

EIR

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Schmidt's challenge to Caspar Weinberger
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Her Majesty's Commonwealth and
the neo-Malthusian conspiracy





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—Dr. Steven Bardwell
Executive Intelligence Review, January 1980

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EIR

From the Editor

Our National intelligence this week features the latest *EIR* conclusions about U.S. defense policy. We amplify the secret plans for an “emergency mobilization board”—a board intended by some of its sponsors not simply to meet a war-production crunch, but to run a collapse-stricken economy from top to bottom. (Our exposé of this plan last week has already had notable reverberations in Washington.) We also provide overviews of the Weinberger limited-war “guidance” document and the DOD assumption that “surge” military production will be taken out of civilian sectors; and we include a dossier on the extremely intimate links between certain Pentagon officials and the Swiss banking circles that run the Bank for International Settlements and its U.S. appendage, Paul Volcker.

Our Special Report, written by Renée Sigerson, Uma Zykofsky, and Peter Rush, provides the evidence that the British Commonwealth, the International Monetary Fund, and the Brandt Commission, the scourges of prodevelopment Third World leaders, are, strictly speaking, the refurbished mechanisms of the British Colonial Office, and share that institution’s hatred for nation-building and technological expansion.

In our Economics coverage you’ll find the IMF boasting that it runs advanced-sector policy as well, specifically the latest prescribed round of U.S. budget cuts. In our International section, I want to call your attention to a report by Asia Editor Daniel Sneider, who, based this summer in New Delhi, has been touring South and Southeast Asia. Sneider assesses the quantitative and qualitative strengths of the Indian and Pakistani armed forces, in light of U.S. military supplies to Pakistan.



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Queen Elizabeth (front center) and Margaret Thatcher (left) at a 1979 Commonwealth reception in Lusaka, Zambia. Sygma

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Who prearranged the U.S. budget-deficit blowout?

by Kathy Burdman and David Goldman

A full-scale crisis of confidence in Ronald Reagan's economic program hit the U.S. credit markets Aug. 24, when the Dow Jones industrial average began what became a 22-point slide to 900, and the bond markets "ceased to exist," as Luis Mendez, chief trader at Dillon, Read, put it.

"Investors have simply decided that Reagan's budget deficit is out of control, that the Reagan program is a total failure," Mendez told *EIR*. "This is a political crisis of confidence of first magnitude in the competence of this administration." The Wall Street investment banks voiced their no-confidence vote openly, demanding two-year Treasury bill yields of a historic 17 percent.

What caused the sudden crisis? William Griggs, the much-quoted economist at Schroder Bank in New York, referred to a front page Aug. 16 *New York Times* leak titled, "Budget Gap to Top \$60 Billion," which reported a study by the Congressional Budget Office that the 1982 deficit would be 50 percent higher than the Office of Management and Budget's \$42.5 billion estimate. "A shift in market psychology took place over the weekend," Griggs concluded.

In fact, Reagan adviser Alan Greenspan had surfaced the \$60 billion figure through Leonard Silk of the *New York Times* in early June, and Wall Street economists have been working with a budget-deficit range between \$60 and \$80 billion for fiscal 1982 for at least the last three months. Morgan Guaranty's current estimate is \$68 billion, although Morgan economists expect the

figure to go higher. A "Black Monday" of some sort, as *EIR* has emphasized since May, was inevitable at some point. The bond houses merely chose to spring it after Reagan had stepped out on a political limb, mortgaging his political capital to force his economic package through. "We've got the Reagan administration where we want them," Griggs concluded. "The Treasury will have to pay the piper."

In fact, the Federal Reserve is now expecting an \$80 billion deficit for the next fiscal year, which means the other shoe will drop on the bond markets within the next several weeks—judging from past performance, in the midst of the International Monetary Fund's annual conclave in Washington, D.C. at the end of September.

According to Ernesto Fernandez-Cata, deputy director for North America at the Fund's Washington headquarters, the Reagan administration will now have to take dictation from the IMF and its central banking sister institution, the Basel-based Bank for International Settlements. The extent of IMF dictates to the White House includes insistence that the Defense Department drop the costly MX missile program in favor of the cheaper cruise missile approach. Working with the BIS and IMF from the beginning, he said, have been Bechtel Corporation Chairman George Shultz, chairman of the President's private Economic Advisory Board, former Fed Chairman Arthur Burns, now ambassador to Bonn, and former Council of Economic Advisers chief Alan Greenspan, the Wall Street economist. These "cooler

heads" have "warned the administration" since the inauguration that Reagan's policies would lead to a budget blowout and crisis, Fernandez said.

The script for the late August developments was released on June 15 in the Bank for International Settlements' annual report, which warned that excessive budget deficits in the United States and other industrial nations made necessary an impossible credit market regime, raising the possibility of a depression "comparable to the economic decline during the interwar years."

Arthur Burns, the Fed chairman during the August 1971 debacle, and George Shultz, then in the administration, are in effect celebrating the 10th anniversary of the worst mistake in postwar economic policy by dragging President Reagan into the same trap they prepared for Richard Nixon. As economic advisers to the White House, they urged the President to tolerate the Federal Reserve's monetary policy, which had the entirely predictable result of increasing the Treasury's debt-service bill by about \$20 billion per annum.

A Young Plan for America?

Judging from recent private pronouncements at the IMF and Federal Reserve, these institutions have in mind a sort of "Young Plan" for the United States, comparable to the Bank for International Settlements' receivership role in the German banking system after 1931. The BIS, founded to administer Young Plan payments, stepped in to reorganize German finances after the 1931 banking crisis, imposing their representative Hjalmar Schacht—later the "economic wizard" of the Nazi war economy—as head of the Reichsbank.

A senior Federal Reserve official said, "Reagan's stuck his neck out, and now he's got a market crisis on his hands. This is hardball. We're not kidding around. Paul Volcker wants a recession and, by God he's going to get it. A social price has to be paid—I mean putting a lot of people out of work."

Following the recommendations of the BIS June report, Volcker has already told the White House that an additional \$40 billion in budget cuts (or tax increases) are the minimum required to stabilize the financial markets—a demand for social and political chaos in the United States.

The BIS program extends even to the point of gutting of any competent U.S. military budget. The BIS June annual report specifically demands a cut in the U.S. defense expenditures, and according to our IMF source, the debate in the press over whether the United States can "afford" to rebuild its defense is coming straight from the BIS, the Fed, and the Shultz/Greenspan crowd.

Shultz, Burns, and Greenspan, in particular, have been recently advising the President that "pragmatism" dictates the United States shave between \$10 and \$20

billion from its defense budget as part of Volcker's budget-cut demands, IMF sources say. Defense Secretary Weinberger, who is supposed to be running the big buildup, is, however, the appointee of Shultz, his former boss at Bechtel. In fact, Weinberger was Shultz's deputy director of the budget during the 1970-1972 period when Shultz and Weinberger gutted the NASA program in the name of austerity. "Weinberger was put in there to cut the fat in the defense program," said our IMF source.

Controls in the works?

What is not made public in this financial crisis, however, is perhaps the feature most resembling the 1930s situation in Germany: the U.S. economy has already been put under limited credit controls, and more may be in the works.

According to high-level Fed sources in Washington, the Fed has established a secret "bank credit target" on credit to nonbank corporations which is being inexorably lowered to deliberately cut industry off from credit. This is modeled on Arthur Burns's 1974 letter to the commercial banks, "asking" them not to extend industrial loans, the official said. The United States has been under such "creeping" controls since the March 1980 Volcker credit control measures, he added. Volcker does not believe in the free market.

James J. O'Leary, chief economist of U.S. Trust in New York, told *EIR* in August that if the Reagan budget continues out of control, which he believes will occur, there will be "no alternative" to Volcker's moving a step further and enacting actual credit controls. Volcker himself in an Aug. 20 broadcast of the "McNeil-Lehrer Report" hinted that to control unwanted loans for large corporate takeovers he seeks "additional mechanisms" to those currently in use.

More is afoot. Studies are being done for Defense Secretary Weinberger's proposed Emergency Mobilization Board (see National) for a top-down militarization of the economy, which could lead to direct controls and even a return to the gold standard. "U.S. instigation of a major military action" could lead to the proposed board's imposition of foreign-exchange controls, and the limitation of the use of the U.S. dollar as "military scrip," pegged to gold at "\$1,000 per ounce," sources close to the Defense Department told *EIR*.

A source close to the National Security Council (interviewed below) denied that militarization is on the immediate agenda, but confirmed that the NSC is in fact conducting a study of the need to move to the gold standard should the Reagan budget continue to collapse. The NSC study is being conducted by allies of Budget Director David Stockman, notably NSC Director of Research Norman Bailey, who would like to use the "discipline" of gold to force a severe deflation.

IMF: 'We made the leak'

Ernesto Fernandez-Cata, deputy director of the International Monetary Fund North American Division, told one of EIR's banking sources Aug. 26 how the Reagan administration's budget was set up for a "crisis of confidence."

Q: The Congressional Budget Office reported this week that the U.S. deficit for 1982 will be \$60 billion, not \$42.5 billion as the President projects.

A: Naturally; we've been telling the Reagan administration since May that we don't agree with their economic projections, and that their deficit would be too big.

Q: Do you mean you forecast the debacle for the administration this week on the credit markets?

A: Certainly. We have our own internal econometric forecast of the U.S. budget, and we came up with the same deficit projections months ago—we always told them the 1982 deficit would be more like \$50 or \$60 billion. But we didn't want to publish it because we're a supranational institution. We are reluctant to risk a confrontation with the U.S. government.

Q: Does the Federal Reserve have similar projections?

A: Certainly, the Fed has a confidential model of the U.S. budget too, but they're very concerned that their forecasts not be leaked. They also project a much higher deficit, on the order of \$60 billion. But they can't afford to battle the administration on this right now.

Q: It's generally believed the leak of the CBO deficit forecast caused the market crisis this week. Are you saying that the CBO published your results for you?

A: Well, we couldn't publish them. I have many personal friends at the CBO, and they're not afraid of confrontation with the administration; a lot of them are Democrats.

Q: What policy do you want Reagan to implement?

A: We want them to cut the deficit, period. Now the Reagan administration has been telling us, as they are telling Wall Street, that they will be able to finance the deficit by raising interest rates high enough to attract capital, which means that neither industry nor anyone else gets capital. If they want to do this, it can be done, and that is fine with us, as long as the Fed doesn't print money to monetize the deficit. But it means that they will have to maintain high interest rates indefinitely. Doing this is very uncomfortable—it could mean a dangerous bankruptcy among savings and loans, say.

We have told them, however, since last spring that we would like the deficit to be cut.

Q: David Stockman and the National Security Council are talking about a different plan, about continuing to finance a big military spending deficit by a return to gold, or by exchange or capital controls.

A: Gold standard, that's ridiculous. The Stockman boy is profoundly insane. The NSC knows nothing about economics; they don't have one economist there. Cooler heads will prevail.

Q: Who do you mean?

A: George Shultz, Alan Greenspan, Arthur Burns.

Q: Who is their spokesman in the administration?

A: Donald Regan.

Q: I noticed the CBO's projections were based on Greenspan's econometric model. What are they telling Reagan?

A: They're telling him to cut the deficit, and to cut the military budget to do so if necessary. They've been warning of this trouble on the credit markets for many months.

Q: Are you sure they don't want credit or exchange controls?

A: No, I met with Volcker this week, he's dead set against it. Credit controls in any case won't help them finance the deficit, because if they put controlled rates on Treasury bills, people would refuse to buy them, and just go out into the Eurodollar market instead.

Q: Are you sure they don't need emergency measures to get the military budget program through?

A: No. All they have to do is what [Deputy Defense Secretary] Frank Carlucci said: cut back wasteful expenditures.

Q: The CBO says about \$10 billion in defense cuts is needed for 1982 out of the \$20 billion budget deficit rise.

A: That's about right. There are a lot of military bases you can close. I'm sure there is a lot of waste there. There is also a wide range of programs to choose from which are less expensive than others. Did you know that a cruise missile only costs \$1 million? Build a thousand of them and that's only a billion dollars. They should go with the cruise missile and dump the MX program.

Q: But Weinberger favors the MX land-based. . . .

A: No he doesn't, I'm sure Weinberger is thinking in my terms; that's why he was put in there, to cut the fat in the defense program. He's with us. They haven't decided to build the MX, and they won't, believe me.

Fed: 'No more fat to cut'

Federal Reserve Chairman Paul Volcker is demanding that President Reagan make an additional \$40 billion budget cut during fiscal 1982 to "squeeze the fat from the economy," a Fed source close to Volcker told EIR.

EIR: What does Volcker think of Reagan's budget crisis?

A: Reagan's certainly stuck his neck out, and now he's got a market crisis on his hands. But Volcker won't change direction. We warned the administration six months ago that if they balloon the deficit they'll get higher rates, and that's just what we're going to give them. The Treasury will have to pay a lot more for financing, and crowding out has only started to raise its ugly head. There won't be any credit for industry, S&Ls will go bankrupt, airlines will start to go under.

The Reagan program is only starting to come unraveled. It's going to snowball. The 1982 budget deficit won't be \$42 billion or \$60 billion, but \$80 billion, because the economy will weaken rapidly as interest rates rise more sharply and bankruptcies start. That will really cut into budget revenues, especially corporate revenues. . . .

There's only one possible resolution: much more substantial cuts in government expenditures, I mean \$30 or \$40 billion more new cuts in fiscal 82—or a major new tax increase. This is hardball, we're not kidding around. A social price has to be paid to fight inflation, I mean putting a hell of a lot of people out of work for a long time. It means hard times and a long recession. Volcker wants the Congress and the people to decide to pay the price. He's telling the President, "You guys have to cut the budget now, and raise taxes."

And poor old Caspar can squeak and squawk but the defense budget will have to be trimmed, too.

EIR: What if President Reagan and Congress refuse?

A: Volcker is going to take this as far as it can possibly go. He's calling the question. If they don't cut, we just keep raising interest rates until there is real pain out there. And it's going to get a lot rougher from here on in, because we've got the fat squeezed out now. Every uptick in interest rates at this point really hurts, the corporations are screaming out there. We're no longer cutting fat.

EIR: Do you think you can get away with this?

A: We'll try, but at some point, push comes to shove. Congress either agrees to cuts in the fall, or it goes the other way. If the administration doesn't listen to us, and switches over to side with Congress against us, then there

is nothing the Fed can do about it. Congress can threaten to change the Federal Reserve Act, and the administration would support them. We're a creature of the political structure, and if the people of this country will not pay the price of sacrifice to kill inflation, then there's that risk.

tightening the belt and cutting deep. But Americans aren't the Swiss. If Congress and the administration get together, we'll have to print money.

NSC: 'Gold or controls'

The National Security Council is studying the possibility that a crisis of confidence in the Reagan budget may necessitate a return to the gold standard. This interview with an NSC source was obtained from banking sources.

Q: Can you confirm Washington reports that the NSC is studying a possible return to the gold standard?

A: Yes. There is a great deal of soul-searching going on here with reference to the monetarist assumption that exchange rates must float free and gold has no role, as well as respecting the Keynesian assumption that we can run huge budget deficits. If things continue to look strange, if the budget deficit stays high, if interest rates continue to rise, foreign-exchange rates continue to fluctuate wildly, and the decapitalization of the economy continues—in short, if things don't go as we've expected—then a return to the gold standard might become necessary. We're doing the necessary studies to determine what conditions might be to trigger it.

Q: NSC studies? Or with the Reagan gold commission?

A: NSC internal studies, because such a deterioration of the U.S. economy would be a national security risk. It would jeopardize other things we might want to do at home and abroad, like our defense program.

Q: What likelihood do you estimate this gold scenario has?

A: Well, we're not happy with the current situation. Things aren't going as the administration had planned. We're questioning a lot of the assumptions, now, that had been made earlier by the budget projections.

Q: What about if a military emergency triggered a mobilization?

A: We of course have other studies of this going on, not related to gold necessarily. First, we would put the entire economy under controls, foreign-exchange controls. We would put controls on the dollar, in which case we might not need gold, because the dollar would be very strong since there would be very tight credit demand here.

The Treasury's debt bubble

Schroder and other banks are the only ones benefiting from the financing stresses under way.

The U.S. Treasury, whose debt has proven so lucrative to the investment houses that market it, will now have to pay even higher yields on its paper, or it will be unable to finance the national deficit. This prospect was arrogantly stated Aug. 25 by Bill Griggs, one of the economists at the New York branch of Schroder, the British bank that gained its notoriety when the Schröder family helped finance Adolf Hitler. According to Griggs, "the Treasury has been giving 14 to 14½ percent yields on its Treasury bills. This is not high enough. The Treasury will have to pay more. It's going to have to pay the piper. It's going to do its financing on our terms, or it won't get money to refinance its deficit."

Griggs's confidence that the Treasury will accede to his firm's demands is built on the fact that the United States is so massively indebted that refinancing problems would mean an immediate crisis.

The outstanding Treasury debt as of the end of July was \$978 billion, and it is growing by a multiple of interest-rate costs and new debt requirements. For example, the 10-month interest repayment on the federal government debt for the fiscal year 1981 federal budget—that is from Oct. 1, 1980 through July 30 of this year—was \$79 billion, or \$7.9 billion per month.

At this rate, by the end of FY 1981, the total interest payment on the debt will amount to \$94.8 billion.

The amount of total U.S. government debt outstanding at the start of 1981 was \$930 billion. The average maturity on this debt is 3.8 years, meaning that in 3.8 years, the total value of the debt will be refinanced or rolled over once.

Therefore, in 1981, \$244.7 billion of this old outstanding debt had to be taken to market for refinancing, which is \$61.8 billion per quarter.

As for the 1981 new debt financing, according to David Jones, of Aubrey, Lanston, in the first quarter of 1981, the Treasury incurred \$39 billion in new debt financing; in the second quarter, the Treasury paid down or contracted debt by \$1.4 billion—the tax payments facilitated the debt paydown; in the third quarter, the new debt financing will total \$15 to \$17 billion; and in the fourth quarter, new Treasury debt financing will reach \$33 billion.

It can therefore be seen that for calendar year 1981, the combined total of already incurred and projected new debt will be \$86.4 billion, of which approximately one-quarter is caused by Volcker's high interest rates.

Given that the refinancing of old debt in 1981 works out to \$61.8 billion per quarter, the last quarter of 1981 will see the Treasury go to market for \$94.8 billion in financing and refinancing needs.

The effect of Volcker's high interest rates on this mountain of debt can be adduced from the fact that, since he pulled his first credit tight-

ening on the Columbus Day weekend of October 1979, there have been 22 months of new and higher interest rates.

Since the average maturity of Treasury debt is 40 weeks, then $1\frac{1}{20}$ or 55 percent of the outstanding mass of nearly \$1 trillion U.S. Treasury debt has been refinanced at higher interest rates.

This can be seen in the skyrocketing of the interest on the U.S. government debt. For the first 10 months of fiscal year 1981, the total interest on the U.S. government debt was \$79.762 billion. If the interest continues at the rate of \$7.97 billion per month, when fiscal year 1981 ends Sept. 30, the total interest on U.S. government debt will be \$95.7 billion, exactly the range *EIR* predicted in February. Moreover, this will represent 14.4 percent of projected total 1981 fiscal year budget expenditures of \$664.5 billion.

Not only does this wreck the national finances, but it represents a tremendous boon to the banks that make markets in this debt.

These include Salomon Brothers, which is now owned by the Oppenheimer Anglo-American interests; Aubrey, Lanston; A. G. Becker, which is merged with the Warburg banking group of London and Hamburg; Merrill, Lynch and Goldman, Sachs, which have traditional ties to London. These investment banks have marketed a lot of the Treasury debt to the investment trusts, or *fondi*, of the old European families, whose fortunes center on London.

With such leverage over the U.S. Treasury debt, it is not to be wondered that Schroder Bank thinks it can dictate yield terms to the U.S. Treasury.

A fast road to credit controls?

Despite the Federal Reserve's denials, controls are possible in the near term—and on a supranational level.

In a recent talk with a reporter, former Federal Reserve Chairman William McChesney Martin argued that the ability of central banks to control national credit behavior would erode toward total deregulation, and that this would eventually compel the central banks to band together on behalf of an international system of credit controls. "McMartin" foresaw the cycle from total deregulation of the credit markets to virtually total regulation coming full circle in two to three years. Indications are that it might happen much sooner.

News that American corporations booked \$36 billion of Euro-market loans in July destroyed remaining illusions that the Fed had credit expansion under control. Business loans from all sources rose at a 35 percent annual rate during the first half of the year, and the July bookings—which do not necessarily represent drawdowns—could push that rate even higher. Conceivably, some of this loan activity, funded heavily from abroad, is responsible for the rapid growth of narrowly defined money supply during the last two reporting weeks.

Reviewing the methods by which borrowers and lenders have thwarted national central bank regulation, *The Banker*, a monthly owned by the London *Financial Times*, reports the following:

"All of the difficulties created for monetary policy by an electronic banking environment on a na-

tional level can be expanded to an international level when funds are transferred easily through communications networks across national boundaries. The Bank for International Settlements is already investigating the influence of automation and sophisticated payments systems on the money supply, and a coordinated approach for the whole of the worldwide central banking community may eventually be developed if it is felt that the measurement and control of the money supply is compromised in some way for individual nations."

Central banking sources who attend BIS meetings corroborate *The Banker's* report, and point to a little-noticed feature of the supposed "electronic" revolution in international banking: the centralization of electronic funds transfer systems ultimately makes the Eurodollar market eminently controllable.

At present, two computer systems clear perhaps 85 to 90 percent of all international transactions. Apart from the Clearing House International Payments System, or CHIPS, in New York, which clears the transfers between the 12 New York City clearing banks, the leading payments system is the Brussels-based Society for Worldwide International Financial Telecommunications, or SWIFT. SWIFT transfers consist merely of a transfer order typed into a computer terminal, which routes the order to its destination through a central computer terminal, pending trans-

mission of an encrypted confirmation code. In theory, the BIS would have no difficulties in tapping into the central computer system to obtain a continuous profile of international payments.

A precedent for this form of electronic monitoring of financial transfers was established during the November 1979 freeze of Iranian central bank assets by the U.S. Treasury. As *EIR* reported exclusively, the Treasury obtained continuous reports from the National Security Agency, which is responsible for monitoring electronics communications, on the status of Iranian bank assets. An operation of that complexity could not occur had the Treasury used only the monthly reports from the banks themselves.

Since the SWIFT system also provides the banks' customers with a daily status report of debits and credits to their accounts, the SWIFT network could, conceivably, permit the international central banking authority to closely monitor the exposure of banks to their corporate customers as well.

Despite the Reagan administration's ideological bias against controls, as economist James O'Leary of U.S. Trust points out, they represent the path of least resistance. Reagan cannot cut the budget sufficiently to bring down interest rates quickly, if ever, and is not likely to adopt the "supply-side" gold remonetization plan except as a last resort.

However, as *The Banker* (and IMF officials) emphasize, no domestic controls could succeed. So the prospect of credit controls through the BIS in the foreseeable future, even before year's end, is not to be excluded.

More noise about a gold standard

The odious supply-siders have stepped up their campaign for a deflationary version of remonetization.

Some months ago, the President appointed his special commission on gold. Mr. Beryl Sprinkel, who is allowed some hand in running the Department of the Treasury, then waged a little battle to force the commission to file its report by Oct. 1, thus ensuring that no work of substance would be accomplished. Mr. Henry Reuss, one of Paul Volcker's accomplices in the 1971 disaster, vehemently protested, and more time has been given to the commission.

A vacationing President Reagan, among others, has read the numerous articles in the American press to announce with great fanfare that consideration was being given to returning the dollar to some form of a "gold standard," seen as one, perhaps the only, means of bringing inflation under control.

Messrs. Evans and Novak have reported the inhuman efforts devoted by Mr. Stockman to cutting a budget inflated, notably, by interest paid on account of soaring interest costs by the U.S. Treasury, and added that he and gold-minded friends inside the administration and around it, were looking forward to a return to gold.

This apparent "great debate," however, was not limited to remonetization advocates. The *New York Times*, which has endorsed every single folly committed in monetary affairs since Paul Volcker and his friends de-pegged the dollar from gold, published an editorial

Aug. 22 excoriating the proponents of a return to monetary gold, and in rather severe terms.

I learned, by talking to one well-known priest of the curious supply-side cult, that the *Times* editorial was the result of a clever plot hatched between supply-siders and the newspaper's editors. The latter, I was told, do not want a gold standard, but they want a debate on this issue, as witness the Aug. 27 guest editorial by Mr. Jude Wanniski.

In another discussion, a senior staff member of the International Monetary Fund who prides himself on his aristocratic descent, expressed the utmost contempt for Messrs. Stockman, Laffer, Paul Craig Roberts, et al., lashing out when I mentioned that the National Security Council was running detailed studies on how gold would be brought in as soon as the U.S. currency collapsed, which the NSC clearly expects in short order. "Ah! but they do not know anything about economics! We, the cool-headed ones, do."

They expect that the Reagan administration's policy will abjectly crash, as the budget deficit runs out of control, and perhaps then the dollar, engulfed in the maelstrom of loss of confidence, at which point they propose a return to the 19th-century gold standard, so profitably used by the City of London: a highly deflationary affair whereby no credit would be issued unless it is completely covered by bullion, thus

making the world credit, and hence the world's economic prosperity, totally dependent on the strict quantity of metal mined.

Mr. William Rees-Mogg, lately the editor of the *Times* of London, and now with General Electric Ltd., U.K., helped draft the plan. Lawrence Kudlow, a Rees-Mogg protégé who is chief economist for the Office of Management and Budget, supports it.

Looming behind this scene is a glassy-eyed fellow whose shoulder-length hair would better recommend him for the role of Dorian Gray than that of a monetary expert: he is an adviser to the central bank of Uruguay—no small feat to bring order to books primarily reflecting transactions on narcotics and arms-smuggling accounts. Robert Mundell will shortly convene his friends at Villa Santo Colombo, a haunt owned by the Monte dei Paschi Bank: there the Siena Group will deliberate on the best ways of selling President Reagan the program of deflation demanded by the Basel Bank for International Settlements.

The truth is that neither this person, nor the "gold bugs" know the great secret of gold, currency, and credit, which establishes a rigorous link between productive wealth generated by the economy, and the quantity and quality of credit put in circulation. At this moment, gold could perform an indispensable function to stabilize the international financial mess; it could also make it worse, depending on whether it is the "cool-headed" ones who preach deflation at all costs, or productive-minded persons, who will reintroduce the ancient metal into the monetary system.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
	U.S.A. from Japan	GE will market 500-600 Hitachi industrial robots in U.S.A. over next 3 years; Hitachi selling GE its technology for painting and welding robots over next 7 yrs. for new GE robot-building division.	GE says plans to compete with Hitachi in future.
	U.S.A. from Japan/West Germany	Hitachi and Mannesmann-Demag will act in concert in exporting steel-making plants to U.S. market. Hitachi will give part of \$100 mn. order it won from Wheeling-Pittsburgh Steel for continuous casting machines to its German partner.	Deal helps the partners' competitiveness in winning U.S. steel modernization orders.
over \$10 mn.	U.S.A. from Japan	A plant to make MSB resin and styrene foam will be built in Texas or Louisiana by Kanegafuchi Chemical Industry. MSB gives PVC more impact resistance. Kanegafuchi 10,000 tpy MSB exports from Japan currently give it 40% of U.S. market. New plant will also export to Latin America.	First step in big Kanegafuchi plans for U.S. production plants.
	Hong Kong from U.S.A.	International Totalizator of San Diego won contract from Royal Hong Kong Jockey Club for 1,500-2,000 OTB and 180 administrative terminals.	
	India from U.S.S.R.	Soviets will aid in onshore oil exploration and improved recuperation from onshore wells in states of Gujarat and Assam. India is going for oil self-sufficiency in 1985, meaning more than doubling current production.	India needs the advanced Western methods for its offshore and on-shore production; U.S. has been slow in entering this \$6 bn. market.
\$1 mn.	Ecuador from Spain	Ecuadorian Center for Nuclear Studies signed contract with Spain for 3 megawatt study reactor and a medium-activity isotope facility.	
\$160 mn.	Paraguay from France	Equipments Ourtre-Mer won order for 600,000 tpy cement plant for northern Paraguay.	French govt. long-term credits, as well as Banque Worms-led group.
\$150 mn.	Saudi Arabia from U.S.A.	American Medical of Beverly Hills signed 3 yr. contract to manage and operate new hospital in Al Baha.	
\$100 mn.	U.S./Japan	Bechtel, Westinghouse, and Mitsubishi are joining \$100 mn. R&D project to develop an advanced <i>pressurized</i> water nuclear reactor. This APWR project competes with a similar one on the advanced <i>boiling</i> water reactor between GE and 3 Japanese firms.	Start of construction on new generation APWR planned for 1985.
CANCELED DEALS			
	U.S.S.R. from Japan	Soviets have scrapped a tentative order for 300,000 tons of steel plates from the big 5 Japanese steel firms made in July. <i>Japan Economic Journal</i> says Soviets playing hardball in demanding interest-rate cut from agreed 7.75% to 7.25%, over 5 years. Plates were to have been delivered from Oct. to next July.	Japanese steel-makers are blaming the recession-struck European competitors for encouraging Soviets on lower rates.
\$350 mn.	Lebanon from Europe	Middle East Airlines announced that its order for 5 Airbus A-310 wide-body jets would be canceled, should security conditions not improve by September.	Beirut is a tough place to run an airline.

