EIR

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Mexico retaliates against IMF warfare

Ibero-American common market proposed

The chimera of peace in the Middle East

The time bomb under West Germany's economy

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EIR

From the Managing Editor

This week we bring you a LaRouche-Riemann econometric model study of the West German economy, and a survey of where the Ibero-American debt-restructuring effort stands in the wake of Mexico's banking nationalization.

On the Mexican situation, *EIR* founder Lyndon H. LaRouche, Jr. released a Sept. 3 statement, cited in our lead Economics article, which concludes, "The U.S.A. and President Reagan cannot wait until after November to make real changes in policy. *Volcker must go now!* The administration should follow Mexico's example and implement the measures that I have suggested. I warned the bankers in New York, in Houston, and elsewhere, and I warned people in Washington. Now it has happened. . . . No 'safety nets' are strong enough to hold off a collapse if my solutions are not implemented," LaRouche asserts. "President Reagan and Congress must act now. Do not worry about opinion polls. If the measures I have recommended are taken, things will work out."

"What are they going to do next? Who knows what they're going to do?"
the Mexican banking nationalization. "A white man can't imagine to himself just what in their heart of hearts they could possibly want."

In this week's interviews with two Ibero-American leaders, you will find a passionate determination not merely to survive, but to rid the world of the IMF/Federal Reserve butchers, and to *advance*.

To say a few things about our Special Report on West Germany in this context: we demonstrate how that economy's "Third World" problem, the underpricing of the exports it depends on, has undercut its growth. Under the IMF's monetary system, as Economics Editor David Goldman puts it, West Germany has been "the captive falcon of the OECD: the ring around the Germans' neck stopped them from swallowing the game they captured."
intent to shut down world trade. There is no reason to believe they will survive unless they show at least as much courage as the Mexican nation, and enlist their diplomatic efforts on behalf of high-technology industrialization of the underdeveloped nations.

As we go to press, a huge fight has broken out over this issue at the IMF meeting in Toronto. We will have full coverage next week.

Susan Johnson

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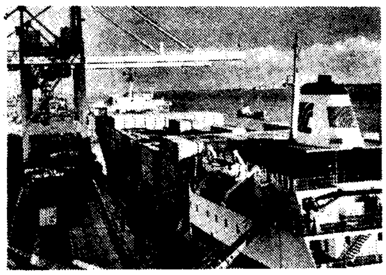
Special Report



Containerized cargo being loaded at the West German port of Bremerhaven. Throughout the post-World War II period, the Federal Republic's currency has been undervalued, its exports underpriced, and its economy deprived of investment capital.

International

National

Corrections: In our Sept. 7 Special Report on "Averell Harriman and the Roots of Nazi Race Science Today," part of the caption on the graphic on page 27 was omitted. The bar diagram shows the Sanford-Binet IQs of Americans of various ethnic origins entering the U.S. Armed Forces in World War I.

The Letter from the Managing Editor in that issue referred to Averell Harriman as Winston Churchill's son-in-law, which is politically but not juridically true. Harriman, who worked closely with Churchill, is married to the former wife of Winston Churchill's son.

Announcement: Note on the masthead the new address for *EIR*'s European headquarters.

Mexico: 'Back to an industrial society'

by Lyndon H. LaRouche, Jr.

The following statement was released September 5, 1982.

The most brilliant blow in defense of industrial capitalism was struck this past week, by aid of the nationalization of the private banking system of the Republic of Mexico. Mexico's President Jóse López Portillo executed what some view as a virtual legal coup d'état, with a strategic brilliance which would have brought favorable comment from the great Douglas MacArthur. President Ronald Reagan and a very small circle around him were forewarned, but the actions were one of the best "conspiracies" organized by any government during the past thirty-five years.

In New York, London, and Zürich, the gossips of the international financial community very suddenly ceased their efforts to ridicule the President of Mexico. So far, in the U.S.A., these events in Mexico have been President Reagan's finest hours in office so far. Although the cult-followers of Professor Milton Friedman and the Buckleyites will now do everything in their power to turn the President against Mexico's actions, President Reagan acted as a true, loyal friend of his trusted acquaintance López Portillo. Whether President Reagan fully agrees with all of Mexico's measures is not yet determined, one way or the other. What is clear is that President Reagan acted on the stated basis of his policy of support for the sovereignty and the stability of the Republic of Mexico. The U.S. President must be honored and respected for that.

Overnight, the military forces of Mexico were positioned, in preparation for the actions they would take at noontime, the following day, at the hour the presidential decrees became law.

All the leading public and private circles of Mexico gathered, together with the national legislature, to hear the President's "State of the Nation" address, the *Informe*. All but a few were taken by surprise as the President began his three-hour address—an address often interrupted by joyous demonstrations of patriotic fervor in the aisles, by parliamentarians and invited guests—most of them—alike.

The first hint which the outgoing president of the Bank of Mexico, Miguel Mancera, had of the moves was during the minutes just before the address. He was told he would not be included in the official photograph of the cabinet.

As the private bankers heard that their banks had been nationalized, the President dramatically glanced at his watch, to announce that the decrees had already been published as laws. It was an accomplished fact: the military were already occupying the banks' premises, ensuring that no records were removed or destroyed.

Naturally, the nationalization of the private banks is the measure which enjoys the greatest public attention at the moment; it is the most dramatic feature of the actions, but not the most important in the longer term. The important thing, is that all of Mexico's resources will now be concentrated to build up the levels of productive employment in agriculture, industry and infrastructure: tourism and other waste will be throttled down, speculative parasitism crushed, and a development policy in the footsteps of U.S. Treasury Secretary Alexander Hamilton and President George Washington will be energetically pursued.

True, the majority of the measures taken coincide exactly with recommendations which this writer has made recently to every government and other leading circles in Ibero-America. Therefore, this writer does understand these measures better than any individual outside leading circles of Ibero-American government themselves. However, this writer was neither forewarned of Mexico's actions, nor in any way part of a conspiracy with the U.S. and Ibero-American governmental circles directly involved in negotiating preparations for these actions.

That qualification made, this writer is at the moment, the world's leading authority on the practical implementation of measures being taken in Mexico and other nations. This writer's duty in the matter is to advise his own government, and to inform others generally of the practical consequences toward which the Mexico actions are now leading.

Governments and financial circles of the world, should pay very close attention to what this writer now has to report on those matters—at least, those governmental and financier circles which are not fanatical dupes of the Von Hayek cult, or simply too stupid to understand the presently impending global financial collapse.

First, we shall deal with the somewhat diverting issue of the nationalization of the private banks of Mexico. Our minds cleared of that point of distraction, we are better situated to concentrate upon the more essential points of the matter.

Why the banks were nationalized

Two distinct, but interconnected acts of bank-nationalization were enacted as Mexican law.

The first was the nationalization of the central bank, the Banco de Mexico. This action this writer had explicitly recommended, as an indispensable measure for bringing Mexico's currency, credit and debt under control.

If the world is to escape the present new depression, we require a mass of low-interest medium-term and long-term credit-issuance, but must ensure that this credit-issuance does not unleash an inflationary explosion. This can not be done unless British-style national banking is replaced by American-style national banking. It must be national banking modeled on Alexander Hamilton's First Bank of the United States, and on the Second Bank of the United States, formerly headed by Philadelphia's Nicholas Biddle.

In brief, the "Keynesian multiplier" must be shut down entirely, and the issuance of credit in excess of savings must be limited to issues of gold-reserve-denominated governmental treasury notes. These notes must be issued as investment-participating investments in agriculture, industry and basic economic infrastructure, both in domestic economies and in world trade.

It is essential that credit-importing nations have highly disciplined national-banking institutions, to ensure that international credit is not misused. Every penny of international credit and export-earnings must be *directed,* through disciplined lending-practices, into only the most essential categories of investment and related purchases. All must be focused on increasing per-hectare yields, increasing the scale of agricultural output, and increasing productivity in agriculture, as well as on basic infrastructure and capital-goods industries investments. We must increase rapidly the debt-service-carrying capacity of heavily-indebted nations, which can be done only by increasing levels of world trade and by increasing per-capita tangible-goods output of developing nations.

We must shut down excessive growth of non-essential "labor-intensive services," excessive growth in consumer luxury-goods traffic, and must crush out of existence the parasitism of capital gains from ground-rent appreciations and usury.

Only Hamiltonian methods of national banking and credit-policies—the methods used for the successful industrialization of Lazare Carnot's France, the U.S.A., Germany, Northern Italy, and Japan, can lead the world out of the present general depression. "Back to Leibniz, Hamilton, and List!" is the war-cry of nations seeking to escape the worst depression since the middle of the fourteenth century in Europe.

The Mexican government's actions in nationalizing the Banco de Mexico is the first in a series of planned such actions, which must occur quickly in numerous other nations, including an emergency act of the U.S. Congress "federalizing" the Federal Reserve system.

The actions against the private banks of Mexico were motivated by special considerations. As President López Portillo reported, these banks have been the vehicles for organizing minimally about $54 billion of capital-flight from the Mexican economy, chiefly in complicity with banks in Houston, Texas, New York City, Switzerland, and other money-market centers. About 20 billion on this account was in the form of imminent cash outflow, chiefly to complete payment on real-estate and other speculative purchases by Mexican nationals in the U.S.A. and other locations. Other forms of previously unreported indebtedness remain to be fully uncovered by government investigations, and could bring this total substantially higher.

This organization of flight-capital from Mexico is the sole cause for the recent devaluations of the peso, and represents the trigger for potential collapse of the entire world's financial structure. This running ulcer had to be stopped immediately, or a collapse of the Mexican foreign debt (totalling, actually, about $96 billion) would trigger a collapse of the banking system of the U.S.A., a collapse which would bring down the financial structure of the entire world.

This act of nationalization was forced upon the government of Mexico by, chiefly, two problems. First, the forces inside Mexico complicit in this treasonous practice have been brainwashed with the lunatic doctrines of Friedman and Von Hayek to the point of unshakeable fanaticism. They have become such irresponsible fanatics that control over Mexico's finances had to be taken peremptorily from their control.

The second problem is situated easily by asking oneself the question: whence did private interests of Mexico accumulate a minimum of $54 billion of "flight capital"? How could approximately $1,000 per-capita of "flight-capital" be assembled from the pockets of the people of Mexico? Where did this money come from within Mexico?

It came chiefly from real-estate speculation and usury. The looting of the economy of Mexico through real-estate speculation and usury, was the principal means for accumulation of this "flight-capital," and also the chief cause of domestic inflation of the peso. Every purchase and sale within Mexico, every act of production, every productive investment, has been taxed massively—to the tune of some $1,000 for every living Mexican man, woman and child, to assemble "flight-capital."

Conversely, it is impossible to stop domestic inflation in Mexico without crushing these speculations in ground-rent and usury. The opening of the books of accounts, with implications of tax-evasion uncovered, will lead to a collapse of inflation-rates in that nation.

Except as similar problems exist within other nations, Mexico's nationalization of private banks is not a "socialist precedent." If the Mexican banks had been steering credit into investments in improvements of agriculture, industry and infrastructure, no such nationalization need have occurred. The $54 billion of flight-capital could have paid off the entirety of Mexico's foreign debt, as President López Portillo emphasized. It was an amount seven times greater than the annual capital investment in Mexico's infrastructure and production prior to the recent crisis.

Where private banks serve the national interest, by promoting foreign trade and domestic investment in agricultural, industrial and infrastructural progress, it would be disruptive and counterproductive to nationalize them. In such cases, it is sufficient to draw them into a well-regulated national-banking system, and to encourage them to assist in directing flows to issues of currency as investment-loans to performance-worthy farmers and industry, especially capital-goods-producing industry.

The problem with the private banks of Mexico—not necessarily all of Mexico's private industry groups, however—is that U.S.A., Swiss, British and other financier circles had brainwashed them into the cult-dogmas of monetarism. As a result of this corruption, they had become self-degraded into colonial "compradores" of foreign financier interests, as we used to describe the British system of semi-colonial rule over and looting of China: the colonialist "comprador" system. They had looted their own nation, and its people, to the point of nearly triggering a general collapse of the world's financial structure, through their combined Hayek-like fanaticism and anti-patriotic personal greed.

President López Portillo has asked the government of the U.S. to assist in repatriating this "flight capital." The private holders of "flight capital" have been given thirty days to cause this repatriation, or else.

This means that the private holdings of Mexican nationals abroad may be drawn upon by the government of Mexico in aid of payment of Mexico's foreign debts. A Swiss creditor could receive a draft against "flight-capital" assets in Switzerland, which the Swiss creditors of Mexico are instructed to take in payment of Mexico's debts to Swiss institutions. Since there is over $50 billion of such assets in various parts of the world, Mexico can readily meet its external-debt obligations by ordering flight-capital of this sort to be applied against debt-service obligations.

Additionally, during his three-hour address, President López Portillo underscored the fact that measures of repatriation of such flight-capital amounts were to be the first measure to be taken in establishing a "New World Economic Order."

More fundamental measures

Governments and others should focus their attention upon the twelve categories of priorities for foreign purchases, established by Mexican law as part of a comprehensive program of exchange-controls. This is the feature of the Mexico program on which this writer has earlier been most emphatic in his recommendations.

These 12 categories tell the story. Mexico has acted to transform itself once again into a goods-producing nation, the first nation to break free of the lunacy of the "post-industrial society" cult-dogma now ruining the U.S.A. and many other nations.

The economic-theoretical basis for this policy is the American System of political-economy, the economic science first established by Gottfried Leibniz and adopted as the kernel of U.S. monetary, credit and economic policy under President George Washington. It was for this policy, and against the "free
Company's Adam Smith, that the U.S.A.'s War of Independence against the British monarchy was fought.

This writer has recently issued a series of papers on these matters. In addition to lengthy, comprehensive planning documents provided to his friends among Ibero-American governments, bankers, industrialists and others, a number of public reports have been provided to circles of patriotic economists, politicians and industrialists in a large number of developing nations. These papers detail the economic-theoretical and practical measures to be taken.

Although these reports are consistent with recommendations for general monetary reform this writer first announced at an April 1975 press-conference in Bonn, West Germany, the reports in question have been prepared and circulated in the period beginning May of this year, during the Malvinas crisis. The gist of the point stressed is that with over a quarter-trillion dollars of external indebtedness, the Ibero-American nations have the collective means—despite Henry Kissinger and Harriman protégé General Vernon Walters—to force the kinds of general monetary reforms needed to prevent the worst worldwide economic depression in modern history: back from a "post-industrial" cult-dogma, to a goods-producing ordering of society.

Most of what this writer has proposed could be adduced from the writings of Leibniz (beginning with the 1671 *Society and Economy*), or of Hamilton, Claude Chaptal, Charles A. Dupin, the Careys and Friedrich List. Back to the so-called "mercantilist" policies of "protectionism" and credit-and infrastructure-building policies, by which the Industrial Revolution was accomplished. Away from the self-discredited lunacy of "free market economy," and the related, feudalistic rentier-financier nonsense of neo-Malthusian world-federalist pagan cults.

This is crucial. The forces behind neo-Malthusian "post-industrial" and "world-federalist" utopian schemes, behind the "technetronic" insanity, are powerful rentier-financier family funds committed to the variety of Venetian-Genoese Lombard doctrines against which European civilization has fought since the time of Charlemagne's effort to develop modern civilization. These "families," including their junior branches around the Harriman, Morgan and Moore families of New York City, are what the average citizen would characterize as pro-feudalistic reactionaries, the enemies of the institutions of the sovereign nation-state republic and industrial capitalism.

It is not properly astonishing, if one knows the theosophical, pagan-Isis cult beliefs widespread among such rentier-financier "families," that these "families" are the forces behind the synthetic "environmentalist" movements artifically created beginning 1969-1970, and also international terrorism—largely with aid of offshoots of the "minorities" sections of the Nazi Abwehr's *Abteilung Zwei*—the "synarchists." These are the forces behind the Buckley-allied fascist movement of Mexico, the PAN, and allied to the political front-organization of the U.S. gangster Roy M. Cohn, the New York East Side Conservative Club.

It is not surprising, therefore, that "left" and "neo-conservatives" of the extreme "right" are so often shown to be marching toward common goals—such as "environmentalist" neo-Malthusianism—and share common puppet-masters. This is the case in Mexico, where the fascist "right" and the most violence-prone "tribalist" and "leftist" forces have the same direction.

What must be done?

If any circle of powerful lunatics now attempts to either destabilize the government of President López Portillo, or to impose upon Mexico the kind of conditionalities the IMF, World Bank, and Bank for International Settlements have proposed, the automatic result of such "countermeasures" will be an immediate collapse of the international financial institutions. "Give up your monetarist delusions, ladies and gentlemen! The day on which you could repeat successfully the policies of the 1972 Azores or 1975 Rambouillet monetary conferences has passed.

"Either you ladies and gentlemen come to your senses, and do now what I have proposed since my April 1975 Bonn press conference, or you are doomed to the general financial collapse your own stubbornly monetarist fanaticism has brought upon you—as well as the rest of us."

I have detailed the situation and the measures to be taken in a special report being delivered to the Toronto conference of the International Monetary Fund.

The immediate measures to be taken are these.

1. Comprehensive monetary reorganization.

(a) Effective a specified date, all outstanding debt-contracts respecting the external debt of nations are to be terminated. No accruals against such contracts shall occur after that date.

(b) The old debts are to be purchased with a new series of gold-reserve-denominated bonds of the debtors. This will reschedule the existing debt over a long-term period (in aggregate) with debt payments ordered by maturity dates of the portfolio of bonds issued to purchase old, terminated debt-contracts.

(c) These new bond series will bear interest rates between two and four percent per annum.

(d) The new bond series will be discountable, under specified conditions and terms, within the new monetary system and national-banking institutions of member-nations of that new monetary system. They will be discountable for purposes of issuance of approved categories of medium-term and long-term credit for technology-vectored investments in agriculture, industry and basic economic infrastructure in world-trade-related lending.

(e) The member-nations will enact emergency anti-usury laws, bringing down interest rates domestically and in international lending simultaneously. A maximum prime rate of 5 percent shall be established for approved, priority categories of lending.

(f) The "Keynesian multiplier" will be outlawed within and among the banking-systems of member-nationns. National banking shall be uniformly established by emergency laws to this effect. Credit-issuance for lending at interest shall be restricted to regulated financial institutions. Credit will be limited to (i) credit issued between purchasers and sellers of commodities, without interest-charges, (ii) loans and investments made against currency-and bullion-deposits of banking institutions, and (iii) regulated lending of gold-reserve-denominated currency-note issues of governments, through national banks.

(g) Governments will issue adequate volumes of gold-reserve-denominated currency-notes, to enable banks to issue loans for approved categories of investments to performance-worthy borrowers—in agricultural development, industrial development, and development of basic economic infrastructure. By "basic economic infrastructure" is meant mass-transportation of freight and persons, high energy-flux-density modes of energy production and distribution, large-scale fresh water management systems and related environmental improvements, and municipal infrastructure necessary to economy and household life. The otherwise idled goods, idled goods-producing capacity, and idled labor force must be put to work, chiefly in priority categories of investments in capital-intensive ventures, with strong preference for modernized agriculture and capital goods production.

(h) Monetary gold will be priced at a fixed rate which is a fair market price to miners of gold, taking into account the amount of annual monetary-gold purchases required and the degree of resort to marginal mining potentials this implies.

(i) An international bank of national banks must be established as a clearing-bank for maintaining a system of fixed parities of currencies, and for assisting in lending and reserve-transaction activities. Regional development banks with analogous functions are to be encouraged.

(j) Member-nations' governments must enact emergency taxation and other legislation designed to eradicate capital-gains from appreciations in ground-rent valuations and usurious practices.

(k) A selected short list of major global infrastructural projects must be adopted as the leading cooperative effort in energy-production, fresh-water management, and transportation development needed to provide the environment and leading stimulus needed to general economic recovery.

We must mobilize around such measures of reform as if we are mobilized to fight an interplanetary war, a war against misery and economic depression. *Back to the principles of Leibniz, Hamilton and List!*

2. To make such measures successful, the following emergency actions are required from the government of the United States.

(a) Immediate restoration of a gold-reserve basis for the U.S. dollar, at not less than $500 per ounce.

(b) Emergency legislation by the U.S. Congress, to transform the Federal Reserve system into the "Third Bank of the United States."

(c) Emergency anti-usury legislation, forcing a simultaneous lowering of interest rates on loans, deposits, mortgages, and money-market instruments.

(d) Emergency tax legislation, wiping out capital-gains accumulations from ground rent and usury.

(e) Emergency anti-drug traffic legislation, making it a major crime to traffic in "recreational substances," or to conduit funds accumulated through traffic in such substances either domestically or in foreign markets, or to engage in conduiting "flight capital" from domestic or foreign "black economy" operations.

(f) The authorization of an initial issuance of between $400 and $500 billion in gold-reserve denominated U.S. Treasury currency-notes. This is to replace all unconstitutional Federal Reserve printing of currency. It is to provide loan participation, through the federalized Federal Reserve system, to private banks for approved categories of medium-term to long-term lending in agricultural, industrial and basic-infrastructural investments at prime rates not in excess of 4 percent.

(g) The authorization of $50 billion credit to the U.S. Ex-Im Bank, for participation in approved categories of export of U.S. capital-goods production and heavy-engineering services, for approved categories of productive investments and infrastructural development.

Such initiatives by the U.S.A. will set into motion the kinds of reforms otherwise required.

These actions must occur immediately, otherwise a general collapse of the international monetary order cannot be prevented. There is only one category of governmental or financial official who will oppose such measures: dangerous fools.

Mexican measures at a glance

Banking and exchange controls as announced by the President Sept. 1:

1. All private banks in Mexico nationalized. Indemnization to owners over 10 years.
2. Full system of exchange controls. No private dealings in dollars permitted.
3. Nationalization of the Banco de México, the central bank, previously under part private ownership.

International

1. Call for an early meeting of U.S. and Mexican legislators to work out arrangements to encourage return of flight capital to Mexico.
2. Call for a new chapter of international law to protect all developing nations from flight capital devastation. New international economic relations must include a "special recycling link" to this effect.

Priorities on who may use dollars, from Sept. 1 official decree:

1) Obligations of federal government; 2) Obligations of decentralized government agencies (Pemex, Federal Electricity Commission, etc.; 3) Payments to international organizations; 4) Obligations of credit institutions; 5-7) Payments for import of basic food and priority categories of capital goods and other imports; 8) Repayment of private sector debt; 9) Certain classes of border transactions; 10) Royalties and repatriation of profits by private firms; 11) Travel for business or health reasons; and 12) Travel for tourism.

New Director of Banco de México:

Carlos Pello Macías replaces Miguel Mancera Aguayo. Pello, a nationalist economist, served as Minister of Planning and Budget, 1976 to 1977, before resigning in opposition to IMF interference in the economy.

Exchange rates, interest rates from package of measures announced by Pello Sept. 4:

1. Two-tiered fixed exchange rate for peso at 50 to the dollar for preferential transactions, 70 to the dollar for others.
2. Reduction of interest rates for private sector borrowers by 5 percent, with succeeding reductions of 2 percent per week for four weeks.
3. Mortgage costs slashed 67 percent for lower income housing, 33 percent for middle income housing.
4. Total elimination of dollar from internal credit system over "medium term."

Lopez Portillo nationalizes the banks: 'Mexico is ours. They will never loot us again'

The following are excerpts of the State of the Union address delivered by Mexican President José López Portillo Sept. 1.

The world's productive capacity has been increasingly subjected to contraction and unemployment by an unjust and obsolete financial system that claims those policies are the only remedy to the growing crisis. . . .

The lack of coherence between industrial progress, whose technology advances by ever more astonishing leaps, and a world financial structure that has responded to the technological challenge primarily by attempting to stop it, is increasingly evident. The financial plague wreaks more and more havoc around the globe. As during the medieval era, it plunders country after country. It is transmitted by rats, and in its wake lie unemployment, misery, industrial bankruptcy, and speculative enrichment. The remedy of the witchdoctors is to deprive the patient of food and submit him to forced rest. . . .

The prevailing levels of interest rates, the highest in civilized history, apparently do not obey any logic derived from the functioning of the markets, but rather the logic of deliberate policies of monetary restriction, whose anti-inflationary purpose is belied by the inflationary effect of the high cost of money. . . .

All of these factors . . . placed our economy in an extremely vulnerable situation.

But if this alone had been the problem—I repeat—if this alone had been the problem, with effort we could have solved it given the country's capabilities without suffering deterioration.

What we could not deal with was the loss of confidence in our peso, aggravated by those—inside and outside the country—who could manipulate expectations and cause what they pronounced by the mere pronouncements themselves. That is how delicate unity is. And that is how subjective the fundamental cause of this crisis is.

Against this, the vigor of our economy simply could not hold out.

To illustrate the problem, let us consider a few statistics. I ask you to make note of these impressive numbers in dollars. . . .

We have data indicating that recent bank accounts of Mexicans abroad exceed at least $14 billion. Some say it is much more. . . .

In addition, urban and rural real estate owned by Mexicans in the United States of America is estimated to have a value on the order of $30 billion.

Accounts in Mexican banks denominated in dollars but originally funded mostly by pesos—they turned in pesos, not dollars—are on the order of $12 billion. We call them Mexdollars. . . .

In sum, we are nationalizing the banks because it is not acceptable for this instrument to dominate or condition our [national] purpose. . . . We have cut the evil out by the root. . . .

We have broken the taboos. The Revolution is freed of fear and can accelerate its pace. . . .

Many decisions can now be made. Those that we have already made will mean many, many problems, but none so grave as the speculation that certainly would have engulfed the country in a ruinous vortex. We are freeing ourselves from the perverse cycle that regularly consumes our surpluses. The state will no longer be corralled by pressure groups. . . .

It would be advisable to hold a meeting with legislators from the United States. For us this problem—dollars there, real estate there—is a much, much more serious problem than the drug traffic is for them. In addition, how can we not export workers if the capital that could give them jobs is up there?

There is unfortunately little we can do regarding the deposits of Mexicans in foreign banks. Of course, it would be a beautiful gesture if they, as well as those who have invested in real estate, expressed solidarity with their nation and came to terms with the Mexican banking system on some means of recycling into our economy the resources that are so necessary for Mexico. I know it is unlikely that they will unite with us, and in that case we shall possibly have to resort to fiscal measures, and in any case appeal to international reason.

And here I stress the urgency for many developing nations in preventing their economies from becoming even more crippled by flight capital.

One of the unavoidable decisions that the New World Economic Order must take before the current system collapses in an untimely and perhaps catastrophic manner, is the formation of a system of compensation so those nations that are victims of flight capital can have access to some form of credit originating in those [looted] resources, through a special recycling mechanism.

I understand that in a world dominated by the doctrine of free trade, it would be difficult to fulfill such an idea. But it is necessary that the experts in world finance propose and resolve this matter.

We would like to discuss this with representatives of the financial system of the United States, and, I emphasize, to convince the generous American people that in the solution to our respective problems we are not trying to harm the American taxpayer but rather to make accessible to Mexico the credit represented by extensive Mexican resources that have left our country in a way that creates economic and trade problems on both sides of the border. . . .

This is not the time for apocalyptic denunciations; but it is the time to call on my people to remain calmly alert against all forms of aggression and foreign meddling, no matter how subtle. . . .

The decisions taken are a vital expression of our Revolution and its will for change. Let no one see in them any influences of political extremism. Internal and external circumstances have once again led the state to seek inspiration and strength in the genius of the Constitution to progress along the road of the national Revolution. The Mexican state has never expropriated for the sake of expropriating, but rather for the public good. What we now do liberates the free initiative and the free productive impulse of Mexicans from free-trade and the straightjacket imposed by a parasitic system. . . .

As a result, we can conservatively affirm that within the past two or three years, at least $22 billion have left the Mexican economy; and an unregistered private debt—to liquidate mortgages, pay maintenance and taxes—of around $17 billion more has been generated, adding to the country's foreign debt. These figures, when added to the $12 billion in Mexdollars—in other words, a total of $54 billion—are the equivalent of half of all the deposits in the Mexican banking system at this moment, or about two-thirds of the entire recorded public and private debt of the country. I can add at the same time, quite dramatically, that in the past two years Mexican rentiers have made more investments in the United States than all of the foreign investment in Mexico in all of history. The book value of this foreign investment in Mexico is approximately $11 billion, 70 percent from the United States. The net income to our country in 1981 from foreign investment was $1.7 billion. A ridiculous sum in light of what flowed out of here. . . .

Betting against the peso became the best of deals . . . not only licit but even prestigious. . . . We had to put an end to the abuse, despite all the political risks that this implied: rumor campaigns, the terrorism of disinformation, slanders from within and without. . . .

It has been a certain group of Mexicans . . . counseled and supported by the private banks, that has taken more money out of the country than all the empires that have exploited us since the beginning of our history. . . . They constitute a minority whose collective actions caused damage to national security and therefore to everyone. . . .

The fundamental question is determined by the difference between an economy increasingly dominated by absenteeism, by speculation, and rentier finance, versus an economy vigorously oriented toward production and employment.

Speculation and rentierism translate into a multiplication of the wealth of a few without producing anything, and is necessarily derived by the simple plundering of those who produce. And over the long run it inevitably leads to ruin.

In effect, our country, given its total shortcomings and its social dynamic, cannot afford to allow the development of speculative activities. Our nation has the imperative of dedicating all its resources to production. With production there are always unavoidable limiting factors at any given moment, such as availability of financing and funds. The narrower those constraints become, such as now, the more necessary it becomes to stop speculation. Mexico cannot permit financial speculation to dominate its economy without betraying the very essence of the system established by the constitution: democracy as the constant economic, social, and cultural betterment of the people.

We must organize to save our productive capacity and provide it with the financial resources to move forward. We must stop the injustice of this perverse process of flight capital, devaluation, inflation, which hurts us all. . . . These are our critical priorities.

In response to these priorities, I have expedited two decrees: one that nationalizes the country's private banks, and another that establishes general exchange controls. . . . It is now or never. They have looted us; Mexico is not dead. They will never loot us again.

The government is thus not only eliminating an intermediary, but a tool that has more than sufficiently proved its lack of solidarity with the interests of the nation and its productive capacity. Mexico's private banks have pushed national interests to one side and have encouraged, promoted, and even automated speculation and capital flight. . . .

To those who have been unpatriotic, we give you one month, September, the month of the fatherland [Mexican independence], to think about and resolve your loyalties. After that it is we who will act.

Let joy and excitement in the battle reign in every Mexican home.

With our institutions, with our intelligence, with our volition, with our emotion, and with our enthusiasm, we shall continue jubilantly building our Mexico. We have not failed. It is they who abused their freedom. We have shut down the capital flight.

Mexico has lived.
Mexico lives.
Mexico shall live.
Viva Mexico!

'Common market' proposed for Latin American continent

The following article was released on Aug. 28.

The continent of Central and South America virtually declared war against Henry A. Kissinger this past week. Exemplary of the developments is the following Aug. 26 NSIPS dispatch from Bogotá, Colombia:

"Fifty Latin-American congressmen present at the ongoing conference of the Latin American Parliament in Bogotá this week, issued a political declaration resolving to create a Latin American Community of Nations, to carry out the task of representing the unified interests of the continent. The Latin American Community of Nations would be formed at the December heads-of-state conference, to be held in Cartagena.

"The proposed tasks of the December, Cartagena conference, include: 1) Defining common policy-initiatives, and establishing the mechanisms for carrying them out; 2) Restructuring the Organization of American States (OAS), to better represent Latin American concerns; 3) Reconstructing a hemispheric security instrument, to replace the recently-defunct 1947 Treaty of Rio de Janeiro.

"The Latin American Parliament's resolution also powerfully censured the United States, 'for collaborating morally and materially in the reimplantation of a colonial regime in the American Hemisphere,' through its support for Britain during the recent Malvinas conflict."

