

EIR

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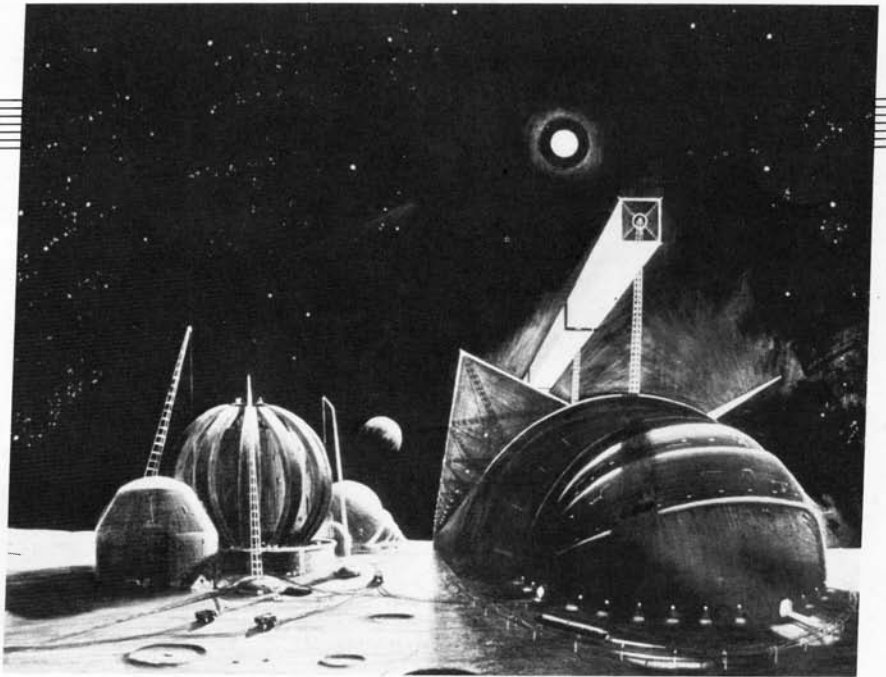
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How to reverse the economic policy blunders that led to 'Irangate'

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- An international financial blow-out: the real story behind 'Irangate'
- The technology-driver of the new economic upsurge: the forty-year Mars-colonization project
- The explosive impact of AIDS on the world economy

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EIR

From the Editor

This publication has been fighting the “Irangate” crowd since 1978-79, when we tried to stop the Carter administration from putting Khomeini into power in Iran. From the beginning, the Carter administration used Israel to run weapons to the Khomeiniacs. *EIR* exposed this in a series of articles, which led to a book published in 1981, called *Hostage to Khomeini*. Among others, we named one Cyrus Hashemi, an Iranian weapons trafficker and funder of terrorist groups, protected by the U.S. Justice Department.

Hashemi, who sued *EIR* for libel—and then defaulted on the case—died mysteriously last year in London.

The Justice Department under Carter, and under Reagan, has consistently to this day covered up for that operation. That’s why what you read in the U.S. press on “Irangate” is largely a cover-up. This week’s exclusive *Feature*, assembled by William Engdahl and Göran Haglund in Western Europe, reports some crucial developments in Europe, which have been blacked out of the U.S. media.

It all started with a raid on the office in Malmö, Sweden, of an Israeli-tied weapons runner, Karl-Erik Schmitz. Schmitz enjoyed such political protection that he was careless. Swedish Customs police, working with the German Customs police, acquired a mountain of unshredded paper, and then people began to die to cover up the traces of this paperwork. Swedish press recently confirmed that Schmitz’s operations, which funneled some \$1 billion in weapons into Iran over the years, were part of Lt. Col. Oliver North’s deployment as an agent of the “secret, illegal government” of the United States.

Our other big exclusive appears on page 6, where the *EIR* economics staff has assembled some astonishing charts to illustrate a Nov. 11 contribution from Lyndon LaRouche. LaRouche, who was “on the button” in foreseeing the October crash, has forecast further, more profound tremors in the world financial markets.

The purpose of the presentation is not merely to demonstrate how present policy is leading to collapse, but to spur the sweeping changes in policy, such as monetary reform, that will get the recovery started.

In that regard, the *Science & Technology* section will return next week, with a report on a National Reconstruction Program for U.S. productive industries.

Nora Hamerman

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Central banks seek ouster of Reagan's economic team

by Chris White

The just-concluded monthly meeting of the central bankers' central bank, the Basel, Switzerland-based Bank for International Settlements, probably won't go into the history books as one of the most important that institution has ever had. However, there were exceptional features to the Nov. 8-9 meeting, and its conclusion raised, by implication, demands that have never been heard from that body before.

For the first time in a long while, the chiefs of all the central banks which make up the BIS attended the meeting. Usually, the top honchos from Europe attend, and the more distant United States and Japan send underlings. This time Greenspan from the Federal Reserve, and Sumita from the Bank of Japan, respective chiefs, attended.

Then, there is, seemingly by convention, no communiqué ever issued from such meetings. The results of the bankers' deliberations usually appear, later, in the form of interest rate increases or declines, or changes in currency exchange rates.

This time, there was a formal communiqué, read to the international press at the end of the proceedings by the head of West Germany's Bundesbank, Karl-Otto Poehl.

Three paragraphs of the statement are noteworthy, both for what was said, as well as what was left unsaid. They are:

The central bank governors of the Group of 10 countries. . .

- stressed the importance of moves by governments of major industrial countries to adopt fiscal policies with the objectives of reducing existing payments imbalances, promoting exchange rate stability, and sustaining non-inflationary growth.

- They are ready to support these objectives with appropriate monetary policies.

- They welcome the recent measures taken by the

European central banks, which reflect their strengthened monetary cooperation.

The cited three paragraphs constitute, in effect, a sharp attack on the present U.S. economic "team," led by James Baker and Alan Greenspan, emphasized by publication, and a demand for change from the United States.

In simple English, the central bankers were asserting that they were no longer going to carry the costs, in terms of destruction of especially the European economies, of the policy represented by James Baker at the Treasury Department. On Thursday, Nov. 5, Baker had told the *Wall Street Journal* that the defense of the dollar was no longer an objective of U.S. economic policy, rather the avoidance of what he called "domestic recession" was. In the two weeks before the meeting, the dollar had been allowed to fall by about 7% against both the West German mark, and the Japanese yen.

The communiqué essentially said, "Enough is enough, the Baker team has to go."

Indeed, within 24 hours of the publication of the communiqué, the United States, from the top down, switched gears. The President told the press, Nov. 10, during a so-called "photo opportunity" with Israel's President Chaim Herzog, that it was not U.S. policy to have the dollar fall further. The same point had been made, less forcefully, earlier in the day, by Marlin Fitzwater, White House press spokesman.

By the following Thursday, Baker seemed to have shifted his tack, too. At least to the extent his former speechwriter Paul Gigot can be believed. "Stung by the reaction to last week's interview, Mr. Baker wasn't talking in public this week. Other Treasury officials made it clear enough, however, off the record, that Mr. Baker is *not* talking down the dollar. Far from it, they say, Mr. Baker believes the path to

calming the markets lies in reinvigorating the international policy-coordinating process he helped start in 1985." Gigot was writing in the *Wall Street Journal* Nov. 13.

The European view was put somewhat more forcefully, the day after the BIS meeting, by Helmut Schmidt, once called "The Lip," in the pages of the German daily *Die Welt*. Schmidt told the Europeans, "It's not worth negotiating with James Baker," since he won't abandon the methods of the "Wild West."

The central bankers object to what the Baker-fronted bankers' team have done, in forcing the costs of the U.S. generated depression collapse to be offset by looting Europe and Japan. But what they would put in its place is just as insane.

As the communiqué asserts, and as was argued by the head of the Swiss National Bank in the pages of the *Neue Zürcher Zeitung*, before the BIS meeting, the central bankers insist that the crisis be handled with what they call, euphemistically, "fiscal means." That is to say, "cut budgets, and increase taxes," and of course, "increase interest rates."

Within the United States, there is a grouping which agrees with this. There is a faction on the Board of Governors of the Federal Reserve, led by Governor Kelly, which argues that the dollar ought to be allowed to fall no farther than it already has. Apparently, there is also a consensus on the Fed's Board of Governors that the Fed's Funds Rate, the rate at which the Reserve system lends to the commercial banks, has been lowered enough. Lowering the Fed Funds Rate was the means adopted by Greenspan to create liquidity to paper over the "Black Monday" stock market crash. The import of those statements began to show up by the end of the week, as the Fed Funds Rate began to move back up toward 7%.

Gorbachov's program

More, there is also the grouping for a "Bipartisan Budget Policy," led by Richard Nixon's Commerce Secretary Peter Peterson, who also happened to be a leading member of the notorious commission associated with former West German Chancellor Willy Brandt. The program of that commission has recently been adopted by Soviet party chief Mikhail Gorbachov, and features as the fourth point of the budget-slashing set of measures put forward by the Peterson commission. Peterson's group is running a high-profile national advertising campaign on behalf of a vicious, "Neither guns, nor butter," austerity and disarmament package, aimed at the old and sick, national defense, and U.S. allies, in the advanced and developing sector.

The "fiscal" program advocated by Peterson and Company is the same as the kind of program that the Bank for International Settlements meeting pompously announced that central banks would support.

That's where the insanity lies. For example, Marty Feldstein and C. Fred Bergsten, the latter a Carterite-Trilateralist, the former a free enterprise fanatic, are now both arguing that

the fiscal policy, ought to reduce the United States budget deficit faster than the requirement for foreign finance is offset by cutting back imports from Germany, Japan, South Korea, and Taiwan to zero. This way, they say, there would be no need for interest rates to increase, so there would be no danger of "recession."

What all these characters overlook is that there is no world in which the U.S. budget deficit can be cut, either enough, or fast enough, to offset the loss of revenues to the Treasury which has already occurred as a result of the last weeks' developments on the stock markets.

Their "responsible fiscal policies," are not only a recipe for the worst depression in human history, they are also insane.

However, the central bankers' rejection of the efforts of U.S. banks and administration to shift the cost of the depression on to the rest of the world, now confronts the powers-that-be in the United States with a choice. If they proceed with the policy of collapsing the dollar, they will find that everyone else will simply, at some point, walk away. Already, the Bundesbank is leading working groups in Europe on the formation of a European central bank, and central banking system. This used to be known as Phase II of the European Monetary System, and would see the creation in Europe of a gold-based monetary system, combined with exchange controls, and so forth.

The fiscal route, including higher interest rates, budget cuts, and tax increases, will simply turn the collapse back into the United States, setting off a new round of stock exchange disasters, and a wave of collapses of the banking system.

European newspapers, such as *Le Monde* and *Libération* in Paris, are already pointing to one reason why this approach is unacceptable in the United States. It means banking collapse and depression in an election year.

The monetary route of dollar collapse, and so-called "fiscal responsibility," or "neither guns nor butter," both lead inexorably to the same destination.

There is, of course, the emergency reorganization proposal put forward by presidential candidate Lyndon LaRouche, under which the constitutional and statutory powers of Executive and Legislative branches would be employed to bring order to the accelerating chaos.

The monetary route has been rejected. The fiscal route leads to the same insane consequences. So far the administration seems to continue to think that statements about the dollar, and hoked-up trade figures can be employed to continue to delay the day of reckoning. Well, they can't. Something actually has to be done. And the decisions have to be reflected in changes in personnel, such as the replacement of Baker, and the rest of his team. The unusual results of the BIS meeting demonstrate that the rest of the world will not accept much longer the way the United States has been accustomed to conducting its business in the past.

Next financial earthquake on the way

There is no financial crisis which the U.S. government can not overcome, if it recognizes that a crisis exists, and takes the appropriate measures.

By Lyndon H. LaRouche, Jr.

This analysis was released on Nov. 11, 1987.

The continued rapid decline in the value of the U.S. dollar, is a far more ominous sign of the next major financial earthquake than the continued, rapid decline of the U.S. and major foreign stock markets.

Unless President Reagan changes his policies very soon, the value of the dollar will drop rapidly to 1.50 West German deutschemarks, and probably even well below that level. This is about half the value of the dollar as recently as March-April 1985, when it hit over 3.00 deutschemarks, and a 25% drop since the beginning of the spring. This collapse of the dollar is much more worrying than the fall in stock markets.

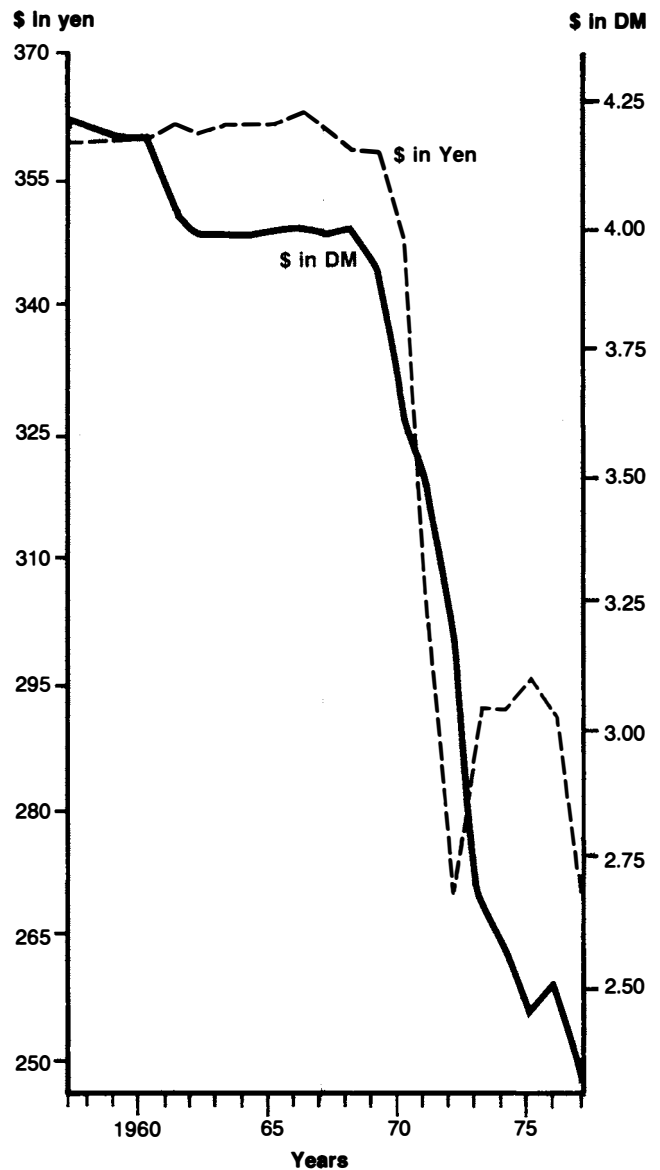
The deep collapse in the value of the dollar, which the Reagan administration has sought to bring about since the beginning of the past spring, means strong inflationary pressures inside the U.S. markets, because of higher costs of imports in a highly import-dependent economy. It means a massive devaluation of U.S. government bonds. It means, this year alone, a whopping 25% increase in the cost to both government and the private sector in paying foreign obligations.

The inevitable effect of the dollar's fall showed up more conspicuously at the beginning of this week. During the past five trading days, approximately as much paper value was wiped out as was destroyed by Black Monday, perhaps even more. The levels of stock-market decline, on most trading days, would have been called a "crash" or "near crash" in those markets on any day prior to Black Monday. The trend is down, down, down; with the collapse of the dollar pushing the decline.

The international markets are building up for something very big, much bigger than Black Monday. It could hit before Christmas, or there might be a continued downslide, at about the present pace, until the big one hits; the optimistic bankers in Europe are saying, the big one will hit no later than next spring. Meanwhile, any significant disturbance would be sufficient to set off the big crash any week. Humpty Dumpty is leaking through cracks from his last tumble, and wobbling ominously on the top of the wall; a slight push would send him over at any time.

The thing which makes the situation so dangerous, is that, so far, both the White House and the leaders of the Congress, along with the news media, are living in an Alice-in-Won-

FIGURE 1a
Movements of U.S. dollar with respect to deutschemark and yen by year 1957-77



Source: *International Financial Statistics*, International Monetary Fund.

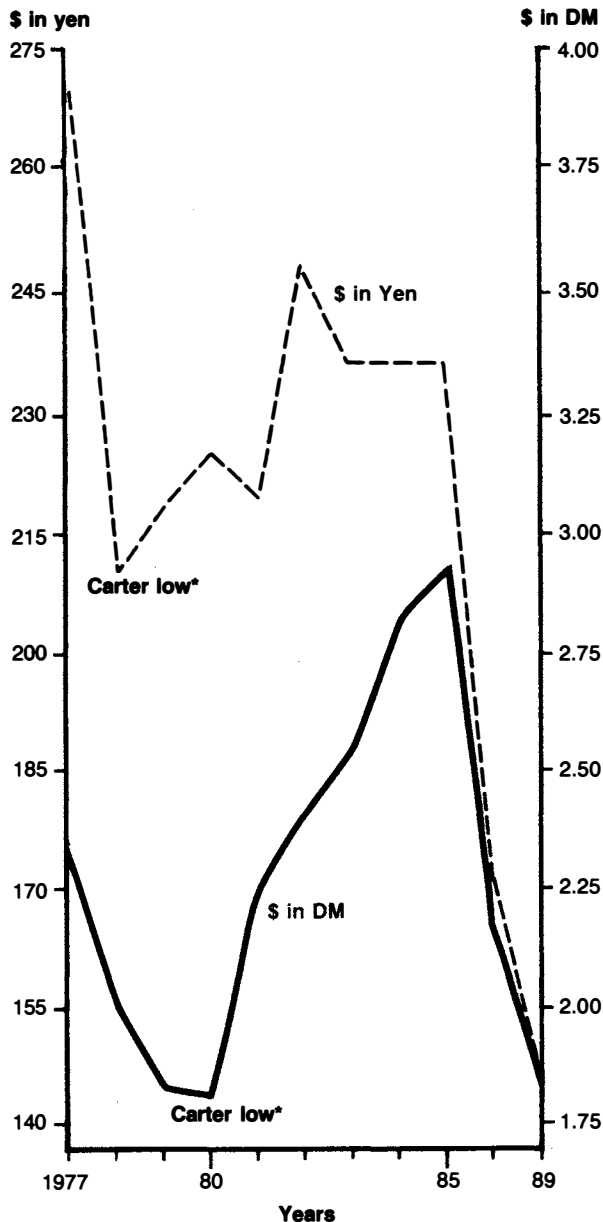
derland fantasy-world. The bus that was supposed to be traveling uphill is running out of control, backward, downhill. The Congress is clinging to the fenders, trying to lean the engine's mixture. The news media and stock brokers are demanding that someone talk the engine into greater confi-

dence. Bush is demanding that everyone keep quiet about the crisis until after the November 1988 election. The President is demanding that everyone shut up about the economy, so as not to spoil the atmosphere for his Pearl Harbor Day social get-together with Soviet boss Mikhail Gorbachov.

In the distance, Japan and Western Europe are demanding actions that are just as silly as those being proposed by the leaders of the Congress and some leading U.S. news media. In Moscow, the Soviet leadership is splitting its sides, laughing at the Western governments' and central bankers' baggy-pants burlesque performance.

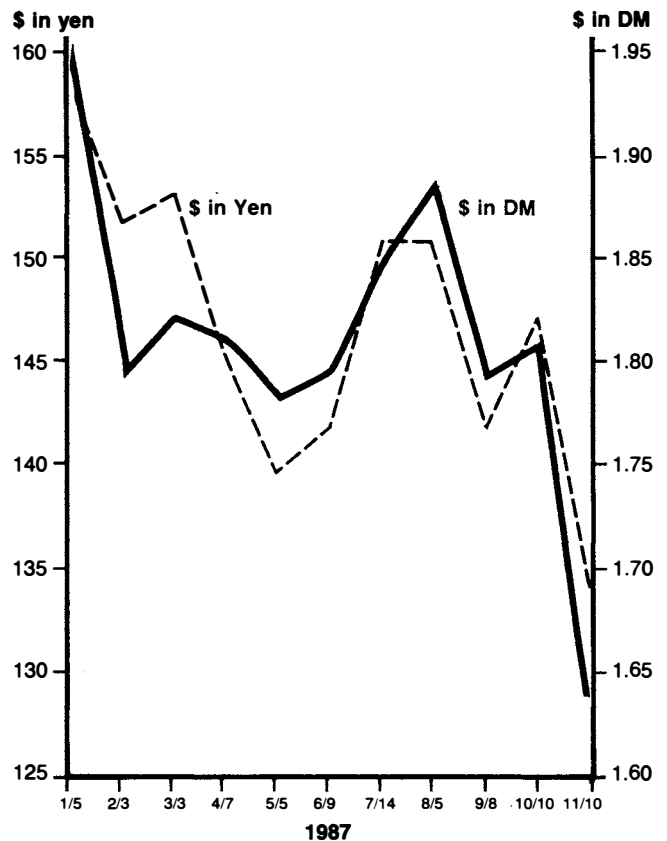
The point to be stressed, is that there is no financial crisis which the government of the United States can not overcome, if it recognizes that a crisis exists, and takes the appropriate measures. In the final analysis, paper values are only paper values; what counts, in the final analysis, is production and employment. As long as we increase employment of agricul-

FIGURE 1b
Movements of U.S. dollar with respect to deutschmark and yen by year 1977-87



*Amounts are averages for those years; the real Carter low came in April 1979, 1.72 DM

FIGURE 1c
Movements of U.S. dollar with respect to deutschmark and yen, 1987 to date, by month



Source: Executive Intelligence Review

Source: International Financial Statistics, International Monetary Fund.

tural, industrial, and infrastructural operatives, increase per capita physical output, and emphasize capital investment in technological progress, this production of wealth will enable us to solve any problem created by the fall of paper values even to the lowest levels.

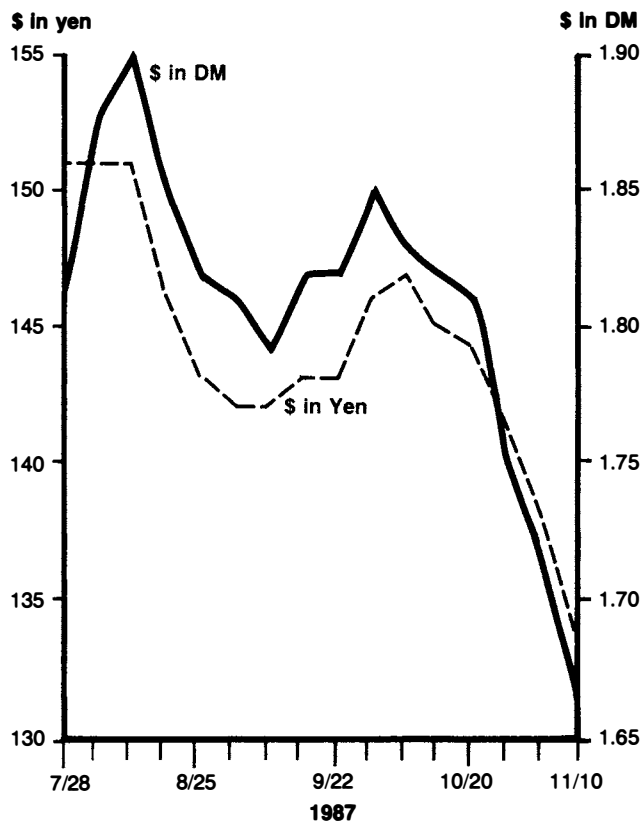
There are only three sets of paper values which must be defended at all costs: the value of the U.S. dollar, the value of U.S. government bonds, and the continued functioning of financially distressed local banks, with guarantees that insured savings deposits will be settled on the basis of 100% of the face value of their principal amounts. The reason we must defend these three categories of paper values, is that without faith in the government's credit, we can not organize a recovery, and without functioning local banks, even government credit can not efficiently mobilize economic recovery.

The more than \$10 trillion of private paper assets being wiped out by the ongoing financial crash could not be saved

by government. If the government tried to bail out these markets, the government itself would make itself hopelessly bankrupt—and would still not succeed in holding up prices in those markets for long.

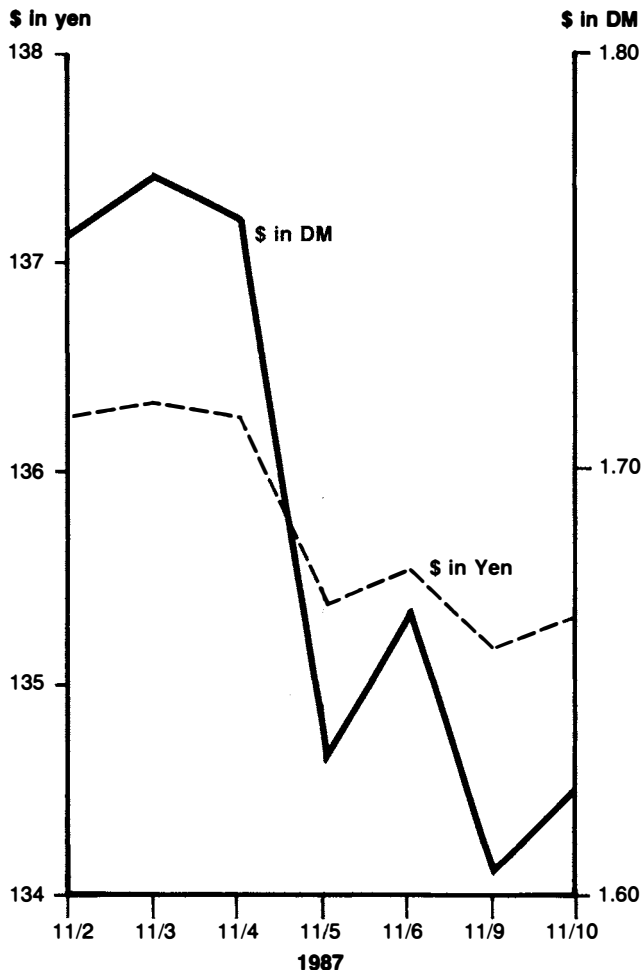
We must accept the cruel fact, that many more trillions of dollars' worth of paper values are going to be wiped out before next summer, and that there is nothing that can be done to prevent it. The time it could have been prevented, was back in 1982, or even as late as 1984. I warned the Reagan administration directly, that this would be the result of failing to bite the bullet back in 1982. It has happened; they have no one to blame but their own foolishness in refusing to heed sound advice. Things have gone too far; those

FIGURE 1d
Movements of U.S. dollar with respect to deutschemark and yen, August 1 to date, by week



Source: *Executive Intelligence Review*

FIGURE 1e
Movements of U.S. dollar with respect to deutschemark and yen, November, by business day



Source: *Financial Times*

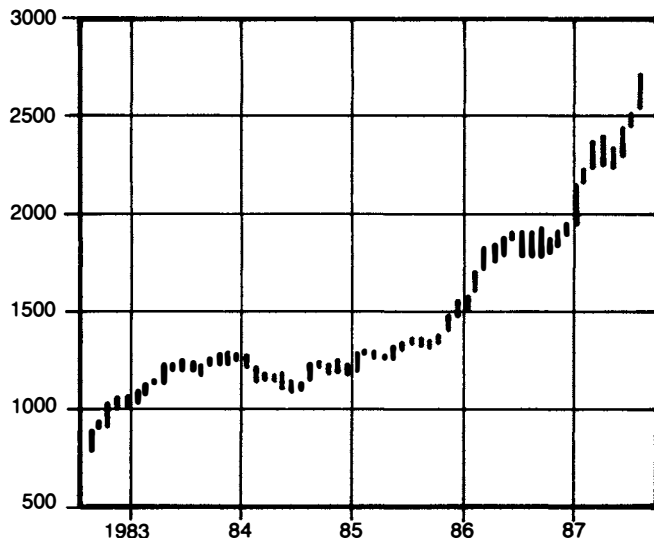
markets are doomed for the time being.

Instead of attempting to save what can not be saved, we must concentrate all our efforts on saving what can and must be saved. What must be saved and built up is production of physical goods. If we increase employment of operatives employed in producing physical goods and capital improvements of farms, industry, and infrastructure, we will avoid an economic depression and produce enough wealth that no one need fear going hungry because of the effects of the financial crash. We can not stop the financial crash, but we can prevent an economic depression.

As I said, to prevent an economic depression, we must act quickly to defend the dollar, defend the value of government bonds, and keep essential but distressed local banks doing their essential day-to-day business in the communities. The rest is chiefly up to the federal government, to the President, and the leaders of the Congress.

So, accept the fact that the big financial crash of 1987-88 is on. It is like a major earthquake; it is happening, and is, for the moment, beyond human control. The worst thing you could do, in this situation, is to spread false, wishful confidence, that "maybe, recovery of the markets is just around the corner." The danger is, that the Ronald Hoover administration and leaders of the Congress will continue to repeat the repeated, continued 1929-32 blunders of the Herbert Hoover administration and the Raskob Democrats back then.

FIGURE 2a
New York Stock Exchange, Dow-Jones Index, by month, August 1982 to August 1987



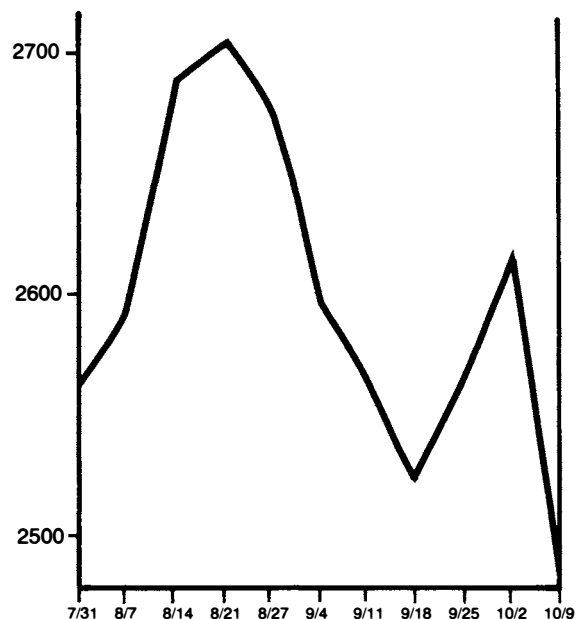
Source: *Wall Street Journal*

The only practical issue, is whether we are going to have a deep economic depression as a result of this financial crash, or not. Would you rather dream about a recovery in the prices of paper values which man could not defend, and God will not, and slide into a deep economic depression, because of your wishful delusions; or do you have the plain old guts to face the fact that most of the book value of that paper is as good as long gone, and act to save this nation, and yourself, from a deep economic depression? Those are the only choices you have; you must decide very soon.

If we can not awaken official Washington to reality very soon, we shall be in a deep economic depression by next summer or fall. If Washington does not also take the kinds of emergency actions I have repeatedly detailed and explained to the Reagan administration and others, there will be the worst depression you could imagine by sometime during 1989.

You see, a good economic forecast is not some idiot statistician's crystal-ball prophecy. A good economic forecast is telling you what you must do, to avoid disaster and find the way to economic recovery. Economics is not a classroom exercise, or a spectator sport; economics puts you on the playing-field, to win or lose by your efforts and skill. Friend, the ball is in your court.

