EIR

Executive Intelligence Review

March 10, 1981 $10.00

Eclipse of U.S. sunrise industries

'Scribescam' scandal explodes in court

What's wrong in Washington: the Haig-Kissinger depopulation policy

[THIS PAGE IS INTENTIONALLY BLANK]

Editor-in-chief: *Criton Zoakos*
Associate Editor: *Robyn Quijano*
Managing Editor: *Susan Johnson*
Art Director: *Martha Zoller*
Circulation Manager: *Pamela Seawell*
Contributing Editors:
Lyndon H. LaRouche, Jr., Christopher White, Uwe Parpart, Nancy Spannaus
Special Services: *Peter Ennis*

INTELLIGENCE DIRECTORS:
Africa: *Douglas DeGroot*
Agriculture: *Susan B. Cohen, Robert Ruschman*
Asia: *Daniel Sneider*
Counterintelligence: *Jeffrey Steinberg*
Economics: *David Goldman*
Energy: *William Engdahl*
Europe: *Vivian Zoakos*
Latin America: *Dennis Small*
Law: *Edward Spannaus*
Middle East: *Robert Dreyfuss*
Military Strategy: *Susan Welsh*
Science and Technology: *Marsha Freeman*
Soviet Sector: *Rachel Douglas*
United States: *Konstantin George*

INTERNATIONAL BUREAUS:
Bogota: *Carlos Cota Meza*
Bonn: *George Gregory, Thierry LeMarc*
Chicago: *Paul Greenberg*
Copenhagen: *Vincent Robson*
Houston: *Timothy Richardson*
Los Angeles: *Theodore Andromidas*
Mexico City: *Josefina Menendez*
Milan: *Muriel Mirak*
Monterrey: *M. Luisa Gómez del Campo*
New Delhi: *Paul Zykofsky*
Paris: *Katherine Kanter, Sophie Tanapura*
Rome: *Leonardo Servadio*
Stockholm: *Clifford Gaddy*
United Nations: *Nancy Coker*
Washington D.C.: *Laura Chasen, Susan Kokinda*
Wiesbaden *(European Economics)*: *Laurent Murawiec*

Executive Intelligence Review (ISSN 0273-6314) *is published weekly by New Solidarity International Press Service 304 W. 58th Street, New York, N.Y. 10019.*
In Europe: Executive Intelligence Review, Nachrichten Agentur GmbH, Postfach 1966, D. 6200 Wiesbaden
Copyright © 1981 New Solidarity International Press Service
All rights reserved. Reproduction in whole or in part without permission strictly prohibited.
Second-class postage paid at New York, New York and at additional mailing offices.

POSTMASTER: Send address changes to New Solidarity International Press Service, 304 W. 58th St., N.Y., N.Y. 10019
Subscription by mail for the U.S.:
3 months—$125, 6 months—$225, 1 year—$396, Single issue—$10
Academic library rate: $245 per year

EIR

From the Editor

At the annual Wehrkunde conference in late February of military spokesmen from the NATO alliance, West Germany laid down the law to Alexander Haig: there can be no adequate defense without industrial recovery. This is the view most precisely and prominently associated with *EIR* Contributing Editor Lyndon H. LaRouche, Jr., and with the findings of *EIR*'s LaRouche-Riemann econometric studies. It was seconded at the Wehrkunde meeting by the chairman of the Senate Armed Forces Committee, John Tower of Texas. But in Washington, the issue has not yet been faced.

This week's Economics section examines several aspects of America's investment crisis: the now-proven impossibility of maintaining a "technetronic sunrise" sector without an industrial base; the devastation of the once-great industrial center of Detroit; and the impossibility, under Federal Reserve Chairman Paul Volcker, of continuing even the patchwork financing that has kept remaining hard-commodity enterprise alive. Here I want to call your attention to the article demonstrating the fraud of "the Fed's independence."

Our International coverage includes a dossier on one of the prime movers of deindustrialization, the German Marshall Fund, a creation of the State Department socialists and Friedmanites who for the past three and a half decades have attempted to subject both the U.S. and Europe to their boundless British-style hatred of technological growth. This is the same network that continues to run the U.S. State Department, where at this moment, the Office of Population Affairs is targeting hundreds of millions of people in the underdeveloped sector for deliberate murder through local wars. The policy planners who wanted to starve the German population to death in 1945 have no hesitation about mapping the butchery of "useless eaters" in the Third World.

Our Special Report presents their own words. For them, Cambodia-modeled genocide is not a byproduct of foreign policy, but its goal.

EIR Contents

Departments

Correction: In last week's Special Report, Georgii Arbatov was identified as the director of the Soviet IMEMO, due to an editorial error. Arbatov heads the U.S.A.-Canada Institute, a spinoff of IMEMO.

Economics

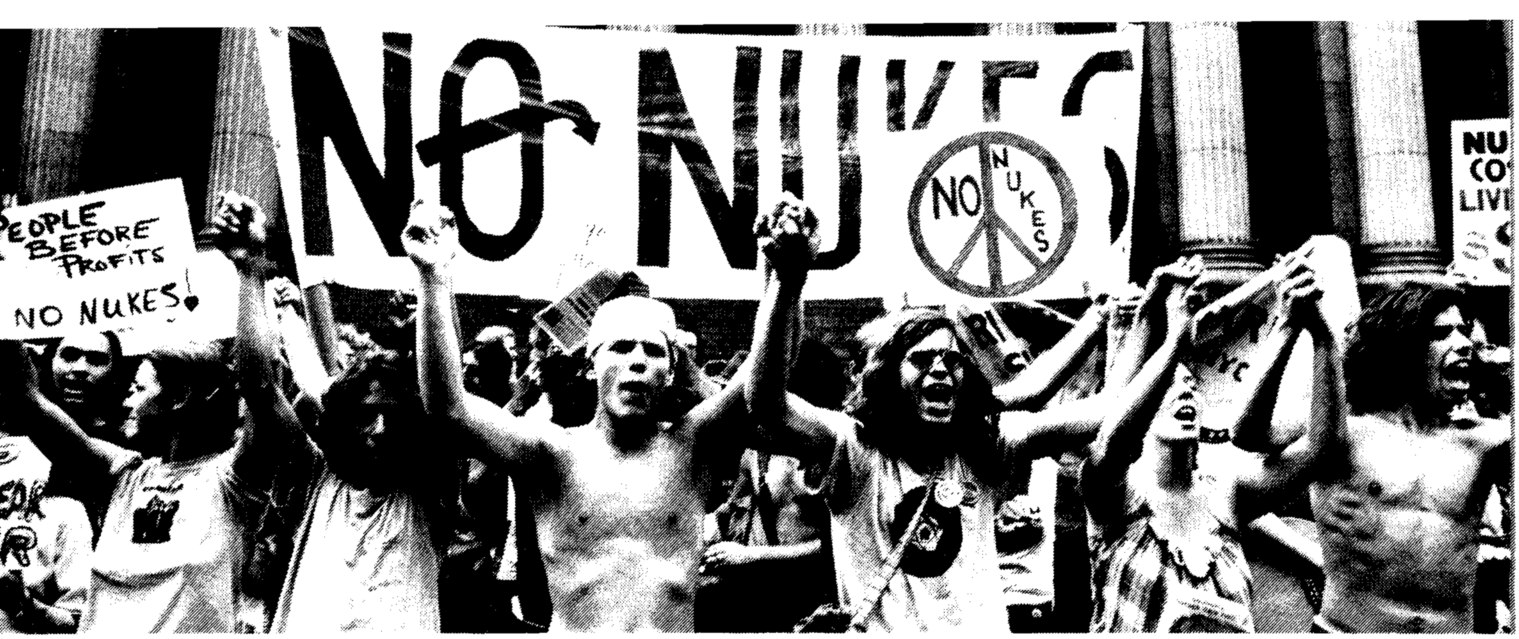
Volume 8 Number 10 March 10, 1981

Special Report

Left to right: George Bush, Alexander Haig, Ronald Reagan, and Henry Kissinger.
Michael Evans/Sygma

International

National



"The environmentalist-terrorist groups are merely infantry divisions deployed by some of the most powerful political forces in the United States."

—Robert Greenberg
Editor, Investigative Leads

Over the last decade, the United States and other industrialized countries have been under all-out attack by the forces of the so-called environmentalist movement. Radicalized youth, "social-activist" lawyers of the Ralph Nader variety, and "expert studies" have all been combined to convince many that growth and prosperity are things of the past.

Now, *Executive Intelligence Review* is making available a comprehensive study on the environmentalist movement, showing how the movement is controlled from top to bottom by some of the most prestigious power centers in the United States: New York-based foundations and law firms, and federal agencies, under the umbrella of the Council on Foreign Relations.

Who Controls Environmentalism?

A special report prepared by *Investigative Leads,* a research arm of *Executive Intelligence Review.*
Available December 1, 1980. **$50.**

For ongoing domestic and international intelligence, subscribe to the 64-page weekly journal, the *EIR*. For ongoing intelligence on the environmentalist movement, subscribe to *EIR's* bi-weekly newsletter, *Investigative Leads.*

You can't make decisions if you don't have intelligence.

EIR
Executive Intelligence Review

Enclosed ☐ $50 *Who Controls Environmentalism.* Bill me
Enclosed ☐ $65 3 month Introductory EIR subscription. Bill me
Enclosed ☐ $99 3 month EIR subscription, plus *Environmentalism.* Bill me
Enclosed ☐ $396 Full-year EIR subscription, plus free copy *Environmentalism.* Bill me
Enclosed ☐ $50 Full-year subscription, *Investigative Leads.* Bill me

Charge my subscription to: ☐ Visa ☐ Mastercharge
Card No. ____________ Interbank# ____________ Expiration Date ____________

Make checks payable to: **Executive Intelligence Review,** Dept. M, 304 W. 58th Street, 5th Floor, New York, New York 10019

Name ____________
Title ____________ Company/Org. ____________
Address ____________
City ____________ State ____________ Zip ____________
Telephone ( ) ____________
area code

Editorial

What's wrong in Washington?

Almost everybody sniffs the fact that there is still a problem in Washington. And it has already become clear that part of the stench is emanating from the State Department, where Alexander Haig is extending the grievous tradition of Henry Kissinger, Cyrus Vance, and Edmund Muskie.

Is there a reason why foreign policy should not be conducted on the basis of pursuing international economic growth, preempting terrorism, and transmitting the best of American technology and education to the postcolonial world? What is the purpose of Haig's bluff toward Eastern Europe and blackmail toward the Western allies?

To invoke the fact that the Council on Foreign Relations traditionally runs the State Department is to beg the question, unless one identifies the policies at stake.

As abundantly documented in their Project 1980s reports under Vance's direction, the Council on Foreign Relations strategists are committed to triggering "limited wars" in the underdeveloped regions, fueled by famine and social chaos, and fueling them in turn. They—most recently, the State Department's Thomas Ferguson—state in so many words that war is one of several means to their goal: exterminating populations. In their view, the Vietnam War succeeded in degrading and polluting the U.S. armed forces, and demoralizing progrowth traditionalists in America, but failed to slaughter enough Vietnamese. In Central America, the extermination is to be more rapid, the deflection of Americans away from a foreign policy of "city-building" more complete.

This is what is causing the rot in Washington—the murderous foreign policy of depopulation being run by General Haig.

There is no long- or even medium-term potential for full U.S. economic recovery unless the markets and skills of the Third World are opened up through industrialization. Conversely, there is no hope for the populations of the underdeveloped sector unless U.S. credit, investment, and technological knowhow are mobilized. That is the war the United States should be fighting: the war against backwardness and devolution.

At the heart of this challenge is the question of energy. The latterday feudalists who control petroleum supplies have consistently used the oil weapon in what the CFR describes as the effort to preserve "the liberal order" from "dirigists" in Western Europe and Japan. The self-described liberals do not seek to impose population reduction because they believe resources are scarce; they keep resources scarce because nations able to grow and modernize would not tolerate their domination.

The bulk of the budget cuts proposed by the Reagan administration have little to do with economics. They are part of the State Department's *genocidal* policy of crippling the energy, high-technology, and infrastructural buildup required for U.S. national strength and world leadership. Paul Volcker's interest-rate policies have nothing to do with economics. They, too, are an instrument of the State Department's blueprint for eliminating industrial progress.

After World War II, the State Department told U.S. businessmen they had better not invest in the Third World because of the threat of war and communist takeover. Now it is the State Department—through Volcker—that forbids Americans to invest even at home, and—through Stockman—tries to dismantle past investment in nuclear energy, in space technology, in transport, and in labor power.

Contributing Editor Lyndon H. LaRouche, Jr. has proposed a specific budget reallocation: transferring the $220 million appropriated for the State Department's Office of Population Affairs, which maps out target populations as the starting point for U.S. foreign policy, to the national nuclear fusion budget, whose expansion would provide both the energy and the resource base for unbridled growth. That would go a long way to solving the problem in Washington.

The eclipse of the U.S. 'sunrise' industries

by Leif Johnson

While Treasury Department Undersecretary Dr. Norman Ture told last week's National Governors' Conference that the U.S. economy should continue to move away from heavy industry to services, hard economic news poured in showing the first signs of severe recession in the so-called sunrise, or service-oriented, sections of the economy. Ture's dictum provoked a furious rejoinder from Ohio Governor Rhodes—one of the handful of Republican leaders who brought victory home for Ronald Reagan last November. Rhodes heatedly insisted that "the first priority is to get people back to work in auto, rubber, and steel." The economic evidence shows that Rhodes is right—that the whole "sunrise-sunset" distinction is a hoax.

Nonetheless, Norman Ture, OMB Director Stockman and other key Reagan administration officials have run wild with this, designating as "sunset," or expendable, those industries which evidently will not survive the combination of budget cuts and tight credit. Stockman's mentor, social democrat and "postindustrialist" Daniel Bell, reports that Stockman has "maintained a consistent outlook dating from his student days." Stockman's idea "is to remove all impediment to the postindustrial society and let the market forces take care of the rest," says Bell, but "in his current environment, Stockman can't openly talk about such ideas."

When Stockman declares war on highway, space, R&D, airports, agriculture, and water projects, he explains that America must stop "subsidizing" the declining industries in order to allow the new rising industries a chance to establish themselves.

"We are not saying phase out all industrial production, just shrink it a great deal and change the mix. We are not calling for the depopulation of all cities in the Northeast and Midwest. Just let them shrink and don't try to artificially prop them up," explained Bell. "The way out is to reduce and modernize your industrial component and go to highly productive, postindustrial sectors like electronics."

The "postindustrial society," the "information society," or "technetronics" put first emphasis on the electronics industry. And the simple and ugly truth is that the electronics industry is in the same Volcker-induced slump that all other branches of American industry are in. There are no sunrise industries.

In fact, no matter how healthy the electronics industry, it could not possibly re-absorb the millions of workers unemployed in steel, chemicals, rubber, auto, housing, transportation, and other industries being forced into the Volcker depression. It is not intended to absorb these workers. The Volcker money crunch will ultimately put into effect Jimmy Carter's Global 2000 Report, a blueprint for reducing the population of the world by 2 billion and to reduce the population of the United States by 125 million. This was proposed in dead seriousness not only by the Carter administration, but by the economists of Georgetown University, which has a dozen representatives in the new administration.

No sunrise tomorrow

Let us examine the facts.

Electronic News, a leading industry publication, announced in its preview of business for 1981 that layoffs, price cutting, production cutbacks, mergers, and cash squeezes are running through the industry. "Most executives are preparing for an anemic opening of the New Year—persisting through the first quarter—as oppressive costs and high interest rates buffet their bottom lines and congeal the cash flows of their customers . . . partial shutdowns and shortened work weeks have become part of the 1981 gameplan."

Even the largest companies, like Honeywell Information Systems and the semiconductor giant Intel are being hard hit. Stephen G. Jerritts, Honeywell Systems president, states flatly that interest rates are the main threat to the industry's future. "For 1981, I think high interest rates and the availability of money from the banking system is a key determinant in the computer industry." Jerritts said a "serious slowdown" could occur if there is a "cash crunch where the banks don't want to finance business expansions." Intel meanwhile reports that its first quarter this year will probably just break even, jarring the company revenues down 15 to 20 percent below its fourth quarter 1980 levels.

The $4 billion sales Texas Instruments has put a sixth of its worldwide workforce on short hours, while Sylvania announced that its recently completed $20 million Florida assembly plant, destined to produce 1,200 jobs, will remain idle.

New Hampshire, the state that fully completed its transition from the textile industry to electronics and was deemed "depression proof," now watches its largest electronic employer, Sanders Technical Systems Inc., wrestle with bankruptcy, and another large employer, Centronics, lose $8 million in its last quarter. While the electronics companies never made up the amount of employment of the former textile mills, now they are laying off workers.

As Carroll Shanks, then Prudential's president, told an elite business audience as early as 1957, "In place of the cotton industry which originally employed so many people . . . New England now has the kind of industries that employ fewer people." And now the devastation wrought in the depressed towns in New England is

U.S. electrical machinery

Figure 1
Net capital investment
(billions of 1976 dollars)

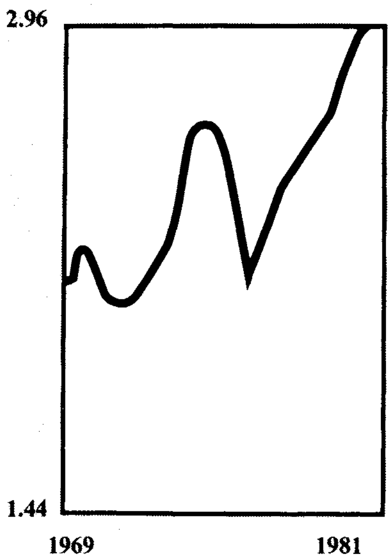


Figure 2
Ratio of surplus to labor inputs and total capital
(Gross profit)

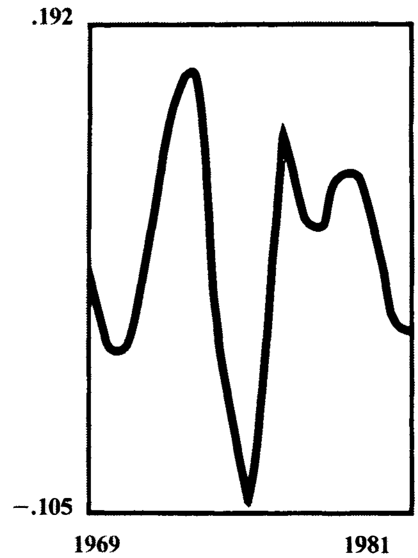
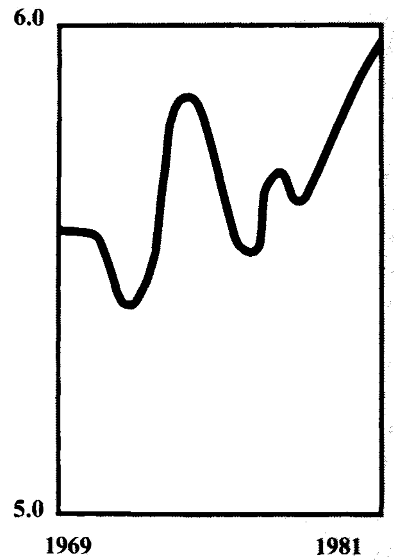
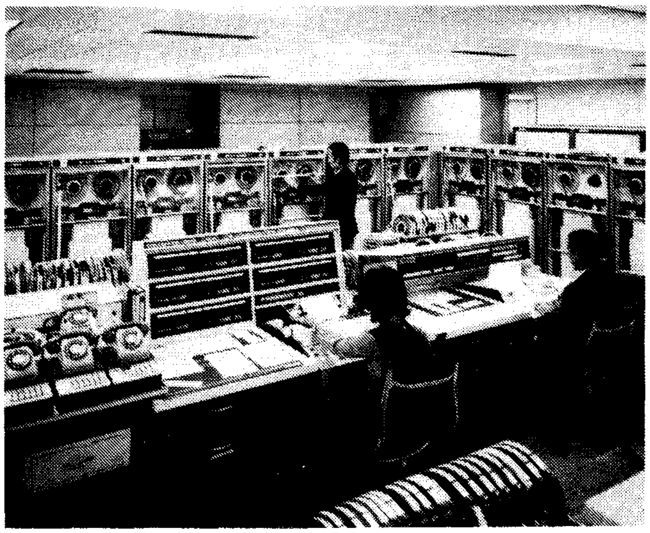


Figure 3
Sector surplus as percentage of total economic surplus



Note: The above graphs depict the electrical machinery industry, of which electronics is a major component. Therefore the figures are larger than electronics alone, but fairly represent trends in the electronics industry.



Data processing in a Japanese brokerage firm—but Japan produces machine tools, too.

being purposely spread throughout the Northeast and Midwest, the U.S. industrial heartland.

Even if the electronics industry maintained healthy rates of growth, it could not absorb the recently unemployed. Total electronic employment, not counting computer software companies that write programs, is one and a quarter million, 44 percent of whom are women engaged in piecework assembly. ("They are better at this than men since their hands are smaller and they don't get bored so fast," according to a spokesman for the Electronic Industry Association.) If employment continued to grow at its recent average rate of 10 percent per year, it would take seven years for employment to double to two and a half million. Current officially admitted unemployment is eight million.

Total value of electronic sales for 1979, the last year for which figures are available, was $80 billion. That is less than 10 percent of the total manufacturing and other goods-producing industries in the nation. What is even more remarkable is not that the industry grew from $26 billion in sales in 1969 to that figure for 1979, but that adjusted for 1969 dollars, the value of electronic sales would only be $40 billion.

As indicated in the accompanying charts drawn from LaRouche-Riemann model analyses, while wages and surplus creation in the industry have advanced notably, the total contribution of the industry to the total surplus generation of the economy as a whole rose from 5 to 6 percent from 1963 to the present. In the decade 1969 to 1979 it rose more slowly than in the 1963-69 period.

Growth potentials?

But surely there are large untapped markets for electronics like the consumer market. Not electronic games and LCD watches but things like the video disc for home viewing. RCA and Magnavox, the leaders in the field, will mount a full-blast advertising campaign to move this new creation. Analysts at brokerage houses watching these stocks claim that RCA may sell 250,000 and the rest of the industry will match that number. But 500,000 of such sales is only a half billion dollars—large for a company, but small for an economy. If Americans have trouble buying cars, how can they buy video disc players?

The consumer electronic industry for the 1969-79 decade approximately doubled its sales; in other words, it grew just slightly faster than inflation.

Business communications is expected to experience rapid growth. The "automated office" dream of British electronics booster James Martin and former Rockefeller speech writer George Gilder, author of the highly puffed book *Wealth and Poverty,* is said to be the new industrial revolution. It is ironic that much of the work in this field is being generated by the current Volcker collapse—not by companies' installing new systems to raise office efficiency, but by companies who have merged and find the systems of the former companies incompatible. For all the boosting of this field, sales of communications equipment have only slightly more than doubled in the 1969-70 decade, staying just ahead of inflation.

An area that will also grow, especially if the modest arms budget increases are implemented, is military electronics. Military communications will rise from $3.8 billion in 1980 to $5.4 billion in 1985; the B-1 bomber, if built, is purported to be 50 percent electronic warfare equipment and missiles. The total increase by 1985 may be as high as $7 to $8 billion, but even here, the high interest rates will hurt. The Hewlett-Packard Instrument group vice-chairman told *Electronic News,* "Defense programs which could help us, such as the B-1 bomber, will take at least a year to get going. Meanwhile, the king-sized question is the cost of money. Now, we tend to believe that 23 to 24 percent interest rates are not out of the question. . . . We expect a slow rate of growth to continue." Electronics are merely devices included in the hardware of war, whether ships, planes, missiles, tanks, or guns. Without a generalized military buildup, which will not occur, expansion of electronics as such is limited.

In fact what is now occurring in the industry is a Volcker depression-born shakeout of smaller companies in favor of the top dozen giants. David Stockman's claims of promoting the new sunrise industries, the myriad cries of "reindustrialization" and "supply-side economics" are ridiculous. If Stockman and Volcker are permitted to indulge themselves, there will be no industries of any kind.

There is no such thing as sunrise industries.

A replay of 1980?

Richard Freeman tells how American business stayed afloat through Volcker's latest crunch, and why it can't withstand more of the same.

Leading New York banks have told Federal Reserve Board Chairman Paul Volcker that they stand fully behind his assault on the U.S. economy, in the form of cutting money supply and maintaining sky-high loan-shark interest rates. This backup guarantees that Volcker will attempt to repeat the destructive economic policy that gutted the U.S. economy in 1980—regardless of what the GNP figures say—and will plunge the U.S. into a second phase or "dip" of recession.

It is evident on two levels that the U.S. economy is not in good shape. On the first level, the month-to-month economic activity of the new year, there is enough disturbing news to discount whatever short-term economic statistics are spilled out. The economy has been held together for the last seven to eight weeks by a daisy-chain financial arrangement, which will fall apart the moment that Volcker forces personal incomes to fall. On the deeper level, the U.S. economy is in very bad shape, looting its profits and capital formation. With all the talk about how the U.S. economy "may recover, if only" now dominating the financial press, no one is facing the fact that the U.S. economy has had negative re-investment of its surplus for well over five consecutive quarters.

As the LaRouche-Riemann economic model has conclusively demonstrated, an economy that undercuts its future ability for growth is digging its own grave. If the Volcker high interest-rate credit shutoff policy is tolerated much longer, the U.S. economy will soon reach a point of having destroyed its very capacity for economic recovery.

Monetarist assault

In testimony before the Senate Banking Committee on Feb. 25, Volcker told the assembled congressmen: "Our intent is not to accommodate the inflationary forces; rather we mean to exert continuing restraint of money and credit to squeeze out inflationary pressures." Volcker stated that he will impose "further deceleration in the monetary aggregates," and that this would include such measures as "frequent adjustment of the discount rate, more forceful adjustment for the course of nonborrowed reserves and a return to contemporaneous reserve accounting." In saying this, Volcker simply mouthed the views of the semi-secret, monetarist Mont Pelerin Society, which is run by the old and wealthy oligarchical families of Europe.

The day before Volcker testified, the New York banks, which have led the slash in business loans nationally by $4.2 billion since Jan. 1 of this year, sent up a clamor for Volcker to become even more restrictive. In delivering this stamp of approval, the New York banks were also sending a message to President Reagan. "It is pointless to lock the door on an inflationary policy," stated Leif Olson, chief economist for the explicitly monetarist Citibank, "and leave the key hanging outside. You have to throw the key away," he added. Paul Markowski, chief economist for the New York investment bank of Sterling, Grace & Company, said, "The go-slow approach always leads to confusion. The Federal Reserve has to prove that it means business and I'd rather see Fed overkill than Fed underkill."

The inflation record

A review of 1980 shows that from the very start, Volcker was hell-bent on the policy that he worked on for several years at the New York Council on Foreign Relations called "controlled disintegration." While intoning that his policy intent was to halt inflation, Volcker fed inflation by his behavior.

Volcker took over as Fed chairman from G. William Miller in August 1979. It was Volcker who started pushing interest rates into the stratosphere. For 1978, the average level for federal funds was 7.93 percent. Following Volcker's installation at the monetary helm at the Fed—just months after Margaret Thatcher was made prime minister of Great Britain—he managed to push up the price for overnight interbank federal-funds money to an average of 11.19 percent for 1979, an increase of 226 basis points.

In 1980, Volcker moved again, sending the federal funds rate up to an average of 13.35 percent for the year. Volcker has imposed such a psychotic regime on the U.S. economy that when he brings federal funds down to a record-breaking 15 percent, he is applauded for "loosening" up on the credit reins.

Under Volcker, the average prime rate charged by banks skyrocketed, as banks had to pass on the higher cost of federal funds. Volcker pushed the prime rate charged to the best corporate customers from an average of 9.06 percent in 1978, to 12.67 percent in 1979, and up to 15.27 percent.