Behind the scenes at the Bogotá conference, the big topics of discussion were the combined external indebtedness of the Ibero-American nations, plus hostility against the United States and Europe for the brutal treatment being administered to the Republic of Mexico.

Were these nations to create a "common market," as the resolution proposes, the community of nations below the U.S. border would become potentially an economic superpower, potentially of the economic weight of Western Europe during the 1960s and the 1970s. The Rio de la Plata region of Argentina, Uruguay, and Brazil alone, is potentially one of the greatest agro-industrial development-centers of the entire planet. A cluster of up to fifty nations, in a common market with such dominant economies as Mexico, Colombia, Venezuela, Brazil and Argentina, represents in resources and in numbers and productive potential population, one of the three greatest growth-potentials of the world today.

The other two are the Asian sub-continent and South East Asia.

With a rational solution to the debt-overhang of these three super-development regions, and mobilization of capital-goods imports into these three regions, it is proposed that the greatest economic boom in world history to date would emerge rapidly. At present, India and Ibero-America are the zones best suited for immediate, massive exports of capital-goods from the U.S.A, western continental Europe, and Japan.

The opposition

On the surface, the major opposition to both such a "common market" and rational debt-reorganization, is coming from the U.S.A. Apparently, the old combination of the 1971-72 international monetary catastrophe, Henry Kissinger, George Shultz, and John Connally, is digging in its heels, insisting upon some more extreme version of the lunacy resolved at the 1975 Rambouillet conference.

Up front is Henry A. Kissinger, the cat's-paw for Britain's Lord Carrington. Kissinger, suspected former Soviet KGB asset and avowed, long-standing agent for Britain's Chatham House, is currently heading a newly-established, London-based "consulting firm," Kissinger Associates, Inc. (sometimes abbreviated as Kiss. Ass., Inc.). Between working on his old project for the "separatist" dismemberment of Lebanon, Kissinger is concentrating his malice and meddling against the nations of Latin America.

Although Kissinger is not officially announced to be part of the Reagan Administration, the State Department is still flooded with Kissinger cronies, and Secretary of State Shultz's policy-actions are so far visibly convergent on those of his friend, Kissinger.

Against Mexico, in particular, the U.S. center of malicious intervention is Houston, Texas. It is concentrated among the close associates of former Treasury Secretary John Connally and Vice-President George Bush for that city. Linked to this Houston nexus is the peremptorily-fired former head of Mexico's petroleum-entity, Pemex, Diaz Serrano.

Although the pressure upon Ibero-American nations is radiated chiefly through the United States, U.S. policy in these matters is presently dictated from London, Scotland and Switzerland. In an address to his "mother," Chatham House, on this past May 10th, Kissinger stated publicly that he had been a de facto agent of the British government, sometimes working directly against his own President on London's behalf, while Secretary of State. Although there are fractional differences in emphasis between London and Swiss banking-circles today, the general direction of policy of the two monetary centers is virtually identical, at least from an Ibero-American vantage-point.

Kissinger versus LaRouche

The following article, published in two leading Buenos Aires dailies, *Clarín* and *El Razón,* on Aug. 20, states openly what is being said in government and related circles of numerous Ibero-American nations:

"The leader of a faction of the U.S. Democratic Party warned the Latin American nations against what could be involved in a possible trip to those nations by the former Secretary of State, Henry Kissinger, on an economic mission.

"Through a spokesman, Lyndon LaRouche, founder and leader of the National Democratic Policy Committee—1980 presidential candidate—stressed that Kissinger is prepared to visit Mexico, Panama and Argentina, to carry the policies of the International Monetary Fund to these countries.

"LaRouche characterizes the austerity policies which the IMF attempts to impose as 'genocidal,' and urges the Latin American nations to defend themselves, 'uniting their forces to force their creditors, in London, Switzerland and New York to accept a favorable renegotiation of the foreign debt of the continent.'

"According to the spokesman for LaRouche—who is a longtime political enemy of Henry Kissinger's—'the monetarist forces of the IMF are carrying out a blatant strategy of "divide and conquer," giving a few crumbs of credit to Brazil so that it will not ally with the rest of Ibero-America, while the IMF assaults it. But if the IMF achieves this destruction, Brazil will suffer the same fate in a few months more.'

"The spokesman added that Kissinger's tour through various Ibero-American countries is to be placed within this effort of the IMF, and that Kissinger is preparing to destroy those government leaders who oppose his policies, as was seen in the case of former Panamanian President Aristides Royo. . . .

"LaRouche is promoting the creation of an Ibero-American Common Market, to defend the continent from what he believes will be the imminent collapse of the world economy."

This personal warfare between LaRouche and Kissinger dates from mid-1975. Following an April 1975 press-conference which LaRouche hosted in Bonn, West Germany, Kissinger, according to released U.S. official documents, launched several, massive "covert operations" against LaRouche and his associates, including a massive operation conduited into Germany and elsewhere through NATO-intelligence channels. The issue, then as now, was LaRouche's draft design for a gold-based international monetary system, to reorganize Third World debts, and launch capital-goods flow into advanced-technology forms of agricultural, industrial and basic infrastructural projects in the developing sector.

Today, Kissinger's personal vendetta against the monetary reform proposals of LaRouche and his collaborators are aided, significantly, by the circles of leading U.S. gangster Roy M. Cohn. Cohn was reported meeting Kissinger recently in a New York City restaurant habituated by leading homosexuals, a recent development in a long overlap between the activities of the two, dating from the Heidi Massing scandal in West German during the early 1950s.

Were they to create a 'common market,' the community of nations below the U.S. border would become potentially an economic superpower, of the economic weight of Western Europe during the 1960s and 1970s.

Cohn's political base of operations is a political front-organization run out of his New York City townhouse, the so-called East Side Conservative Club. This nest includes the Buckley family, Cohn's law-partner, Tom Bolan, and an array of others, including major names in U.S. organized-crime circles. Cohn himself is not only a leading attorney for organized-crime "families," but has been himself overtly a partner in organized crime since his partnership with Joseph "Joe Bananas" Bonanno during the early 1960s.

Cohn's regular bases of operation include Houston, Texas; Acapulco, Mexico; Paris, France; and Monaco, as well as visits to the yacht of South African tycoon Schlesinger. Cohn, Bolan and Buckley have been the principal conduit of organized crime's influence into the Reagan Administration circles since Inauguration Day 1981. Cohn's efforts against LaRouche—in the U.S.A., France and Germany—parallel and complement those of Kissinger. Cohn is also deployed against one of Kissinger's current targets for destruction, the Republic of Mexico.

During 1975-76, when Kissinger launched his wave of coups and bloodbaths against nations and governments seeking a new world economic order, many terrified governments capitulated to Kissinger's 1975 Rambouillet decrees. Then, Kissinger (together with C. Fred Bergsten) offered the Non-Aligned nations the bait of such schemes as a "raw materials cartel" and the "Common Fund."

The difference today: there is no plausible bait, except the profound option of dying immediately or more slowly. Nations which prefer not to murder their own populations with IMF or Bank for International Settlements "conditionalities," have no choice but to stand and fight, with better chance of defeating Kissinger's masters if they stand together.

The confrontation

During January and February of this year, the British government polished up its plans for war against Argentina. U.S. officials lured Argentina into reclaiming the Malvinas Islands, with promises of U.S. backing for Argentina's lawful claims. Argentina accepted the U.S. commitment, and then the same United States government backed the prepared British military aggression against Argentina.

It was supposed to serve as the bloody precedent to frighten every Ibero-American nation into submitting to IMF and Bank for International Settlements "conditionalities." Now, Kissinger revives his old Einaudi Plan, for the "Second War of the Pacific," to be triggered by Chilean military aggression against Argentina, hoping that Brazil will not aid Argentina and might, perhaps, tilt the strategic balance in favor of Chile.

All South America, as well as Central America, is intended to become a new "Thirty Years War" theater for a long time to come. "NATO out-of-area deployment" forces are intended to orchestrate the "population and raw-materials wars," the military expression of the Trilateral Commission's "Global 2000" policy.

In many Ibero-American leaders' eyes, the only alternatives to Kissinger-directed mass-murder of a continent is LaRouche's proposals, or something very similar. Create a 'Common Market,' and exploit the potentials of the 'debt-bomb.'

If the Ibero-American states default on approximately a quarter-trillion dollars of external debt, the entire world monetary system would immediately collapse in a chain reaction, beginning with the banking-system of the United States. Under present monetary policies, the entirety of that debt will go into default in any case, none later than during early 1983.

So, LaRouche has proposed, let the Ibero-American nations—or, at least some of them—act in concert, to force an immediate reorganization of the debt. The debt-reorganization proposed is, in itself, quite simple: 1) set a cut-off date for existing debt-obligations; as of that date, interest payments cease to be accrued on outstanding debts. 2) Create a new issue of medium-term to long-term bonds, at between two and four percent interest per annum; these bonds will total to the amount owed on the accrual of old debt up to the cut-off date. 3) Exchange the old debts, threatened with default, for default-resistant new debts.

Unfortunately, LaRouche adds, debt-reorganization by itself will not save the international monetary system, or the rotted-out U.S. domestic banking-sytem. To prevent a general world financial collapse, all the lunatic nonsense now proposed to be adopted at the Toronto IMF conference this September, must be tossed into the waste-basket. He insists that the U.S.A. is obliged to reverse the follies of Connally, Reuss, Kissinger, and Shultz, of 1971-72, and reestablish a gold-reserve-based U.S. dollar, pegged among central banks at approximately 500 dollars per troy ounce.

He insists that there must be a general debt-reorganization within the industrialized sector, as well as the developing sector. The inflationary, "Keynesian-multiplier" system of privately-controlled central-banking must be shut down tight and hard. National banking must be introduced, using gold-reserve-denominated issues of governmental currency-notes as the sole generation of credit in excess of lending of deposited currency-savings. This national-banking credit must be issued, at between two and four percent prime-interest-rate per annum, but restricted to technologically-progressive forms of loan-participation in investments in agriculture, industry and such basic infrastructure as energy-production, transportation, water-management systems, and basic industrial-urban infrastructure. Other categories must rely entirely upon savings of issued currency, to ensure a ruthless shut-down of the mechanisms of monetary inflation.

If a group of developing nations, such as a group of Ibero-American nations, forces the OECD governments to reorganize developing-sector debt, LaRouche argues that this will also force those governments to junk the current policies of the IMF, World Bank, and BIS, and move immediately to the more general monetary reforms summarily indicated.

Since the 1975 Rambouillet monetary conference, lunatic international monetary authorities have been dictating conditionalities to developing nations (and Italy). LaRouche suggests that these self-esteemed geniuses, including Secretary Shultz, have adequately proven the merits of their past policies, by leading us to the brink of the worst financial collapse Europe has known since the middle of the fourteenth century.

It is time, LaRouche insists, to return to those early nineteenth century polices—of Hamilton, the Careys and Friedrich List—through which modern industrial economies were built. We have seen what comes of the "free market" notions of our Kissingers, Connallys, von Hayeks, and our "environmentalists."

He says, perhaps it is past time that the saner nations of the world, such as those of Ibero-America, issued some "conditionalities" to the OECD nations.

Will there be an Ibero-American Common Market formed by December of this present year? It will be the most savage political fight of the post-war period. If Ibero-America loses, LaRouche argues, then we all plunge into a depression for which no recovery is presently in sight during the remainder of this century.

'Time for the continent to discuss joint debt renegotiation, development'

Dr. Oscar Camilión in Buenos Aires, Argentina, was interview by telephone by EIR *Ibero-American Editor Dennis Small in New York on Sept. 3. Camilión was Argentina's foreign minister during the nine-month government of General Roberto Viola in 1981. Prior to that he had served as ambassador to Brazil. His personal role in overcoming conflicts and promoting nuclear energy cooperation as the basis of a new Argentine-Brazilian friendship resulted in his being the most appreciated ambassador in Brasilia in recent history. Excerpts follow:*

Small: What do you think of the Mexican government's nationalization of the private banks and establishment of total exchange controls? Can you comment on their reverberations in the rest of the continent?

Camilión: These measures have had a huge repercussion in Latin America. Mexico has taken a significant step which naturally evokes memories of those taken in the 1930s in relation to the oil industry. Of course, the Mexicans should be the first to give their opinions on the correctness and the timing of these important measures. But, there is no room for doubt that Mexico has delivered everybody a strong warning about the grave state of the international financial system and has defined the situation of the many countries, including many in Latin America, which have reached the point that they can no longer comply with their foreign obligations.

Small: Argentina is obviously one country having such difficulties. There has been talk of a possible association of Latin American debtors which would enable them to jointly renegotiate their foreign debts.

Camilión: What you say is correct. Our country is having severe difficulties in its foreign sector. For a good while, we have been caught in a snowball process.

Argentina will end 1982 with $6 billion more gross foreign debt than at the beginning of the year. And if things continued this way, next year the same will happen, which would only mean the postponement of an inevitable insolvency. This situation must be remedied. The least that countries must do at this moment is to analyze the idea of discussions among them, to search for solutions to such a serious problem.

Small: You mean that Argentina—like other Latin American nations—needs to postpone its debt service payments, it needs some kind of debt moratorium?

Camilión: We should analyze the problem in two time frames. In the short term, time is need to sort things out. And then we need a *genuine* refinancing package, because, to my mind, refinancing cannot be divorced from economic development. We are already grownups; we weren't born yesterday. We must not take the "ostrich" approach, in which one refinances or recycles the debt in a way which creates no repayment capacities. What we need are economies which recover their capacities for payment.

The interests of both debtors and creditors require that Argentina function as an efficient goods-producing machine. We need a mechanism which truly prevents Argentina from being a threat to the international financial system.

Small: What you are proposing for Argentina, then—industrial development to be able to eventually repay the debt—is the exact opposite of what the International Monetary Fund is now asking of Argentina.

Camilión: I would like to know on exactly what terms one might discuss with the International Monetary Fund. Because, if they apply hackneyed formulas in a case like that of the Republic of Argentina today, they might end up with quite strange results. At this moment, Argentina is in no shape to comply with the IMF's classical prescriptions, such as shrinking economic activity by cutting wages or increasing unemployment, because we already have the lowest wages and the highest unemployment in our history.

The structural-recession solution is useless for getting out of structural bankruptcy. This argument is quite obvious, and applies to both private firms and to nations.

Argentina has been in a recession for six out of the last eight years. After having applied for more than enough time the policies of the so-called "Chicago School"—that is, the misleading and fraudulent theses fixated on the monetary side of the balance of payments—we have reached a gross industrial product inferior to that of 1964. It is absurd to think that Argentina could solve this problem through more recession, even from the monetarist point of view. This monetarist policy has even led to the virtual disappearance of money itself in Argentina.

The Argentine worker cannot reproduce himself on what he is now earning. If more pressure were put into such a pressure cooker, you would risk the explosion of the Argentine social system.

Small: Lyndon LaRouche, the founder of *EIR*, has proposed the joint renegotiation of Latin America's foreign debt and the formation of a Latin American Common Market to facilitate—through regional protectionist measures—some industrial development. What is your opinion of this proposal?
Camilión: On the first part, I think that the time has come for countries to at least discuss among themselves, because their situations are substantially similar. We have here countries which have followed serious policies of measured, long-term industrial growth, like Brazil; we have countries with accelerated growth, like Mexico; and we have countries which have destroyed their industry like Argentina and Chile. Yet we all suffer from the same problems of external insolvency, which proves that this is quite related to the underdevelopment of the continent.

Thus, the possibility of at least exchanging ideas would be fruitful. I have to caution you, however, because on this question we all have to be somewhat cautious, that my views are not unanimously shared. Many countries prefer at this time to distance themselves from the others by saying, for example, that they have capably managed their debts. So this initiative faces significant political difficulties.

Despite this, it seems to me that the environment exists to begin a serious exchange of ideas. The main thing is to get the Latin American countries to coordinate industrial development goals, and understand that the initiation of industrial activities is the indispensable condition of development.

Small: Dr. Camilión, you are known in Latin America and internationally as a great friend of Brazil and a great expert on that subject. It is widely recognized that any Latin American unity effort requires Brazil's support to succeed. I would like to know your evaluation of the current Brazilian situation. What attempts are going on now between Argentina and Brazil to reach some kind of joint action?
Camilión: On the second aspect of the question, just last week [at the end of August] there was a meeting in São Paulo between businessmen of the two countries to explore ways of increasing trade. The big turnout of businessmen from both countries, and the clear commitment to the idea that ties would be mutually beneficial, were extremely encouraging.

As for the first part of your question, I don't think I would interfere in the internal affairs of Brazil if I were to opine that the Brazilian situation is exactly the same as that of Argentina, Mexico, or Chile, in structural terms. When all is said and done, the exact same thing happened to them: they are not able to take care of their current-account obligations without having to make additional commitments which bring about the "snowball" effect.

Brazil, like the rest of the countries in Latin America, is simply unable to handle today's high interest rates in the U.S. and European capital markets.

Small: What kind of industrial development do you propose for Argentina?
Camilión: There's not the slightest doubt that Argentina has no way to heal its economy and rapidly recover except a systematic campaign of industrial investment in large-scale infrastructure, energy, and heavy-industry projects. That is what Argentina did *not* do during recent years.

It is absolutely essential that industry be the dynamic factor of development, and in particular heavy industry. Because we have also had the experience in which public works, **without** a coherent industrial policy, has also failed to produce takeoff to development. Public works are a necessary, but not a sufficient, condition.

We would give special incentives to the development of certain lines of production, such as the full range of energy sources: oil, natural gas, liquified gas, coal, and, naturally, nuclear energy. We would also emphasize some activities, such as petrochemicals, for which Argentina has optimal conditions.

Small: So you reject the British argument that Argentina has an exclusively "agricultural vocation"?
Camilión: But of course. It would be an insult to anyone's intelligence to say that a country like Argentina could increase its agricultural production without having its own industrial base. Of course, we would never give up being a strong agro-industrial power; but the only way to be one is through the development of internal industrial markets. This seems so obvious to me that to say more would be an insult to any educated person.

Small: You have criticized the Milton Friedman "Chicago School" monetarist policies and the extremist monetarism of the International Monetary Fund. What do you think of the more general theory, promoted by groups like the Club of Rome, which argues that natural resources are running out and that the world is overpopulated?
Camilión: In our country, for years if not decades, we have confronted all those evasions of the obligation for economic development, which go from the old thesis that development is only possible through increasing trade, to those who seek birth control, to those, such as the Club of Rome, which go so far as to ask developing countries, "Why bother to have development at all, since it brings so many problems?" That is, all the environmentalist theories, all the theories which claim that pollution is a result of development and that it is better to be involuted, underdeveloped, and happy, are nonsense.

We think that the only really noxious pollution is the pollution of hunger, of misery, of backwardness, of ignorance—that is, the pollution of underdevelopment. We think that Club of Rome-type theses, which are nothing but a reproduction of old Malthusianism, are contradicted by science, contradicted by experience. They are cover-up ideologies to mask the defenders of the status quo, who during the last few years have evolved novel forms of financial dependency, and who have ended up like the snake which bit its own tail and became unable to move forward.

Small: We in the United States fought a revolution in 1776 againstprecisely such theories, and we established the American System to combat this ideology of the British System of economics. But many people here are not aware that in Latin America there were also such schools of thought. Could you tell us a bit about these tendencies in Argentina, which shared the thinking of America's founding fathers like Washington, Hamilton, and others?

Camilión: Yes, gladly. Speaking of Hamilton, I would like to tell you a short anecdote. When I was a youth of 18, I so admired Hamilton that I used his name as my pseudonym on journalistic articles—rather presumptuously, I admit. Hamilton is a person whom I especially admire.

In the course of the last decade of the 19th Century, there was a great debate in Argentina which was unfortunately not won by the Hamiltonians. Carlos Pellegrini, Rafael Hernández dez, and Vicente López were the three great figures who advocated Hamiltonian-style industrial development in Argentina, and their views are perfectly applicable today.

Carlos Pellegrini had the vision to understand that a country which did not develop its own manufacturing capabilities would inexorably be condemned, over the long term, to backwardness. Thirty years later, during the great world crisis, it became evident that those countries which had not adopted a model of industrial development, which had not established the basis of their own industrial growth, which had fallen into the trap of "the international division of labor" and of the supposed "natural destiny" of nations to be mining or agricultural countries only, that these nations of course at a certain point stopped growing and began to collapse.

Small: What do you recommend that Latin America do today to support Mexico?

Camilión: It is absolutely necessary that no one try to make of Mexico an "object lesson," which is something I would fear for any country in Latin America. Mexico has made a decision, it has exercised its rights as a sovereign nation. Given that decision, I believe it is essential to ensure that Mexico not be adopted or chosen as a target now for some kind of mechanism of sanctions. Because, of course, if the Mexican situation were to break, it would be the death-knell that would announce "the hour of heaven or hell," as Macbeth said, for the rest of the nations of Latin America.

At this time, what is fundamental is to support the sovereignty of a Latin American nation, in the face of any threat which might be posed to it by those sectors that might consider themselves adversely affected.

Gilberto Avila Bottia

'A development bank modern agriculture

The following are excerpts from an interview conducted Sept. 2 in Bogotá, Colombia by EIR'*s Ibero-America Editor Robyn Quijano with the outgoing president of the Latin American Parliament, Gilberto Avila Bottía. Avila Bottía is Minister without Portfolio and adviser on parliamentary affairs to newly-elected Colombian President Belisario Betancur.*

Quijano: The important presentation you made to the last session of the Latin American Parliament has stirred tremendous interest in the new role that Colombia intends to play in the inter-American system. What are the plans of the Betancur government in this regard?

Avila: In terms of its international relations, the country is going to substantially alter its position in Latin America. . . . Colombia's new administration has fully aligned itself with the Latin American family. We do not think it is useful to destroy the Organization of American States, because we need an interlocutor. That interlocutor is the United States, and the forum through which to speak to it is the OAS.

But we nonetheless also need to organize a purely Latin American mechanism for conducting international relations, including the Caribbean, those that speak Portuguese, possibly those that speak English and those purely Hispano-American. We need to form a so-called bloc, to have continent-wide coordination, because we can see that none of our countries by themselves can defend themselves from the aggression of the superpowers. We need a Latin American organization to make common policies, a defensive policy and a policy to both cooperate with world peace and to stimulate the development of Third World peoples.

This does not signify aggression against the United States, but there does exist a spiritual rupture; there is no Pan-Americanism on our continent.

Colombia has summarized its political thoughts on this on an international level by inviting all the presidents of the Southern Hemisphere to study, to re-analyze the various mechanisms—both economic and political—with which it conducts its international relations. . . .

Quijano: The British invasion of the Malvinas demonstrated that NATO plans to unleash colonial wars; today in the Malvinas, tomorrow to guarantee payment of the debt. Yesterday, with the nationalization of the Mexican banks, the question of defending national sovereignty came to the fore-

could promote and industrialization'

front on a continental level. Under such circumstances, what shape do you see this continental solidarity taking?
Avila: One of the aspirations of the Latin American nations is to form a common market. . . . The planned presidential summit meeting should agree to substitute, or at least to study, a multilateral treaty which would not only encompass questions of political and military defense, but also the creation of mechanisms of economic defense. One of these mechanisms of economic defense would involve attempting economic integration—if not regionally, at least subregionally.

Quijano: The U.S. politician Lyndon LaRouche, founder of this magazine, has detailed a plan for just such a Latin American Common Market. . . .
Avila: For a Latin America-wide development plan, we don't need private capital but public capital under acceptable economic conditions: that is, long-term, low-interest credit. The first thought of a Latin American politician would be to look to the United States, but we know that this would be like attempting to plow the ocean, given what the U.S. achieved with the Marshall Plan, and the development plans it put into practice in India and Afghanistan, and who knows where else, but never holding out a hand to the Latin American nations.

Of course, there is the other superpower, the U.S.S.R., which has sporadically made its presence felt in the Third World, such as in the case of the Aswan Dam. But the nature of Latin America, its links . . . to Western civilization, its conception of man and of certain values will not allow this. Ours is not a fertile land for Marxism to take hold of the Latin American soul in place of a development program.

Thus, we maintain more or less cordial relations with the European Community. We know that the EC does not have the financial power of the United States, but they nonetheless at least provide us with technology transfer; they could give us the knowledge they acquired after World War II for Europe's economic recovery, so that we could promote industry and industrialize agriculture. This technological support would of course provide us with a foundation.

So now, how do you carry out a development program? None of our countries have the financial resources to finance such a program; thus, we need international credit. But one is speaking here of a world financial oligarchy, and this financial oligarchy, or elite, could take the form of OPEC, or the more active presence of Japan, I don't know. It could also emerge through the efforts of each one of our countries to found an investment bank to replace the Interamerican Development Bank; our own bank, in which each of our countries would contribute a quota, proportional to its internal development, to organize a great mechanism of financial development for Latin America.

Quijano: President Betancur has recently announced his proposal that Colombia join the Non-Aligned movement. Could you briefly explain the reason for this decision and what results you expect to come of it?
Avila: We don't know all the fundamental reasoning upon which this decision is to be made, but we Colombians know of the dialogue that took place between Vice-President Bush and the Colombian President on the day of [Betancur's] inauguration Aug. 7, when the Vice-President asked the same question. Our President said, ". . . I will graphically summarize the sentiment of Latin America: before the Malvinas conflict, the prestige of the U.S. was ground level; after the conflict, it was in the basement." As a result, my country will leave the political orbit of the United States—nor will it be part of the Russian orbit—and will join with other countries in conditions similar to our own, the Non-Aligned nations.

Quijano: From what I have seen of the national situation, there is a remoralization of the country with this new government. What is going to be done now regarding the drug problem?
Avila: The current government has said that it will be ruthless in persecuting these elements and these crops. We are aware of the immense damage that will be done to our nation if we give free passage to the consumption of marijuana and cocaine. But in a way we feel impotent, not so much in dealing with our own, but because of the financial organization that the United States has along its Florida coasts, because it is there that the ships and planes piloted by North Americans arrive; it is they who bring the dollars and who are feeding this traffic with drugs from the Colombian jungles.

If the U.S. were to do something to reduce consumption, logically the Colombian drug traffickers would lose a good part of their market. But at bottom what exists is a unilateral policy; Colombia is looked at, but the United States doesn't look at itself. Thus, when a North American arrives here, the most intelligent question to ask is "What are **you** going to do with marijuana?" But we are never told what the North Americans are going to do with their consumers and their traffickers. I think that what is lacking is an anti-drug crackdown by the United States on its citizens, its banks, and its businesses. That is why, in a certain way, we are unable to resolve the problem in Colombia—because it is the financial force of the United States which is fiercely aggravating the problem inside Colombia.

Brazil is the swing factor among debtors

by Mark Sonnenblick

Whichever way Brazil leans, there leans all of Latin America.
—*Richard Nixon, 1972*

Nixon's famous dictum; uttered under prompting from Henry Kissinger, has never been more believed than today. People on both sides of the battle over the future of Latin America's debt consider Brazil, with its $80 billion in foreign debt and immense industrial potential, vital to a regional common market. Henry Kissinger thinks it such an important swing factor that he sent roving State Department "ambassador" Vernon Walters to Brazil during the last week of August to organize for a coup against the Figueiredo regime.

The Anglo-American bankers gloat that as long as they have Brazil under their thumb, no joint Ibero-American initiatives on debt or trade could be made to work. "To work, they've got to get the Brazilians to go along," observed a West Coast bank vice-president. "Brazil's inner management core would never go along; they are going to get a better credit rating out of this; they won't give that up."

On the other side, top-level delegations from Mexico, Argentina, and Venezuela descended on Brazil during late August and early September to try to pull the continent's strongest power into their plans for presenting the bankers with a united "OPEC of debtors" worth over $200 billion.

Brazil, has become polarized. On the one hand, Planning Minister Delfim Netto and his monetarist crew are running the show along a script designed to gratify the foreign bankers. Brazilian Finance Minister Ernane Galveas reportedly promised Wells Fargo's Latin American chief Augusto Blacker, "If it takes three years of no growth to keep our balance of payments in shape, that's all right; we'll do it." As hard currency runs dry, a string of self-delusions is voiced. Delfim's boys intone, "Mexico's problem is that their debt was badly managed. Our debt is well managed. We have no need to renegotiate." Paul Volcker's Brazilian counterpart and friend, central bank president Langoni says, "Renegotiation of the debt would not be a solution; it would be a tragedy."

This shortsightedness is prompted by Delfim's "clever" assumption that as long as Brazil doesn't join the rest of the continent in demanding debt renegotiation or moratoria, it will somehow be saved from the future of devastation that the IMF plans for everyone else. Such cleverness, however, is rapidly turning Brazil into the laughingstock of the continent. Unlike Brazil's pragmatists, other Latin American leaders understand that if Brazil is getting a few crumbs of credit now for good behavior, it is in for exactly the same treatment meted out to Mexico and Argentina a few months down the road, probably after the Nov. 15 elections.

But not everyone has been manipulated by the bankers' tricks. Inside the country there is a growing chorus from all the political parties, and most vocally from the private sector, insisting that Brazil get out from under the debt burden before it is too late. This view is ably explained by industrialist José Mindlin, head of the foreign trade division of the Industrial Federation of the State of São Paulo (see box).

Brazilian businessmen also met with their Argentine counterparts at the conference of the Argentine-Brazilian Business Council in São Paulo on Aug. 31-Sept. 1 to map out strategies for expanding economic and commercial relations in the face of growing world depression and trade slowdown. The conference of 500 businessmen agreed to form a bi-national fund to finance both countries' exports to other developing sector countries. The financing will be largely for exports of capital goods, and products from the metallurgical and agro-industrial sectors.

President João Figueiredo is caught in the crossfire.

Up until now, Figueiredo has lent his good name to the "miraculous" policies of Planning Minister Delfim Netto, which have magnified the impact of the international crisis on Brazil. The growing desperation of the population is reflected in a Gallup poll which claimed 29 percent more of their sample disapproved of Figueiredo's administration in June than in April. Sectors of the regime's PDS party are calling for Delfim to be fired 20 days before the Nov. 15 elections in order to restore popular confidence in the government and improve the electoral performance of the party. Without such a shift, it is now expected that the moderate and leftist opposition parties will win control of the governorships of the urbanized states and take control of the federal Chamber of Deputies.

Despite the daily protests by Figueiredo that the long-postponed elections will be held Nov. 15 and the winners will take their seats, there is a real possibility that the elections will not take place and the political opening to which Figueiredo is committed will be aborted.

Justice Minister Ibrahim Abi-Ackel sent a shock through the Brazilian political circuit Aug. 24 by telling reporters, "There are sectors inside the government itself which are opposed to President Figueiredo's political opening." He added, in an unmistakable reference to Delfim's monetarists, "the technocrat who does not conciliate himself with opening the process not only harms our party, but harms the very construction of Brazilian democracy."

Vernon Walters threatens (another) coup

Abi-Ackel spoke the day itinerant U.S. ambassador Vernon Walters left Brazil after a 16-hour visit to Brasilia. The official line was that it was "a personal visit" to attend a dinner in homage to the Brazilian Expeditionary Force veterans who had served with Walters in the Italy campaign of World War II. Walters was accompanied on his latest "silent mission," not only by World War II Italy campaign commander Gen. Mark Clark, but by the current chief of the U.S. Joint Chiefs of Staff, Gen. John Vessey. In an unmistakable sign of contempt for Walters's diplomacy, General Figueiredo—himself a veteran of the FEB—boycotted the Walters dinner.

Brazilian businessmen are disseminating the "insider" line that Walters blandished the Brazilian officers with the asservation, "Reagan wants to help you," which they translated as meaning, "the U.S. taxpayer will help refinance part of your debt if you behave."

A congressional source steeped in U.S. intelligence secrets told *EIR* that Walters's mission was to pressure Brazil to twist Argentina's arm to yield to British demands that it renounce sovereignty over the Malvinas Islands. To the extent that Brazil could be suckered into taking up Alexander Haig's rule as surrogate British agent vis-à-vis Argentina, hopes for Argentine-Brazilian cooperation on the crucial questions of debt and trade would be poisoned.