A resourceful museum exhibit

How and why the great art of the Bourbons came to Detroit is a revealing tale of international collaboration.

During a recent 10-day tour of the Midwest and Southwest, I visited museums, private collectors, and made presentations on the subject of real value in art. I received very exciting responses from both private and professional groups, which are worth reporting. In this column, however, I want to comment on an exhibition at the Detroit Institute of Art, and on the role of the urban museum.

The exhibition is called "The Golden Age of Naples," and is subtitled "Art and Civilization under the Bourbons, 1734-1799." It concentrates on the art produced during the 18th-century reign of the cadet branch of the Bourbon dynasty of France, which was established in Naples and Spain in the 18th century. The exhibit was originally assembled in Naples, where it was shown in 1980; the earthquake which devastated Naples early this year caused a delay; the exhibition survived, however, thanks to the commitment of the Neapolitan officials responsible for art, who believe that Italy's great cultural heritage is essential to its salvation, and to the museums of Detroit and Chicago, which committed huge sums to cover the increased costs of shipment of works of art. The exhibition will continue in Detroit until Oct. 31, and will open in Chicago in January.

Its most impressive features are the grand scale and eloquence of

the religious art of the period, and the cultivation of the fine arts under the reign of the Bourbons. Francesco Solimena (1657-1747) is the great protagonist of the former. The first work the visitor views as he enters is one of Solimena's great altarpieces, which is about 13 feet high (375 cm.), painted in 1710. It conveys the ecstatic and evangelistic power of religious art of the time, with the powerful deep blues and reds of the drapery of the leading religious figures depicted.

Solimena's own portrait displays his strong sense of personal authority. The light divides his face in half, half light and half dark, with a broken path of light falling over the eye otherwise surrounded by shadow. Behind is his painting of Olympian gods, as if he could personally invoke them.

By contrast, the second great painter of the era, Francesco de Mura (1692-1782) is a cultivated artist-scientist, typical of the Bourbon era. In his self-portrait, painted in the mid-1740s, de Mura casts himself in an even, light illumination. He holds a sketch of Minerva, the protectress of the arts; his features show the acute tension of the man of rational belief who sees in his calling as an artist the task to convey the outlook of Reason.

The third great artist of the period, Corrado Giaquinto (1703-66) combines in happy union the two previous tendencies, the religious

excitement of Solimena and de Mura's clear and rational lighting and imagery. In the exhibition, Giaquinto is represented by four paintings that depict the life of the Virgin. Their warm, high-keyed tonality, and transparent shadows reflect the Bourbon era, while the dramatic accents and directed control of large religious canvases show his grasp of Solimena.

English historians in particular have delighted in depicting the Bourbons as despots whose decadence despoiled the people—a self-serving view masks the reality of the Jacobinism, organized by the British, which swept away the Bourbon rule in France and attacked it in Spain and Naples.

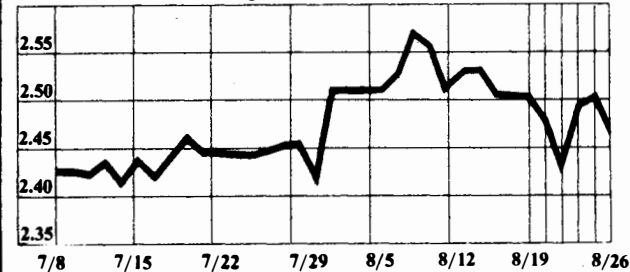
This exhibition helps set the record straight. Under the Bourbons, Naples was a seat of intellectual life, as it had been when Frederick II, the great Hohenstaufen emperor, founded the first university in Europe there in 1252. All of this ended in characteristic Jacobin fashion when a peasant army under Cardinal Fabrizio Ruffo invaded the city and executed all intellectuals who favored French rule.

The Detroit Institute of Art, in mounting this exhibition and committing much funding to the undertaking, fulfills one of the most important functions of the urban museum, that of educating the public. The Detroit Institute of Art has been noted for its commitment to this role for American museums, particularly since Dr. Fred Cummings became the director. At a time when the United States desperately needs profound revitalization of education, the Detroit Institute is one of the best prepared in the country to carry out expanding accomplishments.

Currency Rates

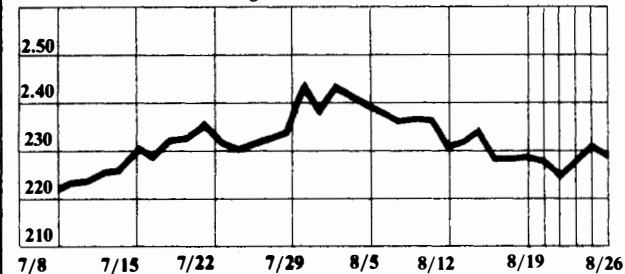
The dollar in deutschemarks

New York late afternoon fixing



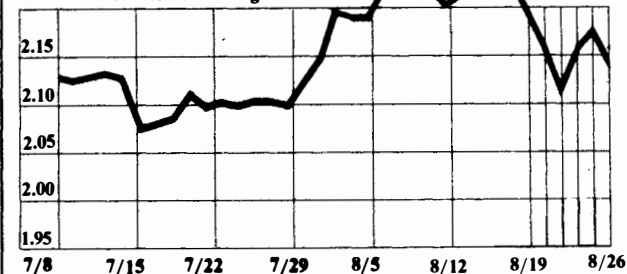
The dollar in yen

New York late afternoon fixing



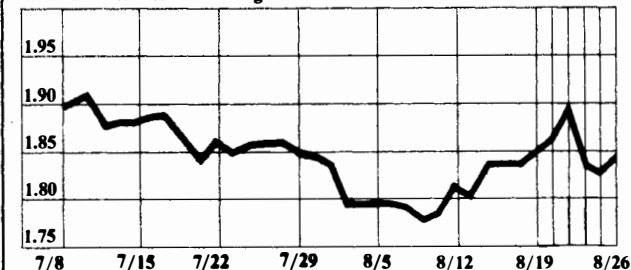
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



An EIR seminar

U.S. and Soviet strategic doctrines in the 1980s: the economic, military and scientific implications

In Washington, D.C.

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9:00 a.m.—5:00 p.m.

- Is limited nuclear war possible?
- Is the SALT process dead?
- How do the SS-20s, Pershing II missiles, and neutron bomb reflect strategic doctrine?
- How do Poland, Afghanistan, Pakistan and China affect Soviet military posture?
- Can the U.S. economy support rearmament?
- What level of defense can the U.S. budget sustain?
- How would new weapons technologies change the industrial base?

A special highlight of the seminar will be presentations of General Accounting Office and *EIR* econometric studies of the ability—or inability—of the U.S. economy to sustain a defense buildup.

Speakers:

Dr. Steven Bardwell, Editor, *Fusion* magazine

David Goldman, *EIR* Economics Editor

Terrell Arnold, U.S. Naval War College

John Landicho, Senior Associate Director, Procurement, Logistics & Readiness Division, U.S. General Accounting Office

For further information, call Laura Chasen

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Business Briefs

Public Policy

Volcker says: cut wages further

In an interview Aug. 20 on the Public Broadcasting System's "McNeil-Lehrer Report," Federal Reserve Board Chairman Paul Volcker stated, "Among other things, there are a lot of—a big cycle of wage agreements coming along. I hope they reflect better expectations about inflation, and we see a reduced rate of cost increase, and that means an economy with two-thirds of the cost wages—a lower rate of wage increase."

It was not clear from his syntax whether Volcker meant that U.S. wages should be reduced to two-thirds of their current level, or whether wage increases should be two-thirds lower. Nonetheless, reduced wage levels are developing as a consistent Volcker theme. In Congressional testimony in early August, Volcker said that the living standards of the nation must be lowered to prevent inflation.

Agriculture

World grain production at record level

According to the latest U.S. Department of Agriculture report on world crop production, total world grain production in the 1981-82 season is forecast to reach a record 1.6 billion metric tons, 4 percent or 63 million tons more than last year. This includes wheat, coarse grains, and oilseeds.

The projection is a reduction of the previous month's estimate due to deterioration of crops in the Soviet Union, both Western and Eastern Europe, and China, largely due to adverse weather conditions.

But the drop in output was held to a minimum by the fact that improved U.S. crop conditions promise record-breaking

production in the United States.

World wheat production is projected to hit 455 million tons, 4 percent above last year despite an overall reduction of European output. Coarse grain output is forecast at a record 763 million tons, 5 percent above last year despite reduced production in the U.S.S.R., Europe, and China.

Oilseed production—soybeans, sunflower, and rapeseed—is forecast at 175 million tons, down 7 percent from a year ago due to adverse weather in Europe and reduced soybean acreage planted in Brazil.

Development Policy

IMF/World Bank have secret study on Africa

On Sept. 27, the International Monetary Fund (IMF) and World Bank will reveal a major two-year study on Africa, outlining a 10-year economic program for the continent. The study was recently completed by the joint IMF and World Bank Development Committee. This subgroup, along with the ministerial-level Interim Committee of the IMF, are the two most important policy-setting bodies for the IMF/World Bank apparatus. Their annual deliberations which this year occur from Sept. 26 to Sept. 28, set the decisions for the IMF annual conference which begins Sept. 29 and runs to Oct. 2.

It is expected that the study on Africa, which is titled *Action Program for Sub-Saharan Africa*, will establish strict guidelines for forcing African countries to meet payments deficits through harsh programs of "resource mobilization." The effect would be a reduction of already substandard living standards.

In line with the Africa report, UNCTAD will unveil at an international conference Sept. 1 in Paris an "Action Program for the Least Developed Countries."

A 250-page compendium, the UNCTAD study calls for concentrating

trade transactions involving the poorest nations strictly within the Third World, along what is currently being dubbed "South-South" lines.

The original proposal for "decoupling" large sections of the Third World from access to capital equipment goods in the advanced sector was launched in 1979 by the New York-based Council on Foreign Relations in its compendium titled "Project 1980s."

UNCTAD General-Secretary Gamani Correa has been drumming up support for "decoupling" within the Third World on grounds that trade with developed nations runs the risk of "cultural imperialism."

At a highly secretive meeting last May in Caracas, Venezuela of the Group of 77 Third World member nations, Correa called upon the poorest nations of the world to "mobilize their resources" through self-sufficiency to finance their payments deficits.

Trade

East bloc deals increase for Germany

West Germany's trade with Eastern European nations has grown by 5.3 percent in real terms in 1980, according to the Federal Statistical Office, an above-average result compared to other major trading areas.

Trade with Comecon nations now represents 5.3 percent of Germany's total foreign trade, and new orders have been accumulating since the beginning of the year.

The Düsseldorf-based engineering giant Mannesmann announced at the end of August the signing of a contract for sale of 550,000 tons of steel pipes to the Soviet Union, over and above the already-concluded mammoth deal of the Siberian natural gas pipeline. German experts are currently reviewing a Soviet offer for establishing a shipping/railroad link between the northeastern Federal

Republic port of Kiel, and the Soviet Union, which Soviet Prime Minister Tikhonov proposed should also involve East Germany and Poland.

Banking

Citibank steals cash from customers

Already notorious for mishandling individual accounts, Citicorp's corporate and retail banking division in New York has instituted a number of new procedures in its cash-management policy which have given Citicorp free play with customer cash for periods ranging from one to three days.

Preliminary estimates are that Citibank branches are working up several billions of dollars worth of "float" for the company to play with. "This is highway robbery, theft," an exasperated corporate controller for a major Citibank account declared last month, upon learning of suspicious cash deficits in the company's account.

In April, Citibank told a large percentage of corporate clients the bank would no longer issue payroll checks against uncollected funds.

In August, it sent out notice—after the policy change was introduced—that credit card deposits would no longer be recognized as having the status of cash funds, but somewhat like checks, would take a three-day period for clearance.

Citibank also failed to inform clients that at several branches, cash deposits placed after 2:15 p.m. certain days of the week would only be registered 24 hours later.

In the hours between 2:15 p.m. and 3:00 p.m., Citibank's corporate retail accounts handle up to \$3 billion citywide. It is not yet known what percentage of this cash is now finding its way into Citicorp's "suspension account," an in-house fund, accessed interest-free from depositors, for 24 hours of banking business.

Municipal Finance

American cities face bankers' dictates

Cities throughout the U.S. are facing the prospect of economic and social chaos this fall, to be triggered in many cases by a combination of budget deficits and the unavailability of funds in the credit markets.

In late August, the city of Chicago was forced to withdraw a \$100 million bond issue because it could not pay the interest rates the investment banks demanded. Even state governments find it difficult to raise funds for short-term debt issues to tide over their budgets until tax revenues come in.

Cities and states are thus increasingly turning to the New York banks to handle their financing needs, and in turn are being forced to allow those banks to "monitor" their budgets. At least five cities—New York, Detroit, Cleveland, Chicago, and Washington, D.C.—have hired Lazard Frères' Felix Rohatyn to straighten out their finances. Each has had its services cut and new laws passed granting huge giveaways to speculators and free enterprise-zone equivalents; in Detroit, "local development corporations"—LDCs—have been established to build rickety housing and bust the building trades unions.

In Chicago, at the same time the bond issue was withdrawn (with the large Chicago banks refusing to provide a penny to the city) the School Finance Authority set up by Rohatyn and run by the unsavory Pritzger real-estate family has rejected the school board's budget for the coming year, on the spurious grounds that the 1982-83 budget projection shows too great a deficit.

This will almost certainly force a school shutdown and possibly wreck the teachers' union. The Chicago Transit Authority faces another 50 percent fare increase by Jan. 1 because of the bond issue's failure. Property taxes have been raised, and services cut.

Briefly

● **PAUL VOLCKER** is going to Brazil Sept. 8-9, in a first-time-ever exercise of Federal Reserve diplomacy in the Third World. Volcker's task is to explain to the Brazilians why U.S. interest rates have not yet come down as he promised earlier this year.

● **FRANCOIS MITTERRAND's** government is floating its first large bond issue, at a record breaking rate of 16.5 percent. Even French institutional investors are dragging their feet despite heavy finance ministry pressure and the fact that the securities yield 3 percent above inflation.

● **FRANCE** has invited the IMF to attend the next round of Polish debt talks, to be held Sept. 9 in Paris, although the Giscard government had refused to do so earlier this year. According to *Le Monde* of Aug. 21, the Mitterrand administration took the step at the urging of American banks.

● **THE FEDERAL Reserve Board** approved Aug. 25 the Midland Bank of Great Britain's takeover of the San Francisco-based Crocker National Bank, the nation's 12th largest bank. Crocker has \$19 billion in assets.

● **THE CARTER** administration first initiated Reagan's policy of cutting 50,000 jobless workers from the extended benefits rolls, slicing the program in half last September, but Carter postponed full elimination for electoral reasons.

● **THE PENTAGON** reports that unemployed pilots and airline mechanics have been flocking into the Air Reserve and National Guard, despite much lower pay levels.

● **ARSON** is leveling off in New York City, officials claim. The *New York Times* noted Aug. 28 that the soaring cost of replacing burned-out buildings may make arson less profitable.

The Commonwealth: Queen Elizabeth's Malthusian redcoats

by Renée Sigerson

From her office in Buckingham Palace, Queen Elizabeth and her immediate entourage have emerged in recent months as the single most powerful force in formulating U.S. foreign policy. This is the only conclusion that can be drawn from the ongoing preparations in several corners of the globe for the Oct. 22 Cancún, Mexico summit, which President Reagan will attend alongside 20 other heads of government to deliberate on economic relations between the industrialized and developing-sector nations.

The vehicle through which Elizabeth and the royal family exert control is the Commonwealth of Nations, an association of 36 countries, 24 dependent territories, and 8 associated states, protectorates, and self-governing territories. For all intents and purposes, the diplomatic process of recent months reveals, the United States is performing as a *de facto* associate member of the Commonwealth apparatus, the association recently described by one of its top officials as the "seed crystal for a global order."

Founded in 1953 in the aftermath of the gaining of independence by India, the Commonwealth works on one level as an influence-buying apparatus embedded within the Third World. By shaping Third World leaders' expectations and perceptions of particular options for economic cooperation with industrial nations, the Commonwealth serves to sever the moral influence for economic growth which the entirely legitimate economic development needs of less-developed nations potentially trigger within more developed nations.

In every hotspot in the world, from Central America to Iran, Commonwealth entities have been used in an instrumental way by the British oligarchy to shape U.S. foreign policy. Playing each side against the other, the Commonwealth—both the oligarchy that wields it, and the corrupted Third World forces that help to run it—create an aura of unreality over large areas of international deliberation. Wherever the Commonwealth's entities are active, crises in the Third World seem, magically, never to be solved without intervention by the British Crown, a process encapsulated in the 15 years of war-torn African battle over Rhodesia.



United Nations

Lord Carrington, U.K. Minister for Foreign and Commonwealth Affairs (l), with Salim A. Salim of Tanzania, then president of the U.N. General Assembly.

In 1965, the Commonwealth formed an official secretariat to coordinate its policies. Chaired since 1975 by Guyanese parliamentarian Sir Shridath Ramphal, a turncoat oligarchist strongly favored by the Queen, the secretariat holds well over 100 meetings on topics ranging from regional agricultural problems to disarmament every year. It has acted through the period of the 1970s—wracked with repeated oil and financial crises that have ravaged Third World economies—as the only permanent and functional coordinating body on advanced sector/developing sector (“North-South”) relations anywhere in the world.

The Queen and Parson Malthus

The Commonwealth functions economically upon the principle that *raw-materials endowment* as bequeathed by Mother Nature determines wealth. The Commonwealth is a preferential trade zone, which, through the offices of London-based multinational mining and oil companies typified by British Petroleum, Sir Harry Oppenheimer’s Anglo-American, and Rio Tinto Zinc, dominates a vast portion of raw materials available in the entire Western world. Currently, the Commonwealth’s affairs lie within the jurisdiction of Lord Carrington, minister of Foreign and Commonwealth Affairs, and a product of London’s raw-materials oligarchy. Carrington sat, before his emergence into global politics, on the boards of directors of Rio Tinto Zinc, Barclays Bank, and Hambros Bank.

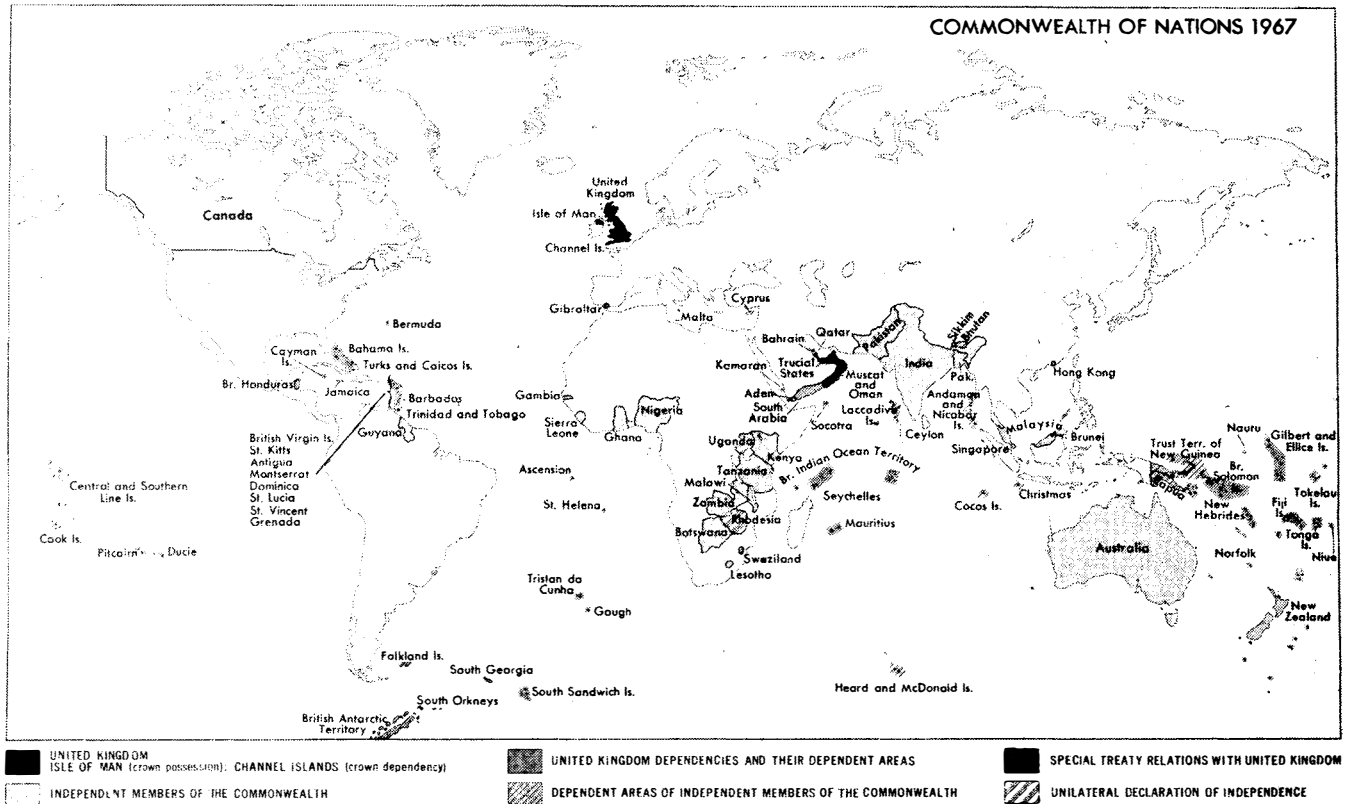
The prescription that raw materials endowed by Mother Nature are the source of nations’ wealth was

the great issue of contention in the American Revolution. It was in opposition to this superstitious and scarcely credible dogma that the founding fathers of the American republic reached the conclusion that only a definitive break with the British Crown could ensure the future of the populations of the colonies.

The first time the British Crown sponsored an ideological movement in behalf of this dogma was some 20 years after the American Revolution, when it created the career of Parson Thomas Malthus. Parson Malthus stated that food shortages would eliminate population, and that this was a necessary and good thing, because large populations were politically undesirable. The Irish potato famines were testing grounds for Parson Malthus’s political doctrine.

Today, the British say the same thing: resources are scarce, therefore population must be reduced.

It was the British Commonwealth which mobilized around the occasion of the July Ottawa summit of Western heads of state which President Reagan attended, to ensure that the final communiqué from that meeting contained a paragraph endorsing zero population growth. The paragraph in question was penciled in by a fellow named Aurelio Peccei, head of the Club of Rome group that popularized zero population growth in the 1960s. According to reliable reports, Peccei read his draft over the phone to Pierre Elliott Trudeau, nominally prime minister of Canada, but really second-in-command to the British Royal Canadian Governor in that dominion. Trudeau convinced Reagan, who detests population-reduction schemes, to insert the pro-



vision into the communiqué.

In recent weeks, Commonwealth officials have manifested manic euphoria over the coup that has been pulled by Queen Elizabeth and Lord Carrington in dictating U.S. behavior in connection with Cancún.

British scorn

A top Commonwealth official boasted privately to an inquirer that the United States will do whatever Britain tells it to do at this point in diplomacy with the Third World. "The U.S. will come along in tow," he said. "They always do. It's such a joke in these matters. The big, tough U.S. is run by the British Foreign Office. They are humiliated, manipulated, and embarrassed. Carrington is a master at this, a real royalist at heart. Wouldn't it be funny if what emerged was a global British Commonwealth of sorts, with the U.S. either sitting outside hurting, or even begging to come in."

What the British are having the United States do in connection with Cancún is to behave in a completely infantile and insane manner on all relevant negotiations so the Commonwealth may emerge as the only functioning body for organizing North-South affairs. Some months ago, for example, the U.S. State Department created a minor international flurry when it demanded that the U.S. cease financing publications aimed at bolstering the image of the World Bank on the grounds

that the World Bank was "communist-influenced." Late last month, the State Department retracted the demand, saying the U.S. could finance the publications. The incident, though minor, captures the essence of how Cancún preparations are working on more pressing matters of international concern. For example:

- In June, just before President Reagan held a summit meeting with Mexican President José López Portillo, the U.S. State Department and the British press put out the line that "Zimbabwe would be the test-case for U.S. foreign policy toward the Third World." State Department head of the Agency for International Development (AID) Tim McPherson, a known supporter of population reduction, went to Zimbabwe to participate in an international U.N. conference, on Zimbabwe's economic future. What was announced at the conference was a program for labor-intensive development of Zimbabwe's coal resources. The agenda for the Reagan-López Portillo summit, by contrast, (which the State Department had told inquirers was "unimportant") was the potential for exchanges of Mexican oil for U.S. high-technology—implying nuclear power.

- From March through July, British and Mexican oil companies and anglophile international think tanks (e.g., Stanford Research Institute) led an unprecedented, private diplomatic caravan to China. All reports on

these visits document that their purpose was to aid the Chinese in their current efforts to reduce population through policies of forced, violent abortion and brainwashing. At this time, Canadian Foreign Minister MacGuiggan is wrapping up a visit to China. (He will be followed this fall by U.S. economists Milton Friedman and Lawrence Klein.) The Canadians intend to make Chinese representatives dominant actors at the Cancún summit.

- In July, under the auspices of the United Nations, the British oligarchy held an international conference on Renewable Energy Resources in Nairobi, Kenya. The conference was a staged affair. Third World spokesmen were connived to get up and report on the benefits to their economies of burning cow dung. The United States, on the other hand, lambasted a (British-authored) proposal to create a new energy bank affiliated with the World Bank. The name of the game was to use U.S. opposition to the World Bank Energy Affiliate proposal to drum up support for that proposal among the Third World leaders present. Review of the Energy Affiliate proposal reveals its single intention is to forceably sabotage, through control over financial resources, development of nuclear power until well into the 21st century.

- On Sept. 1, the United Nations Conference on Trade and Development (UNCTAD) is beginning a conference of several hundred Third World representatives in Paris. The conference will hail a just-released 250-page UNCTAD report devoted to a 10-year "development" program for the 1980s. According to UNCTAD General Secretary Gamani Correa, the document calls for the poorest nations of the world to "mobilize their *internal* resources" to finance their debt payments and other deficits. Correa, through his controller, former Dutch Finance Minister Jan Pronk, is a brainwashed creation of British think tanks such as the Oxford Institute for Commonwealth Studies.

