

# EIR

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Gorbachov reels at Reagan SDI master-stroke  
Showdown over AIDS coming in California  
AIFLD caught sabotaging Reagan's war on drugs

**President Alan García of Peru:  
the Lincoln of the South?**



# EIR

Quarterly Economic Report

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## The deflationary collapse of the Western banking system

First Quarter 1986

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The 60% collapse in the world oil price between January and March has destabilized the international financial system, and accelerated the impetus toward what has been called, "a new depression, on top of the present depression."

What should be done? The answer is simple. Impose an emergency oil import tariff now. The free-marketeers, and their Soviet friends, will scream about it, but the measure is the most readily available alternative to halt the unraveling of the bankrupt international and national financial system.

### Did you know that . . .

- **\$250 billion of U.S. banks' domestic assets will go bad, in the wake of the collapse of oil prices since November 1985.** The crash will by no means be limited to banks' loans to energy companies.
- **Conditions have been set for a general panic among savings-bank depositors,** whose \$1.2 trillion in deposits lack federal insurance backing.

- **The U.S. is on the verge of a revolution in medical technology.** But the Gramm-Rudman budget-cutters and Washington cost-accountants threaten to keep these technologies from being introduced, and are "reforming" the Medicare and medicaid system into a means for wholesale euthanasia against America's sick and elderly.

Since the fall of 1979 Lyndon LaRouche's forecasts have established a record unparalleled in accuracy by any other economic forecasting service in the nation. Data Resources International and Chase Econometrics proved unable, in the fall of 1979, to correctly forecast the consequences of the credit policy then being initiated from the Federal Reserve by Paul Volcker. LaRouche did, in the EIR Quarterly Economic Report. Those agencies, and their co-thinkers, have been repeatedly exposed as incompetent bunglers, while the LaRouche record has been maintained.

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# EIR

## From the Editor

With this issue, *Executive Intelligence Review* will be going out to over 15,000 subscribers in the United States, Canada, Western Europe, Ibero-America, Africa, Asia, and Australia-New Zealand. That level of subscribership reflects the fact that people who need to know the truth about the economies of the United States, Canada, Western Europe, Ibero-America, Africa, Asia, and Australia-New Zealand depend on *EIR* for accurate projections of developments to come—many months, sometimes years in advance. The list includes many people who make key decisions in the developing sector nations, particularly of the Western Hemisphere, ranging from heads of state and cabinet ministers, to the chief officers of industries of all sizes.

The highly controversial policies which *EIR* has advocated over the years are becoming the policies of the U.S. government—in strategic defense, as the lead story in *International* indicates, and in the war on drugs (see *National*). Precisely because we have not been afraid to oppose prevailing opinion, we are controversial.

Now we are projecting a period of accelerating growth, for ourselves. The basis of this will be our role in guiding the economic policy of nations that are determined to break out of the “zero-growth” paradigm and bring Reason back into economics.

We will begin the exclusive English-language serialization, in the coming weeks, of *Ibero-American Integration: 100 Million New Jobs by the Year 2000*, the Schiller Institute book which blueprints the development of Mexico, the Caribbean, and South America. We will also shortly be publishing a unique analysis of the achievements of the Peruvian economy under President Alan García, whose own assessment appears in this week’s cover *Feature*. And as we grow, we will be accepting a limited amount of advertising from companies that want to address the readers who have concerned themselves with these critical issues—because “controversy sells.”

We intend to reach the level of 25,000 subscribers in the near term ahead. Thank you for helping us grow!

Nora Hamerman

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## The spectre of August 15, a decade and a half later

by David Goldman

The seed of today's imminent monetary disaster was planted exactly fifteen years ago—on Aug. 15, 1971—when President Nixon removed the link between the dollar and gold. This act, occasioned by a trade deficit that year of a mere \$2.6 billion, against this year's \$170 billion, opened a Pandora's box for the monetary system, and prepared the take-over of world finance first by unregulated, and finally illegal, flows of capital.

Among President Nixon's closest advisers then were Undersecretary of Treasury Paul Volcker, now chairman of the Federal Reserve Board of Governors, and Budget Director George Shultz, now Secretary of State. Today, they continue to preside over the monetary policy which may ruin the United States forever.

What, precisely, happened during the past 15 years? Aug. 15, 1971 saw a coup against the United States government, by the international banking group which subsequently became the Carter administration. The monetary events of that date represented a devastating setback for the constitutionally-founded American nation-state, which effectively ceded monopoly power to create money to the major commercial banks of Wall Street, Zurich, and the City of London.

### Why link dollar to gold

The importance of the dollar's link to gold was universally misunderstood by the economics profession then, and is still misunderstood now. Lyndon H. LaRouche, Jr., the founder of this publication, first gained public prominence as an economist in a series of debates with Professor Abba Lerner of Queens College and others in the weeks following Aug. 15, 1971, in which he demonstrated that the "Nixon

shock" would lead inevitably to global depression. In this long-range forecast, now proven correct, LaRouche was virtually alone among American writers.

There are no magical properties to gold as such; rather, the use of gold to settle official balances among nations, reflects agreement among sovereign nations to control such official balances as a matter of national policy. The Constitution's provision that Congress control the currency has become meaningless in a monetary system where as many U.S. dollars are held offshore, in unregulated "Eurodollar accounts," as in the entire American banking system.

Under the pre-1971 gold arrangement, the United States was under obligation to settle its trading imbalances in gold, that is, to pay for its imports with either exports, or the transfer of gold to exporting nations. The United States merely recognized its obligation, as the world's leading industrial nation, to conduct economic policy such that it would generate an exportable surplus. The "discipline of gold" had no other meaning; the United States could, and can, afford, any arbitrary rate of credit expansion, on the condition that the expansion of credit finance investment in improved industrial and farm productivity.

That was Roosevelt's intent immediately before his death in 1944: that the power of U.S. industry which had just won the war, should industrialize the developing sector, replacing "outdated British 18th-century methods." The flaws of the 1944 Bretton Woods agreement and the Marshall Plan steered the United States, instead, toward a rentier relationship to the rest of the world, under which American capital bought undervalued goods and underpriced labor in Western Europe and Japan, rather than investing in new technologies at home.

Under the flawed Bretton Woods agreement, the U.S. dollar became interchangeable with gold as a means of settling balances between nations, giving the United States an unenviable imperial role as the world's banker. The dollar's role was underpinned, in turn, by the right of foreign governments to convert their excess dollar balances into gold. Starting 1959, after the first European postwar reconstruction, the United States began to suffer a balance of payments deficit, tiny by today's standards, but revolutionary then. By 1967, the British pound, which functioned like the dollar, as a secondary reserve currency among former British colonies, suffered a devastating run; by 1969, a series of runs against the dollar ran out of control.

Throughout this period the United States had the opportunity to reverse course, and take its economic affairs in hand. The late French economist Jacques Rueff, General de Gaulle's economic advisor, made a friendly proposal to the United States: devalue the dollar against gold, to give America breathing room to adopt economic policies which would favor U.S. productivity, and generate an exportable surplus.

President Johnson's Great Society regime did precisely the opposite, burning up the economic capital amassed in previous decades, and eliminating the last real motor of technological progress, his predecessor's aggressive space program. By the time Richard Nixon took office in April 1969, a global monetary crisis was built into the course of economic events.

### **When Nixon pulled the plug**

Faced with a worsening run against the dollar, and foreign governments' demands for gold payment against their dollar holdings, Nixon was persuaded to do the worst possible thing, by the same Volcker-Shultz crew now in command of U.S. monetary policy. Rather than devalue the dollar against gold, and turn the economy around, Nixon let the dollar "float" freely against other currencies. Supposedly, the "free market" would find the best rate for the dollar, Milton Friedman and the Chicago School of liberal economists prescribed, and Friedman's old fellow professor at Chicago, George Shultz, conspired with Volcker et al. to convince the President of this.

The adoption of so-called "free market" policies towards the U.S. currency was one of the biggest swindles in monetary history. The U.S. government merely ceded power over its currency, i.e., the power to create it, to a banking cartel controlled by the major U.S., British, and Swiss international banks. By de-linking the dollar from gold, Nixon demanded that the rest of the world accept unsecured dollar liabilities in payment for the exports they send to the United States; presently, the world absorbs about \$150 billion a year of such liabilities. But the expansion of such dollar liabilities could only occur if a powerful banking cartel had free rein to use these dollar liabilities as they pleased. From less than \$50 billion in 1971, the volume of Eurodollar, or unregulated

offshore deposits, grew quickly to more than \$2 trillion today.

President Nixon's problem was that, far from understanding monetary policy, he had not the slightest idea what money is. Currency, or money, derives in earliest history not from precious metals, but from the transferable liabilities of deposit banks. (Metals took on a monetary character only as they were employed to settle clearing imbalances between deposit banks.) By forcing deposit banks to put up reserves against their deposits, governments limit banks' ability to increase liabilities, i.e., to create money.

"Cash money," i.e., currency, differs from "bank money" (checks or credit cards) only in one respect: it is the bank money of a central bank supported by the government's power to tax. When the central bank virtually guarantees the liabilities of ordinary deposit banks, by promising to bail them out in case of trouble, the distinction between cash and "bank money" blurs.

Having embezzled control over the creation of the U.S. currency, the bankers used their monopoly power to hang trillions of dollars of debt onto the world economy, including \$1 trillion of developing-sector debt. Their offshore market became the haven for the flight capital which bled dry the economies of the developing sector, increasing the Third World's debt many times above what the countries originally borrowed to finance economic development. The result is the stagnation, and eventual collapse, of international trade.

These parasitical offshore markets, which exhausted their victim economies, are now dependent upon the \$500 billion annual flow of narcotics money, most of which is laundered, i.e., turned into seemingly legitimate investments, through the offshore banking system.

On top of the \$2 trillion Eurodollar market, American banks have created a couple of trillion dollars of additional liabilities, the so-called "off-balance-sheet liabilities," in the last couple of years. These "off-balance-sheet liabilities," which usually involve some form of direct or indirect loan guarantee, have become the bank regulators' nightmare. The banking system is more overextended than at any time in the 20th century.

By means of "off-balance-sheet liabilities," the banks do not directly create credit, but make it possible for third parties to do so, by guaranteeing the repayment, or the interest-rate or other condition of repayment, of the new liabilities.

A more drastic monetary reorganization than we required in 1971, has become the immediate task of any government which proposes to rule the United States as a sovereign nation. Nothing short of a general reorganization of the banking system, and a massive devaluation of the dollar against a restored gold-basis for official transfers, will prevent a world depression on a scale unimaginable in 1971. The only surprising aspect of the present crisis, is that the full consequences of Nixon's folly have taken 15 years to work themselves out.

# British push panic button over disease

by Mark Burdman

Characteristically, the period of late July-early August is regarded as the "silly season" in Britain: Parliament is out, leading influentials head for vacation, the financial centers speculate on plans for the coming autumn. This year, the "silly season" has been interrupted, not only by the war between 10 Downing Street and the Buckingham Palace-Commonwealth combination, but also by alarming reports about epidemics spreading across the United Kingdom.

Those who are pushing the panic button over the spread of disease are doubly alarmed, because the parlous state of the British economy is forcing cutbacks in funding for research laboratories that investigate the cause and spread of diseases.

On July 30, the London *Guardian* reported that a group of health professionals, led by Lord Young of Dartington and a team working under his supervision at London's College of Health, had drawn up a plan for a national health education program to combat AIDS. The crux of the plan would be for increasing funds to combat AIDS by 25 times the current measly 2.5 million pounds sterling. This plan, the paper noted, "is backed by leading Conservative back-benchers and senior officials at the Department of Health and Social Security."

The *Guardian* quoted Lord Young: "The Government has not yet woken up to the full gravity of the epidemic. The lives of tens of thousands of people could be at stake. It has been a story so far of too little, too late." Also quoted was former Health Minister Sir Gerard Vaughan: "We are approaching a natural disaster. We need all the help we can lay our hands on." Estimates reported by the *Guardian* are that 200,000 people in the U.K. will be carrying the AIDS virus by 1988.

Days later, the Sunday, Aug. 3 British press sounded more alarm bells. The *Sunday Telegraph's* Carole Dawson, in a piece called, "The Hidden Epidemic," reported on a "mysterious meningitis outbreak," which is "spreading faster and more widely than people thought," and which is "rapidly reaching epidemic proportions." In the first six months of 1985, Dawson reports, there were 72 deaths and 938 cases reported throughout the country, a 50% increase over 1984. And, she adds, this number is believed to be a significant under-reportage of cases.

Attention has focused on the district of Cotswold, in

Stroud, Gloucestershire, where there has been a persistent, and unexplained, epidemic of meningitis for six years. What makes people wonder about Cotswold, is that it is a very wealthy area, and meningitis, which spreads more or less like the common cold, is, usually, associated with "environmental factors" of poverty, economic breakdown, and so on. The area is so wealthy, that, in a triangle around the district, one finds estates of Prince Charles and Princess Di; of Princess Michael of Kent; and of Princess Anne. Dawson makes a tongue-in-cheek joke about the possible links of the "Royal Triangle" to the meningitis spread.

Dawson reports that British government ministers are said to be "deeply concerned about the national picture [of meningitis outbreak] as well. Plymouth, Bristol, North Devon, Leeds, parts of Norfolk, a belt from Manchester to Merseyside and areas of London, are all affected."

Also on Aug. 3, the London *Sunday Times* headlined, "Deadly new virus starts epidemic fear," reporting on medical findings of a virus, called "Delta Agent," which "now threatens to spread in the same manner of AIDS." Evidently, this virus has a "piggyback" connection to hepatitis, attacking people who are already infected with hepatitis, and combining with the latter to produce "an extremely dangerous liver disease in up to 90% of cases."

## A public health emergency

The *Times* of London headlined, on Aug. 4, "Infectious disease labs face threats of cuts as outbreaks increase," reporting, ironically, that "the number of public health laboratories which specialize in combatting infectious diseases is likely to be cut. . . . The plan [to cut the research labs] is being pushed forward when senior officials in the [Public Health Laboratory Service] are worried about their ability to cope with increasing outbreaks of meningitis, Legionnaire's disease, AIDS, and food poisoning."

One laboratory director, who withheld his name to the *Times*, commented on government cost-cutting proposals: "The morale of scientists and doctors working in the service has been devastated by [such proposals]. I have no doubt this is only the first phase in the plan to reduce drastically the number of public health laboratories." Another senior figure within the laboratory service is quoted: "The service has been cut to the bone in recent years and our resources have been stretched very thinly."

The public-health proposals of U.S. presidential candidate Lyndon LaRouche are receiving increased attention in Britain. On the day of the royal wedding, British Broadcasting Corporation ran a feature on the U.S. LaRouche campaign, highlighting LaRouche's warnings on the AIDS danger. On Aug. 3, the *Sunday Telegraph* carried, next to the Dawson article, a feature on the "new puritanism" in the United States, in which context the *Telegraph* reported LaRouche's backing for the PANIC legislation in California (see page 58-63).



## A 'Marshall Plan' for South Africa

*On July 31, EIR interviewed Britain's Sir Leslie Smith, chairman of the British Industry Committee on South Africa (BICSA), a group of 40-50 of Britain's major industrial companies, formed earlier this year. Sir Leslie is cited, in a just-issued House of Commons Foreign Affairs Committee report on South Africa, as one among several advocates of a "Marshall Plan" approach toward resolving the South Africa crisis, via economic-development aid for upgrading the skill and education levels of the black and colored populations of South Africa, and by upgrading South Africa's infrastructure. Sir Leslie is a director of Britain's Cadbury Schweppes and BOC International, Ltd. companies, both of which are economically involved in South Africa. The interview was conducted by EIR's correspondent Mark Burdman, from EIR offices in Wiesbaden, West Germany.*

**EIR:** We understand from people in the House of Commons Foreign Affairs Committee that you are among certain advocates of a "Marshall Plan" development program for South Africa, as a "positive measure" to deal with the crisis there. Your proposal comes in the midst of a very loud and well-organized program for sanctions against South Africa. Can you give us some indication about what this "Marshall Plan" conception is?

**Smith:** I must agree, the push for sanctions has become quite extraordinary. Logic is being thrown out the window. This is what appealed to me most about the Marshall Plan idea for South Africa. It is a *positive* approach to the problem; the sanctions approach is negative. I do like the idea of something like a Marshall Plan for South Africa, if it is directed to the black and colored population. I don't know how the Pretoria government would react, but I have no reason to suppose the Pretoria government would oppose a Marshall Plan.

I foresee one great danger, though, and it is this. Unless the Marshall Plan approach is very, very carefully constructed, with the total participation of the important black leaders, it would be regarded as "blood money," and would fail.

**EIR:** When you refer to black leaders having to participate in this, what do you mean?

**Smith:** It would have to be some of the people from the African National Congress. It would certainly have to include Chief Buthelezi, who is a moderate, and who has advocated ideas along these lines. For this to work, I would also want to engage the attention of Jan Steyn, the head of the Urban Foundation of South Africa. If people of that caliber could be involved, from the start, that should take care of the risk I've identified.

**EIR:** What is some of the thinking about how this Marshall Plan could work?

**Smith:** Simply this. The three countries with the most to lose in the South Africa situation, are Britain, the United States, and West Germany. In the event that it were felt necessary to apply sanctions, as stupid as that may be, the loss to these countries would be substantial. For one, prices would go up. We should set a rough estimate of what these countries would lose. One estimate that has been made, is that it would amount to between £500 and £1,000 million. So, that amount should be put at risk, for a Marshall Plan.

**EIR:** To accompany sanctions, or as an alternative?

**Smith:** As an alternative.

**EIR:** Would you be thinking of development programs for South Africa internally, in this Marshall Plan, or regional development programs for the southern Africa region more broadly?

**Smith:** As a matter of fact, if we applied this program solely to South Africa, the effects of it would spread, automatically, to the front-line states. South Africa is the economic growth engine for the entire region. Were we to bring this program of a Marshall Plan to South Africa, it would spill over automatically to the front-line states.

**EIR:** How did the name "Marshall Plan" come into being?

**Smith:** It is a name being given as shorthand for a "positive measures" approach to the South Africa situation. It occurred first, in a leading article in the *Times* of London recently. It is shorthand, but we all remember the Marshall Plan that the United States brought to Europe after World War II. It is along those lines that we are thinking.

**EIR:** You mean, comprehensive economic reconstruction?

**Smith:** Yes. There's a much more serious purpose, given that there is such a low standard of living among the black population. The biggest pressure available to bring to bear on the Afrikaners, to end apartheid, is to encourage the growth of the black middle class. There does exist now a black middle class, which is small, but it is growing. The emergence of a black middle class, with the usual entrepreneurial element involved in that, has to be a factor of pressure

on the system of apartheid.

**EIR:** You would think of Chief Buthelezi as expressing this kind of outlook, in his policy approach?

**Smith:** Certainly.

**EIR:** Before, you mentioned the necessity of bringing the ANC leadership, or some of it, into discussions on the Marshall Plan. Is this an idea of attempting to separate elements considered to be more moderate, from elements that are identified as terrorists, or pro-communist, or what?

**Smith:** You get a different opinion from everybody who talks to the ANC. In fact, they're a mixture, of what is called "moderate" and "communist." For me, however, communism has never taken hold, and can't, in South Africa, because of the strong tribal loyalties.

The point I was trying to emphasize, is the importance of including black leaders, so that the Marshall Plan won't be labeled "blood money" to make up for past exploitation, and so on.

**EIR:** Getting back, for a moment, to the question of sanctions, what seems clear, now, is that the effort has shifted, among those in Britain and elsewhere, who want sanctions, to force President Reagan to collapse on this issue, to create, in a sense, an American flank against Thatcher, thereby isolate her, and force her to cave in. What is your estimation of this?

**Smith:** She is a tough lady, and she'll weather the isolation. This tidal wave demanding sanctions is largely emotional, coupled with a fair degree of hypocrisy. I think Mrs. Thatcher is right, to try to preserve a sensible view in this crisis. President Reagan was doing the same, from what I can see, with his recent speech, even though it appears that the pressure on him in the United States is even greater than on Mrs. Thatcher here.

What surprises me, though, at least in Great Britain, is how little the real public interest has been involved in this crisis. Members of Parliament report that they are getting few letters sent to them on this issue. In Britain, this is becoming a political football, with the Labour Party attacking Thatcher, although when they were in power, they never had any intention of applying sanctions.

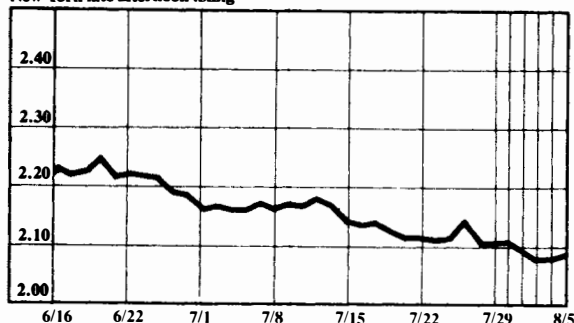
**EIR:** Of course, this South Africa issue is central to the brawl between 10 Downing Street and Buckingham Palace, that has erupted recently. . . .

**Smith:** I think this monarchy thing is being totally blown up out of all proportion. I've spoken to some very informed people, and they believe that this is purely a media invention. I saw Mr. Kinnock [Neil Kinnock, the head of the Labour Party] on television last night, and he was very forthright in demanding that any view that the Queen might or might not have, would not influence his policy. He was giving great support to the Queen.

## Currency Rates

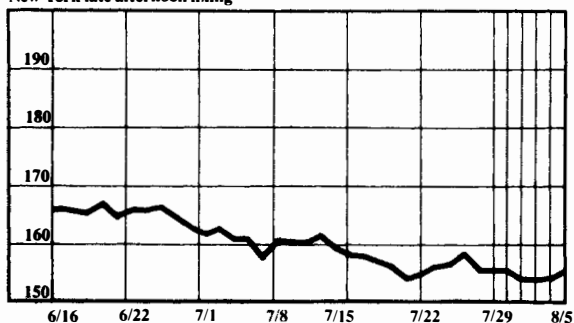
### The dollar in deutschemarks

New York late afternoon fixing



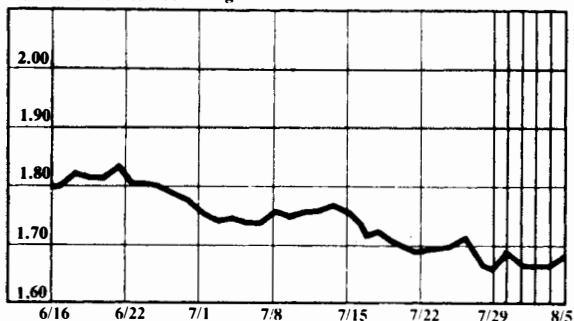
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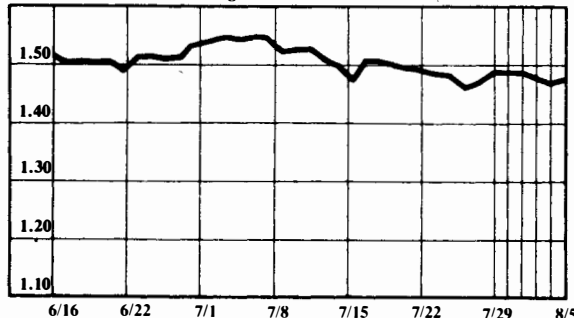
### The dollar in Swiss francs

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### The British pound in dollars

New York late afternoon fixing



# A Middle East development fund

by Amnon Neubach

*The following is a speech delivered by Mr. Neubach, economic adviser to Prime Minister Shimon Peres in Israel, printed in EIR by permission of the author. Mr. Neubach made his remarks during a conference on Middle East development held at the Tel Aviv University, in early June, where the prime minister's proposed Marshall Fund was discussed. Mr. Neubach's short speech deals with the prime minister's proposal. Subheads have been added.*

It is surely the time now to speak about the elements which lead to peace, after more than 38 years of war in the Middle East, even though during these years there was actually no fighting.

During these years, and particularly from the mid-sixties, the countries in the Middle East have been heavily involved in an arms race, draining us economically. Military expenditures have risen dramatically in all the countries of the Middle East.

In 1975, the trend of the arms race started to change. Egypt reduced her military expenditures from an average level of \$4.5 billion up to 1975 to a level of \$2 billion from 1975 onwards. Egypt's defense burden was reduced from a peak in 1974-75, which was 40% of their GNP, to a low of 10% in 1982-83.

Syria, by contrast, which had at that time fewer economic difficulties during the seventies, continued its military purchasing, increasing from \$500 million at the beginning of the seventies to a level of \$2 billion in 1980-81. Again, in contrast to Egypt, Syria's defense burden was doubled from 10% of the GNP during 1971-72 to a peak of more than 20% at the beginning of the eighties, and to date, they have not reduced it.

Jordan is the only country in the area that, in spite of real growth in military expenditures, succeeded in reducing its defense burden by maintaining a sustained rate of growth from the beginning of the seventies through the beginning of the eighties.

The Israeli case is very similar to that of Syria, which means we continued to maintain a high level of military

expenditure without a real rate of growth, which thus accumulates huge external debts.

## Oil price impact

The price cuts of oil during the last year have affected all the countries in the Middle East, especially those countries which are dependent on financial support from oil revenues. I would say that in those countries (Syria, Jordan, and Egypt), we see more or less the same phenomena—while the Syrian situation is worse than the others:

First—A large burden of external debt combined with a heavy debt service.

Second—A sharp reduction of revenue from nationals working abroad.

Third—A shortage of foreign currency reserves. And therefore, fourthly, greatly reduced investments in agriculture, industry, and infrastructure. Under these circumstances, the internal problems in the Middle Eastern countries will influence the whole atmosphere.

I suggest that this idea of the Middle East economic development program as an economic proposal should supersede any political proposal, as it would fulfill the real need of the economy. Perhaps these needs will create economic cooperation in the Middle East.

## International response

The last draft which was sent to the industrialized countries received a good response. This development program was designed initially for Egypt, Jordan, Israel, West Bank, and Gaza Strip, but is, however, open to other countries in the Middle East, which will also choose to base some aspects of their foreign policy on joint economic efforts.

Egypt has already made it known that it would like to participate in this project. Abdoul Maguid called the seven ambassadors of the industrialized countries the day before the Tokyo meeting and asked them to support the program. We have reason to believe that King Hussein's attitude is positive, if not more. Reagan and Shultz support the idea, while Shultz is actively pushing it. Thatcher, during her visit here, announced her active support. Kohl of Germany, announced his support by appointing one of the top men in Germany to handle this project.

During the meeting of the seven industrialized countries in Tokyo, this subject was discussed at the level of the foreign ministers.

Mrs. Thatcher, Kohl, and Shultz committed themselves to the project by persuading the other seven countries to participate in it.

The next step should be a meeting of financial experts representing the seven, to discuss the financial aspects of the project, and to meet with their counterparts from the region.

The economic needs may be the real force to persuade the countries in the Middle East to find new ways of cooperating, even though they don't solve the political problems.

## OPEC surprise accord buys time

*Some endangered banks are the beneficiaries of the Geneva deal, but how long will it last?*

The surprise agreement by the 13 members of the Organization of Petroleum Exporting Countries (OPEC), announced on Aug. 5 following a marathon ten-day Geneva meeting, has produced some of the most dramatic price fluctuations on international commodity trading markets since the 1979 Khomeini coup helped trigger price panic and \$40 per barrel oil. What was actually agreed in Geneva and how will it impact the dramatic collapse in oil prices since the first of this year?

Twelve of the 13 OPEC members agreed essentially on a desperation stabilization measure to bring prices back up from levels well below \$10 per barrel. Indeed, the week before the OPEC meeting, Saudi Arabia, according to the authoritative *Middle East Economic Survey (MEES)*, had contracted to sell crude at \$7.40 per barrel.

Within hours of the reports of an imminent agreement to cut some 4 million barrels/day from the cartel's 20.5 million barrels/day July levels, the major speculative oil commodity markets—NYMEX in New York and the International Petroleum Exchange in London—went wild. One trader in Geneva rushed to the phone and told a caller, "This is a historic day."

Prices for North Sea Brent rocketed from a low of \$9.60 Monday morning (September delivery) to \$14.50. Market insiders at Petroleum Argus and elsewhere in Europe reported a scramble of speculators to cover exposures based on assuming little or no OPEC cuts. Until Monday, no one was predicting 4 million barrel

cuts. By Wednesday, fed by negative rumors, prices dropped back slightly to \$13.00.

"We will not be able to say how real this agreement is until end of August, early September," a spokesman for *Middle East Economic Survey* told *EIR*. "By then it will be clear from lifting levels who is doing what." Under terms of the Geneva agreement, the 13 OPEC producers agree, beginning September through the end of October, to hold output to 16 million barrels/day. The figure is somewhat misleading because it includes 1.2 million for Iraq.

But, under the complicated compromise, Iran agreed to drop demands for Iraqi cuts in return for getting agreement that would increase its oil revenues. Iran is reportedly cash desperate. Oil revenues for the first six months of 1985 have plunged to an estimated \$3.5 billion according to *MEES*. Their yearly budget requires \$4.2 billion. Only one year earlier they had twice the income from oil sales to finance their war in the Gulf as well as extensive international terror operations.

Iran has emerged with almost no production reductions—from present 2.4 million bpd to 2.3 million bpd—in return for its deadlock-breaking concession. This means that if prices rise to levels of \$15 or more now, Iran's oil cash flow will dramatically improve. Iraq essentially refused to lower its present 1.9 million-barrel output. So Iran had nothing to lose and everything to gain by the tactic.

In a sense, this trade-off, bred in

desperation of the recent months' plunge in price, fed the OPEC agreement. "The agreement will stick, at least for a while because people in OPEC are scared," one British-based OPEC consultant told *EIR*. Already observers are doubting whether every signer will hold to their deal. Venezuela, Nigeria, and United Arab Emirates are considered questionable. Even before the ink dried at Geneva, Kuwaiti Oil Minister Ali Khalifa al-Sabah threatened to abrogate the agreement and return to full production if any OPEC member "exceeded its quota by a single barrel."

Saudi Arabia is believed to echo the same threat. This is the major reason for the short term of the truce. "We all felt the price war strategy was taking oil prices toward \$5 dollars per barrel, which is simply unbelievable," Iran Oil Minister Gholamreza Agazadeh stated at Geneva. "That became the greatest single element that mattered most in pulling us together on this agreement."

According to *MEES*, reported to be a reliable source for official Saudi thinking on oil issues, Saudi Arabia, which is still the single most powerful force on today's fragile petroleum market with existing production capacities of at least 10-12 million barrels/day, wants the price of oil to stabilize at \$17-18 dollars for the next year or so.

That will depend on many things, not the least of which will be the real economic growth of the United States economy over coming months. Latest economic reports from Washington indicate a major shock to the fragile OPEC stabilization move could be hitting just in the fall months, as the two-month accord comes up for renewed negotiation.

For the moment, anyway, bankers in New York and Texas are breathing a bit easier.

### The U.S. Steel lockout

*The companies that made 65% of the nation's steel last year, are now preparing for bankruptcy.*

In the first major strike against America's largest steel producer in 27 years, 42,000 members of the United Steel Workers are manning picket lines instead of furnaces.

For many of those workers, (only one-third of the 120,000 workers the company employed in 1972), the feeling is that there is something far larger than a strike here. For one thing, the men are locked out. At 10:30 p.m., July 31, an hour and a half before the contract expired, the men who showed up for the next shift at the giant Gary, Indiana mill were given slips by the security guards telling them to go home. When the exiting workers of the previous shift were gone, the gates were chained. The union had asked the company to be allowed to keep working under the old contract and restart negotiations. The company refused and had laid off men in increasing numbers before the contract expiration.

A month ago, when U.S. Steel reorganized the company into a holding company, USX, a steel division, USS, and an oil and gas division and engineering division and other branches, it became clear that the company was now better prepared to shut down its steel-making by putting the steel division into bankruptcy, if it so intended. Carl Alessi, legislative director of the USW District 31, says he believes that the USX will dump all its steel-making except for a small amount of high-cost specialty steel. USX last year produced 12,900,000 tons of steel, slightly more than a fifth of American production.

On July 17, LTV corporation, the

second-largest American steel company, filed for bankruptcy and provoked a strike at its flagship Indiana Harbor plant by cutting off medical and insurance benefits to its retirees. A federal court ruled that the benefits be restored. LTV produced 10,675,000 tons of steel in 1985, over a sixth of domestic output.

Meanwhile, Bethlehem Steel, which produced 8,792,000 tons, or about a seventh of U.S. output, is known to be on the edge of bankruptcy after years of heavy losses due to violent price cutting among producers. The nation's seventh largest producer, Weirton, is an over-age tin mill which its present owners, its employees, have little capacity to modernize.

Another producer, Armco Steel, took a \$385 million loss on its second-quarter balance sheet. Armco produced 4,373,000 tons in 1985.

Taken together, these producers made 65% of the nation's steel in 1985. Nearly 40 million tons of capacity are therefore threatened with elimination if the companies either wish to shut them down, or fall into bankruptcy.

At the end of 1985, this country produced only 60 million tons of steel—not counting remelted steel. The Soviet Union produced 105 million tons, with its Eastern European captive nations adding another 40 million tons.

Mark Fairchild, the Democratic nominee for Illinois lieutenant governor, demanded on July 29 that the federal government seize and operate the USX and LTV plants, re-employ the workforce, make good on all contract obligations, and keep the plants oper-

ating, in the national interest.

"This is a military emergency. While the Soviets are in the biggest rearmament push the world has ever seen . . . America shuts down its mightiest steel mills. Can Japan defend us? These plants produce the steel for our tanks, for our ships, for our ordnance and the machines needed for defense.

"The federal government must, as in time of war, operate these plants, and let the banks and 'creative financing' wizards take the loss," Fairchild said.

The pattern emerging at USX is to work the ever-dwindling workforce until the mills are shut one-by-one. At the huge Gary Works, layoffs have been so severe that only men with 15 to 20 years of seniority were still on the job, depending on their job classification.

Despite the union's peculiar non-willingness to attack this pending national catastrophe, steel workers have some idea that they are not in an ordinary work dispute. One electrician at the Gary Works said he didn't want to go out, but he would have been laid off anyway, despite 20 years seniority, because the company would have contracted out the work. Another worker said the company couldn't operate with just day laborers at \$3-\$4 an hour and that was proof that the company was slowly going to stop producing steel.

