

# EIR

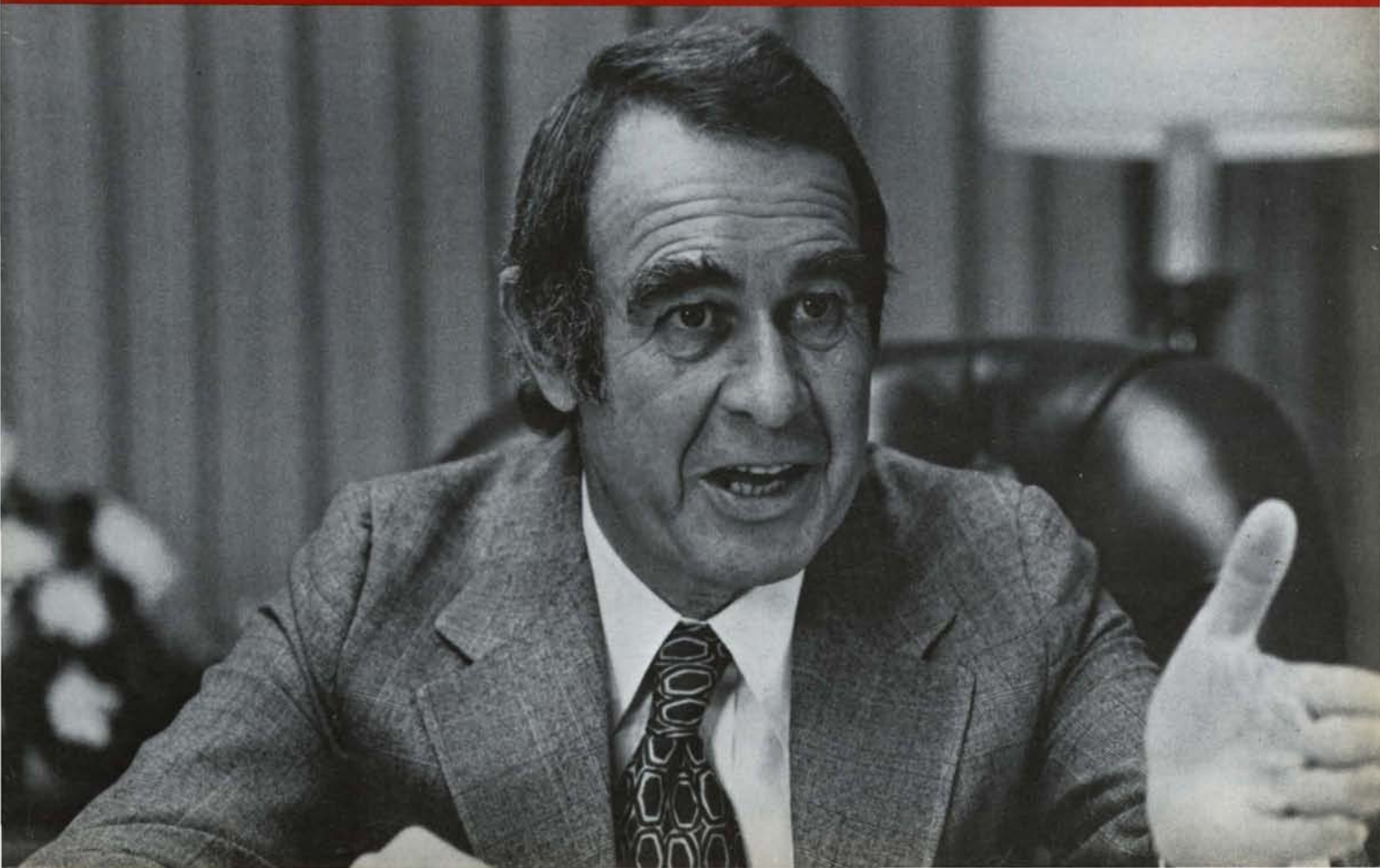
Executive Intelligence Review

September 22, 1981

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Mexico rejects Hong Kong economics  
Maxwell Taylor's Global 2000 military policy  
Reagan supports Khomeini as exiles regroup

**Abscam's Harrison Williams case:  
a crossroads for the Constitution**



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# EIR

## From the Editor

**W**hy did the Carter Justice Department pursue a bribery case against Sen. Harrison Williams when its own reports showed that the Abscam "stings" had failed, and there was no basis for prosecution? Why has the Reagan Justice Department, instead of reversing that injustice, upheld the Abscam-Brilab travesties, and considered elevating strike force prosecutor Thomas Puccio to the post of U.S. Attorney? The reason is essentially the same reason both administrations have allowed the Federal Reserve to run U.S. industry into the ground. The Council on Foreign Relations/Trilateral Commission controllers are intent on deindustrializing the United States, and to that end, eliminating any politician who attends to the requirements of maintaining skilled labor and its standards of living.

New Jersey Democrat Williams, whose overall legislative record is far from unblemished, has done just that, insofar as he has promoted the legitimate interests of organized and unorganized workers, as well as homeowners and pensioners, in conformity with the Constitution's definition of the purpose of government. Next week, *EIR* will publish an interview with Senator Williams, conducted by National Democratic Policy Committee Chairman Warren Hamerman, in which the legislator forcefully expresses his own view of the ulterior political motives of the Abscam operatives.

Better than most American leaders, the Mexican government, and its private-sector allies, have maintained a sense of the role of the state in promoting industrial expansion. Our report on President López Portillo's 1981 State of the Union message is distinguished by an interview with one of Mexico's leading businessmen, Carlos Amtmann Obregón, to which I want to call your attention.

Our Economics and National coverage provides an initial reading on the state of congressional willingness to take on Federal Reserve Chairman Volcker. The question in brief is whether the delusion will prevail that lower interest rates require further self-mutilating national budget cuts.



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## Who will determine Reagan's Phase Two?

by Kathy Burdman

The autumn political collapse of President Reagan's economic program, informed observers believe, could force the administration into attempting credit controls of the deflationary magnitude imposed by Jimmy Carter in March 1980. Wall Street analysts are warning that the Dow Jones Industrial Average is set to plunge beneath the strategic 840 mark, forcing a call-in of margin loans that could bring the house down.

At the same time, Congress, just back from nose-to-nose sessions with enraged constituencies during the summer recess, is balking at the next round of the Reagan program, specifically, the demand for an additional \$30 billion in budget cuts for fiscal 1982, beginning Oct. 1. Congress, our best sources say, is in no mood to further estrange the voters. Even those closest to Federal Reserve Chairman Paul Volcker, who with the Swiss-based Bank for International Settlements have most loudly demanded a new round of U.S. budget-gouging, are fearful that that particular game is up.

"Reagan may simply not be able to get the level of cuts that Volcker wants," one Fed official told *EIR*. "If you think the financial markets are voting against Reagan with their feet now, wait until it becomes clear that Congress won't act to prevent the budget deficit from ballooning out of control." Congress, the Fed official told *EIR*, may be getting ready to "throw the blame directly on the Federal Reserve."

Already, addressing the Senate Budget Committee, Senate Majority Leader Howard Baker announced Sept. 9 that Volcker's high interest-rate policy, and not the budget, is the nation's number-one problem, and could cost the Republicans the chance to win control of the House in the 1982 congressional elections. "I'm saying those rates have to come down now," Baker stated, "I'm

saying they're doing drastic damage to the economy of the nation, to individual citizens, and to the *government of the United States*" (see National).

Blame, however, does not make a policy, and there has been none enunciated by either the Congress or the White House which could solve this impasse. Rather, it is the hated March 1980 Jimmy Carter policy of credit controls which has surfaced the second week in September for public discussion.

Speaking to reporters after his Sept. 9 denunciation of interest rates, Howard Baker went so far as to threaten Wall Street with the imposition of credit controls and a tax on interest-rate profits, the first such statement made by a leading Republican figure since the Nixon administration. The Majority Leader was seconded by House Republican Minority Leader Robert H. Michel. Reached for comment, Baker's and Michel's aides hastened to add that the Republicans are not pushing for controls, but are desperate that something be done to lower interest rates. "We don't have any concrete policy for controls," Senator Baker's office told *EIR*. "We're just trying to point out that something must be done. We don't know what."

That is precisely the problem. The nation now has no coherent budget policy, not even a bad one, and the White House continues to ignore the rising demand in Congress for a halt to the Volcker interest-rate policy. Indeed, the official White House line is still full support for Volcker's credit squeeze and for the unconstitutional "independence of the Federal Reserve."

In this vacuum, the Volcker Fed has announced that it will continue to lean as hard as possible on credit to the economy. If Congress won't make the cuts, "then we follow through on Volcker's public promise to

tighten further," one Fed official said, in an interview printed below. Baker's call for credit controls is "not serious," he said, but simply reflects congressional panic about interest rates. "These guys are desperate," he said, "they've just been beaten up by their constituents."

Congress, he added, can be safely "ignored," however, unless it is ready to move for actual legislation restraining the Fed's hand—something the Fed is betting they still lack the nerve to do.

Given this free hand, Fed officials said, Volcker intends on the one hand to continue running the productive economy into the ground with higher rates, and to "print money" to bail out failing savings and loans and whatever other financial institutions go under water "in order to prevent a financial collapse."

This is a recipe for rapid inflation and dollar crises of precisely the sort which will force the Reagan administration toward credit controls whether they like it or not. Although the Fed is loudly protesting that it opposes controls, *EIR* believes that Volcker will be perfectly willing to go that route a second time if he can do it over Ronald Reagan's dead political body.

That is also the analysis of Dr. James J. O'Leary, chief economist of the elite New York-based U.S. Trust Company and leading member of the Ditchley Foundation, the Anglo-American brain trust whose board features former Carter Secretary of State Cyrus Vance and Paul Volcker himself. Dr. O'Leary told *EIR's* Richard Freeman Sept. 10 that the administration is being forced to "question its fundamental strategy" by the reality principle in the credit markets, where corporations face a "lack of availability of money," plain and simple. "Reagan is in the same situation that Carter was in in March 1980," Dr. O'Leary correctly noted. The Republicans face a fall 1982 election, he said, and Reagan "has to do something to get the economy under control."

Controls, as our Fed sources were quick to point out, will work no better than they did for Richard Nixon, however, and will only result in an eventual replay of the 1971 debacle for the U.S. dollar. But so far the administration has come up with nothing better.

### **Alternate routes to deflation**

A move to credit controls, as Monte Gordon, director of research for the Dreyfus Corporation, told *EIR* this week, "would collapse the U.S. GNP by 10 percent" within weeks, as it did last year. Meanwhile, several spokesmen for the European oligarchical families who back the Bank for International Settlements and the Volcker Fed also began to put out the word this week that the United States is in for a major deflation.

Echoing predictions first made by *EIR* a full year ago, the prestigious Canadian journal *International Bank Credit Analyst* in its September issue predicts that

a blowout in the U.S. budget deficit and continued tightening by the Fed will lead to a world currency collapse and an incipient international banking crisis. In "The Possibility of a Fall Currency Crisis," author Richard Coghlan argues that continued Fed tightening will lead to a sharp rise in the dollar over the short term which "would create intolerable pressures on the other major currencies and precipitate a crisis of confidence."

Mr. Coghlan told *EIR* that such a crisis could cause crashing defaults in Third World debt and bankruptcies among major European and U.S. commercial banks. If this occurs, he predicts, the International Monetary Fund will step into Third World countries and demand major cutbacks in world trade, throwing the United States into an export collapse and deep depression.

Others predict that the Reagan administration will be forced to move to a highly deflationary gold reserve standard to avoid the credit-controls route, which would have the same effect on the economy. Meeting in Italy, the elite Siena Group of gold-oriented economists dominated by the central bank of Italy predicted that continuation of the Volcker policy will eventually lead, as Fed officials predicted, to a vast overprinting of dollars relative to tangible-goods production in the United States, which would force Reagan to move to gold to save his political neck (see Gold). They called strongly for Reagan to phase out the "paper dollar" standard altogether and move to a harsh 19th-century-style gold-coin standard.

Strictly speaking, there is no contradiction between the *Bank Credit Analyst's* predictions and those at Siena. In the course of trying to print money to handle the Canadian scenario, the Reagan administration could easily be forced into the Italian one.

### **A voice of reason**

The bathetic quality of American policy-making was not lost on West German Chancellor Helmut Schmidt, who delivered a major denunciation of the Reagan and Volcker policy in a public statement this week.

Describing the Reagan combination of high interest rates and austerity against social programs and industry as "ruinous," Schmidt told the *Rhein-Neckar Zeitung* Sept. 8 that "not in a dream would I think of trying such a policy here. . . . If this high American interest-rate floor continues, then no economy can endure it." Schmidt predicted that the Reagan administration and Volcker will drag America's European allies into economic collapse and political chaos unless they change course.

Schmidt stated that he will not repeat policies such as those of German Chancellor Heinrich Brüning, who paved the way for Adolf Hitler. It was the first time since the war that a German leader had warned of fascism flowing from incompetent economic policy.

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## Interviews

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# The Fed and U.S. Trust outline some possibilities

*From a Sept. 10 interview by EIR's Richard Freeman with Dr. James O'Leary, chief economist of United States Trust Bank in New York:*

**Freeman:** Dr. O'Leary, what are the chances of credit controls being applied?

**O'Leary:** I do not find it surprising that Senate Majority Leader Baker is talking about credit controls. The administration has to be questioning its fundamental strategy. If it finds that its strategy is not working, I think that we will soon—within a month or two—see a move toward credit controls or gold.

**Freeman:** Why is this?

**O'Leary:** There is a lack of availability of money to business in the long term. Corporations lack the availability of bond issuance. Between March and August, bank commerce and industry loans have grown by 23 percent. Corporations are going to banks to keep themselves with some funds; but they have to be able to fund these debts longterm—and they can't.

**Freeman:** So there is a liquidity problem?

**O'Leary:** Yes, and the budget deficit is too large. Stockman is right; we have to make very large cuts in the budget.

**Freeman:** You say credit controls may be needed, but after they were applied in March 1980, they collapsed production, and then, soon after, interest rates started going right back up to the 20 percent range.

**O'Leary:** Yes, that's quite true. So the solution is that instead of what happened in March 1980, when controls were held for only a month, controls would have to be applied longer, limiting new loans to business to an increase of 5 percent over a base rate, and then after a while increasing that level of new loans, but keep the controls on.

**Freeman:** Will Reagan go in this direction?

**O'Leary:** Reagan is in the same situation that Carter was in March 1980, Carter had a fall election coming up and had to do something about the economy; Reagan faces a situation in which Republicans are going to have to be campaigning in June for the fall, and has to do something to get the economy under control, especially if his program is not working.

*EIR interviewed a senior Federal Reserve official on Sept. 10 who preferred not to be identified:*

**EIR:** How do you feel about the Republican call for credit controls?

**A:** It's fantastic, I can't believe this administration would want anything to do with credit controls. I assume that the administration is talking through Congress, through the Republican leadership, and that this is not a serious call for credit controls, but an attempt to talk down interest rates. Congress has just been back to the districts, and they're getting really worried.

The problem for them is that neither the administration nor the Congress has much credibility left. Credibility is the heart of it, and if the administration reverses itself from its extreme free market stance and moves to controls, which it said it would never do, then they're dead on credibility level, just simply dead. Their credibility at that point drops as low as Jimmy Carter's ever was.

**EIR:** But wouldn't you really like to have controls?

**A:** No, they certainly didn't work last time. They only repressed inflation, they didn't wipe it out. That's what I meant about Carter, he forced us into it screaming.

**EIR:** You mean you wouldn't support the administration on controls?

**A:** Only if forced, but the markets will never support it. No one believes you can really get credit demand down with controls. Sure, you can have a short-term drop in credit demand and activity, and short-term instruments might look good, but anyone sitting there holding long-term government and industrial bonds will know that the thing is doomed to fail and fall apart within months. People will dump long-term instruments dramatically. The administration's credibility in the financial markets will be dramatically reduced, and it's crappy now.

**EIR:** So you don't take the Republicans seriously?

**A:** No. The only thing I can see them trying to do is to talk, to bludgeon Wall Street into buying some Treasury bills a little cheaper than they've been willing to do.

*From a Sept. 10 discussion with the Federal Reserve's Congressional Liaison Office in Washington, provided to EIR:*

**Q:** What's your reaction to Congressional calls for credit controls?

**A:** All this reflects is the rising concern on the Hill about interest rates; these guys have caught hell from their voters during recess, and they're looking for a scapegoat. We're it. We've seen all sorts of crazy-ass legislation in an attempt to force interest rates down artificially. We're



throwing all the cold water we can on any talk of credit controls. We don't take them seriously on that. Anyway, we've never heard anything from the White House on credit controls, and I can't believe that Baker would move against Reagan.

**Q:** But this is the Senate Majority Leader. . . .

**A:** I still don't take him seriously. These guys are desperate, they pop off, they make any statement to get press; they've just been beaten up by their constituents . . . and they're desperate to look like they're doing something. But there is no evidence they're sincere—no legislation.

**Q:** What about the Melcher resolution on interest rates?

**A:** Same thing—it's just a resolution, no force of law. It can be ignored. It means nothing, and will be ignored.

**Q:** So far Congress has had to swallow your interest rates. But does this mean they won't take the budget cuts?

**A:** Look, we've said that the only way we will put rates down is if they take those budget cuts. And the Congress doesn't like it. Right now, the only way the administration can get any cuts out of this Congress will be if they take half the cuts out of the defense budget. If Reagan wants to cut \$30 billion in fiscal 1982, and he has to, then he will have to look to defense for half of that, \$15 billion, or a third minimum, at least \$10 billion. He can't go back to the social programs and bleed them, he'd lose even the Republicans. His program is rotting.

Right now I hope that Stockman has won cuts in the military budget, which will allow cuts to go through. It will upset the national security lobby, but I think Reagan is popular enough to pull it off.

**Q:** But if Congress won't take the cuts? Then what?

**A:** Then we follow through on Volcker's promise to tighten.

**Q:** Are you ready to bail out all the bankrupt S&Ls? You are going to have quite a bit of inflation then.

**A:** The Fed is the lender of the last resort. The last thing we want is for the S&Ls to go belly up. If the time comes, the money will be found, and you know as well as I that there is not enough in the Federal Savings Deposit Insurance funds. Whatever money that would be necessary to stop a financial collapse would be found.

**Q:** Found?

**A:** I think more money than the insurance funds would be found.

**Q:** Found?

**A:** Printed, found, spent as a deficit, whatever necessary.

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## Interview

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# Why Schmidt rejects U.S. economic policy

*On the eve of U.S. Secretary of State Alexander Haig's arrival in West Germany, Chancellor Helmut Schmidt has delivered a sharp attack against the "ruinous" economic policies of the Reagan administration. "Not even in a dream would I think of trying such a policy here," he said, in an interview with the Rhein-Neckar Zeitung (RNZ) published Sept. 8. Schmidt reiterated his often-repeated warning of recent months against an austerity policy like that of Heinrich Brüning, the German chancellor of the early 1930s who paved the way for Adolf Hitler.*

*Asked about the likely outcome of the current controversy in West Germany over the federal budget for 1982, Schmidt responded:*

**Schmidt:** I will have to place this question in a broader context: how the economic situation of our country develops over the next 6 or 12 months is to a much greater extent dependent on how the world economy and the European economy develop. When the discount rate in America remains over 20 percent, and when the American finance minister himself has to take out 10-year loans at a fixed 15 percent interest rate, when this gigantic American economy—225 million people—continues to make the mistake of creating and maintaining economic conditions in which the interest rates of the whole world for normal credit customers are raised to over 20 percent—then less strong economies are forced to keep their own interest rates even higher in order to get their share of the pie of international liquidity. In other words: if someone sitting in an OPEC country with a financial surplus to manage can get over 20 percent in New York, then Paris has to offer him more, and Rome or Milan even more. Therefore the interest-rate floor in France or Italy is over 20 percent. The fact that our businesses are still attracting investors at interest rates of 15-16 percent is a sign of how great the trust of the international credit markets in the German economy is.

We still receive money from abroad—for example from Saudi Arabia—otherwise we would not be able to finance our balance-of-payments deficit. They invest a large portion of their money as credit to us although our interest rates are under 20 percent. But if this high

American interest-rate floor continues, then no economy can endure it, and particularly the construction industry cannot. Therefore I say once again: the future economic development of this country depends upon world economic developments: interest rates first, and oil prices second. . . .

I think that investors who in recent times have transferred their money to New York, for example, will soon bring it back again, since they are afraid of losses in the value of that currency. But for the time being the high demand for the dollar has driven its value up. The high dollar value, on the other hand, causes concern since it makes our oil prices rise faster than in the past.

**RNZ:** Does the German federal chancellor have a recipe to prevent this monetary policy development?

**Schmidt:** We can neither catch up with the dollar interest rates, nor do much to change the dollar rate, nor do we have influence over the oil price. These lie outside the reach of the German economy. At the world economic summit in Ottawa, we explained to the American President that these high interest rates were ruining the world economy. He said that unfortunately he could do nothing to change the situation. He had inherited the problem from his predecessors, and the policy would have to be maintained for reasons of stability. That is his conviction, which we could not change. But I believe that U.S. economic policies will be changed too.

The first effects of budget policy can be discerned. I see the tendency for economizing in expenditures as a sensible one. The greater the savings, the more will the American Federal Reserve be spared from having its monetary policy play the sole stabilizing role. And thus the sooner can one hope that the interest rates will come down. . . .

What I fear the most is that countries could have recourse to trade protectionism toward foreign competition. This tendency is particularly very strong in the U.S.A., even stronger in France—we ourselves have lesser inclinations too in that direction. But if these protectionist tendencies are strengthened, then the result will be a rapid increase of unemployment. One cannot exclude that the foolhardy behavior of governments and parliaments will substantially weaken the world economic situation. What the Federal Republic of Germany could then do on the national level is an open question.

**RNZ:** In this case revision of the current austerity program could certainly be excluded?

**Schmidt:** The idea of many bigmouths who are influencing the public today and have stated over the last four to five weeks, that we in Germany have to economize even further than our proposed budget demands, is in my firm opinion absolutely false. The legislative measures we have decided on could of course be construed differently,

as many of my party friends advocate, for example. But the level of austerity cannot go much higher. We are now—federal government and states together—cutting in the order of 1 percent of GNP, or 1½ percent of the national income, which will be available to the state to spend, since the state will not get revenues from those whom the cuts affect. If the state were to spend this 1½ percent of the national income, it would have to borrow this money on the capital market. And this demand for 15 billion [deutschemarks] on the capital market would drive the interest rates still higher, and our construction industry would go through the floor. The state has saved this amount so that it would not have to demand so much capital and so could keep German interest rates lower than American or French, English, or Italian. But we cannot go any higher than this. If we, instead of the present 1 percent of the gross national product, were to economize by 2 percent, I fear that it would produce deflationary effects like the time of Heinrich Brüning.

**RNZ:** Is the way out so different for the Federal Republic and the U.S.A. that opposite recipes—here tax increase, there tax cuts of 25 percent to 1983—could bring about stability and an upswing?

**Schmidt:** This tax cut has led Reagan into deficit. When a state denies itself income by a tax cut, but does not cut its expenditures correspondingly, only shifting resources from the social sector to defense, then it has to borrow money—thus driving the interest rates up. I will not pass a qualitative judgment on the American “policy mix.” But not even in a dream would I think of trying such a policy here. Furthermore, our society is infinitely more sensitive to unemployment than American society.

**RNZ:** Is it correct to say then that you would exclude an employment program like that being discussed heatedly in the [government] coalition?

**Schmidt:** I will not rule that out, but I will say clearly: national self-help cannot prevail over international developments. . . .

**RNZ:** [Question about the relationship between these issues and U.S. defense policies.]

**Schmidt:** I will not defend Reagan’s policy here, and neither will I criticize it. But I will make the following point quite clearly: it is an error to think that Europe’s security can be secured by money. It is men who defend, and so one must have them. Second, they must be willing to carry out their duty. Third, they must be trained to do it. And fourth, one must have money for armaments. This is the sequence: Soldiers, motivation, training, and equipment. I would only take seriously the criticism of many American commentators concerning European defense efforts if those same people were arguing for the reintroduction of the draft in the U.S.A. . . .

# Lehman Brothers sets fiscal pace

*Investment banker Peter Peterson outlined the entire U.S. budget fiasco in June, emphasizes European Economics Editor Laurent Murawiec.*

After the much-hailed \$32 billion cuts in federal expenditures voted by Congress last spring, the same media that were hyping Reagan's handling of policy a few weeks ago are now savaging the President's policy as "doomed from the start," in the words of the *New York Times*. The financial markets are voting with their feet against stocks and bonds, and openly speaking of a liquidity panic. Faced with the impossible task of sticking to their self-imposed \$42.5 billion deficit ceiling in fiscal 1982, the administration is now publicly proposing new cuts of \$15 billion, \$3 billion in the defense budget, and the rest in social entitlement programs.

The amount of cuts that will be required if the administration allows a recession to stifle government tax revenues and swell new expenditures goes much further than official spokesmen have been willing to concede; with respected Wall Street forecasters predicting a \$100 billion deficit each year of this administration, Mr. Stockman's budget-slashing mania is not going to remain idle.

The story in the media is that "the markets" have sent continuing signals to Washington that not enough had been cut to inspire additional "confidence" in the administration's behavior. And the current liquidity panic is intended to box Reagan into more fiscal austerity and more suicidal gutting of productive activity. The one holy cow the administration will not touch being the untouchable Federal Reserve. But behind closed doors, the forces that are driving "the markets" have been working quite deliberately at creating this panic, and generating the conditions in which the administration would be compelled to go their way.

## **Peterson's manifesto**

On June 25, the elite New York Economic Club heard the chairman of Lehman Brothers Kuhn Loeb, Peter G. Peterson (also a member of the Brandt Commission), on the theme "The President's Economic Program: The Summer of 1981 vs. The Dangerous Decade of the 1980s." That speech contains in outline every single element of the debates and decisions that

have unfolded during the summer and are now coming to a head. After praising Reagan's "why not less" philosophy, Peterson raised the banners of further massive budget cuts: "The early economic strategy of the administration did not really confront the fact that the growth of transfer programs encouraged by the entitlements revolution has been the primary generator of our current predicament."

Wall Street is dissatisfied with the administration, Peterson continued, and its failure to tackle the problem of "wage rigidity," its foolhardy and inflationary defense program, its piling up of massive deficits, and its inability to cut growth enough to save the Fed from having to print money!

The 4.8 percent wage increase granted to federal white-collar workers instead of the 15.1 percent recommended by an independent panel, the revolting debate around the trimming of the defense budget, the additional budget cuts under review at this time and the massive support given by the administration to the Fed, can all be traced to the policy outlined by Peterson on behalf of the powerful financier forces of Wall Street and their international allies, the IMF and the Bank for International Settlements. Policies apparently cooked up by the administration in response to "the markets" had been pre-programmed and fed to the government.

But Peterson was demanding more: "Let us hold off on anything 'special' at this point: special interests, special industries, special regions, special consumers, special taxpayers . . . [the] special interest, constituency politics of the last 15 years" are the culprits: "any long-term commitment to significantly out government spending growth *must* confront [social] entitlements." Peterson hammered away at the necessity of destroying all constituency-based power in order to do precisely that.

Peterson's program demands large savings in the defense program; drastic reductions in entitlements—social security, federal pensions, Medicare, veterans benefits, etc.; a "very large tax" on oil and gasoline to further reduce energy consumption and build a strategic

reserve; below-inflation-rate wage contracts; the major unions, IBT, UAW and USWA should be forced to accept a comprehensive effort at further deregulating the economy, starting with trucking; and repeal of the Davis-Bacon Act, as well as the Fair Labor Standards Act.

In his quest for "eliminating the automatic destabilizers," unemployment benefits, welfare agencies, etc., Peterson boldly states in the section "The Politics of Aging" of his speech that there are many, far too many old people in the United States; their numbers and the outlays they require are unbearable; "they form one of the most vociferous and well-organized lobbies on the Hill. *We are reaching the limits of common sense and equity.*" Peterson argues that either the elderly will have to go back to work, or they will have to do with far less.

### 'Thirty percent rates'

In his "Politics of Housing," Peterson brings the proposals of the Brandt Commission home to the United States, which has "superabundant housing," in fact far too many houses, he says. The "American housing dream" is termed the prime cause of the fall in fixed investment over the last decades! So bold a lie is only matched by the viciousness of the proposed policies, which amount to reducing the American population in order to "solve the problem of the deficit."