- On Sept. 30 to Oct. 7, fifteen days before the Cancún, summit, the Commonwealth heads of government are holding a separate summit meeting in Melbourne, Australia. The intention is to have the Commonwealth emerge as a de facto "voting bloc" in favor of British "physiocratic" (raw materials equals wealth) dogma before Cancún. In preparation for the Melbourne gathering, Pierre Elliott Trudeau has been on a worldwide diplomatic fling into every corner of the Third World. Beginning Aug. 13 by seeing Tanzanian President Nyerere, Trudeau was scheduled to visit: Korea, Manila, Indonesia, Zambia, perhaps Singapore, and eventually Melbourne. Commenting on the unusual itinerary, a Canadian official in the United States declared: "Trudeau was the first foreign head of state to raise with President Reagan—when Reagan went to Canada in March of this year—the idea of Reagan's

going to Cancún. Reagan did not want to go at that point. Trudeau also encouraged the Cancún preparatory meeting in Vienna, Austria in April of this year to postpone the scheduling of the Cancún summit from the summer, for when it was originally planned, to October."

The Commonwealth clearly needed more time to ensure that the summit was manipulated to work exactly as the Queen and Lord Carrington saw fit.

The implications

The world would not have in any way suffered if the British had neglected to call for the Cancún summit in the first place. But now that the summit is to occur, unless it is turned into a forum of attack on British policies of raw-materials control and population reduction, the world will suffer greatly for its having occurred.

The developing nations of the world must be industrialized, and the United States has a major, indispensable role to perform in making sure that gets done. No nation can survive on the basis of exporting one or a handful of raw materials. Infrastructural development is necessary, if an alternative course of options for "North-South" relations is to be plotted out.

The stakes are high. Several tens of millions of Africans are trapped by conditions of starvation. These populations are dying. Such conditions could easily

British Commonwealth Control Points

Food and Raw Materials

Australia	Nigeria
Brunei	South Africa
Canada	Zambia
Hong Kong	Zimbabwe
New Zealand	

Finance and Drug Money

Bahamas	London
Cayman Islands	Montreal
Gilbert Islands	Singapore
Hong Kong	Toronto

Political Flashpoints

Jamaica	
Grenada	Oman
Belize	Aden
Guyana	Somalia
Malta	Southern Africa
Cyprus	Pakistan
Gibraltar	Bangladesh

spread to the rest of the Third World.

If Americans examine, in any number of available newspaper accounts, the current statements of the U.S. State Department and other agencies on relations with the Third World, it becomes obvious what the British have achieved in recent months: they have turned the United States into a loudmouthed proponent of starvation through the rhetoric of "free enterprise." "Cut back food subsidies; cease financing exports with government funds; learn to pay your bills through diligence," and then, on occasion, "reduce your populations" are all that the U.S. administration has had to say on this subject since approximately May of this year.

Relative to the United States' loudmouthed, abrasive behavior, the British have been quiet. Prime Minister Thatcher plays the "free enterprise" role, but since Lord Carrington runs the Commonwealth department, she is not obliged to say anything specific on these matters. The Queen of England, the royal family of Britain, London's banks and raw-materials extraction conglomerates are quietly watching the theater they have set up from backstage, hoping nobody notices the dragon and St. George sailing for U.S. shores across the Atlantic Ocean.

British Commonwealth Chain of Command

Her Majesty, Queen Elizabeth II
Lord Maclean, Chamberlain of the Royal Household

Political Chiefs

Lord Carrington, Foreign Minister
Sir Ian Gilmour, Lord Privy Seal

Permanent Officials of the Foreign Office

Lord Nicholas Gordon Lennox
(Information, Culture, Coordination of Commonwealth
United Nations Policy for All Commonwealth Countries)
Sir Michael Palliser
(Diplomacy, Historical Continuity of Policy)
W. J. Adams
(Finance, Security, Manpower)

Commonwealth Secretariat, High Commissioners

Shridath Ramphal

Think Tanks

Institute for Development Studies, University of Sussex
Commonwealth Studies Institute, Oxford University
Overseas Development Group, University of East Anglia
North-South Institute, Ottawa, Canada

The method by which agents of influence—

If the Third World countries that have received the Brandt Commission's North-South report with "an open mind" knew that one of their deadly enemies, Henry Kissinger, and the Aspen Institute's population fanatics Harlan Cleveland and Joseph Slater are the minds who put that work together, Willy Brandt, the Second International, and his "independent" commissioners would stand totally exposed.

If these countries further realized that Commonwealth Secretary-General Sir Shridath Ramphal, one of Kissinger's dear friends and a Brandt commissioner, meets every month with the Queen of England and her Foreign Office to map out the next step of the Brandt Commission's destabilization operations, the Third World would realize that the Brandt Commission's goals are an ill-disguised maneuver to reimpose colonial oppression in its crudest, most brutal form.

We shall show in this exposé that the Brandt Commission's activities and those of its friends in high places are implementing the tail-end of a policy, British in conception, British in its chain of command, and British in its strategic interests, which is opposed to the national sovereignty of both Third World and developed nations. Accompanying charts and interviews show conclusively that the Brandt report, officially titled the *Report of the Independent Commission on International Development Issues*, is not merely the compilation of ideas of some two dozen zero-growth ideologues, but the work of many of the key "North" and "South" people in economic, political, financial, and monetary spheres to uphold the interests of the British Crown. Once this is understood as a crucial part of post-World War II history, it is no longer a surprise to find Third World "leftists" seated in British-based Commonwealth "development" institutes working intimately with Henry Kissinger and Robert McNamara in producing blueprints such as the Brandt report.

British imperial interests, as they bear directly on the Brandt report, have been represented in the postwar period by three supranational institutions: 1) the World Bank and the International Monetary Fund (IMF); 2) the parallel North Atlantic Treaty Organization (NATO) military structure, whose extension across the Third

Britain generates its Brandt's commission

World to defend British interests is now being promoted, and NATO's creation of the Club of Rome; 3) the Brandt Commission.

I. The World Bank hoax

From the economic and financial standpoint, post-war British policy has been carried out by the supranational World Bank and its sister organization, the IMF. Headquartered in Washington to give the aura of power and authority to the United States, which is its largest bankroller, the Fund was established by John Maynard Keynes in 1944. Keynes, the key British delegate to the Bretton Woods conference, was deployed to relocate the empire's capabilities, particularly its loyal colonial civil servants. With Eugene Meyer, father of Brandt Commission member Katharine Graham, at its head, the World Bank's top staff read like a who's who of the colonial office, put in control of the credit lines for both the European reconstruction effort and the Third World. Decolonization took the colonial officers out of the colonies and put them into the economic headquarters of the World Bank. Shortly thereafter, the Commonwealth community was created. The Third World's top intellectuals and economists were molded by these supranational zero-growth institutions.

A typical example of this process was the 1954 sudden public limelight for Gunnar Myrdal in 1954, a Scandinavian social democrat with strong British inclinations. Myrdal launched a campaign to clear the crimes of the Empire by posing economic strategy in terms of a phony "North" versus "South" split between the "rich" and the "poor." His mammoth book *Asian Drama*, an analysis of that continent's poverty, was part of the revival of cultural relativism—the very notion the British East India Company had so effectively used to maintain its colonies in primitive conditions. Now cultural relativism was the major argument against the international growth policies being demanded by many Third World countries. An immediate brainwashing was needed, reasoned the British Foreign Office.

Out of the British Foreign Office setup appeared a key Hungarian emigré—Sir Thomas Balogh, the Fabian Society's "development" expert. The British Foreign

Office used Balogh to set up the Overseas Development Ministry (ODM) and Balogh brought in his circle of experts. They included Paul Streeten, later a founder of the "basic needs" strategy, which posits a redistributionist subsistence economy, rather than capital-intensive investment for growth; Dudley Seers, the first public proponent of "basic needs," warning the Third World against industrialization; and Barbara Castle, a Labour Party Member of Parliament who was made development minister in this new setup.

The trio began planning a "special institution" to carry out British policy, the Institute for Development Studies (IDS) at the University of Sussex. That university was chosen because, having been founded in the 1950s by the Secret Intelligence Service (SIS), it was capable of centralizing the most sophisticated psychological warfare operations necessary to brainwash planners into adopting the "basic needs" line. Sussex was already the base for the infamous "Columbus Trust," an offshoot of the Tavistock Institute for Human Relations, the British wartime brainwashing center.

A rapid institutionalization of British capabilities occurred. In 1967, the IDS began to develop its own satellite organizations, with Streeten moving to Oxford University where a program for training the diplomatic elite was set up. Queen Elizabeth House at Oxford was turned into the living quarters for Third World development officials in Britain for these intensive sessions with Streeten.

In 1968, Streeten took over the Institute for Commonwealth Studies at Oxford, transforming it from a token historical research operation into a sister development institute for IDS. The same year, IDS took control of Britain's leading economic development publication, *Journal for Development Studies*, by placing its people in more than half its editorial positions. By 1969, it built up its staff with the "best" from the Third World to back up its field studies for the "basic needs" outlook.

A final whitewash job was Streeten's takeover of the quarterly journal founded in 1931 as *Crown Colonies*. The prestigious pro-empire publication was renamed first *New Commonwealth* and then *World Development*; under the last name, it became the reading material for the newly independent-nation intelligentsia. The IDS, totally funded by Her Majesty, continued to make economic policy for the former colonies. Through this capability, Seers developed another umbrella organization, the Society for International Development (SID) in 1969, and at its inaugural meeting formally launched antitechnology, anti-Western ideas. Into the SID structure, Sussex brought the likes of Aspen Institute deindustrialization strategist, Harlan Cleveland, Belgian currency-warfare expert Robert Triffin, jesuitical ideologue Theodore Hesburgh, depopulation planner



Gunnar Myrdal

George Ball, and many other celebrities of the 1980s.

IDS-Sussex first extended its tentacles into the United Nations international agencies as supranational control bodies. At Geneva, the seat of continental European banking, the United Nations Conference on Trade and Development (UNCTAD) was set up. In 1964, the International Labor Organization (ILO) was founded under Hans Singer, a German-born naturalized Briton. Singer was to be, with Streeten, Balogh, et al., a key IDS man in the U.N. structure. At IDS he had commissioned for the ILO the "empirical employment studies" for the basic-needs program. Seers was given one for Colombia; Richard Jolly, current IDS director, another for Sri Lanka; and Singer himself led the third for Kenya in 1972, where he also pioneered the setting up of the "Oxford South" institution in the capital, Nairobi.

Little wonder then that World Bank President Robert McNamara chose Nairobi in 1973 to launch that bank's formal labor-intensive programs. From 1969 on, McNamara developed a close working relationship with the Sussex group, and in 1974 he further revealed that IDS and the World Bank were working closely for the same goals.

Singer simultaneously drafted an ILO employment strategy, and in 1970 he published the *Sussex Manifesto*—the basis for the subsequent United Nations debate

on the New International Economic Order. Singer made the ILO one of the key institutions that would push the small-scale industries strategy and under him the ILO published its 1977 *Technologies for Basic Needs*, i.e., "appropriate technologies," written from start to finish by Singer himself.

II. Club of Rome/NATO

The next stage was to enforce the notion of underdevelopment through the military structure itself. Britain knew very well that to eliminate economic growth commitments in the Third World, it needed to control the developed sector's potential for embarking on a policy of transfer of technology. The NATO supranational command was utilized; in 1966-68, everything was prepared to create the Club of Rome. The Club of Rome was to be empowered with one task: that of disseminating the "postindustrial era" movements, first in the developed countries and then in the Third World as well.

The Club of Rome's principal founders and officers were all senior NATO functionaries. Take a sampling of its structure in 1970: Harlan Cleveland, former U.S. ambassador to NATO during the 1960s, and current U.S. chairman of the Atlantic Council, NATO's main arm in the United States, was a member of SID as well as the Club of Rome. George McGhee, former under-secretary of state for political military affairs, former ambassador to NATO, current director of Atlantic Council, was involved. Claiborne Pell, U.S. Senator from Rhode Island, former U.S. parliamentary representative to the Atlantic Council and advocate of NATO oversight of "an environmental world order" was there, as was Donald Lesh, until this summer director of the U.S. Association for the Club of Rome and a former National Security Council staffer for Henry Kissinger.

The self-declared founder of the Club of Rome idea Alexander King, is exemplary. King, current director for scientific affairs of the Organization for Economic Development and Cooperation and the International Federation of Institutes of Advanced Studies, works with NATO on economic planning. King, who claims to be the discoverer of Aurelio Peccei, made his view of NATO/Club of Rome relations explicit in a May 21 interview with *EIR*. "There will be all these troubles, invasions, migrations. Look at the number of foreigners already. The United Kingdom is no longer a white country. And even at the present rate, the white race is finished."

The Tavistock Institute provided NATO with psychological profiles necessary for an effective Club of Rome onslaught, including one key study attacking the U.S. space program and its assumption that broadscale, fast-paced technological innovation was desirable and necessary.



Shridith Ramphal

In 1968, before helping to found the Club of Rome, its chosen director Aurelio Peccei met with Tavistock Institute magazine editor Homer Perlmutter and NATO's top functionaries before opening this side of the operations.

The Club of Rome pulled in members from Mexico, Brazil, Poland, Sweden, Egypt, Nigeria, Ethiopia, France, and India. It was bankrolled in part by Willy Brandt, then chancellor of West Germany, who authorized funneling money through the Volkswagen Foundation. Its first report was a "world dynamic" model named *Limits to Growth*—the "systems analysis" justification for the earlier IDS work. Its authors, Jay Forrester and Dennis Meadows, produced it to demonstrate the "unsustainability" of complex, extended systems, and proposed smaller-scale structures for the world economy.

'Small is beautiful'

The Club of Rome's media blitz popularizing the "small is beautiful" ideology was nothing short of blackmail against generally ignorant populations. It threatened that nuclear power, large-scale industrialization, and technological progress were leading the world toward "holocaust" of resource extinction; in short, science was evil. As Peccei himself lied at the very time when nuclear power began to prove that abundant

energy for industrialization in the Third World was within reach, "There is little probability of energy becoming plentiful, inexpensive, and environmentally and socially unobjectionable."

For Peccei, massive depopulation seemed "socially unobjectionable" as a solution. Few of those who have accepted the "small is beautiful" ideology knew that its author, E. F. Schumacher, a German emigré to England, above all esteemed Burma, with its xenophobic, autarchic economy. Throughout the postwar period Burma has not been a nation-state, but a territory where the Chinese have run bloody wars between conflicting tribal armies over the drug and opium market. This was the model for "small is beautiful."

The 1972-76 period

As with the Brandt report today, the 1972-74 period was used to penetrate governments and attack national sovereignty from the inside. Queen Juliana of the Netherlands provided a forum for the Club of Rome in Rotterdam. Club of Rome members toured and lectured extensively. Two years later in 1974, ten selected heads of state were hosted by Austrian Chancellor Bruno Kreisky for a minisummit. Peccei lectured them on the evils of the nation-state concept and the need for "collective global responsibility"; Canada's Pierre Trudeau, among others, emerged as a solid convert. Peccei would later boast: "The seeds of doubt were cast."

The limits-to-growth propaganda was meant to produce a "shock effect," and it understandably produced a lively opposition. Next, the Club of Rome and the Institute for Development Studies at Sussex began an "in-house" opposition campaign to term the limits-to-growth view not "zero growth" but "managed growth" or "sustainable growth." Then came an application of the Forrester-Meadows work on *Mankind at a Turning Point*, beginning with an injunction: "The world has cancer and the cancer is Man."

The Club of Rome also penetrated several Third World countries. The planning ministries of Iran, Egypt, and Venezuela were the first to adopt its model as the basis for future economic planning.

In 1976, the Club of Rome scored an important success when Algeria, one of the radicals in the non-aligned movement, offered sponsorship for a conference on "Reshaping the International Order" (RIO). The Club of Rome wrote a book on this theme, in which redistribution of existing wealth becomes the Club of Rome's entry point into the North-South economic talks, while its attacks on advanced-sector "affluence" and "waste" were promoted by its agents in United Nations agencies.

Through RIO and complementary work done in the *Project on Futures* of the U.N. Institute for Training and Research (UNITAR), various threads of the Club



Cultivating sorghum: the labor-intensive Commonwealth model.

of Rome's work come together. Erwin Laszlo, a Club of Rome member, produced at UNITAR a vitriolic attack on urban civilization and industrialization in 1977, and the UNITAR/Club of Rome study *Goals for Mankind* pulled in numerous Third World economists and intellectuals to produce background for this type of view.

RIO gave the Club of Rome/NATO apparatus the in-place capabilities to run destabilizations in many Third World countries through economic policy portfolios. And in 1977, NATO issued a study calling for the extension of its structure into the Third World. The call was made by Harlan Cleveland—Aurelio Peccei's longtime cothinker and coplanner.

The Brandt Commission

The Club of Rome's most conspicuous success has been the insinuation of its ideas of "triage" into international economic planning. Peccei's idea of "democratic triage" is very much an explicit part of the Brandt Commission's thesis. Peccei writes: "Damaged by the conflicting policies of the major countries and blocs,

roughly patched up here and there, the existing international economic order is visibly coming apart at the seams. . . . The prospect of the necessity of the recourse to *triage*—deciding who must be saved if all cannot be saved—is a very grim one indeed. But if, lamentably, events should come to such a pass, the right to make such decisions cannot be left to just a few nations, because it would lend them ominous power over the life of the world's hungry."

Early in 1977, when it became clear that the Paris-based North-South negotiations would fail, not least because of the blackmailing role of Henry Kissinger as U.S. Secretary of State, World Bank chief McNamara announced the formation of an "Independent Commission on North-South Issues," now named the Independent Commission on International Development Issues. He appointed Willy Brandt, no longer chancellor of West Germany but head of the Socialist International, as chairman of the commission. From its inception the Brandt Commission was meant to bring together the capabilities of the IDS/Commonwealth structure, already determining the World Bank's "basic needs"

approach, with those of the United Nations-based Club of Rome apparatus. To sell the commission, a "democratic" selection of representatives of both North and South was conducted by McNamara; without exception, friends and associates of Kissinger and McNamara were put on the commission. Kissinger himself was ever present in the back rooms.

The anglophile crowd was well represented in the selection of Ted Heath, Katharine Graham, and Peter Peterson from the "North," and Sir Shridath Ramphal from the "South." An effort was made to involve the Soviet Union as well, and China was kept well briefed by Heath, who visited Peking at crucial points in the deliberations.

From 1977 to 1979, the Brandt Commission still held eight closed meetings, the majority of which were held at Mont Pélérin, Switzerland, headquarters of the ultralibertarian Friedmanite Mont Pelerin Society. The Swiss government provided free offices and equipment for the secretariat in Geneva, close to the key offices of the U.N. agencies—UNCTAD, ILO, and UNIDO, and the commissioners were given other special help. At the first meeting at the Gymnich castle, special guests advising the commission were Harlan Cleveland, Kissinger, Guido Carli, and Canadian energy strategist Maurice Strong. Along with the World Bank's resident Marxist economist, Mahbub ul Haq, Kissinger, Cleveland, and Strong were in on all subsequent meetings where policy decisions were made.

As the two-year period progressed, the commissioners were deployed to particular parts of the world—to test the waters and modify their profiles and assessment. In October 1979, the commission decided to move its editing headquarters to Commonwealth Secretariat in London, and Ted Heath and Ramphal were placed in charge of producing the final document.

Of great value to the commission were the services of the Carter administration, which expressed total commitment and support to the proposals in progress. In fact, whether it was to a World Wildlife Fund meeting or to promote the Carter administration's own *Global 2000 Report* (itself a mirror of the Brandt proposals), members of the Carter administration would distribute the Brandt report with their blessing. Thus, when the report came out in 1980, tens of thousands were distributed free of charge in the Third World to mold public opinion.

It is important to note that the Brandt report received financial contributions from the apparatus which, under Brandt, had funded the Club of Rome—the German Marshall Fund, the Friedrich Ebert Foundation, the Friedrich Naumann Foundation, the Ford Foundation, and Scandinavian government resources. Several Third World countries also made financial contributions to the commission's work, but the most

important government backing was from the Canadian International Development Research Center under Prime Minister Pierre Trudeau.

Followup action

Four months before the commission made its recommendations public, the Society for International Development held a meeting in Sri Lanka to set up the framework for the organizing needed to sell it. Present at the Sri Lanka meeting were Peccei, U.N. Nonrenewable Energy conference chairman Enrique Iglesias, ODC chairman James Grant, IDS director Richard Jolly, and World Bank's old hand Paul Streeten. Jolly and Streeten recommended that, as in 1974, a select group of heads of state should be called together and brainwashed to accept the Brandt Commission ideas. Paul Streeten defined the objectives: "The need to build development efforts on indigenous values, combining modernity and tradition, and avoiding both a reaction to tribalism and an imposition of alien ideologies; the need is for new institutions both at the subnational and at the supranational level; the need is to adjust to inevitable changes rationally and with foresight."

The full circle of the IDS control of the Brandt Commission is evident at the July 10, 1980 meeting when its core policy-makers and planners are brought together at the institute for a seminar on "The Brandt Commission and Beyond." Here, the abovementioned figures and Belgian economist Robert Triffin examined the responses various countries had had to the report and worked out a series of experts' panels on such issues as food, energy, monetary, and financial policy to exercise their influence on government officials in various countries. The goal is a forthright top-down defense of World Bank/IMF structure.

As the Cancún, Mexico North-South summit approaches next month, IDS has fully deployed its capabilities to shape the outcome of that meeting. As in 1974, when Austrian Chancellor Bruno Kreisky played host to the Club of Rome machinations, Kreisky was originally instrumental in getting the Mexican government's sponsorship for the October summit.

Trudeau has also played a special role. Canada is a unique asset for the British Crown and the Club of Rome. As a member of the Commonwealth, it has access to the "South" group, while its large financial and raw-materials interests in the Caribbean area give it specific channels in the United States. Canadian officials are already boasting about their inside track with the Reagan administration. Canada has to set up two think tanks this year to deal exclusively with Canada-Third World relations; and one London-based Third World intellectual predicted that Canada could be in the unique situation of becoming the spokesman for both North and South. Lord Carrington certainly hopes so.

Helmut Schmidt defends German sovereignty

by Vivian Zoakos, European Editor

Thrown against the wall by a U.S. policy that demands West Germany destroy its economy and accept the status of becoming a likely nuclear battlefield, the government of Chancellor Helmut Schmidt has responded by organizing its citizenry around the republican conception of national sovereignty.

Schmidt's reaction is a calculated rebuff to the U.S. military and economic posture toward Europe. Henry Kissinger, of late one of the most important spokesmen for the Reagan administration, spelled out Washington's European policy in an Aug. 8 interview with the Japanese *Yomiuri Shimbun* (see below). He explained euphemistically that because Europe "has no productivity," it is being written off. Instead, "the Pacific will be the center of world history for the next few centuries."

It has not escaped the Germans, the most important U.S. allies in Western Europe, that the recent neutron-bomb decision, and even to an extent the Federal Reserve's high interest rates, are precisely intended to accomplish the policy perspective so neatly summarized by Kissinger.

Consequently the rumor is out in Bonn that, should Defense Secretary Weinberger et al. continue disregarding German sovereignty on political and military policy questions, they would contribute to the strengthening of a West German political tendency with a "Gaullist" character in the best sense of that term. Faced with American policy-making that goes against German interests, Chancellor Schmidt would be left with little choice but to take steps in the defense of German sovereignty which could, in the end, result in moves like the

ones French President Charles de Gaulle had to make in 1965, at the height of his strategic dispute with the Anglo-Americans. Not accidentally, many commentators in Germany these days refer to statements of de Gaulle's during that time of political controversy.

To an American audience, the outline I present will seem widely at variance with accounts in the leading U.S. press of the state of affairs in the Federal Republic. An Aug. 22 headline in the *Washington Post* announced that "Schmidt Has Reaffirmed His Support for Neutron Weapons in Europe"—only one instance of the outright lies being relayed by the U.S. media, in part reflecting the fear the West German phenomenon has aroused in Anglo-American policy-making circles. What made the *Washington Post* article particularly outrageous was that it purported to report on two nationally televised interviews given by Chancellor Schmidt the day before in which he coolly delivered a powerful rebuff to American pretensions.

As he has done consistently in the past, Schmidt linked the issue of high American interest rates with U.S. military policy. He began by saying that the unilateral U.S. decision to build the neutron bomb—a weapon clearly destined for deployment in Europe and particularly West Germany—was an affront to Bonn's sovereignty: "This . . . to me smells too much of occupation policy status." Instead, he stressed, the basis both for the Bonn government's existence and for its commitment to the Atlantic Alliance lies solely in the 1955 treaties "which made us a sovereign state." He added that while Germany "is not anti-American, it is not anti-Soviet

either," and pointed to the importance of the upcoming visit to Bonn by Soviet President Leonid Brezhnev later this year.

Schmidt also alluded to the German perception that U.S. military policy is geared to fighting a limited nuclear confrontation with the Warsaw Pact on European soil, a subject heatedly discussed in West German circles. Referring to his current negotiations with East German chief Eric Honecker, Schmidt said that they are both "in very close agreement" that both Germanies must do whatever is in their power to prevent international tensions from escalating into military confrontation. Both German states therefore intend to preserve the achievements made thus far in East-West relations, he said.

Strengthening the economy

Schmidt's statements on economic policy were of equal importance, and provide a real litmus test by which to judge his overall policy commitment. In the course of the same broadcast, Schmidt reiterated his attacks on the high interest-rate policy of the U.S. Federal Reserve: "If one year ago someone had come up with the prediction that the United States would live with an average of 20 percent interest rates, he would not have been believed. But that is exactly what has happened, and now also France and Italy have to live with rates above 20 percent." But not the Federal Republic, he said.

Here we arrive at the crux of developments in Germany. Progrowth spokesmen in both Chancellor Schmidt's Social Democratic Party (SPD) and the opposition Christian Democratic Union (CDU) are organizing with a new sense of urgency for a reorientation of the economy toward increased government-backed industrial development. On the other side, the Free Democratic Party (FDP) led by Foreign Minister Hans-Dietrich Genscher is demanding more austerity in line with U.S. Federal Reserve and British policy. The Schmidt-allied forces have responded by initiating an unprecedented national organizing drive among trade-union strata, in particular, a drive that addresses the national sovereignty question in the economic sphere from the standpoint of strengthening the German industrial machine.

As a result, statements are emerging daily from various trade-union leaders backing Schmidt's budget program and its fundamental premise of the need to free money for investment in manufacturing and new technologies. The West German trade union confederation, the DGB, Aug. 26 issued a statement sharply attacking the FDP Economics Minister Otto von Lambsdorff, and asserting that the trade unions would not accept cuts in employment and health payments. DGB President Heinz-Oskar Vetter wrote an article for the Aug. 25 issue of Italian *Corriere della Sera* blasting

Milton Friedman "and all his epigones." The following day the head of the SPD's labor committees called upon Chancellor Schmidt to "stand firm" against the "liberals" and carry through with his budget program.

Reiterating the Schmidt policy, the deputy head of the SPD, Hans-Jürgen Wischniewski, in an interview with the *Neue Ruhr Zeitung* called for an end to cuts in social services and employment, and said the priority is for the new budget to increase investment in industry. Particularly crucial was the support provided to the Schmidt faction by the vice-president of the opposition CDU, Gerhard Stoltenberg. Refusing first of all to lend an ear to anyone in the CDU interested in replacing the current SPD-FDP coalition with a CDU-FDP coalition, Stoltenberg launched into a defense of Schmidt's economic policy approach.

The central parameter for the current budget, he said, is that a greater share has to go toward investment in the manufacturing sector, as well as "in the vital research and development field." If this is not done, he warned, the country will inevitably run into "a severe crisis." "Growth is the priority to be achieved." Finally, dealing a cutting jab at opposition to Schmidt inside the SPD, Stoltenberg noted that "one also has to get rid of the heritage of the Willy Brandt era," namely, a campaign led by the left against vital investments and against growth and technology in general.

Former Chancellor Willy Brandt is also the head of the Brandt Commission on North-South relations calling for global depopulation by means of putting an end to the "anachronism" of sovereign nation-states.

It is perfectly coherent that it is precisely the oneworlders in West Germany who advocate austerity. Brandt's policy ally Genscher most recently aired a television interview urging that the German economy "accommodate itself" to changes in the depressed world economic reality. "Structural-political" answers are needed, not "conjunctural" solutions à la Schmidt.

A week earlier, on Aug. 19, Genscher and his party had unveiled a document targeting German national sovereignty and directly echoing various British policy statements. The document called for the upgrading of the European Parliament, and for the creation of a European constitution. It further suggested the establishment of a European Defense Council to bypass national policy-making on military matters.