Earlier this year the union agreed to eliminate the industry-wide contract and open up early bargaining in return for a contribution of \$300,000 per year from each company, except USX, which refused. The union put the money in a "Crisis in Steel Agreement" which spent this year's money on a satellite TV extravaganza beamed from Washington, D.C. to local events throughout the nation.

## Deficit forecasts miss the mark

*The administration's new federal budget deficit estimates wildly understate the problem.*

The Reagan administration drew laughs from most observers Aug. 6, when it admitted that the present year's deficit would rise to at least \$230 billion, but projected that next year's deficit would fall to only \$143.9 billion. That figure, coincidentally, is just under the Gramm-Rudman ceiling of \$144 billion, past which Congress must make automatic cuts across all federal programs.

Both these estimates assume a roaring economic boom starting right now, and lasting through October 1987. Gross National Product would have to grow (after inflation), starting from June 30, by a booming 4.2% to meet the administration's assumptions. GNP itself is a misleading measure of economic activity, and the government's own numbers are suspect; GNP continued to grow during the second quarter of this year, albeit at a low 1.1% annual rate, while all physical parameters of output fell.

However, Gross National Product will fall, rather than rise, during the next two quarters, leaving the United States with a deficit exceeding the administration's record \$230 billion estimate for the year ending Sept. 30, and soaring far above it—into the \$270 billion or higher range—during the 1987 fiscal year.

According to the administration's Aug. 6 budget update, "Real GNP growth for the four quarters of calendar year 1986 is assumed in the Mid-Session review to be 3.2%, compared to the 4.0% rate assumed in the Feb-

ruary budget. In coming quarters, however, the favorable effects of lower oil prices, together with lower interest rates and the marked appreciation of foreign currencies relative to the dollar, should produce faster economic growth in FY 1987 than assumed in the budget."

That is not only nonsense; it is not even credible at the nonsense-factory on Wall Street. Reuters news service sent out the following item Aug. 7:

"The administration has come close to the mark in projecting a record \$230 billion federal deficit this year but has lost credibility with its estimate of a \$90 billion fall in next year's deficit, analysts say.

"The administration's view that the budget deficit for fiscal 1987 will drop to \$144 billion 'bears no resemblance to reality,' said Stanley Collander, budget policy analyst for the Touche Ross and Co. accounting firm.

"The administration has assumed what it wanted to assume in order to get the deficit low, even if it's not going to happen,' Collander said."

In fact, the administration's assumptions regarding falling oil prices and the crashing dollar, all point to an economic disaster, rather than economic growth. The falling dollar has already increased the U.S. trade deficit from less than \$150 billion in 1985, to a projected \$170 billion this year, despite the fact that America is importing fewer goods, and imported oil has fallen drastically in price. The difference lies in the nearly 40% appre-

ciation of the Japanese yen and German mark against the dollar; fewer goods cost much more from these major sources of American products.

Falling oil prices stand to wipe out 7% of total U.S. economic activity, by EIR's estimate: About 40% of U.S. oil production will cease to flow if oil remains at \$14 a barrel or less, and virtually all capital-goods production related to exploration and development will shut down.

A much broader contraction of economic activity evidently began in June, with an unprecedented contraction of aluminum and steel output, even in advance of the ongoing USX strike.

With the physical economy contracting at a 15% to 25% annual rate, next year's budget deficit is more likely to approach \$270 billion; in fact, when so-called off-budget expenditures are taken into account, as much as \$400 billion.

Under the Gramm-Rudman-Hollings law passed late in 1985, a mere \$173 billion deficit would force \$30 billion in new budget cuts, shutting down an entire range of federal programs, including major portions of the defense budget. Official Washington is in a panic, with visions of lynch mobs waiting for congressmen after the next recess.

Tax receipts of the U.S. government do not follow physical output directly; if they did, the current rate of physical contraction would wipe \$150-\$250 billion out of tax revenues. However, a mere 5% decline in federal tax revenues would push the deficit up from the present \$224 billion estimate by the Office of Management and Budget, to at least \$275 billion. To bring the deficit down to the Gramm-Rudman target would require not \$40 billion, but almost \$140 billion, in additional budget cuts.

## Soviet grain deal a 'con' job

*There is nothing in the newest grain subsidy plan to make certain that the Soviets will even take advantage of it.*

**O**n Aug. 1, Agriculture Secretary Richard Lyng stammered before reporters when he announced the new "export enhancement" scheme to use government-owned grain to subsidize food-exporting companies and the Soviet Union at the expense of scarce U.S. tax dollars. He was feeling the pressure from U.S. allies—Argentina, Australia, France, and others—who are also grain exporters. He may also have stammered because the program is a con job on U.S. farmers.

Supposedly, the government subsidy idea is to gain and keep the Soviet and other world markets for U.S. products. But the program is really part of a package of self-interest policies pushed by cartel company spokesmen in Washington—Sen. Bob Dole (R-Kan.), Orville Freeman, head of the cartel lobby group, the Agriculture Council of America, and others. These companies are realigning the trade of all Western food-exporting nations toward Soviet needs, and playing off Western allies against each other in trade wars.

Lyng defensively announced that the new plan is a limited offer, to apply only to possible Soviet purchases of 4 million tons of wheat (out of a total annual world wheat trade of 100 million tons), available to them for sale from the U.S. during this trade year, under the standing 1983 five-year long-term grain agreement (LTA). However, Lyng knows that the boosters of the scheme, for example Dole, view this program as merely a first step to unlimited government-subsidized food sales to the Soviets, including guaranteed profits for the trade

companies (Cargill, Continental, Garnac/André, Binge, Louis Dreyfus, W. R. Grace, Occidental, etc.)

The mechanics of the program show how the farmer and taxpayer are bilked—with no guarantee of any improvement in U.S. exports. The details of the new deal for the Soviets are essentially the same as the recent "export enhancement" swindles offered since spring 1985, when the program first started in the U.S. First, the State Department or someone like Undersecretary of Agriculture Daniel Amstutz (a 25-year Cargill executive) dangles an offer of low-price grain to the Soviet Union. Then, if there is agreement, the private international food cartels move in to sign contracts with the U.S.S.R. Next, the cartel companies go to the USDA, and get significant amounts of *free grain* from Commodity Credit Corp. (CCC) stocks, so that the grain trade companies have their own profits assured when they provide cheap grain under their Soviet contracts.

The farmer gets nothing out of this. His grain went into the CCC program because of the low price he would otherwise get on the market. The cartels also gain the benefit of the government paying the storage and other brokerage costs to handle the grain until the cartels want it.

There is nothing in the grain giveaway plan to make certain that the Soviets will even take advantage of it. Under the 1983 LTA pact, the Soviets may buy up to 9 million tons of grain annually (or more, by agreement), to include 4 million tons of wheat, and 4 million tons of corn. This current trade

year, the Soviets have bought hardly any U.S. wheat, saying the price was too high. However, despite the new program, the Soviets may, in any case, buy from Western Europe, Canada, Australia, or Argentina.

Lyng's announcement was preceded by votes taken in July in the Senate and House to extend the export enhancement program—motivated at its inception to cover only Third World nations—to the Soviet Union. In opposition, a five-man delegation came to Washington from Australia the week of July 28. Australian Prime Minister Hawkes phoned George Shultz to intercede to stop the new U.S. grain subsidy offer.

President Reagan, along with Richard Lyng, was inclined all along to refuse to offer the U.S.S.R. the subsidized grain. There were cabinet level disputes. Reagan has not understood the economics of the U.S. farm sector crisis, but he can see that subsidizing Soviet food will give them more leeway to put resources into their military-industrial buildup.

Since Lyng's announcement, Reagan has stressed the limited character of the U.S. subsidy offer. The European Community has initiated plans for greater subsidies on wheat sales and the Argentinians fear collapse of their wheat sector entirely. However, knowing this would happen, Bob Dole said, "We've got to demonstrate to the rest of the world, our willingness to compete, and this is a first step in the right direction."

It was Dole who steered through the last \$8.5 billion U.S. allocation to the International Monetary Fund—the monetary instrument of the commodities cartels and international family trust interests. Collaborating closely on the Democratic side is Orville Freeman, former agriculture secretary in the 1960s.

# Business Briefs

## Gold

### Australia could turn sanctions to advantage

The government of Australia revealed on Aug. 4 that it is making a major push to build export sales of its official gold coins to counter sales of the South African Kruggerand, until recently the world's largest gold coin available to private investors. According to Michael Naylor, director of the government gold bullion program, Australia expects to export 100 tons of gold by 1988.

Australia is presently the world's fastest growing non-communist gold producer, increasing production from 39 million tons (metric) in 1984 to 57 million tons in 1985. South Africa produced 673 million tons of gold in 1985, followed by Canada with 86 million tons, the United States with 79 million tons, and Brazil with 63 million tons. The U.S.S.R. produces an estimated 225 million tons, according to Samuel Montagu Bank in London.

Australia's Hawke government has been at the forefront of the demand for sanctions against competitor South Africa. Moreover, according to trading sources in Europe, the recent list of items to be sanctioned by the Dutch government deliberately omits items traded through the Port of Rotterdam, meaning the sanctions produce no negative economic effects on Holland.

Obviously, some countries would find sanctions against Pretoria quite profitable.

## International Trade

### So. Africa threatens its own sanctions

International sanctions "will reduce the country's capacity to service its foreign debts," South Africa's finance minister, Barend Du Plessis, threatened on Aug. 6. This, he said, will have to be taken into account in future negotiations with creditors, and predicted that the Botha govern-

ment would "be forced into introducing protective measures. A country that is not permitted to export can obviously not continue to import."

South Africa has also begun to throw sanctions of its own at its more unfriendly neighbors, slowing the flow of exports to the outside world from Zambia and Zimbabwe, black states at the forefront of the campaign for sanctions against Pretoria. Since Aug. 4, trucks and trains ferrying goods from the two countries for transit through South Africa have been subject to time-consuming inspection, freight agents at a key border post reported. They depicted the measure as only a small show of Pretoria's power to disrupt the flow of trade and supplies to black states reliant on South Africa's transportation network.

On Aug. 5, Foreign Minister Pik Botha officially announced tighter trade controls with black states, which he said would make Zambia and Zimbabwe "put their money where their mouth is." Zimbabwe had signed a new preferential trade agreement with Pretoria only days before the Aug. 3-5 Commonwealth "mini-summit," at which Zimbabwe's Robert Mugabe led the pack demanding new sanctions on Pretoria.

## Technology

### Princeton attains record fusion temperature

Fusion scientists at the Princeton Plasma Physic Laboratory in New Jersey produced a record 200 million degree Celsius plasma temperature in mid-July in their Tokamak Fusion Test Reactor (TFTR).

In addition to setting a world record, greatly surpassing their 60 million degree breakthrough of 1978, the temperature is 10 times hotter than the center of the Sun, and greater than what is needed for a commercial fusion power plant.

John Clarke, the head of the Department of Energy's magnetic fusion program, stated, "We now have a realistic possibility of

providing a steady-state fusion reactor, based on the tokamak." Clarke also stated with optimism that he expects a practical fusion reactor to be possible within 15 years.

Lab director Harold Furth also announced that in a separate experiment at a lower temperature, scientists were also able to magnetically confine and control the fusion plasma fuel. The key to fusion of the nuclei of isotopes of hydrogen is to heat the plasma while successfully confining it to achieve very high density. When the Lawson Criterion, which depends upon the energy density and confinement time, is met in a single experiment in the TFTR over the next year, energy breakeven in fusion will be obtained for the first time in history.

Furth warned, however, that the effort at Princeton could be severely hampered if Congress further cuts the budget for fusion research.

## Development

### West Germany to give aid to Peru

West Germany's cooperation minister, Jürgen Warnke, arrived in Lima, Peru Aug. 3 for a week of discussion on aid for some 50 projects planned by the government of President Alan García.

Among the projects under consideration for West German aid will be the big Jequetepeque irrigation project under construction in Peru's rice area.

In his July 28 independence day speech and an interview with Mexico City's *Excelsior* newspaper, President García cited a \$100 million German loan signed a few months ago as a model of how money should be lent. The terms set between the two nations are 28 years to maturity, with 12 years grace, at an interest rate of only 2-3%.

Warnke invited García to visit West Germany to discuss "increased development cooperation." Rumors have it that Bonn wants to urge García into a more conciliatory position toward the International Monetary Fund and private creditors, in exchange for increased technical and agricul-



tural aid from Germany. But that, say observers, is unlikely to be accepted by the Peruvian President.

### **Free Enterprise**

## **California officials hit money-laundering**

Los Angeles Mayor Tom Bradley and District-Attorney Ira Reiner have joined banking officials in California in pledging support for proposed legislation outlawing drug money laundering.

"California has now become the money-laundering capital of the country," said Bradley at an Aug. 4 news conference. "The reason . . . is that Florida . . . has passed a tough financial transaction bill," Bradley added. Officials estimate that up to \$20 billion in cash from illegal drug deals passes through California banks.

Commenting on one of the two bills now being considered, District-Attorney Reiner said: "This bill will make [accepting the money] a crime." Reiner added: "Clearly one of the key elements is to deal with the major drug dealers. They are never near the drugs, they are always near the money. What that means, if you are going to go after them, you are going to have to go after the money."

### **Energy**

## **Louisiana's Edwards asks oil import tax**

Louisiana Gov. Edwin Edwards, whose state has been hard hit by the drop in oil prices, has called for the United States to impose an import tax on oil or face almost total dependence on foreign oil.

"With the exception of a few states like this one, the low oil prices have been temporarily good for the nation," Edwards told the National Conference of State Legislatures on Aug. 4. But the oil producing states have been financially devastated by the low

price, with Louisiana losing roughly \$50 million for every dollar drop in the barrel price for oil.

"Unless we do something, by 1990, we'll be 85% dependent on other countries for oil. . . . We're facing another 1973 when we were so dependent that other countries could do what they wanted."

### **'Common Market'**

## **Brazil, Argentina integrate for the IMF**

Twelve protocols were signed by Argentina's Raul Alfonsín and Brazil's José Sarney on July 29 in Buenos Aires outlining the following areas for integration of the economies of the two countries:

Capital goods, agriculture, trade expansion, creation of bi-national companies, creation of investment funds, energy, biotechnology, economic studies, immediate information and reciprocal assistance in the event of nuclear accidents or radiological emergencies, cooperation in aeronautics, and special financial arrangements.

Alfonsín is so enthusiastic about the agreements with Brazil, that he told his aides that he now wants to establish contacts with Mexico, as soon as possible, says July 27's *O Globo* of Brazil. This would be the basis for a real Latin American Common Market, Alfonsín says.

In fact, the agreement was arranged by the very International Monetary Fund which has strangled both nations' economies, most recently through devalued-currency plans called the Austral Plan in Argentina, and the Cruzado Plan in Brazil. What has been integrated are these economic austerity policies.

Argentina's *Somos* magazine took note of this in its July 23 edition, saying: "Behind the agreements for Brazilian-Argentine cooperation and integration, there is one objective: the mutual consolidation of the Austral and Cruzado plans." Food shortages in Brazil are creating problems for the Cruzado plan's price control system, while in Argentina, price increases require increased imports to bring prices down.

## **Briefly**

● **ITALY** may soon be a U.S. research partner in the Strategic Defense Initiative, according to Reagan administration officials. Published reports in Italy suggesting that a government-to-government agreement was not far away appear to be correct. "They want the high-tech business and appear to be ready along with Japan to take part." On Aug. 5, the Italian press reported that three Italian firms would get SDI contracts: Fiat-Snia Bpd, Contraves, and Selenia.

● **FOUR MORE BANKS** closed in the United States the first week of August, bringing the total for the year to 83. Eden State Bank became Texas's 13th failure this year. The Citizens State Bank of Iowa Falls was Iowa's 9th. Gering National Bank and Trust was the 5th for Nebraska. No totals were given for Oklahoma in the UPI wire that announced the closing of First National Bank of Cordell. Only the Texas and Nebraska banks will reopen under new ownership.

● **A PLAGUE** of insects has struck the Aveyron region of France, in the wake of the second year of an extraordinarily severe drought. The pest is a kind of large grasshopper, which has already devoured autumn grain plantings.

● **CARLOS ANDRES PEREZ**, former Venezuelan President, stated on Aug. 6 that it is impossible for Ibero-American countries to continue paying their debts under current conditions without falling under military dictatorships. He called for fixed interest rates and limiting of payments to a percentage of non-oil export earnings.

● **'CORPORATE DEBT** of companies and industries in certain OECD countries is far more serious than Third World debt," a London financial analyst told *EIR* on Aug. 7.

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## Medicare: Cost cutting by cutting lives?

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*The overburdened state cannot afford to sustain its "useless eaters"—that's the way Hitler put it, and that's the thinking of "cost-effective" bureaucrats today. Marjorie Mazel Hecht reports.*

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The Department of Health and Human Services reported July 29 that the nation spent the highest percentage ever of the Gross National Product on health care in 1985—10.7%—and the headlines blared that the United States spent more on health than any other industrial nation in the world. Health-care spending as a proportion of the GNP has nearly doubled in two decades, and according to department analysts, "little relief appears to be in sight." More than two-fifths of the \$425 billion spent in 1985 was on the government's Medicaid and Medicare programs, and despite new Medicare cost-control systems initiated in 1983, total benefit payments for Medicare recipients increased by 12.2% in 1985.

Lost amid the cries for more austerity in medical care, especially for the chronically ill and the elderly, is the simple fact that the nation's increased investment in medical care is directly correlated with the increase in life expectancy, especially among the aged. In other words, the money spent can be measured in the increased lifespan and well-being of the American population.

The figures are dramatic. The establishment of Medicaid and Medicare in 1965 made available increased access to medical care and medical technology—from neonatal services to hospitalization and home care—and vastly improved the quality of American life for both young and old, black and white. The advances of the past two decades are well documented, simply by looking at the decrease in mortality and increase in longevity since the introduction of Medicare and Medicaid:

- The infant mortality rate (number of deaths under 1 year of age) fell, on average, about 4% per year between 1965 to 1982, to 11.2 per 1,000 live births in 1982. It was 26.0 per 1,000 live births in 1965. This means that in 1982,

per 1,000 U.S. births, 15 more infants survived than would have survived before the introduction of Medicaid (see **Figure 1**).

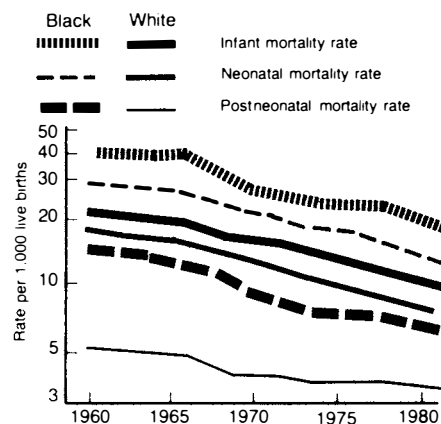
- Post-neonatal mortality (death that occurs between the 28th and 365th day of life) also declined dramatically, especially for the black population, dropping from 16.5 in 1960 to 6.6 in 1982—a 60% drop. During the same period, the post-neonatal mortality rates for white infants declined from 5.7 to 3.3, a 40% drop.

- Life expectancy, the average number of years a newborn infant could expect to live, jumped from 67 years in 1965 to 72.8 years in 1978, to 74.7 years in 1983. For those who reached the age 65, life expectancy increased even more dramatically. In 1900, the life expectancy of a 65-year-old was 12 years; in 1950, it was 14 years (an improvement of only 2 years over a 50-year period that included the introduction of antibiotics); by 1965, it had increased by .7 years to a total of 14.7 years. In the 10 Medicare years that followed, 1965 to 1975, it increased by 1.4 years to a total of 16.1, and it rose another .7 from 1975 to 1983. To look at this another way, of the 2.9 years gained since 1950, 1.6 years were added between 1970 and 1983, the largest change ever recorded in life expectancy at age 65 in such a short time.

- During these same Medicare years, the mortality rate for the elderly dropped sharply, averaging 1.5% per year for males and 2.1% for females (see **Figure 2**). As one study put it, "The post-1967 mortality declines among the elderly have been greater than for any previous period in American history."

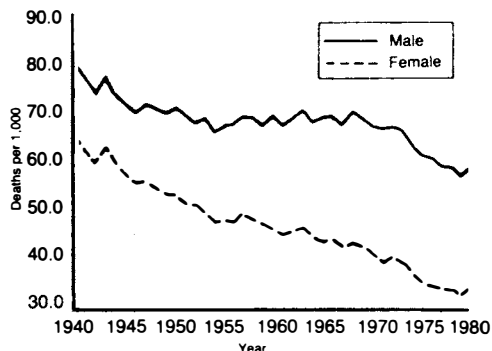
Other factors, in addition to Medicare, such as the general period of growth in the U.S. economy during the years of NASA's Apollo program, no doubt contributed to the decline in mortality. However, to compare the situation to that of

**FIGURE 1**  
**Infant mortality rates, by age and race: United States, 1960-82**



Source: Division of Vital Statistics, National Vital Statistics System

**FIGURE 2**  
**Age-adjusted death rates for the population aged 65 and over, by sex, United States (1940-1980)**



Source: U.S. Senate Special Committee on Aging, *Developments in Aging: 1983, Volume 1*, Washington, D.C., Feb. 29, 1984.

other growing economies during the same period: The decline in U.S. death rates was almost twice the decline of these rates in Canada and in Europe.

- There has also been a sharp decline in the mortality rates for the aged for specific major causes of death associated with old age, although as more people live longer, there is also an increase in the incidence of the chronic diseases associated with old age. In 1980, heart disease was responsible for 46% of all deaths for persons over 65. However, between 1970 and 1979, the death rate from heart disease for persons 65 to 74 declined 22.7%—the most substantial decrease ever recorded in one decade for this disease category and age group (see **Figure 3**). For those 75 to 84, the decrease was 14.5%; and for those over 85, the decrease was 18.7%. Similarly with cerebrovascular disease (stroke), during the 1970s, the rate of decrease in deaths from strokes averaged 3 to 5% per year (see **Figure 4**). Stroke is responsible for 7% of the deaths for persons aged 65 to 74 and 14% of the deaths for those over 85.

- One of the most dramatic results of the Medicare program and advanced technology is the number of people with end-stage renal disease (ESRD) who are still alive. In order to stay alive, people with ESRD require kidney transplants or some form of dialysis. Today, 93% of the U.S. population with ESRD participates in Medicare. This means that 76,117 persons with ESRD were alive and receiving treatment in 1982, compared with only 18,564 ESRD patients in 1974.

- Hemodialysis became available in 1960, after the development of a shunt that connected to an artery and made blood filtering possible without collapsing the blood vessels, but it was not widely used because of the prohibitive cost. In the mid-1960s, there was a national debate over who should pay for ESRD dialysis treatments, which culminated in an

amendment to the Social Security Act in 1972 that extended Medicare coverage to more than 90% of the ESRD population. One of the things that influenced the congressional decision was the fact that an estimated 7,000 to 10,000 persons were dying per year because of the unavailability of dialysis.

The number of ESRD patients receiving long-term hemodialysis then jumped from 40 patients per million population in 1972 (most of whom were paid for by non-profit organizations) to 200 per million population in 1982—a five-fold increase.

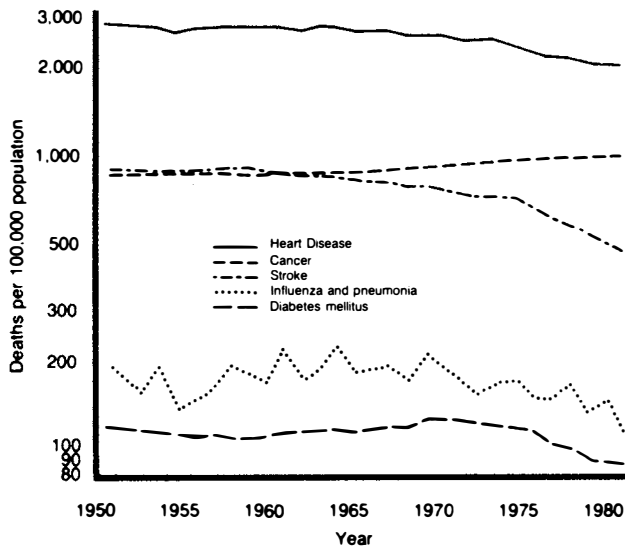
The cost estimates for hemodialysis in 1980 were \$25,000 per patient for in-center treatment and \$13,000 per patient-year for home treatment after the first year. Although ESRD patients are only 0.26% of the total Medicare population, they receive 5% of the total Medicare expenditures. Medicare's ESRD program grew from \$250 million in 1974 to about \$1.8 billion in 1982.

### Cutting back medical progress

There is no technical reason that prevents the rate and scope of improvements in the health of the U.S. population from moving forward. Even generally pessimistic accounts of U.S. medical technology acknowledge that if the recent advances in medical technology are allowed to continue, it will be possible to make further significant increases in life expectancy, both by control of chronic diseases and by slowing the aging process. In addition, continuing progress in infant mortality could be expected; for despite great improvement, the United States still ranks 13th internationally in this area, below Japan, Canada, the Scandinavian countries, and others. In particular, continuing progress in mortality rates could bring the black and Hispanic population up to the levels

FIGURE 3

**Age-adjusted death rates for persons aged 64 and over, United States (1950-1979)**



Source: U.S. Department of Health and Human Services, 1982

of the white population.

Although the prospects of achieving even further advances are well within grasp, the Reagan administration has moved in the name of cost-cutting not only to limit this progress, but actually to reverse it. The first targets of such cost-cutting are the same ones that Hitler started with—the very old and the very sick. Indeed, the rationale for such cuts is the Nazi rationale: The overburdened state cannot afford to sustain its “useless eaters.” Of course, today such murder is called by more polite names, but the effects of the policy are the same. Removing the elderly’s access to medical technology means that older Americans will die. That the gains of the two Medicare decades have begun to be reversed is already clear; how rapidly the reversal will proceed remains to be seen.

The Office of Technology Assessment, which has prepared a multitude of reports analyzing medical technologies and cost-cutting, has consistently advised Congress that advanced technology is responsible for the increased costs of medical care and suggested various cost-cutting alternatives. Although the OTA is supposedly presenting value-free analyses, its anti-technology bias is clear. For example, what does the OTA say about life-saving hemodialysis technology provided by Medicare? Its 1985 report on Medicare’s Prospective Payment System discusses hemodialysis in the context of rationing health services and reports on the details of the British system, which rations hemodialysis treatment:

The story is different in Great Britain, though, where the National Health Service, with its limited

budget, decides who will receive treatment for kidney failure. Most of the patients in Britain who receive hemodialysis have acute kidney failure, not chronic or end-stage renal disease. The United States has about three times the proportion of patients receiving dialysis as in Britain. . . .

What are the criteria for determining who in Great Britain will receive dialysis? There are no official explicit criteria, but physicians in Britain admit that the following factors influence their hemodialysis decisions: age of the patient (usually those 55 and over do not receive it); vascular complications of diabetes; other medical diseases; physical handicaps; mental illness; and lack of adequate facilities in the home. Rejection criteria vary from dialysis center to dialysis center.

As the OTA matter-of-factly notes in its evaluation of the Medicare-Medicaid program:

The social and political climate today is quite different from that in 1965, and now that Medicare’s goal of improving access to health care for the nation’s elderly has been largely achieved, the primary focus of policymakers is on containing Medicare costs.

Since 1983, this point of view has prevailed increasingly in the national budget, and as a result of the containment of Medicare costs, written into the law in 1983, has already begun to reverse the progress made in extending the lifespan of America’s elderly.

**Cost-containment regulations**

In 1983, the Health and Human Services Health Care Financing Administration (HCFA) began to phase in a Prospective Payment System (PPS) that pays a flat rate to a hospital for each Medicare patient admitted. The rate is determined according to which Diagnosis Related Group (DRG) the patient is classified in. Previously, hospitals were reimbursed for Medicare patients retroactively, based on the actual services the hospital had performed. The new measures had an immediate and well-publicized effect—hospital costs in 1985 increased only 6.1% over the previous year, the lowest rate of increase in the past 20 years.

Not publicized was the immediate effect on the patient population. From the beginning of the PPS in October 1983 to March 1985, discharges of Medicare patients to skilled nursing homes increased by almost 40%, while discharges to health care at the patient’s home increased by 37%. By the end of the first calendar quarter of 1985, more than 50,000 additional patients were being discharged yearly to nursing homes and home health care than at the beginning of PPS.

Those who oppose maintaining the investment in Medicare and Medicaid, would extend the same criteria to the general public. Speaking before a national conference on Diagnosis Related Groups sponsored by HCFA in November

1983, Carolyn K. Davis, the administrator of the HCFA, which supervises the Medicare program, defended the revisions in payment to hospitals:

[If] one lesson emerges out of our past experience, it is this: We have at last met the enemy of cost-effective care—and it is everyone. To be cost effective and yet deliver quality care, we must all alter our pattern of behavior. We are launched on a reimbursement revolution and prospective payment for Medicare inpatients is but the opening phase. The administration is really pursuing three approaches to reform, all of which stress the underlying theme of competition. They are:

- consumer incentives to curtail needless utilization;
- encouraging less costly alternative delivery systems;
- and payment incentives for providers to be more efficient.

Davis then outlined a variety of measures, including the Prospective Payment System, to make sure that hospitals are not spending a penny more than the lowest amount recorded for a particular task, are not keeping patients any longer than the shortest time necessary, and that hospital

review boards pay close attention to physicians whose practices involve “higher cost.”

The associate administrator for policy at HCFA, Patrice Hirsch Feinstein, explained at the same meeting that of the various options available for curbing Medicare costs, the HCFA had chosen “to put emphasis on being a prudent buyer.” This course of action is preferable to other options, she said.

We could decrease expenditures or the rate of increase in expenditures by some 30%, or we could increase the tax rate by 2½ times what it is today. If we did the latter, we would be imposing that tax on an ever decreasing proportion of workers to retirees, down from 2.3 workers today for every retiree to 1.9. . . . To reduce the number of eligibles, entitlement could be delayed, benefits could be reduced, or new procedures could not be covered.

But such measures could not be justified, Feinstein said, until “we have squeezed out inefficiency in the system. . . .”

At the same meeting, various hospital administrators from the state of New Jersey discussed the impact of the Diagnosis Related Group system that was begun in New Jersey as a demonstration project in 1980. Most of the presentations discussed how hospitals were now “prudent

FIGURE 4

**Death rates among persons aged 65 and over for cerebrovascular diseases, by sex and age**



Source: U.S. Department of Health and Human Services, 1982

buyers." One hospital administrator discussed how the DRG system had forced the hospital to maximize revenue and thus make decisions on the basis of cost that previously were made using other criteria:

The greatest change attributable to the DRG payment system is a change in attitude. Because of price, the Hyperalimentation Committee selected the least costly intralipid solution. Consideration of cost was unknown and unnecessary in the pre-DRG era. The element of cost has been incorporated into the patient management decision-making process. . . .

What does "squeezing out inefficiency" look like in terms of patient care?

In March 1986, Medicare deaths in hospitals became front-page news when the Health and Human Services (HHS) agency released a national list of hospitals whose death rates for Medicare patients were above or below the expected norm for the number of persons served. The figures themselves are raw data and do not tell the public anything about the quality of care at the hospitals involved. For example, one city hospital with a high death rate sought out homeless people as patients, a population that has an expected high mortality rate. Another hospital in Nevada is a "hospice," where presumably it is considered to do its job successfully if 100% of the patients die.

The cause for real alarm, however, is the cost-cutting measures for Medicare instituted in 1983 that have cut the Medicare budget by reducing the quality of care for America's 27 million senior citizens. The real question to ask is not which hospitals have exceeded (or undershot) the average death rate expected for Medicare, but how many elderly have died or suffered in the past three years because, as a "cost-effective measure," they were discharged too soon and too sick from a hospital, or because Medicare stopped paying for a needed health service which the patient could then not afford to keep up.

The OTA states over and over again that technology is responsible for the increased cost of health care:

There is substantial evidence to suggest that inappropriate use of medical technologies is common and raises costs without improving quality of care. Such excessive use exists within the norms of medical practice and across the spectrum of technologies available to physicians. Physicians' habitual behavior can cause excessive use of medical services. Until recently, medical education trained physicians to do all they could for their patients' well-being without concern for the cost.

In other words, as Sen. John Heinz (R-Pa.), chairman of the Senate Committee on Aging, put it, patients are being discharged "quicker and sicker." The further problem is that there are not adequate facilities to treat such patients. A report prepared by the Senate Committee on Aging noted

## Medicare: A Profile

Medicare now covers more than 30 million people, 90% of whom are 65 years old or older. About 11% of Medicare recipients are disabled and not elderly, and the disabled recipients use more of the Medicare funds per capita. In 1984, for example, the estimated payment for an elderly person was \$1,773, while the estimated payment for a disabled person was \$2,136.

When Medicare was initiated, 9.4% of the population was 65 or over; by 1984, 11.6% of the population was in this category—an increase of 24%. This increase in the percentage of the population eligible for Medicare has, according to the Health Care Financing Agency, "put the solvency of the Medicare hospital insurance trust in jeopardy."

Unlike other federal health programs, Medicare is not paid for solely out of general revenues. In 1984, 92% of the income for the hospital insurance part (also called Part A) of Medicare came from a 1.3% payroll tax on employers and employees for the first \$37,800 of wages, while self-employed persons contributed 2.6%. Payroll contributions to the program increased 13.7% that year, while the payments to Medicare beneficiaries increased 8.9%.

Clearly in order to support a growing population of elderly at a higher standard of medical care, it is necessary to provide for a growing workforce at a higher level of productivity. Under these circumstances, the increase in quantity and quality of care offered should not prove an excessive burden to the economy. Because 66.3% of Med-

that "very few facilities [nursing homes] have the resources necessary to 'gear up' to meet the heavy care needs of these patients." The Committee heard testimony in hearings in 1985 citing case studies of patients who had died unnecessarily as a result of premature discharge from the hospital—discharges that would not have been made two years ago.

The huge increase in Medicare discharges to nursing homes and home health care after the institution of the Prospective Payment System has begun to exacerbate an already abysmal situation. Nursing home care in the United States varies widely from state to state and home to home, but as a 1986 study by the Institute for Medicine at the National Academy of Sciences concluded:

There is a broad consensus that government regulation of nursing homes, as it now functions, is not satisfactory because it allows too many marginal or substandard nursing homes to continue in operation. . . . Poor quality homes outnumber the very good homes.