FIGURE 2b
Declines in Dow-Jones Index by week, Aug. 1-Oct. 6, 1987



Source: *Financial Times*

FIGURE 2c

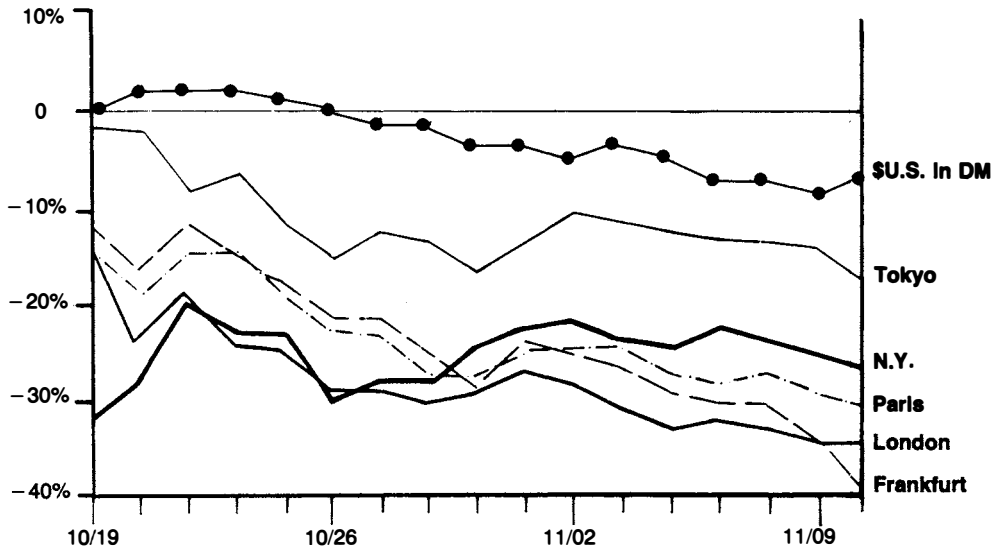
Cumulative percent scale of decline in world markets, by trading day since Oct. 6



Source: *Financial Times*

FIGURE 3

Comparison of cumulative percent scale of decline in value, U.S. dollar against the deutschemark and world markets, since 'Black Monday,' by day

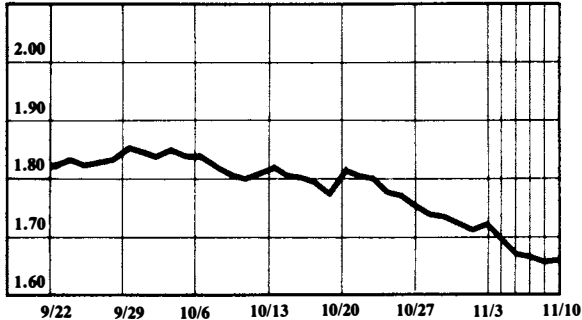


Source: *Financial Times*

Currency Rates

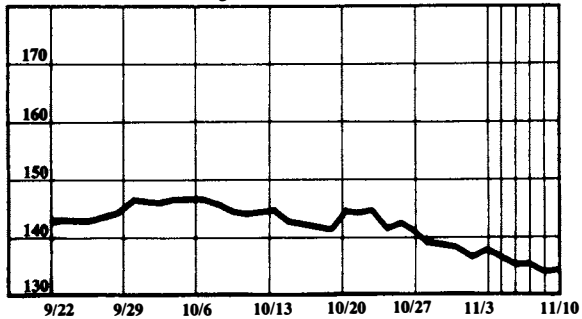
The dollar in deutschmarks

New York late afternoon fixing



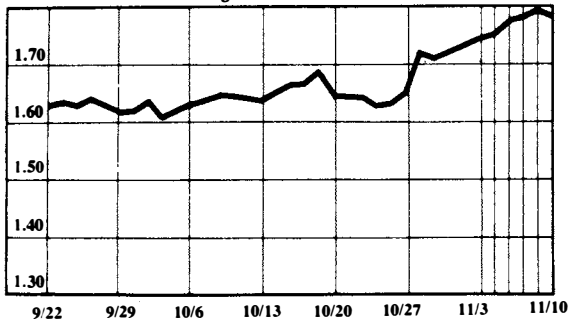
The dollar in yen

New York late afternoon fixing



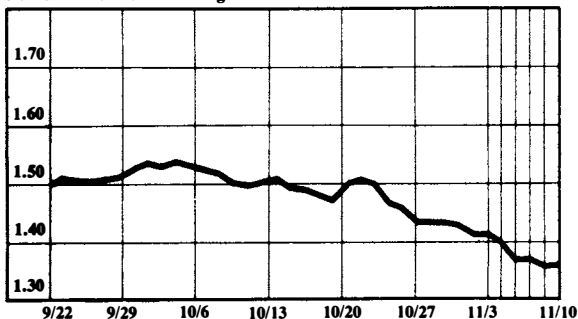
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



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Caution! HMOs may be dangerous to your health

by Linda Everett

In the first lawsuit of its kind in the United States, a Michigan woman has charged that the structure of her Health Maintenance Organization (HMO), and the financial criteria used to govern medical decisions, were inherently “responsible for the failure of its physicians to deliver medical care.”

In an HMO, a patient pays a monthly fee in advance for services from an HMO-salaried physician, rather than paying a private physician directly for services delivered. In HMO-Individual Practice Associations (IPAs), the patient pays a set HMO fee, but sees a private physician who participates in the HMO plan. The IPA physician sees his regular fee-for-service patients, along with the HMO enrollees in his own office. But in some HMOs, especially those proliferating most recently, a difference in care is likely to obtain, thanks to the profit incentive. If the fund containing the monthly HMO fees to pay for care has money left over in it at the end of the accounting period, the doctor keeps a portion of it—and if it doesn't, he may even have to make up the difference—hence, a motive to *minimize* care.

The Michigan case involves a 34-year-old Saginaw woman, Mrs. Sharon Bush, who sued her HMO for damaging the quality of her medical care through its “capitated gatekeeper” arrangement, which put her primary care physician at financial risk. In such an arrangement, the primary physician acts as a “gatekeeper” for the HMO patients, controlling whether a patient receives a referral to see specialists. He “manages” the patient's care, weighing it, not necessarily on needed medical care alone, but against his profits or losses as well. Should the physician spend less than the set amount of HMO money allotted per patient (called capitation), the doctor makes a profit. Should he exceed the budget, with lab tests, x-rays, referrals, or extended hospitalization, the doctor goes into the red.

The Bush case is unusual for several reasons. It strikes at the heart of the latest profit-making mechanism in this country's tidal wave of new HMO programs. Experts say that the case may point to a legal trend against such operations. And, a full 10 months after Mrs. Bush's lawsuit was filed, after the case gained national notoriety through articles in the *American Medical News* and the *Chicago Tribune*, the attorney for one of the physicians named in the suit successfully requested that the court, without notice, suppress the file on the case

and order the parties involved not to discuss the case in public.

The *American Medical News* (AMN) covered the story in its Sept. 4, 1987 issue, based on a copy of the original complaint obtained prior to the gag order.

In August 1985, Mrs. Bush, the mother of two, complained to her longtime physician, Dr. Paul Dake, of vaginal bleeding unrelated to her menstrual cycle. The suit alleges that Dr. Dake did not order a Pap test, nor did he refer her to a specialist until the following February, even though the antibiotics he had prescribed did nothing to stop the problem.

The obstetrician-gynecologist she was referred to merely changed Mrs. Bush's antibiotic, but she still experienced bleeding. Dr. Frederick Foltz also failed to take a Pap test or ascertain if one had been taken. A full eight months later, in April 1986, Mrs. Bush, now in unbearable pain, again went to her family physician and demanded another visit with the specialist. Although the bleeding persisted, Dake, as her “gatekeeper,” refused to authorize a second visit, claiming that she was not sick enough for the referral.

By May, Bush, desperate, finally went to a hospital outside the HMO, the Saginaw General Hospital emergency room, where she was admitted and diagnosed as having cervical cancer that had spread through her body. She required a series of operations.

In a suit filed in the Saginaw County Circuit Court on Sept. 26, 1986, Bush names both Dake and Foltz for malpractice, but it also names Group Health Services of Michigan (GHS) and Valley OB-GYN Clinic as liable for the physicians' alleged negligence.

Dr. Dake is a member of an individual practice with GHS, a Blue Cross health maintenance organization. GHS, in turn, sends some of its referrals to Valley OB-GYN. Mrs. Bush's complaint alleges that the HMO's “capitated gatekeeper” arrangement with Dr. Dake was a “significant causative factor” in Dr. Dake's failure to order tests, and to make referrals in a timely way, and in Dr. Foltz's failure to order a Pap test, which would have indicated cancer very early on.

Capitation ‘inhibits, chills, and thwarts’

According to AMN, Group Health Services paid Dr. Dake a capitation fee per patient and also placed funds in two IPA

accounts for consultant, lab, and hospitalization costs. If the money remained in the pools at the end of the accounting period, Dr. Dake and other IPA physicians would split it with GHS. It is this arrangement which Bush alleges violated medical ethics and state law.

It “inhibits, chills, and thwarts the accepted standard of referring for consultation and procurement of indicated laboratory procedures and is legally an impermissible interference in the relationship” between patient and physician, the complaint declares. This conflict of interest, the brief asserts, creates the financial incentive not to refer cases to specialists.

Not mentioned, but equally important, is the fact that Dr. Dake referred his patient to Dr. Foltz for treatment of vaginitis only. Dr. Foltz was authorized to treat *only* that condition and was *not* permitted to undertake a Pap test—a ludicrous policy that discounts the specialist’s expertise and independent diagnosis.

Dr. Arthur Efros, an officer of Physicians Who Care, a national group of 2,000 physicians who oppose any health plan offering financial incentives to doctors and who want to preserve private, fee-for-service medical care, told *AMN* that an aggravating factor in the Sharon Bush case was the fact that she was not aware of the capitation arrangement. “All the time the lady is thinking the problem is not that serious or the doctor would be doing something. If she was told about the financial agreement, she would have thought, ‘What’s going on here?’ ” Dr. Ronald Bronow, a Los Angeles physician and vice president of Physicians Who Care, called the concept of a doctor restricting services to make more money, “outrageous.”

As one Harvard Business School professor told a *Chicago Tribune* reporter: When you walk into an HMO doctor’s office, the doctor sees you, the patient, with a big price-tag on your forehead. The more frequently you show up, the more tests you need, the more you cost that doctor. The doctor pockets what he does not spend on your care. Some HMO-salaried physicians have 15% of their fees withheld until the HMO meets its financial goal. Thus, doctors must give careful scrutiny to exactly how much they spend on each HMO patient, and how expenditures compare with those of fellow physicians. Thus, the patient becomes a profit-making asset, or a financial risk.

Traditional non-profit HMOs allegedly offered unlimited care for a flat monthly fee from its enrollees. They claimed a cheaper delivery of health care services than fee-for-service physicians and hospitals, and boasted cost-cutting mechanisms that had patients spending 40% less time in hospitals than traditional plans. They thrived by cutting (debatable) “non-essentials,” by signing up relatively healthy young people who required less medical care than, say, the elderly, and by placing fierce treatment restraints on their staff. More recently, for-profit corporations and insurance companies have created an explosion of new HMO plans, each with an enormous and expensive bureaucracy and each competing for the same client base.

No longer is the issue one of delivery of cheaper medical care by cutting “unnecessary” services. The aim, here, like most business ventures, is to maximize profits for stockholders. And, those profits are not generally reinvested into new technologies, experimental research, or advanced patient care. Financial incentives reward physicians for providing less services, fewer tests, and shorter hospital stays. Last year, the federal government banned similar incentives that endangered the lives of thousands of elderly enrollees because their Medicare-contracted HMO firms refused to deliver critically needed medical care.

Third party payers legally accountable

In just 10 years, from 1976 to 1986, the number of Americans enrolled in HMOs quadrupled to about 25 million participants. An HMO research group called InterStudy says that the number of HMOs starting operation in those 10 years skyrocketed from 150 to over 600. But with this frenetic HMO expansion, there is a steady rumble of dissatisfaction and despair growing. Thus the national interest in the Sharon Bush suit.

In a similar case last year, a California judge warned doctors and third-party payers they were playing a dangerous game. In that case, *Wickline v. California*, Lois Wickline claimed that Medi-Cal, that state’s version of Medicaid, was responsible for the loss of her leg. Wickline underwent surgery for a blocked artery in a Los Angeles hospital. Her Medi-Cal physician-reviewer told Wickline she was ready to go home. Although she protested, her family physician and surgeons did not. Wickline was discharged from the hospital. Within nine days, Wickline returned to the hospital in pain. Her leg had to be amputated due to complications from surgery.

Contending that the state was at fault, she sued the state and won. A higher court judge overturned the ruling, but added a vigorous admonition. District Court Judge Barnet Cooperman wrote: “Third-party payers of health-care services can be held legally accountable when medically inappropriate decisions result from defects in . . . cost-containment mechanisms as, for example, when appeals made on a patient’s behalf for medical or hospital care are arbitrarily ignored or unreasonably disregarded or overridden. However, the physician who complies without protest . . . cannot avoid his ultimate responsibility for his patient’s care. He cannot point to the health-care payer as the liability scapegoat.”

HMOs are not alone in gouging the guts out of American medical care. Insurance companies, like Blue Cross and Blue Shield or Metropolitan, are consciously wrenching the medical system into health-care reductions, and have the clear intent of forcing programs like Medicare and Medicaid into line. Thus, health care could cease to be that happy but scientific combination of the physician’s personal commitment and inspiration, the nation’s challenge and mobilization, and the citizen’s hope and trust.

World Medical Association issues Madrid Declaration against euthanasia

Dr. André Wynen of France, the Secretary General of the World Medical Association, Inc., granted this interview to Club of Life representative Jutta Dinkermann, and has graciously consented to its publication in EIR.

Q: You are the secretary general of the World Medical Association. Could you tell us a bit about this organization?

Wynen: The World Medical Association is a nongovernmental organization of voluntary medical associations representing more than 2.5 million free physicians practicing in 42 countries around the world. Every year the representatives of these associations discuss and define medical ethics guidelines in their World Medical Assembly. The most important and well-known WMA declarations are the Declaration of Geneva, which is the modern version of the Hippocratic Oath, the Declaration of Helsinki adopted in 1964 on human experimentation, the Declaration of Tokyo (1975) on torture, the Declaration of Lisbon on the rights of patients, and finally the Declaration of Madrid on euthanasia, unanimously adopted by the World Medical Assembly last month.

Q: What is your personal moral view of euthanasia?

Wynen: The natural duty of the physician is first to protect life and not to kill the patient. The main task of the doctor is to help his patient in defending his interest not only against the disease but also against any dangerous competition between the interests of the community of healthy people or society, even the family sometimes, and those of the patient. Euthanasia was clearly proscribed in medical ethics 2,500 years ago by Hippocrates. If we reconfirm that fundamental principle, where the Dutch government, in cooperation with the medical association, is drafting a new law to organize legally active euthanasia, and also because of what is happening in other countries like yours [Germany] with the action of Dr. Hackethal. We want to stop the path leading step-by-step to a human disaster such as during World War II and to prevent another Auschwitz.

Q: The WMA just had a meeting in Madrid. We learned that you adopted a resolution against euthanasia. Could you please give us the full text and tell us a bit about the discussion?

Wynen: The following declaration was adopted almost without discussion and unanimously by the Assembly:

“Euthanasia, that is, the act of deliberately ending the life

of a patient, even at the patient’s own request or at the request of close relatives, is unethical. This does not prevent the physician from respecting the desire of a patient to allow the natural process of death to follow its course in the terminal phase of sickness.”

Q: What do you think are the true reasons of the people who want to implement euthanasia?

Wynen: People who want to implement euthanasia are using the same arguments as those used by the Nazis in 1939, when Hitler decided to initiate the first legal program in the world and in human history of active euthanasia on patients suffering from psychiatric diseases. It was explained at that time, especially in the medical publications, that, because of the successes of the medical sciences, natural selection was prevented and that, of course, it was the responsibility of the medical profession to play the role of nature to protect the population and the society (also the race) against any deterioration coming from the handicapped, the incurables, and/or genetic illnesses. One of the most famous authors of such theses was Professor Konrad Lorenz of Vienna University and now a Nobel Prize winner. We can find arguments of that kind in the documents circulated by the Dutch Medical Association and in France by the philosopher Jacques Attali, who explained that without setting up an active euthanasia program, before the end of the century, we shall not be able to face the world’s demographic explosion. The Dutch Medical Association thinks that with the progress in medicine, we are now able to artificially prolong life and to prevent the action of natural selection, so the medical profession has to face a new kind of responsibility!

Q: What does this resolution mean in practical terms for the members of the WMA? What are the next steps for them to make sure that the resolution be fulfilled and that euthanasia be stopped wherever it is known to go on?

Wynen: The WMA declaration is only ethical deontological guidelines. They represent a moral duty for the practitioner and they are included in the national codes of ethics even in countries where the medical profession is not represented in the WMA. The Dutch Medical Association alone, totally isolated in the medical world, is opposed to that basic principle of our professional ethics. So we hope that our Dutch colleagues will reconsider their attitude!

Q: What do you think about the situation in the Netherlands, where euthanasia is so widespread that even sick children can “decide” whether they want to get the “mercy-killing” treatment, and more and more old and sick people refuse to go to an old age home because they fear being murdered against their will.

Wynen: What is happening now in the Netherlands was foreseeable for several years. If we accept “opening the door” to active euthanasia, we cannot prevent its general implementation, leading to situations like the one you mention, just like during the time of the Nazis. The first step is the request of the patient, the second one is the request of the family, and the last one is the request of the society—that means the State!

Q: We know that the Netherlands is not a member of the WMA. Despite this fact, what do you think can and must be done to intervene in the Netherlands?

Wynen: We have no other means to influence our Dutch colleagues than a strong moral commitment by the whole world medical community. We hope that a permanent and

heavy criticism of their attitude will force them to reconsider it.

Q: What do you think about the situation in West Germany, where the euthanasia lobby is using doctors like Hackethal to implement euthanasia?

Wynen: In Germany we have to meet the same situation and to face the same danger. But there is a big difference between the situation in the Netherlands [and that in Germany] because neither the German government, nor the German medical profession as such is in favor of euthanasia, as in the Netherlands. In Germany, euthanasia is supported by a minority of politicians, a minority of the population, and fortunately, a very small minority of [medical] colleagues. In spite of his “support” by the media, Hackethal does not have the support of society and, of course, even less of the medical association.

Q: Assistance to suicide is not forbidden by West German law—a fact which is used in an impudent way by Hackethal. What do you think? Should assistance to suicide be forbidden

French protest plans to kill handicapped children

The proposal by a French pro-euthanasia group to give the parents of handicapped children the right to kill them at birth has drawn outraged accusations in France, with numerous organizations and individuals drawing parallels with the practices of the Nazis. The culprit group is the Association pour la prévention de l'enfance handicapée (APEH), (“Association for the Prevention of Handicapped Childhood”). Its honorary president, “independent left” ex-Senator Henri Caillavet, is also president of the French Association for the Right to Die with Dignity, whose activities have recently drawn protests from French citizens and medical professionals.

Paris Archbishop Jean-Marie Lustiger has attacked the APEH proposal as a “case of legal barbarism . . . unworthy of our country and our civilization.” French psychiatrist Jean-François Corbin, author of the book *Soft Extermination*, says the proposal raises the specter of Nazism, and is “reminiscent of Hitler or the manuals for eugenics distributed in France during the period of Vichy. . . . Formerly, in Germany, the mentally ill were sterilized.” Numerous associations directly concerned with the handicapped in France—including the National Union of Parents of Handicapped Children, the Association of Paraly-

tics in France, and the Association SOS-Future Mothers—have declared that the APEH text evokes “the plea for the destruction of useless lives” made by the Nazis. French Secretary of State for Human Rights Claude Malhuret expressed his “indignation” Nov. 5 over the Caillavet-APEH proposal, saying he was very concerned about “the recent multiplication of proposals with the aim of legalizing euthanasia and eugenics, and which assert a claim to the right to die.”

The APEH text was distributed recently to several French parliamentarians. It says, in part, that there should be legislation that would “permit parents, in certain circumstances, to not sustain life in (*de ne pas entretenir en vie*) young children who are abnormal.” It goes on to say that the legislation would uphold that “a doctor will not be committing either a crime or a misdemeanor in abstaining from administering to a child of less than three years of age, the care necessary to his life, when this child shows an incurable infirmity, such that it can be foreseen that the child will never have a life worthy of being lived.”

APEH head Henri Caillavet told French TV, “If I had had a handicapped child, I would not have let it live. . . . I gave life, I have the right to take it away. . . . You have the right to be shocked, and so am I when I hear some of the Pope’s comments. . . . We have got to take away the guilt so that such parents do not feel like criminals for demanding euthanasia for their abnormal children.” APEH’s self-described aim is stop the number of mentally defective children from increasing, one of the declared aims of the “eugenics” movement that supported Hitler.

by law?

Wynen: Suicide is pathological. It results from the disappearance of the self-preservation instinct. Suicide is relevant to psychiatry and the duty of the physician in that case is to protect the patient against himself. In many countries, the liability of the physician is engaged when he is informed about the patient's intention to commit suicide and when he neglects to take appropriate steps to prevent it. In conclusion, even in the absence of a law against suicide, medical ethics forces the physician to protect the patient against himself.

Q: What do you think about legal rulings in the U.S. where patients are "allowed"—and often forced by relatives, etc.—to refuse further treatment, food, or water?

Wynen: One of the fundamental basic rights of the patient is to refuse the treatment proposed by the physicians. It is not the right of the relatives, the family, or of the society to take the decision on behalf of the patient if the latter is capable of deciding for himself. When the patient is a small child or mentally handicapped, the duty of the physician is to protect the interests of the patient mainly and especially if they are in competition with those of the family or of the community.

Q: In an article in the *Jerusalem Post*, Mr. Ram Ishai from the Israel Medical Association was quoted saying: "In present-day conditions, euthanasia could be performed to avoid economic burdens on society." What do you think about this aspect?

Wynen: Mr. Ram Ishai, an excellent friend of mine and now a Council Member of the WMA, emphasized what I have been defending for more than 15 years: Cost containment policies lead all around the world toward rationing of medical care and rationing is leaning in many cases to euthanasia. The best example is the legal limitation of hemodialysis equipment with the consequence for the physician of having to select the patients who will benefit from the treatment and those who will be denied the treatment and condemned to die!

At the present time, a large majority of specialists and health economists agree that 80% of medical expenditures take place during the last six months of an individual's life. The temptation is great to cut the portion of medical expenses corresponding to that last half year of life!

Q: Over recent days, the first cases of euthanasia for people sick with AIDS have been made known in the Netherlands. Do you think that there is a danger that euthanasia could become the "answer" to AIDS?

Wynen: I do not think that the danger of solving the AIDS problem with euthanasia is high. Those among the population, even in the medical profession, who are in favor of euthanasia, represent a small minority. If the medical profession, like the last Madrid World Medical Assembly, remains the best support of its code of medical ethics, the patient will

be as well defended in the future as he was in the past.

Q: We learned that the WMA also discussed the question of AIDS at its meeting in Spain. Could you please tell us something about the topics and the final resolution on this matter?

Wynen: At the Madrid Assembly, guidelines were defined for physicians who treat AIDS patients. The main item discussed was the report of cases of AIDS to a designated authority for epidemiological purposes, and to prevent the infection of other people. It has to be done anonymously or by an identifier in special circumstances; the physician may take appropriate measures including reporting the name of the patient if, in conscience, he considers him a potential danger to his relatives or the community because the patient is not able, for mental reasons, for instance, to follow the necessary rules of prevention, or if he deliberately refuses to respect them. In that case, the responsibility of the physician can be compared to the responsibility he has to fulfill in psychiatry. If the patient represents a danger to other people, it is the physician's duty to request the cooperation of the public authority to prevent his patient from being harmful. I consider that there is no difference between AIDS patients who refuse [to take] measures to prevent the spread of the disease, and a paranoid patient walking freely in the streets with a revolver in his pocket!

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Argentines say 'enough!' to IMF

by Cynthia Rush

Two months after his austerity policy was overwhelmingly repudiated at the polls, Argentine President Raúl Alfonsín faces economic upheaval, and mass political unrest, because of his refusal to abandon the International Monetary Fund's dictates. Organized labor, and industrial and agricultural producers are in a state of alert around the country, mobilized against the latest version of the IMF's "shock" program, announced on Oct. 14.

Argentina's bankruptcy is such that the government reportedly came close to declaring a debt moratorium on Nov. 6, in the midst of intense negotiations between the Brazilian government and its creditors. Argentina's foreign reserves are at an all-time low of \$400 million; and the IMF and commercial banks had delayed disbursements of agreed-on funds. Only last-minute action by the IMF, and release of a \$500 million bridge loan from the U.S. Treasury, on Nov. 9, prevented the moratorium, according to Brazilian sources.

Despite this, Alfonsín is determined to impose an orthodox monetary policy, which will plunge the country into deeper crisis. The package announced on Oct. 14 includes wage and price controls, 10-20% increases in public utility and service rates, unregulated interest rates, and an enormous tax increase, the brunt of which will fall on industrial and productive sectors.

On Nov. 4, the 3 million-strong General Confederation of Labor (CGT), controlled by the Peronists, held a 12-hour general strike against this IMF policy. Describing this action as only the first phase of a nationwide campaign of "alert and mobilization against surrender, hunger, unemployment, and misery," CGT Secretary General Saúl Ubaldini demanded the resignation of Finance Minister Juan V. Sourrouille and his economic team, "for the good of the country, and the workers."

Observers report that the strike was one of the most effective and disciplined carried out by the labor federation, and constituted a severe political blow to Alfonsín. In his speech before 60,000 workers at the Plaza de Mayo in Buenos Aires, Ubaldini responded to Sourrouille's assertion that current economic policy is "not negotiable," with the statement "that what cannot be negotiated, as an external guarantee to satisfy the IMF's pretensions, are the privations of the Argentine people."

The CGT is demanding that the government adopt the labor federation's 26-point program, elaborated two years ago, which calls for a moratorium on the nation's \$54 billion foreign debt, and establishment of a credit and monetary system which favors economic and industrial growth rather than speculation.

Until now, most public protest against economic policy has come from the labor movement. But the deepening crisis has forced industrial and agricultural producers to raise their voices too, especially in the interior.

On Oct. 28, the entire province of Santa Fé went on strike for 24 hours, led by the Provincial Businessmen's Assembly for Growth (APEC), and backed by every industrial, agricultural, and producer association across the province. The government's economic policy "is sweeping us into an intolerable state of decadence," APEC charged. The businessmen's association in the industrial center of Rosario, characterized the strike as a "serious and drastic warning to the national government, and its economic policy. We say, enough of this policy!"

The executive committee of the Argentine Industrial Union (UIA) has been meeting in emergency sessions over recent weeks, to hear reports of plummeting sales and production from its provincial chapters in Santa Fé, Córdoba, Mendoza, San Juan, and La Pampa. Other regional and provincial organizations say government policy is a threat to their very existence, and warn that they will carry out province-wide strikes, following the Santa Fé example, if the new austerity package isn't dropped.

IMF equals balkanization

As expanding protest shows, the process of national disintegration resulting from IMF policy is reaching the limits of toleration. Denied needed funds by the federal government, provincial governments have been left to fend for themselves; this has meant taking steps such as creating their own currencies, or making deals with the Soviet government when credit is unavailable elsewhere.

Two years ago, the northern province of Salta issued its own currency—"Salta bonds"—in order to meet its provincial wage bill and ensure continuation of vital services. Today Salta bonds are preferred over the national currency, the austral. At least two other provinces have taken similar steps.

One source told *EIR*, "It's almost like a lottery. . . people are offered prizes, as an incentive to use the bonds." Alfonsín's economic policy "is turning us into a group of small republics, each independent from the other," he said.

Yet the national government is exacerbating the problem. Through Finance Secretary Mario Brodersohn, it announced it would not pay almost 2 billion australs promised to the provinces, as part of a revenue-sharing agreement. The central bank has also just taken steps to deny rediscounting facilities to state banks in the interior of the country, making credit for production even more accessible.

Colombia: interest hike means blowout?

by Valerie Rush

Economic specialists in Colombia are predicting that the latest hike in interest rates could prove to be the pin that pricks the over-inflated bubble known as the Colombian banking system. During the first week in November, banks increased their interbank lending rate by 2%, while interest on loans to customers rose 1.5% to a whopping 41.5%.

Banks claimed that the reason for the interest rate increase was the need to recoup losses incurred when the State Council ordered private banks to make obligatory purchases of the Class A bonds of the Agricultural Fund, which serves to subsidize agriculture through relatively low interest rates. But the banks got their cake, and got to eat it, too, when Finance Minister Luis Fernando Alarcón Mantilla announced the phase-out of "development credit," through a "flexible interest rate" policy that immediately raised the cost of such loans from 18% to 33%. Pressure to eliminate such subsidized credit has been applied for years by the World Bank and International Monetary Fund.

Alarcón's justification for ending development credits was straightforward. In an address to the national banking association, Asobancaria, he said, "The financial system cannot continue to assume the costs of the so-called development credits. . . . Subsidized credit does not benefit the majority of Colombians . . . and generally those who use it are small groups who do not represent common aspirations." Alarcón went on to describe how such subsidized credit has had effects on the economy, "by arbitrarily cheapening the cost of capital, and leading to technology and investment choices that do not adequately reflect the relative prices of capital and labor."

Digging one's own grave

Francisco Ortega, general manager of the Colombian central bank, used his speech to Asobancaria to target the decrepit national railroad system and heavily indebted Idema, the state food distribution agency: "Monetary control will always be defective as long as special needs are met by expansion. No matter how prioritized the activities that would benefit from such loans, one should not forget that the damage that is caused to the functioning of the financial sector by

such assignment of economic resources has enormous significance; the damages are immensely greater than the advantages."

While such policies as elimination of development credit are touted as measures designed to save the hard-pressed Colombian financial sector, the reality is that they will sink it. Currently the banks have accumulated nearly \$1 billion worth of outstanding, unpayable loans to the productive sector. Agriculture, in desperate need of such subsidized credits as the Class A bonds, would plunge into bankruptcy with their phase-out. The impact of such defaults could mean a chain reaction of bank collapses. The same with industry, which has stripped itself to the bone to pay even a portion of its overdue debts.

Comptroller General of Colombia Rodolfo González García identified the fundamental problem in his Oct. 27 financial report to the President, in which he denounced the government's willingness to sacrifice its own economic development initiatives to pay off the foreign debt. "The ambitious programs of social expenditure of the government, contained within its development plan, find themselves facing a crisis of uncertainty. The heavy expenses that originate in the servicing of the foreign debt, and the commitment of the government to reduce the fiscal deficit, confirm that it has chosen the path of sacrificing domestic expenditure and investment."

Aggravating the financial crisis domestically is the continued blindness of the Barco administration to global reality. In the immediate aftermath of the "Black Monday" crash of the New York stock market, President Virgilio Barco's economic secretary, Enrique Peñalosa Lozano, declared that Colombia would benefit in the form of repatriated capital and more loans! He would be well advised to glance back at the last stock market crisis, in 1929, which dealt a devastating blow to the Colombian economy and ultimately forced it into debt moratorium. Between 1929 and 1933, government income fell by 65%, public expenditure by 62%, state investment by 29%, and exports by 54%.