It is Genscher whom the British and allied circles in the U.S. are backing to supplant Schmidt—if and when it can be done. The London *Financial Times* expressed its hope Aug. 27 that Genscher may soon be able to pull out of the FDP-SPD coalition and hence rid the Anglo-Americans of the Schmidt menace. As conditions inside the country indicate, however, including the critical support from the Stoltenberg side of the CDU, the British may be disappointed.

Moscow signals a new diplomatic mode

by Rachel Douglas, Soviet Sector Editor

If Alexander Haig, or Caspar Weinberger, or President Reagan believes that British Foreign Secretary Lord Carrington is a master of diplomacy capable of forcing strategic concessions from the Soviet Union, he is making a dreadful mistake. The United States may be the only great power so led astray by Carrington, as to propose that the right combination of geopolitical concessions with the surface threat of a certain amount of military hardware will soften Moscow's strategic posture and eliminate its obstacles to deindustrialization of the Third World and even Eastern Europe. The Soviets, by contrast, have called Carrington's bluff.

An article in the July issue of the authoritative, internationally circulated Moscow periodical *International Affairs*, under the headline "British Ambitions and Reality" with the byline of S. Volodin, made the case that Lord Carrington belongs to the "British Empire faction" and is trying to manipulate relations between the superpowers in order to revitalize the Empire. Those attempts, concluded Volodin, will fail.

According to *International Affairs*, Britain wants to tighten its links to the United States, not for the sake of friendship, but to utilize U.S. power for regaining lost British colonial positions. Volodin points out that the arsenal of Carrington and Prime Minister Margaret Thatcher contain the classic tools of British diplomacy, developed for empire-building.

In contrast to much of Soviet propaganda, which often portrays Britain as a weaker power dragged along by the bellicose Americans, the article clearly portrays the British as running the show. To illustrate Carrington's duplicity, Volodin chose London's notorious "Afghanistan initiative," which was adopted by the European Community and backed by the United States: a most cogent example, because Carrington is reliably reported to have claimed that the icy reception he and his Afghan plan received in Moscow this summer was but an opening maneuver, preceding eventual Soviet acceptance of the proposal for an international conference on Afghanistan (without Afghans present in the first phase) and of Carrington's brand of global crisis management in general.

Volodin pointed out that, while Carrington told the

Russians he favored continuing East-West dialogue, it was Britain that encouraged a harsh American reaction to the Soviet dispatch of troops into Afghanistan.

In Poland as well, asserted *International Affairs*, the British wanted to "have their cake and eat it too." As Britain encouraged the destabilization of Poland through its networks there, wrote Volodin, Carrington toured East European capitals—he was in Warsaw and Budapest in late 1980—to push them toward policies divergent from those of the U.S.S.R.

Finally, *International Affairs* debunked the notion that Britain under the stewardship of Lord Carrington would have a positive role to play in Europe. Volodin explained Britain's participation in the European Community as an application of the principle, "if you can't beat them, join them," and observed that distrust of "perfidious Albion" was growing on the continent.

This analysis was not only a refutation of Carrington, but a rebuke to the anglophile tendency within the Soviet foreign policy establishment. After the defeat of French President Valéry Giscard d'Estaing in May of this year, some people in Moscow leapt at the chance to propose reorientation of Soviet European policy toward London. A June 9 article in *Izvestia* even held up Lord Carrington as a man who recognized the benefits of East-West détente.

The Kremlin has now undertaken diplomacy corresponding to the Volodin article. Even though Giscard is gone, the Soviets extended new trade offers to West Germany.

On a visit to the Baltic seaport of Lübeck, First Deputy Minister of the Soviet Maritime Fleet V.I. Tikhonov proposed to build a new sea-rail link from Kiel, in northern West Germany, to the Soviet Union. Crossing East Germany and Poland, the route could be used to transport material for the huge Siberian natural gas pipeline project still under negotiation by the Soviets and West Germans and for other trade.

As for trade with Britain, Soviet Deputy Foreign Trade Minister Vladimir Sushkov said pointedly Aug. 22 that it would depend on the state of political relations.

A mission to Pakistan

Soviet diplomacy reached into South Asia, too, with no regard for Carrington's Afghanistan scheme whatsoever. Deputy Foreign Minister N. P. Firiyubin arrived in Islamabad this week for three days of talks, during which he was expected to offer expansion of the Soviet-built Karachi steel mill and construction of a nuclear plant. But Firiyubin was planning "to smash a mailed fist on the table," as the London *Guardian* put it. The development investments would be contingent on cessation of Pakistan's assistance to Afghan bands fighting Kabul; the threat of Soviet military action on Pakistani territory is still active.

Behind the OPEC impasse

Venezuela's machinations mark a different kind of maneuver against Saudi Arabia's price-cut efforts, reports Judith Wyer.

The period between now and OPEC's next scheduled meeting in December will very likely reveal whether Saudi Arabia's determination to force oil prices down persists.

The emergency Aug. 18-21 meeting of OPEC, like every other meeting in recent history, ended in disarray, with no agreement on pricing or production policy. But new battle lines have been drawn between Saudi Arabia and the so-called price hawks, which portend a potential realignment of OPEC against Saudi Arabia.

Such price hawks as Iran and Libya have consistently sabotaged every effort by Saudi Arabia to moderate OPEC oil prices. But at August's meeting, for the first time, Venezuela—long considered the mediator between the hawks and Saudi Arabia—openly blocked with Iran and Libya in an attempt to break the Saudi pricing policy and achieve a net increase in oil prices by December.

Venezuela, a founding member of OPEC along with Saudi Arabia and a longstanding ally of Riyadh, single-handedly wrecked a deal which the Saudis came close to swinging that would have reunified oil prices somewhere between \$34 and \$35 a barrel. Had the Saudis succeeded, the official OPEC pricing ceiling would have dropped by \$3 a barrel.

The government of Venezuela's Luis Herrera Campins has thus shown its true colors as a collaborator of the Anglo-Venetian financial oligarchy, which has a vested interest in continued oil price increases.

But Venezuela is only one arm of a conspiracy against Saudi Arabia. The same noble families centered in Venice and Britain are behind Libyan dictator Muammar Qaddafi's just-announced effort to "liberate" Saudi Arabia.

According to a source close to the National Security Council, there are officials in the NSC as well as the Office of Management and Budget who are working on a parallel track against Riyadh.

The source revealed late last month that he is personally "in a dialogue with a number of members of the NSC to begin a study to deal with the prospects that oil prices may further decline." The source says that he is proposing the imposition of a tax on imported oil to ensure that the U.S. price for crude "does not slip below \$30 a barrel." At the OPEC meeting, Saudi Oil Minister

Zaki Yamani told the press that the world price of oil should be no higher than \$28 a barrel. Another qualified source commented that Washington could have lent quiet support to the Saudi strategy of bringing down oil prices "but Saudi Arabia got nothing." He attributed this lack of U.S. support primarily to David Stockman, who "behind closed doors is one of the biggest opponents of the Saudi pricing strategy." Earlier this year Stockman proposed a similar plan to impose a tax on imported oil.

Only so long as supply and demand kept pushing up the price of oil have these free-marketeers preached against government intervention into the market. But once a seriously depressed market—the product of their own economic policies—forced the price of oil down due to collapsing consumption, the "supply-siders" suddenly call for the federal government to keep oil prices from collapsing.

At present, OPEC is exporting a full 10 million barrels a day less than it was two years ago. The chief reason for the collapse has been a staggering decrease in world oil consumption. As a result, the Malthusian free-enterprisers in Washington, London, and Venice are prepared to compel a major Saudi cut in production through means up to and including terrorism against the Saudi oilfields in order to eliminate the oversupply of crude on world markets and force oil prices back up.

The Venezuelan-Libyan axis

Since the OPEC meeting, Venezuela and Libya have initiated a series of vocal attacks on Saudi Arabia's low oil price, attacks designed to prepare the climate for the terror and insurrection against the Saudis which Libya is now actively organizing.

Dr. Alvaro Silva Calderón, the former director of the energy ministry of Venezuela and a close collaborator of Venezuela's Paolo Pérez Alfonso, a founding delegate of OPEC, lashed out at Saudi Arabia in an Aug. 24 interview with the Venezuelan daily *El Nacional*. By attempting to lower oil prices, Calderón accused Saudi Arabia of acting "contrary to principles that justified the birth of OPEC. . . . Saudi Arabia is bent on lowering the price of oil, when OPEC was created precisely to defend the price of its crude." He warned

that Venezuela now has a new role in organizing a bloc within OPEC to "maintain the tendency toward the continued increase of prices."

Within the Arab world, Qaddafi is acting on a parallel course to organize an alliance of both radical and erstwhile moderate Arab states to challenge Saudi Arabia. Venezuela and Libya are jointly charging that Saudi Arabia is a puppet of the West for forcing the oil price down. Less than a week after the OPEC meeting, Qaddafi met with the heads of state of Libya's Marxist-Leninist allies South Yemen and Ethiopia to conclude a friendship treaty. At that meeting, Qaddafi ranted that he and his allies are prepared to "liberate the Arabia peninsula from American influence." The three states affirmed their commitment to back "liberation movements" against the Riyadh government. Twenty-four hours later Qaddafi arrived in the United Arab Emirates, a traditionally conservative neighbor of Saudi Arabia. But like Venezuela, a number of "conservative" Arab states of the Persian Gulf are becoming surprisingly receptive to Qaddafi. Shortly before the OPEC meeting, Libyan Foreign Minister Abdel Salem Tureiki conferred with leaders of Kuwait and other Gulf sheikhdoms. These sheikhdoms—again, like Venezuela—maintain historic connections to both Great Britain and the Italian elite of Venice.

The role of the multitis

Shortly after the OPEC meeting, Saudi Arabia announced that it would cut its record 10.3 million barrel-a-day exports by 1 million barrels a day. This was the result of strong pressure from a number of producers whose exports in some cases have fallen by 60 percent due to the collapse in oil consumption. Saudi Arabia has maintained a record-high output level in order to force these countries, notably the North African states to lower their prices.

At the OPEC meeting, it is reported that Saudi Arabia offered financial aid to these countries in exchange for the loss of oil income due to a cut in prices. A source at Salomon Brothers in New York observed that "Saudi Arabia is under incredible pressure . . . it has never been so isolated within OPEC before. So by lowering its output it is trying to give the worse-off states like Nigeria a little more room in this glutted market to sell some more oil."

But it appears that the Saudi effort to begin to redistribute the dwindling oil-market share may be undermined by a potential deal between Khomeini's Iran and the multinational oil companies. The major oil companies, according to the *New York Times*, opened a dialogue with Iran days after the August OPEC meeting in which the former are offering to market another 1 million barrels a day of Iranian crude which would compensate for the Saudi production drop.

Curiously, Venezuela is the *only* producer in OPEC which has not been seriously hurt by the collapse in oil consumption and the accompanying oversupply of crude. If any OPEC member could have afforded to lower its oil price and reach an agreement with Saudi Arabia, it was Venezuela. And yet Venezuela refused to drop its price from \$36 to \$35 a barrel!

Venezuela is known to be re-establishing a close relationship with the multitis following its nationalization of the oil sector a few years ago. Furthermore, according to a source with the Washington-based Heritage Foundation, a key controller of Reagan's free-enterprise policies, Venezuela is allied with the elements represented within the National Security Council who are opting for higher oil prices. The source reveals that Heritage is currently writing a proposal for a U.S. energy plan based on a massive financial boondoggle to make the Western hemisphere energy "self-sufficient." He asserted that Venezuela is crucial to the plan, which is premised "on at least a \$36 a barrel world oil price."

The AWACS connection

Behind the anti-Saudi campaign of Venezuela and Libya is a calculated effort to discredit Saudi Crown Prince Fahd and strengthen a faction of the Saudi elite around Prince Abdullah, a British agent who favors lower Saudi production and higher prices. Prince Fahd is the mastermind of the Saudi policy to bring world oil prices under control. Once it became apparent at last week's oil meeting that Venezuela was wrecking the Saudi effort to reach a pricing agreement, Fahd personally ordered Yamani to halt further negotiations.

A former State Department expert on the Middle East confirmed at the end of August that the outcome of the current congressional debate on the Reagan plan to sell AWACS surveillance planes to Saudi Arabia could decisively affect Saudi Arabia's oil-pricing stance. The source observed that "inside Saudi Arabia, there are a host of political factions who are ready to use the AWACS issue to say to Fahd, 'You see, your oil policy has failed, we have been moderate and we got nothing from the U.S.'" Fahd, he added, recognizes that militarily the AWACS will mean very little for Saudi Arabia. But that now the traditionally pro-American Fahd "has been put in a corner."

European sources report that Qaddafi plans to use his terrorist apparatus to assassinate Fahd or Fahd's close ally Saudi Oil Minister Zaki Yamani. Rumors apart, one thing is certain: every effort will be made to bludgeon Saudi Arabia into acceding to a price rise and a concomitant production drop by December. The consensus in Washington is that if the AWACS sale does not get through Congress this fall, Saudi Arabia will immediately raise its price to \$36 a barrel and drop its output to as low as 7 million barrels a day.

Tokyo and Washington undergo a widening split over policy questions

by Richard Katz

The election of Ronald Reagan had been seen in many quarters as a presage of a renewed "era of good feeling" in U.S.-Japan relations. It was hoped that Reagan's reversal of the Carter disasters in the economy, the China Card, and "human rights" destabilizations, would alleviate the substantive issues that caused so much friction between Japan and the Carter team.

Instead, U.S.-Japanese tensions have increased. The reason is that—with the important exception of Reagan's halt to the Carter-backed destabilization of South Korea—the new administration has continued, and often exacerbated, the Carter disasters, particularly on questions of credit policy and the basic premises of the U.S. defense security posture.

Part of Japanese Prime Minister Zenko Suzuki's response has been to form a quiet, behind-the-scenes, but very significant collaboration with West German Chancellor Helmut Schmidt to persuade Reagan to fulfill the hopes his election victory had aroused. Nowhere is this collaboration seen more clearly than on the interest-rate issue. "Japan and West Germany are working very closely against Volcker's high interest rates," a Japanese banker declared. "The way it works is that Schmidt makes the public denunciations of Volcker, and then Japan tells Washington it shares Germany's concern."

Japan's choice of "quiet diplomacy" toward the administration rather than open denunciations of Volcker is only partly due to the customary over-polite Japanese demeanor in dealing with U.S. governments, according to Japanese businessmen. "The New York banks let it be known," said one source, "that if Japan publicly attacked Volcker, it would be more difficult for Japanese banks and firms to get credit in New York. They didn't say this in so many words, but we understood their meaning."

A Japanese banker added, "We don't think Reagan's economic program will lower interest rates, and we cannot accept any arguments that the interest-rate issue is an internal American affair. It is having adverse effects internationally."

Theater nuclear warfare

Japan also responded sharply to the Pentagon's latest moves and to Alexander Haig's China Card

initiatives. A wave of protest hit the Japanese press over reports that the Pentagon had approached Tokyo on the issue of stationing theater nuclear weapons in Northeast Asia. On Aug. 5, the *Yomiuri Shimbun* headlined a report that Rear Adm. Donald Jones, director of the Pentagon's East Asia and Pacific region, had confirmed to a visiting Japanese Dietman (member of parliament) the launching of a Pentagon study on such a deployment. Pentagon sources confirmed this to *EIR*.

Jones indicated that the missiles, cruise missiles, and Pershing II's would most likely be deployed in South Korea and on submarines. He vaguely indicated that Japan was not considered as a specific deployment site at this time, thus floating a "trial balloon" that a few years down the road, the United States may indeed want to station nuclear missiles on Japanese soil. Japan—a nation still scarred by the atomic bombing of Hiroshima and Nagasaki—has an absolute prohibition against the manufacture, use, or entry of nuclear weapons on its soil.

The reaction to the theater nuclear weapons, and to Caspar Weinberger's neutron-bomb announcement, was markedly unlike Japanese newspapers' customary pious denunciations of nuclear weapons in general. Instead, the specific accusation was made that current American limited nuclear warfare scenarios might make nuclear conflagration more likely, and/or target Europe and Japan as principal zones of conflict (see *Yomiuri* interview with Henry Kissinger, excerpted below).

Characteristic was the *Mainichi Shimbun's* Aug. 17 editorial: "The U.S. strategy is to step up the preparedness for limited nuclear war, with cities placed outside the boundary of nuclear targets. President Reagan's decision further demonstrates the strong determination of the American strategists, thus increasing the danger of limited nuclear war." Earlier in the week, the Japanese government had echoed West Germany in pointedly refusing to endorse the N-bomb decision, merely labeling it "an internal U.S. decision."

The government leaked to the press, e.g. the Aug. 6 *Asahi Shimbun* article, its own "concern" over possible U.S. theater nuclear weapon deployment. The Pentagon had broached the subject at U.S.-Japan security talks in

Hawaii in June.

Perhaps the most worrisome aspect of the theater nuclear weapons deployment is its link to what seems to be a growing receptiveness to a U.S. military umbrella over China, and Japan's involvement in this through demands on it to take on a regional military role.

Secretary Weinberger, in television interviews regarding the neutron bomb, and other Pentagon spokesmen, have indicated that the Far East was an area for neutron bomb deployment, and specifically mentioned China in their rationale for the N-bomb. Weinberger told an ABC audience that the N-bomb was needed, among other things, to deal with Soviet SS-20 nuclear missiles' accuracy in hitting targets in Europe and China. Henry Kissinger, in the *Yomiuri Shimbun* interview declared, "If there is a major war in Asia it will result . . . from an attack on China by the Soviet Union," adding that the United States and its allies would have to decide "what contribution, if any, to make to the defense of China."

Concern in Tokyo grows at the thought that the deployment of theater nuclear weapons in Northeast Asia could be devoted to defending China. This concern accelerates as Washington insists that Japan abandon its traditional self-defense role and, as Kissinger put it, take on responsibility to "defend at least its own region."

If U.S. demands for increased Japanese defense spending were couched in terms of the traditional U.S.-Japan relationship, the resistance in Japan would be far less. However, the Japanese recoil at Pentagon defense plans that seem to hinge on the China Card.

Several Japanese businessmen stressed to *EIR* that Japan holds a completely different perception of China from Washington's. "Japan believes it must aid China financially and economically," said one banker, "in order to prevent political disintegration there over the next 10 years. If China would totally concentrate on cleaning up its own economic house, and ensuring political stability, and avoid a lot of foreign activities, that is the greatest contribution China could make to international stability."

"The danger, when I say disintegration, is not that China will break up into different countries, but that it will become ungovernable: then it might lash out at its neighbors. ASEAN [Association of South-East Asian Nations] nations fear, not so much a direct Chinese threat to them, but if China again attacks Vietnam as a diversion from internal instability, this could have a destabilizing effect on the entire region." It is noteworthy that Japan supported ASEAN against Peking's defense of Pol Pot at the July U.N. conference on Kampuchea, while Haig supported Peking.

There are, of course, partisans of the Haig-Weinberger strategy in Japan. In fact, up until the May 16 firing

of Foreign Minister Masayoshi Ito by Suzuki, those Haig-Weinberger allies held sway. Suzuki appointed Sunao Sonoda as new foreign minister and came increasingly under the influence of former Prime Minister Takeo Fukuda, a longtime associate of Helmut Schmidt. Fukuda, and to a lesser extent Sonoda, engineered Suzuki's shift to collaboration with West Germany on the interest-rate question and on opposing Haig's simplistic confrontationist posture toward the U.S.S.R.

Dump Suzuki movement fizzles

As a result, in June and July a "dump Suzuki" movement arose in some backrooms of the ruling Liberal Democratic Party (LDP). Voices urging a more hawkish foreign policy in line with Haig's complained that "Suzuki listens only to Fukuda these days." Fukuda himself is no pacifist—in fact he was once regarded as a hawk—but like Schmidt, thinks the present U.S. foreign and economic posture is woefully misdirected.

One of the hawkish voices was that of Susumu Nikkaido, a Kissinger-associated member of the faction of former Prime Minister and Lockheed scandal defendant Kakuei Tanaka. Nikkaido hopes to replace Sonoda as foreign minister in the cabinet reshuffle, now expected for November, as a stepping-stone on the way to the premiership.

Yet, in all the byzantine maneuvering in Japan, Suzuki, Sonoda and, behind scenes, Fukuda, seem to have won the key battles. The "dump Suzuki" movement has fizzled, and Suzuki will likely receive another two-year term as prime minister when the current term expires in November. Similarly, against most previous expectations, Sonoda seems likely to hold his foreign minister's post during the cabinet reshuffle, according to *Yomiuri* of Aug. 21. Finally, even some of the old-line party elders and king-makers who opposed the Fukuda to make deals, establishing Fukuda as an increasingly critical powerbroker.

One Japanese reporter commented, "Suzuki will stay on, not because everyone likes him—many think he is too weak—but because his opponents cannot come up with a suitable replacement." This popularly accepted explanation is only partially true. It overlooks the most important factor: the policies of the Haig-Weinberger supporters in the "dump Suzuki" effort may fit Japan's desire to get along with U.S. administrations, but in most every other way jar with Japanese national interest and perceptions, particularly on the China Card question. Thus, for the time being, Suzuki and the Fukuda-engineered policy will remain in control and, as long as President Reagan adheres to Haig and Weinberger initiatives, policy friction between Japan and the United States will continue.

Kissinger on Asia's role in nuclear war

The following are excerpts from a series of interviews with Henry Kissinger published in the Japanese newspaper Yomiuri Shimbun in late July and early August during Kissinger's visit to Japan.

Yomiuri: The Reagan administration seems to take a very heavy-handed, clearcut, and simple policy vis-à-vis the U.S.S.R. [and] is receding back to the policies of the days of cold war . . . and we can detect some anxiety on the part of the Japanese people as to its impact on détente or the Third World or the relationship between the North and the South.

Kissinger: Unless we have forces capable of intervention . . . then the countries of [various] areas . . . may have to adjust to Soviet policy without having to be militarily attacked. . . .

It is my judgment that if there is a major war in Asia . . . it will result from an attack on China by the Soviet Union. . . . [The question] would then face all countries that had an interest in the independence of China . . . of what contribution, if any, they want to make to the defense of China. . . . We don't have an alliance with China. But I have always said that a military attack on China by the Soviet Union cannot be dealt with indifference by the U.S. and probably not by the friends of the United States.

Yomiuri: Is the U.S. capable militarily of coping with such an attack or aggression by the U.S.S.R.?

Kissinger: Supposing the Soviets do all that you described and supposing the U.S. declares war, and supposing the U.S. does nothing for the first year except gear up its production and mobilize, how long can the Soviet Union stand it? . . . If the war goes on a year or two, I think the Soviet Union will be in great difficulty.

Yomiuri: We feel that the Reagan administration's request to Japan to increase her defense forces is perhaps too hasty and too big.

Kissinger: I have the conviction that Japan had recognized the reality that America cannot alone defend the whole world with American forces. Now that Japan has

become economically strong, it will also have to defend at least its own region. . . .

I think, by the late 1980s, Japan's defense forces will be very considerable. The real problem will be how to coordinate them with ours. . . . The day may come when [Japan's defense buildup] will go faster than some Americans find comfortable. But that's 10 years from now.

Yomiuri: Because of the development of theater nuclear weapons, it seems that the cores of the U.S. and the Soviet Union have actually become sanctuaries, whereas the actual substantial nuclear exchanges are to take place in Europe or Northeast Asia. . . .

Kissinger: We don't need medium-range [nuclear] missiles in Europe as such; we can put them at sea. . . . The advantage of missiles in Europe is that the Soviet Union will not be able to threaten Europe without also threatening the U.S., because if they threaten Europe without threatening the U.S., our whole nuclear arsenal remains intact, and in Europe some of the weapons will be fired on the Soviet Union, doing huge damage. If they attack both Europe and the U.S. there will be general war. And they will be very reluctant to do it. . . .

I think it is total nonsense to say the U.S. wants to spare its territory and Soviet territory and that it wants nuclear war on the territory of its allies. . . . If strategy concentrates on the mass extermination of civilians, and it has no other objective, then you will see the growth of pacifism and neutralism in America.

Yomiuri: Because of the [Soviet] suspicion that nuclear weapons might be stored in the American bases in Japan, Japan might be attacked in a limited nuclear war, while the U.S. and the Soviet Union remain as sanctuaries. . . . Therefore, I would like to ask you if limited nuclear war is a realistic possibility or not?

Kissinger: I am not saying which particular weapons ought to be in Japan. That is a Japanese decision to be settled in agreement with us. But we must not let the Soviets blackmail us with their buildup . . . whether you put weapons at sea or on land. . . . That's a practical problem. . . .

Yomiuri: On previous occasions you mentioned that the central gravity of the world is shifting from the Atlantic to the Pacific.

Kissinger: The Pacific, with the U.S., Japan, China, the Soviet Union, even Australia, with ASEAN, is the area of most rapid economic development and therefore the area which will be politically in the long term of greatest importance. . . . For Europe to maintain political stability, economic productivity, is going to be increasingly difficult. . . . So I would maintain that the Pacific will certainly be in the next few centuries the center of gravity of world history.

ASEAN appalled at Reagan's China Card

by Ramtanu Maitra

Recent visitors to Southeast Asia have reported to *EIR* the absolute astonishment throughout the region at the lengths to which the Reagan administration is going in its pursuit of the chimerical China Card. How, they ask, could the United States openly endorse a new Chinese invasion of Vietnam, as Undersecretary of State James Buckley did at an Aug. 16 news conference in Bangkok, Thailand? Asked directly about the U.S. attitude toward a new invasion, Buckley responded, "I don't think anyone would discount the possibility of countermeasures as being appropriate in a given situation. We do know that the Chinese are, in effect, immobilizing a very significant part of the armed forces of Vietnam with the result that there are fewer troops to make mischief in Cambodia."

Is the United States blind, Southeast Asians ask, to their own view that, as Malaysian Foreign Minister Ghazali Shafie told newsmen in August, "The Chinese remain the greatest threat in this region"?

The air of self-delusion in Washington regarding the China Card and Asian support for it reminds one of Vietnam War era fantasies. The déjà vu effect is heightened by Buckley's and Alexander Haig's obsessive references to "North Vietnam," for example, Buckley's Indonesian statement that "the fact that the North Vietnamese, despite the size of their forces, are bogged down is in itself enormously encouraging."

The principal difference between now and the period between the 1960s and early 1970s is that the same people who ran the Vietnam War, e.g. Haig, now attack Vietnam in order to ally with China. Buckley arrived in Indonesia fresh from a visit to the camps of China's bloody-handed Pol Pot forces in Thailand. He waxed eloquent at the "enormously encouraging" developments and promised supplies to what he called "genuine freedom fighters" in both Kampuchea and Afghanistan, and said he "would neither rule it [military aid] out or rule it in."

For Buckley and Haig, the "freedom fighters" do not only include the Khmer Rouge forces that murdered half of Kampuchea's population in the three short years of their rule. The United States together with China, is also aiding the 3,000-man forces of former Kampuchean Prime Minister Son Sann—while pressuring Son Sann to

join a coalition with Pol Pot. Moreover, Washington and Peking are now arming a rag-tag group of "insurgency forces" stemming from old CIA operations of the 1960s. The *Bangkok Post* reports a flow of Chinese and U.S. money and arms to some of the central highlands tribes of Vietnam organized into a group called FULRO, together with tribesmen in Laos led by Vang Pao, etc. many of whom had been involved in the opium business. A group of these people met recently in Washington with high State Department officials as well as Senate Armed Services Committee Chairman John Tower. A former Green Beret in Thailand told one source contacted by *EIR* "Don't worry. We'll be back running operations in Vietnam again."

Zhao tours the region

Any delusion that the majority of ASEAN supports Washington's policy should have been dispelled by the events surrounding Chinese Premier Zhao Ziyang's trip to four of the five ASEAN countries (Indonesia does not recognize Peking, and refused to host Zhao). Before Zhao arrived, Malaysian Prime Minister Mahathir visited Indonesia, and the two countries agreed that, though they continue to oppose Vietnam's troop presence in Kampuchea, Vietnam did not represent a threat to ASEAN, whereas China did.