All other money-market instruments and loan rates were sent shooting up. The average rate on a Moody's triple-A corporate bond was 11.94 percent in 1980 and for a Moody's BAA-rated corporate bond, the rate was 13.67 percent. This second rate—at which most medium-sized U.S. companies qualify for financing—pushed issues off the bond market. Only the big companies could get money.

Many companies went to the commercial paper market to get short-term cash infusions for 60 to 90 days, but this wasn't large enough to accommodate all comers. Nonfinancial commercial paper started 1980 at a volume of about $31 billion and rose to a level as high as $42 billion in late June, before falling off to $35.5 billion in late December.

While commercial paper was making up only a relatively small part of the financing slack, the annual net increases in bank loans to business fell through the floor. They went from a level of net increase of $49.7 billion in 1979 to a level of $28.7 billion in 1980, a drop of more than two-fifths, before adjusting for inflation! (Corporate stock offerings did rise in 1980, but not enough to offset the drop in loan demand.)

The collapse in business loans made the rate of overall net increase of new bank loans for all purposes fall from $101.2 billion in 1979 to $34.1 billion in 1980.

Production effects

The calculated effect of Volcker's policy was the decimation of the U.S. economy. Net new credit extensions to both consumers and business sank—net supply of new credit of all kinds to the entire U.S. economy fell from $400.4 billion in 1978 to $377.6 billion in 1979 and $310.6 billion in 1980—making a collapse inevitable.

Some of the biggest industries of the U.S. economy got hit the worst:

- **Auto sales,** after falling 10 percent in 1979, fell another 20 percent in 1980.
- **Housing starts,** after falling 14 percent in 1979, fell another 23 percent in 1980. Housing and auto combined did represent almost $250 billion in output and sales.
- **Steel shipments** in 1980 were 83.5 million tons, down 16.4 million tons (16.4 percent) from 1979 levels. Automotive steel consumption fell 6.5 million tons in 1980, while steel consumption of housing fell by 2.0 million tons. Some economists, such as Penelope Hartland-Thunberg, formerly at the economics desk of the Central Intelligence Agency, and now at the Georgetown Center for Strategic and International Studies, argue that U.S. steel production "is no longer of national security importance to the U.S." Perhaps this is Volcker's view as well.
- **Production levels** of many key industries also fell. Nonelectrical machinery, whose industrial production index (1967 = 100) was 167.1 in January 1980, reached 161.5 by November 1980 (after some mid-year recovery). The industrial production index of electrical machinery dropped from 181.7 at the start of 1980 to 171.9 by November; lumber and wood products had an industrial production index in January 1980 of 131.6, which skidded to 121.4 by October; and so on.
- **Official unemployment** went from 6.3 million in December 1979 to 7.8 million in December 1980, a growth of more than 1.5 million in one year. From December 1979 through December 1980, the number of workers unemployed for longer than 27 weeks more than *doubled.*

The wipeout of profits

Volcker's 1980 "Operation Overkill" had the further effect of wiping out profits. This is the fund out of which capital spending, or current borrowing for future capital spending, must be paid. Along with consumer savings, profits represent, in crude form, the surplus available for reinvestment in expanding the basis of the economy. As noted above, this surplus pool has been negative for five consecutive quarters in the United States.

In 1980, corporate after-tax profits pegged at $189.9 billion, were estimated to be 3.5 percent less than their level of $196.8 billion in 1979. But at $43.3 billion, the inventory valuation for 1980 was the largest for any year ever, and so was the depreciation allowance at $18.1 billion. Adjusting for these facts, corporate after-tax profits were down 7 percent from their 1979 levels. Furthermore, when inflation is taken into account—the GNP deflator was at least 9 percent in 1980—corporate after-tax profits had dropped 16 percent from 1979 levels.

Oil profits, which represent the huge runup by Exxon et al. were estimated to be $26 billion in 1980, about one-eighth of all profits. If oil profits are netted out, non-oil corporate after-tax profits fell by 18 to 20 percent in 1980 as a result of Volcker's policy.

Personal consumption expenditures in 1979, priced in 1972 constant dollars, were $930.9 billion; priced in the same 1972 constant dollars, they were $933.0 billion in 1980, i.e., completely flat. Yet inflation pushed people into higher tax brackets and took 1 to 3 percent out of incomes in 1980. Moreover, personal expenditures represent a wide range of incomes including rental income and the like, so that some incomes fell while some gained to keep the 1980 gain over 1979 completely flat.

It can be concluded that for many wage-earners, incomes fell by 3 to 5 percent in 1980. Savings accounts, which had been partly restored at the beginning of 1980, were raided by the end of 1980 and into 1981, as the savings rate attests: October 1980, it was 5.5 percent; November, 5.1 percent; December, 5.2 percent; January 1981, 4.6 percent.

Volcker's crunch on corporate profits, personal incomes, and savings cannot be sustained indefinitely. Such looting destroys the underlying infrastructure of industrial, agricultural, and household capital formation in the most profound sense. A negative surplus economy is an economy that is going straight into hell's worst nightmare.

More monetarism?

The fact that Volcker decimated the 1980 real U.S. economy and is accelerating his credit shutoff policy in 1981 leads to the question: what is holding up the U.S. economy?

The answer is a little-noticed but powerfully operating *financial daisy-chain* arrangement. The daisy chain works as follows: high rates of speculative profits in the secondary New York real-estate market, the $200 billion per year in illegal narcotics revenues trade, and so forth, have generated a certain level of profit to hire especially white-collar workers. While blue-collar jobs dropped by 600,000 since April 1980, white-collar jobs have grown by 1.3 million. This had led to sufficient personal income growth for individuals to invest in such instruments as money-market funds. In the last four weeks, money-market funds grew in size by $10 billion. These funds are being invested in short-term commercial paper. Thus, while short-term bank commerce and industry loans have dropped, according to the Bankers Trust newsletter, by $4.2 billion since Jan. 1, commercial paper for non-financial corporations has skyrocketed in the same time-frame by more than $7 billion, thus offsetting the drop in commerce and industry loans. This keeps corporations solvent on a short-term basis.

Inflation was still continuing at a 10 to 12 percent rate for November through January. Auto sales for the mid-10 days of February fell 23 percent from last year's bombed-out levels. The basics of the economy haven't improved.

If Volcker then moves to tighten further, he will only succeed in cutting off the one remaining source of liquidity: the growth in some categories of personal income that feed the commercial paper market. This is exactly what Volcker proposed to do at the Feb. 25 Senate hearings on the economy; this is what the leading New York banks are asking him to do. If he does it, then the commercial paper market activity will dissipate. The seven- to eight-week lull in the U.S. economy's collapse will be over.

A series of EIR Seminars

Europe's Challenge to Paul Volcker

In Chicago:

Speaker: David Goldman, Economics Editor

Wednesday, March 11 7:30 p.m.

Contact: Paul Greenberg (312) 782-2667

In Washington, D.C.:

Thursday, April 2 2:00 p.m.

Contact: Laura Chasen (202) 223-8300

Mexico: America's $100 Billion Neighbor

In Houston:

Sunday, March 22 2:00 p.m.

Speaker: Dennis Small, Latin America Editor

Contact: Donna Benton (713) 972-1714

U.S. Policy Toward Latin America

In Washington, D.C.

Thursday and Friday, March 26-27 2:00 p.m.

Contact: Laura Chasen (202) 223-8300

The Federal Reserve is not a fourth branch of government

by Edward Spannaus

In his economic address to the Congress Feb. 18, President Reagan once again cited the "independence" of the Federal Reserve as his justification for noninterference with Paul Volcker's wrecking of the U.S. economy.

The President has, in fact, the constitutional obligation to fire Volcker and to prevent the Fed from destroying the economy. Likewise, the Congress, which created the Fed pursuant to its designated powers under the Constitution, can amend the Federal Reserve Act to bring the Fed into line, or it can abolish it altogether if it so chooses.

The powers of Congress

The authority for the creation of the Federal Reserve System is Article I, Section 8 of the Constitution which defines the power of Congress. These include the following powers:

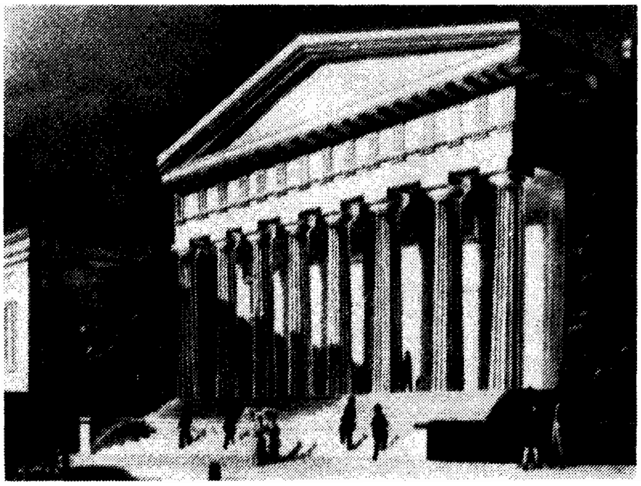
> To lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States;
>
> To borrow money on the credit of the United States;
>
> To regulate commerce with foreign nations, and among the several states, and with the Indian tribes;
>
> To coin money, regulate the value thereof, and of foreign coin;
>
> To promote the progress of science and the useful arts. . . .
>
> To make all laws which shall be necessary and proper for carrying into execution the foregoing powers. . . .

This defines a very specific direction of Congress's power of economic legislation: that Congress is to pass laws for the advancement of the economy and the "general welfare." Contrary to current narrow interpretations, the Commerce Clause, for example, was intended as a general grant of power to Congress to "regulate" and *encourage* all gainful economic activity—trade, agriculture, and manufacture. There was no intent to restrict the economic powers of Congress to something called "interstate commerce"; Congress had the responsibility to regulate all economic activity *among* the states (not "between" the states) to ensure the economic well-being of the nation.

In the plan of government created by the Constitutional Convention, there is no room for "independent" bodies that exercise major substantive powers over the nation's economy but operate outside the three designated branches of government. Both Congress and the President have the duty to exert their authority over the Federal Reserve.

The Fed's current wrecking operations are clearly *not* within the ambit of congressional or constitutional authority. Even the language of the Federal Reserve Act does not justify destroying the economy. For example, the Fed's ability to discount paper is to be done "with a view of accommodating commerce and business," and elsewhere congressional intent is explicitly established to prevent "injurious" expansion or contraction of credit.

Having once created the Federal Reserve System, Congress is not obliged to sit on its hands and watch the Fed go on its merry "independent" way sabotaging the U.S. economy and the welfare of its citizens. The



The Second National Bank of the United States. In 1832, Congress exerted its power to recharter the bank, and (in this case unfortunately) Andrew Jackson vetoed it.

Fed is not a fourth branch of government; like every other part of the government it must fit within the tripartite plan of our government or else it should not exist at all.

The President's power

Nor is President Reagan obligated to observe some mythical "independence" of the Federal Reserve. Constitutionally, the Fed *cannot* be independent of the executive branch. The seven governors of the Federal Reserve Board, including Chairman Paul Volcker, are appointed by the President with the advice and consent of the Senate. As such, they fall into the category of "officers of the United States" and are subject to removal by the executive.

The Appointments Clause, Article II, Section 2, Clause 2 of the U.S. Constitution states:

> [The President] shall have power, by and with the advice and consent of the Senate, to make treaties, provided two-thirds of the senators present shall concur; and he shall nominate and, by and with the advice and consent of the Senate, shall appoint ambassadors, other public ministers and consuls, judges of the Supreme Court, and *all other officers of the United States,* whose appointments are not herein otherwise provided for, and which shall be established by law. But the Congress may by law vest the appointment of such inferior officers, as they think proper, in the President alone, in the courts of law, or in the heads of departments [emphasis added].

Two methods of appointment for primary and inferior government officials, and no more, are created by the Constitution. The definitive interpretation of the Appointments Clause was set forth in an 1878 Supreme Court ruling by Justice Samuel Miller:

> The Constitution for purposes of appointment very clearly divides all its officers into two classes. The primary class reqires a nomination by the President and confirmation by the Senate. . . . That all persons who can be said to hold an office under the government about to be established under the Constitution were intended to be included within one or the other of these modes of appointment there can be little doubt. This Constitution is the supreme law of the land, and no act of Congress is of any validity which does not rest on authority conferred by this instrument.[1]

All major government officials outside of the legislature and the judiciary are therefore the subjects of executive power. This view was upheld as recently as 1976 in the Supreme Court's ruling in *Buckley v. Valeo,* which said that the Federal Election Commission as then constituted was a violation of the Constitution's separation of powers doctrine. (Some of the FEC Commissioners were appointed by Congress and some by the President.) It is Congress's duty to legislate, and it is the President's duty to ensure "that the laws be faithfully executed."

Promoting the Fed independence hoax

Senators William Proxmire and Jake Garn have introduced Senate Concurrent Resolution 8 to try to rally Congressional support for Volcker's high interest-rate policies. The argument used by supporters of this resolution is that Congress has *delegated* its powers over the economy to the Fed. According to a staff member of Proxmire's Senate Banking Committee: "We are not saying the Fed is an independent institution. It is independent of the *executive*, but not of the Congress. Resolution 8 is the Congress exercising its power to advise the Fed on policy."

As the accompanying article shows, Congress can only make laws; it does not administer them. Furthermore, the method of appointment of the Governors of the Federal Reserve suffices to demoperate independently of the executive—unless operate independently of the executived—unless the Fed is "independent" of the Constitution itself.

The President's power to appoint is also the power to remove. The most exhaustive treatment of this question was in a 1926 Supreme Court decision in the case *Myers v. U.S.*, written by then Chief Justice Taft. This case involved a postmaster in Portland, Oregon. Taft reviewed the entire history of the Appointments Clause from the debates in the Constitutional Convention onward, and concluded that Congress could not, even by statute, take away the President's power to remove an officer whom he was authorized to appoint in the first place.

> Our conclusion on the merits . . . is that Article II grants to the President the executive power of the government, *i.e.*, the general administrative control of those executing the laws, including the power of appointment and removal of executive officers—a conclusion confirmed by his obligation to take care that the laws be faithfully executed.[2]

In later cases, the Supreme Court has held that Congress can circumscribe the President's ability to remove officers of so-called independent regulatory agencies. This is unquestionably an extremely murky constitutional area, but in the situation of the Federal Reserve it is not even necessary to be concerned with it, for the Federal Reserve Act places *no* prohibition on the President's ability to remove officers whom he has the authority to appoint. Governors of the Federal Reserve are appointed for terms of 14 years; nothing is said about any special procedure or prohibitions on their removal.

The separation of powers and the appointive power of the executive were questions that were thoroughly debated and well thought-out in the Constitutional Convention. The framers of the Constitution had just been through the experience of fighting a war and trying to establish a peace under the Articles of Confederation in which there was only one branch of government. The central government had no judicial power, and executive and legislative power were both combined in the Continental Congress. The result was a miserably weak government, incapable of effectively waging war or keeping the peace, much less providing for the economic growth and well-being of the new nation.

In the plan of government created by the Constitutional Convention, there is no room for "independent" bodies that exercise major substantive powers outside the three designated branches of government. Under their oaths of office to protect the Constitution, both Congress and the President have the obligation and duty to exert their authority over the Federal Reserve before it totally destroys the U.S. economy.

1. *United States v. Germaine*, 99 U.S. 508, 509-510 (1878).
2. *Meyers v. U.S.*, 272 U.S. 52, 163-164 (1926).

'No one has really challenged the basis'

The following is an interview with the Federal Reserve's Mr. Mattingly of the Fed Legal Division. EIR*'s reporter was Legal Editor Edward Spannaus.*

EIR: I am very intrigued with the question of the so-called independence of the Fed. For example, the governors are appointed by the President with the advice and consent of the Senate. Is there any provision for their removal? Say by the President?

Mattingly: There isn't any provision for it. I suppose one could bring an impeachment action.

Officers of the Fed do not serve at the pleasure of the President, like many other government officials. I don't think they can be removed this way.

EIR: Where does this notion of the "independence of the Fed" come from anyway?

Mattingly: Well, I think it derives from history as much as anything else. It's always been accepted. For example, the Fed can hire its own attorneys, its employees are not subject to civil service, it does not use any government funds, its stock is privately owned by member banks. . . .

EIR: What if I were to say to you that since its officers are appointed by the President under the Appointments Clause, that, therefore, it is an executive branch agency? Its powers seem to be similar to those of the Treasury.

Mattingly: I'd say that's an interesting legal position.

EIR: How would you compare or distinguish the Fed from a regulatory agency?

Mattingly: It's different from the regulatory agencies. Everybody accepts the fact that the Federal Open Markets Committee is not open to direction by the President. There is no provision that gives anyone supervision over the Fed's operations with respect to monetary policy.

Some senators have taken the position that it is a legislative agency. There was once an attorney general's opinion that said it was an independent agency of the federal government. He didn't say it was either executive or legislative.

EIR: Where do you find any support in the Constitution for this to back up the idea of an independent agency?

Mattingly: I don't know. It *is* generally thought that there are only three branches of government, not four, with the Fed being the fourth.

Foreign Exchange by David Goldman

'Volcker is the uncertainty factor'

The expected rebound of the deutschemark indicates the German commitment to defend the EMS. Problems remain.

Following last week's decision by the West German Bundesbank to restrict the Lombard facility—the normal means of providing liquidity to the banking system—West German interest rates have shot up. At this writing the three-month Euro-DM rate is at 16 percent, or higher than the U.S. federal funds rate, a striking reversal of what was at the start of the year an 8-point spread between the two rates.

This rapid interest-rate movement indicates the limitations of the Bundesbank's strategy to deal with what the West Germans are hoping will be a short-term problem of capital flight due to the U.S. credit squeeze.

The fact that the Euro-DM rates have moved rapidly ahead of short-term domestic DM rates indicates German commercial banks have stopped exporting funds to the Eurocurrency market, precisely what the Bundesbank wanted.

But it also shows that the potential implications for the German capital market of the Bundesbank's currency defense measures are not sustainable for more than perhaps another quarter.

At the moment, the mark is in a trading range between DM 2.08 and DM 2.12. The leading West German business daily *Handelsblatt* noted that traders are reluctant to take positions. "The U.S. Federal Reserve is the principal uncertainty factor in the market," the West German newspaper said. It added, "It is unlikely that the restrictive efforts of the Federal Reserve will be crowned with success."

The reason for the high degree of uncertainty and reluctance to take positions is that the Europeans can already foresee the Volcker policy backfiring. The Feb. 25 announcement of a January fall in durable goods orders of 2.2 percent, the first hard sign of economic downturn since last August, produced some dollar selling immediately, according to wire service reports. As the U.S. economy continues to turn down through the first quarter—this is *EIR*'s standing forecast—the dollar will continue to come under pressure.

Based on forecasts circulated by the New York Federal Reserve and some members of the Bundesbank's directorate at a conference in Hamburg last October, some market participants tried to drive the DM down to about 2.25 to the dollar earlier this month, losing them a lot of money. That the dollar could fall back immediately to 2.10, a 12 percent decline in less than three days' trading, shows how weak the dollar's underlying position was.

West German bankers emphasize that the new strength of the dollar is not related to interest-rate movements, but in newfound confidence in American economic management. Except for the predictable enthusiasm in Brussels and in Switzerland for monetarist measures, reaction to the Stockman budget and the endorsement of the Fed's monetary stance by the administration produced immense disappointment in Europe, as *EIR* has emphasized. More than the short-term problems for the DM, the West Germans fear a "blowback" effect against the American dollar once it becomes evident that Stockman's program will be disastrous for the U.S. economy.

The West Germans' problem is that a recession-related decline of the dollar will not make matters easier for them, even if it eliminates the present problem of capital flight. In an interview this week with *Der Spiegel* magazine, Chancellor Schmidt acknowleged that the rising problem of unemployment in West Germany was due, in part, to external economic factors beyond his control, and promised to "request and even demand" of Germany's allies (i.e., the United States) cooperation in interest-rate matters. He showed optimism over winning agreement to his plan from Reagan "by early summer."

This, of course, depends on the ability of the White House to recognize that David Stockman, for all his pretensions of avoiding an "economic Dunkirk," has left them adrift. The first West German emissary, Bundesbank President Karl-Otto Poehl, arrived in the U.S. this week to lobby for a global reduction in interest rates. On March 11, Schmidt's man in the West German Finance Ministry, Horst Schulman, will make the same case at the Working Party III meeting in Paris of the Organization for Economic Cooperation and Development, before Schmidt's projected April visit to Washington.

Domestic Credit by Richard Freeman

Fact and fiction about the budget

Itemizing what Volcker's policy has added to the deficit, and what Stockman will deduct from output.

I want to re-emphasize two particularly disturbing features of the budget approach presented by Office of Management and Budget Director David Stockman for fiscal years 1981 and 1982. First, his approach completely ignores the way Fed Chairman Paul Volcker's credit contraction has wrecked federal and state revenues while adding to recession-induced fiscal outlays. Second, while some of the proposed budget cuts are unobjectionable or positively useful, most of them represent a direct attack on the industry-building legacy of Alexander Hamilton.

Budget deficits per se are *not* a major cause of inflation. They add at most 1 to 3 percent to the U.S. inflation rate, currently in the range of 13 to 14 percent. Those who piously invoke the need to cut budgets and tighten money supply to fight inflation are either incompetent or less than candid.

One of the elements contributing more to the U.S. inflation rates than budget deficits is Paul Volcker's loan-shark interest rates. They make any economic recovery impossible no matter how well targeted budget cuts may be; and, because they intentionally drain funds from the productive sector of the economy to feed the wasteful speculative section, high interest rates perpetuate double-digit inflation.

Volcker has added the following costs to the fiscal year 1981 budget: $22 billion in extra interest to be paid on the public debt; $5 billion at minimum in higher unemployment compensation payments; and $3 to $20 billion in lost tax revenues, for a total on this account of $30 to $47 billion.

Let us next look at what OMB Director Stockman proposes to cut. Slashes in funding for synthetic fuels, solar energy, the Public Broadcasting System (PBS), and a few other programs, are to be heartily welcomed. This would save several billions of dollars.

But beyond this, many of the proposed cuts are an attack on Hamilton's explicit policy of internal improvements. At the heart of Hamilton's program is the idea that government participation in financing internal improvements in the economy, that in turn facilitate the transport, increase the speed of shipment, and augment production of goods, is a tremendous gain to the nation's wealth. These improvements more than pay for themselves in the form of increased tax revenues and other tangible gains.

Stockman has proposed:

• Eliminating the access of the Rural Electrification Administration (REA) to the Federal Financing Bank (FFB). The Federal Financing Bank, an off-budget item, issues bonds on behalf of the Rural Electrification Administration at low interest rates. The REA provides for the electrification of the nation's farm areas, aiding utilities, industry, and consumers.

Stockman says this cut will save $699 million for the federal government in the fiscal year 1981 and $13.3 billion more through fiscal year 1985. While his figures on savings are dubious, the cost to utilities, already being hit by Volcker's high interest rates, will be far greater, and will quite rapidly lead to curtailment of service.

Two other cuts demonstrate the same principle:

• Cutting by an unspecified amount outlays for inland waterways and harbor dredging. Supporting Stockman's proposal, a Feb. 15 *Washington Post* lead editorial argues: "And should the costs of harbor dredging fall on the general public or the shippers? That is another half-billion dollars [in potential cuts] a year."

The American waterway system, which reduces overhead costs of food commodities, would be sacrificed for a saving that is, in dollar terms, a fraction of what the program adds to the general commerce.

• Cutting, also by an unspecified amount, the U.S. highway funds as well as the "unneeded" subsidy of essential rail lines.

Conjoined to these cuts in Hamiltonian necessities, Stockman has proposed slashing the NASA program down from a level of $6.7 billion in 1981 to a level of $5.5 billion in fiscal year 1985—a reduction in half, after the adjustment for inflation. Stockman is also seeking a sharp 30 percent cut in the funding of Eximbank. Together NASA and Eximbank keep high technology disseminated throughout the economy. With the reductions he proposes, such industries as the airlines will suffer further record drops in profitability.

The free market trap

Why farm program cuts are not only unjustified, but will jeopardize American productivity.

One of the most vicious myths associated with the "free market" ideology is the myth that government spending causes inflation. Put that together with the widely circulated lie that the federal farm programs are "subsidies," some kind of taxpayer "ripoff," and you have set the stage for the type of budget-cutting orgy that can irreparably damage the most productive sector of the American economy.

This is OMB chief David Stockman's unconcealed aim. Stockman has emphasized repeatedly—most recently before the Senate Budget Committee—that all of the farm price support programs "should be eliminated."

A refreshing counterpoint to the fiscal madness which threatens to engulf the nation was provided by Sen. John Melcher (D-Mont.) in remarks to the Senate on Feb. 16 as he introduced his S. 480, the first of what will be several comprehensive farm bills to be considered.

"We Americans have sacrificed our steel industry, our electronics industry—we have sacrificed them all on the altar of the free market," Melcher stated. "Mr. President, those markets are not free. And they have not been for many years," he added, in presenting a four-year farm bill to assure market stability and cost of production returns to farm producers.

Melcher insisted that it was urgent to restore price stability and bring down the cost of borrowing for American producers, who now spend nearly $100 billion every year to produce crops and livestock.

"You will hear from some that such an approach is inflationary; that it will increase federal spending at a time when the budget must be balanced. We will hear from the nay-sayers who say it is time for Congress and the country to ignore agriculture producers and the prices they receive," Melcher said.

"Well, to that I say nuts," Melcher continued. "These same people have been trying to sell this bill of goods for many years, and, as a result, U.S. agriculture programs have tended to be compromises that were too little and too late and emphasized a cheap food policy.

"And it is because of these foolish policies that have come out of Washington that American agriculture producers always seem to be hanging by their fingernails."

Melcher noted that the past 10 years of market volatility have thrown into question America's ability to meet the rising world demand for food. "Once again," he said, "farmers and ranchers face an uncertain future. We know that the demand for American food will increase, but there is some doubt whether American production will grow to meet that demand," he said. "I think that is because of the highly inflated costs of borrowed money, the ever-increasing costs for farm and ranch operation, plus bad weather." As the senator had stressed in a November interview with *EIR*, the farm export potential can only be met over the long term if products aren't "dumped" on the world market.

S. 480 extends current law, with the additional key provision that the loan rate for the most basic commodities will be at 75 percent of parity. Since the loan rate acts as a floor to the market, this measure simply assures producers of a bare-bones cost of production return.

The administration's farm bill will be presented by March 10. As David Stockman assured the Senate Budget Committee, every farm program is under review for additional cutbacks. So far, the dairy program has been singled out. Otherwise, the announced 25 percent reduction in direct lending by the Farmers Home Administration and cuts in federal assistance to the Rural Electric Cooperatives give clear indication of the willingness to rip great holes in the fabric of programs that have kept rural America on the economic map.

Secretary Block has announced that he will recommend elimination of the target price program—a small aspect of the price support apparatus, and the only program that is actually a transfer payment and not a repaid-with-interest loan. Block also stated that in spite of eliminating target payments, he does not think there will be much, if any, increase in price-support loan rates.

Nor are the sacrifices demanded of American agriculture confined to the farm bill or the USDA budget. The imposition of user fees on inland transport and the prohibition of new water resource development projects, are potentially deadly for producers.

Buying out Argentina cheap

If the combined depression and financial shakeout continues, much of industry won't survive there.

Argentine investors, now moving foreign exchange out of Argentina at the rate of $1.5 billion per month, are waiting for another "maxi-devaluation" in the range of 30 to 40 percent before reclaiming local-currency assets. In the process, the Argentine economy is set for a shakeup in which that country—once the most industrialized in Latin America—could devolve into a resources exploitation economy.

