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Executive Intelligence Review

January 19, 1982

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EIR

From the Managing Editor

Asked on Jan. 15 how the mass of current U.S. and international debt can possibly be financed, the chief money-market economist at Merrill Lynch, Peter Canella, told *EIR*: "The problem with the Federal Reserve is that they don't have the guts to make everybody bankrupt. It's inevitable. The debt has got to be paid."

If the world economy continues to slide into the Second Great Depression, it will be because of this mentality, and our own toleration of it. On the other hand, as Economics Editor David Goldman reiterates below, simply printing money—which is what some officials in Washington are currently proposing in a state of panic—will not halt the slide of output, capacity, and vital productivity.

The kind of approach required is outlined in our National section by *EIR* founder Lyndon H. LaRouche, Jr., in a discussion of North American water resource development. As a Democratic Party leader, Mr. LaRouche reminds victims of the "free-market" version of British liberalism that the federal government can and should play a particular role in reversing the neglect and decay of U.S. infrastructure and energy production, through undertakings that will more than pay for themselves, as the earlier history of American public improvements demonstrates. There is, of course, no reason to believe this will occur unless individuals take responsibility to make it occur.

Susan Johnson

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A new battle over the Federal Reserve's policy

by David Goldman, Economics Editor

Federal Reserve Chairman Paul Volcker is under full-dress siege, to the point that his best defenders in the financial press have acknowledged the danger of his position, as in Lindley Clarke's warning in the Jan. 11 *Wall Street Journal* that the Fed Chairman has been told by the White House that he is dispensable. Yet the motives of Volcker's antagonists are so disparate and contradictory that the fallings-out among the besiegers are as important as the assault against the Federal Reserve itself, and the likely direction of policy evolution in Washington is far from clear.

Rep. Jack Kemp told a nationwide television audience the morning of Sunday, Jan. 10, that at very least the Federal Reserve should return to its pre-October 1979 policy profile, before Volcker—who returned by special plane from the International Monetary Fund meeting in Zagreb in the midst of one of the worst postwar dollar crises—announced the present regime of tight money. Volcker's formula, per the "Saturday Night Massacre" of Oct. 6, 1979, and the basis for Federal Reserve policy since, was to control the monetary aggregates no matter what the cost for interest rates; Kemp proposed the opposite formula, "targetting interest rates rather than monetary aggregates," or, in the vernacular, printing money to bring interest rates down.

'Something has to give'

From Kemp, the congressional White Knight of the "supply-siders," rhetoric of this sort is predictable. But Kemp's statements over national television coincide with equally vigorous, if private, recommendations to the same effect by a variety of Wall Street economists,

including Volcker's friend and former colleague at the elite Ditchley Foundation, James O'Leary of U.S. Trust, and William Griggs, the money-market economist at Schroeders' Bank. Their reasoning was summed up by the chief of bond operations at Arnhold S. Bleichroeder in New York, Erwin Shubert: "The administration is in a box. They have a \$150 billion borrowing requirement, they can't cut spending, and they can't raise taxes. The numbers don't add up. So something has to give—and that thing will be monetary policy."

U.S. Trust's O'Leary, the Wall Street economist closest to the current Fed chairman, as well as Chase Manhattan Bank economist Philip Braverman and others, argue that the Federal Reserve has ruined its own effort by creating "such fear and uncertainty," in Braverman's words, "that it's realistic for markets to run for cover once they see the opportunity for the Fed to ease is over." O'Leary and Braverman believe—with the staff of the Swiss-based Bank for International Settlements—that some form of direct controls on credit issuance, rather than interest rates as such, will ultimately replace Volcker's form of monetary management.

However, the critique of Volcker opened by Bank for International Settlements President Jelle Zijlstra at the October meeting of the International Monetary Fund, and conceded in large measure by New York Fed President Anthony Solomon during the Christmas meeting of the American Economics Association, only promised an even tighter monetary regime. Zijlstra et al. pointed out, correctly, that Volcker's use of the interest rate bludgeon had produced *uncontrolled* expansion of credit, principally to finance debt service costs



Stuart Lewis/NSIPS

Paul Volcker

driven up by higher interest rates, in a self-feeding spiral. The most recent banking numbers show that the spiral is, indeed, still rising (see article page 6). This is the reason that interest rates continue to rise despite the still-worsening collapse of economic activity. The BIS approach was to use administrative fiat to stop credit expansion, which meant, as BIS chief economist Alexandre de Lamfalussy said point-blank in a variety of speeches in the last two months, getting the messy job of bankruptcies over with quickly.

Now, no one is so sure that this was a good idea.

The bond market's whip-like reaction to any White House resistance against Volcker's demand that the country pay the additional interest costs on the federal debt by cutting necessary federal spending has so far kept the President in growling submission. But each austerity measure, taken against the President's own best instincts, has only led the Federal budget further into the morass, to the point that a Federal budget deficit now estimated at \$150 to \$200 billion for each of the next three fiscal years leaves the President no way out. The reward-punishment game that Volcker and the bond market have played with the President has run to the point that there are no more rewards.

Regrettably, the White House has shown little initiative, or even understanding, of its own position as of yet. A measure of this is the White House announcement Jan. 12 of the appointment of Sears, Roebuck executive Preston Martin as the new Vice-Chairman of the Federal Reserve (see Banking). Contrary to press reports portraying Martin as a "California savings banker" with ties to Reagan's California apparatus,

Martin spent his career as a monetarist agent in the ranks of the savings industry, and was hand-picked by the Fed to join its ranks.

Printing money won't work

No matter how disastrous, the monetary policy of a ruling financial elite has never been overthrown except when a crisis has emerged within the ranks of the financial elite itself. On its own terms the present debate is almost silly. As a senior Federal Reserve official argued to *EIR* (see below), merely printing money represents no guarantee that a crisis will not emerge, and to suggest it is only to display panic.

There are nonetheless two overriding features of the debate which have little to do with the terms in which it has been presented. Both stem from the strategic consequences of the Polish events. The financial leadership centered at the Bank for International Settlements and the Bank of England, as well as the Federal Reserve Board of Governors, is perfectly willing to steer directly into a major financial catastrophe if it feels secure in its ability to manage the political consequences. A financial crash only means, after all, managing society's affairs through the intervention of the courts and the powers that stand behind them, rather than through the insistent tug of "market forces." But a financial crisis also creates the risk of losing political control. Doubtless there are individuals in the Bank of England who have not forgotten that the great crisis of 1773—which the Bank manipulated in order to cement the East India Company's hold on the Hanoverian monarchy—opened the political space in which the American Revolution could succeed.

When it became clear, over the past two weeks, that the British Foreign Office mishandling of the Polish events had put NATO at its worst potential disadvantage since its founding, a sudden feeling gripped London and New York that the present was a very bad time for a financial crisis. Only more slowly has it begun to dawn on a few British policy-makers that the Western nations may have to abandon monetarism in favor of a dirigistic policy aimed toward rebuilding the in-depth capabilities of the West to match Soviet arms.

Fed: 'The past two years have been wonderful'

A senior staff official, who asked not to be identified by name, had the following discussion with EIR on Jan. 11.

Q: Not just Jack Kemp, but a number of Wall Street economists are saying that the Fed will have to go back

to the pre-October 1979 policy of keeping down interest rates. There are even some people on the bond market predicting a rally on this basis. Will you do this?

A: The whole scenario is completely overblown. I haven't heard a single thing said to that effect in this institution. Absolutely no one is on that track. And, as you may have noticed, we have not done anything to prevent a rise in interest rates.

Q: Are you concerned about political pressure from the White House?

A: If interest rates go up, political pressures will become serious. That is what we expect. But no one is going to turn around and walk away from something that has worked so well for the last two years.

Q: Isn't that like the guy who jumped off the Empire State Building and said when he passed the 23rd floor, "So far, so good?"

A: If you mean the risk of disaster in this approach, yes indeed, there is a risk of disaster. But monetary policy has been better in the past two years than in any previous period, in the sense that we've hit our basic objectives, by the skin of our bleeding teeth, but we've done it, and that's more that we've been able to do before. It means that the Federal Reserve is committed to some definable, understandable objective, and you don't just give this up. Paul Volcker didn't invent this policy on the plane back from the [October 1979 IMF meeting at] Zagreb. I was writing studies on it for this institution in 1971. We've spent more money running computer regression analyses on the monetary aggregates than Poland spends for national defense!

Q: In Western Europe, most people agree with Helmut Schmidt that interest rates have been the problem, and that the NATO alliance will collapse if the economic situation continues into depression.

A: That whole scenario rests on the proposition that to loosen up on monetary policy will help. What makes these people think that printing money will *avoid* a crisis? We hear this from the U.S. administration all the time.

Q: From whom exactly?

A: From the supply-siders, from the people who are running the place. But among the cognoscenti, among the elite, whatever you want to call them in this country, we have gotten unanimity on the proposition that you can't print money.

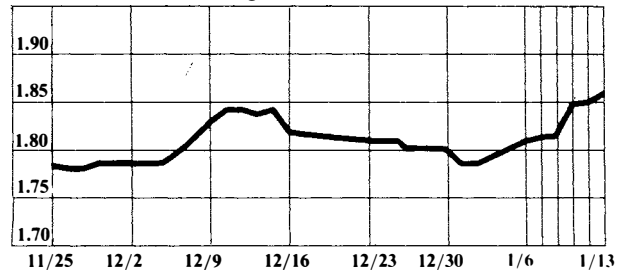
Q: But the Poland situation may change all this. In a strategic crisis, the old rules may have to go.

A: The strategic pressures are more real than they were, say, two months ago. Whether they're determinant or not, I don't know.

Currency Rates

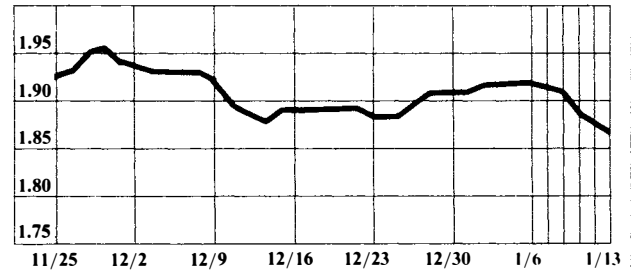
The dollar in Swiss francs

New York late afternoon fixing



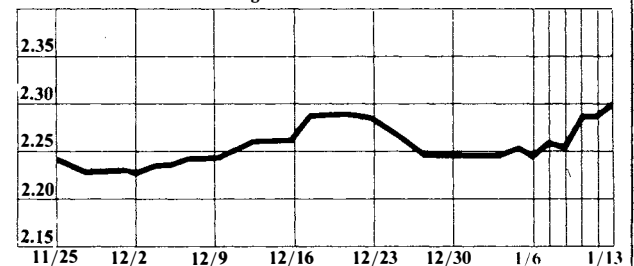
The British pound in dollars

New York late afternoon fixing



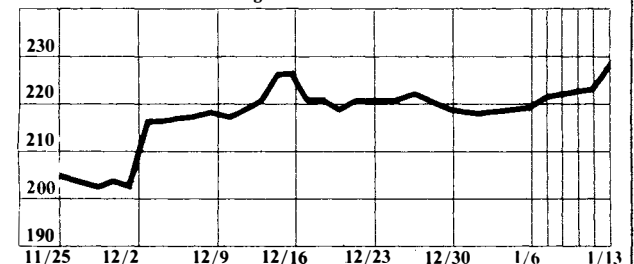
The dollar in deutschemarks

New York late afternoon fixing



The dollar in yen

New York late afternoon fixing



'We were right and they were wrong'

by Richard Freeman

Since 1979, every group of publically acknowledged economics experts, with the sole exception of the *Executive Intelligence Review*, under the guidance of Lyndon H. LaRouche, Jr., has been lost in the woods in its economic predictions. Every economics journal, every bank economist, every economics institute and every econometrics research house has consistently missed what would happen in the economy particularly when it comes to projecting the size of the federal government budget deficit, which these pundits love to jabber about.