In Malaysia, Zhao was persistently grilled on China's attempt to restore Pol Pot and on China's opposition to the ASEAN peace plan during the July U.N. conference on Kampuchea. In all the ASEAN countries, Zhao met criticism of continued Peking support for Maoist parties trying to overthrow ASEAN governments. Malaysian Premier Mahathir did not accept Zhao's explanation that Peking's support was only "political and moral." "What we want is for China not to recognize the communist parties at all," Mahathir declared. "We got nothing at all from Zhao." The Malaysian press pointed out that the Chinese closed down one radio station inside China supporting the subversives, only to open another station the next day outside China's borders under a new name.

Mahathir and his Indonesian allies are also known for their strong opposition to overseas Chinese business ownership in their countries. (Mahathir had written a book on this subject in 1970 titled *The Malay Dilemma*.)

Washington's recent China Card actions—particularly Haig's announcement of arms sales to China and support for Peking against ASEAN at the U.N. on the Pol Pot question—have only increased the influence of the anti-Peking views of Malaysia and Indonesia within ASEAN as a whole, according to an Aug. 25 *New York Times* article citing officials in Singapore and Thailand. Nonetheless, Haig continues to wave the China Card, and we may yet see statements that describe the "light at the end of the tunnel."

U.S. arms threaten balance between India and Pakistan

by Daniel Sneider, Asia Editor, from New Delhi

In a recent interview with *EIR*, Assistant Secretary of State James Buckley justified the proposed \$2 billion arms-supply package for Pakistan—including sales of F-16 fighter planes—on the grounds that it is necessary to guarantee the security of Pakistan against a threat from the Soviet Union and its forces in Afghanistan. A second aspect of this geopolitical view is that Pakistan will play a crucial role in providing security for the Persian Gulf region, including the possibility of bases or emergency facilities for the Rapid Deployment Force sometime in the future. Speaking to *EIR*, Buckley stated that “Pakistan occupies an extremely important piece of geography which is of extreme importance to the security of the Persian Gulf, in which we have a most immediate, direct self-interest.”

Objections voiced by Pakistan’s neighbor India that the arms package, and specifically the sale of F-16s, will “qualitatively” shift South Asia’s balance of forces and create a threat to peace have largely been dismissed in Washington as an unsubstantiated attempt by India to maintain military superiority in the region. Buckley repeated this argument by stating that while Pakistan’s “military capabilities have declined, the Indians have enormously improved their competence.” When asked about the impact of the arms deal on the Indo-Pakistani military balance, Buckley said, “There is no way that the type of equipment that we are proposing to sell to the Pakistanis could tip the balance in such a way as to encourage anybody to launch an attack on India without inviting destruction.”

However, research undertaken by this writer, including discussions with well-informed official and nonofficial sources in India and the United States, puts Buckley’s arguments at odds with reality. On the strategic level there is ample evidence that the Pakistani military leadership understands that the weapons received from the United States are intended *not* for defense against Afghanistan or the Soviet Union, but against India. There are far fewer illusions in Pakistan than there seem to be in Washington about the military and political efficacy of directly taking on the Soviet military establishment or even of “detering it” in any serious way.

As for the military balance, a close study will show

that rough parity exists on the India-Pakistan front, without even taking into account the fact that India is a much larger nation with nine times the population of Pakistan, and a potential global power.

In fact the U.S. decision to sell F-16s to Pakistan seems to be an escalation of the Carter administration’s efforts to create an “arc of crisis” along the Soviet Union’s southern border. If nothing else, it will fuel a dangerous arms race in South Asia that bears no gain to American strategic national interest. At the worst it sets the stage for an unstable, unpopular military regime in Pakistan to carry out an adventurist first strike against India. Add to that the F-16s’ highly sophisticated delivery capability and a Pakistani nuclear program with no objective other than the construction of a nuclear weapons capability, and one can only wonder about the

Figure 1
Comparison of Pakistani and Indian armed forces

Army	Pakistan	India
Personnel	435,000	950,000
Reserves	500,000	200,000
Corps headquarters	6 ¹	8
Armored divisions	2	2
Infantry divisions	16 ¹	17
Mountain divisions	—	10 ²
Independent armored brigades	4	5 ³
Independent infantry brigades	4	1
Independent artillery brigades	6	14

Source: International Institute for Strategic Studies, Military Balance Report, 1980-81.

Footnotes

1. More recent sources put it at 19 divisions and 8 corps headquarters.
2. These are deployed solely on the Chinese border.
3. More recent sources say 6.



On the Sino-Indian border: threats from Peking are still part of India's military equation.

thinking, or lack of it, that has led the Reagan administration to this policy.

Geopolitics meets reality

Large-scale shipments of U.S. arms to Pakistan is not a new policy. It was carried out extensively during the 1950s and the 1960s, particularly during the period of the regime of Gen. Ayub Khan. During that period, as today, the arms were provided, in the context of a U.S.-Pakistan mutual security relationship, for the ostensible purpose of defending Pakistan against potential communist aggression—including from China.

The arguments made today for arms transfers to Pakistan essentially follow this previous script—with the Soviet intervention into Afghanistan making more manifest the “communist threat.” While Pakistan is no longer a member of the CENTO and SEATO multilateral security pacts, and proclaims its status as a “non-aligned nation,” Washington is assured of a bilateral security tie which is implicitly understood to fit into overall U.S. policies toward, and deployments in, the Persian Gulf-Indian Ocean region.

The problem occurs when geopolitics confronts reality. The American arms provided Pakistan over the past 30 years have been used against one “enemy”—India—in wars which have invariably been launched by Pakistan (although the 1971 war, because of Bangladesh, was a more complex affair). The arms have secondarily been used by the Pakistani army against another “enemy”—the Pakistani population itself as in the case of the repression of the 1973-77 Baluchistan rebellion.

The private argument by certain people inside and outside the administration that India is a “Soviet proxy” and therefore can be seen as part of the “communist

threat” only betrays a total ignorance of India, its history, and its leadership.

Most telling is the way the Pakistanis themselves view the use and need for American arms. The transcript of a speech delivered by Pakistani Foreign Minister Aga Shahi to a Pakistani audience at a seminar in Lahore, Pakistan on June 30 exposes the real Pakistani view as Shahi responds to criticism within the country regarding the new relationship with the United States.

Responding to fears of a Soviet response to the arms shipments, Shahi says: “This fear in your mind about the danger of an attack by the Soviet Union should be allayed. And the Soviets have categorically assured us, and this has been stated by President Brezhnev a number of times, that we should not take into account this possibility. *Any other attack, well this is precisely the reason why we want to get the arms quickly. We should be able to defend ourselves against an attack from any quarter [emphasis added].*”

Throughout the speech Shahi is eager to assure the audience, which contains prominent Pakistani political and military leaders, that the aim of these weapons is for defense, not against the Soviets, for whom he has only soft words, but to use against India. Indeed, at one point he makes it clear that if the Soviets were to attack, Pakistan will rely on U.S. intervention: “An attack by a superpower on another country in the region will not remain confined to the aggressor and the victim,” he says to applause. “The interest of the world community will become involved, particularly in this situation, and there is every likelihood of that becoming a main superpower confrontation.”

On the other hand, Shahi makes numerous anti-Indian remarks, some of them deliberately provocative.

At one point he declares that "we will never accept the Indian hegemony of [its] predominant position." In the calculated code words of South Asia, a pledge not to accept the acknowledged predominance of India is highly suggestive. Shahi concludes his speech by declaring: "Above all, we think that the will of the Muslim people of the *subcontinent*, which founded the State of Pakistan . . . after 14 centuries of Islam, is not weakened, is not dead, it will revive." For India, a secular state in which the Muslim population is greater than Pakistan's, Shahi has waved the red-flag claim that Pakistan represents *all* Muslims in South Asia.

The other point on which the Pakistani foreign minister's remarks are revealing concerns the Pakistani bomb-making efforts. While Buckley told the U.S. Congress that Pakistan has assured the United States that they will not make a bomb, Shahi tells a home audience that "we have given no undertaking to Mr. Buckley about explosion [of a nuclear device]." In fact, he argues that Pakistan is well aware that aid could be cut off again if Pakistan conducts a nuclear test, but "that is a matter for our judgment." Such talk lends credibility to recent speculation that Pakistani demands for rapid delivery of the F-16s (and their spare parts) are to ensure that the weaponry is in hand before the test takes place. Other reports exist of a secret test carried out on Chinese territory and therefore not immediately traceable to Pakistan.

The Indo-Pakistani military equation

Let us now turn to the Indo-Pakistani military balance itself, and the State Department contention that India enjoys overwhelming superiority and the U.S. arms transfers to Pakistan, including the sophisticated F-16s, will in no way alter the existing balance of forces in the subcontinent.

The studies which portray an overwhelming military superiority for India in numbers of soldiers, equipment, etc., are based on sophistry. India's apparently overwhelming edge in military manpower reflects the need to defend a much larger territory and population, longer borders, as well as the fact that the Indian army must deploy on two major potential war fronts, Pakistan and China, both countries against whom previous wars have been fought. The director of the Institute for Defense Studies and Analyses in New Delhi, K. Subrahmanyam, a former top Indian defense ministry official, told this writer that "our planning is based on a two-front war."

Indian forces are both stationed and equipped for specific deployment on either of these two fronts. Out of 27 infantry divisions, 10 are specially equipped and trained mountain divisions meant solely for deployment in the Himalayan mountains and foothills along the long border with China. According to India's retired

Air Chief Marshal P. C. Lal, approximately one-third of the Indian Air Force is also deployed in a number of airfields along the Brahmaputra Valley in northeast India, well out of flight range of the Pakistani border. Subrahmanyam states that the armies on the China and Pakistan fronts are equipped and supplied "to fight separately."

While Indian forces along the Chinese border are vastly improved from the conditions of 1962 when the Chinese were able to penetrate relatively easily into Indian territory, the Chinese have augmented their forces in Tibet and improved their logistics and air force capabilities; they are in a position to mount an effective attack.

Indian defense planners are taking into account the possibility of a joint Chinese-Pakistani attack on India. Though this may be remote, it is far more conceivable—

Figure 2
Comparison of Pakistani and Indian army equipment

	Equipment	Pakistan	Equipment	India
Tanks		2,351		2,750
	M47/48	240 ¹	Vijayanta	1,100
	T-59	981 ²	T-55/54	950
On order:	TAM	500 ³	T-72	700 ⁴
	M-60	600 ⁵		—
Armored personnel carriers		550 ⁶		717
On order:	M-113	600 ⁷		—
Light tanks		65		50 ⁸

Source: International Institute for Strategic Studies, Military Balance Report, 1980-81.

Footnotes

1. Other sources report 250 additional M-48s, acquired earlier from Iran and Jordan; 200 M47/48s have been reconditioned with more powerful engines and upgraded to 105-mm. guns.
2. Figures are updated from more recent sources; includes 50 Soviet-supplied T-55s; the rest are Chinese-made T-59s.
3. An Argentine-made medium tank equivalent to the Indian-made Vijayanta with same 105-mm. guns.
4. Seventy T-72s have been acquired for trials.
5. Reported number to be received from U.S.
6. More recent sources claim 978.
7. Six hundred M-113s on order from U.S. Recent sources put Pakistan with 782, India with 1,572.
8. The 50 are part of a stock of 176 older model PT-76 light tanks which sources report are mothballed and not in active service.

Note: **Pakistan** has French Matra and Magic, and U.S. Sidewinder air-to-air missiles; air-to-surface AS-30 missiles. **India** has ATOLL air-to-air missiles and also AS-30s. **Pakistan** has 6 surface-to-air missile (SAM) squadrons equipped with French Crotale missiles. **India** has SAM-6 Soviet missiles which are a generation earlier than the Crotale.

given the extensive past and current Sino-Pakistani military cooperation and its triangulation with the U.S.—than scenarios for a joint Indo-Soviet attack on Pakistan dished out by its military leaders to visiting U.S. scholars and officials.

It is revealing to compare the Pakistani deployment of its forces to that of India. As has been previously reported by American observers, ever since the Soviet intervention in Afghanistan almost two years ago, Pakistan has kept some 80 percent of its forces deployed on the Indian front. Both armored divisions are deployed there; and out of 16 infantry divisions (which some sources report have been raised to 19), two are on the Afghan border, and three are deployed for internal security purposes in the minority provinces of Baluchistan, the Northwest Frontier Province, and the Sind. The remaining 11 divisions are on the India front.

The other important aspect of troop deployment on the Indo-Pakistan front has to do with the position of those forces. Pakistani forces are traditionally stationed in forward positions, between the frontier and the Indus

River. This is the result of geographical factors—the defense line formed by the Indus River and the concentrations of Pakistani population relatively closer to the border—and more importantly because of a traditional Pakistani military doctrine emphasizing the importance of a quick first strike.

Indian army strategy, on the other hand, is considered extremely conservative, emphasizing an orthodox policy of defense in depth. Indian infantry cantonments are widely spread out and many of them are far from the border, although since 1971 there has been an effort to adopt a more forward-defense strategy.

The F-16 controversy

The most controversial aspect of the U.S. arms package for Pakistan is the supply of at least 100 F-16 fighter bombers, in its NATO version. Buckley has stated that this merely matches Indian purchases of replacement aircraft for its air force. This statement shows either abysmal ignorance or willful deception.

The Indian Air Force (IAF) has purchased, or will purchase, two types of aircraft to update its fleet—the Anglo-French Jaguar and the Soviet MIG-23 in its fighter and fighter-bomber versions. The Jaguar purchase—made by the previous Desai government—was to involve about 130 planes, including 40 outright flyaways, 45 to be assembled in India from kits, and another 45 to be manufactured in India. At this point, it has been decided to only go through with the first two installments, foregoing the manufacturing aspect. The MIG-23, according to Indian defense analyst sources, is to be eventually manufactured, as is the MIG-21, under license in India. One squadron of 16 planes has been provided for immediate test use by the IAF.

Comparing the F-16 with the Jaguar or MIG-23 is an apples-and-oranges exercise. The F-16 is a generation ahead—the most advanced aircraft in the NATO arsenal—and acknowledged to be ahead of anything the Soviets possess. It is a deep-penetration strike aircraft with a long range and tremendous engine thrust, capable of carrying a heavy bomb-load and delivering its ordnance with computer-guided accuracy. Above all, it has the most sophisticated avionics capable of jamming enemy radar and carrying out multiple battle functions in all weather conditions.

For India this means several things. The range brings targets as far as Bombay in the southeast and New Delhi to the east within range of Pakistani airfields. It is capable of reaching those targets and delivering its ordnance with a very high rate of success, particularly if equipped with laser-guided smart bombs. By its nature, and in the context of existing Pakistani military strategy, it is best suited for a first-strike strategy by the Pakistanis.

Indian defense experts like Air Chief Marshal Lal

Figure 3
Comparison of Pakistani and Indian air forces

Equipment	Pakistan	Equipment	India
Personnel	17,600	Personnel	113,000
Canberra B-57B	11 ¹	Canberra B-58	60
F-86	40 ²	Su-7BM	64 ²
		Hunter F-56	64 ²
		Marut HF-24	50 ²
Mirage III & V	55 ³	MIG-21	252 ⁴
MIG-19/F-6	174 ⁵	Canberra PR-57	18 ⁶
F-9	40 ⁵	Gnat	80 ⁷
		Jaguar	18 ⁸
		MIG-23	NA ⁹

Source: International Institute for Strategic Studies, Military Balance Report, 1980-81.

Footnotes:

1. Light bomber; essentially obsolete.
2. All obsolete and to be discarded.
3. Recent deliveries reportedly raise this to 107 with eventual total of 150; 55 is the 1980-81 IISS figure.
4. Soviet design; Indian made.
5. F-6 is Chinese version of Soviet-design MIG-19 with some improvements. Chinese are also to deliver 40 F-9 Fantans, their version of MIG-21 during 1981-82.
6. Photo-reconnaissance squadron to be replaced by MIG-25.
7. British design, Indian made; overdue for replacement.
8. 18 Anglo-French Jaguars now on loan from British RAF; 40 on order on flyaway basis; 45 to be assembled from kits.
9. One squadron presently in India according to more recent sources with eventual delivery of both interceptor and fighter-bomber versions and manufacture in India expected.

James Buckley says Dacca won't attack

The following is excerpted from a June 22 interview with Undersecretary of State for Coordination of Security Assistance Programs James Buckley. The interview was conducted by EIR's Stanley Ezrol. We delayed publication in order to print it alongside an in-depth military assessment.

Ezrol: What is your view of the reason for establishing a close relationship with Pakistan?

Buckley: Because Pakistan occupies an extremely important piece of geography which is of extreme importance to the security of the Persian Gulf, in which we have a most immediate, direct self-interest. Any strategy or planning which works toward safeguarding the Western world's access to resources in the Persian Gulf is enhanced if we have a Pakistan capable of inhibiting attacks on its own territorial integrity.

Ezrol: A number of people, including people who are generally friendly to the Reagan administration and its outlook, have characterized the regime in Pakistan as being an unstable one, at best. Do we have any fear that the sophisticated weapons which we intend to supply may either fall into the wrong hands or may be wrongly used by that regime?

Buckley: The answer is no. Number one, in one sense, a large part of the world is, quote, "unstable" in terms of any particular regime, because you may have political systems that inherently are not all that stable. Number two . . . remember, we're dealing with a nation, not a regime, and the alternative to an existing regime would be another regime having the same interests in national independence and territorial integrity. . . . To help the country that is militarily capable in terms of the quality and discipline of its individual soldiers, but equipped with World War II-vintage equipment, and to help modernize it and make its capabilities of defending itself credible, can only enhance the stability. . . .

Ezrol: Arms we have supplied to Israel are not always used in ways that we find most appropriate. What kinds of safeguards are we building into our agreement with the Pakistanis?

Buckley: Number one, we have the condition that these weapons are to be used for defensive purposes. Number

see a further dimension of the threat. Given its high cost, Pakistan will only be able to buy a relatively small number of F-16s, especially if compared to more logical replacement choices like the F-5E or A-4 Skyhawk. It does not make sense, Lal told this writer, to load F-16s with old-fashioned dynamite ordnance when a greater number of F-5Es could do just as much damage with the same ordnance. "You need a highly destructive weapon to go with it—a nuclear weapon," says Dal, although he admits the use of conventional weapons in the F-16s "could, in itself, be a disturbing prospect" for India.

India, on one level of response, is likely to more vigorously pursue its interest in the French Mirage 2000. However, the Mirage is a plane only in its test stages and not conceivably available for delivery to India before the late 1980s, whereas the F-16s are theoretically available now, or at least within one to three years. With Pakistan building a nuclear bomb that may be ready in less than a year, no competent Indian defense planner could afford to ignore the implication of this shift in the military balance of the subcontinent.

India's capability to construct a nuclear device was proven in 1974. But that explosion took place in the context of a large-scale civilian nuclear energy program—the largest in the developing world—and there is no evidence that India has chosen to follow that peaceful nuclear explosion with construction of deliverable nuclear weapons. The Pakistanis, on the other hand, by all reports, have a program which has no demonstrable link to any civilian nuclear energy program and can have no other purpose than to construct a nuclear weapon.

According to informed sources, an American academic expert on the Pakistani military recently returned from Pakistan, where he discussed nuclear planning with senior Pakistani officers. The Pakistanis reportedly argued that their security would improve with nuclear weapons, even if symmetry were maintained, and establish some form of mutual deterrence. In that situation, they reportedly said, they would, beneath the umbrella of this deterrence, wait for a weak leadership in India and in a "bold and brash move grab Kashmir."

Defense expert K. Subrahmanyam suggests a non-nuclear scenario of the same type. F-16s, equipped with laser-guided bombs could hit and close the Banihal tunnel on the only major road that links the Srinagar valley of Kashmir, known to be the major Pakistani target, with the rest of India. Only one other road exists, a circuitous route that would take many days to traverse under normal conditions.

Certainly if Indian defense planners draw that conclusion under the present circumstances, it would be surprising if they did not take steps to ensure symmetry with Pakistan on this front.

two, if that was an oblique reference to India, you've got some very practical considerations, despite the valor and the quality of fighting and so forth. Pakistan got licked by India in 1971; since then they've declined in military capabilities, while the Indians have enormously improved their competence. The Indians are a modern force; they are continuing to purchase the most modern types of equipment. There is no way that the type of equipment that we are proposing to sell to the Pakistanis could tip the balance in such a way as to encourage anybody to launch an attack on India without inviting destruction.

Ezrol: Are you ruling out the possibility of a Pakistani administration's acting irrationally?

Buckley: One can never rule that out of any human equation, but one has to operate as if people have some modicum of prudence; that people don't want to invite the slaughter of their citizens, the destruction of their own economy, their factories; especially a country like Pakistan that's doing its damndest to try to get itself on its feet. It would be a recklessly foolhardy act. . . .

Ezrol: I wonder how many people would really be satisfied with that answer.

Buckley: The alternative, of course, is to say, "Just survive the way you can; forget the fact that you've got some real problems on the northern border and that the Soviets have every incentive in the world to try to cause insurrections and strife in your western province, and peel off and declare the People's Republic of Baluchistan, giving the Soviets access to the Persian Gulf."

Ezrol: Secretary Haig has made remarks on the record, which the State Department has interpreted for the record to mean that we understand that the Pakistanis view India as a military threat to them. Do we believe that they will not use their weapons against what they perceive as a military threat?

Buckley: If you are the weaker, the significantly weaker, and have someone you perceive threatens you, you may want to be in a position to make an attack on you costly, but that is not the same sort of thing as suggesting that you are blindly going to go out and launch an aggressive first strike against someone, when the destruction of your people would be invited.

Ezrol: Would a combination of Pakistan and the People's Republic of China be overwhelmed by India's military force?

Buckley: Looking at the topography that they'd have to be dealing with, I'd have to get an expert DOD judgment, but I've yet to see one, and this is part of the things that you exercise when you go through this sort of assessment, but India is very good these days.

INTERVIEW

Cardinal Krol discusses the role of churchmen

We publish below the partial contents of an interview given to our editor-in-chief, Criton Zoakos, by Cardinal Krol, the Archbishop of Philadelphia, on Aug. 14, 1981. The Cardinal's endeavors on behalf of Polish food relief efforts, his own Polish ancestry, his personal affinity to Pope John Paul II and his considerable education and culture, we thought, were indispensable aids in providing a deeper insight of the Polish situation both for ourselves and for our readers.

We wish to thank His Eminence for granting us this interview despite his considerable misgivings about personal publicity. At one point, in deference to his sentiments on this matter, we considered publishing the interview anonymously. We opted against this idea, however, because it is still true that judgments that matter and statements that matter, do so not only because of their contents but also because of who it is that makes such judgments and statements.

Zoakos: Not only Poland's future, but stability in Europe and even world peace are at stake in the Polish crisis. What can you say about the Church's concern in this regard?

Cardinal Krol: As the late Cardinal Wyszynski often said, and as His Holiness Pope John Paul II has repeatedly explained, the role of the Church is to teach and to spread the truth of the Gospel, the principles of the Gospel, the principles of human dignity, the dignity of the human person to be free to determine his relationship not toward the state but toward God. Thus the role of the Church is to be at the service of man, at the service of man's dignity, as the Pope has emphasized in his encyclical *Redemptor Hominis*. Man is endowed by God with a destiny which endures and reaches beyond the grave. Man must therefore have the opportunity to live his temporal life in dignity so that he may not forfeit his destiny in afterlife.

This is Gospel Principle and it was clearly spelled out in the canonical and doctrinal work of the Second Vatican Council.

You will find a delightful highlighting of this in the teachings of Pope John Paul II during his visit to Poland

the Polish situation, in today's world

in June of 1979. "No nation should enrich itself at the expense of another," he said. He also reasserted and emphasized again that "man is not simply an instrument of production," he is not simply an economic creature but a moral creature with a destiny set by God. This message has a reverberation in Poland—the Pope is a brilliant lecturer, one who strikes a deep chord in the hearts of people. As you know, in his youth he was involved in labor organizations, in defending the rights of labor organizations and he was a brilliant lecturer then, and all through his life he has spoken out on behalf of man's dignity, of man's aspirations, of his rights and of his freedom. The Holy Father's thinking about the communists, the thinking of responsible Church leaders about the communists, is that they are brothers who have fallen in error. It is our obligation to, we have to show them the truth. There is no animosity toward them, the Pope has no animosity toward them. He once told me about the communists that "these people are in error because they have been misled, and they have been misled because our teaching has not been adequate; therefore we must make our teaching better, our evangelization better."

But toward the philosophy of Marxism, coexistence with the philosophy of Marxism is totally impossible, because the goal of communism is total dominance, unlimited, unrestricted dominance. Marxist philosophy does not allow for coexistence. Thus the idea of coexistence with that philosophy is unrealistic.

Zoakos: Given that the current crisis in Poland is occurring in the context of crisis in the relations of the two nuclear superpowers, don't you fear that it may lead to nuclear confrontation?

Cardinal Krol: Thermonuclear weapons can destroy material things but they cannot kill ideas.

Zoakos: I meant to say that there are people, there are intelligent networks, including British intelligence networks, Anglican Church influences who, according to my information, are deliberately trying to aggravate the situation in Poland for the purpose of inviting a Soviet

invasion and a major East-West confrontation.

Cardinal Krol: There are hardliners in Poland, hardline elements who would not be averse to the idea of destabilization of the country in order to invite an intervention by the Soviets. I am confident their influence can be contained. A certain percentage of their hardliners was eliminated from positions of influence during the recent party congress. Kania has maintained his position and he was able to replace the hardliners. No one, however, should dare exclude the possibility of intervention by the Soviets. History to date records a desire on the part of the Soviet leadership to eliminate Poland as a nation.

I recall after the 1939 invasion and defeat of Poland by the Nazis and the Soviets, the Soviet foreign minister was quoted as saying that "finally, the bastard of Versailles has been wiped off the face of the earth." I also recall that during the earlier era of Poland's tripartite occupation, the Russians were very insistent on eliminating the Catholic Byzantine Rite of the Polish Church.

On the other hand, however, if you are trying to estimate the possibility of Soviet intervention, you have to evaluate the pros and cons of the present situation. Can the Soviet Union afford to take over the liability of \$25 billion of Polish foreign debt? Can they afford, politically speaking, to strike out against the Solidarity Union? How can they then justify their working-class slogans? "Workers of the world, unite everywhere except Poland"? A further question would be that of the Polish army. Can the Soviets rely on the Polish army in case of intervention? Eighty-five percent of the officers and enlisted men come from peasant and working-class families. In 1970 they told Gomulka not to count on them. The Soviets must ask themselves, toward which direction will the Polish army be shooting?

But in the final analysis, one must know that ideas cannot be killed by weapons. Weapons can kill people but not the spirit of the Polish people. I always recall that after 126 years of tripartite occupation Poland rose again as a phoenix from its ashes. And I also recall the year 1920, when the Russian armies were stopped by Poles armed more with spirit than with ammunition in an engagement now known as the Miracle on the Vistula. Weapons kill people but not ideas.

Zoakos: You have met with world leaders including Pope John Paul II and President Reagan in recent weeks. What are the highest priorities for these leaders concerning stability in Poland today?

Cardinal Krol: Unequivocally, food! Food is the greatest concern.

The spread of hunger must be prevented. Because hunger makes people angry and enraged, and anger is a bad counsel, an evil counsel which leads to desperate acts.



Polish workers.

Zoakos: Can you say a few things about the food relief effort to Poland that you are carrying out?

Cardinal Krol: Over one year ago, in February of last year, Mr. Ed Pizek made available to the archdiocese 50 million fishcakes for charitable distribution as we saw fit. There was no Polish food problem then. When the problem arose, we could draw on this promised supply. We have shipped 40 million fishcakes to Poland, the Polish authorities agreed to ship it gratis, and the Polish health ministry agreed to carry out its distribution in hospitals, schools, and other institutions across the country. This has already been done. Nine million pounds of food has been shipped. A similar amount is about to be shipped over very soon. Last May we received a letter from the bishop presiding over the Polish Episcopal Conference's Commission for Charities requesting our assistance. We have more recently received a further appeal, outlining that the greatest needs in the country now are for powdered milk, edible fats, wheat, other cereals, flour, meat, and meat byproducts. We intend to provide this assistance and we are meeting with welcome

response in the parishes of the Church where we have appealed for help. It should also be noted that the Polish government has lifted any and all types of restrictions that might become a burden, such as tax, customs procedures, and other such things.

