June 8, the *Sunday Times* revealed that the Queen of England, generally supposed not to intervene into political matters, was pressuring the British government to enact full economic sanctions. As Queen of the Commonwealth countries, Elizabeth II had reportedly received warnings from the prime minister of India and especially from President Kaunda of Zambia that unless sanctions were applied, they would leave and break up the Commonwealth. The group of so-called Eminent Persons is to present to a special Commonwealth meeting in London, the results of its fact-finding investigations in southern Africa. August 2 was given as the ultimate deadline.

Ironically, the Commonwealth may indeed collapse. Prime Minister Thatcher, supported by such media as the *London Times*, made it clear that she opposed any wide-ranging sanctions, though she refused to comment on the Queen's position, outside a mere declaration: "It is between me and my Queen." In the United States, Congress pushed a motion on June 18 demanding broad economic sanctions.

### **The real battles**

The very fact that these debates have taken place, is a major success for the Soviet Union. While attention focused on sanctions, and predictions of ANC leader Oliver Tambo in Paris of "success very soon," Moscow's direct, on-the-ground operations have almost gone unnoticed. Only a few months away from Gorbachov's planned visit to Africa for the Ethiopian Revolution celebrations in September, the Soviets are shoring up their military presence. Since May 27, they have launched three offensives in southern Angola against the anti-government forces of Jonas Savimbi's UNITA. According to intelligence reports, the offensive is moving eastward toward Zambia, and southward toward the Namibian border, with major deployments in the center-east of the country.

Reports from the battlefield indicate that though the Soviet and Cuban forces have not yet committed all of their military potential, each unit of the FAPLA (Angolan government troops) is under direct Soviet and Cuban control. Similarly, not one Angolan is being allowed to fly the MiGs or the MI-24 gunship helicopters. As in Afghanistan, Moscow wants to do it itself. Whether UNITA can resist such an onslaught when it is fully unleashed, can only be surmised.

The aim is to send a message to every African capital that the Soviet Union is unchallenged in the region. One response, according to the weekly *Jeune Afrique*, was the May appointment of a new Zairean foreign minister, Mandungu Bula. He was trained in the Soviet Union in the early 1960s together with many of today's leaders of the Angolan regime. A former adversary of Zaire's President Mobutu, Bula is strongly anti-American.

# **Do You Have the Latest Ammunition To Fight for the SDI?**

## **Japan and the SDI: An Inside Look**

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## Chirac-Mitterrand: uneasy cohabitation

by Philip Golub

In the three months which have passed since the legislative elections which brought a conservative coalition led by Jacques Chirac to power, the contradictions inherent to the power-sharing arrangement between Chirac and French President François Mitterrand have come increasingly to the fore.

Fundamentally divergent orientations make these contradictions inevitable in the areas of anti-terror policy and certain specific aspects of French defense policy. Hence a first significant row erupted over the new government's intent to harden anti-terror legislation in May. Mitterrand argued in favor of a rather vague notion of civil liberties against the supposedly repressive nature of the government's proposed legislation. This dispute has in fact become a permanent feature of the relationship between President and prime minister.

More recently and perhaps more importantly, Mitterrand and Chirac have clashed over the issue of defense policy, notably on the issue of French participation in the Strategic Defense Initiative (SDI).

### Chirac: 'SDI is irreversible'

Speaking before the Association of the Diplomatic Press May 23, Premier Chirac declared that his "government has adopted a much more positive attitude towards SDI than its predecessor. SDI is an irreversible tendency," said Chirac, fully justified by the ongoing ballistic missile defense research in the Soviet Union. He then added at the time, "It would be irresponsible for France to stay by the way-side. . . . We cannot afford not to associate ourselves."

A few days later President Mitterrand chose to rebuff his prime minister publicly during the graduation ceremonies of the St.-Cyr officers' academy. Co-thinkers of the previous defense minister, Paul Quilès, in the defense ministry followed up Mitterrand's attack on Chirac and the SDI by inserting a dogmatic critique of SDI into the official defense monthly of the ministry, *Armées d'aujourd'hui* (*Armed Forces Today*). The latest skirmish of this cabinet warfare is the publication of a half-hearted defense of SDI in the military

journal, *Défense Nationale*.

In reality, the debate over ballistic missile defense is not so much military or technological as political. President Mitterrand has consistently opposed the idea of an SDI/TDI (Tactical Defense Initiative), although French labs working on high-powered lasers have produced some excellent laboratory results over the past two years. Mitterrand knows that, were he to concede policy-making powers to Chirac on defense, he would in effect be giving up his major constitutional prerogative in international military and security affairs. Hence Chirac, by raising the SDI issue, is directly challenging the President's policy-making powers. Out of this emerges the constitutionally defined dilemma of two contradictory executive authorities which negate each other.

All major defense and foreign policy decisions will therefore be stalled until the presidential elections which are regularly slated for 1988 but which could occur earlier if the stalemate of cohabitation becomes unbearable. That this is not the case for matters pertaining to internal security affairs is made clear by the increasingly successful efforts of the Chirac government in anti-terrorist matters. The government has recently signed a series of bilateral anti-terrorist accords with the United States, the Federal Republic of Germany, and Italy. Although the details of these accords have not been made public, they are said to involve measures to facilitate extradition of known terrorists, joint anti-terror actions when called for, and reinforced intelligence cooperation. The government is not constitutionally bound to seek out Mitterrand's blank check in affairs which normally pertain to government activity.

Nonetheless, the dilemma remains: a government with limited powers facing a President with limited authority.

The result is government by consensus, where consensus can be achieved. The deeper flaw in the arrangement is made only too clear in the ongoing negotiations over the French hostages still detained by the Iranian-controlled Hezbollah and the Islamic Jihad, which also detain five American hostages. Prime Minister Chirac has either been forced to accept or has chosen to accept political responsibility for the eight remaining French hostages. At the same time, President Mitterrand has continued to engage in his own, discreet but visible personal diplomacy vis-à-vis the Syrian and Iranian governments. Special envoys of the presidency have flown to Damascus repeatedly over the past weeks even in the midst of the government's official negotiations with these governments. There is no serious reason to believe that the French Executive, which is a house divided, will find means to free its hostages except at an extravagant political price, a price Chirac cannot accept to pay given his historical and recently reiterated ties to moderate regimes in the Mideast. Nor is there any reasonable hope that the crude Iranian and more subtle Syrian blackmail will cease. A deadly game is thus in process not only between France and her blackmailers, but between the President and prime minister of France.

# Look who's out to stop Israel's 'Marshall Plan' for the Middle East

by Paolo Raimondi

*In our last issue, we presented a report by EIR correspondents Muriel Mirak and Paolo Raimondi, on the results of their 10-day visit to Israel at the beginning of June. Titled "Debate in Israel Over Mideast 'Marshall Plan,'" the article and accompanying interviews documented the contrasting views of Prime Minister Shimon Peres and his advisers, on the one hand, and the grouping around the Armand Hammer Fund for Economic Cooperation in the Middle East, on the other. Here we continue that analysis, and publish more exclusive interviews with Israeli policymakers.*

Just as Israeli Prime Minister Shimon Peres and Economic Planning Minister Gad Ya'acobi have decided to call for international support for a "Marshall Plan" for development of the Mideast, and to characterize this as probably the last chance for peace in the region, diverse groups and schools of anti-growth and pro-austerity economic policies have surfaced forcefully in Israel to counter this effort. Leading the pack was Kenneth Bialkin, the just-retired chairman of the Anti-Defamation League, the Wall Street lawyer well known for his association with cocaine mafia boss Robert Vesco. Bialkin led a delegation to Israel recently of 60 officers and members of the ADL, including the new chairman, Los Angeles lawyer Burton Levinson, and ADL Associate National Director Abraham Foxman.

At a press conference in Jerusalem on June 9, Bialkin declared his intention to stifle the ongoing U. S. investigation of the Jonathan Pollard espionage case, with all its traces leading to Soviet spy rings and Israeli power broker Ariel Sharon. Bialkin stated that the U.S. government's investigations "were not being sufficiently guided by the broader considerations of foreign policy, intelligence policy, and the mutual desire of both countries to continue their friendly relations."

Then Bialkin explained how his organized crime-linked grouping intends to undermine Prime Minister Peres's plan, and turn Israel into a "free-enterprise" paradise of tourism, real-estate "development," casinos, and drugs. The "transcendent question" for Israel, he said, is financial independence. He vowed to devote more of his own time, in the

framework of the Israeli government's "Operation Independence," to encourage the "freeing up of Israel's economy." "For Israel to achieve economic and financial viability, it must do more to introduce the free-market concept," he said, adding that he considers himself a "flaming liberal."

Operation Independence was intended to achieve—through austerity measures and redefinition of investment targets—"freedom" from the rest of the Western world, and in particular from the United States. Economics and Planning Minister Ya'acobi revealed at the end of 1984 that the nucleus of a task force for this project had been created, consisting of Bialkin, United Brands magnate Max Fisher, and Charles Bronfman. Operation Independence was supposed to involve infusions of capital directly into Israeli firms, preferably tourism enterprises. But the core of the plan consisted in transforming the port of Eilat, on the Red Sea, into a "free-enterprise zone." The Eilat area has already become, over the past few years, one of the most important transit points for dope and a "paradise" for drug consumers.

Operation Independence never really got off the ground. But Bialkin and company are reviving it now as a counteroperation against the Marshall Plan, whose contrary economic and political philosophy is based on regional development through high-technology-vectored Great Projects in infrastructure, agriculture, and industry.

## Hammer and the State Department

In coordination with the ADL effort, the Armand Hammer group is promoting similar solutions, rejecting the Great Projects concept, in favor of smaller projects and free-enterprise zones, giving free rein to wild speculation and dubious financial manipulations. The Hammer group is now soliciting support for its plans from international banks and financiers.

At the same time, a delegation of economic experts from the U.S. State Department, led by W. Allen Wallis, the undersecretary of state for economic affairs, arrived in Israel for discussions on the economic future of the region. This team is insisting that all the Israelis' problems could be solved with a drastic cut in the budget and massive austerity measures, especially in social expenditures. Wallis is an advocate

of the economic policies of Hitler's economics minister, Hjalmar Schacht; during the 1930s he, along with the Harri-man family, supported Nazi eugenics policies; more recently, he collaborated with Milton Friedman's "Chicago School," which advocates drug legalization under the rubric of "free enterprise."

Then there is the incompetent Israeli minister of industry, Ariel Sharon, who has been trying for months, with little success, to increase Israel's exports. Sharon is convinced that with lower taxes and more subsidies for exports, the country's economic problems could be solved. Similar policies have been adopted by stooges of the International Monetary Fund in many developing countries, with the result that their economies have been destroyed, while providing no solution at all for the foreign debt burden.

All these ideologues share the dream that Israel will agree to liberalize its economy and privatize the powerful state-controlled economic sector, hitherto the bastion of technological advance in the country.

### **Israel's economic crisis**

For Israel as well as the moderate Arab states, the Marshall Plan is the only way to survive and develop, and Prime Minister Peres is acting on this basis. He recently appointed Prof. Michael Bruno as the new governor of the Bank of Israel, one of those who participated in the formulation of the Marshall Plan. Bruno replaces Moshe Mandelbaum, who was denounced by the government's Bejski Commission, along with the presidents of the seven major Israeli national banks, for having plotted speculative actions which three years ago collapsed the Stock Exchange and led to a 1,000% inflation rate.

It is the rapid acceleration of the economic crisis which is making the Marshall Plan indispensable for Israel. Besides the foreign debt burden, a dangerous lack of water is threatening one of the most productive sectors of the economy, agriculture. In mid-June, the government decided to cut agricultural water supplies by 160 million cubic meters this year. Farmers reacted with dismay, saying that such a measure could cut agricultural production by one-third. Farmers from Galilee angrily said that they would have to uproot almost one-third of their banana and avocado trees or else try to irrigate the cultivated land until water supplies ran out, and then risk losing all the trees. These farmers demanded cuts in energy costs, because they reported that 60% of the cost of water comes from the high cost of pumping it.

Energy is a major problem for Israel. Energy Minister Moshe Shahal recently addressed the Engineers' Club in Tel Aviv, calling upon them to develop nuclear energy. The ministry aims to press the Treasury to provide funds for Israeli scientists to take part in research projects, at home and abroad, on a new generation of "mini" atomic power stations. These would provide 500 kilowatts of electricity and would

be exactly what Israel and also the rest of the region need right now.