The crime is that despite the abysmal track record of the idiot savants of the economics profession, it is their thinking and predictions which guide the investment decisions of most U.S. investors, and worse yet, set the parameters for the economic policy decided by the President of the United States and the Congress. *EIR* believes it is long overdue to perform an act of justice which most people in this country would readily welcome: clean out the Augean stables of these frauds.

The best starting-point is the Congressional Budget Office (CBO) the most-often quoted think tank in Congress on budget matters. In July 1981, the Congressional Budget Office under director Alice Rivlin released its projections for the federal budget deficit of successive fiscal years 1982, 1983 and 1984. Rivlin stated that the deficits would be \$43.1 billion, \$18.4 billion, and \$23.2 billion respectively. Six months later, the projections were shown to be pure nonsense. In January 1982, Rivlin hastily slapped together a set of "corrected" projections which, according to a CBO spokesperson, show that the fiscal 1982 federal budget deficit would be \$100 to \$110 billion, the fiscal 1983 would be \$150 billion and the fiscal 1984 budget deficit in the range of \$200 billion.

Compare the July 1981 and the January 1982 budget predictions. In that time, the projected fiscal year 1983 budget deficit rose from \$18.4 billion to \$150 billion. The latter projection is more than 8 times larger than the earlier, a margin of error of 700 percent.

Data Resources Inc. of Lexington, Massachusetts and Washington, D.C., the econometrics research institution most widely cited and used by corporations with the

largest annual sales revenues in its field, predicted as late as September 1981 the federal budget deficit for fiscal year 1982, would be \$58.4 billion. In late December 1981, only three months later, Data Resources changed its prediction, and said the fiscal year 1982 budget would be \$101 billion, a margin of error of nearly 100 percent.

Fidelity Bank's Econometric Forecasting unit, under the direction of economist Lacey Hunt, one of the most respected and often-quoted forecasters in the United States, projected in late November 1980, that the fiscal year 1981 federal budget deficit would be \$23.0 billion. The actual fiscal 1981 federal budget deficit, which ended Sept. 30, 1981, was \$57.9 billion, a margin of error greater than 150 percent.

Evans Econometrics, another of the "Big 10" of the economic forecasters, stated in November 1980, "Our forecast for 1981 is now slightly more bearish because of the continuing rise of interest rates, but real GNP is still expected to increase in all four quarters next year [1981]." Those who paid for the Evans Econometric Forecast got their money's worth half the time: in two out of the four quarters, real GNP actually fell in 1981.

Two methodologies

The problem is that the professional economics experts openly disdain reality in making their predictions. A CBO spokesperson told *EIR* Jan. 13 that while the Congressional Budget Office releases to the public its predictions about real GNP, budget deficits, inflation and unemployment rates, it *does not* release any predictions on industrial production. The reason is "we at CBO could change our minds at any time about the industrial production assumptions, and no one would know the difference." That is, their predictions are not based on tangible production. Rather, the CBO begins from such meaningless concepts as GNP, which measures the "output" of casinos and rent increases as real economic activity.

In making its predictions, *EIR* starts with how the underlying infrastructure of the economy is affected by such things as loan-shark interest rates, and then figures how that will affect the federal budget.

The full *EIR* track record will be dealt with next week in depth. As a preview, note that the Feb. 17, 1981 issue of *EIR* predicted that the fiscal 1981 budget deficit would blow out of control. *EIR* then estimated that Volcker would add between an extra \$50 to \$60 billion to the fiscal 1982 federal budget deficit later in the year. Volcker's high interest rates, the *EIR* said, had to swell the budget deficit through 1) higher interest rate charges on the public debt; 2) loss of tax revenues; and 3) increased counter-cyclical programs, like increased unemployment benefits, due to the Volcker recession. To bring down the deficit, we said, Volcker had to be fired and his policy of monetarism ended.

The motor of interest rates

Corporate debt financing remains a decisive reason why long-term loans for capital investment are precluded, Richard Freeman reports.

As a harbinger of interest rates levels to come, the 91-day Treasury bill rate should be closely watched, since the bills represent the safest investment there is. When the rate falls, it is reasonably expected that overall interest-rate levels in the United States will follow to lower levels.

Thus, for those oppressed by loan-shark interest-rate policy of Federal Reserve Board Chairman Paul Adolph Volcker, the sharp fall in 91-day T-bill rates for most of the last quarter of 1981 was a welcome development. The rate was at 15.71 percent the week ending Aug. 28, but by Nov. 27, it has plunged to 10.23 percent, a fall of 548 basis points in only two months.

But before anyone could utter "prosperity is just around the corner," the rate took flight, soaring to 12.21 percent by Jan. 11 and still headed upward. The performance of 90-day certificates of deposit of \$100,000 or more at large money-center banks followed the same path, dropping and then pitching upwards by 150 basis points between the last weeks of November and December.

The increase in interest rates has hit the price of bonds, which perform inversely to interest rates. More than half the gain of the bond-market recovery of October 1981 has been wiped out. And the stock market is in a rout, as of Jan. 13, losing more than 40 points in less than two weeks.

The causes

The rise in interest rates is due to two causes. First is the fact that Salomon Brothers' chief economist Henry Kaufman, the alter ego of Fed Chairman Volcker, who has a direct pipeline into Federal Reserve offices, is attempting to destroy all confidence in President Reagan's economic leadership, thus forcing him into deeper austerity measures. A planned panic on the markets during the first and going into the second quarter is what Kaufman, Volcker and others have in store.

The second reason: during the latter part of 1981, despite the worsening depression, corporations were borrowing at very rapid rates. For example, during the period of July 7 through Nov. 11 of last year, after the

economy started heading downward at a steep rate, the business loans by large weekly reporting banks grew at a 12.5 percent rate. In the period Nov. 25 through Dec. 30, business loans grew by an even more rapid 21.4 annualized percent rate.

That growth in bank loans, representing a heavy demand for money, helped push up interest rates beginning in mid-November. During the four-month period July through November 1981, industrial production plunged 5.0 percent, at a 15.0 percent annualized rate, one of the deepest rates of decline since the Great Depression. How is this possible?

The U.S. credit system is perversely out of control. Corporations are spending nearly 60 cents out of each new borrowed dollar to meet interest payments on accrued debt. To prevent themselves from going under, corporations are borrowing hand over fist, even as the economy is being wiped out.

There are other pressures on interest rates. Federal borrowing to pay off a fiscal 1982 budget of over \$100 billion, will mean a large additional demand for funds. State governments, which are losing federal revenue grants because of budget cuts in Washington, will make up some of the loss through heavy borrowing. But, the insatiable corporate need for credit is the greatest factor. Such upward pressure on interest rates is sufficient to lengthen and deepen the depression considerably. Once rates rise again, corporate sales and production fall.

The economy is performing far worse than had been expected, as figures coming in at the end of the 1981 year indicate. For example, the decline in production in the second half of 1981, slashed the use of transportation. As Manufacturers Hanover financial newsletter for Jan. 11 reports, "In December 1981, the number of railroad cars loaded (excluding sharply fluctuating grain and coal shipments) was 18 percent lower than in 1980, following a 14.6 percent reduction in the previous month. Similarly, hauling by trucks has shown intensifying declines in recent months."

Other important industries not making the headlines, such as paperboard and aluminum, turned decidedly downward as the 1981 year drew to a close. During the three months ending in November 1981, aluminum output was running more than 10 percent below the 1980 depressed levels. But new orders for aluminum showed an even worse picture, falling 31 percent below year earlier levels. And in the paperboard industry, despite a 6.5 decline in output in December, compared to the year before, inventories at box plants in November were 26 percent above year earlier levels.

Unemployment

Although final industrial production figures for December are not in as of this writing, the explosion in unemployment for that month indicates that it was dismal indeed. Unemployment shot up to 9.44 million in December, from a level of 9 million. In fact, hidden in the unemployment numbers from the Department of Labor (DOL), is the fact that the size of the labor force on non-agricultural payrolls fell from 98 million to 97.2 million, a drop of 800,000 and far larger than the officially registered increase of 458,000 in unemployment for the month.

The DOL's Bureau of Labor Statistics' attempts to cover itself on this point by reporting that there was a rise of 150,000 unemployed workers in December, who allegedly told the Department of Labor that they were "too discouraged" to look for a job. The DOL, then claimed that those "too discouraged to look for work" were no longer in the labor force.

At the same time, there was a striking 0.8 percent increase in the jobless rate for adult men, to 8.0 percent in December, with the category of blue-collar workers even worse hit with an unemployment rate rising to 12.9 percent in December.

Finally, for the first 10 days of January, domestic auto sales of the Big Three automakers plunged 20.3 percent below last year's bombed-out levels.

Some people are still saying that the worst is over. Many of them foresee a consumer-based recovery, because consumer purchases account for two-thirds of all purchases in the U.S. economy. These pundits should consider that the consumer spending level for December rose a scant 0.2 percent; and for those who think that it will be a capital spending-led recovery, should consider the fact that railroad equipment purchases fell 34 percent in 1981, while the construction of new plant and equipment fell in real terms in 1981, and will not rise with long-term bond rates heading upward again.

Without consumer or capital spending, the economy is left with the prospect that the moment that interest rate goes higher, the economy gets even worse. For the short-term, the rally in the bond market, indicated by the fall in 91-day T-bill rates, is definitely over.

Siberian pipeline: model for growth

by Renée Sigerson

Sometime between 1983 and 1985, a landmark will be reached in world economic events. One day in those years, natural gas from deposits in the Yamal region of western Siberia in the Soviet Union will begin to be pumped along a 3,600-mile pipeline, to factories and power generating stations in 12 nations in Western Europe. In discussions of the project, called the Yamal-Urengoi pipeline, over the years, Soviet officials have proudly noted that the pipeline is "the largest project in recorded history."

The primary importance of the pipeline lies in its ambitious scope, and the way that its construction is drawing upon the industrial-technological capabilities of countries across Europe, as well as Japan. At this juncture of world developments, when the onset of a global economic depression has already triggered mass unemployment in every Western nation, the pipeline provides a model of the kind of economic cooperation and development programs that would reverse the depression.

It is from this standpoint that the opposition of the Reagan administration to the construction of the pipeline needs to be evaluated. President Reagan, with advice from Secretary of State Alexander Haig, has undertaken an aggressive action aimed at postponing construction of the pipeline, if not actually halting it. On Jan. 10, the White House announced it is preventing General Electric Company from exporting a turbine component to firms in West Germany and Italy, which need the component for their building and for export of 41 compressor stations which are to be constructed to pump the gas. Economics Minister Otto von Lamsdorff recently told the German cabinet that Bonn will do nothing to hinder West German companies from sidestepping the effect of U.S. sanctions on the gas deal, so long as secondary suppliers only are involved and not "prime suppliers"—a direct reference to the GE component. It remains to be seen which firm abroad is prepared to produce the compressor part.

The White House explained the move as part of its sanctions policy against the U.S.S.R. in connection with

the imposition of martial law in Poland. On other occasions, Reagan personally attacked the pipeline for being a channel through which the Western countries participating in its construction are indirectly helping develop the Soviet military.

The history of Yamal-Urengoi, however, which goes back to the 1960s, documents that U.S. opposition to the pipeline and related infrastructural development in Siberia really has little to do with the current crisis in Poland—nor really with Soviet military development narrowly viewed. Reagan's misguided opposition to the pipeline is rather a result of the profound challenge which realization of the pipeline poses to the American economy—a challenge which has been perceived by influential forces around Washington since the 1960s when the pipeline was first announced. To the degree that Washington has failed to take up this challenge, Washington influentials are understandably fearful of the Soviet and European commitment to complete the deal.