As reported at hearings of the Special Committee on Aging, discharging seriously ill Medicare patients to nursing

icare's payments are for in-patient hospital services, examining hospital costs provides much of the answer to why Medicare costs have increased. The answer is straightforward: An increasing number of Medicare participants entered hospitals; hospitals provided an increased intensity of services, including many new, advanced technologies; and labor costs increased.

In addition to more hospital admittances, Medicare participants have longer hospital stays and require more services. For example, according to the Office of Technology Assessment (OTA), the rate of surgery for the elderly in 1980 was 61% higher than the rate for the population as a whole, and from 1973 to 1980, it increased by 37%, while the rate for the total population increased only 22%.

The other part of the Medicare program, supplementary medical insurance (also called Part B), was paid for by monthly premium payments of \$14.60 per Medicare participant in 1984, as well as by general tax revenues. In 1985, the individual premium rose to \$15.50 per month.

Medicare's benefits do not cover many preventive services, including eye examinations and physical checkups, hearing aids, custodial care, dental care, and orthopedic care. Therefore, Medicare participants, who have a greater need for medical care in general than the younger population, pay more out-of-pocket expenses for their health care than the rest of the population. About one-third of all health care expenditures are for the Medicare population, up to 30% of which are made for care of persons in the last year of life.

homes that are not equipped to provide the kind of intensive care necessary puts the recovery of these patients at risk; more of them are likely to die sooner.

Just one year after the cost-cutting system began, the inspector-general of HHS, Richard Kusserow, wrote, "The impact of this type of abuse on quality is so significant that its potential visibility could jeopardize the integrity of the medical review process and the payment system."

Since the PPS program began, representatives of hospitals, physicians, nursing homes, and patients have complained that the PPS and DRG systems are not being monitored for quality, just for cost. In fact, HHS has still not carried through the quality of care study mandated by Congress in 1983. HHS has a system of independent overseers, called Peer Review Organizations, but the department has not required of them the kind of reporting necessary to determine if patients are being discharged too soon and too sick. In fact, the PRO system was mandated by Congress to check precisely on the potential threat to the quality of care of the Prospective Payment System.

Testimony by the Government Accounting Office to the Senate's Special Committee on Aging Nov. 12, 1985 re-

ported:

HHS does not have the necessary data to evaluate whether PPS has either increased or decreased the quality, access, demand, use, or cost of post-hospital care for Medicare beneficiaries. Furthermore, HHS is not planning to do the types of evaluations that are necessary to determine whether PPS is the cause of changes in these five areas.

In many cases, the paperwork HHS requires for the Peer Review Organizations (PROs) has upped hospital costs significantly, according to testimony to the Committee on Aging. Data available from one teaching hospital in North Carolina showed that the PRO last year requested copies of portions of 568 patient charts averaging 30 pages per chart, as well as documents relating to 31 cases that exceeded usual costs (called outliers), 20 complete charts for appeal, and 11 charts for special review. To provide this paperwork, the hospital paid \$3,300 for paper and hired three clerks and one nurse at \$93,865 per year, just to deal with what the PRO required; a fourth clerk is employed full time xeroxing. In work time, including half-time for one administrator, the hospital calculated 9,360 manhours were spent. Another hospital spent \$26,000 to meet the PRO requirements, which it paid for by cuts in nursing staff and services.

The OTA report on Medicare's Prospective Payment System purports to throw up its hands. "It is simply not possible to assess, for example, whether the observed changes in length of stay have had any impact—for good or bad—on the quality of care given to Medicare beneficiaries." The OTA goes so far as to say that perhaps discharging patients sooner is beneficial, for it exposes them less to the kinds of serious infections one might get in a hospital!

". . . Although the ultimate impacts of PPS on technological change may never be known, evaluation on a less ambitious level might produce some useful information. . . ." said OTA. One study, for example, noted that the computer assisted tomography (CAT) scanning shifted from hospitals to physicians' offices. Another found that New York state's rate-setting program "appeared to depress the availability of all types of services."

Other problems noted by the Special Committee on Aging, but not documented in detail, are that hospitals now have an incentive to deny admission to Medicare patients who require heavy resources or who have an illness that is classified as an "unprofitable DRG." A staff report prepared by the Special Committee on Aging Sept. 26, 1985 stated that the financial incentives provided by DRGs encourage hospitals to pressure doctors to treat patients in ways that violate good medical judgment—quicker discharges, admittances based on "inflexible sets of DRG 'cookbook' admission criteria," and a poor accounting of the severity of a patient's illness, which is "a major determinant of the actual cost of hospital care." In some hospitals, administrators kept lists of doctors who had higher rates of admittances of "unprofitable DRGs."

## President García of Peru: the Lincoln of the South?

by Mark Sonnenblick

*A revolution may be made with the most absolute and unlimited freedom of the press. A revolution is not an act of resentment or vengeance or hatred. It is an act of construction, of prudence, and of greatness. A revolution can be made by utilizing and promoting the initiative of private property. . . .*

—Alan García, July 28, 1986

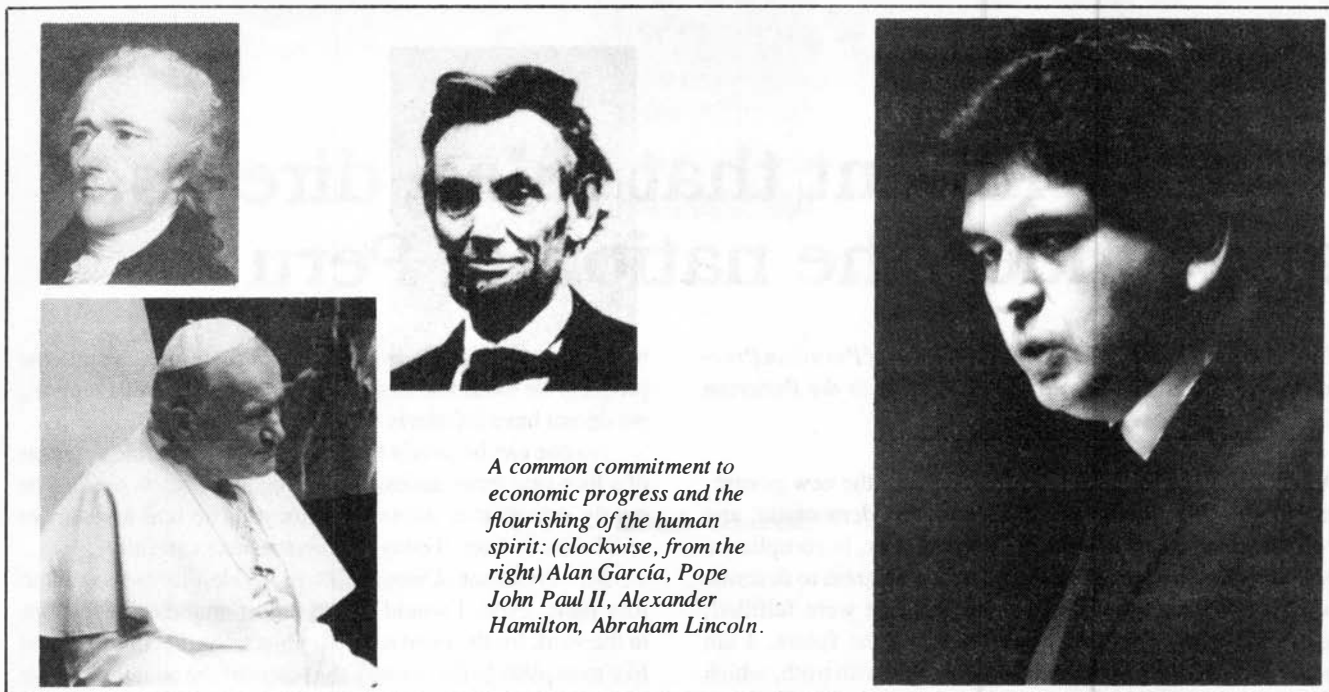
Peruvian President Alan García's July 28 message to the nation on the first anniversary of his taking office (major portions of which follow) knocked over more than one hornets' nest. Peru's communist unions vowed to "triple" their strike activity and raved that García had "sold out" to capitalism by not nationalizing food processing, banks, and everything else. Equally absurd cries of "statist totalitarianism" erupted from Gen. Francisco Morales Bermúdez, the President (1975-80) who put Peru under the dictatorship of Dope, Inc. and the International Monetary Fund (IMF).

From Washington, New York, and Chicago came scarcely veiled calls for the narco-linked factions of Peru's military to overthrow García. Why? Because "García keeps stomping all over our shoes," in the words of one "senior U.S. official" quoted by Reuters July 31. The IMF revealed it would blacklist Peru on Aug. 15 because of García's refusal to sacrifice development by using all its export earnings to service its foreign debt.

García rejected both "bureaucratic statism" of the communist system and the "inhuman liberalism" of British colonial policies, now called "monetarism" or "free enterprise." Instead, he applied to Peru the "harmony of interests" concept in which capital, labor, and government collaborate to seek the advancement of the productive and creative powers of the human beings who make up the society. That theory, as applied by Alexander Hamilton, Abraham Lincoln, and the "American System" economists, brought the flourishing of American industry. It, and García's experiment, also have deep Catholic historical roots and the support of Pope John Paul II.

García's outline of how Peru would develop amidst economic and political





adversity evoked a strikingly positive response from Peruvian patriots. The owner of several Lima food-processing factories, Guillermo Arteaga Ralston, wrote the President that the speech had moved him to invest in building a flour mill at Huancayo, high in the Andes. Arteaga explained that by doing so, the peasants in Peru's central highlands would have a secure market for all the wheat they could grow on their plots, and would sow more. That would help Peru break the stranglehold of the international grain cartels which supply 90% of Peru's consumption with imported wheat, and "would have a multiplier effect in the region."

Arteaga knew that businessmen in Huancayo are leaving town, as the Shining Path terrorists who long plagued its hinterlands have begun burning down the city. But he also knew that the abandonment of productive investment, since Morales Bermúdez seized power with the backing of Henry Kissinger and the Cubans in 1975, made conditions ripe for the terrorists.

His response shows that there are capitalists in Peru who are willing to take up García's call for them to use their initiative, intelligence, and courage to make the investments needed for the country to develop. The risks of investing are substantial, but the risk of not resuming productive investment is greater.

The *New York Times* ranted in a Nov. 5 editorial that García's problem was his "demagogy," and that he would be overthrown for "failing to fulfill the people's expectations." Yet, García's regime, despite facing more adverse circumstances than any government in the hemisphere, turned around his country's economic collapse.

None of García's multifarious critics challenged the picture he painted of Peru's economic progress during his first

year in office. For the first time since the Morales Bermúdez coup of 1975, industrial output grew, plants were taken out of mothballs, and jobs were created. Contrary to the trend in Peru and in other "underdeveloping" countries, productive employment in industry and agriculture rose much faster than non-productive jobs in trade and services. While gnashing their teeth, even the Communist Party labor thugs accepted his report that real wages have increased.

Inflation was cut radically, from 250% a year ago to 68% since. The value of the currency was secured by ending devaluations, and by stashing \$700 million of gold in Peru's own vaults, out of the creditors' grasp. Reliance on the dollar was broken.

As García admitted, "more difficult days are to come." Peru would require "an economy of national defense." Peru's economic crisis is by no means solved, but he has gotten a handle on it. Like Abraham Lincoln, he has chosen to preserve his country in the midst of war, by bold initiatives to change it forever.

García has no intent of spending the next four years managing one crisis after another. Nor does he see politics the way almost every other world leader does, as the art of balancing competing pressures to reach a pragmatic compromise. That art, which has brought mediocrity to American political life, would be suicide in Peru. What compromise is possible between Peru's terrorists, their "dirty-war" adversaries in the military, and foreign creditors, other than the dissolution of the nation-state?

García set his own agenda, despite an upsurge of left and right terror designed to trap him in its vise. He stressed that political leadership involves educating a population, and that "teachers must teach optimism."

# 'A government that rules, directs, and guides the nation of Peru'

*The following is a slightly abridged version of Peruvian President Alan García's July 28, 1986 address to the Peruvian Congress, after one year in office.*

A year ago I outlined for you the policies of the new government, which we presented as a nationalist, democratic, and popular government. Today, 12 months later, in compliance with the Constitution, I am reporting to Congress to describe what has been achieved, the objectives that were fulfilled, and what the government plans to do in the future. I am addressing the representatives of the people with truth, which is the soundest reason, without arrogance, and with a humble attitude.

I will begin by saying that even though we have done something, there is still a lot to be done, that a lot more could have been done, and that if the government had taken stronger action and if it had demanded stronger support from the nation and its institutions, we would have had better results.

Yet we should admit that the task of reactivating the economy and reorienting our history is a gradual process that will be marked by setbacks and successes, which should neither exhaust our patience nor disappoint our spirit.

Therefore, today I am reporting to Congress to confirm the objectives of the government, which we will maintain despite the great economic and structural limitations that affect us, and despite the regressive influence of force and violence.

We intended and we still intend to overcome the crisis and improve the standard of living of our people, who have been hit by inflation, devaluation, and economic stagnation. We intended and we still intend to strengthen our independence by strengthening our historic, economic, and political autonomy. We intended and we still intend to improve the administration of justice by improving the distribution of wealth and by giving the people more decision-making power. We intended and we still intend to strengthen freedom, which is not a bourgeois delusion but an achievement for the spirit. We intended and we still intend to improve the moral standards of society by eradicating the idea that the state is something by which to profit and that social life is a way to promote selfishness.

We have achieved something in all these fields over the past 12 months, although not everything we wanted or everything we could have achieved, because we made several

mistakes and omitted several things. Therefore, despite the progress we made and despite the people's generous support, we do not have an overly triumphant attitude.

No one can be overly optimistic at the end of the first year of a five-year term, unless he is arrogant. Yet, no one can be overly pessimistic unless he is mean. The real assessment will be made later. Today, we must reflect carefully.

Mr. President: I would like to divide this message into four parts. First, I would like to report on the achievements in the work for the great national objectives. Second, I would like to explain to the country the scope of the situation we are experiencing. Third, I would like to reflect on the possibilities that we have for the future and, fourth, give a detailed explanation of the work done by each sector and of what we suggest for the immediate future.

I am using this approach because I believe that the annual address by the President, in his capacity as the representative of the people, should help the Nation reflect and should strengthen the people's will, so that we might all unite behind the same objectives. I believe that politics involves the art of teaching, because it must awaken the people's awareness. Nothing can persist without the people's awareness, because everything would be temporary. With the people's awareness, even the most difficult problems can be understood as phases leading to a better future.

This was a difficult year. Its restrictions and problems were overshadowed by the expectations, by the people's generosity, and by the fact that there was a new government putting forward its proposals. Yet, Mr. President, this was a very difficult year, just as the years to come will be.

The almost complete restriction on foreign credit, the bureaucratization and sluggishness of the state organization, the passiveness of great sectors of the population, the high inflation rate, the devaluation, and the paralysis of our economy were the negative factors we were facing, in addition to violence and lack of authority. During these past 12 months, however, we have made progress in the socioeconomic field, and more important, we have awakened the people's consciousness.

Faced with a chaotic situation in which prices increased at a higher rate than wages, in which lack of production and deterioration of our currency in relation to the dollar demanded urgent measures, we had to start by regaining control over our economy and stabilizing the situation before proposing

more far-reaching measures. However, to gain control over our economy in the first place, we needed to disengage from the vicious circle in which foreign theories and influences conditioned Peru's economic sovereignty. We needed to strengthen our anti-imperialist stance. We were aware that inflation could not be curbed and the country reactivated without changing Peru's relationship with the international economic circles because the economic chaos in which we

lived a year ago was caused by the fact that our country was a satellite of international interests. Therefore, we decided to implement a nationalist government to confront this problem and to be able to implement a different economic policy that was not dictated to us from abroad.

For this reason, the government adopted a radical decision regarding the foreign debt problem and restricted the import of foreign goods as a means to defend the national

## Republican leadership in the Americas: Lincoln and García

### On anti-government violence

*South Carolina's insurrectionists attacked Fort Sumter April 12, 1861, beginning the Civil War. Lincoln mobilized 75,000 volunteers for the Union army, then addressed Congress July 4, 1861:*

[This] issue embraces more than the fate of these United States. It presents to the whole family of man, the question, whether a constitutional republic, or a democracy—a government of the people, by the same people—can, or cannot, maintain its territorial integrity, against its own domestic foes. It presents the question, whether discontented individuals, too few in numbers to control administration, according to organic law . . . can always, upon . . . this . . . or on any other pretences, or arbitrarily, without any pretence, break up their Government, and thus practically put an end to free government upon the earth. It forces us to ask: "Is there, in all republics, this inherent, and fatal weakness?" "Must a government, of necessity, be too *strong* for the liberties of its own people, or too *weak* to maintain its own existence?" . . .

This is essentially a People's contest. On the side of the Union, it is a struggle for maintaining in the world, that form, and substance of government, whose leading object is, to elevate the condition of men—to lift artificial weights from all shoulders—to clear the paths of laudable pursuit for all—to afford all an unfettered start, and a fair chance, in the race of life. Yielding to partial, and temporary departures, from necessity, this is the leading object of the government for whose existence we contend.

### The American definition of liberty

*Lincoln freed slaves in the rebellious states by military proclamation of emancipation on Jan. 1, 1863. He asked the people of Maryland to approve the proposed abolition of slavery by state law (April 18, 1864):*

The world has never had a good definition of the word liberty, and the American people, just now, are much in

want of one. We all declare for liberty; but in using the same *word* we do not all mean the same *thing*. With some the word liberty may mean for each man to do as he pleases with himself, and the product of his labor; while with others the same word may mean for some men to do as they please with other men, and the product of other men's labor. Here are two, not only different, but incompatible things, called by the same name—liberty. And it follows that each of things is, by the respective parties, called by two different and incompatible names—liberty and tyranny.

The shepherd drives the wolf from the sheep's throat, for which the sheep thanks the shepherd as a *liberator*, while the wolf denounces him for the same act as the destroyer of liberty, especially as the sheep was a black one. Plainly the sheep and the wolf are not agreed upon a definition of the word liberty; and precisely the same difference prevails to-day among us human creatures, even in the North, and all professing to love liberty. Hence we behold the processes by which thousands are daily passing from under the yoke of bondage, hailed by some as the advance of liberty, and bewailed by others as the destruction of all liberty. Recently, as it seems, the people of Maryland have been doing something to define liberty, and thanks to them that, in what they have done, the wolf's dictionary has been repudiated.

### National sovereignty=control over credit

*Lincoln signed the National Bank Act during the credit-starved days of the Civil War, on June 3, 1864, embracing principles for which he had fought all his life. Among its provisions:*

That every association may . . . charge on any loan . . . interest at the rate allowed by the laws of the state . . . where the bank is located. . . . And where no rate is fixed by the laws of the state . . . the bank may . . . charge a rate not exceeding seven per centum. . . . Knowingly . . . charging a rate of interest greater than the aforesaid shall be held . . . a forfeiture of the entire interest . . . which has been agreed to be paid thereon . . . the persons paying the same . . . may recover back . . . twice the amount of the interest thus paid. . . .

Every [bank] director shall, during his whole term of service, be a citizen of the United States. . . .

industry. A year ago, speaking before this Congress, and later before the Argentine and Uruguayan Congresses and other international organizations, I explained why the Peruvian government had decided to restrict payment of its foreign debt. I said that the low prices paid for our raw materials, the incredible prices the rich countries charge us for machinery and technology, and the profiteering interest rates they demand were the cause of our \$12 billion public debt. I said that to accept that would compel us to pay more than \$5 billion in 1986, when our export revenues only amounted to \$3 billion. Moreover, I recalled that during the past few years, we were granted new loans to meet our former debts, but to grant Peru these new loans, Peru was forced to comply with a series of conditions and an economic theory that impoverished our country even more. This theory imposed by the IMF as a condition for granting us further loans, forced the opening of our economy to foreign goods, prompted the devaluation of our currency, and made internal credit interest rates rise. It reduced public expenditures, and demanded the punctual payment of the foreign debt. In other words, the IMF theory demanded reducing growth and consumption to meet commitments to the international banking sector. We also noted that in the past 10 years, this biased policy had destroyed the economy of many Latin American countries.

In view of this situation, the government made a historic decision that has been recognized by several countries of the world. The foreign debt cannot be honored by sacrificing the people. New loans cannot be requested to cover former debts. One cannot surrender economic sovereignty and allow others to decide what to do with our economy. If each time we are paid less for our oil, our copper, our work, how do they expect us to obsequiously pay our debt under the terms they demand?

Peru has set a rule: We are paid so much for our work, we are paid so much for our exports, therefore, we will pay so much of our debt, but without sacrificing our development and consumption.

We audaciously set a limit of 10% of export revenues on our payments. In this way, an important portion of the budget that would have been destined for debt payment is now being used to support agriculture, to improve salaries, to undertake projects. Thus, Peru, which was obligated to pay \$2.2 billion for its medium- and long-term public debt over the August 1985-July 1986 period, limited that payment to \$350 million, which was broken down in the following way: \$28 million was paid to commercial banks; \$34 million to governments, \$69 million to the IMF; \$166 million to the World Bank and the IADB [Inter-American Development Bank]; and \$19 million for food and credits. This decision allowed us to increase by \$370 million our foreign reserves, and thus to consolidate the stability of our currency, which was spared the severe devaluations that occurred in other countries this year. In view of the speculative rumors and maneuvers that are rampant these days, I must note here that the government will maintain the official exchange rate during the current year,

as it promised it would in January. There will be no devaluations, but, on the contrary, considering the situation of 63,000 holders of small savings accounts of less than \$1,000, the government has decided to unfreeze their deposits, making available to them their savings in foreign currency. The government did so in recognition of their confidence.

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On this question of the foreign debt, to limit the amount of payment is not the most important aspect, which is, that such a limitation made it possible to obviate the need to ask the IMF for new loans. Consequently, we did not have to sign agreements or letters of intent with the IMF, which amount to documents of colonial concessions, which would have surrendered to that organization the administration of our economy. This made it possible to implement an independent and nationalistic economic policy, and this is the most important aspect of the Peruvian decision. We thus implemented a policy of non-devaluation, reduction of inflation, lowering interest on credits, limitation of imports, and stimulation of the state's social expenditures. This policy would not have been possible if we had not made the political decision to limit foreign payments and to discard the liberal and imperialistic economic theory of the IMF.

### **The resulting achievements**

As a result of that decision we can exhibit the following achievement: On July 28, 1985, the annual price increase or inflation rate was 250%, and it was reduced to less than 70% over the first 12 months of this government, thanks to the decision to suspend the devaluation of our currency for 18 months. We all know that when the price of the dollar rises, we have to pay more for the products we buy abroad in dollars. We also remember that in recent years, it was more convenient to save in dollars or to hold dollars, because the decline of the value of the Peruvian *sol* against the dollar was very steep. Every day, the Peruvian currency was losing

ground before the U.S. dollar. Rents were paid in dollars, economic transactions and accounts were stipulated in dollars.

In July 1985, only 38% of all the economic activities were conducted in Peruvian currency. Twelve months after we initiated the de-dollarization of the economy, 81%, not 38%, of economic activities are conducted in national currency.

This, gentlemen, is a key question: What kind of independence can a country have irrespective of its history, its anthem, and its flag, if its entire economy and its social life is controlled by a foreign currency, as is the case with the U.S. dollar? Thus, taking the economy off the dollar standard is a clearly anti-imperialist measure.

Inflation, however, has also declined because of the reduction of interest rates which constitute the price of money. In the past, interest rates were as high as 300% per year. For agricultural loans, the current interest rate was 180%; today, it is 40%. For mountain areas, the interest rate was 106%; today, it is 14%. In the 81 poorest Peruvian provinces, the interest rate was 81%; now it is zero. This means that in those provinces, we do not charge the peasants any interest rate so as to promote development.

In the third place, inflation has been going down due to the joint national effort to control prices. This effort was made jointly by government, the municipalities, and all social organizations because in this way we could prevent speculation and abuses. Although control has been weakening over these last few months, its effects are still being felt because, as we said before, our inflation rate is only a third of what it used to be.

In the case of certain large enterprises, the price control helped us to lower the prices of noodles, flour, and oil—so necessary for the people at large—below the level of July 1985 because as soon as we took over the government, we managed to obtain price reductions that are still in effect today.

The same thing happened with the bread that costs 250 soles per unit; the same price it cost 12 months ago. I would like to remind the skeptics that in 1980 bread cost 3 soles per unit, and in 1985 its price had risen to 250 soles. This means that in five years the price of bread increased 80 times. Today, we are supplying the people with bread at the same price at which it was being sold 12 months ago, when we took over. [passage omitted]

## **What Peru will pay**

Messrs. Legislators:

I have made this review to note that the political decision regarding the payment of the foreign debt has allowed us to enforce an economic policy that better suits the needs of the people and the national development. Therefore, I hereby announce that we shall continue to uphold this decision and that in the next 12 months, we shall only allot 10% of our export revenues to the payment of the foreign debt.

The revenue situation of a year ago remains unchanged. In fact, it has deteriorated in view of the decrease in prices for oil and other products. This is why Peru will receive almost \$500 million less for its exports.

Peru will have less income. This situation has turned the currency reserve into a strategic national resource. Consequently, we must add that our intention to use 10% of our export revenues for the payment of the foreign debt will be made on the condition that those resources used to pay our foreign debt are matched by a similar inflow of credits.

Gentlemen, it would be suicidal to become exporters of net capital if no new credits come in and the prices of our raw materials continue to fall.

I must acknowledge that friendly countries have been granting us cooperation loans at low interest rates and long terms of payment. Payments to them must be given priority. There are also international organizations whose disbursements or new loans to Peru surpass the payments received from our country. They too will be granted priority.

I hereby announce our decision and willingness to negotiate with creditor governments and banks. However, I warn that Peru can accept neither the present terms nor interest rates that have been established. We shall hold a dialogue, but based on conditions regarding interest rates, terms, and years of non-payment within the framework of our decision to pay 10% of our export revenues.

## **Restricting private payments**

Two major decisions should be added to the foreign debt issue. In the first place, the government has decided to limit the payment of the foreign debts contracted by private individuals and enterprises with foreign banks and suppliers, the payment of which has caused millions of dollars to leave the country during the past 12 months, often in an unjustified manner. This situation cannot continue because, as I have already stated, the foreign currencies represent for our country a strategic resource the state must safeguard. The state has decided to limit payment of the private foreign debt. But I must add that, in view of this decision, the government will have to guarantee the resources for investments or projects currently under way, which are necessary for national development. In the second place, the government has decided to restrict for two years the remittances of dollars by foreign companies as profits, depreciation, or private debt.

We welcome and defend foreign investments in our country, but we are also aware that every national or foreign enterprise must share the situation which the country faces because, during the past 12 months, while the government limited the payment of its public debt to \$300 million, no less than \$1 billion left the country to cover private debts of Peruvian companies and as profits of foreign enterprises. Therefore, it is only appropriate for the government, in controlling the economy, to limit the flow of money that leaves the country, weakening our country's strategic resources, that is, the reserves. These two measures are not taken with

a statist and bureaucratic purpose that will cancel or affect private property. They entail neither expropriation nor confiscation. They are a limitation so that resources generated within the country may be kept in the country and used by their owners in productive investments, which the country requires in these difficult times.

## **Social injustices**

Messrs. Representatives:

This first sovereign and nationalistic conception of the government has also allowed us to start the democratization of the society and the state apparatus. We stated 12 months ago that democracy is not only the representative nature of the government or basic liberties as a whole. It is much more. Democracy should be a social and economic model capable of solving social injustice and the differences in regional development, and safeguarding the participation of all citizens. To us the reactivation of our economy and the curbing of inflation represent deeply democratic measures only if they are complemented by a fairer distribution of wealth. The greater the inflation, the greater the concentration of wealth among a few persons.

The liberal theory that was implemented in the past maintained that if the people's income is limited there is less demand and, as a consequence, the price of goods will drop because of lack of demand.

We believe that this is an inhuman theory, and we maintain that the greater the purchasing power, the greater the production of the sectors that used to be idle, and as a consequence prices will not increase.

Therefore, our appeal to industrialists has been to tell them that it is not a matter of producing little and charging a high price for each product, but rather of producing more products and charging less for them. However, the government also believes that democracy is a process of a progressive redistribution that should not be hasty or imprudent, thus causing greater economic problems.

Our tax program has substantively reduced sales taxes from 11% to 6% and has avoided increasing fuel prices, because these two are indirect taxes that tax the rich and the poor equally and, as a consequence, are unjust. In keeping with our principle of making those who have or who earn most pay the most, we have reorganized the tax exemption regulations through which a sizable quantity of resources was lost. Moreover, price controls in many cases prevent speculation or fear from affecting prices. These are measures designed to bring about redistribution, and we will continue to carry them out. [passage omitted]

## **Terrorism and repressive excesses**

The nationalist and popular government is facing two urgent problems: subversive violence and the limitations stemming from our economic structure. I ask the nation to reflect on these two problems with me.

Twelve months ago, cruel violence ravaged the moun-

tains. Inspired by violent terrorist ideas, armed groups seized and subdued peasant towns, taking advantage of their poverty. This dramatic situation claimed thousands of lives on both sides. Many excesses were committed during the repressive actions, because of the anonymous character of terrorism. We proposed an emergency policy for the poorer areas, the budgetary allocation of which we doubled. . . .

Micro-regions were organized in the poorer provinces to allow the state to render its services in the agricultural, housing, and health sectors. Aid programs were designed to help peasant communities. The state established direct links to the towns that have remained historically neglected and that could become the easy prey of subversion.

We also said that the law was to be enforced to the fullest, because the state could not allow the presence of armed groups. However, we gave precise instructions to concentrate surveillance and repression in specific actions. In the first month of our administration, with two dramatic events marked by abuses and excesses, we immediately ordered sanctions and an investigation.

After the action of the state in the poorer areas, however, subversion moved to the cities, particularly to Lima, where there were murders and terrorist attacks. In addition, disregarding the nation and its laws, terrorists sought to turn the prisons into battlefields. When mutinies broke out in three prisons, the government decided to take strong action to restore order and authority. Unfortunately, as the country knows and as I personally reported, there were excesses, the worst of which was the murder of more than 100 inmates. This incident, or for that matter any other incident, cannot be concealed in a civilized country. Investigations are under way and will soon be concluded. The responsibility of those who are involved will be established and they will be duly punished.

These terrible facts should make us reflect on the situation of violence in which we are living.

Violence is no longer the exclusive tool of subversive totalitarianism, because at times it is also used by state organizations that fight subversion. I believe that the entire nation should reflect on this and ask why we have reached a point at which our daily awareness of death is becoming more intense as we witness subversive action, excesses, crimes, and a violent ideology that fills our minds. This ideology reaches us through press reports and even appears on entertainment programs, which negatively train our children to become witnesses to, or authors of, death in the future.

This is why our democracy is precarious and weak when faced with the dangers of the brutal regressive situations we experienced, in which we forgot that hatred, is not to be met with hatred but with the firmness and fairness of the law.

Thus, subversive violence is the main obstacle for our democracy. However, the spreading of violence to those who combat subversion is also an obstacle. This imposes on us the task of re-education, in which barbaric actions like the ones we have experienced are duly punished.

I am encouraging and asking the Congress to conduct the necessary investigations on this and other actions to prevent repetitions in the future.

I am repeating, however, that those investigations of excesses will never justify criminal subversive violence or its contempt for human lives and the law.

The state will firmly and energetically continue combating subversion to guarantee the nation's security and, if necessary, it will defend democracy with arms.

Here I want to express my greetings and full support to the Armed Forces, who are acting in loyal respect and subordination to the constitutional government; and to the police institutions, whose self-sacrificing task cannot and must not be confused or harmed by individual or group excesses or atrocities.

Aside from violence, the democratic and popular program faces yet a more serious obstacle, which is the main issue of this address.

### **Obstacle: the economic structure**

I am asking the nation to join me and to reflect on the nation's future. I have not come here just to give a detailed account of government's accomplishments, but to warn you about our economic structure and its possibilities, and to tell you what we can do.

Our economic structure itself is and has been the greatest obstacle to the efforts made over the past months. That structure cannot be changed by a decree. It is an economy in which industry is essentially based in Lima and controlled from abroad. It is an economy that produces raw materials with increasingly depressed international prices. It is an economy whose agriculture, which has been led into misery, will be reconstructed very slowly. It is an economy involving acute injustice among human groups and regions.

Thus, everything that will be or has been done with good will concerning economic policy will have great limitations unless that structure is decisively changed under the aegis of a revolutionary state.

For instance, we all know that our national industry is concentrated in Lima and that its technology and equipment provide few jobs to the people.

The most serious problem, however, is that the centralist industry is basically oriented toward assembling foreign parts and unfinished products. This means that most goods produced in the country are being manufactured by assembling parts purchased abroad. Thus, as we have more industrial production under the current conditions, we will also have more demand for foreign parts and more dollars will be required for the economy to work.

As I have already explained, over the past 12 months, the reduction of interest rates, currency stability, price control, and wage increases have increased demand and consumption and stimulated economic reactivation.

This means that in the medium term our purchases from abroad will have to be increased to enable the industry to

grow, and we will need many more dollars for this.

We all know that Peru is not receiving foreign credits because of its nationalistic position. We all know that we are being paid less and less for copper, silver, and oil.

The economic reactivation of the industrial sector can cause strangulation due to the lack of dollars. This causes us to lose ground in the crisis and limits increases of consumption and production, which we have promoted through an emergency policy over the past 12 months. This policy has achieved good results but has limits in the nation's economic structure. This truth must be realized and understood by the nation, because we now have to make a historical and qualitative jump toward a better-planned and more rational management of our economy if we are to continue to grow.

### **The role of the state**

This imposes the obligation of interpreting the nationalist role of the state in depth.

Here, nationalism means that the state must have preeminence in conducting the nation, because the state is the synthesis of the national will, because the people elect their government to provide guidance and orientation, and not to be a passive witness to disorder and selfishness. Today, it is fundamental and necessary to put an end to the satellite status of our economy, which affects not only the area of the foreign debt, but also the dependency of our industrial structure. The change must be carried out gradually, through productively investing a greater portion of our economic surplus in the country. We must point out national objectives for the large economic groups that have taken hold in our economy, so that they will cease to be centers of accumulation of wealth and power or accomplices in our dependency, and become centers of support and impetus for national development.