The fact that Israel's most precious resources, its technology and its scientific know-how, are on the line in this crisis, was confirmed by the dramatic call made by the vice president of Technion, the university and technological research center of Haifa, Michael Shussheim, who said: "Technion is facing collapse for lack of funds." We were told that the research center in the Negev Desert was also collapsing for the same reason.

Success for the Marshall Plan idea requires that people in

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*All these ideologues share the dream that Israel will agree to liberalize its economy and privatize the powerful state-controlled economic sector, hitherto the bastion of technological advance in the country.*

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Israel and the Arab world put political and other difficulties aside and begin to work immediately on some joint economic development projects. International support will be required for such an effort, because the destabilizers will certainly do everything they can to throw it off the track. The current economic and social destabilization of Egypt, under the supervision of the International Monetary Fund, is part of this, as is the growing social tension in Israel, whose aim is to divert attention from the Marshall Plan. In the most recent weeks, for example, warfare has been artificially created between ultra-Orthodox religious fanatics and a violent counter-gang. The goal is to polarize the country on an irrational issue.

Because of these domestic crises, Prime Minister Peres canceled his trip to Peru in June, for the meeting of the Socialist International. While this conference has no merit in itself, it would have provided a significant opportunity for Peres to meet Peruvian President Alan Garcia, whose fight against the IMF and for a policy of economic and technological development represents the best example of a developing country fighting for its independence and sovereignty. In view also of the present IMF-created political unrest in Egypt, it will become more and more urgent that Israel and the Arab states establish contact with the countries of Ibero-America to coordinate a common fight against the IMF, and for a development policy like the one represented by the Marshall Plan.



# The economic challenge is the best reason to make peace

*Meir Pa'il is a Member of the Knesset. One of Israel's leading military historians, he is well known for his groundbreaking proposal for a strategic defense of Israel from behind its 1967 borders. (See EIR, Jan. 31, 1984).*

**EIR:** What are the main projects in the Marshall Plan?

**Pa'il:** They include oil pipelines, electricity grids, agricultural development, and knowledge in the medical field.

**EIR:** Minister Ya'acobi talks about nuclear energy plants in the Negev; what do you think?

**Pa'il:** I'm not against it! There are desert areas between Iraq and Jordan, Jordan and Saudi Arabia, in the Negev and in Syria, which could be sites. Nuclear plants could be used for desalinization and to provide energy for water pumping stations. Nuclear plants are not terrible; we wouldn't be building Chernobyls!

**EIR:** How do you view the Marshall Plan politically?

**Pa'il:** I would stress that in the ancient world, Mesopotamia [modern day Iraq] or Egypt, could have managed to develop their economies separately, with the Tigris-Euphrates and the Nile as water sources. In modern times, there is no hope in the Middle East, unless all countries join for development. We deserve to think about the European model, and to envision some kind of Marshall Plan. Even if there were not a hostile situation, even in peace, economic collaboration is a must. This is why everyone in the Middle East, from Iran to Libya and Egypt, and Turkey, all should think of themselves as parts of an economic unit.

The economic challenge of the Middle East is perhaps the best reason for making peace, an excellent cause for taking peace initiatives. When I think about the economic potential of the Middle East and am convinced that it won't work without peace, my sensitivity to this initiative grows. This is the reason I appreciate the prime minister's proposal very much. He's right in thinking that the Middle East is an excellent target for investment; it may even help Germany, France, and the United States to solve their unemployment crises. It's good for these nations; and for us, it's more than

"good," it's the only way out.

I want to stress that the interest in peace is not only for the Middle East but for the rest of the world. If the Soviets asked me, I'd say even they could take part. I'd tell Mr. Peres, "After criticizing you and your party since the Six Day War, for not taking initiatives for peace, I consider your Marshall Plan a positive development, because I think you will gradually come to the conclusion you must be ready to evacuate the occupied territories." If Mr. Peres would like to use this as a covert plan for a peace initiative, that's good, too.

**EIR:** What are the next steps that should be taken?

**Pa'il:** The main political challenge is to convince the United States not only to become the economic sponsor of the Marshall Plan, but the political sponsor of a peace initiative, too. This means convincing or educating the Israelis to be ready to evacuate the occupied territories. It's a difficult job, first to convince the United States, and get them to convince the Israelis! People like myself in Israel try to educate circles to take up our peace initiative; an initiative from the outside would be very fruitful.

**EIR:** How do you evaluate the fact, that Industry Minister Sharon and the Soviets attacked the Marshall Plan almost simultaneously?

**Pa'il:** From the Soviets' standpoint, a Middle East peace and Middle East economic development plan, sponsored only by the Americans and the West, with developing infrastructure even owned by forces in the West, would be considered "imperialist." As far as Sharon is concerned, he doesn't have a very deep understanding of the issues, but thinks that it won't work without a peace settlement—

**EIR:** —which he doesn't like—

**Pa'il:** —which he despises, because he knows Israel would have to evacuate the occupied territories. Maybe he's being manipulated by someone. For him, any step toward peace is negative, because he knows that it means evacuating the territories, which would be a disaster for him.



When we ratified the Camp David agreement in the Knesset, Sharon and Geula Cohen astonishingly voted with the Communists—what I call the “Soviet Church Communists”—against the accord. I tried to probe them, I said to their leader, “You, who call yourselves Marxist-Leninists, socialists, should be for peace, but you have problems with the Soviets. Okay, then abstain, but don’t vote against it, don’t vote with Moshe Arens and Geula Cohen.” He didn’t listen.

**EIR:** What do you think the Palestinians should do about the Marshall Plan?

**Pa’il:** They should be for it, all out. Whatever Palestinian entity, state or whatever comes into being, it wouldn’t be economically viable without open borders and excellent connections to Israel, Syria, Jordan and Saudi Arabia. After the establishment of peace, the Marshall Plan would be a form of economic rescue, to save them from poverty. The Palestinians don’t have the advantage Israel has, of being a bridgehead to Europe. If there is peace, I hope to see Israeli communities in Iraq, Syria, and Iran again; and Arab communities in Israel. Why not? I can envision something like a “United States of the Middle East.”

**EIR:** One of the major problems lying in the way of development is the massive debt both Israel and Egypt have. What do you think of their jointly renegotiating it, to release development resources?

**Pa’il:** It is an excellent idea. But the problem is, the peace process stopped after Sadat, because he and others thought that the Egypt-Israel axis would broaden to Jordan, Saudi Arabia and so on. Since this process has not continued, Egypt sees its economic-political cooperation with Israel as a disadvantage to them in the eyes of the Arab world. Who is to blame? We Israelis, Begin, Shamir and, at least until the Marshall Plan, also Peres.

The Taba issue is an excellent example of the delaying tactic that they have been using. Here is a piece of land, less than one square mile. The Israeli authorities are delaying; once the first step is taken towards Jordan and the Palestinians together, the economic renaissance between Israel and Egypt would continue between Jordan and Israel. If Syria were to join, so much the better. Here there is the other problem of the Israeli authorities and public opinion: Psychologically, the Israelis have been caught in a trap by these territories. Just imagine: There is an Egyptian pipeline from the Nile to El Arish, all along the Sinai northern coast. To build a continuing pipeline to Israel is not difficult, but for Egypt to do it, means that nation would be called a Quisling. We have water problems. Israel has just found deep water in the Negev Mountains, which could be used, mixed with Galilee waters. But waters from the Nile would be even better. Even disregarding the IMF problem, pipelines could be built, paid for with Israeli goods to Egypt.

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## Interview: Yitzhak Artzi

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# Goal: cooperation among enemies

*Yitzhak Artzi is a Member of Knesset from the Independent Liberal Party.*

**EIR:** What can you tell us about the Mideast Marshall Plan?

**Artzi:** The choice of the name is already indicative of the concept. The original Marshall Plan aimed at recovering the European economy torn by war, but its basis was cooperation among former enemies. This is the reason why Peres and his advisers took this notion.

**EIR:** What is its basic idea?

**Artzi:** Since oil prices are down, and the financial situation of European and American consumers is improved, an international fund should be set up to operate in the Middle East, as well as perhaps in the developing sector, to solve the basic problems of those countries. A body would be set up with the special assignment to help Middle East countries and develop development plans. The political thinking is to create an area of mutual interest *above* the reality of war, by creating areas

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*“The Marshall Plan could improve the climate between Israel and the Arab countries. The idea is to disconnect the political effort from the economic one, to reach, a situation where two countries technically in a state of war, are cooperating.”*

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of strong cooperation. This requires meetings, discussions, and direct contact; it means spreading knowledge of it among the masses. It could improve the climate between Israel and the Arab countries, and be a complement to efforts for peace. The idea is to disconnect the political effort from the economic one, to reach, through international agreement, a situation where two countries technically in a state of war, are cooperating in plans vital for their future.

**EIR:** What are some of the specific areas of cooperation considered?

**Artzi:** First is water. Israel has a water shortage, Syria is suffering, too. Nile water could be used for both. Also, the Yarmouk River in Jordan, whose resources are currently not

being fully exploited, could increase the water supply for Jordan and Israel. Cooperation with Jordan could help solve the problem of soil erosion caused by the Dead Sea.

Another important area is tourism. If we could offer package tours to Israel, Jordan, and Egypt, it would increase the flow of people into the area. This could be accomplished if the ministers of tourism came together to guarantee safety from terrorism.

**EIR:** What have the reactions to the Marshall Plan been, in the Knesset?

**Artzi:** It has never really been discussed there formally, but has been brought up in the framework of Peres's trips and reports. Right now it depends on the big powers in the West, to set up the funds, or go for the idea. The Marshall Plan may change the whole region in a revolutionary way.

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## Interview: Professor Ze'ev Hirsch

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# The Hammer Fund: free-trade zones

*Ze'ev Hirsch, chairman of the Armand Hammer Fund for Economic Cooperation in the Middle East, is a professor at Tel Aviv University. The Hammer group sponsored a conference at the university in June, where this interview took place.*

**EIR:** Could you tell us about the Hammer Project?

**Hirsch:** Prof. Ben-Shahar, in his opening speech to this conference, went through this. The work conducted through the Hammer Fund at the Tel Aviv University goes back to before [the late Egyptian President Anwar] Sadat's visit here. The idea was that peace should be taken seriously, and that once peace is established, economic considerations will become relevant, in which we want to minimize rivalries among nations and maximize benefits. We started thinking, then, what sort of economic approach we should have, once there is a political settlement. The president of the Tel Aviv University at the time, Prof. [Haim] Ben-Shahar, wanted to involve Americans financially in the area. David Rockefeller had been helpful in the early stages of negotiations between Egypt and Israel, but lowered his profile later, when it was clear the peace process would not encompass the rest of the region. Hammer intervened later; he is a person who sees opportunities offered by political changes. Ben-Shahar persuaded him to support a group working here at the Tel Aviv University. We worked on meetings, bilateral and multilat-

eral, among those of the region, to develop thinking on economic development.

**EIR:** This sounds like the Marshall Plan, which Prime Minister Peres has launched. Is there a connection?

**Hirsch:** No. The Marshall Plan is a government plan. The Hammer Fund is an independent project. We worked on projects which could be useful if the Marshall Plan were implemented. If adopted, our projects for joint Egyptian-Israeli cooperation, could receive funding.

**EIR:** What kind of development plans have you proposed?

**Hirsch:** For example, a port at Gaza could be used by Israel, the West Bank, and Jordan, as well as the Gulf states. It requires only Israel's and Jordan's agreement to allow goods to enter the port. The port would be run by Arabs, it would be an Arab enterprise, not an Israeli state enterprise. Other projects contemplate utilization of Nile River water for Gaza and the Negev desert, which would allow Israel to provide its water to the West Bank. Or, joint fertilizer production: currently Egypt and Israel each have some but not all of the basic raw materials for fertilizers; if they pooled these materials, they could jointly produce fertilizers.

**EIR:** The Mideast "Marshall Plan," according to Minister Ya'acobi, calls for nuclear energy plants in the Negev. What is your group's approach? Do you agree?

**Hirsch:** No. The first priority we see, in the energy field, is the sale of Egyptian gas to Israel, which could be accomplished through a pipeline.

**EIR:** The Hammer group talks a lot about free enterprise zones and free trade zones. Can you explain this?

**Hirsch:** These free trade zones would facilitate joint ventures between interests in different countries, without forcing the countries into cooperation. Egypt and Israel already have them.