The challenge posed by the pipeline was precisely identified in June 1980 in an article by Rand Corporation analyst Thane Gustafson in *Science* magazine. Discussing Yamal-Urengoi, Gustafson compared ongoing Soviet projects for waterway development in the region of Yamal to the North American waterway blueprint called NAWAPA. In terms of its geological constraints and potential, the dry regions of the Western United States, Gustafson noted, pose the same scale of challenge to engineering knowledge as the Arctic regions of the Soviet Union. As early as the beginning of the 1960s, the Soviets took up this challenge and began to develop Siberia economically, including ambitious waterway development. The United States canceled NAWAPA.

Moreover, even prior to approaching Western European companies with offers of helping them to develop Siberia in the early 1970s, the Soviets first negotiated with U.S. firms—including Tenneco and Texas Eastern Transmission—on equipment imports for the Urengoi field. In 1974, this U.S.-Soviet cooperation was killed by the infamous Jackson-Vanik amendment, which imposed sanctions on U.S.-Soviet trade.

The current consortium of Western European corporations involved in helping the Soviets to build Yamal-Urengoi was put together beginning in 1978. These firms include the utility companies Ruhrgas (Germany); Gaz de France; ENI (Italy); Mineralölverwaltung (Austria); and the engineering firm AEG, and many others. Financing for the deal has been arranged by a grouping of 10 European banks, led by West Germany's Deutsche Bank.

In May of 1978, West German Chancellor Schmidt and Soviet party chief Brezhnev signed a 25-year economic cooperation accord, which defines the principle that through economic development, world peace can be secured.

For Western Europe, the pipeline constitutes at this point a crucial line of defense against a seriously worsening economic depression. Thousands of jobs across the continent, as well as in Japan, are being secured by the exports which the construction project has generated.

The equipment requirements, for example, include 4 to 5 million tons of steel pipe and 41 compressor stations in the first phase. In the second phase, to begin in 1986 when the Soviets will expand their internal gas pipeline network, 232 further compressor stations will have to be built, most of which the Soviets will order from Western firms.

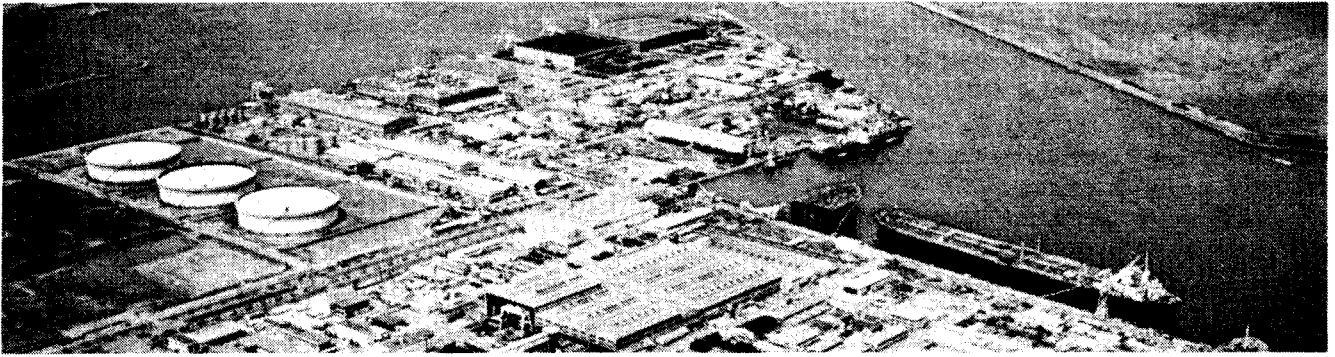
Beginning this year, West Germany and Japan will export 1 to 1.5 million tons annually of steel pipe to the U.S.S.R., part of the agreement. Since Siberian gas development began in the early 1970s, the Soviets have been able to supply 23.5 billion cubic meters of gas annually to Western Europe. By 1990, these deliveries will rise to 30 percent of Western Europe's total natural gas requirement, or 53 billion cubic meters of gas.

Washington officials have often argued that Western Europe could acquire the same level of new natural gas deliveries from Norway and Alaska. The fraud in this argument is underlined however by the complete lack of commitment in the United States to generating the financial and capital equipment outlays which would bring such Western gas sources to fruition.

For example, while the Soviets are planning to borrow a total of \$15 billion from Western sources for completion of its pipeline network, the Soviets themselves are allocating \$30 billion in expenditures over the coming years to financing of the infrastructural development needed to make the pipeline work. These expenditures do not even include Soviet financial and resource commitment to such centers of research as the Novosibirsk university center in Siberia, whose physicists and engineers were the original braintrust behind Yamal-Urengoi.

An Eastern complement to the pipeline, the Baikal-Amur extension of the Trans-Siberian railroad, is expected to bring an economic windfall to Japan. A country entirely dependent on imports of raw materials, Japan will be linked by the railway to Siberia's unlimited natural resource wealth.

When the first phase of Yamal-Urengoi is completed in 1986, the U.S.S.R. will also become, interestingly, a major financial power. Expected Soviet foreign exchange earnings from the natural gas sales are expected to range from \$10 to \$15 billion annually. With these earnings, the Soviets will have no trouble in repaying the loans taken out to finance Western imports. In addition, these revenues, within a few short years, will give the Soviets substantial financial leeway to completely reorganize the \$80 billion worth of debt owed by East bloc countries to Western banks.



Japan's \$500 billion plan to finance global development

by Richard Katz

Agreeing with West German Chancellor Helmut Schmidt's evaluation that the greatest threat to world peace is the danger of a new depression, Japan intends to bring to the next summit meeting of the seven top industrial nations an unprecedentedly huge, \$500 billion plan for world development in order to end the depression. Although Tokyo has already announced it will make a demand to lower U.S. interest rates a subject for the upcoming seven-nation summit this summer in Paris, Prime Minister Zenko Suzuki's administration is concerned that this is not enough. Tokyo fears that without positive measures to end current economic stagnation, the world economy will sink into depression like the 1930s, and that depression could lead to war just as happened a generation ago.

At the summit, Japan will propose a \$500 billion plan for massive infrastructural investment in the developing countries over the next 20 years. With projects for the agricultural and industrial modernization of the Third World—projects ranging from greening of the Sahara to massive hydroelectric and irrigation projects for the Himalayas—the purpose of the plan is to use the resulting economic stimulus to stop a new world depression while avoiding the evils of an arms economy.

The plan was originally developed by the Mitsubishi Research Institute in 1978, and has now been adopted by Prime Minister Zenko Suzuki as official policy. Minister of International Trade and Industry Shintaro Abe is instructed to sound out the reactions of U.S. and European leaders during a Jan. 14-15 meeting of Trade Ministers in Florida and perhaps also during a private meeting in Washington with President Reagan Jan. 18, according to the Jan. 3 *Yomiuri Daily*.

To develop domestic and international support for the plan, Suzuki has set up a high-powered council

chaired by Toshio Doko, the former chairman of the major business federation Keidanren.

The Japanese proposal envisions a \$25 billion-a-year fund, including \$5 billion each from the United States, Japan, and West Germany, plus \$5 billion from OPEC and an additional \$5 billion from a group of other advanced industrial nations. Over a 20-year period the "Global Infrastructure Fund" would finance 12 massive projects such as: construction of new canals across Thailand and Nicaragua to shorten and cheapen sea transport; greening of the Sahara, Sinai, and Arabian deserts to make agriculture possible; creation of a giant lake using a dam on the Congo River to allow irrigation of the fertile Sahel area; and massive water projects on the Himalayan river chains to allow hydroelectric and irrigation developments for the modernization of the Indian subcontinent.

In the face of U.S. economic policy marked at best by negligence and at worst by Volckerism, Tokyo has decided it must make some independent initiatives. Tokyo is also mindful that unless steps toward expanding the world economy are made, it will almost inevitably face trade wars echoing the tragedy of the 1930s.

Thus the Suzuki administration's motivation in pushing this plan is the prevalent view in Japan that the economic depression of the 1930s caused the wars of the 1940s and the relevant fears generated by the current economic crisis. Many Japanese leaders agree with West German Chancellor Helmut Schmidt's comment to the *New York Times* that the danger of a new world depression, rather than the Polish crisis per se, forms the greatest threat to world peace. Indeed, a recent report of Japan's Economic Planning Agency asserted that the

Above: Japan's Sakai shipyard.

source of growing East-West tension is world economic stagnation, exemplified by Poland's problems. Prime Minister Suzuki sent top Foreign Ministry official Toshiaki Muto on a 12-day tour of Europe, with due emphasis on West Germany, to coordinate reactions to the Polish crisis. Japan has already said it will follow the European policy on Poland.

Two features of the global development plan indicate how Japan wants to use the economic program to break up the institutional logjams that lead to East-West confrontation and world economic stagnation. Firstly, according to a leak in the Jan. 3 *Yomiuri*, Tokyo is considering inviting the Soviet bloc to participate in the development scheme. If implemented, this feature would break down the Cold War division of East and West economic blocs and is the first such proposal on that scale since Franklin Delano Roosevelt proposed a \$6-10 billion postwar reconstruction aid package for the Soviet Union during World War II. This feature underlines the "peace through economic development" motivations of Tokyo policymakers. Secondly, according to the *Yomiuri*, the plan's sponsors think such a special fund is needed "because such existing international bodies as the United Nations and the World Bank have ceased to function effectively as a result of international disputes and North-South confrontation." Japan's business and political leaders, who have a great deal of expertise in the matter of turning developing nations into industrial powerhouses, are well aware that the anti-industrial biases of the World Bank leadership form one of the greatest obstacles to the modernization of the developing countries. Tokyo believes that industrialization of the Third World is a prerequisite for restoring economic health in the advanced sector.

Mitsubishi economics versus Keynes and Friedman

It is fitting that the proposal was developed by Mitsubishi, since this business group was set up de novo in the 1870s by the founders of modern Japan specifically as a vehicle to import the economics of Alexander Hamilton and Lincoln-advisor Henry Carey to Japan. These were the ideas, specifically counterposed to those of Adam Smith, which made both America and Japan industrial giants.

Mitsubishi's \$500 billion development scheme, as explained by the Mitsubishi Research Institute, continues this tradition by posing a solution that avoids the twin pitfalls of Milton Friedman and John Maynard Keynes: While the Mitsubishi plan's dirigist attack on Friedmanism is obvious, equally important is the analysis that Keynesian forms of public stimulus are "make work" projects that are inherently unproductive and therefore inflationary, whether these unproductive Keynesian measures take the form of military or civilian

projects. The Mitsubishi plan instead proposes investments that pay for themselves through increased productivity.

[The plan] aims at developing new sources of energy and increasing food production for the world, thereby trying to establish long-range programs to overcome the current worldwide stagflation.

It is expected that the implementation of the various "super projects" proposed herein would lead to the development of peaceful demand in the manufacturing industry as well as of technological incentives in advanced countries in lieu of arms production. Also expected would be the multiplier effects upon the national income and employment of many developing countries which would be recipients of these proposed projects. . . .

Keynesian policy for stimulating effective demand operated with good results for 30 years after the war. Recently, however, its various inherent problems have become subject to discussion, the first of these is . . . by its very nature, an inflationary trend. . . .

The world panic of the 1930s was not overcome solely by the Keynesian policy of stimulating effective demand nor by President Roosevelt's New Deal policies. It is a stark historical fact that, unfortunately, rearmament and vast military expenditures caused by war itself provided the effective means to overcome this crisis. . . .

In today's world, however, the development of nuclear weapons . . . rule out a large-scale war that would involve major industrial nations. . . .

To overcome the present worldwide recession, there is no other way but to stimulate private business activity in the major industrialized nations. . . . We believe that in order to allow the existing world economic system to follow a peaceful and steady course without excessive military expenditures, a type of public investment on a global scale would be strategically effective. . . .

All the conventional types of public investment have their limits in terms of needs and capability when looked at solely in the light of each national economy. For instance, among the advanced industrial nations, West Germany does not require much public investment. On the other hand, while there is a great need for this among the developing nations, say in Africa and Southeast Asia, they lack the means to carry such investments through. . . . Therefore it will be necessary to implement New Deal policies on a global scale in order to first stimulate private business activity in the advanced industrial nations and then extend its effect to the economies of the developing nations.