Income from coffee, Colombia's primary export product, fell 45% between 1929 and 1933, despite an increase in physical volume of coffee exports by 23%. It is noteworthy that Colombia has already lost \$1.06 billion in coffee income in the first nine months of 1987, a figure comparable to the entirety of the long-awaited "jumbo" loan whose disbursement by international creditor banks has been unexpectedly postponed until "some time next year."

Despite the postponement—the loan was being counted on to meet the November wage bill for public employees—Peñalosa Lozano insists that the international banks retain full confidence in Colombia, which he describes as "tremendously solid." He has yet to either confirm or deny the report that Chemical Bank, one of Colombia's leading creditors, has just announced a total suspension of operations in the country.

Conable comes calling

With a "drought loan" in hand and soothing words about the world market crash.

There was something distinctly unreal about World Bank chief Barber Conable's week-long visit here Nov. 4-10.

On his maiden voyage to India, Conable brought a \$350 million World Bank loan package to help meet the balance of payment difficulties heightened by the drought. That is a hefty sum by any standard, and was certainly welcomed. But the drought is relatively immediate. Looming behind it, with as-yet-unknown impact, is the unfolding world financial crisis—and Conable had nothing but sweet talk on that issue.

At a press conference on his arrival, Conable said the Bank estimated that the net cost of the drought to India over the next year would be \$1 billion. The Bank, he said, was bent on assuring that India would not be forced to cut back on its development investment to meet the anticipated budget crisis. Some \$250 million of the loan package consists of IDA credits on soft terms, and another \$100 million in regular IRDB loans with commercial terms.

The World Bank president waxed eloquent on the Bank's long relationship with India, as some \$27 billion has been pumped into the Indian economy over the last 30 years—and its continuing confidence in India's "success story." However, just before his arrival, Conable's advance men had announced that India's growth rate would be cut to zero this year, and the trade deficit would jump by \$1 billion (from the normal \$4 billion level). The setback is attributed to the drought.

His talk with Prime Minister Rajiv Gandhi, Conable said, convinced him that India would continue its policy of "liberalization" and opening of its markets. Gandhi also emphasized increasing efficiency in the Indian economy, said Conable, adding that though the Bank believed that deregulation was the way to go, the Indian government would have to determine its own priorities. "We will support what we consider to be contributing to growth," he said.

He boasted of the "capital headroom" the Bank has recently enjoyed and the doubling of resources that would result from the decision to increase the capital base. This would help to tide over the situation created by the fall in the value of the dollar, he claimed.

In fact, the dollar collapse and market turmoil of the past month only interrupted the festivities fleetingly. "This is not a helpful development, but I remain basically optimistic that the economic future is not depressing," Conable replied to reporters' inquiries about the impact of the stock market crash and dollar dive on the world economy. It might not have an immediate impact on India, Conable opined, since the markets here are not directly affected, but it was difficult to foresee the effect it would have in the international community at large.

Conable gave no reason for his "optimism," which does not appear to be shared in any case by Indian officials, if Finance Minister N.D. Tiwari is any indication. Inaugurating the seventh general meeting of the Asso-

ciation of Development, Research, and Training Institutes of India and the Pacific Basin on Nov. 2, Tiwari warned that the recent developments in world stock markets might destabilize the economies of the developing countries. In the existing world economic order, he said, the developing countries faced an unjust and uncertain export market due to selective restrictions and depressed prices. Unstable and misaligned exchange rates and high interest rates in international capital markets compounded the problem, he said.

According to reports, the prime minister himself had sought an urgent briefing from Reserve Bank of India officials as to the impact of the market developments, upon his return from the United States in late October.

Conable's visit had another "unreal" aspect: It coincided with revelations that the Bank was financing a lavish million-dollar study of India's poverty. Though Conable himself didn't mention it, he probably had the so-called poverty project in mind when he told the press that the World Bank had learned from its long association with India that growth alone did not ensure the alleviation of poverty.

Whether yet one more study of the appalling poverty in India can be justified when the requirements for breaking the cycle of stagnation are fairly obvious, is certainly debatable. The prospect of a million-dollar study "proving" that economic growth is no solution to poverty is downright obscene.

Adding to the bad taste of the whole thing is the fact that the World Bank's million is to be channeled to the "Policy Group," a new consulting firm run by recycled World Bank employees among the yuppie set in India who have gravitated around the prime minister's office.

Sarney can't have both

Brazil's President gave up the debt moratorium for the IMF, and lost the backing of the ruling party.

An International Monetary Fund (IMF) delegation is preparing to visit Brazil to impose its economic dictates on the nation whose ruling party, not long ago, threw them out. The moratorium that then-Finance Minister Dilson Funaro persuaded President José Sarney to declare on Feb. 20, was bargained away under pressure from the U.S. banks on Nov. 5. It had been imposed in order to force bankers to renegotiate all of Brazil's \$113 billion foreign debt, under terms which would permit Brazil to grow and pay "the social debt" to its people.

Sarney not only got nothing in return for giving away Brazil's "trump card"; he also promised the banks he would submit Brazil to "surveillance" by the IMF. He thus broke all his promises to the majority Brazilian Democratic Movement Party (PMDB) on which his government is based. That will speed his political demise: It's getting hard to find anyone in Brazil who doesn't want elections to replace him in 1988.

The deal that Sarney's debt negotiators closed with the banks, has been blasted by members of the government party as "treasonous."

Dilson Funaro, the man who leads polls among all possible presidential candidates, attacked the government's capitulation to the bankers. "The ones who declared the moratorium in the first place, were the creditors themselves, at the moment that they suspended any kind of new money for Brazil. My indignation is as a citizen. The government lost its vision as a state, and worse, lost an historic

opportunity to contribute to the development of the country."

Funaro called into question Sarney's mandate, which is being debated by the constituent assembly. Sarney, who became President on the death of elected President Tancredo Neves, had demanded a six-year term. There is now a consensus that four years is too long, given the all-pervasive sense that the country is not being governed.

On Nov. 5, the day Finance Minister Luiz Carlos Bresser Pereira made the deal with the banks, President Sarney refused to take responsibility for the deal. "From the moment I took office, I have backed the finance ministers proposed to me by the parties that support me. . . . If their policies work or not, I don't know. I'm not an economist," he said.

The negotiations "showed this transitional government has lost its capacity to negotiate, showing weakness," said Funaro. He pointed out that the ruling PMDB has an economic program that establishes no return to the IMF, and maintaining the debt moratorium. "How can the PMDB, then, continue to support a government that is making deals that imply the premature lifting of the moratorium, and the return to IMF tutelage?" asked Funaro.

It was "an absolute capitulation" to make a "symbolic payment" of \$500 million in interest on the "worst possible terms," said the former minister. One of his aides added, "More than a strategic error, it is treason to the fatherland."

Paulo Nogueira Batista, who had worked with the Funaro team, said, "Only a weak and eroded government could suspend the moratorium in exchange for a temporary agreement that only resolves the accounting problem of the banks."

"Every time I made a concession, the banks made more demands," reported negotiator Fernão Bracher. The bankers agreed to pay themselves \$1 billion interest due from Brazil, chalk it up on Brazil's account, and charge interest of 0.875% above the London dollar prime plus 0.25% fees for their service. That is, in effect, twice the 5% interest Brazil's Finance Minister Bresser Pereira said he wanted as he began talks with the banks in July.

The only other thing they agreed on was to talk until at least next June about terms of refinancing Brazil's unpayable debt. That just guarantees Brazil's economic crisis will continue most of next year. The bankers now say any long-term deal must give them the right to cut all credits whenever Brazil violates the IMF's genocidal "conditionalities."

Washington made a big show of threats to downgrade Brazil's debts. To push Brazil into capitulation, the Interagency Country Risk Exposure Committee declared Brazil's debts "value-impaired." U.S. Treasury Secretary James Baker prevented the order from becoming official—it would have forced U.S. banks to charge \$2-3 billion as losses on fourth-quarter balance sheets. "To negotiate is like being in hell," confessed Brazil's Bresser.

But more hell is to be paid as the nation and its institutions reject the accord and its devastating economic consequences. While Sarney continues to say that the moratorium was not suspended, it will be hard to convince the population that the IMF has arrived to help manage the moratorium.

Labor wakes up

Mexico's trade unions sat down the "post-industrial" presidential candidate and gave him a lesson in basic economics.

A refreshing whiff of reality blew across Mexico early this month, when the labor sector of the ruling PRI party, headed by the Mexican Workers Confederation (CTM), met Nov. 5-6 to deliver their traditional, formal endorsement to Carlos Salinas de Gortari as the presidential candidate of the Institutional Revolutionary Party.

Following the usual formalities, the CTM handed to Salinas—architect of the current disastrous economic policy in Mexico—a document proposing that he “allocate only 10% of oil export revenues for payment of the foreign debt”; impose “exchange controls to guarantee the positive use of the country’s foreign exchange”; “channel available resources, including a good part of the reserves, to the production of goods that the people and the nation require”; and do away with “ominous financial speculation.”

The CTM paper argues that the model of “modernization and liberalization” imposed since 1982 has been a total failure, and that it would be absurd to “make Mexican society synchronous” with post-industrial society.

“Developing nations have become more impoverished over the past five years than in the previous twenty,” said the trade union document, getting to the heart of the problem. “It is not merely for doctrinal reasons, or out of healthy nationalist impulse,” but out of simple “common sense” that “the economy of the nation must be freed from improper bonds.”

In obvious reference to the stock markets’ “Black Monday,” the document points out that “permitting the national economy to be tied to foreign economies that are declining and showing clear signs of bankruptcy would show serious irresponsibility on the part of this generation of Mexicans.”

In the days just before the CTM met with Salinas de Gortari, quite a few newspaper editorials stressed that it is urgent to take immediate measures in the face of imminent depression in the “developed” nations. On Nov. 4, one of Mexico’s most widely read columnists, José Luis Mejías, published on page one of the leading daily *Excelsior*, the analysis of Lyndon LaRouche—published by *EIR* last June 5—which warned of an October-November financial catastrophe. Mejías wrote that LaRouche’s prognosis “also holds for Mexico.”

On Nov. 6, the CTM told Salinas that “circumstances have changed, and policies must therefore change to pave the way for a model that makes the national economy less vulnerable.” They proposed the formation of “Committees to Strengthen and Defend the Mexican Revolution,” and the mobilization of the population to achieve these objectives.

It fell to the head of the powerful oil workers union, Joaquín Hernández Galicia, to lay down the law to the PRI presidential candidate, in an “exclusive” Nov. 5 meeting between Salinas and more than 10,000 oil workers.

“We cannot tell you . . . that we were your partisans,” he told Salinas. In fact, the oil workers have been in non-stop confrontations with the former Planning and Budget Minister during the last five years. The unions are backing Salinas so as not to divide the party.

“No one wants the government to fail, much less our party, which is risking everything for you,” declared union leader Galicia bluntly, adding that the workers reserved the right “to tell the truth as we see it every day in the impoverished quarters” of the city.

Hit with this broadside, Salinas had no recourse but to insist that he proposed “nothing less,” given the fact that “circumstances abroad and the internal social dynamic are changing drastically.” However, he went on to proclaim himself “absolutely against populism” and for a “realistic economic policy.” These are the same terms with which he has justified making deals against Mexico with the creditor banks.

On Nov. 7, during the PRI’s seventh national convention, held to officially confirm Salinas’s candidacy, the PRI released its electoral platform, which affirmed that “a limit has been reached on the net transfer of resources abroad, which is what the debt service under current conditions represents, in violation of economic logic and proving tremendously inequitable.” But the platform also promotes the bankers’ scheme: “designing mechanisms to reduce the nominal value of the foreign debt to its market value, such that it is the debtors who capture the entirety of the discount.”

Moreover, in his acceptance speech Nov. 8, Salinas spoke of the “modern” era, in which “blind confidence in progress has been diluted.” His speech was full of references to the dogmas of post-industrial society taught at Harvard, his alma mater.

Business Briefs

Believe It or Not

Mexico decorates ex-Fed chief Volcker

Former U.S. Federal Reserve chairman Paul Volcker visited Mexico on Nov. 10, and received a medal from the Mexican government—presumably for the damage his policies did to the Mexican economy, as well as every other in the world.

Mexican President Miguel de la Madrid decorated Volcker with the Order of the Aztec Eagle, for “the outstanding services that [he] rendered our country, by backing the effort of the Mexican government vis-à-vis the international financial community in dealing with the foreign debt.”

Interviewed at the conclusion of the ceremony, Volcker said that full payment of Mexico’s foreign debt is necessary, but that when countries take the path Mexico has—terrible austerity—then they should be rewarded with added export opportunities and more new capital. Mexico’s course, he also stated, is infinitely preferable to seeking a new international economic order.

Volcker then listed a number of top financial officers of the country, including the head of the Central Bank Miguel Mancera and Finance Minister Gustavo Petricioli, calling them “our partners,” and said, “They all have financial backgrounds. All have been trained, directly or indirectly, at the central bank, which I consider the most important institution for the future of Mexico and its international relations, linked to the U.S. central bank [Federal Reserve], which I particularly respect very much.”

International Trade

Mexican-Japanese relations on the rise

By the end of this year, Japanese investments in Mexico will rise to \$2 billion, while Mexican exports to Japan will double, according to a Mexican diplomat. But other sources say that the bulk of the Japanese investments will be in non-productive enterprises.

The Mexican ambassador to Japan, Sergio

González Gálvez, said that the flow of Japanese investments will primarily be channeled into hotel and tourist services. He called this a sign of “the confidence that exists in the economic recovery and future” of Mexico.

The ambassador also said that at the end of November, a group of Japanese businessmen would arrive in Mexico to study potential joint investments in various areas, including construction of a seaside resort hotel in Cancun. During their stay, the Mexican-Japanese Hotel Niko, in the center of Mexico, will be inaugurated. It was built jointly at a cost of \$150 million.

Foreign Debt

Ask OAS role in finding solution

Peruvian Foreign Minister Allan Wagner has demanded that the Organization of American States take a more active role in solving Ibero-America’s debt crisis. Addressing the OAS’s meeting in Washington Nov. 9, he also urged “the construction of a new international economic and financial order.”

Wagner said that Peruvian President Alan García had stressed many times that “rentier finance cannot become the central element of international economic relations,” and that it was necessary “to face seriously and without delay a global and definitive solution to the problem of the debt and the construction of a new international economic and financial order in which the right to development is protected and encouraged.”

Wagner said that he hoped that “more lucid minds” would comprehend the significance of the recent stock market disorders, making it possible to hold political dialogue between creditors and debtors.

In this context, he said, the OAS should play a role. While he said he was not asking the OAS to solve the debt problem, it should provide a forum for the necessary political dialogue with U.S. authorities.

“Peru recognizes the need of the industrialized countries, and of the U.S. especially, to balance their financial and trade balances,” said Wagner, “but the price of these adjustments to overcome imbalances cannot fall upon the developing countries

through recourse to protectionist measures. We are convinced that the deficit will be resolved when the decision is made, to promote in the industrialized countries a greater rate of exports and more open markets between themselves and the developing countries.”

Space

Shuttle payloads to increase

NASA has authorized an increase in permissible payloads on the Space Shuttle, from 211,000 pounds to 230,000 pounds. Spokesmen said that the increase is based on an extensive structural analysis of the forces experienced by the craft during landing maneuvers.

Rear Adm. Richard Truly, head of the Shuttle program, announced Nov. 9, “This new capability will . . . add considerable flexibility and efficiency to our space transportation system.”

Truly added, “Our initial analysis indicates that this change will allow the Space Shuttle to carry a cumulative weight in excess of 100,000 pounds of additional payloads into orbit through 1993.”

Foreign Exchange

Japanese want U.S. budget cuts

A top Japanese finance ministry official said Nov. 5 that Japan has no intention of proposing a meeting of the Group of 7 or the Group of 5, until the United States comes up with budget-cutting programs, the *Japan Times* reported Nov. 6.

The official said, “Concrete budget-cutting measures should come first. Then we would consider holding such a meeting.”

With the so-called Louvre Accord in effect, he said, Japan will continue market intervention to prevent rapid changes in the yen-dollar rate—if it can.

The official said that Treasury Secretary James Baker’s indication that the dollar

Briefly

would fall further, stems from the fact that the United States wants to avoid the disastrous economic effects that followed the 1929 crash—i.e., the tightened money conditions that “damaged” the economy after 1929.

Science

Gramm-Rudman to hit programs hard

Gramm-Rudman cuts will badly hurt U.S. science capability, according to latest estimates. Calculations published in *Science* magazine on Oct. 30 show that the “automatic sequestration” cuts, at an overall level of only \$23 billion, mean the following for science.

- The 1988 NASA budget will be cut from \$9.3 billion to \$8.5 billion; the 1987 budget is \$10.5 billion.
- The 1988 National Science Foundation budget will be cut from \$1.83 billion to \$1.67 billion.
- The 1988 National Institutes of Health budget will be cut from \$6.9 billion to \$6.3 billion.

Since the demands of Wall Street are for overall cuts of even more than \$23 billion, the base line science budgets will be slashed even more than these figures indicate.

Labor

Strikes spread in Peru

Labor troubles are spreading in Peru. On Nov. 10, some 200,000 doctors, nurses, technicians, and obstetricians began an indefinite nationwide strike. Soon, it appears, miners will strike, as will some government administrative personnel.

Tito Fernández, secretary general of the National Association of Doctors, said that negotiations broke off after 18 months without a contract.

President Alan García's health ministry issued a statement Nov. 8 saying that negotiations had been broken off by the medical union, not by the government, and warning

that the strike posed a clear threat to the lives and health of all Peruvians.

Meanwhile, Flavio Rojas Sarmiento, president of the Workers Union at the Peruvian Institute of Social Security, which represents administrative workers there, announced that his members would go on strike Nov. 11 and 12.

On Nov. 9, the National Council of the Mining Federation announced that it had decided to order 50,000 miners out on strike, but did not name a date. They will join 7,000 miners already on strike the Cuajone, Toquepala, Metalurgias, and Hierro mines, and another 4,700 at Hierro-Peru.

Crash of '87

\$194 million lost in BP sale

Shearson and other investment houses lost about \$194 million on a British government sale of British Petroleum stock which they had agreed to underwrite before the massive decline in stock values over the period since the sale was announced in August.

Shearson, according to a company spokesman, lost \$70 million after taxes during the month of October with its several stock market crashes; \$46 million of that was lost on BP alone.

Other underwriters fared little better, and some worse. Salomon officials refused to comment on their losses, but rumor had it they were equal to those of Shearson. First Boston Corp. admitted to an undisclosed loss, estimated to be at least \$60 million.

Both Salomon and Morgan Stanley had as many BP shares as Shearson. Goldman, Sachs was the lead underwriter, and according to analysts, probably lost \$55 million after taxes.

Still smarting from the bath they took underwriting BP, both Shearson and Goldman, Sachs are now each stuck with about \$100 million in short-term “bridge” loans to Southland Corp., whose sale of junk bonds has collapsed.

Citibank, Manufacturers Hanover, Security Pacific, and Canadian Imperial Bank of Commerce had lent Southland \$4 billion to be repaid from the bond issue, but now, it won't be.

● **‘SURREALISM,’** is how the *Times* of London's “U.S. Notebook” columnist, Maxwell Newton, characterizes the U.S. Department of Labor's claim of a rise in October payroll employment. “The suspicion remains,” he writes, “that the Fed and the administration would do almost anything, including a further massive mortgaging of the U.S.'s future income, to avoid recession next year.”

● **ROBERT ABOUD**, the former Continental Illinois executive and crony of Armand Hammer, is planning radical cutbacks in the operations of First City Bancorp of Texas. As many as 1,200 of its 7,427 employees may be laid off. The Houston-based First City is expected late this year to receive the second biggest federal banking bailout ever, after the 1984 rescue of Continental Illinois.

● **LYNDON LAROUCHE** says this is one of his favorite recent jokes: The Nobel Prize for fiction, according to reports coming out of Stockholm, will be awarded to Continental Airlines, for its flight timetable.

● **U.S. CONSUMER DEBT** rose at an annual rate of 12.2% in September, the largest advance since September 1986, according to the Federal Reserve.

● **GENERAL MOTORS** has announced the indefinite closing of its plant in Framingham, Massachusetts, putting 3,700 employees out of work. The announcement came Nov. 4, two days before U.S. automakers announced an 11% decrease in the production of cars.

● **PERU** will start up its first nuclear reactor in April 1988. The research reactor is located in Huarangal, 30 miles from Lima. President Alan García, during a visit to the site, said that \$100 million had been invested in the project, which he called a “decisive milestone for the country and a great technological leap.”

SDI spinoffs: need for a 'science driver' approach

by Carol White

SDI and Industrial Technology Policy, Threat or Opportunity

by Walter Zegveld and Christien Enzing
St. Martin's Press, New York
186 pages, hardbound, \$32.50.

This book should be of ironic interest for those of our readers who have kept abreast of *EIR*'s coverage of the Strategic Defense Initiative, and in particular the potential spinoffs from its development. I say ironic, because while the book is obviously a polemic directed against Lyndon H. LaRouche's policy—and various studies on the subject, which have appeared in the *EIR* and in *Fusion* magazine—nothing published by LaRouche or any of his associates is openly referenced in the book.

The book is not only dishonest in its purpose, but incompetent in execution. The authors juxtapose what they admit to be spinoffs of SDI technology, to a hypothetical case in which the same or greater advances in technology would be made in a civilian economy.

The problem is that they take as a model the presently depressed condition of the world economy, and the slow-paced development of the SDI. Thus they contend that in a stagnating economy the SDI would commandeer resources, particularly scientists and engineers, who would be attracted to the better salaries offered by government-supported contract work and leave industry.

In other words, they accept the present cultural and economic matrix in which American young people are discouraged from investing their efforts to prepare for careers in science. On the one hand, they are inundated with malthusian

and environmentalist propaganda, by their schools and by the media in general. On the other hand, they are encouraged to accept hedonistic values which are antithetical to the kind of sustained, concentrated effort demanded by the sciences.

At the same time, they see an increasingly stagnant economy, in which there is less and less assimilation of high technology into production, as basic industry is shut down. This was not the case even before the Apollo program was introduced by President Kennedy. Under the goad of the Soviet launch of Sputnik, the National Defense Education Act offered university scholarships to potential scientists and engineers, and encouraged candidates for these on the high school level.

In order to strengthen their specious case, that the SDI will not be a science driver for the economy, the authors of this book try to debunk the evidence that the Apollo program brought about an incredible transformation in industry—not excluding semiconductors, transistor radios, computers, and satellite communications. The bankruptcy of the book is typified by the following "evidence" offered to refute the significance of the above. The authors cite that: "Of the 328 patents which resulted from the NASA research programs up to 1963, only 16% had commercial potential."

In 1982, LaRouche issued a number of documents and spoke at public forums, outlining the policy which became the Strategic Defense Initiative. This effort was seconded by a number of his associates (among them myself) who toured the country urging the implementation of "beam defense." The essential question answered by LaRouche—aside from the question of the technological feasibility of a layered missile defense system based upon directed-energy—was the affordability of the system.

It was LaRouche's contention, amply documented, that the SDI would more than pay for itself, by its contribution to raising the productivity of the U.S. economy. To substantiate this claim, he referred to the historical examples of war production during the Second World War, and to the over 10-to-1 payback of the Apollo program. In the present case, gains could be expected by cheapening the cost of lasers and improving their capabilities—particularly as they were made tunable.

LaRouche made a further point, which has been well understood, albeit in a distorted form, by the Soviets. The Soviets have bitterly complained that one purpose of the SDI is to bankrupt the Soviet economy. What LaRouche pointed out was that, for cultural reasons, the Soviet economy would have great difficulties in assimilating technological spinoffs from their own SDI program at the rate easily achievable in the West. While it is obviously essential that credit and tax policies support such an effort—as was the case in the Kennedy administration, which offered credit and tax incentives for high technology investment—what LaRouche had in mind was the way in which Western civilization shaped the potential for innovation in the culture, even down to the level of the worker on the shop floor who would participate in the program via the suggestion box.

The culturally embedded notion—taken from the Judeo-Christian tradition—of the divine spark within every human soul, is in contrast to the collective spirit—the *mir*—of Russian culture. Such collectivism pre-dates the Bolshevik revolution by a thousand years, and was the central feature which separated and still separates Roman Catholicism from the Russian Orthodox Church. The specific theological form of the dispute centers on the question of whether or not Christ is divine in his own right, as Augustinian Christianity contends and the Russians reject.

The authors of this book are Dutch. Zegveld is a director of the TNO Policy Research and Information Division in the Netherlands Organization for Applied Scientific Research; Enzing is a research fellow at the TNO-Centre for Technology and Policy Studies. Does the fact that this is a European book perhaps explain why the authors overlook us? I think not, since they heavily cite U.S. sources.

Furthermore, American associates of LaRouche have published the award winning *Beam Defense, an Alternative to Nuclear Destruction*, originally published by Aero Publishers, Inc., but reprinted since—and translated into Japanese for sale there. (The book won the prestigious Aviation Space Writers top award in 1984.) A German book on the same subject was published in 1985 in Germany by Verlag Für Wehrwissenschaften in Munich. This book, *Strahlen Waffen Militär Strategie im Umbruch*, whose English title would be, *Beam Weapons, a Military Strategy in Change*, deals with strategic issues more broadly, but both have an in-depth treatment of the question of spinoffs into the civilian technology.

Lord Mountbatten and the Anglo-Soviet Trust

by Rachel Douglas

The Khrushchev Objective

by Christopher Creighton and Noel Hynd
Doubleday & Company, 1987
333 pp., hardbound, \$17.95.

The Khrushchev Objective inhabits a shadowy zone between “scenario book” and chronicle-memoir. The pseudonymous Christopher Creighton, we are told, is a real British intelligence officer, who “was recruited by Churchill before World War II (at the age of 15) to be an agent behind enemy lines and continued his espionage career into the 1950s,” so that “the broad base of this story is true.”

It concerns the visit of Premier Nikita Khrushchov and Foreign Minister Nikolai Bulganin to Britain in April 1956, the first by a Soviet party chief or head of government to a Western country. Khrushchov's charge, that the British sent frogmen to spy on the hulls of the delegation's ships, the battle cruiser Ordzhonikidze and the destroyer Smotryashchy, as they lay at anchor in Portsmouth Harbor, is well known. So, at the time, was the fact that the body of a retired diver, Royal Navy Commander Lionel Crabb, washed ashore over a year later.

According to Creighton and Hynd, the story that ties those fragments together was a complicated assassination plot against Khrushchov and Bulganin, by which they would have been blown up at Portsmouth. They say the late First Sea Lord Louis Mountbatten, great-uncle of Prince Charles, foiled the plot, acting with the Queen's approval, above and against the orders of Prime Minister Anthony Eden not to send divers around the Russian ships. “Christopher Creighton” himself, he reports, was the officer in command of Mountbatten's project.

Protecting the Trust

What makes this plotline of interest, especially in view of the evidence that something untoward did happen in Ports-

mouth Harbor, is the importance of 1956 as a historical turning point. At the 20th Party Congress in February 1956, Khrushchov—with a nudge from Anastas Mikoyan, the Armenian Politburo member, survivor of the purges—went farther than anybody had expected, in denouncing Stalin. He restored certain institutions (including, at Mikoyan's prompting, the Moscow center of Hungarian economist Eugen Varga) associated with the Trust, the East-West political, cultural, and intelligence network, whose members Stalin had smashed as "cosmopolitans." Khrushchov's trip to Britain was the next step in the reactivation of the Anglo-Soviet Trust; following it, despite the disruptions of the Suez crisis and the Hungarian uprising that autumn, came Khrushchov's special relationship with Bertrand Russell, the Pugwash Conferences, and the whole complex of arms control and crisis management to which they gave birth.

Had Khrushchov been killed in April 1956, none of that would have been. *The Khrushchev Objective* casts royal family member Lord Mountbatten in the role of guardian angel for the reborn Trust.

Creighton and Hynd characterize, with precision, certain workings of the Trust not usually advertised by people in the intelligence trade, who are rarely wont to acknowledge the little-known channels that never ceased to run through the Iron Curtain. Thus, the authors have then-KGB chief Ivan Serov boast of his ability to deploy a wing of the Russian émigrés: "My agents are being most fine. . . . Additionally, I have friends with associates. Some having connections of White Russian émigrés."

The authors give the "émigré" theme an improbable twist, introducing as a pivotal character the Grand Duchess Mariya (Marie) Nikolayevna, third daughter of the Czar and cousin of Mountbatten, of whom he was supposedly enamored in his youth. They have parlayed the evidence from Summers' and Mangold's *The File on the Tsar*, that all five Romanov women were kept alive for use as bargaining chips for some months after the execution of Nicholas II in July 1918, into Marie's having survived until the 1950s.

Still here, there are verisimilitudinous touches: Marie is made to report, "In Moscow, I was taken to Georgy Chicherin, the Bolshevik commissar for foreign affairs. He protected me." In fact, Chicherin—he was descended from the Venetian Cicerini family, established as a power in Russian since the 15th century—had a lot to do with the continuation of Russian aristocratic families, but anti-Romanov ones, after the revolution. In the 1920s, his cousin, Constantine Benckendorff, then a Red Army intelligence officer, personally witnessed, "not without surprise, that the famous Commissar . . . was still well up in intricate family connections. . . ." Cheka (secret police) founder Feliks Dzerzhinsky, a Polish aristocrat, played a similar role, as recalled in a recent Soviet press account of how kindly he treated Princess Meshcherskaya.

Creighton and Hynd are also forthright, concerning the power of the British monarch to authorize intelligence operations. As the young Creighton, in the narrative, suggests to Mountbatten that they seek clearance for the anti-terror forays of their "M section" directly from Queen Elizabeth II, he argues, "We have a historical precedent, sir. M Section was set up . . . back in the 1930s not only without the permission of Prime Ministers MacDonald, Baldwin, and Chamberlain, but also without their knowledge. It was financed in direct continuity by three sovereigns: George V, Edward VIII and George VI. . . . The authority for M Section lies in the Constitution. The Sovereign is the head of state and the Prime Minister derives his powers from the Sovereign by the Seals of Office. This is the key point, sir: if the King, or in our case the Queen, believes the safety of the realm is imperiled by the Prime Minister's actions, he or she may recall the Seals. Or, he or she may take any action deemed prudent over the head of the Prime Minister."

Not all details are skillfully crafted. Like most other writers in the spy novel genre, the authors mangle some Russian names, especially the patronymics.

An unfinished ending

In the foreword, Hynd asserts that Mountbatten's reported actions in 1956 provide the "proper historical perspective" in which to place his murder by bomb, in 1979. "The motive behind it had been revenge. Revenge for Lord Mountbatten's involvement in the Crabb Affair, and his success in foiling the attempt to assassinate Bulganin and Khrushchev and destroy the Russian warships."