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*"Armand Hammer is a master at combining political and commercial opportunities. This was clear in his entering deals with Russia, at the time of Lenin's New Economic Program."*

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**EIR:** What is Armand Hammer's interest specifically here?

**Hirsch:** I can only guess at it, but I know he is a master at combining political and commercial opportunities. This was clear in his entering deals with Russia, at the time of Lenin's New Economic Program.

## Islamic fanatics rampage in Egypt

*The Muslim Brotherhood has flexed its muscles in Asyut, and a showdown with the government is inevitable.*

In recent months, the political and social life of the town of Asyut in Upper Egypt has been radically transformed. It is still officially ruled by a governor, newly appointed last April by the central government in Cairo, but the power of decision-making affecting the daily life of the inhabitants of the city, has gradually shifted into the hands of the Ikhwan al Muslimiin (Muslim Brotherhood). In early April, the Brotherhood launched what can be best described as a general assault on the town.

The pretext for the operation was given on April 10, when a member of the organization was wounded after a fight with two policemen. Shot in the head, Shabaan Rashed died four days later in a military hospital in a Cairo suburb.

What has happened since, has become the most important test of strength to date between the central government and the Brotherhood, which has always been active in the region. Hours after President Anwar Sadat's assassination in October 1981, the Brotherhood rampaged in Asyut with a violence unequalled elsewhere. More recently during the riots of Feb. 25, the Brotherhood of Asyut was again in the forefront. By taking over Asyut, the Brotherhood had interlocking aims:

- First, to prove that the Brotherhood is now powerful enough to impose its own "Islamic Ikhwan order" on an entire city. This could not be done in either Cairo or Alexandria, which are better protected, but this could happen in a city hundreds of

kilometers south of Cairo.

- Second, to make a mockery of the police forces. It must be kept in mind that the new interior minister, Major General Zaki Badr, was appointed last March because it was considered that, as governor of Asyut up to then, he had successfully crushed the Brotherhood.

- Third, to control a strategic location. For centuries, Asyut has been at the crossroads of routes linking Egypt to Sudan as well as to Libya through the Western Desert. These same routes are still used by arms and drug smugglers. The latest information indicates that Libya is running a lucrative cocaine-smuggling network into Egypt, via Asyut. Considering also that Asyut is one of the main centers of the Egyptian Coptic Christians, the success of the Brotherhood involves another level of religious warfare.

Following the death of Shaaban Rashed, the Islamic groups launched a successful operation to take control of the university. Through sheer terror, which included the physical beating of professors and students, they imposed separation between women and men, according to a rigid interpretation of Islamic law, and attacked any male daring to speak to a woman.

They went on to change the curriculum of the university, banning the teaching of certain scientific subjects, while imposing interruptions to lead the prayer. In the city itself, the same method was implemented toward shopkeepers, with similar results.

The "Tala' al Iman" (Vanguard of

the Faith), a fundamentalist organization led by the sons of one of the historical founders of the organization, Hassan al Banna, has become one of the top financial powers of the province. Operating according to Islamic principles and working with its own Islamic Bank, "Tala' al Iman" controls almost everything from real estate construction to food markets, housing, cement factories, and clothes shops.

- As investigations show, such a financial empire cannot be built only through local power. Money pours in from Islamic fanatics working in the Gulf, and according to some, directly from Iran and Libya, through some embassies in Europe, notably in Scandinavia. Hence, far from being local events, Asyut's troubles have become the focus of an international mobilization among Islamicists. The connection with Cairo is very active. In recent months, some 20,000 weapons disappeared in the military garrisons of the capital; most found their way to Asyut, reports *Le Monde*.

These events coincided with the illness and death of Omar el Telmesani, one of the last historic leaders of the Brotherhood, but somehow considered as "moderate." In the weeks before his death, the battle for the succession among younger and more radical Brothers who have come out of the local groups, the *Komitehs* and *Gamaat* of the mid-1970s, had already begun. It has since intensified. Meanwhile the Brotherhood has become more powerful in parliament.

Faced with these events, in addition to many other economic problems, the central government has remained ominously powerless. However, as rumors spread in Cairo of an upcoming social explosion, a showdown between the government and the Brotherhood is now inevitable.

## Braganças ask return to monarchy

*But three different branches of the family claim to be the true royal descendants.*

The Brazilian daily *Jornal do Brasil* reported in June that Prince Philippe de Tassa Saxe-Coburgo e Bragança (Thurn und Taxis, in German) is proposing the return of the monarchical system to Brazil, alleging that it is the only political system that could guarantee stability in the country. "It is the most advanced system, portends national stability, and gives greater flexibility to government initiatives," opined the Prince.

Great grandson of the Emperor Peter II, Philippe believes that it will be possible to install a British-styled parliamentary monarchy through the deliberations of the National Constituent Assembly, which will be elected at the end of this year to write a new Brazilian constitution. Philippe and the rest of the royal Bragança family insist that in the Constituent Assembly, "all forms of government should be discussed, and the people should choose the concepts most appropriate to . . . their country."

This latest bit of insanity from the Thurn und Taxis and Bragança families could be dismissed, were it not for the widespread coverage it has received in newspapers like *Jornal do Brasil*, whose editors have perhaps not forgotten their own monarchical origins in the year 1891. In fact, *Jornal do Brasil* was founded with the collaboration, among others, of the Baron Rio Branco, for the purpose of serving as the mouthpiece of the monarchist tendencies that existed at the

birth of the republic. Today, *Jornal do Brasil* is intertwined with the interests of the Bank of Boston, another enemy of the republican system of government, known for its role in drug-money laundering.

Meanwhile, the Baron Rio Branco, founding father of Itamarati (Brazil's foreign relations ministry), defended in his correspondence of that era the idea that "the parliamentary monarchy is a more advanced form of government than a republic, and served less the interests of the Bragança family, than of the nation . . . by making Brazil an exception in America." It was precisely through the creation of Itamarati that the Baron succeeded in prolonging imperial foreign policies, even under the republic.

This fact would be little more than an anecdote of history, were it not for the present-day intrigues of Itamarati, such as were shown during the recent visit of President José Sarney to Portugal. There, under pressure of Itamarati protocol, President Sarney offered a reception which differed little from the monarchist fashion of rendering homage to the Emperor Peter II, as even *Jornal do Brasil* noted. It was perhaps this very detail which resurrected the old illusion of a Brazilian monarchy.

The illusion does not lack advocates, even within government circles. Take the case of Celio Borja, a minister of the Federal Supreme Court. Celio Borja, adviser to President Sar-

ney, last year spread the outrageous proposal that Brazil's credit system be handed over to the foreign banks. At the time he declared: "The Brazilian debt is private. . . . It would be sufficient for the government to let go of *centralization of exchange* to situate the renegotiation of the debt in other terms. Ending the *centralization of exchange* would open up an opportunity for foreign creditors to bring dollars to Brazil. The opening up of strategic sectors such as the financial system and of computer data systems to foreign capital would make the political renegotiation of the foreign debt possible."

The representatives of the Bank of Boston, and of course the editors of *Jornal do Brasil*, fully agree with such a proposal!

The monarchists have their Brazilian Monarchist Party (PMB), with backers in various Brazilian states. Three branches of the Bragança family claim to be legitimate heirs to the non-existent throne of the Brazilian empire. First, the branch of the Vasouras, who have as their pretender Don Luis de Orleans e Bragança, a prominent member of Tradition, Family, and Property (TFP), the paramilitary cult whose "political platform" is premised on the return of the traditional monarchy to Brazil. The Vasouras family lives in Sao Paulo, Brazil.

The Bragança family lives in Petropolis, and is headed by Peter Gastão de Orleans e Bragança, who administers the inheritance of the Emperor Peter II. A third branch is the already cited Thurn und Taxis, headed by Prince Philippe de Tassa Saxe-Coburgo e Bragança, born in Austria but a nationalized Brazilian and a promoter of the Brazilian Institute of Monarchist Studies of Rio Grande do Sul, in the extreme south of the country.

## A moderate war of succession

*Will the Moderate Party chairman's quitting make Sweden's largest opposition party face issues it's now busy evading?*

**T**he June 4 announcement of resignation by Moderate Party chairman Ulf Adelsohn, who assumed his post five years ago, has put Sweden's largest non-socialist party in a bind. Adelsohn's quitting not only took the Moderate Party by surprise, as his term was to expire only in 1987; but no serious rival has emerged, despite Adelsohn's failure to oust the Social Democratic regime in last year's elections.

Traditionally Sweden's right-wing conservatives, the Moderates have become increasingly dominated by neo-liberalism, as a younger, yuppie-minded generation pushed aside the more conventional, pro-defense and economic-growth outlook of the post-war era.

Old-line conservative leaders, with a classical education or firmly grounded in the reality of Swedish export business, with whatever flaws that may entail, were replaced by young upstarts, trained as speed-reading career politicians, whose only reality principle is the next imaginable promotion.

Although himself a colorful spot in the grey landscape of Swedish politics, the ascension of Adelsohn thus coincided with the rise of neo-liberalism and strategic softness. The non-socialist opposition came to richly deserve the epithet of the foremost asset of the ruling regime.

This dire condition of the Moderate Party, and of Sweden, is epitomized by the person singled out by media and opinion polls as Ulf Adelsohn's most likely successor: Moderate foreign affairs and security spokesman, 37-year-old Carl Bildt, the son-in-law of Adelsohn's predecessor

as party chairman.

Bildt has never revised his false claim that President Reagan's Strategic Defense Initiative "is and remains a technological impossibility," which, nonetheless, would "have troublesome consequences for Europe." While paying lip-service to conservative catch-words like a "strong defense," Bildt has always been keen on horse trading with the regime, in the name of cross-party unity behind Swedish "neutrality"—a dogma he fanatically defends against those who campaign for a Swedish alignment to the West, particularly the European Labor Party, the LaRouche co-thinker organization in Sweden.

Given Bildt's aristocratic veneer and air of still being wet behind the ears, some circles are looking for an alternative, and push the candidacy of Ingegerd Troedsson, the first deputy speaker of the parliament and vice chairman of the Moderate parliamentary group.

Formerly minister of health in the non-socialist coalition that took power in 1976, the 57-year-old Mrs. Troedsson, unlike the Moderate speed-readers mentioned above, is not lacking in real-life experience, but like most Moderates, tends to become overly enthusiastic when there is talk of "the magic of the marketplace" and cutting the budget.

Arguing that Moderate policy is eternally given, and that the choice of chairman bears only upon who's best to sell that policy to the voters, the Stockholm-based Moderates have called for quickly electing a new chairman at an extraordinary party

congress on Aug. 23. Some Gothenburg Moderates want to postpone the party congress until November, to give members a chance to debate and influence the election.

Moderate policy is *not* pre-determined, argued the former leader of the Gothenburg Moderates, Stig Gunne, but rather "all agree that the election will strongly influence which policy is to be pursued during years to come."

This statement of dissent by some Gothenburg Moderates, who are traditionally more conservative than other Moderates, and whose city is even nick-named "Little London" because of its Western ties, caused consternation among those anxious to remain neutral.

Asked for comment on the succession fight, another old-line Moderate and immediate predecessor of Adelsohn, Gösta Bohman, made no bones about his disapproval of Adelsohn's premature resignation. Moderate chairman during 1970-81, the 75-year-old Bohman said that assuming the party leadership is a mission in life—like a marriage—not something you quit after five years. Especially not if there is no successor.

While refusing to recommend any particular name, Bohman asserted that a Moderate leader must be able to go down to the harbor and share half a bottle of booze with the dockers—a rude disqualification of all thinkable contenders.

Pressed as to whether he would like his son-in-law, Carl Bildt, as the new chairman, Bohman quipped, "Sure I like him, he's my son-in-law, isn't he? And I need him for assisting me in chopping up the firewood, cutting down trees, painting sheds, tarring boats, and everything imaginable. As to the question of the party chairmanship, it shall be answered not by me, but by the election committee."

# International Intelligence

## *Jane's says Soviets are 10 years ahead in space*

The Soviet Union has taken an "almost frightening" 10-year lead over the U.S. in its space program, *Jane's Space Flight Directory* reported in its latest issue June 17.