Offshore banking comes to Mexico: will the Alemán faction re-emerge?

by Timothy Rush

On Jan. 4, Mexico's official government gazette published new regulations permitting the establishment of International Banking Facilities (IBF's) in Mexico. This is the same step, bringing "offshore" banking on-shore, which New York took the first week of December.

The measure had been held back for three years by nationalist forces in the Mexican bureaucracy who understood its implications. As in New York, the Bahamas, Hong Kong, and everywhere else such institutions are allowed to flourish, the IBF's in Mexico will serve to divert credit flows away from productive purposes, into supranationally controlled financing of drugs, real estate speculation, luxury tourism, and other parasitical activity.

The key to the British-directed "offshore" operations is that they exist outside of any government supervision and free from banking reserve requirements. Their operations are thus ideal for not only disguising flows of hot money, but generating spiraling multiples of unbacked "Eurodollar" credits which take on increasing weight as domestic credit systems are squeezed.

The implications for the rest of Latin America are ominous. Knowledgeable sources have told *EIR* that the principal initial flow of funds through Mexican IBF's will be flight capital out of the rest of the continent. Furthermore, the back-to-back New York and Mexico legalization puts intense pressure on other Latin American centers, such as Brazil. What is taking shape is an entire continent in which individual nation states have lost the core of economic sovereignty, no longer having final say over the most basic decisions of credit creation and allocation.

The implications for Mexico's domestic political line-ups are equally disturbing.

The IBF decision spearheads a determined bid by the political faction of Miguel Alemán Valdez, which runs Mexico's drug and dirty money rackets, to take over fundamental economic decision-making from the pro-industry, nationalist faction grouped around President José López Portillo.

The offensive was kicked off with a December pro-

posal conducted through Tourism Minister Rosa Luz Alegría to re-open casino gambling in Mexico, 45 years after it was thrown out of the country by Mexico's most popular president of the 20th century, Lázaro Cárdenas. (See this week's Dateline Mexico column). Bolstered by the IBF decision, the Alemán push will receive a new shot in the arm during consultations with the Canadian branch of what has been called the Dope Inc. cartel, on the occasion of Prime Minister Trudeau's visit to Mexico starting Jan. 13, 1982.

In contrast to these measures to facilitate dirty money flows, the picture for Mexico's productive industry-related finance looks more and more bleak. On Jan. 1 Mexico was obliged to cut its oil prices again, an average \$1.00 per barrel, due to further drop in advanced sector demand. The oil revenues are crucial to Mexico's program of capital goods-acquisition from abroad. On Jan. 13, the first big loan of 1982 came through for Mexico, a \$400 million Eurodollar syndication advanced to the government's Banrural. The spread over LIBOR: seven-eighths of a point, as against the five-eighths prevailing since the oil boom began four years ago.

The Alemán empire

From the period of his presidency (1946-1952) on, Miguel Alemán Valdez dedicated himself to building up the "umbrella" infrastructure which serves Mexico's dope, gambling, prostitution, contraband and flight capital rings. His first big project was Acapulco, which rose to its jet-set glamor status under his presidency; the major cover for his efforts was luxury tourism. He promptly established and remains the president today of the Mexican National Tourist Council, a worldwide personal diplomatic and intelligence network running parallel to Mexico's official activities abroad.

The most important fact about Alemán today is that he is Henry Kissinger's "Mexican connection." Every February Kissinger spends a full month as Alemán's guest in Acapulco. This year Kissinger will be bringing some very special projects with him. In mid November 1981, Kissinger conducted intensive corporate strategy

sessions in Brazil to vastly upgrade and diversify the flow of illegal drugs and dirty money through the southern half of the continent (see *EIR*, Dec. 22, 1981). At the beginning of January, he showed up for a similar planning session at the home of designer Oscar de la Renta in the Dominican Republic. With his personal piggybank, David Rockefeller, Kissinger is the primary figure attempting to insert the drug plantation known as Jamaica as the center-piece of the soon-to-be-announced Reagan administration Caribbean Basin Initiative.

Alemán functions, like Kissinger and Kissinger's host in Rio, Israel Klabin, as a key link into the circles associated with Meyer Lansky. The recent rapid expansion of Mexico's largest commercial banks into the unregulated offshore centers of Hong Kong, the Bahamas, Panama, and other dirty-money centers was opened up by Alemán personally during an extended tour of the Far East two years ago.

Setbacks for Alemán

Serious blows against the Alemán apparatus were delivered under the administrations of both Luis Echeverría (1970-1976) and José López Portillo. Echeverría's ruthless war on Mexico's drug production, launched in 1975 as Operation Condor, went far toward eliminating one of the most important underpinnings of the Alemán empire. Alemán to this day holds a grudge against Echeverría's then-Attorney General Pedro Ojeda Paullada, responsible for carrying out the effective drug eradication campaign. Alemán reportedly took U.S. Vice-President Bush aside in the mid-September, 1981 days just preceding the announcement of Mexico's next president, Miguel de la Madrid, to enlist U.S. influence to blackball the chances of De la Madrid's chief competitor, the same Ojeda Paullada.

López Portillo, for his part, firmly and repeatedly rejected Alemán's demand that Mexico invest its oil money primarily in tourism and other service-oriented activity. Industry and advanced, productive technology are to be the basis of Mexico's leap into the 21st century, López Portillo insisted.

The new Alemán offensive is designed to test just how far Alemán can go in gaining control over the next administration, that of De la Madrid.

How the IBFs will work

Unlike the proposal to re-establish casino gambling, which raised an uproar, the IBF's slipped through on Jan. 4 with hardly a murmur.

Perhaps part of this was due to the fact that the enabling regulations forbid "offshore" banks established in Mexico City from taking deposits from within the country and from lending within the country. However, such an attempt to "insulate" the IBFs from the

domestic banking system is purely fictitious. Any Mexican who wants to, can simply deposit his flight capital in a foreign branch of the same Mexican or international bank which has set up an IBF in Mexico. That deposit, quite legally, can then be wired back into Mexico "from abroad." It is all one, interlocking, computerized "hot money" system—and it increasingly dictates who gets access to liquidity and who doesn't. The Mexican private sector debt contracted directly from such Eurodollar sources, largely in offshore havens, currently amounts to between \$15 and \$20 billion, according to informed estimates. Mexican companies have been forced to resort to this "dollarized" financing—with enormous penalties in case of a peso devaluation—because the domestic liquidity simply isn't available, with much of the shortfall a consequence of flight capital and similar speculative activity.

The extension of IBF's to Mexico itself reinforces this whole vicious circle.

'New techniques'

Moreover, the intention is clearly to build Mexico into a major international banking center à la Hong Kong.

José Manuel Rivero, a top economist at Banamex (some wags are now calling it Bananamex due to its overlap with drug networks epitomized by Max Fisher's United Brands), stated that one of the main arguments in favor of the measure was to "build up a good image for Mexican banking procedures." Sources in the Finance Ministry also stressed the importance of training Mexican banking personnel in "the new techniques of international banking." And Melanie Shain, of a Pennsylvania consulting firm called Finance and Trade Services Corp., told *EIR* that "flexibility is the key thing. Though setting up IBF's in Mexico is a high price for flexibility, there is the determination to make it pay off.

"Mexico is one of the few countries in the area to be making real strides in communications, especially into the rest of Latin America." This means Mexico will capture an important part of the Latin American flight capital market, she noted. When pressed to justify the extension of IBF's to Mexico, Mexican bankers are pulling out copies of an internal U.S. Federal Reserve study written to back the New York move into IBFs.

Banamex, which has opened "offshore" facilities in Hong Kong and the Bahamas over the past two years as well as interfacing foreign branches in Los Angeles, New York and London, will be the first Mexican bank to take advantage of the IBF's, our sources inform us. Banamex president Agustín Legorreta was a companion of Kissinger's at the Dope, Inc. planning sessions in Rio last November. Bancomer, the other Mexican bank in the world's top 100 banks, says that it is going to wait and study the new regulations for a while.

The assault on U.S. farming

Agriculture Editor Susan Brady Cohen surveys what Volcker has done to this vital sector, and how Global 2000 sponsors intend to escalate.

The enemies of American agriculture exposed themselves with a vitriolic attack on farm producers and the USDA at the annual convention of the American Association for the Advancement of Science in Washington, D.C.

The attack was conducted by Russell Peterson and Donald Lesh, founders and leaders of the "Global Tomorrow Coalition." Global Tomorrow was formed a year ago to promote the conclusions of the *Global 2000 Report* issued by the Carter administration, namely that the world's population should be reduced by 2 billion by the year 2000. Lesh is the Coalition's director. Peterson, chief of the Audubon Society, is among the elite of zero-growth environmentalists lodged within the Republican Party.

At a special session of the week-long AAAS conference devoted to presentation of the Global Tomorrow Coalition's program, Peterson charged that Agriculture Secretary John Block was "worse than Watt," and the USDA more dangerous than Interior. He put top priority on stopping USDA policies that "subsidize agricultural technology," a reference to the basic farm commodity programs. Of course, we're against James Watt, Peterson said, but he's not the "real problem."

Making it clear that agriculture itself was the "real problem," Peterson introduced Dr. Wes Jackson, from something called The Land Institute, to speak on "the problem of agriculture" (not "the problem *in* agriculture," Peterson emphasized) for the Coalition.

'As serious as nuclear war'

"We regard the problem of agriculture as as serious as nuclear war," Dr. Jackson stated, and proceeded to denounce the very existence of agriculture. Modern agriculture undercuts the basis of human existence, Jackson argued, because it encourages an increase in population, and because it uses land, water and other "scarce" resources, causes soil erosion, and so forth. In extending and modernizing agriculture, he concluded, the human race is "preparing its own extinction"!

Agriculture continued to be a target throughout the

conference. Former agronomist turned genocidalist Garrett Hardin, one of the architects and promoters of zero growth and population "triage" in the U.S., in a featured panel debate, called for the elimination of cattle breeding and shutdown of the livestock industry.

It was not, moreover, the first time this association of "scientists" have taken out their knives against American agriculture, and livestock production in particular. At last year's conference in Canada a full panel, directed by vegetarian and "animal rights" activist Alex Herschaft of the Mitre Corporation, was devoted to an attack on the livestock industry for polluting the environment and wasting scarce land and water resources.

The economic danger

These calls for the destruction of modern agriculture are being issued with the full knowledge that the financial crisis now unfolding threatens to plunge America's farm sector into bankruptcy and ruin, jeopardizing future food supplies for U.S. citizens as well as the millions overseas who depend on the American farm producer.

Today American farm producers are in the worst economic straits since 1933. As of October they were operating on average at 57 percent of parity, or one-half the breakeven level for continued production. Low farm prices and soaring production costs, led by usurious interest charges, have thrown producers into a dangerous cash-flow crisis.

Official USDA estimates project 1981 net farm income at \$19 billion, down 20 percent from 1979, but former USDA economists such as Jim Webster confirm producers' "on the ground" judgment that this critical parameter of the farm economy's viability will be closer to \$13-15 billion this year.

An estimated 300,000 farmers have already been forced out of business during 1981. The survival of the rest will depend on the ability to get more credit, a job made more difficult by the stagnation in land values—currently the principal, if speculative, basis for new

credit extension. This, on top of the income collapse and usurious Volcker interest charges, will rule out commercial refinancing for many producers.

In fact, American Agriculture Movement chairman Marvin Meek anticipates that fully one third of the remaining producers will be driven to the Farmers Home Administration (FmHA), the farm sector's "lender of last resort"—at the same time that the combined Volcker-Stockman monetary and budget austerity program is turning that vital agency into a weapon *against* farmers. In January, the Reagan administration started jacking up interest rates on FmHA loans to "market" levels. In October the Economic Emergency Loan program, which more than any other single thing kept our farm sector intact and our food supplies secure over the past four years, was allowed to expire. The administration parroted the Carter administration's charges that the FmHA programs, especially that one, were too generous, and made it clear they would reject an extension. Finally, the FmHA's budget has been slashed by 70 percent.