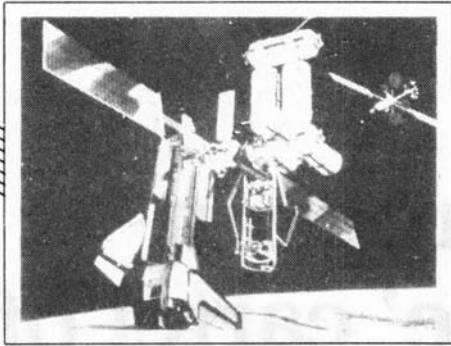
The ends are not all tied together, here. By the logic of Hynd's assertion and Creighton's story, it would have to have been the Soviets who killed Mountbatten. Presumably, the old spymaster Serov (who was removed from the KGB in 1958, then headed Soviet military intelligence until 1963) would have had the motive, since he emerges from this tale as Mountbatten's blackmail victim, converted into a British asset by a threat to reveal his part in the assassination plot against Khrushchov. Yet, just in the months before his death, Mountbatten would seem to have endeared himself to all Soviet factions, by the vigorous campaign he launched against installation of American Pershing-II missiles in Western Europe.

More may still surface, about the life and endeavors of Prince Charles's favorite uncle. The portrait painted in *The Khrushchev Objective* adds to what was known before, of his role in shepherding the Anglo-Soviet Trust networks into their second prime. Meanwhile, in New Zealand, there have been such newspaper headlines as, " 'Uncle Dickie' the Sex Perverter" (*N.Z. Truth*, Sept. 8, 1987), since Mountbatten's former chauffeur, Norman Nield, started revealing details of the late Lord Mountbatten's alleged sexual exploitation of young boys.

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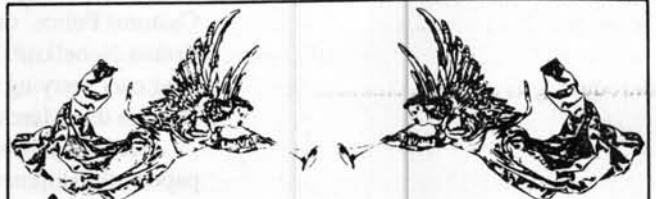
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The European 'Irangate' cartel of Karl-Erik Schmitz

by William Engdahl

A sensational series of revelations which has filtered into leading Western European press outlets in recent months has exposed a vast European network that has been smuggling arms to Iran in conjunction with Oliver North's U.S. network. The original source of the European exposés was Sweden.

On Sept. 28, 1984, answering a call for assistance from the West German Customs Police, the Swedish Customs Service went to the Swedish company AB Bofors Nobelkrut. There, they inspected certain export documents regarding railroad cars carrying 80 tons of Pentyl explosives. The cars had arrived in Passau, Bavaria that March.

German police immediately became suspicious. According to the customs papers, the shipment was destined by rail to end-user Armaturen GmbH in Schwandenstadt, Austria, a few hundred kilometers across the Alps. The Swedish investigation confirmed that the shipment originated at Bofors, Karlskoga, Sweden, per a Telex order dated Nov. 29, 1983, by Armaturen, stipulating that the goods be specially prepared for sea transport. Obviously, that would not be necessary for land transport to Austria.

On Feb. 2, 1984, Bofors received an Export License from the Swedish Government's War Matériel Inspectorate of the Trade Department of the Swedish Foreign Ministry, then headed by Rear Adm. Carl Algernon.

On the basis of the Bofors inquiry, customs officials discovered documents indicating that the shipment had been given new freight documents by freight expeditor Spedition Doubek of Passau, was then resent to the shipper Elbclearing in Stade/Elbe near Hamburg, and then reloaded on March 28, 1984 in Stade on board the *MS Anneliese Oltmann*. A second shipment was loaded on April 29, 1984 on board *MS Nikiforos*. Both shipments were destined for the *Établissements industries de défense*, in Damascus, Syria.

Armaturen GmbH had directed the illegal diversion by way of another company, Firma Panalpina of Hamburg and Linz, Austria. Using this preliminary discovery, the Swedish Customs Service obtained a warrant from County Prosecutor Stig L. Age, in Örebro, Sweden for a March 20, 1984 raid on AB Bofors



00002

THE ISLAMIC REPUBLIC OF IRAN
(Jomhuriye Eslami Iran)
Vezarate Defa
(Ministry of National Defence)
SAZEMAN E SANAYE DEFA
(National Defence Industries Organization)

003014

SCANDINAVIAN COMMODITY-AB
P.O. BOX 4014
S-20311 MALMÖE (SWEDEN)

PURCHASE ORDER

Reference No.: 334/1401-10725-30
Always quote This number

Date 11.7.1983
Your Proforma Invoice No.: TLX 2112 dated 27.
and offer dated 19.6.83 and No 2208
dated 4.8.83

Dear Sirs,

Please furnish, subject to conditions on the face and reverse side of this Order, the following.

Item No.	Quantity	Description	Unit Price FOB	Unit Price C&F	Total Price	Date of Delivery (9)
1	3000 Tons	Propellant charge Powder for AMMO 155 mm head (7-perforated)		8710	26130000	in for ship-ment within one year
2	15000 TONS	Ammonium Nitrate NH4 NO3 99.6%		240	3600000	period 3 months
Total price					29730000	

Khomeini orders gun powder from Karl-Erik Schmitz. We reproduce the top half of one of many Iranian Purchase Orders that were given to Karl-Erik Schmitz's obscure Malmö, Sweden trade company Scandinavian Commodity AB. This order, dated Aug. 11, 1983, includes 3,000 tons of gun powder for over \$26 million, which was divided among the member companies of the European explosives cartel.

This facsimile, together with the charts and maps used with this article, is reproduced from the Swedish Customs Service investigation, and translated into English, with explanatory captions added by EIR.

Nobelkrut. In that raid, customs officials found Iranian government purchase orders and a report of a Sept. 5, 1983 visit by company personnel to the Iranian defense ministry's in Teheran.

A second sweeping search of Bofors was authorized by Age on April 17, 1985. A large number of documents covering 1980-85 were found. On June 13, 1985, Customs Police seized 50 tons of gunpowder from Bofors destined for Iran via the Italian firm Tirrena Industriale SPA. That seizure led police to raid the Malmö, Sweden offices of Swedish businessman Karl-Erik Schmitz on Sept. 29, 1985.

From these raids, customs officials in Sweden retrieved massive documentation not only of crimes under Swedish law, where it is strictly illegal to ship arms or war matériel to a country or region in armed conflict, but under the laws of almost every European country. *EIR* has been involved in the Schmitz investigation for some 18 months and has also has obtained copies of the Swedish Customs Service documents, most in Swedish, seized in the mentioned raids. The following is a partial summary of the investigation.

Most of Europe

The Swedish Customs Service also found in the raid on Schmitz's Malmö Scandinavian Commodity AB, extensive information relating to Schmitz's dealings with firms in Finland, Norway, the Netherlands, West Germany, Belgium, Austria, France, and Italy. To those countries, under long-

standing mutual cooperation agreements, Swedish officials forwarded all relevant copies for prosecution.

Subsequent official prosecution has been launched in Belgium, Holland, Finland, Norway, and Italy. Until now, despite a legal action in Bremerhaven, West Germany by a group called Stop Arms Exports, which sued the German Dynamit Nobel in January 1987, the West German Foreign Ministry of Hans Dietrich Genscher is reportedly blocking official progress in that case. Nonetheless, despite possession of the relevant seized documents for well over 1½ years, Austrian and French authorities have yet to launch official prosecution.

Under Swedish law, once prosecution is initiated, prosecution documents are available to the press and public. On May 26, 1987, County Prosecutor Age issued indictments against eight Bofors employees and Karl-Erik Schmitz for violation of Swedish law. Trial in the criminal case is scheduled for Jan. 18, 1988. As a result of the indictment, *EIR* has been able to obtain copies of the original documents held by the Swedish Customs Service in their part of what has been dubbed the "European Explosives Cartel." The case of the obscure Swedish businessman Schmitz is central to unraveling this web of Western arms merchants to Ayatollah Khomeini's Iran.

The strange web of Mr. Schmitz

According to Swedish investigators, the then-obscur

Malmö export-import trader, Schmitz, presented himself to Swedish business circles in 1982 claiming he had an agreement from the Iranian state oil company, NIOC, to sell Iranian oil. Businessmen reportedly regarded it as strange that such an unknown small businessman should be authorized to sell Iran's oil. This was not the only strange aspect of Schmitz's meteoric career over the past five years.

Largely because, to date, all major European "Irangate" investigations have been an outgrowth of the Swedish Customs Service raids on Bofors and Schmitz's offices, revelations have portrayed Schmitz as the most important world "merchant of death" since perhaps Basil Zakharrow in the 1920s. While there is reason to suspect that Schmitz is presently being used as the "fall-guy" for far more important interests, the threads which have begun to unravel around his case are extremely revealing.

Following the September 1985 raid on his office, Schmitz was forbidden to travel outside of Sweden, managed to have

the travel ban overturned two days later. According to reliable Swiss reports, as of October 1987, Schmitz was more active than ever, operating out of the haven of Switzerland, with its bank secrecy and laws under which exports to Iran are not forbidden, as they are in Sweden and several other European countries.

Schmitz ran the Iran side of his operations in concert with an Iranian national, Makhmoud Kaikhosrovi. They shared a front company, with an office in Fribourg, Switzerland, a well-known haven for "shell" companies. Richard Secord and Albert Hakim, of U.S. "Irangate" notoriety, maintained a number of such "briefcase" firms in Fribourg at the same time. Schmitz's Fribourg firm, Scancom, listed Kaikhosrovi as a representative. Kaikhosrovi's own Fribourg firm, IN-COTRA, lists its head office in Isfahan, Iran. Schmitz frequently used this as his office when in Iran on business.

By his own admission, Karl-Erik Schmitz is also tied to Israeli Mossad interests, a significant controlling part of the

Victims of the Iranian arms procurement plan

"Olof Palme was murdered because he knew about, and wanted to investigate, Sweden's weapons and gunpowder deals with Iran. That I've got from two reliable sources," Iran's former President Abolhassan Banisadr told the Swedish Social Democratic daily *Aftonbladet*, in an interview published Nov. 3. According to Banisadr, one of the sources is Iranian, and "very reliable." The other source is European, and has the same exact story as the Iranian source. "Both say Palme was killed as a direct result of his knowledge about the arms deals between Sweden and Iran," Banisadr said.

The same track was picked up by the Italian daily *La Stampa* on Nov. 6, connecting the murder of Palme to those of French General Audran and Italian General Giorgieri, because they had been informed of illegal arms sales to Iran. "If this track is confirmed," *La Stampa* wrote, "a new chapter will be opened in the French Irangate, linked, as Banisadr said, to the assassination of Swedish Premier Olof Palme, since Sweden too is involved in the clandestine military supplies to Iran. And maybe to the assassination of General Licio Giorgieri [March 21, 1987 in Rome], who had close working relations with Audran. . . ."

The Iranian determination to secure adequate supplies

of arms and ammunition for the war against Iraq, undoubtedly has left a bloody trail of murders and suspicious deaths by "heart attack," or the like. The efforts to cover up these murders are matched only by those to cover up the arms trade itself. The 10 cases listed below, while not necessarily complete, indicate the kind of "business" methods favored by Teheran.

■ *Engineer General René Audran*, shot dead by terrorist killers on January 26, 1985. The attempt was claimed by the Direct Action terrorist group, known to execute murder contracts for Islamic fundamentalist causes. Audran was engineer of armaments and head of the international department at the French defense ministry. The just released "Barba Report" on the Luchaire-Iran arms deals asserts that Audran was knowledgeable about this arms traffic; some sources say he opposed it.

■ *Ambassador Herbert Amry*, died of a "heart attack" in July 1985. Amry was Austria's ambassador to Greece, and realized that cannons allegedly sold to Greece by Austria's state arms industry, Voest-Alpina, never arrived in Greece. The cannons in fact were sold to Iran. After Amry exposed the fact in the spring of 1985, a commission of inquiry was set up in Vienna, but the ambassador never made it back to testify. He had no previous record of heart troubles, yet his body was quickly cremated, without an autopsy.

■ *Prime Minister Olof Palme*, shot by a killer on Feb. 28, 1986. While the murder was covered up by a disinformation campaign, newspapers and other sources in several countries have pointed to Palme's involvement in arms deals with Iran, including those of the Bofors company, as the only credible explanation. The official U.N. mediator in the Iran-Iraq war, Palme, although known

vast Iran weapons concession. Schmitz's "Israeli connection" is run through the Brussels, Belgium firm, Distraco SA, listed as a "chemicals export-import" firm in the Belgian commercial directory. The two directors of Distraco are Alexandre Gourary and an Israeli national named Moshe Navon.

Ollie North connection

Schmitz was also linked, apparently quite closely, with the entire illegal U.S. "Irangate" parallel government apparatus of Col. Oliver North. According to new revelations in the Swedish press of Nov. 8, Schmitz used airplanes hired from St. Lucia Airways, based in the West Indies, to smuggle illegal arms shipments to Iran. At least two instances of such shipments in 1985 via St. Lucia Airways on charter to Schmitz's front company, Cekado AB, have come to light in Sweden. On July 24, 1985, Schmitz loaded one Boeing 707, at Lesquin Airport outside Lille in northern France, with

gunpowder for Iran from Bofors/Nobel of Sweden. On Aug. 14, 1985, Schmitz again used a St. Lucia Airways charter, this time for gunpowder from PRB of Belgium. At least 33.1 tons of illegal war matériel were shipped by Schmitz from Lille via St. Lucia Airways in the two planes. Most came from PRB and the Dutch explosives company, Muiden Chemie.

St. Lucia Airways is formally owned by one Allison Lindo, a lawyer on the island of St. Lucia in the Caribbean. The managing director is a 40-year-old West German named Dietrich Reinhardt. According to the Tower Commission Report on "Irangate," St. Lucia Airways is a CIA front company, and played an important role in facilitating the arms shipments of North, Secord, et al.

Other still unconfirmed reports are that Schmitz maintained a bank account someplace in the United States during this period. Kaikhosrovi reportedly fled to the U.S.A. following the Swedish revelations in 1985-86.

to be sympathetic toward Khomeini, reportedly moved to block arms shipments from Sweden to Iran during the last weeks of his life.

■ *Cyrus Hashemi*, assassinated through induced leukemia while on business in London in July 1986. An Iranian arms dealer working first for the Shah and then for Khomeini, Hashemi, beginning in December 1979, was employed as a mediator between Carter and Khomeini, and became the key arms middleman between the U.S. and Iran, working with the arms-running ring of Israeli General Bar-Am.

■ *Rear Admiral Carl Algernon*, "fell" before a Stockholm subway train on Jan. 15, 1987. The War Matériel Inspector of the Trade Department of the Swedish Foreign Ministry, Algernon was in charge of clearing all arms exports, which are in principle banned under Swedish law, unless a specific permission, or export license, is granted by his office. A few days after his death, Algernon was to have been interrogated regarding illegal Bofors arms shipments to Iran.

■ *Heribert Apfalter*, died of a "heart attack" on Aug. 26, 1987. In August, the Vienna commission of inquiry regarding the Voest-Alpina cannon exports to Iran had called for testimony from Apfalter, who was the general director of the state company during the period under investigation. Hours after reportedly meeting with an informant, who might have provided him with exculpatory evidence, and a few days before his scheduled testimony, Apfalter suddenly died.

■ *Uwe Barschel*, found dead in the bathtub of his hotel room on Oct. 11, 1987. After surviving a suspicious May plane crash, the state governor of Schleswig-Holstein was targeted for dirty tricks by the weeklies *Stern*

and *Spiegel*, and dumped by his own Christian Democratic party. After a mysterious visit in the Canary Islands villa of Saudi Arabian arms merchant Adnan Khashoggi, Barschel traveled to Geneva's Beau Rivage Hotel, a known meeting point for arms deals involving Iran. Reportedly, Barschel met an informer in Geneva, taking detailed notes on the encounter, which were not found by police in his hotel room. The autopsy showed that Barschel's body had five different kinds of tranquillizers or sleeping pills in it.

■ *Rashid al Jarrah*, died of a "heart attack" in Lugano, Switzerland, on Oct. 12, 1987. Wanted for interrogation in Italy, the 25-year-old Saudi national was part of an arms-running ring operating between Italy, Yugoslavia, and Lebanon, smuggling large quantities of Kalashnikov rifles under cover of a toy factory owned by his father, Mohammed Najah al Jarrah, who was himself assassinated in August, 1985. Rashid al Jarrah collaborated in Switzerland with Swiss-Hungarian national Peter Jeney, who is wanted for his role in the Borletti arms-to-Iran scandal that erupted in September.

■ *Stefan Rüdell*, reported dead by suicide on Oct. 29, 1987, due to depression caused by financial difficulties. Ruedell reportedly had been hired by the Christian Democrats in Schleswig-Holstein as a detective to tail state Social Democratic leader Björn Engholm, as part of the dirty tricks operation that forced Barschel's resignation.

■ *Hans-Joachim Knack*, died of a heart attack on Nov. 9, 1987. The undersecretary of the Schleswig-Holstein state interior ministry, Knack, only hours after his death, was scheduled to appear before the state parliament committee investigating the Barschel affair.

Who's next?

The bank connection

According to details of seized documents obtained by EIR from the Swedish Customs Service, the scale of financial guarantee required for the growing Iran arms traffic run through Schmitz required a major bank credit line. What bank was willing to finance arms traffic with the Iranian government?

In 1985, Schmitz met with Erik Penser, the majority shareholder of Nobel Industries of Sweden, the parent firm for both Bofors and Nobel. Penser is himself shrouded in

mystery. He came out of obscure origins in the 1970s, alleged to have made a "fortune" in playing the Swedish stock market. It is more likely that he had good connections. In any case, Penser, in September 1984, completed the purchase of KemaNobel and merged it with his majority holding in the Swedish cannon and arms maker, Bofors, to form Nobel Industries. Penser's empire is run through his wholly owned London-based Yggdrasil. Penser lives in a mansion outside London named Compton House and commutes to Brussels, where he runs Nobel Industries and his other holdings from Nobel Finance of Brussels.

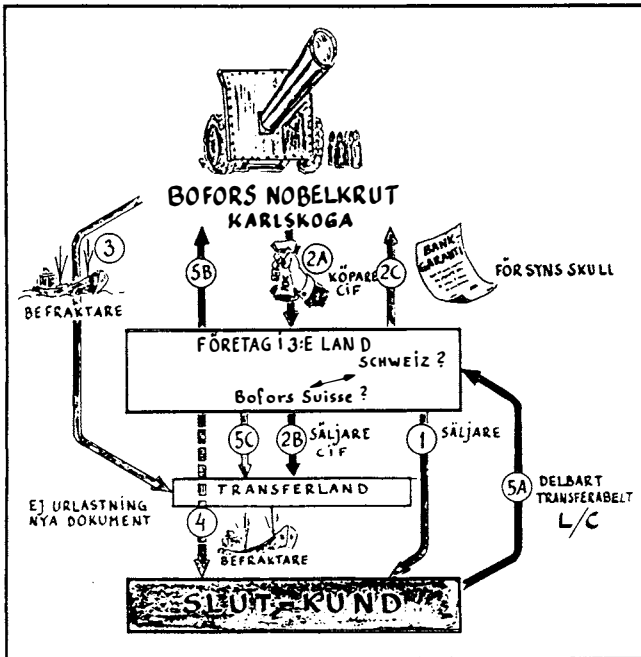
In 1985, according to the Swedish Customs Service records, Penser provided middle-man Schmitz with his "introduction" to a London bank willing to finance his risky Iran traffic. Arbuthnot Latham Bank, Ltd. of London agreed to finance Schmitz's arms traffic. Since 1982, that London bank has been majority owned by Dow Scandia Holdings, Ltd., an affiliate of Dow Chemical of Midland, Michigan. A significant minority share in the bank is held by Nordbanken, a Swedish-owned entity tied to Pehr Gyllenhammar's Volvo.

Very big business

Schmitz's Iran arms traffic expanded enormously up until the time of the raid in September 1985. He is reported to have continued a very active business from Switzerland since that time, but because official records are lacking, we can only document this through the time of the Malmö raid by the Customs Service.

Companies for which Schmitz is the documented representative in Iran include Bofors, Boliden, Leo, and Fermenta all of Sweden; Akzo of Holland; Celanese and PRB of Belgium; Dynamit Nobel and Silberkraft of West Germany. In addition, he had extensive dealings with the so-called European Explosives Cartel, formally known as the European Association to Study Safety Problems in Production and Use of Propellant Powders (EASSP), based in Brussels. Through this explosives cartel, as it has been called, arrangements to divide market share and profits for the immense Iranian explosives purchases of the last several years were worked out. Firms involved and working with Schmitz in this Explosives Cartel include Nobel Industries of Sweden, PRB of Belgium, SNPE of France, Nobel Explosives and ICI of Britain, Muiden Chemie of Holland, Dynamit Nobel of Austria, and Dynamit Nobel of West Germany, at that time a Flick family company.

Official records of the Swedish authorities confirm deals through Schmitz's companies totaling some \$200 million as of September 1985. Iran is estimated to be spending more than \$1 billion annually to import explosives alone. The Explosives Cartel is estimated to have supplied the lion's share, indicating that Schmitz's traffic could be well into the billions of dollars. In addition, he brokered the construction in Iran of an explosives factory built by Penser's Nobel In-



Flow chart of transfer deals through third country. This flow chart was reconstructed by the Swedish Customs Service from documents seized at the Bofors company, showing how a third country company mediates an illegal arms shipment from the producer, here Bofors, through a transfer country, the alleged buyer, to the actual buyer. The flow of payments go back from the end user through the third country company to the producer.

Terms used in the chart:

BOFORS NOBELKRUT, KARLSKOGA = name of company and city

BEFRAKTARE = SHIPPER

KÖPARE CIF = BUYER CIF

BANKGARANTI = BANKING SECURITY (or, guarantee)

FÖR SYNS SKULL = TO KEEP THE APPEARANCES

FÖRETAG I 3:E LAND = THIRD COUNTRY COMPANY

SÄLJARE CIF = SELLER CIF

EJ URLASTNING, NYA DOKUMENT = NO UNLOADING, NEW SHIPPING DOCUMENTS

TRANSFERLAND = TRANSFER COUNTRY

DELBART TRANSFERABELT L/C = DIVISIBLE

TRANSFERABLE L/C

SLUT-KUND = END USER

(L/C = LETTER OF CREDIT; CIF = COST INSURANCE

FREIGHT PAID)

dustries. In addition, Bofors laser-guided RA-70 surface-to-air missiles are said to be included, as well as untold other munitions and war supplies.

One of the most intriguing leads in the Schmitz-Iran investigation is the front firm, Scandinavian Medicin AG, through which it appears that Schmitz laundered at least a portion of the huge money flows from his illegal weapons sales. The member firms of Schmitz's Scandinavian Medicin AG included the scandal-plagued Fermenta, the Swedish chemicals and pharmaceuticals firm associated with Pehr Gyllenhammar of Volvo, Anders Wall of Beijer, and the Egyptian Refaat El Sayed, now under indictment for financial fraud and embezzlement. There is strong evidence that Fermenta, at the time of Gyllenhammar's merger discussions with El Sayed in late 1985, was to be a major part of illegal transactions with Iran involving Meshulam Riklis, New York-based financier of Israeli Industry Minister Ariel Sharon.

The other vital link in the Schmitz web of international weapons traffic is the critical role that Warsaw Pact countries played in knowingly conducting Schmitz's illegal shipments on to Iran. Available Swedish Customs Service records in possession of *EIR* reveal that a significant volume of the Schmitz Iran traffic was run through East Germany via IMES Import-Export of East Berlin, a division of the East German Foreign Trade Ministry. This did not take place without the witting knowledge of East German intelligence or the Soviets, giving a very interesting East bloc connection with the networks of former National Security Council aide, Lt. Col. Oliver North.

Karl-Erik Schmitz's operation in West Germany

During late 1984, Swedish Customs and police were beginning to look into the role of Karl-Erik Schmitz's Scandinavian Commodities AB in illegal arms sales to Iran. Coming under investigative pressure, Schmitz did not move out of the arms business, but only shifted part of his operation into Germany. Ample documentation on this affair is provided now, by sources based in London, and part of the story has already made headlines in various German newspapers, like *Die Welt* and *Hamburger Abendblatt*.

As proven by the documents, on Oct. 1, 1984, Schmitz informed his contracting partner in Teheran, Colonel M. Ansarian of the National Defense Industries Organization,

on the changed situation: "I received your order No. 160143/1 for the delivery of 70 000 detonator units. Unfortunately, you drew the order on our bank in Sweden, which is not possible and can become very dangerous for us."

Schmitz added: "For your information: We will carry out the order with material from Nobel in Germany now, but the same type of detonator can also be produced at Bofors in Sweden." The Dynamite Nobel Germany Corporation in Troisdorf, near Bonn, is said to have supplied the material soon after, and upon a very urgent Iranian request, at least a major portion of the 70,000 detonators was brought into Teheran directly by normal Lufthansa air freight from Frankfurt in early December.

This brings up the question of a direct involvement of the government in Bonn, as the German Lufthansa, which is wholly government-owned, was the only Western airline then (and still is), to maintain a regular flight schedule into Teheran.

Apparently, the transfer by Lufthansa was far less risky for Schmitz than the usually-preferred transport by freighter, which is indicated by a telex Schmitz sent Teheran on Dec. 7, 1984, reporting that check-out procedures for the illegal cargo were "a delicate affair with German Customs present," when the *MS Bentota* was loaded with gunpowder at the German port of Nordenham, on the mouth of the Weser River. This concerned an illegal cargo of 80 tons of gunpowder for Iran. Schmitz informed the Iranians that "to secure future business, we'll have to be more cautious from now on."

As also listed in the documents April 1985, the two German freighters *Frauke* and *Katja*, both run by the Paul Heinrich Ltd. in Steinkirchen (on the Elbe River, near Hamburg), transported each some 100 tons of gunpowder for Iran's artillery. Other shipments of war matériel went via the *Deutsche Seeverkehrs AG Midgard*, based at the same port city of Nordenham which is also the base of another branch of Dynamite Nobel Germany Corporation. Also the Fritz Werner Industrieausrüstungen Ltd. (FWAR) in Geisenheim, on the Rhine River near Rüdeshheim, is heavily involved in illegal supplies of arms and other war material to Iran.

From the FWAR, business connections reach into France and Belgium, from Dynamit Nobel to Muiden Chemie in the Netherlands. Studying the documents, one gets the impression that Karl-Erik Schmitz built up Germany as the core of an illegal arms-dealing network operating throughout Western Europe. Schmitz's German operation was a big one, no doubt.

In the financing of these arms deals, the Iranian Bank Melli in Düsseldorf, apparently in cooperation with the bank's leading branches in Frankfurt and London, was prominently involved. The volume of Karl-Erik Schmitz's German operation is estimated at between 500 million and 2 billion deutschmarks.

The Tirrena deal and the European 'Gunpowder Club'

by Göran Haglund

Among the documents seized during the two spring 1985 customs raids of the Swedish Bofors company, an internal memo was found, which was dated Aug. 25, 1981 and issued by Mats Lundberg, then the new sales chief, to his boss. The starting point of the memo was that business sector "NE" (explosives) wasn't going too well, and that the Bofors sales budget was far from being met:

"Where shall NE find its new clients? I have started to think about the criteria according to which we shall allocate our marketing efforts. As you will see, I am by no means ready, but I would like to have your opinion of the following before I proceed.

"Proposed Criteria:

"1. Markets where we don't have to compete with the usual suppliers, for example:

"a) politically sensitive areas (Eastern Europe, South Africa, the Mideast, etc.)

"Disadvantages: We are making illegality a method."

The memo goes on to discuss a few more criteria, but surely, this point 1a) proposed by Lundberg, the new, ambitious sales chief, who was soon to succeed his boss as marketing director, was deemed perfectly compatible with the new business strategy of the company, which called for "more active marketing efforts"—illegality or not. It was also becoming compatible with the political sympathies of the Social Democratic regime that returned to power in 1982, whose Premier Olof Palme was not ashamed publicly to express his admiration for the new "Iranian democracy" of Ayatollah Khomeini.

At this time, a new giant "market" had been created as a result of the Gulf war between Iran and Iraq. On Sept. 5, 1983, Lundberg paid a visit in Teheran, at the NDIO, the arms procurement agency of the Iranian defense ministry. The talks, which Lundberg in his travel report described as "very cordial," focused on the problem of finding "channels," i.e., third countries through which the Swedish law banning exports to war zones could be circumvented.

The German Democratic Republic was considered a safe possibility, but slow and costly. Pakistan Ordnance Factories had been used in the past, and worked well. The new project

was an Italian company, Tirrena Industriale SPA in Rome, to which very big NDIO contracts had already been granted in 1982, the credit organized, and the only thing still missing was an Italian export license for Iran. Itself a small company, Tirrena was merely going to be the transfer point through which large European arms producers unable to sell directly to Iran could channel their products.

The Iranians desperately needed ammunition for their artillery, 155-mm and 105-mm American howitzers. While the final production of such ammunition is technically trivial, the Iranians had to import the gunpowder for it. The amount ordered through Tirrena was a total of 5,300 tons, several times greater than the entire annual production capacity of a single large producer like Bofors. The only business partner large enough to meet the Iranian needs was the so-called "Gunpowder Club," the European explosives cartel of which Bofors is a founding member.

Named the European Association for Study of Safety Problems in Production and Use of Propellant Powders (EASSP), the cartel or club is officially registered and associated with SEPIC, the European Community organization for the chemical industry, in Brussels. Founded in 1975 by a handful of companies, its official function is to exchange information about accidents and to serve as a consultative body of the EC, via SEPIC, regarding safety rules for explosives production and transports, etc.

"Beyond the official part, there is also a group which meets for commercial interests," Lundberg told the Swedish customs investigators. "Then, of course, it is inevitable that we talk business." Although cautiously played down by Lundberg, the "Gunpowder Club" wields no less power than any other big cartel, in setting the prices, dividing the market, and splitting orders received.