The Soviets are so far ahead of the Americans, "that they are almost out of sight," said editor Reginald Turnill. Soviet cosmonauts have logged more than 4,000 days in space, compared with the American astronauts' 1,587. "Worse, the U.S. experience is largely based on short flights, giving no more than three days at a time of uninterrupted materials-processing and crystal-growth experiments." The advanced Salyut space station Mir is already in place, but "for all NASA's brilliant interplanetary successes, the U.S. space station is receding into the mid-1990s" and NASA is "now 10 years behind the Soviets in the practical utilization of what President Nixon so long ago dubbed 'this new ocean.'"

Turnill called the superpower dispute over the Strategic Defense Initiative a "phony controversy," since the Soviets, too, have a well-advanced space weapons program.

## *Goethe Institute charged with spreading decadence*

West Germany's Goethe Institute, a government-funded cultural center with branches all over the world, is spreading degenerate trash instead of classical culture, and abandoning the heritage of the German classics to East German propagandists. So charged Franz-Josef Strauss, the chairman of the Christian Social Union party and governor of Bavaria, in a speech to a meeting of Institute officials in Munich on June 12.

The Institute is linked politically to the Free Democratic Party of Foreign Minister Hans-Dietrich Genscher, a Strauss opponent. It promotes the activities of such groups as the anthroposophs, the Greens, and the films of degenerates like the late homosexual drug-addict Rainer Fassbinder.

The Goethe Institute's policy, Strauss

said, "has turned our country's cultural work abroad into a free playground for the international culture 'chiqueria.'"

Strauss said that East Germany's image abroad "will, in the long run, have a more lasting success than the dim 'Twilight of the Gods' variety presented by the Federal Republic of Germany."

The institute, Strauss said, has shown favor toward that "considerable part of the writing profession in Germany which has, for two decades, undermined this state, ruled by democratic law, slandered its responsible personalities, and evil-mindedly presented a distorted image of this state's institutions." Many of these writers and publishers, he said, were living in a "political-utopian neutralism."

Strauss's charges provoked enraged responses from the Free Democrats and Social Democrats. Former education undersecretary Mrs. Hildegard Hamm-Bruecher (FDP) accused Strauss of directing his attacks against Foreign Minister Hans-Dietrich Genscher. The Social Democrats have insisted on a parliamentary debate on "the Strauss case."

## *Thailand slaps on rules to limit Libyan 'aid'*

After a mid-June visit by Defense Secretary Caspar Weinberger to Thailand, the Thai government has asked Libya to channel any further money it sends to the nation's Muslims only through the Thai government. Deputy Foreign Minister Arun Phanuphong told a Libyan delegation led by Ahmad Muhammad al-Sharif that the government "knows Thai Muslims the best and would be able to allocate the aid properly."

Although al-Sharif denied that Libya sent aid to armed Muslim separatist groups in the south, Thai intelligence sources say that the Libyans have provided both funds and training for Muslim separatists.

Al-Sharif, however, insisted that Libya's only involvement with Thailand's Muslim minority was via small sums of money for schools and orphanages.

## *Arafat: PLO accepts all U.N. resolutions*

"We accept all U.N. resolutions," said Palestine Liberation Organization chief Yasser Arafat, in an interview with Maxim Ghilan in the June issue of the Paris-based monthly *Israel and Palestine*. Interviewed in Tunis, Arafat underscored that "we have stated that we accept international legality, by which I mean the implementation of all the United Nations resolutions. And the Israelis must remember that Israel is the only state that has been created according to these U.N. resolutions."

Asked about his present policies on peace in the Middle East, Arafat answered that the PLO has since 1969 proposed three solutions. The first was the creation of a "democratic state in which we would all live together, Jews, Christians, and Muslims. . . . This was rejected. So we said: OK, back to international legitimacy and implementation of all U.N. resolutions. . . .

"In 1977, [we] stated that we were ready to set up our own national state in any part of our land from which Israel would withdraw or which would be liberated. This has been rejected.

"Last year, we offered the third proposal, through the Jordanian-Palestinian confederation, and this was also rejected."

## *Ambassadors in Sweden escape killers*

U.S. Ambassador to Sweden Gregory Newell escaped an apparent assassination attempt during a dinner party the evening of June 17, when his bodyguards fired at two armed men found lurking outside. "We are assuming that the men were attempting an assassination of the U.S. ambassador," Stockholm police commissioner Sven Lilja said.

Among the other guests was Mexico's ambassador, Andrés Rosenthal. Newell and Rosenthal were being entertained with about 20 other guests at Lagnö Island, east of

Stockholm, at the home of a millionaire Swedish industrialist, Bo Johnson.

Two bodyguards of ambassador Newell stumbled across the gunmen while making a routine inspection of the grounds. The two men, according to the police chief, were armed with an assault rifle and a double-barreled hunting rifle. The bodyguards fired three quick shots. The two men turned and fled on a motorcycle parked nearby. Police mounted a manhunt with boats, helicopters and dogs but without success.

Sweden has been the focus of Soviet military harassment, including submarine incursions and activity by spetsnaz special commando forces. The assassination of Prime Minister Olof Palme was part of this Soviet-sponsored campaign of intimidation, as *EIR* has shown.

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## Ramsey Clark in Libya illegally

Former U.S. attorney-general Ramsey Clark met with Libyan dictator Muammar Qaddafi at the latter's home in Tripoli June 17, Libyan television reported. The report quoted Clark condemning the U.S. raids on Tripoli and Benghazi as "violating American and international law."

Clark said he wished that all Americans could see the damage that the attack caused. Clark told reporters he was on a private visit to Libya for legal matters, involving firms he was representing. His clients were not named.

President Reagan's ban on Americans traveling to Libya remains in effect. U.S. government spokesmen commented that Clark's passport had not been marked for travel to Libya.

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## China says it won't aid Filipino communists

China has pledged to give no "substantial" support to the outlawed Communist Party of the Philippines, Vice-President Salvador Laurel told a news conference on June 17.

"I have been assured by Deng Xiaoping and Premier Zhao Ziyang that the Chinese CP has stopped all contacts with the CP in the Philippines."

He added, however, that the Chinese leaders had indicated that their party would continue sending "fraternal greetings" to the Philippine Communists, whose New People's Army has been fighting the government in Manila for many years, with increasing success.

Laurel, the first senior Philippine official to visit Peking since the Marcos government was overthrown, said truce talks with the New People's Army had just begun, but he declined to go into detail. Laurel also announced a new package of trade and economic agreements with Peking. He said that the assurances given to him demonstrate "once and for all" that China will "not in any way cause trouble" for the Aquino government. "I'm satisfied with it," said Laurel.

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## French police head off anti-nuclear riots

More than 10,000 people demonstrated in Cattenom, France June 15 against a new French nuclear power plant, the largest in the world. The demonstrations were kept peaceful by the pre-emptive action of French police.

In May, in Wackersdorf, Bavaria, hundreds of West German police were injured in a demonstration spearheaded by paramilitary *chaoten*, punkster youths controlled by the Green Party and German Communist Party.

The demonstrators in France came from West Germany, Luxembourg, and Belgium, as well as France. Some 1,000 riot police set up roadblocks in a three-mile radius of the plant and made spot checks on cars. The police also blocked border crossings between Luxembourg and France with barbed wire; traffic jams of several miles built up at remaining frontier posts. Police said no disturbances were reported at the rally and there were no arrests.

The first of Cattenom's four 1,300 megawatt reactors is due to come on line in the autumn.

● **OVER 100 POLICE** in West Germany have resigned in disgust over the government's soft attitude toward rioters at the June 7 demonstration against the Brokdorf nuclear reprocessing plant, the police union reports. Police are demanding that rioters be given stiff sentences, and are directing many of their attacks at the liberal Free Democratic Party, which they blame for the government's "continuing indecisiveness."

● **HABIB BOURGUIBA**, President of Tunisia, declared to a June 14 closed session of the ruling Destour party's central committee, "However many years I live, I will devote them to fight against this evil phenomenon of Islamic fundamentalism."

● **BUENOS AIRES**, Argentina was covered with posters June 15 demanding to know, "Will we pay the illegitimate foreign debt with sovereignty?" and displaying photos of leaders of the 1976 coup with Henry Kissinger, denounced as "ideologically responsible." The poster showed Kissinger shaking President Alfonsín's hand, stating that he has advised the President since 1984.

● **SENIOR U.S.** and Soviet officials are scheduled to meet in Stockholm at the end of June to discuss the Middle East, under an agreement worked out at the Geneva summit, diplomatic sources told Reuters. Both Soviet and U.S. embassy officials in Sweden declined to comment.

● **GRAMM-RUDMAN** was cited as the reason why the U.S. is cutting aid to Indonesia, at the meeting of the Inter-Governmental Group on Indonesia, June 18. U.S. aid to Indonesia, will drop 14% during the next aid year, from \$100 million to \$86 million. The 12-nation group that decides on official aid to Indonesia was meeting at The Hague.



## The 'sleaze factor': It's taken over the Democratic Party

by Jeffrey Steinberg

It began during the 1984 presidential contest, when the issue of Democratic Party vice-presidential nominee Geraldine Ferraro's longstanding family ties to organized crime emerged as a loud background noise during the heated final days of the campaign. When wrong-doing emerged in the Republican camp sometime earlier, the pundits of the press quickly gave it a catchy name: the "sleaze factor."

Now; nearly two years after the runaway Reagan-Bush victory over Mondale-Ferraro, the "sleaze factor" has become a nationwide characteristic of the official Democratic Party—one that appears to have spread into every corner of the party. From New York City and State to Chicago and out to the West Coast, startling revelations are coming to the surface, principally through a string of aggressive federal investigations, of ties between top officials of the Democratic Party—and of the Anti-Defamation League of B'nai B'rith—with the top brass of organized crime.

Not surprisingly, a close correlation has also emerged between the "sleaze factor" in and around the Democratic National Committee and those Democratic Party officials who have conducted the most hysterical and illegal actions against the citizen-candidates movement associated with 1988 Democratic Party presidential candidate Lyndon H. LaRouche, Jr.

After an unsuccessful 1980 bid for the Democratic Party presidential nomination, LaRouche helped to found the National Democratic Policy Committee, a group that has supported thousands of candidates running for local, state, and federal office. According to an NDPC spokesman, the political action committee is devoted to returning the control of the Democratic Party to the disenfranchised majority of traditional ethnic minority, and blue collar voters whose politi-

cal views are in deep conflict with the radical-liberal policies of the current party national leadership—a leadership now apparently being exposed as a virtual arm of organized crime.

On June 12, the *New York Daily News* revealed that the New York State Democratic Party leadership had launched "Operation LaRouche," aimed at throwing up every roadblock imaginable to prevent a slate of several dozen LaRouche-backed candidates from achieving ballot status for the September primary elections. Adding his personal stamp of approval to the "sleazy" operation, Gov. Mario Cuomo delivered an anti-LaRouche diatribe at a breakfast event during the recent state party convention.

If the Justice Department insiders who spoke to *EIR* this month are right, then Governor Cuomo may have very well placed his foot in his mouth. According to sources in both Washington, D.C. and Manhattan, the governor's name has now arisen in mushrooming city and state financial scandals that have already seen over 22 top officials of the Ed Koch administration in New York City resign since last September, many of them on their way to criminal indictments.

If these reports are accurate, then the LaRouche-associated slate in New York could ride into another series of primary upset victories on the heels of the scandal.

### New York's PVB scandal

The current round of scandals first broke into the public light on Jan. 10 when Donald Manes, the late Queens Borough president, was first identified as being at the center of a kickback scandal around service contracts issued by the city's Parking Violations Bureau. Manes allegedly committed suicide March 13 on the eve of an expected indictment for accepting \$540,000 in bribes in return for securing PVB

contracts for some of his cronies, including former Cuomo campaign manager for Queens, Michael Dowd. Despite efforts by New York Mayor Koch to bury the scandal along with Manes, the "sleaze" spread. By late March indictments were handed down against former Koch Deputy Mayor Stanley Friedman, and three former top officials of the PVB, Michael Lazar, Lester Shafran, and Geoffrey Lindenauer.

In the midst of the Manes-centered phase of the scandals, federal prosecutors began probing the hospital administrator's job held by Manes's wife. Sources have told *EIR* that the hospital was financed by Bank Leumi, and that the Manes job was a *quid pro quo* for the bank financing. Bank Leumi of New York currently lists the law firm of Andrew Cuomo, the governor's son and one of his top campaign officials, as its counsel.