Ronald Reagan does not share this doctrine. Should he nonetheless agree to carry out the policies it stipulates, the results will be irreversible, as articulated by one of Peterson's closest partners at Lehman Brothers, who explained privately that "the present level of interest rates generates fundamental change in the economy, the credit system, and the political system: less economic growth and a decreased demand. The whole economy is being permanently transformed, towards less industry.

"Interest rates should be at 30 or 40 or even 50 percent, but people are always afraid that the whole house will fall apart, so they refrain from such extreme, but necessary measures.

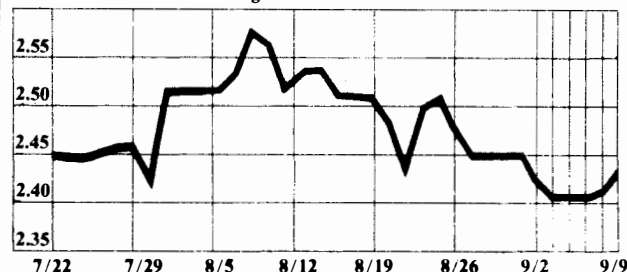
"Why worry about bankruptcies? We must re-allocate resources at new levels of productivity. There will be very little economic growth in the next decade anywhere in the world; virtually none at all in countries which reject Keynesian solutions. In countries that embrace Keynesian solutions, they will end up with different political regimes . . . be they black or red does not matter. There will be a lot of things that will explode."

This is the long-term outlook of those who have methodically charted the drift of the administration into more severe austerity, harsher deflation, and ultimately a violent economic collapse. The current liquidity panic is of their doing—it is an attempt to complete the encirclement of the President.

## Currency Rates

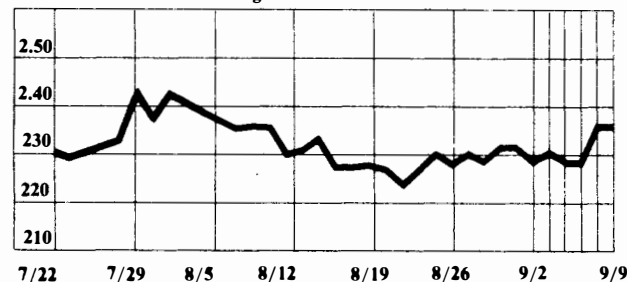
### The dollar in deutschmarks

New York late afternoon fixing



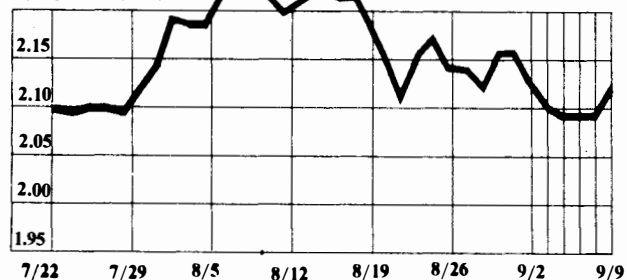
### The dollar in yen

New York late afternoon fixing



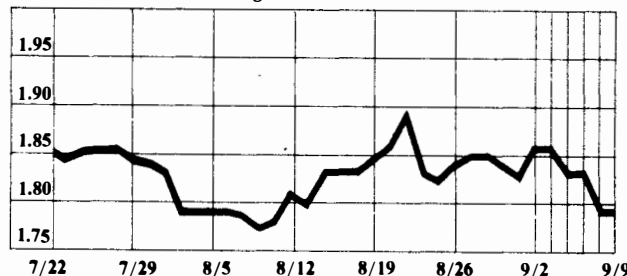
### The dollar in Swiss francs

New York late afternoon



### The British pound in dollars

New York late afternoon fixing



## The D-mark rebounds

*Even the markets recognize that fundamentals are what aid the mark, along with sturdy petrodollar inflows.*

As the outlook for the dollar has started to darken, with the administration's budget fiasco unsettling the markets, the "fundamentals" of economic activity have started to reassert themselves for the German currency, which had lost 39 percent of its value to the dollar since Paul Volcker sent U.S. interest rates through the ceiling.

The Department of Commerce announced that it projects the U.S. trade deficit to hit \$39 billion this year, \$3.4 billion in excess of last year, a development it primarily attributes to the loss of competitiveness of U.S. goods denominated in a grossly overvalued currency.

There is more: the "aura of confidence" built earlier this year by the media around the Reagan administration's economic and fiscal strategy is being unraveled by the same media with a vengeance. The sharp drop in stock values, the collapse of the bond markets—the "process of generalized liquidation" referred to by numerous traders and portfolio managers—is combining with the administration's pathetic inability to get its figures right and the open bankruptcy of its strategy to remove most of the props that have kept the dollar artificially overvalued.

Only the Fed's high interest-rate policy has kept the dollar up. But as the Fed pumps large amounts of credit in the banking system to shore up liquidity-strapped financial institutions, and

as the corporate sector is growing increasingly desperate in its quest for loans, the pressure for interest rates to soar once more is becoming irresistible.

Informed Wall Street sources expect the prime rate to move up several percentage points in the months immediately ahead, adding that the ensuing recession will then bring them down.

The conclusion, therefore, is that once the interest-rate prop is removed, a very significant depreciation of the dollar is ahead; a Bankers Trust source estimates that the drop will be 20-25 percent.

"In the last two or three weeks, there has been a remarkable change of mind concerning the deutsche-mark on the markets," the same source commented. "The trade balance is now nearly in black figures, and that trend is here to stay; labor settlements have been moderate; the government there has been grappling successfully with the budget deficit." In addition, the inflow of politically motivated Saudi and OPEC money has added to the slow momentum helping the mark.

More fundamental is the policy doggedly pursued by Chancellor Helmut Schmidt to make industrial investment the priority item in his 1982 budget. The perspective of the vast Siberian raw-materials development contracts already signed or contemplated by Germany and the Soviet Union is lending additional weight to the chancellor's strategy.

Would that be sufficient for the mark to withstand a new wave of U.S. interest-rate increases? That is what the market is reporting at present: "The 'fundamentals' have now cushioned the mark sufficiently. We expect that by the middle of next year, the DM will be at 2.20 to the dollar," the foreign-exchange manager of a major New York bank said.

Meanwhile, the currency outlook for most of the other European countries is bleak: the Danish kroner, a perennial foot-dragger inside the EMS, is expected by the *Neue Zürcher Zeitung* to be substantially devalued in the very near future; the pressure on the French franc is increasing with each measure taken by the French government—with a solid option for an 18 percent rate of inflation by year-end and more next year. The lira, which has been inflated by huge inflows of short-term Eurocurrency deposits, stands in immediate danger.

And the British pound "should be seen as a highly valuable currency, in spite of its recent losses," a foreign-exchange dealer said. This is confirmed by both the *London Times* and *Financial Times*, which report that the rapidly shrinking current-account surplus will further weaken sterling, and call for an early British entry into the European Monetary System to reverse that trend.

The prospect of a realignment of parities in the EMS also raises the possibility that Germany will grow tired of financing the budgets of its European Community partners through EMS support measures, and will dump the EMS wholesale, with the knowledge that their reserves will be bolstered by inflows of OPEC money.

## The families speak from Siena

*In which the Italian oligarchy makes known its desire for a new Great Depression, especially in America.*

**G**ood to my promise, I have obtained reports on the deliberations of the semisecret Siena Group upon a new gold reserve standard. The new standard, they say, requires the removal of the U.S. dollar as a "worthless paper currency system," and its replacement by a pure gold-coin standard, such as to cause the severest U.S. deflation.

The Siena Group, which gathered during the first week in September at the Villa Santo Colombo in Siena, Italy, is the supranational society of economists hired out as mercenaries for the oldest of Italian noble families who prefer gold as an instrument of monetary torture.

The Siena Group is sponsored by the 450-year-old Monte dei Paschi Bank, which is controlled by such ancient families of Venice as the Chigi, and by the Italian central bank. It is formally chaired by the drowsy founder of supply-side economics, Prof. Robert Mundell of Columbia University, and American associates include such supply-side philosophers as Arthur Laffer, Eugene Birnbaum, and Jude Wanniski.

Policy, however, is made by Italian members, led by Rinaldo Ossola, chairman of the Banco di Napoli; Giovanni Magnifico, economic counselor of the Banca d'Italia; and Robert Triffin of the Jesuit University of Louvain.

According to Professor Mundell, the Siena circle is urging President Ronald Reagan to continue

with his disastrous supply-side economic spells, which indeed Siena helped author during the late 1970s. Although the program has thus far collapsed the nation's productive economy and capital markets, creating the largest budget deficits and the highest interest rates in American history, "this is not the problem," Mr. Mundell told me. "Reagan's program is a good one, but it is not yet complete. What is needed now is the final move toward gold."

The consensus of the Italians at Siena, it appears, is that it is the very American dollar monetary system which is the root of the current crisis. The financial markets, they insist, are not panicking due to the wild reports of an uncontrolled U.S. budget deficit, but rather hold the perception that the U.S. Federal Reserve has been "printing too many dollars," sources close to Siena report.

This may come as a surprise to our readers, who are aware that Federal Reserve Chairman Paul Volcker's stringent monetary policy has virtually closed down the U.S. economy. But the Siena mercenaries believe that Mr. Volcker's monetarism "is inadequate." The Siena circle believes that the central bank is all the while surreptitiously printing money to "bail out" failing savings and loans and international banks, which is causing select measures of monetary aggregates to balloon "out of control."

"If this continues," one Siena

source told me, "the dollar will become worthless and we will get a dollar crisis of first magnitude."

The Italians at Siena predicted that just such a dollar crisis will be sufficient to force the Reagan administration into opting for a gold reserve standard in the near future, said another source.

Highlighting the Siena conference, he said, was an impassioned speech by Italian Liberal Party chairman Zanone, a Venetian asset, to this effect.

The Siense, Mundell emphasized, would like a return to gold modeled on Professor Laffer's February 1980 "Blueprint for Reinstatement of the Dollar." Under the plan, originally proposed by Paul Volcker in 1972, the Fed and Treasury would shut down all provision of credit to the U.S. economy for three months, causing a sharp deflation and depression. The dollar would then be fixed to the resultant "free market" price for gold.

The U.S. Treasury and Office of Management and Budget, led by OMB economist Lawrence Kudlow, who is close to the Siena Group, are already doing studies for two gold-standard options. Kudlow is discussing with the Swiss National Bank a "Swiss model," in which the dollar would be limited to a gold cover, and credit controls would constrict bank lending.

The Siense expect this to be rejected, however, in favor of a full-scale gold reserve standard. The dollar would then be removed as the center of the monetary system, and gold coins issued as legal tender as in the 19th century. The rate of dollar credit creation would be strictly nailed to the world gold mining rate; and the U.S. economy would pay the price.



## Reality pushes aside ideology

*Secretary Block has moved to stem the wheat price collapse, though parity remains distant.*

**A**griculture Secretary John Block has abruptly reversed himself on two key features of the Reagan-Block "free market" agriculture program. On Sept. 3 Block announced that he would order a 15 percent reduction in the 1982 wheat planting. The move was made in the hope that it would staunch the slide in wheat prices that after more than six months has pushed wheat prices down to \$3.63 per bushel, 30 cents below last year's level and about 20 cents below the current "target price." At this rate the U.S. Treasury will have to write checks to wheat growers this year for as much as \$500 million under the target price program.

Block also acknowledged that the administration had dropped efforts to eliminate the target price program from a new four-year farm bill, on the agenda in both houses of Congress this month. Under the program producers of the major grains receive federal payments to cover the difference between the "target price"—set by Congress and ostensibly based on production costs—and average market prices. "We've pulled back from that stand now," Block told reporters, "simply because we couldn't have gotten that through."

Wheat has led the trend in softening farm prices. This year's harvest, now virtually complete, is estimated at a record 2.81 billion bushels, 20 percent above last year. This comes on top of a record level of

existing stocks, up 14 percent from a year ago. The bumper crops in the U.S. coincide with generally excellent crops in Canada and Australia, the other main producers.

Despite the fact that, like the farm export volume generally, wheat exports were running at higher than year-earlier levels during the first half of the year, price declines have offset the increased volume. USDA has revised total farm export revenue projections down at least twice from January, from \$48 billion to \$44 billion. And net farm income for 1981 is now forecast at the lower end of the \$20 to \$24 billion range, about the same as the disastrous 1980 level (40 percent below 1979).

The price collapse and Block's response exemplify the boom-bust cycle that is inevitable in the absence of a parity policy. Unless we guarantee producers a price, including a necessary profit for reinvestment in future production, we will continue to be faced with the terrible irony that a bountiful harvest means disaster for those who produce it, and prompting in turn acreage cutbacks, production shortfalls, and soaring prices in the next round.

This year the price collapse has hit farmers at a time when production costs have soared. For wheat, production costs are estimated at \$4.13 per bushel, or \$124 per acre—not including land charges. That's a 15 percent jump from 1980. For the

second year in a row producers have had to forego needed equipment purchases and other capital investments in land improvement.

Since agriculture is the largest single user of steel and rubber, austerity in the farm sector will rebound; already the large equipment manufacturers are in deep financial trouble.

The economic reality that overpowered the ideology of the "free market" in John Block's USDA also promises a new challenge to residual State Department fantasies of a "food weapon" victory over the Soviets.

The fact is that Alexander Haig can chew the rug all he wants, but the immediate fate of American agriculture is in the hands of the Soviet Union. At this point, the question of whether, and how much the Soviets will buy is the most relevant issue.

At his press conference Secretary Block reaffirmed that the Soviets would be allowed to buy "at least" 10 million tons of grain under the one-year extension of the grain trade pact during the 1981-82 marketing year beginning in October—and speaking over the weekend to 3,000 farmers in Chicago, Block emphasized that that was over and above the 8 million tons provided for in the agreement. The secretary also reported that USDA would head a team meeting with Soviet representatives in Moscow Sept. 30 and Oct. 1 to discuss grain sales.

The news that the Soviets face a harvest disaster and may be in the market for as much as 40 million tons of grain, has yet to be confirmed. The harvest in the productive Kazakhstan area is not yet complete.

# Business Briefs

## Banking

### Fed, BIS move on international lending

The U.S. Federal Reserve is acting under the direction of the Swiss-based Bank for International Settlements to gain fingertip control over the international Eurodollar markets, with the objective of reducing international lending to the Third World.

The Fed is now preparing for the January institution in major U.S. cities of International Banking Facilities, which will allow reserve-free Eurodollar-style deposits in the U.S., and thus drain billions in international credit out of the world markets and back into the U.S. banking system. The first move will be made Oct. 1, when the major New York clearing banks led by David Rockefeller's Chase Manhattan, go onto a new payments system technically known as "same-day clearing."

"Same-day clearing" will mean that over \$160 billion in daily payments made currently between international bankers in the U.S. and Europe, which are now being made the next day, will have to be paid up instantaneously, on the same day. This gives European bankers much less time to come up with the cash to pay their loans to American banks, and could cause a scramble for cash in the international markets.

The Fed and the BIS have worked out a plan under which foreign banks dealing in U.S. dollars will, in this situation, be forced to come to the U.S. Fed for the extra credits, and accept Fed Chairman Paul Volcker's high interest rates and conditions.

If this happens while the Volcker Fed continues to tighten credit here, the result could be a vortex that sucks most of the world dollar credit out of international markets and into the United States. This is precisely what has been called for by New York Fed President Anthony Solomon, who said that he wants to gain "more control" over international markets to "reduce international lending." That control, in turn, as

IMF sources have repeatedly told *EIR*, is intended to force harsher austerity.

## Transportation

### Budget Act would cut Conrail pay raises

Conrail's 70,000 employees may defeat the proposal to accept a 12 percent wage cut in balloting now taking place.

The wage-cut package is contained in a section of the administration's Budget Reconciliation Act, passed Aug. 13, which, in addition to eliminating \$200 million in already negotiated Conrail pay increases, will eliminate Title V of the 1973 Rail Reorganization Act which provides income guarantees to laid-off Conrail workers.

Local union leaders are angered that the Budget Act will not have been printed for another three weeks and there are rumors that the bill has not even been finally drafted even though Congress has passed it.

While operating employees and clerks are being asked to take wage cuts, Conrail's supervisory and management personnel were awarded 12 percent increases last week, another issue that might produce a rejection of the deferral proposal.

Even if the workers do reject the wage cut, it is unclear whether the Budget Act will still mandate the deferral. Union leaders also claim that the Budget Act is purported to stipulate that every ballot that is not received by Sept. 14 will be counted as an affirmative vote.

## World Trade

### Germany, Japan step up Soviet ties

Ruhr industry sources report that serious talks are presently going on between the Essen-based Ruhrkohle, Germany's national coal corporation, and the So-

viet Union on several projects of development of new coal fields in the Soviet Union. The same sources indicate that coal gasification by means of high temperature nuclear reactors (HTRs) is part of one project under review. The political framework is apparent from the current visit of Gerhard Stoltenberg, the Christian Democratic Union (CDU) minister-president of Schleswig-Holstein and a key cross-party ally of Chancellor Schmidt, to the autumn industrial fair at Leipzig, East Germany.

In Tokyo, the Ministry for International Trade and Industry (MITI) has thrown its resources in the balance to secure a contract for delivery of 300,000 tons of steel plate to the Soviets, accepting the extremely favorable financial terms demanded by the Soviets: the credits opened by the Japanese will carry a 7.25 percent rate of interest, in open defiance of the OECD's prescriptions known as the export credit gentlemen's agreement.

Soviet Deputy Foreign Trade Minister Victor Ivanov is in Tokyo for talks on a \$400 million loan from the Export-Import Bank of Japan for building a synthetic rubber plant in the U.S.S.R. Interest on the projected loan will reportedly be close to 8 percent.

## Gold

### A thousand dollars per ounce of bullion?

Anglo-American Corporation of South Africa has commissioned the printing of 100,000 copies of a report on the future of gold.

Not surprisingly the report, written by Horace W. Brock, a former senior member of Stanford Research Institute, claims that there is a "very definite possibility" that gold will soar to \$1,000 an ounce sometime in the 1980s.

Reasons for gold's rosy future as given by Brock should remind readers of the strategic purposes of Anglo-American and its allied mineral cartel networks. Brock points to:

- A steady growth in the postindustrial economy, especially in electronics.
- Smaller central banks diversifying their holdings out of the dollar into gold.
- The growing wealth (i.e. the growing of opium) in the Far East "which should buoy up the free-world economies in the eighties."
- The increased turbulence, instability, and inflation in the world which move institutions and individuals to buy gold.

### International Credit

## Saudis may pull plug on France

French Treasury Secretary Jean-Yves Haberer came back empty-handed from a trip to Saudi Arabia Sept. 7. Heavily dependent on Saudi loans to help finance the foreign trade deficit, Haberer was sent by Socialist President François Mitterrand to borrow several billion dollars.

During the course of two meetings with Saudi Central Bank Governor Al Qouraishi, Haberer asked for \$2 to \$3 billion for the period ending May 1982, but was told that the most the Saudis could offer was the piddling sum of \$750 million. Al Qouraishi reportedly spent most of his time during the meetings asking extensive questions about the nationalization program, which was passed later in the week. The Saudis are most concerned about the state takeover of defense industries, such as Dassault, and high-technology firms like Thomson-CSF which has multibillion-dollar contracts in Saudi Arabia and Iraq.

There are further indications that the Saudis may be getting ready to pull the plug. Somewhere in the neighborhood of 1 billion francs in Arab capital has been pulled out of France for the period from Mitterrand's May election until August. In addition, Saudi participation in the recent bonds issued by the French government was down by about half its usual rate.

### Domestic Credit

## Nixon hands back at the White House

Former Treasury Secretary George Shultz and former Federal Reserve Chairman Arthur Burns, the men who destroyed the economic program and administration of President Richard Nixon, are back at the White House and have taken full control over the Reagan administration's budget-cutting program.

It was at a Sept. 10 meeting of the President's private-sector Economic Advisory Board, chaired by Shultz and Burns, that the administration's latest round of budget slashing was worked out, Washington sources say. Although the U.S. Congress has indicated it will balk at further substantial cuts in the fiscal 1982 budget, Burns and Shultz have been arguing for a firm White House stance, and the President has decided to follow their advice and ask for a new round of \$15 billion in additional cuts for fiscal 1982.

In a cabinet meeting immediately following his session with Shultz and Burns, President Reagan announced the new cuts to his department officials and parceled out specific figures to each department of between \$500 million and \$4 billion in cuts demanded by the White House.

According to officials of the International Monetary Fund, Shultz and Burns are demanding that the President eventually make up to \$30 billion in 1982 cuts, and another \$60 billion in 1983-1984; fully half this huge sum, they further demand, must come directly out of America's defense programs.

Immediately following the meeting with Shultz and Burns, Burns's protégé Lawrence Kudlow, chief economist for the Office of Management and Budget, went on ABC-TV Sept. 10 to announce that the White House has rejected all criticism by Congress of the Fed's high interest rates, and is demanding Congress act instead to cut the U.S. budget sharply.

## Briefly

● **A GOLD STUDY** has been commissioned at the Fed's International Division by Fed Governor Henry Wallich for the Presidential Gold Commission, Fed sources tell *EIR*. "We're being forced to take it very seriously," he said, "and we're studying all the details of whether or not, and how, to move to gold remonetization."

● **MARTIN ANDERSON**, domestic policy director for the White House, is reportedly leading a swing of White House centrists toward favoring a move to gold. "Anderson believes that the thing is snowballing, that the opposition to gold consists of a lot of hollow trees," sources say.

● **THE JOINT Economic Committee** of Congress is now scheduling hearings for late September on the Fed's high interest rates and how to bring them down, JEC sources say. JEC Chairman Henry Reuss intends to call for credit controls.

● **TIM MCNAMAR**, deputy Treasury secretary, is about to release a report calling for a total cutoff of new U.S. funding to the World Bank, Inter-American Development Bank, and other international development agencies. The report, by a Treasury Task Force on Multilateral Development Agencies headed by McNamar, could result in a sharp decrease in availability of credit to the Third World.

● **POLISH DEBT** negotiations have stalled in London, where the task force of international commercial banks announced this week it is postponing its next meeting until at least the end of September. Bankers report Poland is now several weeks behind in international payments. The postponement was reported to have been forced by the Polish government.

## The Williams case and the Constitution

by Jeffrey Steinberg, Counterintelligence Editor

Some time after Oct. 7, the U.S. Senate will be asked to vote on an Expulsion Resolution against Sen. Harrison Williams, Democrat of New Jersey. On Aug. 24, the Senate Ethics Committee voted unanimously to recommend expulsion of Senator Williams on the basis of his conviction in "Abscam," the Justice Department's two-year witch-hunt against organized labor and its allies in Congress.

If the Senate votes the necessary two-thirds margin in favor of expulsion, that body will effectively cease to exist as an instrument of the constitutional system.

### What the FBI knew

The facts in the Williams Abscam case, bolstered by the recent release of three suppressed Federal Bureau of Investigation documents, show unequivocally that Senator Williams was innocent of any wrongdoing whatsoever.

Despite virtual admissions from high-ranking officials of the Justice Department that the government did not have a case against Williams, the Senate Ethics Committee rubberstamped the ruling of a "rogue elephant" federal court judge, George C. Pratt, whose actions in the Williams frameup represent legitimate grounds for censure.

On Aug. 18, 1981, syndicated columnist Jack Anderson published the first of three articles detailing the fact that Judge Pratt had withheld three FBI documents from Williams's attorneys throughout the Williams Abscam trial, a trial that ended on May 1 with the jury convicting the senator on all counts of the indictment.

*Neither defense attorney George Koelzer nor any member of the jury was informed of the documents' existence.*

The three FBI documents, dated Nov. 27, 1979, Jan. 8, 1980, and April 25, 1980 demonstrated that the FBI and the Justice Department's Organized Crime Strike Force (OCSF), after months of investigation, had failed to establish any grounds for indicting Senator Williams. Confronted with that failed entrapment effort, the government deployed its stable of Federal



*Transit workers in New York City's 200,000-strong Sept. 7 Labor Day parade: Abscam-Brilab is directed against their congressional allies.*

Witness Protection Program convicts-for-hire, led by lifetime con man Mel Weinberg, in one final entrapment effort. When Senator Williams adamantly refused to accept any illegal money from the pushy FBI "sting" agents, the Strike Force indicted him anyway—on charges that he had agreed to solicit government contracts for a titanium mine.

The documents showed a clear pattern of entrapment on the part of Brooklyn, New York Strike Force head Thomas Puccio, FBI Assistant Director in Charge Francis M. Mullen, Jr., and other top officials of the Carter administration Justice Department.

Pratt's behavior throughout the trial—capped by his now-exposed withholding of crucial evidence against the government—was the determining factor in the jury's decision. Throughout its 28 hours of deliberation, the Brooklyn jury sent out repeated requests for clarification on the criterion for evaluating the FBI-Strike Force entrapment of Senator Williams and his codefendant, New Jersey businessman Alexander Feinberg. Pratt refused to provide any answers, reserving his own right to rule on the entrapment question, despite the fact that it constituted one of the foundations of the Williams defense.

Pratt's withholding of the three exculpatory internal documents of the Federal Bureau of Investigation from the hands of the defense constitutes a violation of the judicial procedure known as the "Brady Rule" after an early 1970s case, *Brady v. Maryland*. The "Brady Rule" established that it was the obligation of the prosecution to provide defense counsel with all documents relating to the case—even documents that undercut the prose-

cution's case. In this coverup effort, Pratt was in league with the government's attorney Thomas Puccio and his FBI-Strike Force accomplices.

### **Unethical behavior**

Throughout the Williams trial, which lasted four and a half weeks during March and April of this year, the Senate Ethics Committee had two investigators in court, Donald Sanders and Paul Colborn. According to eyewitness accounts, Sanders arrived in court every day in the company of prosecutor Puccio and retired at the close of court to the Brooklyn headquarters of the FBI. It was Sanders's and Colborn's report that constituted one of the major factors leading to the Senate Ethics Committee recommendation for expulsion.

Who is Donald G. Sanders? Did he represent an impartial observer upholding the independence of the U.S. Senate from the judiciary and the executive branch?

After serving for 10 years (1959-69) as a special agent and supervisor with the FBI, Sanders became Chief Counsel to the House Internal Security Committee (HISC), where he worked with two leading operatives of the notorious Heritage Foundation and Anti-Defamation League of B'nai B'rith, respectively, John Rees and Herbert Rommerstein.

From the House Internal Security Committee, Sanders went to the Senate Select Committee on Presidential Campaign Activity—the Watergate Select Committee—where he held the post of Deputy Minority Counsel. The Watergate Committee launched the frontal attack against the American constituency system that blos-

somed into a “Frankenstein monster” with the Justice Department’s later Abscam and Brilab abuses of power—abuses of power that have sent tens of thousands of America’s finest politicians, labor leaders, and local business executives to prison, bankruptcy court, and worse.

Sanders’s next assignment was to the Senate Select Committee on Intelligence, the Church Committee, which played a prominent role in dismantling the foreign intelligence capabilities of the United States. After serving as the general counsel to that committee, Sanders joined the investigative staff of the Senate Ethics Committee in April 1979—at precisely the point that the Abscam operation was being activated against a hit list of prolabor congressmen.

Within the Senate Ethics Committee itself, the apparently decisive vote for expulsion was issued by Sen. Howell Heflin of Alabama. A Southern “reform Democrat,” Heflin served for years as the Chief Justice of the Alabama State Supreme Court. He won a place on the Anglo-American Exchange Program, an unobvious effort to coopt U.S. judiciary officials into the services of British intelligence.

With such nominally impeccable judicial credentials, Heflin’s decision to bolt from fellow Democrats Thomas Eagleton of Missouri, and David Pryor of Arkansas

swung the Committee, which included Republicans Malcolm Wallop (Wyoming), Jesse Helms (North Carolina) and Mack Mattingly (Georgia), and forced a unanimous vote for expulsion.

## The Heritage Foundation

Throughout the Williams travesty of justice, the hand of the Heritage Foundation, the semi-official branch of British intelligence infiltrated into the Reagan administration and the Congress, has been a dominant factor.

- Judge Pratt was appointed to the federal bench under the aegis of U.S. Sen. James Buckley (R-N.Y.), the British Tory-in-Wall Street clothing who is presently one of the leading representatives of the Heritage Foundation brand of British Fabian policies in the Reagan administration.