I would also like to have another clarification made, namely that this effort is the undertaking of the Catholic Relief Services in coordination with the Polish Episcopate, and that no other agency is involved. The Catholic Relief Services, a worldwide organization in the United States, is working with the bishops of Poland in this matter. The distribution is made not through Caritas, which in Poland is a state organization, but through the Episcopate itself.

Zoakos: Is the World Council of Churches involved in this food relief effort?

Cardinal Krol: No. The World Council of Churches have their own activities. It is worth noting, in this context, that the amount of relief provided by the Catholic Relief Services at times exceeds the combined total of relief supplied by all other 25 or so relief organizations taken together.

Zoakos: What is the role of Church channels of dialogue in protecting peace? I have in mind, for example, Cardinal Casaroli's extensive diplomatic experience vis-à-vis East European governments.

Cardinal Krol: The Church as Church does not get involved in politics. This should be made understood, and also the popular descriptions of Cardinal Casaroli's work in relation to so-called Ostpolitik should be dispelled. The Lord has commanded us to preach the Gospel to all nations. The Church must therefore teach the Gospel to all including those who live inside communist countries. There was a different approach with Pope Pius XI. At any rate, the Church does exist in those countries which are governed by communists. And the Church has rights which must be recognized and must be preserved.

Therefore, in the service of truth, in the service of teaching the Gospel, we have to talk to all people. Pope Paul VI, while he lived; tried to work with the local bishops in those lands and to help them solve problems of the Church. This is a continuing policy. As Archbishop Glemp, the new Primate of Poland, said, and as Cardinal Wyszynski said, and as Pope John Paul II said, the work of the Church is to evangelize, to proclaim the ideas of justice, peace, and human dignity.

Zoakos: Does the Church, seeing the ideological conditions in the East and the moral crisis in the West, see, in the current crisis in international relations, the possibility of the outbreak of general war?

Cardinal Krol: I shall take you back two thousand years ago when Jesus Christ came down on earth. The Hebrew

prophets and the writings of the Old Testament had foretold the chosen people of Israel of the coming of the Messiah. But when the Messiah came, the chosen people of Israel rejected Him, because they could not recognize Him, as in their mind the Messiah was to be vested with the attributes of temporal power, the power of nations and states. This folly in human nature, the fixation upon temporal power is what you also see today, after two thousand years. In this respect human nature has not changed. The superpowers are engaged in a contest for power. There is armament going on and the world is presented with a spectacle of conflict.

But if you have ever watched on television those sports events, exhibition wrestling it's called, where the spectacle is prearranged, you can better estimate this superpower conflict. From what I have seen and I know, the Soviet leaders do not want to start a nuclear war and the American leaders certainly do not want to start one either. As an older man, let me give you this advice: I do not say you should ignore these problems, they are real problems, they should not be underestimated; but one should not overestimate them either. I am optimistic.

Zoakos: I would myself be optimistic if it were only a contest between the two superpowers. There is, however, a third political force attempting to manipulate the two superpowers. You are familiar of course with the zero population growth movement, the neo-Malthusian movement, which under the Carter administration promulgated the *Global 2000 Report* as U.S. government policy. The neo-Malthusians have identified the Roman Catholic Church as the principal obstacle to their population policy. Steven Mumford of Georgetown University wrote an article recently in Prof. Sidney Hook's *Humanist* magazine, calling for a schism in the Roman Catholic Church on the population question. Then you have the assassination attempt against the Pope. Also, some Catholics in the United States have dropped the name "Roman Catholic" and prefer to call themselves "Christians." If these forces succeed in causing a schism, in disorganizing the Church, it would be a major blow to the two-thousand-year-old civilization which had been rallied around the institution of the Roman Catholic Church.

Cardinal Krol: Once again I shall take you back to two thousand years ago when Jesus Christ came down on earth. He did say then that he had come in order to suffer and in order to be crucified. And we, his Church, we are the body of Christ. Who are we not to suffer as he suffered? Many of the things you refer to reflect the centuries-long history of the Church, i.e., internal discord and external persecution. But the Church has survived for twenty centuries, and shall continue to do so until the end of time, or as Our Lord promised, even the gates of Hell will not prevail against the Church!

Part II: Europe's Monarchists

Mitterrand: from Vichy to socialism

by Laurent Murawiec

In the first part of this series, we developed the genealogy of the 20th-century monarchist currents of France, identified with the notion of the "French Empire" faction which not only imposed a ruthless Malthusian order upon the French economy and population, but also conspired at deliberately losing the war to Hitler's troops and accepted the unenviable status of junior partner to the Nazis' New Order. We witnessed how the Orléans family's heir, Henri, Comte de Paris, ran a myriad of corporatist, terrorist, and fascist networks and hoped that the Vichy regime would pave the way for his return to the throne of France. We also saw young François Mitterrand, today the Socialist president of France, learning the trade of politics within the monarchist fold that was his own family's tradition.

The scene is now Algiers, as Anglo-American troops storm French North Africa, and call upon the political and military assets of the Comte de Paris to smooth their landing way. The Allied case officers for the strategically crucial Algerian operation were Prime Minister-to-be Harold Macmillan, "diplomat among warriors" Robert Murphy, and former League of Nations official Jean Monnet, one of the City of London's top roving operatives in the opium networks and international finance. The trio passed a deal with the more Anglo-American-oriented current of Vichy, based on the agreement that 1) de Gaulle would be left out in the cold, 2) the French Empire would be restored to its pristine glory, 3) the double game vis-à-vis the Nazis and the Anglo-Americans would continue to be played with and by Vichy. The underpinning of the deal was the aspirations of the Orléans dynasts.

Murphy negotiated with a so-called Group of Five, who agreed to make French North Africa available to Eisenhower's troops; the Group included one "former" top leader of the Cagoule (The Hooded Ones); one Belgian-born army general van Hecke, looming large in the Deuxième Bureau, Vichy's military intelligence, who later became a leader of the French equivalent of Italy's Propaganda 2 Freemasonic lodge, the Grande Loge Nationale de France; and a scion of one of France's important aristocratic families, Henri d'Astier de la Vigerie. Murphy told this monarchist Group of Five that "the Five are the only ones capable of representing



Mitterrand (rear, right) as soldier, 1939.

French interests . . . let us negotiate our landing.” It was that deal that the Comte de Paris went to Vichy to work out with an unwilling Marshal Pétain. Barely had Allied troops settled in Algeria than they formed a Conseil d’Empire designed to rule French colonies, and the British-backed government-in-the-wings of France.

The Comte de Paris had to face a major obstacle: one of Vichy’s principal personalities, Navy Minister (and former Vichy premier) Admiral Darlan had decided to throw his lot in with the winners’ side, and was negotiating with the trio in Algiers. Orléans and d’Astier got Darlan assassinated. The hullabaloo that followed, however, proved far too noisy for the Count’s ambitions to be consummated. Robert Murphy, ungratefully rejecting his erstwhile royal ally, shifted his plans onto the person of five-star Gen. Henri Giraud, a war hero who he thought could better marginalize de Gaulle and rally the social forces and networks of Vichy. Quite typical of such privileged allies were Princes Napoleon and Murat, two relatively low-level noblemen employed by Monaco’s ruling family, the Polignac-Grimaldis, for “wet-work”-style undertakings: there was also Alain de Serigny, one of Algeria’s richest colonial barons, owner and director of Algiers’ largest newspaper, and a ranking member of the Order of Malta, whom we will meet again 15 years later as one of the principal political supporters of the terrorist-fascist OAS organization.

Murphy was no luckier with Giraud than he had been with Pétain or the Comte de Paris. Giraud was snatched in strange circumstances from an officers’ POW camp in Germany by Britain’s SOE, transferred through the hands of French-based, Vichy-allied SOE intelligence networks, and placed on a submarine en route to Algiers, where the trio rapidly built him up as the figure who would rally the nation. Giraud immediately proceeded (under Monnet’s vigilant chaperoning) to articulate vehemently antirepublican policies—including corporatist social plans, anti-Semitic policies, and a Führer-like notion that the Constitution was only there to be disregarded. A misbriefed Franklin Roosevelt, who relied on Monnet, Leahy, et al. for intelligence on France (as well as on financier forces that represented an intersection between the old French oligarchy—including the House of Bourbon-Parme—and City of London-lower Manhattan banks) gave his full backing to Giraud’s attempt to suppress de Gaulle.

De Gaulle’s brilliant strategy, and the wholehearted support he received from the French Résistance inside the occupied nation, proved far more than a match for Giraud, who soon took the back door to oblivion. All was not lost, however, for the Monnet-Murphy-Macmillan trio: the combined military and financial power of the Anglo-Americans compelled de Gaulle into an inevitable compromise with them, which included merging the military, intelligence, and political capabilities of both the Gaullist resistance and the Vichy-monarchist forces that had been using the name of the hapless Giraud as a banner.

That ineluctable compromise shaped much of the structure of French politics for the 40 years to come. Monnet’s men were placed around de Gaulle in key government jobs. Much of the originally Vichyite top military brass found new jobs in the leadership of Free French troops. And de Gaulle’s intelligence service was merged with the Cagouard Vichyite Deuxième Bureau organization, under the leadership of a young master-spy initially spotted by Walter Lippmann, and later coopted into Sir William Stephenson’s operation: Jacques Soustelle, later a board member of the world’s most important Murder, Inc., Permindex, and the uncontested leader of the OAS.

Within occupied France, the French patriots rallied around Charles de Gaulle—including, in part, the Communist-influenced labor movement—were arrayed against the Imperial forces that had ruled before the war, and shamefully lost it, only to set up the puppet government of Vichy. At stake was the future status of France: a junior partner in international relations, fully in the hands of the oligarchical families bolstered by Anglo-American credit and armed power, or an active force for world development, as de Gaulle made her upon reas-



Mitterrand as president, 1981.

suming power in 1958?

Various intelligence networks tied into the SOE-spawned "resistance" movements aimed at preventing de Gaulle from unifying the French. The political battle for hegemony over the Résistance was so intense that the personal envoy of Charles de Gaulle, chairman of the National Resistance Council Jean Moulin, who had successfully unified the innumerable resistance and intelligence movements and networks in mainland France, was betrayed to the Gestapo by one of the top leaders of the "White Resistance." The leadership of these synthetic resistance movements—known as Combat, Libération-Nord, or the Organisation Civile et Militaire (OCM)—were very heavily tainted with prewar Cagoule associations, and the ever-present, if more discreet, monarchist ambition. In keeping with the Comte de Paris' "social-Christian" philosophy, however, that fundamental option received a disguise more agreeable to masses of the population set into motion by the war and resistance situation: "socialism."

Typical of this astonishing metamorphosis of the old oligarchical political forces into left-wing-oriented socialistic politics adapted to the "Age of the Masses," was the sudden transformation of much of the Catholic Church, and especially the Jesuit and Dominican orders, into left-wing radicals. While before the war, membership in either generally went with uncensored antirepub-

lican royalist sentiment, the strongly pro-Vichy Archbishop of Paris Cardinal Suhard opened in 1943 the Mission of Paris and set out to evangelize the working classes. Top Dominican and Jesuit ideologues concocted a "Catholic" version of socialism, which traced its roots back to the Thomist University of Louvain, Belgium, where the Comte de Paris had been trained.

Much of the former Action Française cadre force was retrained in this fashion and recycled into the popular, and increasingly powerful, resistance movement. The gap between the two generations of "social-Christians" can be exemplified with the case of Hubert Beuve-Méry, founder of the prestigious daily newspaper *Le Monde*: trained, educated, and fed by a top Dominican priest, Father Janvier, Beuve-Méry started the wartime period by enthusiastically supporting Marshal Pétain and issuing tracts on how best to organize the old marshal's corporatist "National Revolution," while his mentor, Father Janvier, explained that "joy is the driving force of life. Has Hitler said anything else with his motto of *Kraft durch Freude* [Strength through Joy]?" If Janvier was betting on the side of the losers of Stalingrad, pupil Beuve-Méry, late in the war, deployed the several thousand cadre he had trained in the special cadre school for Vichy youth he had set up in 1940, the Ecole des Cadres d'Uriage, on the winning side, under a heavy social-Christian and quasi-socialistic cover.

It should come as no surprise that François Mitterrand, whose family had an enduring monarchist tradition and who was trained in the social-Christian orbit, should have oriented his wartime activities first to Vichy, then to British intelligence—he made it to London in the personal plane of General Montgomery—and then in the politics of so-called socialism as the war drew to an end.

As the Nazi masters tumbled in retreat in 1944, Vichy collapsed as it had lived, abjectly. The deck was clear for the "popular-oriented" politics of the postwar period. And the Vichy-SOE "resistance" movements created a political shell to carry forward their policy, the UDSR, or Democratic and Social Union of the Resistance, of which Mitterrand was an early leader, together with Soustelle, and much of the Algiers trio's political employees.

Adapting to the 'long haul'

The immediate postwar period thoroughly transformed the appearance of French political life. The Imperial current saw its leading representatives and spokesmen so totally discredited by their faithful cooperation (*la collaboration*) with the Nazis, and a population so eagerly supporting General de Gaulle, that it had to recede from the front-stage, and willy-nilly opt for "the long haul," building up for a political comeback of the Vichy personnel as far as the right wing of

the political spectrum was concerned, and cultivating its tremendous assets of the social-Christian movement for the "left." That current now represented the third largest party in the country, the People's Republican Movement (MRP), which captured close to one-third of the popular vote in elections held in 1946 and the following years.

The "Age of the Masses" of the postwar period implied apparent retirement for Messieurs the Noblemen. Accordingly, the Comte de Paris spent most of his time then with the royal families of Portugal, Britain, Italy, and Belgium. In 1947, however, the time was deemed ripe for him to relaunch his direct political organizing activities: the Count created *Ici France* , a weekly newspaper which he ran from his new exile headquarters in London. Fruitful contacts were made with the Socialist Party, the left-of-center Radical Party and the Christian-Democratic MRP. One editor of the would-be monarch's journal was aristocrat Bertrand de Jouvenel—a figure much tainted by his prewar and wartime activities in favor of Hitler and Pétain, who later became a principal initiator of the Club of Rome as well as a pioneer in futurology. It ought to be noted that de Jouvenel's organization, the 1960-created Futuribles, is presently providing the bulk of the policy-making staff and many of the government ministers for François Mitterrand. A second editor was Gustave Thibon, who had just been the number-one ideologist for Pétain's Révolution Nationale, and the father-figure of the doctrine of the "Return to the Land," the anti-industrial anti-urban policy which Vichy made the foremost tenet of its rule. No fewer than 70,000 carefully selected individuals received that journal in the 20 years to come; they were the leaders of the body politic, of business and the academic world and the civil service. While the Comte de Paris seldom appeared in the public spotlight, the underground influence of his publication nevertheless became a fixture of the underlying process of policy-making.

Interestingly, it was the Algiers-based spokesman for the large *pied-noir* colonial landowners, longtime collaborator of Jean Monnet and important political asset of the French Rothschild family, René Mayer, who called upon Parliament to revoke the Law of Exile which banned all members of formerly reigning royal families from ever residing on French territory.

The immediate postwar fate of François Mitterrand illustrates the "recycling" modus operandi of monarchist forces. Without a job, the former "resistance fighter" appealed to a prewar friend, André Bettancourt, who had just married the daughter of a wealthy industrialist: Eugène Schueller of L'Oréal, whom we have seen cofounding the Cagoule and the wartime MSR political terror organization. Bettancourt had spent much of the war writing contemptible articles in the Vichy press

under the general title of "We denounce. . ." a rather deadly practice of journalism, at least for the victims. François Mitterrand was made chief editor of L'Oréal's newspaper, *Votre Beauté* (sic), a job which concealed deeper political and intelligence interests under advertisement for the perfumes produced at L'Oréal.

Additionally, the Comte d'Armaille took the ambitious and unscrupulous young editor in hand, and provided him with a "rotten borough" seat in Parliament. Under the mask of "young resistance heroes," the Cagoule and what it stood for were effecting their successful re-entry into national politics.

Vichy personnel, however, were then, and would remain for another half decade, *personae non gratae* in Paris. Even though under the pressure of political parties right and left, the towering figure of General de Gaulle had had to leave power in 1946, public opinion, the "Gaullists," and the general himself would have swept away any government that would have moved to rehabilitate, or even plead the cause of, the former Vichy officials. That only came in 1952, with the assumption of power of former Vichy National Council member Antoine Pinay, also known as a founding member of *Le Cercle* , an oligarchical club of international dimensions, and a cosponsor of Prince Bernhard of the Netherlands' Bilderberg Society.

But this was still in the future. In the years immediately after the war, the agenda of the Fourth Republic was primarily aimed at reconstruction of a devastated economy—the Nazi war-machine had gobbled up to one-half of the national product for several years in a row. Entrusted with organizing the bases of reconstruction was Jean Monnet, now France's planning commissioner, whose London and Washington networks of friends allowed him to quietly become the czar of national economic policy-making. And Monnet, with the full endorsement of the parties that had the electoral support of the masses (with exception of the Communist Party), reorganized as much of the institutional framework of the national economy as he boosted production and the rebuilding of the infrastructure. The price he exacted for this service was shaping the institutional framework of the economy in such a way that it could readily be "plugged into" the supranational framework then under formation: the combined structure of NATO, the Organization for European Economic Cooperation (OEEC, later known as the OECD) and the Bank for International Settlements.

For the moment, the impoverished French oligarchy, its estate—France—laid waste, had to accept the Anglo-American hegemony, and cling to its cherished colonial Empire, eagerly awaiting the time it could shatter the American shackles and reconstitute in all its historic might the alliance of the royal houses of Europe.

Alexander Haig and the new Mussolini

Haig and Kissinger have planned Craxi's rise for a long time; Michael Ledeen made some progress on the case.

Despite the fact that the vacation period of *Ferragosto* has emptied the halls of ministries and political parties, the word is out in Rome: Kissinger and Haig have decided to put Bettino Craxi, the secretary of the Italian Socialist Party (PSI), better known as the new Mussolini, into the prime minister's seat within the month.

Among insiders, it is also known in detail how this cold coup against the Italian Republic was organized. The key individual for maintaining the secret relationship between Craxi and Haig, at least since Haig's appointment and perhaps earlier, is Michael Ledeen, a Georgetown University professor appointed as State's adviser on Italian affairs and terrorism.

Ledeen is a scholar of the Fascist period in Italy. He started his intellectual career with a long study in the archives of Rome and Florence on the origin of Italian Fascism, and reached the amazing conclusion, made available in his books, that the "first Fascist period" was not so bad after all. This is the period in which what he termed "Universal Fascism" evolved: the tendency that was developed by Benito Mussolini's brother Arnaldo which refuted any nationalistic currents in favor of the "ideal" of a Fascist Europe. These theories brought some observers to comment that Ledeen is perhaps now attempting to implement his own ideals with the help of a new Mus-

solini—Bettino Craxi.

In July Ledeen was secretly sent to Rome by Haig with two tasks: to put a stop to the spread of the P-2 scandal, whose implications extended to Haig; and exploring the possibility of putting Craxi into power as soon as possible. In the context of Ledeen's dual mission, various blackmailing operations were launched against the major Italian party, the Christian Democracy (DC), which is split on the question of Craxi.

DC leaders know that pressures coming from Haig and Henry Kissinger are not abstract, at least not since the kidnaping-murder of their chairman, Aldo Moro, in 1978. Before his abduction by the Red Brigades, Moro had been personally warned by Kissinger, who "suggested" that he stop his plans for a national unity government with the Communists. Moro did not follow the advice: his assassination was the beginning of the decay of the DC, and Craxi's accelerated move toward power, which was supported by the Carter administration and its ambassador to Rome, Richard Gardner.

Reagan's election was a shock to the partisans of the Craxi option, but only briefly. Haig communicated to his Italian friends that things would be brought under control. When, shortly after Reagan's inauguration, Craxi came under attack for his "softness" on terrorism, Craxi tried to build himself as "a

Reagan man," and his right-hand man Claudio Martelli attended the inauguration. While there, Martelli met with Ledeen (and probably Haig), and received the green light for a Socialist takeover of Italy. It is generally not known that another important character participated in these talks, "mediating" between the Haig forces and the Socialists: the Venerable Master of the Propaganda 2 lodge, Licio Gelli!

On his return to Italy, Martelli wasted no time bruiting it about that the "PSI is the party of Reagan in Italy," but his timing was premature. Haig and Kissinger had not yet established their control over the new President. Reagan's reaction was quite clear when Ledeen was forced to declare that Martelli was the victim of a misunderstanding, although Ledeen had been Martelli's published source for his own assertions. Ledeen pronounced "President Reagan is philosophically antisocialist." Rumor had it that the White House was particularly enraged with Craxi for his role in the Red Brigades kidnaping of Judge Giovanni D'Urso in December.

Now things have changed. Ledeen's July mission was a "half success," since there is still some resistance in the middle-level DC leadership on the Craxi question. Haig's name, publicly linked to P-2 as Gelli's instigator, vanished from the press, while the "Haig dossier" found among Gelli's papers was made a "state secret."

The final offensive on Craxi's behalf was then begun with the sudden deployment by Haig of an important American "conservative" hastily sent from Tokyo to Rome—to break the last resistance to the new Mussolini.

Mitterrand and Article 16

A national crisis generated by the Socialists' inability to reverse economic disaster could lead to "emergency rule."

Socialist Party chairman Mitterrand, who opposed the Gaullist constitution when it was promulgated in 1958, and for two decades railed against the expanded powers of the presidency, has stated that, all things considered, he now finds those presidential powers quite well suited to his personality.

We shall soon see a test of the constitution's application in the hands of the Socialists as deep economic crisis and social disorders erupt. Even discounting any new oil-price shock or international banking collapse, France faces a politically intolerable level of 2 million unemployed that is growing daily and increasing small-business bankruptcies, both triggered by a totally depressed situation in the auto and construction sectors. A Giscard presidency would have had to face this economic challenge as well; but the neo-Malthusian Socialists are actively worsening the dangers.

The most striking example of Mitterrand's policy of economic euthanasia, as we have reported, is the decision to "freeze" the construction of 12 nuclear reactors. This will not only undercut the precondition for industrial health, namely, a secure, low-cost source of energy supplies, but this autumn will severely affect the steel, construction, and other subcontracting suppliers. And as unemployment grows further, social instability will increase to the point that Mitter-

rand's Keynesian, welfare-state initiatives are impossible to finance.

The budget minister, Laurent Fabius, has already performed difficult contortions to keep the budget deficit at the 70 billion franc level previously announced; painful contractions in social spending are ahead. The financing of the Assedic, the nearly bankrupt national unemployment fund, is now under discussion, centering on which category of workers will pay out more to sustain the jobless.

In short, the Socialists soon will have nothing to distribute except austerity. That will not be easy, partly because it is less than certain that the Communist ministers in Mitterrand's cabinet will play out the script the Socialists have assigned them. They may instead depart, after entrenching the Communist-controlled trade-union federation, the CGT, in their various cabinet domains, administration, transportation, and health.

Mitterrand will then have to find a way to neutralize or eliminate a CGT that opposes the Socialists' antinuclear and austerity policies.

Faced with such a threat to his political power—no doubt involving social mobilizations, strikes by industrial and civil-service workers, peasant riots, and so forth—François Mitterrand could find it not only opportune but necessary to *rule by decree*, bypassing the National Assembly, a power that is granted to him by Article 16 of the

constitution—the provision he fought so stridently against in the 1960s and 1970s.

Article 16 specifies that, when the institutions of the Republic, the independence of the French nation, the integrity of French territory, or the fulfillment of international commitments, is threatened, or when the regular functioning of constitutional public powers is interrupted, the president can undertake any measures that he finds appropriate outside of parliamentary control for the duration of the emergency.

This extraordinary power was intended to be used for a very brief span of time. De Gaulle invoked Article 16 to put down a military putsch launched from Algiers in 1961—a putsch coordinated with both NATO and large parts of the leadership of the Socialist Party. Article 16, in other words, expresses the ultimate intent of the constitution of France by granting its highest authority the power to save the Republic in case of mortal danger from within or without.

The invocation of Article 16 combined with the mass mobilization of neofascist shock-troops, however, negates that intent, in that it subordinates republican institutions as well as the decision-making process to the interest of a party bent on eliminating rivals.

François Mitterrand reckons with the readily mobilizable Jacobin mobs of the Socialist-run labor union CFDT and the environmentalist movement that proved so important for his own election. In such circumstances, the combining of emergency state powers with the "power of the streets and the barricades" would prove deadly for the French Republic.

Mexico and the U.S. strategic reserve

A quick petroleum deal has not obscured a range of troubling questions that underlie Mexico-U.S. relations.

Agreements between Mexico and the U.S., especially energy ones are not known for speedy negotiation. It was therefore somewhat startling that the industry ministry here announced Aug. 20 that the two nations had come to an agreement to substantially boost Mexico's sales to the U.S. strategic oil reserve.

Starting Sept. 1, Mexico will ship the U.S. 200,000 bpd to be stored in the salt dome reserves in Louisiana. From January 1982 until August 1986 a long-term contract of 50,000 bpd will go into effect. The 200,000 bpd level of the initial four months represents some 15 percent of Mexican exports and 30 percent of Mexican exports to the United States.

What's behind the deal? On the U.S. side it seems part of the administration's readiness to court near-term military confrontation. The Mexican oil acquisition increases the reserve's rate of fill by 50 percent, rising to 500,000 bpd. Though the boost will still only place the reserve at one-third the targeted total 750 million barrels, it is a substantial pickup, and it focuses political attention on the nearness and reliability of Mexican oil.

Though Mexico was one of the first countries to sell to the reserve in 1978, it is acutely sensitive both to the general implications of its becoming a giant "strategic reserve" for the U.S., and to the specific context of the current American buildup. High-level political

and security officials here take the threat of a U.S. invasion of Mexico's oilfields very seriously.

The deal has some sweeteners for Mexico. First, it is state-to-state. Previous consignments have gone through private-sector oil companies as intermediaries; this one goes directly from Pemex to the U.S. Department of Energy. The *Washington Post* reacted with outrage at the potential loss of an economic warfare club: an oil company "can simply walk away from the offer" if it doesn't like a price, it editorialized Aug. 25; but "the U.S. couldn't break off its purchases from Mexico without creating a political incident of some magnitude." Worse, unlike the multis, the government might "have to show a measure of concern for the economic stability of its neighbor."

Second, the U.S. will also take a special consignment of Mexico's heavy Maya crude, which Mexico has had trouble marketing.

The Mexican government was careful to state that the deal does not violate the National Energy Plan's limit of 50 percent of exports to any one country. The government averaged out the lower exports of earlier in the year with higher exports over the final four months to make the claim.

There's no question, though, that the primary reason for Mexico's acceptance was to further stabilize oil-export revenues after the roller-coaster of the June-July peri-

od when oil contracts plummeted. Current estimates are that Mexico's losses from interrupted contracts and cut prices could add up to \$5 billion by the end of the year. The 4 percent across-the-board cut in spending decreed by President López Portillo July 10 forced a major reappraisal of spending programs, and any further prolonged uncertainty could have intensified the shock dangerously.

At the height of "Black July," the rumor was circulating that construction on Pemex's giant 54-story headquarters in Mexico City, planned to be the tallest structure in the city, had been suspended.

There are indications that some Anglo-American strategic planners think the deal shows they have Mexico now in their geopolitical pocket. The issue of the Alaska swap, reportedly revived at high levels of the administration in recent weeks, could be the next test of the thesis. The swap calls for Alaskan oil to go to Japan and current Mexican shipments to Japan to be rerouted to the U.S. East Coast. Mexico has been firmly opposed to this in the past.