We need an economy that can resist the inroads of imperialism in the near future. We need an economy of national defense against the crisis, concentrating the efforts and resources of Peru on a single objective. We need the state to measure initiatives and efforts, without lapsing into bureaucratization. This is the model of the state we do not yet have. In its absence, great entrepreneurial conglomerates have been formed, without goals relevant to the interests of the people.

In the previous government, which regulated credits, we had banks that attracted public savings to assist the groups that own the banks. In a state with a directed economy, industry grew in disorder, in many cases importing machinery which the country no longer needed. In the first year of our government, we have tried to stabilize the economic situation and, by recovering control over it, lowering inflation, and improving salaries, we have managed to reactivate the country's economy.

This has been an achievement, but it poses two risks, two limitations. First, as I have already said, the economy will be needing more and more dollars that we do not have. Second, as the economy is reactivated and consumption grows, business and industrial sectors, both large and medi-

um-sized enterprises, now have a larger amount of profits in *soles*. These profits grow in keeping with the productivity of the enterprises. These profits constitute a threat unless they are invested productively in areas that receive state support and are necessary for development.

If these profits are not invested properly, they might be used to purchase dollars on the black market, thus driving up the value of the U.S. dollar suddenly and fueling once again the inflation that will make us lose ground.

We must ask ourselves which roads we can take to deal with this problem. The first possibility is to pay the accumulated foreign debt so we can request new loans. This, however, is the liberal model that makes development dependent on external credits, and it has been quite negative for the country.

If we choose the road of paying so that we can ask for more credits, we would have to pay out larger quantities than those that will flow into the country as new credits. More importantly, if we followed that road we would have to bow to the IMF and accept its theory, thus submitting Peru once again to the economic policy of devaluation, inflation, reduction of state expenditures, and opening our markets to foreign goods. This means we would have to retreat from the position we have gained this year.

The second possibility, which is proposed by some sectors, is to have the government take control of the economic activities and entrepreneurial groups. The consequences would be to generate mistrust and fear among the middle class and the economic agents. It would also bring about the unavoidable bureaucratization of our social life. This bureaucratic and statist model would, as it does in other places, promote the flight of economic and human resources, as well as promote intolerance and passivity in our social life. The entire country can attest that bureaucracy is not the best way to manage social resources. The country knows that socialism today is not synonymous with statism and bureaucratization.

We proposed a different alternative that is neither liberal nor statist. For the first time, we are proposing the need to guide the actions of the economic agents, both in the private and the state sectors, toward the attainment of national objectives, by defining the course and noting the limitations of a national project.

These are the potential threats the whole country must be aware of. They make it necessary to implement an economic policy that will not allow us to lose ground or plunge us into a quagmire of economic bureaucracy. Rather, it should control, channel, and enforce the productive investment of these resources.

We do not want speculation or idle wealth. We want work, initiative, and fresh capital that can be used for national independence. If we fail to do that, whatever has been achieved in these 12 months is just a cure for symptoms and a cosmetic solution, because devaluation, inflation, and unemployment are merely the outward signs of a poor economic framework. They are analogous to fever and headache in someone who is

seriously ill.

Curing symptoms makes one feel better, but the proper course is to deal with the root of the problem. My government could take the easy path, doing over the next three or four years what it has been doing these last 12 months, trying to get to the end of the five-year term with higher incomes and more production.

However, if we fail to deal with the true problem in an historical manner, we will deceive the country and leave it on the brink of a much more critical situation. It will have more production and more consumption, but no more dollars or funds to maintain this situation for much longer.

The people have not elected us to deceive them but to address the historical and structural problems that affect their fate. The economy we propose is aimed at defending the nation within the framework of democracy while strengthening democracy. This economy is based on certain basic guidelines I will now outline.

### **An economy of national defense**

An economy of national resistance against imperialism can only be possible if the nation is aware that it is necessary. First, the use and flight of foreign currency must be restricted, and this currency must be used very carefully.

At the beginning of my speech, I said that in this regard we will maintain our decision to use only 10% of our export revenues to pay the public foreign debt, and we will do so only as long as our reserves are not jeopardized.

Furthermore, the state will have to restrict the remittances of currency as private foreign debt payments, profits, depreciation, trademark payments, and royalties to both national and foreign companies.

Thus, we will defend our reserves and stimulate domestic investments of these resources by temporarily restricting their flight and using them to fuel the process of national economic reconstruction.

Peru has defended its reserves during the first year of my term in office by cutting down weapons expenditures, whose size was out of proportion to the nation's poverty. [passage omitted]

Moreover, we must make the people aware that, in view of these decisions, national defense is not the exclusive duty of the Armed Forces, It is a compulsory commitment for all Peruvian citizens. Nobody can be a passive and dutiful spectator of national defense, believing that it is only the duty of those who wear the sacred uniform of the Fatherland. Therefore, I hereby announce that, within the democratization program of our Fatherland, the government will shortly propose a law for active participation in the national defense.

The purpose of this bill is to eliminate deferments, exemptions, and privileges so that all the citizens of Peru, regardless of their economic situation, of the job they have, or the position they occupy in a family, will be subject to selection for compulsory military service.

But the safeguarding of the reserves and resources that



originate in Peru must be accompanied by the rechanneling of investments toward decentralized productive sectors that offer job opportunities and consume fewer dollars. Moreover, our industries must start to focus on national objectives, working to produce goods and not just to assemble them; that is, they must reduce their imports. In view of the current situation, this is not just a theory, this is an urgent need, which must be fulfilled through a joint action of the state and the enterprises. It is up to the industries and enterprises to come up with the initiative and imagination to meet the current challenge.

### **A government that rules, directs, and guides**

But our economy, which for many years operated with no regulations, has ended up forming great economic groups whose concentrated power is dangerous if it does not have a social or national purpose. As I have just explained, the result of the reactivation is the growth of profits, which may have harmful effects if they are not used in a productive manner. We cannot declare the owners of the great economic groups guilty of this situation, because the natural logic of capitalism calls for profit and expansion.

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*We intended and we still intend to strengthen freedom, which is not a bourgeois delusion, but an achievement for the spirit. We intended and we still intend to improve the moral standards of society by eradicating the idea that the state is something by which to profit and that social life is a way to promote selfishness.*

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Our economy lacks government guidance to make growth serve national purposes. This is why we do not believe that ordering the nationalization of the economic groups is a solution. What they need is government regulation, a democratic regulation of costs and prices. If this regulation is not practiced, our national economy may be subjected to monopolies and to speculation by financial groups.

Our nationalist government cannot and will not allow monopolies, because they are specifically forbidden by our Constitution. Our nationalist government must correct that situation wherever it occurs. [passage omitted]

We have said that a national economy requires a maximum of foreign currency savings and the investment of profits in productive projects. These measures, however, must be backed by the careful use of credits. We must solve many defects within the credit sector. The state and private banks

share these defects. Credits in Peru are mainly concentrated in the hands of the same large economic groups and monopolies. Credits are concentrated mainly among the large companies, which set prices, that is, companies that can easily transfer the cost of interests to the prices of their finished products. Besides, the remaining private-sector credits are sometimes siphoned off by the large economic groups, which use these public resources for their own activities.

Nationalization is not a solution in this case, as some people suggest, because the bureaucratization of the state banks does not guarantee the efficient use of credits. We need what we do not have in Peru: a government that rules, directs, and guides, because that is what it has been elected by the people to do.

We need a clear, legal, and administrative regulation to forbid the state or private banks from concentrating their loans on a small number of groups or companies. We need a regulation to democratize credits and to grant loans to agriculture and handicrafts. We must prevent credits and loans from simply being used as a powerful tool by the large economic groups.

To this end, the government today issued six supreme decrees, regulating credit concentration and fund allocations to groups related to each other or to financial entities, and forcing the decentralization of selective credits. These decrees involve the state's using domestic savings and granting the bank superintendency and the Central Reserve Bank the necessary powers to regulate and channel credits to avoid abuses, monopolies, and concentrations, and to take advantage of the initiatives of all the institutions related to the state.

### **The exasperating bureaucracy**

Foreign currency savings, the orientation and direction of economic groups and industry toward social goals, and the reorientation of state-run financial activities, will remain just a theory if the Peruvian state continues as it is today—that is, slow, bureaucratic, centralist, Lima-centered. An economy of national resistance and growth requires a bold and revolutionary transformation of the state itself.

The national administrative apparatus itself is one of the greatest obstacles facing the government and history. Orders and regulations proceed with exasperating slowness. Change is not taking place among those who see administration just as a means of making a living with no social meaning. The centralist passivity stalls the best efforts and causes decisions to be made with no consideration for the opinions of those who are directly involved.

The solution does not lie in coercion or in threatening the bureaucracy. The solution will only be achieved by delegating responsibilities which thus far have been concentrated in Lima. Therefore, I am announcing to the country the government's decision to immediately initiate a regionalization process by which territorial limits or regions, comprising one or more departments, administer, govern, and take the helm of their own destinies.

To begin this historic process, I will propose to Congress a bill on the creation of the Altiplano region in Puno. . . . I will propose a bill on the creation of the region made up of Tumbes and Piura Departments, which have been called the Grau region, and I will propose a bill on the creation of the Amazon region.

These first three regions [applause, shouts] will be the vanguard of a process that for the first time places in the

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*Nationalism means that the state must have preeminence in conducting the nation, because the state is the synthesis of the national will, because the people elect their government to provide guidance and orientation and not to be a passive witness to disorder and selfishness.*

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hands of the people the full administration and determination of their destinies.

Contrary to a statist and bureaucratic system, regionalization means a democratic revolution, whose implementation I am passing on to the people as the greatest responsibility of their history. [passage omitted]

To prepare this new and democratic system of public administration, which is not only supported by the Constitution, but by my absolute confidence in the people's maturity, I am also announcing the full economic and administrative independence of the state-owned corporations so they can decide what investments to make and how to spend their funds.

Nowadays, every state-owned corporation is feeling a pinch. This is just a result of the centralist power which, as President of the Republic, I am repudiating.

As things are now, the corporation's meeting raises a proposal. This proposal then must be submitted to the Planning Institute. Next, it must be submitted to the presidential and economic ministries. Finally, it must be submitted for discussion by the Bicameral Budgetary Commission. At each stage, it undergoes changes, delays, and the distortion of its original purpose.

To overcome this insanity, I am announcing that in the yearly budget bill, we will propose a resolution to fully implement the administrative independence of the state-owned corporations as the initial step for the thorough decentralization of the regions. In addition, we will maintain our goal of decentralizing economic activities and relocating some state-owned enterprises like the State Petroleum Agency [Petro-

peru], the national Coca Producing Enterprise, and Pesca-peru [State Fishmeal and Fish Oil Production Agency] to areas and departments more closely linked to their activities. [passage omitted]

### **A constructive revolution**

Messrs. Congressmen, these are the goals I am reasserting in your presence; this is what we have accomplished; and these are the historic limitations we are facing, along with proposals for an anti-imperialist but democratic national economy, in which we call for the productive investment of the largest possible amount of funds so that we do not return to speculative activities, which are contrary to the nation's interests. In the economy, we are proposing the state will be the best guarantee for a productive, democratic, and decentralized operation of the national wealth.

I want to tell you that these goals and these bills will meet many difficulties and obstacles, but we will implement them with the greatest and most absolute liberty. We will show the world that we do not need to resort to totalitarianism or to shameful excesses to change our country. A revolution can be carried out through persuasion. A revolution should not be something that generates fear, revenge, or hatred. It should be prudent, constructive, and great. A revolution can be carried out by making good use of private initiative.

Contrary to some people's beliefs, one does not need to be a communist to believe in change. We respect the communists and their ideas, but our path is different. It is the path of nationalism and democracy. It is the bread-and-freedom path of Haya de la Torre.

### **The people must mobilize**

Before finishing this exposition about the concrete works of each sector, let me add something. I must request the people's help for our great objectives. I will not ask them to go to the streets. I will not ask for government-supporting crowds. Instead, I will ask each individual to rule his own destiny in his own field, to help me rule Peru. If that individual knows much, he must teach; if he knows little, he must learn.

If he is a businessman, he must invest in Peru what he is earning. If he is a professional, he must return to society what it gave him in the university. If he is a craftsman, he must improve his work. If he is a peasant, he must plow 110 furrows instead of 100. If he is a worker, he must remember that the object he is manufacturing is necessary for another worker, and it must be well made. If he is a teacher, he must teach optimism. If he lost his way, he must recover it. If he is an artist, he must dedicate himself to his art. If he is a politician, he must not hate, he must be understanding and patient. Only thus will a torch light the end of the road, bringing us faith and strengthening us to build our nationalist and popular model. [passage omitted]

Agrarian reform has been carried out without carefully considering the relationships between the city and the coun-

tryside. Agrarian reform was confused with the concession of land deeds. In some cases, agrarian reform endorsed injustice. For instance, in Puno, where hundreds of peasant communities existed, the latifundia emerged centuries ago to conquer and to wrest the land from the peasants. Following this the agrarian reform created associative enterprises on the foundation laid by the latifundia that pushed the peasant communities onto small parcels of land, from which they looked, as from a balcony, upon what used to be their property.

Thus poorly implemented, agrarian reform served only to seal the historical despoliation of our peasants.

Therefore, we no longer speak of agrarian reform. We proposed an agrarian revolution in Puno through Decree 006, which restructures agriculture throughout the department, so that large portions of land that are now idle can be distributed and returned to the true heroes of the Andean saga. In this way, the communities have been historically vindicated. At the same time, we have promoted the development of production, which is now small or nonexistent because of the poor organization of the enterprises and the large size of the properties.

We have already expropriated 744,000 hectares of land and will continue to expropriate up to 1 million hectares. This land belonged to 43 agricultural enterprises of social interest. In a few more days, we will begin to distribute this land to more than 400 peasant communities, thus confirming their right to the land that was taken from them during the conquest. In addition, because of reduced bank interest rates, formerly bankrupt enterprises have been able to resume their payments to the Industrial Bank and to other financial institutions, which are becoming increasingly overextended in their loans.

At the Industry Ministry, which has been the most bureaucratic sector, efforts have been made to simplify paperwork, and 1,170 enterprises were created in the past 12 months.

As a result of these measures, in the first half of 1986 the manufacturing industry has grown by more than 14% compared to the first half of 1985. Yet, even if we consider that the price of fishmeal and oil has dropped by one-third, industry has grown by 7% and the employment rate derived from it has increased by almost 5%.

## Take risks for Peru

However, we still have idle capacity. We still have unused industrial facilities, so we can continue growing. As I have already announced, however, we must urgently begin to change the centralized industrial system based on assembly plants. This is a challenge for the so-called industrialists and businessmen. An industrialist is not a speculator. An industrialist is not someone who seeks complete security. An industrialist is someone who takes risks for himself and for Peru.

In the future, therefore, our industry should not use many

dollars, and the factories should make better use of the nation's manpower and work more closely with the country's agriculture and mining.

With this pressing goal in mind, the state will begin active negotiations, to which I invite all Peruvian industrialists, to achieve a productive domestic reinvestment of the funds generated by reactivation over the past 12 months. [passage omitted]

In the fishing sector, the situation turned dramatic when fishing agreements with the Soviet Union were canceled because of charges made, paradoxically, by the same politicians who made the agreements or maintained them in recent years. Twelve months later, however, we are able to demonstrate that in the first half of 1986, fishing activities have increased by 44% compared to the first half of 1985, as a result of an effort to increase consumption by Peruvians, especially by the low-income groups. [passage omitted]

## The oil sector

Yet another sector important for development is energy and mines, and in this sector oil is the key issue, it is also a controversial issue.

The situation we found 12 months ago was that Petroperu exploited only 36% of all the petroleum produced in Peru. Furthermore, Law 22123, issued in 1981, had reduced the taxes paid by oil companies from 68% to 41%, without making them invest in new prospecting projects. Several supreme decrees issued illegally granted tax exemptions to foreign companies.

Firmly but prudently, the government abrogated Law 22123 and raised taxes from 41% back to 68%. The government also annulled the illegal decrees, and made foreign companies pay taxes from which they had been exempt before. Finally, the government began negotiating with the two foreign companies operating in the country, to make them invest fresh money in risk prospecting contracts as repayment of the profits they made within the framework of Law 22123.

The government signed a contract with only one of the companies that agreed to the new conditions, and Petroperu took over the operation of the other company. Under the new contract, the foreign company agreed to provide the appropriate guarantees that will invest \$277 million over the next six years. Furthermore, the rate of 50% of the price obtained for a barrel of oil, which the companies formerly received, has been reduced to 47%.

We must bear in mind that when the contract was signed, a barrel of oil cost \$24 on the international market. In view of this, the company was to receive \$11.50 per barrel of oil it produced—that is, 47% of the price of the barrel of oil. Over the last few months the world has had to deal with a serious problem. The price of oil dropped from \$24 per barrel to less than \$10 per barrel. This situation has serious consequences for Peru because it undermines our foreign currency revenues. Thanks to the contract, however, the amount that the company receives has been reduced as well. This is some-

thing that certain people have failed to understand.

When the price of oil was \$24 per barrel, it was agreed to pay the enterprise \$11.50, that is, 47% of the international price per barrel, taking into account that the extraction and labor costs per barrel amounted to over \$8. However, with the drop of the oil price, the amount paid to the company has dropped in proportion, and it now gets approximately \$5 per barrel, or 47% of the international price.

As a consequence, the company obtains less than what it costs to produce per barrel, and it has no chance of making any profit. In other words, for a barrel of oil that would cost Petroperu more than \$8 to produce, Peru pays the Occidental Petroleum Enterprise approximately \$5. This same barrel can then be sold for approximately \$9 to \$10. In keeping with the terms of the contract, however, and under the risk of losing all its assets, the company is compelled to continue its exploration program, for which it must invest fresh capital.

In sum, Petroperu, which in July 1985 exploited only 36% of all the oil produced in Peru, now exploits and handles 52% of it and has engaged in exploiting activities. [passage omitted]

## The justice sector

I would like to refer now to the justice sector. In the justice sector, a number of important projects have been implemented and a number of important proposals have been made.

Unfortunately, in this sector a dramatic riot occurred, and during its repression, unforgivable excesses occurred, which the government is not concealing and will not conceal, and which must be punished as an example. The goals set forth by the justice minister last year still hold. [passage omitted]

Tribute should be paid, however, to the job fulfilled by the policemen who place their lives at stake. In the past few years, 500 policemen have been the victims of terrorism and delinquency. Institutions that have specified so much in carrying out poorly rewarded efforts and jobs cannot be stained by incidents perpetrated by individuals or groups. Therefore, we have substantially improved their salaries and are currently re-equipping them so that they can struggle against crime. In July 1985, there were only 16 patrol cars in Lima. This year, we have acquired 282 new patrol cars and one helicopter and, during the next few months, we will incorporate 385 new vehicles throughout the country.

As a result of the anti-terrorist operations, more than 200 weapons and 51,000 sticks of dynamite have been seized, 15 terrorist cells have been dismantled; and 736 persons suspected of being engaged in subversive activities have been handed over to the courts.

In the drug-trafficking field, the government has acted with determination to break up important drug rings; destroying 270 cocaine-base-paste-manufacturing plants; arresting 1,200 drug-trafficking suspects, and 1,900 drug consumers. A total of 46 tons of cocaine base paste has been seized.

The ministry has acted with the same determination to

combat kidnaping which, due to the novelty it represents has shaken the country during the past few months, spreading fear and uncertainty in the business community. Of a total of 54 kidnap cases, 41 have been solved, the perpetrators identified and captured, and a total of 85 delinquents placed in the hands of the judicial branch.

## The international arena

These, Messrs. Representatives, are some of the actions carried out with the purpose of fulfilling the objectives that will allow us to implement the nationalist and popular democracy we referred to 12 months ago, in our first address to the nation. This is the internal effort, but it would be limited if it were not extended to Peru's presence in the international arena.

The government has promoted a nationalist and anti-imperialist foreign policy whose guidelines are based on integration and non-alignment. The international policy promotes fair Peruvian participation in the international economic system, allows Peru to take advantage of other countries' cooperation, seeks autonomy for internal development, and promotes, together with other nations, a new international economic order.

With these objectives, we unfurl the flag against the arms race, to put an end to distrust and fear with neighboring countries. We did this by inaugurating a direct dialogue and signing border integration projects like the Duyango-Tumbes agreement with the Republic of Ecuador, and the important bilateral talks in which military commanders of the republic of Chile took part together with high-ranking officers of our Armed Forces.

Likewise, we have given our links with Colombia, Bolivia, and Brazil a renewed impetus, within the framework of a new and more dynamic policy with our neighbors.

Upholding these principles, we have come before the United Nations, the FAO, and the beloved sister nations of Argentina and Uruguay, strengthening our bilateral relations with them and always proposing a continental consensus for decision to face imperialism and the pressing foreign-debt problem. Peru has supported the need for Latin American unity in the face of the Central American crisis which, in our opinion, has threatened the right to self-determination because of the growing intervention taking place in that region.

A year ago, from this same forum, I proposed the idea of creating a support group for the Contadora Group, to seek a negotiated solution to the Central American conflict and to avert foreign intervention in Nicaragua. I said then that Latin American problems must be solved by Latin Americans.

We have actively participated in the efforts and proposals made by the Contadora Support Group. We will always uphold the idea that Latin American countries should solve their own problems without the arbitration, the dictates, or the arrogance of any big country.

We are not in solidarity with foreign ideologies or mistaken domestic policies. We cannot be. We do state, how-

ever, that no mistaken domestic policy can justify the intervention in, or the invasion of, a Latin American country. As a government of the people we are firmly convinced and determined to express our solidarity with and to support that sister country in Central America that might be attacked by a great power.

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*We will show the world that we do not need to resort to totalitarianism or to shameful excesses to change our country. A revolution can be carried out through persuasion. A revolution should not be something that generates fear, revenge, or hatred. It should be prudent, constructive, and great.*

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We reiterate the need to strengthen the Andean Group and to promote the creation of a Latin American community. We have sponsored and signed the Rodrigo Lara Bonilla agreement to carry out a continental struggle against drug trafficking. We have proposed the restructuring and renewal of the OAS objectives, which must become more free and Latin American. [passage omitted]

### **After one year in power**

In this manner, Peru will continue facing its difficult economic limitations, the dramatic world crisis, and the selfishness of the rich and powerful. However, we will face these situations with a single objective: to start a prudent democratic process that will be firm and revolutionary, and to build a society that will enjoy a different quality of life, where misery, injustice, and pain will be banished by the efforts of all Peruvians.

In the last 12 months, we have learned much from the limitations of power, from bureaucratic indolence, from the intolerance of those who want everything done immediately, from the selfishness of those who wish a change but one that does not affect their wealth.

In the last 12 months we have not only tried to help save the country from an apparently irreversible situation, but we also have managed to attain something very important: We recovered the people's confidence and faith. Those people, who for centuries have very little or nothing at all, know that despite the government's good intentions, things cannot be solved from one day to the next. That is why these people are generous and patient. When I listen to disorderly claims, demands, and shouts, I also listen to the silence of those who are patient and who, I know, now have new optimism, faith,

and trust in the future.

As the head of this nation, I thank the political parties and the different ideologies, some in the opposition, for their contribution to maintaining this democratic test despite difficulties. I thank the social and cultural institutions, particularly the Church, which represents a hope we will never lose. I thank all the political parties, but I especially thank my party, which has never before had the responsibility it now has. Despite this and despite our mistakes and our learning, we are demonstrating that where there is a will, something important can be done for Peru.

Once again I thank the Peruvian people, because their faith fuels my enthusiasm, because during the hardest times, the economic crisis, and the pain of sudden death, I just had to walk among the people to feel their cordial presence to again take the helm and firmly maintain our course. I appeal to each citizen for unity and patriotism.

This is the concrete result of a year in power, but we still have something far greater to do: the moral task of faith that will make each one of us grow before adversity, to be as great as history demands that we be.

There are some circumstances in which the people must be collectively aware of the difficulties and their destiny. In dramatic circumstances such as war, we must understand that we are not likely to get a respite from adversities and difficulties.

Restructuring our economy and society, transforming the state to give it the necessary energy and inspiration, eliminating the passiveness and the selfishness from our nature, are very difficult tasks that demand time, perseverance, and patience. Nothing will be achieved in a short time. Those who expect to feel the satisfaction of immediate accomplishments are mistaken and are bound to be disappointed. We do not want or need this kind of by-stander. What we need are Peruvians who are aware of the complexities of Peruvian problems and who are able to understand that every process is bound to go forward and backward.

We must comprehend that as far as Peruvian history is concerned, time goes beyond momentary enthusiasms and disappointments.

For this we must recall the [Inca] empire, the powerful thrust of Pachacutec [Inca emperor in 1417, a main builder of the Inca empire], the pride of having been the capital of the New World, the memory of our heroes of the tragic war, the voices of the masses who have fought for justice.

Taking our strength from all this, driven by our willpower and awareness, we shall not be stopped by either violence or lack of tolerance, pettiness or hatred, difficulties or selfishness. We will not lose our illusions when faced with obstacles, because we know that time is on our side, and because we will have the faith of a victorious people.

Once again, I want to reaffirm before the nation, my commitment and my decision to continue struggling forever in life or in the deep sleep of death, until I do my duty for the poor, the humble, the nation of Peru.

## Will the Kremlin respond to Reagan's generous offer?

by Criton Zoakos

We publish below, as an *Executive Intelligence Review* exclusive, the full text of one of President Reagan's most important speeches, made on Aug. 6, 1986, at the Old Executive Office Building.

It is not a mysterious, unattributed "leak," not speculation, not interpretation, but the President's own description, in his own words, of the contents of his own letter of July 26, to Soviet General Secretary Mikhail Gorbachov, on the subject of arms negotiations and of the Strategic Defense Initiative in particular.

The official Soviet reaction to the President's letter has been highly unusual. One might say that they have been caught off balance.

What specifically caught the Soviets off balance, is the fact that Reagan has now placed on the negotiating table the following five elements:

- 1) The Soviet Union is now called upon to respond to the U.S. offer to share American SDI technology and proceed with joint or parallel deployment of SDI systems.

- 2) The SDI is not a bargaining chip. Its deployment has not and shall not be negotiated.

- 3) An agreed perspective of SDI deployment must stimulate an actual large-scale reduction of expensive and otherwise obsolescent offensive strategic weapons.

- 4) The United States rejects point defense and money-wasting "High Frontier" types of technologies.

- 5) The United States is placing the SDI's "mind-boggling" technologies to "increase our productivity," "expand the limits of human potential," and serve "the cause of human progress."

In discussing these "mind-boggling technologies," Reagan

made a point of emphasizing the growing international cooperation, in the West, toward realizing the Strategic Defense Initiative: "The best minds from some allied countries are already working with us in this noble endeavor. . . . We and the other free people of the world are on the edge of a giant leap into the next century."

### Technology surge

These are not empty words from the President, as the excellently informed Soviet intelligence services well know. The SDI's research, development, and testing work in the U.S.A., Europe, and Japan has been going through a phase of impressive "technology surge," which makes the President's offer for sharing, not only generous, but also substantial and attractive.

Moscow has been familiar with what the broader implications of President Reagan's offer might be, since the publication, in March 1984, of a policy study by Lyndon H. LaRouche, Jr., titled *Draft Memorandum of Understanding Between the U.S.A. and the Soviet Union*.

How Moscow will react, only time will show. Their only public response was from General Secretary Mikhail Gorbachov on July 28, from Vladivostok: "I have received a reply from President Reagan. It calls for thought; we have begun to study it. We will deal with this with responsibility and attention. For us, what is important first and foremost is to what extent the proposals contained in the letter meet the principle of equal security. . . ."

What say you, Marshal Ogarkov? Does sharing of Strategic Defense Initiative technology and joint deployment "meet the principle of equal security"?

## 'On the Strategic Defense Initiative'

*The following speech by President Reagan was delivered to supporters of the Strategic Defense Initiative in Washington, D.C. on Aug. 6, 1986.*

Thank you very much. And greetings to Secretary Weinberger and General Abrahamson. I hope you haven't said everything I'm going to say. I'm grateful to have this opportunity to speak with you and to thank you for all you're doing to keep America in the forefront of scientific and technological change.

Our country's security today relies as much on the genius and creativity of scientists as it does on the courage and dedication of those in the military services. It also relies on those with the wisdom to recognize innovation when they see it, and to shepherd change over the obstacles and through the maze. It takes a special person, endowed with vision and tenacity to overcome political and bureaucratic inertia. And many of you here today are just this kind of special people. And I want you to know that your President and your country are grateful. And if I'm not being too presumptuous, I think history will remember you too.

There are three stages of reaction to any new idea as Arthur C. Clarke, a brilliant writer with a fine scientific mind once noted: First, it's crazy, don't waste my time. Second, it's possible but it's not worth doing. And finally, I always said it was a good idea. When I notice how much support tax simplification seems to have attracted as of late, I can't help but think of Clarke's observation.

Well, one sometimes has to live with opposition to proposals such as changing the tax code, but when the same kind of skepticism stands in the way of the national security of our country, it can be perilous. Clearly intelligent and well-meaning individuals can be trapped by a mind-set, a way of thinking that prevents them from seeing beyond what has already been done and makes them uncomfortable with what is unfamiliar. And this mind-set is perhaps our greatest obstacle in regards to SDI.

We're at a critical point now on national security issues

and we need your help. Many of our citizens are still unaware that today we are absolutely defenseless against the fastest, most destructive weapons man has ever created, ballistic missiles. Yet there are still those who want to cut off or severely cut back our ability to investigate the feasibility of such defenses. Congressional action on the Defense Authorization Bill is coinciding with increasing diplomatic activity with the Soviet Union. Yet, at the same time, we are in the midst of a budget fight which could take away the very leverage we need to deal with the Soviets successfully.

Back in 1983, I challenged America's scientific community to develop an alternative to our total reliance on the threat of nuclear retaliation, an alternative based on protecting innocent people rather than avenging them, an alternative that would be judged effective by how many lives it could save rather than how many lives it could destroy.

All of you know that during the past three decades, deterrence has been based on our ability to use offensive weapons to retaliate against any attack. Once an American President even had to make the excruciating decision to use such weapons in our defense. Isn't it time that we took steps that will permit us to do something about nuclear weapons, rather than simply continue to live with them in fear? And this is what our SDI research is all about. And there could be no better time than today, the 41st anniversary of Hiroshima, to rededicate ourselves to finding a safer way to keep the peace.

Many people believe the answer lies not in SDI but only in reaching arms control agreements. Trust and understanding alone, it is said, will lead to arms control. But let's not kid ourselves. It's realism, not just trust, that is going to make it possible for adversaries like the Soviet Union and the United States to reach effective arms reduction agreements. Our SDI program has provided an historic opportunity, one that enhances the prospects for reducing the number of nuclear weapons. Technology can make it possible for both sides realistically, without compromising their own security, to reduce their arsenals. And the fear that one side might cheat, might have a number of missiles above the agreed-upon limit, could be offset by effective defenses. Clearly, by making offensive nuclear missiles less reliable, we make agreements to reduce their number more attainable. Particularly is that true where one side now is an economic basket-case because of the massive arms buildup that it's been conducting over the last few decades—the Soviet Union.

There has been progress. There's a serious prospect today for arms reductions, not just arms control. And that, by itself, is a great change, and it can be traced to our Strategic Defense Initiative. SDI can take the profit out the Soviet buildup of offensive weapons, and in time, open new opportunities by building on today's and tomorrow's technologies. I say this, fully aware of the Soviet campaign to convince the world that terminating our SDI program is a prerequisite to any arms agreement. This clamoring is nothing new. It also has preceded steps we've taken to modernize our strategic forces. It

was especially loud, for example, as we moved to offset the unprovoked and unacceptable Soviet buildup of intermediate-range missiles, aimed at our allies, by deploying our Pershing IIs and cruise missiles.

When I made it clear that we would no longer base our strategic-force decisions on the flawed SALT treaties—and let me add that that action was taken when there was ample evidence that the Soviet Union was already in clear violation of key SALT provisions—the cry went up that it was the death knell of arms control, and the beginning of a new, even more destructive nuclear arms race. Well let me just point out, in case no one noticed, the nay-sayers' predictions have been about as accurate as the time my old boss, Harry Warner of Warner Brothers film company, said when sound films first came in, "Who the hell wants to hear an actor talk?" [laughter]

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Well, today we continue to negotiate with the Soviets and they are negotiating with us. In fact, their recent proposals, in stark contrast to those gloomy predictions, are somewhat more forthcoming than those of the past. We're giving serious consideration to what the Soviets have recently laid upon the table in response to our own concrete reduction proposals. Also, we're looking toward the next summit between General Secretary Gorbachov and me, as we agreed upon last November, where nuclear arms reduction will be one of several significant issues to be discussed.

Forecasting is not useful, but let me just say again, I am optimistic. It's demonstrably in the interest of both our countries to reduce the resources that we commit to weapons. If the Soviet Union wants arms reduction—strategic, chemical, or conventional—the United States stands ready to commit itself to a fair and verifiable agreement. As for SDI, let me again affirm we are willing to explore how to share its benefits with the Soviet Union, which itself has long been involved in strategic defense programs. This will help to demonstrate

what I have been emphasizing all along, that we seek no unilateral advantage through the SDI.

There has been some speculation that in my recent letter to General Secretary Gorbachov, I decided to seek some sort of grand compromise to trade away SDI in exchange for getting the Soviets to join with us in the offensive reductions. Now to those who have been publicizing what is supposed to be in that letter—aren't offended to find out that they don't know what's in that letter, because no one has really told them. I know. Let me reassure you right here and now that our response to demands that we cut off or delay research and testing and close shop is, "No way." SDI is no bargaining chip. It is the path to a safer and more secure future, and the research is not, and never has been, negotiable. As I've said before, it's the number of offensive missiles that needs to be reduced, not efforts to find a way to defend mankind against these deadly weapons.

Many of the vocal opponents of SDI, some of them with impressive scientific credentials, claim our goal is impossible. It can't be done, they say. Well, I think it's becoming increasingly apparent to everyone that those claiming it can't be done have clouded vision. Sometimes smoke gets in your eyes. Sometimes politics gets in your eyes. If this project is as big a waste of time and money as some have claimed, why have the Soviets been involved in strategic defense themselves for so long? And why are they so anxious that we stop?