The ultra-conservative *Correo do Povo* in Porto Alegre, Brazil, offers the following scuttlebutt from Walters's dinner with the generals: "The ex-director of the CIA and military attaché of the U.S. embassy in Rio during the acute phase of the 1964 disturbances did not waste time with mundane amenities. He used it to give his message in relation to possible Brazilian associations with the Soviets in Southern African projects, especially in the Portuguese-speaking countries." Walters threatened that should Brazil join with the Soviets in more joint ventures like a dam-building project in Peru, the United States would regard Brazil as a security threat to the West.

Walters apparently argued that the Brazilian foreign ministry and President Figueiredo were leading Brazil down the primrose path into an alliance with and subjugation to international communism, as shown by trade deals with the Soviets, the Brazilian foreign ministry's dramatic quashing of Brazilian Air Force attempts to permit Royal Air Force transports to refuel in Brazil en route to and from the Falklands/Malvinas, and President Figueiredo's announced plans to open the United Nations General Assembly Sept. 26 with a tough Third Worldist speech.

Walters was seeking to manipulate military hardliners who feel seriously threatened by growing possibilities of a breakdown of domestic order amidst economic chaos. He suggested to them that the Pentagon would reward hardliners for reining in or even unseating Figueiredo should he persist in following a policy independent of NATO interests.

Army Minister Gen. Walter Pires may be taking Walters's bait. The day after Walters flew off for his next mission, the Official Daily published a notice that Pires had accepted an invitation from the U.S. Army to spend Sept. 20-30 visiting U.S. military bases. This is precisely the same time that President Figueiredo was going to be meeting with the foreign ministers of all the Latin American countries and making a potentially historic speech at the United Nations about how to deal with the world economic crisis.

U.S. Ambassador A. Langhorne Motley denied to the press that he personally was trying to use the Brazilian army as a "parallel government" to circumvent the official ecutive authorities, but he admitted to *O Estado de São Paulo* that there are circles in Washington seeking to do just that.

Army Minister Pires may think that playing the Pentagon card will give himself—or more likely his forthrightly repressive protégé, Gen. Luis Coelho Neto—the inside track on succeeding Figueiredo in the presidency. Perhaps he is forgetting that Gen. Leopoldo Galtieri catapulted himself into the presidency of Argentina in November 1981 on the basis of promises of U.S. support from the likes of Walters and George Bush. Galtieri, he might recall, found his expectations of U.S. aid against Great Britain defrauded and his career, his army and his nation shattered.

'A new economic order'

Industrialist leader José Mindlin is one of many businessmen urging that Brazil switch from opposition to support for a new international economic order. In O Estado de São Paulo, *Aug. 29, Mindlin explained:*

I don't want to seem apocalyptic, but Latin America is on the road to global insolvency which obliges it to seek a new economic order. . . . The conditionalities of the International Monetary Fund are unacceptable, especially in the social aspect, because they require recession instead of development-oriented policies. . . . The debt problem cannot be dealt with through individual negotiations between creditors and debtors since the risk is of such an order that it requires the union of governments. I hope that the road taken by Mexico and Argentina gives a good idea of what must *not* be done.

Case-by-case debt renegotiation is unacceptable, because even were the international banking community to accept renegotiating what a country already owes, it might not keep lending for the pursuit of economic growth. . . .

If the developing countries lack resources for continuing growth, they run the risk of social explosion, which the creditor countries also do if they don't get back what is owed them. But, so long as the creditors don't feel that they run that risk, there won't be negotiations.

Argentina economic policy up in the air

by Cynthia Rush

While Vernon Walters was in Brazil plotting a coup last week, his and Henry Kissinger's friends in Buenos Aires carried out a little coup of their own.

In the three days between Aug. 23 and Aug. 25, control over Argentina's economic policy shifted from the hands of Finance Minister José M. Dagnino Pastore and central bank president Domingo Cavallo to the pro-British monetarist faction around former Finance Minister José Martínez de Hoz. At the same time, the faction within the military that favors a rapid rapprochement with the United States and Great Britain removed the head of the Seventh Infantry Brigade in Corrientes, Lt. Gen. Ricardo Flouret, from his command, because of his outspoken criticism of their policies.

While an effort is being made to portray the new Finance Minister Jorge Wehbe as a "moderate," who has even attacked Milton Friedman and the Chicago School from time to time, the truth is that the hardline monetarists responsible for dismantling Argentina's economy over the past 15 years have attempted a comeback in order to determine the direction of Argentina's economic policy. Archmonetarists Adalbert Krieger Vasena, Finance Minister from 1967-69, and David Rockefeller's friend "Joe" Martínez de Hoz, are both planning to attend the IMF meeting in Toronto, although neither currently holds a position in the government.

Why now?

Since the end of the Malvinas conflict, the situation inside Argentina has grown increasingly volatile. The factional brawl inside the armed forces, over such issues as how the South Atlantic war was managed, the direction of economic policy, and especially over how to deal with the country's $40 billion foreign debt, is reaching pitched levels. The pro-British monetarists have demanded that Argentina agree to a freeing of British assets, frozen since the Malvinas war, and accept the International Monetary Fund's austerity recommendations, so as to appear creditworthy in the eyes of the international banking community.

While resistance from nationalists has made such a course impossible, the degree of confusion and disarray among their ranks is such that they have been unable to force through any coherent alternative. As one press source in Buenos Aires told *EIR*, the nation remains in a "state of continual indefinition."

But the international banks, and Washington policymakers *are* worried about Argentina. They are worried that with $40 billion in unpayable foreign debt, Argentina could link up with other Ibero-American nations in a much-feared "debtors' cartel." That threat loomed during the last week in August when press sources in Buenos Aires and Caracas reported that a high-level Venezuelan mission scheduled to arrive in Buenos Aires on Aug. 28 would be discussing the "formation of a common front for the renegotiation of the foreign debt" at the IMF meeting in Toronto. The Venezuelan mission was scheduled to continue on to Brazil and Mexico, but after the Aug. 24 cabinet shifts in Argentina, Venezuelan president Herrera Campins ordered it postponed.

Vernon Walters's presence in Brazil on Aug. 23, together with a signal of U.S. backing in the form of an Aug. 24 phone call from national security adviser William Clark to the outgoing Argentine ambassador in Washington, gave the monetarists in Buenos Aires the confidence to make their power play during this same week. Clark's phone call, reported by two Buenos Aires dailies, and confirmed independently by *EIR*, was particularly revealing. It reportedly offered U.S. support for the renegotiation of Argentina's debt on the same terms given to Mexico if Argentina would make a deal with the British banks before the IMF meeting began on Sept. 6.

- Aug. 23: with Walters still in Brazil, the Army high-command ordered the arrest and "retirement" of nationalist Gen. Ricardo Flouret, whose demands that Argentina play a more active role in the Nonaligned movement and withhold debt payment from those nations who collaborated with Britain during the Malvinas conflict, caused embarrassment to the proponents of mending relations with both the United States and Britain.
- Aug. 24: Finance Minister Dagnino Pastore, a proponent of making a deal with the IMF, resigned; he was reportedly forced out by the nationalist military who oppose his views on the foreign debt. Central bank president and dirigist economist Domingo Cavallo was mooted as his successor.
- Aug. 24: Cavallo resigned as central bank president, prevented from taking the Finance Ministry by the advisers of President Bignone who are close to Martínez de Hoz. This group simultaneously imposed Jorge Wehbe as the new minister, and monetarist Julio González del Solar as the new president of the Central Bank.

But even if the monetarist crowd temporarily has control of the Finance Ministry, there is no guarantee they will hold onto it for long. Argentina is in the midst of a devastating economic crisis, and Buenos Aires is rife with rumors of a coup by anti-monetarist forces who would repudiate the foreign debt and follow Mexico's example of nationalizing the banking system. In this environment no amount of "preventive" cabinet shuffling and removal of troublesome military officers will keep the lid on the volatile domestic situation for long.

Latin American Parliament

Combating interest rates, seeking unity

The 50 delegates to the annual meeting of the Latin American Parliament, representing all major political parties in Latin America, convened in Bogotá the week of Aug. 23, passing a number of resolutions, among them the following:

Resolution 1

Whereas, present high interest rates on the international capital markets are a factor of special concern given the battered condition of the world economy, which has caused grave difficulties to the internal economic and financial management of many countries; *Whereas,* the high interest rates have caused massive capital flight and have increased upward pressures on prices and wages, especially in those countries in which currency depreciates rapidly, and have cut into the competitiveness of the products of some nations whose currency is devalued; *Whereas,* the high interest rates discourage investments, since few highly profitable opportunities exist;

Whereas, the high interest rates also have a harmful effect on the public debt of the developing countries; *Whereas,* the U.S. government has the power to manage its economic policy as it wishes; however, that country should recognize how much the raising of interest rates has affected all Latin America, and should therefore make a healthy change in them; one of the main objectives of the Latin American Parliament is to fight to eliminate the obstacles which slow the development of our peoples; *Whereas,* interest rates have been raised, among other reasons, to control inflation in the U.S. without stopping its arms buildup.

Therefore, it is agreed:

1) To tell the U.S. government that its high-interest monetary policy is causing a financial crisis of unforeseeable results which could in some cases lead to genuine collapse. 2) To support all measures to avert such dangers which are taken by the Latin American governments. 3) To declare that the present conjuncture as well as other permanent conditions show the need to advance under the protection of a solid Latin American Community of Nations.

Resolution 4

Whereas, the developing countries are faced with grave problems which weigh down on their economic and financial condition; *Whereas* these countries, among them many Latin American nations, are being harmed by large foreign public debts; *Whereas,* the foreign public debts are so high that their debt service eats up 20 or more percent of annual budgets.

Therefore, it is agreed:

1. To request that developed countries offer longer repayment terms on the public debt of the Latin American countries and reduced interest rates, in order to thereby lower the cost of debt service. 2) To propose that the debts be renegotiated in such a way as to facilitate the recuperation of the developing countries, which in turn is a guarantee that such debts will be paid to the lending countries.

Resolution 7

Whereas, Argentina was the target of measures by the European Community [EC] and other industrialized countries which harmed its trade and foreign economic relations; *Whereas,* said measures were taken in violation of every international norm, violating the charter of the United Nations which sets specific norms and procedures on sanctions questions; *Whereas,* the economic blockade imposed on Argentina shows what Latin America can expect from the EC when, in cases like these, it tries to make its rights respected.

Therefore, it is agreed:

1) To ratify the solidarity which the Latin American countries repeatedly offered their sister Argentine republic. 2) To alert the Latin American nations about the results of measures such as those taken by the EC. 3) To urge the Latin American governments to put into operation the mechanisms sought by the Latin American Economic System (SELA), in which specific foreign-trade responses would be taken against actions such as those taken by the EC.

4) To exhort the Latin American governments to set up consultation organisms which would take prompt response measures to economic aggression.

Resolution 9

Having seen the document prepared by the Permanent Secretariat of the Latin American Economic System, titled, "Bases for a Latin American Strategy for Security and Economic Independence," and considering that said study merits the support of the Latin American Parliament, *it is agreed:*

1) To embrace said document as an important basis for analysis, treatment and planning for short, medium and long term action in search of Latin American unity and economic integration; 2) To request the Latin American governments to make the SELA document known through their educational systems, labor unions and business association; 3) To exhort the presidents of the Latin American countries, in the event of that they hold a summit meeting, to decide to create an energetic and effective organism capable of promoting and reaching the dreamed-of economic integration, as outlined in the conclusion of said SELA report, understanding that said proposed organism would, within a reasonable time, make viable the highest aspiration of the institutionalization of the Latin American Economic Community.

Domestic Credit by Richard Freeman

Just around the corner?

Volcker's puff-up in bank reserves does not mean a recovery is in the making. The essential economic signals are red.

The announcement by the Commerce Department Aug. 31 that the index of leading economic indicators rose by 1.3 percent in July—its fourth monthly increase—and that new factory orders for manufactured goods rose 2 percent in July would normally be taken as a small but positive sign.

However, even with the recent—and perhaps temporary—steep fall in interest rates that saw the three-month Treasury bill rate come down from 12.81 percent for the week ending July 2 to 7.42 percent for the week ending Aug. 27, a stupendous fall of 540 basis points, there is no indication that the U.S. economy is in a position to "recover."

It is important here to define what constitutes a "recovery." From July 1981 until July 1982, industrial production in the U.S. fell by a staggering 10.3 percent. The production of business equipment has fallen by 17.7 percent in that period. Construction-supplies production has fallen by 16.0 percent. Steel, auto, and housing production are down by 30 to 40 percent from the levels of three to four years ago. In short, the United States is in a depression.

Therefore, were the industrial output index of the Federal Reserve to blip upward by 7 or 8 points, that hardly constitutes a "recovery," because that would mean that the U.S. hadn't even reached the levels of output of July 1981, which were below the levels of late 1979.

Moreover, consider the following developments:

- For the week ending Aug. 22, the number of business failures soared to 572, the highest level, reports Dun & Bradstreet, which keeps the figures, in fifty years.
- U.S. import levels have been plummeting, to a level of $20.45 billion in July—down 8.1 percent from the month before—not because oil imports are falling (they rose 8.4 percent in July) but because imports of industrial goods, ranging from telecommunications equipment and steel to aerospace and electronics equipment, have collapsed.
- Sales of single-family homes fell 4.9 percent in July from June levels, to 353,000 sales, the Commerce Department announced Aug. 30. This is the third lowest rate in two decades.
- Orders for machine tools fell to $107.5 million in July, down 14 percent from the month before and 44 percent from July 1981.

Then there is the question of what effect Reagan's tax policy will have. Maury Harris, economist at Paine Webber, has pointed out that the President's 10 percent personal tax cut, which took effect in July, helped swell personal after-tax income in July by 2.1 percent, which is more than double the normal increases of *pre-tax* income for that month, and therefore is a large amount. Yet auto and home sales did not improve, and these are the items which would have to increase were there to be a consumer-led recovery (the idea of an Atari games-led recovery being unworkable). The plunging level of machine-tool orders and business equipment output confirm that there sure as hell is not a capital-goods-led recovery.

Therefore, the Reagan administration has to lay particular stress on the fact that interest rates have come down. But within the last week of August, short-term rates started back up. With the Consumer Price Index increasing in the second quarter at a 9.3 percent annualized rate, it is possible that Fed chairman Volcker may once again begin raising interest rates to "quell resurgent inflation."

It must be recognized that the lowering of interest rates since late June, and the accompanying stupendous increase in bank reserves were not based on Volcker's desire to promote a recovery—although President Reagan may have asked Volcker to lower rates for this reason. Over the month ending Aug. 11, reserves into the banking system increased at a torrid 23.6 percent annualized rate, yet precisely at the point corporate borrowing fell off flatly to a zero growth rate.

Why precisely did Volcker pump in the reserves? He pumped in reserves as a mechanism to lower interest rates and to bail out a failing banking system. As a result the banks are raking in quick profits, needed as a quick-fix infusion, in the form of the spread between the cost of federal funds and the discount rate of roughly 10 percent—the cost at which banks borrow funds—and the prime lending rate of 13.5 percent, or the level at which banks earn on lending this borrowed money. The spread is 3.5 percent, and allows the banks to temporarily reliquefy their balance sheets.

Once this interval of bank reliquefaction is over, or perhaps because the condition of the banks and the U.S. dollar weakens as Third World governments default on their dollar-denominated external debt, Volcker may thrust interest rates back up above their still murderously high levels.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$39 mn.	U.S.A. from Israel	Tadiran Israel Electronic was granted a U.S. Army contract for radios used in tanks and armored cars.	
$2 mn.	Argentina from Japan	Casio Computer will assemble 150,000 calculators per year in Argentina from parts made in Japan. Half will be general calculators, 20% scientific, and 30% wristwatch calculators. Local electronics firm will do assembly.	Casio starting similar assembly operations in China at 400,000/yr. and Mexico at 40,000/yr.
$14 mn.	Qatar from Holland	HVA International is building an 8-acre greenhouse complex near the Persian Gulf. The dozen greenhouses have computerized irrigation and climate controls. Contract includes treatment plant to recycle waste water for the project and air conditioning for the lucky plants.	
$75 mn.	Paraguay from Spain	Spain's Entrecanales y Tavora won contract for 1.3 km. bridge across Paraguay River at Concepción. Banco Exterior de España providing financing.	Bridge is part of road across flood plain which had recently been rumored to have been cancelled.
	Saudi Arabia from U.S.A./ Austria	A 40 mn gallon/day desalination plant and a power plant to run it will be built to supply water to city of Tabuk, near the northern end of the Red Sea. Kuljian Corp. of Philadelphia is designing and supervising plant construction; an Austrian firm the pumping stations and pipeline, and a Saudi partner the working housing.	
UPDATE			
$101 mn.	Burma from Japan	Japan's Overseas Economic Cooperation Fund gave concessionary loan to finance parts of projects in Burma, including Baluchaung hydroelectric dam, integrated LPG recovery project and cement expansion.	Soft loan—not tied to purchase from Japan—is at 2.25% (on yen) for 30 yrs., with 10 yrs.' grace.
	Brazil from Japan	Mitsubishi Chemical Industries studying feasibility of 150,000 tpy vinyl chloride monomer and 100,000 tpy vinyl chloride polymer plant.	To be located in Alagoas, an impoverished state in Brazilian Northeast.
	U.S.S.R. from France	French govt. ordered Dresser-France to ship 3 gas compressors and finish making 18 more for Siberian-Western European gas pipeline. Dresser-France is first European firm ordered to break "Polish" embargo on U.S. equipment to pipeline.	Pipeline is going ahead.
$1.7 bn.	Spain/Morocco	New study for 15-mile tunnel under Strait of Gibraltar commissioned from INTECSA of Madrid and Mott, Hay and Anderson of Britain. Tunnel will run up to 1,200 ft. deep and will carry 1 or 2 railroad tracks.	

Business Briefs

Ibero-America

Mexican action changes continental geometry

The economic geometry of Ibero-America has been reshaped by Mexico's dramatic actions amidst rumors that Argentina would follow Mexico's path. The oligarchic faction around ex-President Rafael Caldera in Venezuela and the technocrats in the Brazilian government are finding dozens of unconvincing reasons why Mexico and Argentina are different from their cases.

The panic of these oligarchic circles is illustrated by Pedro Conde, the Brazilian bankers' association head, currently financing a Lebanese speculator who is buying up half the stock on the Brazilian stock market. Conde said of the Mexican move, "It was violence against private enterprise, and this should worry all to the degree that fact could be reflected in other countries."

Argentina has been swept by rumors that the government may not only nationalize the country's banks, but also repudiate its foreign debt. Sources in Buenos Aires say that if taken, such actions would not occur until the IMF has been given time to prove that it offers no viable solution to Argentina. They expect Argentina to be offered some kind of IMF standby credit, but under austerity terms that no Argentine government could implement.

The Caribbean

Cuba seeks a debt moratorium

The government of Cuba has asked its creditors from outside the Soviet bloc that it be allowed to postpone payments for ten years on all debts due between now and 1985. According to Japanese press sources, Cuba explained at the beginning of September that it was forced to seek the debt moratorium because of the collapse in the price of sugar on the international markets, but more importantly, "because of the high interest rates in the United States," and the consequent "worldwide recession."

In order not to destroy Cuba's long-term capacity to repay the estimated $2 billion that it owes to non-Soviet creditors, Cuba is asking that these banks continue to extend short-term loans during the period of the moratorium.

Also as a result of high-interest rates and collapsed sugar prices, the Caribbean nation of the Dominican Republic declared itself officially "bankrupt" on Aug. 31. According to presidential spokesman Hatuey De Camps, "We have absolutely no money left in the government coffers."

International Credit

COR: 'hock Venezuela's oil to pay debts'

Several members of the Venezuelan Association for the Club of Rome, an organization founded this past summer, have launched a campaign to have Venezuela's oil revenues seized as payment on the country's foreign debt.

The leading spokesman of the proposal is Energy Minister Calderón Berti, who claimed at cabinet meetings last week that this was the only way to preserve Venezuela's foreign credit rating. According to some versions of the plan, the Venezuelan government would only be allowed to access revenues for up to 1.2 million barrels per day in exports. All earnings above that level would be automatically placed in a Fund for the Payment of the Public Debt, which would belong to international banks.

Caldéron Berti is being backed by Julio Sosa Rodriguez, a founding member of the Association of the Club of Rome (COR).

The COR, internationally, is the original proponent of plans for extensive reduction of world population levels as means for sustaining the political power of rentier finance interests. It has used its Venezuelan network to launch this proposal at this time in an effort to counteract support in that country for Latin American-wide debt moratoria actions.

Besides giving a massive handout to international banks, the plan would place a ceiling on Venezuelan government expenditures, thereby guaranteeing long-term austerity. It would also establish a precedent for forcing developing countries to link their commodity-related exports earnings to their debt.

Banking

London tells New York to stop lending

London Times columnist Tim Congdon explained in an Aug. 30 column that the New York banks would have to stop lending or face collapse.

The U.S. banking system "is passing through its most traumatic period since the 1930s" and "these shocks will force a drastic adjustment in the way U.S. banking is organized," wrote Congdon. "Every company and individual will feel the inhibiting effects of the banking system's difficulties. The message must be that any recovery in the economy will be modest and gradual."

Curtailment of the U.S. banking system will force developing nations to eliminate current account deficits, after which, Congdon prophesies, "the ensuing decline in output and employment could be far worse than anything seen in North America and Europe. They will occur in areas of known political instability," he notes darkly.

Two months ago, Congdon authored an eye-catching piece in the British *Spectator* magazine, advocating relocation of the world financial capital from New York to the financial oligarchy of Europe.

Asia

Japan and India increase economic cooperation

Japan and India are now working to expand economic cooperation and deepen consultations on foreign-policy matters. This is a development that could have major implications for East-West and North-South relations.

In late August, Japanese Foreign Minister Sakurauchi concluded a visit to New

Delhi, where he met with Prime Minister Gandhi and other Indian government leaders. Among the agreements reached was Japan's granting of a $130 million low-interest loan to India.

During the visit, Sakurauchi emphasized that the two countries must "rediscover" the cooperation which existed in earlier periods, and he praised India's independent foreign policy. He noted that cooperation between the two countries could greatly contribute to stabilization of Asia, and emphasized that economic ties must be expanded.

Sources in New Delhi report that Sakurauchi was received very favorably in New Delhi, and agreement has been reached for Prime Minister Suzuki of Japan to visit India in November.

Monetary Policy

Japan debates response to López Portillo action

Discussing how to respond to the bank nationalization in Mexico, Japanese bankers describe themselves as caught between the United States banks and the IMF on the one side, and the Mexicans and their Ibero-American allies on the other.

One leading banker in Tokyo told *EIR*: "We are in a real crisis because we must decide how to handle the entire Ibero-American situation. We have to decide whether to support the American bank position, or whether to support Mexico. Actually, we anticipated strict foreign-exchange controls and similar measures to be adopted, because of the tough time those countries are experiencing. But we did not expect López Portillo's action. I am aware of the talk in the region for actions which guarantee common economic security, such as a common market, and sentiments in this direction. Actually, late last week I was involved in a meeting here at our bank between our chairman and a high-level Brazilian government official. During the meeting, the Brazilian bitterly complained about the Anglo-Saxon dominance of current international monetary arrangements."

This banker went on to say that a meeting of Japanese banks took place in Tokyo on Aug. 29 at the headquarters of the Bank of Tokyo, one of Japan's leading banks, to discuss Mexico. It was decided at that meeting that Japan had "no choice" but to follow the lead of the American banks. "However," the banker said, "I don't know how the López Portillo action will affect that decision."

Another Japanese banker expressed surprise at the decision, but said he has suspected for some time that Mexico would not go along with the IMF policies. "I have been telling people here that the man on the street in Mexico would not tolerate the level of austerity being demanded by the IMF."

Japanese government officials were reluctant to comment on the implications of the decision.

Almost all of the government and private-sector officials spoken to inquired about the role played by *EIR* founder Lyndon LaRouche in the decision.

The Commonwealth

British to lead new Bretton Woods system?

The British Commonwealth, meeting last week for the first time since 1972, proposed through its Secretary-General, Sridath Ramphal, to lead the world towards creation of a world central bank to promote "global economic management."

Ramphal, considered by many developing-nation leaders to be one of the best trained of British Colonial Office representatives, declared that the world is on the brink of an "economic disaster comparable to that of the 1930s" but "the search for a world economic recovery so desperately needed remains stalled and we drift towards the abyss of economic disaster."

Ramphal's eloquent plea was supported by Mr. Muldoon, the Prime Minister of New Zealand, who said he would press for a "new Bretton Woods-style global monetary conference." New Zealand is famed for its chief exports, wool, mutton and other sheep byproducts.

Briefly

● **MORGAN** Guaranty is considering a merger with Chase Manhattan Bank, claims a leading London stock brokerage house. A Princeton University-based economist commented on the rumor with disbelief. "Why would the best-run bank on Wall Street want to get involved with the worst-run bank on Wall Street?"

● **SWITZERLAND** is offering assistance to U.S. authorities to penalize investors using Swiss banks to engage in "insider trading" on the U.S. stock market. "Insider trading," the practice through which an investor makes use of confidential corporate information to place personal funds, is illegal in the United States, but legal in Switzerland. New York's *Journal of Commerce* was lukewarm to the Swiss offer in an editorial Sept. 2. "You don't need Switzerland for these transactions," the *Journal* notes, since they are also conducted in Caribbean offshore centers. If U.S. authorities want to crack down, the paper adds, they "will have to turn . . . attention to the islands closest to [U.S.] shores."

● **GEORGE SHULTZ** and Malcolm Baldrige showed their colors Aug. 30 when they phoned President Reagan at his vacation home asking that the administration not impose the same harsh penalties against British firms violating the American boycott against the Soviet gas pipeline as have already been imposed on French and American firms.

● **SOUTH KOREA** plans to provide 80 percent of its energy needs through nuclear energy, which is why the World Bank is attacking Seoul's strategy as "overly ambitious."

● **DAVID GOLDMAN,** *EIR*'s Economics Editor, and Kathy Burdman are attending the annual meeting of the International Monetary Fund/ World Bank in Toronto. Exclusive coverage will follow.

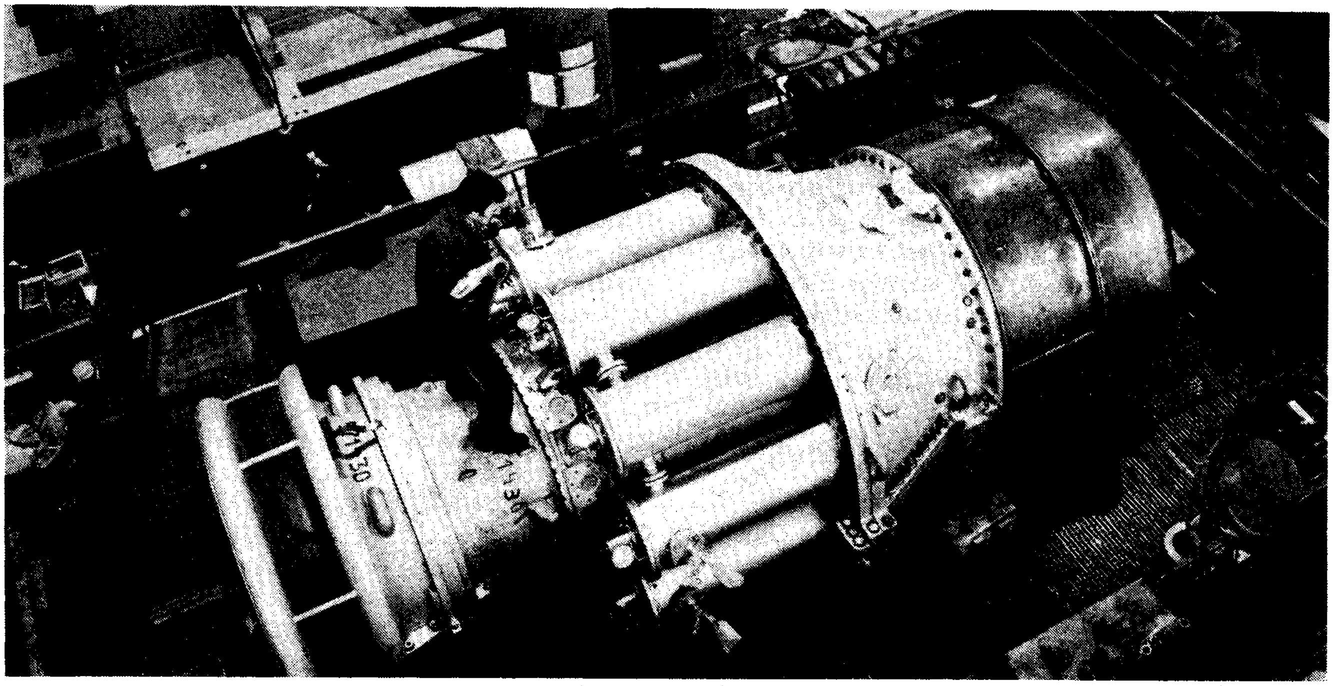
LaRouche-Riemann model analyzes West Germany's colonialized economy

by David Goldman, Economics Editor

West Germany's present economic misery, forced up to the sunlight by the bankruptcy in August of one of the nation's top ten firms, AEG-Telefunken, struck West Germans like the death of a religious dogma. Germany's post-war *Wunderwirtschaft*, its "miracle economy," failed of its magic when international trade declined. For the first time, the delayed charge ticking away under Europe's strongest economy could be heard. West Germany's leaders had long feared this; in his July speech in Houston, Chancellor Helmut Schmidt expressed the astonishment every West German feels when he hears Americans speak of their country as a paragon of economic strength. West Germany, Schmidt said, is a nation with the land-mass of Oregon, occupied by seven armies, and more dependent on international economic trends than Americans think.

Yet the foreboding of West German leaders has not shaken their obsession that the road back to stability depends upon the re-creation of the "good old days" of the Atlantic Alliance, the days when the strength of the American dollar and the international strategic presence of the United States made the growth of world trade an economic path of least resistance. This sort of political-economic romanticism is the dominant theme of Schmidt's attempt to explain the present dangers to the world economy: all was well, he argues, but then came the Vietnam War and the ensuing weakness of the dollar, the collapse of the dollar and the end of the Bretton Woods system, and finally the rise in world oil prices in 1973 and 1979. The old stability is gone, he concludes, and it is up to the United States to re-create that old stability.

The blunders that comprise this analysis define the end of Schmidt's political career, as well as the end of the *Wunderwirtschaft*. We can now demonstrate in the irrefutable terms provided by LaRouche-Riemann economic analysis that the meta-stability Germany enjoyed between the 1958 restoration of the deutschemark to international convertibility, marked by the founding of the Common Market, and the 1969 recession, complicated by the start of Willy Brandt's five-year chancellorship, contained the roots of its own destabilization in the following decade. To the generation of West German leaders whose careers, whatever their



Turbines for Bolivia, produced at the Essen factory of West Germany's AEG-Telefunken in the Ruhr. The recent collapse of AEG, one of the nation's top ten industrial firms, has confirmed the depths of the economy's current problem.

individual motivations, consisted of obtaining the best deal available from the Anglo-Americans, it may not be comprehensible that *the Bretton Woods system of 1944-1971 was rigged against the West German economy*. The Bretton Woods system priced West Germany's exports too cheaply and its imports too dearly; the profits of West German export industry, which sent abroad 45 percent of the nation's industrial output, could not be reinvested in capital formation at home. These profits, instead, subsidized the *failure of the United States* to emerge as the engine of world trade growth after World War II.