Now few new loans will be made and current borrowers will be foreclosed if they fall behind in loan repayments, according to new guidelines described by producers as a "declaration of war on farmers." Reports from across the country indicate that in some states such as Kansas as many as 13 percent of FmHA borrowers may be forced into foreclosing as the FmHA's 2000 county offices are pressed into enforcement of the austerity guidelines. As spokesmen for the head office of FmHA in Washington put it, many county offices had "inadvertently" allowed some farmers to fall behind in their payments. It is this "laxity," among other things, which is to be corrected.

The FmHA question

FmHA borrowers are being clubbed over the head with the Volcker dictum that American living standards must be cut down, exemplified in a letter sent to Colorado FmHA borrowers recently. "We in America enjoy a standard of living envied by the rest of the world," the FmHA intoned. "A lot of this is because of our ability to buy many things that are not essential to our basic needs and are bought because of our wants.

"If you are to survive these economic times, you will have to limit your spending to cover basic needs for family living, operating expenses and capital purchases. Borrowing money will have to be limited to what you *know* you can repay. . . ."

This to producers who have cut their family budgets to the bone, and who have been unable to make urgently needed capital investments in machinery and equipment for two years! This to producers who have managed to continue operating at below cost of production, supporting massive debt loads and bleeding away

their equity for more than 30 years!

Many producers are fighting FmHA foreclosure and railroading in the courts. Tom Nichols of Wolf Point, Montana is one. Nichols, who reports that he knows at least 75 farmers who are being foreclosed in eastern Montana and an area of North Dakota alone, testifies that when he visited an FmHA office in North Dakota, passing himself off as a farmer who wanted to move into the area, he was told by the FmHA official that "land prices are coming down, more farms will come up for sale, and that FmHA is pressing many into voluntary liquidation."

FmHA officials in Washington maintain that foreclosures will not be much higher than 1 percent and insist that they will do everything possible to keep viable producers in business. This, however, remains to be seen. Considerable pressure has been exerted on Congress, and a group of Congressmen and Senators in which Senator Bentsen (D-Tex.) and Rep. Stenholm (D-Tex.) are prominent have demanded that FmHA chief Schuman explain the discrepancies between the facts of what is occurring in their districts and FmHA's official pronouncements. They are at the same time making an effort to, in their words, educate Mr. Schuman and the rest of the administration to the "scope of the nation's farm problems."

Decapitalization effects

The battle over the FmHA lending policy is critical. Since 1977 FmHA has been the last line of defense—not for so-called marginal farmers, but for young producers who aggressively expanded their operations on the promise of 1971-73 for sustained economic growth. They were promptly hit with the recession of 1974-75, and again in 1976. Since 1977, FmHA's proportion of non-real-estate debt outstanding has jumped from 4 to 15 percent.

There is no question that the Volcker policy is the key to this crisis. Today interest payments make up 13 percent of total production costs—a \$20 billion charge on agriculture this year—compared to about 7 percent just 10 years ago. The cumulative effect of the lack of profitability in agriculture has forced producers to increasingly rely on borrowed money. This year farmers needed borrowed money for 23 percent of their operating (not capital) expenses, compared to 5 percent in 1971.

The mounting debt and cumulative cash-flow squeeze has forced producers to forego needed capital investments in land and equipment. The much-talked-about problems of soil erosion, as well as the near bankruptcy of several of the major farm equipment producers are directly a result of this. In 1980, for the first time since 1968 farmers *reduced* capital expenditures absolutely by 8 percent from the year earlier.

A portrait of Preston Martin, Ph.D.

Will the new Fed Vice-Chairman push zero growth for America's housing and thrift institutions?

Below is part of the track record of Preston Martin, the 58-year-old California real estate professor and financier who was nominated by the White House Jan. 11 for a four-year term as Vice Chairman of the Federal Reserve. Martin is now high on the list to succeed Fed Chairman Paul Volcker in 1983. He is being played up as a pro-housing Reagan man, having been California Savings and Loan Commissioner in 1967-69, and Chairman of the Federal Home Loan Bank Board under President Nixon from 1969 to 1972. The press says that he comes recommended by Reagan's kitchen cabinet, particularly by San Diego Savings and Loan Chairman Gordon Luce.

But "Pres Martin's nomination came straight from the Federal Reserve itself," Anthony Frank, chairman of San Francisco's giant First National S&L and close personal friend of Martin, told me. "The Fed wanted someone who thought their way about economics, and they moved way before the White House did. In fact it was the Fed who surfaced his name to the press, pushing the White House."

Fed chief Volcker has vowed to shut down S&L credit for housing. Asked if Martin's views were compatible with Volcker's, Frank told me, "Martin has his own views, but he's not an S&L man. He's not a pro-housing advocate."

Martin, he said, is rather an advocate of the "re-industrialization"

theory, which holds that America must spend much less capital on housing, and more on "wired society" industries like computers. Martin, he said, in fact advocates a plan to "double corporate investment" in such new industries by "taking it out of housing." Under the plan, being pushed by Volcker and Budget Director David Stockman, America's \$100 billion in annual mortgage net lending would be slashed in half to \$50 billion by new taxes to discourage second mortgages and mortgage refinancing in general.

Preston Martin himself is quoted as saying that the American standard of housing has got to shrink. "We're going to have to go back to the 1930s ratios" of housing costs, he said.

Martin's training is in real-estate speculation. Martin received his Ph.D. in Monetary Economics from Indiana University, where his colleague Prof. George von Furstenberg first developed the "re-industrialization" theory.

Martin then moved to the University of Southern California in Los Angeles, where from 1954 to 1966 he was Professor of Finance. There he authored the famous real-estate text *Principles and Practice of Real Estate* (1959), and developed the first degree programs in real estate, emphasizing "leveraging" and other speculative policies.

Named in January 1967 as Governor Reagan's Savings & Loan

Commissioner, Martin set up the first S&L deregulation and S&L shrinkage programs in the country. During 1967-69, he introduced the Variable Rate Mortgage, which lets mortgages reach 20 percent-plus interest rates. His former Deputy State Commissioner William Harrison told me, "Pres rationalized that with lower population growth and lower economic growth, fewer S&L branches could be supported. So he made the branch application system much tougher. There were very few branches granted in his tenure."

Martin did the same on a national level as Chairman of the Federal Home Loan Bank Board from 1969-72, according to Thomas Bowmar, a Martin appointee to the Board. "Pres was the man who changed the philosophy of the Board from protection of S&Ls to deregulating them as rapidly as possible," Bowmar told me.

In 1972, Martin went into real-estate speculation personally, founding PMI Mortgage Insurance Company in San Francisco. In 1973, he sold the company to All-State Insurance, owned by Sears, Roebuck. Martin then moved quickly up at Sears, which is one of the most avid supporters of zero growth among U.S. companies. Sear's Rosenwald family not only helped found the University of Chicago, home of Volcker's monetarism, but has funded the Aspen Institute, the center of environmentalism in America.

From 1973-80, Martin became a top Sears executive in Chicago, and Chairman of Sears' real estate holding company, Seraco. He is currently a director of Sears, and private consultant to Sears Chairman Edward P. Telling.

Nuclear program unravels further

Americans ought to carefully study the result of the French atomic-energy commitment.

Continuing cancellation of U.S. nuclear plants was the subject of a Jan. 5 year-end review in this space. Since that writing the situation has deteriorated further.

Most dramatic and potentially most devastating is the Jan. 8 decision by the U.S. Circuit Court of Appeals in Washington, D.C. regarding the fate of the Three Mile Island-1 nuclear plant.

That three-man court established a very dangerous precedent. It ruled that the National Environmental Policy Act includes "anxiety and psychological stress" as environmental factors which must be determined by the government.

The specific case involves the ridiculous three-year delay in restarting the undamaged unit, which happened to be down for refuelling the day of the bizarre TMI-2 disaster. Shutdown of the TMI-1 unit threatens to make GPU, the parent utility, the first electric utility in the United States to declare bankruptcy. Such an event would trigger further cancellations.

This TMI precedent will be used by anti-nuclear groups later this month in hearings on the Indian Point nuclear units 2 and 3. Government hearings will weigh the demand to shut down a major power source for New York City on the explicit issue of "fear of nuclear power," due to proximity to a city!

In New Jersey, Public Service Electric & Gas has formally canceled its Hope Creek-2 nuclear unit, having already invested \$172 mil-

lion on the partially complete plant. The decision, according to PSE&G, was based on "lower consumer demand" projections.

Carolina Power & Light has just announced cancellation of its Harris-3 and 4 nuclear units and postponement of Harris-2. The Tennessee Valley Authority (TVA), with the nation's largest nuclear commitment, announced on Jan. 6, 1982 that it will decide on the fate of Yellow Creek-1 and Hartsville-A1 and A2. This, if adopted, would bring to eight the number of nuclear plants deferred or cancelled by the TVA since Carter put anti-nuclear strategist S. David Freeman in charge of TVA.

There is a fundamental flaw in each of the above economically devastating cancellations. First, one of the major capital spending components of the total U.S. economy is the hundreds of billions in planned new power plant construction. Cancellation of the scale of recent years becomes, then, a "self-fulfilling" prophesy. The economy declines in short term. Long-term "demand" is then extrapolated.

Further, every dollar spent today on advanced nuclear infrastructure is of greater real worth, compared dollar for dollar, than even a coal-fired plant. The energy-density of nuclear power is seven times greater than coal. It is worth noting the one most outstanding recent international example of a nation that has maintained an aggressive nuclear energy program,

France.

The present French program is the result of policies made prior to the "Aquarian" government of Socialist President François Mitterrand. The central state-owned electric utility, Electricité de France (EdF), has added 15 new nuclear plants to the national electric grid in the past 15 months. France, with a total of more than 23 gigawatts of installed nuclear capacity and another 27 gigawatts under construction, is the world's second largest nuclear producer in absolute size. The largest, our own, has been stagnated since 1979 at about 71 gigawatts.

While the United States produces about 11 percent of total electric power from our nuclear base, with the vast majority from inefficient and expensive coal or oil generators, France last year produced 40 percent of all its electric power from nuclear sources.

With an absence of the absurd regulatory problems and with centralized design standardization built into the French program, the average construction of a French nuclear plant takes five to six years. Current completion time in the United States is verging on 12 to 14 years, with no relief in sight.