According to sources at the Milan-based Banco Ambrosiano, one of Italy's oldest banks, Italian family interests long based in Argentina have moved money out in anticipation of a devaluation that will enable them to buy back liquidated assets at a substantial discount. Banking sources guess that such a devaluation must take place in less than three months, due to the rapid rate of exhaustion of the country's foreign-exchange reserves, despite substantial nationalist opposition.

The wave of capital flight began Feb. 2, when outgoing Economics Minister José Alfredo Martínez de Hoz devalued the peso to 2,600 to the dollar, or by 10 percent. De Hoz's unexpected "maxi-devaluation" ruptured a speculative cycle fed by more than 100 percent inflation, and monthly "mini-devaluations" of 2 to 3 percent.

Although the "maxi-devaluation" was presented as an "anti-inflation" measure by the government, the collapse in peso value will not help Argentine price levels. Apparently, the government's maneuver represented a controlled shakeout by prior agreement with foreign and some important local investors.

The net result of the exercise will be to give foreign and internationally based local investors a much bigger chunk of the Argentine economy at an extremely reasonable price.

The initial effect of the devaluation and capital exodus has been a spectacular series of major bankruptcies, including the default of the country's biggest holding company, Sasetru. Sasetru defaulted on a $10 million payment to the Banco de Italia y Río de la Plata—part of the Italian financial nexus in Argentina—and the bank decided to bring the big company under.

De Hoz deputy Martin Braun Lasala told the press last week, "Competition was central to reducing the rate of inflation. Those companies who didn't believe we would go through with the policy, or failed to foresee its implications, are now the ones doing the complaining."

The Economics Ministry's cavalier attitude towards the difficulties of the financial sector is interesting, after the liquidation of 32 financial institutions during the past several months. These include the Banco Hispano Corfin ($204 million in deposits) and the Banco del Norte y Delta ($139 million in deposits). Many smaller institutions, additionally, have undergone forced mergers.

Even before the expected big devaluation, Bank of America (the American institution with the closest ties to Italian finance) jumped in, with an extraordinary offer to buy out the big Banco Internacional. Although Bank of America spokesmen say that negotiations are still underway, an Argentine official told *EIR* that the California institution came in with a bid three times larger than that of the second-highest bidder, persuading the Argentines to conclude the sale immediately. In another development, the French government-owned Crédit Lyonnais paid $48 million for the Banco Tornquist, with $257 million in deposits.

While the capital fight continues, more bankruptcies are expected. The devaluation policy has turned out to be a one-way bet for international operators who want to pick up local assets cheaply. But the process will throw the already depressed Argentine economy even further toward deindustrialization. The last four years of "anti-inflation medicine" administered by monetarist de Hoz has resulted in, for example, the reduction of Argentine automakers from eight to four.

Argentine output is dropping sharply. Commented Manuel Sacerdote, senior vice-president of Banco de Boston: "The fact that manufacturing output fell by 6 percent compared with the second quarter of 1979 came as a shock. This was a direct result of the government stabilization program and the opening of the economy [to foreign investors]. Increased competition in Argentine markets and high real interest rates are the main reasons for the slump."

World Trade by David Ramonet

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$2.5 bn.	U.S.S.R. from Holland	The U.S.S.R. will obtain from Holland equipment for a pipeline to carry gas from the northern Poluostrov peninsula to Western Europe.	A system has been worked out where Algemene Bank Nederland will lead a syndicate; 85% will be guaranteed by the Netherlands Credit Insurance Co.	ABN expects to finalize the deal in several weeks. Usually, Netherlands does not provide export credits at below market rates.
$702 mn.	Libya from Germany and Austria	West Germany's Krupp steel and engineering group leads the consortium that will build an electro-steel plant in Misurata, Libya. A similar contract was won by a consortium led by Korf Engineering of Düsseldorf and by Voest Alpine of Austria.		
$178.5 mn.	Iraq from U.K.	Piling Design Consultants from England received a consultory contract for a fishing port complex to be located near Basra, planned by the ministry of agriculture and agrarian reform.		
$302 mn.	Colombia/Italy	An Italo-Colombian consortium headed by FIAT's Impregilo, won a contract to build a 680 Mw hydroelectric power complex at Betania, Colombia, on the Magdalena River. Impregilo will handle the civil engineering part; electrical engineering, by Gruppo Industriale Elettromeccaniche, from Italy; Colombia will be represented by the Estrucco and Pinski concerns.		
$146 mn.	Greece from U.K.	U.K. companies will build Greece's major Greenfield petrochemical complex. Wheeler, Ltd. will manage the project and construct the whole complex; Sim-Chem Ltd. is to build a low-intensity polyethylene plant; John Brown of London will build a high-density polyethylene plant.	Lloyds Bank International has loaned Greek Petrochemicals, SA $124 mn. for the operation. The financing deal supports the three contracts, backed by the Export Guarantee Department.	
$145.6 mn.	U.S.A. from Japan	Japan's Nippon Kokan K.K. will construct two semisubmersible offshore mobile drilling rings for Penrod Drilling Co. of Dallas, Texas. The first rig will be delivered in January 1983, and the second in April.		

S&Ls put the gloves back on

The U.S. League of Savings Associations has called off its attack on the Volcker Fed for interesting reasons.

William O'Connell, executive director of the U.S. League of Savings Associations, was one of the first American business leaders to open the attack against Federal Reserve Chairman Paul Volcker's high interest-rate credit squeeze.

As early as last Sept. 22, in a hard-hitting speech to the California S&Ls, O'Connell denounced the Fed's interest-rate policy, saying "inflation psychology is just as deep as it was a year ago, if not deeper." Mr. O'Connell went further, to the core issue. He questioned the constitutionality of the so-called independence of the Federal Reserve, and stated that the "fourth branch" of government needed to be put under congressional and presidential supervision.

"I think it is a legitimate question to ask whether the Federal Reserve does not have too much power," Mr. O'Connell stated. "It not only has responsibility for monetary policy but effective life-and-death power over all financial institutions. This is an extraordinary, unwarranted, and dangerous grant of power to a few nonelected public officials who are not accountable to the electorate."

But now, top League sources say, the League has called off its attack on Volcker because of a "disagreement on the executive board" over whether to "rock the boat" and demand Paul Volcker's ouster.

Why? "I can't imagine anyone in the U.S. League supporting Volcker," the head of one state organization told *EIR* this week. "Everyone here thinks we should put out a contract on him."

"Personally, I think his time is up," said another source. "And if the League were to call for Volcker's resignation, the entire national membership would applaud the effort."

Indeed, my discussions with the U.S. League members and *EIR* subscribers at thrift institutions around the country indicate overwhelming popular sentiment both for Volcker's ouster and for an immediate lowering of interest rates.

The fact is, as the League publicly admits, Volcker's policy is destroying the League's 5,000 members. A League press release this week said that as a result of high interest rates, member banks had closed only $4.4 billion in mortgage loans in January, down a full 33 percent from $6.5 billion in mortgages made in December. Most League member institutions expect mortgage rates to stay at an all-time high over 13 to 14 percent throughout this year, and many said rates might be forced over 14 percent.

Cui bono? Someone on the League executive board apparently is happy with the results of Volcker's policy, one of which is that dozens of smaller S&Ls are in danger of going under. The Federal Savings & Loan Insurance Corporation, which saved over 35 S&Ls across the country from bankruptcy through bailouts during 1980, is now telling many small S&L officers that their banks may have to be shut in 1981.

It's no secret that some of the larger S&Ls, like the $8 billion Great Western Savings & Loan in Los Angeles, have recently grown by absorbing the smaller and weaker S&Ls in their area. Some of these giant S&Ls would also like to purchase weaker S&L across state lines, a policy that the Volcker Fed has backed.

Capitol Hill sources also say that some of the U.S. League's Washington representatives have made a deal with Volcker's supporters in Congress to call off the attack on the hated Fed chairman.

"Of course the U.S. League and the [National Association of] Homebuilders have to answer to their contituencies who are screaming for Volcker's head," said my source, who supports an even tighter policy at the Fed credit spigot, this week. "What are [the associations] supposed to do, endorse him? They have no choice.

"Privately, however," the Hill aide continued, "the Washington people acknowledge that the Fed is doing its best. Their officers will come in and say, 'This is the position of the group,' but then agree with us. 'I am a businessman who understands the independence of the Fed,' they say. They're talking out of both sides of their faces."

As a result, the aide laughed, "none of this complaining about Volcker will have any effect."

If an effective campaign against Volcker is to be waged, U.S. League members would do best to ensure that their own house is in order, and the executive board and Washington office are faithfully representing members' interests.

A postindustrial Detroit

Following EIR's Boston expose, Part Two of an urban series: Stephen Parsons on the planned shrinkage of a strategic economic center.

Max Fisher and several of his fellow board members at Detroit Renaissance and New Detroit were named to two blue-ribbon commissions recently established by Michigan Gov. William Milliken and Detroit Mayor Coleman Young to plan the basis for the economic "diversification", of Detroit and the state of Michigan. Their appointments coincided with the contracting of Lazard Frères and Felix Rohatyn as Detroit's financial consultants; and a spate of legislative initiatives that has been proposed that would radically alter Michigan's economic climate.

Fisher and his associates are trumpeting the economic wonders of high-technology growth industries—electronics, semiconductors, and robotics—in a "diversified," postindustrial Michigan. Through a combination of their financial muscle and the state's depressed and ever-worsening economy, they have initiated a series of new institutions and institutional "restructurings" to pave the way toward their actual goals.

In mid-January, Governor Milliken created a 12-member panel to explore avenues for "high-growth, new technology industry in Michigan." Besides Max Fisher, a Republican Party king-maker and chairman of Detroit Renaissance and United Brands, he appointed such luminaries as former Treasury Secretary W. Michael Blumenthal, now chairman of Burroughs Corporation; William Agee, chairman of Bendix Corporation and a Detroit Renaissance director; Donald Mandich, president of Detroit Bank & Trust Company; and Paul McCracken, former chairman of President Nixon's Council of Economic Advisers.

A few weeks later, Mayor Young announced the hiring of Lazard Frères and the formation of a "Budget Stabilization Committee" charged with recommending measures to eliminate Detroit's gaping $130 million deficit. Chaired by retired Ford Motor economist Fred Secrest, this committee includes a number of Detroit Renaissance/New Detroit board members, such as Rodkey Craighead, chairman of Detroit Bank & Trust; Dean Richardson, chairman of Manufacturers National Bank; Robert M. Surdam, chairman of the National Bank of Detroit; Arthur Seder, Jr., chairman and president of American Natural Resources Company; and two labor representatives, Raymond Majerus, secretary-treasurer of the United Autoworkers, and Jack Wood, president of the Greater Detroit Building Trades Council.

It is a matter of record that the policies of former Big MAC chairman Felix Rohatyn have resulted in an accelerating deterioration of New York City, simultaneously generating unprecedented real-estate speculation, while industry has, at best, stagnated. And that has come mostly during a relative economic upswing.

In Detroit, the same incompetent policies will have a much worse effect. As Mayor Young aptly remarked during his state of the city address on Feb. 5: "Mr. Rohatyn has already described our situation as one where we will have to choose between 'extreme pain and agony.' Detroit's choice comes down to this: give up some of what we have now, or have nothing left to give up later." The Budget Stabilization Committee has already drawn up a laundry list of cuts in personnel and services, wages and benefits, and new taxes in order to ram Rohatyn's prescriptions down the city's throat.

Boom or bust?

Mayor Young might as well have generalized his words for the entire state. Amid what many see as the terminal collapse of the U.S. auto industry, Michigan's economy is reeling into a depression rivaling that of the 1930s. The state's unemployment level of 13.7 percent is the highest in the nation, as is its inflation rate. Over 55,000 autoworkers have been laid off in the past two years, with 170,000 manufacturing jobs vanishing altogether. By June, something like 150 smaller auto-related companies will close their doors, sending thousands more workers to the unemployment lines.

"People are flooding out of this state," says Jan Gordos, a researcher at the University of Michigan's Institute for Industrial and Labor Relations. "No one has any figures, but they're just rolling out of here. People in Flint are ripping their kids out of the school system in Febuary and moving south. That is really extraordinary, we haven't seen that before."

"Right now, you could basically float Flint away and you'd do us a big favor," comments Mark Morante at the Michigan Department of Commerce.

Max Fisher's high-tech boom is touted as the new hope for providing this huge pool of unemployed labor with jobs. But Gordos summed up the feelings of the many businessmen and experts we interviewed: "You just can't retrain many people in these high-tech programs, it didn't work before when we had plenty of money in the sixties. Given the quality of our educational system and the amount of remedial work that has to be done per individual to get them into a position where even if there are sufficient jobs of higher skill level than they have had, the chances are that these industries cannot under any circumstances absorb them all."

Furthermore, the high-tech industries themselves have already started cutting back. In Michigan, for example, Burroughs Corporation, one of the nation's largest electronics firms, has just announced its plans to shut down four plants in the Detroit area, throwing 1,800 onto the unemployment dole, with a ripple effect spreading through related businesses.

So with high-tech industry itself undergoing economic contraction—unable to absorb Michigan's unemployed and unable to attract a significant number of out-of-state workers into Michigan where services are being severely curtailed, especially in its major cities—Fisher and company's real goals begin to emerge: lowering wages and salaries to generate an accelerating speculative bubble.

Robert McCabe, president of Detroit Renaissance, said just that. "There's a lot of people who believe that in order to have jobs, we may have to face unpleasant things like reducing wage rates. And certainly the UAW has been involved in that." McCabe and Gordos both agree that unless workers are willing to accept a wage rate that will come down from its current average of $11 an hour to around $5, they will have no choice but to emigrate. And this is the exact prescription of both the Global 2000 and Agenda for the '80s reports of the Carter administration.

At the same time, McCabe is anxious to ensure that whatever high-tech industry or real-estate development does come into the state gets large tax breaks and grants. "We'll use whatever tools make the damn thing competitive. We'll use tax abatements, UDAG grants, enterprise zones, anything to get firms in here."

The legislative angle

The legislative side of these efforts is being led by State Sen. John F. Kelly, chairman of the Senate Committee on Corporations and Economic Development. A 31-year-old freshman legislator trained at Georgetown University and slated for the foreign service, Kelly is pushing through measures that will facilitate rampant financial speculation while destroying what is left of the state's industrial base, as well as the banking and homebuilding sectors.

Kelly is currently assembling a legislative packet that over a two-year transition period will permit unlimited statewide branch banking, as opposed to the current 25-mile limit on branch locations from home offices. This will essentially enable the largest banks in the state—those primarily centered in Detroit and whose chairmen sit on the blue-ribbon commission in Detroit—to break out of what he terms "stagnant growth patterns" in urban areas and replace "a number of smaller, inefficient community bankers."

As *EIR* has discussed during the past year, this kind of move dovetails with the Federal Reserve's attempt to rationalize the U.S. banking system into a top-down credit control mechanism administered by a handful of the largest institutions. Given the already sad state of Michigan's economy, such rationalization plans will merely feed the industrial contraction, with bank capital increasingly going toward areas of higher and quicker profitability, like real estate and corporate paper.

To facilitate this and other legislative proposals that would encounter stiff constituency opposition, Kelly is in the process of restructuring the state legislature machinery that deals with economic development. He has already catalyzed the formation of a Joint Economic Policy Committee, a grouping of the key legislative leaders of the various economic committees in both the state Senate and House. Within weeks, the Joint Committee structure is to be officially formalized and will become the primary vehicle for enacting any kind of economy or business-oriented legislation.

Kelly has arranged for the committee to be run de facto "by a private sector group of business and industry leaders assisted by our institutions of higher education to work more on the applied technology industries that are coming along . . . and get down to the nitty-gritty of diversification in Michigan." This "advisory task force," is headed by Dr. Thomas Bonner, president of Wayne State University, and includes Detroit Renaissance board member and Ford chairman Philip Caldwell, Irving Bluestone of the UAW, and William Marshall of the AFL-CIO. Kelly cites Bluestone as "very flexible in putting together programs that are going to benefit business."

A good barometer of the kinds of legislation that Kelly has in mind is a "neighborhood development corporations" bill and companion legislation that was made law in December. Under the rationale that these neighborhood entities might provide the basis for low- to moderate-income housing in cities like Detroit, and


Courtesy of Detroit Renaissance Foundation.

The "Detroit Renaissance," viewed from the Philip A. Hart Plaza.

thus facilitate the location of new business there, the legislation could in fact open up an orgy of speculation in inner city real estate, while destroying prevailing wage rates and the state's building trades unions.

The new law designates "neighborhood development corporations" to function in tandem with "local development corporations," or LDCs. These qualify for federal Small Business Administration (SBA) loans to be extended to local small businesses. Kelly's idea is to ultimately have thousands of minimum wage ghetto youth either form or attach themselves to construction companies that will rehabilitate inner city housing. The materials, labor, and training monies are to come through SBA loans, CETA funds, and a provision permitting the LDCs to float bonds—guaranteed by "captive assessments," that is, liens on future property taxes of the rehabilitated properties.

But rather than providing actual low-cost housing for a city's residents, the scheme is a potential boondoggle for major banks and mortgage-financial institutions. First, the refurbished houses, once resold, would redeem the otherwise worthless paper these institutions are holding. Second, these same institutions would make a handsome and guaranteed profit on the bonds sold. And third, there is the potential for turning neighborhoods where real-estate values are going through the floor into areas of speculation, driving property values sky high.

However, as many businessmen point out, there is no guarantee that the whole thing can fly. "You have to come back to basics," said a spokesman for the Detroit Economic Growth Corporation. "We're all interested, we're looking, it might be great. But the question is whether land values can come up high enough to finance the risk. And that depends on whether we can get industry back here, whether the high-tech ventures can overcome the high wage levels, the cuts in city services, and the untrained labor force."

Bob McCabe at Detroit Renaissance has his doubts. "Fraser, [UAW president] Doug Fraser, is the guy" who pulled off the Chrysler settlement where workers took substantial wage cuts. But Chrysler is one thing, said McCabe. "Look, we're in areas that we're all completely unprepared for. This could very well be a bottleneck in our plans."

A top researcher at the University of Michigan's Labor Relations Institute perhaps summed up McCabe's "bottleneck" best: "The American dream is not dead, it's taking a vacation. Even with all the adversity, people still believe in the American dream."

'Rationalize banking, cut union wages'

EIR's Stephen Parsons interviewed Michigan State Sen. John F. Kelly, who is chairman of the Senate Committee on Corporations and Economic Development.

EIR: I understand you are drafting legislation for an international banking facility, or IBF, in Detroit. Are you also thinking in terms of non-IBF foreign banking?

Kelly: Yes, I am. I want to bring them into Michigan. I want to make Michigan—at least Detroit—a major financial center much like New York in attracting foreign banks. I've got a whole financial institutions agenda over the next two years.

We're now a limited branching state. I'm putting together a package that's going to change that over a two-year transition. First of all, we have regionalization, that is, a 25-mile limit now on branches from home office. So I'm going to put in a bill that provides a two-year period in which holding companies and parent banks within the nine economic regions of the state can rationalize the banking structure with each region. And then within two years, open up the whole state to statewide branching and interstate banking and international banking.

EIR: I would imagine the smaller banks would object strongly.

Kelly: Yeah, that's what we've been fighting about for two years, but with the monetary deregulation act and the International Banking Act of 1978, we're moving rapidly toward across-state-lines banking and more international banking in this country. What this will mean for us here in Michigan is that we have several large banks who are in stagnant growth patterns because they're limited to the urban areas. And as we go through the decline of the automobile, they're finding their whole profitability eroding. We have a number of smaller, inefficient community bankers who are just not providing consumers with the services they need.

At the same time, if we see the repeal of those amendments that limit foreign banking and interstate operations, which I think is reality, then what we'll have is a total intrusion into the capital markets here in Michigan from out-of-state banks. So I'd like to see a two-year rationalization internally to allow the holding companies to consolidate in the nine regions, and via mergers or whatever, rationalize things. People who want to hold out can wait two years and see if they get a better offer from the interstates. The smaller guys will be taken care of in terms of their own needs.

Internally, we'll rationalize and strengthen the holdings of our larger financial institutions to withstand the initial waves when the floodgates open . . . and I want to see them extend themselves in terms of involvement in local capital markets. As for IBFs, Michigan's tax law is very conducive right now. In New York, you have an 18 percent aggregate tax, here it's 2.83 percent. For an IBF bank, after the federal deduct, it comes out to less than 1 percent.

EIR: What about the prevailing wage rate, do you think things will go in the Chrysler direction in terms of workers taking wage and benefits cuts?

Kelly: I can't see the unions changing immediately. Unfortunately, most unions still take the Meany position of more, more, more. I'm a Democrat and come from a labor district in Detroit, and I've been at odds with most of them for the two years I've been in office because I think that's an asinine policy. . . . What I am sure of doing is to at least change the capital markets so that the state outside Detroit doesn't look so bad to business. . . . I think over the long term it will lead to a reduction in the union wage-scale, but you got to give them something like management participation to offset that, too.

Look, I've got a project I just had funded here for neighborhood rehabilitation in Detroit for minority youth. Minority programs have never worked in Detroit because basically you can't do this competition with the wages, right? So I put through a couple of bills that are going to provide a bonding mechanism for the housing units in Detroit—the Neighborhoods Development Corporations bill.

We're going to train minority youths and CETA people in building trades programs and then we're going to use them to rehab the homes in Detroit. Now, CETA will provide funds for six months, and here's how we're going to make up the difference. The Small Business Administration [SBA] has a thing called "Local Development Corporations" or what they call LDCs, which are community organizations that provide loans for small businesses. And you can get half a million bucks in direct SBA loans under these LDCs, for *each* LDC! It's a wonderful program, no one has utilized it in the state!

What I said is okay, you got 5,000 homes in the neighborhood and 200 that need to be rehabilitated. That will keep a labor force of, say 10 people working for a year and a half. Take these 10 youths, send them to some training program like Chrysler Learning or GM Pre-Employment or some other CETA training facility, to learn your basic skills. Then pair existing home improvement companies with these unemployed youths. These companies then have these youths subsidized for the next six months, they get new equipment, and they get loans from the LDCs. In exchange, instead of the neighborhood group having any liens on the company, the youths become employee stock owners.

You're rationalizing the whole home improvement industry, you're increasing the competition in the area, you're giving them subsidized employees for the first six months, you're giving them access to half a million bucks in new equipment and revamping of their own business structure at subsidized rates from SBA, and you're putting people in partnership with existing firms—and you don't have to end up with a unionization problem! You're getting around the high cost of construction wages!

And in terms of the rehabilitation monies, there's "captured assessments." Say there's a vacant home in Detroit that would be valued at $5,000. That may produce, in academic terms, $50 a year in property taxes. If we rehab that home and sell that home for $26,000, it's going to be producing every year $300 in property taxes. Well, the bonds that we're floating are floated on the captured assessment; that is, you take the increase in the taxation that will be gained and you float a bond on that new valuation, that is, on the difference between $50 and $300—guaranteed by the tax revenues on the property for 10 years.

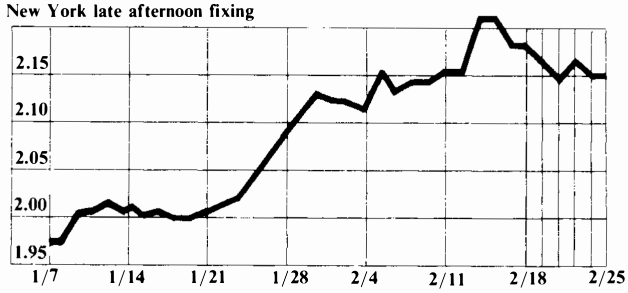
EIR: Are you sure you'll be able to get away without paying prevailing wages, though?

Kelly: Well, there's only one exemption right now in the state of Michigan from the prevailing wage statute, and that's the Neighborhood Development Corporations. . . . It took me two years to get it through, but it was really fun doing it. That's my baby.

Currency Rates

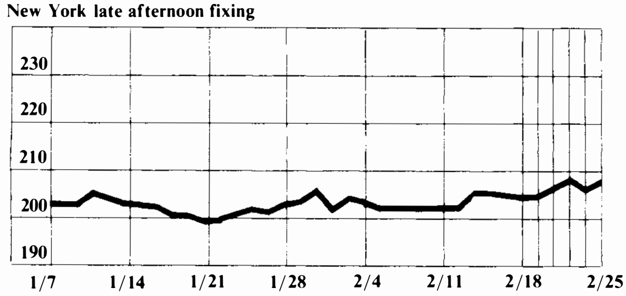
The dollar in deutschemarks

New York late afternoon fixing



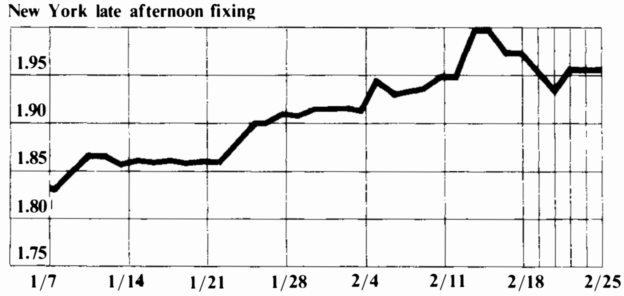
The dollar in yen

New York late afternoon fixing



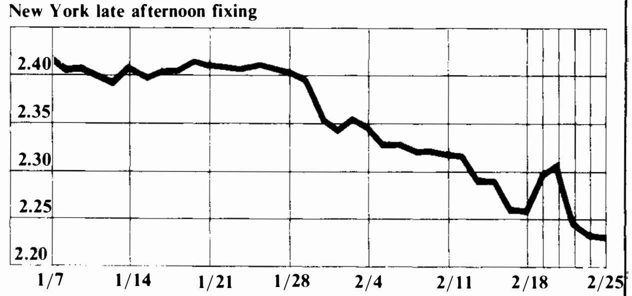
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Business Briefs

International Credit

Japan to extend cheap export loans

The Japanese government will begin during March to match the low interest loans being extended by European governments on export of plant and equipment. The terms, as in a recent loan to construct a copper-smelting plant in the Philippines, can be as low as 6 percent on a 20-year loan. By generally adhering to the high interest rates mandated by the Organization of Economic Cooperation and Development (OECD), Japan lost an estimated $1 billion in plant orders to European competitors during 1980. The Carter administration in its closing days had urged even higher export interest rates and the new administration has yet to adopt a stance.

The low interest policy will be implemented through the "mixed loans" system, in which Export-Import Bank loans and commercial bank loans are combined with yen-denominated, long-term official development assistance. Since the latter has terms of 3 to 4 percent interest rates and 25-year repayment periods, this lowers the rate for the overall package considerably.

No volume of loans for this program has yet been announced, according to Japanese government sources. It should also be noted that similar plant-export promotion schemes announced in recent months have yet to be implemented. Therefore, it is not yet clear how significant this development will be.

World Trade

Soaring rates shake pipeline deal

The largest East-West trade agreement ever concluded, the West German-Soviet natural gas pipeline deal, is feeling the shock waves of Paul Volcker's interest-rate warfare against Europe. As *EIR* reported last month, the deal was premised on long-term, 7.5 percent interest rate credits backed by the West German equivalent of the U.S. Eximbank.

But since the January negotiations, long-term loan financing terms in Germany have jumped from 9 percent to 13 percent. The word from this week's meeting of the 20-member consortium that will provide $4.7 billion for this deal is that several of the smaller bank participants are nervous. They wonder if Bonn can subsidize the spread below commercial rates.

But Deutsche Bank, which chairs the consortium, says the situation is fully under control and financing could even be increased if conditions improve.

Public Policy

Germans, French demand lower rates

Chancellor Helmut Schmidt of West Germany roundly denounced the crushing high interest rates maintained by U.S. Federal Reserve Chairman Paul Volcker in a major interview this week with the leading French financial daily *Les Echos.*

"I consider that the present interest rates, in America and in some other countries, are destructive and, in the long run, absolutely unacceptable if Europe does not wish to give up its aim of full employment," Chancellor Schmidt emphasized.