Lest the following analysis become cause for more West German rancor at the United States—of which there is more than at any time since the German surrender—it is worth quoting again the old Bretton Woods jingle: "Lord Halifax to Lord Keynes/They've got the money-bags but we've got the brains." Britain sold the victor of the world war a monetary system which needed only time to resemble the post-1919 disaster Britain had spawned after World War I, a world economy dominated by debt service, and managed through the London international banking center. The burden now crushing world trade is the debt service emanating from the \$1.7 trillion Eurodollar market, including a clean \$100 billion per year for the developing nations. Its effect on world trade is ultimately no different than the war reparations imposed on Germany in 1919. Now the dollar has taken the place of the over-valued, bankruptcy-prone pound sterling, and the developing sector's (and East bloc's) debt has taken the place of Germany's.

Some of the roles have changed, but Germany is no less a *colonial nation* now than then. There are two sorts of colonial-model economies; the one exports raw materials to pay excessive debt service, and the other exports industrial goods at less-than-parity prices, to use a term drawn from farm economics. Both subsidize rentier finance, i.e., help pay the surcharge of international trade imposed by the bankers and their associated institutions, the International Monetary Fund and the Bank for International Settlements.

West Germany paid this surcharge between 1948, the year of the Ludwig Erhard currency reform, and 1971, the year of the dollar collapse, through the *25 to 40 percent undervaluation of the mark*. In comparative price terms, the mark is now worth about \$0.48, and trades despite this at about \$0.37. The underpricing of the mark did not, emphatically, apply to the rest of Western Europe and the trade relations within the European Economic Community, but instead to the mark's relationship to the dollar-priced world trading system.

But if West Germany's terms of trade momentarily recovered after the 1971 and 1972 dollar devaluations, no benefit accrued to the country: at higher prices, West German exports could not be sold, because dollar credit was not available to finance them. The quadrupling of oil prices in 1974 ruined West Germany's terms of trade again, and, to the extent that these recovered from 1976 to 1979, the "second oil shock" of doubled prices in June 1979 ruined them again. Finally, the post-October 1979 rise of American interest rates pushed the German mark down to near where it began the decade.

The five-year regime of Willy Brandt—which straddled the crucial period between the 1969 recession and the 1974 impact of quadrupled oil prices—made matters much worse. Brandt's 1971 taxes on industrial investment and related programs shifted employment and investment toward overhead (white-collar, government, and so forth), away from industrial growth. Brandt's taxes had a devastating impact on Germany's capital stock; no one has yet assessed the more far-reaching damage of his educational reforms, which butchered the surviving classical and scientific curriculum, the source of its historical strength since the 1809 Humboldt reforms.

The functioning of West German industry depends upon its exports. The collapse of world trade, which the OECD means to be permanent, implies the end of the illusory *Wunderwirtschaft*.

What the LaRouche-Riemann model showed

The most obvious question that must be asked of our present economic results is, in what way do they ensure that we will be able to produce next year or the year after? Are we investing our current output in the capital stock, infrastructure, and other material preconditions of future production, let alone the living standards required to produce the next generation of qualified workers, technicians, and scientists? These questions are what Gross National Product measurements evade: If video games become a bigger cash-earner than machine-tool sales, as in the United States, any normal person would suspect the nation might be in trouble; not so an economist trained at any Western university.

In first approximation, LaRouche-Riemann analysis provides answers to these questions; in its next generation, it employs Riemannian geometrical methods to establish the path between successive technological revolutions. For present purposes we are limited to a first approximation; Our presentation will take the form of answers to these questions, in which each computer-generated result shown below in graphic form provides an additional, crucial, piece of explanation.

Figure 1 shows the *economic surplus* generated by the West German economy in 1962-1980, as it rises from 176 billion constant 1970 marks (the unit in which all data are shown) to 308 billion 1970 marks, not quite a doubling of the economy in 19 years. With some noticeable recessionary interruptions, the growth continues up to the present, when another recession is evident. **Figure 2** shows the same category, i. e., product in excess of the cost of producing tangible goods, or value-added of manufacturing, construction, transportation, agriculture, and mining, in the 1969-1981 period.

Economic surplus represents the capacity of the economy to grow in the future; how it is invested is another question. Before proceeding to analyze the surplus, we show the consumption of the workforce in the tangibles-producing sector,

Figure 1: Total economic surplus, millions of German marks, 1962-1982.

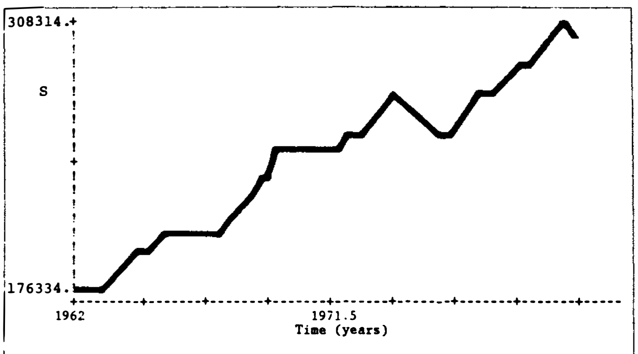


Figure 2: Total surplus generated, 1969-1981, manufacturing, construction, agriculture and mining.

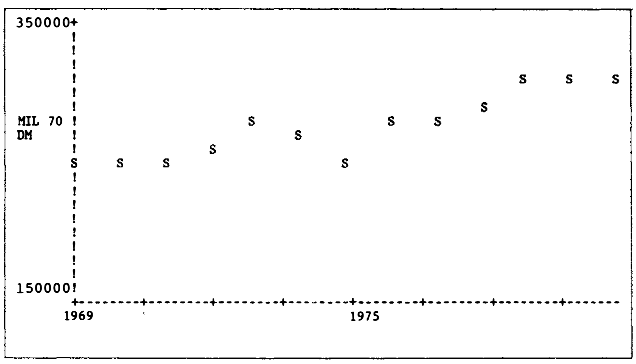


Figure 3: Tangible consumption of the goods-producing labor force (millions of 1970 German marks), 1962-1981.

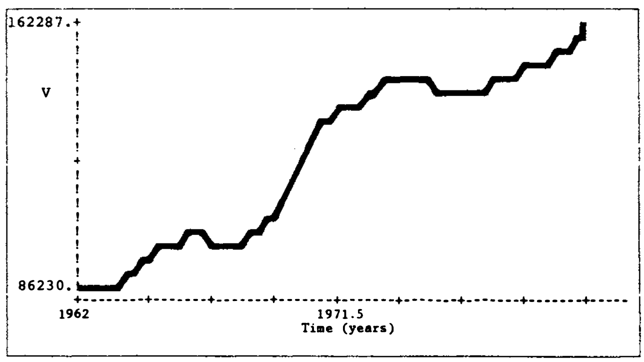
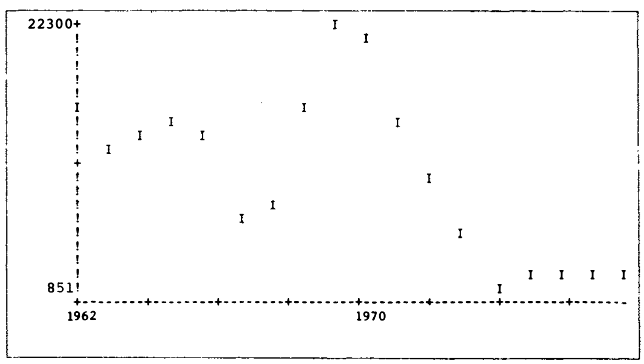


Figure 4: Manufacturing sector productivity (surplus per unit of labor force's tangible consumption), 1962-1981.



shown in **Figure 3.** This doubles, roughly speaking from DM 86 billion in 1962 to DM 162 billion in 1981.

The ratio of surplus to consumption of workforce, or labor productivity, is shown in **Figure 4;** the post-1969 fall of productivity is extraordinary, showing that the marginal product per additional unit of labor consumption fell from a level of about 2.0 to about 1.5 at present. Figure 4 shows the result for the manufacturing sector, which accounts for about two-thirds of total surplus. Before concluding that German labor is overpaid, consider **Figure 5,** which shows net capital investment (spending on plant and equipment net of depreciation of old plant and equipment), which shows a collapse of new capital investment from DM 22 billion in 1969, the top of the scale, to virtually nothing at present. The productivity and net capital investment graphs have virtually identical shapes, which might have expected: the results tells us that after 1969, additional spending on labor took place with unchanged capital stock, whereas previously new labor was employed on new, higher-technology capital stock. It is not surprising that productivity fell.

Figure 6 shows a more refined measure of productivity, "thermodynamic productivity," or total surplus divided by combined labor and capital expenses; it shows how much incremental output is available for every unit of total labor and capital input. This measure fell from a 1960 level of about 1.6 to a present level of only 1.4, a marked decline.

We have learned thus far that West Germany has stopped renewing its capital stock, indeed during the past 13 years, and the result has been a sharp decline in productivity. The productivity measure in LaRouche-Riemann analysis is different from, and superior to, the usual output-per-manhour measure, which 1) does not account for the cost of a manhour of employment, and, more importantly, 2) does not take into account the impact on productivity of the reinvestment of the surplus product. Economic surplus is divided into the following categories of expenditures:

1) Overhead costs, i.e., the cost of government, including the military and social services, as well as office buildings, office equipment, and so forth. Most of the tangible-goods-producing sector's product in excess of its own production costs will, as a matter of course, support the non-productive sector's requirements.

2) New investment in labor and capital, i.e., reinvestible surplus; this margin of reinvestment is the amount of surplus ploughed back into the economy, its real margin for expansion.

3) Net exports.

Figures 7 and 8 show the distribution of the surplus product into productive and non-productive investment; the first is on a regular, the second a logarithmic scale (showing changes in rate of change, accentuating differences in tendency). Although the top-line graph—showing the same surplus output data displayed in Figure 1—continued to grow,

Figure 5: Manufacturing sector, net capital investment, 1962-1981.

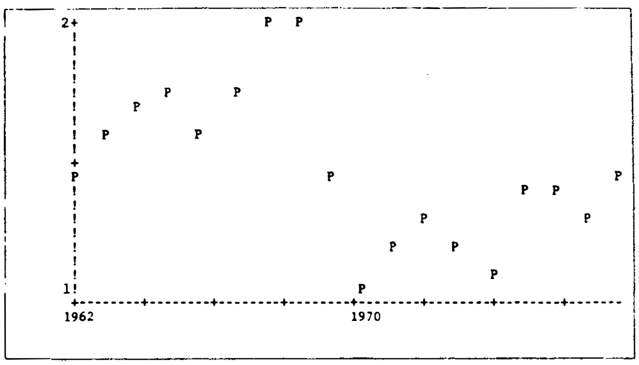


Figure 6: Thermodynamic productivity (S/C + V), 1962-1981.

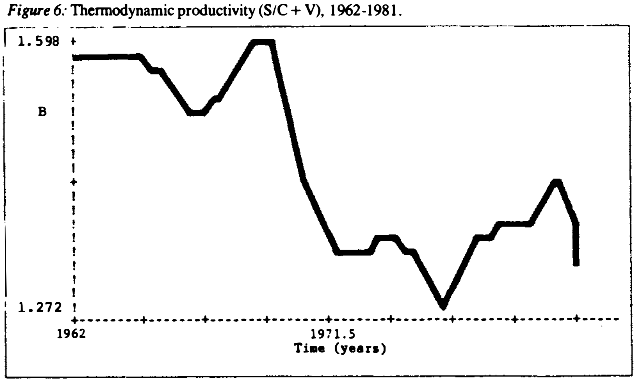


Figure 7: Surplus vs. non-productive expenditures, 1962-1981. Surplus = *, non-productive expenditures = +, reinvestible surplus (S') = @. All figures in millions of 1970 German marks.

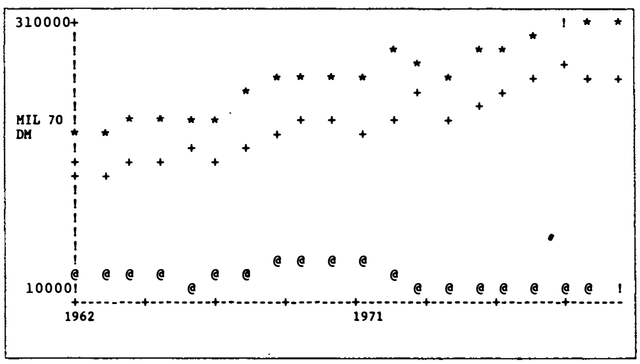
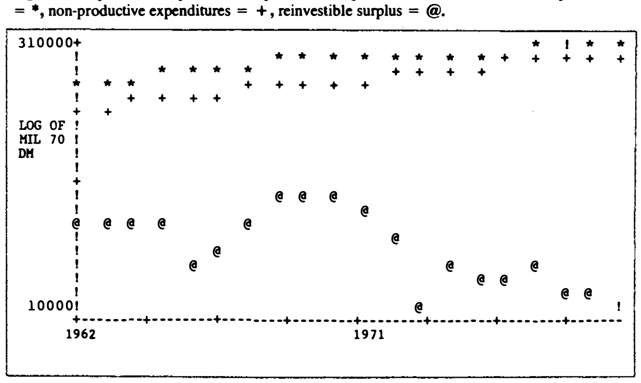


Figure 8: Surplus vs. non-productive expenditures (logarithmic scale), 1962-1981. Surplus = *, non-productive expenditures = +, reinvestible surplus = @.



the absolute amount of reinvestible surplus, or S', fell absolutely (Figure 7) and in terms of rate of change (Figure 8).

Figure 9 shows the crucial ratio in LaRouche-Riemann analysis, S' divided by capital and labor expenditures (C + V), falling from 0.28 to 0.04 between 1969 and the present; that is, in 1969, 28 percent of the economy's current production costs were available for reinvestment, against only 4 percent now.

Figure 10 shows the breakdown of the reinvestible surplus between increases and capital investment and changes in consumption of the labor force (the two components of reinvested surplus), as well as net exports. The lowest line on the graph shows changes in consumption of the labor force; except for a brief period of growth in the late 1960s, the changes are negligible. Both net capital investment (the same information as in Figure 5 is reproduced) and net exports fall as a proportion of surplus.

Thus far we have only established that the West German economy deteriorated rapidly after 1969, and that part of this deterioration may be attributed to the diversion of surplus towards non-productive expenditures rather than to net capital investment, net exports, or increases in the consumption of the labor force. Still, the West German economy of the 1960s appears relatively strong. But Figure 11 shows a deeper side of the story: the relationship between the *rate* of exports and the *rate* of capital investment. **Figure 10** showed that net capital investment and net exports rose roughly in tandem and fell in tandem, i.e., that there never was a choice between investing output at home or exporting that output, but rather, that both categories rose and fell as the economy grew or deteriorated.

Figure 11 shows that the rate of exports (the proportion of total value-added available for export) and the rate of investment (the proportion of value added available for net capital investment) display a near-perfect inverse relationship, i.e., one rises as the other falls. That is a remarkable result, not immediately obvious by any means. It says that both under conditions of growth and decline, the West German economy's ability to make more of its surplus available for investment fell whenever it had to export a greater proportion of its surplus. Note that the capital-investment curve falls more steeply than the export curve rises during the late 1970s, as investment declines to almost zero in net terms.

Normally, an exporting economy earns, through foreign shipments, the surplus required for reinvestment. Not merely did the domestic policies associated with the Brandt chancellorship distort the allocation of available surplus toward nonproductive investment; exports failed to generate the requisite volume of surplus in the first place. That fact applies equally to the supposedly halcyon days of the 1960s as to the troubled 1970s.

This conclusion permits us to argue that the present fall in West German exports merely brings closer the economic reckoning for the problems of the past two decades. Should the present government policy of "export-led recovery"—exporting more of Germany's product from a narrower capital base in order to compensate for a weakening German mark and exorbitant oil prices—succeed, the same dreadful results would obtain eventually: the collapse of the old monetary system brings about suddenly what the success of the old monetary system would accomplish in any event, i.e., the decline of West German industry.

It should also serve as a warning that there is no going back to a system that was rotten to begin with; the fall of the old monetary system is an irreversible fact. Either West Germany will aid the birth of a New World Economic Order, or cease to exist as an industrial nation.

Figure 9: Rate of investment of surplus (S'/C + V), 1969-1981.

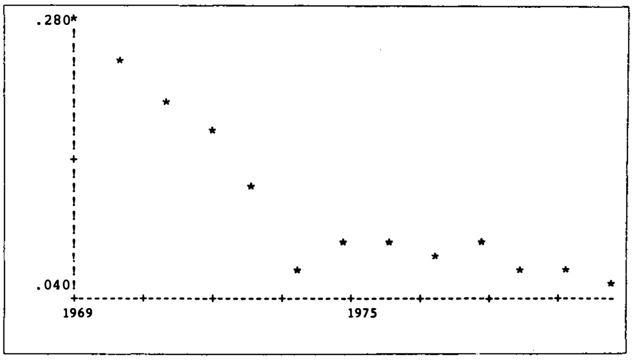


Figure 10: Disposition of surplus 1962-1981 (all figures as percentage of to[illegible]. Net capital investment = #, change in tangible labor force consumption = @, net exp[illegible]rts = *.

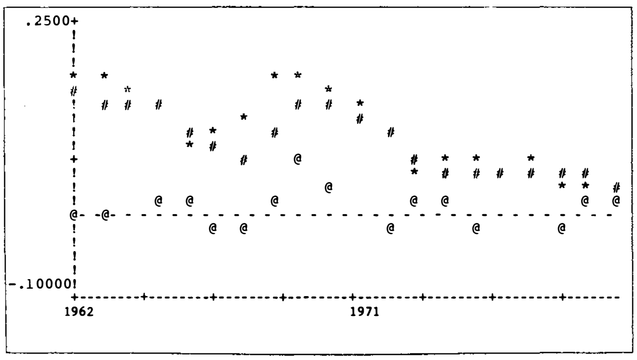
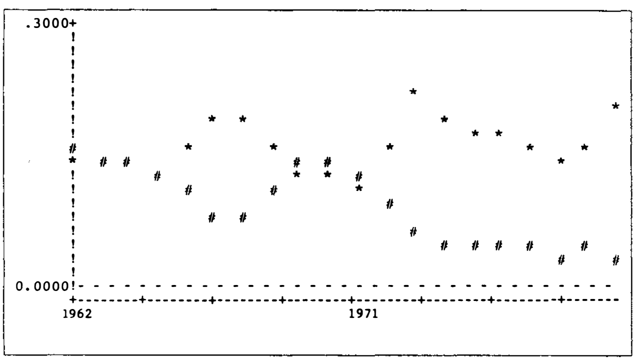


Figure 11: Manufacturing net exports 1962-1981, as proportion of value added (*) and total net capital investment as proportion of surplus (#).



LaRouche-Riemann analysis of the West German economy was conducted by a team headed by Uwe Parpart, including David Goldman, Sylvia Brewda, Peter Rush, and Dr. Steven Bardwell in the United States, and Ralf Schauerhammer and George Gregory in the Federal Republic of Germany.

The international economic crisis catches up with German business

by George Gregory, Bonn Bureau Chief

West German Chancellor Helmut Schmidt customarily lectures his parliament on how much "better off" the West German economy is, in comparison to most other Western industrial economies: lower inflation, lower unemployment, more or less successful management of the 1979-80 oil-price crisis, booming exports, moderate wage increases, and so on. Nowadays, economists, including Helmut Schmidt, are asking themselves how it is possible to be so relatively "better off," with a lot of icing on the cake like a hefty export surplus, at least a balanced current account position, even slightly improved terms of trade, and still have an economy caught in zero-growth, and sinking rapidly. Memories of the horrors of the 1930s are reawakening.

The only reason why the West German economy has not produced worse headlines than those on the AEG electronics firm bankruptcy is that the West German economic system is "constipated": production has not fallen as rapidly as the rate of incoming orders would justify, nor has employment fallen as rapidly as capacity-utilization has declined. There is therefore a backup of pressure which is going to break in the coming months as reality catches up.

Given the spreading depression in the economies of West Germany's Western industrial trade partners, and financial strangulation of the country's export markets in the developing nations and Eastern Europe, the marginal export compensation for falling domestic consumption (−2 percent to 1981) and plummeting domestic investment activity (−8 percent to 1981), is evaporating. The result will be truly 1930s conditions by the second quarter of 1983 at the latest.

Over two years, the U.S. Federal Reserve's high interest rates have done the lion's share of damage to the West Germany economy. Domestically, the decline in investments is accelerating from the real drop of 5 percent last year to −8 percent this year; the rate of bankruptcies and insolvencies is continuously breaking post-war records, increasing over 50 percent from 1981 to an annual average now of over 14,000, predicted to reach 16,000. The AEG firm, ranking among the top ten West German corporations, whose name has been virtually synonymous with "Made in Germany," has filed for protection from its creditors. This biggest name among the casualties so far may yet be put through liquidation.

This firm is paradigmatic of the financial perversions proliferated by the high interest rates regime. Those manufacturing firms which most successfully transformed themselves into coupon-clipping insurance companies financially are the best positioned to survive a few more years. Daimler Benz, which produces Mercedes cars, earned more on interest (1.3 billion marks) than on the sale of its cars. AEG, by contrast, paid out more in interest (700 million marks) than its total equity of 650 million.

A Brazil-style export boom

The greatest misallocation of financial resources occurred over 1981, amid an export "boom" which halved the current account deficit to a mere 17 billion marks. After the 1980 deficit, word went out to the exporting economy that "adjustment to world economic realities" meant that expenditures for raw-materials, oil, and heavy foreign transfer payments had to be balanced out at any price. Industry exported its heart out, quite literally. Fully one-third of export contracts were booked, consciously, at below cost, at a point when customers were quite willing to buy on the back of a cheap mark. Another third of export contracts broke approximately even, and the remaining third scored moderate earnings. The alibi for this boom—Brazilian style exporting of everything not nailed down—was the illusory hope for more profitable follow-up contracts. That hope also justified maintaining levels of employment and capacity utilization, even though it was plainly evident, at least by the turn of the year, that a continuation of the worldwide exorbitant level of interest rates would collapse world trade. For that one year West German industry paid its bills, and achieved a 24 billion mark surplus on trade. In the first seven months of 1982, the trade surplus went to 28 billion, and last year's deficit to OPEC of 5 billion has turned into a surplus of 4 billion.

The alibis are now gone, the follow-up contracts are not forthcoming, and new business is scarce. As of the first quarter, exports were rising in real terms by 12 percent, but by the second quarter the rate of growth was down to 5 percent, and in volume actually below the first quarter. Exports in July were 5 percent below July 1981, and 5 percent below June 1982. Total production had already dropped in June by 3 percent below May levels. Production in the first quarter had been maintained, fortunately, at the level of stagnation, thanks to accelerated fulfillment of contracted orders. Total orders on the books dropped from the 1981 peak of 4.8

months of production in May to 4.6 months, and to 4.4 months in June.

The machinery section is perhaps most graphically illustrative. Assuming an average 6 month lead-time on machinery/capital goods investments, the current rate of incoming orders shows that the West German economy will be in an investment-depression by the beginning of 1983. Total orders for machinery dropped in the first half of 1982 by 10 percent, but the decline was accelerating to − 14 percent in the second quarter. Real sales were stagnant at 1 percent, due solely to fulfillment of foreign contracts at a 6 percent rate, while the domestic sales dropped by 5 percent. However, in the all-important investment-flagship sector of machine-tools, real sales were down by 9 percent, led by the collapse of domestic orders for machine-tools by 18 percent. Foreign orders for machinery dropped by 9 percent.

The rate of short-work in the machinery sector has already doubled from last year's level to 80,000 persons, 8 percent of the workforce, and the association of German machinery manufacturers has pre-announced that both short-work and lay-offs will escalate for the rest of this year. Capacity utilization here had dropped from 84 percent at the end of 1981 to 80 percent at the end of the first half of 1982, while overall industrial capacity utilization has fallen from 78.5 percent to 77 percent from the first to second quarters.

Unemployment on the rise

Combined with Paul Volcker's interest rates, and the all-too-great willingness of the German Bundesbank to ape him, West German industry and trade-unions now bear the brunt of the costs forced upon them by their domestic "post-industrial society" opponents. The national average unemployment is now 7.5 percent, but in the industrial heartland of the Ruhr it is over 10 percent, and in some cities over 18 percent. As the Chambers of Commerce of Ruhr cities stated flatly in a recent report, the primary problem of the Ruhr and other industrial centers of the country is "the generally characteristic deindustrialization process in the economy of the Federal Republic of Germany."

That fact is most evident in the amazing phenomenon that industry in this area of highest industrial concentration in the world utilizes not one kilowatt-second of electricity produced in a nuclear reactor.

The flip side of that coin is the deindustrialization of the workforce. Quite significant increases in unemployment among skilled layers of the workforce have taken place since Paul Volcker took office. Compared to 1979, 85.5 percent more skilled chemical workers were unemployed at the end of 1981; 143 percent more machinists, 78.9 percent more electricians, 27.6 percent more construction workers, 58.3 percent more engineers, and 54 percent more technicians in various professions. Since 1979, the rate of unemployment has increased by 70.5 percent to the end of 1981, and, as remarked above, is now 41 percent higher. There are now 15.8 teachers for every job available.

Several months ago, the Association of German Industry did a poll of members to determine the volume of investments blocked by environmentalists, courts, and government officials like Interior Minister and Free Democrat Gerhard Baum. Only one-third of the members were courageous enough to answer in detail, and the other two-thirds said that they feared special retaliatory action would be taken by militant environmentalist groups were they to draw attention to their projects. One third of the membership of the Association was nevertheless able to account for over 30 billion deutschemarks in incompleted or never-started investments. Multiplying by three, it is generally agreed, results in the most conservative estimate of the economic loss involved.

Free Democratic Party Economics Minister Count Lambsdorff cut that debate short at the time, with the specious argument that most of these investments had been cancelled or postponed simply because economic growth had turned out lower than initially expected, and thus, not as a result of the investment sabotage that does exist. Since then, Lambsdorff made himself responsible for growth prognoses which foresee 3 percent growth in GNP terms for 1983, and average unemployment of 1.78 million. Lambsdorff handed that prognosis to his Social Democratic colleague, Finance Minister Lahnstein, who then proceeded to draw up a budget for 1983 on that basis. Neither will 3 percent be achieved, nor the "conservatively optimistic" current consensus prognosis of most economic institutes in West Germany of 1.5 percent; nor will average unemployment be far below 2.3 million. Each deutschemark less in tax revenues, and each one more in unemployment support, tears holes in the federal budget, such as the 10 billion mark hole this year.

Locked in as West Germany is with its export-dependency, the Chancellor's only chance to save his country as an industrial economy is to act to save export markets. On the basis of orders carried over from 1981, West German exports to the United States were still increasing by the end of the first half at 20 percent over last year, but orders are now dropping rapidly in response to the collapse of U.S. capital investment. West German exports to the post-industrial island of Britain are marginally higher than to the United States, but even Britain is contracting below its already depressed level of economic activity. France accounts for 13 percent of German exports, but as the Mitterrand government proceeds to crush the "consumer boom" there, orders from France have begun to drop, too. Imports from East European countries have increased at a rate of 27 percent as these countries scramble to earn foreign exchange to service their debt, but exports have declined at a real rate of 5-6 percent. OPEC countries account for 8.8 percent of total German exports, but with declining orders actual growth of export deliveries has declined from over 50 percent last year to barely 30 percent as of the beginning of the second half of the year. Trade with Latin America has declined especially since mid-1981, and exports to the major partners, Argentina and Brazil, are down between 15 and 20 percent.

Ruhr Chambers of Commerce accuse central bank of de-industrializing economy

The chambers of commerce of the Ruhr area cities of Bochum, Dortmund, Duisberg, Essen and Münster have just released a joint report on the state of the Ruhr economy, and the causes for the higher than average rates of unemployment there. The economic problems of the Ruhr, the report states, "during the 1970s have been primarily the result of a general process of de-industrialization of the economy of the Federal Republic of Germany."

The report analyzes the growth of the service sector of the economy, which in the state services alone now accounts for 19.2 percent of persons employed, as opposed to 11.9 percent in 1960. Among other causes, the report minces no words about the role of the "non-neutral monetary and exchange-rates policy" of the German Bundesbank in accelerating the de-industrialization of production and of the workforce.

Since 1973, the German Bundesbank had maintained high rates of real interest, which caused an "artificial deterioration of the competitive position of the German economy."

The tight monetary policy which accompanied the high interest rates set the limits to industrial price increases in the name of fighting inflation and maintaining stability, but in fact produced "an increased pressure to lay off operatives and nationalize production" on a lower scale of capacity utilization.

"The exchange rate effect affected only those economic branches which must compete internationally, i.e., West German capital-goods industries, "while other sectors of the economy were untouched," such as the service sectors and less export-dependent consumer-goods sectors.

"The mechanism of this monetary policy was strong enough," the report points out, "to enforce the notions of stability entertained by the central bank, but at the price of 'de-industrializing' the structure of production, contrary to the economic requirements of the country."

"The Ruhr region is more interest-rate sensitive than other regions of the Federal Republic because of the comparatively high capital intensity," and "the de-industrialization process to be observed for the Federal Republic in general and the industrial regions in particular especially since 1973, have far more severe effects in the Ruhr." "The non-neutrality of monetary policy has exacerbated the de-industrialization process . . . and destroyed viable production structures."

Up to 1973, 36 percent of Ruhr-area production in the electrical equipment field was in heavy industry electronics and turbines. Since then 20 percent of the jobs in these sectors have been destroyed, particularly in the years 1974-76, when the well-known problems in obtaining permits for and in construction of coal and nuclear power plants began to be sharply felt. Those sectors of Ruhr industry, which had been so successful, were then thrown back to their level in 1968, as far as its labor force was concerned."

In its general recommendations, the Chambers of Commerce say that "generally, a forced growth policy is to be promoted, in the course of an industrial strategy which encourages private investments, and thus providing new opportunities for areas of high industrial concentration."

With respect to the international economic and monetary aspects of policy, the report is weak. In discussion with *EIR*, one of the authors of the report explained that the intent was to launch a political discussion process that had died out since the 1960s. "The way the Bundesbank thinks, once the U.S. dollar drops, and U.S. interest rates begin to really drop, the Bundesbank will only follow up to a point. Then they will appeal to their usual notion of stability, and maintain their historically high interest rates. Overnight, German goods will cease to be competitive, and firms will not be able to realize profits from exports that they could then re-invest."

How the Marshall Plan stunted West German industrial recovery

by Susan Johnson, Managing Editor

There are two variants of conventional wisdom regarding West Germany's post-war economic history. The first is that through generous U.S. Marshall Plan aid, the Federal Republic was built up to the point of a potent competitor. The second version is that, after a period of punishing the German population for the Nazis' crimes, a policy faction in the United States and Great Britain recognized that to counter the Soviets, the territory on the front line of East and West would have to be helped to gain economic recovery, else the newly born NATO would have no defense base and no credibility. Therefore the Marshall Plan, or European Recovery Program (ERP), as it was officially called, generated West Germany's "economic miracle."

There is more truth to the second notion than the first, but they both evade the facts of the matter. The Anglo-American occupiers had dictatorial control over their territory, upon whose coal and steel the rest of Europe very much depended for its own short- and medium-term industrial needs. Therefore, if they had insisted on a crash recovery policy, they could have carried it out. Yet in fact industrial recovery was deliberately throttled in western Germany under the 1948-52 Marshall Plan.

Because of the post-1955 success in industrial innovation and manufacturing growth, after the Federal Republic gained greater sovereignty and the occupation restrictions on high-technology production were removed, the post hoc ergo propter hoc myth has been perpetuated that the Marshall Plan, not bootstrapping by the German population, produced "the German miracle."

The strategic dimension

The original Anglo-American plan for occupied Germany, the Morgenthau Plan, was to flood the Ruhr coal mines, dismantle all German heavy industry, and "pastoralize" a drastically shrunken population. What went largely unsaid is that the rest of Europe would have been utterly crippled as well.