- Several weeks ago, before Judge Pratt’s procedural ruling and before the Senate Ethics vote on expulsion, Sen. Roger Jepsen (R-Iowa) issued a mass fundraising letter on behalf of Jeffrey Bell, a New Jersey Republican who is the Heritage Foundation’s choice for U.S. Senate—replacing Harrison Williams. Bell was weaned as a staff writer for the Buckley family’s *National Review* and has acknowledged that one of his closest political advisers is Heritage Foundation director Edwin Fuel-

## From the senator’s legislative record

The highlights of Sen. Harrison Williams’s legislative undertakings over the past two decades have shown the senator’s ongoing concern with the conditions of the nation’s workforce, from working conditions to health care, housing, education, and care for the elderly. Sen. Williams has for a long time seen the ease or difficulty in obtaining low- and middle-income housing as a central parameter of the health of the nation’s economy and its workforce. As chairman of numerous Senate committees, Senator Williams has initiated or cosponsored the following legislation:

- **Labor conditions:** As chairman of the Committee on Labor and Human Resources, he backed strengthening the Longshoremen and Harbor Workers Compensation Act and the minimum wage, and initiated the Pregnancy Disability Act which treats pregnancy as a disability for insurance purposes. He has consistently fought to protect the Railroad Retirement Fund

from bankruptcy in order to ensure recipients their pensions. To protect newly unionizing workers from company stonewalling, he has attempted to expedite the certification of unions as bargaining agents, pointing out that the National Labor Relations Act has not been updated in 20 years.

- **Senior citizens:** Williams was chairman of the Special Senate Committee on Aging from 1969 to 1970, which had responsibility for identifying the major problems of the nation’s elderly. At that time, he discovered, one-quarter of the senior citizen population was living below the poverty level. Williams has sponsored every major increase in Social Security since 1965, and began the effort to raise elderly income and provide housing.

- **Education:** As chairman of the Labor and Human Resources Committee, he took responsibility for nearly every federal education bill introduced from 1971 to 1980, including federal aid to ensure handicapped children equivalent education and federal loan programs to students in higher education.

- **Mass transit:** According to a top aide, “The whole federal commitment to mass transit is his,” which he launched in the sixties with the first federal program to assist mass transportation. Since that



ner. Jepsen is himself a leading Heritage protégé.

The Heritage Foundation has been out front in its war against American trade unions and the urban constituency machines built around labor. In this effort, the Heritage networks found a close ally in the Carter administration Justice Department and in the radical union busting networks associated with the Democratic Socialist Organizing Committee, the official U.S. branch of the Socialist International.

### The Senate at stake

If two-thirds of the U.S. Senate votes in support of Harrison Williams's expulsion, then that institution will have completed the process of capitulation that began with the Watergate travesty and extended through the Senate's failure to investigate the criminal activities of the FBI and Justice Department in the Abscam and Brilab operations.

To the extent that Senator Williams—an innocent man and leading public figure—is sold out by his colleagues on the basis of cowardice or petty partisan opportunism, then the credibility of the Senate is destroyed and the U.S. Congress is transformed into an assembly line of framed-up felons. Under such circumstances, the U.S. Constitution would be no more than an artifact.

time, the program has grown to nationwide proportions.

- **On substance abuse:** Williams cosponsored legislation to create a National Institute on Alcoholism to promote medical approaches to the problem with Sen. Howard Hughes and in 1970 helped pass the Drug Abuse Prevention and Control Act.

- **High interest rates:** Williams believes that Volcker's policies have damaged every aspect of American life, and condemns the Reagan administration for taking no action to seek alternatives to an obviously bankrupt policy. As part of the senator's actions to reverse the effects of the Volcker measures, he has written emergency standby legislation, commonly referred to as the "Ginnie Mae Standby," that would infuse mortgage funds for homeowners and to create construction employment. Williams sees success in relieving the damage to the housing industry as a parameter turning around the economic collapse as a whole.

- **Housing:** In addition to his "Ginnie Mae Standby" legislation, Williams would favor any lending institution that would return to mortgage lending, thereby encouraging homeownership, and would seek incentives to permit such a return to occur.



Thomas Puccio

## The FBI documents exculpate Williams

by Mary Jane Freeman

A series of FBI internal documents released in August 1981, demonstrate the innocence of Sen. Harrison Williams.

These internal documents were the results of the FBI's review of the first series of Abscam videotapes, shown both in the courtroom and broadcast by NBC, in which Senator Williams persistently and repeatedly refused to promise the Justice Department Abscam "sheikh" that he would provide government contracts, leaving the entrappers with no case.

Following the taped sessions between the "sheikh" and Williams, in which the senator judiciously committed himself to nothing more than to "look into" the proposed business ventures, the FBI crime strike task force met and frantically planned one further attempt at securing indictable evidence against Williams. It was out of that first meeting that the Nov. 27, 1979 document was generated, proposing one last "contact" with Williams to obtain indictable evidence. In short, as of Nov. 27, the FBI was convinced that Williams was innocent.

In the last "contact" between the FBI sheikh and Williams, directed from behind the door by DOJ prosecutor Thomas Puccio, Williams is shown on the videotape, again committed to do no more than to "look into" a new proposal, this time to secure special immigration for the "sheikh." At one point, the frustrated Abscam agent left the room to confer with Puccio on how to consummate the bribery of the intractable Williams.

Williams, left alone, begins searching the room for a cigarette lighter or match, and, opening a desk drawer, uncovers the bribe money. He quickly closes the drawer and reseats himself on the sofa. When the sheikh returns, and makes his bribery offer, Williams responds with a rapid succession of "no, no, no, no," and, declaring his wife awaits him, departs.

The FBI's own videotapes, exhibited to the jury and broadcast on television, thus show Williams refusing the bribe offered to him as part of the Abscam frameup. They record him scouting a presumed-to-be legitimate business venture for his friends and state. The senator never once on those tapes said he would use the influence of his office to secure the deal. The FBI and the Brooklyn organized crime strike force, headed by U.S. Attorney Thomas Puccio, went ahead, regardless. The three FBI internal documents, which were in the hands of Judge George C. Pratt at the time he presided over the case, totally vindicate Williams's testimony.

### **No 'overt action'**

In the FBI internal memorandum dated Nov. 27, 1979 to Assistant Director in Charge Francis M. Mullen, Jr., a status report is given on a Nov. 19 meeting of the entire New York/New Jersey staff of prosecutors and agents. It states that "The purpose of the meeting was to insure that all previous bribe situations were complete relative to prosecution and did not necessitate any further investigative action." In the section pertaining to whether Senator Williams had committed any crime in his conduct with the Abscam agents the memo states:

The following was decided:

1. *It will be necessary to recontact U.S. Senator Williams in attempt to obtain an overt action on his part regarding his sponsoring of some type of legislation; i.e., tax cover for titanium mine; environmental standards for titanium mine and/or import quotas for titanium mine.*

2. It was also suggested that attempts should be made to elicit from U.S. Senator Williams whether or not he wanted his shares hidden, through discussions concerning reporting of personal taxes and official acts that he promised to provide.

*If the above information is obtained, prosecutors at the meeting felt that they could prove that Senator Williams was in violation of Title 18, Section 201 USC and Conspiracy to Defraud the Government [emphasis added].*

The paragraph following the above also concludes that, in regard to then U.S. Rep. John Murphy of Staten Island, New York, he too "should be recontacted"—i.e., no crime has yet been committed.

These disclosures confirm that the FBI had *nothing* on Williams to justify prosecution and was blatantly seeking entrapment of the senator.

That conclusion in fact led the Justice Department's New Jersey division of the strike force, headed by Robert C. Stewart, to conduct a thorough review to ascertain "whether an adequate factual predicate exists for future investigative action" on the Williams case.

Stewart, along with New Jersey prosecutors Edward J. Plaza and Robert A. Weir, Jr., after extensive research, disclosed in two subsequent memos the following: 1) that Mel Weinberg, a convicted felon on the payroll of the FBI, rather than the prosecutor, was directing Abscam; 2) that *no* probable cause existed to investigate Senator Williams for a crime, let alone to conduct a "sting" against this elected official; and 3) Puccio simply took the words of two informants to fabricate the existence of probable cause for further investigation of Williams where no crimes had been committed. Chief Stewart writes:

The factual recitation as to Suspect "W" [Williams] in the Memorandum of Messrs. Plaza and Braniff . . . formalizes the issue about possible governmental overreaching. . . . Mr. Plaza and Mr. Weir brought this concern directly to the attention of the Brooklyn strike force in July and, at the first opportunity, to the Undercover Operatives as early as Aug. 9, 1979. . . . Subsequent events reflect that the Brooklyn prosecutors, the case agent, and the Informant resented this "intrusion" by the Newark prosecutors. In fact, Mr. Plaza was told that his advice "jeopardized" the investigation.

### **'Formulating the scheme'**

After citing Puccio's disregard for legal questions raised by the New Jersey strike force, Stewart commented that convicted crook Weinberg was actually running the operation.

Notwithstanding those events, the Informant persists in formulating the criminal scheme rather than simply allowing the suspects to do this. . . . Given this proclivity on the part of the Informant, prudence dictates that the genesis of each proposed meeting be scrutinized . . . in advance to ensure that there is a sound legal basis for further investigative action.

Finally, Stewart reflected on the theory of illegal entrapment operations:

It appears to me that the substantive problem with respect to this investigation is that it is being conducted in the manner of a conventional "sting" operation—that is, the predominant mo-

dality is to videotape anyone willing to meet with the Undercover Operatives in order to determine what, if anything, they have to say which might be incriminating. The problem with this approach is the fundamental difference between the subject matter of a conventional "sting" operation and that of the present operation.

He then describes the conventional operation as one in which, for instance, contraband is placed in the possession of a known thief. Discussion of it by the thief is ipso facto incriminating and constitutes an adequate basis for further investigation. However, he pointed out:

In the present investigation, the circumstances are fundamentally different *because there is nothing inherently illegal about either the nature of the meeting place or the general topic of conversation.* Indeed, absent specific facts to the contrary, there is an initial presumption of legality because of the positions which the suspects occupy and because of the ostensibly legitimate nature of the things under discussion—whether those things be the operation of a business, economic development in a[n] . . . area, or the protection of the human rights and indeed the very life of a foreign national who is touted as nothing more than a legitimate entrepreneur [emphasis added].

Stewart concludes that criteria which govern a normal "sting" cannot be used in this case, but rather criteria for Abscam "must depend instead upon the demonstrable existence of special facts which infect the particular transaction with illegality." Without meeting these criteria a "line is to be drawn between trapping the unwary innocent, and trapping the unwary guilty, into the commission of a crime," as Judge John P. Fullam of the Federal District Court of Eastern District of Pennsylvania stated in his November 1980 ruling that overturned Abscam convictions of Philadelphia City Council President George X. Schwartz and Councilman Harry P. Jannotti.

The last section of the above document demonstrates the desperation of Puccio to frame up Williams even to the extent that he lies about the reasons an investigation and prosecution should be conducted. Stewart explains: "In his conversation with me on March 27, 1979, Mr. Puccio indicated that Suspect 'W' of New Jersey had a hidden interest in the particular business venture. It was the hidden nature of this interest which was *malum prohibitum* [fraud], and it was that fact which justified further investigation."

Then, five days later, Puccio had a different story. Stewart writes:

"However, during the meeting of April 4, 1979 in

Brooklyn . . . Puccio related that the investigative predicates [the probable cause] as to Suspect 'W' were 1) the assertions of Intermediary 'E' [Camden, New Jersey Mayor Angelo Errichetti] that 'W' was corrupt and that 'W' 's friend, 'F' was 'W' 's bagman, and 2) the assertions of the Informant [Weinberg] that 'F' was 'W' 's bagman. Mr. Puccio observed that 'W' was a 'big question.'"

Here, Stewart is stating that Puccio depended only on the word of two crook informants in all of the allegations against Williams.

The final straw was when Plaza and Weir turned up the fact that the Brooklyn strike force had lost 302's (FBI status reports), that some tapes were missing, and that many conversations were not even recorded! One can't help but ask, "Who's covering up what, here?"

The second document concludes, "All this is a far cry from having a 'hidden interest.' To be sure, there were the assertions of Intermediary 'E' that 'W' was corrupt, but the basis of these conclusory assertions was never elicited."

How did Puccio get a jury to convict a U.S. senator who was shown on the FBI's own videotapes saying, "No, no, no, no" to an offered bribe? He took advantage of, as Jack Anderson put it, "the FBI's press agency." Using the media-created cliché that "all politicians are corrupt," Puccio insinuated that Williams had tried to "make a deal" with the Casino Control Commission Chairman Joseph Lordi on behalf of a particular company due to a presumed relationship between it and the senator's wife.

The third document, dated April 25, 1980, by the New Jersey strike force, shows that Puccio was lying about this as well:

"The telephone toll analysis conducted during the centralized grand jury phase of Abscam has not established a telephone call from Williams to Lordi. Interviews of Lordi resulted in his denial of contact with Williams." The New Jersey strike force also interviewed other commissioners who also denied any such contact. While the casino issue was not part of the indictment, during the trial Puccio continually referred to it with no objection by Judge Pratt, who knew there was no evidence on these charges. Puccio used these insinuations *solely* to prejudice the jurors.

Solicitation of business for a state or a district *is* the business of an elected official. This, is *all* that Senator Williams is documented to have attempted in the Abscam contacts. The third released document also recognizes this fact: "To date, the investigation has determined that it is common for a political office-holder to make inquiries on status of requests for expeditious action to the Casino Control Commission. In this instance, however, there is no evidence that Williams made such inquiry or recommendation to Lordi."

# The frameup of Harrison Williams

by Lyndon H. LaRouche, Jr.,  
Founder and Contributing Editor

Proven innocent of all specific crimes alleged, Senator Harrison Williams of New Jersey was framed, openly and shamelessly, by the worst lot of judges and prosecutors seen in English-speaking law since the bloody assizes of the 17th century.

If he was proven innocent of all alleged crimes, as he was, of what precisely was such an innocent person convicted in federal court? He was convicted of violation of an *ex post facto* law concocted out of the mouth of a federal judge.

That is the plain and simple kernel of the case. I call any man a liar who says this is not so.

A senator of the United States was convicted, not of any offense or morally tainted action. He was convicted on the *ex post facto* charge that he might, in some matter not tried before the court, have a "disposition" for corrupted behavior at some future time and place.

If such a conviction is upheld as a precedent in law, then let us quickly send three-quarters of the Congress to federal prison, beginning with the Senate "Ethics Committee," which bent to the corrupting influence of political pressures in the matter now before our attention.

If the Senate "Ethics Committee" had acted responsibly and morally, it would have thrown out the charges against Senator Williams, and drawn up a bill of impeachment against offending parties, including most emphatically the "Sir George Jeffreys" of the case, Judge George C. Pratt of the Federal District Court of the Eastern District of New York.

The irresponsible and immoral conduct of the Senate "Ethics Committee" demands our attention on two counts of the case.

The first cause is that "Ethics Committee's" condoning of a monstrous precedent in judicial tyranny. If a United States senator can be fraudulently charged and convicted in the manner Sen. Harrison Williams has been, no private citizen is safe from even more monstrous injustice imposed by sheer caprice of judges who are corrupt.

The second cause is that the "Ethics Committee" has

condoned a large-scale, willful effort to destroy the constitutional authority of the Congress of the United States. It is sufficiently documented that the operation usually known as Abscam-Brilab targeted preselected members of Congress for frameup, a virtually treasonous action launched under auspices of former Attorney General Benjamin Civiletti to the included intent of breaking the will of Congress.

## Congressional morality

Does Congress have the morality to exonerate Williams?

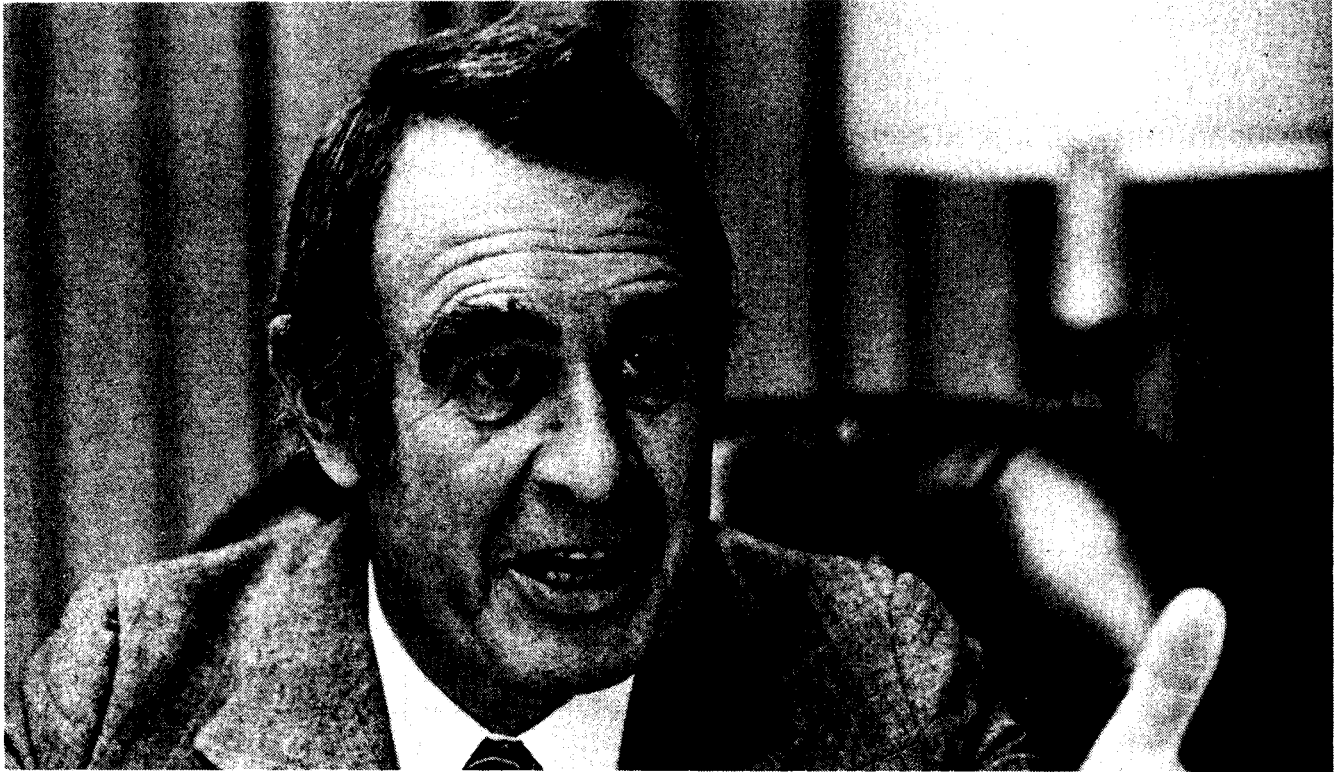
I do not know whether adequate moral fiber still exists within Congress. I state my grounds for doubting the moral capacity of many members.

During 1980, the Carter administration issued a document entitled *Global 2000*. This *Global 2000* proposed that the policy of the United States must be to perpetrate genocide on a scale vastly greater than that accomplished by Adolf Hitler. Former Secretary of State Edmund Muskie, who presented the *Global 2000* to the press, admitted such a savage genocide to be the purpose of the report, and praised the report on such counts.

There are members of Congress on both sides of the aisle so degenerate or so swayed by political-opportunism that they variously promote or condone policies more hideous in their consequences than those perpetrated by Albert Speer and others under Adolf Hitler. From a Congress so bereft of elementary morality one must expect such renderings as the Senate "Ethics Committee" has reported in the Williams case.

This problem is by no means limited to the morally defective members within the Congress.

Under Henry A. Kissinger's two terms as Acting President of the United States, agencies committed to genocide on a scale vastly greater than Hitler's were made institutions of both the National Security Council and State Department. These included the Ad Hoc Population Group of the National Security Council,



and the Committee on Population Affairs of the State Department. These criminal entities are still functioning under a nominal Catholic, Secretary Alexander Haig, who should have purged them from government. They exist under direct supervision of a nominal Catholic, Deputy Secretary James Buckley.

The stink of monstrous personal hypocrisy as well as fathomless immorality otherwise, permeates many corners of our federal government, as well as among such neo-Malthusian private institutions as the Ford Foundation, the Draper Fund, the Rockefeller Foundation, the Sierra Club, the Aspen Institute, the World Wildlife Fund, and the self-styled "environmentalists" generally.

It is not accidental that a Congress which continues to condone genocide worse than that accomplished by Adolf Hitler can also stomach a seditious effort to destroy the Congress through such evil means as we witness in the Williams case.

It is not unrelated to this erosion of our national morality that successive administrations, Congresses and federal courts have winked lasciviously at the emergence of the international pornography traffic as a financial and political power second only to the closest political ally of the porno-kings, the promoters of legalization of use of and traffic in mind-destroying drugs.

The behavior of the "Ethics Committee" in the Williams case is not a matter to be studied in isolation from the general pattern of erosion of the institutions and popular morality of our nation. We stand on the brink of a monetary and economic collapse worse than that of the 1930s, and we are plunging toward thermonuclear brinksmanship at a speed accelerated by lightning of our military of the burden of adequate armaments.

The so-called Anglo-American empire which appeared almost all-powerful at the close of the last war now shows signs it is determined to follow the precedents of disgraceful collapse earlier modeled by Babylon and Rome. What we are doing to ourselves portends the oblivion of a Sodom and Gomorrah.

We are being destroyed as a nation from within. The behavior of the "Ethics Committee" in the Williams matter is merely consistent with the accelerating erosion of our nation's moral fitness to survive.

The only thing which might save us is to see clearly what we are becoming, to see clearly the monstrous economic depression and possibly worse which awaits us unless we repudiate, and very quickly, the processes of moral degeneration which have seemed to rule us increasingly since, approximately, the assassination of President John F. Kennedy.

If the Senate can find in itself the moral strength to

## Jack Anderson blasts Ethics Committee

*The Sept. 11 installment of syndicated columnist Jack Anderson's commentaries on the Williams case pointed to a key constitutional issue. Excerpts follow.*

The Justice Department's pursuit of Sen. Harrison A. Williams, Jr. (D-N.J.) led the prosecutors to commit a long list of improprieties. Not the least among them was the stage-managing of the Senate investigation into his ethics.

In effect, they tried him twice on the same dubious evidence. The Senate should have made its own independent determination of Williams's guilt in the Abscam case. The presence of the ubiquitous prosecutors in the Senate wings raises a troubling question: how far should the executive branch be allowed to go in its efforts to drive a U.S. senator out of office?

Williams wanted the Senate Ethics Committee to conduct a full investigation. . . . Instead, Justice Department officials were allowed to guide the committee from backstage. . . . Long before Williams was found guilty, courtroom observers spotted a frequent visitor huddling with Abscam prosecutor Thomas Puccio during the trial. The mysterious stranger was identified by witnesses as the Ethics Committee's counsel, Donald Sanders. . . .

The senator requested extra time to prepare his case and present it at a public hearing. He was turned down. Yet the committee granted the Justice Department months to prepare its case against Williams, which was presented to the senators behind closed doors. This star chamber presentation—Williams was not allowed to be on hand to confront his accusers—did not persuade all the members. . . .

Several were convinced the Justice Department didn't have a case against him. In fact . . . at one of the closed sessions a Justice Department official conceded that the facts did not match the law. The committee should have subpoenaed the prosecution records immediately. Instead, then-chairman Howell Heflin (D-Ala.) gave the department an additional three months to make a case against Williams.

repudiate the recommendations of the "Ethics Committee" in the Williams case, that would serve as a turning-point, a reversal of the process of moral decay infecting our citizens and our leading institutions.

I think I do not exaggerate the significance of such proposed action in the Williams case.

The chief feature of the process by which we have become immoral, and often insane, in our judgments is the substitution of "consensus" for independent, rational judgement. We used to ridicule some of those defendants in the trials of Nazis at Nuremberg, whose argument in defense was "I only carried out orders." Is there an important difference between saying "I carried out orders," and saying "I had to go along with the prevailing consensus?"

Each member of Congress is morally responsible for whatever consequences ensue from each decision. That member is personally accountable morally, and if that person is moral, must act on the basis of reason and conscience even if he or she is a minority of one in Congress or party. That is the quality of representation the citizen of a republic has a right to expect; that is the quality of representation those citizens ought to demand.

Granted, our citizens themselves often behave immorally at the polls. Often, they vote for a candidate not because of the candidate's character and policies, but chiefly because they believe the candidate might win despite their vote, and because they view the candidate as a "lesser evil" among those who might be elected. Others support candidates because they believe they have made an advantageous "private deal" on this or that issue. "To the devil with the nation; I have to take care of my own interests!"

In the Williams case, the prevailing consensus is to "dump him." Most of those congressmen who are inclined to support the "dump" decision either know that Senator Williams is innocent, or would prefer not to listen to any of the evidence which would embarrass them with that reality. "Look," they say, "the decision has been made, and I'm going along with it." Are those congressmen any better than the Nazi war criminals we used to ridicule for "only taking orders"?

Therefore, if a majority of the Senate could muster the morality of practice to repudiate the irrationalist rantings of Judge Pratt, that courage to go against the "prevailing consensus" would mean a revolution in morality within the Congress. Many of the senators who found the courage to act honorably in support of Senator Williams, would confide to their wives that same night: "For the first time in years in politics, I really feel clean tonight. It's a very good feeling."

If we can reverse direction in our national affairs in that way, perhaps we might survive as a nation. At least, we should have tried.



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## López Portillo rejects Hong Kong economics

by Timothy Rush

In his fifth State of the Union address, delivered on Sept. 1, Mexican President José López Portillo reasserted Mexico's development strategy in the face of insistent demands from abroad that Mexico adopt a "Hong Kong" model. He dwelt at length on the accomplishments of Mexico's decision to invest oil income in heavy industry, capital goods, and productive technologies throughout the economy, telling his countrymen that it is now time to "consolidate" these gains under a system of centralized economic direction from the government, in full partnership with the private sector.

Probably the most explicit call to date for Mexico to dismantle this development effort had appeared a week earlier in the *Wall Street Journal*. Karim Pakravan and Melvyn Krauss, an associate of Milton Friedman at the Hoover Institution of Palo Alto, wrote that Mexico's "model of economic development should be the four thriving economies of the Pacific Basin—Hong Kong, Singapore, Taiwan and South Korea. These economies have prospered by importing labor-intensive industries (textiles, plastics, toys and so forth) that take advantage of, and give employment to, their vast labor resources."

In contrast, "Mexico identifies its industrial aspirations with heavy and capital-intensive industries." This hardly makes sense, concluded Krauss and Pakravan; "Converting expensive oil into cheap steel seems a poor bargain today, even if Mexico could produce steel efficiently. There is little sense in having showcases of modern, labor-saving production techniques that are unsuitable for a restless population."

López Portillo did not refer explicitly to the *Wall Street Journal* article in his fifth "Informe," as the tradi-

tional Mexican State of the Union address is called but Industry Minister De Oteyza did, and hardly in appeasing terms. Asked about the *Journal* manifesto Aug. 29, De Oteyza stated angrily "We will make ourselves independent by the route of capital goods production, and not as the industrialized countries would like—that we limit ourselves to producing consumer goods and that they sell [us] machinery and equipment."

This powerful reassertion of Mexican policy, in the face of several months of economic warfare against its peso and oil export levels, bears particular importance for the North-South summit at the Mexican resort of Cancún on Oct. 22-23. The code name being given by neo-Malthusians of the U.S. Friedmanite stripe to a policy of Third World economic devolution and genocide is precisely "the Hong Kong model." In its Latin Americanized form, the same policy is being pushed by the Rockefeller crowd as the "Jamaica model." The same population control policies are also being peddled to the developing sector under an "anti-imperialist" label by the forces associated with the World Bank's Brandt Commission.

López Portillo's and De Oteyza's statements mean that the "Mexican model" remains a rallying point for forces worldwide who want to see combined and real economic development of both the industrialized and developing nations, on the basis of high-technology development of the Third World.

This is good news for the United States. In bilateral terms, it means Mexico remains in the field as the premier high-technology market for U.S. goods abroad. In terms of Cancún, it gives American traditionalists a new op-



José López Portillo

## From the State of the Union message

*The following are excerpts from Mexican President José López Portillo's fifth State of the Union Address delivered Sept. 1, taken from the English-language Mexico City daily, The News.*

Disorder in the world economy and its many problems have put to the test the planned effort that this administration has made since 1976 to carry forward our national enterprise, which is embodied in the Constitution of 1917. . . .