Schmidt also told the latest issue of the leading West German weekly *Der Spiegel* that "the high interest policy in America and in England" has forced a restrictive policy upon Germany which is rapidly leading to a dangerous recession. "The growing unemployment is no German phenomenon, but a West European and North American one."

Schmidt repeated his government's call for an international conference to lower interest rates. "One must desire all countries to act together," he said.

French Finance Minister René Monory, in a nationally broadcast interview on French television, also said this week that "current U.S. interest rates are a handicap for European countries. It is unreasonable for them to be maintained for any length of time." Monory said he would make the French position "clear" to the U.S. government when he travels to Washington to meet Fed chief Volcker, Treasury Secretary Donald Regan, and others next week.

Sources close to Monory told Reuters that high U.S. rates "are causing great concern" in Paris, where French rates have risen sharply as a result.

Foreign Exchange

Chancellor Schmidt defends EMS

West German Chancellor Schmidt this week defended the European Monetary System as a bulwark for stabilizing European currencies against the interest-rate warfare of Federal Reserve Chairman Paul Volcker, and pledged that Germany and France would defend their currencies.

Schmidt was asked whether Volcker was using the dollar as a "political weapon" to break up the EMS, since high dollar interest rates are causing capital flight out of Europe and major falls in European currencies. "The unforeseeable character of American monetary policy," he responded, "was one of the reasons that the French franc and German mark detached themselves from the dollar, which led to the creation of the European Monetary System."

The EMS, Schmidt said, "has proven its value, even in the present circumstances," to support European currency rates. "I believe it will continue to be a factor of stability in the world monetary structure in the future. France and the other European members will benefit from it, as well as Germany.

"In the long run, I'm counting on a solid mark," he stated, "and I think that well-informed speculators are doing the same."

French Finance Minister René Monory also told French TV this week that "several European currencies would have been in severe difficulty, if Europe had not, in an act of faith two years ago, created the European Monetary System." Bundesbank chief Karl-Otto Poehl meanwhile denied the mark would leave the EMS to the New York Council on Foreign Relations.

U.S. Economy

Durable goods orders in sharp drop

The Commerce Department reported Feb. 24 that durable goods orders dropped 2.2 percent in January, the first decline in four months and a recognized marker of worse to follow for the economy in the near term. The January figures reflected sharp production declines in the steel, auto, and shipbuilding sectors, according to the department.

Bearing out these indications, the big three auto companies reported this week that car sales were 24 percent below last year's level during the middle 10 days of February this year, despite unprecedented rebate programs, and other sales gimmicks. At the same time John Deere and Co., the world's leading maker of farm equipment, reported a 40 percent decline in earnings in the first fiscal quarter ending Jan. 31 this year. Deere attributed the drop to a 28 percent decline in industrial equipment sales.

Domestic Credit

Volcker pledges 'continuing squeeze'

In testimony before the Senate Banking Committee, Fed chief Paul Volcker stated this week that the Fed intends "to exert continuing restraint on growth in money and credit to squeeze out inflationary pressures." Volcker said flatly that he is undeterred by the fact that his policy means "a rocky road ahead" for the U.S. economy, including increased "inflation and unemployment."

"If inflation continues unabated or rises, real activity is likely to be squeezed." Mr. Volcker's remarks were made against a backdrop of Fed predictions of zero GNP growth for 1981 and continued inflation at 1980 rates.

Although Volcker calls Reagan's fiscal program "broadly compatible" with his goals, he made clear the areas of agreement are those of budget cuts. "The risk is going to be in the direction of not doing enough on the spending cuts." Other Federal Reserve Board members have argued for deeper spending cuts, and Volcker characterized the current levels as both necessary in the "full magnitude" proposed and as "only a progress payment" on larger future cuts.

Banking

Citibank's Wriston ogles California

Citibank Chairman Walter Wriston made another trip to California this week to personally lobby for a Citibank bill that would allow the New York giant to gobble up California banks.

Assembly Bill 1926, drafted for the Sacramento state legislature by Citibank lobbyist Fred Pownall, would permit the Citibank holding company, Citicorp, to operate two full-service banking subsidiaries in California. Citibank hopes to use this as license to buy out California banks as subsidiaries.

The precedent would also be used in other states as a wedge for Citibank's drive for full nationwide banking.

Wriston met in Sacramento this week with Gov. Jerry Brown and leading state legislators. He also threw a dinner for about 100 California bankers and businessmen, hoping to drum up some support for the legislation.

In an interview with the *Los Angeles Times*, Wriston derided the nation's protective banking regulations as "basically humorous."

Briefly

- **KURT RIECHEBÄCHER,** executive manager of West Germany's giant Dresdner Bank, said this week that the Fed's high interest rates are "strangling Europe." German borrowers as a result must pay 12 to 13 percent interest rates, when inflation is at 6 percent, which is "eroding profits and restraining the German economy," he said.

- **WEST GERMAN** interest rates fluctuated "in total chaos" over the week, the financial daily *Handelsblatt* reported, as the central bank curtailed credit in line with the U.S. Day-to-day money rose from 9 percent last week to as high as 16 to 18 percent, before settling to the 13 percent level.

- **HENRY KAUFMAN,** the Salomon Brothers investment firm economist who speaks for the policies of the Volcker Fed, predicted that while the prime rate might fall to a 17 to 18 percent level this quarter, it would rise again above 21 percent thereafter.

- **ROBERT MCNAMARA,** former head of the World Bank, will join the editorial board of the *Washington Post*. Its publisher, Katharine Graham, is a member of the Brandt Commission, the World Bank's "human face" extension.

- **EIR** representatives challenged the "growth causes inflation" formula promoted by the Wharton School of Economics at Wharton's annual meeting in San Diego this week. The response from businessmen and economists was enthusiastic.

- **MOTOR VEHICLE** output in West Germany fell to a several-years low of 304,000 units during January, compared with a level of 381,000 for January 1980, the German Motor Vehicle Association announced this week.

The Haig-Kissinger depopulation policy

by Lonnie Wolfe

Investigations by *EIR* have uncovered a planning apparatus operating outside the control of the White House whose sole purpose is to reduce the world's population by 2 billion people through war, famine, disease, and any other means necessary.

This apparatus, which includes various levels of the government, is determining U.S. foreign policy. In every political hotspot—El Salvador, the so-called arc of crisis in the Persian Gulf, Latin America, Southeast Asia, and in Africa—the goal of U.S. foreign policy is population reduction.

The targeting agency for the operation is the National Security Council's Ad Hoc Group on Population Policy. Its policy-planning group is in the U.S. State Department's Office of Population Affairs, established in 1975 by Henry Kissinger.

This group drafted the Carter administration's Global 2000 document, which calls for global population reduction, and the same apparatus is conducting the civil war in El Salvador as a conscious depopulation project.

"There is a single theme behind all our work—we must reduce population levels," said Thomas Ferguson, the Latin American case officer for the State Department's Office of Population Affairs (OPA). "Either they [governments] do it our way, through nice clean methods or they will get the kind of mess that we have in El Salvador, or in Iran, or in Beirut. Population is a political problem. Once population is out of control it requires authoritarian government, even fascism, to reduce it.

"The professionals," said Ferguson, "aren't interested in lowering population for humanitarian reasons. That sounds nice. We look at resources and environmental constraints. We look at our strategic needs, and we say that this country must lower its population—or else we will have trouble. So steps are taken. El Salvador is an example where our failure to lower population by simple means has created the basis for a national security crisis. The government of El Salvador failed to use our programs to lower their population. Now they get a civil war because of it. . . . There will be dislocation and food shortages. They still have too many people there."


Vietnamese civilians left on the beach at Da Nang during the war.

Civil wars are somewhat drawn-out ways to reduce population, the OPA official added. "The quickest way to reduce population is through famine, like in Africa or through disease, like the Black Death," all of which might occur in El Salvador.

Ferguson's OPA monitors populations in the Third World and maps strategies to reduce them. Its budget for FY 1980 was $190 million; for FY 1981, it will be $220 million. The Global 2000 report calls for doubling that figure.

The sphere of Kissinger

In 1975, OPA was brought under a reorganized State Department Bureau of Oceans, International Environmental, and Scientific Affairs—a body created by Henry Kissinger. The agency was assigned to carry out the directives of the NSC Ad Hoc Group. According to an NSC spokesman, Kissinger initiated both groups after discussion with leaders of the Club of Rome during the 1974 population conferences in Bucharest and Rome. The Club of Rome, controlled by Europe's black nobility, is the primary promotion agency for the genocidal reduction of world population levels.

The Ad Hoc Group was given "high priority" by the Carter administration, through the intervention of National Security Adviser Zbigniew Brzezinski and Secretaries of State Cyrus Vance and Edmund Muskie. According to OPA expert Ferguson, Kissinger initiated a full about-face on U.S. development policy toward the Third World. "For a long time," Ferguson stated, "people here were timid." They listened to arguments from Third World leaders that said that the best contraceptive was economic reform and development. So we pushed development programs, and we helped create a population time bomb.

"We are letting people breed like flies without allowing for natural causes to keep population down. We raised the birth survival rates, extended life-spans by lowering death rates, and did nothing about lowering birth rates. That policy is finished. We are saying with Global 2000 and in real policy that you must lower population rates. Population reduction and control is now our primary policy objective—then you can have some development."

Accordingly, the Bureau of Oceans, International Environmental, and Scientific Affairs has consistently blocked industrialization policies in the Third World, denying developing nations access to nuclear energy technology.—the policies that would enable countries to sustain a *growing* population.

According to State Department sources, and Ferguson himself, Alexander Haig is a "firm believer" in population control.

"We will go into a country," said Ferguson, "and say, 'here is your goddamn development plan. Throw it out the window. Start looking at the size of your population and figure out what must be done to reduce it.

"If you don't like that, if you don't want to choose to do it through planning, then you'll have an El Salvador or an Iran, or worse, a Cambodia.' "

According to an NSC spokesman, the United States now shares the view of former World Bank President Robert McNamara that the "population crisis" is a greater threat to U.S. national security interests than "nuclear annihilation."

"Every hot spot in the world corresponds to a population crisis point," said Ferguson, who would rename Brzezinski's arc of crisis doctrine the "arc of population crisis." This is corroborated by statements in the NSC Ad Hoc Group's April 1980 report.

There is "an increased potential for social unrest, economic and political instability, mass migration and possible international conflicts over control of land and resources," says the NSC report. It then cites "demographic pressures" as key to understanding "examples of recent warfare in India, Pakistan, Bangladesh, El Salvador, Honduras, and Ethiopia, and the growing potential for instability in such places as Turkey, the Philippines, Central America, Iran, and Pakistan."

Through extraordinary efforts, the Ad Hoc Group and OPA estimate that they may be able to keep 1 billion people from being born through contraceptive programs.

But as the Ad Hoc Group's report states, the best efforts of the Shah of Iran to institute "clean programs" of birth control failed to make a significant dent in the country's birth rate. The promise of jobs, through an ambitious industrialization program, encouraged migration toward "overcrowded cities" like Teheran.

Now under Ayatollah Khomeini, the "clean programs" have been dismantled. The government may make progress because it has a program "to induce up to half of Teheran's 6 million residents to relocate, as

Ferguson: kill more childbearers

In the past year, 13,000 people in El Salvador have been killed in the civil war that has gripped the country. To the U.S. State Department and its Office of Population Affairs, that is not enough. To accomplish what the State Department deems adequate "population control," the *civil war would "have to be greatly expanded,"* according to Thomas Ferguson, the Latin American case officer for the OPA.

El Salvador was targeted for "population control"—and war—in an April 1980 population report published by the National Security Council.

"El Salvador is an example of a serious country with serious population and political problems," the report states. "Rapid population growth—the birth rate has remained unchanged in recent years—aggravate its population density, which is already the highest on mainland Latin America. While a population [control] program exists on paper, it has not been pursued with a strong commitment and contraceptives remain unavailable."

The population program "really did not work," OPA's Ferguson said this week. "The infrastructure was not there to support it. *There were just too many goddamn people.* If you want to control a country, you have to keep the population down. Too many people breed social unrest and communism."

"Something had to be done," the OPA official said. The birth rate, he reported, is 3.3 percent—one of the highest in the world. Its population, he complained, will double in 21 years.

"The civil war can help things, but it would have to be greatly expanded."

Vietnam lesson

In making sure that the population falls in El Salvador, Ferguson said, the OPA has learned a lot from its experiences in Vietnam. "We studied the thing. That area was also overpopulated and a problem. We thought that the war would lower population and we were wrong."

According to Ferguson, the population in Vietnam increased during the war—despite U.S. use of defoliation and a combat strategy that encouraged civilian casualties.

To reduce population "quickly," said Ferguson, "you have to pull all the males into the fighting and kill significant numbers of fertile, child-bearing age females."

He criticized the current civil war in El Salvador: "You are killing a small number of males and not enough fertile females to do the job on the population. . . . If the war went on 30 to 40 years like this, well as possible measures to keep rural migrants from moving to the cities."

Behind the back of the President

Ferguson and others involved with the OPA and NSC group maintain that the United States will continue a foreign policy based on a genocidal reduction of the world's population. "We have a network in place of cothinkers in the government," said the OPA case officer. "We keep going, no matter who is in the White House." But Ferguson reports that the "White House" does not really understand what they are saying and that the President "thinks that population policy means how do we speed up population increase. As long as no one says differently," said Ferguson, "we will continue to do our jobs."

then you might accomplish something. Unfortunately, we don't have too many instances like that to study."

'Need famine, disease'

However, said Ferguson, "The population might weaken itself, especially if the war drags on, [and] you could have disease and starvation, like what happened in Bangladesh and Biafra. Then you can create a tendency for population to fall very rapidly. This could happen in El Salvador. When that starts happening, you have total political chaos for a while, so you must have a political program to deal with it.

"I can't estimate how many people might die that way. It could be a great deal, depending on what happens."

The preconditions for the holocaust Ferguson hopes for *now exist in El Salvador.*

The *New York Times* reports that the country's small and medium-size villages are *already depopulated by 50 percent.*

El Salvador survives on exports of sugar, cotton, and coffee. This year's coffee crop has been cut more than half, sugar is down by over 20 percent, and coffee by 7 percent. These facts spell mass starvation in the near term for the war-weakened peasantry.

As the war intensifies, the population is being herded into "strategic hamlets" like those run in Vietnam by U.S. military advisers.

The Jesuit-run guerrilla movement is also destroying all internal infrastructure in the countryside, burning bridges and power stations. Fully one-third of the country suffers week-long electricity blackouts.

As the war intensifies, the mass murder of the El Salvadorean people is becoming a reality.

The NSC report

In April 1980, the National Security Council's Ad Hoc Group on Population Policy issued an overview analysis on U.S. population policy. The document lays out the basis for all U.S. foreign policy from the "Global 2000" perspective. The State Department Office of Population Affairs helped draft the report. Excerpts follow.

On a planet which is already subject to growing scarcities, political uncertainty, and strains on biological and environmental systems, numbers of these dimensions have portentous implications. . . .

Already during the 1970s, much of the economic gains of the Third World were canceled out by the steady rise of population. . . .

Food production is not keeping pace with the population growth in most parts of the world. . . . Moreover, rising food demand must now compete with increasingly higher priced energy imports. Norman Borlaug, pioneer of the "Green Revolution," has cautioned that innovations in agricultural technology can only buy limited time with which to control population growth. . . .

The International Labor Organization [ILO] estimates that in the next two decades, approximately 700 million people more will enter the labor pool of developing countries—this is more than the total current labor force of the industrially advanced countries. The amount of investment required to put these people to work is astronomical. . . .

A recent Worldwatch Institute study estimated that the number of rural people who are effectively landless would approach 1 billion over the next two decades, and predicted that "conflict rooted in inequality of land ownership is apt to become more acute in country after country." Already the estimated proportion of rural families who are landless or nearly so is over 80 percent in such countries as El Salvador, and between 70 and 80 percent in Brazil, Ecuador, Peru, Bangladesh, and the Philippines.

As rural population growth increases the fractionalization of the landholdings, as croplands are depleted due to over-intensive farming, and as job opportunities in the countryside diminish, the Third World is experiencing a virtual urban explosion. The U.N. estimates that, in only 20 years, some 40 Less Developed Countries [LDCs] cities may contain over 5 million inhabitants. . . . Provision of jobs, housing, social services to numbers of this

Cyrus Vance's State Department wrote Global 2000.

magnitude, over such a short period of time, will present difficulties hitherto unimagined by town planners and governments. The potential susceptibility of urban unemployed youth to extremism and violence will grow.

Some recent studies suggest that the contemporary phenomena of worldwide inflation are being influenced by rising demand associated with vast increases in population. Commodities become more costly as supplies dwindle or fail to keep pace with rising demand or as they become more expensive to obtain. Population growth has also been linked to pressure on energy and raw materials supplies. A recent Worldwatch study concludes that "everywhere one turns limits are being encountered and the effects are being compounded. . . . It seems clear that the world is entering a new period of scarcity." Problems of water pollution, soil erosion, and deforestation are becoming major international issues as a consequence of over-intensive farming, grazing, encroachment of cities and uncontrolled industrialization.

All of these factors add up to an increased potential for social unrest, economic and political instability, mass migration, and possible international conflict over scarce resources. It is admittedly difficult to be analytically precise in pinpointing exact causes for the breakdown in domestic or international order. Nevertheless it is hard to avoid inferring some connection between the instabilities and frustrations caused by absolute and relative poverty, reinforced by the demographic pressures discussed above. The examples of warfare in recent memory involving India, Pakistan, Bangladesh, El Salvador, Honduras, and Ethiopia, and the growing potential for instability in such places as Turkey, the Philippines, Central America, Iran, and Pakistan, surely justify the question being raised.

The Global 2000 approach

by Lydia Schulman

The Global 2000 report, issued in spring 1980, was the culmination of a three-year study directed by the U.S. State Department and the White House Council on Environmental Quality. As the first study of global ecological trends by the U.S. government, the report does not make policy recommendations per se but claims to objectively project the impact of current (1977) trends in population growth and GNP on the global resource base and environment.

The authors of the report state that it was intended to provide the basis for long-term planning by the U.S. government and to create a permanent institutional capability—"skilled personnel, data, and analytical models"—for spinning off future studies and analyses.

They state further that the report was intended as a guide in U.S. foreign policy: "We are . . . working with other nations bilaterally, building concern for population growth, natural resources, and environment into our foreign aid programs and cooperating with our immediate neighbors on common problems ranging from the cleanup of air and water pollution to preservation of soils and development of new crops"—a statement strongly suggesting that foreign aid henceforth be tied to population control and related measures.

The premises

As in all global models of this type, what counts are its underlying assumptions. The gross incompetence of this report and its doomsday predictions stem from the total denial of the transforming effects of science and technology: "[The projections] depict conditions that are likely to develop if there are not changes in public policies, institutions, or *rates of technological advance,* and if there are no wars or other major disruptions [emphasis added]." One of the most telling points of the report's flawed methodology is the assumption on nuclear fusion: "The projections assume no revolutionary advances—such as immediate wide-scale availability of nuclear fusion for energy production."

Given the premise of no change in the rate of technological advance, the report predicts that the projected growth of the world's population from 4 billion in 1975 to 6.35 billion in A.D. 2000 will lead to severe regional water shortages, extensive deforestation, irreparable deterioration of agricultural soils, and other horrors. The conclusion a policy-maker is supposed to draw is that these consequences must be forestalled by stopping population growth short, by whatever means.

As authority on demographics, Global 2000 cites a 1969 U.S. Academy of Sciences report, *Resources and Man,* which concluded that a world population of 10 billion "is close to (if not above) the maximum that an *intensively managed* world might hope to support with some degree of comfort and individual choice."

The Global 2000 report warns that if currently projected fertility and mortality rates were to continue unchanged into the 21st century, the world's population would reach 10 billion by 2030 and nearly 30 billion—the number the NAS cites as the Earth's "maximum carrying capacity"—before the end of the century.

Among the report's other doomsday projections are:

- **On population:** "New data" on the decline in fertility rates in areas such as Indonesia and Brazil, due to unanticipated poverty and malnutrition, suggests that world fertility rates will drop by more than 20 percent over 1975-2000, from an average of 4.3 children per fertile woman to 3.3. In addition, "shifts in public policy . . . will provide significantly increased access to family planning services" in less developed countries.

"The majority of people in large LDC cities are likely to live in 'uncontrolled settlements'—slums and shantytowns where sanitation and other public services are minimal at best."

- **On food:** "Assuming no deterioration in climate or weather, food production is projected to be 90 percent higher in 2000 than in 1970. . . . In the LDCs, however, rising food output will barely keep ahead of population growth." Per capita consumption in the sub-Saharan African LDCs is slated to decline.
- **On forests:** Both forest cover and stocks of woods in the LDCs will decline by 40 percent by 2000 due to the reliance on wood for energy.
- **On water:** Due to rapidly increasing demands for water, in particular to its "highly consumptive use" in irrigation, regional water shortages and the deterioration of quality are likely to become worse by 2000. Many LDCs will also suffer the destabilization of water supplies as a result of deforestation.
- **On energy:** "No early relief from the world's energy problems." In the LDCs, the demand for wood fuel will far outstrip supply, expanding deforestation.
- **On agriculture:** Greater soil erosion, loss of nutrients, and compaction of soil, increasing salination of irrigated land, crop damage due to increasing air and water pollution is projected.

An epilogue, "Entering the Twenty-First Century," warns that without a halt in population growth trends, "The world will be more vulnerable both to natural disaster and to disruptions from human causes," including wars over increasingly scarce fresh-water supplies.

INTERVIEW

William Paddock on extermination

The following is excerpted from an interview with William Paddock made available to *EIR*. Paddock is outspoken proponent of global population reduction, and a self-professed supporter of the Global 2000 doctrine.

Paddock is best known for his plan to reduce the population of Mexico to less than 35 million from its present 65 million level. He is the founding member of the Environmental Fund whose goal is to "stimulate thinking about the unthinkable"—the forced reduction of the world's population. The Environmental Fund and Paddock both directly played a role in the shaping of the Global 2000 document.

Paddock had significant input into State Department policy planning during the Kissinger and Carter tenures. His plan for Mexico was endorsed by National Security Adviser Zbigniew Brzezinski. At the time of the interview, Paddock was preparing to make a presentation at the Georgetown Center for International and Strategic Studies, where Kissinger currently operates, on the effects of population on "revolution in Central America." The meeting was to be attended by key policy planners from the Haig State Department.

Q: What are your views on the Global 2000 document?
A: It's a wonderful thing, and I'm absolutely amazed at the publicity it's received. Gerald Barney [director of the Global 2000 Project] had done it single-handedly. It's excellent, and it's got far more publicity than most studies commissioned by the White House that wind up on the shelves and are never read. And it's an idea whose time has come. Now we need a U.S. 2000, and a Florida 2000, and a New York 2000, one for every state, to start planning and adapting to this situation that's coming.

Q: Looking at El Salvador from the standpoint of what was said in Global 2000, it seems to be a model country for disaster; landlocked, limited infrastructure, etc.
A: That's an advantage, you know, but go ahead.

Q: Well, it has limited infrastructure, and a population growth that's almost out of control, that would double in 20 years. What do you do in a situation like that, in a situation like El Salvador?
A: There's nothing you can do. Nothing.

Left: William Paddock. Right: Cambodia under Pot Pot.

Q: What is going to happen then?
A: Total chaos, anarchy of one kind or another. Continuing military government, maybe rightist or leftist, but a military government. You can't expect stability where you have such turmoil and stress generated by so many people.

Why do you have military governments in Latin America? They've always had one form or another of it. I was in Honduras in 1957 when they had their 75th revolution! They've had a lot of practice. Why is it? Well, it's simply because, as far as I'm concerned, the land is pee-poor. They got a poor piece of real estate. It's nobody's fault, it's just the way God passed out the resources. . . . Every single country in the world is overpopulated, but some are more so than others. Now why is that? Because El Salvador happens to have some of the finest land in all Latin America. And you can take a world population map, where you have one dot for every hundred thousand people, and except for some cities like New York, London, and Tokyo, where it'll be black, of course, wherever you have high concentrations of those dots, you have pretty good soil. And that's true in Latin America. You have it in Java, in El Salvador, in Haiti. Why? Because they've got good land. Some good land. Unfortunately, some modern technology, in the form of medical missionaries or medical doctors of one kind or another, got there before there was any other technology that reached there, and the population explosion took place before they could develop any other resources, and get their agriculture more efficiently used. And it just exploded. It exploded faster than any other place because they had more food. They had better land. And now they've grown well past the capacity of that land to take care of them.

Q: So in El Salvador, are we eventually going to see a rollback of the population?
A: It will happen somehow.

Q: You mean famine, disease?
A: One of the four horsemen. And now the fifth one, which is the bomb.

Q: Can it be done without the pain and suffering?
A: I don't think so at all. I don't think so for a couple of reasons. First of all, speaking of the population growth rate, to level off or drop, the problem is that the people who are going to cause the stress, in the next 20 years, are already here, they're born, they're walking around. Half the population is under the age of 15. It would be well if no one had any more kids, between now and the year 2000, but the big problem's already there. The other reason is, we don't know how to motivate people to want to have fewer children. We just don't know how to do it. . . .

Malthus, in his dismal theorem, said that the only check on population growth is starvation and misery.

And no matter how favorable the environment or how advanced the technology, population will grow until it is miserable and starved. That's what he said, all right? There's an economist at the University of Colorado, a very famous economist, Kenneth Boulding, who has what he calls his "utterly miserable" theorem. And his utterly miserable theorem is that if the only check on the growth of population is starvation and misery, then any technological improvement will have the ultimate effect of increasing the sum of human misery, because it permits a larger proportion to live in precisely the same state of misery and starvation as before the change.

And this, of course, is what we're trying to do with our foreign aid program, in sending food, in improving the agriculture of the area, we're making it possible to sustain more people.

Q: Doesn't Global 2000 say that we should re-examine that?
A: Yes. I think it does say that.

Q: There are some who say that the best contraceptive is development.
A: That's bilge. In theory it probably is, but show me the country where it works. It's a grasping for excuses to get money for aid, when they come up with something like that. . . . If a country, such as El Salvador, is going to improve the lot of its people, it's going to have to bite the bullet itself. There's nothing we can do to come up with a birth control program, agricultural program, industrialization program. And by saying that we can, we put off the need for Salvador to try to do something about the problem itself. . . .

Q: Is the U.S. overpopulated?
A: Yes.

Q: What's your thinking on it?
A: I think if we had 100 million people, it would be really fabulous.

Q: How would we get to that level given where we are now? Is that possible without a war?
A: Well, there's a man putting together an organization called One Hundred Million Americans, and he's trying to show how it can be done. I don't think it can be done. We haven't bit the bullet ourselves. Look at the number of illegal aliens that we permit coming in here.

Q: What about El Salvador? What would be the ideal population there?
A: Well, when I went there in 1950, there was 1.7 million people. It's 4 million now. It was pretty bad off in 1950, but it had more charm, I'd have lived there then. Most people are barefoot. I think that as far as what the United States can do, I think we just have to live with the situation. We have to adopt policies that can permit *us* to live with it.

Q: That's really what Global 2000 says. I understand you're going to deliver a paper on the effects of the revolution.
A: It's on the influence of population on the destabilizaton in Central America. . . . It's for a seminar that the Georgetown Center for Strategic and International Studies is holding on El Salvador. I don't really know the purpose of the meeting. I thought it was to help the United States form a strategy to cope with it, to what they should do with El Salvador.

Q: What about Cambodia? Is that an example of Malthusianism?
A: I don't know enough about Cambodia, but if that took place in Salvador today, because I know Salvador, I'd say yes, that is one of the scenarios you can end up with.