But it's a mistake to draw overhasty conclusions about Mexico's "weakness." The major development programs have not broken stride. The announcement on Aug. 25 that Pemex is going ahead with a big refinery project near Guadalajara, together with the continued construction of the Pemex tower, symbolize this.

In 1938, faced with a crippling oil boycott by U.S. and British companies after Mexico nationalized its oil, Mexico sold even to the Nazis; but it has never fundamentally abandoned its own strategic independence.

No Amman is an island

Begin and Sadat were debating the overthrow of Jordan's King Hussein at their Alexandria summit.

Almost unnoticed amid the pomp of the Alexandria, Egypt summit between Menachem Begin and Anwar Sadat Aug. 25-26, a top-level shakeup in Jordan's military command might have more to do with the real content of the Begin-Sadat meeting than all the rhetoric in their final press conference.

The reason: the Begin regime in Israel, and especially Defense Minister Ariel Sharon, are giving careful consideration to a project to overthrow Jordan's King Hussein.

In Jordan, General Abdulhadi Majalli, the Jordanian chief of staff, along with three other top generals, was ousted and replaced by Gen. Fathi Abu Taleb. Both Arab and Israeli intelligence sources report that General Majalli, who reportedly will be sent to Washington as Jordan's ambassador, was organizing a clientele among the Jordanian Bedouin population in an effort aimed at toppling the Amman monarch.

Hussein, who is the longest-ruling head of state in the world, has been clever enough to survive many past efforts to oust him. But this time, the combined resources of the Israeli and the Egyptian intelligence services, in coordination with Arab radical forces based in Syria, may prove too much for him.

King Hussein, according to a source close to Israel's Mossad, "has always been the key to Camp David."

According to the source, in the

period of the Black September civil war in Jordan, Sharon and some others in the Israeli armed forces were prepared to let Hussein be toppled by the Palestinians. "The United States saved Hussein, but Sharon was ready to get rid of him then," he said. "Now a lot of unrest is breeding again in Jordan, especially because of the signs that Jordan is considering a major arms deal with the U.S.S.R.

"General Majalli and his Bedouin friends don't like that," this source said. "And they don't like the Jordanian tilt toward Iraq either."

But, he added, the key to the operation is that King Hussein's brother, Crown Prince Hassan, is prepared to cooperate with Sharon on the Palestinian issue. Hassan, who is notoriously pro-British, is reportedly prepared to abandon the West Bank to its fate.

The warning to Hussein found its way into the *New York Times* on Aug. 27, in a column from Egypt by the pro-Begin William Safire. "Ultimately," said Safire, "the resolute Palestinian Arabs will have their own state," but in Jordan. Safire cited Sharon's reported willingness to topple Hussein in favor of a PLO state, and concluded that in his future calculations Hussein "will have to think about a future Israeli willingness to let him fall."

And the *Jerusalem Post*, referring recently to Sharon's new "ideas" for the occupied areas,

quoted one source in Jerusalem: "We're not in any hurry. In any case, several Arabs in the area regard Jordan as the Palestinian state. Nobody challenged Foreign Minister Shamir, Defense Minister Sharon, or U.N. Ambassador Blum when they referred to Jordan as the Palestinian state."

"It will make no difference," continued the *Post*, "what sort of regime exists in the 'Palestinian state' east of the Jordan River."

Such crude blackmail is aimed at getting King Hussein to back the resumption of the Palestinian autonomy talks, now scheduled to start again Sept. 23 in New York.

Sadat and Begin, meeting for the first time in Egypt in a year, reached an agreement to restart the bogged-down talks—despite an Egyptian assertion by Foreign Minister Ali that the talks would not begin until after President Reagan had consulted with Begin and Saudi Prince Fahd.

Egypt's willingness to reverse position and hold the talks means a partial victory for Begin. Because Jordan has enormous influence on the West Bank among Palestinians there, the decision to negotiate the future of the West Bank between Israel and Egypt is a direct challenge to the Jordanian-PLO alliance, which although shaky at best, has survived severe political storms the past two years.

A month ago, it appeared as if no one would dare start the old Camp David talks again. Now, it appears that Jordan, the PLO and Saudi Arabia are being given a stark choice: cooperate, or King Hussein will be removed from the chessboard. And if Hussein goes, can King Khaled and Prince Fahd be far behind?

International Intelligence

Moscow attacks Carrington and Haig

The Sunday review of international events published in *Pravda* Aug. 23 attacked Britain's Lord Carrington for terming the neutron bomb "necessary for NATO's deterrent." The article further criticized West German Foreign Minister Genscher for asserting that the U.S. is ready for arms negotiations, but that the Soviets don't want the talks. An Aug. 25 Novosti Press Agency release affirmed, similarly, that U.S. Secretary of State Haig's recent avowals of readiness for negotiations amount to nothing, because "the U.S. still does not know what it could talk about at such negotiations."

The *Pravda* review also restated a Politburo declaration on President Brezhnev's talks with other leaders of Soviet bloc countries. In addition to widely reported warnings on Poland, the Politburo charged: "Imperialist circles, above all the American ones, are heating up international tension and view this tension as an instrument of pressure on the socialist countries and developing states."

Haig coaches Dacca for Firyubin visit

Washington sources report that, just before Soviet Deputy Foreign Minister Firyubin visited Pakistan, there was an hour-long meeting between Alexander Haig and Pakistani Foreign Minister Aga Shahi to plan their tactics.

Haig apparently assured Shahi that the United States would deliver the F-16 deep-penetration fighter planes to Pakistan right away, if the Zia regime refused any discussions with the government of Afghanistan to resolve regional tensions.

The Soviet-Pakistani communiqué that followed the Firyubin-Shahi meeting did not mention Afghanistan at all, although the subject was first on the agenda, and Firyubin strongly hinted that Moscow was giving Pakistan a last

chance to be "realistic," rather than be a pawn in U.S. limited-war scenarios. Firyubin went on to India Aug. 27, in an unscheduled visit, to brief the Gandhi government on his findings in Pakistan and how the Soviets intend to deal with the situation. *EIR's* Asia Editor Daniel Sneider reports from New Delhi that it is widely believed in India that the Soviets are now considering a hit through Afghanistan on Pakistani refugee camps.

Bolivian president celebrates own overthrow

Bolivia's first successful coup of the year took place when, in the midst of an uprising by pro-Brazilian military units in the Santa Cruz cocaine-producing lowlands and Trotskyist-led tin miners in the frigid highlands, Gen. Luis García Meza reluctantly handed power to a military junta on Aug. 4.

Under the protection of the papal nunzio and the local archbishop, rebel Gen. Alberto Natusch Busch, who had opposed both García Meza and the new junta's leaders, promptly made peace with the junta in return for amnesty, and a chance for better luck next time. The rebel capitulation was celebrated by the junta which—according to all the international press—had "overthrown" dope-tainted García Meza. The fiesta took place at ex-president García Meza's home, the Presidential Palace, and lasted until 7:00 the next morning.

The junta has presented itself to the world as free from the plague of personal involvement in narcotics trafficking, a public fact which made García Meza too hot for recognition from the Reagan administration.

There has been one change, however, in Bolivia. On July 30, just before his "overthrow," García Meza slapped on exchange controls. It was too late to stop bankrupt Bolivia's checks from bouncing; but the gesture was a *macho* insult to the International Monetary Fund. The IMF had been pestering García Meza not for the drug traffic—which it encour-

aged—but for resisting austerity measures sure to provoke riots.

The first thing the junta's new finance minister, Col. Javier Alcoreza Melgarejo, did on taking office was to fly to Washington and approach the IMF on bended knee. Now that Bolivian submission to IMF conditionalities appears imminent, the Reagan administration is under great pressure to free Bolivia from the diplomatic isolation it has suffered since the July 1980 "cocaine coup." U.S. surrender to the junta, however, will not thwart the growth of the cocaine business, which already fetches Bolivia over \$2 billion per year.

France, U.S., Germany send envoys to India

French Foreign Minister Claude Cheysson, U.S. Ambassador to the U.N. Jeane Kirkpatrick, and West German Economics Minister Otto von Lambsdorff all traveled to India the week of Aug. 24-30. Cheysson's mission was to promote the Brandt Commission approach to North-South relations, which he helped draft. It is not known how the New Delhi government responded, but, at a press conference, several correspondents repeatedly asked the foreign minister to clarify how he could be a "friend of the Third World" and advocate strengthening the World Bank/IMF structure. When one journalist characterized those institutions as demanding "a pound of flesh," Cheysson declined to comment.

Count Lambsdorff, speaking in Bombay, made an outright demand for "drastic measures" to reduce population throughout the Third World, although he said he knew the Indians consider such demands "intolerable." Lambsdorff, a free-market spokesman, belongs to the tiny Free Democratic Party, which supports the Global 2000 program.

Kirkpatrick, however, according to *EIR* reports from New Delhi, was less self-confident after hearing first-hand India's condemnation of Washington's policies. Prime Minister Gandhi stated

bluntly that India opposes "the militarization moves that have brought dangers of great-power rivalry to our neighborhood."

One former Indian ambassador to Afghanistan told Mrs. Kirkpatrick, "I know the terrain, I know the Frontier Province, I know Baluchistan. There is no possible use of such equipment [as the F-16s] there." Kirkpatrick was also taken to the Defense Ministry's control room and shown the evidence that Pakistan has massed its troops on the Indian, not the Afghan, border.

Brushfire war against Soviets in Angola

South Africa launched a larger-than-usual military operation into Angola in pursuit of SWAPO guerrillas who are fighting for Namibian independence from South Africa, according to South African military spokesmen, during the last week in August. Angolan forces have engaged the South Africans in combat. Should Angola bring Cuban troops into the conflict, southern Africa would again become a theater of East-West conflict.

On Aug. 25, the third day of fighting, Angolan President dos Santos, in a message to U.N. Secretary General Waldheim said the situation was "so grave that it could provoke a war of unforeseeable consequences." He also informed Waldheim that Angola "may see itself forced to call upon Article 51 of the U.N. Charter," which provides for a country to seek aid from troops of an allied country for purposes of defending its sovereignty, an obvious reference to Cuba and the Soviet Union.

An associate of William Buckley characterized the South African invasion as a good opportunity for the U.S. to begin backing the anti-government UNITA guerrillas in Angola. Echoing Alexander Haig, he said that "the real source of the problem in the region is the Soviet-allied Angolan government, which must be taken out of the picture."

The U.S. is the only one of the five Western powers seeking a settlement to the Namibia issue that did not condemn the South African action.

Colombian ADC gets red carpet in Mexico

Colombian Antidrug Coalition (ADC) officials Maximiliano and Patricia Londoño visited Mexico at the end of August for detailed discussions with government officials on Mexico's successful paraquat program for curtailing marijuana and poppy production. Their well-publicized tour included a helicopter visit to paraquat-sprayed areas, and several press conferences, radio and TV interviews, and public meetings.

In Guadalajara, three newspapers and three radio stations reported on the Londoños' attack against the Reagan administration's "Jamaica model" for Third World drug production instead of economic development. Attending their conferences there were federal and local law-enforcement officials, educators, family organization leaders, and students. Attendees are now urging Colombian Congress defeat of the proposed bill to legalize marijuana.

At an Aug. 25 press conference in Mexico City, where they met with federal officials, Mr. Londoño charged that the IMF/World Bank and Chase Manhattan are backing the legalization move in order to increase revenue to finance Colombia's foreign debt. He targeted former Colombian President López Michelsen and banking spokesman Ernesto Samper Pizano as "citizens above suspicion" who are promoting the policy, according to the daily *Excelsior*. *El Heraldo*, *El Sol*, *El Nacional*, and *Uno más Uno* also carried the charges, with the last reporting Londoño's description of drug money laundering. "International financiers in complicity with national oligarchs . . . are following the strategy used by Great Britain in the Opium War against China," *Uno más Uno* quoted Londoño as saying.

Briefly

● **JOSE LOPEZ PORTILLO** will meet with Guatemalan President Romeo Luca Garcia on Sept. 5. In addition to defusing bilateral tensions, the meeting could affect the plans of a faction in the Guatemalan military to run an ultra-right-wing "preventive coup," with backing from the U.S. State Department, that would further destabilize the subcontinent.

● **DANIEL ORTEGA**, coordinator of Nicaragua's ruling junta, will attend the September anniversary celebrations of Qaddafi's coup. The Sandinista government has effusively praised Tripoli for waging battle against the United States in the recent Mediterranean dogfight.

● **GIORGIO NAPOLITANO**, a spokesman for the Fabian wing of Italy's Communist Party (PCI), openly predicted in the party's weekly magazine *Rinascita* Aug. 22 that Socialist leader Bettino Craxi will be in power by October. Since then, the Italian press is full of discussions of the split in the PCI; party chairman Enrico Berlinguer still refuses to back the Socialists, while Napolitano's faction sees eye to eye with them on most policy matters. The Socialists claim Berlinguer will soon be dumped.

● **MUAMMAR QADDAFI** is considering expulsion of Soviet military advisers because of dissatisfaction with the lack of Soviet support during last month's clash with the U.S. Sixth Fleet, according to Israeli intelligence sources. One source stresses that Qaddafi has already initiated efforts to rebuild relations with the U.S., a scheme that could only occur in the context of Washington's reliance on the Muslim Brotherhood throughout the Middle East, à la Zbigniew Brzezinski. Another source predicts that Qaddafi will soon be ousted by Major Jalloud, a direct agent of Occidental Petroleum's Armand Hammer.

Pentagon presses for 'emergency board'

by a Special Investigative Team

The Reagan administration, under the prodding of the Defense Department and the National Security Council, has taken the initial steps toward the creation of an emergency board with near dictatorial powers over the U.S. economy. While a national security blackout has been imposed on public discussion about the emergency board plan, *EIR* has confirmed its existence from various sources in the Defense Department, the Commerce Department, and in the White House itself. And though the secret plan is ostensibly to deal with the breakdown of the U.S. defense industrial base, its actual intent is to run the nation's economy during a period of collapse and crisis.

"Don't expect anything public for a little while because they want to have everything in place before announcing it," said one Defense Department official contacted last month. "And it is not just to look how industry can respond. It is total, total. It will deal with all types of emergencies, for the continuity of government."

Other sources indicate that "not everybody has been told everything" about how the yet-to-be-created board will function. All levels of the executive branch are at this point functioning on a "need to know" basis. Again, the ostensible purpose for all this secrecy is that the board is a "national security" question. In reality, the security lid within the government and on press reports is primarily a political question, designed to keep from elected officials and citizens alike what is happening.

How it started

According to well-placed sources, the scheme was

initiated at the Aug. 17 meeting of the National Security Council with President Reagan in Los Angeles. Its probable origin is within the top echelons of the Department of Defense, the circle immediately around Defense Secretary Caspar Weinberger, and including his Deputy Secretary Frank Carlucci and the Swiss banking-connected Fred C. Iklé, the undersecretary for policy. This grouping takes its effective orders from a foreign power, the Bank for International Settlements. Our sources report that Weinberger made the major presentation of the plan at the Aug. 17 meeting. His presentation focused on the collapsed state of the U.S. defense industrial base and the near impossibility of carrying the proposed trillion-dollar buildup of conventional and limited nuclear war-fighting capabilities without action by the government.

Weinberger could have argued that the critical necessary remedy would be the immediate abandonment of the tight monetary policies of the Federal Reserve and its chairman Paul Volcker that have wrecked the U.S. economy. Instead, following BIS policy, Weinberger presented a plan to maintain the tight money and austerity policies backed by Volcker and budget director David Stockman, and still have his so-called buildup. Sources report that his plan centered on a phased creation of an "emergency mobilization board" with extraordinary powers. The President and his top advisers apparently took the bait.

Following the meeting, the word went out to various sections of the executive branch and its agencies to "start the ball rolling." Only certain individuals are

informed that a presidential order to create the new mobilization board is forthcoming. The public and most members of Congress are informed of neither operation.

Two phases

There are two planned phases to the implementation of the Weinberger scheme.

The first phase is already under way, starting with the "word" from the National Security Council meeting. It involves planning and examination of potential bottlenecks in the defense sector, budgetary problems, constraints on resources; its goal is to identify problems involved in the militarization of what remains of the Volckerized U.S. economy.

From information obtained in interviews with relevant officials, this phase is under the apparent control of the Federal Emergency Management Agency (FEMA) and sections of the Defense Department principally under Carlucci and Fred Iklé. For example, three weeks ago, Weinberger announced the formation of the Task Force on Industrial Preparedness under Iklé, led by former LTV executive Sol Love, to examine problems involved in gearing up the defense base. Some people have confused this task force with the mobilization board. For the record, Love personally denies any knowledge of the new board.

The second, and currently supersecret, phase of the Weinberger scheme calls for the creation of a new structure, an Emergency Mobilization Board by presidential directive, to take over control of the economy. The new board would have powers similar to the War Mobilization Board which ran the economy during the last war. Other people within Iklé's command, however, did confirm the plans for the creation of the board. "Not only am I aware of this," said an official of Defense's emergency preparedness office. "But I am one of its architects." The same official indicated that the board would deal with more than the defense industry, stating "so much more is involved." He refused to elaborate, eventually stating that he lacked security clearance to do so.

According to a congressional source who talks regularly with Weinberger and Carlucci, and who knows the thinking in the White House, Reagan and his closest advisers have been sold the idea that a new board, reporting directly to the Office of the President or the National Security Adviser is "the only way to handle things." The board would be headed by a prominent person from the private sector, like Bechtel's George Shultz, since Reagan wants to avoid giving the job to a "government bureaucrat." This is important, the source said, "because the administration wants to keep its profile. . . . Reagan would rather have a board of top people from the private sector since his philosophy is that the private sector, not the government,

knows best how to deal with problems. This may not be important to everybody, but it is important to Reagan."

The Emergency Mobilization Board would be created by presidential directive and given the power to administer the provisions of the Defense Production Act of 1950. The Defense Production Act was passed specifically to give the President and delegated agencies within the executive branch broad power to dictate the disposition of labor and industrial resources for the national defense. The provisions of the Defense Production Act give a sense of the potential power of the proposed emergency board.

- **Title I** would allow the delegated body through the Departments of Defense and Commerce, to set resource-allocation priorities for minerals in a crisis.
- **Title II** would give the body the power to requisition and condemn private property as necessary.
- **Title III** gives the body the power to change tax laws and allocate credit for the development of crucial resources and minerals.
- **Title IV** gives the body the power to set wages and prices.
- **Title V** gives the body the power to outlaw and break strikes.
- **Title VI** calls for full control and regulation of consumer and real estate credit.
- **Title VII** allows for the voiding of antitrust laws and the establishment of "voluntary arrangements" among private-sector concerns.

The Defense Production Act has been renewed by Congress each year. Currently, Titles II, IV, V, and VI have been allowed to lapse.

Weinberger and the administration had requested an unprecedented five-year extension of the act, but legislation that passed House in July only called for a one-year extension. Senate action is still pending, while congressional sources report discussion about ways to reauthorize the full act. They say that the lapsed sections can quickly be reinstated. The need for congressional approval of what amounts to an act giving away congressional power in an executive-declared emergency is one of the reasons for the secrecy lid on the proposed emergency board. The plan is to let the act sneak through Congress, possibly with its full power restored, and *then* move for its implementation, through the new board.

Should the act fail to pass, then Weinberger and his collaborators would be forced to submit specific enabling legislation for their rule-by-decree scheme. This would create real difficulties, necessitating the cooking up of a major perceived international crisis.

Presently, the provisions of the act, especially the emergency-planning operation, is controlled by FEMA. While this arrangement could be continued even if the act is invoked, the thinking in the Defense Department

is that the new board would have much more clout than the already suspect FEMA operation, which was notorious for botching the crisis-management of various "emergencies" under the Carter administration. FEMA would remain, according to the current thinking, as a coordinating agency for the mobilization board.

There are two basic concepts that lie beneath Weinberger's emergency board plan. Despite what the gullible Reagan has been told, neither has anything really to do with an actual improvement in U.S. defense capabilities. Weinberger has no real intention of adding to the industrial base, or strengthening the economy. By supporting the Volcker policies, he is guaranteeing, in short order, a collapse of U.S. industry. In this context, what his proposal amounts to is the kind of military buildup that was carried out by Adolf Hitler—a buildup based upon the looting of the civilian base of the economy under conditions of austerity collapse.

What the currently proposed board would do is preside over the militarization of a shrunken, overall U.S. economy. This is confirmed by statements from a leading defense expert and consultant to the Defense Department, who spoke of the large amounts of idled capacity: "We do not need to open up new industry, but to get alternative suppliers. . . . The manpower question is the most important one. We could take people from the auto industry to defense. But we need a coordinated plan."

The only type of defense buildup possible under these conditions is the Hitler type of "quick fix." Hence the proposals in the Weinberger secret policy guidance that call for the development of first-strike capabilities and limited nuclear war-fighting.

That policy guidance, as described below, is based primarily on bluff, backed by the threat to take insane actions. From this standpoint, a mobilization board, with its near dictatorial powers can forward the bluff by expressing a determination to carry out a Nazi-type buildup.

But that is only one purpose of the plan. As Volcker's policies send the United States toward a depression collapse, the emergency board will serve as the seed crystal for the institutions that will be required to impose order by dictatorial decree. Weinberger's backing of the Volcker policies, under orders from the Bank for International Settlements, betrays his support for economic tyranny.

Because of the political considerations involved in the implementation of the emergency board scheme, there will be time between the carrying out of the first planning phases and creation of the board itself, and the invocation of the Defense Production Act: the reaction of the American population and its elected leaders to this threatened end of constitutional rule will be decisive in determining whether the plan succeeds.

DOD's gameplan for limited nuclear war

by Lonnie Wolfe

The military doctrine that stands behind the creation of the Emergency Mobilization Board is contained in the so-called secret policy guidance prepared by the Weinberger Defense Department and leaked to the *Washington Post* and other media last month. It has been augmented by annexes prepared by the chiefs of the military services and submitted Aug. 15.

Evaluation of available published materials on the guidance and interviews conducted with relevant officials informed of its contents, reveals that it is premised on two basic assumptions.

First, the *most likely* war-fighting situation to develop against the Soviet adversary will be a protracted conventional or limited nuclear war, probably confined to the European or Southwest Asian theater, e.g. Iran. Priority is therefore placed on the development of limited nuclear capacities to implement the Carter administration's war-fighting and targeting directive, PD-59.

To a competent military professional, a comparison of in-depth U.S. war-fighting strength with the Soviet/Warsaw Pact forces would show that there is currently *no* actual situation in which "our side" wins against the vastly superior in-depth Warsaw Pact capabilities. As we have stated in earlier installments of this series, the only effective remedy for this situation would be an in-depth buildup of U.S. military and NATO forces. There is no way to accomplish this, if the U.S. adheres to Bank of International Settlements (BIS) austerity dictates. But Weinberger and his policy planners, like the Swiss-born Fred Iklé, are working according to BIS guidelines.

Despite the attempts of the press to term what Weinberger has proposed in the guidance a "military buildup," it is in fact nothing more than an expensive quick fix, emphasizing limited nuclear war capabilities. The guidance, therefore gives highest priority for the deployment of the Pershing II and cruise missiles on European soil, while showing U.S. resolve to use them at the slightest provocation. Similar weapons systems, dubbed theater nuclear forces and more accurately identified as potential first-strike systems by the Soviets, are to be stationed in the Pacific and Southwest Asia.

The implicit threat behind all this is that the United States will use its nuclear weapons *first*. This has been confirmed by nervous Defense Department officials who report that there is a new official response to any queries about potential U.S. first use of nuclear weapons. Instead of the usual “no comment” or outright denial, the response is now to emphasize that the United States reserves the right to respond to any given situation as it sees fit and will not rule out first use of nuclear weapons.

Underlying the policy guidance is the idea that the Soviets can somehow be terrorized into not deploying and using their superior in-depth military capabilities.

The second emphasis in both the guidance and the policy annexes is a commitment to fight a series of wars below the nuclear threshold, specifically in the developing sector. These wars will be handled through the Rapid Deployment Force (RDF) or through heavily armed surrogates. This coheres with a vision of the U.S. military as an “umpire” for population wars of the type proposed by former Army Chief of Staff Gen. Maxwell Taylor. It is identical to the role of the British Colonial Army or

Hitler’s Waffen SS.

The Defense Department assumes that the most probable war-fighting situation will develop in the Third World—another correlative of subordinating U.S. policy interests to those of the BIS and International Monetary Fund, whose economic programs predetermine crisis situations in the developing sector. Again, this part of the Weinberger doctrine is premised on scenarios which deny that the Soviets *will ever* deploy their military capabilities to prevent population butchery.

Military professionals, who of late have a sickening feeling of *déjà vu*, say that the so-called RAND boys are in full control of the U.S. defense establishment. The thinking in the policy guidance, they say, is vintage Robert McNamara or James Schlesinger, the two defense secretaries who epitomized the worst aspects of what is properly called utopian thinking. Schlesinger in particular developed this flight from reality into a rigorous defense doctrine, based upon bluff and the projection of a mere “aura of power,” not real power. Weinberger, Iklé et al. are well along that same dangerous road.

A summary of the policy guidance

The following is excerpted from an article in the Aug. 8 issue of Aviation Week on the Weinberger policy guidance. Various sources, including those in the Defense Department, have attested to the accuracy of what is quoted below.

The [Weinberger] strategy sets specific defense policies that include:

- Establishing links among regions of the world, making it clear to the U.S.S.R., that initiating action in any one area or theater “may well lead to war elsewhere to their detriment.” This policy includes . . . greater involvement by individual allied nations in regions not necessarily on their own borders.
- Directing attention to regional threats—radical hostile threats influencing key areas such as the Caribbean, South America, and the Mediterranean littoral. While American forces may not be involved directly short of an all-out war, the policy guidance provides for the reduction and elimination of these threats to stability. . . .
- Providing access for the U.S. to minerals and other raw materials vital to the national interest

through the use of military forces if necessary. . . .

Modernization and force expansion also will be weighted against readiness and sustainability.

An important factor in the Reagan military strategy is to counter the Soviets’ strategy by attacking their vulnerabilities, “rather than attempting to match them tit-for-tat.” To accomplish this the Defense Department will identify and categorize the points of Soviet weakness and develop strategy and forces to take advantage of that weakness. . . .

The Reagan strategy calls for land- and sea-based theater nuclear forces to serve as the essential link between conventional and strategic forces. The Defense Department will integrate theater nuclear forces into U.S. strategy and “our resolve to employ these forces must be made readily apparent to make conventional aggression less likely—especially in light of the traditional Warsaw Pact preponderance of conventional forces,” the administration policy said. It calls for a theater nuclear force war-fighting capability in support of NATO, the Pacific and Southwest Asian areas sufficient to place at risk a wide range of Soviet theater forces and to allow the U.S. to escalate conflict deliberately to America’s advantage.

The defense strategy gives the highest priority to fully implementing the deployment of the Martin Marietta Pershing II and the General Dynamics ground-launched cruise missile weapons system with U.S. forces in NATO countries, beginning in 1983.

Defense capacity and 'buildup' plans

by Richard Freeman

The Weinberger-Reagan Defense Department budget for the next five years rests on one fundamental assumption: U.S. living standards must be cut sharply and continue to be cut if the spare industrial capacity is to exist to provide for the military buildup.

This assumption is implicit in a new defense study released by the New York Federal Reserve Bank in the Summer 1981 edition of its *Quarterly Review*. This premise is made even more explicit in practice by the way in which the high interest-rate policy of Federal Reserve Board Chairman Paul Volcker is being carried out.

By cutting consumption, and thus cutting consumer goods production, to provide capacity for military buildup, the Weinberger Defense Department crew has joined hands with Fed Chairman Paul Volcker in a short-term fix. But it's not a defense policy that works, and the Soviets will not be fooled by it.

The United States does not currently have the industrial capacity to carry out a military buildup on the scale of the World War II mobilization. Perhaps it does not even have the capacity to carry out a buildup of the size of the Korean War venture. U.S. plant and equipment has grown obsolete. Machine tools over 20 years of age now account for 30 percent of all machine tools, up significantly from 10 years ago.