On April 26, the *New York Post* published the first evidence of direct Koch involvement in the financial dirty dealings inside his administration. Koch was personally linked to the signing of a special exemption on a Times Square office building, owned by Lazar, that blocked the building from being condemned as part of a midtown renovation program. As the result of Koch's signature, Lazar and his partners walked off with a cool \$14 million in clear profit. The magnitude of the scandal was compounded when reporter Ray Kerrison discovered that the building was occupied by the PVB.

On April 15, the *Post* had hinted that the real estate boom was at the center of the city-state scandal, when it published an exclusive report on the over \$4 million in campaign contributions that were funneled into the Board of Estimates, the city's real estate authority, from several dozen of the city's largest construction and management companies. Mayor Koch was the personal recipient of \$1.4 million in campaign funds from New York real estate biggies—many of whom have been linked to the international drug money-laundering business in the bestselling book, *Dope, Inc.*

The magnitude of potential corruption surrounding the city Board of Estimates prompted U.S. Attorney Rudolph Giuliani—whose office has spearheaded the crackdown on corruption—to publicly characterize the board as a "built-in conflict of interest." "Some congressmen have gone to jail for doing the kinds of things that are permitted in New York," he added.

### **The Pittsburgh connection**

Ironically, the dimension of the New York scandal that may most readily blow up in Governor Cuomo's face centers around a major construction contract being offered by the city of Pittsburgh, Pa. Mattone Group, Ltd., a New York City construction firm, was well on the way to securing a \$414 million contract to expand Greater Pittsburgh International Airport into what would become a major East Coast customs port, when a *New York* magazine article described Mattone executive Nicholas Sands as a "godson" of organized crime boss-of-bosses, Carlo Gambino, the late chief of

the Gambino family. Sands was a top official of the Cuomo for Governor campaign, and, subsequently, a chief fundraiser for the Geraldine Ferraro vice-presidential effort.

When the magazine piece hit the stands, at least one member of the Allegheny County Board, Barbara Hafer, decided that an investigation was in order. As the result of that investigation and controversy stirred up around it, Mattone Group, Ltd. lost the bid.

Representing the Mattone Group and Nicky Sands in the Pittsburgh area was a local attorney, Philip Baskin, who is also the director of the local chapter of the Anti-Defamation League. The Baskin firm, Baskin, Flaherty, Elliott and Manino, was a spinoff of a law partnership that Baskin had maintained with former Bronx Borough President Stanley Steingut and John Sears, briefly the campaign manager for the 1980 Reagan-Bush campaign.

Sources familiar with the New York-Pittsburgh "sleaze" probe report to *EIR* that the Baskin-Steingut connection has opened up a Pandora's box of new leads tying directly back into the construction industry in a half dozen major urban centers around the United States. According to these sources, the ties of several major insurance companies, who have served as insurers and underwriters of major urban development projects, to organized crime-controlled contractors will soon emerge as a scandal making the Manes-Koch affair look mild in comparison.

These sources further report that the insurance company "connection" will directly intersect the stock market scandals that rocked the Israeli financial establishment in recent months, and will reveal the existence of a massive Russian-Israeli mafia organization based in Brooklyn and Long Island. That "Russian Mafia" has already been implicated in a series of indictments handed down last December, involving gas tax evasion up and down the East Coast. One such insurance company, Union Indemnity, went belly up as a result of the December indictments, and a second insurance company, Dome Insurance of the Virgin Islands, collapsed in April of this year as a result of the original case.

If, as the sources have reported, the insurance industry ultimately emerges at the center of the Democratic Party "sleaze" scandal, some of the nation's most powerful financier circles will come directly under the prosecutorial gun for the first time.

U.S. Attorney Giuliani, himself once an assistant attorney-general, has a great deal of backing inside the DOJ headquarters in Washington, D.C. He has already shown a great deal of courage and prosecutorial savvy in his pursuit of several major Israeli gun-running cases. If the momentum continues in the Koch-Cuomogate affair, American politics may never be the same. Freed from the legacy of "sleaze"—which some Democratic Party sages trace back to the administrations of New York Mayor Fiorello LaGuardia—the Democratic Party could go through a rapid cleanup and revival. That might even breathe some life back into the American two-party system.

# Rehnquist court heralds a return to the 'status quo ante bellum'

by Sanford Roberts

The sudden retirement in the second week of June of Chief Justice Warren Burger was an ominous event for the republic. While Burger was no shining paragon of constitutional wisdom, his successor, Associate Justice William Rehnquist, is a hardcore Anti-Federalist, whose chief justiceship will probably return the Supreme Court to a view of the Constitution articulated by Roger B. Taney. The Taney Court (1837-63) produced several of the worst opinions in American history, including the notorious Dred Scott decision of 1857.

In the early days of the Burger Court, Associate Justice Rehnquist labored in obscurity as a brilliant, but crankish, dissenter from the Court's majority opinions. The ascension of President Ronald Reagan and his "New Federalism" marked a corresponding rise for Rehnquist as well, but, unfortunately, the "New Federalism" is really the "Old Anti-Federalism."

## The historical background

The principal problem with today's so-called conservatives, including those Reaganites who are enthusiastic about the Rehnquist appointment, is their conception that the U.S. Constitution is a document which confers limited powers upon the federal government and leaves all other governmental authority in the hands of the states. This belief runs counter to the views of the Federalists, led by Benjamin Franklin and Alexander Hamilton, who directed the 1787 Constitutional Convention which swept away the Articles of Confederation and bestowed full sovereign powers upon the national government. The sovereign prerogatives of the various state governments were subordinated to federal authority by virtue of the Constitution's supremacy clause.

The Anti-Federalists, who emerged after the adoption of the Constitution and the Bill of Rights, asserted the supremacy of state sovereignty. Their plan of government differed very little from the unworkable Articles of Confederation. However, they came to power with the election of Thomas Jefferson in 1800, and their influence is still felt today.

The Federalist conception, based upon Hamilton's vision that the United States should be an industrial and commercial republic, was masterfully enshrined in the fundamental prin-

ciples of constitutional law by John Marshall, our nation's greatest Chief Justice, who served from 1801-35. Marshall and fellow members of his Court, particularly Associate Justice Joseph Story, strengthened the powers of the federal government in the face of the centrifugal tendencies of the several states. The constitutional framework which fostered the development of the United States as a great nation was established during the Marshall period.

The process of consolidating the powers of the national government over and against the states provoked extreme reactions from the Anti-Federalists. In the 1819 case of *Cohens v. Virginia*, the Marshall Court for the first time decided that the U.S. Supreme Court could overturn a decision by a state court. The Anti-Federalist jurist Spencer Roane, whom Thomas Jefferson wanted to appoint as Chief Justice if the opportunity arose, railed against Marshall and his colleagues. The Supreme Court of the United States, he said, has as much power over the sovereign state of Virginia as it does over Russia.

After the death of Marshall, the Anti-Federalists took control of the Court under the leadership of Roger Taney. The Taney Court, most of whose members became overt Confederate sympathizers during the Civil War, either overturned or significantly undermined many of the landmark precedents of the Marshall era. In contradistinction to Marshall and Story, Taney articulated a constitutional theory which came to be known as dual sovereignty. It maintained that the U.S. Constitution had established a bilateral system, in which the federal government and the governments of the several states exercised different powers, neither being supreme or subordinate to the other. The result of the Taney Court's approach was a disintegration of the federal government's power to establish a National Bank (Taney himself was the architect of President Jackson's policy to destroy the Second National Bank), regulate commerce, provide a uniform currency, and legislate against slavery.

## Rehnquist: a Taney Court disciple

William Rehnquist is a latter-day follower of the judicial philosophy of the *ante bellum* Taney Court. Being an ardent

champion of "states rights," he has acted to prevent the exercise of authority by the federal courts. The more parochial state courts, where judges are frequently subject to popular election, are just as capable of providing justice.

Under Rehnquist's stewardship, the federal courts, traditionally the bastion for litigants seeking to vindicate their constitutional and civil rights, have virtually become padlocked to these litigants. In a line of decisions starting with the 1971 case of *Younger v. Harris*, the Burger Court, frequently with Rehnquist as the upfront spokesman, has instructed the federal courts to abstain from exercising jurisdiction in civil-rights cases where there are pending state court proceedings. The full sweep of the *Younger* doctrine is not completely defined, but under the Rehnquist regime, it can be expected that *Younger* will be extended to apply to any and every state court proceeding.

The effect of *Younger* has been monumental. Anytime the state authorities initiate a state court proceeding, however trumped up, the citizens who are the subjects of the proceedings will be foreclosed from litigating their constitutional claims, no matter how viable, in federal court. They will be forced to litigate their civil rights in state court, or not at all.

Even those who manage to make it into federal court on a constitutional or civil-rights claim, will wonder if it was worth the effort. Under Rehnquist, it can be expected that Bivens suits (money-damages claims based upon violations of constitutional rights committed by federal officers) will be eliminated. FBI agents, the chief targets of Bivens suits, will probably rest easier knowing that they can commit constitutional violations with impunity and not be held monetarily accountable. Injunctive relief from unconstitutional actions by federal or state officers will also be harder to sustain.

The Fourteenth Amendment, which applies the basic constitutional liberties embodied in the Bill of Rights against the governments of the several states, will be gutted. This is because Chief Justice Rehnquist does not believe that the Fourteenth Amendment was meant to do anything but redress a few constitutional deficiencies arising from the problem of slavery and the Civil War. The sweeping applications of the Fourteenth Amendment will be curbed in some areas and rescinded in others.

Civil rights are not the only rights which the Rehnquist Court will consign to the states. Two years ago, the Supreme Court, in an opinion clearly inspired but not authored by Rehnquist, decided that the Eleventh Amendment to the Constitution precluded the federal courts from enjoining the states or any state agency on the basis of state-law claims. This case, *Pennhurst State Hospital v. Haldeman*, was a radical departure from all previous Eleventh Amendment jurisprudence, which had severely limited the sweep of this "states rights" amendment. An outraged dissent from Justice John Paul Stevens claimed that *Pennhurst* overturned 26 precedents dating back almost 100 years.

The plenipotentiary power of Congress to regulate commerce may also fall. In 1976, Rehnquist authored a majority opinion for the Court which held that the federal government could not legislate minimum-wage standards for state workers. The Rehnquist opinion invoked a long-discredited theory of the Tenth Amendment, which Roger Taney frequently employed to strike down or circumscribe congressional legislation. Even though this 1976 opinion was overturned last year by a 5-4 majority, the elevation of Rehnquist to chief justice and the appointment of new justices in his mold, could quickly tip the balance back in favor of the 1976 ruling.

Antonin Scalia, the man selected to replace Rehnquist as associate justice, can certainly be considered in the Rehnquist mold. He is an expert in administrative law who supports deregulation of the economy. In 1982, the Reagan administration brought Scalia from the University of Chicago to the circuit bench of the D.C. Circuit Court of Appeals. There is no better place from which to carry out a plan for deregulation than the D.C. Circuit, which predominantly oversees litigation involving the federal government and regulatory agencies.

Judge Scalia's best-known opinion was delivered at the beginning of this year, in the case of *United States v. Synar*, the lawsuit involving the constitutional challenge to the Gramm-Rudman budget-cutting legislation. Rather than strike the statute as an abuse of congressional power, Scalia wrote an opinion literally asking the Supreme Court to overturn a 50-year precedent which is the constitutional foundation for every regulatory agency in Washington. Judge Scalia's attempt to carry out deregulation in one fell swoop was apparently ignored, since neither the attorneys nor the justices raised the issue when the *Synar* case was argued before the Supreme Court on April 23.

The present appointments are only the beginning. Four of the present Supreme Court justices are 77 years or older. The likelihood is that President Reagan will have the opportunity to pick several more justices in the very near future. If the Rehnquist and Scalia appointments are any indication, the nation's highest bench may return to the bygone days of the Taney Court.

## Coming next week . . .

The Supreme Court on June 9 decided to strike down the Reagan administration's controversial "Baby Doe" rulings, which protect the lives of handicapped infants. Read about the far-reaching implications of this hideous victory for the "right to die" lobby, in next week's *EIR*.

# Illinois Dems exclude head of party slate

In an action which might well have been taken by the Soviet Union's Politburo, the Democratic Party of Illinois excluded its own candidate for lieutenant-governor from the party's state convention on the weekend of June 14-15. State party officials, bent on silencing associates of Democratic presidential contender Lyndon LaRouche, excluded Mark Fairchild, the LaRouche ally who won the March 18 Democratic primary for the number-two post, giving as official grounds that there was "no room" for the party's highest-ranking candidate in the convention hall.