Q: You could have millions of people dying.
A: Well, you're going to have millions of people dying, certainly, from lack of food in the Third World, and certainly in the next 20 years, no shadow of a doubt about it. Famine is absolutely totally inevitable, there's no way to stop it. We've had good crop years the last three or four, so people feel pretty comfortable, though we're going into 1981 with the lowest reserves the world has seen since the last 10 to 15 years. You've had the population of the world growing at an *average* rate of 1 percent faster than food production has grown since 1975.

Q: And that's going to produce the effect you're talking about?
A: Well, one of these days, as long as the weather is good, we can squeak by. But the trend is always more and more on the brink. If the monsoon is two or three weeks late in India this year, it will be a very bad thing. We'll know that by July 10 or so. And our Middle West is very deficient in subsoil moisture right now, a dry year last year; the U.S. may very well be quite unable to ship the wheat, soybeans, and corn the world is counting on. And if this should happen two years in a row, there's absolutely nothing that can be done about it. But that's the trend. If it doesn't happen in two years it will happen in three or four. Absolutely positively fact. . . .

If you can blame anybody it's the medical profession.

Q: Because they've kept so many people alive?
A: Absolutely. They've given the world death control without birth control. . . . Two-thirds of the world is living on very marginal subsistence and that's 3 billion people.

Brezhnev scores radicals, offers U.S. leverage

by Rachel Douglas

Opening the 26th Soviet Communist Party Congress in Moscow Feb. 23, Soviet leader Leonid Brezhnev deflated both the Soviet bloc's own international destabilization specialists, like Fidel Castro, and the eager anticipation of Alexander Haig that he would soon be facing down Moscow eyeball-to-eyeball.

If Brezhnev and his close associates continue to dominate the congress on the policy and personnel levels, the outcome will be as momentous as the defeat of Jimmy Carter in the United States. Brezhnev's keynote address affirmed Moscow's belief that Carter's exit created vital opportunities for strategic stabilization.

To the surprise of Soviet watchers, Brezhnev addressed to the West and especially to President Ronald Reagan, with whom he offered to meet, a packet of proposals for talks on the international crisis and on specific issues. The Brezhnev agenda, including an explicit offer to discuss Afghanistan in conjunction with Persian Gulf security guarantees, contains several concessions to West European initiatives.

Europeans, especially in France, saw the Brezhnev speech as leverage to get the Reagan administration moving on international issues of substance. Europe has been impatient with the uneven emphasis on El Salvador emanating from the Haig State Department.

President Reagan appeared at a White House press briefing early the same morning to give his personal preliminary response to Brezhnev's summit offer. "I was most interested," said the President, adding that he intended to discuss the Soviet proposals with the Western allies. Even Haig, in a brief statement that night, said he was "very interested" in Brezhnev's speech. It was after a lengthy meeting with France's visiting foreign minister, Jean François-Poncet, that Haig pronounced the view that elements of the Soviet leader's remarks are "new and remarkable."

French President Valéry Giscard d'Estaing revealed to the *Washington Post* this week that he has been in frequent contact with Brezhnev, including on the sticky question of international talks on Afghanistan, where the Soviets intervened over a year ago. The *Post* report added that Giscard is preparing several initiatives geared to open up East-West dialogue after the Reagan administration's first few months in office.

If Brezhnev startled Alexander Haig with his East-West proposals, Haig found company in the person of Cuba's Fidel Castro.

Brezhnev's swat at the socialist bloc's destabilization faction came as he admitted there need not be "uniformity" among communist parties. "Differences of opinion between communists can be overcome," said Brezhnev, "unless, of course, they are fundamental differences between revolutionaries and reformists or between creative Marxism and dogmatic sectarianism and ultraleft adventurism. In such a case there can be no compromise—today just as in Lenin's lifetime."

That this remark was aimed at Castro and other radicals—abetted by a Soviet support network of KGB security and other operatives and sanctioned at the highest Kremlin levels by Central Committee Secretaries Mikhail Suslov and Boris Ponomarev—Brezhnev proved by his remarks on Third World policy.

Courtesy of the Government of India

At January's summit meeting.

Brezhnev spoke prominently of India, the major developing-sector power where state-to-state economic development-based agreements have taken precedence in recent months in Soviet policy over the left radical whims of local communist party leaders.

It was in India last December that Brezhnev first presented the Persian Gulf security guarantees initiative he has now renewed. The Brezhnev plan calls for the United States, U.S.S.R., Western Europe, Japan, and China to pledge protection of national sovereignty and safe sea transit in a demilitarized Persian Gulf. In the keynote speech, he pushed the point, saying "it is absurd to think that the oil interests of the West can be 'defended' by turning that region into a powderkeg."

Brezhnev then agreed to a unique form of linkage between his Persian Gulf proposals and "the international aspects of the Afghan problem," which he said could be discussed together.

This unusual formulation was widely seen in Europe as a connection to Giscard's call for an international conference on Afghanistan. The French president indicated to the *Washington Post* that he had received a letter from Brezhnev on Feb. 4 which did not formally reject the French proposal. Washington sources said recently that François-Poncet, in his conversation with Haig, had put forward ideas on Afghanistan.

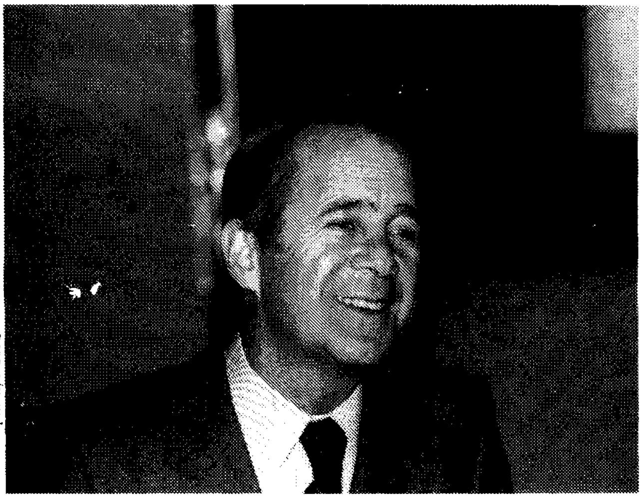
Appealing for the Soviet-American summit, Brezhnev said that "in many ways the international situation depends on the policy of the U.S.S.R. and the U.S.A." However, he added a number of proposals geared for Europe and other strategic areas.

Hailing the accomplishments of his own talks with Giscard and West German Chancellor Helmut Schmidt in the five years since the last Soviet party congress, Brezhnev called for new Europe-wide "confidence-building measures." He said that the entire European section of the Soviet Union could be included in such new measures, again a modification of the Soviet attitude in evident reaction to French proposals: Giscard has suggested an "Atlantic to the Urals" approach to European arms limitation.

Brezhnev proposed an international conference on the Middle East, a summit of United Nations Security Council members on steps to reduce the danger of nuclear war, and consultations among the Soviet Union, the United States, China, and Japan to initiate "confidence-building measures in the Far East."

A *Pravda* article by Soviet Defense Minister Dmitrii Ustinov, published on the eve of the party congress, confirmed the personal dominance of Brezhnev in the Soviet elite. The election of a new party central committee, at the close of the congress, will reveal more of the Kremlin lineup, as several dozen Brezhnev protégés and other party officials are added to this crucial decision-making body.

Ustinov's article in *Pravda* called the international war danger serious—as did Brezhnev—and portrayed Brezhnev as the Soviet leader most suited to handle such an international crisis. Referring in glowing terms to Brezhnev's World War II career, Ustinov wrote that Brezhnev's personal example showed the unity of the army and the party.



Roland Upham/NSIPS

Jean François-Poncet urges U.S.-Soviet summit meeting

French Foreign Minister Jean François-Poncet, after a meeting with President Reagan in Washington Feb. 25, praised the President's "openness toward dialogue with the Soviet Union," and urged that Reagan take up the offer by Soviet President Brezhnev for a summit meeting.

During his three days of top-level meetings in Washington, the French foreign minister sought to win Reagan over to the French government view that East-West relations ought to be characterized by both "firmness and dialogue"—rather than the confrontationism of Secretary of State Alexander Haig. François-Poncet's presence in the United States on the day that Brezhnev made his summit offer undoubtedly forced Haig's moderate reaction to Brezhnev. It would have been "a terrible public relations mistake" vis-à-vis Europe if Haig had rejected the proposal out of hand, commented the *Christian Science Monitor* Feb. 25.

The following are excerpts from *EIR*'s transcript of his Feb. 25 press conference in Washington.

François-Poncet: I have no real opening statement, but let me just say that my discussions with Haig were in depth, very open on a whole range of international issues, and very friendly. So was my conversation this morning with President Reagan. I was impressed by his friendliness, openness, and consideration he gives to the European view. My general conclusion is that although Europe and the United States have their own perspective, interests, and traditions—although my country insists on developing its own independent policy—that there is a great deal of similarity in our analyses and our objectives. It is my clear feeling that at the end of those discussions, there is a good start for the relations between my government and new American administration.

We welcome the in-depth examination being undertaken by the new administration on many issues, but this means that it is too early to say on many issues whether we have the same views. . . .

Q: Do you feel the strong rhetoric coming from this administration in regard to the Soviets will have a healthy effect—the desired effect—on Soviet behavior to moderate and improve Soviet international behavior?
A: It seems to me that what I have heard both in private discussion and in public statements is, on the whole, well balanced. It seems to me that there exists on the part of this administration a readiness and openness toward dialogue with the Soviet Union, and this is, of course, also France's view—we have conducted such a dialogue. So it would be misinterpreting to say they are moving in the direction you are indicating.

Q: How do you reconcile the welcome of the Brezhnev offer and the French position against a "Yalta"?
A: There has been no official French statement of a position. I said that, from a first impression, I see a general disposition toward dialogue from the Brezhnev speech. France has bilateral relations with the Soviet Union and we fully intend to develop these bilateral relations at various levels and we welcome this. What we would not welcome, of course, would be a situation in which problems concerning us or Europe were decided in the absence of our country. . . .

We should not take Brezhnev's declarations lightly. He said many things about the French proposal for disarmament in a European conference, but what he said about it is not completely clear. The same for what he said about the French proposals on Afghanistan.

Q: Do you agree with the American analysis of events in El Salvador?
A: This is not the question. We received the visit in Paris of Mr. Eagleburger as a U.S. envoy. He came and showed us evidence that there are arms shipments from the outside to El Salvador. What we see from that and know via other sources does, in fact, seem to confirm that such outside arms are getting in. This amounts to an outside interference. We have seen such things in many areas. We did not get a request to support U.S. policy, but in general, we always condemn that kind of outside interference. What I said this morning is that we are convinced that the situation in Central America requires economic and social reform.

Europe: Volcker is a threat to security

by Susan Welsh

West German government officials emphatically stated recently that the primary security threat to the Atlantic Alliance is U.S. Federal Reserve Chairman Paul Volcker.

At a Munich meeting Feb. 22, top-ranking representatives of the Reagan administration listened in stunned silence as a West German government spokesman informed them that the prime danger to world security is the speculative outflow of funds from the European economies due to Volcker's high interest rates.

Speaking at an international conference in Munich sponsored by the Wehrkunde defense discussion group, West German chancellery defense spokesman Lothar Ruehl declared that if the current interest-rate warfare persists, "the Americans would have to face up to the fact that the deutschemark and the Swiss franc would suffer a collapse in which the currency flight would turn into a capital flight. The West European economies would then lack the resources necessary for a recovery." Under these circumstances, any talk of financing a larger arms effort becomes meaningless, he said.

Ruehl's speech came toward the end of the two-day conference, which had seen heated attempts by various of the 150 participants to set President Reagan and Western Europe at each other's throats. The meeting preceded British Prime Minister Margaret Thatcher's Feb. 25 arrival in the United States, where she will try to reaffirm the Anglo-American "special relationship" against West Germany and France.

Frank Carlucci, U.S. deputy secretary of defense, delivered a bristling speech demanding that Western Europe increase its defense expenditures sharply and deploy its armed forces into areas like Southwest Asia, outside the NATO area.

West German Defense Minister Hans Apel sharply rejected such demands. As Herr Ruehl stated the case, there can be no effective coordination of Western foreign and defense policy unless the economic crisis is brought under control and Paul Volcker is prevented from carrying out his wrecking operations against the industry of Europe.

Furthermore, West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing are convinced that the official or unofficial expansion of NATO into areas like Southwest Asia would be taken as a major provocation by the Soviet Union, sharply heightening the danger of war and undermining those in the Soviet Union who back cooperation with the West.

In a speech okayed before delivery by Secretary of State Alexander Haig, Carlucci attempted to bully the West Germans to accept the expansion of NATO. Carlucci, a former deputy chief of the CIA, announced that "the United States cannot be expected to improve and strengthen United States forces in Europe unless other allies increase their own contributions to the combined defense effort. Nor can the United States, unaided, bear the burden of promoting Western interest beyond Europe." Carlucci demanded an "expanded concept of European security": "in key areas of the world beyond Europe, we will begin to build a more durable framework of relationships designed to enhance the security of those regions."

Carlucci did concede that NATO's treaty forbids it to operate outside Europe and the North Atlantic. But then he called for individual member countries to deploy their forces to Southwest Asia, particularly the Persian Gulf region while British Undersecretary of State for Defense Geoffrey Pattie sounded a similar theme.

West German Defense Minister Hans Apel flatly rejected the proposal to expand NATO: "The alliance is a NATO-alliance and has no global commitments." He emphasized that the Bonn government stands by its commitment to work for arms control and détente at the same time as it strengthens NATO defense.

In the discussion following Apel's speech, Reagan adviser Helmut Sonnenfeldt bluntly denounced the defense minister: "You cannot win at the negotiating table what you have not won on the battlefield," he said. "There are threats to NATO beyond NATO limits. In this field there is a profound assymetry vis-à-vis the Soviet Union. . . . We must achieve a better balance in the area from the Arab countries to India."

Following the "hard-liners" came speeches by West German leftist parliamentarians, whose only purpose was to convince Reagan that a "tough" line is needed to whip Europe into shape.

Social Democratic parliamentarian Horst Ehmke, a leading light in the Socialist International, stressed the importance of Europe's new peace movement. He attacked U.S. support for the El Salvador junta and warned of the danger of a "new Vietnam."

Karsten Voigt, another top Social Democratic leftist, demanded that the conference discuss the report of Willy Brandt's North-South commission as "an appropriate contribution to Western strategy." The Brandt Commission report calls for deindustrialization of the advanced sector and labor-intensive "development" of the Third World. Brandt has gone on public television to declare his support for the El Salvador guerrillas.

The German Marshall Fund: reviving the Morgenthau Plan

by Susan Welsh

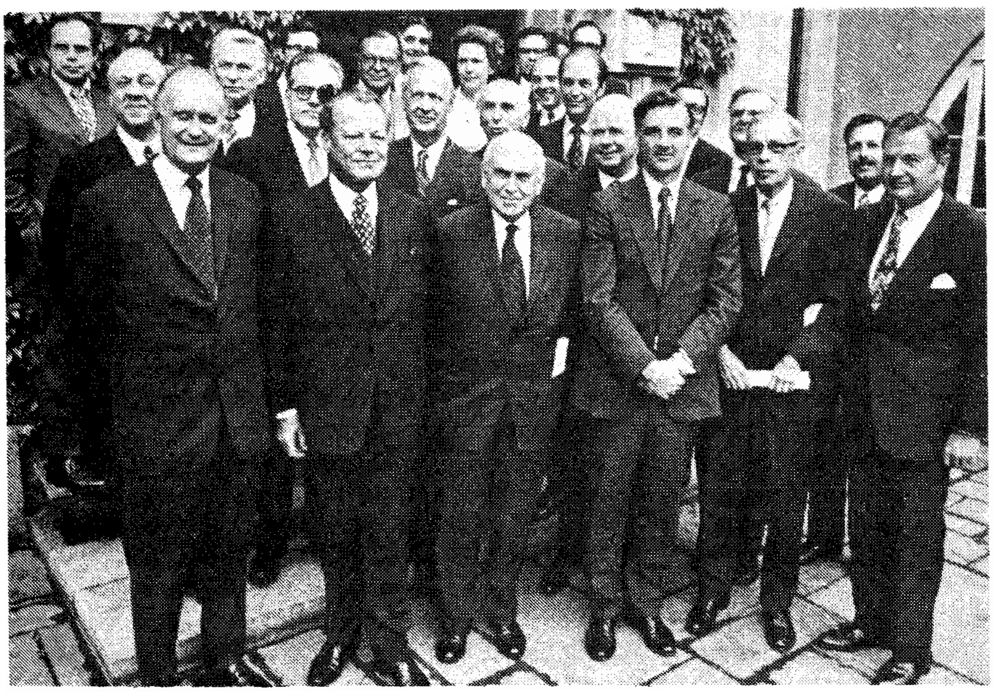
This article was researched by a team of investigators, headed by Luba George in New York, that included Rainer Apel and Angelika Beyreuther in West Germany, and was written by Susan Welsh.

"If someone were to propose a revised 'Morgenthau Plan' for the Ruhr, I would not be against it," said Friedhelm Fahrtmann, the Social Democratic labor minister for the state of North Rhine-Westphalia, in a recent West German radio interview. Fahrtmann was referring to the 1942 plan for the dismantling of German industry devised by Great Britain, and sponsored by U.S. Treasury Secretary Henry Morgenthau, Jr.

Fahrtmann does not have far to look, since indeed someone is proposing such a program: the German Marshall Fund, an *American* foundation based in Washington, D.C., was set up in 1972 with *German* taxpayers' money to draw up detailed operational blueprints for the deindustrialization and deurbanization of both the United States and West Germany.

The GMF is one of several institutions assigned by Anglo-American blueblood families to phase in a world whose economy is under the regime these families call "controlled disintegration." The GMF maintains close ties to the Club of Rome, the London Royal Institute of International Affairs, the Academy for Contemporary Problems, the Aspen Institute, the Deutsches Institut für Urbanistik, the Institut Français des Relations Interntionales, the Council on Foreign Relations, and other leading "futurology" think tanks.

Since its founding in 1972, the German Marshall Fund has financed over 400 research and social engineering projects in the following areas: social tensions, service economies, deurbanization, decentralization, citizens' initiatives, alternative modes of production, and problems of minorities and immigrant workers. Hundreds of thousands of dollars annually are funneled into environmentalist and radical counterculture groups, as well as into geopolitical projects aimed at sabotaging the Paris-Bonn axis for industrial development that has existed in



GMF directors and honorary committee members with Willy Brandt. Front row from left: C. Douglas Dillon, Brandt, John J. McCloy, C. Bok, John Conant, David Rockefeller.

its current, somewhat fragile, form since the 1978 establishment of the European Monetary System.

The original plan

Behind the distinguished-sounding but kooky German Marshall Fund are the patrician circles who tried to smash post-World War II "German nationalism" by means of the Morgenthau Plan. At a meeting of U.S. officials in September 1944, Morgenthau demanded the annihilation of the Ruhr, Germany's industrial heartland:

> The only thing you can sell me or I will have any part of is the complete shutdown of the Ruhr. . . . Just strip it. . . . I don't care what happens to the population. . . . I would take every mine, every mill and factory, and wreck it. . . . Steel, coal, everything. Just close it down.

The plan had the full backing of British Prime Minister Winston Churchill and was sold to President Roosevelt, becoming part of the resolution of the 1944 Quebec Conference: "The program for eliminating the war-making industries in the Ruhr and in the Saar is looking forward to converting Germany into a country primarily agricultural and pastoral in its character."

The Morgenthau Plan was never implemented in its most systematic form (due in part to the opposition of Secretary of State Henry Stimson, Gen. Dwight Eisenhower, and West Germany's postwar leader, Konrad Adenauer). But the Allied occupation of Germany was carried out by means of the "four D's": "demilitarization, denazification, deindustrialization, and democratization." What this meant in practice was: 1) the dismantling of industry, especially in the Ruhr, which was occupied by the British; and 2) a psychological warfare operation carried out under the direction of Britain's Tavistock Institute psychiatrists and their colleagues from the U.S. Strategic Bombing Survey. The purpose of the Tavistock campaign was to inculcate in the German population a sense of "collective guilt" for the crimes of the Nazi regime, and to link this guilt to the very sense of German nationhood and particularly economic development. "The German industrialists bankrolled Hitler" was the line circulated by the British and their American liberal sympathizers. The latter, unlike the former, often did not know that London's support for Nazi Finance Minister Hjalmar Schacht was the crucial element in Hitler's rise to power.

The Marshall Plan, which sent $16 billion in U.S. aid to Western Europe from 1948 to 1952, was intended by the best elements in the Truman administration to be the opposite of the Morgenthau Plan concept, and to substitute European economic recovery efforts for Britain's much-disliked NATO blueprints. But as administered by the State Department Policy Planning Staff, the Council on Foreign Relations and Brookings Institution and Twentieth Century Fund personnel—who largely designed the program—it pursued a very peculiar form of "industrial recovery." For continental Europe, including Germany, the goal was to build "self-sufficiency" from U.S. dollar imports, to impose fiscal and wage austerity, to finance investments from "savings" rather than international credit, and to promote selective cheap-export sectors, all in the name of "balance-of-payments equilibrium."

Of $14 billion in funding over the four years of the plan, West Germany received $1.4 billion, plus various funding through the Occupation authorities—but this total of $4.5 billion was exceeded by outflows from reparations, occupation cost-defrayment, forced coal exports, and financing of old debt. The Marshall Plan's provision of emergency relief was accompanied by enforcement of a subsistence-wage, low-productivity regime, and a refusal to capitalize mining that crippled Europe's steel production. The 1936 levels of industrial output were not reached until the Korean War; the goal of the Marshall Plan was again balance-of-payments equilibrium, and domestic balanced budgets, not economic recovery. And the plan's brutal 1948 currency reform, as United Nations economists observed, slashed savings and industrial credit flows in western Germany while favoring short-term speculators and nonessential business sectors. (The only real material beneficiary of the Marshall Plan was Britain, which received the largest amount of aid and was allowed to use it to build up its oil refining and sales and to retire national debt.)

The fund's origins

The German Marshall Fund was created through the efforts of then-Chancellor Willy Brandt and Social Democratic party officials Egon Bahr and Horst Ehmke. Guido Goldman, director of the Center for European Studies at Harvard University (and today a fund trustee), played a key role. The fund was needed, he said, because "the most pressing problems of the advanced industrial nations—education, environmental protection, transportation, urban planning, social services—cannot be solved merely by expansion of economic resources. Their solution depends also on the imagination and insight with which governments choose alternative possibilities."

The fund was inaugurated June 5, 1972, the 25th anniversary of the announcement of the Marshall Plan. Brandt declared the "deep gratitude of the German people for the generous assistance" of the United States. "As a symbol of this deep and lasting gratitude," he said, "the government of the Federal Republic hereby declares its intent of contributing 150 million deutschemarks [$70 million] in the next 15 years for the establishment and maintenance of the German Marshall Fund in the United States—a memorial to the Marshall Plan." Since then some DM 10 million per year has been appropriated to the foundation, with no control by West Germany over how the money is spent.

The fund's honorary trustees include the top administrators of the postwar occupation of Germany:

• **W. Averell Harriman,** who oversaw the Marshall Plan in 1948-50 through the Economic Cooperation Administration, following his role in curbing U.S. exports as Secretary of Commerce in 1946-48 and his wartime efforts to undercut any U.S.-Soviet entente at the expense of Great Britain. Harriman, who married into the Churchill family, helped to run the Anglo-American interpenetration involving "KGB mole" networks in the 1920s and 1930s, and in 1954 founded the supranational Bilderberg Society, together with Prince Bernhard of the Netherlands (the head of the archenvironmentalist World Wildlife Fund) and Joseph Retinger (a Jesuit "one-worldist" associate of Count Coudenhove-Kalergi, founder of the Pan-European Union).

• **Robert A. Lovett,** who also shaped the Marshall Plan from his number-two position in the State Department after the war. A descendant of the Boston blue-blood Abercrombie family, Lovett is married to Adele Brown of the Brown Brothers Harriman investment banking family.

• **John J. McCloy,** U.S. Military Governor and High Commissioner for Germany in 1949-52. McCloy's support for the policy of dismantling German industry is illustrated in Adenauer's memoirs, which also record his harping on the theme of German "collective guilt" and the alleged inundation of federal and state offices with unrepentant Nazis. He imperiously demanded that Adenauer "examine the influence of the Bismarckian attitude . . . the authoritarian principle" that "had made the German people somehow susceptible to such excesses." (Adenauer tartly informed him that the founder of the Gestapo, Herr Diels, had been wined and dined as the guest of the Allied governments for many months at Nuremberg, where he was living a life of splendor.)

The architects of the new Morgenthau Plan are funding a wide range of "alternative lifestyle" and deurbanization projects, including the following:

• **Deurbanization and deindustrialization:** $600,000 during 1978-79 for the "Trinational Exchange" program, to investigate how "dying cities" can be made "livable." The answer proposed is the "free-enterprise zone" concept developed by Sir Peter Hall of the School of Planning Studies at the University of Reading in England, a participant in the GMF study. The university maintains close ties to London's Tavistock Institute.

The study proposes to transform heavy-industry-based cities like the Ruhr steel center of Dortmund and promote small, non-energy-intensive industries there. Said a spokesman for the Academy for Contemporary Problems, which participated in the study, "The Ruhr is far too oriented toward heavy industry. . . . The future of all of West Germany is in postindustrial forms of production, not industrial ones. . . . A city like Dortmund has to shrink, not only in size, but in its ideas about the future. Decentralization is the motto for the future.

Peter Hall told a reporter that "industrial growth in Germany is finished, and the country will undergo a planned collapse. . . . The labor movement is the main roadblock to the postindustrial era. They will make alliances to prevent the scrapping of heavy industry. Their power to hold back progress must be broken."

• **Environmentalism and the counterculture.** Financing of research on citizens' participation and protest in nuclear power plant-siting decisions in the United States, Germany, and France. A $34,650 grant for "environmental internships in Europe" to allow U.S. environmentalist organizations to study at the Institute for European Environmental Policy in Bonn. A $100,000 grant to the Conservation Foundation in the U.S. and $60,000 to he International Institute for Environment and Society in West Berlin to study "the impact of environmental protection regulations on the location of industrial facilities and sitings."

Willy Brandt, in a speech to the GMF-financed "Eurosocialism and America" conference in Washington Dec. 5-7 gave his imprimatur to the quest for "alternative lifestyles." Since "the period of ongoing economic growths seems to be over for the foreseeable future in the Western industrialized nations," he proposed that "the quest for alternative life-styles, for the individual and for groups, should not simply be rejected."

• **The Brandt Commission versus the EMS.** $100,000 "seed money" in 1977 for Willy Brandt's Independent Commission on International Development Issues. The so-called Brandt Commission has as its aim the fostering of North-South "cooperation" based on deindustrialization of the North and labor-intensive "appropriate technologies" for the South.

The GMF, together with the London Royal Institute of International Affairs (Chatham House) sponsored a "small private seminar" Oct. 12, 1978 to discuss the formation of the European Monetary System (EMS) by Chancellor Schmidt and French President Giscard. The Chatham House newsletter withheld any specific information on this gathering of "specialists," citing "the sensitivity of the negotiations at that point." Although Great Britain refused to enter the EMS, some Chatham House spokesmen have criticized this policy, arguing that to remain outside deprives Britain of crucial levers of control over the continental powers.

From New Delhi by Paul Zykofsky

Student demos shake Pakistani regime

Unrest in the Punjab is forcing the government to seek diplomatic solutions.

The Pakistani military junta of General Zia Ul-Haq was clearly shaken by the wave of student demonstrations and sometimes violent clashes with police which swept across the country during the third week of February. For the first time in more than three years, since Zia took power in a July 1977 coup against the government of Prime Minister Z. A. Bhutto, large numbers of people took to the streets in a public display of the widespread hatred of the regime that everyone knows lies just below the surface.