In this case, five producers joined to fulfill the huge Iranian Tirrena contract: the French state-owned SNPE (1,800 tons), the Belgian PRB (850 tons), the Dutch Muiden Chemie (850 tons), Nobel Explosives in Scotland (900 tons), and Bofors Nobelkrut (900 tons), for a total order value of Skr 315,556,500. The contract was obtained by the cartel on March 15, 1984, and payments were to be made through the

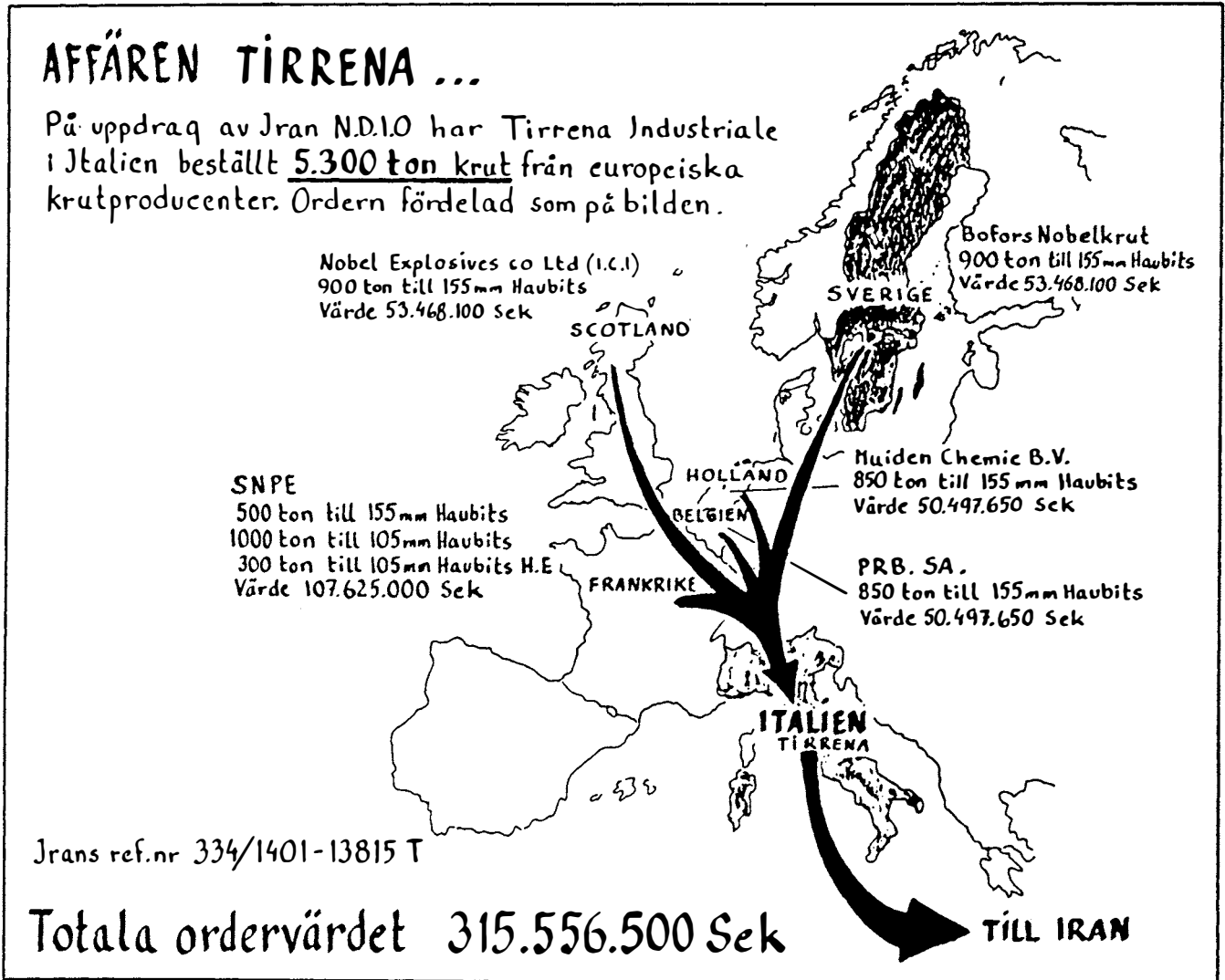
Italian Banca Nazionale del Lavoro. (See map.)

On Aug. 23, 1984, Bofors obtained its export license from the Swedish government for the first 100 tons of gunpowder, which during the month of September were shipped by railroad to Tirrena, c/o the military depot of Versegge, Italy. But political complications now intervened.

The Italian government, shortly after the cartel's gunpowder deliveries to Iran had begun, suddenly refused to grant Tirrena new export licenses for Iran. Italian companies

had received contracts worth billions from Iraq, on the precondition that all Italian trade with Iran was to be stopped.

While a small portion of the deliveries had already left Italy for Iran, most had not yet been shipped by the producers, and some got stuck in Versegge. As the contract included a delivery guarantee, so-called performance bonds of about 7% of the order value had been posted by the suppliers with the buyer, creating a crisis as the deliveries were halted. Something had to be done.



How the European explosives cartel split the Iranian market. The map shows the flow of gun powder shipments from the European explosives cartel, through the Tirrena company in Italy, to Iran. The shipments came to an abrupt halt in the fall of 1984, as the Italian government refused to grant new export licenses for Iran.

Translation of terms:

AFFAREN TIRRENA = THE TIRRENA AFFAIR

On behalf of Iran, Tirrena Industriale in Italy ordered 5,300 tons of gun powder from European producers. The order was divided as shown.

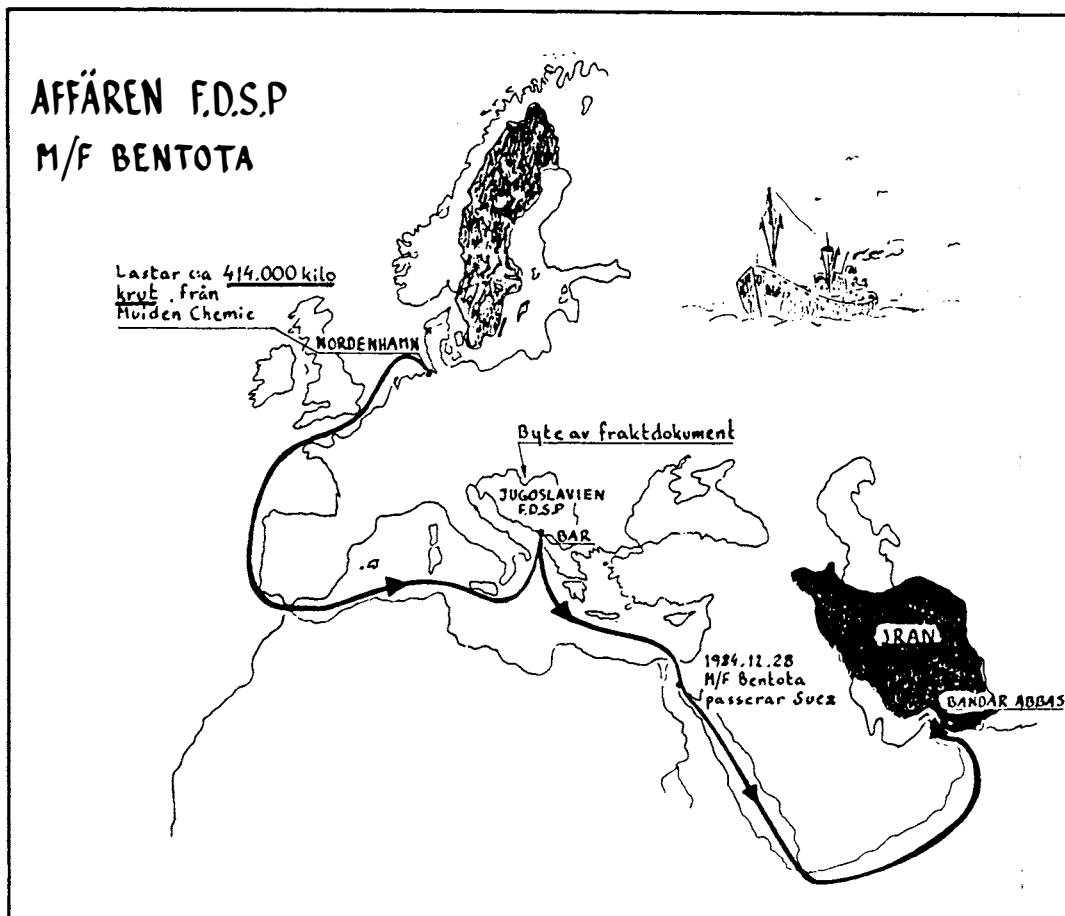
SCOTLAND

Nobel Explosives Co Ltd

900 tons for 155 mm Howitzers Value Skr 53,468,100 (analogous for Holland's Muiden Chemie B.V., Belgium's PRB, S.A., the SNPE of France (Frankrike), and Sweden's Bofors Nobelkrut)

Total Order Value Skr 315,556,500

TILL IRAN = TO IRAN



Germany and Yugoslavia: key transit points for arms to Iran.
The map shows one typical shipping route from Europe to Iran: The explosives, in this case 414 tons of gun powder from the Dutch company Muiden Chemie, are loaded on board the MS Bentota in the North German port of Nordenham, and shipped to Iran via the Belgrade, Yugoslavia company Federal Directorate of Supply and Procurement (FDSP).

*Translation of terms left to right:
 AFFAREN FDSP = THE YUGOSLAV FDSP
 AFFAIR MS BENTOTA Loads 414 tons of gun powder from Muiden Chemie, Netherlands*

Exchange of shipping documents

Dec. 28, 1984
 MS Bentota is passing the Suez

The Yugoslav deal and Karl-Erik Schmitz

by Göran Haglund

In parallel to the Tirrena contract with the European explosives cartel, the Iranians were buying masses of gunpowder from another supplier: South Africa. The deal was organized by a Swedish businessman, Karl-Erik Schmitz, who runs a trading company in Malmö, named Scandinavian Commodity AB. For at least a year, Schmitz had organized trade deals between Swedish companies and Iran, when in 1983 he received Iranian orders of about 4,700 tons of gunpowder. Schmitz placed those orders with South Africa.

But in September 1984, after some 3,000 tons had been delivered, the South Africans announced that they were unable to carry out more deliveries. Schmitz had to find another supplier for the remaining portion. The problem was that

while most Western European countries produce gunpowder, none would officially accept Iran as a buyer.

Here Schmitz and the "Gunpowder Club" met in common interest: The former had to find large amounts of gunpowder on behalf of Iran; the latter was already producing it, but had to find a new transfer country, through which deliveries could be channeled to Iran, after the Italian Tirrena deal had collapsed. In the fall of 1984, Schmitz received the ambitious Bofors marketing director, Mats Lundberg, in his Malmö Scandinavian Commodity office to discuss the matter.

Yugoslavia was to become the new transfer country, and Schmitz and Lundberg traveled together to Yugoslavia to work out the following deal: Schmitz placed his Iranian orders with Yugoslavia, which could deliver a small amount of domestically produced gunpowder. Then, Yugoslavia placed an order with Bofors for the remaining, bulk portion to be delivered to Iran. This order was then split by Bofors and other members of the "Gunpowder Club."

But new financial arrangements were necessary. As the South Africans discontinued their gunpowder deliveries to Iran, the flow of payments was going from the Iranians through their bank in London, Bank Melli, to South Africa, via their Luxembourg bank account. As the deliveries were taken over

by the European cartel, and transferred through Yugoslavia, another Western European bank was required to deal with Bank Melli in London.

Here Schmitz was assisted by an old friend of his, Erik Penser. One of the wealthiest Swedes, resident in England, Penser is on the board of directors of Bofors and happens to be the majority shareholder of the same company. Schmitz asked Penser for help to find a bank willing to deal with Bank Melli, and Penser said, according to Schmitz, that he would call Arbuthnot Latham Bank, Ltd., in London and tell them that "we know each other and that they should take care of you . . . what's interesting to Bofors is of course interesting to me, and therefore I am willing to do this introduction."

Both Schmitz and Lundberg had previously failed to establish a bank connection in London willing to carry out their deals with Iran; both Scandinavian Bank and Lloyds refused, saying they don't do that kind of business. Thanks to Penser's introduction, Schmitz and Lundberg were able to jointly visit Arbuthnot Latham Bank in London twice during March 1985, to work out the details, and Schmitz later began dealing with Arbuthnot Latham independently of Bofors. Showing his gratitude, Schmitz on April 15, 1985 wrote in a letter to Penser:

"I come back to our discussion in Malmö and as agreed I want to inform you of the result of my contact with Arbuthnot. It took a while before a meeting could occur and in the meantime we have had discussions with a couple of other banks. The result, however, was meager, and without prior references it is difficult to initiate transactions of the magnitude we deal with here.

"I have met representatives from Arbuthnot, and given the introduction we got through your help, it was easy to reach concrete results. . . . This week we will have another meeting and the bank agrees to the proposals we made. Participants in this meeting will be the financial director in Karlskoga [the site of Bofors] and Mats Lundberg from the explosives sector."

Schmitz also attacked another company of the Bofors group, Nitro Nobel, which refused to cooperate with the explosives sector and himself in a deal with Iran: "It may take a while to get the organization to think of what's best for the [Bofors] group, but one does get surprised, when deals with significant profits for the company do not interest Nitro the slightest. These distortions, however, you will maybe get straightened out in the future."

On June 13, 1985, two setbacks were registered by Schmitz and Lundberg. First, the customs service seized 50 tons of gunpowder returned to Bofors from Tirrena, after the Italian government had begun refusing export licenses for Iran. Second, the Swedish government's War Matériel Inspectorate (KMI), after being warned by the customs authorities, refused to grant Bofors four new export licenses for Pakistan, concerning a total of over 500 tons of explosives, at a value of over Skr 41 million.

00102	00104
329336	003314
END USER CERTIFICATE	END USER CERTIFICATE
TO WHOM IT MAY CONCERN	TO WHOM IT MAY CONCERN
CONTRACT N° [REDACTED]	CONTRACT N° [REDACTED]
DATED [REDACTED]	DATED [REDACTED]
THIS IS TO CERTIFY THAT THE FOLLOWING MATERIALS PURCHASED FROM [REDACTED] UNDER THE ABOVE CONTRACT ARE FOR OUR OWN USE AND WILL NOT BE REEXPORTED.	THIS IS TO CERTIFY THAT THE FOLLOWING MATERIALS PURCHASED FROM [REDACTED] UNDER THE ABOVE CONTRACT ARE FOR OUR OWN USE AND WILL NOT BE REEXPORTED.
250 000 KG FEIN MSP 46 (MILITARY 93/7)	
<i>Asghar Hussain</i>	<i>Asghar Hussain</i>
<i>Michael Ramzan</i>	<i>Michael Ramzan</i>

"Blank check" End User Certificates.

Although Bofors, to the application for export licenses filed in January with the KMI, had appended End User Certificates signed by a Pakistani official and stamped by the alleged buyer, Pakistan Ordnance Factories, the real buyer was Scandinavian Commodity on behalf of Iran. The evidence was accumulating for a raid on Schmitz's Malmö office, which finally occurred on Sept. 19, 1985.

Among the loads of documents seized by the customs service, there were the identical kinds of Pakistani End User Certificates to those filed by Bofors, although already signed and stamped *in blanco* by the same Pakistani official and alleged buyer! All Schmitz or Bofors had to do was to fill in the contract number, date, company name, and product.

According to a customs list of those transfer deals where Bofors employees are indicted for smuggling, the total value of the illegal Bofors deals is Skr 161,324,030, accumulated in 120 instances of smuggling of arms and explosives filling 192 railroad cars and 4 ships—counting only those deals between 1981 and 1985 which were already carried through before the customs raids disrupted further deliveries, which had been ordered but were now canceled.

While the screws were tightening on Bofors, and to a lesser degree on Schmitz, Scandinavian Commodity and its Swiss sister company Serfina SA continued their trade with Iran. Maybe more than from the Swedish authorities, Schmitz was coming under pressure from his impatient employers in Iran. The following telex, seized in the Malmö raid, was sent by Schmitz to the NDIO, the Iranian arms procurement agency, on Aug. 19, 1985, regarding the shipments to Iran via Yugoslavia:

"In reference to our previous telex we would like to inform you that we are now violating all existing laws and regulations to make it possible to deliver the goods to your organization. We explained to you the various problems caused by the authorities and most of the goods has been stored for you at great difficulty. The remaining quantities, however, will be shipped on our August ship. We are sorry for this delay, but please understand our problems and please recognize what we are doing to deliver the goods to your organization."

Arab summit lends support to U.S. Gulf policy

by Jeffrey Steinberg

As Caspar Weinberger was preparing to leave office after seven years as America's most effective postwar defense secretary, Arab leaders who gathered in Amman, Jordan were taking steps to ensure that his Persian Gulf policy would continue in effect after his formal departure from the Reagan administration.

Reports from Washington intelligence sources, confirmed by subsequent press accounts, indicate that the Nov. 8-11 Arab League summit focused principally on two agenda items, both pivotal to the continued pursuit of Weinberger's reassertion of American power in the Middle East.

1) The thorough isolation of Iran from the international community, after its barbaric provocations against its Arab neighbors, beginning with the July 31, 1987 riots in Mecca, Saudi Arabia.

2) The reopening of full diplomatic relations with Egypt, broken by most Arab nations nine years ago, when Anwar Sadat signed the Camp David Accords with Israeli Prime Minister Menachem Begin and U.S. President Jimmy Carter.

The denunciation of the Teheran regime by a unanimous vote of the 21 Arab League members was particularly significant in light of the fact that all such previous efforts had been blocked by Syrian President Hafez Assad.

According to U.S. intelligence sources, Assad was confronted with a straightforward threat that hundreds of millions of dollars of annual Saudi aid, funds that keep the economically crippled Syrian state intact, would be instantly cut off if he balked at the Arab League stance.

The seriousness of the threat, according to these sources, was underscored by the fact that the message to this effect was delivered by Crown Prince Abdullah, rather than King

Fahd. Married to the sister-in-law of Rifaat Assad, the President's brother and the chief of Syrian intelligence, Abdullah is known to be Syria's most powerful and sympathetic voice within the Saudi royal family. His backing of the hardline anti-Iranian position carried a great deal of weight with the Assads—especially since the Crown Prince attended the Amman summit on the heels of a highly publicized trip to Washington, D.C., where he met with Weinberger, among other Reagan administration officials.

The second dramatic event, the freeing of the Arab League member-states to reestablish diplomatic ties with Cairo if they wished, has equally profound implications for Middle East security. While Syria has announced that it will not reestablish such ties, for now, before the close of the summit, the United Arab Emirates had announced the immediate restoration of diplomatic relations. Among the other League members expected to follow suit within days or weeks are Bahrain, Iraq, Kuwait, Saudi Arabia, Qatar, Morocco, and Tunisia.

The fact that the majority of member-states of the Gulf Cooperation Council are the first states to restore ties to Cairo is, according to senior U.S. intelligence sources, of special significance. While details have not yet been confirmed, there are reports circulating that Egypt could play a direct and potentially decisive role in the unfolding Gulf crisis. Only Egypt, among the Arab states, has the military force to serve as a meaningful complement to direct U.S. military presence. The recently concluded Washington-Cairo agreement whereby Egypt will begin co-production of the American M-1 tank is an important signal of Egypt's reemergence as a major American military partner in the region.

The post-Camp David era

The forceful and unified anti-Khomeini stance of the Arab League members, accomplished through ganging up on Syria's Assad, is being widely recognized as a "phase change" in Middle East politics.

Washington Post correspondent Patrick E. Tyler, writing from Amman, Jordan on Nov. 11, had this to say: "But beyond the financial commitment that Syria desperately needs, the Amman summit overnight appears to have created a new balance of power in the Middle East that Syria cannot afford to abandon.

"The escalating Gulf War has forged a new alliance of Egypt, Iraq, and the richest Gulf Arab states, and this alliance threatens to overshadow the important role Syria has played in Arab affairs since the late Egyptian President Anwar Sadat decided to break with the Arab majority in 1978 and concluded his own peace treaty with Israel at the urging of the United States."

Thus, the U.S. Gulf policy, which remains a bright spot in the Reagan administration's otherwise floundering foreign policy agenda, represents an historic turn away from the disastrous Camp David era. The sustained commitment to Gulf security, despite the fact that no singularly bold assaults have been launched by American forces against hard Iranian military or economic targets, has had a profound impact on the Arab world. Soviet diplomatic advances among moderate Arab states, which had been the hallmark of Mikhail Gorbachov's first two years in power (1985-86), had come as the result of the Arab conviction, growing in the wake of the turn-tail U.S. policy after the Beirut massacre of Marines, that the United States was finished as a power capable of defending Western interests in the Gulf and the Eastern Mediterranean.

With American and Western European warships now patrolling every corner of the Gulf, that conviction has been reversed 180 degrees. U.S. intelligence sources, speaking off the record with *EIR*, say that Secretary Weinberger has used the Gulf security deployment, guaranteeing the flow of oil to Western Europe and Japan, as the means to assure America's allies of Washington's unflinching commitment to NATO, despite the countervailing purposes of the State Department. At the same time, Weinberger placed the Europeans in the position of having to support and join in the reflagging efforts—even at the expense of lucrative economic deals with Teheran—in order to evince their own commitment to NATO.

Another by-product of the post-Camp David transition is the distancing of U.S. Gulf and Arab-world policy from that of Israel. According to Gulf sources, last month, General Tod, the former Israeli Air Force chief of staff, traveled to Teheran to negotiate new arms deals with the Khomeini regime. The package reportedly included Israeli plans to build a large radar installation inside Iran. The Israelis attempted to sell the package to Washington on the basis that Israel

would provide valuable signal intelligence on Soviet activities along the U.S.S.R.'s borders with Turkey, Iran, and Afghanistan. But it is the widely held view is that Israel will primarily direct the radar monitoring against the Arab world, thus de facto deepening Israel's military collusion with Khomeini.

Ever since the arrest of Jonathan Jay Pollard in Washington as an Israeli spy, in November 1985, the Weinberger-led elements within U.S. intelligence have moved to shut Israel out of access to America's most sensitive signal intelligence. This has also contributed to a growing sense among pro-American Arab states that the United States can once again be trusted.

Teheran's next move

From the very outset of the American reflagging effort last July, Moscow has been forced to shift its Gulf and Middle East policy increasingly toward one of playing out its Iranian and Israeli "cards" at the expense of its hard-fought openings with Arab states. Moscow hoped that, ultimately, the United States would become bogged down in an endless Gulf shipping lanes patrol that would drain resources and open up other regional flanks for irregular warfare. At the same time, Moscow itself was drawn deeper and deeper into a pressure game with Teheran, keeping the crazy Khomeini regime from giving the United States the *casus belli* for a decisive, justified military retaliatory strike against Iran.

Moscow has succeeded so far in forestalling an incident that might force Gorbachov to cancel the summit with President Reagan and jettison the INF treaty. However, the Arab League action of Nov. 8-11 now places enormous pressure on the Khomeini regime, which is likely to make a "flight forward" response in the Gulf war. Responding to the Arab League call for Iran to submit to the terms of United Nations Resolution 598—a cease-fire and a cut-off of all military aid to intransigent parties in the war—the Iranian Supreme War Support Council issued a call on Nov. 12 for a renewed offensive against Iraq. According to the *Washington Post* of Nov. 13, Western intelligence sources report a massing of Iranian troops and equipment across from the Iraqi river port of Basra. An Iranian ground offensive there is expected to start before the end of the year.

U.S. intelligence sources have confidently reported to *EIR* that the strongest area of policy continuity between outgoing Defense Secretary Weinberger and his handpicked successor, Frank Carlucci, is the Gulf deployment. The fact that former Weinberger chief of staff Gen. Colin Powell is the new National Security Adviser adds a further measure of continuity to the final year of the Reagan presidency. With the Teheran regime facing unprecedented challenges from a unified Arab world under a diminished Syrian influence, and with the promise of a growing role for militarily powerful Egypt, one can expect events in the Gulf to take on a growing importance as the Dec. 7 superpower summit approaches.

Who's cooking up a 'New Yalta' deal over the Republic of Korea?

by David Hammer

On March 2, 1986, only one week after the United States had executed a coup against Philippines President Ferdinand Marcos, Secretary of State George Shultz enunciated State Department policy toward another Asian ally, the Republic of Korea. Policy toward South Korea, he said, would be "the same as it had been in the Philippines." Ten days later, Gaston Sigur, director of the Sino-Soviet Institute of George Washington University, was appointed Assistant Secretary of State for Far Eastern and Pacific Affairs to carry out that policy.

Shultz's Philippines policy has resulted in that nation's ungovernability, in the face of economic crisis and escalations from the New People's Army. With the murder of three American soldiers in coordinated attacks on Oct. 28, the Soviet-orchestrated war against the U.S. strategic bases at Clark Field and Subic Bay has now been declared.

As the new assistant-secretary designate from early January 1986, Gaston Sigur had been involved in the early winter operations against Marcos. "He played a key role in the Philippines thing," reports Prof. Carl Linden, Sigur's acting director at the Sino-Soviet Institute. "Very much so. He was going back and forth there, trying to get the thing through without major violence."

Sigur has played the same role with South Korea, attempting to bring down the military-backed government of Chun Doo Hwan with a media-backed campaign around World Council of Churches-funded "people's power," radical student terrorism, and demands for "democratization." Due to the deft maneuvering of the Chun government and his successor Roh Tae Woo, the government succeeded in averting a crisis in June that could have led to full-scale military intervention. Direct national elections for President are now due for Dec. 20, with the military drawing the line only against the pro-North Korean demagogue Kim Dae Jung.

As future *EIR* articles will show, the most radicalized elements of the opposition to Roh (and also to opposition candidate Kim Young Sam), are sponsored and directed from points in the United States, including the U.S. State Department.

Sigur is the point man on the case, as he demonstrated publicly in speeches during 1986-87 which extolled the fabricated campaign of "democratization" against the Korean government. At the Cincinnati World Affairs Council on May 17, 1986, Sigur declared that "historical transitions" are under way in East Asian and Pacific countries. The key element of these transitions, he said, is "internal pressures for political reform." Instability will occur, he predicted, wherever there is "resistance to popular demands for political pluralism." Sigur then proclaimed his theory of U.S. violations of its allies' national sovereignty. "Events in the Philippines had shown that the United States should never turn its back on the critical internal problems of our friends. In such situations, we remain engaged in a constructive way."

At the Foreign Policy Association in New York on July 21, Sigur stated that the United States "lends its full support—unqualified—to the Korean people and to whichever candidate they choose to be their next President in open and fair election. We are prepared to work with a fairly elected Korean government. . . . Let me be clear on this point: Anyone who claims that he has or will get the strong support of the U.S. government as a candidate is wrong; we lend our full and enthusiastic support to the process, but not to any individual or party."

When the students rioted in June, forcing the Chun government to accept direct elections, Secretary of State Shultz and Sigur warned the Chun government that it must proceed with "the transfer of power"—a backhanded, but nonetheless clear, endorsement of the opposition.

The back-channel

Sigur's promotion of Project Democracy destabilization in the Philippines and South Korea, however, has been only a secondary mission in his current post. More importantly, Sigur has been charged by the State Department with negotiating for the U.S. side with the Soviet Union for a crisis-management resolution of the "regional conflicts" in Asia, as part of the ongoing State Department negotiations with Moscow on the INF treaty.

In September 1987, Sigur met with Soviet deputy foreign minister and Asian-hand Igor Rogachev in Moscow. Topic: the Korean peninsula.

“Democratization” in South Korea is required for a New Yalta deal with Moscow in order to secure a government in Seoul willing to compromise substantially with North Korea, and to pave the way for the eventual withdrawal of U.S. troops from the peninsula—the policy put forward explicitly by the Carter administration. Inside Korea, Kim Dae Jung is the State Department’s designated operative for this policy.

As *EIR*’s soon-to-be-released report, *Global Showdown Escalates*, demonstrates, the Soviet Union has made massive military and political inroads into North Korea over the last three years, forging a military alliance with Pyongyang which has already changed the strategic balance in Northeast Asia. Nevertheless, in April 1987, for the first time, the United States, under Sigur’s direction, established its first official channels with the dictator regime of Kim Il Sung.

In May 1987, Sigur helped to preside over a series of roundtable discussions on “security and economic development” in Tokyo with representatives from the Soviet Union, the United States, Japan, the People’s Republic of China, South Korea, and North Korea.

The Tokyo roundtable was co-sponsored by the Institute for Sino-Soviet Studies—of which Sigur is still officially the director. One agenda item was reportedly various proposals for the reunification of the Korean peninsula. “The North Koreans came for the first time. We were quite delighted,” reported the Institute’s acting director Carl Linden. The organizer of the Tokyo roundtable was Prof. Y.C. Kim of the Institute. Most of the key North Korean contacts are handled by Kim, reported Linden. “He’s traveled there, quite a few times . . . quite recently, within the last year. He was supposed to have an interview with Kim Il Sung, but it hasn’t come off yet. He knows the internal situation in Korea very well.”

The Institute has also been involved in directing the opposition to Korean President Chun Doo Hwan over the last years. Hanging on a wall at the Institute is a plaque given by the opposition New Korea Democratic Party (it has since split and been renamed). “The New Korea Democratic Party presents this plaque of appreciation to the Institute for Sino-Soviet Studies at George Washington, in recognition of the Institute’s concern for the restoration of democracy in Korea.” The Institute had sponsored a trip to Washington of various opposition leaders.

In 1986, while already assistant secretary of state, Sigur arranged the stay at the Institute of one of the South Korean military’s most bitter critics, Kwan Sang Park. Park, who stayed there from Sept. 13 through late November under Asia Foundation funding, was the editor-in-chief of the *Dong A Ilbo* newspaper, the flagship newspaper of South Korea’s old-time aristocracy, the *yangban*, which stands opposed to the military and to the “Korean economic miracle.”

Such meddling by an assistant secretary is definitely not customary, as Linden explained. “It was very clear to me he was invited by Gaston. In fact, he told Gaston upon his leaving, that the government would use this as a pretext for giving me a hard time. Gaston has thought in terms of making these kinds of contacts.”

The Irangate nexus

Negotiations on Asia through the Sino-Soviet Institute are proceeding. As recently as October, the Institute held a seminar on Asia in Washington with officials, led by O.N. Bykov, of the Russian Institute for Economic and International Relations (IMEMO), a key back channel from Moscow’s side.

The Sino-Soviet Institute’s prominent role in the striking a U.S. sellout of South Korea and other Asian allies is not unexpected. The Institute has been one of the key back channels of the Eastern Establishment to the Soviets, as well as to the Chinese, over the past decade.

In 1979, Sigur set up a series of regular seminars, held in alternate years in Washington and Moscow, with the cream of the Soviet elite, in particular with the Soviet Far Eastern Institute, formerly run by key Soviet negotiator Yevgenii Primakov.

The seminars have been funded by the New York City-based organization International Research and Exchange (IREX). Since the 1960s, IREX has been the key coordinator of all U.S. academic and cultural exchanges with the Soviet Union—that is, at the most sensitive point of U.S.-U.S.S.R. back-channel relations.

The other funder of the Sino-Soviet Institute’s seminars is the Mellon Foundation. Mellon has also poured \$5 million into the National Strategy Information Center (NSIC) of Frank Barnett and Roy Godson. The NSIC published Sigur’s book (written in collaboration with Franz Michael), *The Asian Alliance: Japan and United States Policy*. Both Barnett and Godson are “old friends” of Sigur, according to Linden.

This connection places Sigur right in the middle of the Irangate networks of Lt. Col. Oliver North. Godson trained under and collaborated with in the International Department of the AFL-CIO under Jay Lovestone, former head of the Communist Party, U.S.A. As a consultant to the National Security Council, Godson was involved in setting up shells and funneling money for North’s Irangate operations, and was involved in drafting Executive Orders 12333 and 12334, under which the “secret government” that carried out Project Democracy’s operations was created.

Sigur himself is now revealed to be a full member of that “secret government.” During his own tenure at the NSC in 1985, Sigur raised money for North’s projects from Taiwan, for which he was brought before the congressional Irangate hearings in spring-summer 1987.

But so far, he has been left unscathed, free to execute Project Democracy’s sell-out of America’s Asian allies.

Soviet forgery cited in Israel's 'Ivan' trial

by Mark Burdman

On Nov. 9, there was a dramatic turn in the Jerusalem trial of Ukrainian-born Cleveland autoworker John Demjanjuk, who is accused of being the notorious guard "Ivan the Terrible," at the Treblinka Nazi concentration camp. Testifying for the defense, British chemist and forensic scientist Dr. Julius Grant told the court that he found it "unlikely" that a signature on a Nazi-SS identity card was identical to authenticated samples of Demjanjuk's signature. "I think that common authorship is unlikely," he proclaimed.