The Churchillian strategists in England believed that, backed by America's military-strategic muscle, they could quickly wage what was referred to at the time, in Lord Bertrand Russell's approving words, as "preventive war" against the U.S.S.R., and thus had no need to rebuild Europe (or their own economies). As the reality of the Soviet nuclear armanent and stubborn re-industrialization emerged, along with the political impossibility of assembling a cold-war Western NATO bloc while decimating its industrial motor, western Germany, some way had to be found to cover the threadbare bottom of NATO for a longer-term military confrontation strategy.

Yet as the NATO rearmament push proceeded, there was no aggressive re-industrialization of West Germany. Output remained constricted, unemployment very high. Exports grew, subsidized by subminimal wages and throttled industrial investment. From the point of view of the Anglo-Americans, what was accomplished was to lock the Federal Republic under supranational control, as the Schumann Plan replaced the International Ruhr Authority in 1951, and the Bank deutscher Länder (BdL), the Bundesbank's predecessor, slavishly followed the prescription of the Bank for International Settlements in Basel that credit is inherently inflationary and that economic "booms" are a danger to be suppressed.

Occupation policy

In 1945, the industrial capacity of Germany's western zones was at least equal to pre-war levels (due to the policy of terror-bombing the population rather than knocking out industrial installations.) Plant and equipment, however, had been worked to the last nut and bolt by the Nazis; the agricultural produce of eastern Germany was cut off; transport was wrecked; food, fuel, infrastructural repairs and a revving up of basic coal and steel production were the elemental prerequisites for recovery of Germany, and thus of western continental Europe.

The Marshall Plan's official goals for Germany set the following priorities under these circumstances. First, "balance of payments equilibrium by 1951-52" and a large increase in exports. Second, "regaining the pre-war level of industrial output." Third, a standard of living "considerably lower than that in pre-war years".

The payments deficit was indeed overcome. The method was achieving an export level modest compared with the potential, foregoing international borrowing, and above all holding down "import demand" on the part of the scarecrow population, i.e., keeping living standards "considerably lower" than under Hitler's austerity.

What was introduced is the policy the International Monetary Fund imposes on underdeveloped countries today. (The IMF itself was out of the picture at this point, being mandated to lend at commercial rates shattered Europe could not afford.) Industrial recovery, much less growth, was subordinated to the watchword of payments equilibrium, in West German foreign trade and in fiscal matters. Budgets were balanced, or ran surpluses, at the expense of urgent outlays. "Self-financing" was the chief mode of capital formation. A certain amount of infrastructural expenditure gradually took place to facilitate the export and defense push, but manufacturing output was kept below the late-1930s level until the Korean War. As Helmut Schmidt, commenting on the British occupation of Hamburg, once told Countess Marion Dönhoff of *Die Zeit,* "They starved us to the point of insanity."

The Marshall Plan, starting in late 1948, provided $1.4 billion in aid out of a total of some $14 billion in European funding over four years. (Total U.S., British and French aid to Germany in 1945-54 was about $4.4 billion, less than the present and future costs of defraying occupation costs, demontage, resumption of debt obligations, and so forth.) The ERP paid in dollars for imports of food, fuel, and other raw materials; the Germans were required to set aside a corresponding amount of marks, known as counterpart funds, over whose use the Economic Cooperation Agency (ECA), the U.S. administering body for the Marshall Plan, had full control.

After two years of the ERP, West German coal output was still below pre-war volume, and coal-mining productivity remained one-third below the pre-war level, because the Marshall Plan administrators refused to make real investment in the mines the Nazis had run, so to speak, into the ground. What was described as "recovery" was bringing industrial output from 51 percent of 1936 levels before Marshall aid (according to highly unreliable figures for both years) to 86 percent in April 1949, roughly the point at which the Anglo-Americans decided to place a higher priority on industrial functioning, for NATO purposes. At the beginning of the Korean War, industrial workers' real weekly earnings were still below the 1938 level; in 1952-53, daily caloric intake of the population as a whole was officially below the 3,000 calorie estimate for 1935-38.

To the extent a surplus was being produced, it was not reinvested from the point of view of the overall needs of the Federal Republic: basic industries received very little of it. In truth it was a nominal surplus, because it was gouged out of the productive potential of the present and future workforce, a nation's chief resource.

The equilibrium model

Consider briefly what would have occurred after World War II had the United States issued volumes of long-term, low-cost dollar credit sufficient for Western Europe to quickly rebuild and expand its industry, and, in partnership with American business, to create vast new markets in the post-colonial world for industrial goods, as Franklin Roosevelt had outlined to an apoplectic Winston Churchill in 1942-43. What happened instead is that the monetarists who controlled the commercial banks, the Federal Reserve and the Treasury enforced the Bank for International Settlements policy domestically as well as internationally. Americans focused on the expanding consumer sector; exports languished because dollars were lacking abroad to buy them. The Marshall Plan took the problem of the "dollar shortage" and institutionalized it as the premise of the post-war monetary system. Europe did not and would not have enough dollars to buy the essentials it immediately needed for recovery, much less capital goods for expansion. Therefore, the State Department said, Europeans must be aided with U.S. goods in the short run, to which certain "conditionalities" were attached: austerity at home, to "fight inflation," and a drive to *reduce* their purchases of dollar-denominated imports in the medium term, procuring manufactures from each other and raw materials from the so-called "dependent territories" and British oil companies. A net *contraction* in U.S. exports to Europe was an explicit priority of the Marshall Plan. From $6.7 billion in 1947, before the plan began, the target was $2.7 billion for 1952-53 (compared with $3 billion in 1938, a year of intense Depression trade barriers and low demand). From the end of 1948 to the end of 1949, total U.S.-Canadian sales to ERP members, including Marshall-funded sales, dropped by 14 percent, and another 18 percent drop from that level was achieved by the third quarter of 1950, when the Korean War buildup began to reverse the situation.

This policy was sold to Americans under the banner of creating "European self-sufficiency."

The planners

The architects of the Marshall Plan did not find it odd for American policy to discourage American exports. They were the same investment bankers who had imposed the Versailles debt burden which catalyzed the Great Depression, and sponsored Hitler and Hjalmar Schacht in the 1930s against the German industrialists who wanted to re-launch "American System" policies.

Averell Harriman headed the committee that planned the ERP, became its European Administrator and represented the occupied German zones at the OEEC (the Organization for European Economic Cooperation, forerunner of today's OECD, which administered aid requests and economic policy as the European side of the Marshall Plan). Among Harriman's deputies were Robert Lovett of Brown Brothers Harriman, George Ball of Lehman Brothers (to which the Military Governor of West Germany, Gen. Lucius Clay, was also connected), and William Draper, Jr. of Dillon Read. Harriman's executive director was the British intelligence asset David Bruce of the State Department; his deputy general counsel was Henry Reuss, who as head of the U.S. congressional Joint Economic Committee later did so much to promote the "post-industrial" economy. Chief monetary adviser was the Belgian royal family's Robert Triffin, flanked by Harlan Cleveland (later of the Aspen Institute). The executive board of the OEEC, which formulated aid requests and transmitted supranational policy guidelines, comprised Sir Eric Roll, later of Warburgs in London, Baron Snoy of Belgium, and Giovanni Malagodi, another British/Warburg asset.

William Draper, Jr., who became Undersecretary of the Army in charge of the Marshall Plan and oversaw the occupation's economics division, was a frank advocate of world population reduction as the criterion of economic and military policy; he later founded the Draper Fund/Population Crisis Committee for this purpose. Draper's quondam underling George Ball has claimed in a recent interview that the Marshall Plan had as "a primary aim" curbing population growth, "because even after the war the problem was working like a time bomb. Even with the death and destruction in the war, modern health and sanitation facilities had decreased the infant mortality rate. We rebuilt slowly under the Marshall Plan because we did not want people to get the idea that prosperity was coming back." Or, as the State Department's Willard Thorp put it in *Foreign Affairs* in 1948, the ERP "does not even attempt to create what has been established in the past as a European standard of living."

For these policy makers permanent austerity was the essence of the Bretton Woods system, established in 1944. Its monetary correlate was as follows: The planned activation of internationally convertible gold-backed dollars as the world's chief reserve, generating liquidity for technological advances, had to be averted or postponed. After the Marshall Planners ensured that there was a post-war dollar shortage, Robert Triffin gradually introduced, as a condition of Marshall aid, the establishment of the European Payments Union, which in the name of expanding intra-European trade sought to minimize the need for dollar setlements. Europe, as a bloc, was to overcome its trade deficit with the United States by exporting cheap-labor-subsidized goods there, while for its part the United States actively strove to reduce its trade surplus in the name of international equilibrium. Europe was also to export "unsophisticated" goods to the Third World and build up the extractive industries of the "dependent territories" there yet American investors were told by the State Department not to invest abroad because of the danger of communist takeovers.

While Great Britain and Belgium were to resume their colonial ascendancy (Great Britain got the bulk of Marshall aid, and used it to retire debt while re-establishing its world financial position, but that is a story in itself), West Germany was assigned the role of NATO gendarme, under tight supranational control. France and Italy would be allowed the role of junior partners in this neo-colonial order. As the Marshall Plan was being worked out, Charles Kindleberger and Harold van B. Cleveland wrote in a State Department memo: "To avoid injuring sensitive feelings of nationalism, our appeal should be couched in terms of a European recovery which stresses the raising of European production and consumption through the economic and 'functional' unification of Europe. In our propaganda and in our diplomacy it will be necessary to stress (even exaggerate) the immediate economic benefits that will flow from the joint making of national economic policies and decisions."

The Marshall Plan's goal was to enforce austerity, not overcome it. The hard work and great suffering of the German population went into achieving 'payments equilibrium.' Even under conditions of NATO rearmament, occupied West Germany had no recovery program, inadequate heavy-industrial investment, and steep unemployment.

Implementation in Germany

From 1945 until mid-1948, the Anglo-American occupation let the German economy twist in the wind. The population was starving. Housing had been decimated, and by 1948, 8 million refugees had been carted into the Bizone (the joint U.S.-British occupation zone). Fertilizer and other imputs were not available to gear up food production. As for trade, nothing could be exported but coal (forced reparations at drastically reduced prices), wood, and steel scrap. The ceilings imposed on steel production could not even be reached. Barter was the dominant mode of economic intercourse. Hoarding naturally prevailed. Untold numbers died.

The Marshall Plan was inaugurated in Germany in 1948, not by an influx of aid, which began to trickle in late in the year, but by the sudden imposition in June of a currency reform which had been on the drawing board for at least two years. Apart from its political declaration that the Anglo-Americans intended to permanently divide Germany, the reform is conventionally described as the great trigger for West German recovery. It was indeed a turning point.

All currency and bank deposits of individuals, firms, and government bodies were converted at an effective rate of 100 to 6.5. The mark's foreign parities were de facto devalued at the same time. The rationale was that since goods were short, the money supply should be cut to fit that scarcity, rather than issuing targeted credit so that industrial output and worker productivity could be expanded. On the contrary, there was no overall recovery plan. One immediate result of the reform was that hoarded goods were released at profiteering prices, causing inflation; inflation then became the occasion for the occupation authorities to further tighten credit. Wholesale prices rose to 60 percent above 1936 levels, and 100 percent retail price increases were common, while wages were well below 1936 levels. After about six months, the economy was in sclerosis, while the United States itself, the Federal Reserve having tightened credit to combat business loan demand, began to slide into a recession that struck at the world economy as a whole.

The West German situation was universally recognized as disastrous by the end of 1949. The mark had been devalued again, by 21 percent, as part of the European devaluations forced by the Marshall Plan, raising dollar goods' prices for Europe an average of 44 percent. What supervened in 1950 was the Korean War and the momentum for European rearmament. After further credit tightening, justified in the name of combatting rising prices for imported raw materials, West German managed to double its exports and increase overall production to a level 11 percent above 1936. In 1951-52 the economy retreated again, but the occupation-controlled central bank, the BdL, continued its practice of braking any sign of an upsurge while refusing to counter downturns. Official unemployment stood at 10 percent at the end of 1952, and was still over 7 percent at the end of 1954.

Henry Wallich, now Paul Volcker's number-two man on the Federal Reserve Board, looked at this picture in his 1955 book *Mainsprings of the German Revival,* and concluded that the impressive thing about western Germany's post-war evolution was not a high level of exports per se. Exports were "modest," he concedes. "The low level of imports and the consequent balance-of-payments surplus are really the most miraculous phase of the German miracle." The key to the low level of imports, in turn, he concludes, was "the German diet," noting that Hitler's Reich, even at the height of autarky, imported more food than West Germany in 1952-53, though the Reich possessed the eastern "breadbasket." Caloric intake at that point in the 1950s was still below pre-World War II levels, and meat consumption was four-fifths of the wretched pre-war level. Thus "German income and production do not rank particularly high. . . . Today, nevertheless, Germany can look back upon four years of balance-of-payments surpluses."

The investment clamp

It is simply not the case that Marshall Plan funds provided an important proportion of post-war West German investment. Commodity aid, on the contrary, lubricated the imposition of an economic structure which discouraged crucial industrial investment. The counterpart funds at most averaged 3.5 percent of gross investment in the 1949-53 period, peaking during 1950 at 9 percent. At first they were frozen as a "counter-inflation" measure. They began to be released in the spring of 1949, when the NATO push got under way. Only 10 percent had been unfrozen as of the first quarter of 1950; then the Korean War situation impelled their use to try to open the coal and steel bottlenecks, about which very little had previously been done. Finally, as the ERP was transformed into the Mutual Security Agency in 1951-52, the counterpart funds were used for military-related purchases.

Most important regarding investment potential was the credit structure imposed by the currency reform and by the monetarist habits of the BdL. The occupation was supposedly committed to private-enterprise funneling of capital by thrifty and prudent savers into productive outlets. Yet, the 1948 currency reform defined savings deposits as cash, and thus wiped them out at the same 100 to 6.5 ratio.

No corporate stock market existed in occupied Germany, and private banks lent chiefly at short term. The main source of capital formation was plowed-back company profits; but steel and coal were not profitable. Much available capital flowed into luxury housing, nonessential consumer goods, and so forth; export-intensive producers were favored at the expense of restoring and modernizing the industrial base itself. Those who were able to invest their profits and receive huge tax write-offs were, as Wallich puts it, individually redeploying "the forced saving that business imposed on the consumer." The 12 to 14 percent rate of net investment as a proportion of GNP during 1948-49, for example, does not reflect a high absolute level of investment, but the wretched level of variable-capital outlays.

As a result of insufficient modernization and the effect of low living standards on skills and output, official productivity figures lagged, below pre-war levels until 1952, despite the Germans' hard work. In 1950, 25 percent of German families had no homes of their own (they were still living in bombed-out cellars, relatives' houses and so forth) and there were still half a million dwelling in camps as of 1954, the year when per capita income finally reached the level of guns-not-butter 1938 under Hitler. As the Bank for International Settlements had written after the first year of the Marshall Plan, "lack of capital will presumably continue to characterise the German economy for a long time to come."

Kissinger cooks up a new Mideast plan for Reagan

by Nancy Coker

Ronald Reagan's Sept. 1 Middle East policy speech may have marked the President's debut in the Arab-Israeli arena, but it was no first-time-around for the real author of the speech, Henry A. Kissinger.

Kissinger, the éminence grise behind Secretary of State George Shultz, has been pulled into the inner circle of policy-making in the White House, and is doing his utmost to ensure that U.S. diplomacy in the Middle East in the wake of the Beirut crisis leads not to a comprehensive resolution of the Arab-Israeli conflict based on the economic development of the region, but results instead in a never-ending series of crises and—Kissinger's specialty—overseeing crisis management.

What President Reagan *thinks* his initiative is, it is not. Reagan is under the illusion that what he has proposed—the confederation of some kind of autonomous Palestinian entity with Jordan—will break the Camp David deadlock and pave the way for Jordan and Saudi Arabia to join the much-celebrated Camp David "peace process." What Reagan fails to see is that Camp David, for all intents and purposes, is dead, killed by Israeli intransigence on the Palestinian autonomy issue, and that Egypt is dangerously isolated. Under Kissinger's guidance, Reagan has chosen to ignore this reality and instead has embraced the former Secretary of State's modus operandi: creating the *illusion* of initiatives and progress on the peace front, while the region disintegrates into chaos under the twin pressures of economic collapse and terrorism.

Kissinger's gameplan is not his own. It is a product, just as he is, of a longstanding British intelligence strategy to maintain the Middle East in a perpetual state of tension and irresolution aimed at undermining the region's nation-states, including Israel. This will not only facilitate continued oligarchical control over and manipulation of the area, but enhances British efforts to skew entire national economies away from their commitments to industrial and agricultural development and to transform them into dirty-money, dope-trafficking ventures.

The Bernard Lewis Plan

The U.S.-based case officer for this operation is one Bernard Lewis, a British Secret Intelligence Service operative since 1940 and a professor at Princeton University. Kissinger's role in all of this is to make sure that the United States carries out its end of the operation to carve up the Middle East, an operation dubbed by insiders as the Bernard Lewis Plan.

Since the mid-1970s, when the Bernard Lewis Plan was put into high gear, the nation-states of the Middle East, one after the other, have been chopped to bits. Lebanon has been decimated; Iran has been reduced to a seething sea of Islamic fundamentalism; and Egypt is reeling under the weight of accumulated financial woes. Jordan, Saudi Arabia, and the Gulf states are next on the list for destabilization.

Like many of its recent predecessors, the Reagan administration, in pushing for Camp David II, has not addressed the basic issues at hand. With Kissinger now running the show in this post-Beirut "new era," these issues are likely not to be taken up with any degree of seriousness. Under Kissinger's influence, the urgent necessity for destroying Khomeinism and related terrorist capabilities, or the urgent necessity of promoting a U.S.-sponsored development plan for the region centering around Egypt and utilizing Israeli technology, will be ignored.

'Kissinger's baby'

''Reagan's speech,'' commented one Georgetown University source, ''was Kissinger's baby.''

''Kissinger was heavily, heavily involved in what came out of Reagan's mouth that night,'' said another source close to official Israeli circles. ''Don't let anyone tell you otherwise. If you don't believe me, read the speech for yourself. His footprints are all over the place.'' So far, the Reagan-Kissinger proposal has met with outright rejection by Israel and the Arab radicals, and silence by the Arab moderates. According to insiders, the people who are picking up on the Reagan plan behind the scenes are Jordan and Saudi Arabia, and, in Israel, Shimon Peres's Labour Party. Washington has also bought, through the good offices of Prince Abdullah in Saudi Arabia, the cooperation of Syria, sources report.

What this means is the following: At the upcoming Arab League summit in Fez, Morocco, pressure will be placed on the participants to discard the 1974 Rabat summit agreement making the Palestine Liberation Organization, not Jordan, the sole representative of the Palestinian people. This done, Jordan will then be free to enter into the ''peace process'' on behalf of the PLO and to take up Reagan's nebulous confederation plan, a plan that Reagan has categorically stated precludes the establishment of a Palestinian state. Kissinger's long-term sidekick Philip Habib, fresh from winning his Middle East crisis-management credentials as the U.S. special envoy to Lebanon and Israel during the Beirut seige, has already been named to carry out what is expected to be years of sterile shuttle diplomacy to negotiate Phase II of Camp David around the President's Jordan confederation scheme.

The immediate danger of the current situation is the possibility that the Begin-Sharon government might use the Reagan proposal, which Jerusalem has out-of-hand rejected, as a pretext for breaking with the Camp David accord altogether (as advocated by Defense Minister Sharon's crony Yuval Ne'eman, the newly appointed Minister of Science and Development) and annexing the West Bank and Gaza (also called for by Ne'eman). Despite reports that Reagan's initiative had actually preempted Sharon from carrying out what was perceived as imminent annexation, Washington sources close to Israel predicted that Sharon ''could still go haywire.''

Administration officials are unusually sanguine about Israel's total rejection of the Reagan proposal. When asked about this, one Israeli intelligence-connected source responded, ''It's not surprising; Washington is getting ready to play the Peres card.''

By all accounts, the installation of Peres is seen by Kissinger and Co. as the best come-on to King Hussein to join the Camp David process. The administration fully expected to provoke a fight inside Israel between the ruling Likud Party and the opposition Labourites, and is said to be throwing its weight to Peres. In mid-August, while on a trip to Washington, Reagan unexpectedly summoned Peres for a meeting at the White House, presumably to discuss this now-active scenario.

''If Begin dies, things are going to be a lot easier for everyone concerned,'' one source said, ''I know this is the way some people in the administration are thinking, and even a lot of Jews. Begin just isn't any good for this next period that we are going into.''

It is significant, in this light, that less than 48 hours after the Reagan speech, the Israeli supreme court declared the Begin government's ban on El Al flights on the Sabbath to be illegal. This is a severe blow to the religious fundamentalist government of Begin and could further weaken him.

A well-informed Israeli source reports that Peres was recently bought by the notorious Chinese-allied Israeli mafioso Shaul Eisenberg, who the sources called ''the most dangerous man in Israel.'' Eisenberg, in combination with a network of old Jewish Sephardic banking families led by the Recanati, is a top figure in the Golden Crescent drug trade. It is known that among the secret clauses worked out by Kissinger in the Camp David accords is the establishment of a strong Chinese-Middle East axis, which, in effect, will mirror the old British-East India Company domination of Asia through which illegal drug trade flourished in the last century.

Egypt out on a limb

Since the start of the Lebanon crisis in June, Egypt has maintained a firm position that until Israel gets out of Lebanon, there can be no autonomy talks, and hence no Camp David. In addition, Egypt has prevailed on Washington to put forth a comprehensive solution to the crisis and not engage in mere crisis management exercises. These implicit attacks on Kissinger have recently become explicit. The Egyptian press has begun attacking Kissinger, proclaiming that Egypt will reject any attempt by the former Secretary of State to involve himself in the Middle East and to interfere in Egypt's policies.

Egypt's firmness reflects a certain inside knowledge gained as a result of that country's intimate experience with the Camp David process. The economic benefits promised to Egypt at the time of the Camp David accords have not been forthcoming. Cairo is now in the throes of a severe economic crisis as a result of the Open Door policies pursued by Anwar Sadat under the aegis of Camp David.

President Mubarak is highly vulnerable as a result, particularly in light of the growing threat of terrorism by Palestinian and Arab radicals, whose extremism has been fueled by the Beirut crisis and now by Reagan's non-initiative, Camp David II. The radical Popular Front for the Liberation of Palestine has pledged to ''undermine any alternative which imperialism is trying to impose.'' From Tripoli, Libya's Muammar Qaddafi is threatening to launch a terror wave around the world aimed at destroying moderate Arab governments.

An appreciation of Nahum Goldmann

by Mark Burdman, European Correspondent

At a time when the human race is passing through its greatest general crisis in centuries, the death of Nahum Goldmann must be mourned for the loss to humanity of one of its most vital living connections to those profound historical truths which alone can ensure the survival of civilization.

In his more than 70 years of political activity, primarily in Jewish and Zionist affairs, Goldmann represented and expressed the continuity of Jewish achievements through the centuries in culture and the spirit, and the coherence of these achievements with the great tradition of the Weimar German classical period. He understood, as only a minuscule few alive today do, the inner, immortal and necessary unity of the best expressions of German and Jewish culture. He became a living counterpole to, an organizing center against, the irrationality that earlier in this century produced the Nazis and which has more recently been spreading like a plague throughout the Middle East, a region with which Goldmann was for decades so lovingly concerned.

Goldmann's own immortality is especially ensured by the heightened intensity and pace of intervention that he made particularly into Jewish and Israeli life in the last weeks, even days, of his life. Goldmann's last years coincided with the plunge of civilization toward hell, and while most world leaders seemed to show that they had learned nothing from the tragedies of history, Goldmann's ideas were a constant reminder that statescraft must embody a moral vision possessed of an understanding of the long sweep of generations past and the necessities for the future to come. To the pragmatists of today, especially the short-sighted "provincials" ruling Israel whom he so regularly took to task, Goldmann counterposed the idea that the only legitimate and enduring "realism" is that based on nurturing the best and most enduring potentials in the human being.

This defined his approach to the emotion-racked question of relations between Israelis and Arabs today, and established him as a conscience for the state of Israel and world Jewry.

Goldmann's passion was to bring modern Jewish and Israeli life into atonement with the moral exigencies to be drawn from the rich history and "special character" of the Jewish people.

The special character of Jewish history

As he wrote in the second volume of his autobiography (*Mein Leben: U.S.A.-Europa-Israel*), "the distinguishing basis for [the Jewish peoples'] unique existence was the religious idea. . . . The distinguishing idea, that Judaism has created, the concept of one God for the entire world, perhaps the greatest and most revolutionary idea of humanity, is still today in its character not fully appreciated. . . . The thought, that one God has created all of humanity, and is the same God for the multitude of all peoples, nations, and races, is the boldest, most revolutionary, loftiest idea, that a people or its religious leaders has ever formulated."

This notion of one God is necessarily linked in Goldmann's view with the conception of the Messiah, of potential perfection on earth, and with the otherwise unique notion of the Jews' "chosenness" (*Auserwältheit*). Together, these elements create the notion that the Jew has a special mission to seek the good on earth. It is the endurance of this combination, in Goldmann's view, that has made for the "exceptional" achievements of the Jews through the centuries, and which explains the Jews as a "non-conformist" and, half-ironically stated, a "troublemaker" (*Störenfried*) through the ages.

"The Jewish people has survived thanks to the Prophets, to Moses and the Bible, thanks to Einstein and Heine, and not thanks to the generals or to Begin's demagogues," he stated in an interview days before his death, with the West German magazine *Der Spiegel*.

Animated by a sweeping appreciation of the breadth of the Jews' historical experience and by the crisis of Jewish life in the twentieth century, Goldmann was deeply involved in Jewish and Zionist affairs for over 70 years. Following a

1914-18 position in the Jewish department of the German Foreign Ministry, Goldmann in the early 1920s was elected to the Zionist General Council, the parliamentary body for the World Zionist Organization (WZO). In 1935, he was chosen as the WZO representative to the League of Nations, and was voted onto the Zionist executive, on which he served for 33 years, including twelve (1956-68) as president of the WZO. In 1936, he helped found the World Jewish Congress, and was its president from 1951 to 1978. He also served eight years as head of the New York-based Conference of Presidents of Major American Jewish Organizations; edited the seminal reference work, the *Encyclopedia Judaica;* and served as chairman of the Memorial Foundation for Jewish Culture.

The founding of the World Jewish Congress points to Goldmann's central concern for Jewish life in its universal and global sense, not only in its national-Zionist sense, especially as the great majority of the world's Jews in fact do not live in Israel (nor, in 1936, were they committed Zionists). From this standpoint, Goldmann, differing from more provincial Zionist leaders and much of the Israeli establishment, has seen the creation and survival of Israel as important in *universal Jewish terms,* as distinct from the various shades of Israeli-Zionist thinking which view the entire history of the Jews between the destruction of the Second Temple by the Romans and the creation of the State of Israel as irrelevant, and which think of Israel as a linear descendant of the Hebrew-Israelite-Judean people of ancient times. As he identified on many occasions, Goldmann thought of Zionism as a "synthesis of East and West," combining the different branches of Jewish life into one new culture.

Speaking from the depths of his lifelong experience and knowledge, and probably from his reading of the German poet, historian, and playwright Friedrich Schiller, Goldman came to view the Israeli situation in the past years as "tragic." Instead of embodying and expressing the cultural, intellectual, and spiritual visions of great Jews of history, Israel, in Goldman's eyes, lived on the basis of short-sighted, chauvinistic, narrow-minded considerations on the one hand and on a simultaneous, if paradoxical, impulse toward "normalcy" on the other—with "normal" organized crime, "normal" pettiness, and so forth. "This conception of 'normalization' I have for years rejected," Goldmann wrote in volume two of his autobiography, "for I see it as a disavowal of the entire Jewish history. The suffering of the Jewish people of centuries would become senseless, if the summit of Jewish life were to be a small 'normal' state, with all the negative manifestations, as they appear today in all other states."

Especially aghast at the Israeli situation under the Begin regime beginning in 1977, Goldmann warned, in a famous July 1980 article entitled "Out of concern for Israel," that the country, if it proceeded on its current path, "will be shoved ever closer toward the edge of the precipice on which it now finds itself, and which must lead to the abyss." Of all the problems that he perceived at the time, Goldmann wrote, "worst of all [is] the persistent weakening of morality, which was always Israel's greatest source of strength."

In the same article, Goldmann expressed the psychology of the Israeli population with a humorous Jewish story (Goldmann regarded his sense of humor as one of his strongest attributes:) "A Jew is traveling on a train. At every station, he sticks his head out the window, reads the name of the station, and moans. After four or five stations, another passenger asks him why he is wailing so. The Jew answers him: 'I keep travelling in the wrong direction.' " "Many Israelis have this feeling," Goldman noted, "but do not dare to switch over to another train."

The "original sin" of the Zionist movement and Israeli state policy, in Goldmann's eyes, has been the abject refusal to pursue an effective approach toward peace with the Arab countries. One of the most intense pursuits of Goldmann's life, to the very end, was to preempt a process of radicalization of the Arab world that could result in Israel being surrounded with the plague of "Khomeinism" and which would pit 120 million Arabs in confrontation with four million Israeli Jews. In this pursuit, Goldmann came into the most direct clash with the short-sighted Israeli leaderships who have perceived Arab radicalization as "useful" to Israel.

Goldmann's life was punctuated with important interventions for an Arab-Israeli settlement. In the mid-1950s, he enlisted the great Indian leader Jawaharlal Nehru in a mission to intercede with Egyptian President Nasser to arrange direct Egyptian-Israeli peace talks—an effort that failed in large part because of the British-guided imperialist Suez adventure. Following the 1967 Arab-Israeli war, he tried to head off the "greater Israel" chauvinism spreading over Israel by arguing that the war victory compelled Israel more than ever to seek compromise with the Arabs. Up to the last days of his life, as he witnessed with great anguish Israeli Defense Minister Sharon's rampage into Lebanon, he tried to make direct contact with Palestine Liberation Organization Chairman Yasser Arafat, to help shore up Arafat against the Sharon-allied Palestinian extremist factions, and to lobby for a Palestinian government-in-exile that would expedite the mutual recognition of Israelis and Palestinians. "Reasons of Jewish history," Goldmann stated, compelled him to make this intervention in the eighty-seventh year of his life.

For years, Goldmann advocated the creation of a "Middle East Confederation" that would bring about "Jewish-Arab cooperation [that] would hasten in completely unprecedented fashion the already begun Renaissance of the Mideast."

When this idea came to seem for the present unfeasible, Goldmann came to advocate more and more the idea of the neutralization of the state of Israel, and the guaranteeing of that neutralized state by the major powers—including, with wonderful poetical-historical importance, West Germany.

A neutral state, he wrote in 1980, would be "appropriate for the singular character of the Jewish past. It would permit the Jewish people a new intellectual and moral center, a source of new inspiration for the Diaspora, thereby creating security for the Jewish future. . . . Seen world-historically, a neutralized Jewish state could give the Jewish people a concrete chance to stand again at the center of intellectual history. It would thus allow this people once again to continue its centuries-old contributions to human culture, and thereby to secure itself a future which in its meaning and its content would correspond to the unique character of its past."

In his autobiography, he adds that such a state would allow for the flourishing of the "religious, intellectual, and cultural" pursuits that have characterized Jewish history, and that would be in atonement with the works of "the Prophets, the Jewish philosophers and ideologues of the Middle Ages and of modern times, Spinoza, Heine, Freud, and Einstein."

Germans and Jews

The deeper reservoir of his understanding from which Goldmann drew to put forth such world-historical proposals lay in his knowledge of the inter-relatedness of the German and Jewish historical experiences, and his direct access to the processes whereby the state of Prussia was created in the eighteenth and nineteenth centuries with the assistance of Jews granted legal status by the great Prussian elector.