The junta called a panicked emergency meeting of the cabinet attended by all four provincial governors and the army corps commanders on Feb. 21. Orders were issued to close most of the colleges and universities in two provinces, the key province of the Punjab and the Northwest Frontier Province (NWFP), where the most severe clashes were reported.

More revealing was the house arrest and ban on travel imposed by police on Bhutto's widow, Begum Nusrat Bhutto and his daughter Benazir, who now lead the Pakistan Peoples Party, founded by Bhutto, and the core of opposition to the regime.

Only a couple of weeks ago the Bhutto home in Karachi was the scene of a meeting of the leaders of nine political parties, almost all the parties in the country except for the rightist Islamic fundamentalist Jamaati Islami, which supports the junta. There, the formation of an alliance, the Movement to Restore Democracy, was announced, demanding an end to the martial law regime, an end to censorship and repression of open political activity, and calling for immediate free national elections.

The students who were out in the streets were openly supporting this movement and its goals. Their actions were sparked by junta moves to crack down on political activity on the campuses after the sweeping victory of the PPP-linked Pakistan Student Federation in student elections in the NWFP and the Punjab. The victory was over previously entrenched student groups affiliated with the fanatic Muslim Brotherhood-tied Jamaati Islami.

Observers in New Delhi have not missed the importance of these happenings in their neighbor's land. While news of these events goes largely unreported in the West, it has been front-page news for days in India.

The first thoughts, including among government circles, concern the impact of this on the Zia regime's tightrope diplomacy over the Afghanistan situation. On the principle of one step forward, two steps back, the regime has been exploring diplomatic openings for talks with Moscow and Kabul, with one eye cocked on Washington to see if a better deal is available from that corner.

The signs of shakiness at home tend to strengthen the hands of those in Pakistan who argue that a deal must be reached on Afghanistan if that regime is to survive. The Afghan issue, and the prevalent feeling among Pakistanis that the regime has been playing with fire for no good reason, as well as burdening the country with over 1 million Afghan refugees, is crucial to current events. In a recent interview with the BBC, Benazir Bhutto made a point of criticizing the provocative policies of the regime and calling for a political solution, including establishing cordial relations with the Babruk Karmal regime in Afghanistan.

Privately, Indian officials do not conceal their view of the Zia regime as an unstable dictatorship whose instability could lead to widening conflict in the region. While no steps can or would be taken to encourage its downfall, it is certain that few tears would be shed here over its demise, particularly in favor of a civilian government.

More arrests have now followed, and Zia is reported to have declared that "the government remains determined to prevent lawlessness." Things may be calm for the moment because of outright repression but close observers here are convinced there is more turmoil to come. The fact that the demonstrations, which struck every major city in the country, included the Punjab, the home of the majority of the country and the stronghold of the army, is highly significant. As any Pakistan-watcher can tell you, as the Punjab goes, so goes the country. And no one forgets that student protest has been the leading edge of popular unrest that has in the past brought down two previous military regimes.

Arab left challenges Brezhnev

Qaddafi and the People's Democratic Republic of Yemen are out to head off Soviet and Saudi diplomacy.

While Soviet President Leonid Brezhnev condemned "ultra-leftist adventurism" in his address to the Soviet Communist Party Congress this week, the leaders of the extreme Arab left opened a campaign to spark anarchist uprisings within the Persian Gulf. Over the past month Brezhnev has repeatedly stressed the need for the big powers to form a compact to finally stabilize the Gulf.

This divergence reflects the longstanding split within the Kremlin between hardline Marxist-Leninists associated with British triple agent General Kim Philby of the KGB, and the pro-détente centrists allied to Brezhnev. Philby, a British national, inherited his connections with the Arab left through his father, the Fabian orientalist Harry St.-John Philby. It is precisely this interface of British intelligence with the KGB that is triggering extremism in the Gulf to undermine the Soviet president's bid for rapprochement and for stability.

The key players in this dangerous KGB-British ploy are the ultra-radical regimes of the People's Democratic Republic of Yemen and Libya. PDRY president Ali Nasser Mohammed last week conferred with Libya's Muammar Qaddafi in order to coordinate the creation of regionwide liberation movements aimed at destabilizing the Arab oil producers of the Persian Gulf. The catalyst behind this maneuver is the just-begun American military maneuvers with the Sultanate of Oman. Located on the southern border of Saudi Arabia, Oman controls the strategic Straits of Hormuz at the mouth of the Gulf.

Secretary of State Alexander Haig's vocal determination to intensify American military presence in the area has contributed to the growing anti-American radicalism in this volatile region.

Before Mohammed embarked for Libya, he warned that he would restart the now defunct Dhofar rebellion in Eastern Oman. In their communiqué, Qaddafi and Mohammed pledged to cooperate in challenging not only American presence in the area, but French military presence in Africa as well. They voiced their opposition to the regimes of Somalia and Egypt for military cooperation with the United States.

While Qaddafi and Mohammed were devising schemes to destabilize the Gulf, a Gulf Freedom Front, a coalition of liberation movements, was formed in Beirut. Included in the front is the PDRY-based Popular Front for the Liberation of Oman, an ally of the terrorist wing of the Palestinian movement.

The PFLO over the last month has begun a powerful propaganda campaign against not only Oman but the Arab oil-producing states, including Saudi Arabia, which just formed a regional security pact committed to preventing terrorism.

French sources report that the rulers of the PDRY have begun to put pressure on the pro-Saudi leadership of North Yemen to form an alliance opposing the "American military threat" to the region.

The Beirut daily *As Safir*, a Libyan mouthpiece, reported this week that tensions have erupted between Saudi Arabia and North Yemen over the renewed efforts by the PDRY to forge unity with its northern neighbor.

A faction fight reportedly has erupted within the secretive North Yemenese leadership over the issue. *As Safir* reports that earlier this month border skirmishes broke out between Saudi Arabia and North Yemen.

The PDRY-backed National Democratic Front, which until recently had waged guerrilla war in North Yemen, is now conducting talks in Senaa on reunification of the Yemens. Saudi Arabia, an ardent opposer of Communist influence on the Arabian peninsula, has consistently used its wealth and influence to prevent such a merger.

A reunified Yemen would be dominated by the Marxist-Leninist leadership of the PDRY, which would intensify instability throughout the region. Historically Aden, the capital of the PDRY, has been a stronghold of British Special Intelligence operations.

Since the Islamic revolution in Iran, there have been clandestine ties established to create a terrorist capability throughout the Gulf. Earlier this month, the National Democratic Front sent a delegation to Iran, and French press sources report that Iran shortly thereafter sent a delegation to Aden.

Dateline Mexico by Josefina Menéndez

Some warning shots of terror

Is the mayor of Mexico City, Hank González, sending a political message for 1982?

As my readers will remember, I reported a month ago that the powerful mayor of Mexico City, Carlos Hank González, has a very particular strategy to arrive at the presidency.

Carlos Hank is barred by the constitution from becoming president—his father was foreign-born—so his next best strategy is to force an "Italian style" figurehead president into office when José Lopez Portillo's term ends next year; change the constitution; and run himself in 1988.

As I told you, some well-placed officials here see one of Hank's major weapons being terrorism. A sudden spurt of terrorism last week lends new weight to this analysis.

First, three "students" (whose ages varied between 35 and 45 years old) wielding machine guns took over the office of the president of National University. Originally forgetting to specify any demands, the trio later asked for more money for the high schools run by the university. After holding the president's personal secretary hostage for 16 hours, the terrorists moved to the home of one of Mexico's most notorious terrorist controllers, Fausto Trejo. After additional negotiations, the three were allowed to fly out of the country to an unspecified European country in exchange for releasing the hostage.

The dissident movement in the national teachers union (SNTE), which I have exposed in other columns as a creation of the Jesuits and a gaggle of left sects grouped around the Mexican Communist Party, suddenly began a series of "flying rallies" on the premises of the major embassies, under the ridiculous pretext of "letting teachers in other countries" know of the Mexican teachers' plight.

Simultaneously, a PCM-coordinated group from Oaxaca showed up to occupy the Indian and Guatemalan embassies. After a few tense hours, they were dislodged by the police.

To top it off, an attempt to seize the armory of a centrally located bank security office was identified as possibly the work of a revived offshoot of Mexico's most famous terrorist outfit of the early 1970s, the 23rd of September League.

In the four years of López Portillo's term, terrorism has been largely quiescent; but it plagued the country from 1968 to 1976. It is taken for granted here that last week's sudden outbreak is someone's message.

A high government official insisted to me this week that Hank González's control over the PCM-pivoted left-Jesuit apparatus is much more extensive than generally realized. "It's true that he knows nothing of economics or science, but he's a first-rate psychologist and knows very well how to manipulate people," he commented.

The official warned that Hank is putting his bets on three candidates as his frontmen, and will stop at nothing to see that one of them gets the nod.

But observers here are giving special importance to Hank's slippage in control of his home state two weeks ago as a likely trigger to the "message."

The state of Mexico, which Hank governed from 1969 to 1975, is one of the richest in the country. For almost 35 years it has been a political bastion of Hank González's mentor, Gustavo Baz, and then of Hank himself.

The question of whether Hank had the strength to impose yet another of his close group as the governor for the 1981-1987 term was seen as an important indication of his power to determine the presidential sweepstakes.

And as of the first week of February, when it became known that a person not directly to Hank's liking, Alfredo del Mazo, had received the nod from the ruling PRI party, political analysts began putting out the word that some response from Hank could be expected.

Security officials here are privately keeping their eyes on one additional element of the picture, one Mr. Henry Kissinger. Henry, who knows even more about how to manipulate terrorism than Carlos Hank, was in Oaxaca at the time the Oaxaca terrorists headed off to their violent rendezvous at the Mexico City embassies. He was also in Oaxaca the last time the group erupted along a terrorist profile. And now Henry is completing his traditional one-month winter vacation in Acapulco in the company of precisely the "jet set" offshoots of European nobility who dot the dossiers of European antiterror security investigations.

International Intelligence

Zamyatin denies Moscow arms Salvadoreans

Leonid Zamyatin, head of the Soviet Communist Party's Central Committee Information Department, stated Feb. 25 that "The Soviet Union does not provide El Salvador with arms. It never has. It never will."

Zamyatin continued, "The President [Reagan] is absolutely incorrect. When the State Department invents White Papers that repeat lies many times, the lies do not become the truth." Zamyatin said that the Salvadorean junta is "decimating the population" with the help of American weapons and military advisers, and that the rebels are led not by communists but by social democrats waging "a struggle for national salvation."

Zamyatin further reported that Mr. Reagan's response to Leonid Brezhnev's request for a summit meeting "did not go unnoticed" in Moscow, but he criticized the idea of preconditions for the meeting. "This is not a correct approach. . . . This sounds very much like hegemonism, like the Chinese," he said, adding that Moscow is ready to talk "without preconditions of any kind."

Iraq renews oil exports

Iraq and Syria put their differences aside this week to reach an agreement allowing for the renewed shipment Iraqi oil exports through Syria to the Mediterranean. Iraq resumed oil exports in December, following a three-month shutdown of oil flows due to its war with Iran.

Shipments of crude through Syria were blocked due to terrorist sabotage of the pipeline. Syria, a longstanding adversary of Iraq, has take a pro-Iran stance in the Gulf war.

Reports from Damascus this week indicate that the initial flow of Iraqi crude through the Syrian pipeline will be 800,000 barrels per day (bpd) and will gradually increase to 200,000 barrels a day. To date, Iraq is exporting an estimated 800,000 bpd.

Oil company sources estimate that Iraq and Iran together could be exporting as much as 4 million bpd of oil by the fourth quarter, as compared to the 5 million bpd they jointly exported before the outbreak of the war.

Sources expect Saudi Arabia to make a 2-million-bpd cut in its record exports to offset the renewed oil flow. It is expected that OPEC will be exporting only 25 million bpd by the end of the year, a full 8 million less than 18 months ago. This precipitous decline is due to the plummet in world consumption of oil.

Peking tries to remedy exchange shortage

The severe foreign exchange crunch afflicting the People's Republic of China has apparently driven the Peking regime to adopt extreme measures to quell the problem.

The Chinese govenment is reportedly demanding that Chinese students in Japan who are recipients of scholarship funds from the Japanese government hand over two-thirds of their monthly grants to the Chinese embassy.

The Chinese have also issued orders that all exchange deposited in foriegn countries or in Hong Kong and Macao must be transferred home immediately.

CFR proposes 'directoire' for global NATO role

The West German, French, British, and American branches of the Council on Foreign Relations, all originally founded as spinoffs of the Royal Institute of International Affairs in London, this week jointly released new study advocating "a new alliance relationship" based on a "directoire" including the U.S., France, West Germany, and Japan, and focused on "active European military participation on ground and sea" globally. The report states: "Western security can no longer be limited to events and threats occurring in the NATO region alone."

The report, which proposes to subsume economic, technological, and security policy under the banner of NATO, is a rehash of three years of the U.S. CFR's policy recommendations, most completely developed in a June 1980 *Foreign Affairs* article by Robert Legvalt, the CFR's project director under Cyrus Vance for the council's Project on the 1980s proposals regarding the U.S.S.R. The Legvalt studies have never been formally published.

The report is viewed by some analysts as an effort to sour Reagan's relations with Schmidt and Giscard, who reject a NATO expansion, and by others as a blueprint for Western Europe after the CFR has dislodged the two leaders from power.

The proposals include strategic nuclear balance with the U.S.S.R.; deployment of Pershing missiles in Europe; possible resumption of arms-control talks; availability of European forces for deployment in the Persian Gulf and Indian Ocean; revitalization of the Camp David process; and encouragement for the Afghan liberation movement.

Brokdorf, Frankfurt get government boost

Authorities in the West German state of Schleswig-Holstein have banned an antinuclear demonstration that was scheduled to take place in the town of Brokdorf on Feb. 28, at the nuclear power plant construction site there. Police had gathered extensive information attesting that the demonstration would be violent.

Meeting in Bonn Feb. 25, the federal cabinet backed the Schleswig-Holstein government and urged observance of the prohibition. Radical groups say they will go ahead with the demonstration.

In a related move, the governor of the state of Hessen, Holger Börner, announced Feb. 25 in the state parliament that the much-disputed third runway for the Frankfurt international airport will be built, despite environmentalist protest. The government's duty is to secure the material existence of its citizens, he said. All three parliamentary parties backed Börner and demanded that construction work begin as soon as possible.

Mexican development conference in Mexico City

"The only barriers to Mexico's becoming an industrialized country in the next 20 years are political. The technological, economic, and scientific feasibility have been proven," stated Dr. Steven Bardwell, the opening speaker at a conference cosponsored by the U.S.-based Fusion Energy Foundation and the Mexican Association for Fusion Energy (AMEF).

The subject of the conference was the two foundations' just-completed development program for Mexico. The 150 participants included representatives of eight Mexican government ministries, a number of private-sector firms, banks, educational institutions, and research groups. Presentations by Dr. Bardwell, Dr. Uwe Parpart, Cecelia Soto de Estévez, Patricio Estévez, Dr. Luis Abreu, and Jorge Bazua drew on *EIR*'s LaRouche-Riemann econometric model, which has demonstrated the feasibility of the rapid industrialization of Mexico.

Jesuit responds to political charges

The provincial superior of the Jesuit order in Mexico, Enrique Nuñez, S.J., was obliged to issue a lengthy public interview last week in an attempt to clear the order's name from charges of coordinating right-versus-left bloodshed in Central America. The charges have been disseminated by the *Executive Intelligence Review* internationally.

Nuñez told the Mexican daily *El Heraldo* Feb. 20 that Jesuits in El Salvador and Guatemala have come under threat of terrorist action. The alleged threats, he said, "have their origin in false and slanderous stories invented by individuals or interested groups who assert that the Society of Jesus is the cause of the armed insurgency in some of these nations." Father Nuñez added that "although some Jesuits had to leave the region because of the danger, the order will stay in the thick of day-to-day deployments because our task is to be with the population in its most difficult moments and accompany it through all risks."

Heritage: special channel for Thatcher

Sources in Washington report that the Heritage Foundation, a Fabian-controlled think tank, is going to be used as a special channel into the Reagan administration by British Prime Minister Margaret Thatcher who was visiting the U.S. this week.

According to the sources, Thatcher intends to "upgrade her relationship" with Heritage, which has several operatives planted inside the administration. The foundation, which has a direct link to the Thatcher-run British Center for Policy Studies, will soon be the base of operations of the prime minister's personal political secretary Richard Rider.

Sources at the foundation, whose connections to the British Fabian Society have been a subject of recent controversy, said that the entire operation should be handled very quietly and informally, without much publicity, since any overt connections would cause embarrassment for both the Thatcher government and Heritage.

It might make the Reagan people "very suspicious," the source reported, and that "would defeat the whole purpose of what the prime minister wants."

The topic will come up in informal discussions this week between representatives of the foundation and Mrs. Thatcher's entourage.

Briefly

● **PRINCE FAHD** told a Swedish press conference Feb. 22 that Saudi Arabia is "free to contact any country in order to buy weapons and advanced equipment. . . . If circumstances require it, we will buy weapons from the Soviets." He proposed that the American people "demand bipartisanship and honesty from their government." The conference was not covered in the U.S. press.

● **SPANISH** sources told *EIR* after the failed Spanish coup that Alexander Haig's ties into Spain's military and the Spanish Church are germane to the fall of Adolfo Suárez this month. Suárez had resisted the Carter administration's pressure to join NATO. The State Department wants nuclear weapons installations in Spain and use of bases without prior approval from Spain for the U.S. Rapid Deployment Force.

● **ROBERT MCNAMARA,** outgoing president of the World Bank, suddenly canceled a visit to India due to "illness." The reason was Prime Minister Gandhi's refusal to see him after the Bank revoked a $250 million loan for a fertilizer project.

● **THE ICFTU,** the "free world" trade union grouping run mostly by the Socialist International, will meet in New Delhi on March 18-20. Word is they will push Brandt Commission proposals.

● **SAID GAILANI,** one of the many self-appointed leaders of the Afghan rebels, is being given the red-carpet treatment in Washington, visiting leaders on Capitol Hill, seeing Assistant Secretary of State Veliotas, and speaking before groups like the American Legion. Gailani is more often seen in London than on the Afghan frontier. His sponsors in Washington are a group based in the American Security Council led by former Defense Intelligence chief Danny Graham. Gailani's controller is London's Lord Bethel, active in Polish events.

Haig, media launch Salvador operation

by Kathleen Murphy

Soviet President Leonid Brezhnev's unexpected proposal for an early summit between himself and President Ronald Reagan has thrown a monkey wrench into the schemes for a superpower confrontation which U.S. Secretary of State Alexander Haig and his Socialist International cronies have been desperately trying to get off the ground.

Brezhnev's proposal, put forth in his speech to the Soviet Party Congress in Moscow, is the fruit of a coordinated, behind-the-scenes move by the Brezhnev faction in the U.S.S.R. together with the governments of French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt to help Reagan out of the crisis-management track that Haig has been steering him onto.

The summit offer comes after weeks of wild-eyed efforts by Haig—with crucial backup by the leading Eastern Establishment press outlets—to poison relations between the U.S. and its Western European allies, and the Soviets.

Shortly after being sworn in as secretary of state, Haig embarked on a campaign to turn the guerrilla war in El Salvador into a "test case" of U.S.-Soviet relations. Lying that the Soviets are the number-one backers of international terrorism and the key supplier of arms to the left-wing insurgents in El Salvador, Haig has been steadily pushing for a major blowup on the issue. Two weeks ago, he deployed three separate groups of State Department officials to Europe and Latin America in an effort to pressure U.S. allies into going along with his charges. While the missions met with little success, Haig nevertheless increased the pressure by telling Congress that a substantial increase in U.S. military aid to the El Salvador junta was required, while intimating through the media that some kind of U.S. military intervention might be in the offing.

On the same day that Brezhnev issued his summit offer, Haig made a major publicity ploy by having the State Department release the "evidence" on Soviet involvement in the guerrilla war.

President Reagan's response to the Brezhnev offer underscores the potential for the two leaders to sit down and begin to work through some of the key problems that face them. Reagan told reporters Feb. 24 that he was "most interested" in the Soviet offer and that "it is now something that we will consider, among ourselves, and most particularly with our allies. . . . I am not sure what is in Brezhnev's heart," Reagan added, "but let me just say that I find his invitation interesting."

Significantly, Reagan also stressed that he has "no intention" of getting the U.S. into a Vietnam imbroglio in El Salvador, suggesting that the President is by no means as enthusiastic as his secretary of state for a new Cuban missile-style crisis.

Haig's sabotage

It is clear from the response by Haig and the Eastern Establishment media to the Brezhnev proposal that they want to delay a summit between the two heads of state for as long as possible. On Feb. 23 Haig said the summit proposal was "very interesting" and "innovative." Within 24 hours he was openly urging that the summit be delayed. In an interview with French televison on Feb. 24, Haig tried vigorously to throw cold water on the Brezhnev proposal, without exposing himself as a saboteur. While commenting, "We do anticipate and would strongly encourage a dialogue between ourselves and the Soviet Union, which I hope will be rapidly forthcoming," Haig bluntly continued, "We are not in a hurry for summitry." Summitry, he added, "should result in achievements" and "must be carefully prepared" in advance. "The number of differences between the parties to summitry should be on the verge of some kind of negotiated consummation. Consequently, I think, clearly we have a lot of preliminary work to do in the areas of East-West differences before summitry itself would be in order."

According to a Feb. 25 article by *Baltimore Sun* correspondent Henry Trewhitt—an admirer of Haig with high-level sources at the State Department—"American diplomats" in Washington "see little prospect of early progress in American relations, and even less for a meeting soon between Presidents Reagan and Leonid Brezhnev." Trewhitt cited Haig's French television interview as evidence that he personally shares this "practical view" and reported that Washington sources believe that Haig's initial response to Brezhnev was merely propaganda cover, motivated partly by the presence in Washington of French Foreign Minister Jean François-Poncet.

Haig's attempts to sabotage the summit are being bolstered by the press, particularly the "dovish" *New York Times.* One of the few newspapers to report Haig's comments to French TV, it simultaneously downplayed Reagan's own open reaction to Brezhnev. In a lead editorial Feb. 24 which dovetailed perfectly with Haig's remarks, the *Times* urged Reagan to issue "a counterproposal" to invite Brezhnev to Washington "along about Labor Day"—six months from now. The *Times* said that one important benefit of such a counterproposal would be to "resume the Nixon pattern of annual summit conferences, so that these gatherings will appear reasonably routine rather than overblown efforts to settle every issue."

The *Times* editorial gives away the game that Haig and his Socialist International allies are playing. Essentially, it involves delaying a face-to-face meeting between Reagan and Brezhnev until the international climate can be so overheated by provoked crises that a summit, if it did eventually occur, could only produce a deadlock. If the Brezhnev-Reagan meeting were to take place before this confrontation atmosphere could be set, the fear is that Reagan, despite his traditional anticommunism, may find important points of agreement with Brezhnev, particularly on the question of economic development, an outlook which both men share. This happened at the Reagan's meeting with Mexican President López Portillo last January, much to Haig's consternation.

Vance's game

The *Times*'s playup of Haig's TV interview and its cited editorial are part of a deliberate game it is playing to foster the KGB confrontationist faction in Moscow.

Cyrus Vance, a member of the *Times* board of directors before joining the Carter administration as its "dovish" secretary of state, is playing a key behind-the-scenes role in this same operation. According to a source close to both Vance and the *New York Times*, the former secretary of state conveyed a message to the Moscow leadership two weeks ago that they would find "no real friends in the Reagan administration" and that the anti-Soviet sabre-rattling policies of Secretary of State Haig reflect "President Reagan's thinking." Vance's message was reportedly couriered to Moscow via Georgii Arbatov, head of the KGB-linked U.S.-Canada Institute. Like Vance, Arbatov is a member of the Socialist International-linked Palme Commission on International Disarmament, and received Vance's message while attending a recent commission meeting in Vienna.

Vance's role underscores the total cynicism—and coordination—of the Haig-Socialist International operation. It was Vance who elevated Haig to a position of stature in the early 1960s. Vance, then secretary of the army, hired Haig as his special assistant, and when Vance was later named to the number-two post at the Defense Department under Robert Strange McNamara, he brought Haig with him. Haig functioned both as special assistant to Vance and to McNamara. According to John Lehman, Reagan's newly appointed navy secretary, who knows both men intimately, the fact that Vance's soft-line posture in the Carter administration apparently put him at odds with then-NATO Supreme Commander Haig's tough anticommunist stance was meaningless. "Haig and Vance consulted constantly. That's not surprising—even though their policies might seem to diverge, they actually see eye-to-eye on everything of importance."

It is clear from a review of the major U.S. media over the past week that the plan is to paint Reagan as an unreconstructed hawk with no interest in working out a viable modus vivendi with the Soviets. Aside from the coverage of the Brezhnev proposal and the administration response, the media have been hyping the El Salvador crisis, focusing particularly on the potential for substantially increased U.S. involvement.

These stories had reached such a peak that a Defense Department official was prompted to tell the *Washington Post* that "there is more action in the newspapers than in the Pentagon." Exemplary was a blaring headline in Rupert Murdoch's Feb. 24 *New York Post,* "More U.S. Advisers May Be Sent to El Salvador." The story reported that the U.S. was "actively considering sending additional military advisers to El Salvador" and that this "added to the sense of impending crisis that has been developing during the past few days over El Salvador—which has taken on overtones of both the Vietnam and Cuban missile crises."

The media are pointedly omitting any mention whatsoever of the *admitted* role of the Second International and the Jesuit order in the insurgency, in favor of Haig's provocative charges of Cuban involvement.

That the press will stop at nothing to box Reagan into a corner became clear during an appearance by top White House aide Edwin Meese on ABC-TV's "Issues and Answers" Feb. 22. After repeatedly refusing to be drawn into a discussion of administration options on the El Salvador crisis, Meese was finally badgered into saying that the administration had not ruled out any options, including a naval blockade of Cuba. The next day, the major press blared scare stories claiming that the administration was actively considering a naval blockade.

Documentation

What Haig left out of his White Book

by Gretchen Small

Around the world, emissaries of Alexander Haig delivered the State Department's "White Book," titled *Communist Influence in El Salvador.* "Political direction, organization, and arming of the insurgency is provided by Cuba, with the aid of the Soviet Union, Vietnam, and other communist countries," an introduction to the volume asserts.

Using this document as proof of his charge that El Salvador is a "textbook case" of an international communist conspiracy, Haig made Central America the current centerpiece of American foreign policy. Relations with the United States, allies were told, stand or fall on the basis of their response to Haig's campaign on El Salvador.

The document is a deliberate lie, and its publication and dissemination has damaged the credibility of American intelligence and policy-making capabilities in the way Jimmy Carter had specialized in. Recipients of the White Book did not endorse its conclusions.

Mexican President José López Portillo, speaking at a state dinner shortly after the visit of Haig emissary Gen. Vernon Walters, stated, "We are determined to demonstrate that it is possible to set up a rational order in the region," and called for a negotiated settlement to the fighting, impelling Haig's press conduits to paint him as a Castro ally.

The sharpness of López Portillo's rejection of the use of "arrogant military power" and his challenge to the State Department definition of the Caribbean as a zone of battle between the superpowers was, according to Brazilian press accounts, provoked by Walters's message that the U.S. wants a "military," if "temporary," response to the conflict.

In Bonn and Paris, both foreign ministers called for economic assistance to Central America instead of military aid. West German Foreign Minister Hans-Dietrich Genscher announced Feb. 25 that his government is prepared to mediate a settlement, in statements paralleling the Mexican calls. The *Christian Science Monitor,* reflecting Haig's reaction, remarked that the West German proposal was hardly what Haig envoy Lawrence Eagleburger had urged the Germans to do.