Grant was the expert who had earlier exposed purported "diaries" of Mussolini and Hitler as frauds. The "Hitler Diaries" had been concocted with aid of West Germany's pro-Soviet *Stern* magazine, with the aim of sensationalizing the crimes of the Nazi era to the advantage of Soviet propaganda interests against the West.

The Demjanjuk case resumed after a two-month break on Oct. 26, only two weeks before Grant's testimony. In those two weeks, the issue that came to the fore was the same as in the *Stern* Hitler Diaries case: the manipulation of the Western system by the Soviets and their collaborators. The alleged identity card was loaned to Israel by the Russians, through the efforts of multibillionaire Soviet asset Armand Hammer.

This raises the uncomfortable question of who in Israel believe themselves to be benefitting from such a Soviet-Hammer connection. But not only in Israel: The role and methods of the U.S. Justice Department's Office of Special Investigations, in targeting innocent individuals on behalf of the Soviets, is again up for scrutiny.

'We won't allow a trial against Hammer'

On Nov. 3, Count Nikolai Tolstoy, of the Association for a Free Russia, testified for the defense. Tolstoy raised doubts about the "provenance" of the card. "Broadly speaking, every document emanating from the Soviet Union calls for the greatest suspicion," he said. "*Prima facie*, the card looks authentic; the advantage lies with the purported forgers, and the KGB certainly had access to original blank forms. . . . Where there is political motivation, they are fully capable of expert forgery."

When defense counsel Yoram Sheftel reported that the card had been supplied to Israel by Hammer, presiding court Judge Dov Levin proclaimed: "We won't allow a trial against Hammer or any other person. That is not acceptable in any

court. We only deal with the case against the accused."

With that, the court may have preserved the case, in a technical sense, but the case itself became a political-judicial mockery.

Tolstoy stressed, "If the source is suspect, a shadow falls on the document itself." The particular "source" in this case, it was then stressed, was the late Soviet state prosecutor Rudienko, famous for the Stalin purge trials in the 1930s, during which he prepared "evidence" against Stalin's enemies. The very same Rudienko, before his death in 1981, met in 1980 with then-OSI director Allan Ryan, to discuss the purported "Ivan" identity card.

Sheftel asked Tolstoy, "What does it mean to you that the arch-forgery Rudienko supplied the card?" Tolstoy answered: "I'd regard it with considerable suspicion. It is well established that Rudienko had long experience in forging legal documents. There is no one in this century or the last with greater experience."

The Russian embassy in Washington released the document only briefly, and then asked for it back: "They were greatly reluctant to release it to other courts and for further checks—and six years later it reaches Israel!"

Tolstoy also charged that the Israeli court was biased against himself and other defense witnesses, and that methods were being used that would not be tolerated in any Western European court. This touched off a furo, but the fact is, the prosecution never challenged the substance of what he had to say.

'All a KGB provocation'

From Oct. 26-28, the defense had called Soviet emigré Avraham Shifrin, an expert on the Soviet KGB. While the court ruled then that testimony on KGB forgeries would be admissible, Judge Levin defined the "relevance" of such testimony by stating: "Remember, it's not the Soviet system or the KGB that is on trial."

Nonetheless, Shifrin stated that KGB forgery of documents "is probably the activity it is best known for in the West." They forge "everything they find necessary." He noted that the KGB has a special department for producing passports, and that the KGB had counterfeited thousands of documents linking former Russians and Ukrainians to the Nazis during the war. "Most of the KGB's work is based on forgeries," he stressed.

He also pointed out that during the Second World War, in 1941, an independent Ukrainian state was proclaimed. "After the war, Stalin took revenge for this disloyalty and caused a man-made famine in the Ukraine."

He also noted current efforts toward Jewish-Ukrainian rapprochement, after years of ill-feeling due to developments during the World War II. "The KGB doesn't like this. It is possible that all this is a KGB provocation." If Demjanjuk were convicted, he warned, a campaign would be started to "blame the Jews" for his conviction.

Is there really a Central America deal?

by Gretchen Small

Soviet leader Yuri Andropov's spring 1983 proposal, in West Germany's *Der Spiegel* weekly, for a superpower deal giving the United States "freedom of action" in Central America in return for Soviet hegemony over the Eurasian land mass, is the basis of current pre-summit U.S.-Soviet negotiations on "regional matters."

Senior U.S. and Soviet officials met privately in London Oct. 22-23 to discuss Central America, the third such U.S.-Soviet meeting on the area in the past 18 months. The U.S. team was represented by Project Democracy influential Elliott Abrams, the Assistant Secretary of State for Inter-American affairs. The Soviet team was headed by Yuri Popov, chief of the Latin America department of the foreign ministry.

As in all such meetings, the contents of discussions were secret. Since the London talks, however, signals that the Andropov accord is in play have abounded in Central America. Nicaragua's gyrations over whether and how it will participate in the Central American peace talks are the clearest indication.

Swapping appearances

On Oct. 29, ultra-hardliners had carried the day at a Sandinista high command meeting. The final declaration stated that, "no way, nowhere, through no intermediary, at no time," would the Sandinistas talk with the Contras.

Ortega then flew off to Moscow, to participate in the Revolution's 70th anniversary celebrations. Hardly had he returned on Nov. 5, than he announced that he had just driven his jeep over to personally request that Cardinal Miguel Obando mediate talks with the Contras!

U.S. media credited Moscow's desires for a deal with Washington for the reversal. "This about-face must have been painful personally and a matter of intense political infighting. . . . Superpower pressure from Washington and Moscow must have had something to do with Mr. Ortega's decision," the *Baltimore Sun* wrote in a Nov. 9 editorial. The December summit between President Reagan and Soviet party chief Mikhail Gorbachov "will probably include talks about Afghanistan and Nicaragua. The possibilities for a deal have

long been bruited," the *Sun* wrote.

Then, Ortega traveled to Washington, his first-ever visit as President. While Ortega spoke before the Organization of American States, Nicaraguan officials let it be known that they were willing to slip in quiet talks with U.S. officials.

Then came Washington's side of the deal. The Contras were close to the negotiations with the Soviets from the outset. While in London, Abrams held at least one meeting with Contra leader Adolfo Calero, and the two appeared together on BBC's "Newsnight" show.

On Nov. 9, Secretary of State George Shultz told the OAS that the administration will not request new military aid for the Contras until after the new year. President Reagan announced that when "serious" cease-fire negotiations are under way between the Sandinistas and the Contras, the United States will talk with Sandinista representatives, in the context of regional peace talks.

Widely touted as a major reversal of U.S. policy, the summit was again credited for the shift.

Keep your eye on El Salvador

The situation in El Salvador provides a useful standard from which to assess the diplomatic promises given over Central America. The Soviet-allied Farabundo Martí Liberation Front (FMLN) delivered one message in the past month: It is they, the insurgents, who will determine when the lights go on in the country, and when the trucks run.

El Salvador's government had reopened negotiations with the FMLN, as part of a regional peace accord adopted by the five Central American Presidents in August. The accord was put together by the four Western-allied governments in the region, in an effort to strengthen their position vis-à-vis Nicaragua and the insurgents, by creating a broader regional framework from which to deal. Central America's presidents had little expectation that peace could be restored through negotiations, but sought to head off the generalized civil war which otherwise seems inevitable.

FMLN representatives agreed to negotiate—as long as the government discussed how to transfer power to their hands. Before they would even discuss a cease-fire, for example, the FMLN demanded that the government recognize FMLN rule in areas of the country they claimed as "theirs."

When the government refused, the FMLN answered with a demonstration of power. On Nov. 2, the rebels announced that any vehicle—bus, truck, or private car—traveling on the nation's highways would be considered a military target, and attacked accordingly. It was the seventh FMLN transport stoppage this year, and the most successful. Shortages of goods developed in stores and markets, as all cross-country public transportation halted. To keep the country running, the military had to organize convoys, protected by air and ground surveillance.

The FMLN lifted its threat on Nov. 6, issuing a communiqué gloating over this "glorious demonstration of the power

of our forces.” As that announcement went out, FMLN squads blew up 15 power transmission lines, cutting electricity to 30% of the country, and halting television and radio transmissions for several hours.

Gen. Abdul Gutierrez, head of the national electrical company, called the attack “the worst span of sabotage” since the civil war began. It was the insurgents’ answer to a 15-day unilateral cease-fire declared by the government to begin Nov. 7. FMLN commanders announced that “the order has been given to attack, if the government’s troops enter zones controlled by our commandos.”

Flanking the enemy

The FMLN has gained such military advantage, in large part because of the United States’s insistence that the Salvadoran government channel all wealth produced in the country into foreign debt payments. The economy has collapsed. Fifty percent of El Salvador’s population is unemployed. Real income levels have dropped by between one-half and two-thirds since 1979. Inflation is at least 40% annually—and the FMLN has had a field day recruiting.

Without an economic strategy, the United States may soon find itself locked into Moscow’s box: either to accept the establishment of a new Nicaragua in El Salvador, or intervene directly to shore up a government hated because it has “turned people into a rabble” on U.S. orders.

The Soviets, of course, have no intention of carrying out the terms of the Andropov deal. Central America is the Soviet monkey-trap for the United States, the bait that is to pull U.S. troops out of Europe and the Gulf for a fight closer to home.

Just how Moscow plans to “respect” U.S. intervention to stop Soviet-backed insurgencies in Central America is foreshadowed in El Salvador. An editorial in the November 1986 issue of *América Latina*, the monthly publication of the U.S.S.R. Academy of Sciences’ Latin America Institute, stated that, if the Reagan administration seeks to “democratize” the Nicaraguan regime, it can only do so by attempting to overthrow the Sandinistas. This will lead to a nationwide Vietnam.

“It is worth remembering the Gulf of Tonkin resolution, which pulled the U.S. into the Vietnam adventure. Won’t the same thing happen in Central America? The logic of the route adopted leads precisely to this. *Then, the war will extend beyond the limits of Nicaragua.* A lasting guerrilla force will be deployed in the jungle, in a territory which is equal to that of South Vietnam and with a population that is more or less equivalent [emphasis added].”

In May 1987, *América Latina* reviewed the situation in El Salvador, concluding that the Reagan administration’s “democratization” program has eliminated any political maneuvering room for the Duarte government. The crisis in El Salvador “makes very likely Philip Berryman’s forecast that: ‘The final role of Duarte in history could be that of inviting the U.S. to invade El Salvador, to “save a democracy” of his own making.’ ”

Nov. 8-9 Referendum

25 million Italians cast protest vote

by Liliana Celani

The lowest-ever voter turnout characterized the referendum on nuclear power and judicial issues which took place in Italy on Nov. 8 and 9. Only 65.2% of the voters went to the polls, compared to the 87.7% who voted in 1974 at the first big referendum on divorce, and the 77.9% who voted on the cost-of-living escalator in 1985. Moreover, 4 million of the voters who did go to the polls wrote only insults and angry words on the ballot, indicating a wave of rage toward the parties and government institutions, which has much more to do with their impotence in the face of the financial crash than with nuclear energy and the court system.

One week before the vote on the referendum, the government of Christian Democrat Giovanni Goria discussed doubling the budget cuts foreseen by the Italian “Gramm-Rudman bill,” the so-called “Finanziaria 1988,” as the only measure to deal with the financial crash. Despite the fact that almost all the Italian parties called for a “yes” vote on the referendum (the only exception being the Liberal and Republican parties, which together make up approximately 5% of the vote), many voters went to the polls to express their protest by voting contrary to what their party had asked them to do—either because they oppose the anti-nuclear and anti-industrial policy of the Greenies, or because they dislike the austerity economic policy of all the other parties.

The “yes” to abrogating existing laws on nuclear power and justice did win, but the “no” to abrogating nuclear power was much higher than expected (20% on Italian nuclear power plants and 27.8% on exporting nuclear power abroad, the highest counts, interestingly enough, in the municipalities which have nuclear power plants, such as Trino Vercellese, 33.9%, and Caorso, 30%). There, people have a less hysterical view of nuclear power; they have been living with it for many years.

The only ones campaigning for nuclear power in this referendum were the Schiller Institute and the Patriots for Italy, which put out a pro-nuclear power poster in major Italian cities drawing the attention of many citizens (who asked for copies, since it was the only optimistic poster) and, amazingly, even of the press. The weekly *L’Espresso* ran a picture of the poster, all by itself on the electoral board, and

the largest circulation Italian daily, *Corriere della Sera*, ran the full text of it on election day, Nov. 8, in an article on the posters of this campaign.

After describing the "horrible posters" put out by the ecologists and the World Wildlife Fund, showing, for example, a panda bear canceling a nuclear power plant, *Corriere* writes: "But there is also a curious poster signed Schiller Institute and Patriots for Italy, which appeared in various cities and says 'Italy needs nuclear power plants.' It shows Enrico Mattei as he 'lays the first stone of the nuclear power plant in Latina,' the one which is supposed to be deactivated because of its distance from Rome, and has a long text which deserves to be quoted in full: 'In order to get out of the economic crisis, for new infrastructures, for industry and agriculture, not to depend on Khomeini's oil, Italy has to build new nuclear power plants. Don't believe the ecologist propaganda orchestrated by the Soviet KGB, which wants a weak and indefensible Europe. Nuclear power plants are dangerous only in the Soviet Union. Every citizen has the duty to move to make sure that Italy becomes, by the year 2000, that economic superpower for which great patriots such as Cavour and Mattei fought.' Where does this cold war propaganda come from?" is the comment of *Corriere*.

Chernobyl effect

The "Chernobyl effect" was stronger than patriotic feelings, due also to a scare campaign in the press and TV, and to the lack of any technical information on nuclear power. Even more, rage against the institutions prevailed. The practical implications of the referendum are as follows: The Parliament and government have four months, according to the Italian Constitution, to promote and approve new bills replacing the five which have been abrogated by the popular vote.

For the issue of justice, this means that from now on judges can go to jail if they issue wrong verdicts, which will "push them to condemn many fewer" innocent people, and also fewer criminals.

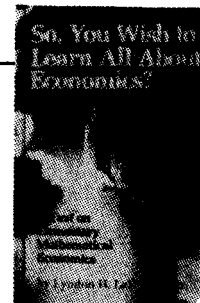
For the issue of nuclear power this means that a new National Energy Plan will have to be defined. Two lines are already emerging: the "fundamentalist" line of the Green, Radical, Demoproletarian, and Communist Parties, which demand that the government "immediately shut down all nuclear power plants" and industries, creating major worries in industries of that sector, such as Ansaldo in Genoa; and the "pragmatic" line of the Socialists and Christian Democrats, who also pushed for the "yes," but would be "satisfied" with a moratorium on building new plants, and keeping the three already existing (Trino Vercellese, Caorso, and Montalto di Castro, the latter under construction).

It should be remembered that these three plants have not been in operation for the past two years, because of Chernobyl, creating a situation in which Italy imports four-fifths of its energy, much of it from nuclear power plants in France! Which of the two lines will prevail will also depend on Mr.

Gorbachov, who has been pushing for a closer alliance between the Green, Communist, and Socialist Parties in Italy. The first effect of Gorbachov's "Comintern" speech at the 70th anniversary of the October Revolution (attended by Alessandro Natta for the Communist Party and Claudio Martelli, ex-Premier Craxi's top lieutenant, for the Socialist Party) was that suddenly the Italian Socialist Party started to praise the Communist Party, and to threaten a renewed government crisis.

"This avalanche of 'yes' votes," gloated the would-be "Duce," Bettino Craxi, "is due to the commitment of the parties which promoted the referendum and that of a great part of the Communist Party," while "the same cannot be said for the Christian Democracy." Another Craxi man in the Socialist Party, Venice-based former Industry Minister Giovanni De Michelis, gave an interview to the Communist daily *Unità* the day after the October Revolution meeting in Moscow, demanding that the Italian government "consult" the Italian Communist Party on the question of the "Finanziaria" budget-cuts bill being discussed, and of the proposal to reduce the right to strike, proposed by Premier Gorla.

The wave of wildcat strikes and the threat of a general strike from the trade unions indicate how such a "Comintern" alliance might evolve in the next weeks, in the midst of the financial and energy chaos. Many observers say that Gorla's government will not survive for long after the referendum.



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Confucian consensus rules at 13th Communist Party of China Congress

by Linda de Hoyos

"Some friends abroad always think that in China there is a reform sector and a conservative sector," stated Zhao Ziyang, the newly elected secretary general of the Chinese Communist Party, in a press conference Nov. 1. "They often base their analysis on the conflict between the so-called two factions and the increase and decrease of power of either faction when they analyze affairs in China. I would say that all those who analyze development in China with this viewpoint will make one mistake after another."

Zhao Ziyang, who is considered a leader of the "reform sector," is not attempting to hide China's reality behind a veil of inscrutability; he is being perfectly straightforward (also see *EIR* Nov. 6, 1987). What appears to Western analysts as a war between two "factions" is but a reflection of the fundamental problems with which the entire Chinese leadership is attempting to grapple, and which were the central issues in the process leading to the 13th Congress of the Chinese Communist Party held in Beijing in late October.

How can China embark on a course of economic development absorbing Western technologies, without at the same time opening the doors to philosophical Westernization that could threaten the grip of the central authorities?

How can China, especially after the annihilation of intellectuals during the Cultural Revolution, bring its thinkers out of hibernation without at the same time risking the intrusion of intellectual freedom in the domestic political domain—as already happened with the 1987 winter nationwide student riots for democracy?

How can China unleash the entrepreneurial talents of its rural population, aided by direct regional investment from overseas Chinese, without risking the danger of revived political formations (the secret societies) and losing centralized control over the entire process?

How can China modernize without drastically reducing its oversized Communist Party bureaucracy, composed mostly of uneducated peasants? How can Beijing extricate the party from the daily machinery of economics and government, without risking a mass revolt from that peasant bureaucracy?

How can China modernize without challenging the old guards of the People's Liberation Army? How can China modernize its armed forces to levels commensurate with its presumed imperial place in a modern world without transforming the PLA itself?

In short, as Zhao Fusan, vice president of the Chinese Academy of Social Sciences, told the French newspaper *Le Figaro* Oct. 27, "Party leaders believe that if China follows the capitalist path"—that is, if Beijing acts too rapidly to modernize and change the nation—"we will have another cultural revolution, national chaos"—as a counter-reaction. "That is their anxiety."

The Confucian consensus

These dilemmas are exacerbated by China's own heritage as an imperial empire, in which republican principles of individual freedom and natural law appear to have no theoretical or practical relevance. Instead, China's leaders must rely upon a careful balance of the correlation of social forces if they are to succeed in moving the country forward in the direction agreed upon by the broad consensus of China's leadership.

Although the press is now heralding the Congress as ushering in the new "Zhao Ziyang era," Zhao's own 34,000-character report was the result of an intricate process of discussion and debate. According to the Hong Kong paper *Zhongguo Zinwen She*, Zhao's report was drafted by 19 people, with Zhao taking primary responsibility. "Over 5,000 people participated in the discussions on the drafts of the report. The report was revised seven times, and it took about one year to discuss and finally produce the final draft of the report," reported the Hong Kong daily. "In October last year, the CPC Central Committee began to discuss the keynote of the 13th National Party Congress and agreed that the keynote . . . could only be the reform and opening to the outside world."

There had already been four drafts of the report by August. The fourth draft was sent out throughout the country for discussion among 5,000 people. "In the meantime, the CPC Central Committee also held a symposium attended by responsible persons" to discuss the report. In September 1987, Zhao presented it to the Secretariat of the CPC Central Committee. The revised fifth draft was passed by the Politburo on Sept. 30. On Oct. 15, a revised sixth draft was submitted to the 7th Plenary Session of the 12th CPC Central Committee for discussion, and "in accordance with the views expressed at the 7th Plenary Session," the report was revised in 150 places. The seventh draft of the report is that which Zhao

read on Oct. 28 to the Party National Congress.

Through this process, the majority of the party leadership is incorporated into the policymaking process, making it difficult to break ranks later. It is this process of consensus development that determines the personnel changes announced at the congress—rather than the personnel changes dictating the policy. Or, as Zhao stated, the goal of the Congress is “a political, organization, and theoretical guarantee for the long term of the stable continuation of the correct party line.”

Reform of the party

Zhao's report was a straightforward presentation of the problems the leadership faces. China has remained backward, he said, because of an obsolete “political structure” that “no longer conforms with our drive for modernization in economic, political, and cultural and other fields.”

Zhao minced no words in describing China's backwardness. “China has a huge population and a poor foundation to start with, and its per capita GNP still ranks among the lowest in the world,” he reported. China still has more than 700 million people living in rural areas, he said, who “still use handtools to make a living. . . . The scientific and technological level as a whole is low, and nearly one-quarter of the population is still illiterate or semi-literate.”

To remedy this situation, China must complete the “initial stage of socialism,” which Zhao defined as “a period in which an agricultural country whose agricultural population constitutes the majority of its people mainly engaged in manual labor turns step by step into a modern industrial country whose non-agricultural population constitutes the majority of its people.”

To complete this “initial stage,” which Zhao estimates will take 100 years, he presents six tasks for the nation:

- 1) “Concentrate on modernization.”
- 2) “Persist in comprehensive reform”—“Reform is self-perfection of socialist productive relations and superstructure.”
- 3) “Adhere to the open policy”—“By closing the doors to other countries, a country can only become more backward.”
- 4) “A planned commodity economy with public ownership”—“As far as ownership and distribution are concerned, absolute perfection and egalitarianism are not what is required in socialist society” (in contrast to the ideals of the Maoist era).
- 5) “Build democracy . . . step by step and in an orderly way.”
- 6) “Build spiritual civilization”—the watchword for the revival of classical Chinese Confucian culture.

To carry out these tasks, the party must be separated from the government, and the mandarin class of scholar-officials revived. Thus, Zhao announced, in a bold challenge to the 46 million, untutored peasant base of the party, that the government bureaucracy will be turned into a civil service

based on “merit.” In parallel action, 50% of the newly elected Central Committee is college-educated—a major advance over its predecessor.

Intricate maneuvering

The 83-year-old Deng Xiaoping is the orchestrator of the balance of leaders required to carry out the reform mandated in the Zhao report at the pace deemed safe. In an effort to force the resignation of other elderly leaders (including Chen Yun) who are more closely tied to the party, Deng removed himself from the Politburo Standing Committee, from the Central Advisory Committee, and from the Central Committee itself. However, as expected, he remains on the party's Military Commission, to keep his grip on the armed forces, the ultimate source of political power in Beijing. In an attempt to forge ties to the military for Zhao Ziyang, the new secretary general was also named a vice-chairman of the Military Commission.

Raised to the Politburo were several younger leaders, considered leaders of the technocratic strata moving in to implement economic reforms. These include the mayors of Shanghai and Tianjin, economist Wan Li, Japan specialist Tian Jiyun, and other technocrats from Zhao Ziyang's State Council. In a counterbalancing move, the Soviet-trained Li Peng, a protégé of Chen Yun, is expected to be named Chinese premier, soon to replace Zhao Ziyang. But Li Peng vehemently denies a pro-Soviet bias, reported the Indian daily *The Patriot*, and speaks of the Soviet economy as “overcentralized.”

Li Peng was also elected to the powerful Politburo Standing Committee. Indicating the importance given to centralized political authority, Qiao Shi, who supervises China's security and intelligence apparatus, was also named to the Standing Committee and was selected to head the Committee for Discipline Inspection, the party internal security apparatus. Said one diplomat, “If he keeps all these posts, he will become one of China's most powerful men.”

Taking a hard fall were the most vociferous defenders of Maoist ideology, namely, Deng Liqun, who ran the 1983 campaign against the “spiritual pollution” and the 1987 campaign against “bourgeois liberalization.” Although Deng's name figured in the final list for the Central Committee, he was thrown off the Committee in secret ballot at the Congress.

In contrast, Hu Yaobang, who was ousted as party secretary general in early 1987, was retained on the Politburo. Known for his close associations with Japan and his sympathy for China's intellectuals and student movement, Hu had previously been designated as Deng Xiaoping's successor. His career was sacrificed in the aftermath of last winter's student unrest, upon the demands of the military. If one were to view the “factional” spectrum in China as a time-spectrum for the country's development, then Hu's retention on the Politburo is one clear sign of the overall direction in which the majority of China's leaders at least wish to go.

Tunisia, after coup, enters a new era

by Philip Golub

In the early morning hours of Nov. 7, the aging and weak President of Tunisia, Habib Bourguiba, was replaced by his constitutional successor, Gen. Zine al Abeddine Ben Ali, as President of the Tunisian Republic. This sudden change was announced following the visit of seven doctors and the new President to the bedside of Bourguiba to impress upon him the need for political change.

In a declaration read by the new President on Radio Tunis that morning, General Ben Ali declared, "The senility and the aggravation of the health of the President . . . and his duty to the nation made it necessary to declare [Bourguiba] incompetent to act as President of the Republic. . . . In application of Article 57 of the Constitution and with the help of God, we are taking over the tasks of the Presidency and the Supreme Command of the Armed Forces."

Ironically, the removal of the founder of modern Tunisia was greeted in Tunisia with sighs of relief and growing hopes that the political instability caused by the growing capriciousness of an ailing President would now come to an end.

President Ben Ali has named a new government headed by Hedi Baccouche. A small number of leading individuals associated with the past few years' palace intrigues have been placed under house arrest.

Over these past years, Bourguiba, who had ruled Tunisia single-handedly since gaining independence for his country in 1957, had manifested growing signs of memory loss, incoherence, and physical weakness. Ministers named one day would be revoked the next, abrupt policy shifts derailed the functioning of a country which had always proclaimed itself an island of stability and moderation in an otherwise tormented Islamic world.

The commitment of successive Tunisian governments to secular and modernizing traditions, had begun to effect profound changes in the sociological makeup of the population, progressively transforming Tunisia into a modern state. Tunisia was thus better insulated than most Islamic countries from the shockwave effects, in both the Shi'ite and Sunni worlds, of the fall of the Shah of Iran in 1979.

This relative stability, however, was increasingly threatened by the dual effects of the economic crisis facing all developing sector countries and the growing disabilities of President Bourguiba. The rapid growth of the Iranian-sponsored Islamic Tendency Movement (MTI) in past years fed on these causes of discontent. Similarly, Libya's efforts to

destabilize Tunisia escalated in 1985 as the medical problems of the President became ever more obvious. Bourguiba's state of health paved the way for a series of byzantine intrigues at the Palace of Carthage, which led successively to the abrupt removal of Prime Minister Mohamed M'zali in August 1986, only two weeks after the President confirmed him as his successor, Bourguiba's sudden divorce from his wife, the nomination and subsequent disgrace of Rashid Sfar.

Throughout the two-year crisis that erupted with the removal of M'zali, General Ben Ali remained a respected figure, the key to the stability and continuity of the state. Minister of the interior and head of security until his nomination as prime minister in early October, General Ben Ali had the institutional support of the Army, the internal security forces, and large parts of the political class. Seen in both Paris and Washington as the last resort for a country in crisis, the new President is assured a large measure of international support. General Ben Ali is a graduate of both the French military academy of Coetquidan and of the U.S. Higher School for Intelligence and Security.

General Ben Ali is now expected to engage in a policy of re-democratization of Tunisian political life. The priority of the new President will be to stabilize the country and he is expected to recognize the nonviolent opposition parties, allow the return of exiled politicians, and engage in a phased policy of amnesty for those unjustly condemned.

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Ogarkov's men rise to power in Soviet military command

by Konstantin George

On Oct. 30, one week before the celebration of the 70th anniversary of the Bolshevik Revolution, Soviet radio and TV reported that Marshal Nikolai Ogarkov had been awarded the Order of "Hero of the October Revolution," on the occasion of his 70th birthday. On account of advanced age, and on that account alone, in all probability, by the end of this decade, Ogarkov's tenure as the architect of the Soviet military's pre-war mobilization and his functioning as the military commander in chief for Soviet forces in wartime, will draw to a close. Whatever may happen concerning Ogarkov himself in the next 12-36 months, the old marshal has succeeded in assuring that the military command succession question has been decided in his favor.

Ogarkov's 70th year will go down as the year in which he moved his supporters and protégés into the commanding slots of the Moscow defense ministry, and overhauled the nerve center of the Soviet military, the General Staff. While the world's press has focused on the headline-grabbing defense ministry shake-up that occurred in May, when the young West German pilot Matthias Rust flew his Cessna plane past Soviet air defenses and into Red Square, the vital changes, centered in the General Staff, had already occurred in March.

Ogarkov had remolded the General Staff already once, during his tenure as its chief, from 1977 till September 1984. However, for age reasons alone, the top cadre added in the 1970s had to be replaced by the best available men who matured during the 1980s, to become the leadership for the coming crucial pre-war period.

The top of the General Staff's command structure consists of its chief, three first deputy chiefs (from which we can discount the aging Marshal V.G. Kulikov, the Warsaw Pact commander in chief), and five deputy chiefs. In March, the only first deputy chief *not* appointed during Ogarkov's tenure as chief of the General Staff (January 1977-September 1984), **Gen. Col. I.A. Gashkov**, was transferred to become the commander of the Vystrel School for Higher Officer Courses, a massive demotion. Gashkov's replacement was **Gen. Col. V.N. Lobov** (see *EIR* No. 32, 1987 for documentation of Lobov's meteoric rise, under Ogarkov's watchful eye), whose leap upward began in the summer of 1984, when Ogarkov began executing the first phase of the stunning array of Soviet command changes that have occurred in the last

three years. These involved changes at the Military District command level, and Ogarkov's creation of the wartime High Commands.

Also in March, two of the five deputy chiefs of staff (four, not counting GRU boss Ivashutin) were replaced by **General Colonel Krivosheyev** and **General Lieutenant Yevstigneyev**. In 1985, Ogarkov had brought in the outstanding officer **Gen. Col. Mahmoud Gareyev** as a deputy chief of the General Staff. In the Russian-dominated Soviet military, an officer of Muslim background does not make it to a top General Staff post unless he is indeed outstanding professionally. Gareyev has authored the Soviet military's new doctrinal "bible," emphasizing the crucial role of special operations in the European theater to knock out the crucial nuclear missiles, nuclear arms, vital depots, airfields, and other targets in Western Europe *before* the Soviet forces launch the main ground assault.

Completing the picture, the remaining deputy chief, **General of the Army Belov**, the commander of the Signal Troops since 1970, is also an Ogarkov appointee. In one of Ogarkov's first personnel moves as head of the General Staff, in 1977 he upgraded both Belov, and by implication the role of the Signal Troops, by naming Belov a deputy chief of the General Staff.

The Krivosheyev appointment highlights Ogarkov's priority of accelerating war preparations. His function as deputy chief of the General Staff is to head the General Staff's Main Directorate for Organization and Mobilization, i.e., ensuring overall war readiness. The promotion was given him in recognition for his services as chief of staff of the Group of Soviet Forces in Germany (GSFG), where he directed the organizational work that brought these forces (with over 400,000 troops, by far the largest single group of Soviet forces in the Western theater, commanded by Ogarkov) to an alarming—for the West—degree of combat readiness. Krivosheyev led the staff planning for the many GSFG exercises of recent years that focused on upgrading heliborne air assault capabilities, and combined air assault/ground forces high-speed offensive techniques. Krivosheyev, as he has stressed in his writings, transformed training in the GSFG to emphasize night fighting and maneuver techniques, to further perfect the element of surprise in both special operations and offensive operations. In short, Krivosheyev represents a perfect doctrinal match to Gareyev at the General Staff leadership.