I understand that General Abrahamson has already briefed you on the progress we've made. I want to take this opportunity to congratulate the general and his team. They're all first-string and doing a terrific job.

Jack Schweigert, an astronaut, an American hero of the first order—well, I think I'm getting ahead of myself there. I should continue with what I was saying, and say that I'm more than happy with the strides made in our ability to track and intercept missiles before they reach their targets. The goal we seek is a system that can intercept deadly ballistic missiles in all phases of their flight, including, and in particular, the boost phase, right where they're coming out of the silos.

Our research is aimed at finding a way of protecting people, not missiles. And that's my highest priority and will remain so. And to accomplish this, we're proceeding as fast as we can toward developing a full range of promising technologies.

I know there are those that are getting a bit antsy, but to deploy systems of limited effectiveness now would deter limited funds—or divert them—and delay our main research. It could well erode support for the program before it's permitted to reach its potential.

Now I'll talk about Jack Schweigert, an astronaut, an American hero of the first order, who once said, "I was privileged to be one of the few who viewed our Earth from the Moon, and that vision taught me that technology and commitment can overcome any challenge." Well, Jack tragically died of



cancer and was cut short from the great contributions he would have made to his country and to mankind. He was the kind of individual who made this the great land of freedom and enterprise that it is. His "can do" spirit is alive and well in America today.

We and the other free people of the world are on the edge of a giant leap into the next century. That turning point in 13½ years will not only mark the end of a century, but the beginning of a new millennium. And the free people of the

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*Our research is aimed at finding a way of protecting people, not missiles. And that's my highest priority and will remain so.*

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world are ready for it. Our research on effective defenses helps to point the way to a safer future. The best minds from some allied countries are already working with us in this noble endeavor, and we believe that others will join this effort before too long.

In SDI, as elsewhere, we've put technology that almost boggles the mind to work increasing our productivity and expanding the limits of human potential. The relationship between freedom and human progress has never been more apparent. But our freedom and security, as we are solely aware, depend on more than technology.

Both diplomacy and our internal debate are at a critical juncture, and your active support is imperative. Together, we must make it plain that this is the worst time to undermine vital defense programs and take away America's needed negotiating leverage. If we cut back on our own forces unilaterally, we will leave our adversaries no incentive to reduce their own weapons, and we'll leave the next generations not a safer, more stable world, but a far more dangerous one. The future is, literally, in our hands, and it is SDI that is helping us to regain control over our own destiny.

Just one last little incident, if you aren't aware of it already, that might be helpful to you and some people that you might be discussing this subject with. Back when Fulton was inventing the steamboat, and came into reality, there was an effort made to sell it to Napoleon in France. And that great general, with all his wisdom, said, "Are you trying to tell me that you can have a boat that will sail against the tide and the currents and the winds without any sails?" He said, "Don't bother me with such foolishness." Well, we know where the foolishness lay. And let's not make the same mistakes.

I want to thank you all again for all you're doing to keep our country out in front and to keep her secure and free. And, don't let up. And God bless you.

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

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

Japan's full-scale participation in the U.S. Strategic Defense Initiative could shorten the research time for deployment by a full two years, and bring enormous economic and defense benefits to Japan.

How this can happen is detailed in the just-published transcript of a two-day conference in Tokyo, "SDI: Military, Economic, and Strategic Implications," sponsored by the Fusion Energy Foundation and the Schiller Institute on April 22-23, with 180 members of Japan's scientific and political elite in attendance.

The consensus at the end of the two days was that Japan's participation in the SDI as an equal partner is both necessary and urgent. As Prof. Makoto Momoi of the Yomiuri Research Center put it, "Every day that Japan does not participate in the SDI is another day lost" in the battle to counter the Soviet threat.

Top U.S., European, and Japanese scientific, military, and political representatives discussed:

- the latest technologies of the SDI;
- specifically what Japan can contribute;
- the political climate in Japan;
- the nature of the Soviet threat.

Fully documented at the conference is how SDI technologies will bring about a 100-fold leap in energy flux density, abruptly reversing the decline in productivity in industry.

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# State Dept.-funded AIFLD caught sabotaging Reagan's war on drugs

by Valerie Rush

The American Institute for Free Labor Development (AIFLD), the "labor education" institution financed by the U.S. State Department to the tune of millions of dollars annually, has been exposed for providing financial and political backing to associates of prominent Colombian drug traffickers embedded in that country's trade union movement. What, one may well ask, is the State Department doing spending millions of tax dollars on friends of the dope mob, while President Reagan calls for a national mobilization against drugs?

The AIFLD-drug connection emerged into the limelight when the majority of trade union affiliates within the Union of Colombian Workers (UTC) walked out of that federation during its July 25-26 national plenum, in protest against the corruption of certain members of the executive board, and specifically their links to the Colombian drug mob. At the plenum, UTC president Victor Acosta was accused by the federation's comptroller (see Documentation) of receiving substantial personal funding from AIFLD, along with others on the executive board.

Acosta, together with UTC secretary general Alfonso Vargas and Manuel Felipe Hurtado of the "rival" Colombian Workers Federation (CTC), headed a campaign during 1984 to overturn the U.S.-Colombia extradition treaty under which drug traffickers wanted for trial in the United States were being handed over to U.S. authorities. Acosta went so far as to force the entire national executive board of the UTC to sign a document opposing extradition, which was then published in 17 Colombian newspapers with union—or was it AIFLD?—funds.

Acosta's anti-extradition campaign met with the hearty approval of Colombia's leading drug kingpins, like Carlos Lehder and Pablo Escobar, who have been and remain in hiding from Colombian and U.S. authorities, ever since they orchestrated the mafia slaying of Justice Minister Rodrigo Lara Bonilla on April 30, 1984.

## The Rodríguez Orejuela connection

On Aug. 5, a landmark decision in a New York-based federal appeals court determined that assets in U.S. accounts of foreign banks could be seized by the U.S. government if the money was suspected of originating from drug trafficking. The decision stands out as a praiseworthy step forward

in President Reagan's recently declared anti-drug mobilization.

The specific case dealt with \$3 million belonging to the First Interamericas Bank (FIB) of Panama and held in five different accounts of the New York subsidiary of Colombia's Banco Cafetero Panama. FIB was shut down by the Panamanian banking commission in 1985 for serving as a laundry for drug trade profits. Its owner was Gilberto Rodríguez Orejuela, recently extradited to Colombia from Spain where he was captured and jailed on charges of trafficking in cocaine.

Rodríguez Orejuela was also a major stockholder of the UTC-founded Banco de los Trabajadores of Colombia for several years, and in that capacity functioned as a business partner of then UTC president Tulio Cuevas, as well as of current UTC president Victor Acosta. Acosta's colleague, UTC secretary general Alfonso Vargas, publicly confessed at the federation's national plenum last month that he had traveled to Madrid in 1984 to visit Rodríguez Orejuela in jail. Although Vargas's accuser charged that the UTC official had brought money with him to try to buy testimony from Spanish labor unions on the drug trafficker's behalf, Vargas claimed that his visit to the prisoner was an act of "Christian charity." An associate of Vargas privately confided that the visit to Rodríguez "was the least he could do for a friend."

Unable to dispute the charges against them, Acosta, Vargas, and company opted for expelling their accusers from the UTC—a desperate move which prompted the abandonment of the federation by 16 of its regional affiliates and 15 national unions. The same process occurred simultaneously in the CTC, when federation president Hurtado tried to purge his accusers from the organization at a national plenum, only to lose a number of its affiliates, including the powerful Bogota-based FTC. A similar split also took place in the number-three trade union federation, CGT, when its most important regional affiliate Utracun determined to join the anti-corruption forces from the other federations in a new unity movement.

The shakeup of the Colombian trade union federations on the eve of a presidential inauguration (Aug. 7), and the implications for the new administration of a unified labor movement actively committed to halting the subversion of the

country's national institutions by the drug mafia have not eluded the media in Colombia. Throughout the week leading up to the inauguration of President-elect Virgilio Barco, the national newspapers followed the battle in the labor movement up close.

On Aug. 3, the joint communiqué of the 31 organizations that walked out of the UTC was published in the daily *El Espectador*, outlining not only their charges of corruption and malfeasance against the Acosta/Vargas leadership, but also offering a well-defined economic program for solving the problems of narco-terrorism, high unemployment, and an unpayable debt with which the Barco government will immediately be faced (see Documentation). The communiqué specifically noted that the labor movement intends to share responsibility for solving the ills of society along with the government, business, and other layers—within the concept of what the unions define as “harmony of interests.”

The Aug. 3 edition of *El Tiempo*, considered the mafia's mouthpiece in Colombia, carried a statement by the remnants of the UTC leadership, blaming the disintegration of the federation on a “conspiracy” run by outgoing President Belisario Betancur, his labor minister Jorge Carrillo Rojas, and the LaRouche-associated Schiller Institute (see Documentation). One of the leaders of the anti-corruption faction that led the plenum walkout last month was Pedro Ignacio Rubio, a coordinator of the Schiller Institute's Ibero-American Trade Union Commission and the secretary general of the UTC's Bogota-based organization, Utraboc.

The Schiller Institute has been active worldwide in organizing political, scientific, industrial and trade union layers for a new world economic order and cultural/scientific renaissance. It has focused much of its energies in Ibero-America on exposing the political and financial “citizens above suspicion” who dominate the drug trade, and on building support for leaders—such as Peru's Alan García—who have put the interests of their nation above that of international usury.

Labor Minister Carrillo—a national spokesman for the concept of “harmony of interests” between labor and capital—was also attacked, along with the Schiller Institute, by the CGT federation, in a press release published in several newspapers Aug. 4. Minister Carrillo is accused “of being a sponsor of the Schiller Foundation [sic], a shadowy organization that has been accused of assaulting the sovereignty of countries and of trampling the rights of the working classes.”

Carrillo will attend an Aug. 13 meeting of Ibero-American trade unionists in Lima, sponsored by the Schiller Institute, which will discuss joint action in defense of President García's debt and like initiatives. Asked by a reporter to explain his charges against the Schiller Institute, CGT president Julio Roberto Gómez said that his sole concern was “to alert the Barco government about the activities of Carrillo.”

Carrillo's response was, simply, “They want to attribute to me an international power that I don't possess.”

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## Documentation

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# A new movement for labor unity

*From a paid political advertisement by the executive board of the Union of Colombian Workers (UTC), published on Aug. 3 in the national daily El Tiempo:*

With profound respect for democratic principles, the national directive heard the presentation of Orlando Obregón Sabrogal, who held the microphone for six uninterrupted hours to present his diatribe filled with baseless charges and fallacies against the executive committee of the federation, following orders dictated by agents of division, advised and instigated by representatives of the Schiller Institute, who had previously trained him as their mouthpiece. . . .

Upon discovering that the conspiracy against the democratic trade union federations was run from the highest positions of the national government, in compliance with the reelection aspirations of Dr. Belisario Betancur . . . the national executive board decided to exclude from the UTC Orlando Obregón Sabrogal, Fredy Orozco Castañeda, and Pedro Ignacio Rubio. . . . The UTC unconditionally supports the declarations that federation president Victor Acosta has made to different media, in denouncing the formation of a fifth workers' central in the country, to the detriment of the working class and to the benefit of the current Minister of Labor Jorge Carrillo Rojas, and as a political platform for the reelection campaign of Dr. Belisario Betancur Cuartas for 1990.

*Excerpts from a document issued by the 30 labor organizations that walked out of the July 25-26 national plenum of the Union of Colombian Workers (UTC):*

. . . We announce the formation, by mandate of our bases, of a democratic and open national movement of labor unity. We propose to adopt and promote a genuine labor and social program to address the following challenges that we Colombian workers face in the immediate future. . . .

A) The highest unemployment in the history of the country . . . ; B) abandonment of the agricultural sector; C) the weakness and feeble development of national industry; D)

the bankruptcy and immorality of the financial sector; E) the reactivation of narco-terrorism; F) aggravation of tensions in Central America.

We do not feel that analysis and solution of this series of problems is the exclusive responsibility of the government, of other branches of public office, of the economic and industrial associations, [or] of the financial institutions, but of a united and strong union movement . . . within the concept of “harmony of interests. . . .”

Of the problems mentioned, the most severe is the growth of unemployment . . . principally caused by the imposition of the so-called adjustment program. . . . This policy of austerity . . . is no more than a continuation of the recommendations of the International Monetary Fund monitoring, and the goal is to force Colombia to sign a formal letter of intent, to serve as an international strike-breaker in the fight being waged by countries like Peru and our own against the usury of the international financial institutions. . . . The international bankers—anticipating the resistance of the workers to these programs and policies—have given the order to disable, weaken and destroy democratic trade unionism. . . .

We accept that morality cannot be separate from any human activity, and therefore we are prepared to bring this teaching into practice inside democratic trade unionism and our own labor confederation. That is why we oppose narco-terrorism, since the moral fiber and future of our society is being shattered by those who traffic in illegal drugs and turn our sons and brothers into drug addicts. We support the determination to move ahead with eradication of this plague and will be alert, because we know that the money of the mafia will continue to try . . . to take control of the institutions of the country. It is not accidental that the labor movement is being besieged by the narco-financial interests.

We feel it is urgent that, regarding immediate measures to fight unemployment, we undertake a program of infrastructure to give the nation railroads, canals, water control, highways, ports, public health, etc. . . . For this a large percentage of foreign capital is not necessary, merely the mobilization of national resources, issuing money for this activity without this increasing inflation since what would be happening is the reactivation of unused resources to create new wealth. . . .

We believe that the promotion, on the part of the World Bank and other analogous organizations, of the “micro-company” does not help the country . . . since these, through their low productivity, are incapable of competing on the international markets. The “micro-company” represents a generalization of poverty. Colombia should be an agricultural and industrial power, not a colony producing raw materials and crafts.

We commit ourselves to defend, spread, and fight for such a program of action . . . and will continue our efforts to purify and moralize the union movement as a step toward its necessary and urgent . . . programmatic unity.

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## Interview: Orlando Obregón Sabrogal

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# A new labor unity

*Mr. Obregón Sabrogal was comptroller of the Union of Colombian Workers (UTC) until the UTC national plenum of July 25-26, 1986, in the city of Cali. The interview which we excerpt here was given to EIR's Bogota correspondent, Javier Almario, at the headquarters of the National Union of Social Security Workers, where the coordinating committee of the soon-to-be-founded national labor movement meets.*

**EIR:** What happened at the UTC plenum?

**Obregón:** The 32nd plenum of the federation had been called, and several incidents occurred . . . demonstrating how the Colombian labor movement has been handled. In the first place . . . we discovered that some credentials had been granted which did not carry the signature of the comptroller, who is the person responsible by law for controlling entrance to these events. Some credentials were signed exclusively by the UTC president [Victor Acosta] to admit certain individuals who were brought from different parts of the country, having nothing to do with, no links to, the national plenum.

The main purpose of the event was analysis of the situation within the federation; thus the comptroller gave a detailed report on how it has been managed . . . administratively, economically, failures on a moral order in labor relations, the vacuum existing within the federation in addressing the country's problems. He also reported in his document on the personal activities of certain . . . executives of the federation who are dishonoring the labor movement, such as in the case of Alfonso Vargas, in the handling of certain contributions that a labor organization sent—nearly 600,000 pesos—which never found their way to the federation. Also denounced was the relation of this gentleman and other executives of the federation to elements clearly identified in the country as drug-traffickers. Other executives of the federation were denounced for their immorality and betrayal of the labor movement. . . .

The response of those indicted was grotesque, prompting 30 organizations to withdraw from the meeting, since no guarantees of their right to intervene were given; only friends of corruption were allowed to speak. The comptroller had the opportunity to question a pre-plenum meeting that was held,

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## campaign



financed by AIFLD [the American Institute for Free Labor Development] to the tune of one and a half million pesos, and where the plot to expel persons who have been questioning the mistakes of the federation was launched.

The 30 organizations agreed to form a national unity movement of democratic trade unions. They also assigned a coordinating committee to work with other labor sectors to achieve the unity of Colombian trade unionism.

**EIR:** The president of the Union of Nariño Workers said that, after the 30 organizations pulled out of the Cali plenum, the UTC was left with just a bunch of initials.

**Obregón:** This is not far from true. . . . The individuals who have encrusted themselves in the leadership of this movement want to continue to use the initials. And it appears that this is all they will be left with, since the base is not going to support them, and as has been demonstrated, the federations which pulled out are very important, with the majority of members, and are the most representative of the labor movement in the country.

**EIR:** In your comptroller's report you directly accused UTC secretary general Alfonso Vargas for his trip to Spain to visit the drug trafficker Gilberto Rodríguez Orejuela. What was his response?

**Obregón:** This is what enraged all the delegates, because the friends of corruption and immorality appealed . . . to Christian sentiment, going so far as to claim that their relation with the narcos was exclusively an act of Christian charity. . . .

**EIR:** Regarding the AIFLD, there have been charges that that institute gave money, not to labor organizations, but to individuals, so that they could use the money as they wished. Is this true?

**Obregón:** Yes. A letter was presented [at the plenum], signed by the former director of the AIFLD, which says that three checks were drawn to the name of Victor Acosta. We have a copy of those checks, which are for nearly 400,000 pesos. We also charged that the AIFLD gave a check to one Agustín

Garzón for 150,000 pesos, which were never used for a single union event, but were personally used by that trade unionist. All of this we denounced at the plenum, how the AIFLD is financing individuals who are involved in the corruption of the trade union movement.

**EIR:** What do you think is the AIFLD's purpose in giving money this way?

**Obregón:** We don't know what the AIFLD is seeking . . . but the only reasonable explanation that can be suggested is

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*We seek to create a single labor federation that can recover the force and vigor that the labor movement has lost. We are going to take on those who want to gut workers' rights and reimpose the policies of the International Monetary Fund, and those who want to open the doors to those linked to the dirty business of drug addiction.*

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that they want to keep trade unionism weakened, introducing and financing within the labor movement individuals whose personal histories are unclean. In this way, we feel they are trying to weaken and also corrupt the labor movement.

**EIR:** Simultaneous with the UTC plenum, the Confederation of Colombian Workers (CTC) held its plenum. Is this a coincidence or was there some kind of coordination?

**Obregón:** It is a rare coincidence that seems to have been well orchestrated, because on the same date the two federations held their plenums, and with the same purpose: to expel those persons who have been denouncing the immorality within the trade union organizations and who seek the unity of the labor movement. It would seem that those who direct the presidents of those labor organizations are fighting tooth and nail against the unification of the Colombian trade union movement, and have sought to block that process by expelling, both from the UTC and CTC, friends of labor unity.

**EIR:** Victor Acosta, president of the UTC . . . accused the President of the Republic, Belisario Betancur, and Labor Minister Jorge Carrillo of promoting the division of the federations, because they hope to use the workers to conduct their future political activity. What do you think of these charges?

**Obregón:** The truth is that those who are dividing the labor movement are embedded in the trade union leadership, above all in the case of the UTC . . . who have seeded immorality in the federation and are the true enemies of the unity of the labor movement. . . .

**EIR:** Following the UTC plenum, what will happen with the labor movement? Will a new confederation be formed?

**Obregón:** We will continue to fight for the unity of trade unionism. We believe that we must turn all our efforts to this end. We are already holding very important meetings with sections of the CGT, the CTC, with certain independent sectors. We seek to create a single labor federation that can recover the force and vigor that the labor movement has lost. We believe . . . that we are going to create the largest force of the labor movement, to take on those who want to gut workers' rights and reimpose the policies of the International Monetary Fund, and those who want to open the doors to those linked to the dirty business of drug addiction.

**EIR:** The President-elect, in one of his speeches in the Department of Choco, said that he agreed with the idea of unity of the labor movement. Do you think that Dr. Barco is going to support this kind of movement?

**Obregón:** In view of these statements of his, we think that Dr. Barco will see in the unity of the labor movement a useful contribution to his government. He has said, and we hope he follows through, that he will need the popular forces of the country to make great changes in the country. And these popular forces must be unified and organized. . . . So we think that this unified labor federation will be well received both by him and by many other sectors who believe that democracy needs a strong trade union movement. . . .

**EIR:** There has been tremendous pressure by the business sector to reform the labor code so as to eliminate many gains. . . . How do you think Dr. Barco will deal with this kind of pressure? Will he be influenced by it?

**Obregón:** We will have to wait and see what position the President of the Republic takes. We hope that he will not yield to the pressure of the economic associations. That is why we are organizing. . . .

**EIR:** Do you think that behind the pressure to reform labor legislation are supranational institutions like the International Monetary Fund and World Bank, which in other countries like Panama and Argentina have pushed for labor reforms?

**Obregón:** Yes, undoubtedly behind all this is, especially, the IMF. That is why we are insisting on the strengthening of the labor movement, because we will have to apply strong pressure of our own so that what the IMF wants to impose—which would put an end to the workers by denying them their rights—is not complied with.

## Britain sees more

by Mark Burdman

Following the Aug. 3-5 "mini-summit" on South Africa of the seven Commonwealth nations in London, the British Broadcasting Corporation on Aug. 6 proclaimed that there was a state of "war" between British Prime Minister Margaret Thatcher and the Commonwealth.

The BBC description is appropriate, even if Mrs. Thatcher avoided fist-fights with her Commonwealth interlocutors. Tactically, Mrs. Thatcher chose instead to make a positive use of the time-honored British method of deft diplomatic verbal obfuscation: She will "not stand in the way" of European Economic Community sanctions, a negative formulation of non-intention. She will encourage a "voluntary ban" on tourism to South Africa, a non-legally binding, meaningless formulation. And there will be no "new investments" in South Africa, again, a non-policy, since there have been no new investments in South Africa in any case for many months.

In substance, she held the line against sanctions. And, in taking on the Commonwealth, in her own manner, Mrs. Thatcher was engaged in combat with the international institution that is Her Majesty's most prized possession.

### The real issue

What transpired in London from Aug. 3-5, then, is only one significant battle in a war for much larger stakes. The fate of South Africa is critical, because it has become the front-line in Soviet-led attempts to undermine the economy and strategic position of the West.

But in British terms, what is fundamental, is the further escalation of the "Palacegate" scandal, provoked by the House of Windsor's extraordinary and illicit (by British political-constitutional standards) mid-July declaration of war against 10 Downing Street. Through "leaks" against Mrs. Thatcher, emanating from the Palace, and appearing in the July 20 London *Sunday Times*, it became known that the Queen was extremely displeased with her prime minister on a whole range of issues, from sanctions against South Africa, which the Queen favors, to the use of British airfields for the U.S.

# 'Palacegate' fights

raids on Libya last spring, which the Queen opposed.

Representatives of intelligence services of various nations have confirmed in private discussion the evaluation that Lyndon LaRouche issued in a July 25 release entitled, "Is Queen Elizabeth II Sinking?" What is involved in "Palacegate" is a fundamental battle over the question of East-West relations. The fact that the monarchy overplayed its hand, and via the press leaks against Mrs. Thatcher, exposed its intent to reach a "New Yalta" deal with Moscow, has begun a process that may lead irreversibly to the abdication of the Queen, and, necessarily, the entire House of Windsor, within the next few months.

In a discussion with *EIR* Aug. 7, a very senior British individual, who has been involved in important factional brawls within the British Establishment for five decades, told this correspondent, off-the-record, "Something along the lines of a cleavage on East-West issues must be involved" in the Thatcher-Buckingham Palace feud.

"Otherwise, the Palace's behavior is totally inexplicable. I was brought up to believe, that when the Queen said something in the Palace in private, it would never be repeated, publicly. When this story in the *Sunday Times* broke, it was a bit of a shock to see the Monarch's views so glibly told to the press. It would be equally shocking, to think that a press secretary could go off on his own, and just leak things that way. There's something very odd about it. The leaks must have been made on purpose, by the Palace. There's no other explanation. I don't think we've seen the end of this, by any means."

## The South African battleground

For the moment, South Africa will continue to be the battleground on which "Palacegate" will be fought out.

The *Times* of London reported on Aug. 7 that a new "Thatcher-Commonwealth clash looms, this time to be played out under the auspices of the Queen herself," on the occasion of the annual meeting of the Commonwealth Parliamentary

Association in September 1986. The issue, again, will be South Africa, with the Commonwealth escalating its demands for sanctions, and with panel sessions like, "Will the Commonwealth survive apartheid?"

Says the *Times*: "Giving the proceedings an added edge, Her Majesty will speak at the conference. On what? 'You'll just have to wait and see,' said the Palace yesterday."

In early September, the Queen's own Archbishop Runcie, head of the Church of England, will be traveling to South Africa to stir up troubled waters. Runcie, an impassioned advocate of a global, ecumenical deal with the Soviet Empire and the Russian Orthodox Church, has been conducting a dirty political war against Mrs. Thatcher on the issue of South Africa, particularly through the Church of England's Board of Social Responsibility, headed by the Bishop of Birmingham, Hugh Montefiore.

British sources inform *EIR* that should the full circumstances of Runcie's rise to the top of the Church of England ever be revealed, that alone could gravely damage the monarchy.

Another flank that the Monarchy is opening is to escalate on the issue in the United States, by activating all its assets in the U.S. Congress and in the "anti-apartheid" movements, to weaken President Reagan's support for Mrs. Thatcher. Both Australian Prime Minister Bob Hawke and Canadian Prime Minister Brian Mulroney declared that the next moves to impose sanctions will be made in Washington. Mulroney told newspapers in London that he expects to meet Reagan soon, and that, in a congressional election year, Reagan's Republican Party would be forced to support application of sanctions.

At the mini-summit itself, profound political antagonism between the Queen and Mrs. Thatcher was probably a more important dynamic than the publicly evident hypocrisy of leaders like Australia's Hawke, whose nation stands to benefit from billions of dollars of deals for its natural resources if sanctions are imposed on mineral-rich South Africa; or Zambia's Kenneth Kaunda, who cries at international podiums about sanctions against South Africa, while his own nation requires emergency aid to prevent the death of millions from AIDS, locust swarms, and other catastrophes.

Perhaps the most suggestive account, is one that appeared in the pro-House of Windsor London *Guardian* Aug. 4, which read, in part:

"[Mrs. Thatcher] warned that without Britain, Commonwealth sanctions would be a paper tiger. Even though Mrs. Thatcher says she is in a 'negotiating mood,' a lunch hosted by Mr. Rajiv Gandhi, India's Prime Minister, shortly before the first formal session at Marlborough House, was an uneasy affair with everybody trying to avoid a head-on collision. The Secretary-General of the Commonwealth, Mr. Shidrath Ramphal, emerged saying that the other six were simply not going to accept another 'teeny-weeny' concession from Mrs. Thatcher. The same uneasy mood may well have prevailed at last night's dinner with the Queen."

# Of Felix Dzerzhinskii, Armand Hammer, and the Red Prince

by Scott Thompson

In his roman à clef, *Saving the Queen*, former CIA official William F. Buckley weaves a tale about Soviet espionage involving a member of the British Royal Family, who dies violently when his treason is discovered by a CIA agent. Some believe that the germ of truth in Buckley's novel is that Lord Louis Mountbatten, the mentor of both Queen Elizabeth's husband, Prince Philip, and of her heir, Prince Charles, had intimate ties with a Soviet espionage network in the West, that was based upon the same methods employed by the founder of the Cheka, Felix Dzerzhinskii, in creating his infamous Trust. Evidence shows that Soviet penetration of the British Royal Family is so great that, should Parliament choose to force Queen Elizabeth's abdication in the current "Palacegate" scandal, then, as in Watergate, her heir, Prince Charles—together with the House of Windsor—must be removed as well.

The more profound basis upon which Parliament may so act is Queen Elizabeth's abridgement of the 1701 Act of Settlement through her appointee Archbishop Runcie's eradication of the *Filioque* from the doctrine of the Anglican Communion, to facilitate an "ecumenical dialogue" with the Russian Orthodox Church. The *Filioque* is the doctrine that the Holy Spirit proceeds from Christ as well as from God the Father—thereby giving each individual man access to the divine reason of the Holy Spirit. But the most obscene expression of this Soviet connection is Prince Charles' intimate relationship with Soviet-fixer Armand Hammer. According to public accounts, it was Lord Louis Mountbatten who introduced Prince Charles to Armand Hammer, shortly before the Lord's death in 1979.

Since then, their ties have grown to the extent that *The Sunday Times Magazine* recently commented: ". . . At the last count, he [Hammer] had given some \$14,000,000 to charities which Prince Charles holds dear and had become a close personal friend of Britain's future king. Hammer feels that Prince Charles is a man of exceptional qualities who will take a vital role in the world to come. Prince Charles seems to have adopted Hammer as one of his favorite old men, especially since the death of his uncle, Lord Mountbatten."

Underneath the cover story of the British Royal Family's gratitude to Hammer for his key role in developing North Sea Oil and such pet charity projects as Lord Mountbatten's United World College (of which Prince Charles is today president),

the evidence of Armand Hammer's travels would suggest that he may have been used as an intermediary between the Royal Family and a succession of Soviet leaders—beginning with Leonid Brezhnev's reported 1979 attempt to use Hammer to swing the U.S. presidential election against Reagan.

Had Sir Winston Churchill (whom Prime Minister Margaret Thatcher has chosen as her model) lived to see this relationship between Prince Charles and Hammer, there is no reason to believe that he would not have bodily thrown Hammer out of the Palace.

## A trusted friend: Dzerzhinskii

Armand Hammer was the son of the Odessa-born Dr. Julius Hammer, a co-founder of the Communist Party U.S.A. While his father served time in Sing Sing for performing an illegal abortion, the record shows Armand maintained close ties with one Ludwig Martens, a New York-based collaborator of Leon Trotsky. On Jan. 2, 1919, Foreign Minister Georgii Chicherin wrote a letter stating that Martens "is appointed the representative of the People's Commissariat of Foreign Affairs in the United States."

Martens was no stranger to England, where he had been sent in 1906 as a Bolshevik organizer. On the night of Dec. 16, 1910, the young Winston Churchill, then Home Secretary, personally led an anti-Bolshevik raid. It was met with a fusillade of bullets in which three policemen were killed and two severely wounded. Investigation by Scotland Yard showed the likely ringleader of this Bolshevik burglary ring to be Ludwig Martens (a.k.a. "Peter the Painter.")

When Armand Hammer left for Bolshevik Russia on a self-described "mission of mercy" in December 1921, his files in the U.S. National Archives state that he "was carrying messages from Ludwig Martens, to his colleagues in Russia." Hammer's front for this trip, the Allied Drug and Chemical Company, had on its board Abraham A. Heller, "a notorious Bolshevik," "the Commercial Agent of the Soviet Government of Russia, working in close collaboration with Ludwig Martens." Winston Churchill had also investigated this same Heller as a suspected agent of American Comintern leader Boris Reinstein. As a result, Scotland Yard concluded that Armand Hammer's trip to Russia might be more than mere medical relief work.

With letters of introduction from Martens and with Com-



rade Reinstein's blessings, Hammer met with Vladimir Lenin, who encouraged him to take the first concession in Russia. Upon concluding the deal, Lenin issued a letter, printed in the *New York Times* of June 14, 1922, in which the Bolshevik leader is quoted as saying to Hammer: "You have my best wishes for the success of your first concession, as it is one of the utmost importance for the future trade relations between our republic and the United States." Hammer himself stated that Lenin appointed Felix Dzerzhinskii, then head of both the Cheka (secret police) and Supreme Economic Council, to eliminate "red tape" for the Hammer concession—including the liquidation of any opponents of his role in Lenin's New Economic Policy (NEP).

Under James Angleton, members of the CIA's counterintelligence staff later painstakingly reviewed the NEP period, to discover the roots of Soviet intelligence penetration of the West. Dzerzhinskii's major role in support of the NEP was carried out by the Cheka, which launched major supporting disinformation projects—the most notorious of which was the Trust. One feature of the Trust was to disinform Western intelligence services and financial interests that, through support of the Bolsheviks under the NEP, the seeds would be sown for the Bolshevik regime to wither away. Dzerzhinskii's Trust agents caused the mysterious death of a man whom Winston Churchill greatly admired, Boris Savinkov, the former head of the Socialist Revolutionaries' Combat Group, who became a British secret-service asset after Kerenskii's overthrow.

Lenin's appointment of Hammer to undertake the first concession seemed to make him the Judas goat, who led certain capitalists (whom Lenin otherwise referred to as "useful idiots" or "deaf-mute blindmen") to "sell the rope" by which capitalists in general would be hung. By Hammer's own admission, his Allied American Corporation (Alamerico), was highly successful, recruiting more than 50 leading Western concerns to support the floundering Bolshevik economy. Among those names associated with Alamerico in U.S. Archives documents are Mortimer Schiff of Kuhn, Loeb, whose father Jacob had, with Max Warburg, helped finance the return of the Alexander Helphand ("Parvus") protégé, Leon Trotsky, to co-lead the Bolshevik Revolution. The Schiffs also arranged the parole of Julius Hammer from jail to join his son in Moscow.

Another name associated with the Hammers' business activities was fellow concessionaire Averell Harriman (to whom President John F. Kennedy gave the same nickname as the GRU, namely "the crocodile") In its "Project Dinosaur," the CIA counterintelligence staff determined that Harriman had been recruited by Soviet intelligence during the NEP period. Perhaps Averell Harriman's greatest early service to the Bolshevik regime was to break the State Department ban upon loans to Russia, but, as with Hammer, even greater deeds would follow.

In 1932, the State Department exchanged a series of documents on Hammer with British authorities, which in-

cluded Memorandum No. 1378, dated April 11 and coded "secret," which states: "With reference to previous correspondence regarding Julius Hammer and Messrs Armand Hammer and Company, the authorities have received a report from the Baltic that Armand Julievich HAMMER and Victor Julievich HAMMER . . . both continue to carry out secret missions for the Soviet Government and travel between the United States and Europe for that purpose. It is further stated that they are frequently accompanied by a woman, Olga VADINA [a.k.a. Baroness Olga von Root, whom Armand Hammer married], said to be an OGPU agent, and who was allowed to leave Russia for the purpose of helping them." While these documents were being written, Armand Hammer was busy converting his Russian holdings into art treasures, many looted from the Romanoff family.