With far cheaper construction costs, and cheaper unit generating costs of uranium, EdF has just calculated the cost of a kilowatt-hour of nuclear electricity at an impressive low 16.5 centimes (approximately 3 cents). Coal is calculated at a whopping 34.6 centimes, more than double nuclear. The EdF calculates oil generation at almost 400 percent more than nuclear, 58.3 centimes. We need to break out of this absurd nuclear deadlock rapidly.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$1 bn.	Egypt from France	Mitterrand govt. has approved sale of 20 Mirage 2000 combat jets to Egypt. Egyptian press had expected order two or three times as big. Part of deal is that Egypt will make some spare parts for Mirage line, which will give French arms industry a base in the Middle East. French hope to use this as leverage to get big Saudi financing for Mirages, should Egypt move closer to Saudis.	Terms are 9% on French francs, payable in 12 semi-annual installments following 1983 delivery.
\$26 mn.	Jamaica from U.S.A.	A complex of 2 movie and TV stages will be built in the Montego Bay Free Zone under tax breaks which will make a planned facility in central Florida non-competitive. Jamaica is giving investors tax writeoff of total construction costs and 70% of eventual revenues. Filmmakers using Caribbean Media Center will get 9 years' tax holiday on income from films made there. 20th-Century Fox and Warner Communications will use site.	Up to now, only "flicks" made in Jamaica were ashes off marijuana joints. Reagan Administration "Caribbean Basin Initiative" has given Jamaica tax breaks on convention business.
	U.S.A. from Japan	Daiwa Steel Tube plans to double capacity of its Pine Bluff, Ark. Century Tube Corp. to 72,000 tpy structural-use galvanized steel tubes.	Century plans to expand from current Eastern U.S. market toward West.
\$9 mn.	U.S.S.R. from Japan	Soviet Transport ministry has ordered 16 tunnel-boring machines for use in the Bam Trunk Railroad construction. Boring machines made by Tone Boring Co. and sold through Nissho Iwai for payment in U.S. \$.	Deliveries scheduled for early 1982.
\$90 mn.	U.S.S.R. from Japan	Soviets have ordered 4 pneumatic grain unloaders with 300 ton/hr. capacity each for shipment in November.	Expected 2 will be in Black Sea port and 2 in Far East.
UPDATE			
\$15 bn.	U.S.S.R./ Western Europe	Siberia-Western European pipeline deal, running into problems from U.S.' "Polish" economic sanctions which may prevent GE from delivering \$160 mn. in gas turbine rotor blades needed for the pumping stations already contracted from European suppliers. Several Western countries could circumvent sanctions by using GE technology to make blades themselves, or the project may be delayed by search for system not dependent on any U.S. components.	Deal affected by constantly-changing political parameters analyzed in <i>EIR</i> . Soviets are not only ones hurt by sanctions. Immediate results include added value for North Sea gas and added leverage to Libya and Algeria in bickering with Western Europe over gas prices.
	U.S.A. from Japan	Kaiser and U.S. Steel are ordering steel slabs (semi-finished steel for making flat-rolled steels) from Japan to replace upstream pig-iron steel capacities in the U.S. which they have scrapped rather than build modern coke ovens and blast furnaces. American steelmakers specializing in rolling and stamping. Kaiser will take 0.5 mn. tons slabs from the 5 big Japanese steelmakers this year, rising to 2.5 mn. tons in 1985 as it closes down the only integrated steel capability on the U.S. West Coast.	<i>Japan Economic Journal</i> reports U.S. Dept. Commerce "welcomed this U.S.-Japanese division of labor arrangement" and will not count Kaiser slab as Japanese steel export to U.S. Ostensible purpose is to "save" Kaiser from bankruptcy.

Business Briefs

Deficit Financing

Morgan Grenfell sees world credit crisis

The British investment bank Morgan Grenfell argues in its January *Economic Review* that the latitude for credit expansion and deficit financing in the world credit system has undergone a fundamental deterioration in the most recent period, leading to "a persistent increase in real interest rates" despite falling industrial output.

London's *Financial Times* made the report the subject of a Jan. 13 editorial, which concluded that governments must end deficit financing as a result.

The bank's argument is that the low inflation-adjusted interest rates of the 1970s were the result of a generous supply of savings in the world market, largely due to the surplus of the OPEC countries. However, the collapse of the savings rate in the industrial nations and the reduction of the OPEC surplus through the depressed state of the oil market has eliminated those sources of savings, while credit demand has continued to rise, especially through government domestic and foreign financing requirements.

International Credit

Treasury squeeze on World Bank credits

Deputy Treasury Secretary R. T. McNamar told a conference on the World Bank in Washington Jan. 6 that the bank will have to cut back its activity to conform with a cutback in U.S. subsidies to the institution, change its lending policies to shorten loan maturities, adopt floating interest rates, and enforce increased conditionalities. What McNamar's program amounts to is turning underdeveloped nations over to the "private sector" for looting and genocide.

McNamar's program, echoed by World Bank President A. W. Clausen and boosted by former Treasury Secretary George Schultz, previews the con-

clusions of a report due next month from an interagency task force on U.S. development lending set up last spring by the Treasury Department under McNamar. The idea is not to gut the World Bank, which will remain as a key policy think tank, but to use the cutoff in U.S. credit subsidies to force the Third World to "totally open up their economies to the free market," as the International Affairs Director of the Office of Management and Budget told reporters last year. "In most cases, this will force these countries to totally restructure their economies, cut their imports, and take stiff domestic austerity measures," the OMB official added, like cutting food and energy consumption.

World Bank President Clausen confirmed that his priorities for the bank start with increased "co-financing," where investment decisions are governed by the speculative conditions of the private money markets, and go on to include creation of the machinery to eliminate the "narrowly nationalistic policies" of developing-sector nations interested in protecting their sovereignty.

Developing sector nations must be forced to "face up to the realities," said George Schultz, now head of the giant Bechtel group. Schultz joined the call for dumping the idea of a World Bank energy affiliate to assist Third World nations to develop energy resources. Schultz was joined by Goldman Sachs investment banker James D. Wolfensohn, who said Wall Street considered World Bank bonds a bad risk at the present time.

Real Estate

Pension funds headed for real estate?

In a preliminary report, the 25-member President's Commission on Housing has suggested that the President champion the idea of easing restrictions against pension fund investment in real-estate speculation. The report proposes that the Employee Retirement Income Security Act (ERISA) be amended not only to allow pension investment in government guaranteed mortgage pools, such as the

government National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association, but also be allowed to invest in non-guaranteed second mortgages and to make direct investments and participations in real-estate development.

It is probable that the Commission's report—to be released officially in April—will be a major tool to rescue the bubble especially in go-go spots like New York, Miami, Denver, Houston, and in condominiums and mineral lands. In the past year, major insurance companies, banks and private investors have increasingly pulled away from real-estate investment. Major investment by pension funds will allow these investors to realize their gains and get out.

While proposing massive cash infusion into the speculative market, the Commission advocates a reduced role by savings and loan banks in home mortgages, thereby cutting the number of homes built. It is also ironic that it was the Teamster Central States Pension Fund's heavy involvement in real estate, which while not in violation of ERISA guidelines, was the basis of the intense harassment, investigation, and final severance of Teamster control directed by the ERISA authorities in 1978.

Domestic Credit

1982: the year of national banking?

In Congress and in the boardroom meetings of the top 100 money-center banks, the U.S. banking system is now being completely remodeled along the lines of the British banking system. By the end of 1982, all current regulations, such as the McFadden Act, now prohibiting big banks from going interstate and buying up local banks will be either supervised or revoked outright.

The agenda for the Senate and House Banking Committees, convening this month, is a top-down rewrite of U.S. banking law. In the Senate, Jake Garn (R-Utah) is opening hearings on a Financial Institutions Restructuring Act

Briefly

which would do away with most regulations. In the House, Rep. Fernand St. Germain (D-R.I.) will be holding hearings entitled "FIRE," for "Financial Institutions in a Revolutionary Era," which will also promote total deregulation.

Meanwhile, the banks behind this congressional move are going ahead even without legislation. The major commercial banks have been meeting secretly, to circumvent the law, over the past month to establish up to six national Automated Teller Machine (ATM) networks, which when activated later this year will mean an end to the local and regional bank's business. Through these huge ATM networks, shoppers in St. Louis and workers in Seattle will be able to use their bank cards to access accounts and loans at Chase Manhattan in New York, for example.

First Interstate Bank Corporation, the Bank of America spin-off which now has banks in 13 states, will form one of the first networks, with banks representing together \$200 billion in assets. Members of the group will include Manufacturers Hanover in New York and top Canadian banks.

Labor

The implications of UAW wage cuts

Following the United Auto Workers (UAW) leadership's reopening of the auto contracts less than a month ago, the UAW has concluded with indecent speed a deal with GM to grant wage and conditions concessions in return for reductions in the price of the automobiles. Although no details are given, Doug Fraser of the UAW and Roger Smith of GM said the agreement calls for "equality of sacrifice" among salaried, and hourly workers and the company.

The pact has the following dimensions:

1) Since only 120 hours of on-line blue-collar labor goes into each auto produced, and gross labor costs are \$20 per hour (actual pay averages \$12 per hour), the total blue-collar wage bill in each auto is about \$1,600. If white-collar and

engineering labor are added, the total wage bill is only \$2,000.

As Ford Chairman Philip Caldwell has said, it would take price reductions of \$500-\$1,000 to make sales rise significantly. This means a wage reduction in the area of 25 to 50 percent.

2) The "equality of sacrifice" clause is a typical, Mussolini corporatist formulation, which in this case is designed to set a precedent for all other wage negotiations this spring. Most significantly the UAW leadership, which is very close to auto company management, has been privately plugging a Tax Incentive Plan to sell the wage reductions to the auto workers. A Tax Incentive Plan would give the workers federal tax breaks in proportion to the amount of sacrifice they made—in other words, the government would pay a portion of the auto company wage bill.

3) The auto companies are carrying out a plan, probably agreed to in the 1975-76 period when the retooling began, to reduce domestic auto production by 50 percent. With the auto companies moaning loudly and publicly about falling domestic sales, the Department of Commerce announced Jan. 14 that half the presently unemployed auto workers will never be rehired.

Telecommunications

AT&T divestiture: the Aquarian Age

The Justice Department's AT&T ruling may lead to a doubling of the costs of customer telephone service, and a deregulation of the industry that could duplicate the disasters that deregulation has wrought in the trucking and airline industries. It is being heralded as bringing AT&T and some other giant companies into the age of the Aquarian "Information Society."

AT&T, IBM and a few others will be allowed to buy out companies and establish top-down control over an integrated information processing-telecommunications network spanning the United States.

● **PRESTON MARTIN**, the new Fed Vice-Chairman-designate, may have been boosted by White House Domestic Policy Adviser Martin Anderson. The two worked together as professors of real-estate deregulation in California, and Martin in 1970 appointed Anderson as one of the Public Interest Directors of the San Francisco Federal Home Loan Bank.

● **LAWRENCE KLEIN** of Wharton has "almost no idea what is actually going on with the Soviet and East Bloc economies," a spokesman for Klein's Project Link world econometrics model told *EIR*. "The Link Wharton model for the Soviet bloc shows continued slowdowns in economic growth through 1983. If that is wrong, and the Soviets are turning the situation around, then our current model won't work at all. We'll have to build a new one."

● **WILLIAM O'CONNELL**, Executive Vice-President of the U.S. League of Savings and Loan Associations, reversed his earlier attacks on Federal Reserve Chairman Paul Volcker in a recent interview with *EIR*. "Volcker isn't really the problem," said O'Connell. "We have to cut the budget, that's the real problem."

● **MYER RASHISH** will not even receive the consolation prize previously promised him as U.S. Ambassador to the OECD, claim Washington sources, when he exits as Undersecretary of State for Economic Affairs.

● **JACK KEMP** called Jan. 13 for the firing of Federal Reserve Board chairman Paul Volcker on the grounds that Volcker has caused the current economic recession while offering no grounds to get out of it. "He says he is going to stay come hell or high water and we got both with him."

Why the New York Times went berserk

by Lyndon H. LaRouche, Jr.

The Jan. 10 *New York Times* is almost apoplectic in reaching new extremes of irrelevance on the Polish crisis, in an editorial attack on both George Kennan and Chancellor Helmut Schmidt.

The *Times*'s favorite geopoliticians, including Zbigniew Brzezinski, gambled on making escalation of the Polish crisis the beginning of a chain-reaction destabilization of the Soviet Bloc as a whole. They assumed that by discrediting previously ruling institutions, such as the Communist Party of Poland, the edifice of Soviet command as a whole could be undermined.

Something quite different occurred. For years to date, I have repeatedly warned that the kind of geopolitical games being played by Kissinger and Brzezinski would prompt the Soviet leadership to don World War II military uniforms. I predicted the Soviet military operations in Afghanistan on that basis, but the *Times*'s friends learned nothing from that experience. So, now the nationalist military has replaced the communist party of Poland, and military uniforms have recently become a more significant element in the Soviet command itself.

George Kennan and Chancellor Helmut Schmidt have responded to this reality of the Polish situation, if from slightly different points of reference. Both have insisted, with echoes from leading strategic think-tanks in Britain, that any effort to redraw the Yalta map of Europe must lead to nuclear war, and that approaches to East-West relations must be premised on courses of action which in no way presume an early redrawing of the map.