The Rust affair was for the Ogarkov group a "godsend," enabling their consolidation at the defense ministry. In its wake, not only were **Defense Minister Sergei Sokolov** and **Air Marshal Aleksandr I. Koldunov**, the Commander in Chief of the Air Defense Forces (who is also one of the 11 deputy defense ministers) sacked, but two other vacant deputy defense minister slots were filled by generals in tune with the pre-war mobilization demands imposed by Ogarkov and the General Staff.

The first giant step which ultimately led to Ogarkov's

1987 revamping of the defense ministry hierarchy, occurred in the summer of 1984 in the Soviet Far East, when Ogarkov placed a new leadership to run the Far East High Command, a wartime High Command created in early 1979. The new Far East commander in chief was **General of the Army Ivan Tretyak**, and Tretyak's former post of commander of the crucial Far East Military District was given to **General of the Army Dmitri Yazov**.

As the world knows, with the Rust affair, Yazov leapfrogged to become defense minister, and Tretyak has become the new commander in chief of the Air Defense Forces. Yazov's associates from the Far East Military District have also enjoyed spectacular advances. The political chief of the Far East Military District, **Gen. Lt. V. Silakov**, has been named the new political chief for the Air Defense Forces. Yazov's former first deputy commander at FEMD, **Gen. Lt. I.S. Morozov**, has been promoted to general colonel and commander of the Odessa Military District. Yazov's chief of staff at FEMD, **Gen. Lt. M.A. Moiseyev**, has succeeded Yazov as FEMD commander.

What of the previous Far East High Command leadership and their sponsors at the Moscow defense ministry? Let's begin with their sponsors, former Defense Minister Sergei Sokolov and **Marshal Vasilii Petrov**. During the Brezhnev years, Sokolov (first deputy defense minister from 1967-84, before becoming defense minister after the death of Dmitri Ustinov) and Petrov were leading members of a clique in the military hierarchy. In early 1979, when the Far East High Command was reactivated, Petrov was assigned as its first commander in chief, and was personally seen off by Brezhnev when he departed for his new assignment. Petrov hand-picked as his first deputy commander in chief, **General of the Army F.F. Krivda**. In the autumn of 1980, at the height of the Polish crisis, Petrov was called to Moscow and made commander in chief of the Soviet Ground Forces. His successor as Far East commander in chief was **General of the Army Vladimir L. Govorov**, another member of the clique.

Then came Ogarkov's Far East "coup," which began in the summer of 1984. Tretyak replaced Govorov, who was summoned to Moscow, and made a deputy defense minister. A year later, Krivda was ousted as first deputy commander in chief in the Far East and demoted to running the lowly Vystrel School for Higher Officer Courses. His whereabouts since mid-1986 are unknown.

Petrov, in January 1985, hanging onto the coattails of the new defense minister, Sokolov, was promoted to become first deputy defense minister, but within 18 months (July 1986) was retired. Soon afterward, Govorov was shunted into the least important of the 11 deputy defense minister slots, that of running Civil Defense, and, as all previous cases have proven, a dead-end post for military careers.

Air Defense reorganization under Tretyak

No one can forget the Sept. 1, 1983 Soviet shooting down of the Korean Airlines jet by forces of the Far East Military

District, then commanded by General Tretyak. Nor can anyone forget the infamous Moscow press conference held at that time by Marshal Ogarkov, with map and pointer, which justified and praised that deed.

The recent shake-up in the Soviet Air Defense Forces has included a now-publicized change in the authority of the commander in chief of Soviet Air Defense Forces. He—meaning Tretyak—now has the full authority to order, without consulting any other military or civilian person, the shooting down of any aerial intruder. This was disclosed in an article written by General Tretyak in the first week of November for the weekly *Nedelya*. Tretyak wrote that Rust's Cessna only succeeded in landing in Moscow because "no high-ranking officer" was in place to make the "appropriate decision." In the future, "the target must be discovered, identified, and destroyed. For executing this, I, as the highest commander, am personally responsible. All soldiers of the Air Defense Forces receive . . . the following order: To terminate any violation of the State air borders by a foreign aircraft."

Note the term "personally responsible." That means that Tretyak can order the shooting down of any foreign aircraft crossing over Soviet air space, whether Cessna, Boeing airliner, or military. As Sept. 1, 1983 showed, he will do exactly that.

Another aspect of the sweeping changes since the Rust affair, which bears Ogarkov's stamp, has been the naming of two new deputy defense ministers. They are **Generals of the Army M.I. Sorokin** (now Chief of the Main Inspectorate) and **D.S. Sukhorukov** (Chief of Cadres). Both held command positions in the elite Soviet Airborne Forces. Sorokin was deputy commander of the Airborne Forces from 1964-69 and was a key figure in the development of the Soviet *spetsnaz* commando forces, who have the mission of taking out NATO's vital nuclear and other targets directly prior to the invasion of Western Europe by Soviet ground forces.

Sukhorukov, whose career has been with the Airborne Forces, succeeded Sorokin in 1969 as deputy commander, and in 1979 became the commander of the Airborne Forces, a post he held until his June 1987 promotion to deputy defense minister. Never before has such a number of Airborne Forces commanders been brought to the center of the defense ministry.

The case of Sorokin provides the counterpoint to that of the aforementioned Krivda, who fell from being the first deputy commander in chief of a wartime High Command. In September 1984, Ogarkov chose Sorokin to become his first deputy commander in chief for the Western theater wartime High Command. After three years as Ogarkov's right-hand man, Sorokin became deputy defense minister.

Whatever the outcome of the Soviet civilian leadership struggles, the personnel and doctrinal trend lines in the emerging military hierarchy of the late 1980s has moved in a singular direction. The military "children of Ogarkov" are in place.

'Americas Battalion' targets Peru

Moscow's irregular warfare troops go on the offensive against Alan García's government.

The Nov. 6 takeover of two Peruvian towns by a heavily armed, uniformed commando unit of the narco-terrorist Tupac Amaru Revolutionary Movement (MRTA) was broadcast live to the entire Peruvian nation, courtesy of Channel Five television which just "happened" to be on hand for the big event.

The MRTA is a Cuba-linked and urban-centered member of the "Americas Battalion," the continental narco-terrorist army backed by Moscow. Channel Five is closely linked to former Peruvian Prime Minister Manuel Ulloa, whose economic policies paved the way for the surrender of the national economy to the drug trade. It was no accident that the chief opponent of President García's move to nationalize the drug banks would be giving free "publicity" to the drug trafficker's terrorist army.

Peruvians watched their televisions in horror while the terrorists raised their flag over the main square of Juanjui, an important provincial capital in the coca-growing state of San Martín. Sporting bazookas and other sophisticated weaponry, the khaki-clad terrorists captured the police station and kidnapped a score of police, burned police archives on the drug trade, and killed at least one while wounding another half-dozen.

Channel Five's "intrepid" reporter then interviewed the head of the commando unit, one "Commander Rolando," who was later described by the media as a former Colombian drug trafficker who fled that country when

his collaboration with the narco-terrorist M-19 guerrillas surfaced. "Rolando" revealed to his interviewer that MRTA actions were carried out with the "close collaboration of military officers," and financed by "taxes which we collect from the major multinationals," among others.

President Alan García denounced the takeover as the work of "terrorist and drug-trafficking remnants." Senate President Ramiro Priale decried this "conspiracy against Peruvian democracy by part of the insurgent movements and other sectors, including from abroad," and claimed that the armed incursion against Juanjui and nearby San José de Sisa was carried out for "publicity effect," as the journalists had been advised well in advance of what was to occur.

Interior Minister Barsallo described the event as a "stageshow," designed to feed the ongoing destabilization campaign against the García government. Right on cue, Sen. Enrique Bernales from the leftist Izquierda Unida (IU) party demanded the resignation of Minister Barsallo and the government's abandonment of its anti-terrorist hard line.

Said Bernales, "If I were President Alan García, I would attempt dialogue with the MRTA. If the resignation of Minister Barsallo resolves the problem, he should immediately resign since civil war must be avoided."

Other IU congressmen have organized a "parliamentary delegation" to visit San Martín, to enter into dialogue with the "popular forces" and to

"guarantee the security of the population, which is being repressed" by the armed forces. Elements from within the ruling APRA party itself also denounced the government's anti-subversion policy, demanding the immediate reorganization of the intelligence services for their failure to "anticipate" the MRTA actions.

President García's denunciation of the publicity given to the MRTA action does not mean he is unaware of the threat the narco-terrorists pose. One week before the Juanjui takeover—the fourth such action in one month—the MRTA issued a communiqué announcing that it had launched a new phase of insurgency, a "systematic armed battle" for "national liberation." During the course of the Juanjui occupation, the terrorists acknowledged that they were acting in coordination with the Colombian M-19 narco-terrorists.

In taped messages sent to the Peruvian media immediately after the occupations, the MRTA promised to unleash a "bloodbath in the jungle" if their guerrilla forces were "repressed" by the police or military.

President García has been adamant that warfare can be met only with warfare. During a visit to the grave of a colleague murdered by terrorists, he said, "I can make no concessions to assassins . . . the legal use of weapons is the only means of eradicating subversion. . . . There is no other path open to us; history demands that we be hard, because the future of our children in a peaceful society demands this."

García has responded to the Juanjui takeover by declaring an immediate state of emergency, sending the military to occupy the entire state of San Martín. The army is enabled to carry out arrests without a court order, conduct house-to-house searches, and limit free transit of the population.

International Intelligence

García: 'What counts for me is history'

Peruvian President Alan García lashed out in a speech on Nov. 7 against those accusing him of plotting to remain in power past his term by forcing a constitutional change that would permit his reelection. It is well known that the charge originates with Luis Alva Castro, who undermined the García government last summer by resigning as prime minister.

Referring to "those men who, some with bad faith and bad intentions" have been circulating this rumor, García said, "I don't desire to remain in power. . . . I don't need presidential stripes, nor positions, nor the election of a man. . . ."

"And to the evil intention of those who believe they can put an end to my efforts and my influence, I tell them . . . *you* fight, I take no part in your illegitimate and petty fights. What is important to me is history. I am not interested in a position. I can be President in the government house, or I can be a day laborer on Lake Titicaca."

State Dept. covers for terror in Philippines

The U.S. State Department is censoring any information on the Philippines which does not conform to its assessments, according to informed Filipino sources. Specifically, the State Department has systematically blocked any information from reaching Washington or the press that contradicts the line it is peddling on the state of the Cory Aquino government, or on the extent of Soviet influence in the country. Reportedly, Aquino is being successfully pressured to move to undercut U.S. military presence in the Philippines, but this is being blacked out.

On Nov. 11, Philippines Foreign Secretary Raul Manglapus announced that the country will most likely invoke anti-nuclear clauses against the U.S. bases at Clark Field and Subic Bay, to specify that nuclear-armed

ships could not port at Subic Bay.

Meanwhile, following the assassination of three American soldiers in Manila on Oct. 29, terrorist threats against Americans are intensifying. The National Democratic Front, the political wing of the communist New People's Army, issued a release warning the "United States government to stop meddling in the internal affairs of the Filipino people, or pay a high price . . . in terms of American lives and property. . . . All U.S. military and civilian officials and personnel involved in carrying out the total war, whether the advisers, intelligence operatives, action agents or in other functions, are therefore targets of the attack."

On Nov. 9, Manila papers reported that the guerrillas are threatening to kill more U.S. servicemen unless the United States stops security patrols outside its military bases in the Philippines. The press gave accounts of a clandestine news conference on Nov. 8 at a village near Clark Air Base, in which a spokesman for the Central Luzon command of the New People's Army said that the U.S. patrols were an "affront" to Philippine sovereignty.

Military men, vets call for stopping INF treaty

An international ad hoc committee to oppose the U.S.-Soviet treaty on withdrawing intermediate-range nuclear missiles from Europe, constituted itself at the beginning of November, and is circulating a call to the governments and parliaments of all NATO countries. According to the committee's statement: "What is at stake is nothing less than the political freedom of Western civilization as a whole. We see the acute danger, that the ability of the West to defend itself is being irreversibly negotiated away for the sake of short-term political expediencies."

The declaration emphasizes the threat to Europe that such a disengagement of U.S. forces would represent. "The removal of the intermediate-range missiles in Western Europe, i.e., the Pershing 2 and 1A, would

eliminate the capability of NATO to strike deep into Soviet territory within 13 minutes, and thus would remove a powerful deterrent to Soviet aggression. The military effect of this would be disastrous. . . ."

"Apart from the militarily irreversible effects, the political consequences of the proposed INF treaty are already shaking the foundations of the Western alliance. . . . If West Germany were Finlandized, the rest of Western Europe would soon follow. Moscow would have reached what Lenin defined 70 years ago as the stepping stone for the establishment of world hegemony. . . ."

"All of this can be stopped. An economic emergency mobilization of the West and a crash program for the Strategic Defense Initiative and Tactical Defense Initiative could quickly demonstrate the superiority of Western culture and civilization."

The initiating committee for the new group includes: Brig.-Gen. Friedrich Wilhelm Grunewald (ret.), Federal Republic of Germany (F.R.G.); Brig.-Gen. Paul Albert Scherer (ret.), F.R.G.; Brig.-Gen. Otto Schmidt (ret.), engineer, F.R.G.; Col. Fred A. Steiner, USAR (ret.), California, U.S.A.; Capt. Zachary T. Wakefield, USNR (ret.), Alabama, U.S.A.; William C. Vesay, American Legion, Pennsylvania, U.S.A.

Germany's Kohl losing support of his party

West German Chancellor Helmut Kohl lost more than 100 votes at the Christian Democratic Union's convention in Bonn Nov. 10, when the 700 delegates were to vote for his reelection as party chairman. Eighty-two delegates voted against Kohl, 30 abstained, and 591 voted for him. This is the worst result ever since Kohl took over as the CDU chairman in 1973.

Kohl's declining popularity is believed to be a result of his failure to cope with the economic crisis, his capitulation to the "zero-option" nuclear missile treaty sell-out, and his political absence and failure to provide leadership during the scandals and terrorist

outbreaks which have recently erupted.

Two of Helmut Kohl's main rivals, Hesse Gov. Walter Wallmann and Baden-Wuerttemberg Gov. Lothar Späth, gained votes and improved their power position inside the CDU. Wallmann got 535 votes, an increase of 136, and Späth 494, as compared to 428 two years ago. The two are contenders to replace Kohl as party chairman and chancellor, if Kohl is overthrown over one of the bigger scandals or the economic disaster.

Euthanasia doctor defends his 'experiments'

Dr. Julius Hackethal, the West German doctor who has murdered 13 patients under the guise of "mercy-killing," the darling of Europe's euthanasia lobby, is fighting to maintain his public image, according to an article in the Nov. 6 issue of the West German mass popular newspaper *Bild-Zeitung*.

Seven physicians who previously worked at Hackethal's "hospital" in Bavaria are quoted saying they are ashamed of their former work. They stated that Hackethal's patients had been kept from having the necessary operations and treatment, and that Hackethal conducted dangerous experiments on his patients.

Hackethal's reply: "Anyone who looks for new methods of treatment [sic!] has to conduct human experiments—even if these words sound terrible. What else did Prof. Barnard do when performing his first heart transplant?"

Svetlana: 'Beware the ghost of Stalin!'

Stalin's daughter Svetlana warns the West against Mikhail Gorbachov, in an interview with the *Daily Mail* of London published Nov. 12. Now Mrs. Svetlana Peters, she is moving back to Britain soon.

She says of Gorbachov:

"He will go only as far as he is allowed—he might wish to do more, but the party owns him completely.

"I think the tragedy which awaits Gorbachov is the same tragedy which the Czech leader Dubcek met.

"I know the Bolshevik Party. It is still the same party that was founded 70 years ago. It is still the same cruel, crude, and murderous party. . . .

"They very ruthlessly got rid of Khrushchov as soon as Khrushchov tried a raise a hand to them—and they can very easily get rid of this man."

She expresses concern about Gorbachov's Nov. 2 attack on Stalin (which did not, however, go nearly as far as some in the West had anticipated):

"It will split the country again, because on this issue Russia is very, very divided. In battling the ghost of Stalin, he faces huge danger. He is leader of a world power. The fact that Russia is a world power is due to my father.

"Russian imperialism, influence, world status is all an inheritance from Stalin. I am not saying this as a thing to be admired, but as a fact. In bringing back the ghost of Stalin, Gorbachov undermines himself.

"Battling the ghost is a dangerous thing, and this is a powerful ghost. Once you wake it, there could be trouble. Stalin created too much of what is the modern state of Russia."

On her father, she tells the *Mail*: "As a human being, he was an Asian man. His psyche was closer to the Ayatollah than Lenin."

Bavarian police form anti-riot squad

The West German state of Bavaria announced on Nov. 6 the formation of a special anti-riot police squad, following riots in which terrorist guerrillas killed two policemen in Frankfurt on Nov. 3.

Bavarian Assistant State Minister of the Interior Peter Gauweiler announced that the new squad will have 400-500 policemen equipped with special anti-riot equipment which will enable them to fight the hardcore rioters. This includes bullet-proof vests, riot guns, and helicopters.

Briefly

● **NIKOLAI BUKHARIN'S** son accused Soviet General Secretary Gorbachov of walking in Stalin's footsteps, in an interview with the Italian daily *La Stampa* published Nov. 6. Yuri N. Larin said he was "disappointed and embittered" by Gorbachov's Nov. 2 speech. "I heard no change, no policy of rehabilitation for my father." There is "no renewal" going on in the U.S.S.R., he said, and those in the West who say there is, are engaging in "wishful thinking. They confuse the wish with reality."

● **FRANZ JOSEF STRAUSS**, the head of West Germany's Christian Social Union party, warned on Nov. 11 that the continuing collapse of the dollar is "nothing less than catastrophic," moving into an "uncontrollable situation," and heading for a second phase of collapse.

● **MUNICIPAL ELECTIONS** in Mexico on Nov. 8 led to a resounding defeat of the ruling PRI party, partly because of unusually high rates of abstention, reflecting popular disgust with all the parties. In Mexico State, only 20% of the 3.5 million eligible voters turned out to vote. Violence erupted at several polling places.

● **THE SPANISH** government wants the United States to remove its air bases from Spain, according to West German and British press reports. This would affect several squadrons of F-16 jet fighters and 12,500 U.S. soldiers. Portugal has offered to station these forces on its territory, so as to keep them on the Iberian Peninsula.

● **THE COLOMBIAN** government wants to continue extraditing drug traffickers to the United States, said Justice Minister Enrique Low Murtra in an interview on Nov. 8. He said he is studying options for reviving the extradition treaty between the two countries, which was rejected by the Colombian Supreme Court earlier this year.

LaRouche program poses dilemma to Washington

by Nicholas F. Benton

Lyndon H. LaRouche, Jr., the controversial anti-Establishment presidential candidate, has placed crisis-ridden official Washington in an inescapable dilemma. In a series of press conferences in the Midwest, Mr. LaRouche outlined specific economic reforms and called for a bipartisan coalition, regardless of who supports whom for President, to rally support for these reforms, to enable President Reagan to exercise his constitutional authority and declare a national economic emergency.

The LaRouche measures have been placed on the table as the only set of economic policy proposals so far which could break the budgetary and economic constraints under which the Executive and Legislative branches find themselves laboring, to no tangible result.

"We need federal government action now," LaRouche has stated. "The President must declare a national economic emergency, and use his stand-by authority now, using his regulatory powers to stop the chaos in the financial markets. Then, he and the Congress must act quickly, to launch a real economic recovery. I have just issued two important open letters to members of both major parties and to trade-unionists, stating what must be done to start a real economic recovery"—"federalization" of the Federal Reserve, issuance of hundreds of billions of dollars in Treasury notes through the private banking system, as credit to keep farms, factories, and associated banking institutions in operation.

An aide to one senior House Democratic leader conceded to a LaRouche campaign representative in mid-November that "a man running on a program like that would get elected President." Another remarked, "If only LaRouche were not under indictment, he would be a very credible contender for

the White House with a program like this." The LaRouche representative replied, "Now perhaps you understand why he has been unjustly indicted."

A crumbling administration

LaRouche's authoritative pronouncements from Iowa Nov. 12 contrasted sharply with Washington's sense of being overwhelmed by events. The Reagan administration's ability to respond to the crisis is crumbling under the pressure of Wall Street demands and self-imposed ideological constraints. The administration has shown a willingness to sell out on almost every dearly held issue in a meaningless effort to reduce the federal deficit, avert economic collapse before the next election, and restore some "public confidence." But concrete measures, there are none.

President Reagan and his new defense secretary-designate, Frank Carlucci, have expressed their willingness to undo the seven years of hard-fought defense preparedness achieved under outgoing Secretary Caspar Weinberger, all in the name of reducing the deficit.

The President is desperate to sign a deadly, Intermediate Nuclear Force (INF) treaty with the Soviets during the scheduled Dec. 7-10 summit with Soviet General Secretary Gorbachov in Washington, even at the expense of putting off deployment of the Strategic Defense Initiative (SDI), to beyond the point at which it could deter the Soviet drive for world domination.

Right now, the Reagan political agenda, as well as the nation's vital security interests, are being decimated. Either past prejudices are put aside, and LaRouche's program is looked at objectively on its merits, or Reagan will not survive

into the spring without altogether surrendering his powers to govern, or unleashing a full-blown depression, or both.

The cave-in

The collapse of President Reagan on the defense budget has amazed even his most severe critics. It began the day after the "Black Monday" Oct. 19 stock market crash, when he announced a call for a bipartisan, bicameral "budget summit" to cut deeply into the federal deficit, since this is what Wall Street demands—even if it will do nothing to prevent the oncoming "big one" LaRouche has now forecast.

"Everything is on the table except Social Security," Reagan said categorically, gripping Weinberger's resignation note in his pocket.

When the talks began to stalemate after two weeks, White House spokesman Marlin Fitzwater groveled before the press corps in an attempt to demonstrate that the President was willing to do "almost anything" to reach a compromise with the Democrat-controlled Congress on budget cuts.

On Nov. 13, Fitzwater bleated that the administration's "flexibility" knew no bounds. There was then only one week to go before the Nov. 20 deadline for the Gramm-Rudman deficit reduction law's "automatic sequester" to kick in, ending all negotiations with an across-the-board \$23 billion cut,

"I emphasize again that it was President Reagan who initiated these [budget summit] talks; it was President Reagan that moved from saying 'over my dead body' to a flexibility on tax increases; it was President Reagan who moved from a \$312 billion defense figure to something in the \$290s," Fitzwater said.

Fitzwater's depiction of the President's willingness to slash the defense budget echoed the remarks of Carlucci before the Senate Armed Services Committee a day earlier. Very unlike Caspar Weinberger, Carlucci stated that he "understood" the budget constraints that Congress and the President were working under, and as defense secretary could be counted on to be cooperative and not to ask "too much" for defense.

This "bureaucratic outlook" was anathema to Weinberger, whose eyes would shoot fire at anyone who suggested he be "more reasonable" in his defense requests or more conciliatory toward the needs of Congress to compromise in working out its budget. "My job," Weinberger always said, "is not to come up here with a figure that I think you will accept. My job is to tell you what we need, based on what the enemy is arraying against us. If I tell you anything less than what we actually need, no matter how unpopular that may be, then I am abrogating my duties as your defense secretary."

So, in his first day of confirmation hearings before the Senate, Carlucci's conciliatory attitude in the face of sharp questioning from the committee chairman, SDI foe Sam Nunn (D-Ga.), showed why Weinberger wanted the Pentagon's number-two man, William Taft IV, to get his job instead of

Carlucci. Carlucci lived up to his billing as the kind of man that Secretary of State George Shultz prefers running the Pentagon. Needless to say, after only one day of questioning, Carlucci was confirmed by a unanimous vote of the Armed Services Committee, and was expected to get a similar unanimous vote within a week by the full Senate, eager to get Weinberger out of his job before Thanksgiving.

On the INF treaty front, Fitzwater again exposed the lengths to which the White House is willing to go to reach a swift accord with the Soviets. At his Nov. 13 briefing, Fitzwater joked about the inability of the administration to produce its annual report on Soviet treaty concompliance on time. The report is mandated by Congress to be ready by Dec. 7, the same day that Gorbachov is scheduled to arrive in Washington for the summit.

According to a leak in the *Washington Times*, there are plans in the White House to delay the release of the report in an effort to "avoid embarrassing Gorbachov" prior to the summit.

When asked by *EIR* if this report were true, Fitzwater's assistant, Dan Howard, said, "Every year we've done this report, we've never met the deadline." Fitzwater then interjected, in a jocular tone, "We never met it before, and by God, we're not going to meet it now."

EIR asked, "Is there a special effort being made to get it ready on time this year, because of the summit coming up?"

Fitzwater, still laughing, responded sarcastically, "Yes, special effort. Sure, Nick!"

Fitzwater recanted only after I interjected, "With all due respect, with the INF treaty signing coming up, isn't the whole question of the credibility of our verification effort called into question by the kind of lighthearted response to the issue of whether or not we're even capable of meeting a deadline on the report on Soviet treaty non-compliance, especially when it's the same people who will be responsible for reporting on the INF treaty verification?"

In addition to the lack of concern for the verification issue reflected in Fitzwater's remarks, both comments by Carlucci before the Senate committee and the joint statement issued by Reagan and Soviet Foreign Minister Eduard Shevardnadze at the conclusion of their meeting last month, make it clear that the administration is now willing to put off plans to test and deploy its SDI at the earliest possible time.

Carlucci told the committee he would not object to efforts by the Congress to slash \$1.4 billion or more off the original FY88 SDI budget request of \$5.4 billion. Reagan, for his part, has said that the timetable for deployment of the SDI, defined in terms of a new agreement prohibiting either the United States or Soviet Union from withdrawing from the Anti-Ballistic Missile (ABM) Treaty, is now "flexible" based upon negotiations with the Soviets.

This, despite massive documentation of Soviet violations of the treaty, ominous evidence of their preparations to deploy a nationwide ABM system soon.

Government stumbles in 'LaRouche' case

The trial has run into even more problems for the prosecution, as the issue of intelligence community involvement moves to center stage.

The trial of presidential candidate Lyndon H. LaRouche, which was scheduled to commence on Sept. 21 in federal court in Boston, is now expected to begin no earlier than Nov. 30. The government's case—weak from the very beginning—has been beset by problems which have only multiplied. After three weeks of jury selection and pre-trial motions, opening statements were set for Oct. 19-20. Instead, two related developments occurred: The issue of CIA and intelligence community involvement moved onto center stage in the proceedings, and defendant Roy Frankhauser was severed from the other defendants and his trial ordered to be held first. Frankhauser's trial started Nov. 2 and is still ongoing.

Frankhauser is a longtime CIA and intelligence community operative who has been described as serving as a "cut-out" between LaRouche and the CIA for many years. Both the government and Frankhauser's court-appointed lawyer have denied his CIA connections, and have claimed that he merely "conned" associates of LaRouche into believing that he had intelligence community ties. However, as more evidence has been placed on the record showing both Frankhauser's connections and other, high-level intelligence contacts of LaRouche, the government's denial of Frankhauser's role has become more and more implausible.

The severance of Frankhauser from other defendants was ordered on Oct. 20, the same day that a partially declassified CIA document being examined by the court was identified as bearing upon Frankhauser's relationship to the CIA. The document described a meeting between LaRouche and CIA officials at agency headquarters in Langley, Virginia. According to defense attorneys, Frankhauser was instrumental in both arranging the meeting and assisting in LaRouche's entry into the CIA compound. After hearing this, prosecutor John Markham told the court that "the government is persuaded that further inquiry is necessary" with regard to Frankhauser's role.

Frankhauser's trial began on Nov. 2, with both the government and Frankhauser's lawyer agreeing in opening statements that Frankhauser is a "con-man and a liar." From the very first moment of the Frankhauser trial, it was clear that the real issue was LaRouche, and in fact it was not until the fourth day of testimony that any evidence concerning the charges against Frankhauser was even heard by the jury.

The first three days of testimony were taken up with Charles Tate, a former associate of the defendants who "dropped out" of the National Caucus of Labor Committees

(NCLC), the philosophical association founded by LaRouche, in 1984. In his examination of Tate, Markham led Tate through a detailed and distorted picture of the organization and structure of the NCLC, the functioning of its security staff, and Tate's view of fundraising procedures during the 1984 presidential campaign.

In the course of the examination and cross-examination, Tate confirmed that LaRouche and his associates were firmly convinced of Frankhauser's CIA ties—an issue which the prosecution has conceded is very relevant to the questions of "intent" and "motive" of the defendants. Markham has already admitted that if the defendants believed they were acting at the direction of the CIA, then it will be difficult for the government to prove that they acted with criminal intent and corrupt motive.

When Tate was asked whether he believed that Frankhauser was a cut-out to the CIA, he answered that he had his doubts—but only as to whether Frankhauser's contacts were still active CIA officials, or former CIA officials who had been fired during Stansfield Turner's 1977 purge of the agency. He said that the leadership of the NCLC was convinced that Frankhauser's key source, known as "Mr. Ed," was actually "Ed Knoche." (E. Henry Knoche was the Deputy Director of the CIA under George Bush and Turner and was, for six months, the Acting Director of Central Intelligence.)

When asked if LaRouche had other contacts in the intelligence community besides Frankhauser, Tate replied that during 1983, other figures had begun to come into play. He went on to say that during 1982, LaRouche had begun to have a series of meetings with "bona fide, actual real intelligence operatives, whose role in the intelligence agencies is well-known." He said he knew of at least two meetings between LaRouche and former Deputy Director of the CIA, Admiral (Bobby Ray) Inman. Tate elaborated how one of these meetings took place at an official government facility on F Street in Washington, D.C., where guards and strict security checks were in effect; this was while Inman was still number-two at the CIA. He also said that he had answered at least two phone calls from Inman to Jeffrey Steinberg at the New York NCLC office. Tate also said he had learned of a meeting with Deputy CIA Director John MacMahon or an assistant at CIA headquarters in Langley, Virginia. In addition, he stated that he knew of meetings between LaRouche and former NSC Director of Long-range Planning Norman Bailey, and another NSC official named (Ray) Pollack.

Observers were astounded that so much evidence concerning the CIA and intelligence community was coming in through the mouth of a government witness—Tate.

If Tate's testimony was strange, the testimony of another government witness, Monroe N. Wenger, was nothing short of bizarre. Wenger, whose activities as a CIA and intelligence community agent have been confirmed by numerous sources, took the witness stand on Nov. 5. He admitted that he had "posed" as a CIA operative, but then denied that he in fact worked for the CIA or any intelligence agency.

Wenger testified that he had been asked by Roy Frankhauser to pose as a CIA agent in order to fool Frankhauser's boss (Paul Goldstein). He said he had had four meetings with Jeffrey Steinberg and Goldstein along with Frankhauser, and then three more meetings, one with Lyndon and Helga LaRouche, accompanied only by Forrest Lee Fick.

He said that Frankhauser told him to say that he would pass on information to "Ed the Source." When asked, "Who is 'Ed the Source,'" Wenger answered, "Hank Knoche" without a moment's hesitation. "Frankhauser said 'Ed the Source' was connected to the CIA," he added. Later, during cross-examination, he said that the LaRouche people wanted

to keep a line into an ex-head of the CIA, "somebody that Frankhauser knew at one time."