This is the nub of the immediate, personal objection which some British Royals are said to have about Prince Charles' close ties with Armand Hammer today. Hammer had not only worked with Felix Dzerzhinskii, the enforcer of the "Red Terror" whose forces butchered Prince Charles' great-great-uncle, Czar Nicholas, together with members of his family at Ekaterinburg. But, Hammer had further enriched himself by accepting some of the Czar's looted treasures in order to transfer his wealth to the United States.

Through his mother (née Princess Victoria of Hess, a granddaughter of Queen Victoria), Lord Mountbatten was related to Czar Nicholas. Even the official biography of Lord Mountbatten by Philip Ziegler acknowledges that his mother "was a radical in her ideas" (others say she was strongly influenced by Karl Marx). A further examination of Lord Mountbatten's life would show that he sought to preserve oligarchic rule in the West through appeasement of Moscow.

Exemplary is the role of Lord Mountbatten's former science adviser in the British Special Operations Executive, Cambridge Communist J. D. Bernal, as a co-founder with Lord Bertrand Russell of the Pugwash Conference in 1957-58. Nikita Khrushchov used Pugwash as a high-level "back-channel" to the Anglo-American elite, while Soviet defector Anatolii Golitsyn documents that its creation occurred at the same time as a sweeping reorganization of Soviet intelligence to return to "Trust"-type deception and disinformation operations. Through Pugwash, Lord Russell, an adviser to the Cambridge Apostles from which Sir Anthony Blunt recruited Donald Maclean et al. to the KGB, proposed a condominium deal, which would divide Russell's "one-world empire" into an Eastern division ruled by Moscow and a Western division ruled by the Anglo-American elite.

Lord Mountbatten was himself a patron of the Pugwash group's Scandinavian affiliate, created in 1966, the Stockholm International Peace Research Institute (SIPRI). In his last major speech on May 11, 1979, to accept an award from SIPRI, Lord Mountbatten made a plea for appeasement of the Soviet Union through "disarmament and arms control." A few weeks later, Mountbatten died aboard his boat, an apparent victim of the Irish Republican Army.

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## Book Review

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# Black Hundreds, Red Hundreds: the true history of Soviet Russia

by Laurent Murawiec

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**Les Russes sont arrivés:  
L'infiltration soviétique en Occident**  
by Cyrille Henkine (Kirill Shenkin)  
Scarabee & Co., Editors, Paris 1984  
421 pages, clothbound

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Recounting the mere facts of Russia's 20th-century history is enough to show that there is not one shred of truth in any of the "facts" that the citizens of the West have been taught to accept as the True and Hallowed History of the Communist Revolution. This book (the title means, *The Russians Have Arrived—Soviet Infiltration of the West*) by Kirill Shenkin, a Russian émigré, published in French translation in Paris in 1984, is a startling example of the extent to which what Western policy-makers and citizens think they know about the Soviet Union is a heap of absurdities.

Shenkin starts from the curious, recent development of a new social phenomenon, the "half-Soviet" emigration, that is, the thousands of émigré Soviet citizens who keep close trade and personal contact with Moscow, freely shuttle back and forth between East and West, and entirely fail to conform to the cliché of a clean break between émigrés who leave the Russian Motherland forever, and the Soviet system. To the contrary, he insists, thousands of such émigrés altogether depend on Russian exports, which they channel (furs, diamonds, icons, art, etc.), and the recent years have witnessed not only their resettlement in the West, but also their meteoric social ascent here.

"Soviet society has always been criss-crossed by informants. But today's emigration is but an emanation, a segment of that society. . . ." Why did the Soviet leadership allow hundreds of thousands to emigrate? Shenkin ridicules the arguments put forth, that the KGB greatly feared dissidence, radicals, and Jewish activists or that the pathetic U.S. Senate frightened it. Why grant one whole segment of the Soviet population a privileged status—since leaving the U.S.S.R. is a privilege? Why allow enormous quantities of intelligence

to emigrate, tucked away in thousands of minds? Why deprive the country of a sizable portion of its scientific intelligentsia?

Shenkin's preliminary answer is worth meditating:

The present flow of emigration, contrary to its predecessors [post-1917 and post-1941], did not start spontaneously. It took off at the right time, at the very instant when it was decided from above, and has remained under the strictest control . . . it has been carefully screened. Those who were let out were those whom one desired to let out, after completion of an exhaustive study of their files. But most important, while letting them out, it is not only the past of the candidates that was taken into account; plans were drawn up for the future. . . .

### Old Russia's Okhrana

Having made this bold statement—which has not endeared him to much of the Russian emigration—the author plunges back into Russia's 20th-century history: Are past Soviet operations a guide to understanding today's paradoxical emigration?

Old Russia's intelligence service, the *Okhrana*, was no less almighty and ubiquitous than today's KGB. It is the *Okhrana* that orchestrated and organized the several waves of murderous terrorism that shaped and weakened the last decades of the Tsarist regime, Shenkin reports, drawing notably on the revealing case of Evno Azev, the head of the most "efficient" of the terror groups, the Combat Organization of the Socialist-Revolutionary (SR) Party—and at the same time, a high-ranking operative of the *Okhrana*. Using the *Okhrana*'s own documents, Shenkin shows how the political police determined who would attain and exert the leadership of the same SR party. The operational arm of the *Okhrana* and *all* the revolutionary parties of pre-1917 Russia were "indistinguishable."

Why should that startling reality be the case, of a political police designed to serve a regime—that of the Romanov dynasty—and organizing stepwise for its demise? While author Shenkin does not delve explicitly into the puzzle, ele-

ments are provided, as we shall see. One of them is this sketch of Okhrana leader Colonel Zubatov—the man who invented “police trade-unionism,” “police socialism,” as they were known in Russia then, but also the institution of the *Soviet*:

Zubatov dreamt of fighting [the Socialist] movement in a rational manner, by means of creating a healthy, Russian organization which would have tackled differently the solution of those problems that awarded the revolution chances to succeed. From such premises, he elected to give legal standing, within a national workers’ organization to which his attention had been drawn, to a minimum political and economic doctrine, similar to those of socialist programs, but preserving the principles of Autocracy, Orthodoxy and Peopleness. . . .

Interestingly, this portrait is excerpted from the souvenirs of a former head of the Okhrana itself, writing from his French exile in the 1930s. Shenkin’s own comment draws the conclusion:

To implement a design similar to Zubatov’s, a totalitarian policestate would have been required. A centralized, homogeneous power would have been needed, endowed with a unanimous conception of its self-interest. The autocratic regime [i.e., Tsarism] did not display such traits. A Revolution and a few decades of a totally new power, of a system without historical precedent, the gradual elaboration of a thoroughly new state structure, that of the Socialist State, will first be necessary for this to become possible.

### **The Trust and the trusts**

Shortly after the Russian Revolution of November 1917, Russian fascists, anti-Semites, “militarists,” etc., started flocking back to Moscow and rallying the Bolsheviks, while at least 1 million Russians emigrated. “The Soviet [secret] services threw themselves like wild beasts on the hapless émigrés.” Both processes were coordinated. The method is described: “Create links and the appearance of an interplay between the émigré organizations and their partisans within the country, create a simile of communication between them. Launched in the 1920s, the scheme of this complex operation, which was used a great many times over, has passed into history under the name of The Trust.”

Concretely, former Tsarist officials who had rallied the regime were sent abroad, made contact with former colleagues, and gradually “revealed” their membership in oppositionist organizations described as powerful and as having succeeded in penetrating the high spheres of the regime. Once the link established, the émigré organization was lured into being thoroughly penetrated by the internal oppositionists, who were, to a man, agents of the Soviet regime’s own Okhrana, the dreaded *Cheka*, later renamed GPU (today’s KGB).

A series of such “trusts” were set up, each specialized in one “target population” inside Russia and outside, from the best-known, the Monarchist Organization of the Center of Russia (MOTsR), to the “military trust,” the “German colonists’ trust,” the “mines trust,” the “workers’ trust,” etc. Inevitably, the Trust envoys would tell their anxious émigré collaborators that an evolution in the regime’s economic and political line was afoot, that pro-monarchist “symptoms” were appearing in the population, that a coup was being prepared with the support of high-ranking military, intelligence and bureaucracy elements—and that no amount of pressure ought to be applied from outside upon Russia for fear of foiling such noble efforts.

All such trusts were run under the fingertip of Cheka boss, Felix Dzerzhinsky, a Central Committee member of the Bolshevik Party and one of the very few men that Lenin “trusted” entirely.

### **The Shulgin trip**

A zenith of success for the Cheka was the long clandestine trip through Soviet Russia of one of the most prestigious leaders of the “White Russian” emigration, Vassili V. Shulgin, in 1921, an underground odyssey aimed at setting up the great clandestine organization that would replace Communism in power. Shulgin was neither a beginner nor a second-rate personality: a raving anti-Semite and pogrom organizer-in-chief, Shulgin had been the head of the grand-daddy of all of the 20th-century’s fascist organizations, the Black Hundreds, whose political branch, the Union of the Russian People, he had headed. Shulgin had been one of the two members of Parliament that had visited Tsar Nicholas II in February 1917 to force him to abdicate. Sponsored by MOTsR, the original Trust, he traveled through Russia, making ample harvest of meetings and impressions, and returned saying that “the vivifying force of inequality has returned . . . the new Yid masters are going to be ousted. . . . Communism has been but a passing episode,” and praising the new regime in a best-selling book that caused an immense shock in the Russian emigration.

That in 1926 the GPU, for their own purposes, revealed that the latest detail of the Shulgin trip had been supervised by them did not even destroy the latter’s standing. Shulgin, lawfully, later returned to the Soviet Union to lead a peaceful life of service to Stalin’s Holy Mother Russia.

### **Secret services and ideology**

And the Shulgin affair is only one of many similar cases reported by Shenkin. Beneath the surface of operational, secret-service operation, a deeper level generated it all, the author points out, and that was ideology, the common ideology shared increasingly by the Bolshevik regime and its nominal, “White” opponents. Shulgin himself expressed it well:

If [the Bolsheviks] unconscionably shed blood, it is only to reestablish the might of God-protected Rus-

sia. . . . And if this be so, it means that the White Idea, after it crossed the front-line, has taken over their unconscious. . . . We have compelled them to accomplish with their red hands the white work. . . . We have triumphed. . . . The White Idea has vanquished.

In the ferment of Russian emigration, from Prague and Paris to Sofia and Harbin in Manchuria, similar ideas were emerging. Russian princelings and Okhrana leaders, Black Hundred chieftains and White generals partook in the evolution. After the shock of revolution, Mother Russia reemerged, and had to be strengthened. The common, Dostoevskian hatred for democracy, for the West and Western freedom, for the Renaissance man of science, technology and the urban life, possessed the Politburo no less than those émigrés. The Nazi White Russian organization “Young Russia” that acclaimed its *Glava* (Russian for *Führer*), who “later” reverted to Moscow, the “Eurasians,” the “Scythians,” and other such movements all agreed: Russia must be helped, defended, strengthened. To quote from the Young Russia Party’s own statements:

The threat from outside has definitively pushed the [Soviet] power on the way of a defense policy and this in turn has accelerated the awakening of nationalism among the masses. . . . This same policy has served as a convenient pretext to get rid of many remnants of old Communism. . . . We serve Russia. Soviet power is abandoning Communist positions. A new ruling class is slowly coalescing. . . . It is that which is gradually becoming the carrier of the Idea of the State and nationalism. . . . The Socialist Motherland is Russia again, Socialist construction struggles for Russia’s might. This victory is ours. Stalin’s evolution sets off the process of national revolution. . . .

Ideology and secret services had converged to recuperate the lost flock and reunite the sons of Mother Russia. Some returned to Russia—and survived the purges—while others remained in the West, busy penetrating its policy-making circles and its secret services. While Hitler’s *Sicherheitsdienst* (SD) thought it was penetrating British intelligence with White Russian operatives, it was truly doing great service to Stalin.

### The ‘third emigration’

After the post-revolutionary wave and the unhappy wave of those who succeeded in escaping Moscow’s rule during the war—millions of whom were forcibly returned to their horrible deaths in Russia by the cowardly Allies—a new emigration started in 1968, with each emigrant’s file stamped “departure possible; corresponds to the interests of the State.” This is not to say, Shenkin stresses à propos this, as well as

the earlier waves of Russian emigration, that every émigré is a witting agent of the KGB! There is a story within the story, which his book usefully pulls apart.

At the end of 1968, *prior to and without any international pressure*, the Moscow government decided that its Jewish subjects could be allowed to leave the country. Several hundred thousand have since done that, resettling in Israel, but increasingly in the U.S.A. and other Western nations. In fact, many of the “Jewish” emigrants are *not* Jewish at all, though presented—by the KGB—as Jewish. There have been other examples of emigration from Communist countries—such as Fidel Castro’s expulsion, under the name of “opponents,” of thousands upon thousands of Cuban gangsters and mobsters, homosexuals, spies, etc.

Experience showed Moscow that it was important to maintain throughout the world a scattered Russian presence, a numerically-important and permanent presence. . . . The decision taken at a high level to expel from the country a fraction of the population only acquired a rational form after a little while. . . .

In order to be allowed to emigrate, the Russian Jew is subjected to an excruciating, grueling and cruel process, tantamount to conditioning, which involves the establishment of an extraordinarily-detailed file on the candidate and his family and friends by the Interior Ministry (MVD), the KGB, and the Central Committee. This process, Shenkin insightfully comments, “is the substitute for the old pogroms.” The result is “a human mass that did not shape up spontaneously, but has been from the start subjected to a rigorous selection.” Once more, the individual émigré is not generally a KGB agent—but his resettlement abroad is a convenient cold-storage for the KGB. Some, many, may escape the net, but this does not bother the KGB, whose aims Shenkin sums up as follows: 1) get rid of a heterogeneous racial minority which they do not want to assimilate; 2) constitute a Russian emigration which is formally Jewish but supremely well-studied and known by the KGB; 3) be able to determine the stature, repute, importance of dissidents either at home or abroad, controlling the routes of the *Samizdat* (self-edited dissident journals) and the *Tamizdat* (literature smuggled from abroad) and manipulating the dissidence altogether.

Thus has been born the new layer of the “half-Soviet, half-émigré” citizens, dubbed “Soviet citizens with a foreign passport” by the Soviet authorities!

In 1975, the KGB even created an overt coordinating body for the emigration, the *Rodina* (motherland) society “for cultural links with fellow-citizens abroad.” For “the Soviet authorities have always considered the former fellow-citizens as being temporarily out of their dependency, and to whom, in case of need, accounts could be demanded, with the full rigor of the law.” A lot of direct KGB personnel

have been "exported" in this manner.

### 'The great mission'

Disadvantages of the emigration are nullified by the pusillanimy of the West. Shenkin gives the astonishing example of the leading American academic specialist in Russian Studies, Prof. D. Simes, head of Soviet Studies at Georgetown University's Center for Strategic and International Studies (CSIS), whose malicious comments that the Soviet authorities were perfectly justified in cracking down on the "criminal" dissidents within Russia, were liberally reproduced in the Soviet press as emanating from an "objective" commentator. The good professor happens to be Dmitri Konstantinovich Simes, formerly a leading member of the Soviet foreign policy think-tank and subversive operations against the West, IMEMO, one who abruptly turned from party faithful to indomitable dissident, obtained an emigration visa in record time, spectacularly "fooled" the Soviet authorities to "escape" from Russia—and ended up as a U.S. "Special Adviser to the Secretary of State." When Moscow's U.S.A. Institute head Georgii Arbatov, one of Russia's principal manipulators of the U.S. Congress and media, comes to Washington, he is able to save on his hotel bill by staying at the house of the fierce émigré Prof. D. Simes.

Moscow's ability to so manipulate, Shenkin points out, is based on their absolutely centralized design and strategy, the unity of execution for the Great Mission of taking over the Western world. For that reason, thousands are allowed out—provided all elements concur on an ability to use them at some point are supplied. For example, the Soviet mobster, from Leningrad to Odessa, is a privileged recipient of the emigration visa, which has much to do with Moscow's global role in the world drug trade and narco-terrorism. And the criminal émigrés do maintain close contact with the Socialist Motherland.

In the past, the relation between the [Soviet] authorities and the emigration have been built according to the scheme of the Trust. . . . In the scheme of the New Trust, the role of the plotters of yore . . . is essentially played by mythical groupings supposed to be oppositionists within the Politburo and the party apparatus: dogmatics and pragmatics, army and industry, advocates and opponents of the KGB, Russian nationalists and minorities, etc. . . .

A comment which is extraordinarily appropriate to the totality of "Kremlinology," the bit of witchcraft which is so essential to misleading and misguiding Western leaders, the media and public opinion on the reality of Soviet strategy.

### The Trust, writ large

Shenkin's book, if it were to be read by the common citizen in the West, would leave few myths standing in what

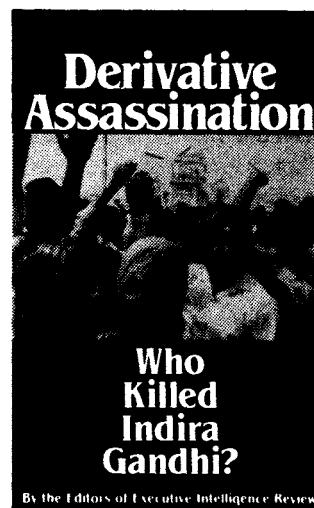
constitutes "what I know about the Soviet Union." What the author did not explore, within the limits of his book, is what that citizen "does *not* know about the Soviet Union," the reality of the East-West collaboration through The Trust: The Okhrana did not overthrow the Tsars on its own—it collaborated with powerful forces in the West which have never relented on their community of interests with Russia, in spite of occasional disputes, primarily caused by different appreciations of which part of the pie should go to whom. Those in the West who liberally paid and supported Lenin and the Bolsheviks, who saved the Russian regime from abject economic collapse over and over again, who built and armed Russia to the very teeth that Mr. Gromyko found so impressive in Mikhail Gorbachov, those forces that gave away gratuitously one-half of Europe at Teheran and Yalta to the oh-so-friendly Uncle Joe, and have been disarming the West and wrecking it from the inside ever since, are not blinded by pusillanimy or ignorance. The real history of Russia's revolution and its Western supporters remains to be written—which *EIR* will be doing in print in the next few months. From the pre-Nazi Black Hundreds that merged into the Bolshevik Party, and whose masters ran the self-same party of Lenin, to the Red Hundreds of Andropov, Ogarkov and Gorbachov, Mother Russia has remained, and so have her Western helpers.

## Derivative Assassination: Who Killed Indira Gandhi?

by the Editors of  
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# A defeat for dope pushers, World Bank

by Mary McCourt

Malaysian Prime Minister Datuk Seri Mahathir Mohamad won the outstanding two-thirds majority which he had committed his National Front government to win, in the national elections Aug. 2-3. Dr. Mahathir called elections one year early, to fight the attempts by international banks, the liberal press, and the world dope business to tear his country apart. His courage was rewarded.

Dr. Mahathir led the group of 13 parties in the National Front, which has ruled Malaysia since it gained independence from Britain in 1957, to winning a total of 147 of the 177 seats in the new parliament, and won control of all 11 state assemblies in West Malaysia.

Dr. Mahathir's enemies have good reason to want to give him the "Ferdinand Marcos treatment." In his 10 years in office, he has presided over the New Economic Policy, designed to bring the country's economy under Malaysian control after generations of British colonization and Chinese financial control. His opponents were astounded when, on July 7, the Malaysian government hanged two convicted Australian drug traffickers, the first whites to be hanged since the mandatory death penalty for drug trafficking was introduced in 1975.

The strategy to destroy Dr. Mahathir was to undermine both the Malay and Chinese members of the coalition, wrecking the balance achieved since 1969, when too-close election results led to race riots and hundreds of deaths.

There were attempts to form an opposition front, drawing in the primarily Chinese Democratic Action Party, but these collapsed over the PAS's commitment to depriving women and non-Muslims of the vote and banning non-Muslims from high office, in a country where 34% of the population is Chinese and 9% Indian, and the 48% Malays are a mixture of Muslim, Christian, and other religions.

The entire leadership of the PAS lost the races they were contesting, although "Ayatollah" Haji Hadi Awang, whose religious policies dictated the party's election strategy, did retain his seat in the Trengganu State Assembly.

Nasty attempts by the press to give Dr. Mahathir the Philippines treatment also failed, as he dismissed charges of

"cronyism" and corruption as "political tittle-tattle." Dire warnings in the British press of possible trouble at the polls, had no effect.

There was also an attempt to split the National Front along Malay-Chinese ethnic lines, by promoting the opposition Chinese Democratic Action Party, which held only seven seats in the old parliament. Financial scandals, including the collapse of the Singapore stock market last year, have hit the Malaysian Chinese Association, a coalition member, which won only 17 of 32 seats it contested. The DAP did gain 24 seats.

### World Bank austerity program

Just around the time of the elections, a confidential report by the World Bank "surfaced in Washington," according to the *Far Eastern Economic Review* Aug. 7. "Malaysia's rising debt burden projected over the coming years, is a cause for worry," the World Bank asserted. Total debt had increased 7% in 1985 to \$16.5 billion, and the country's debt-service ratio to 15.3%. The Malaysian economy has suffered badly because of the collapse of prices for its primary exports: rubber, tin, and palm oil, and the drop in oil prices which left the country without an alternative source of revenue for 1985-86. Although for 15 years, the Malaysian economy has averaged a 7.5% growth rate, predictions of growth were dropped to 2% this year.

The World Bank wants to put an end to the New Economic Policy, whose current term will end in 1990. The NEP went into effect after the 1969 riots, and dictates that 30% of any company's equity must be allocated to Malaysian investors and that a proportion of workers must be Malaysians. Investment above a certain limit must be licensed by the Ministry of Trade and Industry. The World Bank report calls on Malaysia to "unshackle" its industrial-investment policies, and open the country to uncontrolled foreign investment.

Already on May 28, Dr. Mahathir was forced to announce that the restructuring policy would be "held in abeyance, more or less," because of economic troubles. But this was not enough. The World Bank asserted that "foreign borrowing might be most readily minimized by curtailing or even suspending the program of acquiring foreign assets in Malaysia," and went on to call for measures which would take 80% of investment decisions out of control of the Malaysian Industrial Development Authority.

But Dr. Mahathir, whom one Asian diplomat called "a fabulous fighter and a skillful strategist," may be able to counter the World Bank's assaults if he continues his war on drugs. After the election, he affirmed "to Malaysians and the rest of the world" that his government has the right policies. Some other heads of state appear to agree with him, as President Reagan told *Newsweek* magazine Aug. 3, when asked if the United States should institute capital punishment for drug dealers as Malaysia has done: "I know they deserve it."

### A 'Prem V' government in Thailand

*After disappointing elections on July 27, the country is threatened with more instability than ever.*

**F**or many Thai citizens, the result of the recent July 27 general elections was a tremendous disappointment, but not unexpected. Though the general popular sentiment is anti-Prem, the newly elected Members of Parliament still chose Gen. Prem Tinsulanonda as prime minister to form the Prem V government. The Prem IV government's monetarist policies were contested by the Parliament last April, leading to a parliamentary censure of the government. Prem retaliated by calling for the dissolution of Parliament and early elections.

As of this writing, Prem has yet to negotiate the allocation of ministries with his coalition partners, made up of four parties: the Democratic Party of Bichai Rattakul, the Chat Thai Party of General Chatchai Choonhavan, the military Rassadorn Party of General Tienchai Sirisamphan, and the Social Action Party (SAP) of Air Chief Marshal Siddhi Savetsila. Prem is expected to keep the Defense Ministry for himself and allocate the Finance and Interior portfolios to trusted persons of his group, a move which is being blocked by his major coalition partner, the Democrats, who have been vying for control over Finance and Interior.

The general elections gave the Democratic Party 100 seats, the Chat Thai Party 63 seats, the Rassadorn Party 18 seats, and the whittled-down SAP 51 seats. The Prem V government, therefore, controls a two-thirds majority in the Parliament, making any future parliamentary censure of the government virtually impossible.

At the outset of the campaign, knowing that Prem's popularity had dropped to rock-bottom, parties refused to endorse him. However, toward the end, it became clear that almost every party was ready to pay tribute to Prem, if that was all that was needed to become a government coalition partner.

At the opening of the new parliamentary session, Army Commander-in-Chief Chavalit Yongchaiyudh—long Prem's grey eminence—was asked to gather support for Prem from as many parties as possible. All the major parties signed the support letter with the hope of being part of the government coalition. Each party wants to have its share of ministerial posts, but for other than reasons of national interest.

Because self-interest has become the key motivation, the Prem V government is unlikely to succeed in doing a better job than Prem IV, especially in the crucial domain of economics and finance. Such a domestic political and economic situation is going to lead to chaos: 1) because the world economic situation will worsen and be increasingly felt by a larger and larger number of people, and 2) because criticism of the government's policies cannot be vented through a parliamentary opposition, leaving street actions as the only alternative.

Already, around 20,000 students and 200 professors of the Ramkhamhaeng University, a Bangkok free university, have handed a protest petition to Prem. Various anti-Prem rallies were answered by pro-Prem rallies or-

ganized and paid for by Prem's backers. The scenario is complicated by a series of bombings. A bomb blew up by accident in the hands of its carrier who happened to be a soldier under the orders of the Young Turk Col. Manoon Roopkachorn, now in exile in West Germany after the aborted Sept. 9 coup last year. Reportedly Manoon made a trip to the Soviet Union in May, sponsored by the Green Party.

What is becoming more and more evident is the role Chavalit is playing behind the scenes. A shrewd and ambitious man, General Chavalit is doing everything possible to pave the way for an elected prime minister—himself. But what kind of alternative is Chavalit?

Chavalit's shrewdness has made him think that he can use the "old" network of the Communist Party of Thailand as his operatives. He has more than trusted a Communist old-timer of Soviet obedience, Prasert Sapsunthorn. Prasert is the architect of the 66/23 law issued in 1980 which granted amnesty to Communist Party members who gave themselves up to the authorities. The 66/23 law, however, had the consequence of creating the legal basis for Communist Party members to continue operating in urban areas, namely in metropolitan Bangkok. In the recent general elections, a total of 260 "former Communist Party" members ran under other political party banners. It is also known that 14 of 20 parties are financed to varying degrees by Soviet sources. Two "former CP members," Klaew Norapati and Somkid Srisangkorn, were elected to the Parliament under the aegis of Community Action Party of Boonchu Rojanastien and the Labor Democratic Party of Prasert Sapsunthorn respectively. Soviet penetration into Thai political life is tremendous, and we are just seeing the tip of the iceberg.

### The new Berlin crisis

*Gorbachov's brinkmanship course uses crisis spot Berlin, again—timed with the 25th anniversary of the Wall.*

The ever-latent world crisis spot Berlin has been reactivated by the Soviets. Violent confrontations with the Western Allied Powers, border incidents, air-space disturbances, and a massive increase of subversive activities are the road-marks on this confrontation course. Especially the past six weeks in Berlin have been characterized by East German violations—coordinated with Moscow—of the existing Allied Power status of the city.

At the end of May, East Germany introduced passport controls for all diplomatic personnel crossing the sector borders between the western and eastern part of the city. This was in flagrant violation of the Allied status, as laid down in the 1971 agreements between Britain, France, the United States, and the Soviet Union. The agreement confirmed the exclusive Allied Powers in the city, including the privilege of control. Tolerating passport controls at the sector borders, however, meant to grant the East Germans the right of sovereignty over the Allied status.

After two weeks of diplomatic communication between the three Western powers and the Soviets, East Germany reluctantly agreed to rescind the measures. But since the West had not put much pressure on the passport issue, the East saw an incentive to escalate tensions on other issues. Since the end of the "passport crisis," authorities in West Berlin noticed a dramatic increase in asylum-seeking foreigners. Mostly consisting of Iranians, Lebanese, Iraqi Kurds, Ghanaians, and Tamils from Sri Lanka, these

"refugees" had come by Soviet or other East bloc airlines to Schönefeld Airport, the official airport for East Berlin.

The airport, a few hundred meters southeast of Berlin, is operated officially by the East German regime. All air transit to West Berlin is handled through it.

The dramatic rise of "refugee" figures from 50-100 daily to 300 or even 568 on one weekend in July, could not have occurred without East German permission, especially since most of these foreigners have no ID documents. Western sources report that refugee transit from the home countries to Berlin is organized by the state-controlled East bloc airlines.

For West Berlin, this means an ever-rising stream of asylum-seeking persons, as the sector borders between the two parts of the city are open and can only be closed to the advantage of the East German regime, which wants the sector border to become a state-like border, casting in stone the post-war division of Europe.

As East Germany was letting thousands into West Berlin, cynical warnings were issued to the government in Bonn "not to interfere with the status of Berlin"—not to consider measures to stop or control the stream of refugees.

In Bonn, prominent Christian Democrats denounced the East German practice as "destabilizing," and "aggravating German-German relations." Interior Minister Friedrich Zimmermann even stated that this provocative policy was "a method taken directly from a KGB manual for

subversion." Several Christian Democrats warned East Germany to step back, or face political and economic sanctions, as on the credit lines, for example.

The crisis peaked at the same time that Soviet leader Gorbachov met with Bonn's appeasing Foreign Minister Genscher in Moscow, demanding that Bonn pull out from the Strategic Defense Initiative. Timed with Gorbachov's threats of July 21, the East Germans sent signals to the West that they were not afraid of launching another big crisis over Berlin.

The preliminary high-point of this escalation was the warning in the Aug. 1 issue of *Neues Deutschland*, official daily of the East German regime, that any official counter-measures "against the free transit to West Berlin" would be taken as "a frontal attack against the German-German treaty system." "Is it really necessary to recall the fact," wrote *Neues Deutschland*, "that any interfering with the transit agreements would result in a threat to the West Berlin population in the first place?" All past crises in Berlin, the newspaper added cynically, had "always been to the direct disadvantage of the population in the western part of the city."

The official response of the three Western Allied Powers to this policy of confrontation has been less than weak. The U.S. State Department filed a mere note of protest with the Soviet embassy in Washington, D.C., which will not change anything. The East German regime will take this as an incentive to go ahead with its policy of confrontation. Historical irony has it that on Aug. 13, the East German regime celebrates the 25th anniversary of its monstrous Berlin Wall, which was the fruit of Western appeasement during the big Berlin crisis from 1958 to 1961.



## Did Andreotti control the assassins?

*Explosive revelations at the trial of the killers of General Dalla Chiesa and other anti-Mafia fighters, in Palermo.*

A political bombshell went off at the "jumbo trial" against the Mafia in Palermo, when the lawyer for the family of the late anti-Mafia chief Gen. Carlo Alberto Dalla Chiesa, Alfredo Galasso, asked that a series of high-ranking individuals be called to testify. They include Defense Minister Giovanni Spadolini; ex-Interior Minister Virginio Rognoni; member of Parliament, Rinaldo Formica; representative to the European Parliament, Salvo Lima; and the head of the Communist regional group of Sicily, Michelangelo Russo. At the top of the list is none other than Giulio Andreotti, foreign minister, head of a faction in the Christian Democratic party, and leading "appeaser" of Moscow in the Italian government.

The attorneys for the Setti-Carraro family, whose daughter was married to the late General Dalla Chiesa, have supported the subpoena request, as have the legal representatives of Paolo Giaccone, a doctor assassinated by the Mafia. General Dalla Chiesa, who crushed the terrorism of the Red Brigades, was penetrating the secrets of the Mafia when he was killed.

The request to subpoena the above group came after the general's son, Nando Dalla Chiesa, gave one and a half hours of testimony, laying grave responsibility at the doorstep of politicians and government figures. Nando Dalla Chiesa pointed the finger, above all, at Andreotti. He said that his father, Gen. Carlo Alberto, had a very poor impression of the Sicilian

"Andreottians." The general had testified along these lines in 1973, to the first anti-Mafia commission, where his unequivocal evidence has stayed on the record. When he was named to head up the anti-Mafia battle, he presented himself to Giulio Andreotti, and announced his intention of a general cleanup. "The Andreottians were in it up to their necks," said the general, and added that Andreotti "did not seem to care about his electorate in Sicily."

According to Nando Dalla Chiesa's deposition, it seems that Andreotti answered the general by reminding him of the case of the mafioso Pietro Izerillo, who was returned from the United States in a coffin, with a ten-dollar bill in his mouth. General Dalla Chiesa was struck by Andreotti's reply, which sounded like a death threat, but decided to continue his work.

Mrs. Maria Antonietta Setti-Carraro, the mother of Emanuela, the general's wife, cited another significant episode, in which the Dalla Chie-sas were invited to a ceremony of a strange entity in Sicily, called "Accademia degli uomini incamminati" (roughly, the Academy of the Initiates); four of its members work in Sicily's second largest city, Catania, and were recently accused of being the true heads of the Mafia. The president of this "Academy" is none other than Giulio Andreotti.

Journalist sources reached in Rome have confirmed that the ties between the Sicilian Mafia and Andreotti have historic roots. It was the vice-gent

of the Hapsburgs, sent to Palermo, Don Marco Antonio Colonna, who used the Inquisition and bands of assassins in ways which later became known as "typical of the Mafia," as early as 1577. Since Andreotti is notoriously protected by the Colonna family, this thread leads to the ties of brotherhood between the Roman oligarchy and the Sicilian Mafia.

More recent facts confirm the ties between Andreotti and the Mafia: Near the end of July, the head of the Andreottian faction of the Christian Democrats in the Apulia region, Giuseppe Caroli, who also acts as the undersecretary to the finance minister, was indicted for heroin trafficking, via Syria and Italy. The Honorable Caroli is a dear friend and powerful political collaborator of Andreotti, and has profited from the good offices of the foreign minister, especially the latter's excellent ties to President Assad of Syria, in order to organize his illicit drug trafficking. Telephone taps and intercepted letters, complete with letterhead stationery, are deposited at the Syrian embassy in Rome, which incontestably prove Caroli's guilt.

Apulia, with the benefit of some political "cover," has become the region of Italy which is the main pipeline for Syrian drugs, and the Syrian embassy in Rome has been caught in the center of drug traffic at least twice in the last few months.

Despite the international media which paint him as Italy's most expert and far-sighted politician, Andreotti is the worst gangster who has ever reached the level of minister and then prime minister. There is not a scandal in postwar history of Italy in which he was not implicated; 27 times he has evaded indictment, profiting from parliamentary immunity. Mysteriously, no commission of inquiry has ever been given "the authorization to proceed."