The domestic product, particularly in industrialized countries, is not growing. This year it will increase by about 1 percent at the most. In those countries there is unemployment, generalized inflation continues, the flow of trade has grown weaker, and great confusion and maladjustments prevail in the trade balances between nations. The prices of both agricultural and mineral raw materials have suffered greatly from this disorder and from speculation. At the same time, the dollar has been revalued owing to interest rates that have reached levels unprecedented in modern history, which further affect financial markets, currencies—even the strong ones—and oil prices. . . .

This world crisis cannot be explained as a transitory or circumstantial event. It results from the deterioration and inadequacy of the old international order that came into being at the end of the Second World War.

Given this severely imbalanced framework of the world economy, we must recognize—despite those who dramatize their fears by shouting them from the rooftops and see only tragedy ahead, even in the political future—that Mexico's development has been an exception whose true significance we have not all appreciated. . . .

Let us call to mind—not as a fanfare of triumph, but as an objective portrayal of contrasts—that Mexico will achieve for the fourth consecutive year an average annual growth rate of over 8 percent, which is unprecedented in our history and is far from common in today's world. Recent national accounts now indicate, with all methodological and statistical objectivity, that we grew by 9.2 percent in 1979 and by 8.3 percent in 1980.

Our growth has been directed, and is designed to create jobs and to improve the distribution of

portunity to move against the "population control" criminals who are dictating U.S. State Department policy under the auspices of Secretary of State Haig and Undersecretary James Buckley.

However, the Reagan administration seems to be courting disaster precisely in this most promising area of U.S.-Mexico trade. The administration in fact seems intent on reproducing every failure of the Carter administration policy. As is demonstrated by *EIR's* interview with Commerce Department official Waldmann below, the administration is fully committed to the precepts of the Hong Kong model as they apply to Mexico: no to heavy industry, and no to government direction of the economy for integrated industrial development. Waldmann says the United States will be seeking "frank discussion" with Mexico on this "problem" at the first full convening of the new U.S.-Mexico Joint Trade Commission Sept. 21-23. Is there any difference between this attitude and former Energy Secretary James Schlesinger's famous dictum that "The U.S. will not permit a Japan south of the border"?

In the following *EIR* special package, we let President López Portillo speak for himself in presenting a Mexican economic status report, as he delivered it in his State of the Union address. We follow with an exclusive interview with one of Mexico's most respected business leaders, Ernesto Amtmann Obregón, who outlines what Mexican business wants from the United States, and the reasons for his firm support for the López Portillo strategy. And we also present Commerce Assistant Secretary Ray Waldmann's assertion to *EIR* of why Mexico's focus on heavy industry is wrong.

income. . . . I am not saying that we have solved every problem, far from it. Nor that all of us have fulfilled our duties to the nation. I am saying that we have made progress.

Planning development presupposes the regulating role of the state in the different processes involved, in which it acts as the authority. . . .

### **On interest rates**

The policy of flexible interest rates and new financing instruments—commercial paper, convertible debentures, and Treasury bonds—has enabled us to confront the changing economic conditions that prevail in the world, especially the absurd interest rates. . . .

The selective channeling of credit has continued to serve as a valuable instrument in orienting production according to major national priorities. In 1980, credit to agriculture rose by 61 percent. . . .

An unprecedented effort is being made to focus major attention on the production of basic low-cost consumer goods. With the aim of stimulating the supply of priority goods and services in the country, it was decided not to raise the interest rates at which government funds and trusts lend to borrowers, maintaining an average level of 18 percent. . . .

In a disorderly market, we have managed to avoid both erratic fluctuations of the exchange rate and speculative maneuvers. In the face of a dollar revalued by the monetarism of U.S. credit policy, the peso has continued floating and slides to adjust to market realities. Meanwhile, its value rises vis-à-vis other currencies, and is benefited by the price of oil, which is quoted and paid in dollars. . . .

### **Industrial growth**

From 1977 to 1980, Mexico's industrial production grew an average of 8.1 percent per annum, a rate that compares very favorably to the growth rates of industrial economies.

Thus, excluding construction activities, industry now provides employment for almost 25 percent of the remunerated economically active population and contributes about 35 percent of gross domestic product.

In 1980, the industrial product, valued at 1975 prices and defined as the sum of what is derived from mining, petroleum, manufacturing, and the generation of electrical energy, rose 10 percent. Mining production went up approximately 6 percent, an extraordinary amount for this field of activity. Production of petroleum, the catalyst of growth, rose almost 30 percent, manufactures rose 6 percent, and electricity, 7.1 percent. . . .

In the present context of perhaps the worst international economic crisis since the Second World War, an excessively liberal foreign trade policy was particularly risky. We therefore decided to strengthen our trade

policy measures in order to ensure adequate growth of the industrial sector and of the economy as a whole. . . .

The magnitude of the resources managed by the parastate sector confers upon it a key role in economic growth in the years ahead. . . . Considering the criterion of financial profitability, the preliminary results for 1980 show that various parastate enterprises, after a number of years in the red, have shown a profit. We suggest that you consult the annexes.

There is a tendency, however, to reduce profitability and efficiency criteria for public enterprises to financial terms as if they were private enterprises, when in fact they fulfill a strategic and social function in providing subsidies and guiding economic policy. . . .

Within the framework of the objectives and goals of federal government plans, the development of the oil industry became the strategic catalyst of our economic recovery during the first years of this administration.

Since 1976, proven hydrocarbon reserves have increased tenfold; output has tripled; exports of crude have grown at exponential rates; refining capacity has increased by some 50 percent during these five years, and the production capacity of basic petrochemicals has practically doubled. . . .

### **Energy policy**

Increased output of hydrocarbons has not only created greater demands for capital goods, technicians, and workers, but, through exports, has also provided the funds to purchase from abroad the complementary technology and equipment that will enable us to achieve integrated growth. This is what we mean when we point to the capacity for financial self-determination that hydrocarbon exports afford us, and when we point to oil as the "spearhead" of a program that leads to transforming nonrenewable resources into permanent sources of wealth and employment. Both these concepts as originally conceived have properly fulfilled these roles. We reiterate and confirm the fact that Mexico is not a "petrolized" country, nor are we in the process of becoming one. Oil accounts for barely 7 percent of domestic production—that is for each peso the country produces, only 7 centavos are derived from oil, while in "petroleum countries," 46 centavos of each peso of production can be attributed to this product. . . .

On March 18 of this year, it was reported that proven reserves had risen to 67 billion, 830 million barrels. Today I have the satisfaction of informing the nation that proven reserves now stand at 72 billion barrels, while probable reserves have reached 58 billion, 650 million barrels, and the volume of potential reserves which include the foregoing plus accumulated output to date, has risen to 250 billion barrels.

A year ago, Mexico's oil reserves occupied sixth place worldwide in volume. Today, they are in fourth

place and they continue to grow.

We can state with all assurance that the Gulf of Campeche, where oil is being pumped, and the Chiapas-Tabasco region, also in production, are actually part of the same geological phenomenon. They are linked and form a single major oil field. In Baja California we are drilling development wells and there is clear oil potential in a large part of our territory. . . .

In view of these prospects, we have sustained the thesis of programming rather than improvisation; the long term rather than the short term; economic cooperation rather than market speculation; and guaranteeing supplies rather than offering a bargain. . . .

Let us remember that we never offered a rose garden, provided by oil. We said, and this is being borne out, that oil would give us financial self-determination, that it would be the pivot and the catalyst of economic development. . . .

Doctrinaires, without a social conscience and securely entrenched in their comfort, are determined that inflation be fought by raising unemployment, so that those who do not work do not consume. In Mexico, where this is a chronic problem, such action cannot and should not be taken. These are longer, more difficult, but also more just roads to follow, and these are the ones we have chosen: to fight inflation by producing more and by creating more productive jobs. . . .

By this means and for this reason, the state maintains its union spirit and its unconditional respect for the right to strike. This is not claimed as a virtue, but stressed as an integral part of the system. . . .

### **A new cold war**

We are living in a period of turbulence, backsliding, and even military confrontations. A new cold war climate has been created similar to the one that dominated in the 1950s. We are faced with a frankly dangerous step backward on the road to détente, which had been gaining ground during the past two decades.

After the death of SALT II, it will be very difficult to negotiate SALT III, which was to have represented the beginning of a process of actual reduction—not just of limitations—in nuclear weapons. There is every indication that the hoped-for agreement will be replaced by the development, construction, and storage of man's most ominous investment: the neutron bomb. . . .

In international life there are no problems that are not part of the shared responsibility of states, nor are there blind forces of history that have nothing to do with the will of nations. We therefore believe that relations between Mexico and the United States should break out of the traditional mold and seek common criteria and solutions based on mutual respect. With this objective in mind, we met twice with the President of the United States.

On both occasions we had frank and cordial talks in which we courteously and firmly explained Mexico's position as regards the complex nature of our bilateral relations and especially as regards the daily problems that naturally arise from our proximity and in the region immediately surrounding us. . . .

### **Consolidation of achievements**

We divided the six-year term of office into three two-year periods—restoration of the economy, consolidation, and accelerated growth.

With people's confidence we were able to restore the country's economy and vitality; and the combined impetus of the public, social, and private sector had such a rapid effect that even before we had consolidated the economy we were already beginning to grow at a rapid pace. As we progressed as a nation, we became aware of all the insufficiencies that had been brought about by stagnation and the deficiencies of the international economy.

In the face of external realities, whose internal effects we are still powerless to control, and of the eleventh-hour problems largely stemming from harmful monetary measures taken abroad, we have adjusted our plans with the flexibility provided by their own rationality and objectivity, without affecting either our priorities or our intention to produce more by creating more jobs. In the last two years of this administration, particularly in the period that still remains, we shall make an effort to consolidate what we have already accomplished, which has now become intermingled with accelerated growth. . . .

The more I perceive the world's contradictions and the reality of the absurd, the more I admire the genius of our forefathers in resolving such contradictions and subjecting such absurdities to reason, through our basic law, the Constitution. Exceptionally valid, and the creation of the Mexican Revolution, it is still not being fully complied with, not because of the precepts it contains, but because of our shortcomings. For it is both a standard and a channel for our own contradictions that institutionally enables us to aspire to what is desirable, attempt what is possible, and demand what is necessary. Only in this manner may we preserve permanence in the midst of change and remain as Mexico in the world and not as a leaf blown by the wind amidst the shadows of history. . . .

We have history, we have destiny, we have pride and we affirm our dignity. We have contributions to make to the world and we are open to accepting from the world what it has of value, in an unending search for the universal perfectability in which we believe, founded necessarily on equality, freedom, justice, and peace.

In a word, we have Mexico, and all of us, together with our children, are and will continue to be, Mexico.

## Commerce's Ray Waldmann talks about bilateral trade

*Assistant Secretary of Commerce for International Economic Policy, Raymond J. Waldmann, outlined for EIR's Stanley Ezrol on Aug. 24 how he sees conflict developing with Mexico over the Mexican government's efforts to make the nation into a fully integrated industrial power.*

**Ezrol:** How do you see U.S.-Mexico trade developing?

**Waldmann:** Very favorably. It's becoming a major trading relationship for the United States. I believe Mexico is now our third largest trading partner.

**Ezrol:** You are involved in the U.S.-Mexico Trade Commission, which was set up during Mexican President José López Portillo's visit to Washington in June. In the context of that commission, have the Mexicans made any import requests, particularly in the area of capital goods?

**Waldmann:** We haven't yet seen any specific such requests. In terms of the flow the other way, there is already a process for the admission of certain Mexican products under the Generalized System of Preferences. That process of review of GSP requests would continue as it has in the past . . . not be overridden by the joint commission.

**Ezrol:** What will the joint commission be looking at?

**Waldmann:** You have a large number of issues: the Mexican development plans and domestic laws affecting their subsidized exports. Our countervailing laws will affect Mexican trade. There are tax problems. There are issues with the recent import-licensing program which the Mexicans have just expanded; visa problems; border industry problems.

**Ezrol:** How will we approach the question of Mexican export incentives and their CEDI program [a form of tax rebate system for exporters]?

**Waldmann:** Our basic policy is to bring Mexico under the disciplines that GATT countries are subject to. That, I think, is a useful long-term goal for our relationship with Mexico. We propose to discuss their CEDI system and our countervailing laws at this first session, and perhaps start a process of mutual accommodation.

**Ezrol:** What do you see as the major potential stumbling blocks in trade relations?

**Waldmann:** Mexico is going through a rough economic and financial time right now—the government is running a tremendous deficit and they have problems of balance of payments—and rather than open up their economy they have tended to close it. I think that, of course, causes us a major problem. They are not relying to the same degree we would on market mechanisms.

**Ezrol:** López Portillo has pointed to the problem of continuing high interest rates in the United States.

**Waldmann:** I have not yet seen or heard from Mexicans that they are particularly troubled by high interest rates. As I recall the Mexicans have traditionally had high interest rates in their own domestic economy.

**Ezrol:** In the long term, do we see Mexico developing as a competitor to the U.S. in such areas as auto production and high-technology machine production? Or do we see it as in some way complementary to the economy of the U.S.?

**Waldmann:** I think if natural forces are left to take place it will develop in a complementary fashion. What causes it not to be complementary is the intervention of government decision-making which forces an economy into a straitjacket. It says, for example: "We must have a steel industry of our own even if it's a higher cost industry," or "We must have an automobile industry of our own even if it's at higher cost." Those solutions would not necessarily be those of the market. One of the things we'd like to develop over the course of the life of the joint commission is a frank discussion in this area. . . .

We have to find a way to let the market forces in both countries seek their own level, find their own way. I wouldn't say that Mexican industry has been put in a straitjacket, but clearly that potential always exists if you have a policy of central direction and of government guidance of industrial policy.

**Ezrol:** Isn't this very much like the point of view which Adam Smith used against the development of manufacturing in the United States?

**Waldmann:** This is not the right administration to talk about Adam Smith in because there are people in the White House who wear Adam Smith ties. The British policies of the late 18th century with respect to manufactures in the U.S. were wholly regressive. They restricted manufacturing. We're not talking about restricting in Mexico at all. We're talking about the way in which it develops—whether products made in Mexico will find markets in the U.S. If they are conscientious in developing products which are direct competitors with the U.S., then the problem is going to be harder than if they develop complementary industry.



## How Mexico's business-government alliance works for industrialization

*Carlos Amtmann Obregón, one of the most prominent and respected of Mexico's business leaders, in a Sept. 3 interview with EIR's Mexico City bureau chief, Josefina Menéndez, explained the strategy of Mexican business-government cooperation, and the reasons for a number of economic measures, which have drawn the ire of Reagan administration officials: programs of export incentives, new import restrictions, and refusal to join GATT.*

*Ing. Amtmann Obregón, an engineer, is the longtime president of the National Association of Importers and Exporters of the Mexican Republic (Anierm); the president of the Mexican Business Council on Foreign Affairs (Cemai), which arranges an extensive series of yearly meetings with businessmen and government officials in Mexico's major economic partners; and director of the U.S.-Mexico Chamber of Commerce.*

*On the eve of the first full session of the new U.S.-Mexico Joint Trade Commission, to be held Sept. 21-23, Amtmann Obregón's views and recommendations on bilateral trade and development policy are particularly timely. Among the topics: interest-rate policy, the danger of Malthusianism, and the kind of industrial support Mexico looks for in the United States.*

**Menéndez:** In July, President López Portillo charged that there was a "plot" against the Mexican peso. One of the great arguments used by those who have attempted to force a devaluation is that it is required to increase Mexican exports. Do you agree with that?

**Amtmann Obregón:** Our organization, a group of importers and exporters, feels that a peso devaluation would only be beneficial for the 7 percent of the gross domestic product that is made up of exports. On the other hand, it would harm the bulk of imports of products and raw materials, which would become more expensive for us, aside from the increase in public debt, and so forth.

Our detailed analysis shows that a devaluation would certainly favor export prices for our manufactures. But to determine how exporters and the country would benefit, we have to calculate the scheduled volume of exportable products. If our projected export volumes were

double the traditional exports, for example, it would be good business; but if we could not increase the total volume of exports, it would not.

**Menéndez:** What's the situation now with Mexico's oil exports, after the shakeout period of June and July?

**Amtmann Obregón:** I believe that we must consider petroleum a product like any other. When demand is great, naturally all producing countries have the opportunity to sell their planned production at reasonable prices. But when the market is saturated, demand goes down, and the power is in the hands of the buyers.

The initial problem has passed, however. What interests us is the future. We are renegotiating the prices. We have been able to recover the export levels which we had programmed, obtaining reasonable prices given the current situation.

Thus, for example, we are meeting Mexico's production goal of 2.5 million barrels per day, while exports are 1.4 million. I believe that as long as we are meeting our production and export goals, we are in good shape. Oil continues to be Mexico's great lever for the economic development of the rest of those industrial sectors that make up the country's economy.

**Menéndez:** The *Wall Street Journal* recently charged that Mexico's was a "destructively protectionist economy." What would you say to that?

**Amtmann Obregón:** We must recognize in principle that the world lives in an era of protectionism, even though ostensibly one of free trade. There are many examples of the most-developed countries that apply rules and restrictions, of both a tariff and non-tariff nature, to protect their industry. They want to prevent competitive foreign goods from destroying the prosperity of their domestic industry. Mexico is no different. And it uses the types of economic controls required for different situations as they develop.

For example, last June 26 in the official government record there appeared new limitations on 254 import categories. This was considered necessary because there had been massive, indiscriminate importation just be-



fore. The rate of imports, including unnecessary goods, was growing wildly. An outflow of dollars of this sort, together with other factors, can lead to a balance-of-payments crisis. The Mexican government, well and responsibly aware of this situation, did nothing more than exercise a measure it had at hand, import controls. It thus ended a problem which otherwise could have become critical.

As to whether the pace of protectionism is constructive or destructive, I believe Mexico's protectionism is constructive for its industry and its interests. Because, in addition to the protective measures, the government has discussed with the industrial sectors the need to improve production and quality, and to ensure competitive prices on international markets.

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The authorities have fixed the criteria for the controls so that in some cases they allow imports based on quotas or other measures, and in other cases permits for imports of minimum quantities, so as not to put a brake on industry and trade, while reducing existing stocks. And they carefully identify those products that must be imported because the country needs them and because they cannot be substituted for by domestic production.

This has not been an indiscriminate system; on the contrary, it is very reasonable, such that what we import is needed by the country and can be paid for by the funds that we generate.

**Menéndez:** There has been conflict between the private sector and the government in Mexico in the past. How would you describe the current relations?

**Amtmann Obregón:** The business sector, through its leadership organizations, is serving as advisers to the government officials. This guarantees permanent communication. We have an infinity of examples where

business unity forms part of government unity, to create one single task force. Even so, people are free to express a different opinion, even if it is not the general sentiment. But as a country, we are united in a national effort to improve the situation.

In my area, international trade, the best example I can give is the Fourteenth National Convention on Foreign Trade that will take place Oct. 1-3. The convention will be keynoted by President López Portillo, with an agenda worked out with the participation of the country's top foreign-trade officials and the representatives of businessmen's organizations.

**Menéndez:** Are you happy thus far with the development of relations between Mexico and the Reagan administration?

**Amtmann Obregón:** With two countries at different stages of development like the United States and Mexico, it is clear that differences of opinion on what is necessary can easily lead to friction. But man is intelligent enough to overcome these conflicts, as we see in the mixed commission created by the Reagan administration whose principal virtue is that it tries to prevent differences from becoming frictions.

The conclusion we must draw is that we can look forward with serene enthusiasm to the promising future of both our countries if the lines of communication remain open.

**Menéndez:** What suggestions do you have to improve the relationship?

**Amtmann Obregón:** It has been urged that the United States change the criteria by which it assesses a country's level of development and whether or not it has access to the General System of Preferences [Mexico has lost some GSP benefits by being reclassified as an advanced developing country—J.M.]. Mexico is in the process of developing, but it is not yet fully developed. Nonetheless, rather than being able to share in the benefits of a system that should aid and support all nations equally, we find that limitations have been imposed on us as a result of the criteria used to determine a country's access to the GSP.

**Menéndez:** What policies do you urge the American private sector to pursue to improve ties with Mexico?

**Amtmann Obregón:** Of the total amount of foreign investment in Mexico—\$7.5 billion—U.S. investment represents 69 percent, or \$5.2 billion. What I would recommend here is that this investment increase, and that it be accompanied by greater technological inputs and the freedom to use them in production for export—not just to the United States, but to other countries. This would allow Mexico to diversify its markets, and not limit the

use of those technologies only to its national territory.

**Menéndez:** What impact have American high interest rates had on Mexico, and do you think the rates should stay high?

**Amtmann Obregón:** I think it's terrible that interest rates in the United States are so high. This is harmful for Mexico. The higher interest rates for dollar savings obviously lead to capital flight. To retain investment in our country, Mexican rates have to be a few points higher. This brings us to the question of the international monetary system, which we're told suffers from a number of infirmities. A solution must be sought particularly on the part of the advanced-sector countries. In their hands lies the power to revise the entire basis of the system so that money serves as an instrument which complements labor, rather than as a power unto itself which subjects all other interests to its own.

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**Mendéndez:** Why did Mexico decide not to join GATT, and do you as a Mexican businessman agree with this decision?

**Amtmann Obregón:** The issue of whether Mexico would enter GATT was debated publicly here, and every sector had the opportunity to discuss it and express its opinions. The conclusion of the debate was that we would postpone our entry because such an international commitment at this time could hurt, interfere with, or modify our economic conditions and the methods and policies of domestic economic development.

All of the sectors arrived at that conclusion together, and we agreed to postpone for some future date renewed study and review of possible entry into GATT.

**Menéndez:** Late last year, the U.S. State Department issued a report known as *Global 2000*, which says it is desirable to severely limit population growth due to so-called resource constraints. Do you agree with the viewpoint that says there are "limits to growth"?

**Amtmann Obregón:** From an economic standpoint, demographic growth should seek a balance with production. The fact that production in Mexico is growing at rates above 6.5 to 7.0 percent annually, against 2.6 percent demographic growth, is reasonably good. It will allow production to create jobs to absorb the growing unemployed population. In the short term, public services will more rapidly be able to meet demand; we will more rapidly be able to provide a sufficient number of teachers for our classrooms, and appropriate material for the education of our population. Health services will be able to provide sufficient hospitals, beds, and related material to which every citizen has a right. Any limitations on demographic growth must be—as it is in fact—determined by the free will of nations and governments that have the responsibility of meeting the needs of their populations.

As for the argument that demographic growth should be limited because of scarce food supplies, this is very questionable. Full-time researchers are working every day to perfect technologies that allow man to produce more than sufficient quantities of food on ever-smaller areas of land. Scarcity then no longer becomes an issue thanks to the imagination and creativity of those who work tirelessly in an organized fashion to meet the challenge of science and to place it at the service of society.

**Menéndez:** What's the significance of Mexico's export drive, and how does it fit with other development goals of the economy?

**Amtmann Obregón:** I think it is in the national interest that the nation export greater amounts of manufactured goods. To further this, the government provides generous packages of financial support to encourage investment, production, and planning for exports. I think it is legitimate and of the greatest importance economically that the country count on foreign exchange generated from manufacturing exports, and that income from oil which currently represents 75 percent of our exports gradually become less important in our trade and payments balance. It should serve us only as a conjunctural lever for development, so that long-term fixed investment—such as in industry—can increase and consolidate the economic development of the country, the creation of jobs, the utilization of our infrastructure, the use and increase of inputs and services, and ultimately generate the creation of a full-cycle economy that is intimately linked to the country's foreign trade.

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# The 'Vietnamization' of Central America is about to erupt

by Lyndon H. LaRouche, Jr.

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*The following statement was issued on Sept. 7.*

According to some among the highest-level sources in the United States and Latin America, the United States is to become directly involved in what is most frequently described as "the Vietnamization of Central America." All the essential features of this operation have been corroborated independently by a range of highest-level sources.

It is also indicated, from among circles of Secretary Alexander Haig's strategic advisers, that Secretary Haig's intent in launching this new genocidal bloodbath is to represent the United States' military role in this regional warfare as "confronting Soviet surrogates" and Cuba in the Central American region.

There is no significant Moscow or Havana control over the left-wing guerrilla forces about to be unleashed in Central America. According to high-level advisers to Henry A. Kissinger and Alexander Haig, Haig will insist that U.S. military involvement in Central America is "taking on the Soviets."

That statement will be a lie.

The substantial strategic conflict between NATO and Moscow now is in Asia. Since Volcker's interest rates and Stockman's budget cuts are destroying most of what Jimmy Carter did not wreck in our national defense, Haig's backers have sense enough to know they can do nothing of "geopolitical" military significance in Asia at this time.

Therefore, Haig's advisers have cooked up a side-show just as phony and even more evil than Hitler's Abwehr did, dressing up corpses as "invading Polish soldiers" on the eve of World War II. Haig is intending to pile up a massive body-count of Latin Americans, and to point fraudulently toward this pile of corpses as a "geopolitical bloody nose" for Moscow.

Although the gang around Kissinger and Haig is the U.S. interest involved in both sides of the Central American holocaust, the foreign policy of the United States at this moment is fully under the control of Britain's foreign minister, Lord Carrington, together with the genocidalist Club of Rome, which are coordinating the overall operation and controlling the relevant U.S. policies.

The trouble with most U.S. statesmen today is that they are as illiterate children when faced with the typical sophistication of a British strategic maneuver. Foolish Americans think foreign policy is some sort of real-life version of President Ronald Reagan playing cowboys and Indians in a Hollywood movie.

## **The Malaysia model**

During World War II, the British Secret Intelligence Service cooked up a potential guerrilla force of ethnic Chinese in the Malaysia area. However, this force was never significantly armed or deployed during the war.

At the close of the war, under the direction of the late Lord Louis "Dickie" Mountbatten, the British shipped large supplies of weapons to this ethnic Chinese communist guerrilla-force against the Malaysian and European citizens and residents. The British then organized the experimental counteroperation which contained and ultimately neutralized the guerrillas.

Later, the British repeated the same experiment in Kenya. Through British SIS a group of Africans of Jomo Kenyatta's tribe was launched as an insurgent Mau-Mau force against planters and other tribes. The British quickly rounded up the leaders of the Mau-Mau, imprisoning them in camps where, the British said with tongue in cheek later, "We tamed them." The British ran the counter Mau-Mau operation, in which Brigadier (then Major) Frank Kitson was deployed, repeating the Malaysia experiment. Later, with complicity of French colonialist assets of British intelligence, the United States was entrapped in a similar "experimental" setup in the first phase of what became the Vietnam War.

Rightly the British oligarchs do not believe that the world is divided on principle between "cowboys" and "Indians." The British practice is to start wars between the "cowboys" and "Indians" of a country or region of the world, and then to intervene to tip the balance of forces between the combatants. The British thus plot to end up with greatly increased control over the victor in a much-depleted, war-weakened nation or region of the world.

That, in brief, is the method of managing the "balance of power." That is the method being used to

develop and orchestrate a genocidal regional war in Central America.

The dumb American "cowboy" angrily demands that we must take sides in every struggle. "Which side are we on? I demand an answer, yes or no," says the silly cowboy. The British, seeing the Yanks be so stupid as to ask themselves such questions, go into the adjoining room and laugh their heads off at the dumb Yanks so easily tricked once again.

### Who's behind the leftist guerrillas

One does not start the sort of warfare Carrington's and Haig's friends intend for Latin America as a whole simply by running in a shipment of weapons to some hot-blooded gang of crazy anarchists. First, the political conditions under which guerrilla warfare will spread must be created. The population of the targeted nation or nations must be politically and socially conditioned to a level of ripeness for a general bloodbath.

This preparatory work has been done over approximately a decade by the Jesuit-directed Liberation Theologists, by leading elements of the Socialist International, with support of certain corrupt leaders of Protestant churches, and by U.S.-based corporate interests which continue to rig revolutions in the "banana republics" of the Caribbean. All of this was done under the eyes and with the encouragement of Henry A. Kissinger, Cyrus Vance, Zbigniew Brzezinski, Alexander Haig, and any other accomplices. Presently, in addition to some scattered meddlers of Moscow and Havana pedigrees, the Jesuit-led insurgency is aided by Qaddafi-financed cadres of Palestinian and Lebanese-Christian forces shipped into Central America from the Middle East.