Haig's omissions

The network within East bloc countries and the Soviet Union itself, a network the Haig document traces out, exists and the White Book indeed provides useful leads for tracking those Eastern European and Cuban elements involved in support operations for liberationist armies and terrorist groups throughout the Third World. But the document lies not so much by what it says, but *by what it omits.*

Extensive evidence was suppressed on the roles of the Socialist International, of the Jesuit order, and other Theology of Liberation networks, and of elements of the European "black" nobility, in arming, financing, and even leading the Salvador guerrillas—even though many of these operations are carried out openly from the United States itself!

Haig's document amounts to an effort to protect the actual international alliance that generated the Central American crisis.

Many of the data concerning these Western networks' collaboration with the Cuban and Soviet operatives are in the public domain. They are certainly well known by every competent intelligence agency in nations allied with America. Answers to the question "whom did Haig protect?" are a useful vantage point for grasping Haig's grandstand play on El Salvador this week.

• No mention is made of the prominent role of the

Socialist International in financing and arming the guerrillas. On American television in December, the sodden head of that organization, Willy Brandt, publicly declared that the Socialist International was funneling finances to arm the guerrillas.

Guillermo Ungo, the head of the Democratic Revolutionary Front (FDR), which leads the Salvadorean left opposition, is a member of the Socialist International, and FDR representatives have met with Socialist International leaders in Europe and Latin America to arrange aid. Yet the only State Department allusion to these well-known facts is the statement in the document that "less than 700 non-Marxist guerrillas" are involved in the fighting.

• No mention is made of the **Jesuit** role in supplying arms, leadership, and funding to the left, despite the known history of the Society of Jesus in helping to create nearly every "left" group in El Salvador, and occupying leading positions in them. Top Social Democrats in the FDR came out of a Jesuit think tank in San Salvador located at the Universidad de Centro America, including Guillermo Ungo himself.

Haig's own Jesuit training and connections are not a trivial aspect of his career, as *EIR* has documented over the past two years. But it would be unfair to call this aspect of the White Book a personal coverup, since the State Department as a whole has never fingered the Jesuit role in creating synthetic revolutions. Nor have most European spokesmen dared to do so, in contrast to the mounting Italian public dossier on Socialist International sponsorship of insurgency and terrorism.

Yet internationally, senior members of the Society of Jesus have been quite open in their support for the radical left. Father Simon Smith, S.J., the order's chief of missions for the Third World, told a reporter in December that the Jesuits "are coordinating closely with the Socialist International forces in El Salvador."

Father Zweifelhofer, the Jesuits' head of Third World policy coordination, reported in another recent interview from his base in Munich, West Germany that it is the Jesuits who are granting the Cubans any influence they have in Central America (see *EIR*, Jan. 13, 1981).

• The Christian Democratic government of **Costa Rica** is explicitly cleared by the State Department of any complicity in the arms traffic that is acknowledged to run through that country. Yet Costa Rica's own congress has held hearings to investigate the role of prominent government figures in protecting this traffic. At those July 1980 hearings, the former head of criminal investigations of the Costa Rican Interior Ministry, Col. Guillermo Martí, testified that Interior Minister Juan José Echeverría Brealey was involved in arms traffic, and that Echeverría's chief of staff, Willy Azofeifa, had personally flown to Cuba to pick up arms.

Outlined by Colonel Martí and others during those hearings was the connection between arms-running to the Sandinistas in 1979, and current trafficking in El Salvador. Caches of weapons procured throughout the Western world, not only from Cuba, during the Nicaraguan civil war, are now being resold to the El Salvador insurgents.

The Costa Rican case bears further investigation in developing the map of overlapping right and left, Eastern and Western networks behind the arms-running. Particularly interesting is the fact that the Carazo government was installed with financing from leading "right-wing" networks in Latin America, including the Chilean intelligence service DINA, and self-proclaimed Guatemalan fascist Sandoval Alarcón.

Collaborating with Carazo's government in the arms-running to Nicaragua was the "right-wing" leader of Costa Rica's Social Democratic Party, José "Pepe" Figueres. Figueres, who publicly acknowledged his role in aiding the Sandinistas (including sending his son to fight), opens a particularly revealing network for investigation: the so-called democratic left set up and run by American figures like Adolf Berle, Arthur Schlesinger, Jr., and Cord Meyer. Meyer, CIA station chief in Western Europe following World War II and a close associate of Italian black nobility networks, used his period in Costa Rica at the beginning of the 1960s to personally oversee the creation of various institutions in Costa Rica which then trained every leading social democratic figure in Latin America today.

• **Eden Pastora,** the head of Nicaragua's Popular Militias and an open advocate of aiding the Salvadorean guerrillas, is another relevant product of these overlapping networks. A Costa Rican trained by the Jesuits, a member of the Socialist International, linked with Pepe Figueres, Pastora brags of his cooperation with the KGB!

• "Panamanian" **Hugo Spadafora** provides another angle for immediate investigation into arms trafficking. Spadafora, carrying the name of the Italian noble family associated most publicly with the international assassination bureau called Permindex, was a member of the Italian Socialist Party (PSI) during his days at the University of Bologna, and has a long history an as international mercenary for "national liberation" movements.

Hugo Spadafora announced in the pages of the *New York Times* last December that he was forming an "international" brigade to fight not only in El Salvador but "anywhere in the continent where the armed struggle is the only avenue left for peoples." A social democrat, Spadafora argues that "authentic unity of all revolutionaries, of Marxists, of Catholics, of Social Democrats, or progressive Christian Democrats" is required.

'Scribescam' scandal explodes

Scott Thompson reports on the revelations that the Justice Department and its journalistic allies have been rigging indictments.

In the closing moments of Abscam appeal hearings before Brooklyn U.S. District Court Judge George Pratt, startling evidence emerged that the main Abscam prosecutor, Thomas Puccio, had held discussions to sell book and movie rights to the story over nine months before any defendants were indicted.

After first denying under oath that this was the case, Puccio took the stand a second time to make his explosive admission that he held several discussions about a book with Jack Newfield, the senior editor of the *Village Voice*. These began in late summer of 1979 when Newfield and Puccio, both political allies of the Kennedy family, shared a summer home in Martha's Vineyard.

Puccio's secret negotiations with Newfield represent grounds for his immediate dismissal from the Justice Department. Taken within the context of the many unconstitutional and irregular tactics the Justice Department used against Abscam "targets," it represents grounds for immediate dismissal of all their convictions.

Far from being an isolated incident, however, secret collaboration of the sort between Puccio and Newfield has become the modus operandi of the Justice Department. Trial-by-press "leaks" and "exposés" are now standard devices to destroy the reputations of respected citizens and force their indictment when sufficient evidence is lacking. Among other recent cases of such grossly illegal conduct are:

- Full collaboration between the Justice Department, their asset author Ovid Demaris, and New York Times Books to publish the allegations of federal witness Jimmy "the Weasel" Fratianno in a book titled *The Last Mafioso*.
- Leaked transcripts and other documents to *Long Island Newsday* reporter Bob Greene—including even the names of congressmen merely consideed for entrapment in Abscam—for a book and possible movie on Abscam informant Mel Weinberg.
- Advance leaks to NBC-TV on Abscam and repeated leaks on other Justice Department targets, including the loan of federal witnesses (Jimmy Fratianno and Ralph "Little Ralphie" Picardo) to make scurrilous allegations linking President Ronald Reagan and key advisers to "organized crime figures."

The Blumenthal report

On Jan. 14, in a surprise inaugural eve move, outgoing Attorney General Benjamin Civiletti disciplined seven Justice Department employees for their role in "leaks" relating to the undercover operations Abscam, Brilab, and Pendorf. In announcing this "disciplinary action," Civiletti noted that 35 investigators had worked for six months on this special internal inquiry under Connecticut U.S. Attorney Richard Blumenthal.

An examination of the publicly available facts shows that the 120-page Blumenthal report was a glaring coverup, especially in its conclusion that "offenders did not act in an organized fashion, intend to obstruct justice, or derive any personal financial gain from their actions."

What was the actual nature of the Abscam leaks?

EIR investigators discovered that a full three weeks before the Abscam story "officially broke," *The New York Time*'s Leslie Maitland, Bob Greene of Long Island *Newsday* and a board member of Investigative Reporters and Editors, reporters for the *Washington Post*, and an NBC-TV camera crew had been briefed on when and how to break the story.

Even before Sen. Harrison Williams (D-N.J.) could read that he had been the victim of a Justice Department "sting" in his morning paper, an NBC camera crew was camped out on his lawn waiting for an interview. Such trial-by-press "leaks," appearing a full three months before a single Abscam victim was indicted, are largely responsible for all but one of the re-election bid losses of those congressmen entrapped by the Justice Department.

The Blumenthal report not only covered up the chief "conspirators" behind these orchestrated leaks, but also, as a result of Blumenthal's conclusions, Civiletti merely issued letters of censure against those who were named. The sole exception was Quentin G. Ertel, spokesman for the New York office of the FBI, who was suspended without pay for 30 days and placed on probation.

Ertel had informed *The New York Times* that Howard Criden, an Abscam defendant, was cooperating fully with the Justice Department in an apparent attempt to destroy the possibility of a unified defense.

Two of the principal leakers not named in the Blumenthal report were former FBI Assistant Director Neil Welch and, of course, Thomas Puccio. Welch, who worked on a daily basis with Puccio to set up the Abscam "sting," resigned shortly after the Feb. 2 story broke and is now Kentucky's secretary of justice.

The fact that Puccio, the main Abscam prosecutor, was leaking was known to Attorney General Civiletti a full six months before the dramatic revelations during the Pratt hearings.

On Oct. 8, 1980 former Rep. John Murphy (D-N.Y.) filed papers against NBC, its president Fred Silverman, NBC News President William Small, and NBC reporters Jessica Savitch and Brian Ross. In a press statement on the same day, Murphy charged NBC with lying about the nature of his involvement in Abscam.

In response to this suit, NBC agreed to cary a full retraction of any misstatements, and futher revealed that its reporter Brian Ross had merely repeated as "fact" information leaked by the Justice Department.

Commenting on this, Rep. Murphy stated:

"Let there be no mistake as to what was afoot in February of this year—the Brian Ross episode was no accident. Federal investigators and prosecutors were deliberately leaking falsities and misinformation in an almost hysterical race to destroy public figures about to become enmeshed in Abscam.

"Not content with selectively leaking edited tapes, contrived innuendo, and the like, the government 'sources' lied to their preselected crew of reporters. . . .

"Leaking seemingly incriminating evidence selectively was reprehensible.

"Leaking lies was despicable."

Murphy reported his findings from NBC to Attorney General Benjamin Civiletti in a letter dated Oct. 31, 1980. In that letter he stated:

"In October 1979 I met with Michael E. Shaheen, Jr., of the Justice Department's Office of Professional Responsibility to discuss the constant stream of lies about me by a few Justice Department employees. He said he was appalled at the evidence I gave him and indicated that it was one of the 'worst' cases of law-enforcement leaks he had ever seen; he promised a thorough investigation, nothing ensued. . . .

"*Incidentally, while Mr. Shaheen was present, my lawyer received a call from Mr. Jack Newfield, a favorite 'leakee' of some U.S. Attorneys in New York. Newfield actually had the contents of the letter from me to you of October 2, 1979 asking you to investigate Justice Department leaks to Newfield. My lawyer had hand-delivered a copy of that letter to the U.S. Attorney's Office in New York just 24 hours earlier. I would call that a pretty fast leak, wouldn't you Mr. Attorney General?* [emphasis added]."

It is now known that the probable source of the leaks to Newfield was Thomas Puccio, the head of the Organized Crime Strike Force handling Abscam for New York's Eastern District.

Stage-managing a case

When Puccio retook the stand in the Pratt hearings to correct his apparent flirtation with perjury, he not only admitted discussing a book on Abscam "fairly frequently" with Newfield, but showed more than a little familiarity with the financial arrangements and how he might benefit.

Puccio admitted that he had "one or two discussions" as well with Newfield and his agent Esther Newberg. After categorically denying that "any figures in terms of dollars" were mentioned, Puccio finally blurted out that he had "glanced at" a contract in which Newfield's "unnamed collaborator" was to get a $40,000 advance.

Newfield himself revealed to reporters for the *Daily News* two days after Puccio's Feb. 16 testimony: "I'm not sure I'm even going to do the book. I want to wait and see if [Senator] Williams is convicted. Otherwise it may not be worth doing."

In short, Puccio's receipt of a $40,000 book advance, as well as untold royalties from book sales and movie rights, hinged on his ability to convict Senator Williams and other Abscam defendants.

Testimony equally as explosive as Puccio's presented by two New Jersey prosecutors, Ed Plaza and Bob Weir, at the Pratt hearings reveals that there were no lengths to which Puccio and the Civiletti Justice Department would not go to obtain those convictions. Plaza stated that his first major doubts about the handling of Abscam arose when he stumbled upon a transcript in Puccio's Brooklyn office in July 1979 of a conversation between Abscam informant Mel Weinberg, Senator Williams, and another Abscam target, Camden, N.J. Mayor Angelo Errichetti.

The conversation was a "rehearsal" at which Weinberg coached Williams because of the "Arab way of doing business" he must "come on strong" with representatives of the phony Abscam "sheikh," even though the financing Senator Williams wanted for retooling a titanium mine was perfectly legitimate.

It was such efforts to "stage manage" evidence, among other outrageous acts, that led Philadelphia U.S. District Judge John Fullam to reverse the two earlier Abscam convictions on Nov. 26, 1980. Commenting on the Williams case in his decision, the Judge stated:

"Mr. Weinberg engaged in an extensive coaching session. In effect, the Senator was told that, whereas both he and the representatives knew that the proposed venture was entirely legitimate, that it would not be expected to use his official position to advance the interests of the enterprise, it would be helpful if the Senator were to impress the sheikh with the importance of his position in the Senate, and his knowledge of other important persons in the government. . . .

"Even more disturbing is the fact that, in a pre-prosecution memorandum dated December 12, 1979, and submitted to his superior . . . Thomas Puccio, Esq. . . . no mention is made of Weinberg's coaching of Senator Williams; only the tape of the actual meeting with the sheikh is referred."

According to Plaza's testimony at the Pratt hearings, Puccio not only concealed evidence of "coaching" to his superiors, but also to the grand jury which indicted Williams. When Plaza discovered that the case against Williams had been "stage managed," he and Weir confronted Puccio in a heated July 9, 1979 meeting.

Days later the Newark FBI office received a blistering telex message from Washington stating that they were to be excluded from access to all further tapes and transcripts dealing with Abscam unless specifically authorized by Puccio. A special meeting was nonetheless called on Aug. 9 to discuss the Williams "coaching session" at which Plaza demanded that Weinberg stop putting "words in people's mouths."

Weinberg, whose continued immunity on an earlier extortion conviction depended upon making four cases, became visibly enraged and shouted at Plaza, "If I can't do that, we won't make no cases." After this confrontation, orders came from Puccio's office that Plaza was to have no further access to Weinberg.

Weinberg's advice to "come on strong," which created the appearance of guilt to grand jury members and, no doubt, created a videotape transcript ideal for use in a book or movie under consideration by Puccio, is solid proof of entrapment as Judge Fullam concluded. Any crimes committed during Abscam were the creations of the Justice Department

Scribescam overview

The massive pattern of leaks and collaboration between Puccio and Newfield in Abscam is merely the tip of the "Scibescam" scandal. An equally glaring case is that of a joint effort by the Justice Department and its journalistic asset Ovid Demaris in the recently published book *The Last Mafioso.*

In this book, Jimmy "the Weasel" Fratianno, an admitted 11-time murderer now on the payroll of the Federal Witness Protection Program, smears as organized-crime-linked such respected constituency leaders as: Teamsters international vice-president Jackie Presser, who was named a labor adviser by the new administation; former San Francisco Mayor Joe Alioto, who already successfully sued *Look* magazine for running similar Fratianno slanders; and entertainer Frank Sinatra, a friend of both Attorney General William French Smith and President Reagan.

In an interview with *EIR,* New York Times Books editor Hugh Howard, who oversaw the Fratianno book, admitted that the Civiletti Justice Department had provided Demaris with documents and access to Fratianno. "The FBI made available to [Demaris] selected documents and because of his close relationship with the FBI people a great many other documents that maybe should and maybe shouldn't have been given. I don't know. But he had just remarkable material to work with."

The question is raised whether the FBI also provided documents on Presser, Alioto, and Sinatra, who have never been convicted of any crime whatsoever.

Fratianno was also "loaned" by the Justice Department to NBC-TV to do a major slander on its Sixty Minutes against the President and Attorney General William French Smith. William Safire, a notorious "calumnist" at the *New York Times* also went with unsubstantiated statements of Fratianno to attack Smith. Among Safire's close associates is McCarthyite attorney Roy Marcus Cohn, a friend and business partner of Joe "Bananas" Bonanno, with whom Fratianno has been linked as a partner in organized crime.

Another federal witness used by NBC-TV to attack Secretary of Labor Raymond Donovan is convicted murderer Ralph "Little Ralphie" Picardo. A day after Senate confirmation hearings found nothing to substantiate Picardo's charges against Donovan, NBC had Picardo repeat those allegations on nationwide TV. It is believed that the connection between NBC and Picardo was arranged by Walter Sheridan, former head of the Justice Department's "get Hoffa squad" who is now chief investigator for Sen. Ted Kennedy (D-Mass.) on the Senate Labor and Human Resources Committee.

An even more blatant case of Justice Department collaboration involves *Newsday* reporter Bob Greene who is finishing a book on Abscam informant Mel Weinberg. According to sources close to Jack Anderson, the original manuscript is replete with confidential transcripts and documentary material.

Greene is a board member of Investigative Reporters and Editors, which with the Fund for Investigative Journalism and the Center for Investigative Reporting, maintains a stable of Justice Department-linked journalists. It is to these "press prostitutes" and a complicit media network that the Justice Department turns whenever it plans a major attack upon civil liberties and constitutional government as in Abscam.

Who's who in Scribescam

The official chain of command for operations like Abscam, Brilab and Pendorf, starts from former Attorney General Benjamin Civiletti, to his assistant heading the Criminal Division Philip Heymann, to David Margolis, head of the Organized Crime Strike Force. It includes the following:

Benjamin Civiletti: Kennedy family protégé who went straight from law school to become an assistant to Baltimore U.S. Attorney Joe Tydings in 1961. Tydings ran JFK's 1960 Maryland presidential campaign and worked on RFK's so-called war on organized crime. From his later position at the Baltimore law firm of Venable, Baejer and Howard, Civiletti helped run the "dump Agnew first" aspect of Watergate. In payment for running Jimmy Carter's 1976 Maryland campaign, Civiletti was named assistant to Attorney General Griffin Bell.

During Civiletti's tenure in the DOJ, violent crime prosecutions dropped dramatically while "white collar crime" prosecutions, previously nonexistent as a category, took up the majority of Justice's resources. Some 20 members of the Weatherunderground, Republic of New Africa, and other terrorists (including one who threatened to kill a President) have been released from prison or pardoned.

With his Watergate background, Civiletti ran Koreagate, the perjury proceedings against former CIA director Richard Helms, and the coverup involving kickback scandals of Representative Eilberg, Representative Flood, and the Vesco affair, which threatened to sink the Carter administration.

Philip Heymann: Civiletti's assistant directing the Criminal Division. Heymann was directly implicated in the coverup of Robert Vesco's attempt to buy his way out of immigration problems with the Carter administration in 1979.

Irvin B. Nathan: Heymann's immediate subordinate. Nathan ran the operation to cover the dirty tracks in Abscam, including the character assassination of Plaza and Weir in his Jan. 6, 1981 memo.

David Margolis: Director of the Organized Crime Strike Force (OCSF) who coordinated the field operations in Brilab, Abscam and Pendorf.

Thomas Puccio: Director of the Brooklyn OCSF and coordinator of Abscam at the field level as well as chief prosecutor in the five primary Abscam cases. Puccio was directly involved in the attempt to cover up the government's outrageous entrapment of the defendants in Abscam.

Jack Newfield: Senior editor of the notorious *Village Voice,* which ran a character assassination of Abscam defendant Rep. John Murphy during the "covert" phase of Abscam. Newfield, "a close, personal friend" of Puccio, part of the Kennedy political apparatus, shared a summer home with Puccio on Martha's Vineyard during the Abscam investigation. Newfield has a $40,000 advance-fee contract to write a book on Abscam prosecutions. The contract includes another $40,000 for Puccio as coauthor.

Bob Greene: Senior editor of Long Island *Newsday,* which along with the *New York Times's* Leslie Maitland leaked the Abscam investigation on Feb. 3, 1980, prior to indictments, thus severely prejudicing the cases. Greene is now writing a book with Abscam operative Mel Weinberg. Greene is chairman of the executive board of Investigative Reporters and Editors (IRE). IRE and Greene recently were found guilty of maliciously inflicting psychological pain on Nevada businessman Kemper Marley in their "investigative" reporting on the Tom Bolles case.

Ovid Demaris: Justice Department literary asset who has just published a book with Jimmy "the Weasel" Fratianno, put out by New York Times Books for use in the Reagangate operation.

The "investigative journalist" circuit is used by the Justice Department as street thugs to commit character assassinations against DOJ targets based on "leaks" from the Justice Department. The fraudulent exposés run are then "objectively reported" on by the *New York Times* or NBC-TV. This yellow journalism is run through Jack Anderson's Fund for Investigative Journalism, whose Woodward and Bernstein peddled the Watergate hoax; the Investigative Reporters and Editors, who ran the coverup of the drug traffic in the Southwest under the pretense of investigating the Bolles murder (the story was syndicated in Long Island *Newsday*); and the West Coast's Center for Investigative Reporting whose material is published by *Mother Jones* and Pacific News Service.

Each of these operations has involved slandering union leaders, public officials, and businessmen in order to create a trial-by-press climate for the Justice Department. This is exactly the scenario being reenacted in the current Reagangate operations.

Senator Hatch talks about Brilab approach

The following is Part Two of Barbara Dreyfuss's exclusive interview with Sen. Orrin Hatch, the Utah Republican who chairs the Senate Labor Committee. Part One appeared in last week's issue of EIR.

EIR: The *New York Times* has taken the liberty of putting some words into your mouth and several weeks ago said that one of your main focuses will be on investigating corruption in the labor unions, mentioning the International Longshoremen's Association and the Teamsters. We understand that you will be interested in pursuing things other than continuing what we see as the Carter administration, the Carter Justice Department's witch-hunt against labor.

Sen. Hatch: I do not want a witch-hunt, but what I do want, and I think it's unfair for any reporter to misquote me because I have said that I think we ought to look into business-union corruption which rips off our blue-collar workers in America who are paying dues or into retirement programs. I frankly think any union leader worth his salt would want to get in and help us get rid of any corruption that exists. I think any business leader would want to do the same. I think we are on the verge of doing that.

What I am not interested in is having a great name, publicity, a set of hearings that maligns or hurts peoples' reputations. There's no question that we know there's some things wrong with business-union relations, that are illegal and some of them are criminal. Now, unlike some past investigations, I want to approach it in as reasonable and decent a manner as we can. Try and clear it up and get rid of the criminal elements.

But let's face it, there are four major unions that have been accused, that have been charged with being influenced by the criminal element. You know as well as I they are the ILA, Teamsters, Hotel and Restaurant, and Laborers unions. Now, whether it's true or not I don't know. But if it is true, we ought to root out crime. I think that's part of our committee's responsibility. But I don't think we should root it out unless it exists. It takes two to tango. Generally, where you have a criminal influence in the union, you have it in the businesses as well.

EIR: Hearings on Abscam in Judge Pratt's courtroom in Brooklyn, N.Y. have drawn into question the entire legality of the FBI activities, the Organized Crime Strike Force and the way the Federal Witness Protection Program operates.

Sen. Hatch: I don't like the Abscam-type investigations. I personally feel that law-enforcement officials should never entice people to break the law.

On the other hand, if there is corruption, I think we should find it and root it out; that's part of our responsibility, and I think union leaders would want to assist us in rooting out corruption.

EIR: Will you look into the methods used by the Carter Justice Department in making their allegations against the unions?

Sen. Hatch: I think, by necessity, that would be part of the hearings, as there would be people complaining about the methods. I'm not certain it's our committee's responsibility. But I don't want to have false methods used to prove crime. We can do things in a legitimate constitutional way in this country, and to the extent we can do that, we ought to do that.

I'll tell you one thing I am interested in, and I think the unions and I agree on, among others, and that is total examination of sexual discrimination in the workplace. Why shouldn't a woman who performs equal work get equal pay for that? Why should they get only 59 cents compared to a male dollar?

And what about other forms of sexual discrimination—should they continue to exist? The answer is no. And we're going to get to the bottom of it. That's already one thing we've started hearings on.

There's another thing the unions and I are close on, closely identified with: I applaud the AFL-CIO's international labor relations program. I think they have done some tremendous service to this country and I have put at least three speeches into the *Congressional Record* on precisely that subject.

I have indicated to Lane Kirkland that I'll be supporting him at the ILO [International Labor Organization], and I'll probably be supporting him at the Madrid conference [Conference on European Security and Cooperation], where I will be a member of the commission.

So there are two very good areas where we can help.

I've also tried to get them to help me come up with ideas that will work in the youth employment area. They don't like our youth wage differential, so I suggested that they look at our Job Opportunities Bonus Bill, which may fit their needs and at the same time provide jobs for young people.

The youth differential does make clear that the minimum wage is not a sacred concept, by allowing employers to pay 75 percent of minimum wages during the first six-month training period. We think that would stimulate business, and particularly the small-business sector, in providing more jobs. The unions don't like it because they consider it an attack on their sacred minimum wage concept—I don't mean sacred sarcastically.

So what I've done is come up with the Job Opportunities Bonus Bill, which would give job opportunity bonuses of essentially the welfare money we'd give to that unemployed person anyway, to any business that employs that person on a 3-, 6-, 9-, 12-month basis, on a check-release basis after training, a formal training period where they pay the minimum wage or better. We think it has potential. We're not quite sure what the economic downside is, so we'e still in the process of putting it together. That may be an alternative the unions may like, and another way we can work together.

It would put perpetually unemployed to work and instead of giving them welfare, we would pay the small businessman so he could employ them, put them to work, and gradually we would wean them off welfare after two or three years, so they'd be productive citizens who work every day and have the self-esteem that comes from working.

EIR: Are there other areas your committee will get into?
Sen. Hatch: Well, as you know, we will be very involved in health, education, handicapped matters, alcohol and drug abuse, employment and poverty—every one of those subcommittees has meaning. We have a new family and human resources committee which I think is going to be very important.

A lot of those aren't related directly to the labor movement . . . for example, on the health subcommittee, which I have brought into the full committee, I want to have a home health-care bill which will allow the aged to stay in their homes, where they feel comfortable and more secure, rather than forcing them to be institutionalized under Medicare. We think it would save taxpayers' money, and at the same time be more humane than we presently are.

Interview

Rep. Mottl on the anti-Volcker fight

The following is an interview by Anita Gallagher of the National Democratic Policy Committee with Rep. Ronald Mottl, a Parma, Ohio Democrat. Mottl is a member of the House Energy and Commerce Committee, and the Veterans Affairs Committee. He is cochairman and founder of the Congressional Suburban Caucus. On Feb. 18, Rep. Mottl introduced House Concurrent Resolution 44.

Q: What is your House Concurrent Resolution 44?
Rep. Mottl: Basically, it calls upon the Federal Reserve to re-examine its policies and to immediately lower interest rates to under 10 percent. In the resolution, it is implied that the interest rates have devastated two major industries in the United States that affect so many of the American people. First is the housing and construction industry, which is, in effect, at a virtual standstill, and the second is the automobile industry. . . . We hope that the Reagan administration will immediately change its policy, and I have urged Reagan on several occasions to ask Volcker to resign and put his own man in. . . .