The *Times* responds like the fellow who dove into a dry swimming-pool. The *Times* blames Kennan's and Schmidt's alleged lack of "positive thinking" for the failure of lunatic Zbigniew Brzezinski's Polish fantasies. If the onlookers had mustered more positive thinking, the fellow who dove into the dry pool might not have broken his leg.

It is not the defeat of Solidarność in Poland which provokes the *Times*'s display of editorial hysteria. As one backer of the *Times*'s Polish fantasies recently stated the matter, the *Times*'s friends were relying upon what some among them described as the Polish peoples' alleged disposition for periodic



Brezhnev, in the uniform of a Marshal of the Red Army, greets fellow Soviet veterans of World War II.

episodes of national suicide. The *Times* was never concerned with the well-being of the Polish people; it was hoping for a very bloody Polish shirt, hoping that the Polish people would impale themselves upon Soviet bayonets, all for the sake of the *Times's* Brzezinskiian dreams.

There is a far broader and deeper reason for the *Times's* acerbic outbursts. If the Warsaw Pact is entering a new form of internal stability, based on increased influence of the military, then the entire Malthusian world-federalist dream must be given up for the foreseeable future. If the Soviet Union is to continue to be a potent industrial nation-state, then it is becoming virtually impossible to transform the United States into a "technetronic" sort of Clockwork Orange nightmare. U.S. basic industry, high-technology agriculture, and liberal promotion of nuclear energy must be put back on to the policy drawing-boards, and the most-profitable proliferation of mind-destroying marijuana and other drugs must be aborted.

Either the United States promptly dumps Paul A. Volcker, and reorients toward "Hamiltonian" forms of dirigist economic recovery, or the consolidation of Soviet-Bloc command around military elements means that in the course of the deepening world depression, Moscow might come to dominate the world by default. To some degree, at least, this point is recognized in relevant British circles; in any case, there is no other alternative.

Over the recent period of *détente*, the East-Bloc nations contracted a substantial debt to Western governments and banks. This debt was undertaken chiefly for capital-goods purchases or to purchase imports of

food. The incurring of debt was premised on the assumption that East-Bloc commodities could be sold at favorable prices on Western markets, and debt-service incurred could be offset by such export-earnings.

However, the Bretton Woods System has been sliding toward a new world depression. Recently, we have in fact entered the first phase of an actual economic depression—no mere "recession"—worldwide. The depression on volumes and price-levels of world trade, combined with rising interest rates, has had devastating effects on every nation significantly involved in the world market. As the East Bloc's indebtedness qualitatively increased its economies' exposure to the world market, the Western depression has hit hard into the internal economies of those sections of the East-Bloc economies with the relatively highest rates of debt-service exposure.

Among these economies, the only instance of gross mismanagement has been the Polish economy. Although Polish industrial development has been good, the backwardness of the social organization of Polish agriculture, a built-in problem since the 1956 crisis, has been a major drain on the economy overall. Poor performance in Soviet agriculture, also chiefly for social reasons, has been aggravated by bad weather, increasing the entire Bloc's dependency upon food-imports. However, although the Polish agricultural ulcer made that economy the most vulnerable of the Bloc as a whole, the effects of the foreign-debt burden have been a combined monetary and economic crisis throughout the Bloc.

This past week, the *Wall Street Journal* indulged itself in a manic fit respecting a Wharton Econometrics study and supplementary remarks by the certifiably mad Z. Nagorski. The *Wall Street Journal's* editors curiously overlooked the evidence that Wharton econometrics have consistently proven their total incompetence over the period since October 1979. The *Journal* absorbed itself in serving as a conduit for economic incompetence and matching strategic hogwash on the nature of the East-Bloc debt-problem and problems and vulnerabilities of the Soviet economy.

Apart from the problems arising from the social organization of policy and much of Soviet agriculture, the East-Bloc economies are not so badly managed

relative to Western performance. Indeed, as we have emphasized in summary, the chief source of East-Bloc economic problems has been East-Bloc exposure through indebtedness to a depression in the Bretton Woods System.

The great crisis within the Soviet economy itself is the fact that while Soviet science is presently advancing at a high rate, this science is bottled-up, because of bottlenecks in the process of translating new technologies into large-scale productive practice. Since 1966, there has been a qualitative improvement in the technological potential of the new entries into the Soviet labor-force. The overlapping of bottlenecks with the increased technological potential of the labor-force

From the New York Times editorial

From the Sunday, Jan. 10 New York Times editorial titled "The Kennan Doctrine":

George Kennan has the courage of Helmut Schmidt's convictions and makes what case there is for acquiescing in Poland's suppression. He says the Soviet Union will always risk more to keep Poland supine than the West should risk to make it freer. So why impose sanctions that can only damage the peace of Europe? . . .

Even Mr. Kennan and Chancellor Schmidt are uncomfortable arguing that might deserves to prevail. So their acquiescence leads them to contend that might should at least define right in world affairs.

Thus they argue that Soviet security is a higher imperative than Polish or Western sensibility. They even struggle to deny the Soviet hand in the Polish crackdown: asking that Moscow order Warsaw to reverse course is, in Mr. Kennan's logic, granting the Kremlin the very authority over Poland which "we profess to deplore." And they rush to blame the victims for their oppression, berating Solidarity for misjudging the limits of Communist tolerance. . . .

When people in the Soviet sphere see what their system produces compared with the West's and then rise in rebellion, the threat to Soviet security can be said to lie in every prosperous democracy. As the Helsinki accords declare, there is no safe way to divide Europe without maintaining an active concern for the quality of life in both halves.

The West can be faulted for mismanaging its interests in East Europe. It lent \$70 billion to help make the Soviet system work, but got no political or commercial collateral. The allies are torn even now by the lure of selling grain or buying gas. . . .

It is simply not true that Solidarity's extremists provoked the terror. What strength they gained came from the Government's refusal to honor even its modest concessions to the union. Solidarity did not overthrow the Communist Party; the Party collapsed of its own dead weight. The union never challenged Poland's pro-Soviet foreign policy.

What was threatened in Poland was not geography, not the security of Soviet borders, but ideology, the Soviet system of concentrating power in a Communist oligarchy. That system destroys initiative everywhere and thus produced Solidarity in the first place. It will never succeed in a modern economy until it makes peace with the people it governs.

Left to their own devices, Polish Stalinists will now maintain the terror until they find new opportunists willing to reconstitute the Party and form a bogus Solidarity. Western "realists" will then be asked to pretend that Poland has recovered its productive powers and to extend and enlarge its loans.

What President Reagan is struggling to assert is that the Polish economy and the Stalinist system are equally bankrupt. The idea behind sanctions is to stop throwing good money after bad until Moscow faces that fact.

If the suppression persists, a formal default will become inevitable anyway, damaging the Soviet bloc more than the West. But if Poland's junta is still free to seek a genuine accommodation with the genuine leaders of Solidarity, there are powerful reasons of state and humanity for the West to underwrite a Polish evolution. There will be time later for defeatism.

must tend to force drastic shifts in priorities within Soviet policy-making, as was reflected in part in the proceedings of the most recent conference.

Under conditions in which external strategic pressures catalyze a military-tinged shift toward emphasis upon "command" in economic policy-making, especially in face of threatened technological boycotts, the potential improvements in Soviet economic management will be forced through by "command."

The unfortunate feature of much strategic thinking in the United States today, is that the habit of "positive anti-communist thinking" impels analysts to overestimate the relative viability of our own economy and to underestimate both the resilience and potentials of the Soviet economy. In this way, it is usually overlooked or even foolishly denied, that as long as we continue our foolish policies of monetarism and toleration of "environmentalism," the medium-term prospects for the U.S. economy are far worse than for the Soviet sector.

What frightens me most today is the fear that the truth of my analysis will be recognized too late. Later down the road, the sense of the need to crush the monetarist and environmentalist policies will probably incline some to impose dictatorship upon our nation, out of contempt for a rotted-out political system, rotted with marijuana and environmentalism. Unless our political system can muster the capability of changing our policies democratically today, not many years from now the result of refusing to do this democratically will be dictatorship, defeat or both.

In the Soviet-Bloc case, the rise of the nationalist military in Poland and echoes of similar tendencies in Moscow, shows that the East-Bloc economies are readily susceptible of developing new forms of institutional response through which to sort out some of the most obvious aspects of mismanagement of those economies. In the Soviet case, this shift in institutionalized response will tend to take the form of a neo-Stalinist war-economy, a form which works—whether one likes it or not.

If we can change our policies democratically now, dump Volcker, opt for "Hamiltonian" methods, and restore priority to science and technology in schools and investment, the advantage will be on our side. Otherwise, not. This choice will become clearer over the coming months.

This is the reality the *Times* so far hysterically refuses to face. The *Times* still nurtures Malthusian fantasies of a world in which nation-states have more or less ceased to exist, in which illiterate labor-intensive serfs drudge in the soil outside those places in which the ruling elite revels amid the Sodom and Gomorrah delights of a non-stop "Studio 54"-style orgy. The Polish military has thus spoiled the *Times's* dream of such a perpetual orgy.

The *Times* is naturally hysterical.

Chronology

Poland before and since December 13

by Irene Beaudry

On Dec. 13 Poland's Prime Minister Gen. Wojciech Jaruzelski declared a state of martial law, a move he had vowed he would make only as a last resort. Weeks prior to the declaration Jaruzelski had been trying to put together a program of National Accord which would have brought together the government, the Church, and Solidarność. In fact, at the Nov. 4 meeting among Jaruzelski, Primate Jozef Glemp, and Lech Walesa the prospects for creating calm in Poland were quite favorable. Two events, however, forced Jaruzelski's hand and led to the declaration of martial law.

Dec. 4: The Solidarność National Commission, meeting in Radom, degenerated into a screaming match dominated by repeated calls for Walesa's ouster. With Walesa relegated to the sidelines, the radical protégés of the British intelligence-guided group KOR launched plans to overthrow the government. Two days before the declaration of martial law, Solidarność called for a national referendum to decide the government Poland was to have and whether Poland was to continue its military alliance with the Soviet Union. In one stroke, Solidarność overthrew basic provisions in the 1980 Gdansk agreement that brought the trade union into being.

Dec. 12: From the other side, Politburo member Stefan Olszowski and ousted member Tadeusz Grabski reportedly made a bid for power against Jaruzelski. Sources described the bid as a hardliners' coup slated for Dec. 16. Both Olszowski and Grabski have reputations as orthodox Marxist-Leninists with close links to the KGB. Grabski, although ousted from the Central Committee in the summer during the party congress, recently began to surface in the press of the synthetic chauvinist Grunwald Union.

Dec. 13: Jaruzelski's speech declaring martial law changed the entire geometry. With evident Soviet backing from the Brezhnev leadership majority, Jaruzelski moved swiftly and decisively to crush his opposition. Addressing the nation "as a soldier and head of the Polish government," and omitting any mention of the party, which he also heads, Jaruzelski laid stress on the anarchy and chaos sweeping Poland. He posed martial law as a question of "national salvation."



A Polish checkpoint.

Jaruzelski said, "Our country has found itself at the edge of an abyss. The achievements of many generations, the house erected from Polish ashes, is being ruined. . . . Chaos and demoralization have assumed the proportions of a disaster. The nation has come to the end of its psychological endurance. . . . We must recognize the hard realities of today. We must understand the necessity of making sacrifices. I would like to attain one thing: calm. This is the fundamental condition from which a better future should begin. We are a sovereign country. From this crisis, therefore, we must emerge on our own. It is with our own hands that we must remove the threat. If this chance were to be wasted, history would not forgive the present generation."

Immediately following the imposition of martial law, Solidarność radicals mounted a campaign of "passive resistance," calling for the occupation of factories and mines. Strikes and sit-ins erupted at shipyards in Gdansk, Gdynia, and Szczecin, at the Nowa Huta iron and steel plant outside Krakow, and in the Silesian coal-mining region. At the Ursus tractor plant, workers sabotaged production, producing one tractor in the first week of martial law. The Warsaw Solidarność branch issued a clandestine news bulletin. "Every action of protest, even the most insignificant, strikes a blow and hastens the time of returning the army to the barracks," it said, and

urged workers to emulate the model of the workers at the Ursus plant. Other clandestine leaflets followed, calling for more and more unrest.