In fact, they were barring the head of the slate, as the Democratic gubernatorial candidate, Adlai Stevenson, has subsequently quit the party, to seek nomination in a new third party, "Solidarity," rather than run with associates of LaRouche. Though he is no longer even a Democrat, Stevenson was an "honored guest speaker" at the convention.

Anticipating that he would be illegally excluded, on June 13 Fairchild sought and won a 10-day temporary restraining order in court, stipulating his right, as a duly elected, high-ranking Democratic candidate, to participate in the convention. But Demuzio and his cronies willfully violated the order, risking fines and/or jail sentences, to keep Fairchild and his associates out.

On June 18, Fairchild filed suit in Cook County Circuit Court, where Judge Anthony Scotillo had earlier issued the temporary restraining order. Fairchild's suit seeks sanctions, a contempt citation, and "other relief as the court deems just" against Demuzio and others complicit in the violation of the court's order.

Judge Scotillo's original order cited Democratic Party rules, which state, "All public meetings at all levels of the Democratic Party of Illinois are open to all members of the Democratic Party of Illinois, regardless of race, sex, age, color, creed, national origin, religion, ethnic identity, economic status, or philosophical persuasion."

In that order, Judge Scotillo stated, "I think it is unfortunate that the case had to be filed here. You wouldn't think after winning the Democratic primary you'd have to ask the court for assistance to address party leaders. . . . The people have decided. They [Fairchild and Janice Hart, nominee for secretary of state] happen to be in conflict with those who are in temporary control of the party." Hart was in West Germany

at the time of the convention, touring at the invitation of the LaRouche-associated Patriots for Germany party, whose Lower Saxony campaign coincided with the Illinois convention.

In his suit, Fairchild will submit ample proof, in testimony and affidavits, that Demuzio's underlings excluded from the convention only those whom they thought were associated with LaRouche, admitting all others, whether or not they had valid credentials.

## The Lincoln tradition

The real reason for Fairchild's exclusion—what Demuzio feared he might say and do—was outlined in a statement Fairchild released to the Illinois press corps at a press conference following Judge Scotillo's ruling. "I live by the principle of Abraham Lincoln, and in that great tradition, the decision of Judge Scotillo is a true victory. I will use my presence at the convention to mobilize patriots in Illinois to repay the debt to Germany and to the German-Americans who helped put Abraham Lincoln into the White House.

"Janice Hart is risking her life on the front line in Lower Saxony, West Germany, in campaigning against the Green Party, who use steel pellets, knives, and guns. In Illinois, I'm fighting against people like Demuzio, who are using exclusionary tactics which will do injury to the voters of Illinois. The citizens of Germany are frightened of the Green Party, and the citizens of Illinois, who are watching these exclusionary tactics, are afraid of them."

Fairchild concluded, "The Judge said I have a right to participate in the convention. I want to say, as Friedrich Schiller did, 'There is a limit to tyrants' power,' and I will snatch down my inalienable rights from the heavens whence they reside."

At the convention itself, the LaRouche Democrats were the center of media attention, as a sympathetic press corps sought to report on the bizarre turn of events. Fairchild walked, civil-rights-style, arms linked with Democratic congressional nominee Dominick Jeffrey (a LaRouche associate who was also excluded from the convention), and Sheila Jones, Democratic candidate for mayor of Chicago, to the credentials table. As credentials chairman State Sen. Patrick Welch (D-Peru) was turning them away, someone in the jeering crowd behind Welch threw a can of beer at the candidate, striking Fairchild in the face.

Stunned but not daunted, Fairchild quipped, "I didn't think I was being so terrible by being elected."

Turning to the press corps, Fairchild declared, "Vince Demuzio is doing his best to imitate the policies of Moscow. His orders come from those who are cutting a 'New Yalta' deal with the Soviets. . . . The attempt to stifle my voice in this context benefits mainly Moscow."

Judge Scotillo is expected to hold a hearing on Fairchild's complaint the week of June 23, in which Demuzio will be subpoenaed to testify.

# Establishment maps 'Stop LaRouche' drive

Leading what they dubbed the "Stop LaRouche" movement, the country's most notorious "liberals," like New York's Sen. Daniel Patrick Moynihan, Illinois's Adlai Stevenson, Washington's Edward Bennett Williams, and Boston's Paul Kirk are calling for measures to bounce any candidate associated with 1988 Democratic presidential candidate Lyndon LaRouche from the party, end primary elections, and ally with anyone, including organized crime and the drug lobby, to stop the LaRouche candidates' movement from winning primary elections. The latest tactic by this group has been pressuring Democratic Party officeholders in states like Massachusetts and Illinois to launch investigations into companies and organizations identified with LaRouche, on bogus charges such as classifying loans to LaRouche's 1984 presidential campaign as "unregistered securities."

Sources in the Democratic Party say this strategy evolved out of discussions with the organized-crime-linked Anti-Defamation League (ADL). According to one "insider" Democrat at a D.C. big-name lawfirm, "The basic strategy is, if you can't beat 'em, bankrupt 'em."

Pat Moynihan, according to sources, "has been sobered by the success of LaRouche." On June 11, the *New York Daily News* leaked that Moynihan is up to his ears in a financial warfare operation against LaRouche Democrats. "At the urging of Sen. Daniel Moynihan . . . state Democratic leaders have quietly begun to plan an all-out political assault on the followers . . . of Lyndon LaRouche," the paper wrote.

"Though the strategy has not yet been completely worked out, party chairman Larry Kirwin and his staff have agreed to get county Democratic leaders to throw all LaRouche candidates off the September Democratic primary ballot, invoking a state law that permits parties to deny membership to those whose views are not those of the party mainstream. . . . In addition, the party will also begin an aggressive drive to check the filing petitions of suspected LaRouche followers. . . . [This] means that . . . even those with valid petitions will have to go to court to be reinstated on the ballot . . . a time-consuming process that might deny them a place in the primary simply because they could run out of time [and money] fighting the court cases."

## Roots of the operation

In a June 15 campaign statement endorsing Art Hoffman,

Democratic Party candidate for House of Representatives from California, who smashed an organized-crime effort against his campaign, LaRouche described the roots of this dirty-tricks operation as a 20-year battle with the Eastern Establishment:

"The 'Stop LaRouche' movement," stated LaRouche, "which has exploded on the national scene since March 18, 1986, has been in existence since I took on McGeorge Bundy's backing of Mark Rudd, back in 1968. The Soviet government has been running covert operations against me since about 1971. A faction of the international banking community has been after my hide since 1974-75. The international drug-traffickers and the U.S. drug-lobby have been on a hate campaign against me since the 1978 completion of the book *Dope, Inc.* Except for these three groupings of my enemies, I know of no significant enemies from the past or present period.

"Other people do disagree with me on issues, sometimes very strongly, but not in a way which makes us enemies. Honest critics are never 'enemies.' There are no 'honest critics' behind the 'Stop LaRouche' movement. In each case, those behind the 'Stop LaRouche' movement now targeting Art Hoffman, are proven by investigation to fall into one or more of the following three categories:

"1) Either directly Soviet agents, or sympathizers of certain key elements of current Soviet strategic doctrine.

"2) Members of drug-trafficking organizations, or members of the lobbies for relative or absolute legalization of the drug traffic.

"3) Representatives of that 'Establishment' like McGeorge Bundy, historically and presently based on a consortium of multinational financier interests, chiefly in Venice, Switzerland, London, and Manhattan.

"Although not each of the persons involved in one of these three classification is necessarily linked to the other two . . . [they] do have important connections. The multinational financiers are heavily involved in the money-laundering side of the international narcotics traffic. . . . A large section of the Establishment has agreements with Moscow for redividing the world's political map; a 'New Yalta' agreement, as part of establishing what the Trilateral Commission describes as its 'global society' utopia for a 'bi-polar world. . . .' That is the controlling level of the 'Stop LaRouche' movement."

On June 19, the "Stop LaRouche" hysteria reached a new level of the ridiculous when Massachusetts Secretary of State Michael J. Connolly held a grandstand press conference announcing that he was issuing subpoenas for records to what he erroneously called "four Lyndon LaRouche campaign organizations." Connolly, who did not deliver any subpoenas, but went to the press instead, is investigating complaints by two individuals that they had not received payments on a \$1,000 and a \$250 loan to the 1984 LaRouche presidential campaign. Connolly absurdly maintains that campaign loans are "securities" which have to be registered with the state.

# Sumner sore loser as Hoffman certified

by Stephen Pepper

The victory of Art Hoffman in the Democratic primary in California's 40th C.D. was certified by the Orange County Board of Registrar on June 17. Judge Bruce Sumner, the loser, immediately moved for a recount, and threatened to go to court to ask for an entirely new election.

Political observers are amazed and aghast at the lengths that Sumner, the Orange County Democratic Party chairman, is committing the Democratic Party to go in fighting a losing cause. Basically, he is asking for relief because he can not stand the idea of a LaRouche Democrat, Hoffman, winning, and, like Adlai Stevenson in Illinois, he will disenfranchise an important portion of the electorate to carry out his vendetta.

Lyndon LaRouche himself has written a major policy statement endorsing Hoffman, which puts the entire affair in perspective. In passing, he mentions that Sumner is connected to organized-crime networks (more on that below), but LaRouche concentrates on the issues which shape his endorsement.

LaRouche calls on Hoffman's opponent, incumbent Rep. Robert Badham, to join with Hoffman in using the election to force a debate on the crises the nation is actually facing. Among them, he lists the strategic crisis and related foreign-policy crises in which the United States is losing its worldwide position to the Soviet Union, and in which our own State Department is abetting the Soviets. LaRouche identifies the problem of the real collapse of the economy, in contrast to the general belief among Republicans that we are in a recovery. Finally, he places great emphasis on AIDS as an issue which will play a much larger role in political debate come the general election than currently.

But, above all, LaRouche urges Badham to follow the course of debating the issues, and avoid the path chosen by Sumner of retailing the garbage produced by drug-pusher Dennis King, to focus on the so-called "LaRouche factor." He reminds Badham that, as the case of Sumner merely exemplifies, where electoral opponents of LaRouche candidates have turned their campaign into an exclusively "Stop LaRouche" effort, voters have increasingly voted in favor of the LaRouche candidates.

## The Korshak connection

There is little doubt that Sumner chose almost exclusively to attack LaRouche under orders from organized-crime-linked elements within the Democratic Party, with whom Sumner

is personally associated. His principal connection in this regard is to long-time fixer Sidney Korshak, who operated as the go-between for Jackie Presser and the Teamster Pension Fund and crime bosses in Las Vegas.

Korshak's son is a member of the law firm of which Sumner is a partner, and most of the senior partners of that firm have been directly engaged in business deals with Korshak.

This really should come as no surprise, since the pattern of crime-family and, what is almost the same thing, ADL (Anti-Defamation League) connections to the official Democratic Party leadership is a widespread pattern. At present, investigative reporters for this publication and *EIR's* bi-weekly law-enforcement publication, *Investigative Leads*, have turned up such combinations in New York, Chicago, and Pittsburgh. In each case, a prominent Democrat has taken the lead in mouthing the most outrageous attacks on LaRouche. Most notably, Mario Cuomo, governor of New York, has issued vituperative statements against LaRouche Democrats, and, along with New York

Gov. Daniel Patrick Moynihan, is instigating dirty tricks to block LaRouche Democrats' access to the ballot on any and all possible grounds they can dream up—the law and the voters be damned.

The exact same pattern appears in the case of Vince Demuzio, the current chairman of the Democratic Party in Illinois. Demuzio has gone so far as to risk a contempt-of-court citation to block the LaRouche-backed, elected Democratic nominee for lieutenant-governor of Illinois, Mark Fairchild, from merely attending the Democratic State Convention that was held on the weekend of June 12-13.

So, it is the lengths to which he will go to disrupt the candidacy of LaRouche Democrat Art Hoffman that most clearly indicts Judge Sumner. Normal political warfare—even bitterly fought—would not produce the kind of "Magenot-line" mentality exhibited by Sumner. He is pushed to it because the dirty networks in the Democratic Party will absolutely not countenance, in any degree, the validation of the LaRouche movement, irrespective of the voters.

At this writing, the recount has been begun, and has already produced a very explosive atmosphere.

Hoffman's attorneys are seeking to have a handwriting expert examine the evidence of forged signatures in two precincts. Visual evidence suggests that many were signed by the same individual.