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# International Intelligence

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## *Japan prepares to defend itself without the U.S.*

In the 1986 *White Paper on Defense*, the Japanese cabinet decided to boost its defenses, declaring that it had failed to keep pace with the Soviet military buildup in Asia, the Reuter wire service reported on Aug. 8. The *White Paper* said that the military had not met a 10-year-old target of becoming strong enough to repel a limited invasion without U.S. help.

"The international military situation in the region surrounding Japan is getting worse," the document concluded, adding that the Soviet Union had deployed up to a third of its total strategic nuclear forces in the Far East over the past decade, including 162 of its SS-20 medium-range missiles.

The total bill for the 1985-86 Japanese defense program is expected to be \$118.7 billion.

Meanwhile, Reuter reported on Aug. 4 that Japan is turning the island of Iwo Jima, the site of one of World War II's bloodiest battles, into its biggest training center for jet fighter pilots. Communication facilities have also been improved. The Japanese Air Force is conducting flight training on F-4 Phantom jets and the Navy is training pilots of P3-C Orion and Neptune anti-submarine planes on the island. As of Sept 25, the level of training will increase.

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## *Germany's Strauss seeks to oust foreign minister*

Franz-Josef Strauss, the Bavarian governor and chairman of West Germany's conservative Christian Social Union (CSU) party, broke protocol on Aug. 3 and demanded that Foreign Minister Hans-Dietrich Genscher, who has held the post since 1974, finally leave or be dumped. Genscher is the leading pro-Moscow appeaser in the Bonn government.

"It is time for a change in the leadership of the West German Foreign Office," Strauss

said, attacking Genscher for his "pseudo-diplomatic special tours"—a reference to the foreign minister's recent trip to the Soviet Union. "He should beware of wanting to play a mediator role between Washington and Moscow," Strauss said, warning that "this eternal travel diplomacy, today in Moscow, tomorrow in Washington, dramatic scenes, generally with the benefit of TV coverage, in order to attain the expected effect," does not serve the aim of the coalition government.

Genscher, a liberal Free Democrat, and Strauss have frequently been at loggerheads within the ruling coalition headed by Chancellor Helmut Kohl, and Strauss has occasionally made a bid in the past to replace his opponent as foreign minister. Rarely have the public polemics been so sharp as this, however.

In a television interview on Aug. 4, Strauss criticized the government's handling of the current crisis over an influx of refugees from East Berlin to the West. "We should do what we can do," he said, "instead of hoping for mercy from the G.D.R. [East Germany] or begging for the blessing of Moscow." Strauss called on Chancellor Kohl to "finally see to it, that the CDU [Christian Democratic Union—Kohl's party] and its officials speak the same language."

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## *U.S. will treat Israel like a NATO member*

U.S. President George Bush finalized a deal with Israeli Prime Minister Shimon Peres during his visit to Jerusalem at the end of July, that would give Israel privileges hitherto only accorded members of the NATO alliance, according to reports in the European and Israeli press.

"Israel To Be Put On Par With NATO" heralded the front-page headline in the July 30 *Jerusalem Post*, announcing that Israel was to receive the "most-favored nation" status given only to NATO countries, Australia, and New Zealand. The *Post* reported that Peres had made a request some time ago, to bypass the "effect of the Gramm-

Rudman amendment, which freezes U.S. foreign aid to Israel."

The French daily *Le Figaro* on July 31 quoted sources who called the accord a "natural consequence" of Israel's agreement to cooperate with the U.S. Strategic Defense Initiative (SDI).

The Israelis will receive special funds for research and development for SDI contracts, and will be able to buy American-made weapons at a cheaper rate than before, the paper reported.

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## *Queen's elite troops charged with drug crimes*

Four British Army Gurkhas, the Queen's elite troops, are currently on trial in London for smuggling heroin and cannabis resin into Britain, the *Times* of London reported on Aug. 6.

The accused men all belong to the second battalion of the King Edward the Seventh Gurkha Rifles. They were arrested returning from leave in Nepal, and were carrying the drugs, valued at £180,000 in secret compartments in their suitcases.

The Gurkhas are recruited from a tribe based in Nepal, and have traditionally been the most loyal of the Empire's troops. They are usually based in the possessions of the Crown, such as Hong Kong. During Britain's 1982 war with Argentina over the Malvinas Islands, the Gurkhas played a prominent role.

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## *Spain, France map anti-terror offensive*

The Spanish and French interior ministers agreed on Aug. 6 on a plan to fight drugs and terrorism. A joint communiqué issued after the meeting reported that an agreement had been reached to increase border surveillance, and that cooperation against drug smuggling and terrorists will be "continued and strengthened."

The French government has moved de-

cisively in the recent period to end France's role as the safehouse of international terrorism. In little more than a week, the government of conservative Prime Minister Jacques Chirac turned over to Spanish authorities five leading members of the Basque terrorist gang ETA, who were hiding out in France; busted a continent-wide cocaine ring; and rounded up Irish terrorists. The French are also creating specially trained military units to deal with terrorism.

In retaliation, the ETA terrorists on July 25 warned the Spanish government that they would increase their attacks on French targets. Since that date, ETA has carried out a dozen assassinations on Spanish territory.

### ***What's behind those 'art discussions' in Lugano?***

The Kremlin has chosen the Lugano, Switzerland estate of Thyssen family heir Baron Thyssen-Bornemisza "for its first experiments in artistic exchanges with the West," the *Times* of London reported Aug. 5, in an article entitled, "Leningrad Comes to Lugano." The baron's Lugano estate is the site of an exhibition entrusted to him by the U.S.S.R. minister of culture, on loan from the Hermitage Museum of Leningrad.

The kinky world of *avant-garde* (and other) art exchanges has provided a cover for intelligence deployments of the East-West oligarchical apparatus known as "The Trust," for example, Armand Hammer's involvement with "Czarist art treasures" in the early days after the Bolshevik Revolution.

This is the second such exchange of exhibitions between Baron Thyssen and the Soviet Union.

The *Times* quotes Baron Thyssen on why the Soviets would come to such an arrangement with him: "It is easier for them to do a deal with an individual. A deal with a country may have strings attached about freeing Jews or old financial squabbles." When he goes to the Soviet Union, he says, "I get a reception worthy of a head of state. There's a delegation of dignitaries to meet me, and flowers, and the largest car they manufac-

ture to sweep me into town."

The *Times* adds: "The second exchange of pictures with Russia, delayed this year, is to go ahead in 1987 and negotiations have begun for an exchange of 20th century *avant-garde* art which would bring the subversive abstracts of the Constructivist generation out of the cellars of Russian museums for their first airing at the lakeside villa in Lugano."

### ***German terrorists are safehoused in Syria***

Three leading members of the Red Army Faction (RAF), the German terror gang, are living in Damascus, enjoying the protection of the Syrian government, the Springer Foreign News Service reported on Aug. 6.

So much for the argument of U.S. Secretary of State George Shultz and other Foggy Bottom officials, that the United States should improve ties to Syria, since it is not pro-terrorist like Iran or Libya.

The three, Susanne Albrecht, Friederike Krabbe, and Monika Hellberg, are among the 20 most-wanted terrorists in the Federal Republic of Germany. All are sought by police for complicity in the 1977 assassinations of Jürgen Ponto (chairman of Dresdner Bank), Klaus Buback (federal attorney), and Hans-Martin Schleyer (president of the German Entrepreneurs Association), among others.

In a related development, German police on Aug. 3 arrested one of the RAF terrorists believed to have planned and executed the recent assassination of Karl-Heinz Beckurts, a researcher for the Siemens company who was working on high-technology projects related to the U.S. Strategic Defense Initiative.

The RAF killer, known variously as Eva or Sybille Haule-Frimpong, was observed in a cafe by a West German citizen, who recognized her from a wanted poster and called police. Within minutes, six plainclothes police surprised her and two other terrorists. Haule-Frimpong was carrying a heavy-calibre revolver and ammunition for it.

## ***Briefly***

● **OLOF PALME**, the Swedish prime minister who was assassinated on Feb. 28, 1986, will be pictured on 2.5 million 10-kopek postage stamps issued by the Soviet postal ministry. This is an honor rarely accorded a foreigner; among the exceptions are Salvador Allende, Patrice Lumumba, and Mahatma Gandhi. Although Palme's death served the Kremlin's aim of destabilizing the North of Europe, its leaders bore him no personal animosity, after his years of loyal service.

● **THE BRITISH** Broadcasting Corporation (BBC) on Aug. 2 released results of a poll which showed that Prime Minister Margaret Thatcher has the backing of 70% of the British population, for her refusal to allow economic sanctions against South Africa.

● **BISHOP TUTU** of South Africa said on Aug. 7 that if the West won't help African countries, like Zimbabwe and Zambia, it is "almost natural" that they "will turn to East bloc countries." He added, "My own fear is that the basic instability introduced by apartheid is going to introduce cold war into our region."

● **ARCHBISHOP RUNCIE**, head of the Church of England, will be visiting South Africa soon, nominally to attend the enthronement of Anglican Bishop Desmond Tutu as Archbishop of Capetown on Sept. 7.

● **POPE JOHN PAUL II** was targeted for assassination by the Islamic Jihad terrorist group, on the occasion of the release of the American priest Father Jenco. According to the French newspaper *Le Figaro* on Aug. 4, Islamic Jihad denounced him as an "accomplice" of the United States, "The Great Satan." "The silence of the Pope on the crimes of America and its collaborators, and the Pope's support for their criminal acts, makes of the Pope an accomplice in their crimes," the group's communiqué said.

## Showdown over AIDS is coming in California

by Warren J. Hamerman, director  
EIR Biological Holocaust Task Force

A full-scale international showdown is unfolding in California on the true nature of the threat of AIDS to the general population outside of the so-called High Risk Groups. In November, the electorate will vote on California Ballot Proposition 64, an initiative which calls upon the state to apply the same standard public health measures to stop the spread of AIDS which have traditionally been applied to the list of other deadly communicable diseases. Nearly 700,000 California citizens had signed petitions to qualify Ballot Proposition 64.

Proposition 64 was filed by the Prevent AIDS Now Initiative Committee—or PANIC. The proposition has been identified internationally as the “LaRouche measure.”

On July 30, California Secretary of State March Fong Eu went into California Superior Court to strike sections of arguments filed by proponents of Proposition 64, whose certification on the ballot is not challenged. Those arguments, which outline the magnitude of the health crisis already caused by AIDS in the general population, and describe the dangers of transmission of the disease, had been prepared for publication in the *California Voters' Handbook*.

Fong Eu filed the case under a procedure which permits the Secretary of State to prevent publication in such pamphlets, copy which she or he claims to be false, misleading, or inconsistent with the requirements of the Elections Code. The outcome of the case will have no bearing on the ballot status of Proposition 64, and concerns only the information which reaches the public through the *California Voters' Handbook*.

The entirety of the evidence upon which Fong Eu's case

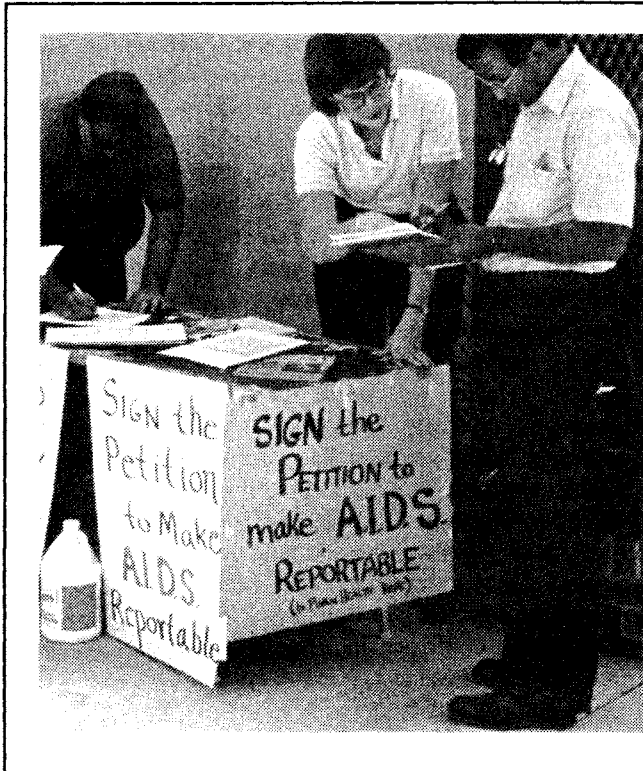
is based, is a sworn statement from Dr. Mervyn Silverman, who was health director for the City and County of San Francisco for over a decade and the man whose incompetent policies made San Francisco an AIDS necropolis. In his statement, Dr. Silverman advances fraudulent and preposterous arguments concerning AIDS.

We are printing below some of the declarations by internationally renowned medical experts submitted as testimony to counter Silverman's lies for the hearing, scheduled for Aug. 8.

In his arguments, Silverman denies known realities about AIDS, just as evidence from medical authorities throughout the world is becoming overwhelming. Silverman claims it is false to say that AIDS is easy to get: “It is hard to get, because it requires the exchange of blood, blood products, or bodily fluids for infection to occur.” The truth is otherwise. As supporters of the PANIC Initiative make clear, there are now 500,000 people infected with AIDS in California, and millions are infected worldwide.

Silverman also claims that it is false that the vast majority of AIDS cases, when viewed worldwide, lie outside the “high risk” categories of homosexuals and intravenous drug users. But medical authorities supporting the initiative have pointed out that the majority of AIDS sufferers are not in high-risk categories, once data for Africa and other Third World nations are taken into account. In Haiti three years ago, 70% of AIDS cases were in “high risk” groups. Today, over 70% are *not* in “high risk” groups.

Silverman also states categorically that no cases of insect-borne or respiratory-aerosol transmission have been reported



## Court upholds censorship in AIDS voter education

California State Court Judge Ford in Sacramento on Aug. 8 made four rulings on the wording of the Proposition 64 Voter Education Pamphlet which will be printed for the California electorate. The judge made a gross error by upholding the precedent-setting request of Secretary of State March Fong Eu to "censor" key sentences from the Ballot Education Pamphlet and thereby keep the public from receiving critical public health information. Specifically, the Judge ruled to strike the reference to numerous studies of the "potential transmission of AIDS" by insects and the respiratory route and other formulations, despite the massive scientific documentation supplied in the affidavits of Dr. Whiteside, Gus Sermos, Dr. Seale, and Dr. Grauerholz.

or documented and even denies that they are "potentially possible." As supporters of Proposition 64 point out, potential insect and respiratory transmission has been established by numerous studies (see affidavits below).

A similar point can be made with regard to Silverman's assertions that "casual contact" cannot transmit AIDS. In an amended statement, initiative supporters point out that there is *no* scientific evidence for the assertion that AIDS *cannot* be transmitted by casual contact.

### Who is Dr. Silverman?

On Dec. 12, 1984, Silverman, then public-health director of San Francisco, resigned under a cloud of controversy, as scandals and political disagreements rocked his administration. The first scandal concerned his administration of San Francisco General Hospital. Control of the hospital was taken from him in June 1984, after state investigations revealed problems in medical practices there.

Commentators at the time noted that Silverman was believed to spend more time on the "gay"-dominated politics of the city, than on administering the hospital. For much of his career in San Francisco, Silverman had basked in the praise of the deviant community for his willingness to tailor health-care and outreach programs to its needs. He was also known as the darling of City Hall, much admired and trusted by San Francisco's liberal Democratic Mayor Dianne Feinstein.

Nonetheless, Silverman balked at Feinstein's order that he outlaw the city's "gay" bathhouses, which public health officials knew to be promoting the spread of AIDS. At that

time, Silverman stated, "It was important that we be seen as protectors rather than policemen. If we had closed the bathhouses, we would have lost that relationship." Silverman ultimately lost on the bath house issue.

Silverman currently serves as president of the American Foundation for AIDS Research, whose founder and co-chairman is Dr. Mathilde Krim.

Krim was born into a wealthy Swiss family and attended the University of Geneva, where she came into contact with the terrorist organization known as the Irgun, and worked with them smuggling guns in southern France. She married American lawyer Arthur Krim, a top figure in the "Hollywood Mafia." The well-known Russophile and fellow traveler of the Soviet KGB, Armand Hammer, a close friend of Krim, is one of the leading figures operating on behalf of The Trust, the coordinating body which links networks of the Western financial oligarchy to the Soviet state and Soviet interests. Hammer personally provides significant funding to the American Foundation for AIDS Research, which Silverman heads, and Hammer's Occidental Petroleum provides corporate funding as well.

Silverman-associate Krim has been one of the leading "experts" opposing the use of traditional public-health measures for AIDS carriers, and also supports the giving of free needles to drug addicts, supposedly to prevent the spread of AIDS.

*EIR* has long maintained that only individuals seeking to undermine the United States or promote organized crime would oppose the use of traditional public-health measures

to stop the spread of AIDS.

As the irrefutable medical judgment contained in the affidavits of Sermos, Seale, and Whiteside below proves, on the scientific merits, there is no doubt but that AIDS is a deadly threat to the general population. We call attention to the conception developed in Dr. Whiteside's affidavit, that the issue in tropical areas such as Africa or southern Florida is not "high risk individuals," but that these poverty areas themselves are "high risk areas."

## **On the generalized risk of getting AIDS**

### **Affidavit #1: Gus Sermos**

I, Gus G. Sermos, declare as follows:

1) I am a former Public Health Advisor with the Centers for Disease Control, which is located in Atlanta, Georgia.

2) My experiences are detailed in my curriculum vitae, which is attached as Exhibit A.

3) During my two and a half years of performing AIDS surveillance in Florida for the Centers for Disease Control, I reported between 775 and 825 diagnosed and well documented AIDS cases to my superiors at the CDC.

4) Dr. Silverman states that, "There are no medical studies or clinical data that support this assertion." He was referring to the assertion that AIDS may be transmitted by insects. In April 1985, I attended the International AIDS Symposium in Atlanta, Georgia. At that meeting, Dr. Jonathan Mann of the CDC stated during his presentation that, while working in Zaire, he had seen evidence of insect transmission of

HTLV-III among villagers living in crowded huts.

5) A number of the approximately 800 cases that I investigated in Florida do not fall in a known risk group. For example, in two different cases, female nurses contracted AIDS. In both situations, we tested sex partners and live-in relatives for antibodies to HTLV-III and found no sex partners or family members to be infected. Neither one of the nurses were intravenous drug users. Their method of contracting is unknown. Additionally, a female married to a transfusion-associated AIDS case developed AIDS shortly after her husband expired. They reportedly had not engaged in sexual relations for several years. The female was not an intravenous drug user. In another case, a male sewer worker contracted AIDS; we have never been able to establish that he was either gay or an intravenous drug user.

6) In my opinion, too many AIDS cases fall into unknown risk groupings for any of us to state that modes of transmission other than intimate sex contact or intravenous drug use are neither possible, plausible, nor viable.

I declare under penalty of perjury that the foregoing is true and correct and that, if called upon as a witness, I could testify competently thereto.

## **On the potential of insect transmission**

### **Affidavit #2: Mark Whiteside, M.D.**

1) I, Mark Whiteside, M.D., hereby declare that, although I do not endorse California Proposition 64, I do feel obligated to express my opinion about the role of environmental factors in the transmission of Acquired Immunodeficiency Syndrome. I personally believe that AIDS is an environmental (probably insect-transmitted) disease of the tropics with secondary transmission via other blood means, i.e., transfusion, contaminated needles, and sexual practices that lead to breaks in the skin and mucosa. The role of environmental factors, for example, blood-sucking insects, sores rubbing together in crowded places, etc., has been unfortunately neglected. These issues have great significance for prevention and control of AIDS today.

2) AIDS is becoming a worldwide disease, with an increase in Africa, the Caribbean, South America, especially Brazil, among those persons with a risk factor for blood contamination in the United States and Europe. The national figures on the breakdown of AIDS by "risk group" are not applicable to the state of Florida. Percentages of "unknowns" or "no identifiable risk" (NIR) AIDS ranges from 22% of cases in Florida to 30% of cases in Miami to 50% of cases in Belle Glade, Florida. In this subtropical environment we are seeing men and women, heterosexuals without the usual risk factors associated with AIDS. It is my opinion that most of the NIR AIDS is not explained by sexual contact with members of high risk groups.

3) The coming debate is over how much disease, AIDS, will be transferred between men and women. Heterosexual transmission of AIDS has been uncommon in the United

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States, accounting for 1-2% of cases. There are approximately 300 female "heterosexual contact" AIDS and 200 female NIAID cases in the United States. Most of the female AIDS is concentrated in poor blacks and Hispanics on the eastern and southern coasts of the United States (Reference 1). We don't know if AIDS can be transmitted from women to men. Although heterosexual spread of AIDS needs further investigation, I don't think it explains the pattern of AIDS in the tropics (for example, equal sex ratio in Central Africa).

4) AIDS corresponds to the insect belt in many parts of the world. Before modern day AIDS, the region of greatest density of Kaposi's sarcoma (a tumor associated with AIDS) was on the border of Zaire and Uganda. Such tropical tumors as Kaposi's sarcoma and Burkitt's lymphoma were always linked to environmental conditions of climate, rainfall, and altitude (Reference 2). The distribution of these tumors correlated with malaria and the insect-borne virus (arbovirus) infections. Even more recent studies show a correlation of antibodies to HTLV-III/LAV (HIV) and antibodies to malaria (References 3, 4).

5) Today AIDS is increasing in men and women in Central Africa with some spread to both East and West Africa. Potential co-factors in African AIDS include malaria, parasites, malnutrition, genetic factors, poor sanitation, and hepatitis-B. Many scientists accept hepatitis-B (serum hepatitis) as a model of the transmission of AIDS. Several studies suggest insect transmission (mosquitos, bedbugs) of hepatitis-B in the tropics (References 5, 6). A significant percentage (15-22%) of AIDS in Africa is found in children (Reference 7). How can this possibly be called a sexually transmitted disease?

6) The introduction of AIDS into the Caribbean in the late 1970s corresponds with epidemics of mosquito-transmitted virus infection. For example, Dengue type I (mosquito virus) was introduced for the first time in 1977, causing hundreds of thousands of people to get sick, and in 1981-82, several hundred people died from dengue hemorrhagic fever. There is every indication that AIDS has a broad base in the Caribbean from Cuba on over to Puerto Rico. AIDS was never limited to Haiti, although Haiti happens to be the poorest country in the Caribbean.

7) Several years ago, we began to see Haitian patients at Jackson Memorial Hospital in Miami with unusual tropical diseases. Many people have never heard of these unusual parasitic infections, but they are all described in textbooks of tropical medicine. Studies showed that the Haitians were heterosexual, with relatively few lifetime sexual partners and no obvious means of acquisition of AIDS. We noticed that most of the Haitians we interviewed came from poor conditions in their own country to poor conditions in the United States. We visited the homes of our patients in Little Haiti (in Miami) and documented serious public health problems, for example, inadequate housing, overcrowding, open waste, and high mosquito and rat populations. We conducted our

first environmental survey in Miami and brought this technique with us to Belle Glade.

8) Belle Glade is the best example of the tropical pattern of AIDS in the United States. Belle Glade has the highest rate of AIDS in the United States (2.5 per 1,000 population). Over one-half of the AIDS in Belle Glade is in men and women born in the United States (20%) or in the Caribbean (30%) who do not fit into the usual risk groups. The final striking observation is that nearly all persons with AIDS and persons with tuberculosis live in the central economically depressed (slum) sections of Belle Glade (Reference 8). An untreatable sexually transmitted disease (like herpes) does not confine itself to single poor neighborhoods.

9) There are more than 50 confirmed AIDS cases in Belle Glade, but, because of lack of diagnostic facilities and few autopsies in the past, AIDS is assumed to be underreported by a factor of three to one. We will know what the "iceberg" is in Belle Glade, since we are keeping track of persons with AIDS, ARC (AIDS-related complex or illness) and sick, HTLV-III/LAV antibody-positive individuals. Independent surveys (by CDC and Institute of Tropical Medicine) have documented a 9-11% seroprevalance of antibodies to HTLV-III/LAV among the largely heterosexual control population living in one of two central depressed neighborhoods in Belle Glade. The majority (60-70%) of these antibody-positive individuals do not have an identifiable "risk factor" for AIDS (Reference 9). Results of studies in Belle Glade will affect all communities in south Florida, and, hopefully, will be used to help prevent the disease.

10) Poor people in the tropics suffer from multiple infections. We have hypothesized that repeated exposures to certain insect-borne viruses (which might be found "in one in a few thousand mosquitoes") are one of the things that leads to weakening of the body's defenses over time. Tuberculosis, which is more common in poor environments, is associated with milder degrees of immunosuppression and weakened immunity (Reference 10). When the cellular immune apparatus is broken beyond repair, certain opportunistic infections and cancers come along which are called AIDS. I am often asked, "What proof do you have of this theory?" I don't claim to have proof, but the pattern of AIDS in the tropics strongly implicates an environmental factor, and preliminary data support this observation. The majority of AIDS patients we tested in south Florida have antibodies in their blood to viruses known to be carried by insects. For example, many of our patients have antibodies to Maguari, a Bunyamwera serogroup arbovirus (insect virus) endemic to the Caribbean and South America and not previously reported in the United States (Reference 11). Most people understand that AIDS is blood-to-blood contact and that blood-sucking insects are a logical means of transfer of blood-borne agents in the tropics.

11) We can turn this question around and ask you, "What proof do you have that AIDS is primarily a sexual disease in the tropics?" I understand the popular (or prevailing) view-

point about AIDS is that there is (bi-directional) heterosexual transmission of the disease that is somehow more common in the tropics. However, it is my opinion that studies implicating heterosexual transmission of AIDS in the tropics (for example, Africa, the Caribbean) were seriously flawed by overwhelming bias, inadequate controls, and lack of prospective data. Until better studies are carried out and more is known, the conviction that AIDS is due to sexual habits ("promiscuity") among poor people in the tropics or in south Florida seems to me to be a narrow and quite prejudiced attitude.

12) Most scientists think AIDS is caused by a single agent, the retrovirus named human immune-deficiency virus (HIV), formerly HTLV-III/LAV. It should be pointed out that this virus has not been proved to be the cause of AIDS. Ultimately, reduction of the incidence of AIDS must result from prevention of HIV infection. In the test tube, the HIV must be switched on or activated to enter cells and cause disease. The insect-borne viruses (arboviruses) we are studying as co-factors in AIDS are known to activate retroviruses in animals (Reference 12). I think AIDS results from interaction of more than one virus agent.

13) Veterinarians have known for a long time that the closest relatives to HIV in animals can be carried on the mouth parts of blood-sucking insects. Animal retroviruses, including bovine leukemia (in cows) and equine infectious anemia (in horses) are transmitted "mechanically" by insects under conditions of crowding and abundance of insects, and when the animals have a high level of virus in their bloodstream (References 13, 14). Although you don't hear much about it, a number of researchers from around the world are just beginning to examine the role of insect transmission of the human retrovirus (HIV). A report was recently published in *Lancet* (British journal), showing survival of the "AIDS virus" (HIV) in the common bedbug (Reference 15).

14) Since I work in the highest risk areas of the nation, I am painfully aware of the relentless course of this epidemic. For several years, we have counseled people about sexually transmitted diseases and environmental health risks. Our programs in Miami and Key West for gay men emphasize safe sexual practice. We warn heterosexuals to be more careful (when in doubt, either don't do it, or use a condom). Intravenous drug-users should know there is only one solution, and that is to stop. Blood products have already been made safer by testing for antibodies to HIV. However, in some of our poorest neighborhoods, we would not be doing a proper job unless we counseled about environmental hazards, for example, fixing things at home and asking for help, protective clothing in the field, cleaning the home and yard of refuse and containers of water that breed urban mosquitoes, etc.

15) It is crucial to recognize the importance of environmental factors because that is the first step to begin to control them. We have documented a parallel distribution of AIDS and tuberculosis in several "poverty pockets" in south Flori-

da, for example, neighborhoods in Belle Glade, Delray Beach, and Little Haiti. Our best chance to slow the progression of these epidemics is by prevention and public education. I believe that part of prevention relates directly to classic public health measures, providing adequate housing, sanitation, control of insect and rat populations, etc. During a public health emergency, we must take action even before all the questions have been answered. Public health is no longer the top priority in the United States. We must make it the top priority.

16) I declare, under penalty of perjury, that the foregoing is what I believe to be true and, if called upon as witness, I could testify competently thereto.

Sincerely,  
Mark E. Whiteside, M.D.

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## **On the potential of respiratory transmission of AIDS**

### **Affidavit #3: John Seale, M.D.**

I, John Richard Seale, hereby make oath and say as follows:

1) I am a registered Medical Practitioner of the United Kingdom and have been since 1951.

2) I have been a Bachelor of Medicine (Cambridge) since 1951, a Doctor of Medicine (Cambridge) since 1955, A Fellow of the Royal Society of Medicine (London) since 1967, A Fellow of the Medical Society of London since 1968, a member of the Medical Society for the Study of Venereal Diseases (London) since 1963, and a member of the Royal College of Physicians (London) since 1953.

3) I studied medicine from 1945 to 1951 at Cambridge University and St. Thomas Hospital, London, and spent the year 1958-59 in study and research at Harvard University in the U.S.A.

4) I have been engaged in the practice of clinical medicine since 1951; at St. Thomas Hospital, London (1951-53), Internal Medicine and Clinical Pathology; in the Royal Army Medical Corps (1953-55) Internal and Military Medicine; at the Brockton Hospital, London (1955), Thoracic Medicine and Tuberculosis; at the National Hospital for Nervous Diseases, London (1956), Neurology; at St. Mary's Hospital, London (1957-61), Internal Medicine; and at the Middlesex and St. Thomas' Hospitals, London (1962-76), as Consultant Physician in the Departments of Venereology and Genito-Urinary Medicine. Since 1976 till the present, I have been in private consultant practice in London, specializing in Genito-Urinary Medicine and Sexually Transmitted Diseases. Since 1982, several of my patients have suffered and died from AIDS and several others are infected with the AIDS virus.

5) Early in 1983, I started studying the epidemiology, pathogenesis, prognosis, and transmission of AIDS virus infection. I have since published articles and letters on AIDS in the *Journal of the Royal Society of Medicine*, *Nature*, the *Canadian Medical Association Journal*, *New Scientist*, *The Economist*, and a German journal of dermatology (*Zeitschrift für Hautkrankheiten* in German).

6) On third April, 1986, my letter entitled "Infectious AIDS" was published in *Nature* (Exhibit 1). It includes the words, "Under special circumstances, the AIDS virus is highly infectious. . . . Once a critical mass of people have been infected rapidly by highly efficient means of transmitting the virus, then transmission by a far less efficient means will inevitably occur increasingly often. These include blood transfusions, perinatal transmission, biologically normal

sexual intercourse, needle-stick injuries, sharp contact of sores or abrasions with contaminated blood, saliva, or sputum, mechanical transmission by blood-sucking insects and flies, and routine dental procedures."

The letter concludes with the words, "If the long-term mortality of infection also turns out to be similar (to *maedivisna*), the AIDS epidemic is more than a serious problem of public health; it is the start of a pandemic slow virus disease with the potential to decimate mankind within a couple of decades."

In the four months since the letter was published in *Nature*, no letter has been published in the journal by any scientist or public health official indicating that any of my conclusions were erroneous. It is my belief that *Nature* is one of the most highly respected scientific journals, with an international standing, comparable to the American journal *Science*. Many of the fundamental scientific papers relating to the AIDS virus and the epidemic have been published in *Nature*, including the first description, in January 1985, of the full nucleotide sequence of the AIDS virus, by Dr. Robert Gallo, Dr. William Haseltine, and seventeen other American scientists.

7) On first August, 1985, the *Journal of the Royal Society of Medicine* published an editorial, *sans ami*, entitled "AIDS Virus Infection: Prognosis and Transmission" (Exhibit 2). In the ensuing correspondence published in the journal on first February, 1986 (Exhibit 3), the potential for respiratory transmission of the AIDS virus, in association with pulmonary tuberculosis, was discussed.

8) On first August, 1986, the *Journal of the Royal Society of Medicine* published further correspondence on the origins of the AIDS virus, from the exiled Soviet biologist, Dr. Zhores A. Medvedev and myself (manuscripts Exhibit 4).

9) Dr. Medvedev and myself have submitted for publication, to the *Journal of the Royal Society of Medicine*, a more detailed analysis of the origins of the AIDS epidemic and the role of the multi-use hypodermics (Exhibit 5). The date of publication has not yet been cited.

10) The manuscript entitled "The AIDS Coverup" (Exhibit 6), written by me, will be published in *Travel Medicine International* on first October, 1986.

11) On the 28th of May, 1986, at the invitation of Dr. David Axelrod, Commissioner for Health for New York State, I delivered a paper at the International Symposium, "AIDS—Impact on Public Policy," held in New York City on 28-30 May, 1986. The paper, "International Cooperation and Competition in Scientific Research in AIDS," is scheduled for publication by the AIDS Foundation of New York later in 1986.

I declare, under penalty of perjury, that the foregoing is true and correct, and, if called upon as a witness, will repeat this testimony, sworn by the above-named John Richard Seale on this first day of August, 1986, for a chap, Mr. Hapcote, who is a Commissioner for Oaths in Leicester.

## Reagan, on LaRouche model, expands war on drugs

by Nicholas F. Benton

Four months after 1988 presidential candidate Lyndon LaRouche set off shock waves by calling NBC reporter Mark Nykanen a drug pusher on national TV, White House press briefings in the first week of August turned into a free-for-all of acerbic exchanges between the pro-drug media and the Reagan administration's determination to wage the war on drugs. President Reagan followed up his Aug. 4 announcement of a sweeping, six-point program for a war on drugs with two moves later in the same week that send a message that he is very serious.

The anti-drug program Reagan is now going with, is the program LaRouche and *EIR* have been advocating since LaRouche and his associates helped defeat Jimmy Carter over the drug issue in 1980. It includes military cooperation with our foreign allies to eradicate drugs at the source, and the beginnings of a battle against the hedonistic counterculture which the media have created.

Two days after his nationally televised speech, Reagan said at the National Conference on Alcohol and Drug Abuse that he plans to call in 15 to 20 U.S. ambassadors from their overseas posts to brief them, and commission them to start cooperation in the war on drugs with the countries where they serve. "Together," Reagan said, "all countries must send the message: No drug networks will remain alive. We mean to have a drug-free country, and the world should know we mean business."