Wenger said that he worked on a ship as a "marine oiler," but Markham never asked Wenger the obvious follow-up question—who is his employer? When Frankhauser's lawyer did ask the question, Wenger replied, "I work for the Department of Defense." Under further questioning, he said that he works for the Army Corps of Engineers on the *Dredge McFarland*. The dredge ship described by Wenger is not a small operation: It is more than 300 feet long, with a crew of over 60 men, which works "on the East Coast and down around the Gulf." Observers noted that such a cover assignment would fit perfectly for CIA covert operations in Central America.

In another development, the prosecution suffered a stinging setback on Nov. 9 when the U.S. Court of Appeals in Boston granted a motion by Jeffrey Steinberg to stay contempt charges against him. Steinberg is appealing an order from Judge Keeton directing him to hand over his notebooks to the prosecution for use in the Frankhauser trial. The contempt against Steinberg is now stayed until at least Dec. 11, so his notebooks will not be available for Markham to use.

Documentation

The following article, bylined John D. Forester, appeared in the Reading Times Nov. 12, under the title, "Slow Pace of Frankhauser Case Is a Trial for Observers."

Boston—After listening to more than a week of testimony here in the obstruction of justice trial of Reading's Roy Frankhauser, the jurors still seem a bit puzzled by the case. But the jury is not alone. The knotted tangle of the so-called facts in the case is being untied so slowly that the case must be difficult to follow for someone without some knowledge of all the characters involved.

The gallery of lawyers, press, and spectators following the daily trial has not been impressed with the pace at which John Markham II has been presenting his case. Markham has presented a series of witnesses giving repetitive testimony. Most of the testimony so far has dealt with the way LaRouche followers raised funds for LaRouche's presidential bids. And while the testimony presented makes the fundraising techniques sound aggressive and demanding, the same could be said of any other presidential candidates' fundraising activities. Markham says he is making sure the jury understands the inner working of the LaRouche organization, before presenting his evidence against Frankhauser, who was employed as an intelligence consultant to LaRouche.

On the documents filed before the trial began, key evidence rests mainly in the personal notebooks of several

LaRouche followers, and in the expected testimony of Forrest Lee Fick, of Berks County, who has been described as Frankhauser's sidekick in the intelligence operation.

Now there seems to be some doubt as to whether Markham will be able to produce all the evidence he thought he could. One of LaRouche's aides, Jeffrey Steinberg, balked when the government demanded his personal notebook. Steinberg's lawyers said that since the notebooks are not business records, the government has no right to subpoena them. And because Steinberg has been a reporter for several LaRouche publications, there is a question as to whether the notes are protected by the First Amendment's provision covering freedom of the press. Judge Keeton found Steinberg in contempt of court earlier in the trial, but a federal appeals court ordered a stay on Keeton's ruling, thereby gumming up the works for the prosecution.

Fick is another story. Since being slapped with a defense subpoena to produce personal KKK and Nazi party regalia, which was requested in an attempt to discredit Fick's character, Fick is in the process of obtaining his own lawyer. Until now, Fick has been under Markham's influence. That was before he was put on the defensive. With a lawyer representing Fick, there is some doubt that he will be allowed to testify as freely as Markham hoped.

Some court observers said the case against Frankhauser is crumbling. Others say Markham has a trump card or two left to play. Proof will come next week when the trial resumes. If the government quickens its pace, it is a sign of confidence. If it starts dragging its feet, it could be a signal that the case is crumbling and they need time to regroup.

Elephants & Donkeys

by Kathleen Klenetsky

The 'root canal economics' of Bob Dole

Sen. Bob Dole kicked off his presidential campaign Nov. 8 in typical fashion: by talking out of both sides of his mouth. The Kansas Republican has been running around the country, pledging to take care of the poor and elderly. But he's also taking a directly contradictory tack, preaching the merits of "economic sacrifice" and the alleged need for austerity at every opportunity.

Indeed, this was the chief message of his formal declaration of candidacy Nov. 9. Dole announced that the "one fundamental theme to my campaign" is a pledge that "Americans must stop living for today while ignoring the long-term implications of our decisions and actions for our children and generations to come." He added that "no area of federal spending would be off limits."

In a speech a few days earlier in Iowa, Dole—practicing what the *Washington Post* characterized as "root canal economics"—declared: "If you are going to have an operation next month, you are going to try to find the best doctor you can, someone who understands how that works. I think I am that candidate. . . . We will either sacrifice for our children, or we will continue to make our children sacrifice for us."

Dole's talk about sacrifice is by no means just rhetoric: He has proposed limiting Social Security cost-of-living increases to 2% per annum, and wants to raise taxes. Two years ago, he lobbied for a freeze on Social Security benefits.

He also has declared that he will

seek a constitutional convention to enact a balanced-budget amendment. This would be a disaster, not only for economic policy, but also for the damage such a convention could wreak on the Constitution itself.

Not that Dole especially cares, as witnessed by his recent statements on strategic policy. Interviewed recently on a national TV talk show, Dole candidly admitted that he's in favor of the Russian proposal for putting a moratorium on SDI deployment.

Dole said he would have no qualms about an SDI moratorium as part of a strategic-arms deal. "If there were some appropriate moratorium, then I think we might be able to work that out. . . . We're not going to deploy anything."

'None of the above' tops poll—again

A new poll commissioned by the *Chicago Tribune* and conducted by Democratic pollster Peter Hart provides fresh evidence that the vast majority of Democratic voters remains totally unimpressed by the party's current crop of sanctioned presidential candidates.

One-third of those interviewed, including one-fifth of the Democrats, said that "the Democratic candidates don't seem up to the job of being President," and are "too disorganized to run the country."

Only 35% of the Democrats questioned in five major electoral states—Illinois, California, New York, Texas, and Florida—said they were satisfied with the candidates, while another 10% said they weren't sure.

The poll gives a big boost to New York Gov. Mario Cuomo—no doubt one of its major goals. Polled on whom they would prefer as a candidate—Cuomo, New Jersey Sen. Bill Brad-

ley, or "other"—23% of the dissatisfied category chose Cuomo, 6% selected Bradley, and 12% responded "other."

Cuomo inches closer. . .

Speaking of Mafia Mario, he's moving from a *de facto* to a *de jure* candidacy, bit by bit. On Nov. 12, the governor dropped some of his standard coyness on the issue, during an interview with NBC-TV national news, stating that, under certain circumstances, "of course I would" become a candidate.

"If forces would, by accident or whatever, say, 'Mario, this is your obligation, you must do it'—of course I would do it. That's why I'm a politician, to try to help people."

Just a week earlier, Cuomo and his staff had begun to put out the knives for Mike Dukakis, who would be one of Cuomo's chief rivals, should he enter the race. Dukakis had no real ideas, complained the Cuomo camp, and wasn't giving enough credit to Mario. That was a sharp shift for Cuomo, who had been one of the Massachusetts governor's biggest boosters.

Jaruzelski endorses George Bush

Vice President George Bush has picked up an endorsement from a rather unusual quarter: Poland's Gen. Wojciech Jaruzelski. Bush met with the Russian surrogate when he toured Europe in September.

According to a *Washington Post* reporter who interviewed Jaruzelski, the Polish ruler "emphasized that he did not want to interfere in American politics," but "his personal view was that Bush was an exceptional politician and a realist for whom he could vote."

Wall Street demands Social Security cut

The "budget summit" negotiators from the White House and the Hill, as they were rushing to beat the Nov. 20 deadline to cut at least \$23 billion from the federal budget, were assaulted by a two-page advertisement which appeared in the *New York Times* Nov. 9 and the *Washington Post* Nov. 12, signed by 200 of the nation's leading bankers and investors.

The ad was a heavy-handed demand that Washington bail out Wall Street at the expense of the fixed incomes of the nation's elderly. They claimed that they needed a "confidence-building" measure like cutting Social Security benefits in order to restore stability in the markets.

The all-star cast of bluebloods who signed the ad, are the fellows whose practices of drug-money laundering, junk-bond dealing, off-balance-sheet lending, and other speculative operations set up all the preconditions for the October crash. It included David Rockefeller and Henry Schacht, son of Hitler's finance minister.

The ad followed the theme laid out on CBS's "Face the Nation" in October by former Commerce Secretary Peter Peterson (also a signer), who said that a bipartisan commission needed to be set up to dig into the "middle-income entitlement" programs—such as Social Security, pensions, and Medicare.

This, he said, should begin with an attack on the annual "cost of living adjustments" (COLAs), which the ad

also specified. He noted that a "2% solution," (i.e., restricting the COLA to 2% no matter what the rate of inflation is—and it is projected at 4.5% for FY 1988—would save billions by the end of the century.

Such deep cuts are necessary, he said, if the market is to regain confidence that the government is "really serious" about reducing the deficit.

This is the biggest fraud that's been seen in a long time, even in Washington. It fits Nazi Propaganda Minister Goebbels's definition of the "Big Lie"—so big, it is believed, because people can't imagine that anyone would dare be so deceitful.

Draconian reductions in the federal deficit will do nothing to stabilize the market, but of all the spokesmen in the administration, only outgoing Secretary of Defense Caspar Weinberger has attacked this lie publicly.

In reality, as everyone already knows (and as has been detailed in a special report delivered to a closed session of the Senate Banking Committee just after the Oct. 19 crash), the size of the federal deficit for FY 1988 will be more than triple current estimates—from \$500 to \$700 billion—because of the federal revenues lost in the market crash and likely to be lost thanks to its impact on the general economy, including economic slowdown, higher inflation, mass layoffs, etc., over the next few months.

To give the impression that cutting a few extra billion out of the budget now will "restore confidence" is pure charade. The most troubling part is that everyone in Washington is willing to play along, except for Weinberger, who probably quit over it.

While President Reagan said that everything was "negotiable" in the cosmetic exercise to trim the federal budget, except for Social Security expenditures, even he was getting skittish over the pressure from Wall Street

to take the axe to the elderly.

For example, when I asked him Nov. 9, White House spokesman Marlin Fitzwater refused to include the Social Security COLA as part of what the President had said was off limits for negotiations.

"But," I asked, "the point of the President, saying that Social Security was not on the table, was clearly to demonstrate to the American population his intent to insulate the living standards of elderly people on fixed incomes from this budget negotiation. So, why not simply state in the affirmative that Reagan would not consider a COLA freeze?"

Fitzwater squirmed, "Well, I'm not going to give a definition—" I replied, "Why not? They're the same thing. How can you distinguish them?" Fitzwater: "Because you just can't pick and choose."

This song-and-dance by the White House continued the next day. I asked Fitzwater, "Has the President had any reaction to this heavy-handed and really shameful, big two-page ad in the *New York Times* yesterday by all these Wall Street international bankers and investors who are insisting that they be bailed out at the expense of the fixed incomes of the nation's elderly?"

Fitzwater's terse answer was, "He hasn't responded. No."

So, whether the final budget will reflect the bankers' demands remained up in the air as the Nov. 20 deadline approached.

Wall Street's position will be that if the new cuts don't slice into the entitlements, then all blame for the continued unraveling of the economy will be on "the lack of political will" in Washington. On the other hand, if the cuts are made, and the economy continues to unravel (as it surely will), they will just shrug their shoulders and cry for more.

Helms AIDS amendment kindles 'gay' outrage

Senate adoption of an amendment that would prevent government funds from being used to promote homosexual behavior has sent the "gay" lobby into a frenzy.

The amendment, to an FY 1988 appropriations bill for health, human services, labor, and education, was introduced by Sen. Jesse Helms (R-N.C.), and adopted almost unanimously Oct. 14. The only no votes came from Sen. Lowell Weicker (R-Conn.) and that conservative Democrat, New York's Daniel Patrick Moynihan. On Oct. 20, the House, acting on a motion introduced by Rep. William Dannemeyer (R-Calif.), instructed House conferees on the appropriations bill to agree to the Helms amendment.

The measure is quite modest: It simply prohibits the use of federal money from funding AIDS educational programs and materials that "promote or encourage, directly or indirectly, homosexual activities."

What specifically prompted Helms to introduce the amendment was the fact that the federal government had doled out \$674,679 in 1986 and 1987 to the Gay Men's Health Crisis organization to finance so-called "safe sex" materials that were pornographic in the extreme.

GMHC motivated one grant proposal on the grounds that, for many homosexuals, "safe sex has been equated with boring, unsatisfactory sex," and it was therefore necessary to inform them about "meaningful alternatives to high-risk practices." Options listed included, "healthy S&M," "waterplay, urination . . . to release sexual tension," and the use of erotic photos as a "sexual achievement tool."

During House debate on the pro-

posal, Rep. Bob Dornan (R-Calif.) reported that a friend of his, as an experiment, recently contacted the GMHC to request literature instructing teenagers how not to get AIDS. He received a comic book featuring "Ed the Jock" and "Julio the Pump Boy" engaged in a variety of perverted sexual acts.

"I will not sit on the House floor and have respected members get up and say this pornographic comic is the only way we can reach intelligent homosexuals and drug users," said Dornan, after Rep. Bill Green (R-N.Y.), had gotten up to defend the GMHC.

The Senate and House actions set the "gay" lobby on its ear. The pro-"gay" Human Rights Campaign Fund took out full-page newspaper ads denouncing the measure. "Sexually active people—singles, teenagers, and divorcés, married people who are not monogamous—gay and heterosexual—need frank, scientific information" about AIDS prevention, said the ad. "We cannot tolerate right-wing morality lectures in place of lifesaving medical instruction."

Soon after, New York's bachelor mayor, Ed Koch, weighed in with a commentary in the *New York Times*, berating Helms and defending the GMHC's "brilliant reputation in caring for and counseling those with AIDS and in educating others on how to prevent the spread of AIDS. . . . Those the [GMHC] materials reach," he added, "aren't innocents who'll be shocked by such literature. They already practice sex; they want to know how to practice it more safely. The organization tells them and thereby helps save lives."

What makes the uproar so ironic is the fact that, as Democratic presidential candidate LaRouche recently pointed out, citing statements by Bra-

zilian public health official Dr. Ricardo Veronesi, no laboratory proof exists that AIDS is sexually transmitted.

'American Scientists' want congressmen in Moscow

The Federation of American Scientists, which specializes in lobbying against U.S. defense programs, wants more members of Congress to visit the Soviet Union. "Only half of the U.S. Senate and one-third of the House of Representatives" have so far "cared enough to make the effort to travel to the Soviet Union," says the FAS in its booklet, "Congressional Travel to the Soviet Union: Raising the Rate of Exchange." It includes detailed instructions, complete with a form letter, on how constituents can persuade their congressmen and senators that a trip to Mother Russia is just what they need to make their legislative experience complete.

An introduction by FAS director Jeremy Stone states, "American hawks who visit tend to look for signs of strength and danger to America. They see, instead, relative backwardness and an unmistakable fear of war. They come home fearing the Soviets less." The booklet describes a "real life" scenario: A pro-defense senator visits Russia, and is so struck by the myriad World War II memorials, that "his opinions about the Soviet Union as a nation prepared to fight a major war are shaken. He returns . . . having decided that the Soviets may not be seeking confrontation on a massive scale."

The FAS contains one useful bit of information: a list of current members of Congress who have made the trip, among them: Senate Armed Services Chairman Sam Nunn (D-Ga.), his House counterpart, Les Aspin (D-

Wis.), House Speaker Jim Wright (D-Tex.), and presidential contenders Sens. Al Gore (D-Tenn.), Bob Dole (R-Kan.), Paul Simon (D-Ill.), and Rep. Richard Gephardt (D-Mo.).

Murkowski: freeze Social Security COLAs

Mootings from Capitol Hill that Social Security was headed for the chopping block became reality Nov. 10, when Sen. Frank Murkowski (R-Alaska) introduced legislation to freeze cost-of-living adjustment (COLA) increases for this and other programs with built-in COLAs, such as veterans' benefits and certain pensions.

Murkowski, a former commercial banker, insisted that the "key to success" for combatting the national debt "is putting everything on the table, from defense spending to Social Security." His bill, he said, would save \$12 billion the first year and \$40 billion over three years.

In a speech on the Senate floor Nov. 5, the senator also promoted a national tax on consumption, in the form of a value-added tax, as another cure for the nation's economic ills.

Murkowski's bill sums up Wall Street's program and the corresponding thinking—if you can call it that—on budget and broader economic issues on the Hill.

As *EIR* went to press, administration and congressional budget negotiators were nearing final agreement on a deficit reduction package, the main elements of which included tax hikes, and additional cuts in both domestic and military programs. There was little doubt that Sen. Alan Simpson's (D-Wyo.) cynical comment that Congress was eyeing Social Security cuts "for the same reason Willy Sutton

robbed banks; that's where the money is"—is driving the budget talks.

Nor is this urge to rob America's elderly limited to Republicans. Rep. Anthony Beilenson, a liberal Democrat from California, called for putting Social Security on the table in a Nov. 8 *Washington Post* commentary. "It is the one federal program in which enormous savings can be made with relatively little impact on the individual beneficiaries."

Tell that to the widow who's struggling to live on a \$500 per month government pension.

Elderly impoverished by nursing home costs

A report issued by the House Select Committee on Aging Nov. 8 confirms what many people know through their own personal experience: that the great majority of the nation's elderly are impoverished by the tremendously high cost of nursing home care.

"With annual nursing home costs averaging over \$22,000 and elderly median annual income being just over \$11,500, a host of personal catastrophes are in the making," said committee chairman Ed Roybal (D-Calif.). "A year in a nursing home wipes out the income of over 90% of the elderly living alone," he noted. "The risk of long-term-care-induced impoverishment is great."

A major reason for this impoverishment, says the report, is that there exists no program for financing long-term nursing care, except for Medicaid, which funds about 40% of such care. But Medicaid imposes stringent financial requirements on recipients: An individual must divest himself of all but \$1,800 in assets to qualify. "The bottom line is that elderly persons must

essentially impoverish themselves before they are protected by Medicaid," the report charges.

Failure to include provisions for long-term nursing care is one reason why the "catastrophic health care" plan recently approved by the Senate, has run into such opposition from senior citizens' organizations.

Gore embarrassed by GAO report

Sen. Al Gore's (D-Tenn.) vendetta against the U.S. space program suffered a setback Nov. 3, when the General Accounting Office exonerated NASA administrator James Fletcher of conflict-of-interest charges.

The GAO issued the results of an investigation it had launched, on Gore's request for a probe into whether Fletcher or other NASA officials had been guilty of bias in awarding Morton Thiokol contracts to produce the Space Shuttle's booster rockets.

An obviously disgruntled Gore issued a statement saying, "While I am not completely satisfied with the report, I recognize the difficulty of trying to pursue an investigation of events that occurred nearly 15 years ago." The fact that the GAO "was constrained to rely on incomplete documentation still leaves unanswered questions, but it appears they may never be fully resolved."

Fletcher hit back with a statement of his own. Suggestions that the GAO report is in some way flawed "are to be expected in a highly charged political campaign," said Fletcher, "but it is regrettable that such an important issue should be handled in this manner." The nation's civilian space program "should not be a political whipping post."

National News

Nunn, Aspin seek U.S. pullout from Europe

Officials at the Stockholm International Peace Research Institute (SIPRI) and representatives of U.S. Senator Sam Nunn (D-Ga.) and Representative Les Aspin (D-Wis.) are initiating collaboration on a project to see how NATO can be "restructured" and the American commitment to Europe "reshaped," in a way that would make American troop withdrawals from Europe psychologically acceptable, a SIPRI source reports.

The idea behind the project is that some form of U.S. withdrawal from Europe is "on the political agenda now" and must be taken as virtually inevitable, under conditions of growing financial-economic chaos. So, the question has become, in this source's words, "not *whether* there will be a withdrawal, but under *what circumstances* it will occur. We can more easily cope with a withdrawal for financial reasons, than a withdrawal out of anger and pique at the Europeans. . . . There's a lot of psychology involved. . . . We are trying to find a conceptual package, that involves redeployment, restructuring, a kind of 'New Deal' of American commitment to Europe."

This "package" is being put forward as a "pro-NATO" alternative to a more precipitous American withdrawal from Europe.

Army helicopters zapped by radio waves

The U.S. Army's most advanced troop-transporting helicopter could be knocked out of the sky by routine radio waves from microwave towers, radio antennas and radars, the *Philadelphia Inquirer* reported on Nov. 8, citing Pentagon officials and documents.

Radio waves are believed to have been the reason for the nosedives of five Army UH-60 Black Hawk helicopters since 1982, resulting in the deaths of 22 servicemen.

"We've got a very sophisticated electronic aircraft, and if the radiation we're putting up in peacetime—microwaves, antennas, TVs—is causing the aircraft to flutter and wobble, then—and I don't like to talk about this, because it is kind of a breach of security—we're going to have problems in wartime," said former Army Major Jerry A. McVey. McVey led the investigation into a still-unexplained Black Hawk crash last year.

According to the *Inquirer*, radio waves can now penetrate the helicopter's wiring and electrical components and generate false commands leading to failure of the aircraft. "Pilots should be made aware that flights near microwave antennas or shipboard radar may cause uncommanded attitude changes," the Army told its pilots in August, following extensive tests earlier this year.

The Navy has prohibited its Black Hawks from coming within "a significant number of miles" of radio towers, for fear of accidents.

NASA chief warns against more cuts

NASA administrator Dr. James Fletcher, speaking to the Los Angeles World Affairs Council on Nov. 6, warned that further cuts in the budget for space exploration could dangerously jeopardize the program, and make it impossible for the United States to catch up to the Soviet Union.

"The Space Station, the key to our future in space, has been mired in congressional budget debates this year," he said. "Although we hope and expect it will be fully funded for the next fiscal year when the crucial development phase begins, its funding could be cut in future years, imperiling our prospects of having a permanent presence in space by the mid-1990s. Even then, that will put us at least a decade behind the Soviets, whose Space Stations have given them the opportunity to occupy space permanently since 1971, when the first Salyut was launched. . . ."

"It is no longer a question of whether we should have long-term goals in space. The

question is, can we afford not to lead? And if we are to lead, we must focus now on what those goals should be."

In remarks in Salt Lake City quoted by UPI on Nov. 11, Fletcher stressed that those future goals should include establishment of a base on the Moon, flights to Mars, and exploration beyond. "Why Mars?" he asked. "We should go there for the same reason we went to the Moon—it's a new frontier. And, it will expand human horizons, give us new knowledge and benefit this country and all mankind," Mars, he added, "is almost inhabitable now. It wouldn't take much change for us to live there."

Idaho takes public health approach to AIDS

Since Idaho reported its first AIDS case two years ago, that state has treated the disease like every other communicable disease, according to Dr. Fritz R. Dixon, the state's chief public health officer. Dixon was quoted in the *Washington Post* on Nov. 10.

With virtually no opposition, Dixon barred anonymous testing and required doctors, hospitals, and laboratories to report the name and address of anyone who tested positive for the virus. "I don't get complicated about it," said Dixon. "Everytime we don't find somebody with AIDS, that person may infect others and they will die. It's as simple as that. If every state did the same thing as Idaho, there wouldn't be such a problem."

State epidemiologist Charles D. Brockopp estimates that 7% of Idaho's one million people have been tested, with about 100—mostly gay men—testing positive. There are presently 18 full-blown cases of AIDS and 9 cases of AIDS-Related Complex (ARC) in Idaho.

Physicists disown their anti-SDI tract

Virtually all of the authors of a report on laser and particle beam weapons, issued in

Briefly

April by the American Physical Society, have publicly denounced a statement by the APS council, maintaining that the council politicized their work and undermined its credibility, *Science* magazine reported Oct. 9.

The statement argued against early deployment of any elements of the Strategic Defense Initiative (SDI), and said, "the SDI program should not be a controlling factor in U.S. security planning and arms control." The council cited the panel's report that directed-energy devices fall short of the performance levels required.

In a letter published in the October issue of *Physics Today*, 14 out of the 17 authors stated: "We object to being included in the council's statements on matters neither we nor they studied."

Nitze caught in drive to limit the SDI

A proposal to limit the Strategic Defense Initiative, crafted in part by U.S. arms negotiator Paul Nitze and a panel of American scientists, may be submitted by Soviet negotiators in Geneva or Washington just prior to the Dec. 7 U.S.-Soviet summit, according to a Copley News Service story appearing in the *Washington Times* Nov. 9, citing administration officials.

Nitze, who sponsored the "back-channel" efforts by the Committee on International Security and Arms Control (CISAC), was given a draft of a paper proposing "technical thresholds" for SDI tests. He reportedly made changes that he considered would "have a better chance of acceptance" by the President. In August, Nitze was told to stop encouraging private groups proposing limitations on SDI, including the CISAC, but instead has reportedly continued and even accelerated his contacts with the group.

Wolfgang Panofsky, the chairman of the CISAC, confirmed that a meeting had taken place in Wilnius, Lithuania on Oct. 26-28 with a Soviet delegation that included Roald Sagdeev, director of space research for the Soviet Academy of Sciences. Attending the meeting from the United States were Spurgeon Keeney, chairman of the Arms Control

Association, and IBM researcher Richard Garwin, who is also associated with CISAC.

The Committee on International Security keeps its negotiations with the Soviets secret, but it is understood that both Soviet and American participants will report back to their respective governments.

An investigation of the Committee's role in SDI negotiations is now under way by Congress, the National Security Council, and the Department of Justice. There have also been demands for an investigation of the behavior of Nitze, who denies using the Committee as a back-channel for negotiations with Moscow.

Senator Hatch hits Reagan's palace guard

Sen. Orrin Hatch (R-Utah) on Nov. 10 blasted the "gutless wonders" on the White House staff, whom he accused of pulling the rug out from under the nomination of Douglas Ginsburg to the Supreme Court, because of his use of marijuana a decade ago. President Reagan should find out who was responsible for undermining him, and "bust 'em right out of the White House as soon as he can," Hatch said. ". . . If I'm sending a message to the White House, it is that some of us have had it up to here with the lack of leadership."

A deeper symptom of that "lack of leadership"—contrary to Hatch's view—was the decision to nominate the radical libertarian Ginsburg in the first place.

The next day, Hatch complained that he was unable to get a message to the President on the issue. "It was the first time in the whole time I've known the President that I couldn't get through to him. I was just flat shut out from my own President."

"Many of us up here [on Capitol Hill] feel he's being shielded from his real friends and being fed a steady diet of philosophy not in tune with his own. . . . I believe he is in danger of having much of what he has stood for over the last seven years go down the drain in this last year," Hatch observed.

● **WEINBERGER'S** resignation could lead to a "more productive era" in U.S.-Soviet relations, especially if Frank Carlucci proves to be more "flexible and pragmatic" than Weinberger, said the Soviet news agency TASS on Nov. 9.

● **THE STATE DEPARTMENT** sabotaged the delivery of communiqués sent to the Pentagon on the recent police murders in West Germany, Pentagon sources report. The U.S. embassy in Bonn reportedly assigned the cables low priority designations.

● **'SEXUAL TRANSMISSION OF AIDS** is unproven, said Lyndon H. LaRouche, Jr. on Nov. 10. "I adopt the argument of a leading Brazilian physical and public health official, Dr. Ricardo Veronesi," he said. "To those who say that there is no laboratory proof, that an experiment has been conducted, in which a statistically significant number of persons were infected with AIDS by insect bites, it should be noted, that there has been not a single reported laboratory experiment, in which a statistically significant number of persons were infected with AIDS by sexual transmission."

● **A FEDERAL Appeals Court** on Nov. 6 dismissed a contempt citation against Irangate figure Albert Hakim for refusing to surrender the records of eight foreign companies linked to the arms scandal. The three-judge panel held that a lower court had erred in rejecting Hakim's Fifth Amendment claim, that he might incriminate himself by complying with a grand jury subpoena for the records.

● **"A NOTE** in the typewriter at *High Times's* editorial office explained the recent mass-suicide by editors and staff. 'After Ginsburg's and Gore's confessions, dope is hopelessly discredited.' " *EIR's* editors are not sure how to evaluate this anonymously submitted item.

Gorbachov undergoes collectivization

The only interesting thing to be said about the profusion of reports coming from Moscow about the celebrated Yeltsin Affair, is that, what happened with the summary dismissal of the Moscow Party boss and Mikhail Gorbachov's favorite, is simply a continuation of a train of events which had been signaled by Gorbachov's three-and-a-half hour speech at the October Revolution jubilee festivities:

Under the rubrics of *perestroika* (restructuring) and *glasnost* (openness), the so-called collective leadership of Russia's oligarchical boyar families, is pushing forward with the final and most crucial phase of their mobilization to extract the last ounce of military utility from the Soviet Union's economy.

We have often documented in *EIR*, that *perestroika* has never been anything other than the second phase of the military mobilization of the Soviet economy under the direction of Marshal Nikolai Ogarkov and his colleagues in the Soviet General Staff and the Central Committee.

More recently, we published an evaluation, penned by Lyndon LaRouche, of Gorbachov's 70th anniversary speech, where we asserted that, amidst Gorbachov's references to "Third Period" themes of collapse of capitalism, popular fronts, and the like, together with his praise of "Stalinism without Stalin," a policy was being announced, not by Gorbachov personally, but by the collective boyar families of the Russian oligarchy.

The point is that this time, the families are committed to implementing their Stalinist program of ruthless economic wartime mobilization without the disadvantage of a Stalin personally exercising dictatorship over the collective boyardom.

The most interesting little detail of the Yeltsin Affair, is that the collective boyardom which purged Yeltsin, did not allow Gorbachov's own speech at the Moscow Communist Party meeting to be made public.

Instead, they ordered TASS, the Soviet news agency, to circulate a news release which, though reporting on what Gorbachov was supposed to have said, failed

to carry one single direct quote from the general secretary.

Moreover, the TASS release presented Mr. Gorbachov in a mildly suspicious light, insinuating that he, perhaps, was in some kind of collusion with the discredited Yeltsin, prior to Gorbachov's own mysterious 52-day disappearance during August and September.

The TASS account of Gorbachov's speech Nov. 11 before the Moscow CP organization included the following:

"... Gorbachov said that Yeltsin had placed personal ambitions above the interests of the party. Yeltsin had been reprimanded for political manifestations of this kind, and he had promised to draw the necessary lessons for himself. However, he did not do that. [Gorbachov] explained that Yeltsin's intention to resign had been known to him before the CC's plenum.

"After Mikhail Gorbachov returned from his leave, he and Boris Yeltsin agreed that it was not an appropriate time to discuss this issue on the eve of the October Revolution jubilee celebrations. Nevertheless, Yeltsin, in a breach of party ethics, raised this issue directly at the plenary meeting, in circumvention of the Political Bureau. Gorbachov said that Yeltsin put forward as a reason for his resignation, a lack of support on the part of the CC Secretariat. The general secretary of the CPSU Central Committee described this statement as totally absurd and contradicting reality. . . . Gorbachov noted that at initial stages, Yeltsin's resolute declarations on the quick solutions of problems that piled up in the capital had met certain understanding and support of the working people. This made it possible to achieve known changes for the better.

"Later on, however, the bureau of the party City Committee, under the influence of Yeltsin, sought to achieve necessary changes by pressure, by mere administering. On seeing that the situation in the capital was not improving, and even worsened in some respects, Yeltsin tried to place responsibility for his own major shortcomings in work on others."

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