In the first volume of his autobiography ("Mein Leben als Deutsche Jude"), Goldmann made the following observation: "Despite all criticism, no doubt can exist that Germans as well as Jews were and are very great people. Their great ambitions, their creative qualities rank them unquestionably among the greatest peoples of world-history. Perhaps both are inevitably connected to each other. . . . I have in my youth in my diary written: 'The Jews are a people, that one must admire, but cannot love.' That goes also for Germans. Both are unloved. Especially the greatness of both peoples—the Germans unique in their metaphysics, musically in manifestations like Bach, Beethoven, Mozart, the Jews unsurpassable in their prophets and their religious geniuses, among which one can count Jesus and Paul, in their stubborn loyalty to their beliefs—explain in large measure the attitude of non-Jews and non-Germans to both peoples."

Goldmann elsewhere expands on his love for German classical music. "No people and no culture, not even the Jewish, have influenced me so strongly as the German. . . . The strongest emotional experience I had and I have have been by listening to the music of Bach, Beethoven, and Mozart." In volume two of his autobiography, he writes: "None of the spheres of culture has so deeply made an impression on me as music. My musical taste is considerably conservative, from the standpoint of the younger generation it would seem old-fashioned. My deep interest is for the classics, before all Bach, Beethoven, and Mozart. . . . my great love in the world of opera is Verdi and Mozart. . . . For Wagner I have never had a deep understanding."

In the same vein, his writings are liberally sprinkled with references to the works of Schiller, Heine, and Lessing, and emphasis on the power that they had on the minds of Jews throughout the nineteenth century.

In 1915, while in the German Foreign Ministry, Goldmann authored a document, with the somewhat misleading title, "The Spirit of Militarism," which clearly identifies a direct connection in his ideas and experiences with the Jewish-aided building of the humanist Prussian Cameralist state of the century past. Although Goldmann never in the future explicitly further developed the concepts contained in the piece, it stands on its own as a fascinating historical document, and as a "mind-print" to the deeper recesses of Goldmann's own udnerstanding.

The piece is a defense of a conception of Prussian system economics (in which, inclusively, he calls the Prussian general the "personification of the Kantian categorical imperative"), and the ecumenical nature of life in Germany, as against the corrupt life of the "French salons" and the "Houses of the British Lords."

"It would be an interesting task," Goldmann wrote, "to

LaRouche mourns Nahum Goldmann's death

The following open telegram was issued by EIR *founder Lyndon H. LaRouche, Jr. on Aug. 30.*

Hang out the flag at half-mast around the world. Let President Ronald Reagan decree a national day of mourning, and let the Congress, wherever the members may be, stand for a solemn ten minutes of thoughtful silence at sunset today. A great world leader, Nahum Goldmann, the grand old man of world Jewry, died last night.

We all have suffered a great loss. In a time when the leading circles of most nations are chiefly composed of little, bungling, petty careerists, this 87-year-old giant from the better-age past was one of the few voices of true grandeur of intellect and lovingness to rally something better from within us.

My wife, Helga, and I were privileged to meet privately with Nahum Goldmann only once, during late 1979 at his home in Paris. We both fell in love with this man at once. Since then, it has been a source of joy to both of us to witness his interventions into critical moments of current history, and to support his efforts in these matters.

This man was a true Jew, as he himself described the function of Jewish culture most recently. I know something of the work in which he was most recently engaged, not as intimately as those closest to him, but enough to say that the level and quality of his actively leading role would astonish most persons if the full facts of this matter could be made public. This man has been a giant among us.

Helga and I shall miss him very, very much.

examine the error from which the incomprehensible misjudgment has come about which is dominating the opinion of the continent about England since 150 years; the idea that the Island Kingdom is democratic. The main fault of this misconception is the confusion of liberalism and democracy." Goldmann explained that liberalism is the *contrary* of democracy, since the former signifies "random freedom" and converges on "animal" behavior, whereas the latter signifies "equality, which is a product of culture and which can only be established by conscious human creation and effort."

He then attacked Britain for being "at the spearhead of the campaign against the German spirit," and British ideology as "pure individualism" characterized by "empiricist and inductive" habits leading to "atomizing thinking." British ideology, he asserted, cannot understand "concepts and ideas," and "one can see the same in British jurispurdence, which lies in common law (Gewohnheitsrecht)." "Great principled norms are unknown to this system. . . . Adam Smith and John Stuart Mill are based on the dogma of the most extreme individualism."

While Goldmann did not in later years elaborate in detail on these conceptions, and did in fact later maintain ties with leading British policymaking circles and their counterparts in France, he maintained an obvious reticence about the British and never fell victim to the scurrilous British-organized "German collective guilt" campaign, despite his deep hatred for the Nazi leadership.

In the first volume of his autobiography, he said bluntly, "I do not belong to those who consider Hitler to be a typical German. The theoretical foundations of modern anti-Semitism were formulated by Frenchmen like Gobineau, Drumont, Maurras, or by British thinkers like Houston Stewart Chamberlain, who, as everybody knows, was a son-in-law of Wagner."

The same volume contains the assertion that "it was the unholy policy of Chamberlain and Daladier, supported by the capitalist circles in the City of London and France, supported by the British and French press, that coolly accepted Hitler's policy, hoping that he would destroy communism."

Following the Second World War, Goldmann saw as one of his most important missions the accomplishment of an historical reconciliation between Israel, or Jews more broadly, and Germany. To this end, he regarded as one of his central life achievements the arrangement worked out with West German Chancellor Adenauer for the payment of reparations ("Wiedergutmachung") to the State of Israel. Not only did he take pride in how this built up the Israeli economy, but he also viewed this as the means for outflanking the "collective guilt" hysteria and for creating the preconditions whereby the greatness of Jewish-German relations of a former era could again become an efficient and motivating concept in men's minds.

Were this knowledge to be restored in contemporary times, Goldmann was aware, the chances of the human race surviving in the next years would be greatly enhanced.

WEST GERMANY

Schmidt must fight to win Hesse election

by Susan Welsh

Under the current conditions of economic crisis in the Federal Republic of Germany, detailed this week in *EIR*'s Special Report, the Sept. 26 state election in Hesse assumes the utmost importance. The coalition government of Chancellor Helmut Schmidt is on the verge of collapse, and a bad showing for his Social Democratic Party in Hesse could push it over the brink.

Helga Zepp-LaRouche, the chairman of the European Labor Party (EAP) who heads the party's election slate in Hesse, warned in a radio interview Aug. 28 that the current crisis could lead to fascism once again in Germany. "Anyone who sees himself as a patriot," she said, "—and I consider myself a German patriot—sees how our country is falling apart; one fears the repetition of what could be called the German tragedy—Weimar, and the threat of a new fascism. And I do not see that the leading institutions, the leading parties have any conception of how to prevent this from happening." Zepp-LaRouche called on the population to mobilize for a "new world economic order" to prevent a 1930s-style depression, and to outlaw the facist Green Party, as the first essential steps to preventing a national disaster.

Since the EAP first launched its call for banning the Greens as unconstitutional several months ago, the potential for a fascist revival has become increasingly apparent. Chancellor Schmidt, in a speech opening his party's election campaign in Hesse Aug. 28, was pelted with eggs by the radical-environmentalist Greens. For the first time he abandoned his customary politeness toward the disruptors, shouting back: "You are just like the SA"—Hitler's *Sturmabteilung*, the Brownshirts.

In other recent speeches, Schmidt has warned of the danger of a return to conditions resembling those of the 1930s. In an Aug. 20 address he compared the constant threats of the Free Democratic Party (FDP), his coalition partner, to bring down his government, to the role of the FDP's predecessor 52 years ago in toppling the last Social Democratic-led government of the 1930s, that of Hermann Müller. After Müller came a quick succession of Chancellors followed in 1933 by Adolf Hitler.

The Hesse election fight pits Holger Börner, the Social Democratic (SPD) governor and a close factional ally of Schmidt against the SPD leftists, against Alfred Dregger of the Christian Democratic Union (CDU). The Free Democrats announced in June that they would abandon their coalition with Börner and ally with Dregger after the election, so Börner must now either win an absolute majority for his party, or consider a new coalition partner. Leftists in the SPD are calling for an electoral alliance with the Greens—a possibility which Börner has ruled out (leading in turn to leftist calls for his ouster). The latest public opinion poll released by the Emnid polling institute at the end of August gives the CDU 50 percent of the vote, the SPD 34 percent, the Greens 11 percent, and the FDP 4 percent. If these figures can be believed, the FDP would disappear from the state parliament (since a 5 percent minimum is required by law) and would be in big trouble on the national level as well. But the figures also show what an uphill battle Börner faces.

The fragmenting and discrediting of institutions in West Germany is proceeding rapidly, just as in the United States and other countries, raising the danger of a fascist revival. But the oligarchic families of Europe and their allies in London and New York banks, the people who financed Hitler's rise to power, are once again singling out Germany for special treatment. Not only is Germany located on the seam between East and West, but in the past, under Schmidt's leadership, it has shown signs of asserting its national interests, against the policies of the Anglo-Swiss oligarchists.

Now the Bonn government is almost exclusively preoccupied with its own internal squabbling, since this time last year, when the Free Democratic Party's "will-they-or-won't-they-split" maneuvers earned the epithet "summer theater." Now the FDP leadership is openly discussing a break with Schmidt, portraying their campaign in Hesse as a trial run to see whether the voters would prefer an FDP alliance with the CDU. The FDP is so universally despised for its opportunism, however, that even Christian Social Union head Franz-Josef Strauss declared in an interview Aug. 30 that he had had it with the FDP's Genscher, who has "missed the bus" by not breaking with Schmidt earlier, and who should be viewed as a "tragic figure" rather than a possible coalition partner. The CDU/CSU partners should go for an absolute majority and forget about the Free Democrats, Strauss said.

The chief wrecking operation against the constitutional order and particularly against the SDP is the Green Party, which declares itself the "anti-party party," abhors the parliamentary system, leads violent demonstrations against nuclear power plants (which it claims were merely the work of "fringe elements") and meets with Libyan dictator Muammar Qaddafi to discuss the formation of a "Green International" to destroy the industrialized world. Political life in West Germany is now polarized around the Greens, and each major party contains powerful pro-Green factions.

SPD chairman Willy Brandt, who has presided over an enormous influx of Green-tinted leftists into his party, outraged traditional Social Democrats when he announced in Munich July 4 that he would not rule out a federal coalition with the Greens after 1984. Alfred Dregger, the Hesse CDU head, has rejected the charge by his opponent, Holger Börner, that the Greens are "close to fascism," going so far as to say in a late-August article in the Hesse CDU magazine: "it is we who were originally the true Greens."

Chancellor Schmidt, when he announced June 30 that he had reached a compromise with the FDP that would allow the federal coalition to survive its crisis over the 1983 budget, added that a deterioration in the world economic situation could quickly "turn everything upside down again." Indeed, as the near-bankruptcy of the electrical and electronics giant AEG makes clear, the economic situation has gotten much worse (see Special Report).

Apart from the European Labor Party with its program for a new world monetary system, no party or politician claims to have any solution. Schmidt, who has fought publicly for two years to convince the United States to lower interest rates before the Federal Reserve strangled world trade and triggered a global depression, could only say in his Hesse election speech that his government offers "less austerity and more equitable austerity" than the Christian Union parties. The FDP is demanding new budget cuts and austerity measures, and Genscher declared Aug. 31 that if Schmidt will not agree to this the SPD will have to look for another coalition partner. The CDU is calling for a German version of "Thatcherism," the smashing of the trade unions and the "rationalization" (shutdown) of industry. The trade unions are mobilizing for a "hot autumn" of anti-austerity strikes and demonstrations, starting Sept. 7, but have no solutions to offer except the fraud of "more fair distribution" of shrinking wealth.

The European Labor Party is fielding 35 candidates in Hesse, in a campaign intended to force a dramatic policy shift in the SPD while building the EAP itself as a party large enough to replace the Free Democrats in a coalition government. Faced with a blackout in the major news media against her campaign, Zepp-LaRouche and her party have nevertheless created such a stir in the base of the SPD and the trade unions through hundreds of rallies and meetings that Börner and Schmidt have been forced to attack the Green fascists, against the wishes of Willy Brandt. But it will take a dramatic move by the SPD to regain the trust of the population and mobilize it effectively to avert national disaster.

In four "open letters" to the SPD and the unions, Zepp-LaRouche has elaborated the solution that is required, including urgent steps to peg the deutschemark to gold, to establish government control over the central bank, and to set up international mechanisms to provide low-interest credits to develop the Third World.

In the latest open letter, released Aug. 30, the EAP leader warned the unions against repeating their mistakes of the 1930s. When fascism threatened, she said, the trade unions formed paramilitary formations called the *Reichsbanner* to fight the Nazis. But the troops were never deployed because the unions waited in vain for their leaders to give the marching orders. This time, local officials must have the courage to force the requisite action, she said.

Deng Xiaoping likely to ensure succession: but how long will his dynasty last?

by Gregory F. Buhyoff

China will know a very stable political situation until the end of the century. I am not 100 percent sure of it, but at least 90 percent sure. . . .

—*CCP Chairman Hu Yaobang to Agence France Presse, Aug. 25, 1982*

Sooner than the turn of the century, observers of Chinese affairs may be recalling these words in the same light as the ill-fated predictions of Marshal Ye Jianying when he blessed the ascension of Chairman Mao's chosen successor, Hua Guofeng, to the post of party chairman at the 1977 Plenum of the Chinese Communist Party (CCP). Hua was eventually to be ousted, along with many other opponents of the then emerging faction of CCP Vice-Chairman Deng Xiaoping, which has since attained preeminence in the party and government apparatus.

Sept. 1 saw the opening of the long-delayed 12th Party Congress, where Deng Xiaoping hopes to cap a five-year campaign to consolidate his faction's hold on power. The congress could be one of the most important in the history of the Chinese Party. It could very well be the last Congress for many of the most revered leaders of the generartion that founded the PRC in 1949. The congress will feature the most extensive purge of the party membership in history, and effect sweeping organizational and constitutional changes—all designed by Deng to try to ensure that his policies succeed him.

The prospects of Deng finally finishing off the opposition is titillating news for China Card advocates in the United States and elsewhere, who have long looked forward to a "stable China" under Dengist policies. Deng, true to the mantle he inherited from Chou En-lai, has sought strategic cooperation with the United States in exchange for Washington's imprimatur on Peking's imperial designs for Asia. "Open Door" economic policies favoring intimate ties with the overseas Chinese community have opened the country to exploitation of cheap labor and resource extraction. At the same time, Deng's assault on heavy industry, and his depopulation program, have ensured that China under Deng will not make use of its natural resources to urbanize and industrialize.

The Dengists' ambitions have not gone unchallenged. Stiff resistance to Deng's de-Maoization, economic policies, and U.S. links have exacted concessions which will hamper Deng. The very fact that the congress was delayed for so long, and announced on such short notice, shows that many deals were delayed by party infighting until the last moment. The U.S. State Department, conscious of the need to shore up Deng's position, bowed to Peking on the "Shanghai Communiqué" just in time for the preparatory 7th Party plenum mid-August. Deng used the uproar created by Japanese textbook revisions concerning World War II as a "windfall" to rally the country on the theme of unity.

Deng has thus far carried out his purge with consummate skill. However, the degree to which success has relied on his own prestige and political savvy, and not on those he has chosen to succeed him, hints at the potential for Deng's house of cards to crumble when the 78-year old leader expires.

Eliminating resistance

The agenda of the congress has been set up by Deng to put his people in undisputed control over the Central Committee, the administrative and policy-making bodies of the party, and the armed forces. The role of the Politburo, a bastion of conservative resistance to Deng, will effectively be eliminated when its responsibilities are transferred to the party secretariat, a body staffed entirely by Deng appointees. Though Deng protégé Hu Yaobang will lose the post of chairman when that post is abolished, along with vice-chairmanships, Hu's concurrent post as head of the secretariat will allow him to retain the top post in the party. This process will deprive two of Deng's staunchest opponents, vice-chairmen Li Xiannian and Ye Jianying from their only official posts in the party. Li especially has been one of the strongest critics of Dengist foreign policy, and both have been under Dengist pressure to "retire" for some time. Ye and Li will be relegated to an "advisory council," with some ostensible say in policy decisions. Deng and his economic guru Chen Yun however have had to concede to join the other two as "advisors," though Deng will remain the power behind the scenes.

The fate of vice-chairman Hua Guofeng, whom Deng has relieved of his most important posts, including the chairmanship, since 1980, remains in limbo. Whether or not Hua is kept on in at least a ceremonial post or is let go altogether will be a good indicator of Deng's stength.

The fact that a majority of the CCP's 39 million members entered the party during the Cultural Revolution has been a problem. Unable to control the selection of delegates to the congress, and therefore the election of a new Central Committee, Deng has bypassed the usual selecting of delegates by provincial party congresses and carried this out instead by "secret ballot" under Dengist scrutiny. The 1,600 delegates to the 12th Party Congress chosen this way are sure to elect a central committee loyal to Deng and his faction.

The legitimacy of such a process and ultimately the congress itself will likely be questioned by the millions of party members disenfranchised by Deng's tactics. Deng plans to deal with such malcontents by carrying out a purge following the congress that could dwarf, in sheer number terms, any purge in the history of the CCP. Deng will do this by mandating a new registration for party members following the congress and simply denying new cards to undesirable elements.

The core of the new Central Committee and the "streamlined" party is to come from the 4.6 million "young professional" cadres who entered the party under Deng's tutelage over the past four years. These are the people with education and culture, as are many of those who entered in the pre-Cultural Revolution period. However, more than half of the party members entered during the Cultural Revolution—many of whom built their reputation as solid "reds" by turning in blank answerbooks during school exams.

Capturing the army

Deng also hopes to use the congress to switch the institutional control of the Army from the Communist Party to the Chinese state. This is a task of the utmost importance, since the Army remains a hotbed of opposition to Deng. In fact, it is believed that the decision to purchase Mirage jets from France may be Deng's attempt to placate sections of the armed forces he had alienated by his earlier budget cuts. As part of this transfer, Deng arranged for himself to be named chairman of the Military Commission under the State Council.

Even this move, however, indicates Deng's remaining inability to simply run roughshod over opponents. Normally the Chairman of the Communist Party is concurrently Chairman of the Military Commission. However, Deng's choice as party chairman, Hu Yaobang, did not have the clout to be accepted by the army leaders. Therefore, Deng himself had to take the post. It remains to be seen what happens to the post when Deng dies.

Preliminary reports indicate that Deng's opening speech to the Congress reflected concessions on foreign policy as well. In recent months Peking as a whole, including the Deng faction, has switched from outright alignment with the United States to a "Third Worldist" orientation which condemns both the United States and the Soviet Union as hegemonist. Deng has had to be very careful to avoid the charge that he was selling out China's interests, including those in regard to Taiwan, for the sake of his ties to the Americans. Washington's just-announced agreement to gradually end arms shipments to Taiwan has helped Deng defuse such charges.

'Self-reliance'

Nonetheless, Deng was careful to assure the delegates that China would steer an independent course. "Independence and self-reliance have always been and will forever be our basic stand," Deng declared. "We will unswervingly follow a policy of opening to the outside world and actively increase exchanges with foreign countries. . . . While we value our friendship with other countries and peoples, we value even more our hard-won independence and sovereign rights. No foreign country can expect China to be its vassal."

Deng told the congress that China's priorities were: 1) intensifying the pace of "modernization"; 2) striving for "reunification" with Taiwan; and 3) safeguarding peace and defeating "hegemonism," a term which used to be reserved for the Soviet Union but which now encompasses the United States as well. Indeed, just prior to the opening of the congress, Foreign Minister Huang Hua had told visiting United Nations General Secretary Perez de Cuellar that China would oppose "hegemonism" "no matter what direction it comes from." He added that China would never play the "American card" against Moscow nor the "Soviet card" against Washington.

Deng has skillfully used the policy concessions he couldn't avoid in order to get the organizational clout he really wanted. How long this victory lasts, however, remains to be seen.

One keen observer of Chinese affairs has already noted that the deified Chairman Mao Tse-tung was able to choose "from the grave" the virtual unknown Hua Guofeng to be his successor as Chairman of the Community Party of China. At the 1977 Party Congress which installed Hua, venerable Marshal Ye Jianying predicted Hua "would certainly continue to carry forward China's proletarian revolutionary cause triumphantly into the 21st century." In fact, Hua's real power lasted not more than a year.

EIR will present a full report on the conference following its conclusion.

The Islamicist, the Nazi, and the Trotskyist: Ben Bella and his friends

by Thierry Lalevee, Middle East Editor

Sometime during the summer, a conspiratorial meeting of the Muslim Brotherhood was held in Paris on the pretext of discussing the upcoming mass pilgrimage to Mecca. Chaired by former Algerian President Ahmed Ben Bella, and a Swiss convert by the name of "Ahmed" Huber, the gathering met under photos of Iran's Ayatollah Khomeini and Jerusalem's late Grand Mufti, al Husseini, and among other things, planned celebrations of next year's 50th anniversary of Adolf Hitler's rise to power! In preparation, numerous books on Hitler and on al Husseini, Hitler's closest friend in the Middle East, will now be translated into Arabic and Swahili!

Ben Bella is right in the center of a Nazi International project aimed at a re-emergence of Nazi-type dictatorships in Europe; in the Middle East, the remaining network of old Nazis, and a new generation of the Abwehr's Abteilung Zwei creation, the "Brandenburg Division" and its "Arab Legion" subdivision, are being mobilized toward purposes discussed at the secret Paris Brotherhood gathering.

As a participant at that meeting old the French economic weekly *La Vie Française,* the Brotherhood, in alliance with the Nazis, has a precise plan for the coming period. First, the Brotherhood intends to use the aftermath of the Lebanon crisis to impose a new leadership on the Palestine Liberation Organization, eliminating Yasser Arafat's moderates in favor of "real Muslims" who revere the likes of al Husseini. Then will come deployment of terrorist capabilities, aided by Iran's Khomeini regime, part of Brotherhood efforts to "deal with Saddam Hussein, the Gulf states, and Jordan." Last but not least will be the Brotherhood's plan to eliminate Israel. "But that will come later through our use of nuclear capabilities," concluded a participant who praised the "Islamic scientists" who attended the Paris gathering.

In sum, the conference outlined the Brotherhood's grand design for the region, prepared over years of underground work through a wide network in many countries, with clear support from the Nazi International—but basically work for British intelligence (SIS "Arab Bureau"), which founded and remains "mother" of the Brotherhood. The connection to the old and new Nazis, in fact, emerged in its present form through the deal which preserved the Nazi Gehlen Organization and other intelligence networks, a deal struck between the defeated forefathers of today's Nazi International and Allen Dulles and British intelligence, based in Bern, Switzerland as World War II neared its end.

What has former Algerian President Ben Bella to do with all that? He is certainly not a mastermind of any plot; he is a pawn, a useful one, created and controlled by old Nazis during the 1950s. First, they made him an "Algerian independence leader," and then what he is trying to be today, the Khomeini of Northern Africa.

The key to understanding Ben Bella and the current he represented in the Algerian independence movement of the 1950s and early '60s, is to be found in Cairo in the years 1952-53. It was there that Ahmed Ben Bella was repeatedly visited and tutored in politics and philosophy by unreprentent Nazis, the most famous of whom were Hjalmar Schacht, Hitler's pre-1936 finance minister; SS Captain Reichenberg; General Ramcke; and most important, the Swiss Nazi leader and banker, François Genoud.

The Nazi

Genoud, for example, visited Ben Bella faithfully each week when the "independence leader" was in French jails after 1956. It was Genoud again who, in 1959, created the "Banque Commerciale Arabe" in Lausanne to "help the FLN," Algeria's National Liberation Front, by safehousing FLN monies then held by Ben Bella's friend, Mohammed Khider. Partners in the bank included the Syrian Khalil Mardam; they also included Genoud and the SS's Reichenberg.

When Ben Bella became Algerian President, Genoud became his economic adviser through the "Banque Populaire Algerienne"; the FLN's war-chest still sat in Lausanne. When Ben Bella was overthrown and replaced by Louari Boumedienne, Genoud kept the money and made a deal with the new president, who appointed Reichenberg an economic adviser. Genoud, according to Spanish writer Gonsales Mata, then organized the assassination of Ben Bella's friend, Mohammed Khider, who opposed the deal.

When Ben Bella was released from jail in 1980, his first visit was to François Genoud. In an interview in the *Tribune de Lausanne* June 19 of this year, Ben Bella shocked even his left-wing supporters by characterizing Genoud as his "best friend." This recent trip to Switzerland had as its main aim to defend his "best friend" against articles published principally in *Le Monde* revealing many of Genoud's secret activities—including his having introduced Ben Bella to the

Grand Mufti of Jerusalem in the mid-1950s.

The government of Ben Bella in the first years of independence exemplifies how "right" meets "left," usually at the extremes. That is one reason why Ben Bella, located in Paris at present, is an important international connecting point between European and Middle Eastern terrorism of both "left" and "right."

The Trotskyist

On the "left," Ben Bella has a long-standing friendship with Michel Raptis, a.k.a. "Michel Pablo," renowned leader of a Trotskyist splinter-group of the Fourth International. As a matter of fact, after meeting with Genoud in Switzerland recently, Ben Bella went on to meet Pablo. Michel Pablo, as well as Genoud, was an adviser to Ben Bella's government.

An unholy alliance? Not really. Pablo the Trotskyist played a substantial role in collaboration with the Nazis during World War II in Belgium. And just as Genoud had introduced the young "independence" leader to the Grand Mufti and British intelligence's Muslim Brotherhood networks, so Raptis-Pablo had introduced him to British Fabian Society circles, including the Bertrand Russell Peace Foundation and the so-called Amnesty International, organizations which played an important role in pressuring the Algerian government to release Ben Bella from prison.

The Islamicist

With such godfathers, Ben Bella today has become security problem number one for French authorities—at least, those not members of the Socialist Party. Those authorities know, however, that Ben Bella enjoys high-level protection from inside France's Socialist government. The sources of that protection are most interesting. The most cited name is President Mitterrand's special adviser, and a former guerrilla in the swamps of Bolivia alongside Che Guevara, Regis Debray. Although Paris's official policy is one of friendship with Algeria's Chadli government, Debray has prevented French law enforcement from putting a halt to the free movement of Ben Bella and his six body-guards. This may have to do with the French Socialists' efforts to impose a "New Islam" ideology on France's large immigrant Arab community. However, the Debray connection to Ben Bella involves something more fundamental. When Debray was playing "leftist guerrilla" in the Bolivian jungle, his band's weapons were supplied by one Klaus Barbie. Barbie was of the Nazis Gestapo, escaping from trial at Nuremberg with monies and underground networks provided by . . . François Genoud.

Last year, Ben Bella was elected President of the "Islamic Human Rights Commission," a pro forma body created by the London-based Muslim Brotherhood center, the "Islamic Council of Europe" under Salem Azzam. The "Human Rights Commission" is merely public cover for a Muslim Brotherhood triumvirate—Ben Bella, Salem Azzam, and the leader of the Brotherhood's Egyptian branch, Said Ramadhan. Azzam and the Geneva-based Ramadhan are also "close friends" of François Genoud.

The "human rights" activities of Ben Bella's commission came to light last October at a gathering at the Schlumberger-de Menil family's Rothko Chapel in Houston, Texas, including Ben Bella, Azzam, Saudi Prince Mohammed al Faisal and others. At that meeting, the speakers rejoiced in the assassination of Egypt's Anwar al-Sadat.

Ben Bella used that American trip to establish personal contact with the American Indian Movement (AIM), for whom he hosted a press conference in December in Paris. Ben Bella declared that "200 years of American history has been built on the graves of the real Americans, the Indians!"

These antics reflect not only his outlook, but the leading edge of the Nazi International conspiracy headed by François Genoud: to promote an insurgency of "ethnics" and "tribes" of separatists against republican nation-states, to discredit and dismember nations to bring fascist forces into dictatorial power in Europe and elsewhere once again.

Of direct interest in this regard is that Ben Bella will soon announce his full reconciliation with a former member of the FLN, Ait Ahmed. Ait Ahmed is based in Lausanne, and is yet another "close friend" of François Genoud. Ahmed is the leader of the Kabylian minority in Algeria, where they staged riots two years ago. Although while President, Ben Bella opposed Ahmed's Kabylian separatists, now that he is a Genoud-run "Islamist," he will embrace them—inasmuch as François Genoud has promised a very large sum of money to celebrate this "marriage."

Genoud's financing is key to other Ben Bella activities. He may be found engaged in arms smuggling between Belgium and France, on behalf of European-based Iranian terrorists, or on behalf of France's own Action Directe terrorist ganglet. Perhaps it is Regis Debray who prevents French law enforcement from raiding certain spots in the border city of Douai, where Ben Bella's weapons shipments first touch down in France. In any case, Ben Bella may be implicated in the recent massacre of the Rue des Rosiers, since the logistical network used by those terrorists was the same as the route usually adopted by the Action Directe networks. Lately, Ben Bella has also been said to be involved in a ring smuggling arms to Latin America—probably Regis Debray knows something about this, too.

Ben Bella recently expressed the hope that, as an "Islamic" leader, he might become either the new secretary-general of the Arab League, or even—why not?—of the Islamic Conference in Jeddah, Saudi Arabia. For both posts, he received the enthusiastic support of Tunisian leader Bourguiba, whom he met for lengthy discussions last July in Monastir. His election, which would have given Genoud's Nazi International control of one or both of the most important Islamic and Arab organizations, was blocked when Saudi Arabia along with Algeria intervened strongly against him. However, the Muslim Brotherhood's secret gathering in Paris a few weeks later indicates that the backers of Ahmed Ben Bella have not given up hope.

 by Josefina Menéndez

Kennedy does it again

Mexico's "best friend" has been spearheading economic and immigration warfare, through the Simpson-Mazzoli bill.

The press here has prominently reported on a speech on the Senate floor by Edward Kennedy on Aug. 20, in which he lashed out at President Reagan's Mexico policy. Reagan had turned his back on economic cooperation with the United States' beleaguered southern neighbor, the Massachusetts Senator charged; it was time to return to policies of support and concern.

Once again Kennedy had made the headlines as a "friend of Mexico."

The Mexican press, however, failed to report one very crucial part of the Kennedy speech. I only found out about it by looking into the *Congressional Record.* Kennedy called for the International Monetary Fund to intervene and run Mexico's economic affairs.

"First, I support the short-term economic measures taken by our governments to deal with this crisis. . . and I trust that they will resolve [Mexico's] urgent need for liquidity and credit," he stated. "Second, I urge the International Monetary Fund to respond rapidly and effectively in aid of Mexico, to put its economy once again on a sure road. . ."

Given the conditionalities on IMF lending, which the Senator is not unaware of, the statement was akin to a call to dispatch the fox to the chicken coop.

This case is minor, however, in comparison to Kennedy's two-faced dealings on the immigration issue. Hardly a day went by in late July and August that a Kennedy release or statement did not highlight the Senator's opposition to aspects of the Simpson-Mazzoli immigration bill on the (correct) grounds that the bill would not adequately protect the rights of Hispanics. Kennedy went so far as to cast the lone dissenting vote in the Senate Judiciary Committee against reporting out the bill without additional changes.

However, contrary to press reports and his own public utterances, Kennedy is probably the single most important sponsor of this racist piece of legislation, designed to scapegoat Mexican labor for America's economic ills, and set the framework for shutting the border entirely with genocidal consequences.

A Kennedy bill in Congress established the Select Commission on Immigration and Refugee Policy in the fall of 1978, which became known as the Hessburgh Commission. Through over two years of hearings, commission-member Kennedy backed the commission's framework, later written up in legislative form by fellow commissioners Alan Simpson (R-Wyo.) and Roman Mazzoli (D-Ky.): sharp cuts in legal immigration, sanctions against employers who hire undocumented labor, and a special I.D. system to police the entire American labor force.