The next day, at the White House, it was announced that the President, Vice-President George Bush, and 76 other members of the senior White House staff had volunteered to take a drug test on Aug. 11. This was described as "setting an example and leading the way toward President Reagan's goal of a drug-free workplace."

The big national news media reacted with outrage. The

*Washington Post* and *New York Times* buried the President's Aug. 4 speech deep in their inside sections; White House press correspondents hit the ceiling when they were told of the plans by top White House officials to set a national example by taking the drug tests. Completely out of step with the American population (71% of which feel, according to recent polls, that the drug epidemic is the nation's most serious problem), White House reporters were hopping up and down about "threats of violating individual rights" implied by such volunteer testing.

In announcing his six-point program, the President cited the success of mandatory testing in the U.S. military, where drug use declined from chronic use by 27% of personnel in 1981 to under 9% in 1985. He said the stress in the use of testing is not on punishment, but on treatment, to "free the society, and the individual, from drugs." Rehabilitation in the military, according to an administration official, has allowed over 60,000 men who tested positive for drugs to remain, while only 16,900 had to be discharged.

### Mobilizing against the drug culture

While confirming that law enforcement and international drug eradication efforts that began when he came into office in 1981 will be expanded, Reagan said that his new offensive is aimed at catalyzing activism among Americans in a popular effort aimed at rooting out drug use on the "demand" as well as the "supply" side.

The former Hollywood actor blamed Hollywood in particular. Replying to a question from *EIR* following his Aug. 4 announcement, Reagan attacked the tendency to insert scenes into movies that "make drugs look kind of attractive and funny, not dangerous and sad." He also blasted the texts of rock songs. In the future, he said, "I would hope that we

will hear public expressions of support for those in the entertainment world who use their enormous influence, especially on the young, to oppose drugs.”

Whereas the President said the focus of his efforts are aimed at rehabilitation, not punishment, for drug users, his attitude is not the same for drug pushers. In an interview with *Newsweek*, the President said, “They deserve the death penalty.” While he stopped short of advocating this himself, his adviser on drug abuse, Dr. Carlton Turner, went further during a press briefing Aug. 5 to the Foreign Press Association. Turner confirmed that “there are movements under way by state legislators that are asking for the death penalty,” and called it the “Malaysia amendment” (alluding to the execution of drug traffickers by the Malaysian government, a policy *EIR* has editorially endorsed).

Reps. Robert Michel (R-Ill.) and Charles Schumer (D-N.Y.) circulated a letter in Congress targeting the major TV networks. Over 300 Congressmen signed it. It said, “We believe that many fewer younger Americans would turn to drugs if they fully understood the facts. . . . Cooperation by the networks is critical to heightening public awareness.”

On Aug. 7, a federal appeals court in New York in the jurisdiction of U.S. Attorney Rudolph Giuliani unanimously upheld a precedent-setting ruling allowing the seizure of \$3 million in alleged drug proceeds held in the New York accounts of a bank based in a foreign nation (the Inter-American Bank of Panama). Giuliani said, “By ruling that the government can seize money in a foreign bank’s accounts . . . the court has dealt a severe blow to sophisticated drug traffickers.”

Further legal backup for rooting out drug money laundering will come from Congress soon. A bill outlawing money laundering for the first time was attached by a unanimous vote as an amendment to Senate legislation increasing the national debt ceiling.

### **William Weld under scrutiny**

As the President’s anti-drug initiative swept the nation like a tidal wave, even many liberal Democrats who not many years ago were working to legalize marijuana have been back-pedaling to get into the “war on drugs” mainstream. Even Hodding Carter, State Department spokesman in the drug-riddled Jimmy Carter administration, put himself on record, charging that if Reagan “were really serious” about his anti-drug campaign, he would not allow institutions like the Bank of Boston—caught red-handed in massive violations of laws requiring the reporting of large cash transactions—to “get away with a slap on the wrist.”

Carter struck the “Achilles heel” in the President’s efforts—the fact that the “slap on the wrist” given Bank of Boston was administered by Boston U.S. Attorney William Weld. Weld has now been nominated by the White House to become the head of the Criminal Division of the Justice Department. Reagan would be well advised to withdraw the

nomination of the contaminated Weld to avoid a major political embarrassment as well as a very bad appointment. Carter’s remark should be taken as a signal that some Democrats, eager to show up the President with their own anti-drug agenda, plan an ambush during the Senate Judiciary Committee hearings on Weld. Others, of course, will remain quiet in hopes the nomination of the dope-lobby agent Weld will slip through.

Reagan’s six-point program is comprehensive and characterized by broad, sweeping strokes that the President said will be filled in with specific mandates in the coming months. It includes:

1) *A Drug-Free Workplace*. The announcement of the volunteer drug tests for the President and the entire White House senior staff was aimed at setting an example for how to achieve this. “All federal employees deserve a drug-free environment, and their efforts should set an example for state and local governments and the private sector to follow,” the White House said. “It is particularly important that workers in sensitive occupations are clear-minded and free from the effects of illegal drugs,” Reagan stressed.

2) *Drug-Free Schools*. The President said he wants “drug-free schools, from grade schools through universities,” and that he would be “seeking a commitment from local and state government to require schools within their jurisdiction to be drug-free.” Implicit in his remarks is his power to make federal grants to state and local governments contingent upon compliance with these programs.

3) *Public Protection from Health Dangers of Drugs*. The President called for developing improved methods for drug testing (the current urinalysis test costs \$15 to \$25, takes 10 days to produce results, and does not detect use of most drugs more than one or two days before the test, unless that use is chronic). Moreover, effective rehabilitation methods for chronic drug users have not yet been developed.

4) *International Cooperation*. President Reagan explicitly called drug abuse “a threat to our national security,” and asserted that continuing efforts will be made to “join efforts” with other countries to attack trafficking “at the source.” He also called for a crackdown on money laundering.

5) *Strengthening Law Enforcement*. We must give “prompt and severe punishment to drug peddlers, the big guys and the little guys,” he said, stating that a beefed-up effort along the U.S.-Mexican border is being developed.

6) *Public Awareness*. The President placed the major burden for the war on drugs on the shoulders of every citizen. He called for “taking a stand in every city, town, and village in this country and making certain drug users fully understand their fellow citizens will no longer tolerate drug use. In the next few weeks, we will be preparing for an action campaign, based on many of the points I’ve made here today,” Reagan said Aug. 4. They will be launched, he said, “when the kids start returning to school in the fall. So this is chapter one, more to come.”

# LaRouche opponents now facing a rout

by Vin Berg

Ever since the internationally celebrated March 18 Democratic primary victories of two associates of Lyndon LaRouche in the state of Illinois, the Democratic National Committee led by Paul Kirk has been obsessed—to the exclusion of almost any other consideration—with just one thing: “Stop LaRouche.” The DNC has conducted months of smears, vote fraud, denial of ballot status, and every other trick such wheeler-dealer, organized-crime types can muster, and have indeed “stopped” a few LaRouche candidates here and there, temporarily.

But they have had just one problem: They have never been willing to face the reality represented by Illinois. That reality may be summed up: “the power of ideas.” It so happens that, Lyndon LaRouche, however many bad names he is called, has “eminently reasonable ideas,” and the issues and policies defined by LaRouche have tremendous vote-getting power in a crisis-wracked period of the nation’s history. For that reason, it is LaRouche, were his associates not to win another election this year, who is nevertheless defining the political process now unfolding across the United States.

Unlike the Democratic “regulars,” President Reagan’s policy advisers have not missed the obvious vote-getting appeal of LaRouche’s policies: Therefore, the President has adopted LaRouche’s programs on these issues: On the war on drugs, the President has begun a real war, as LaRouche demanded it be declared in a March 1985 Mexico City speech. On the Strategic Defense Initiative, the President’s recent letter to Gorbachov outlines exactly the type of SDI policy LaRouche first proposed in 1982 and has demanded consistently since. On the AIDS issue, LaRouche’s California ballot initiative for a public health approach involving quarantine and prevention, Proposition 64, has received the backing of some prominent Republicans.

And the result is, come the elections this fall, the “regular” Democrats so obsessed with “stopping LaRouche” stand to be handed devastating defeats by those Republican opponents who campaign on the policies defined by LaRouche, for the President and the nation.

The “wisdom” exhibited by President Reagan’s policy advisers—“Sound like LaRouche,” even act like him a little bit—was demonstrated afresh in Michigan on Aug. 5. Two

more candidates backed by Lyndon LaRouche’s wing of the Democratic Party won hotly contested races for Democratic nominations to the state senate, despite the “Stop LaRouche” efforts of the political machine of the United Auto Workers and such Dope, Inc. figures as Max Fisher.

James A. Green of Metamora, a retired automotive engineer, polled over 60% of the vote. He will face the head of the state Senate Judiciary Committee in November. Bill Goff, an engineer and consultant running in the agricultural 9th Senate District, received 54% of the vote, entitling him to oppose Sen. Nick Smith, the Republican head of the senate Agricultural Committee.

Other LaRouche candidates probably did much better than they were credited with. Evidence of fraud includes the invalidation of 30% of the ballots in Wayne County (Detroit)! Hank Wilson, the LaRouche candidate for governor, was credited with only 6%, after receiving numerous death threats and suffering one physical assault.

## ‘Mobsters Against LaRouche’

Will the Democratic “regulars” begin to catch on? Some might, but 1988 presidential hopeful Mario Cuomo, New York’s governor, is not to be among them. At the instructions of Cuomo’s supporters, who are said to have hired more than 200 lawyers for his “Stop LaRouche” effort, the New York Board of Elections on July 28 threw the LaRouche candidates for senator, governor, and lieutenant-governor off the ballot, on the merest of technicalities. At the same time, in the New York City boroughs of Queens, Long Island, and the Bronx, a combination of corrupt judges and mob-linked lawyers have also removed LaRouche congressional candidates from the ballot. Challenges are now in process, and will go to the State Supreme Court, and into federal court if necessary.

Cuomo’s obsession with LaRouche has gone to the point of accusing his GOP opponent O’Rourke of “LaRouche tactics.” This may express a personal fear. O’Rourke was in a sense guilty. He had accused Cuomo of organized-crime ties—precisely what the LaRouche candidates in the state have documented. Mario Cuomo is intimately associated with Gambino mafia figures, and, like many Democratic “regulars” around the country, could end up conducting his next election campaign from a jail cell (see *EIR*, Aug. 8, 1986).

In California, where LaRouche’s AIDS ballot initiative is dominating the politics of the state, Orange County congressional candidate Art Hoffman is in a court battle with the mafia-linked Judge Bruce Sumner, who magically made votes for himself appear during a recount of an election Hoffman had clearly won.

Sagacious observers will ponder one other thing. Illinois, California, and New York are the keys to the U.S. Presidency. And Illinois, California, and New York are each now undergoing political upheavals associated with one thing: the power of ideas, LaRouche’s.

## NBC hit for coverup of anti-drug campaign

NBC White House correspondent Chris Wallace was singled out for attack twice during the first week of August by White House spokesman Larry Speakes, as President Reagan's new anti-drug initiative was launched.

Speakes charged on Aug. 1 that Wallace's coverage of the initial announcement of the plan was "the worst" of all the networks, aimed, he said, at creating hysteria by misrepresenting the program as a threat to the civil liberties of federal employees.

Two days later, Wallace and NBC were attacked again. When a *Los Angeles Times* poll was cited by one reporter, showing public confidence in the national networks, Speakes shot back, "I bet that didn't include NBC!"

The rebuke to NBC-TV is most apt; as *EIR* has long emphasized, that network is run by dope lobby interests who have issued libellous attacks against Lyndon LaRouche. NBC periodically features pro-drug "journalists" from *High Times* magazine such as Dennis King, Chip Berlet, and Mark Nykanen (the latter now an NBC employee), issuing wild accusations against LaRouche.

Also under fire from Speakes were

the two principal house organs of the Eastern Liberal Establishment. After the President went live on national television to spell out his anti-drug program, Speakes said, the *Washington Post* and *New York Times* both "buried" the story the next day. The *Post* put it on page 8, the *Times* on page 24.

When Speakes announced that President Reagan planned to hold his next public press conference in Chicago on Aug. 12, one reporter cracked, "What are you trying to do, avoid us?"

ABC-TV's Sam Donaldson turned to UPI's Helen Thomas and grumbled, "I am going to advise my network that they do not carry the press conference." Speakes overheard the remark, and repeated it into the microphone, saying, "I want this on the record, what Sam just said."

Donaldson defensively retracted his statement as "not serious."

On Aug. 7, when the White House press corps was told that President Reagan and other Cabinet members had decided to take a drug test, pandemonium ensued. Donaldson belatedly that the issue of "how voluntary" the program for federal employees is, "is the difference between a police state and a free state"

But not one of the journalists has yet dared ask whether, under the new policy, mandatory drug testing might be required of them.

They all are required to have Secret Service security clearances to be allowed on the White House grounds every day. And, since every federal employee with a security clearance is required to submit to mandatory testing, why shouldn't that policy extend to others who require a security clearance, whether or not they're employed by the government?

I volunteer to be the first member of the White House press corps to take the test. How about all the rest of you?

## What's up in Chicago?

The sudden decision of President Reagan to hold a nationally televised press conference in Chicago on Aug. 12, as part of a day-long swing through Illinois, demonstrates the new importance that Illinois holds for the future of the President's policies, as a result of the upset victories by candidates aligned with Lyndon LaRouche last spring.

The President wants to take full advantage of the disarray that has been created in the Democratic Party of Illinois by the antics of gubernatorial candidate Adlai Stevenson III.

Stevenson's bungling was of course precipitated by the victories of Janice Hart and Mark Fairchild, LaRouche Democrats, for statewide offices in the Democratic primary in March. Their campaign for a war on drugs and their famous pledge to "drive the tanks down State Street if that's what it will take to stop drugs," had a lot to do with their success and popularity.

Reagan certainly knows that, with the amount of anti-drug sentiment that has already been catalyzed in Illinois by the LaRouche candidates, the state is a key location to escalate his new anti-drug initiative.

As for Stevenson, he went the other direction, leaving his home state for Washington, D.C. during the second week in August to plead for support from the Democratic National Committee in his effort to run as the "Solidarity Party" candidate for Illinois governor.

Members of the Washington press corps encountering Stevenson for the first time since his days here as a U.S. senator walked away in disbelief. "I heard this guy was boring, but as I sat here listening to him, I found it impossible to concentrate," one reporter said. "He is unbelievable."

## SDI narrowly escapes huge cut by Senate

Funding for the Strategic Defense Initiative, already slashed by committees in both houses of Congress, barely escaped another big cut Aug. 5, as the Senate opened deliberations on the fiscal 1987 defense authorization bill.

The measure includes \$3.9 billion for the SDI, reflecting the \$1.4 billion cut taken out of the original administration request by the Senate Armed Services Committee.

By identical 50-49 votes, the Senate defeated two amendments which would have taken huge new cuts out of the SDI budget. One of the amendments, sponsored by Sen. Bennett Johnston (D-La.), would have capped SDI spending increases at 3% per annum, which translates into a maximum \$3.2 billion budget for FY 1987.

Earlier this year, Johnston circulated a letter arguing that the amount of money the administration wanted for the SDI was excessive, and put the program on a "premature" schedule. Forty-eight senators signed it, including both Democrats and Republicans—and almost all of them voted for Johnston's amendment. One exception was Sen. John Heinz (R-Pa.), who changed his vote at the last minute.

Another amendment, also defeated by one vote, would have slashed the SDI to \$3.5 billion.

Lieutenant-General James Abrahamson, director of the SDI program, watched anxiously from the gallery as the Senate debated the merits of strategic defense.

Some of the most virulent attacks on the program came from Sen. John Kerry (D-Mass.), a first-term senator whose mother belongs to the blue-blood Forbes family. "The choice is

arms control or 'Star Wars,'" Kerry said during a long-winded tirade against the program. The SDI is "a cancer on our nation's defense."

The usual cast of pro-Moscow Republicans also weighed in against the SDI. Sen. Charles Mathias (R-Md.) complained that there is a lack of clarity in the program. "Why is there so much urgency in getting there, when we don't even know where we're going?" he wailed. Ditto from Sen. John Chafee (R-R.I.), who insisted that SDI "has too many question marks, far too many serious implications for arms control. . . . No one seems clear about the goals for the program."

Earlier in the day, President Reagan and Secretary of Defense Weinberger had met with Senate leaders to urge that at least some of the funds for the program, which had been cut by the Armed Services Committee, be restored, but the Senate was having none of that.

The SDI faces much tougher sledding in the House, which took up the defense authorization bill at the same time the Senate did.

## House launches its own war on drugs

House leaders have responded to President Reagan's new drive to end drug abuse in the United States with their own, belated war on drugs.

On Aug. 5, the day after Reagan made a nationally televised address outlining a tough, six-point program that he called "a national crusade against drugs," House Speaker Tip O'Neill (D-Mass.) and minority leader Bob Michel (R-Ill.) released the text of a letter to the major television net-

works which urges them to launch an educational campaign over the airwaves on the dangers of drug use.

Signed by 300 House members, the letter contends that "many fewer younger Americans would turn to drugs if they fully understood the facts."

O'Neill said the proposed media campaign would complement new moves in Congress to pass legislation to stem the supply of drugs through enhanced enforcement and interdiction efforts.

Senate Democrats also unveiled a new a three-point anti-drug program. Sens. Lawton Chiles (D-Fla.) and Joseph Biden (D-Del.), who introduced the package on behalf of the Senate Democratic Task Force on Drugs, said the legislation would:

- Increase the penalties for the first offense of possessing five grams or more of an illegal drug, to 20 years in prison and a \$250,000 fine;
- Make it a felony with double penalties to use minors for distribution of drugs;
- Make it an offense, punishable by a 20-year prison term or a \$250,000 fine, to operate a "Crack" house;
- Increase penalties for distributing drugs within 1,000 feet of a school.

## Money-laundering bill passes committee

On July 31, the Senate Judiciary Committee took one small step toward curbing drug and other dirty-money laundering, approving a bill that would provide fines of \$250,000 and prison terms up to 20 years for the offense. Similar legislation is pending in the House.

"Creation of a money-laundering offense is imperative," said chairman Strom Thurmond (R-S.C.), "if our law enforcement agencies are to be effective against the organized criminal groups which reap profits from unlawful activity by camouflaging the proceeds through elaborate laundering schemes. This committee has taken a crucial step in the war against illegal drugs."

The bill would protect banks which expose money launderers and allow them, in certain cases, not to tell depositors if their accounts are being checked for possible violations by federal agents.

## **What's behind new probe of Jesse Helms?**

The FBI, at the request of the Senate Intelligence Committee, is investigating a "potential violation" of national security secrets by either Senator Helms (R-N.C.) himself or one of his top aides, Christopher Manion. Manion is the son of Clarence Manion, one of the leading lights of the John Birch Society.

Helms's office is being accused of having leaked the specifics of a U.S. covert intelligence operation in Chile, including the names of on-the-ground agents, to Chilean authorities.

Sources report that Manion, who has frequently visited Chile, attended a confidential briefing by U.S. intelligence authorities, at which sensitive information was disclosed that later made its way to the Chilean government.

Washington insiders tell *EIR* that the probe is part of an attempt to undercut Helms's operations in Ibero-America, which run the gamut from

attempts to destabilize the Mexican government, through trying to overthrow the government in Panama in favor of an avowed Hitler supporter.

One of the more significant features of any comprehensive probe into Helms and his coterie, is that it would immediately lead to the Ariel Sharon faction of the Israeli Mossad. This faction, which has cultivated Helms in recent years, also recruited accused spy Jonathan Pollard, and has worked with various Soviet KGB deployments in Ibero-America.

A key bridge between this faction and Helms is Jon Speller, an agent of "The Trust," the coordinating point for the Eastern and Western oligarchies. Several of Helms's top aides, including Jim Lucier, Deborah DeMoss, and Cliff Kiracofe, have worked closely with Speller. All three accompanied Helms on his trip to Chile in July.

In a hastily called press conference Aug. 4, Helms called the charges part of a "smear campaign" by the State Department and the CIA.

Helms also accused Elliott Abrams, assistant secretary of state for inter-American affairs, of having instigated the investigation.

"It was Elliott Abrams," Helms declared. "He crept up here in the dead of night and made these charges. . . . Elliott Abrams committed a deliberate falsehood."

## **Congressmen wrangle over S. Africa sanctions**

The package of economic sanctions against South Africa, proposed by Sen. Richard Lugar (R-Ind.) and passed by the Senate Foreign Relations Committee on Aug. 1, has run into a tem-

porary legislative logjam. Angered by Senate Majority Leader Bob Dole's (R-Kan.) insistence on delaying a vote on sanctions until Democrats agree to allow a vote on aid to the Nicaraguan contras, Sens. Ted Kennedy (D-Mass.) and Robert Byrd (D-W.Va., the Senate Minority leader) offered an even tougher version of the Lugar plan on Aug. 5.

That move brought sharp words from Dole, who accused Byrd of a "violation of the spirit" of earlier plans for dealing with the sanctions issue. Dole retaliated by tacking both the sanctions and contra proposals onto the defense authorization bill.

At press time, it looks possible that the Senate may not get around to dealing with sanctions until after the August recess.

Meanwhile, the House Foreign Affairs Committee voted up a non-binding resolution Aug. 6 urging the South African government to free black nationalist leader Nelson Mandela, and to legalize the outlawed African National Congress (ANC).

Introduced by Rep. George Crockett (D-Mich.), the measure calls on Pretoria to unconditionally release Mandela, the ANC's principal leader, who was jailed in the early 1960s, and to recognize the ANC as the "legitimate representative of the black majority."

Even liberals like Senator Kennedy have been forced to admit that the ANC is heavily influenced by the Soviet Union. At least 8 members of its leadership, and likely as many as 15, are also members of the Communist Party. Moreover, its 5,000-strong terrorist wing, infamous for the brutal practice of "necklacing" moderate blacks, is run by a Lithuanian-born Soviet operative.

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# National News

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## Baltimore Archdiocese won't back 'gay rights'

Father William Au, assistant chancellor of the Catholic Archdiocese of Baltimore, writing on behalf of Archbishop Borders, has disavowed support for a recent Archdiocesan Gay-Lesbian Outreach (AGLO) report which called for Catholic Church acceptance and promotion of homosexuality.

As *EIR* reported on Aug. 1 ("Homosexuals in the Church Mobilize Against the Pope"), AGLO's booklet cautions teenagers not to deny their homosexuality, lest they become "psychic cripples." This document was serialized in the Archdiocesan paper, *The Catholic Review*, before its publication as a booklet.

Au, in a letter to *The Wanderer* published July 24, claims that even though AGLO is an official Archdiocesan agency, "the booklet in question was not submitted to the Archbishop for approval prior to its publication. . . . Furthermore, the Archbishop has initiated action to correct any misconception regarding Church teaching occasioned by this booklet, or the false assumption that it enjoyed official approbation. To this end the Archbishop has ordered that the booklet be withdrawn from publication and that any further distribution be terminated. He is also in the process of preparing a pastoral letter on sexuality which will address the issue of homosexuality."

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## California medical honcho 'fears' debate

Lyndon H. LaRouche, Jr., candidate for the 1988 Democratic presidential nomination, charged in a statement released Aug. 5 that the president of the California Medical Association had ducked out of a public debate with him, out of fear of losing.

CMA chief Dr. Gladden V. Elliott had explained in a statement dated July 31, that he would not debate LaRouche on Califor-

nia Ballot Proposition 64, the AIDS referendum.

LaRouche stated: "The head of the California Medical Association, Dr. Elliott, wouldn't debate me because he knew he would lose. In his signed statement, Dr. Elliott says that he has the facts. In fact, the policies of California medical and public health officials heretofore have allowed the deadly disease AIDS to spread wildly out of control, because they refused to apply traditional public health measures to AIDS.

"Now, Dr. Elliott wants to continue stonewalling, despite the fact that the electorate of California will vote on the policy question on the November ballot. Therefore, the entire electorate of California now knows that Elliott is bluffing because he ducked out of the public debate. Elliott knew that he would lose the debate, and that's why he ducked out. Therefore, he's a fraud. If he thought he had a winning case, he would be willing to take his case to the voters honestly and aboveboard in a policy debate. The fact that he refuses to debate proves that he knows he would lose."

The debate proposal grew out of an on-the-air radio confrontation between Lyndon LaRouche and an official of the CMA. Proposition 64, which will be on the November ballot after nearly 700,000 California citizens signed an initiative petition in support of it, calls for AIDS to be placed on the list of reportable communicable diseases, and for traditional public-health measures to be applied to stop its spread.

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## Will Reagan serve for a third term?

The Republican Campaign Committee, headed by Rep. Guy Vander Jagt (R-Mich.), has done a feasibility study on repealing the 22nd Amendment to the Constitution, which limits the President of the United States to two terms in office.

Vander Jagt is a strong advocate of repeal, and introduced a bill to this effect before the House Judiciary Committee on July 28. He has sent out a 1 million-piece mailing

to Republicans around the country, urging support for the measure. "Reagan certainly hasn't told us to cut it out. . . . If the President sees how much support there is for a third term, I think he'll change his mind" about not serving, the congressman said.

Vander Jagt calculates that repeal could pass in 90-100 days. According to the GOP feasibility study, 9 out of 16 amendments to the Constitution, other than the Bill of Rights, passed within one year, and the amendment to lower the voting age was enacted within 99 days.

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## DoJ lets Israeli arms smugglers off the hook

Acting Assistant Attorney-General Steven Trott announced on Aug. 5 that the Department of Justice has withdrawn subpoenas issued to eight Israelis, in an investigation of illegal imports of U.S. cluster bombs by the Israeli military industry. The United States halted shipment of the bombs to Israel after their use against civilian targets during the invasion of Lebanon.

The decision to quash the subpoenas is supposedly in exchange for pledges of Israeli government cooperation with ongoing grand jury investigations in Cedar Rapids, Iowa, and Erie, Pennsylvania.

But what is really at issue here, is the factional warfare in Washington over whether the Israeli Mossad and allied forces will be allowed to continue to steal U.S. secrets, penetrate U.S. intelligence services, and export U.S. arms to Iran. A secret agreement allowing such activities was reached in 1982 between former U.S. Secretary of State Alexander Haig and Israel's Gen. Ariel Sharon.

Will the full nature of this agreement be disclosed? The Justice Department's move was certainly intended to prevent that. The Department also abruptly dropped all but one charge against Israeli gun smuggler Col. Zeev Reiss at the beginning of August. Reiss had been arrested for conspiring to ship U.S. military equipment to the Ayatollah Khomeini's Iran.



## Briefly

● **ALL U.S. SOLDIERS** in Europe will have an AIDS test in September, according to the armed forces publication *Stars and Stripes*. The Pentagon decided to have a mandatory AIDS test for the 250,000 U.S. soldiers stationed in West Germany, and the other 70,000 in the rest of Western Europe. Soldiers infected by AIDS will be brought home for medical treatment.

● **THE AMERICAN** Civil Liberties Union's legislative counsel, Alan Adler, announced his group's opposition to President Reagan's recent anti-drug measures, UPI reported on Aug. 5. "We certainly would quarrel," he said, with any presidential initiative that included mandatory drug testing. "In spite of Mr. Reagan's judgment, across-the-board testing requirements would be unconstitutional and patently unfair."

● **DONALD REGAN** is "in many ways, the most powerful man in America," said Edward Rollins, former White House political director, in an interview with the *Wall Street Journal* published Aug. 6. According to the *Journal*, the White House chief of staff's position is such "that he can sometimes alter presidential decisions. He takes credit, for example, for delaying the purchase of a fourth space-shuttle orbiter . . . despite the President's initial approval. 'The President wanted to go for it. I didn't,' says the chief of staff."

● **RICHARD BURT**, the U.S. ambassador to West Germany, refused to rule out a U.S. troop withdrawal from Europe, in an interview with the *Stuttgarter Nachrichten* published Aug. 5. "Once a feeling begins to spread inside the U.S.A.," he said, "that Western Europe and the U.S.A. are drifting apart, the wish to pull out the U.S. troops could arise at a certain moment. This is not what is happening now, but it could develop that way in the future."

## Lugar rejects Reagan's policy on the SDI

Senator Richard Lugar (R-Ind.), chairman of the Senate Foreign Affairs Committee and the principal Republican critic of President Reagan's policy toward South Africa, has launched a new round of attacks against the President. This time, his target was the Strategic Defense Initiative (SDI).

Lugar is advancing arguments similar to those of Jimmy Carter's national security adviser, Zbigniew Brzezinski, a "delphic" opponent of the SDI. The senator participated in an Aug. 6 meeting between the President and assorted congressmen on the topic, and told the press that he had told Reagan he would get more money for the SDI from Congress "if he would be willing to reorient the program so that it demonstrates more immediate results." How? "Focus on the near term rather than the long term, by switching the emphasis to a point defense rather than a total population umbrella defense."

SDI supporters want some "site specific" defenses, said Lugar, that would protect U.S. missiles on the ground instead of waiting for deployment of Reagan's "umbrella" concept that would also defend the U.S. population, Lugar said.

## Pat Robertson receives setback in Michigan

Presidential hopeful Pat Robertson, the evangelical television personality, received a setback in the Michigan primary Aug. 5, as Republican voters supported Vice-President George Bush.

At stake in the race were over 10,000 precinct delegates, who will meet to pick delegates to the state GOP convention. That convention will in turn pick delegates to the national GOP convention in 1988, which will nominate the party's presidential can-

didate. Bush, Robertson, and Rep. Jack Kemp (R-N.Y.) all sought to get their supporters elected, to demonstrate the strength of their own candidacies.

Official breakdowns of the election results were not released, so the only available tallies are from the presidential hopefuls themselves. Bush's supporters claimed that the Vice-President drew at least 50%; Kemp's people say that Bush got 34%, Kemp got 17%, and Robertson only 5-6%. An exit poll of GOP voters taken by NBC and the *Wall Street Journal* claimed that voters rejected Robertson 5 to 1, because he was an evangelical minister.

Robertson formally unveiled his exploratory presidential committee, Americans for Robertson, at a fundraiser hosted by Nelson Bunker Hunt on Aug. 1. The event was described as "an old-fashioned church revival meeting."

Film clips of Robertson's evangelical style were featured on the television program "Nightline" on Aug. 5, showing Robertson, eyes closed and arms raised, telling a congregation: "Someone's hemorrhoids are shrinking now. . . . Someone's varicose veins are disappearing. . . ."

Robertson has said that he will announce on Sept. 17 in Washington what his presidential intentions are.

## Anti-LaRouche activist stricken with AIDS

Peter Scott, the Los Angeles "gay rights" activist who organized a committee called "No on 64/Stop LaRouche," has been diagnosed to have AIDS, the *Los Angeles Herald-Examiner* reported on Aug. 6.

Scott and actress Elizabeth Taylor had organized a Sept. 19 benefit dinner to raise a \$1 million war chest to "fight AIDS" and to oppose Proposition 64, the referendum for public-health measures to stop the spread of AIDS, which was proposed by political supporters of Lyndon H. LaRouche.

Until his recent hospitalization, Scott was media director of the "Stop LaRouche" campaign committee.

## Editorial

### *Civil liberty and the slavery of drugs*

The War on Drugs now sweeping the United States like a growing tidal wave, will, one day, be appreciated as one of the nobler and more authentic Liberation Wars of our century, a century in which the noble words of liberty and liberation had been liberally abused.

An unfortunate human being's addiction to drugs has always been abhorred for no other reason than that the addicted person, because of his total subjugation to mind-controlling substances, has lost that which makes him uniquely human, his *free will*. This godly spark dwelling inside each and all of us, this free will, this *Spirit of Freedom*, is the kernel and the anchor both of our civilization and of our particular political culture.

Our laws have been conceived to be the efficient protectors of the individual's free will, of the Spirit of Freedom residing inside the souls of men and women.

Our civil liberties have been promulgated for the sole purpose of being the handmaids of this Spirit of Freedom, the handmaids of free will.

Our civilian and military institutions exist for no other reason but to safeguard this Spirit of Freedom, individual free will.

This funny bird, individual free will, does not exist in abstract space and time. It only exists inside the souls of individual men and women. And it is this inside of the souls of individual men and women which is Freedom's ultimate battlefield. Freedom is won or lost on this battlefield. And it is this battlefield, the individual's souls and mind, which has been invaded by mind-altering substances, drugs.

Tens of millions of Americans, men and women, have lost their battle for freedom to drugs, they have become addicted and thus lost their free will, the Spirit of Freedom. The dimension of the drug epidemic have, therefore, become a matter of national security concern, as President Reagan has correctly found in his April 8 National Security Decision Memorandum.

When President Reagan announced that he will lead the way by personally taking a voluntary drug test in the hope that all federal employees will follow his ex-

ample, the *Washington Post* dedicated its lead editorials for two days, Aug. 7 and 8, to a hysterical attack against any drug tests, voluntary or compulsory. Hypocritically, the *Washington Post* argued that such tests are an invasion of privacy, a violation of liberty, a subversion of the Bill of Rights, oppressive, tyrannical, and unfair. Hypocritically, the *Washington Post* wrote: "We yield to none in abhorrence of drugs or desire to purge the society of their terrible influence. But the regimen to which this points in the long run sap the society even more. It is not just ludicrous, but invasive, the more destructive of the privacy and presumptions on which the society is based because it pretends not to disturb them. Call it off."

This is hokum. But we must address it because it is the prevailing sentiment in the vast majority of the journalistic profession. The *Washington Post* must understand our problem in the following way: Our society is obliged to restore freedom to the tens of millions of its members who have lost it to drugs. Unless we administer tests, we cannot identify the enslaved victims who need help. The victims, no longer possessing free will, are unable to come forward and solicit help.

If the *Washington Post* and the rest of the journalistic profession are truly committed to the principles of liberty they so ostentatiously profess, they should come forward to take the drug test. Let us have a Free Press. A Drug-Free Press.

The freedom which was bequeathed to us by the American Constitution, does not include the freedom to choose slavery, including enslavement to drugs. It is only the freedom to cultivate the inner, godly spark of individual free will. The apparent paradoxes of the matter were fully debated by the framers and, before them, by John Milton in his *Areopagitica*. The poet Shelley, in his sonnet "Political Greatness," put the matter thus: ". . . Man who man would be,/Must rule the empire of himself; in it/Must be supreme, establishing his throne/ On vanquished will, quelling the anarchy/Of hopes and fears, being himself alone."

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