The shoot-out between Qaddafi's forces and the U.S. Mediterranean fleet should not be misinterpreted. It was a prepared setup, a sideshow. Secretary of State Haig continues to be directly allied with Qaddafi in the Qaddafi-backed project to bring Bettino Craxi to power in Italy this fall. The British and Haig are playing both sides in the shooting between U.S. military forces and Qaddafi.

Qaddafi is, according to documentation, a fascist of the circuits of Hjalmar Schacht's recently deceased son-in-law Otto Skorzeny, since approximately 1959. Later in 1969, as part of the implementation of the NATO "strategy of tension" in the Mediterranean region, Venetian financial interests, which own Libya and Qaddafi, arranged with the British Petroleum interests and the British monarchy to bring Qaddafi to power. Qaddafi is, as one fictional doomsday scenario publisher calls him, the "Fifth Horseman" of the Apocalypse, the destabilizing factor to be unleashed in whatever direction the masters of that psychotic dictator point him.

It is true that Moscow plays a very cynical game

with Qaddafi: according to high-level Western European intelligence sources, Moscow's official policy lists Qaddafi as an asset of Willy Brandt's Socialist International. Effectively, terrorist-backer Qaddafi is functionally a part of the left wing of the Socialist International, but he is really a joint-asset of the leading financial families of Venice and British intelligence. Moscow, naturally, and with total cynicism, uses Qaddafi whenever and wherever this seems advantageous and feasible to the Kremlin.

### The strategic objective

There are two policies behind Haig's role in unleashing genocide in Central America.

The first policy is essentially a political cover story: to pretend to teach the Soviets a lesson.

The second, and real motive for the genocide in Central America is the two-part policy issued by the Carter administration: the *Global 2000 Report* and *Global Future*. These reports issued by the Carter administration propose that the policy of the United States become genocide throughout most of the southern part of the globe. Although *Global 2000* admits the intention to murder about 200 million people, the real body-count aimed for is several billions of people. The Carter administration exposed itself as a hundred times more evil than Adolf Hitler's regime succeeded in becoming.

The same circles, including Gen. Maxwell Taylor of the Draper Fund, plan the immediate launching of regional wars in Latin America, Africa, and Asia, for the sole purpose of reducing the population of Earth by more than a billion people over the coming two decades.

Who is behind such genocide? The same forces which created the so-called "environmentalist" movement, such as Tom Hayden's left-wingers. These will demand a world relatively free of technology, a world designed for convenience of their own perverted notion of "alternative lifestyles." They demand that the human population be gutted by genocide—so that the likes of Tom Hayden, *Playboy's* Hugh Hefner, or the Yuppies will be free to enjoy their perverted "lifestyles" free of the technology required to maintain the human population at the present level.

The planned bloodbath in Central America is only the first step projected. The next phase, according to the same sources proposing the Central American holocaust, is decades of general conventional warfare throughout Latin America as a whole.

This war of Secretary Haig's is not an honest war against any natural adversary of the United States. It is a war whose only intent is to kill as many Latin Americans as possible. Personally, I do not believe in capital punishment, but wicked creatures such as Adolf Hitler and Alexander Haig do deserve the kind of punishment to which Rudolf Hess has been subjected.

# Israel's new axis

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*Haig and Begin have manipulated the White House into scuttling the Arab moderates and sealing a military pact, writes Nancy Coker.*

Secretary of State Alexander Haig is pushing President Reagan to heed Israeli Prime Minister Menachem Begin's longstanding demand for a qualitative upgrading of U.S.-Israeli military relations, during Begin's Sept. 8-15 visit to the United States.

In an interview on the eve of Begin's arrival in Washington, Haig stated, "There's been a lot of rhetoric in the past, and I think both sides are interested in putting some meat on the bone of that rhetoric with respect to our bilateral strategic relationship."

What Haig and Begin are counting on is their ability to play upon Reagan's ignorance of Middle East affairs and manipulate him into becoming the first American President to formalize military ties with Israel. To ensure Reagan's cooperation, Haig and Begin are stressing the need for "concrete military and security guarantees" for Israel if Israel is to take the "great risk" of making concessions to the Arabs.

An outright military alliance with Israel would above all commit the United States to a "limited nuclear war" policy against the Soviet Union in the Middle East—a strategy that could result either in the strategic humiliation of the United States or a third world war.

## Four-point plan

The militarization scheme that Haig and Begin are pushing revolves around four points:

- The establishment of a U.S. military presence in Israel through joint Israeli-U.S. military exercises, and the use of Israeli territory for future U.S. military maneuvers.
- Logistical cooperation between the United States and Israel, including the use of Israeli facilities for repairing American naval and air force equipment in the Middle East.
- Increased sharing of intelligence information, including data from U.S. satellites.
- The use of Israeli territory as a launching pad for the Rapid Deployment Force in the event of an emergency in the region.

The consolidation of such an alliance in the current post-Camp David period is to be made at the expense of the rest of the Arab world, including Egypt, as Israel is built up as a beachhead for military operations in the

region and as the bastion of Haig's ill-conceived "strategic consensus" against Moscow.

Israel's obsession with becoming a strategic ally of the United States, combined with Haig's eagerness to accommodate Begin and his military exploits, has unsettled a number of factions in the U.S. intelligence and military communities, who are fearful about the dangers of such a militarization policy.

It is also alienating Egyptian President Anwar Sadat, who knows full well that Egypt will not only be locked out of the militarization deal by Israel and the United States, but has been designated a target country for the imposition of the Global 2000 policy of economic contraction and depopulation. Fearful of a possible domestic insurrection against him because his erstwhile ally Israel has turned on him and because "peace" did not bring "prosperity" to Egypt as promised, Sadat last week cracked down on his entire opposition, arresting 1,500 Copts, Muslim Brotherhood adherents, and others. The Israelis immediately seized upon the incident as "proof" that Egypt is unstable and Israel is the only ally in the region which Washington can really rely upon.

## Handling Reagan

Despite Begin's and Haig's "strategic consensus" with one another, whether or not Begin leaves Washington with the military deal that he is seeking is still unclear.

*Washington Post* columnist Philip Geyelin, commenting on Israel's response to the U.S. AWACs deal with Saudi Arabia, said, "As a matter of tactics . . . there is something to be said . . . for Begin to find a discreet way to go out and lose this one. . . . This would leave him in a stronger position to turn the AWACS argument upside down—to ask, as an offset for the AWACS, for even more American weapons and financial relief."

To help out Begin—whose bigoted fanaticism makes him a public relations man's nightmare—on this track, Begin has been "programmed" by a team of American Jewish leaders. In a series of visits to Israel, these leaders, who are part of the Wall Street and Canadian Zionist clique led by Edgar Bronfman and

*New York Post* lawyer Howard Squadron, have given Begin expert advice on how to handle Reagan.

According to Washington intelligence sources, Begin was told that Secretary of State Haig must be allowed to handle all the details of the U.S.-Israeli relationship, while Begin should avoid alienating Reagan and concentrate on "making friends" with the White House. Defense Minister Ariel Sharon was to play a key role in smoothing any rough edges and attend to the "details," working with Haig.

These sources also report that Presidential Counselor Edwin Meese, whom some believe to be advocating caution in dealing with Israel, is considered a "problem" by Washington backers of Begin. "Meese is very dumb when it comes to the Middle East," said one insider. "But his wife recently got back from Israel, and she was brainwashed there. We hope she'll have some impact on Meese."

### **Tough talk**

Begin's paramount goal is to undermine U.S. ties with the moderate Arabs in order to ensure that U.S.-Arab relations are kept subordinate to U.S.-Israeli ties.

In an interview after arriving in New York, Israeli Foreign Minister Shamir attacked the Reagan administration for wrongly believing that Saudi Arabia is a moderate country. "Saudi Arabia," said Shamir, "is not moderate and did not bring about the Lebanon ceasefire." Both Begin and Shamir reiterated their attacks on Reagan's proposal to sell AWACS to Saudi Arabia.

The upgrading of U.S.-Israeli military relations gives Begin license to pursue a new round of military adventurism in Lebanon. Last week, Begin warned that Israel had received intelligence that the Palestine Liberation Organization is being heavily rearmed in southern Lebanon by Syria and Libya. The Israeli charges were meant to renew the threat of an Israeli attack on southern Lebanon to restart the conflict in that country, which has been calmed by the July ceasefire.

"Israel must invade Lebanon, clean up what is there, and then withdraw," an Israeli foreign ministry official stated baldly.

Columnist Jack Anderson published an inflammatory report on Sept. 8 that the Soviets are funneling arms to the PLO in Lebanon "to see that the PLO is strong enough to hold its own if and when the bitter factional fighting resumes in Lebanon—as most experts gloomily predict it will eventually."

At the same time, Israeli intelligence is spreading the word that it is prepared to condone the overthrow of Jordan's King Hussein by radical Palestinians, as part of a deal with Syrian President Hafez Assad. In part, the threats are meant to compel Hussein into giving up his reluctance to cooperation with Begin's—and Haig's—regional designs.

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# Reagan follows Carter in support for the fundamentalist mullahs of Iran

by Robert Dreyfuss, Middle East Editor

At the beginning of the Carter administration in 1977, Jimmy Carter, Zbigniew Brzezinski, and Cyrus Vance decided to support "Islamic fundamentalism" as a "bulwark against Communism." Because of the overall U.S. strategic weakness in what Brzezinski called the "arc of crisis," where the Soviet Union had the overwhelming military superiority it would soon demonstrate in Afghanistan, the Carter administration deluded itself into believing that a system of conservative regimes dominated by the clergy of the Muslim Brotherhood Islamic cults in the region from North Africa to Pakistan would strengthen Anglo-American influence.

Carter's policy has failed. But now, less than a year into the Reagan administration, the United States is again trying to implement it.

Prominent Reagan advisers once criticized Carter and Co. for supporting Khomeini. The very same Reagan advisers are now arguing that American support for the "Islamic Republic" is required to halt the Soviet advance in the region. Some opponents of the "Muslim card," such as former U.S. Ambassador to Saudi Arabia Robert Neumann, have even been summarily dismissed from their posts by Secretary of State Alexander Haig.

This is occurring in a context of renewed tension in the Middle East and South Asian region. Because of the deterioration in East-West relations, following the neutron-bomb decision by Washington, the NATO controversies over the placement of Pershing missiles in Europe, and Haig's support for anti-Soviet crusades in the Caribbean, southern Africa, and Lebanon, the U.S.S.R. is once again putting pressure on Pakistan politically and militarily.

## Strategic reality of Iran

Under the direction of British agencies—including the British Secret Intelligence Service (SIS), the teams of British Orientalists and Iran specialists, and the Anglican Church executive and its Freemasonic branches in the Middle East—the United States and other Western powers are assembling a new government for Iran. Before examining these plans, let us consider first the role of the Soviet Union in Iran.

Within hours after the bombing last week that killed

Iranian President Mohammed Ali Rajai and Prime Minister Javad Bahonar, Soviet President Brezhnev telegraphed his personal condolences to the Ayatollah Khomeini. Moscow had equitable relations with the late Shah's regime, and has no love for Khomeini's insane mullahs. The Brezhnev telegram was a signal that the Soviet Union has substantial assets inside Iran that it will not easily give up.

The Soviet newspaper *Trud* reported on the same day as Brezhnev's telegram that the U.S. CIA was responsible for the bombing campaign against Iran's mullahs. The assassination of Rajai and Bahonar, said *Trud*, occurred "where it would be hard to stage the bombing without the necessary equipment and preparation," and noted that the people who carried off the bombing were CIA-connected agents of the Shah's old secret police who went underground with the Khomeini revolt and "now emerged with arms when their bosses across the ocean ordered it."

The Soviet news agency TASS, however, reported sharp criticisms of the Khomeini regime for its economic policy, demanding that the regime take action to "raise the standard of living." Because such criticisms of Khomeini's regime are rare in the Soviet press, it is clear that the Soviets—like the Americans—are preparing for the succession fight in Iran.

More overt pressure was placed on Iran by Moscow through Afghanistan. Repeated Soviet broadcasts and propaganda about Iran have sharply warned the Iranians not to interfere in Afghanistan by supporting the rebels there.

The Soviet Union and its Eastern European allies have at the same time intensified a pattern of closer economic cooperation with Khomeini's Iran. Many of Iran's factories and economic installations have now been taken over by economic advisers from Poland, Czechoslovakia, Hungary, East Germany, North Korea, and other communist states. Ahmed Azizi, one of the leading Iranian economic officials, noted this trend when he said in August that Iran "finds it easier to deal with the Soviet bloc" in trade and economic cooperation.

Inside Iranian society, especially in the north, the



Soviet KGB has established a host of secret agents, according to Iranian sources. The Moscow-controlled Tudeh communist party, in particular, controls important sections of the Iranian media, especially the radio-television company, and has considerable influence in Iran's crucial oil fields. This range of Soviet influence, combined with the pressure that Moscow is able to exert on neighboring states, gives the Soviets effective veto power over the course of developments in Iran.

### **The myth of 'strategic consensus'**

What is the case for Iran is also the case for the entire Middle East. Because of the preponderance of Soviet power in the arc of crisis, most of the region's states are unwilling to link up with Alexander Haig's pro-NATO alliance.

In a recent interview in the *New York Times*, Haig outlined his policy: "What I'm saying is that the environment has changed. When I went to the Middle East in April-May, you will recall my talking about a strategic consensus. Whether that's the right terminology for the phenomenon is less important than the fact that there is such a consensus.

"I wasn't talking about creating one," said Haig. "I kept hitting that as we went around. I was talking about the fact that one was emerging historically, and it was a product of post-Camp David events.

"What am I speaking of? I'm speaking of the collapse of the Shah of Iran, of the Iran-Iraq conflict, the Soviet invasion of Afghanistan, the dynamics of the Horn of Africa and the two Yemens."

The reality of Haig's situation is far different from the secretary's implication that Washington is on the verge of consolidating its strategic alliance, which one analyst recently called a "flight of fancy" on Haig's part. In fact, the events cited by Haig have caused Saudi Arabia, Jordan, and other countries to be more, rather than less cautious about ratifying the Haig "consensus."

In Iran, the entire spectrum of political forces has virtually broken with the Khomeini regime. But the State Department continues to issue public support for the mullahs. Behind the scenes, the United States and the British are reportedly scrambling for some means to maintain Khomeini as the "only" alternative to the Soviet Union's seizing control of Iran, while at the same time looking for some replacement coalition.

The sharpest statement of Reagan's sudden open support for Khomeini came in the *New York Post* on Sept. 1. Citing State Department sources, the *Post* reported that "there is a growing feeling among government analysts, academics, and even some ex-hostages that the survival and stability of Ayatollah Khomeini's revolution may be in the U.S. national interest." It added, "Experts agree that the current Iranian regime—which is viewed as staunchly anti-Soviet—is the only

one that can achieve stability, because of Khomeini's presence."

### **Future scenarios**

In this context, let us consider the future of Iran as viewed by Anglo-American intelligence.

From 1979, London and Washington were committed to support the rise to power of the Muslim Brotherhood in Iran. By the summer of 1981, however, it had become apparent that the experiment had failed, that the mullahs could not withstand a concerted campaign of pressure by the U.S.S.R., and that the darlings of the Carter administration and the British SIS—like ex-President Bani-Sadr and Admiral Ahmed Madani—had been ousted by the fanatical, power-hungry tyrants from the Islamic Republican Party mafia.

Since June 1981, therefore, the British and the Americans have sponsored a systematic campaign of bombings inside Iran directed against the leadership of the IRP. These bombings have been carried out by experienced officers of the old Savak and Iran's former Imperial Guard, in coordination with exiled Iranian officers in Europe and elsewhere. According to some sources, Gen. Hossein Fardoust, the ex-deputy Director of Savak who betrayed the Shah to aid the Khomeini revolution, was involved in recent bombings.

The first question to be answered is: will the British allow Khomeini himself to survive, or will they opt for "Khomeinism without Khomeini"?

William Beeman of Brown University has recently indicated that Khomeini might be worth more dead than alive. "His death could elevate the very notion of inevitable struggle between religious and secular forces in Iran into a permanent feature of Iranian politics, perpetuating itself for years to come," Beeman wrote. Khomeini's death, he added, would lead to an "endless civil war" that would "poison the future for generations."

Khomeini himself may not relish the idea of becoming a dead symbol. After the bombing of Rajai's office, Khomeini met with a delegation of so-called moderate mullahs, who reportedly suggested that, in order to stay alive, Khomeini ease the campaign of repression and restrain the constant executions by the "Islamic courts." From Paris, ex-President Bani-Sadr offered an olive branch to Khomeini; he said that several times opposition groups had asked Bani-Sadr if they should kill Khomeini, and he had advised them not to do so. And Ayatollah Shareatmadari has been telling Khomeini to try to make a deal with Iran's armed forces.

On Sept. 9, however, Khomeini delivered a speech that indicates that he has rejected the offer of the "moderates" and Bani-Sadr. "If persuasion and standards do not work, then it will be the sword. They will be hit on the head with iron bars or the sword until they

are reformed. . . . Increase the number of mullahs." It is now generally considered that Khomeini has realized that he cannot survive in the context of the new regime, and has decided to go down with the ship of state. In fact, when Khomeini had initially hesitated after the bombing of Rajai and Bahonar, other radical ayatollahs, such as Ayatollah Montazeri and the holy city of Qom mafia, openly broke with Khomeini—for the first time since the 1979 revolution—and attacked him for being too soft. They demanded an all-out crackdown.

According to Iranian sources, the U.S., British, and French intelligence services plan to bring back Bani-Sadr and the terrorist Islamic "Mujaheddin-e-Khalq" organization to govern Iran later this fall, after toppling Khomeini's regime. The desire to support Bani-Sadr and Co. reflects the unwillingness of the State Department and the British SIS to learn from their mistakes.

By restoring "President Bani-Sadr," a murderer who sent thousands to their deaths in 1979-80, the Anglo-Americans believe that they can retain something of the Islamic character of the current regime and thus continue to rally Iran's mullahs around an "Islamic Republic" with a more strongly military nature.

In Europe, Gen. Bahram Aryana and Adm. Kamal Habibollahi, who carried out the useless terrorist seizure of the Iranian gunboat in the Atlantic last month, are reportedly being lined up to support Bani-Sadr and the Mujaheddin in a new Iranian regime. A number of other political Iranian exile forces, such as the duo of Admiral Madani and ex-Prime Minister Ali Amini, are willing to join this coalition.

The position of the monarchist forces is a bit different. A meeting of the top leadership of the pro-Shah forces was recently held in Switzerland, ending in an agreement to link 17 organizations in a coalition to overthrow the Khomeini regime. But there are signs that even the monarchists may be prepared to seek a deal with Bani-Sadr, although both sides will try to cut each other's throats in the process. According to some rumors, Ardeshir Zahedi, Iran's ex-ambassador to Washington and a pro-Shah loyalist, was dispatched to meet Bani-Sadr and Mujaheddin leader Massoud Rajavi in Paris after the Swiss summit.

The monarchists believe that the following simple logic holds: the West needs to stabilize Iran and prevent Soviet gains, Bani-Sadr cannot hope to stabilize Iran without the armed forces, the armed forces are generally loyal to the Shah, and—therefore—the Shah and the monarchist movement are needed by the West.

Such logic might initially sound reasonable. But some believe that it holds almost guaranteed potential for a double-cross against the monarchists, once they help Bani-Sadr to regain power. And still the question remains: who will challenge Moscow if the Soviets decide to veto the operation?

## Current options for Iran's exile groups

by Thierry Lalevée

The ongoing collapse of the regime of the mullahs in Iran, as well as the takeover in early August of an Iranian gunboat by a promonarchist, anti-Khomeini commando, has again brought to light the role of the numerous Iranian exile organizations. Mostly based in Paris, these organizations have been struggling for the past three years to end the Khomeini nightmare. According to *Le Figaro* on Sept. 7, the Iranian resistance is rapidly organizing to undertake some spectacular actions over the next two months.

*Le Figaro's* reporter Desjardins described in that article his two-week-long journey from Istanbul to the inside of Iran, a journey made possible by the complicity of the Turkish authorities and the guidance of the Iranian

### Admiral Habibollahi's odd self-justifications

*The following are excerpts from an Aug. 27 article published by the Iran Press Service based on an interview with Adm. Kamal Habibollahi.*

**On the Tabarzin affair:** " 'But I want to emphasize that at no stage did we ever consider blowing up the vessel. I know the Iranian navy needs it very badly, especially since many of its other gunboats are inoperative because of the lack of maintenance. We are all Iranians and, though we know the war with Iraq is not of our making, we wanted to see the ship was handed back to them after we had proved our point.' "

**On EIR:** "Habibollahi suggested that it was corrupt personnel he had purged from the Imperial Army when he became commander that were behind the allegations that he had kept links with the Khomeini regime after he had fled from Iran five months after

resistance organizations. He reported that the Iranian central power in Teheran has lost any control over the northwestern territories, stretching from northern Kurdistan to Azerbaijan, which are dominated by promonarchist tribesmen, along with representatives of the various political and military organizations that are headquartered in Paris, which mostly cooperate with each other.

Does that mean that the collapse of the mullarchy will lead to the establishment of a constitutional monarchy—as most are advocating—which will pave the way for rebuilding Iran as a nation? The situation is not that simple. Since the mid-July arrival in Paris of former President Bani-Sadr and his new-found ally Massoud Rajavi of the Mujaheddin-e-Khalq, the same Anglo-American forces that put Khomeini in power, have been juggling option after option, based on policy guidelines, rather than personalities as such, aimed at ensuring that Iran continues to be a mere pawn in the geopolitical game that Haig recently named “strategic consensus” after Brzezinski’s “arc of crisis.”

### The military option

Though the Anglo-American consideration of the leftist Mujaheddin-e-Khalq is more favorable, as expressed by former Undersecretary of State George

Ball’s recent endorsement of the group, the actual plans are more connected with a direct military takeover than anything else. The London *Times* of Sept. 2 leaked the plan by calling on the Iranian army to take over under the pretext of “defending the true principle of the Iranian Islamic Revolution” to establish in Iran a regime like Pakistan’s Ziaul Haq. The London *Times*’s argument was simple: Rajavi and Bani-Sadr do not have the forces to take power right now, the other Iranian exile movements are not acceptable, and the current internal chaos bears the danger that the communist Tudeh party will emerge as the strongest force; hence, the army is the most stable force to prevent such an occurrence. How to achieve such a plan is another matter, taking into account the visible lack of any significant leader in the Iranian army within Iran.

In fact, as it comes out, the “military option” turns around a trio of former generals and military men who were deeply involved in the overthrow of the Pahlavi monarchy. These are General Gharabaghi, the former Iranian chief of staff; Admiral Madani, the former governor of the Khuzestan province and rival candidate for the presidency against Bani-Sadr; and former Savak chief General Fardoust, the new leader of the Savama who personally directed both the assassination of the Shah’s nephew Prince Shariar and the later attempt

the revolution.

“He was answering questions from IPS’s Paris correspondent on allegations mentioned in the *Executive Intelligence Review* publication *Hostage to Khomeini*, which linked him with Cyrus Hashemi and Bahram Nahidian, said to be two of the Khomeini regime’s chief agents in the United States. He was also said to have served as naval attaché at the Washington embassy for the Khomeini regime while in the U.S.A.

“Habibollahi said he had never seen either of the pair, or worked at the embassy, and the stories about him had been spread by those who had taken their money abroad after being thrown out of the navy for corruption. Habibollahi had taken over from Admiral Atai, a young officer close to the Shah, who was himself dismissed for corruption, including manipulation of the navy’s budget and taking commission on purchase.

“When he took over, Habibollahi said, he found ‘incredible corruption’ and navy personnel were ashamed even to be seen in uniform in the streets as a result. He had been brutal in cleansing the service, and many people who had been dismissed or punished had found their way to the United States and saw the

chance when he arrived there to avenge themselves on him.

“The admiral said that when he had asked Robert Dreyfuss of the *Executive Intelligence Review* from whom he had obtained the material he had written about him, Dreyfuss replied, ‘Your friends.’ ‘I asked him why he had not checked on me as an honest journalist,’ Habibollahi said. ‘He then offered to interview me, but I refused. I didn’t want to be manipulated by those people.’ ”

**On Gen. Robert Huyser’s role in the Iranian revolution:** “One of the main reasons why the decision was made to make the army neutral at the fateful meeting of Feb. 5, [1979] in Teheran, was that the forces already threatened to break up. Already some air force elements had attacked army units. And on the previous day, out of 12,000 men sent onto the streets with 30 tanks, only 4,000 men and 3 tanks had returned. . . . Too late was how Habibollahi characterized that state of affairs at that time. . . . The stories that General Huyser had been trying to break up the army were not true. He came to Iran to support the army, not to encourage its disintegration, Habibollahi said.”



*Massoud Rajavi in France*

against the Shah's former prime minister, Shahpour Bakhtiar. Appended to that triumvirate is the controversial figure of Adm. Kamal Habibollahi, the man who engineered the hijack seizure of the Iranian gunboats last month, as they were being shipped from France to Khomeini's Iran.

Admiral Madani has been variously discussed as the man who would readily accept the task of being an Iranian version of Ziaul Haq. In fact, since his self-imposed exile in northern Germany, Madani has unceasingly written letters to Khomeini advising him to oust Bani-Sadr, and install Madani as a military ruler. To prove his good faith to the imam, Madani engaged himself in arms deals to Iran through his London-based company. He is rumored to have been a key mediator in the recent Israel-Iran deals which had been conducted through various companies in London.

Madani also met in France with the leader of the Mujaheddin to discuss a potential agreement which would imply a recognition of the Mujaheddin as part of a military takeover, provided they stop all actions inside Iran. Madani is testing other fields and is speaking in terms very similar to those of the former Prime Minister Ali Amini about a national reconciliation that he could lead—speeches which are meant to signal that Madani might still be for sale for other options.

### **The monarchist option**

By "other option" is in fact meant a secret relationship which has been maintained over years between Madani and Habibollahi. Habibollahi, who spent some three years quietly in the United States, emerged in early August in the Tabarzin gunboat seizure. In a fortnight, this man, whom many Iranian officers still consider a traitor for his previous activities, donned a new political sheepskin in the shape of an anti-Khomeini "resistance fighter." As some were quick to point

out, his re-emergence simply meant that the Anglo-Americans—who were holding such other cards as Bani-Sadr, Rajavi, and Madani—also intended to keep their options open within the monarchist camp.

Though Habibollahi had gained the cooperation of General Aryana, leader of the exile group Azadegan, because the latter wanted to "do something" spectacular, he certainly was not the right person for an "inside job" like the gunboat seizure. In fact, the refusal of the Azadegan crew to man the hijacked Tabarzin vessels is directly the fault of the admiral himself: no Iranian naval officer had agreed to serve under his orders. To hide that fact, Habibollahi asserted that he, in any case, never wanted to take over the boat, but told the Iran Press Service that, because the mullahs' navy "needs it very badly, especially since so many of their gunboats are inoperative [and] we are all Iranians . . . we wanted to see the ship was handed back to them." In that same interview, Habibollahi denied that NATO's Gen. Robert Huyser had sought the disintegration of Iran's armed forces in 1979, a statement that must have raised some eyebrows in some quarters—but not from among Habibollahi's colleagues who had met with Huyser at the time: they have all been shot.

For these reasons it seems that Habibollahi's "anti-Khomeini" career is severely curtailed, since Aryana has already excluded him from any decision-making. But the effect of his reappearance among exile groups has already been destructive, a reappearance made possible by the exile groups' two-year-long inactivity, which has led them to indiscriminately accept anyone with any "action plan" regardless of his past. Habibollahi unhesitatingly played on this fact. While military actions as such were being pushed, calls for national unity under the leadership of Azadegan and Aryana were broadcast, from the "extreme left to the extreme right," in Aryana's words.

This is a recipe which might soon lead to the emergence of another military leader like Habibollahi, ensuring that, were the monarchy to be restored, it would be under control of the Anglo-Americans. For Iran, it would be a new disaster. But so far, no Iranian anti-Khomeini group has yet dared to put into writing a programmatic alternative to the Khomeini regime, underlining the fact that to overthrow Khomeini means to restore Iran as a sovereign nation-state striving for economic development within Iran and throughout the region. Without such steps, the Iranian opposition will continue not only to be the center of secret negotiations with various Anglo-American forces, but will also remain unable to rebuild its nation. That point was recently made by Patrick Cockburn in the *Financial Times*, who happily wrote that the "strength of Khomeini" compared to all his opponents "is that he knows perfectly what he wants to do with Iran."