Kennedy's well-publicized attacks on the bill when it came to the Senate floor in early August were all for show, assert sources in the House Judiciary Committee of the U.S. Congress. "Kennedy had the power as ranking minority leader on the Senate Judiciary Committee to stop this bill from going through with one phone call and he didn't," said one committee source. "He knew that if he didn't use his powers to stop it, it would pass, and that is what he wanted to happen."

The anti-Mexico bill is now before the House; Kennedy ally Peter Rodino is scheduled to move it through with only minor changes in the course of September.

The indictment of Kennedy's Mexico policy does not stop here, however. Some Mexicans did their homework on who controls ABC-TV in the United States, after the airing of the panic-mongering ABC documentary, "Mexico: Times of Crisis" in late July. It turned out that the Kennedy family played the middleman role in setting up ABC in its current form in the early 1950s, and Kennedy-installed executives run the network to this day.

It is also well-remembered here that the last time Kennedy got interested in Mexico, in 1978-79, it was to stop Mexico's industrialization and convert its oil into a strategic reserve for the United States. Then-Kennedy aide Jerry Brady was dispatched to Mexico in the fall of 1978 with the message that Mexico must stick with backward technologies which "create more jobs" than modern ones. In mid-1979, Kennedy's office ghost-wrote a call in *New Republic* magazine for using Mexican oil as a U.S. weapon in global economic warfare against OPEC. And in early 1980, as he hit the presidential campaign trail, Kennedy insisted the best way to get Mexico to subordinate its oil plans to U.S. diktat was to create what he called a "North American Common Market." Mexico totally rejected the concept.

International Intelligence

Cyprus to flare up over 'Armenian' terror?

Cyprus may again become an international crisis-point.

Turkish government sources have expressed fears that the Armenian Liberation Army terrorists, responsible for the murder of a Turkish military attache in Canada, may relocate their training camps (formerly in Beirut) to the Greek part of Cyprus, arriving there disguised as Palestinian refugees.

At the center of suspicion in the Canadian assassination and other "Armenian" terrorist attacks is Nicos Sampson, the Paris-based head of the nominally Greek EOKA-B terrorist gang. Israeli investigative journalist Yigal Laviv has pointed out connections between Sampson, British intelligence, and a faction of the Israeli Mossad. Turkish diplomatic sources suspect that the "Armenian" terrorist attack on the Ankara airport earlier in August was set up by Israeli intelligence elements seeking to foster closer Israel-Turkey intelligence cooperation against Arab nations.

Hence Cyprus could become the focus of a manipulated crisis with international implications. The Kyprianou government on Cyprus has denied the existence of the Armenian bases.

Meanwhile the French government has given Sampson free rein, and is on record supporting the Armenian "liberationist" terrorists, who have now set up training bases on the island of Corsica.

Socialist vultures eye Spanish elections

The most enthusiastic response to the announcement that early general elections would be held in Spain on Oct. 28 came from the Socialist Party of Felipe González. González is the man whom Socialist International head Willy Brandt recently introduced at a Social Democratic rally in Wiesbaden, West Germany, as "the next President of Spain."

The elections had not been due to occur until the spring of 1983. The call for early elections by Prime Minister Calvo Sotelo and his almost defunct Center Democratic Union (UCD) Party is ensuring that Henry Kissinger's plan for a replay of the civil war of the 1930s, through a left-right polarization of the political scene, will be unleashed sooner than expected. Socialist González has already rejected any alliances with other parties.

González's strongest competition at the moment is the Falangist Popular Alliance party (AP) led by Manuel Fraga. With the rapid disintegration of the ruling centrist UCD, and the lack of time for other moderate groups to consolidate—e.g. the recently created party of former Prime Minister Adolfo Suarez—the center is heading for a poor showing at the polls.

It is in this context that Pope John Paul II's visit to Spain is planned for Oct. 14–22, a few days before election day. Following speculation that the Pope would postpone his trip—a demand most vociferously made by the Socialists and Communists—the Vatican announced Aug. 31 that the visit would occur on schedule. The Pope's presence in Spain could become an important element favoring indirectly the more republican-minded conservative groups.

The Mitterrand 'anti-terrorist' caper

The nature of the Mitterrand government's newly found resolve to combat terrorism was illuminated by a series of events that made headlines at the end of August in France.

The presidential Elysée Palace on Aug. 28 announced that the just-created State Secretariat for Public Security had successfully coordinated the arrest of three "very dangerous international terrorists" in the Paris suburb of Vincennes. For 48 hours a blackout was maintained on the identity and connections of the arrestees, while the state-run radio and TV networks crowed over Mitterrand's triumph.

Then it came out that the two men and one woman arrested were members of the Irish National Liberation Army, whom French security forces had known about for months, and whom Scotland Yard had no files on whatsoever. Sources at the French criminal police say that the whole thing was a "bluff" on the part of Mitterrand, who is said to have withheld permission to move against the Irish terrorists until he needed the publicity. Meanwhile the law-enforcement professionals of the French criminal police were acting on information provided by Magistrate Fernandino Imposimato, who has been leading the anti-terrorist drive in Italy. They arrested Oreste Scalzone, a key theoretician for Italian terrorists and leader of Autonomia Operaia, the "above-ground" leftist recruiting pool for the Red Brigades.

Scalzone's arrest was the result of cooperation between Italian investigators and elements of the French police whom Mitterrand and his Justice Minister, Robert Badinter, have attempted to undercut. The issue of the Socialist Mitterrand government's protection of terrorists will now be forced, because Italian authorities will be demanding Scalzone's extradition.

Will Mubarak follow López Portillo's lead?

An ongoing study of the economy of Egypt by International Caucus of Labor Committees Mideast intelligence reveals that it is plagued by the same capital-flight phenomenon which afflicted Mexico. As of late 1981 it was estimated that Egypt's freewheeling private business and banking sector held at least four times the liquidity of the foundering public-sector enterprises.

Since the advent of Henry Kissinger's and David Rockefeller's Open Door policy for Egypt in 1974, the Egyptian economy has been turned into a hot-money playground, with hotel construction and tourism now two of the fastest-growing sectors of the economy. The aging heavy-industrial and agricultural sectors have been starved for credits, and virtually no new plant and equipment has been built. Since 1974 the service-rentier sectors of the economy (including oil exports) has climbed from 33 percent of the total foreign exchange earned to 85 percent. In the last 24 months there have been almost 100 hotel starts in Egypt, while there is a housing shortage of up to 750,000 units. Thousands of the urban poor live in the municipal cemetery.

Since the food riots in 1977, which were triggered by IMF conditionalities, both the IMF and the London and New York banks have been pressuring Egypt to cut food subsidies as an "internal economic adjustment." Since Mubarak took power in October 1981, he has maintained that the economy is his number-one priority and has staunchly resisted pressure to cut the subsidies. On Sept. 1 Mubarak removed seven ministers from his cabinet following a fight over this very sensitive issue. Mubarak then announced that he would take advice neither from inside or outside the country, on ending food subsidies.

In 1956 Gamal Abdul Nasser nationalized Egyptian banks just after the Suez crisis.

Italians crack major mafia-terrorist ring

Italian judge Carlo Palermo, from the northern city of Trento, culminated an extraordinary two-year anti-drug operation at the end of August with the arrest of 63 people in the Trento-Verona-Trieste area, a center of drug distribution for the entire European continent. The operation unmasked a very efficient international organization involved in drug-pushing and weapons smuggling, which was connected to both red ("left") and black ("reactionary" fascist) terrorist organizations.

These interlinked organizations were all working under the umbrella of the Sicilian mafia and the Camorra and n'Drangheta (Naples and Calabrian mafias), with the cooperation of important politicians. "There is no difference between political and normal organized crime," said Judge Palermo at a Milan press conference following the arrests.

Judge Palermo ordered the arrests on the day following the explosive interview given to a Rome newspaper by Rome Judge Imposimato, where the latter declared that "proof exists of definite links between the Red Brigades and the Camorra (Neapolitan mafia) through which, albeit indirectly, the terrorists are linked with some sectors of the public (political) powers. . . . We can unmask them. . . . The Camorra and the Calabrian Mafia are very useful to the Red Brigades, both because they share the aim of destroying the State, and because they (the mafias) provide great assistance in organizing jail breaks."

The operation began with the arrest in 1980 of Karl Koffler and Herbert Oberhofer, two associates of the Hapsburg-controlled West German opposition leader Franz-Josef Strauss. Both were found with huge caches of narcotics believed to have been smuggled in from Turkey via the networks of the Grey Wolves, the organization of Pope John Paul II's would-be assassin. Oberdorfer was also involved in an oil-smuggling operation run by P-2 Freemasonic circles in Italy's treasury police.

Koffler was later assassinated in prison, while Oberdorfer was shifted to a mental hospital to "protect" him.

Philippines president puts army on alert.

Philippines President Ferdinand Marcos has put his army on alert in the wake of potentially large-scale destabilization efforts exposed by Philippine military intelligence in mid-August. The plot to overthrow the Marcos government was supposedly hatched by a left wing-connected labor leader, Felix Alalia. The plan was allegedly to cripple the country's economy by a nationwide labor strike, to create chaos by exploding bombs in urban areas and to assassinate government officials during President Marcos' scheduled visit to the United States in mid-September.

The Philippines army confiscated a large amount of firearms, with the arrest in June of a top-level leader of the underground Maoist organization. It is alleged that the Maoist leader had cooperated with a Filipino businessman in the purchase and shipment of AK47 and Makharov firearms from Syria and Lebanon.

In this context the Philippines Labor Ministry is investigating reports that Australian and Japanese trade unions are involved in meddling in labor strikes aimed at discouraging establishment of production plants in the Philippines by Japanese and Australian investors.

Briefly

● **ELISABETH KÜBLER-ROSS** has been barnstorming through West Germany to propagandize for her "death with dignity" movement, to the accompaniment of a loud media fanfare especially from the Springer press. She appears in the Ruhr industrial city of Duisberg Aug. 28, where 5000 gullibles and death-cultists are expected. On Sept. 12 she heads for Scandinavia. Meanwhile the European Labor Party is publicizing the fact that Kübler-Ross's 1979 "seances with the dead" in California were orgies which involved children.

● **TIMOTHY LEARY** is also touring the "respectable" cult-circuit in West Germany. The Sept. 4 appearance in Hamburg of the guru of the "turn on, tune in, drop out" generation is sponsored by the city's ministry of culture.

● **UMBERTO II** of the House of Savoy, the 1,000-year-old oligarchical family of Italy, is attempting to return to the nation which kicked him out by national plebiscite in 1946. His attempt to circumvent the Italian constitution is being aided by Socialist Party leader Bettino Craxi, who would like a replay of the Savoy-fascist collaboration of 60 years ago. A forthcoming *EIR* will report on these developments in detail.

● **PRINCE CHARLES** of Great Britain, in an interview with the *Washington Post* Sept. 1 says that he has lately taken to studying the writings of Nazi psychologist C. G. Jung for inspiration on "the psychology of humanity," adding that his only real belief is that "small is beautiful." "I feel that we have concentrated too much in the last 10 years on the economy of scale and things being enormous and therefore successful. I think that all that happens is that the individual becomes submerged and you defeat the original purpose of the exercise. . . . So much sophistication, so much technology, so much waste has made us blasé and complacent."

How George Shultz became a Tavistock brainwasher

by Richard Cohen, Washington Bureau Chief

By birth and training, Secretary of State George Shultz is the perfect representative of the European oligarchy within the government of the United States, as that oligarchy implements its plans for the transition into the post-industrial society. Particularly useful to the oligarchy is Shultz's education in the techniques of social control, profiling, and brainwashing developed at the London Tavistock Institute. These are also the very elements of Shultz's portfolio which have come in handiest in his role as a director of and collaborator with the political career of Henry A. Kissinger.

The Shultzs of New York

The political activities of the New York metropolitan area-based Shultz family began around 1912, when George's father, Birl Shultz, entered into collaboration with the British-run revisionist historian Charles A. Beard, then a professor at Columbia University. Young George's worldview was shaped by the influence of Beard and his circle, the promoters of British liberalism and the subversion of historiography in the United States at the time.

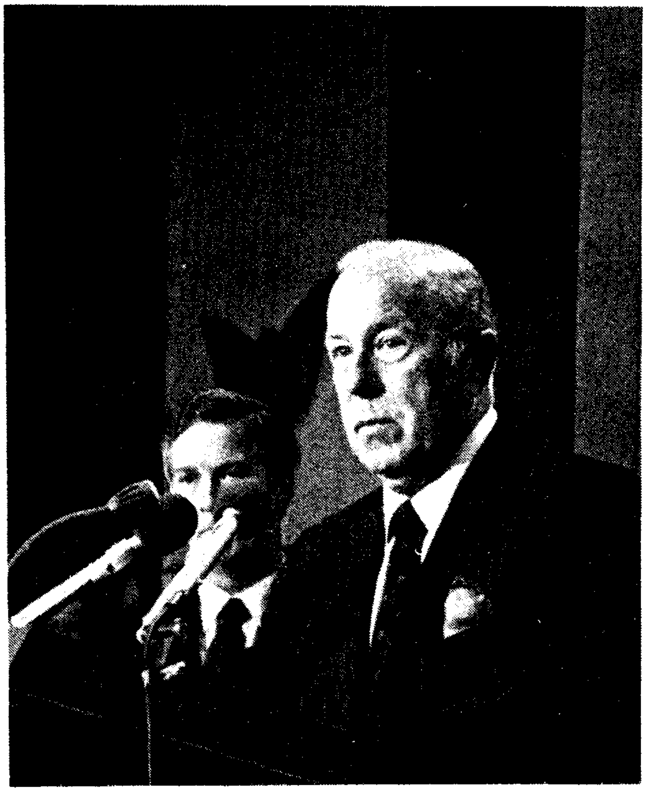
Birl Shultz, like his father, followed the tradition in his Episcopalian Dutch family by attending Princeton University. In 1923, he founded the New York Stock Exchange Institute to train Wall Street brokers. More than four decades later, George would confide that those influential U.S. government individuals he has trusted most were Truman's Secretary of State Dean Acheson, and JFK's Treasury Secretary and partner in the Wall Street investment house of Dillon Read, C. Douglas Dillon, who did his utmost to prepare for cutting the U.S. dollar off gold and turning the world monetary system into a Eurodollar swamp.

Arthur Burns (who got George his first Washington job in 1955-56), and Henry Kissinger—both are assets of the pro-British New York investment and commercial banking group in which his father was immersed.

A good British education

After attending the anglophile Loomis School in Connecticut, George obtained a B.A. in economics at Princeton. Following three years of service in the Marine Corps during World War II, Shultz stationed himself at the Massachusetts Institute of Technology seeking a Ph.D. in the field of industrial relations. He had entered into an environment suited to complete his training.

In 1945, the year Shultz arrived at MIT, the Tavistock Institute's Kurt Lewin set up the notorious Research Center for Group Dynamics on the MIT campus. The Research Center, which set up shop permanently at the University of Michigan in the following year, was and still is a direct U.S. affiliate of the London Tavistock Institute brainwashing center. Included in Lewin's original MIT grouping were top graduates of the World War II Strategic Bombing Survey (later to be reorganized as the Rand Corporation), and the wartime Office of Manpower and Development. During the



Stanley Ezrol/NSIPS

The perfect technocrat, Shultz presiding as Secretary of State at an August press conference.

war, these "best and brightest" psychological warriors conducted dozens of studies of human behavior, particularly under conditions of stress. These studies, which included evaluations of populations' response to war-time industrial speed-up, economic depression, terror-bombing, as well as close-up studies of the soldier on the battlefield and the response of the German population to Nazi institutions, serve as the fundamental guideposts to the brainwashers' art up to the present day.

Following World War II, Lewin's crew was deployed into the newly created and burgeoning field of "industrial relations," with a mandate to "lower the cost of labor" in the economies of the developed sector. Lewin's MIT Research Center collaborated with the Rockefeller-funded Elton Mayo Institute of the University of Chicago and the infamous Hawthorne Experiments conducted at Harvard University's School of Industrial Relations from 1939-40. Using techniques previously tested by the Nazi Labor Front, these brainwashers sought to create "artificial small-group" communities at the factory or department level which could be used to psychologically pressure the industrial worker into intensifying his own conditions of speedup and accepting wage cuts.

The 'human side' of labor bashing

By 1948, George Shultz had become a fellow on the Lewinite Social Science Research Council, a group which pulled together the research trends of other institutions of its ilk and published policy perspectives for managers and government. In Shultz's writings for the council, he consistently stresses the importance of the "human side" of lowering labor costs within the bounds of "collective bargaining."

In two works of the early 1950s, Shultz reflects the influences of another MIT mentor, Prof. V. Douglas Brown, and of Shultz's collaborator Charles A. Myers. Myers and Brown, in conjunction with others at MIT, in the 1930s had heavily promoted the so-called Labor Market Model for reducing labor costs. Assisted by John T. Dunlop (later to become Secretary of Labor, and an intimate friend of Shultz's), these MITers conducted extensive studies, at government expense, of wage rates in several U.S. industries. The chief and not very startling hypothesis that resulted from their work was that speedup and wage-gouging could be accomplished not only by Tavistockian brainwashing (Shultz's "human-side" approach), but with external threats and pressure as well: for example, through such factors in the economy and labor market as depression and unemployment. In 1951, Shultz collaborated with Charles Myers to write *The Dynamics of the Labor Market*, which put forward the corollary that rising unemployment is most efficient in prompting industrial workers to accept speed-up, unless management is artificially restrained from anti-labor measures by government programs or by trade unions. This theory was applied with a vengeance against America's workforce during Shultz's 18-month reign as Secretary of Labor under President Nixon.

By the early 1950s, Shultz's expertise as a "labor handler" had been well established, and he began to move rapidly up that aspect of the career ladder he had chosen. In 1954, he was appointed chairman of the Industrial Relations Division of MIT, where he developed an intimate relationship with several labor leaders, including visiting lecturer Joe Scanlon, a negotiator from the United Steelworkers of America (USWA). Scanlon, who remained the key adviser to USWA President I. W. Abel until his retirement, Shultz praised as having "an unparalleled sense of the human side of enterprise." This referred to Scanlon's appreciation of Tavistock's "fascism with a human face" version of Nazi corporativism.

Shultz served as a consultant to the Department of Labor from 1959 to 1960, and in 1961 became chairman of the experimental corporativist Automation Fund, on the board of which sat representatives of government, labor, and business. About this time he also became a consultant to President John Kennedy's Advisory Committee on Labor-Management Policy.

The influence of W. Allen Wallis

No account of how the earlier period in Shultz's career development signifies what may be expected from him as Secretary of State could be complete without reference to his friendship with W. Allen Wallis, who was serving as the Dean of the University of Chicago's Graduate School of

Business when Shultz moved his based of operations to that institution in 1957. Wallis is all the more important, as he has recently been named by Shultz as the Assistant Secretary for Economic Affairs at the State Department.

Wallis launched his public career at the 1932 Conference on Eugenics at the New York Museum of Natural History, where he delivered a paper attempting to prove the racial superiority of the Nordic race by statistical means. From there, Wallis completed his education at the University of Chicago, where, according to Wallis's own account, he began close collaboration with his fellow-student Milton Friedman and others to launch a war against the system of government-directed economic development known as dirigism. In 1942, Wallis and Friedman co-authored *Studies in Mathematical Economics and Econometrics* as part of this effort.

Not long thereafter, Wallis became the first Treasurer of the Swiss-based Mont Pelerin Society, a secret clique of British-liberal-leaning free enterprise economists which has deployed since its founding against the economic policy-making institutions of the United States.

Wallis had something to teach Shultz about the theory and practice of brainwashing as well. In 1953-54, as director of the Ford Foundation program of university surveys on behavioral science, Wallis provided the initial funding of the Center for the Advanced Study of Behavioral Sciences at Palo Alto, California. From this nest was to spring the program of British intelligence agent Aldous Huxley and Gregory Bateson, the husband of Museum of Natural History race scientist Margaret Mead.

Huxley, Bateson, and others took the Tavistock Institute techniques to their conclusion with the Palo Alto-spawned and CIA-funded MK-Ultra drug proliferation experiment of the mid-1960s. The Palo Alto center has also reportedly been involved in the artificial creation of counterculture communities, and cults such as the Jonestown atrocity. Wallis himself was a fellow at the center in 1956-57, and he recommended Shultz for the same position in 1968 and again in 1974.

In 1960, Shultz's friend Wallis described his circle's major protagonist as "neo-mercantilism," the common appellation for the 18th-century school of political economy descended from Gottfried Wilhelm Leibniz and headed in the United States by Alexander Hamilton. "Now it seems to me worth recalling that the present debate is one which we have gone through before," Wallis wrote during this period. "It is the old debate of the 18th century between liberalism and mercantilism. Mercantilism has never disappeared," Wallis lamented, "it simply diminished."

Then, plagiarizing from Birl Shultz's associate, the revisionist historian Charles A. Beard, Wallis also asserts that the founding of the United States was provoked by a reaction against neo-mercantilist policies such as nationally-centralized control of credit, in favor of British liberalism.

There is little doubt that Shultz's recent appointment as U.S. Secretary of State was engineered by the European-centered Malthusians and their Swiss-based Bank for International Settlements (BIS), to position Shultz and his good friend Henry Kissinger to complete the job Shultz initiated during the course of the Nixon and Ford administrations. As I reported in the first part of this series (see *EIR*, Sept. 7), Shultz played a key role in the creation of the Office of Management and Budget, and served as director of this new division under President Nixon. The OMB, perhaps the most important executive-branch reform of the post-war period, was aimed at stifling the influence of constituency groups and their elected representatives in congressional and executive-branch budget-allocation decisions.

Shultz's recent deployment

Shultz proceeded to serve 18 months as Secretary of Labor, during which time he revealed the depth and breadth of his talent to serve the oligarchy and its economic policy, engineering a number of dramatic innovations aimed at cutting the national wage bill. In July 1969, Shultz announced his "Philadelphia Plan," which required Philadelphia construction companies with federal contracts to hire a specified quota of minority workers at non-union wage scales, in open defiance by the Department of Labor of the federal Davis-Bacon Act legislation. Reportedly, Shultz considered the plan an appropriate antidote to new industry wage increases. In September 1969, at Shultz's urging, Attorney General John Mitchell upheld the constitutionality of the Philadelphia Plan, and despite a series of "hard-hat" demonstrations, Shultz forced its acceptance in Philadelphia by threatening to spread it to other cities if the unions did not submit. The unions assented in February 1970, and Shultz championed an administration decision to suspend relevant provisions of the Davis-Bacon Act.

In March 1970, Shultz, after intervening to break the East Coast longshoremen's strike and the three-month-long strike against General Electric, entered into the middle of the national postal strike. This he dealt with by calling out the National Guard to sort the mail in New York City.

Shultz's operations against the nation's trade unions also included a foray against the United Mine Workers. In early 1970, he opened a federal investigation of the December 1969 UMW presidential elections. These elections were voided by the Labor Department, and, in government-directed 1972 elections reform candidate Arnold Miller was elected.

In the span of a year and a half, Shultz had successfully deployed the National Guard against an American labor union, used unemployed minorities to break the construction trade unions through a breach of Davis-Bacon, completely broken the personally corrupt but effective leadership of the UMW, undermined the national minimum-wage standard, and pushed forward national labor-brainwashing research. As Shultz put it in a 1975 speech to the graduating class of New York University, the post-war era of national prosperity had been left behind for a new "Age of Ambiguity." One of its godfathers was Shultz himself.

'New York State is a great national resource . . . if we got Moynihan out of the way'

U.S. Senators from New York State have been powerful national political figures throughout the history of the nation. The state now ranks second in population in the country, at 17.6 million; 10 percent of Americans live in the Greater New York metropolitan area.

New York is politically divided into "upstate" and "downstate" regions; downstate is New York City and its environs. If the city's economy were considered independently of the rest of the nation, it would be one of the 10 largest in the world. While the Wall Street financial district, since before the American Revolution, has been the center for British-controlled financial policy in the United States, upstate New York is both an industrial area, primarily steel in Buffalo and Syracuse, and an agricultural economy. New York ranks third in dairy production in the nation and second in apples and grapes.

In the Democratic primary on Sept. 23, backed by the National Democratic Policy Committee, Melvin Klenetsky, 38, is running against the senior Senator from New York, Daniel Patrick Moynihan. In 1981, Klenetsky ran for Mayor of New York City against incumbent Edward Koch and left-wing Democrat Frank Barbaro.

Klenetsky won 4 percent of the vote in that race; more importantly he established through a series of televised debates with his opponents, that the destruction of the city through the Municipal Assistance Corporation of Felix Rohatayn was a deliberate policy, and could be reversed. Klenetsky's program is based on maximizing long-term, low-interest credit for development of industry and infrastructure, such as the port of New York, restoring an American foreign policy, and the elimination of the drug-based "economy" being forced on New York City in particular by London-centered, Wall Street interests.

EIR*'s Mary McCourt interviewed Klenetsky on Sept. 2.*

EIR: You have just been certified as on the ballot in the New York State Democratic primary for U.S. Senator. What is the significance of this achievement?

Klenetsky: It is unheard of in the history of the Democratic primary for a statewide campaign to make it on the ballot by petitioning. The normal procedure is for a candidate to be nominated by the state convention; if you are not nominated, you have to petition, a process made almost impossible by the New York state election laws. In addition, this was done in a redistricting year, when half the election boards still do not know what election districts their voters are in, making it even harder to validate the petitions.

The New York State Democratic machine thought that they could knock me off the ballot. My opponent, Pat Moynihan, was convinced that that was all he would have to do in this campaign. Now, because I withstood the challenge to my petitions and got on the ballot, he is going to have to face my challenge on the political issues.

EIR: What is Moynihan's political pedigree?

Klenetsky: He is part of the Harriman wing of the party. Its principal backers are people like Cyrus Vance. Averell Harriman had a whole clique around him when he was New York governor in the 1954-58 period, including Pat Moynihan, who mapped out the strategy for a deindustrialization and depopulation policy for the Kennedy and Johnson administrations. That policy became the basis for the Global 2000 depopulation policy under Jimmy Carter.

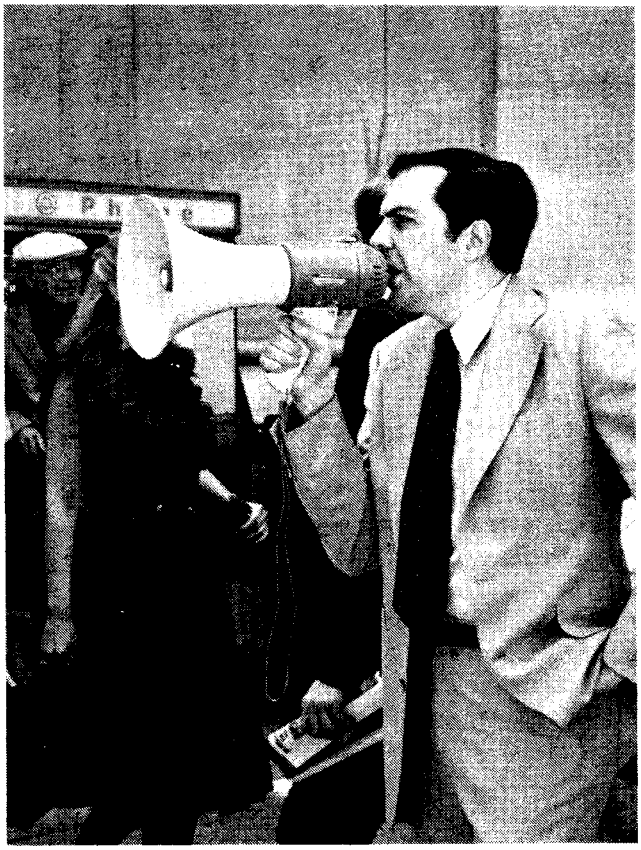
EIR: How was this policy carried out in New York State?

Klenetsky: The entire New York City garment/textile industry, for example, was run into the ground, and used as a cash-flow conduit for laundered drug and gambling money.

People were brought in from Puerto Rico to take very low-technology jobs, and with the collapse of services in the city, particularly in education, there was no basis for these people, or their children, to get higher-skilled jobs. As the garment industry collapsed, with the 1958 recession, large portions of the population were forced onto welfare.

Lyndon Johnson's War on Poverty attempted to rebuild party institutions around the poverty-welfare-service apparatus. Mayor Lindsay accelerated that process, opening the way for the Roy Cohn-East Side Conservative Club to run New York politics without opposition from forces wanting to rebuild an industrial center.

Outside New York City, take Buffalo, which has gone through a series of collapse cycles since the war. The latest round has hit Buffalo with incredible force. There are plants in upstate New York that look like they are not going to



Candidate Klenetsky blasts Paul Volcker at a recent Wall Street rally.

reopen at all. Exxon has just announced that it is going to close 180 dealerships in upstate New York.

The Buffalo steel industry is now producing only 5,000 tons a week. As recently as the past few years, in a good week the steel industry would produce 115,000 tons a week. That is affecting the entire area. In the Buffalo area, the petrochemical industry and the oil companies are actually moving out. There is every indication that the region is being abandoned.

In Syracuse, I made a plant-gate campaign appearance at Crucible Steel, which is one of the largest specialty-steel producers in the entire United States. There were only 100 people at the shift change. In downtown Syracuse, you can see readily that the area industry, vital industry such as specialty steel and machine-tools are devastated.

They were extremely excited that a candidate for office was telling the truth, and offering an economic alternative, in ending Volcker's high interest rates and extending long-term low-interest credit to industry.

EIR: What has happened to the state's farm sector?
Klenetsky: In Jefferson County, where Watertown is located, the farmers tell me that the biggest business these days in the farm sector is auctions of land and farm equipment.

The New York state farm sector is not quite as bankrupt as the national average, but it is collapsing. From 1977-78 until now, you had a ratio of cash earnings to owed debt of 25 percent—out of every $4 earned, $1 would have to go to debt service.

Now, that has become a *50 percent* ratio. Half of the farmers' earnings go to interest payments. Those figures do not include principal; when you include principal, in some areas as much as 95 percent is owed.

Even last year, as a farm went bankrupt, the FHA would take it over, and then rent it out to another farmer, who would lease the land. At least a good portion of farmland remained productive. What has begun to happen this year, is that as farmers went out of business, no one has leased the land. Thousands of acres are going out of production altogether.

The biggest thing on farmers' minds is getting credit. They know what Volcker's high interest rates have done to them, probably more clearly than any other sector of the economy.

But there has been a problem with farm organizations. The Grange, National Farmers Union, National Farmers Organization, are taking a non-political attitude. They fought for the Omnibus Farm Bill, the one that dealt with the question of parity, on a single-issue basis: the dairy sector lobbied for dairy "interests" and so forth. As a result, the farm sector was destroyed. The farm organizations have not learned from the experience of the last year; they are not really mobilized.

Moynihan is extremely unpopular among farmers. Although most of them are so overwhelmed by their individual financial situations that they have little time to devote to politics, I intend to take my campaign much more into the farm sector in the coming three weeks. I have issued a statement that explains how Volcker is taking food from people's tables by destroying production. About 25 percent of farmers are Democrats, and none have anything in common with Mr. Moynihan. He was opposed to parity and a supporter of Volcker's policies. Moynihan is also opposed to water-development projects, and he is an environmentalist, something farmers are particularly wary of, because of the major role played by environmentalists in banning the use of DDT.

EIR: What has been the response to your program?
Klenetsky: My "Great Enterprises" proposal would force the rebuilding of every sector of the economy—industry, infrastructure, transportation—by mobilizing around such national and international projects as space exploration and building the Third World. Roosevelt mobilized the United States for World War II in a matter of a few years.

People in Syracuse, for example, were very excited about the ICONN-Erie Project to modernize the Erie Canal and build a deep water port on the East Coast.

The project would create 100,000 jobs in upstate New York, but would also be an important part of my export program, which is to export $200-$400 billion per year to the developing sector. I have done a series of town-hall meetings in the upstate area on this subject.