Sumner became hysterical at this suggestion. He demanded that it be made clear that "those people" could not be allowed to change these ballots during the recount, as if the recount was exclusively for the purpose of improving his count.

Then, Judge Sumner pointed his finger at Hoffman's attorney and shouted in front of the entire room: "Your publications accuse me of being organized crime. . . ."

Whereupon, Sumner's attorney jumped up to ask for a recess.



## Of conflicts of interest, and interest in conflicts

"Why does Henry escape scrutiny?" This question was asked by *Washington Times* columnist John Lofton, June 11. Lofton cited a late-May column by the *New York Times*' Leslie Gelb, raising "the question of possible conflicts of interest," which arise, in Lofton's paraphrase of Gelb, "because Mr. Kissinger—while being the sole owner of Kissinger Associates—is also, simultaneously, on the President's Foreign Intelligence Advisory Board, where he has served as a member since March 4, 1984."

To our knowledge, this is the first time a significant Kissinger conflict-of-interest charge has been raised, outside of *EIR*, since Texas Rep. Henry Gonzalez, in the 1983-84 period, had questioned Kissinger's participation in the President's Commission on Central America. At the time, Kissinger Associates had business interests in that region.

After his citation of Gelb, Lofton concludes: "(1) it does seem imprudent to choose anyone for membership on the PFIAB who runs a business that depends on and profits from the dispensation of 'geopolitical-economic advice,' as Mr. Kissinger says his business does. And (2) this particular case would seem ripe for at least a detailed investigation by the media. And this hasn't happened."

Of John Lofton's points, we have

no disagreement with the first, although we would state the matter much more strongly. Of the second, we appreciate the implication behind the words "at least": Henry Kissinger's conflicts of interest, indeed, would most certainly qualify him for prosecution on several counts, if anybody wanted to pursue the case in the courts. We disagree, however, with the "hasn't happened": This column has repeatedly, and in detail, provided more than enough evidence to whet any investigator's appetite. But let us present more.

## Policy by Fiat

Gelb raises several questions on the conflict-of-interest theme, all accompanied by Kissinger or Kissinger Associates directors' disclaimers. The points include: 1) When Kissinger was appointed to be a member of the Central America Commission in mid-1983, Kissinger Associates was advising banks with business in that region. 2) As a member of the President's FIAB, Kissinger would have access to information that would help his business. 3) One Kissinger Associates director, Brent Scowcroft, was also the director of a government commission on strategic issues, the Scowcroft Commission.

Gelb also provides other evidence, *en passant*, that he never follows up. What he provides, in this way, gives a classic example of how Kissinger illicitly puts money in his pocket, and how public policy in the United States may be distorted in the process.

Gelb mentions, for example, that one of Kissinger Associates' clients is the Italian Fiat Corporation. The Agnelli family of Fiat, based in Turin, has emerged as one of the leading motivators of East-West economic and

cultural deals. It was a key participating interest in a June 16-18 East-West trade conference in Vienna, sponsored by the Soviets' Dzhermen Gvishiani. It will be sponsoring a major event on the "Five Year Plans of the East Bloc," in Venice, Italy in 1987. In May of this year, with Henry Kissinger an invited guest, Fiat sponsored a conference on "futurism" in Venice, with Gianni Agnelli himself billing "futurism" as a bridge between East and West. In April of this year, Fiat provided financing for a conference in Milan on East-West economic relations, sponsored by the New York-based Institute for East-West Security Studies.

Since early May of this year, Henry Kissinger has been personally lobbying for the United States to begin a phased military withdrawal from Western Europe. Once a prominent policy figure like Kissinger begins lobbying in such a way, the pace of European trade, strategic, and political deals with Moscow heats up, because clever Europeans, understandably, evaluate such lobbying to represent some kind of policy consensus in the United States. Conversely, Moscow's room for maneuver and economic and strategic gain in Europe, is greatly increased by such policy advocacy on the part of Kissinger.

Question one: How much is Kissinger gaining by such Fiat deals? Question two: How much has Kissinger's policy influence in Washington given the Agnelli-Fiat group the green light for making big deals with Moscow? Question three: How much has Kissinger's advocacy of the phased withdrawal from Europe influenced U.S. policy? Question four: How much have his "business perceptions," gleaned through such relations, affected evaluations passing through the President's FIAB?

## House passes tough South African sanctions

The House voted up a bill June 18 that, if made into law, would slap on a near-total U.S. economic boycott of South Africa, beginning in 180 days.

The sweeping measure, endorsed by voice vote, would require the withdrawal of all United States businesses and American investment in South Africa. Such a move, say well-informed sources, could precipitate a retaliatory South African embargo of essential strategic mineral exports to the United States.

Crafted by Rep. Ron Dellums, a super-liberal California Democrat with close ties to the Institute for Policy Studies and other radical left organizations, the bill contains much harsher provisions than the legislation that House members were originally scheduled to vote on, a sanctions bill sponsored by Rep. William Gray (D-Pa.)

The Dellums measure calls for a total trade embargo between the two countries. It would also deny landing rights to South African airlines, and permanently ban the import of gold Kruggerrand coins. Additionally, it would cut off the flow of strategic minerals from South Africa, except those required for U.S. defense.

Opponents of sanctions did not actively oppose the Dellums measure, claiming the bill is so draconian, the Senate would never consider it seriously. Rep. Mark Siljander (R-Mich.), a leading foe of sanctions, declared right after the House vote: "Sanctions are dead."

But House Democrats are jubilantly predicting that the Dellums bill is going to significantly step up the pressure on the administration to ac-

cept new punitive measures against the Pretoria regime.

"It sends a great message to the President . . . and to the nations of the world," House Speaker Tip O'Neill (D-Mass.) gloated. Bill Gray asserted that while the Dellums bill has virtually no chance in the Senate, there would now be "irrepressible pressure" on the Senate to agree to some form of sanctions

In an 11th-hour attempt to head off sanctions legislation, National Security Adviser Adm. John Poindexter had sent a letter to House Minority Leader Robert Michel (R-Ill.), stating that the administration had "grave misgivings and strong opposition" to any sanctions initiatives.

That concern was emphasized by White House spokesman Larry Speakes the day after the Dellums measure passed. "We believe that legislation of this type would erode our capacity to promote negotiations in South Africa and would likely further separate an already divided society," said Speakes.

## Senate mobilizes against the SDI

Thirteen U.S. Senators, all of whom voted for the ABM treaty in 1972, sent a letter to Reagan June 18 expressing continued support for the Kissinger-negotiated accord.

The letter also called for the United States to comply with the "strict interpretation" of the treaty, a reading, the signers say, which would prohibit some of the major directed-energy programs now being pursued by the Strategic Defense Initiative Organization.

The letter was released by the Na-

tional Campaign to Save the ABM Treaty, an umbrella organization headed by SALT negotiator Gerard Smith, which coordinates anti-SDI operations both in and outside Congress.

Terming the ABM treaty "an important contribution to American security," the letter states that when the Senate approved the agreement, "it understood that the treaty prohibited the development and testing as well as deployment, of all space-based and other mobile-based ABM systems and components, regardless of whether they use 1972-era or new technologies. . . ." The senators add: "We believe that this clear meaning of the treaty is crucial to its viability as a valuable agreement that promotes American security."

According to an accompanying press release, this would mean that "new technologies such as lasers and directed energy which are being developed" under SDI are banned.

Signers include: Mark Hatfield (R-Oreg.), Alan Cranston (D-Calif.), Daniel Inouye (D-Hawaii), Claiborne Pell (D-R.I.), Lloyd Bentsen (D-Tex.), Quentin Burdick (D-N.D.), Lawton Chiles (D-Fla.), Thomas Eagleton (D-Mo.), Ted Kennedy (D-Mass.), Charles Mathias (R-Md.), William Proxmire (D-Wisc.), Robert Stafford (R-Vt.), and Lowell Weicker (R-Conn.). The press release also quotes Gerard Smith praising the senators' action.

In mid-June, the Senate Armed Services subcommittee on strategic nuclear forces—slashed \$800 million out of the administration's \$4.8 billion budget request. On the House side, Armed Services chairman Rep. Les Aspin is predicting that Congress will freeze SDI funding at this year's level

of \$2.8 billion. The members of the House Armed Services Committee, he says, rank SDI as a low priority.

Meanwhile, two more senators—Bill Bradley (D-N.Y.) and “conservative” Orrin Hatch (R-Utah)—have added their names to a widely publicized letter demanding that SDI funding increases be kept to a maximum of 3%. That brings to 48 the number of Senators who have endorsed this 50% cut in the SDI budget, a cut which SDIO officials say will effectively kill the effort to develop an anti-missile defense.

## Moynihan expresses love for McNamara

Chest-thumping “neo-conservative” Pat Moynihan, a favorite of the oh-so-conservative *Commentary/Washington Times* crowd, took a few moments away from his liquor cabinet the other day to issue a diatribe against President Reagan for abandoning the unratified, Soviet-violated SALT II treaty.

The New York Democrat let Robert Strange McNamara, the man who almost singlehandedly destroyed the U.S. military during the 1960s, do his complaining for him. Moynihan inserted into the June 10 *Congressional Record* a commentary McNamara had penned for the *New York Times*, in which he ranted that Reagan’s dropping of the treaty “will, unless reversed, severely harm U.S. security interests.”

McNamara also insisted that none of the many documented Soviet violations of SALT II and other arms treaties is “militarily significant.”

Moynihan termed McNamara’s pro-Soviet outpouring “cogent and

patient,” adding that should the United States decide to break out of the ABM Treaty as well, “we shall have lost.”

Lost what, Senator?

## Congress trembles at Mexican debt crisis

The possibility that Mexico may soon declare a moratorium on its huge foreign debt, is sending tremors through various financial and political power centers, including the U.S. Congress.

Representative David Obey (D-Wisc.), chairman of the Joint Economic Committee, announced June 19 that his panel has scheduled hearings for June 24 that will focus on the debt crisis in Ibero-America in general, and Mexico in particular. Key witnesses include Robert Lorenz, a West Coast banker, and Norman Bailey, who wants to “solve” the debt crisis by forcing Third World countries to sell off their economies to foreign investors in exchange for debt relief.

The reason the hearings are being held now, a JEC staffer confided, is the prospect that “Mexico may do something more radical than Peru” to deal with its debt problem. “The perception is widespread that [Finance Minister] Silva-Herzog was ousted because he wanted to be very conciliatory. . . . He wanted to do things that would make the banks happy. . . . My sources tell me there is a large faction in the Mexican cabinet that wants de la Madrid to declare a debt moratorium. The situation in Mexico is very ripe for something like that to happen, and we have to be prepared.”

The JEC issued a report May 10 warning that the Baker Plan represents a totally inadequate response to the debt crisis. It stated that if the United

States were not able to come up with something more palatable to debtor nations, the possibility of their taking “more radical, unilateral actions” could hardly be avoided. It appears that their worst fears may soon come true.

## Tales from the dark side

● *EIR* hears that Sen. John Warner’s (R-Va.) daughter is married to the nephew of Prince Johannes Thurn und Taxis, a Bavarian oligarch who wants to plunge the world back into feudalism. Thurn und Taxis titillated West Germany gossip columnists in early June when his young, punkster wife Gloria presented him with a birthday cake that bore 60 marzipan penises in lieu of candles. . . .

● London sources report that Sen. Joe Biden (D-Dela.), one of the many Democratic presidential hopefuls littering the Washington scenery, spent several days in May at a Bahamas retreat where he was given a strategic-policy retooling by several as-yet unidentified “strategic experts.” Maybe this has something to do with the fact that Biden subsequently took the point in the Senate campaign to reinstate the disastrous SALT II treaty, and to gouge SDI spending. . . .

● Senator Al Gore (D-Tenn.) has been delivering a speech against the SDI every day for two weeks, retailing the usual discredited canards against the program. Rumor has it that longtime Soviet agent-of-influence Armand Hammer has had a hand in Gore’s anti-SDI temper tantrum. Hammer, of course, is a business partner of Gore’s father, a former U.S. senator.

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## Weinberger sets record straight on SDI

"We're not trying to protect any target in the United States. We're trying to destroy Soviet missiles before they can get into the atmosphere. We're not interested in site defense, we're not interested in protecting the missiles. We're interested in protecting the people," Secretary of Defense Caspar Weinberger told reporters June 17.