# China's new 'Special Economic Zones': colonial enclaves for hot money and drugs

by Gregory F. Buhyoff

As part of its "light industry" economic strategy, China has now assigned top priority to the national establishment of new, large "Special Economic Zones" (SEZs), which have already been set up in the southern coastal provinces of Guangdong and Fujian near the colonial bastions of Hong Kong and Macao. Since last year, the Deng Xiaoping regime has been trying to interest foreign financiers and industrialists in investing in these zones in labor-intensive, Hong Kong-style light-industry projects through joint ventures or other mechanisms.

The SEZs have ostensibly been assigned the task of "importing technology, increasing exports and foreign exchange earnings, and successfully assimilating useful foreign experiences, management, and administration."

The priority Peking attaches to the SEZs can be seen by the fact that the Shenzhen SEZ alone occupies more than 100 miles of coastline in China's Guangdong province.

In order to attract foreign investment in the districts, Peking has, for example, removed the local army garrison from the Shenzhen SEZ to "provide a more convenient atmosphere" for investors in the district. Customs and immigration procedures have been greatly relaxed. "Tax holidays" are extended to foreigner-launched enterprises. In all the zones, Peking is now allowing foreigners to operate wholly owned enterprises empowered to hire and fire labor and management at their own discretion. Foreign currencies are now legally circulating alongside China's own national currency, the Renminbi.

The public arguments made for the SEZs are twofold: they will serve as a transmission belt for the introduction of Western manufacturing technology and thus eventually lead to the modernization of the mainland; and that Western firms can make money by trading and investing in China in this manner. Neither is true.

Notwithstanding the hoopla made by wishful thinkers in Peking and among its admirers in U.S. banking circles, the SEZs have in fact fallen far short of original expectations, attracting little business of the significance

anticipated by the Chinese leadership. According to one official from the National Council for U.S.-China Trade, who has just returned from a two-month visit to the zones, "The SEZs have just not served as a magnet for Western participation." Able to recall only three "true joint ventures" currently under negotiation with Western firms (a Pepsi Cola bottling plant, an Australian quarrying operation, and a feed mill), the official added emphatically, "And when dealing with the Chinese, there is a great deal of difference between negotiating and finalizing a contract." Abysmally low skill levels and problems with locally hired labor and management have also caused many Western firms to shy away from investing in the zones. As one China expert from a leading Japanese trading company put it, "Our firm is simply not interested in the investment opportunities offered by the SEZs in China."

Far from attracting technology transfer and the upgrading of skills and managerial levels of Chinese labor and industry, the SEZs have developed into little more than havens for foreign interests, primarily overseas Chinese, to take advantage of the abundant supercheap labor available there. Nearly all the enterprises to date in the special districts have been launched by overseas Chinese groups, many of whom have extensive ties to the international narcotics traffic. As in Hong Kong, many of the deals in the zones are sealed "on a handshake basis" as one U.S. businessman put it.

## Deng's two Chinas

The main activities in the SEZs include the manufacture of light industrial products such as textiles, clothing, small electronics, food items (mostly for export to Hong Kong), and packaging services for Hong Kong-made products, as well as tourism and agriculture. Factories engaged in light electronics production are involved exclusively in components assembly. The official from the National Council for U.S.-China Trade commented that such electronics are only of the "most

simple” variety “unsuitable for marketing in the United States or Japan.” He added that such items are intended for export to Third World countries “like those in Africa.”

At the same time, in stark contrast to the labor-intensive squalor of the manufacturing, high-rise luxury hotels are nearing completion in several zones. One project involved the construction of a oceanside resort in Shenzhen, complete with an 18-hole golf course, a marina, swimming pools, and fine restaurants. The resort clientele is expected to be almost exclusively wealthy Chinese from Hong Kong. Abuses of the concessions of the zones have occurred, creating resentment from the local citizens. In one case, an overseas Chinese firm, bent on making a fast buck with minimum capital outlay, imported old and faulty equipment for use in a short-term joint venture. The project failed miserably, causing bad feeling between the owners and workers.

Any Chinese who remembers the pre-1949 foreign-owned “concessions” in Shanghai and elsewhere can only look with disgust at the new Special Economic Zones. In fact, there is discussion of creating an SEZ in Shanghai. There should be no doubt that this resemblance will increase Deng’s domestic political troubles. However, the colonial character of the zones does not bother Deng. Deng’s faction does not intend to industrialize China, and does not bother to hide this fact.

For Deng there are two separate Chinas. His only concern with that 80 percent of the country that is agrarian is to ensure the peasantry does not revolt or breed too quickly. The coastal special zones are to be divorced from the countryside, except insofar as the latter may provide raw materials. Deng’s anti-heavy-industry campaign in fact ensures that neither these zones nor any other cities can engender the type of industry that so rapidly transformed South Korea and Taiwan into newly industrializing countries. This is the meaning of Deng’s “light industry” readjustment.

For the West, Deng’s policy means that, for the foreseeable future, mainland China will continue to be a much smaller trading partner than the tiny island of Taiwan.

### **The overseas Chinese connection**

Deng’s interest in the SEZs is not industry, but in finance and political connections. Peking hopes the zones will become, like Hong Kong, quick-cash areas to give the regime financial backup for its international political ambitions. Part of the key to the latter, and the secret of the zones, is the overseas Chinese. Through these, who dominate business in such Southeast Asian countries as Malaysia and Indonesia, Peking hopes to reassert its longstanding claims to political hegemony in East Asia—as part of its ambitions on the world

political stage.

Currently there are four officially designated SEZs in China: the better-known Shenzhen and Zhuhai districts in Guangdong province bordering, respectively, Hong Kong and Macao; Shantou in the Chaozhou region of northern Guangdong, and Xiamen in Fujian. These locations, the ancestral homes of the majority of Chinese expatriates in Southeast Asia, were carefully chosen for their potential to attract investments by the overseas Chinese.

Peking has announced its view of the long-term strategic importance of the overseas Chinese community: if they serve Peking, then China wields tremendous clout in Asia.

Guangdong province’s First Secretary Ren Zhongyi said last month, “No matter what corner of the globe they drifted to, and no matter how many generations they have lived overseas, the overseas Chinese still unswervingly love the motherland and their native village. This is a national characteristic of China. . . . We welcome overseas Chinese compatriots and Hong Kong and Macao compatriots to invest in China and to cooperate with and contribute to the country. We welcome the overseas Chinese, Hong Kong and Macao compatriots, and Chinese of foreign nationality to return to the motherland and their native villages to visit relatives, travel around and, engage in economic, cultural, and academic exchanges. . . . The whole country is now attaching importance to Overseas Chinese Affairs Work.”

The Chinese government is strenuously welcoming overseas Chinese back to their native villages. Peking has dictated that the homes formerly belonging to overseas Chinese be given back upon their return, including the palatial villas now used as offices or residences by high Communist officials since 1949. High-priced luxury apartments in Shenzhen are being purchased by Hong Kong and other wealthy foreigners who have business interests in the SEZs.

Peking has feted some of Hong Kong’s top brass over the recent period for consultations on economic policy, which underlines the important role the colony has assumed as a liaison between China and the outside. Deng Xiaoping met in July with Hong Kong shipping magnate Y. K. Pao—who simultaneously serves on the boards of Peking’s Bank of China and the Hongkong and Shanghai Bank—to discuss economic cooperation between Hong Kong and the mainland. Concurrently, Peking entertained a number of other Hong Kong financiers for a two-week seminar on China’s economy and the SEZs.

### **China and the Pacific Basin**

There are those in the United States, London, Hong Kong, and elsewhere who want to push the SEZ con-

cept, not because they have any illusions as to the SEZs' economic viability, but because they believe the policy serves China Card-oriented security and economic policies. This view holds that involving the SEZs in an intricate web of trade ties with the nations of the so-called Pacific Basin will help keep Peking tied to the West politically. The holders of this view generally are the same faction that regards economic development of the Pacific Basin not as the industrialization of the developing countries, but as using them either as simply sources of raw materials or as they use Hong Kong or, now China's SEZs, as runaway shop areas.

This April, two proponents of this view went to Peking to discuss such proposals. They were Weldon Gibson of the Stanford Research Institute, a prime promoter of this variant of the Pacific Basin economic development concept, and David Newbigging, chairman of Hong Kong's Jardine Matheson. Newbigging has caused headlines in Hong Kong for the past year by helping expatriate Chinese allied with Peking, such as Y. K. Pao, buy out British-owned real estate in Hong Kong.

In early August, Lehman Brothers Kuhn Loeb took matters a step further by reaching a consulting pact with China's main directing agency of SEZs, the China International Trade and Investment Corporation (CITIC). According to the pact, Lehman Brothers will "be available to the Bank of China for advice on general financial matters and other matters of mutual interest. . . . The two sides shall . . . carry out joint research on market trends, commodity prices, general and financial conditions, and other issues."

William Butcher, president of Chase Manhattan Bank (whose board also includes Y. K. Pao) joined the effort by telling China's Hsinhua news service during an Aug. 15 visit, "I happen to be a very strong supporter of the [economic] readjustment process in China. . . . The elements of readjustment in China are not only the pace [of economic development] but also the shape, i.e. the emphasis on light industry."

### SEZs and opium

A discussion of Deng's revival of the colonial zones in coastal China would not be complete without mentioning the resurgence of that most prominent characteristic of the Chinese colonies: the twin curse of drug addiction and crime. According to the Chinese press, this is particularly severe in, but not limited to, the SEZs. Nearly every racket in illicit activity has established a presence in the districts including rampant smuggling, official corruption, counterfeiting, prostitution, and drug trafficking. The Hong Kong Communist-affiliated newspaper *Wen Wei Po* reported recently that counterfeit U.S. and Hong Kong currency has turned up not only in the SEZs, but in other areas such

as Hianan Island, and other criminal rings are engaging in document forgery, prostitution, and drug trafficking. As the Chinese press notes in thinly veiled references, much of the crime is being organized by the notorious Chinese secret societies, which have resurfaced throughout China.

Guangzhou's (Canton) *Nanfang Ribao* newspaper warned on Aug. 18, "The peddling and taking of drugs and the activities of brothels and prostitutes are evils left over from the old society. . . . With the door further opened to the outside world, the influence of the bourgeois way of life has increased and the poison of the capitalist society has spread to our province, and our public security work has not kept pace with the development of the situation. This gives the criminals a chance to sneak in and the dregs of society a chance to come to the surface again. The peddling and taking of drugs and the activities of brothels and prostitutes, which had been stamped out for many years, have recently revived in some big and medium-sized cities in our province. *Taking advantage of our province's location adjacent to Hong Kong and Macao and its easy accessibility, some international drug-peddling cliques take our province as a transfer post for trafficking drugs for huge profits. The law-defying elements collude with those outside the province [emphasis added].*"

Reports in the Hong Kong-affiliated New York Chinatown press have confirmed the existence of a well-worn drug route linking Southeast Asia's notorious Golden Triangle and Hong Kong via China's southern provinces. According to the *Ming Pao Daily*, Guangzhou authorities arrested 14 members of a drug ring and confiscated 17 kilograms of opiates. The dope runners included nine individuals from China's Yunnan province, four from Guangzhou, and one Hong Kong resident.

Thai authorities at Bangkok's Don Muang airport recently arrested a Hong Kong man on drug charges as he boarded a plane bound for Guangzhou. Even the official media of the remote northwestern province of Qinghai has decried the existence of narcotics smuggling. Other reports cite Hong Kong and Chinese officials trying to cope with the "uncontrollable number" of Chinese fishing junks involved in the smuggling of drugs and contraband, a phenomenon that has spread up the coast as far north as Zhejiang province.

As *EIR* had reported earlier, Deng has been under constant pressure this year from military and heavy-industry-oriented factions who regard his light-industry economics as undermining the economic basis of national power and as causing internal political instability due to unemployment, poor economic growth, food shortages, and crime. As the colonial character of the SEZs and Deng's stress on them become more manifest, this pressure can only be expected to increase.



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# Report from Paris by Katherine Kanter and Sophie Tanapura

## Statecraft and growth

*Economist Jacques Cheminade tells why an Augustinian defense of Christianity is a strategic necessity.*

**B**elow are excerpts from an article by Jacques Cheminade, secretary-general of the European Labor Party in France, published Sept. 11 in the conservative journal *La Presse Française*.

In the present conjuncture, no one can avoid perceiving "the shadows that fall on mankind, on civilization, and on history," as Pope John Paul II put it. The world economy is menaced by a profound crisis, while national leaders remain blind to the danger.

Within this vacuum a relentless Malthusian order is being imposed, in which the ever-higher interest rates of the U.S. Federal Reserve and ever-harsher austerity measures take the place of political deliberation.

On a global scale, the burden of financial overhead on the goods-producing sectors is already more acute than at the point of the 1929 crisis. At present we are very close indeed to the point of a breakdown.

Faced with this situation, the international financial forces who control the money and credit supply are resolved to produce a deliberate depression whose course they hope to direct. This "controlled disintegration" of the economy, as it has been termed by the *Project 1980s* of the Council on Foreign Relations, is based on a policy of population reduction. The outlines of such a policy have already been defined in the United States in the

*Global 2000 Report*, whose authors have taken up the battle cry raised at the 1972 Conference on the Environment by Club of Rome president Aurelio Peccei: "Babies are the enemy!"

Robert McNamara, during his tenure as president of the World Bank, stated on Oct. 2, 1979 that "population growth is the main obstacle to economic and social progress in the developing countries." Jacques de Larosière, IMF director, has followed suit, stating at Salzburg that the Third World must submit, whether it wishes to do so or not, to "internal adjustments," "limited expenditures," and "rapid reduction in the growth of its population." Joseph Slater, Brandt Commission report co-author and president of the Aspen Institute, takes the view that "nations [should] follow the example of China, which has taken strong measures and set ceilings on population. . . . We have to fight the menace of 2 billion extra people in the world."

The recent Ottawa communiqué, on the basis of a suggestion from Aurelio Peccei and Pierre Trudeau, expressed the "concern" of the heads of the leading Western governments about population growth.

If we call things by their proper name, what is being put into place is a new economic fascism, harbinger of war and of mass murder on an unprecedentedly vast scale.

Here in France, the new Socialist government, now dismembering the state and halting nuclear power development, is creating the economic preconditions for population reduction by sabotaging the basis for creating new resources. Mitterrand adviser Jacques Attali's favorable declarations about euthanasia, or Mitterrand's toleration of abortion are occurring in precisely this context.

My point of view will be, in opposition to Malthusianism, the cultivation and development of the productive capacities of labor, in the great Augustinian tradition of Christianity and of the true French republicans.

George Ball, a director of the Council on Foreign Relations, has just attacked the Vatican as the worst enemy of his own Malthusian views. He is quite right: the Catholic Church, if not each of its representatives, is guided precisely by a moral principle which makes it a steadfast rock. It is from that point of departure that we shall be able to affirm, contrary to prevailing opinion, that the only true wealth is human beings.

In order to do that, a Christian movement must be developed, fully committed to a policy of technological progress and the expansion of the productive potential of the labor force, the prerequisites for an expanding world. That authentically Christian policy, which perforce turns its back on the sterile, dubious integralism of Archbishop Lefebvre, as well as on a "left-wing Christianity" without any internal rigor, is indispensable for nurturing the anti-Malthusian forces. The conception of human perfectibility has no real value if it is not creatively tested in practice.

## Sadat cleans up his opposition

*The Egyptian president's roundup may bear promise, but only if Sadat follows through on the economy.*

On Sept. 4 Egyptian President Anwar Sadat initiated a series of political arrests which constitute the broadest purge of his opposition in the 11 years he has governed. Fifteen hundred arrests have been made thus far, and the crackdown has neutralized religious and political groups and societies ranging from the extreme left to the ultra-rightist Wafd Party, and has removed leaders of the powerful Coptic Christian Church, including its Patriarch, Pope Chenouda III, from their posts.

Though marked ideological differences exist between the individuals and groups Sadat rounded up, they share one thing in common: they are supported by Israeli and Anglo-Venetian intelligence services. Less than one week prior to Sadat's crackdown, Lufti al Kholi, a prominent Egyptian leftist, announced from London that an alliance of forces spanning the ideological spectrum of Egyptian politics had come together to challenge Sadat.

Al Kholi was speaking on behalf of the Fabian Bertrand Russell Peace Foundation, for which he has been an agent for over 20 years. As *EIR* has documented, the Bertrand Russell Peace Foundation played a central role in knocking the Shah of Iran out of power.

The coalition which al Kholi announced, composed of mass-based extremist Islamic fundamentalist groups like the Muslim

Brotherhood and allied with small leftist and Marxist groupings, is strikingly similar to the movement of Ayatollah Khomeini.

By cutting off the head of this opposition movement, Sadat has bought critical time to alter the political and economic climate in Egypt which has provided a deadly breeding ground for his challengers. More than anything else, Sadat's failure to fulfill the promise made when he signed the controversial Camp David Treaty with Israel two years ago—a promise to bring prosperity to Egypt—has sparked mass dissatisfaction which Al Kholi and the Muslim Brotherhood are exploiting.

An Egyptian professor who is in Washington observed that “for the time being, Sadat's mass arrests have crippled the opposition, but I think a lot of what remains will go underground and will eventually emerge even stronger, especially if the economic crisis worsens.”

The rapidly growing Muslim fundamentalist groupings in Egypt have, as in Khomeini's Iran, attracted Egyptian youth.

During his Sept. 2 speech to the Egyptian Parliament, Sadat ruthlessly attacked the Muslim Brotherhood and its cothinker Islamic groups for threatening national unity. He broke his traditional policy of toleration for the Brotherhood by disbanding the Brotherhood and six allied Muslim societies. Sadat arrested Omar Tamasani, the head

of the Egyptian Muslim Brotherhood who maintains ties with Khomeini and other Muslim extremists.

Sadat also stunned his countrymen by dismissing the Coptic Church's Pope Chenouda, who is known to have supported extremism within the Coptic community, generating sectarian violence between Copts and radical Muslims. Both Chenouda and Tamasani are strongly influenced by the Israeli intelligence service Mossad and agents of the British Foreign Office.

Among the other longstanding political luminaries in Egypt of those arrested is the 70-year-old Fuad Seraghadin, leader of the ultra-rightist Wafd Party, which like the 60-year-old Muslim Brotherhood is a direct product of British colonialist rule of Egypt. Seraghadin, along with left opposition figure Khalid Mohiedine, has historically close ties to the court of King Farouk, whom Nasser overthrew two decades ago.

The *Times* of London, a mouthpiece for the British monarchy, has strongly condemned Sadat's crackdown, in particular bemoaning the detention of Egyptian journalist Mohammed Heikal, an agent of British intelligence who writes for the *Times*.

Numerous Egypt watchers over the last week have put out the British-sponsored line that the root of Sadat's problems is Egypt's burgeoning population growth. Jihan Sadat, Egypt's Anglo-Egyptian first lady, is a strong proponent of this outlook. But it is precisely this policy which Sadat must break with now in favor of industrial renewal if he wants to prevent his country from going the way of Iran.

## Mexico's real corruption story

*"All too frequently, denouncing corruption is in itself a form of corruption," states López Portillo.*

One week before his Sept. 1 State of the Union speech, President José López Portillo sent a letter to the editor of *Uno más Uno* newspaper, announcing that he will reject a gift of a 60 hectare ranch that government officials from the State of Mexico had offered him. The Mexican president was responding to an article appearing earlier in that daily by columnist Miguel Angel Granados Chapa, a leftist Jesuit who had threatened López Portillo with a corruption scandal if he accepted the present.

The news in all this is neither that a gift was offered, nor that the President turned it down; such happenings are commonplace in Mexico. What shocked many political observers here is that the Mexican president found it politically necessary to descend to the level of publicly refuting such cheap charges.

What motivated López Portillo, one of his PRI party allies told me, was not Granados Chapa's specific charge, but the dangerous environment in Mexico of growing "Watergate" and "corruption" scandals that is rocking the political boat with scarcely weeks left before the designation of López Portillo's successor. Already one big fish has fallen: Coahuila Governor Oscar Flores Tapia, who was forced to resign last month after being charged with corruption and financial malfeasance.

And a violent diatribe against López Portillo himself was issued a

few months back, in the form of a bestseller by Mauricio González de la Garza. The book in question has gained international notoriety for its unabashed mudslinging against the President's entire family, focusing the text on charges of "nepotism."

In short, Mexico's own version of Abscam and Brilab is beginning to blossom, with both the left and the right in the country jumping on the bandwagon to batter the PRI and the López Portillo government.

These forces have received succor, and substantial press coverage, from elements of the international media who are anxious to tarnish Mexico's image as a booming industrial economy. The Sept. 6 issue of the *Los Angeles Times*, for example, ran a lengthy article that applauded the fact that the Flores Tapia case "is making corruption a fashionable political issue." The *Times* went on to praise the special role of the Mexican press in this effort: "The unprecedented spectacle of an important Mexican politician coming to ruin because of a newspaper investigation," the *Times* reported hopefully, "has led some to believe that Mexico is finally taking corruption seriously."

The *New York Times's* Alan Riding, long an enemy of Mexico's modernization drive, also smelled blood in the Flores Tapia and Granados Chapa ranch cases, and saw an opportunity to reiterate his familiar attacks on Mexico's state

oil company, Pemex, on charges of corruption. In a Sept. 6 article (which we understand may be Riding's swan song, since it is rumored that he is about to be transferred to the Lima bureau), Riding explained that corruption was particularly prevalent in "drilling and other services for Petróleos Mexicanos, the vast national oil monopoly."

Riding was also particularly pleased over remarks made by López Portillo during his Sept. 1 State of the Union speech. The Mexican president departed from his prepared text to suggest that a law be adopted that would regulate gifts made to public officials. "The assembled congressmen, senators and cabinet ministers," Riding reports happily, "gave Mr. López Portillo a standing ovation for the initiative."

What reporter Riding fails to tell his readers, however, is that the Mexican president also used his State of the Union message to launch a scathing attack on those, like Riding, who would destabilize Mexico's institutions through corruption and scandal-mongering. Said the president:

"I know that we must wage a constant battle against corruption and assume the risk, as we have done so far, of scandal and blackmail and of dealing with those who criticize and proclaim their opposition while heating their own irons in our fire. Many first stones have been cast at public officials. Let us hope that those who cast them are themselves without sin. All too frequently, denouncing corruption is in itself a form of corruption. We are not saying this to make excuses, but rather to recommend an examination of conscience as a means of avoiding cynicism."

# International Intelligence

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## ***Shimoda conference challenges U.S. policy***

American attendees returning from the U.S.-Japan "Shimoda" conference held in Japan Sept. 2-4 report unprecedented opposition by Japanese officials and private individuals to Washington's policies. On the China issue, "Several Japanese participants pointed out that some Southeast Asian countries regard China as a more serious long-term security threat than the Soviet Union, and that U.S. efforts to strengthen China's military capabilities would result in increased fears of China throughout Southeast Asia."

When the Americans declared that the Soviet threat was "the paramount issue" in world politics, Japanese attendees "emphasized that many of the sources of instability in the world have little to do with the Soviet Union and, in any case, could not be effectively countered by reliance on military power."

The Japanese were forthrightly skeptical about Reagan's economic program; "their criticism focused on the international impact of what they regard as the administration's overreliance on monetary policy. In this view, the high interest rates being produced by a restrictive monetary policy are causing serious problems in the bilateral relationship by strengthening the value of the dollar and widening the Japanese trade surplus," reported a top-level American.

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## ***Afghan-Pakistan war potential mounts***

A Washington-based specialist interviewed on Sept. 10 commented that the U.S. package of military aid to Pakistan, which includes speedy deliveries of F-16 fighter-bombers, should be seen as part of the Reagan administration's policy for "defense of Saudi Arabia."

This, he said, entails a Somali-Oman-Kenya-Pakistan military alliance against the U.S.S.R., with Israel's enthusiastic

involvement. This analyst confirmed that unwritten details are being clinched between Washington and Islamabad, including the provision of facilities for the U.S. Rapid Deployment Force at the Karachi port.

Meanwhile, an Afghan army contingent in armored vehicles crossed over into the Baluchistan province of Pakistan, conducted search operations against Muslim fundamentalist guerrilla havens, and returned to the Afghan side rapidly, wire services reported from Pakistan on Sept. 8. The incursion was played up by both Western journalists and Pakistani strongman Gen. Ziaul Haq. Less than 48 hours after the alleged attack, U.S. Undersecretary of State James Buckley unexpectedly arrived in the Pakistani capital.

Buckley declared the incident an "extraordinary coincidence" with his visit and proceeded to discuss the progress of the \$3 billion package, including U.S. supply of F-16 fighter bomber aircraft; Afghan government spokesmen and Radio Moscow denied the Baluchistan incident ever occurred. Radio Moscow asserted that Washington had prompted fabrication of the story to create the right climate for the F-16 sale.

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## ***India to investigate foundation center***

The lower house of the Indian Parliament resolved Aug. 29 to investigate the Gandhi Peace Foundation, according to the Indian daily *Patriot*, for alleged use of foreign money in "antinational" activities.

According to Edward Faleiro, a member of parliament supporting the resolution, the foundation's library is stocked with literature "repugnant to Mahatma Gandhi's ideals" and receives foreign money laundered through European organizations based in West Germany.

Should the investigation fully open the books of the Gandhi Peace Foundation, observers believe it will uncover destabilization operations against India

conducted by the Society of Jesus and the Ford Foundation. The institution was created with seed money from the Ford Foundation in the 1950s to promote rural development and organization of peasant, tribal, and "ethnic" movements. It has since used profiles made by the top Jesuit command center, the Indian Social Institute, to deploy funds from German Jesuit relief organizations into targeted areas for confrontation with the central government. A high point in its activities was the backing it gave to Jayaprakash Narayan in his 1974 destabilization of Indira Gandhi's government.

More recently, the foundation's operatives have been advisers to the "student movement" in the sensitive north-eastern state of Assam that seriously destabilized the area with its protests against the influx of illegal immigrants from Bangladesh and non-Assamese from other states in India.

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## ***Reagan, López Portillo, Trudeau summit?***

Mexican President José López Portillo will visit Grand Rapids, Michigan Sept. 17-18 for the dedication ceremony of the Gerald Ford Museum. President Reagan, Vice-President Bush, Secretary of State Haig, Henry Kissinger, along with former French President Valéry Giscard d'Estaing, have confirmed their attendance.

Although White House sources have stated that no "bilateral" or "trilateral" meeting has been scheduled, there is speculation in Washington that a "North American summit" could take place between López Portillo, Reagan and Trudeau during the event. Advocates of the idea of a North American Common Market for energy and trade have pressed for a meeting between the three leaders. López Portillo has stated repeatedly his opposition to the Common Market proposal, on the grounds that it would stunt Mexico's industrial development.

López Portillo reportedly accepted the invitation, nonetheless, as an oppor-

tunity to meet with Reagan. López Doriga, a political commentator for the Mexican government's television channel, recently stated that the Mexican president is looking forward to discussing topics like interest rates, North-South issues and the El Salvador situation with Reagan before the North-South summit at Cancún, Mexico on Oct. 22-23.

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### ***Haig confirms a LaRouche prediction***

Four days after *EIR* founder Lyndon H. LaRouche predicted that Alexander Haig would pursue a bloodbath in Central America under the pretext of "taking on the Soviets," in the knowledge that the U.S. is powerless to confront the U.S.S.R. in major theatres, Haig gave an interview to Philip Geyelin of the *Washington Post* doing just that.

In the Sept. 11 interview, Haig mounted new charges of "externally directed Marxist-Leninist insurgency" in Central America, while "freely admitting" that Poland and Iran are areas the U.S. "can do the least about."

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### ***British claim on KGB rejected by Vatican***

In a short statement reported in a Reuters wire and broadcast on U.S. radio, the Vatican on Sept. 5 denied rumors initiated by the British media, that the Vatican had uncovered evidence of a "KGB plot to kill the Pope." A spokesman added that "the Holy See never made any hypothesis concerning any organization or country as being the instigators behind the assassination attempt."

The Vatican denial came in response to a claim widely reported by the British Thames VI television program and the London *Guardian* that the Vatican believes the May 13 assassination attempt against Pope John Paul II to have been a

Soviet-inspired operation.