A new breed of Democrats challenges Sen. Cannon in a battle for the West

by Freyda Greenberg and Susan Kokinda

When Congressman James Santini faces incumbent Sen. Howard Cannon in Nevada's Democratic primary on Sept. 14, there is more at stake than Santini's self-proclaimed effort to defeat the last of the "Class of '58," i.e., those 17 Senators elected in 1958, of whom only Cannon remains. The Nevada primary, as well as the Senate re-election bids of John Melcher (D-Mont.) and Quentin Burdick (D-N.D.) this year, focus around a challenge to established Democratic incumbents from a "new breed" of Western politician.

This "new breed" includes both Democratic and Republican challengers of varying ideological bents—ranging from "new right" Republican to "neo-liberal" Democrat. What makes them all part of the "new breed" is that they all share the same policy for the Western and Plains states, a policy formulated by Colorado's Aspen Institute.

Aspen's 'strategic minerals'

The western portion of the United States was once the heart of a strong lobby for advanced military and non-military research and development, nuclear energy development, water development, and high technology applications for the area's abundant natural resources. But today, it is being deliberately transformed into a haven for real estate speculation, resource speculation, and tourism. Using the slogan of "energy scarcity," the Aspen Institute, Institute chairman Robert O. Anderson, Anderson's Atlantic-Richfield Oil Co., and a grouping of major oil and mineral firms, many based in Texas, have embarked on a "strategic minerals" policy ostensibly designed to make the U.S. self-sufficient in energy and resources. In fact, the policy is designed to secure control of resources, and promote speculation in rather than development of them. Put simply, Robert O. Anderson and his friends in London, in particular, want the mineral wealth of the West to stay in the ground.

Toward this end, these same players have poured increasing amounts of capital into candidates like James Santini. Another player in the campaign is the National Conservative Political Action Committee (NCPAC) which has targeted Cannon and Melcher for defeat. While Santini, as well as Melcher's Republican opponent, Larry Williams, insist they are not affiliated with NCPAC, NCPAC director Terry Dolan reports that he has caucused with Santini on the campaign. In any event, NCPAC continues to channel sizable sums of money into these states to shift favor toward the challengers.

In 1976, this crowd, including the predecessors of NCPAC, defeated the outspokenly pro-development Democratic incumbent from Utah, Frank Moss, replacing him with current Senator Orrin Hatch, to the loss of Utah and the U.S. Senate. They used the same tactics employed in today's races—i.e., they created rump scandals, spent lots of money, and obfuscated the policy issues critical for the region.

Energy and development

Now, Howard Cannon faces scandal mongering and bogus issues manufactured by Santini's backers, one of the most prominent being the fact that Cannon is 70 years old, and Santini is 45. Aspen would have voters believe that the Nevada Democratic primary involves a contest between a battle-weary Senator and a young, energetic Congressman.

While Howard Cannon has come far short of exposing and taking the needed measures to reverse the Aspen Institute's British colonial strategy for the West, he has posed a formidable obstacle to the scheme. Speaking on the floor of the Senate on Dec. 1, 1981, Cannon scored the speculative and non-productive ventures of especially the oil companies for contributing to the "inflation and the resulting high interest rates" that "threaten to destroy not only the traditional dreams and hopes of individual Americans and their families, but also our way of life, our economy, and our security and position in the world at large."

"It is not into new oil discoveries and new wells," Cannon told the Senate, "that the major oil companies are putting their money. It is into mergers and new acquisitions. Of the 204 such mergers and acquisitions by major oil companies since 1968, 116 of them were in non-energy fields." Cannon has also supported the efforts of Senator Melcher to remove Federal Reserve Board Chairman Paul A. Volcker to bring down interest rates.

Santini, consistent with his support for the energy industry's speculative ventures, is a leading proponent of inefficient energy sources such as tar sands and geo-thermal energy, as well as the standard environmentalist "soft" energies such as solar and wind power. While he voted for the Clinch River breeder reactor program, Santini has opposed measures for the disposal of nuclear waste and has made Cannon's refusal to oppose waste-disposal in Nevada a campaign issue.

On the crucial issue of water development, Cannon has voted almost consistently for water projects, including the Tennessee-Tombigbee River project that is essential to ensure water supplies to the south central regions of the United States. Santini, on the other hand, voted against Tenn-Tom in 1981 and voted to sustain Jimmy Carter's water-projects veto—both votes playing into the hands of the Aspen-connected interests who depend on resource scarcity for speculative gains.

Deregulation and labor

It has been around the question of labor and the regulation of the trucking industry, that Santini's backers have sought to most weaken Cannon. Cannon, in sharp contrast to many of his colleagues from that region, especially Senate Labor Committee chairman and right-to-work advocate Orrin Hatch, has voted consistently pro-labor. For this record, Cannon's detractors have repeatedly attempted to create scandals around the Senator's relationship to the International Brotherhood of Teamsters.

Cannon, who had initially been a staunch opponent of the Carter-Kennedy 1980 deregulation of the trucking industry in 1980, which has so predictably gutted that industry, backed down from this stance after a concerted campaign which sought to cast aspersions on his union ties. While he was cowed into abandoning this critical vote, the next phase of deregulation, which would eliminate the collective rate-making process, expected to occur in the next two years, is sure to meet with resistance from the Senator. If collective rate-making is eliminated, numerous firms that have survived deregulation to date would go out of business, making a bad situation much worse.

Of no small importance is the fact that senators allied to the British-Aspen policy hold positions in the Senate which are key to the pressure operations against Cannon. Orrin Hatch heads the Senate Labor Committee, which has repeatedly "exposed" the connection of the Teamsters to elected officials; and Sen. Malcolm Wallop (R-Wyo.) has led the Senate Ethics Committee witchhunts—the most recent resulting in the resignation of the only other surviving member of the "Class of '58"—the pro-labor, anti-Volcker Sen. Harrison Williams of New Jersey. As for Malcolm Wallop, who did much personally to remove Williams, it should be remembered that he is a member of the Royal House of Portsmouth and a cousin of the Queen of England.

Santini has smeared Cannon on the basis of old charges concerning his ties to the Teamsters and to "organized crime," charges of which the Senator was fully cleared in 1980. Santini, on the other hand, in addition to contributions from Texas and the oil companies, has received listed campaign contributions from the notorious Del Webb Hotels, Inc., which has been investigated for organized crime activity several times by Senate committees. Santini also has adopted the profile of being one of the Senate's most vociferous "Zionists," with a base of support among the Meyer Lansky types collectively called the "Las Vegas business community."

Reviving Hitler's favorite music

In Seattle, the Weyerhaeuser family is promoting Wagner's Ring cycle as a wedge for the "new dark age" within the U.S., writes Mark Calney

If you want to see true Wagner you must go to Seattle.
—*Winifred Wagner*

It was precisely 106 years ago in the ancient Bavarian forest on the outskirts of the German village of Bayreuth, that the first complete cycle of Richard Wagner's *The Ring of the Nibelungs* was performed. It was a most regal affair. This was to be the unveiling of mankind's greatest artistic achievement, a four-day epic opera concerning the mythical birth and destiny of Man, depicting his various struggles amidst a flotsam of dragons, dwarfs, and gods. Who was to attend this festival heralding the "New Age" in Wagner's "democratic theater?"

The premier day of *Das Rheingold* found the Bayreuth theater stuffed to the rafters with every imaginable representative of the European oligarchy from Genoa to St. Petersburg. There was the manipulative Malwida von Meysenburg, who had her own Bayreuth villa. Her friends included Giuseppe Mazzini (sponsor of the Mafia and the proto-fascist Young Europe Movement), radical Anglo-Swiss agent Alexander Herzen, and French racist Count Joseph de Gobineau. Limping slowly behind her, next to his sister and her fiancé, we see the vile Zarathustra, Friedrich Nietzsche, looking sick to his stomach, as usual. And over there in the grand entourage beside Emperor Wilhelm I was that sly old Venetian, Prince Max von Thurn and Taxis, aide-de-camp to King Ludwig II of Bavaria from whose golden hoard the Bayreuth complex had been built.

Was there not one republican to be found in the lot? Where were Germany's great military generals, scientists, and statesmen who had built that nation? Where was Verdi? Where was Brahms?

The evening of Aug. 1, 1982 was the opening night for the beginning of the English Ring cycle, *The Rheingold,* and as I entered the lobby of the Seattle Opera House, I was greeted not by the presence of our local Northwest patricians in black tie, which one would expect during the German cycle, but rather the flannel shirt and denim set. There were cowboys from Colorado, gays from San Francisco, the neighborhood Anglican priest, and what appeared to be the entire anthropology department from the local university, dispersed among the crowd. I overheard conversations in Japanese, German, Spanish, and Texan. A number of these pilgrims came from around the world—from Switzerland, South Africa, Tasmania, Chile, Indonesia, Saudi Arabia—from 25 different countries and from every state in the union. For some it was their eighth sojourn to this idyllically underpopulated part of America, to participate in the revelries of the only festival in the world which contiguously performs the German and English cycles of the Ring (14 days), and has won renown for surpassing Bayreuth in presenting Wagner's "true romantic" staging and costumes.

The English cycle, as planned, tended to draw the middle-class local yokels, those whom George Bernard Shaw would certainly call the "imperfect" Wagnerites. They, however, were offered consolation at the Wagner Gift Shop in the loge, where all the necessary instruments for pragmatic interpretation could be found. Alongside the numerous Wagner recordings and books, including one on how young children can perform their own Wagner plays, was a slew of such "pop" items as T-shirts of Wagner leaning on the Seattle Space Needle, posters, gold jewelry, and the popular "Siegfried for President" buttons.

The newcomers, of course, may have shared the fear that the translation of a great work of poetry from its original language into another required a poet of somewhat equal stature to do justice to the work. I am glad to report that Andrew Porter's translation of the *Ring* did not suffer from this problem. That is primarily because in all of Richard Wagner's works one cannot find a single shred of poetry.

The curtain rose on the swimming Rhinemaidens. Though this is not the proper place for a much-needed detailed critique of Wagner's music, the great musicologist and student of Brahms, Heinrich Schenker, was certainly correct when he stated that "Richard Wagner was the single most important reason for the degeneration of music after Brahms." Throughout the entire opera cycle, Wagner proceeded to drag the audience through one mere feeling-state after another; there was never a quality evoked in the human mind which reflected an uplifting of the soul such as one would witness in a performance of Beethoven's *Fidelio* or Mozart's *The Magic Flute*. Furthermore, if one were to begin a search for the origins of that insipid "background music" played behind every motion picture and television production that ever came out of Hollywood, the manuscripts of Richard Wagner would be worthy of primary inspection. (Just listen, if you can stay awake, to Act I, Scene II of *The Valkyrie*!)

From Valhalla to the bunker

There are some who say that Wagner's music is evil because people such as Hitler listened to his operas. This is not true. Wagner's music is evil because it created, in large part, the counterculture which produced Hitler directly. Hitler once said that to understand the Nazi party you must first understand Wagner. To understand Wagner is to know that Wagner is the music of oligarchs.

Wagner, who was bought and paid for by the homosexual "Mad King" Ludwig II, of the Wittelsbach family of the Kingdom of Bavaria, played a leading role as a battering ram against the influence of classical European neo-Platonic culture. It was against this culture—which was committed, as Beethoven was, to creating a Europe of constitutional republics of scientific and industrial progress on the American model—that a still-powerful feudal oligarchy deployed Wagner, Nietzsche, and a host of other anti-human degenerates.

The *Ring* is, in fact, an epic of the creation of the oligarchy. It is based upon a series of myths handed down from the ancient Northern European tribes of certain pagan tree-worshipping cults. These myths had been popularized in the 18th century through the publiction of *The Poems of Ossian,* a hoax directred by British intelligence operative David Hume, who admitted to the fraud on his deathbed. Unfortunately, the Ossian hoax hoodwinked a number of people including Herder, who disseminated it throughout Germany.

The story of the *Ring* revolves around the task of Wotan, king of the gods, to seek the salvation of his dying order of tragically flawed gods through the creation of a mortal hero, who will champion a chosen race of mankind. This hero, Siegfried, is begotten through the typical aristocratic mechanisms of infidelity and incest. Siegfried is ultimately consumed in an orgy of death, climaxed by the fiery immolation of Valhalla, the kingdom of the gods.

Aside from the more obvious pompous nature of these operas, the key oligarchical trait woven throughout them is the ideology of *racism*. Wagner, of course, was a raving anti-Semite, and Bayreuth served as a cesspool for the collection of Europe's leading Anglo-Saxon race theorists, such as de Gobineau, and Bernard Forster, who married Nietzsche's sister Elisabeth. Cosima Wagner, Richard's wife, was instrumental in ensuring the publication of de Gobineau's works, and Wagner himself published excerpts of de Gobineau's *Theory of Inequality of the Races*.

One of Wagner's main projects was an attempt to "Aryanize" Christianity. He writes in a letter from Venice in 1883, not long after the first production of his last opera, *Parsifal,* which deals with the pagan Teutonic version of the myth of the Holy Grail: "By tracing the roots of the German tribes it can be demonstrated that they have talents and traits which have been lost by the entire Semiticized so-called world."

Scratch an ardent Wagner enthusiast, and you will find an enemy of civilization. The Ford Foundation launched Seattle's Ring cult, and Trilateralist George Weyerhaeuser maintains it. Until now it has remained a mere beachhead in the assault on culture in America, but a full-scale invasion is planned over the next year.

One month after this letter was written, Wagner died in that citadel of oligarchs, Venice, at the Palazzo Vendramin-Kalergi. It was the Venetian circles of Count Coudenhove-Kalergi, including the Thurn and Taxis family, who later created the fascist Pan-European Union and its inner elite, the Thule Society. One of the leaders of this cult was the well-known race theorist Houston Stewart Chamberlain (a relative of the Nazi-appeaser Neville Chamberlain), who married Wagner's daughter Eva at Wahnfried, Wagner's villa in Bayreuth in 1908. Chamberlain was personally involved in recruiting Adolf Hitler, a German military intelligence stringer at the time, into the swastika-ridden Thule Society. He invited Hitler to the first of many visits to Wahnfried on Oct. 7, 1923. On Nov. 9, 1923 Hitler led the famous Beerhall Putsch, and Wagner's son Siegfried was found footing the bill for the escape of putsch member Hermann Goering to

Venice.

Many pages could be filled accounting the close relationship between Wagner's music and the Nazis. Such stories would include Hitler's long intimate friendship with Winifred Wagner, the desperate effort of Hermann Goering to secure national revenue through the deployment of slave laborers to sift the shores of the Rhine River in search of the Rhinemaidens' gold, and Hitler's envisioning of himself as a modern Wotan, who reveled in five performances of *Parsifal* and two complete *Ring* cycles at Bayreuth in 1939, just before he plunged the world into the inferno of World War II with the invasion of Poland.

Weyerhaeuser: tree worshippers

From a Wagnerian perspective, the Seattle region of Washington State certainly meets the requirements for the site of an ideal Ring Festival. Enveloped in plush forest vegetation, it is situated within a complex of beautiful snow-covered mountains, such as Mount Olympus, and Puget Sound's many waterways. Continuing the tradition of low population density started by the British Astor family's Hudson Bay Company, the demographic profile also shows what is perhaps the highest concentration of people of Nordic heritage in the nation.

Leading the list of would-be knighted hicks sponsoring this festival, is the Northwest family of George Weyerhaeuser. The Weyerhauser Company is the largest private landowner in the United States and George Weyerhaeuser is a personal friend of Bavarian Prince Johannes von Thurn und Taxis, the largest landowner in Europe, whose grandfather, Prince Max, was the controller of King Ludwig II. Weyerhaeuser's affinity for Wagner is no accidental outgrowth of his association with some of Europe's leading oligarchs, however. Wagner and the early Wagnerians called themselves "futurists." As we shall see, Weyerhaeuser is a modern futurist in the Wagnerian mold.

A Trilateral Commission member and Rand Corporation trustee, George Weyerhaeuser, like his oligarchical counterparts, is a supporter of the genocidal *Global 2000* policy, which calls for the elimination of 2 billion people by the turn of the century. Toward this goal the Weyerhaeuser family has been bankrolling the promotion of the "post-industrial society," and specifically the creation of a Northwest regional province called Ecotopia. The family campus in Tacoma, the University of Puget Sound, along with Washington Mutual Savings Bank (also a major *Ring* promoter) is presently sponsoring a five-year "futurist" conference series which has featured such Dark Age cult organizers as Willis Harmon and Marilyn Ferguson, the author of *The Aquarian Conspiracy*. In their efforts to create this Dionysian Ecotopia counterculture, combined with their continual chasing after the tail-end of blue-blooded aristocracy, the Weyerhaeusers donated 30 acres of land in a remote forest area south of Seattle to build a new Bayreuth "Festival in the Woods."

"The personality is the goal of neo-aristocratic politics. The quality of human beings is the goal, not the quantity. This does not involve the paragraphs of the constitution, but it is concerned with having the best get ahead: so that the best rule." So said Count Coudenhove-Kalergi.

The Seattle Ring cycle started in 1974 with a $500,000 grant from the Ford Foundation. Until now it has existed as a mere beachhead in the assault on culture in America, but a full-scale invasion is planned over the next year.

There has been much discussion recently in the board rooms of the world's largest record companies about the cultural "taste" of their customers. The industry's two giants, Philips NV of Holland (run by the retired Allgemeine SS officer Prince Bernhard) and EMI Ltd. in London, who own 80 percent of all the world's record companies, are particularly concerned with the tremendous collapse in the sales of rock music albums. EMI interfaces with the executive directors of London's social control and psychological warfare center, the Tavistock Institute. This crew is presently engaged in orchestrating an international "classical revival" based on what they term the "cult of personality." This means removing the poetic content of performing true classical music such as that of Bach or Beethoven, and substituting the virtuoso titillation provided by their newly created "classical superstars." Flutist James Galway and Philips NV's supernova, tenor Luciano Pavarotti, are the leading examples of this operation. They are being joined by "repackaged" record releases built around such frauds as Leonard Bernstein. Richard Wagner is receiving special attention, with 1983 being the centenary of his death.

During October of this year, PBS-TV will broadcast the entire *Ring* cycle nationally. The performance was recorded several years ago at Bayreuth and will be hosted by Friedelinde Wagner, Richard's granddaughter. Then, the following February, a $10 million motion-picture production of the life of Richard Wagner, starring Richard Burton and Vanessa Redgrave as Cosima, is scheduled to be released. The television rights to air this as a mini-series have already been sold. All this is being done while the New York City-based Wagner International Institute, which held its first conference in May 1982 at Bayreuth, has begun to organize local chapters and festivals around the country. The next major U.S. city to host a Wagner Ring Festival will be San Francisco.

Take a hard look at an ardent supporter of Wagner and his Ring, from the European oligarch, to the environmentalist whose first contact with Wagner was most likely through J. R. R. Tolkien's feudalist fantasy *Lord of the Rings,* and you will begin to see the mind of someone who would not only tolerate, but organize for the conditions of collapse of the culture upon which civilization stands. History cannot endure the re-emergence of public leaders and theater managers who swear fealty to Wagner. The great German poet and historian Friedrich Schiller would be the first to agree that Wagner should be sent back to Valhalla.

National News

U.S. News suit: a Kissinger prank?

In late July, *EIR* founder Lyndon H. LaRouche, Jr. dared Henry Kissinger to sue over LaRouche's published charge concerning Kissinger's homocidal homosexuality. Kissinger has yet to show up in court, but on Aug. 18 a suit was filed which seems to have some connection with the matter.

Filed under the name of *U.S. News & World Report,* the suit charges that Campaigner Publications and New Solidarity International Press Service (publishers of EIR) use "undercover" calls by their writers. Attorneys consulted consider the suit frivolous and without merit. The defendants view the suit as one of the harassing actions reportedly planned at meetings last month between Kissinger, mob attorney Roy Cohn, and others who do not dare sue LaRouche directly.

Kasten and Moynihan push Polish default

Aides to Sen. Robert Kasten (R-Wis.) report that the Senator will seek to insert the extension to September 1983 of the Kasten-Moynihan amendment into the new supplemental appropriations bill now being drawn up by Congress. The measure, which would force the administration to explain on a monthly basis why it had not yet placed Poland in default on its foreign debt, had been included in the supplemental spending bill recently vetoed by the President. Kasten-Moynihan faces possible expiration on Sept. 30, 1982.

In his veto message, President Reagan said that he does not support Kasten-Moynihan and does not wish to have his hands tied on Polish debt. However, aides to Kasten maintain that Reagan would have signed the bill anyway if its spending targets had conformed to the administration's wishes.

Kasten's aides claim that the administration is already in violation of Kasten-Moynihan, since it has failed to provide notice for the month of August as to why government loans to Poland have not been declared in default. The aides predict that Kasten and Senators Moynihan (D-N.Y.), Helms (R-N.C.), D'Amato (R-N.Y.), and Garn (R-Utah) will attempt to use the issue when Congress reconvenes to create dissention on the Senate floor.

Brzezinski: Give Poland to IMF

Former Presidential adviser Zbigniew Brzezinski called for threatening the Soviets with an "explosion" in Poland or a new *Drang nach Osten* into order to gain compliance for IMF rule over Poland, in an interview with the *Washington Post* Aug. 31.

"An explosion," Brzezinski says, "is not to be ruled out because the economic conditions in the country are becoming so severe and so unacceptable that some spark, indeed, even on the day which this interview appears, could set off a major explosion. . . . [The Soviets] fail to perceive a real historic opportunity to structure the Polish-Soviet relationship on a new genuinely enduring basis. . . . There happens to be a genuine coalescence of national interest between Poland and Russia in containing the old German *'Drang nach Osten.'* This coalescence could be exploited in a much more permissive context. . . ."

Pat Moynihan supported Jensen's race science

Arthur Jensen, the University of California Professor of Educational Psychology who published his theory that blacks are intellectually inferior to whites by 15 IQ points in the *Harvard Educational Review* in 1969, told an *EIR* interviewer Sept. 1 that incumbent New York Sen. Daniel Patrick Moynihan was supportive of his position.

"I met Moynihan at that time [1969] and had some correspondence with him, and we discussed these problems, because he had been branded as a racist too for his Department of Labor report on the Negro family." Moynihan's report, issued in 1965 when he was Undersecretary of Labor, stated that poverty among blacks could not be solved by more jobs and housing, because of the unstable black family structure.

In a June 12, 1970 interview with *Life* magazine, Moynihan, then a domestic adviser to President Nixon, stated: "Dr. Jensen is a thoroughly respectable man. . . . He is in no sense a racist."

Using in part Moynihan's own earlier IQ studies, Jensen asserted that "schools must be able to find ways of utilizing other strengths in [black] children whose major strength is not of the cognitive variety." Jensen also linked the purported intellectual inferiority of blacks to skin pigmentation. Jensen's conclusion was that "current welfare policies, unaided by eugenic foresight, could lead to the genetic enslavement of a substantial segment of our total population. . . ."

When asked by *EIR* if Moynihan agreed with the substance of his work, Jensen replied, "Well, I think he did. He never said anything in . . . person . . . or that's published to indicate the contrary. I think he has to be very cautious about his statements in this domain, because of his political position, naturally."

Congress passes bill to fund 'death' with dignity

A bill authorizing use of federal medicare funds to pay for hospice "care" for elderly patients passed Congress Aug. 19, attached to the Omnibus Tax Bill. The measure, H.R.5180, is awaiting the President's signature.

The bill had 260 co-sponsors in Congress, including most of so-called pro-life representatives, including Mark Silanjer (R-Mich.) and Christopher Smith (R-N.J.). This major support was based on the ostensible "humanitarian" aspects of the bill, and its definite cost-cutting effects.

The bill, it is estimated, will save the federal government $48 million in Medicaid expenditures. The Congressional Budget Office estimates that close to 500,000 Americans are potentially eligible for the

Medicaid funds, although the new bill will provide funds for hospice care for only 50,000 persons. The Budget Office also estimates that providing hospice, rather than hospital care, for terminally ill patients, will save an estimated $1,100 per patient. Fifty thousand Americans now die in private hospices.

Any terminally ill American, 65 or over, who agrees to forego any life-prolonging treatment, and asserts that he or she has only six months to live, is qualified for receiving funds for hospice, or home-hospice care. In the latter case, the patient's family will receive Medicare payments to keep the patient at home until he or she dies.

Vernon Walters's links to Kissinger publicized

Special ambassador Gen. Vernon Walters, the operative who spent late August in Brazil organizing a pro-British coup against President Figueiredo, was featured as the cover story of the *Boston Globe*'s Sunday magazine at the end of August.

Fritz Kraemer, described in the *Globe* piece as the man who "takes credit for 'discovering' Henry Kissinger as a 19-year-old Army private," spoke of his "life-long friend," Vernon Walters, in "affectionate, even reverential terms" to the *Globe* reporter. Kraemer reported that he had known Walters since they worked together in 1951 on the staff of Gen. George Marshall in developing the post-war plans for controlling Europe. It was Kissinger who appointed Walters to the post of deputy director of the CIA in 1972, Kraemer asserted, and Kissinger who promoted him.

The *Globe* also reviewed Walters's role in setting up the assassination of Chilean exile Orlando Letelier on the streets of Washington, D.C. in 1976.

After the war, Walters rose in influence within military intelligence as Averell Harriman's aide throughout the 1950s.

Another feature to Walters's career is the fact that he never married—living with his mother until she died, and now living with his sister in Washington D.C. "He is asexual, almost like a monk," Jesse Helms' former aide John Carbaugh explained.

According to Walters's book *Silent Missions*, after one little quarrel, Henry Kissinger turned to Walters and said "No one else does for me what you do."

LaRouche warns of 'new Hitler enterprise'

"A carefully prepared trans-Atlantic campaign has been unleashed during this month to send panic-stricken lechers fleeing into the refuge of what some will prefer to describe as a 'new Victorian age,' " stated *EIR* founder Lyndon H. LaRouche Aug. 23. "The panic is being spread . . . through some of the same news-media conduits which organized the 'sexual liberation movement' of the 1960s. The scare-word . . . in organizing panic is 'herpes.' " The magazine spearheading the campaign is *Playboy*.

The significance of this campaign, LaRouche states, is that, "according to some of the most highly placed aristocracy" in Europe, the counterculture element of the North American and European populations, as the result of abrupt sexual denial, will be "provoked into infantile rage . . . to be exploited for the rapid eruption of fascist movements."

LaRouche and his associates, in collaboration with a network of Jewish investigators, have been closely studying a very powerful international network of aristocrats and key Nazis, who direct the present-day Nazi International. According to one source, who was in the inner core that created the Nazi movement in the 1920s and 1930s, a new Adolf Hitler is currently being groomed in West Germany.

The "herpes-scare" campaign, according to LaRouche, is only propaganda support for other measures to create a population willing to carry out fascist mass-murder policies. In Weimar Germany, a similar rock-drug-sex counterculture flourished, until, with the rise of the Nazi movement, "suddenly the lid went down."

The broadest of the networks behind this campaign are certain international Freemasonic lodges, who are currently involved in deploying international terrorism and drug- and gun-running.

Briefly

● **HENRY KISSINGER** went to South Africa in early September. He is believed to be arranging the next round of destabilization in that volatile region.

● **MERRILL LYNCH,** Treasury Secretary Donald Regan's old firm, has concluded a three-way deal making Hong Kong financial magnate Fung King Hey the biggest single stockholder in Merrill Lynch. Fung is the key financial mediator between the Peking government and its foreign transactions, which are widely suspected to be heavily involved in international heroin traffic. Fung made his fortune in trading and speculation in the drug-ridden Hong Kong real-estate market.

● **PHYSICS TODAY,** the journal of the American Institute of Physics, ran a prominent story on recent theoretical breakthroughs in polarized fuels for nuclear fusion in its August issue. The coverage is based on material prepared by Fusion Energy Foundation scientists Dr. Steven Bardwell and Charles B. Stevens; however, the article does not discuss the potential to accelerate commercial fusion development as a result of use of polarized fuel.

● **FUSION** magazine has published a special 32-page September issue on polarized-fuel fusion, which was in great demand at the conference of international plasma physicists in Baltimore early this month.

● **FERNANDO OLIVER,** National Democratic Policy Committee-backed candidate for Congress from the South Bronx, was placed on the ballot Sept. 1 by the New York Supreme Court. Oliver will oppose incumbent Robert Garcia in the Democratic primary. Oliver won his place on the ballot despite a wild effort by organized-crime attorney Roy Cohn and his Bronx associate Stanley Friedman, who back Garcia's plans to create "free enterprise zones" in New York City, to challenge his petitions.

Editorial

Now that we have your attention...

As we go to press, there is unusual silence in the world banking community—stunned silence, after the bombshell dropped by Mexican President López Portillo when he announced the nationalization of Mexico's private banks and a campaign to reclaim the looted money from abroad, on Sept. 1. As reported in this week's Economics section, the oligarchist assumption that debt-collection can always be imposed by dispatching the likes of Henry Kissinger to the targeted countries, has been rudely upset.

Now that we have your attention, we would like to introduce "Operation Juárez," the 68-page *EIR Special Report* that has been circulating for some weeks in the capitals and policy circles south of the Rio Grande. In it, *EIR* founder Lyndon LaRouche proposes that debt-reorganization and an Ibero-American "Common Market" are the only way to call the monetarists' bluff short of its genocidal consequences—and bring the U.S.A. to its senses. He makes the point that "unless the bankers of the U.S.A. are collectively insane or babbling imbeciles, they will joyously embrace a proper proposal for collective financial reorganization of Ibero-American debt."

We remind readers, in summary form, of the circumstances under which U.S. policy-makers as well as bankers can cooperate in the Ibero-American debt reorganization. In August, LaRouche warned of a probable September financial crash and called for the immediate enactment of certain reforms by President Reagan and the Congress which would halt the economic depression over the winter of 1982-83. (See the Aug. 24 *EIR*, "Financiers predict a crash in September.")

Those measures include:

- Demand the immediate resignation of Federal Reserve Chairman Paul A. Volcker.
- Remonetize the gold reserves of the U.S.A. at a fixed price of $500 per ounce.
- Enact an emergency reform of the Federal Reserve, making it in effect into the Third National Bank of the United States, restoring full regulation to the banking system, and enforcing "banking transparency" on foreign banks operating on U.S. soil.
- Authorize $400 billion in U.S. Treasury currency notes for loans directed to performance-worthy investments in domestic production and foreign trade.

The U.S. government, if it were sensible, would agree to make the new bond issues of debt-reorganization of Ibero-American republics discountable assets within the facilities of the reformed Federal Reserve System. "If the U.S.A. is engaged in increased volumes of capital-goods exports, and if those debt-reorganization bonds are discountable for hard-commodity classes of export-loans within a gold-reserve-based U.S. credit and banking system, these bonds are now functionally as good as gold," writes LaRouche in *Operation Juárez*.

The U.S.A.'s first concern must be to re-employ within months some 5 million of those left unemployed by Volcker's lunatic policies, with the goal of adding 10 million more workplaces by about 1985. The emphasis should be on high-technology farmers and skilled and semi-skilled industrial operatives, not "services" (except vital professions, like science).

Second, the U.S. has to reverse the liquidation of farms by debt moratoria and credit injection, and undertake a few large-scale, basic infrastructural projects to provide a stimulatory market for private industry. Next, the U.S. should negotiate with developing nations a collection of high-technology infrastructure projects most urgently needed, including nuclear-energy projects, and provide financing at 2 percent per annum. This translates into demand for U.S. capital-goods producers.

It would be sensible, and probable, that a number of exporting nations, such as Japan and the Federal Republic of Germany, would with to join the United States as partners in the multinational division of labor in such undertakings. Adding Ibero-America, the ASEAN nations, and some other developing nations, we identify a potential for $200 billion annually or higher of increased capital-goods imports per year from capital-goods exporting nations. *Mexico alone, for example, fully justifies $20 billion a year or more of increased capital-goods purchases.*