He continued: "I want to knock down any hint that it is developing as a terminal defense. The major thrust, 99% of the effort, is to get them as they come out of the silos . . . then to get them in the separation phase" before the missiles deploy their warheads in early flight. "We want to destroy them any way we can. But it was designed to destroy them as effectively, as thoroughly, as reliably, as quickly as possible."

Weinberger's insistence that the Strategic Defense Initiative is directed toward population defense, not terminal defense, was prompted by statements made by Assistant Secretary of Defense Richard Perle on June 3. Perle said that a leakproof defense against missiles "is not a short-term proposition, and it may not even be possible in the long term." The SDI's goal is "not the defense of the nation as a whole, not of every city and person in it, but the defense of America's capacity to retaliate."

Said arms-control negotiator Paul Nitze of Perle's statement: "I know for a fact, that it is contrary to the White House view of the matter. Maybe it's his view, but I can't understand the rationale for it."

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## Bodansky to be cited in Pollard case?

"Yossef Bodansky will be identified as the unnamed associate of Jonathan Pollard, who introduced Pollard to the Mossad," an Israeli source has told *EIR*.

Pollard, a civilian employee of Naval Intelligence, was arrested in November 1985

in possession of classified U.S. documents on his way into the Israeli embassy in Washington. An unnamed associate was cited in court papers filed by the Justice Department at subsequent hearings.

"It's got to be Bodansky. He was acquainted with Pollard, and was a former Israeli Air Force officer. He would be the obvious person to have introduced him to Air Force General Aviem Sella, Pollard's first control," said the source.

Bodansky is an employee of Arnaud de Borchgrave, Robert Moss, and John Rees at Mid-Atlantic Research. He is a Russian-Israeli emigré formerly employed by the Defense Department. *EIR*'s recent special report, *Moscow's Secret Weapon: Ariel Sharon and the Israeli Mafia*, identified him—and Pollard—as a "false flag" agent, a Soviet operative working for the Israeli services.

Also identified as such by *EIR* was Stephen Bryen, an underling of Richard Perle at the Defense Department's Technology Transfer Branch, where Bodansky also worked. Said a former senior Justice Department official, "I don't know if Pollard was associated with Steven Bryen, but there was a connection through his wife," Shoshana Bryen, director of the Jewish Institute of National Security Affairs.

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## Public Health chief asks plan against AIDS

"Clearly, a national, coordinated response is necessary," said Dr. Donald I. Macdonald, director of the U.S. Public Health Service, in reference to the spreading of Acquired Immune Deficiency Syndrome (AIDS). "We are suggesting that a national commission representing public, private, and voluntary sectors, as well as all levels of government, be set up to look at anticipated needs and resource availability, and to make recommendations on how all sectors of our society can handle this major crisis.

"In the absence of a cure or vaccine for the disease," Macdonald stated, "our most powerful tool for the next few years will continue to be the traditional public health

infectious-disease control measures. . . . This is a major problem, probably bigger than the Public Health Service. . . . Our work must be intensified."

On June 15, the *Richmond Times-Dispatch* went on record demanding traditional measures of quarantine and prevention. "The nation is facing a public-health problem of staggering proportions," stated an editorial, "The AIDS Hydra." It charged that "instead of stopping the spread of the virus through mandatory testing and quarantines, officials of some cities, including the District of Columbia's City Council, seem more concerned about protecting the civil liberties of persons in AIDS high-risk groups. . . . Moreover, a preliminary paper drafted by Justice Department staffers opines that persons with AIDS should be categorized as 'handicapped individuals,' with full protection of civil rights laws."

It closed by quoting a doctor: "The individual's rights to avoid becoming infected with and dying from AIDS must have the highest priority."

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## Brzezinski book: Give away Europe

Zbigniew Brzezinski calls for giving Europe to the Soviet Union and limiting the Strategic Defense Initiative to point defense of missile silos, not population centers, in his widely publicized new book, *Game Plan: A Geostategic Framework for the Conduct of the U.S.-Soviet Contest*.

Brzezinski, National Security Adviser to Jimmy Carter, maintains that the current American force deployment is wrong, because it places the majority of ground forces in Western Europe, which he calls the least volatile front in the U.S.-Soviet conflict. The United States should reduce its forces in Western Europe and encourage the allies to bear a greater share of the defense burden.

He also insists that using the SDI for population defense is impossible. The program should be redirected into defense of retaliatory capabilities only.

Interviewed by the *New York Times* on June 17, Brzezinski said that he wants to sell a "no-win" policy to President Reagan. "Our

task is to design a longer-range geostrategy which enables us to compete with the Soviets on an enduring basis . . . and perhaps even eventually prevail. However, I have to add immediately that prevailing has to be viewed as something quite different from traditional victory. . . ."

## NASA cancels Centaur rocket program

NASA canceled the Centaur rocket program June 19. The liquid hydrogen-fueled rocket was to be used to launch scientific satellites from the payload bay of the Space Shuttle.

Since the Challenger accident in January, a handful of congressmen, including Edward Boland (D-Mass.) who heads the subcommittee which appropriates NASA's budget, have attacked the Centaur and related programs as hopelessly dangerous Shuttle payloads.

The Centaur was designed in the late 1950s by German rocket scientist Krafft Ehricke and has been used for 25 years as an upper stage on expendable rocket vehicles. It was scheduled to be used with the Galileo probe to Jupiter, the European Ulysses satellite to study the Sun, and the Magellan probe to Venus. Any alternative to the Centaur will mean at least a two-year delay, possibly longer, in launching any of the three payloads.

## Indiana officials confused by 'Stop LaRouche' role

The Indiana Securities Commission proved to be in a state of disarray after filing a cease-and-desist order early in June against Caucus Distributors, Inc. (CDI) and Ron Fredman, an associate of presidential candidate Lyndon LaRouche. The order alleged that CDI and Fredman were selling "unregistered securities."

The so-called securities are actually political contributions and loans to organizations which support the programs of La-

Rouche. Indiana is one of five states to file cease-and-desist orders against such political fund-raising, at the instigation of the Anti-Defamation League, the organized-crime front group, which is spearheading a nationwide "Stop LaRouche" drive.

One such order filed in Minnesota even called a political loan to a LaRouche presidential campaign committee an "unregistered security."

Indiana officials, however, seemed to be confused by the very illegality of what they have been told to do to aid the ADL. After initially postponing a hearing, which Caucus had demanded, the State Securities Commission notified CDI's Indiana lawyer that the hearing would go forward the very next day. The hearing officer, who is also the prosecutor, ruled against CDI's motion to dismiss, but then said the case would be postponed indefinitely.

He told CDI's lawyer that he expects CDI to file for an exemption from the securities law. One reporter told the lawyer: "This certainly appears to be a victory for CDI."

## Georgetown group to seek more 'arms control'

Georgetown University's Center for Strategic and International Studies (CSIS) has set up a new "discussion group" to assess the "full range of issues of deterrence, force structure, and arms control," initiated by former Reagan National Security Adviser Robert McFarlane.

In plainer English, the group's purpose will be to devise and foist upon the President a new, "post-SALT arms-control framework," to provide more time for the transition to a "New Yalta" world order dominated by the Soviet Union. Sources say the group is working closely with White House Chief of Staff Don Regan for this purpose.

The group includes Kissinger Associates partner Brent Scowcroft; Rep. Les Aspin (D-Wis.); Carter-era Pentagon chief Harold Brown; Rep. Richard Cheney (R-Wyo.); Sen. William Cohen (R-Maine); Sen. Sam Nunn (D-Ga.); James Schlesinger; and Adm. James Woolsey.

The group says it wants no publicity.

# Briefly

● **AMA DELEGATES** convened in Chicago for the American Medical Association's annual meeting June 15-19 and adopted a five-point program: 1) Put AIDS-infected children into public classrooms. 2) Close gay bathhouses and adult bookstores to stop AIDS' spread. 3) Cut back on the number of medical school admissions and restrict foreign students. 4) Reduce advertising for alcohol. 5) Adopt a voucher system for Medicare to place it on a basis of "sound fiscal principles."

● **350,000 SOLDIERS** could be eliminated if Gramm-Rudman's automatic-cuts provision is triggered, could be eliminated if Gramm-Rudman's automatic-cuts provision is triggered, the Congressional Budget Office head warned June 19. Rudolph Penner told House-Senate budget negotiators that defense accounts would be hurt much more than domestic spending. If the deficit exceeds the target by \$20 billion, U.S. military personnel accounts would be reduced "11% below the level needed to support current manpower strengths," he said.

● **ROBERT BYRD**, Senate Democratic leader, introduced a resolution June 19 to have the United States invoke the U.N. Genocide Treaty on Soviet atrocities in Afghanistan. The Senate also unanimously approved a resolution that praises the Afghan rebels' "valiant struggle." Both resolutions were prompted by the visit to Washington of Afghan alliance leaders who met with the President and lawmakers.

● **PRESIDENT REAGAN** told Congress June 18 that Saudi Arabia has met conditions for receipt of AWACS radar planes purchased from the United States in 1981. In a letter to the House and Senate, Reagan said that the Pentagon and State Department had negotiated "agreements and other actions" with the Saudis to fulfill requirements dictated by Congress for the sale.

# *Her Majesty's bloodbath in South Africa*

The Queen of England, for the first time since the abdication of Edward VIII, is now in open conflict with the British government's prime minister, over the matter of proposed economic sanctions against the Republic of South Africa. It is a situation unique in postwar British political affairs. So far, Parliament, in a vote on June 17, has sided with the prime minister in opposing the economic sanctions demanded by the Queen. Of the major newspapers, the *Times* of London has taken a stand strongly in favor of Prime Minister Margaret Thatcher, and against Queen Elizabeth II. The Archbishop of Canterbury, on the other hand, sided with the Queen against the government.

The strategic and institutional implications of this conflict are far reaching, both for the United Kingdom and for the world strategic situation.

In part, the far-reaching character of these implications is concealed behind what might appear an arcane formalism: Queen Elizabeth has decided to pick a confrontation with the prime minister, not in her capacity as the Sovereign of the United Kingdom, but, instead, in her capacity as the Head of the Commonwealth of Nations, popularly known as the "British Commonwealth."

Elizabeth's status, today, is the world's most extraordinary and convoluted legal tangle ever devised by man (or woman, for that matter). Legally, she is the Queen of England and Scotland and Northern Ireland; also the Queen of Canada, answerable to the Canadian Parliament rather than to Westminster; also the Queen of Australia, answerable to the Australian Parliament, rather than either Westminster or Ottawa.

She is similarly the Queen of New Zealand, Fiji, Papua New Guinea, Mauritius, Grenada, Belize, Barbados, Bahamas, Jamaica, Trinidad and Tobago, and such other places as Bermuda, Cayman Islands, Virgin Islands, Turks and Caicos Islands, Falkland Islands, and so forth. She is also the Head of the Commonwealth of Nations, consisting of some 42 nations, most of which are heavily, and some totally, dependent on Brit-

ish banking and commercial services for their survival.

Many of Elizabeth's legal titles and dignities are independent of each other. She could, for instance, stop being the Queen of the United Kingdom, say by act of revolution of Parliament and so forth, and still remain Queen of Canada and Head of the Commonwealth and so forth.

Not only is Elizabeth the most complex legal entity in the world today, but she is also the second (after Andrei Gromyko) longest serving public official today; her coronation was in 1953.

In this extraordinarily complex capacity, Queen Elizabeth is the world leader of the movement to destroy the Republic of South Africa. Her reasons for pursuing this objective, needless to say, have nothing to do with any, either real, or imagined, moral abhorrence to apartheid. In fact, it was her own British predecessors who, as rulers of South Africa, introduced and institutionalized apartheid. Elizabeth's belated discovery of a dubious sense of racial justice dates back to May 31, 1961, when South Africa, having had its fill of British colonialism, declared itself a Republic and unilaterally walked out of the British Commonwealth.

Now, one-quarter of a century later, Elizabeth, as head of the Commonwealth, is orchestrating her forces and her dupes in an assault to dismantle South Africa. Independently of what her dupes believe their purposes to be, the Queen's crafty hand is manipulating a very ugly strategic gambit, whose purpose is not merely the destruction of the Republic of South Africa, but, through the instrumentality of this destruction, the removal of the last hope for Africa's industrial, technological, and scientific development.

To understand the reason why, one must pay heed to the public utterings of her consort Phillip's philosophy of bewailing Africa's excessive human population, and the damage that this human population is causing to the great hunting reserves of Africa. The Queen is fulfilling the dream of the World Wildlife Fund, under the guise of "fighting apartheid."

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