According to Thames VI reporter Julian Manyon, the Vatican had uncovered evidence that would-be assassin Ali Acga's training in Tripoli, Libya was initiated by the Soviet KGB. Manyon cited as proof for this theory statements by former Italian Security Minister Francesco Mazzola that the Soviets wanted to eliminate the Pope because of his sympathy with the Polish Solidarity movement and his intention to intervene in that situation.

The basis for the charges by the British press is the claim that Libya is a wholly owned client-state of the Soviet Union. The exposure of the Italian Freemasonic Propaganda 2 Lodge, 10 days after the attempted assassination of the Pope, showed that Libyan dictator Muammar Qaddafi's many connections to Italy run through the lodge, and that it was the Anglo-Italian forces that had established Qaddafi as a deployable asset in the Middle East.

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### ***Hapsburg clamors for one-world order***

Archduke Otto von Hapsburg, pretender to the throne of the Austro-Hungarian empire, held a Sept. 6 interview with William F. Buckley on the nationally televised "Firing Line" show in which he called for the replacement of Europe's sovereign nations by a supranational "pan-European parliament."

"The national governments of Europe are by their very nature reactionary," said the Archduke, and must be replaced with a European-wide body representing the "communes and regions." As an example of those he would wish to see elected to such a body, the archduke cited "my friend" Mario Pannella, head of the anarchist Radical Party of Italy.

The archduke also complained that developing-sector countries like India "have too much steel, too many industrial projects and development plans," and called instead for the West to invest in "creating tribal unity" in Third World countries.

## ***Briefly***

● **THE CTM**, the Mexican labor federation headed by Fidel Velásquez, voted to condemn the U.S. Federal Reserve's high interest rates at its annual convention the first week in September, and called for the Workers' Bank to extend credit at preferential rates to small and medium-sized industries to offset American rates' effects on the Mexican economy. The CTM also advocated investing oil revenue in an ambitious nuclear power program, geared to provide one-fifth of electricity needs by 1990.

● **UGO PECCHIOLI**, shadow interior minister for the Italian Communist Party, called Sept. 9 for a national antidrug offensive in an interview with the Milan daily *Corriere della Sera*. Senator Pecchioli warned of a "danger of seeing large sections of a generation destroyed." He demanded "a war against the big pushers; otherwise it is like pretending to defeat terrorism without arresting the terrorists," and said he had asked the present interior minister, a member of the prodrug Socialist Party, to investigate "where the big, apparently unjustified family fortunes come from. It would be a good way to hit individuals who are part of the drug network." The Communists, who have a largely moderate labor base, are asking all parties to join a national antidrug effort.

● **URUGUAY's** new military government, inaugurated this month, legalized a local chapter of Rev. Sun Myung Moon's Unification Church as its first act in office. Gen. Gregorio Álvarez's government justified the move by announcing that the cult has promised to found a virtual financial empire in Uruguay.

● **CROMOS**, a popular Colombian weekly, reports that the production and export of cocaine has now surpassed the value of Colombia's massive marijuana trade.

## The revolt against Volcker: will Congress talk, or act?

by Richard Cohen, Washington Bureau Chief

A deep political crisis has shaken the nation's capital as Congress returned. The U.S. Congress—after one month in their home districts—have once again descended upon Capitol Hill, and with their return has come a shocking message to official Washington and all its elected officials. Echoing the deep and nationwide constituent demand that they were deluged with back home, congressmen and senators, Republicans and Democrats, have issued a barrage at “Wall Street,” President Reagan, and the Federal Reserve Board, begging for an immediate drop in interest rates.

On the one hand, opponents of high interest rates are still flailing, without a clear economic policy or legislative strategy. On the other hand, those congressmen who want to use the cry against the Federal Reserve as a wedge for further budget cuts—on the disingenuous premise that if rates come down, the budget must be further slashed to avert inflation—have not solidified themselves either, and there is a sense at the Federal Reserve itself that it will be very hard indeed to push through all the proposed cuts (see Economics).

The fact remains that the Federal Reserve's policies have been pushed to the center of national debate in a dramatic and fundamental shift. Representative Guy Vander Jagt of Michigan, the most crucial figure in the House responsible for Republican election campaigns, zeroed in on the immediate implications of continued high interest rates, reporting Sept. 9, “The future of our program, and our chances of getting control of the House, are right now tied to interest rates.” House Minority Leader Robert Michel of Illinois also sounded

the alarm. “Within 90 days, something's got to give. I am a political creature, and our political futures require there's got to be some movement [on interest rates].”

On the other side of Capitol Hill, Sen. Majority Leader Howard Baker was simultaneously chastising high interest rates and “Wall Street” in words even stronger than those used by President Reagan in his ill-fated “anti-Wall Street” interview with the *New York Daily News* four months ago: “It is time indeed that the financial markets realized that they are playing a dangerous game.”

Further, Capitol Hill sources have told me that President Reagan's most trusted friend on Capitol Hill, Nevada Sen. Paul Laxalt has just entered into discussions with Sen. John Melcher. Melcher, a Montana Democrat, is the sponsor of a Senate resolution that within 30 days of its passage, barring presidential veto, would force the President to confront Federal Reserve Chairman Paul Volcker and enact a program that would immediately bring down interest rates. Moreover, sources close to the House Democratic leadership have stated that Arkansas Democrat Bill Alexander, an associate of the House Majority Leader Jim Wright of Texas, a leading moderate, within a matter of days will introduce the Melcher resolution into the House of Representatives. The same sources report that Alexander now believes he will obtain almost all moderate Democratic House leaders as cosponsors of the resolution, but is not seeking the endorsement of the Socialist International-controlled Speaker of the House, Tip O'Neill.

These preliminary maneuvers reflect what well-





*Majority Leader Howard Baker*

placed Republicans in both the House and Senate have privately told us: that all the noise made over the past few days by the Republican leadership under Michel and Baker on credit controls, windfall profit taxes on banks, and so forth, is only noise, and that their real hope is that Reagan "somehow" can "deal with the Volcker problem" face to face.

In addition, these sources have confirmed that the soon-to-be buried Baker-Michel proposal to re-establish the tarnished Nixon tactic of impoundment of funds in order to secure cuts in the 1982 budget is a ploy aimed at shifting responsibility for these cuts onto the President and away from congressional Republicans.

Meanwhile, the momentum against high rates on Capitol Hill has already blurred and shaken congressional mechanisms the Reagan administration had planned to use for its new round of fiscal year 1982 budget cuts. Key Republicans such as Mark Hatfield of Oregon, chairman of the powerful Senate Appropriations Committee, and Peter Domenici of New Mexico, chairman of the Senate Budget Committee, have both privately pooh-poohed the impoundment proposal; nor has Hatfield publicly acceded yet to administration demands for an additional \$15-\$20 billion cuts in the 1982 budget.

These early returns from Capitol Hill suggest that legislators walked into an unexpected maelstrom when they went back home, because continued high interest rates no longer threaten only the home builder, car dealer, and thrift institutions; nor do they threaten just the auto industry and construction industry, all now on the verge of bankruptcy. High interest rates now threaten

each citizen directly, and most importantly, have threatened the viability of an American institution that most still cherish—the family. For the first year ever in peacetime, the U.S. population level remained stagnant in 1980, and this year threatens to decline. High interest rates have collapsed purchasing power in consumer durables from homes to refrigerators, making families unaffordable. Hence the depth of the voters' rage.

As congressmen compare notes after returning, high interest rates are not their only problem. Hill sources report that constituents say they have lost hope for Reagan's "economic recovery plan." While the President is still personally respected by many Americans, his economic policy is considered as bad if not worse than that of Jimmy Carter. Washington politicians know that as less meat goes on the table during the fall, Americans will also lose respect for Reagan. Now Congress could even reject the next round of 1982 cuts.

Initial reports on President Reagan's Sept. 9-10 cabinet-level economic meetings suggest that he is on the verge of wasting the final round of credibility he retains with the American people. The White House has deliberately leaked indications that a major topic of discussion at those meetings included warnings from cabinet economic aides acknowledging that continued high interest rates now threaten Reagan's economic recovery.

These White House leaks also report that since the Federal Reserve has held monetary growth below its already restrictive targets, and the White House proposed that money supply might be eased, thus bringing down interest rates. What is not said, however, is that such reductions would only be marginal and temporary.

In short, President Reagan is apparently about to complicate his already faltering position with the American people by attempting to sell this temporary package to the Republic leadership in order to sustain continuous levels of budget cuts until 1982. This latest deception was mandated by Reagan's total acceptance of drastic increased budget cuts in 1982 demanded several weeks ago by Federal Reserve Chairman Volcker and his friends at the supranational banking institutions. Moves to cut defense and social outlays in the fiscal year 1982 budget have already been complicated by a longer-term administration consensus that income increases must be lowered beneath the rate of inflation; administration planners are pursuing a revision of the Consumer Price Index (CPI) so as to force a reduction in all cost-of-living escalators, whether they pertain to private and public union contracts or federal entitlement programs. Thus the administration has already signaled its commitment to reducing programs that affect not only the poor, but the broad sweep of the American people, namely, Social Security and Medicare.

Simultaneously, the administration has set itself at loggerheads with organized labor through its mishandling of the air traffic controllers' strike. Labor union

sources are already predicting that this will lead to an all-out confrontation with organized labor next year.

But amidst the crisis in Washington, the Congress can be shaped to take bold action for the first time in many years if constantly directed by constituency pressure. Under such circumstances the administration could be brought in line.

Ironically, institutions which are most directly affected by the current economic situation and high interest rates have left the battle before it has begun. The National Association of Home Builders and the U.S. League of Savings and Loan Association have already agreed, under the tutelage of the U.S. Chamber of Commerce, to endorse the administration's program for increased budget cuts as the only way to reduce interest rates. The so-called national leaders of these tottering institutions look like Aaron Burrs; but witness the recent developments within the other major institution with the ability to shape Congress: the AFL-CIO.

At a Sept. 8 meeting of the newly created "National Coalition to Lower Interest Rates," an amalgam of national associations, the AFL contingent blocked a proposal urging support of the Melcher resolution, and instead offered as an alternative the Socialist International-endorsed program of credit controls. Sources close to the AFL report that the president of the American Federation of Government Employees (AFGE), Kenneth Blaylock, will become the next secretary-treasurer of the AFL-CIO, enhancing "left-wing power" within the labor federation. In addition, organizational control over the Sept. 19 mass demonstration against budget cuts in Washington, D.C. will be delegated to the Socialist International-controlled unions as the first step in a series of nationwide demonstrations, all with riot potential. Further, the "left-wing" unions within the AFL-CIO, including the AFGE, the United Auto Workers, (UAW) and International Association of Machinists (IAM), have relocated their top political intelligence operatives throughout the federation's bureaucracy to maintain fingertip control over such deployments. Sources now fear that one extraordinarily dangerous step in this leftist strategy will be to launch IAM strikes against defense plants, under the leadership of the union's president, William Winpisinger, an outspoken socialist and deindustrialization advocate.

Surface analysts of the Washington scene might take the emerging weakness of both the conservative Democratic "Boll Weevils," who voted in the House for Reagan's previous economic legislation, and of the liberal Republicans called the "Gypsy Moths," who also backed his proposals, as proof that the next round of the President's budget-cutting spree will lack the votes to succeed. In truth, it is only through broader new economic policy counterinitiatives that the opportunity in the current crisis can be effectively seized.

## Weinberger embraces Global 2000 doctrine

by Lonnie Wolfe

For all the debate over proposed cuts in the Reagan administration's five-year, \$1.6 trillion defense spending program, a most significant point is being overlooked: for all practical purposes, the U.S. military is in the process of reshaping its force structure to meet the demands of the Carter administration's discredited *Global 2000 Report*, a document that proposes the elimination of 2 billion people in the developing sector.

That is not to say this policy is either understood or supported by a majority of military professionals within the services or the Pentagon. It *is* to say that it is the de facto policy of Defense Secretary Caspar Weinberger, who as Nixon's Health, Education, and Welfare secretary, in 1974 at the World Population Conference sponsored by the progenocide Club of Rome announced that the United States was committed to achieving world zero population growth.

The thinking behind this transformation is as follows. The principal flashpoints for wars in the coming decades will be regions of the "overpopulated" developing sector. U.S. forces are to umpire these population-induced wars either through heavily armed surrogates or through the yet-to-be functional Rapid Deployment Force (RDF). As population impinges on scarce resources in coming years, both the threat and actuality of such warfare will intensify.

The leading spokesman for these ideas within the U.S. defense establishment is the Vietnam-era chairman of the Joint Chiefs of Staff, Gen. Maxwell D. Taylor, a member of the board of directors of the Draper Fund, which is devoted to population reduction, and an associate of the organization's founder, the late Gen. William Draper. It is Taylor's opinion that the United States and the Soviet Union will never fight a strategic nuclear exchange. The Soviets, Taylor has indicated in several published locations, will not deploy their considerable strategic nuclear forces against the United States, risking

U.S.-NATO retaliation, no matter how greatly provoked. Taylor further believes that the Soviets have no intrinsic vital or strategic interests in the developing sector, except to deny certain resources to the West; they are therefore quite willing to tolerate the butchery of populations in the Third World, provided such butchery does not occur in countries on the immediate border of the Soviet Union. In those latter cases, the Soviets might be induced to hasten the population reduction themselves, through involvement in long civil wars.

It is under these premises that Taylor thinks U.S. military posture should be re-organized. He therefore strongly emphasizes a conventional force buildup, but with technology suitable for fighting conventional warfare in the developing sector and not for the European theater. Such interventionary forces need not be enormous, hence the possibility of limiting the size of the proposed RDF. Smaller, well-equipped, forces are required here, and overall readiness of the smaller military unit is to be stressed.

The corollary of the "Taylor doctrine" is that, if cuts are required in overall defense spending, they must come from strategic weapons systems. Why, goes the thinking, build more bombers, missile systems such as the MX if they are not going to be deployed? The type of strategic approach that Taylor proposes is the ludicrous deployment of potential first-strike systems such as the cruise and Pershing missiles. With these systems it becomes possible to play what amounts to a strategic chicken game with the Soviets, threatening them with a first strike, though manifestly lacking the ability to fight an in-depth war.

*The Taylor doctrine is the summation of the two most incompetent aspects of current strategic thinking: the limited nuclear war, flexible response bluff associated with former Defense Secretary Robert McNamara and his RAND Corporation protégé James Schlesinger, and British colonial doctrine that enforces backwardness and depopulation through local wars. It is based on a fundamental and wishful miscalculation of Soviet thinking, the hysterical belief that the Soviet Union will never deploy its superior in-depth capabilities, however provoked.*

### **Weinberger's policy**

Taylor claims to have substantial support for his thinking inside the Weinberger Pentagon, a place currently overpopulated with RAND scenario planners. His claim is substantiated by recent developments and policy statements.

First, there is the so-called Weinberger secret five-year guidance to the services, leaked to the *Washington Post*, *New York Times*, and other papers, which reflects the mix in limited nuclear war-fighting, and conventional, interventionary force structures emphasized by Taylor, along with an overt emphasis on the ability to

respond to alleged Soviet threats anywhere in the world by taking action in the developing sector.

Second, there is the leaked discussion of proposed cuts in the Reagan defense program. The Taylor scheme is precisely the type of proposal appropriate to economic austerity policies associated with Robert McNamara, the World Bank, and the International Monetary Fund. It is the implementation of the IMF-World Bank austerity policies which implement the Global 2000 genocide in the developing sector. The initial proposals for cuts in the defense budget prepared by Weinberger's staff cohere in large part with both IMF recommendations and with recommendations made by Taylor in a Sept. 1 op-ed in the *Washington Post*. Furthermore, Taylor told reporters last week that he sees the budget crisis as a means to speed up his planned reassessment of U.S. military requirements, focusing on the need to deal with population crises in the developing sector.

Third, Fritz Kraemer, the man who trained and created Henry Kissinger and is now a key adviser to Weinberger's Defense Department, told an elite group of specialists in Kiel, West Germany two weeks ago that there *is not* and *never will be* a threat of strategic nuclear confrontation with the Soviet Union. The policy of the Reagan administration, Kraemer told his audience, is to prepare for regional wars in its own back yard and confront the Soviets and their Cuban allies with conventional forces.

Finally, there is the publication in the August issue of the official U.S. Army journal, *Military Review*, of a lead article by Lt. Col. John Wilcox titled "The Military Implications of the *Global 2000 Report*." The article, reflecting the openness of debate on the subject within the military, proposes to fulfill the Taylor doctrine, without referencing the retired general. Wilcox calls for the creation of forces capable of fighting wars in urban battlefields in the developing sector because that is where population pressure will create battle situations. *Global 2000* should become a military planning document, he maintains.

For the time being, Weinberger is arguing that strategic force improvements be continued despite budgetary restraints. In part his argument is due to the need to maintain a credible bluff vis-à-vis not only Soviets, but also the U.S. NATO allies. But Defense Department sources say that the only thing the secretary is firmly committed to is the deployment of the limited-war systems such as the cruise missile and the Pershing II. The other systems will be scaled back, like the MX, if necessary, to meet budget requirements. The conventional forces buildup, along the lines proposed by Taylor, who has openly advocated writing off 1 billion people in the Third World, will continue, as the United States moves closer to carrying out Global 2000's military precepts.

## Maxwell Taylor: 'write off a billion'

*The following excerpts are from an interview with Maxwell Taylor, provided to EIR, which originally appeared in our April 14, 1981 issue.*

**Q:** Have you and the other Draper Fund people considered what will happen to the countries that are not on your list as important to U.S. needs? Won't the Soviets have a free hand to come in and aid them and extend their influence?

**A:** We are of one mind that there is a Soviet faction who for the last 30 years has been perfectly willing to let parts of the Third World go under. You have to understand the mind of the Soviet "Mother Russia" faction. They care about their country. They care about the countries on their immediate borders. They don't give a damn, really, about the rest of the world. They have no desire to develop anything outside this limited area. Their view is that the Soviet Union and its immediate colonies are totally self-sufficient energywise and in minerals. They have no use for the minerals supply of the Third World. Their goal is to deny this to the West. They will use the population crisis to foment rebellion and coups d'état in these countries. They may take over a country here and there for a time, but their only really policy is continuous destabilization to deny resources to the West.

**Q:** Is your paper intended for circulation within the new administration?

**A:** It was written as a strategic document. You should note that my report is already quite selective about what can be saved. I have already written off more than a billion people. These people are in places in Africa, Asia, Latin America. We can't save them. The population crisis and the food-supply question dictate that we should not even try. It is a waste of time. The Soviets are not about to save them, either.

There will be horrible consequences for our failure to heed the warnings of General Draper and others. These people will suffer from continuous cycles of natural disaster, famine, hunger, floods, drought. Upwards of 500 million people will try to escape, become refugees, flee across borders. Most of them will never make it. Some old fools and young ones may talk of trying to mount a noble effort to help these people, and I am sure we will try to do the humanitarian thing. But they can't be saved, and we must be selective.

**Q:** How is population policy shaping up elsewhere in Washington?

**A:** For now, decisions will be made through the NATO command, which thinks demographically. Their decisions must be imposed with the full weight of the West. The Soviets are aware of this; they will conduct limited surrogate warfare for certain areas. They will not fight a world war over areas of the world they don't need. These are the rules of the modern game.

## 'Growth means war'

*From the revised January 1981 draft of "World Population Growth and U.S. Security Interest," written by Gen. Maxwell Taylor for the Population Crisis/Committee Draper Fund:*

The relationship between U.S. security interests and rapid population growth abroad can be stated very simply: nearly all those Third World countries in which the United States has one or another vital security interest have very serious population problems. These population problems, because they threaten the long-range economic and political viability of such countries, undermine their dependability as U.S. allies and trading partners. Included prominently are countries in Latin America, East Asia, South Asia, and the Middle East. . . . Any number of them could become the next Iran. . . .

[N]o amount of aid will keep these countries from eventually going under if population growth continues unchecked. . . . If, as a result of horrendous population pressures, U.S. allies are unable to satisfy the most basic needs of their countrymen over the long run, they will be able to contribute little to U.S. efforts to block communist expansion and maintain a peaceful balance in strategic regions of the world like the Middle East. . . .

Regional political conflicts are likely to intensify as population pressures increase the scramble for land, water, and other essentials and as unemployment spills over national borders in the form of larger labor migrations. . . . As resentment and frustration grow, new opportunities are created for extremist forces to foment civil unrest and ultimately to bring down governments friendly to the U.S. . . .

## 'An illusory need'

*From a guest editorial by Maxwell Taylor, titled "How Much for Defense? Only What's Essential," in the Sept. 1 Washington Post:*

Like the Gilbert and Sullivan policeman, the life of a secretary of defense is rarely a happy one. Caspar Wein-

berger is verifying this fact as he tries to find a mode of deploying the MX missile capable of satisfying the numerous critics, political, military and industrial. At the same time, he faces the strong possibility of sharp reductions in the funds to be available for his military programs.

Weinberger is already being criticized for having invited cuts by delaying decisions not only regarding the MX but also the new bomber, the big carrier issue and other pressing matters. Nevertheless, a strong case can be made for further deliberate delay. Now would be an excellent time to take a recess and review the essentiality of all high-priced military programs. By doing so, when the cuts come, our leaders would have solid evidence of the programs' relative importance and rational priority in distributing budget reductions.

If the secretary undertook such a review, he would need a practical measure of essentiality to apply to the projects to be tested. I have one such measure to propose in the form of a definition: an essential military program is one that produces effective military means to cope with a real and urgent danger at a price deemed acceptable. Price may be expressed in many ways; money, manpower, industrial output, scarce natural resources and the effect of reductions on other programs. In short, for essentiality the danger must be great, the planned counter-measures seemingly efficacious and the price right.

If such a measure were strictly applied to some of the major defense programs, I would expect many to flunk the test. Let me illustrate how several tests might turn out.

In the case of the MX, the urgency of the threat can be challenged because of the extremely low probability that the cautious leaders of the Kremlin would ever risk an attack on our silo-based ICBMs, given the uncertain performance of their own missiles and the losses to be expected from an American retaliation. In the absence of an urgent danger, there is an unproved requirement for an MX or any other weapon basing its need on the vulnerability of our ICBMs.

The administration is proposing a new bomber in replacement of the B52, capable of penetrating heavy Soviet air defenses. For test purposes, it would be necessary to show that such a bomber could penetrate more effectively and/or at lesser cost than cruise missiles launched from aircraft, submarines or surface craft . . . In the case of the Army, I would question the essentiality of the two additional divisions under consideration to raise the Army total from 14 to 16. While there may be a definite need for more Army divisions later on, no such expansion can be justified now until each of the 14 divisions is made task-ready—that is, prepared to undertake its primary mission on schedule and stay with it as long as required. It would make much more sense for the

Defense Department to expend its resources for task-readiness than to add to the divisional structure and thereby the "hollowness" that the Army Chief of Staff, Gen. E. C. Meyer, deplors in the Army at present.

If Secretary Weinberger were inclined to undertake such an essentiality review, he might hope for certain gains. Such a review would verify the soundness or reveal the vulnerabilities of programs in time to correct or jettison them. This would strengthen the defense of the surviving programs against the assault of critics bent on reducing military budgets. Perhaps of longer-term importance, it might establish a permanent practice of demanding evidence of the essentiality of all future military programs as demonstrated by their contribution to forestalling real and urgent dangers rather than to the illusory need of equaling or surpassing what the Soviets have or do.

## 'The jungles of some LDC'

*From "Military Implications of the Global 2000 Report" by Lt.-Col. John G. Wilcox in the August 1981 issue of Military Review. Lieutenant-Colonel Wilcox is study director for international programs at the U.S. Army Concepts Analysis Agency in Bethesda, Maryland. Emphasis is in the original.*

Despite changing social and scientific trends which indicate a vastly different threat environment in the year 2000, the Army continues to structure and train its forces for conventional war on the plains of Europe. Even "contingency" missions such as those associated with the Rapid Deployment Force are in terms of conventional battle as we knew it in World War II and as we perceive it will be in Central Europe. . . .

The Army has become too inflexible in its rigid adherence to the concepts of fighting a mechanized battle in a sophisticated conventional war of the future. Rather than preparing our Army to defend the United States and our national interests, this fixed strategic model limits U.S. power to apply force in differing situations in differing areas of the world. This article examines some specific demographic trends that indicate a vastly changed world situation in the future in which our Army may be called upon to defend this nation in ways beyond today's comprehension.

The recently published *Global 2000 Report* contains some very stark realities and serious military implications.

*Our conclusions . . . are disturbing. They indicate the*

*potential for global problems of alarming proportions by the year 2000. Environmental, resource, and population stresses are intensifying and will increasingly determine the quality of life on our planet.*

Only one aspect of the *Global 2000 Report*, demographic trends, is addressed in a very limited analysis of the impact of these trends on the U.S. Army of the year 2000. Considering the fact that approximately 20 years are required to develop and field a weapons system, such as the *M1 Abrams* tank, and that the babies born today will be the soldiers of the year 2000, a study of the *Global 2000 Report* is both timely and relevant.

### **World population trends**

This could pose a serious challenge to U.S. leaders and the U.S. Army in that the enemy we face may well be a mass army with relatively unsophisticated weapons and whose soldiers are inured to hardship and the rigors of combat—an army other than the Red army. Moreover, the objective of combat may not be a military defeat of the enemy but a negotiated settlement. The battlefield may not be the plains of Europe but, rather, the jungles, mountains or cities of some LDC.

Thus, with population inflation in many regions of the world by the year 2000, the enemies of today may not be nearly so threatening as the enemies of tomorrow. Moreover, the weapons of today and those now being designed for tomorrow may be inappropriate for the targets of tomorrow. Just as tactical nuclear weapons were judged politically inappropriate in Vietnam, likewise sophisticated and highly lethal conventional weapons may be politically inappropriate in the future.

... In addition, increasing urbanization and the possibility of conflict within urban areas call for a rethinking of strategy, doctrine and force structure. Conflicts may take place entirely within cities. For example, how does an army fight a war in an urban area of 30 million people where there are constraints on space, weapons employment and mobility? The size of the force required to subdue a significant enemy force by conventional means in such a city would exceed the present authorized strength of the U.S. Army, 775,000. Refugees would present uncalculated problems for all-too-few civil affairs and military police units. Again, one recalls the Vietnam experience of dealing with civilians and paramilitary units.

But, most important, fighting in such areas would call for a restructuring of Army forces from tank-heavy divisions to light infantry forces, trained to fight in builtup areas and educated in civil affairs. While technology can aid in making forces lighter or providing valuable information, it cannot be the focus of force structuring, doctrine or strategy in such a conflict—as it was in Vietnam . . .

One of the major considerations which results from an analysis of the *Global 2000 Report* is that the population explosion projected for the LDCs preordains a changing locus of conflict. The perceived enemies of today may not be the enemies of tomorrow. One of the present tasks that faces the United States in this regard is to prevent the Soviet Union from disassociating itself from the “have” nations and siding with the “have-nots.” If the U.S.S.R. is successful in persuading the LDCs that the Soviets are not among the industrialized have nations, it will be in a position to manipulate the LDCs selectively against the remaining industrialized world. . . .”

The population explosion in the LDCs will alter the way we think about the purposes of our Army and its organization. Many will still cling to the “worst-case” theory—that is, we must have heavy formations for defeat of the enemy’s heavy formations. Increasingly, however, concerns will be how to fight in the cities, how to limit damage and how to control populations, all of which call for lighter forces. The dilemma is that these capabilities are not all compatible, and the predominance of the “worst-case” theorists may well ensure that the U.S. Army finds itself in another Vietnam—not knowing how to fight and overorganized. On the other hand, high technology may provide light forces a more general-purpose capability.

Wars of the year 2000 will require new strategies and new concepts. There will be entirely new dimensions to warfare as the 21st century approaches that will limit the U.S. Army’s ability to perform its mission unless we anticipate change. Space warfare will add to the Air Force mission and limit the role of ground forces. Already the principles of surprise and mass may be impossible to achieve. The Air Force will enjoy an increasing portion of the budget pie for space technology at the expense of the Army. Scarce manpower resources will reduce the size of the Army, and proxy armies may become a necessary combat multiplier.

One of the great paradoxes in the coming decades is that there will be decreasing utility for the have nations to resort to force against the poorer nations. Conversely, there will be increasing motivation and capability for the have-not nations to challenge the rich nations to combat—another new dimension. . . .