Q: President Carter at one point attributed his election defeat to the policies pursued by Volcker and the Federal Reserve. In that light, how do you evaluate President Reagan's economic message of Feb. 18?
Rep. Mottl: I agreed with three-quarters of President Reagan's policies. The one-quarter that I didn't agree with was that the Federal Reserve was sacrosanct; that it's an independent agency, and that you can't do anything about it. That's the type of attitude that we have had in the past that has hurt our country. I think what we have to have is the President and a Congress that will say to the Federal Reserve, if they are not doing their job for the country, "Listen, let's change your policies, or change the personnel running the Federal Reserve. Or let's scrap the Federal Reserve altogether, and start a new system."

Q: At the governors' conference Feb. 23, Governor Rhodes of Ohio questioned Norman Ture from the administration extensively about the fact that their tax policies do not give enough of an incentive for heavy industry like auto and steel. Could you comment?

Rep. Mottl: Basically, I think that the tax policy by the administration and Congress has a role in creating an atmosphere that is conducive for capital formation. Accelerated depreciation, which the administration is advocating, I think is good, and it will help the automobile industry and the steel industry. But there could be other tax incentives, where you get a credit on buying an American car versus a foreign car. So I think Governor Rhodes is partially right, but there can be more.

Q: What support have you found in Congress for your resolution?

Rep. Mottl: Well, we had introduced it last term, and we didn't have many cosponsors. I think we had less than ten. Surprisingly, Charlie Vanik [D-Ohio], who is chairman of the subcommittee, and myself found that in those areas that are deeply affected by the automobile industry, either manufacturing or sales, there were more representatives to support our legislation. But other areas that were not as deeply affected were less likely to.

Many people selfishly say that [they] get a cheaper car that's better made if it's foreign, it's more gas efficient. But I think that if those people would think about what it costs them in higher taxation to support unemployment—for every percent increase in unemployment in the United States, there is about $3 billion that will be spent for unemployment; that costs them indirectly, which they don't see in the purchase of their car.

I think history has shown that once you lose a substantial portion of the market, you don't regain it. What Japan and the other countries have gained is not going to be that easy for us to recapture.

Q: Do you foresee Republican support for your bill?

Rep. Mottl: Reagan's secretary of transportation, [Drew] Lewis said that he was for import relief, so hopefully he will help us in that area. With regard to interest rates, I don't see a lot of support from the Republicans, so hopefully we will get it from the Democrats.

Q: Are you circulating a "Dear Colleague" letter, and what sponsors do you have?

Rep. Mottl: Yes, our sponsors include Congressmen Gore (D-Tenn.) Murphy (D-Pa.), Weaver (D-Ore.), Stan Parris (R-Va.), Whitehurst (R-Va.), Bailey (D-Pa.), Ouyer (R-Ohio), and Gus Yatron (D-Pa.). We don't have many.

Q: Do you think the Fed is totally independent, as Reagan implied in his speech, or do you think Congress has a role to play in bringing it into line?

Rep. Mottl: Yes, we have a role to play, because we created it. So if we are dissatisfied, either we can agitate for different leadership, or secondly, we can abolish that system, and come up with a substitute which we think will be in the best interest of the country.

Q: Are you familiar with Rep. Byron Dorgan's bill, H.R. 1640 that provides a mechanism for Congress to remove the chairman of the Federal Reserve upon a three-fifths vote by the House and Senate?

Rep. Mottl: I think I would like to become a cosponsor of that. I will become a cosponsor.

Q: Are you familiar with Senator Sasser's S.R. 17, which calls for a study of a two-tiered credit system to provide lower rates for industries like auto and housing?

Rep. Mottl: I would like to study it more, but it sounds pretty good.

Q: Henry Reuss has also been talking about bringing down interest rates targeting credit away from "sunset" industries like steel and auto, and into "sunrise" industries like light manufacturing and technetronics. Could you distinguish your resolution from this?

Rep. Mottl: I couldn't without studying this whole concept comprehensively. I don't really know this distinction between sunset and sunrise. But hopefully, Henry Reuss, he's got so much wisdom, I am really looking for some leadership out of him and out of Fred St. Germain [D-R.I.] Either we abolish the system or we improve upon it. We just can't tolerate the way it's going now.

Q: Do you plan to introduce legislation to take your resolution a step further?

Rep. Mottl: I will do that if something does not happen in the very near future. Interest rates seem to be coming down a little bit, but I want to see a significant drop. And I want to see something done by the Reagan administration. Otherwise, we are going to have to have legislative proposals.

Q: How will you work on this with your committee assignment?

Rep. Mottl: I don't sit on the Banking Committee. I think that what we are really going to have to do is get a consensus in the Democratic Caucus and force Reagan to act. We have only been here for a short time, and once we start going on this, something may form in the next few weeks.

Q: Do you think House Majority Leader Wright intends to pull moderate Democrats together around this?

Rep. Mottl: I hope so. He feels strongly on this issue. He and I are practically the only people in Congress who speak out on this issue. I hope that he will get some of us moderates together, and let's go.

'The dragon of chronic high interest rates'

In the days following Ronald Reagan's economic message, bipartisan opposition to Paul Volcker's high interest rate attack on the United States has surfaced in Congress. I gathered a sampling of statements by congressmen and senators—nearly all of which have been blacked out of the media.

House Majority Leader Jim Wright of Texas said on the House floor Feb. 19: "Until we stabilize energy prices—and begin a dramatic downward movement of interest rates—we will not scratch the surface of the basic causes of inflation, no matter how successful we may be on the budget."

Deputy House Whip Bill Alexander of Arkansas on Feb. 19 denounced the "Federal Reserve's cruelly high interest rates. . . . what is needed is strong presidential support for lowering the cost of credit to productive sectors of the economy and continuation of an aggressive export policy. . . . How can we ever expect to stop inflation if we allow the dragon of chronic high interest rates to swallow up the economic gains we achieve by cutting budgets and taxes?"

Representative Byron Dorgan, Democrat of North Dakota, who earlier introduced the "Paul Volcker Retirement Act of 1981," said Feb. 19 that the Reagan program is "just a rough-draft chapter in the inflation-fighting handbook." Dorgan demanded "chapters on energy and interest rates as well."

On Feb. 20, Treasury Secretary Donald Regan testified in defense of the Reagan program before the Senate Budget Committee. Sen. Donald Riegle, Democrat of Michigan, told Regan: "You are finding yourself in a minority. The business needs of investment for productivity increases, re-industrialization—the problem is enormous, but we are way behind. . . . If you came in with half for industry and only half for individuals, you might argue differently, but right now major industries, auto and their suppliers, are operating at a loss. . . . interest rates are killing them, you don't have refundability . . . [We need credit] to rebuild our steel and auto plants, and I don't see how we can be sure that money will go in there. . . ."

Senator Nancy Kassebaum, a Republican, said: "We all want to see taxes cut, and we want to raise productivity, too. Businessmen from my home state have told me down to a man that they would rather not see a tax cut but would rather see interest rates come down."

The other Nebraska senator, Democrat James Exon, asked Regan a series of questions about projections for the prime rate over coming years. Dissatisfied with Mr. Regan's waffling answer, Exon responded: "Certainly, Mr. Regan, the prime rate has a large impact on the budget and the federal debt. You are telling me that you have no estimate on what the prime rate will be? Then I don't see how you can come up with a balanced budget."

Senator Mark Andrews, Republican of North Dakota, told the Treasury Secretary, "What bothers me is the accuracy of your figures. There is no point in treating us like mushrooms and putting manure on us and keeping us in the dark. When are you going to give us the figures . . . so we can actually evaluate your proposals?"

Senator David Boren of Oklahoma, a Democrat, told the Senate Feb. 20 that he was "disappointed that the President did not announce emergency action to deal with the high interest rates."

Henry Reuss, the liberal chairman of the Joint Economic Committee, will hold hearings this month aimed at legislation for a "two-tiered" credit system. Sources indicate that Reuss wants to maintain credit penalties on basic industry, but ease up the situation for "sunrise" sectors.

Push continues for enterprise zones

Jack Kemp has just hired Joe Rodgers to head up the Buffalo congressman's pet project. Rodgers is a former aide to and close friend of David Stockman. Kemp's new project is exporting "free enterprise zones" to Third World countries.

Norman Ture, the former chief economist at the Heritage Foundation, calls himself a supply-side economist. U.S. governors at their conference this week learned that for Ture this appears to mean sidelining supplies of industrial goods. He told the governors' conference that Reagan's proposed accelerated depreciation tax reform will be weighted against "older plants" located in the steel, auto, and rubber sectors. Governor Rhodes of Ohio was particularly appalled. Ture is now assistant secretary of the Treasury for tax policy.

Commerce Secretary Malcolm Baldridge has decided that since the U.S. Export-Import Bank is slated to lose a third of its funds, we should—he told the governors' conference—throw the remainder into what he called "small and medium-sized business." This shift in Exim loans and the proposed elimination of the Economic Development Agency are geared toward promoting free zones, we hear.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Senate Dems threaten nuclear programs

While congressional Democrats as a whole have vowed to make support of synthetic-fuels production a major issue of contention with the Reagan administration, Senate Democrats on Feb. 23 specifically warned Energy Secretary James Edwards that his nuclear programs would get no support unless he supports synfuels projects as well.

Montana Democrat John Melcher threatened, "Jimmy Carter didn't know enough to consult Congress before releasing his energy program, and I think you should note his experience. You might have a very difficult time getting what you want in that nuclear basket unless you deal with our needs."

Melcher was responding to Edwards' outline of Energy Department budget cuts, including a $1 billion cut in the synfuels program, a $400 million cut in the fossil fuels program, a $400 million cut in solar, and $600 million in conservation programs.

Edwards also announced his intention to upgrade nuclear programs such as the Clinch River breeder reactor, and the Barnwell, S.C. nuclear reprocessing plant, and to speed up the nuclear licensing process and resolve the question of nuclear waste.

In response, normally growth-oriented Democrats are falling into a synfuels-versus-nuclear posture. Melcher was backed up by Sen. Wendell Ford (D-Ky.), who told Edwards that if he was going to apply a "free enterprise" test to synthetic-fuels producton, letting private industry take over government programs, he should apply the same standards to the Clinch River breeder reactor.

EIR's sources have reported that Senator Ford is planning to introduce legislation calling for the repeal of the Price-Anderson Act, which allows the government to underwrite the amount of liability insurance required for a nuclear power plant. Repeal would wipe out the nuclear industry.

Volcker tells Congress he will tighten money supply

Federal Reserve Chairman Paul Volcker told a Senate Banking Committee hearing Feb. 25 that he intends to tighten U.S. money supply even further. "In 1980 the money supply was brought under closer control despite the high interest rates. Our 1981 targets are a lower supply of money and credit consistent with the capacity of the economy to grow. Our policy will be restrictive. . . . We will continue to restrain money supply and credit and we hope to see further deceleration in the monetary aggregates in the years ahead."

The Senate Banking Committee Chairman Jake Garn (R-Utah) supported Volcker. "I have been generally supportive of the Fed. While I disagree with some of the technical decisions relating to the aggregates, I will reiterate what I have said many times before, that it would make no difference who is the chairman of the Federal Reserve Board. . . . Budget cuts and tax cuts are an absolute complement to your policies. I want to stress the necessity for a restrictive monetary policy and restrictive fiscal policy. . . . I also want to indicate again how important I think the independence of the Fed is. At the same time I believe that your policies must be coordinated with the executive branch.

Senator John Heinz (R-Pa.) suggested that the Fed chairman should come before Congress regularly to discuss whether he was meeting the targets he had laid out. If the Fed chairman failed in his efforts, perhaps he should then resign, suggested the senator. "I don't think that would work," Volcker responded. "I think that the option that you have is to have hearings like this one and satisfy yourselves about our behavior or remain dissatisfied."

Tower: Germans say lower interest rates

Asked if West German defense officials were clamoring for the United States to lower interest rates as a matter of economic and military security, Sen. John Tower (R-Texas) said, "Yes, you bet the West Germans would like us to lower our interest rates . . . the Bundesbank has been saying this for weeks."

Tower has just returned from a 10-nation European and Middle East tour and numerous meetings with heads of state, and foreign and defense ministers. In prepared remarks at a Washington press conference Feb. 26, Tower said, that he had found "major complaints about U.S. security assistance," including the complaint of "the tremendous debt servicing burden associated with the high interest rates of U.S. credits."

Without criticizing the adequacy of Reagan administration's economic plans to bring down the interest rates, Tower noted that it is "important to remember that the U.S. and its allies and friends have not only military, but also diplomatic and economic initiatives available to them to enhance the security" of the Middle East and other regions.

He also reported that "correcting American defense industrial-base deficiencies" were discussed with our allies.

"While the U.S. has awakened to the need for a substantially increased defense effort," Tower said, "our allies in Europe, on the whole, do not view the West's security situation as sufficiently critical to warrant a more determined defense effort on their part at the present time. . . . There remains significant opposition in Europe to some important NATO initiatives, especially regarding the modernization of long-range theater nuclear forces."

This was due more to the domestic political opposition West European leaders face, Tower explained, rather than to leaders like West German Chancellor Schmidt, whom Tower defended at a meeting of the Wehrkunde he attended while in West Germany.

Among other comments, Tower said that his visits "convinced" him "that current public assessments of the ability to defend the Persian Gulf against Soviet aggression are too pessimistic"; warned that the "Western world must be prepared to counter effectively Colonel Qaddafi's attempts to build a Saharan empire"; and strongly urged that "the role of security assistance in our defense strategies must again be emphasized."

"The U.S. has arrived at a position where too often only the projection of American military power can meet security challenges that might otherwise be handled by properly equipped indigenous forces," Tower said.

Volcker Retirement Act stalled

The Paul Volcker Retirement Act, H.R. 1640, introduced by Rep. Byron Dorgan (D-N.D.), is being stalled by members of the House Banking Committee. Dorgan's bill, which would allow Congress to remove the Fed chairman by a vote of 60 percent, has been referred to the subcommittee on Domestic Monetary Policy, headed by Rep. Walter Fauntroy (D-D.C.), chairman of the Congressional Black Caucus.

Fauntroy has stated that he does not intend to hold hearings on the bill at all. According to committee sources, Representative Fauntroy agrees with Volcker's policies.

Small Business group hears problems of trade

The House Small Business Committee heard reports first hand from 100 small-business trade associations Feb. 23 on the problems now confronting small business. "I want from you ideas for legislation, a feeling of the problems you are encountering . . . and your reaction to the new administration's proposed tax changes," committee chairman Parren Mitchell (D-Md.) told the representatives.

The main problem is the lack of capital for investment and high interest rates. "Every small business group feels that capital formation is their chief problem," declared Walter Stults of the National Association of Small Business Investment Companies.

Bruce Hahn from the National Tooling Machining Association told the committee that his industry faces a shortage of skilled labor. He recommended a tax-credit approach to solve the labor shortage problem.

The committee plans hearings in late March on the problems caused by high interest rates.

House establishes Select Committee on Narcotics

By a vote of 276 to 101 the House reconstituted the Select Committee on Narcotics Feb. 25. The committee had been heavily contested as too costly, especially since the November defeat of Rep. Lester Wolff (D-N.Y.), who had first initiated the committee and fought for its continued existence. Rep. Leo Zeferetti (D-N.Y.) is expected to be the new committee chairman.

Tom Railsback (R-Ill.), who will be the ranking Republican on the committee, told *EIR* that the committee will focus on such things as tracking down the top-level drug pushers by tracing the flow of drug money; reviewing methods of curtailing drug production, including the use of paraquat to destroy marijuana; the abuse of licit drugs; and the problems caused by funding cuts for drug-enforcement agencies.

National News

DOE subordinates waffle on fusion

In testimony before the Energy Research and Production subcommittee of the House Science and Technology Committee Feb. 25, Dr. Doug Pewitt, acting director of the DOE's Office of Energy Research, which oversees the nuclear fusion program, stated that the new administration planned to "eliminate high future-year costs for certain projects that are not essential and to eliminate ineffective efforts."

Pewitt was referring to the magnetic fusion program, as outlined in the McCormack bill passed last year. In his testimony, Pewitt said, "Each of the projects to be canceled had been well planned and justified scientifically, and would have produced useful technical input for the fusion engineering device."

But, Pewitt stated, "Pursuing a vigorous program in times of fiscal austerity inevitably involves some difficult choices." The administration "has no intention of embarking on the schedule or program in the fusion act."

Representative Marilyn Bouquard (D-Tenn.), the chairman of the subcommittee, was incredulous. "I am disappointed in the DOE request," she stated. "Is there any doubt in your mind of the technical readiness of the program for the engineering state?" Pewitt replied, "No, but it is a question of timing and the need for additional baseload power-generating capacity in the future."

Since DOE Secretary James Edwards, in a House Appropriations subcommittee hearing, had testified that the administration holds the view opposite to Pewitt, *EIR* asked Edwards at a budget briefing Feb. 26 to comment on Pewitt's testimony.

Edwards replied: "We believe strongly that fusion is one of those long-term, high-payoff technologies that we should continue to push forward. This is a 20-year to 30-year project, and one of the things I wonder about is if it can be done . . . in less time."

Edwards's comment tends to indicate that he is unaware of Pewitt's testimony. Meanwhile, Representative Bouquard is sending a letter to Edwards protesting Pewitt's testimony, as are prominent fusion spokesmen and the Fusion Energy Foundation. Bouquard's subcommittee will begin hearing public witnesses on the fusion program next week.

IADL agents pushing terrorism

A series of interviews by *EIR*'s *Investigative Leads* specialists has traced plans for spring riots in the U.S. to a November 1980 conference of the International Association of Democratic Lawyers (IADL), held in Malta every five years. That conference mapped out legal strategy for the FALN and related Puerto Rican terrorist groups operating in North America.

With the strong support of the Soviet, East German, Libyan and other spokesmen, the IADL unanimously passed a resolution introduced by Chicago FALN attorney Michael Deutsch, demanding that the U.S. government treat incarcerated FALN terrorists as prisoners of war. The IADL also demanded that the FALN be treated as a legitimate liberation movement outside American jurisdiction and subject only to international law.

Deutsch has sought to have his FALN clients tried by an international tribunal rather than the Illinois courts.

Other conference delegates who also helped formulate Deutsch's strategy include Ramsey Clark and Lennox Hines. Hines, IADL's representative at the U.N., is an official consultant to the Justice Department's Community Relations Service. The IADL, formed in 1946 by former French Comintern lawyers, is openly East bloc dominated and is staffed primarily by operatives from the legal division of the U.S.A.-Canada Institute, Georgii Arbatov's Soviet think tank, which is part of his KGB intelligence faction.

FBI attempts coup in drug war

FBI Director William H. Webster, in a letter to President Reagan and press interviews, is saying that all federal drug enforcement should come under FBI control, an area never handled by FBI. Webster has been citing the FBI's "newly developed expertise" in undercover work in its Abscam investigations and its dismay at "various reductions" in the FBI budget. Webster's proposal for the FBI to be given control of all investigations, training of undercover operatives, confidential informants, and cash flows for buy-bust arrests, is seen by insiders as a bid to sidetrack a strong commitment to a national war against drugs.

He cites "vast amounts of drugs coming in from outside the country, overwhelming the resources of Customs and the Drug Enforcement Administration [DEA]." In effect, Webster proposes to continue the deadly budget cuts against the DEA that had weakened its operations under the Carter administration.

This move coincides with an inside operation by DEA director Peter Bensinger, who is currently using techniques characteristic of the FBI and its "in-place asset," the Anti-Defamation League of B'nai B'rith, to conduct a purge of some of the nation's best DEA officials, including officials of the DEA's New York Northeast Region, on charges of poor "cost efficiency." These men, threatened with transfer or demotion by Bensinger, have been involved in developing major cases against top heroin traffickers in this country and Italy.

Bensinger has a history of close collaboration with Sen. Charles Percy (R-Ill.), a leading supporter of marijuana decriminalization and the leading opponent of DEA-supported paraquat program for eradication of Mexican marijuana cultivation. Bensinger is also a close friend of the dubious former attorney general, Edward Levi.

Antidrug forces consider auspicious the recent House vote to create a permanent Special Oversight Committee on

Drug Abuse and Control, replacing the Select Committee on Narcotics at its 1980 chartered expiration. Sources report that the Reagan administration will exempt law-enforcement from current across-the-board budget cuts. Members of the new House committee reported hearings will be held on banking reform to look into drug-related dirty-money laundering, illegal drug-crop cultivation, and sanctions against drug-exporting nations like Iran.

LaRouche winds up tour in Houston

Lyndon LaRouche, former candidate for the Democratic presidential nomination and an *EIR* contributing editor, completed a several-weeks national tour Feb. 23, speaking to 300 Democratic, business and labor leaders in Houston, Texas. LaRouche detailed what they must do to get the Reagan administration back on track to fulfill its mandate for economic growth.

"We have only a short time," LaRouche told the audience, "to save the Reagan administration from the economic wrecking policies of Carter adminstation holdover Paul A. Volcker at the Federal Reserve Board and the confrontationist foreign policy of Secretary of State Alexander Haig." To judo the Haig-Volcker hold on the President, LaRouche said, "We've got to make the April summit of Mexican President López Portillo and Ronald Reagan work. We've got to establish oil-for-technology deals. That's the key."

LaRouche then called for a conference in Washington, D.C. in late March to hammer out the specifics for such a deal. Further, LaRouche, chairman of the advisory board of the National Democratic Policy Committee which sponsored his tour, told his audience that the key to whether Reagan fulfills his election mandate for economic growth "depends on what American citizens do" to break the administration from Carter policy holdovers.

Economists testify before Senate subcommittee

Four U.S. economists testifying before the Senate subcommittee on International Economic Policy of the Foreign Relations Committee Feb. 23 stated that there was little danger of a debt default from the less-developed countries in the short term, despite high interest rates and other economic dislocations. The hearings were held to review the debt situation of the LDCs.

There is another danger, however, the economists said. President Reagan's proposed budget includes a 10 percent cut in foreign aid monies, and freezes them for five years. An economist from the Bank of America pointed out that the International Monetary Fund has a role of "surveillance and adjustments." Another economist told the subcommittee bluntly that the United States must support "multilateral institutions" like the IMF and World Bank because the only alternative, he said, is "bilateral agreements."

Bilateral agreements, the Bank of America economist said, are insufficient to discipline the LDCs to make the necessary adjustments. "The discipline of the multinational institutions is essential for commercial lenders. These adjustments determine who is creditworthy." Arguing that IMF adjustments protect U.S. bank loans, the economists noted that U.S. banks hold 40 percent of the private loans to non-OPEC countries in

Senator Mathias (D-Md.) asked the witnesses: "Do you support the doubling of the World Bank's capital?" Replied one witness, "If we don't participate, we lose our leverage. To put it crudely, we have to pay for that."

Proposals were also made to get OPEC to make more loans to the indebted less-developed countries, perhaps by forming an "energy affiliate" to the World Bank. Another proposal called for an International Monetary Fund window for compensatory financing for high interest rates.

Briefly

● **SOCIALIST** Carl Gershman has been appointed special assistant to U.N. ambassador Jeane Kirkpatrick. Gershman is the former leader of the Young People's Socialist League and is currently director of the Social Democrats U.S.A, the U.S. branch of the Socialist International, which supports the overthrow of the Salvadorean junta.

● **CLINCH RIVER,** the controversial nuclear breeder reactor may soon receive approval for completion from President Reagan, announced Senate Majority Leader Howard Baker on Feb. 2. The Carter administration had tried to kill the fuel-efficient energy project.

● **CASPAR** Weinberger will be the featured speaker at the Trilateral Commission meeting in Washington, March 28-30. Weinberger is a former member of the commission, whose other members include former President Carter, Zbigniew Brzezinski, and Walter Mondale.

● **GEORGETOWN'S** Center for Strategic and International Studies held a meeting of 30 specialists this week to discuss "the demogaphic and national security implications of the Salvador revolution." Addressing the group will be William Paddock (see Special Report) and Cord Meyer (see page 50).

● **FEMA,** the Federal Emergency Management Agency, established by the Carter administration as a super crisis-management coordinating agency, will be brought under the White House wing. Richard Williamson, a White House aide put the word out at the Governors Conference in Washington D.C. in late February that White House counselor Ed Meese will personally take control of FEMA. Louis Guiffrida, a California law-enforcement and terrorism expert and a friend of Meese, will be formally named to head the agency.

Hopeful change on oil leasing

The California decision does not go far enough, however, despite indignation among the environmentalists.

The recent decision by U.S. Interior Secretary James Watt to reverse an action of his predecessor on leasing of acreage off the California coast has predictably drawn outbursts of protest from various environmentalists. In a letter to the governors of California and Oregon, Secretary Watt announced that he was reinstating four of five tracts of offshore shelf lands cut from consideration by "a decision late last year by the previous secretary to drop four basins." He told the governors: "The President has instructed me to take necessary steps to increase domestic production of oil and gas, and I firmly intend to take those steps," adding that his final determination will ensure proper environmental protection.

Watt's decision is significant because it is the new administration's first scheduled Outer Continental Shelf (OCS) oil and gas lease sale, OCS Sale No. 53. Watt has told the two governors to reinstate the four tracts, or almost double the possible area under consideration. The new area being considered for possible lease sale in May could now contain 1.3 million acres in 242 tracts. Andrus, in an eleventh-hour "slash-and-burn" move, cut this down to 606,000 acres on the pretext of *possible* environmental impact and lack of sufficient oil and gas. The lands range from 3 miles to some 27 miles offshore.

A word of support is due Secretary Watt for showing early commitment to the President's (and the electorate's) mandate for growth. Watt was the target of ecofreaks from David Brower's Friends of the Earth to Gaylord Nelson's Wilderness Society, who opposed Watt's nomination because of his opposition to Carter's zero-growth policies on federal land use.

I want to draw attention to the fact that this is a tentative and tiny beginning to the enormous resource development task we face in undoing the devastation of environmentalism run amok.

A recent estimate by the American Petroleum Institute is that the federal government still holds title to about one-third of all the land in the United States. This land, by the best geophysical estimates, contains at least 37 percent of our undiscovered oil and natural gas liquids and 43 percent of our undiscovered natural gas. The unfortunate decision by the past Senate to declare some 104 million acres in remote Alaska as "wilderness" to be forever untouched by man underscores the absurdity of recent restrictive lands policies that could add to our energy resources.

I recently to spoke to Dr. Hollis D. Hedberg, professor emeritus of geology at Princeton University and a respected consulting geologist who served on the Reagan Energy Policy Task Force chaired by petroleum geologist Michel Halbouty of Houston. Hedberg cautioned that it is still too early to comment on the policies of the new Interior Secretary other than favorably. But he did express concern that the scale of policy change in our offshore leasing policy toward *more* sales and far larger lease blocks (which would enable major exploration projects of the scale of those in the North Sea to be undertaken) is not yet evident. Attacking those who cry that we are running out of oil and gas, Hedberg states bluntly that we have the possibility of "tremendous amounts of oil and gas. The important thing—the only way to determine this—is to explore for it."

In an article in the Feb. 16 *Oil & Gas Journal,* Hedberg points out that offshore, the U.S. government to date has leased no more than 3 percent (28,000 square miles) of the almost 1,800,000 square miles of reasonably prospective offshore petroleum territory out to the base of the continental slope. This acreage is as much as the land that has yielded almost all U.S. production and reserves to date.

Before they lost majority control of the Senate Energy Committee to Sen. James McClure's party, "Scoop" Jackson, and New Jersey's double-dribble solar advocate "Dollar Bill" Bradley, issued a committee report pompously titled "The Geopolitics of Oil." Their thesis, after wasting time and taxpayer dollars on worthless consultants, is that the U.S. can do little to improve domestic supplies.

Senator McClure took exception to the Jackson-Bradley view. "At the federal level," McClure stated, "the commitment necessary to maximize all forms of domestic energy production has not yet been made." Let us hope he is soon proven wrong.