A zero-growth war machine

It is apparent that the thinking guiding the Weinberger defense policy is that the United States will avoid the World War II mobilization mode, which built brand new steel and aluminum plants, constructed entire new aircraft factories, and absorbed millions of workers into the industrial labor force. The Weinberger-Carlucci team at the Defense Department is instead attempting a zero economic growth military buildup to slash the production of goods for the civilian side of the economy, principally consumer goods production, and shift that capacity to military goods production.

The *Quarterly Review* article is entitled, "The National Defense Budget and Its Economic Effects." Its author, James Capra, a graduate of the Naval Institute,

identifies six areas where there is considerable civilian-military competition for the use of productive facilities:

- aircraft and parts
- ordnance and accessories
- communications and equipment
- shipbuilding
- electronics
- trucks, vehicles, and armored vehicles.

Military production consumes between 20 and 90 percent of these sectors' output. Over the last year and a half, these sectors have been devastated by the Volcker policy and by the "free enterprise" deregulation of transportation services.

Slashing output

For example, until last year, the production of civilian aircraft was booming, as the airlines were planning major expansion and the conversion to "fuel-efficient" planes. But the "free enterprise" deregulation of the airlines, along with the provoked Professional Air Traffic Controllers Organization (PATCO) strike, will lead to a 30 percent reduction in air flights. As a result, Lockheed and McDonnell Douglas airframe producers say that civilian aircraft production is down 6 to 8 percent this year, and falling fast.

Shipbuilding is a similar story. Under the influence of the Heritage Foundation and budget director David Stockman, the Reagan administration decided to cut out all federal investments in port expansion and waterways, and to charge users' fees for every craft traveling on domestic waterways. The U.S. government has rejected the idea of federal subsidies to the U.S. civilian maritime fleet. (Former House Maritime Committee chairman John Murphy had strongly favored federal subsidies to American merchant fleet production, but he has been Abscammed out of office.) The result has been that shipyards are only operating at 60 percent of capacity this year, leaving ample room for Weinberger's planned production of Navy ships.

Then there is the auto industry. High interest rates have slashed U.S. domestic auto production from a level of 9.3 million units per year in 1978 to 6.6 million units per year in 1980 and again in 1981. However, as New York Fed author Capra notes, the auto industry can thus alternately produce military vehicles. Volcker has "freed up" capacity. Even in the area of large forgings, which are constantly cited as a bottleneck area for defense production, Alcoa, the owner of one of the U.S. two large forging plants, reports that capacity is only being used at 65 percent, far below normal.

All this helps to explain why Weinberger et al. have almost no plans to create additional production capacity. Only \$500 million per year is allocated in the Defense Department budget for "surge" industrial production capacity expansion.

The moles in the U.S. defense apparatus

by Kathy Burdman

Why is the secretary of defense rendering the United States defenseless? According to interviews obtained by *EIR* at the end of August from the International Monetary Fund, Mr. Weinberger received his appointment with the blessing of certain supranational institutions because whenever necessary he will subordinate the defense of the United States to the demands the Bank for International Settlements made in its June 1981 annual report for a fresh set of major U.S. budget cuts, including cuts in defense spending.

While Weinberger may try to save some defense dollars by demanding huge slashes in social programs, the IMF said, overall he is totally committed to the austerity policies of Federal Reserve Chairman Paul Volcker—which are guaranteed to wreck the civilian industrial base.

Who, exactly, controls the DOD? The BIS, and the Swiss and Italian banking elite which runs it, seems to have an inordinate amount of direct influence.

Sources personally close to Deputy Secretary Frank Carlucci report, for example, that Carlucci privately insists that “our first national priority is to balance the budget, and a strong defense comes after that,” sources say.

While he thinks more should be spent on defense, Carlucci also believes that if the budget deficit “gets out of control, it will have to be paid for by cuts,” the source said. “It’s going to be a miserable situation,” he stated, “In which we will certainly need \$35 to \$40 billion more in budget cuts during 1982 alone. We will try to cut social spending first, but if it means we must make defense cuts to balance the budget, so be it.”

What has the military establishment become?

Also adhering to the BIS fiscal doctrine is DOD’s number-three man, Undersecretary for Policy Fred C. Iklé, who is not only Swiss-born but also personally close to top BIS and Swiss banking officials. Iklé’s first cousin Max Iklé was president of the Swiss National Bank in the 1970s, in which capacity he was a director of the BIS. Max Iklé, who is still a consultant to the

BIS, lives in Zürich, and is in touch with Undersecretary Iklé and his wife Doris, who has been deployed by Max Iklé to do econometric studies for the Swiss central bank.

Fred Iklé is no mere beneficiary of nepotism, but personal friend of some of Switzerland’s loftiest banking families. He sits on the board of the Zürich-American Insurance Co., the U.S. subsidiary of Zürich Insurance, one of the largest insurance companies in Europe. Iklé was personally picked for the post by Zürich chairman Fritz Gerber of the baby-food conglomerate family, and Zürich vice-chairman Eric von Schulthess, whose family controls the giant Crédit Suisse bank.

Iklé believes that “it is not possible to have as large a deficit as the Reagan White House now projects and keep inflation down,” sources close to him say. “We will have to have more cuts.”

Then there is the case of David Blond, the chief economist in the Program Analysis and Evaluations section of the Office of the Secretary of Defense. Blond recently fed DOD data to the New York Federal Reserve as evidence for the latter’s study arguing the unfeasibility of an in-depth defense buildup. Blond told *EIR* that if it were necessary to slash defense outlays in order to balance the budget, he was ready to do it.

Blond was trained by the people who run the BIS, at the elite Geneva Institute for International Studies. The institute was founded by the Mont Pelerin Society, including Fabian Friedrich von Hayek, to indoctrinate the staff of the League of Nations, BIS, and other institutions clustered in Geneva, including the United Nations bureaucracy there.

During the 1974-78 period, Blond moved over to the U.N. Conference on Trade and Development (UNCTAD), where he helped write the econometric model for the 1975 Common Fund plan initiated by Secretary of State Henry Kissinger. The plan called for Third World debt to be financed by commodity consumers, by way of raw-materials price cartels drawing extra liquidity out of the United States and Europe. Blond told *EIR* that he thought the West should spend less on industrial investment, and redistribute the money. In other words, he was the architect of a scheme to loot the U.S. and Europe through higher raw materials prices, in order to repay the debts owed by the Third World to the private Swiss, Italian, British, and New York banks who run the BIS.

Blond was brought into the DOD by friends of former Defense Secretary Robert N. McNamara, who was also engaged in trying to redistribute wealth from the West to the banks by way of the LDCs, and sought to have his thinking represented at DOD. “I went to the DOD because I wanted power,” Blond told *EIR* “There were no economists there, and I figured I could take over the thinking.”

How banker Charles Manatt profits from Volcker's high interest rates

by Warren Hamerman, Chairman, National Democratic Policy Committee

Charles T. Manatt, the current chairman of the Democratic National Committee and the president of the First Bank of Los Angeles, is about to make an immense personal financial profit in a \$65 million flight-capital deal with the sixth largest bank in Italy.

At a time when banker Manatt has refused repeated urgings from Lyndon H. LaRouche and other prominent Democrats to lead the Democratic Party into a full-scale mobilization against Federal Reserve Board Chairman Paul Volcker's usurious high interest rates, Manatt himself was in final negotiations for his private profit from Volcker's high interest rates.

On Aug. 20, both Manatt's bank, the **First Bank of Los Angeles**, and the **Istituto Bancario San Paolo di Torino**, the sixth largest bank of Italy, announced an accord for the Italian bank to acquire a majority of the stock of Manatt's California bank.

The infusion of an anticipated \$65 million in flight capital from the Italian bank for up to 1.7 million shares in Manatt's bank was arranged to reap instant profits from Paul Volcker's high interest rates in the United States, which are taking jobs away, causing farms to foreclose, pushing thrift institutions to the verge of bankruptcy, and threatening to throw the U.S. economy into a collapse worse than that of the 1930s.

The Turin bank involved in the deal, **Istituto Bancario San Paolo di Torino**, was established in 1563 as a foundation "for the promotion of charitable works," initiating a new framework for certain kinds of credit activity. San Paolo was later accorded the status of a public law bank, although its legal structure remains that of a foundation. San Paolo of Turin today is not only the sixth largest bank in Italy but the 63rd largest bank in the world (based on deposits as of Dec. 31, 1979). It conducts a full range of banking activities through its Italian domestic network of 320 branches.

San Paolo of Turin also maintains full branches in Frankfurt, Munich, London, Paris, and Zürich as well as operating an agency in New York. Furthermore, the

Turin banking institution fully owns **Sanpaolo Bank Ltd.** in the Bahamas and has controlling interest in **Sanpaolo-Lariano Bank S.A.** in Luxembourg. San Paolo of Turin, whose chairman is **Luigi Coccioli**, maintains the following principal subsidiaries in Italy: **Banco Lariano**, the Sicilian-based **Banca de Sud**, **Fiduciaria San Paolo S.P.A.**, and **Leasint S.P.A.**

Knowledgeable banking sources in Italy know the Turin bank as a financial institution dominated by leaders of the Italian Socialist Party (PSI). **Nerio Nesi**, formerly closely associated with the San Paolo Bank, is one of Italy's most prominent Socialist Party leaders and a close political colleague of the notorious **Giacomo Mancini**, the boss of the Calabrian mafia and the protector of the faction favoring terrorism within the Italian Socialist Party.

In fact, the head of the Socialist Party of Italy, **Bettino Craxi**, who is making a bid to take over the government of Italy within the next two months, is known to have an extremely close political relationship with many of the current officials of the San Paolo Bank of Turin.

On Aug. 20 a spokesman for the Turin bank told the press that the impending acquisition of Manatt's bank represents a "new alliance between an old prestigious European banking institution and the new growing California bank of Manatt." In the accord of acquisition, Charles T. Manatt will remain president of the California junior partner after the takeover. A spokesman for the First Bank of Los Angeles reported that the executives of the California institution, which is currently the 33rd largest banking institution in the state with about \$300 million in assets, are "thrilled" over the new infusion of money, because they can now expand their investment in technology used in international electronic funds transfer.

Since Paul Volcker began his high interest-rate policy at the Federal Reserve in October 1979, massive overnight profits have been reaped in international flight-capital transfers which take advantage of interest-rate differentials among nations. The large hot-money flows

in such transactions have been a principal cause of uncontrolled inflation imported into the United States.

At a time when most of the party's constituencies are mobilizing against Volcker's high interest rates, for the chairman of the Democratic National Committee to engage in personal profiteering from the Federal Reserve's policy, explains Manatt's otherwise seemingly irrational refusal to respond to the initiatives of leading Democrats against Volcker.

On July 28, Sen. Lawton Chiles, a Florida Democrat, introduced an amendment to the tax bill condemning the high interest-rate policy of the Federal Reserve. The Chiles amendment passed the Senate by a vote of 100-0. Two days later, on July 30, Sen. John Melcher, farm spokesman and Democrat of Montana, introduced a joint House-Senate resolution (S.J.R. 104) that, if passed, would force immediate White House action to bring down interest rates. Besides Melcher and Chiles, Democratic Senators Sam Nunn (Georgia), James Sasser (Tennessee), John Stennis (Mississippi), David Boren (Oklahoma), J. J. Exon (Nebraska), J. Bennett Johnston (Louisiana), David Pryor (Arkansas), and Edward Zorinski (Nebraska) have all taken leading actions against high interest rates.

In the House of Representatives, Texas Democrat Henry Gonzalez on July 31 introduced two pieces of legislation (H.R. 1520 and H.R. 1530) calling for the impeachment of Federal Reserve Chairman Paul Volcker by congressional resolution and, in effect, the repeal of the 1913 Federal Reserve Act. The second resolution partially removes jurisdiction by virtue of the Federal Reserve Act from the Federal Reserve to the Department of the Treasury. The introduction of the Gonzalez resolutions followed by three days the overwhelming passage (by a vote of 403-17) of House Concurrent Resolution No. 160, which begins: "It is the sense of Congress that current interest rates are needlessly and destructively high."

While every single Democratic senator and almost all representatives in Washington were casting their vote against Volcker's policy, **Lyndon H. LaRouche**, who first began campaigning nationally in the Democratic Party against the Federal Reserve's high interest-rate policy in October 1979, issued a public call on July 30 for banker Manatt to convene an immediate "war council" of the Democratic National Committee (DNC) and the leaders of Democratic Party-associated political action committees (PACs), in order to plan a full-scale Democratic Party mobilization against Paul Volcker's high interest rates. In his public call, LaRouche wrote:

This is the time for banker Manatt to cease his stonewalling opposition to the rising hue and cry against "Hooverization" of the United States by Volcker's monetarist policies. Clearly, banker

Manatt must be forced to recognize the lessons of the votes against high interest rates by both branches of the Congress.

Charles T. Manatt, at the time in final negotiations for the \$65 million in flight capital from Italy to his First Bank of Los Angeles, will receive between \$38 and \$40 per share for up to 1.7 million shares, *pending approval of the various banking regulatory bodies*. Manatt's bank, with about \$300 million in assets, caters to the entertainment industry and the exclusive areas of Los Angeles. The law firm for the bank, itself profiting handsomely for arranging the takeover, is banker Manatt's own firm, **Manatt, Phelps, Rothenberg and Tunney**, which specializes in entertainment, sports and banking law. Fundamental ethical questions arise when an unsavory overseas grouping buys into control of the head of one of America's two major parties.

The shady political connections of the San Paolo Bank of Turin with the Italian Socialist Party raises another question about banker Manatt's chairmanship of the Democratic National Committee. In the few months that Manatt has been chairman of the DNC, the U.S. wing of the Socialist International has had an unopposed field day in infiltrating the Democratic Party leadership. At the very first meeting banker Manatt chaired, three members of the official United States wing of the Socialist International—the **Democratic Socialist Organizing Committee (DSOC)**—were appointed to the Democratic National Committee: **William Winpisinger**, president of the International Association of Machinists (IAM); **Jerry Wurf**, the president of the American Federation of State, City and Municipal Employees (AFSCME); and **Jolene Unsoeld** from the state of Washington. At the second meeting of the Democratic National Committee in Denver, Colorado earlier this summer, Manatt personally intervened to force a new election for state chairman of the Washington state party under rules rigged to favor the challenger, Karen Marchioro, herself formally backed by the local Democratic Socialist Organizing Committee radicals. Not only did Marchioro win under the rules rigged by Manatt, but he has since approved her appointment to the DNC. In banker Manatt's home state, Jacobin Tom Hayden and his Campaign for Economic Democracy (CED) have heavily infiltrated the leadership of the state executive committee. The Socialist International/Harriman wing of the party has been allowed inroads in national and state party appointments—also during the period that Manatt himself was in the final negotiations to receive \$65 million from an Italian bank linked to the Socialist Party of Italy.

Somewhere Americans must draw the line against political corruption; and Democrats must mobilize against not only Volcker's high interest rates but against the personal vested interests of banker Manatt.

National News

Klenetsky placed on New York City ballot

New York State Supreme Court Judge Charles Tierney on Aug. 24 threw out a spurious challenge to the nominating petitions of Democratic mayoral candidate Mel Klenetsky, assuring that Klenetsky will appear on the ballot in the Sept. 10 Democratic primary election. The challenge to Klenetsky's petitions was brought by Socialist International-backed candidate Frank Barbaro, whose attorneys announced they will not appeal Judge Tierney's decision.

The New York challenge to Klenetsky has been viewed as a national test case for efforts by the Trilateral Commission/Socialist International wing of the Democratic Party to oust the National Democratic Policy Committee (NDPC) and other traditionalist Democratic groups and individuals from the party. The NDPC has backed Klenetsky's candidacy.

The Barbaro forces argued that LaRouche and Klenetsky "adhere to principles wholly unsympathetic and incompatible with those of the Democratic Party."

In her report to Judge Tierney, court referee Florence Belsky stated that although Barbaro "sought to introduce allegations of the disparity between LaRouche policies and beliefs and those of the Democratic Party, this material was completely disregarded."

Haig comments on emergency board plans

Official public discussion of the Reagan administration's emergency mobilization plans was launched Aug. 28 when, at Secretary of State Alexander Haig's formal press conference, *EIR* Washington correspondent Stanley Ezrol asked the following question: "The administration is now formulating plans for emergency resource mobilization, which in later stages will include setting up an

independent body for the implementation of the Defense Production Act. What role does the DOS play in those plans?"

Haig: "Well, in the first place, there's a lot left to be done and a lot of considerations yet to be concluded. I think you know that I have had a longstanding record in expressing concern about the decline in our mobilization and industrial base. It's had a profound impact on our nation's ability or lack of ability to implement our nation's foreign policy effectively. I've had discussions in the past with Cap Weinberger and with the President on the urgent need to address this question on a national level so that appropriate and remedial steps can be taken. I don't have to dot all the i's and cross all the t's on that, but sometimes it takes the U.S. four years to respond to an urgent security request from a trustworthy ally. The impact of that is devastating.

"There have been a number of interim measures taken which we have supported especially in our security assistance program for next year, where we've asked for \$100 million dollar pool to be established which would provide certain equipments which can be drawn down on in case of an emergency, instead of diverting from our own production. We're intimately and heavily engaged in this process. **Ezrol:** "Might it be necessary to put those plans into operation rather quickly because of the failure of the Reagan economic policies?" **Haig:** "I don't accept your premise in any way." **Ezrol:** "When will you?" **Haig:** "I'm an optimist. You should be one, too."

Winterberg explicates 'H-bomb secrets'

A book released Aug. 25 by the Fusion Energy Foundation, *The Physical Principles of Thermonuclear Explosive Devices* by Dr. Friedwardt Winterberg, rips away the secrecy surrounding the H-bomb and, for the first time anywhere, explains for both scientists and laymen how advanced weapons work.

Winterberg, who has never had ac-

cess to "top secret" material, is a fusion scientist at the University of Nevada Desert Research Institute. For 30 years, he has pioneered in the field of inertial confinement fusion, developing firsts in fusion, beam technologies, and propulsion. In 1979, he received the Hermann Oberth gold medal of the International Space Flight Foundation for his work on thermonuclear propulsion.

In the introduction to his 145-page paperback book, Winterberg asks, "Why . . . some may ask, would I write such a book?" His answer: "The prospect of controlled thermonuclear energy promises an abundant and clean source of energy that could last for millions of years. However, because of the close scientific connection between inertial confinement fusion . . . and thermonuclear weapons, the government has put this research under the wraps of secrecy. . . . Since it is a delusion to believe that a secret exists, this self-imposed secrecy has the effect that research performed in the government laboratories cannot be checked by the general scientific community. Resulting failures could retard progress toward controlled fusion for many years."

NASA head calls space cuts justified

Before an audience of the American Chemical Society in New York City, Aug. 23, NASA Deputy Administrator Hans Mark offered his endorsement of the campaign of "fiscal conservative" budget cuts that has decimated NASA over the past 10 years and threaten to obliterate it under the Stockman budget regimen. "It's true that the NERVA engine worked and was the necessary technology for manned missions to the planets, but it was years ahead of its time in terms of any possible mission utilization, so the decision to cut it was justified," said Mark.

The NERVA nuclear fission rocket engine Mark referred to had been almost fully developed in 1971 when it was test-fired and demonstrated capabilities double that of any possible chemical rocket. The program was shut down by then

OMB Director Caspar Weinberger.

Mark, who was Carter's undersecretary of the Air Force, added that as far as he is concerned, the key mission for NASA is to develop the national security potential in the low-orbital capabilities of the Space Shuttle.

Grassroots activists target interest rates

Homebuilders, realtors, auto dealers, and labor unionists around the country have taken the lead in mobilizing against the Federal Reserve's credit policies. One example is the effort to launch a national "SOS Day" (for "Save Our Society") on Sept. 8, with at least a million telegrams, letters, and calls pouring into Washington as Congress reconvenes, urging that rates be lowered.

The plan, endorsed by the National Board of Realtors through its president, Robert Wood, was initiated by three realtors in Paducah, Kentucky, including the president of the local board of realtors, Wally Buchanan, who has received responses from all over the country. The Aug. 31 issue of the realtors' national magazine was scheduled to carry the call on its front page.

In Pittsburgh, a town meeting organized by steelworkers officials drew 150 to discuss the economic situation. In Maryland, the state homebuilders' association is drafting testimony for 15 spokesmen at hearings on the effects of high interest rates.

National news media including *Newsweek* magazine, and leading regional newspapers such as the *San Francisco Examiner*, have finally been obliged to address the question. The *Examiner's* Aug. 25 editorial stated, "This week the President should think less about Colonel Qaddafi and other assorted villains abroad and think more about the villainous high interest rates that threaten to destroy his economic program. . . . Rather than suppressing inflation, they are fueling it. . . . Most notably, they threaten to blow to bits the White House estimate of a reduced federal deficit for next year." The editorial urges "at least

a slight moderation of those rates this summer."

Congressmen prepare for interest-rate debates

As the Sept. 8 reopening of Congress approached, hearings and committee discussions were scheduled on the Federal Reserve's interest-rate policy. Rep. Henry Gonzalez's H.R. 196, "providing for the impeachment of Paul A. Volcker," has been referred to the House Judiciary Committee. The House Banking Committee will hold hearings this month on high rates' effects on the housing sector, and on the burst of merger financing, spearheaded by Democrats.

In Maryland, within a climate created by a vociferous anti-Volcker campaign conducted by the National Democratic Policy Committee, liberal Sen. Paul Sarbanes has begun to take the offensive against high rates to counter his GOP challenger, Marjorie Holt, who publicly defends them.

Republican representatives also facing re-election have privately begun to worry about the repercussions of the President's refusal to challenge Volcker. Sen. Larry Pressler (R-S.D.) has both urged the chairman of the Republican Party to back lower interest rates, "Large corporations have ways to escape high credit costs," said the chairman of the Senate subcommittee on Business, Trade and Tourism, "and can sometimes even profit from high interest charges." Pressler charged that the administration encourages a differential in interest-rate structure, where "nonproductive" loans are going toward corporate takeovers, while effectively blocking credit access to small firms and agriculture.

Pressler is planning legislation that would "make the Fed more responsive" by halving board members' terms, installing ex officio members of Congress on the board, requiring the Fed to report on loans made by size of business, and placing one farmer and one small business representative on the board. He maintains that removal of Fed Chairman Paul Volcker would be too "extreme."

Briefly

● **DOS SOURCES** confirm that although the Reagan administration claims to have merely made a decision to build the neutron bomb and does not plan to discuss deploying it in Europe, Washington is in fact waiting for "an opportunity" to raise the question of its deployment in Europe. And, at an Aug. 24 briefing, a State Department official revealed that the U.S. government requires assistance from the Soviet Union to force deployment of the neutron bomb on reluctant European nations. "The Russians might do something to bring on a crisis and preempt the N-bomb debate in Europe," the official said.

● **ERNEST LEFEVER**, an advisor to Alexander Haig, believes that the U.S. has to go for a "middle-sized" confrontation that will show U.S. willingness to use military force. At a luncheon on Aug. 25, Lefever told several reporters and policy-makers that the shooting down of the Libyan plane two weeks ago was a good beginning, but the U.S. must force a larger incident to stop what he calls "European neutralism."

● **STANFORD RESEARCH Institute**, the de facto West Coast branch of the Tavistock Institute, fears its efforts to promote Aquarian Age postindustrialism have been too successful. SRI has just completed a study of U.S. and U.S.S.R. science and engineering programs and their implications for national security. According to one author, who stressed how the U.S. has gone downhill, "The Soviets have a very high skilled labor force now," and "they can have an economic development program which emphasizes qualitative progress, new technologies, not merely producing more of existing things. We recommend an immediate study to see what we can do about this."

Natural gas: the Gordian Knot

Reagan planners face some complex issues on which the future health of the overall economy could hang.

With the fight to repeal the so-called Crude Oil Windfall Profits Tax a dead letter in the wake of the final Economic Recovery Tax Act of 1981, the issue of natural gas policy is emerging as one of the hottest topics in Washington.

The Cabinet Council on Energy and Natural Resources, chaired by Interior Secretary James Watt, is about to make its policy recommendation to President Reagan on natural gas decontrol. It's still far from clear what this will be. Let's examine some of the most important questions involved.

As recently as the winter of 1976, Carter's new energy czar, James Schlesinger, told us that we were "running out" of natural gas. Congress passed a compromise act, the Natural Gas Policy Act of 1978, which, among other things, brought intrastate gas in such producer states as Louisiana, Texas, and Oklahoma under federal regulatory control for the first time. It also created a byzantine array of 23 pricing categories, which depend on whether the gas in production was "vintage" (produced before Feb. 19, 1977), "new," "deep" (below 15,000 feet), or "stripper" (from wells producing 60 thousand cubic feet (mcf) or less daily).

The idea was to keep old gas, often sold in 20-year supply contracts with pipeline companies, under permanent price control while gradually allowing prices on new gas to rise each month until they

were completely free of federal price control in 1985.

To complicate matters, the Carter no-growth strategists further hamstrung market growth in end-use by mandating in the Fuel Use Act of 1978 that electric and industrial boilers had to switch from gas and oil to coal by 1990, regardless of age. An amendment in the recent Reagan tax bill repealed the requirement for electric utilities but specified nothing about industrial boilers, thus providing some needed, though limited, change.

Now, as organizations of independent oil and gas producers such as the Independent Petroleum Association of America (IPAA) have pointed out in recent congressional testimony, the trend in recent months has been for an actual *decline* in gas well drilling, the first since the early 1970s. The rise in drilling had been focused on the search for the far more profitable oil, now fully decontrolled. Producer organizations such as IPAA are increasingly worried that unless the administration accelerates gas decontrol or removes controls entirely, the expanded rates of drilling for new deposits of gas won't happen.

Much of the major new onshore fields in the Rocky Mountain Overthrust Belt, the Anadarko Basin in the Oklahoma-Texas Panhandle, the Tuscaloosa Trend along the Louisiana coast, and the promising Frio Trend along the Texas Gulf, lie far deeper than the average

depth of 5,000 feet for wells drilled to date. Therefore the industry must drill approximately twice the total footage in 1981 that it did in 1956 to yield the same reserve addition, according to one estimate. And, with annual cost inflation for drilling currently running 32 percent more than last year, the cost of gas drilling is keeping development restrained in all but a few areas.

Natural gas as an energy source has certain highly attractive advantages. It is one of the few primary energy sources representing useful energy in its natural form (oil must be refined, uranium processed, etc.). For this reason, it has been the fuel of preference for industry when available. Yet historically, natural gas has been the poor cousin to oil. It has been controlled since the 1950s at artificially low prices.

But, contrary to Carter-Schlesinger doomsday forecasts, according to Harry C. Kent, director of the Potential Gas Agency at the Colorado School of Mines, we have an estimated 820 trillion cubic feet of recoverable conventional gas in the United States alone, more than enough to last 40 years at present rates. And this is a highly conservative reckoning.

The problem is the overall economy. If the administration were to go for immediate decontrol even for new gas, it would clearly lead to an immediate surge in drilling. But unless that same administration has the political guts to take on the blackmail by David Rockefeller's banking cronies at the Federal Reserve, decontrol of gas will mainly occasion a 200 to 300 percent price jolt in natural gas feedstocks to industry, agriculture, petrochemical, and municipal users. That isn't cooking with gas.

**LaRouche and Goldman
campaign to
lower interest rates.**



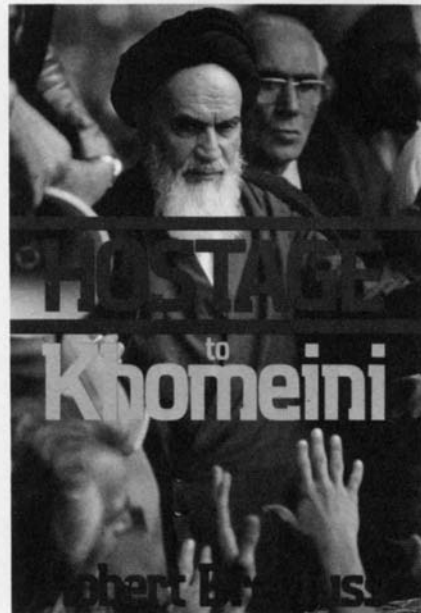
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