Any attempt to perceive the future is subject to criticism, and this analysis is no exception. The trends projected by the *Global 2000 Report* may be totally wrong or overcome by dynamic events. The deductions and implications derived for the U.S. Army may be equally wrong. Nevertheless, now is the time to start thinking and talking about the year 2000. This appointment with the future is closer to us than World War II and Korea of the past.

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## Book Review

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# The absurdities of neo-Malthusianism

by Steven Bardwell,  
Editor-in-Chief, *Fusion* magazine

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### *The Ultimate Resource*

by Julian Simon

Princeton University Press,  
Princeton, New Jersey, 1981.  
\$14.50 415 pp.

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An unlikely campaigner for the truly American idea that people are the ultimate source of wealth, University of Illinois economics Prof. Julian Simon has just published a refreshing polemic in favor of population growth and a spirited attack on the "antipopulation mafia." His book, *The Ultimate Resource*, is a popularization of a volume he published in 1977 directed at a more technical audience, *The Economics of Population Growth*. It fills a huge vacuum in the popularly accessible literature on critical questions of population growth, resource development, energy supply, and economic expansion.

Simon unconsciously draws his argument that population growth is basically good from two remarkable American economists, Henry Carey and Erasmus Peshine Smith. These two founders of what was called the "American System" of economics during the mid-19th century formulated every rebuttal to the Malthusian ideas of finite resources, overpopulation, and ecological disaster, which Simon has recast in modern terms. Simon's book is a tribute to the vitality of the American idea and provides excellent evidence of the vicious campaign to bury the truly astounding theorists of the anti-Malthusian camp.

Simon's book outlines the same economic thesis about wealth that underlies the American System:

1) Wealth—defined as the utility of material goods—is not a natural property of matter but is created by human labor.

2) The effectiveness of this labor is determined by the capital and expertise (embodied knowledge) that is

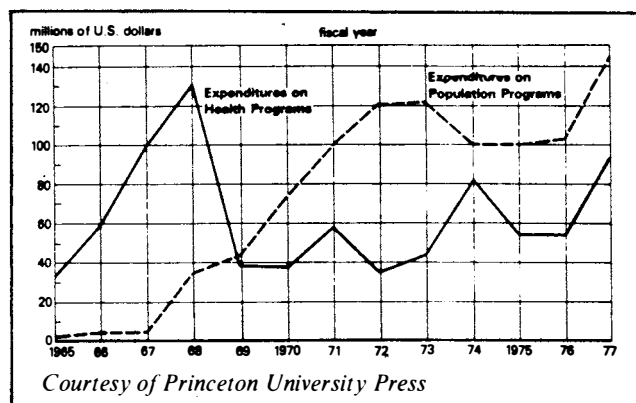
brought to bear in the expenditure of that labor.

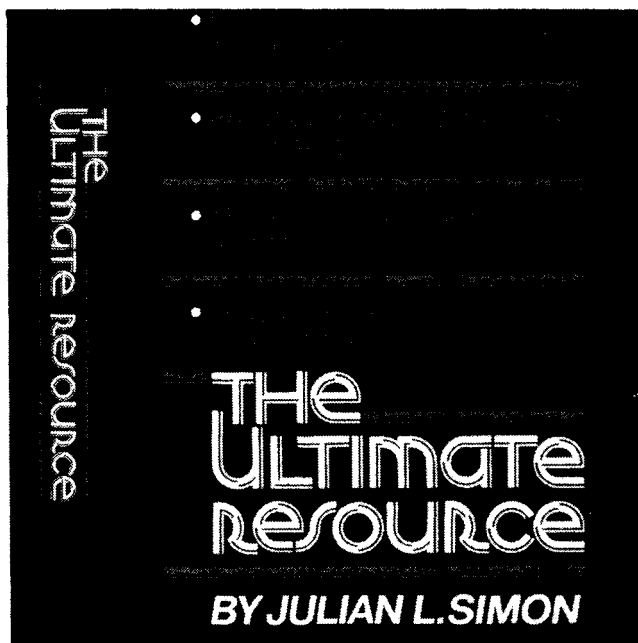
3) All natural resources are man-made. They are never finite in any economic or technical sense, and are wholly determined by the technology used to find, extract, use, or replace that resource as a raw material.

4) The ultimately determining factor in the rate of economic growth, level of consumption, and measure of human welfare is the density of human population.

These arguments were developed in rigorous detail by the early American System economists—indeed, there has been no refutation of Malthus in the last 150 years that is not contained in Erasmus Peshine Smith's 1858 book *A Manual of Political Economy*, or in Carey's 1859 *A Treatise on Social Science*. They have been restated with a mass of useful and surprising empirical data in Simon's book. Did you know:

- That the prices of all raw materials have been falling in real terms over the past hundred years?
- That the price of energy has also been falling in real terms over the past hundred years, and that except for the last five years falling at an accelerating rate?
- That there is absolutely no correlation, in fact, between population growth and underdevelopment?
- That there is a strong positive correlation between population density and economic development? That is, that countries with high population densities tend to have higher living standards?
- That there has been a secular rise in food consumption in all areas of the world over the last 50 years?
- That, in both absolute and relative terms, fewer people are starving today than ever before in human history, and that fewer are on the verge of starvation than ever before?
- That areas of the world where starvation and underdevelopment are most severe, like the sub-Saharan region of Africa, suffer most from a shortage of manpower required to maintain the minimum infrastructure of roads and communications necessary to feed and house a stable population? That Africa is underpopulated?





Simon provides a chilling recounting of the history of the population-control movement's takeover of policy-making in the United States. Between fiscal years 1968 and 1977, expenditures by the Agency for International Development (AID) on health programs dropped from \$130 million to \$90 million, while AID's outlays for population-control programs went from under \$40 million to over \$140 million. According to Simon, this dramatic change in the direction of U.S. foreign policy occurred under the direction of Philander Claxton, Jr., at one time the highest ranking State Department official involved in population affairs under Dean Rusk, now the head of the Futures Group RAPID project and the father of eight children. Simon reports in his book:

Claxton argued that the U.S. government must move from reaction and response to initiation and persuasion. . . . By the time the paper reached the Secretary of State's desk, it had already achieved part of its purpose. All the appropriate State Department and AID bureaus had reviewed, revised, commented, added to, and finally cleared the document. The rest of its purpose was accomplished when Rusk agreed to every single one of Claxton's 10 recommendations. . . . [His] model simply *assumed* that the total national product in an LDC [less developed country] would not be increased by population growth for the first 30 years, either by a larger labor force or by additional productive efforts. Therefore, the model boils down to the ratio of output, divided by consumers; an increase in the number of consumers decreases the per capita consumption by simple arithmetic. In their own words, "The inauspicious showing of the high-fertility

case in terms of improvement in levels of living is traceable entirely to the accelerated growth in the number of consumers that high fertility produces." To repeat: The main mechanism producing their result is simply an increase in the denominator of the output/consumer ratio, where output is the same *by assumption* for the first 30 years for all rates of population growth [emphasis original].

Based on Claxton's shoddy and dishonest scientific work done in 1966, Malthus's arguments for sterilization, abortion, and contraception became official U.S. policy—from the time of Claxton's original report to the warmed over garbage to be found in the *Global 2000 Report*.

Simon has the courage to call the whole of this Malthusian nonsense by its real name. Commenting on the later repudiation by the Club of Rome of their clearly fraudulent *Limits to Growth* report, Simon writes:

The Club of Rome sponsored and disseminated untruths in an attempt to scare us. Having scared many people with these lies, the Club can now tell people the *real* truth. . . . The *Global 2000 Report* . . . is very much in the *Limits to Growth* tradition, done by people associated with that group and with environmental organizations à la Ehrlich. . . . I find the conclusions of *Global 2000* almost wholly without merit and the method used shoddy, largely because of the absence of the very trend data that the authors say is the proper basis for such a study [emphasis in original].

Simon's book, which does not formulate specific policy proposals, should be read as a provocative exposé of the control of American foreign policy by the most unashamedly antiprogress, antidevelopment, antihuman political forces. As Simon rightly concludes, the basic issue is a question of moral values. If one believes that people are basically consumers, devouring resources from a fixed storehouse, if one believes that people are basically irrational, copulative beasts, if one believes that the future benefits to be derived from more people are not worth the wait and effort required to bring these new people to maturity, then of necessity one wants fewer people. One of the most immoral of these, Paul Ehrlich, expresses the emotional and moral quality of this position when he writes:

I came to understand the population explosion emotionally one stinking hot night in Delhi. . . . The streets seemed alive with people. People eating, people washing, people sleeping, people visiting, arguing, screaming. People thrusting their hands through the taxi window, begging. People defecating and urinating. People clinging to buses. People herding animals. People, people, people.



# Why the CIA has not made a comeback

by Paul Goldstein

At the outset of the Reagan administration, the U.S. intelligence community believed that support would be forthcoming to rebuild the Central Intelligence Agency following its near destruction during the Carter years under the direction of Adm. Stansfield Turner. Now, after the first seven months of the new administration, the CIA faces essentially the same problems that have persisted since Watergate.

The politics of rebuilding a nation's intelligence establishment after years of neglect, abuse, and sabotage are much like those of rebuilding a nation. If the game-masters in charge of reconstruction do not understand the fundamentals of statecraft, the same dirty political operations can be carried out against intelligence agencies again and again. The cry of "KGB moles" will arise from the British-accented voices of the Heritage Foundation; but the most effective enemies of a powerful CIA can be found elsewhere, not least at Foggy Bottom.

With the advent of the Reagan administration, despite its weaknesses and handicaps, a new possibility existed for the CIA to preempt the Socialist International and its allies from seizing the political initiative in Central America, the Mideast, and Southern Africa. The case of Mexico is the clearest example: the general belief within the intelligence community was that "stabilization operations," including counterterror measures to aid allies like Mexican President López Portillo, rather than "destabilizations," could become the focus of U.S. foreign policy. However, the spokesmen for a certain commitment to strategic sanity were silenced after the Casey/Hugel and Wilson/Terpil scandals (to be discussed in future articles) and related press maneuvers, giving Secretary of State Alexander Haig et al. the opportunity they needed to consolidate their positions.

## The axe falls

What happened can best be summarized on the following level. Once the Reagan administration was installed, each time the CIA attempted to swing congressional and executive support behind upgraded intelligence capabilities, the *New York Times*, Department of Justice, and most importantly the State Depart-

ment, sought to undercut the agency. The *New York Times* and the *Washington Post*, the mouthpieces for the Eastern Establishmentarians within the administration, led a campaign to quash the emergence of a political faction that could guide the White House in foreign policy, independently of Haig. The media, State Department, and Justice Department sought not simply to curtail CIA covert activity, but to ensure that the basis for any policy alternative concerning the Soviet Union and the Third World would never emerge.

The power struggle which occurred in the aftermath of the attempted assassination of President Reagan left Haig in a strengthened position. Before the Hinckley attack, sources in the intelligence community reported that Haig's ties to the Trilateral Commission had been severed, and that Henry Kissinger's access to Haig was "totally cut off."

Then disaster struck the expectant "old-boys" network, and a whole new configuration emerged within the administration. Kissinger, Rockefeller, Fritz Kraemer became dominant in policy-making. A "gag order" was put out by the President stating that anyone who criticized Haig would be fired. The U.S. ambassador to Saudi Arabia, Robert Neumann, was the first to get the axe.

What this situation entails is that the CIA no longer has the ability to run independent covert operations on behalf of the United States without constantly facing exposés on the front pages of the *New York Times*. And, according to military intelligence sources, the State Department and the FBI have been engaged in an all-out war to prevent the CIA from gaining control over counterterror operations.

The CIA's weakness is most acute on the intelligence-gathering side. Over the years, dependence has increased on foreign intelligence services, especially the British and Israelis. According to well-placed U.S. intelligence specialists, the United States now lacks any significant independent intelligence-gathering capability concerning internal political developments within the Soviet Union.

The CIA has a longstanding reliance upon Israel's Mossad for crucial leaks and key intelligence about Soviet nonmilitary developments. Now, more than ever, the agency relies to a shocking extent on the Mossad. Additionally, the Socialist government of François Mitterrand has opened new French channels for the CIA on Soviet activity in the Third World and Europe. Meanwhile British intelligence, through both its MI-6 official relationship with the CIA and through its covert institutions, has been directing U.S. intelligence activity for years, especially in regard to Asia.

It should be obvious that the self-interests of these foreign agencies are not identical with those of the United States.

# National News

## Behind the attacks on Cardinal Cody

A major attack has been launched against John Cardinal Cody, the Archbishop of Chicago, because the Cardinal is a leader of the antischismatic movement. As a result of the Chicago *Sun-Times's* year-long slanders, a grand jury has been empaneled to investigate alleged misappropriation of funds by the Cardinal. The U.S. attorney has charged that the Cardinal had used Church monies to purchase luxury properties for a relative.

Cardinal Cody came to Chicago in 1965 as a strong opponent of the Saul Alinsky-dominated radical network that had seized much of the Church there. Father Jack Egan, then the leader of the Alinsky network, today is the right-hand man of the Council on Foreign Relations' Father Theodore Hesburgh. Father Egan directs the Catholic Center for Urban Ministry, a command center for the schismatic liberation theologians.

To give "theoretical depth" to this network, which intends to break the American Church from the Vatican on behalf of liberal depopulation policies, Hans Kung, the heretical theologian, has been deployed to a teaching position at the University of Chicago this fall.

Cardinal Cody has issued statements that the Chicago *Sun-Times* has initiated this attack because of the Cardinal's commitment to fight drugs, pornography and abortion, all of which the newspaper supports.

## Reports say cruise doesn't fly right

The federal General Accounting Office (GAO) has prepared three secret reports warning that the American cruise missile, sometimes sarcastically termed the V-3, is not accurate enough to hit assigned targets in the Soviet Union, the *Chicago Tribune* reports. According to the *Trib-*

*une*, the GAO documents were declassified at the request of a private "tax reform group" called the Project on Military Procurement.

The GAO questions particularly the cruise missile's "terrain contour matching guidance system," known as Tercom, which matches radar data with computer-stored landmark descriptions to keep the missile on course. According to the GAO, the system is easily confused by changes in ground conditions such as snow, seasonal foliage changes, and "monotonous expanses" like the Russian steppes.

The guidance system was tested over U.S. terrain lacking these conditions and unlike the Soviet terrains for which the cruise is intended.

## New York primary delay a prelude to race tension?

Supreme Court Justice Thurgood Marshall on Sept. 9 upheld the ruling of a three-judge federal court panel enjoining the scheduled Sept. 10 New York primary election from taking place for violation of federal Voting Rights Act legislation. Marshall's decision, taken in startling unanimity with the other high court justices, means that the New York councilmanic election may be postponed for an indefinite time period, possibly beyond election day, Nov. 3. The mayoral and most other primaries have been reset for Sept. 22, pending state approval.

The point at issue is a redistricting plan for councilmanic districts that Mayor Ed Koch attempted to put through without the required approval from the Department of Justice Civil Rights Division.

The chairman of the National Democratic Policy Committee, Warren Hamerman, issued a statement Sept. 9 that the move "is being used as a campaign tactic by elements with the Socialist International-backed campaign of Frank Barbaro, and by the Kings County Democratic Coalition, which is behind the candidacy of Elizabeth Holtzman for District Attorney in Brooklyn.

"There is no doubt that the reapportionment decision was a denial of the rights of minorities to fair and equal representation in New York politics. There are, however, individuals within the Barbaro and Kings County Democratic Coalition camps who plan to use the issue of the suit to instigate racial tension and even race war in New York."

Hamerman charged that "many of these confrontationist elements list themselves as supporters of Frank Barbaro. They include:

"Reverend Herbert Daughtry, leader of the National Black United Front (NBUF), who stated that the black community will 'hit the streets if the Supreme Court rules to reinstate the elections.' The NBUF has a history of leading racial confrontations in New York communities;

"Peter Weiss, New York lawyer and leader of the Kings County Democratic Coalition which is backing Holtzman and closely tied to Barbaro. Weiss said that the policies of Mayor Koch have turned the situation into "Selma in 1964," and that the delay in the election was designed to help Barbaro by bringing the racial issue up front in the election;

"Bertram Gross, author of *Friendly Fascism*, associate of the Democratic Socialist Organizing Committee which is backing the Barbaro campaign; Gross works closely with the National Black United Front, and gleefully reports that he predicted in his book the social turmoil in the 1980s that leads to cancellation of elections. Gross believes that the postponement of the elections and the ensuing 'inevitable' racial confrontations will help the candidacy of Frank Barbaro. . . .

"Such confrontations will only serve to further deprive the minorities from having a representation in electoral campaigns to rebuild this city."

The Koch administration's involvement in the scenario became apparent when the City of New York corporation counsel conceded in legal papers that it was in technical violation of the Voting Rights Act. The obvious intention is to put forward leftist Democratic primary

candidate Barbaro as the spokesman for the city's minorities in an orchestrated race-war confrontation.

Further inflaming the New York situation, a power failure hit portions of midtown and lower Manhattan on Sept. 9, halting subway service through the key midtown corridor during the evening rush hour.

NDPC-backed Democratic mayoral candidate Mel Klenetsky used the opportunity of a televised candidates' debate the same night to elaborate the scenario, and offer Frank Barbaro a chance to publicly dissociate himself from it.

## Copenhagen Trio to tour United States

The Lafayette Foundation for the Arts and Sciences has announced that its fall and winter educational program will be initiated with a six-city national tour, by the Copenhagen Trio. They will appear in Detroit on Sept. 30, Chicago on Oct. 2, New York City on Oct. 4, Washington, D.C. on Oct. 5, Houston on Oct. 7, and Los Angeles on Oct. 10.

The string trio was assembled in 1979 by three principal players from the Royal Danish Orchestra, cellist Larstholm Johansen, violist Bjarne Boie Rasmussen, and violinist Kim Sjögren, who cited the "irresistible" attraction of the classical string trio repertoire as their major motivation. The U.S. tour will be their first.

The Lafayette Foundation's fall and winter educational program will feature class series and symposia, concert series, and drama workshops. According to Christopher White, a Lafayette Foundation director, the program has been designed to provide the conceptual tools for more elaborated curriculum design, and also an institutional rallying point which will enable educators, students, parents, community, labor, and church organizations to revive the classical approach to education, as exemplified by Benjamin Franklin's 18th-century academies for the teaching of natural sciences, music, and classical languages, and the German educator Wilhelm von

Humboldt's 19th-century version of the Franklin effort.

## Inconclusive session against high rates

Senator John Melcher (D-Mont.) addressed a closed-door meeting of 75 members of the National Council on Low Interest Rates on Sept. 8 in Washington, D.C., stressing that the number-one issue for business and labor is to bring rates down immediately.

The council, in which the AFL-CIO is playing a major role, includes the National Farmers Union, the American Public Power Association, the International Operating Engineers, the International Brotherhood of Electrical Workers, Carpenters Union, General Contractors of New York, National Constructors, United Auto Workers, National Association of Homebuilders, NAACP, and representatives of mining companies, and the Conference of Mayors. The group formed in July in response to constituency pressure. This was its second meeting.

Melcher and Sen. Larry Pressler (R-S.D.), who also spoke, stressed that constituents had spoken out strongly during the August recess, but Pressler said that he intends to introduce legislation that would merely expand the Federal Reserve Board to include farmers, small businessmen, and labor.

The AFL-CIO is trying to steer the group into support for credit controls, claiming that although lending would be very limited, the neediest would get preferential treatment. At the meeting, federation spokesmen called for a repeat of Carter's March 1980 credit controls, even though two months after the Credit Control Act was invoked, U.S. industrial production fell to its lowest point in over seven years.

The group could not agree on a program for action, and will meet again in October. In the meantime the steering committee will try to draft a statement on the need for lower interest rates to rally support.

## Briefly

● **TIP O'NEILL** thinks that despite massive pressure, Congress should not take any action to lower interest rates. O'Neill said it was up to President Reagan to make the first move. "I don't know that we need legislation . . . the ballgame is theirs now."

● **THE DIA** in a just-released report, concludes that the Soviet Union outstrips the United States by as much as 3 to 1 in the production of most types of strategic and tactical weapons. The Defense Intelligence Agency report, coming at a time when the Reagan administration is threatening the Soviets with an arms race the White House assures everyone the United States will win, notes that in 1980 alone the Soviets produced 10 times more surface-to-air missiles, and 5 times as many antitank missiles. The Soviets outnumbered the U.S. 30 to 0 in bomber production and 350 to 0 in transport planes.

● **ALICE RIVLIN**, head of the Congressional Budget Office, assured the Congress in testimony Sept. 10 that the U.S. economy can survive usurious interest rates. "I admit that it hurts small businessmen, but every other sector looks okay," she said. "The economy has not collapsed yet, in what is historically high interest rates." This "indicates people are adjusting," she concluded.

● **AID** has cut \$28 million in its assistance to 11 developing countries, including, \$4.5 million allocated to assist Haiti in obtaining technology from abroad. Commenting on this decision, U.S. AID Director Peter McPherson complained that Haiti was using its imports of technology to "give too much attention to research and development." AID is under the direction of Secretary of State Alexander Haig.

## The Copscam blueprint

*U.S. cities will be left prey to higher crime and terrorism if this "police corruption" effort is allowed to proceed.*

Police chiefs around the nation may have raised their eyebrows in July when the FBI attempted to Abscam Bridgeport Police Superintendent Joseph A. Walsh. There should be no extended joy in the fact that the Federal Bureau of Investigation was caught at its own game and that the "Copscam" backfired. It is the appraisal of *EIR's Investigative Leads* law-enforcement intelligence directors that the FBI, redirected since 1973 by the Police Foundation apparatus, intends to run illegal Copscam operations around the country, with Patrick V. Murphy, James Q. Wilson, and other witting operatives of the Police Executive Research Forum (PERF) and Police Foundation, selecting the victims.

Abscam and the soon-to-be-named Copscam have been the pre-planned schemes of the FBI since the bureau was taken over by then-Attorney General Edward Levi and FBI Director Clarence Kelley. Both Levi and Kelley stripped the bureau of any counterintelligence capability against the enemies of the United States.

Edward Levi's infamous guidelines emasculated any potential for the FBI to serve the nation, and those guidelines were used to set the tone for city-by-city attacks against legitimate police intelligence divisions. Kelley, during his five years as director of the bureau, re-oriented all FBI operations in order to build up an "auditing investiga-

tion" capability against "white-collar crime," and weeded out all opposition to the mass reorganization: the two moves enabled the Department of Justice to initiate Abscam, Brilab, and Pendorf.

Clarence Kelley has long been an associate and coworker of Patrick V. Murphy. As Kansas City chief of police (1961-73), Kelley worked with the Police Foundation to run a series of experiments which "proved" that squad car patrol was no deterrence to crime and was therefore a waste of time. Kelley is currently on the board of directors of Murphy's Police Foundation and is a member of the PERF.

In the Spring 1980 issue of *The Public Interest*, James Q. Wilson, vice-chairman of the Police Foundation and member of the current President's Task Force on Violent Crime, described how the "re-programming" of the FBI was achieved by its director Kelley:

"The man Kelley brought in to close down virtually all the domestic security investigations was, ironically, Neil Welch, then in charge of the Bureau's Philadelphia office and later to be in charge of the New York office and of Operation Abscam.

In a matter of months, thousands of security cases were simply terminated; hundreds of security informants were let go; domestic security squads in various field offices were disbanded and their agents assigned to other tasks. New

attorney general guidelines clarified and narrowed the circumstances under which such cases could be opened in the future. . . .

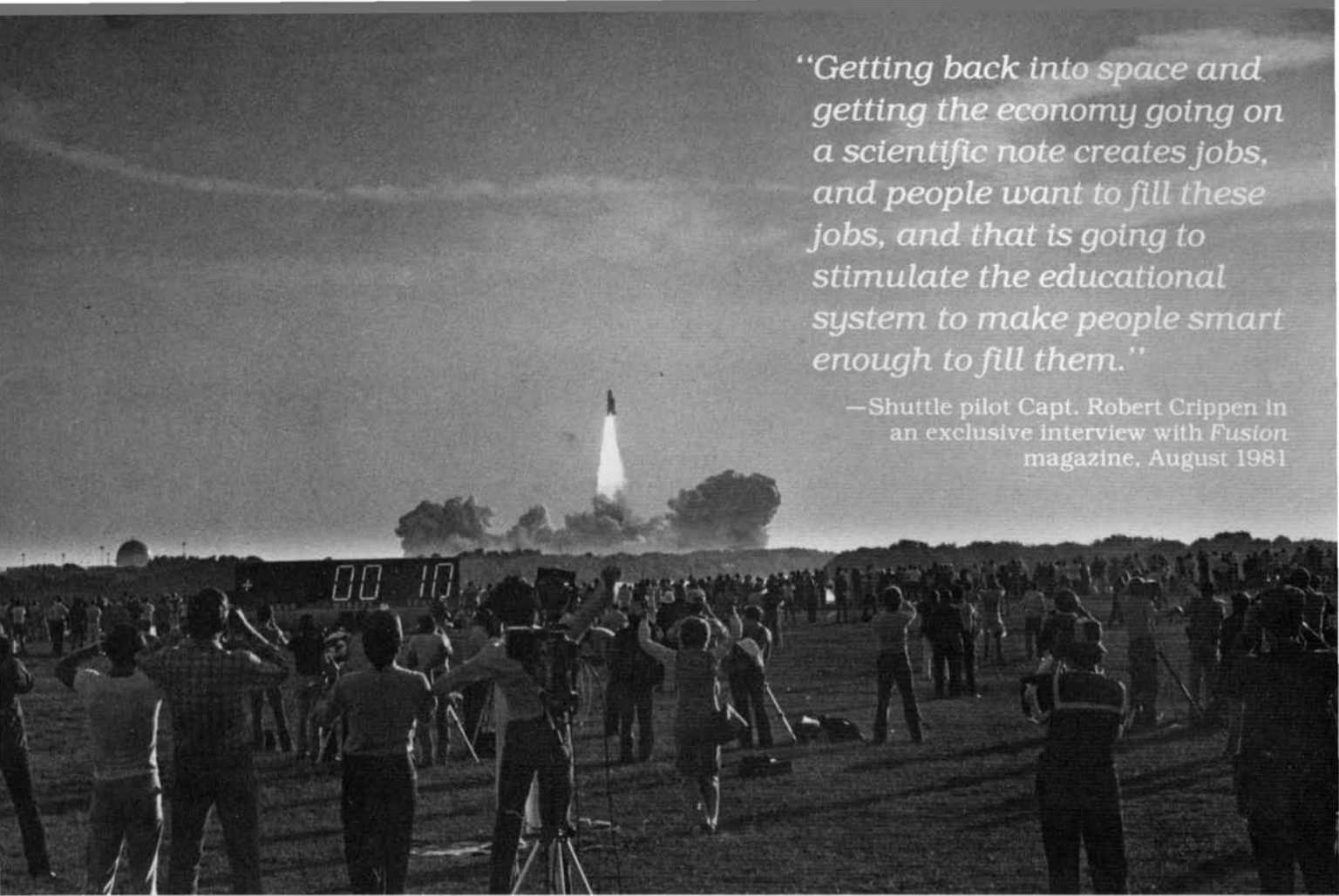
"The Philadelphia office was one of the first to redesign its structure so that most of its squad had the task, not of responding to victim complaints, but of identifying ('targeting') individuals, groups and organizations for intensive scrutiny on the grounds that they were suspected of being involved in organized crime, major conspiracies, labor racketeering, or political corruption [emphasis added]."

What Wilson does not reveal is who, among his co-thinkers, chose the targets. The FBI and its allied Police Foundation network is now selecting its next targets for Copscam, just as "targeting" had occurred in Abscam.

In 1980, the FBI set up a special RICO (Racketeering and Investigation of Corrupt Organizations) task force on local police departments. As a result, at least five corruption investigations were initiated in Milwaukee, Chicago, Philadelphia, Louisiana (Shreveport), and Connecticut (Bridgeport).

*Investigative Leads* has learned through sources close to the New York City Police Department (NYPD) that approximately 120 police officers and officials have been targeted by U.S. Attorney Robert Morgenthau and the New York federal task force in an effort to further destroy the NYPD—a job initiated between 1970 and 1973 by then Police Commissioner Patrick V. Murphy.

At a time when a new wave of terrorism and racial violence is being incited throughout the country, other police departments will be, or already have been, targeted.



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—Shuttle pilot Capt. Robert Crippen in an exclusive interview with *Fusion* magazine, August 1981

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