The strategy of the military regime was twofold. On the one hand, the army and the internal security forces moved rapidly to throw a cordon sanitaire around centers of protest in the city of Radom, the Piast coal mines and the Lenin shipyards in Gdansk. Radom was entirely sealed off until all protests were squelched. Army tanks surrounded occupied mines and plants until workers began to come out on their own because of hunger and the cold. Water cannons and smoke bombs were used to disperse demonstrators.

But at the same time the regime showed itself open to negotiations with the Church, permitting priests to meet with protesters and to celebrate Mass in places of occupation.

Dec. 19: Poland's Archbishop Jozef Glemp issued an appeal for calm. "We beg you in God's name, not to raise a hand full of hate against one another," he said. "Keep calm, do not cause our country to fall into a greater misfortune. Only self-control and the maintenance of calm can save the country and the Church, which is carrying out its mission in the country."

Dec. 20: Pope John Paul II's envoy Archbishop Poggi arrived in Warsaw for a six-day fact-finding mission. During his visit he met with Jaruzelski, and on Dec. 24 conducted midnight Mass in Warsaw's cathedral.

Dec. 22: Government spokesman Jerzy Urban publicly gave the Church credit for helping avert bloodshed. At a press conference he stated that "the government highly values all Church statements which promote the establishment in Poland of calm and respect by citizens for the law and the requirements of martial law. It is the government's view that this kind of attitude by the Church constitutes substantial help to the republic." At the same press conference Urban let it be known that Solidarność leader Lech Walesa, under house arrest, had had "several rounds of talks" with the Military Council and with Church representatives.

In spite of efforts by the British Broadcasting Corporation and Solidarność members abroad to escalate tensions through their descriptions of chaos and bloodbaths in Poland, the Church and the military regime's measures averted that which the British-KGB interface most strove for: civil war and a Soviet invasion.

Dec. 24: Polish authorities lifted the national curfew to permit Poles to attend midnight Mass. In the days following, travel restrictions were lifted, telephone services were restored, and Warsaw radio announced the beginnings of resumption of work throughout the nation.

Jan. 8: With the gradual easing of martial law restrictions, Jaruzelski began a systematic purge of Communist Party leaders associated with Gierek regime and those

party leaders in key centers of Solidarność unrest, Gdansk and Katowice.

Both Party First Secretaries from those two regions were ousted Jan. 8. Gdansk party secretary Tadeusz Fiszbach had previously been ousted from the Central Committee during the Party Congress and was known as an arch-liberal close to Solidarność. The Katowice head, Andzej Zabinski, was from the other extreme, a staunch hard-liner in the Olszowski mold. The purge of the party put a seal on Jaruzelski's national leadership over whatever kinds of measures party factions would have wanted to take.

The presidium of the Polish Communist Party Commission for Party Control met in the first week of January to discuss tough new ethical guidelines for party members, including measures to ensure against the creation of cliques and financial scams. The Party committee of the Warsaw region issued a statement saying "that the conviction prevails in the Warsaw Communist Party committee of the necessity to exploit martial law to clean up the party's internal affairs. There should not be any place in the party for onlookers, for passive people or for those who have broken the Leninist norms. Those people who do not feel their strength is up to meeting party statutory and ethical duties are leaving the party ranks."

Together with the calls for purging party ranks came an article in the official party daily, *Trybuna Ludu*, titled

"Need for Consolidation" which warned that "the purging of party ranks of people with alien ideological and political convictions . . . is going to be difficult and perhaps painful. This is why the process should be not only swift but also principled and just, without harming anybody but showing no leniency as well."

At the same Jaruzelski ousted scores of managers and directors of enterprises for incompetence and for harboring sympathy for the Solidarność movement. Many of those factories and enterprises had been the sites of resistance and protest strikes by Solidarność members during the two-week period after martial law was declared.

Jan. 12: Deputy Prime Minister Jerzy Ozdowski announced at a press conference for Western reporters that Polish authorities "would like to end" martial law Feb. 1, and to include Lech Walesa in talks on any future negotiations. Ozdowski, a Catholic parliamentarian, is the highest ranking member of the Polish government who is not a member of the Communist Party. He added that no timetable had been set for lifting the emergency state of war decree, but that this decision would be contingent upon the termination of labor unrest. The Polish authorities have yet to begin the process of economic reform, beyond emergency measures; this, too, will be a measure of stability on which the easing of martial law will depend.

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The Soviet nationalist mobilization that belies Malthusian gameplans

by Soviet Sector Editor Rachel Douglas

The promotion of science and the example of the military were keynotes of last spring's Soviet Communist Party Congress, skimmed over by many commentators. But the Soviet foreign-policy posture of late 1981 throws the spotlight back on those critical commitments of the Soviet command presented by the party General Secretary, Marshal of the Soviet Union Leonid Brezhnev. In the section of his report dealing with *how* the Five-Year Plan would be carried out, Brezhnev said:

"The country greatly needs the efforts of the major sciences, together with the elaboration of theoretical problems, to be concentrated to a greater degree on the resolution of key national economic questions, on discoveries capable of making genuinely revolutionary changes in production. . . . It would be certainly worthwhile . . . to introduce proposals for a certain regrouping of scientific forces. Here we have every right to count also on help from industries having a particularly strong scientific base, including defense."

If this was a demand on the military sector to contribute to the national economy, then the military—in a year when Moscow sources said every available ruble of surplus was going into military development and production—stated its claim, in turn. A June 1981 article by Deputy Defense Minister V. Shabanov, in charge of armaments, made the case for a military buildup:

Our party and its Central Committee and the Soviet government are compelled to earmark the funds necessary for the improvement of armaments and military equipment. . . . "The economy, science and technology in our country are now at such a high level," Marshal of the Soviet Union D. F. Ustinov . . . points out, "that we are capable of creating within a very short time any type of weapon. . . ." Our efforts . . . are directed toward a continued scientific quest. . . . Our unified military-technical policy serves us well in maintaining the technical equipment of the armed forces at the level of modern requirements.

To come within range of their economic growth targets, the Soviets have to solve a serious population

problem—their shortage of labor. This has become a subject of national debate and policy initiative, closely related to the economic and military buildup. Prof. Jeffrey Hahn has documented that Brezhnev's Party Congress presentation, in pledging "an effective demographic policy," espoused the policies of Russia's "pro-natalist" faction of demographers. The state will fund maternal leaves-of-absence from work and extend allowances to families for their second and third children.

With that as state policy, there is evident historical coherence in the fact that one of the two Soviet officials who joined the Malthusian Club of Rome executive board during 1981, Academician Ye. K. Fyodorov, died on Dec. 30.

The military in politics

With the imposition of General Jaruzelski's martial law in Poland Dec. 13, instead of the then-looming alternatives of a takeover and crackdown by communist party hacks or the direct introduction of more Soviet armor, the military moved into political prominence throughout the Warsaw Pact. Not only was Warsaw Pact Commander Marshal Viktor Kulikov in Poland to monitor Jaruzelski's operation—the same Kulikov whose busy schedule in 1981 included at least four visits to Poland and, in October, a mission as courier of a message from Brezhnev to East German party chief Honecker on "urgent questions of the international military-political situation." On the eve of Polish martial law, the Soviet military daily *Krasnaya Zvezda* (*Red Star*) presented a lengthy theoretical article called "The Political Significance of Military Service." In that Dec. 11 piece, Col. A. Timorin and Maj. A. Zyuskevich made a case for a politically engaged military:

The fact that all plans and accomplishments in our country today are measured by the scope of the decisions of the 26th Party Congress gives an even greater political content to the social practice of Soviet people in any sphere of life. This includes the military. Soviet military labor and service in the Army have a pronounced political character:

their chief significance is the reliable defense of the peaceful constructive labor of Soviet people and the protection of the Motherland's security and that of other socialist community countries and stable peace on earth. . . .

The pronounced political character and political meaning of Soviet servicemen's labor flows from the nature of the Armed Forces of the Soviet Union as an army of a new, socialist type, from its place and role in the political system of socialist society, from its historical predestination. . . . V. I. Lenin decisively exposed the false assertion of bourgeois ideologues, that the army allegedly stands outside politics. . . . The army has always been and remains an extremely important political weapon, an instrument of state policy.

Because the Stalinist leadership mode of national mobilization to win World War II relied on the self-esteem and political authority of the Soviet soldier, this *Krasnaya Zvezda* feature resounded with echoes of the 1940's. But party directives, too, reflect an effort for national mobilization. A lengthy Nov. 30 *Pravda* article on communist party ideological work included the following:

The party and the people are solving such tasks of historical significance as transfer of the economy onto a primarily intensive track of development and implementation of complex, large-scale national economic programs, on which depend not only the growth of popular prosperity and strengthening of the economic and defense capacity of the Motherland, but also its possibilities for the future. These tasks are complicated by the influence of several objective factors that have emerged in the 1980's (such as drought, which has inflicted great damage on our agriculture, and hence our entire economy, for three years in a row). It must also be considered that . . . [these] plans are being carried out today in a deteriorated international situation.

A word on "empire"

Since Dec. 13, the pitch of Soviet denunciations of "imperialism" and, in particular, Western intelligence services for allegedly masterminding the Polish crisis has leapt up an interval. A series of Soviet commentaries in the first days of 1982, however, confirmed that something more than another round of sniping at the United States is involved. The Soviet media, with *Krasnaya Zvezda* in the lead, took aim at the more sophisticated global strategies of Britain, at Lord Carrington and other lords who had counted on becoming Moscow's chief interlocutors when Russia and America had been irrevocably set at loggerheads.

From *Krasnaya Zvezda's* V. Pustov, Jan. 3:

British Foreign Minister Lord Carrington is energetically promoting the idea of forming, inside the "Common Market," a standing body to coordinate the foreign policies of its ten member nations. He has proposed the formation of some sort of "crisis mechanism," which would work out a unified position upon the emergence of a dangerous situation anywhere and would limit the ability of the individual countries to advance their own foreign policy initiatives. The Western press indicates that the British representative did not go further than this—toward development of the military aspects of "European cooperation"—only because he had to take into account the position of countries such as Ireland, which is not a member of NATO and opposes the transformation of the European Economic Community into a military bloc.

On Dec. 31, *Krasnaya Zvezda's* A. Leontyev compared Secretary of State Alexander Haig's outlook with that of Mussolini and with "British colonialists, [who] asserted a hundred years ago that England could not be secure until it controlled the Pamirs and Tibet."

Leontyev went on to attack the notion that there are too many people on earth, insinuating that some strategists, like the Chinese, thought nuclear war a good way to get rid of them:

Some people, like the late Mao, are trying to give a theoretical foundation to the "acceptability" of nuclear war, alluding to the fact that there are allegedly "too many" people. One professor, to whom science contributed nothing of wisdom, seriously forecast that people will become so crowded that they will suffocate each other. He even predicted that this would happen on Friday, Nov. 13, 2026. This could be avoided, he added, if there were some catastrophe like nuclear war.

It is not superfluous to add that Leontyev reported also on the relative military incompetence of top American officials like desk-general Haig, Weinberger ("even less versed in military matters"), and Reagan.

Political observer V. Matveyev of the government daily *Izvestia* picked up these themes in a Jan. 3 article:

Longing for the past! This is what made one high-ranking American official, upon receiving Mrs. Thatcher in Washington last year, practically weep aloud over the days when sea and land were ruled by the Anglo-Saxon race and such of its scions as Cecil Rhodes, Joseph Chamberlain, Curzon, Winston Churchill.

This is a way of saying that British geopolitics once more has been espied as an adversary.

Soviet aid and the future of Poland

by Renée Sigerson

A bilateral trade pact for 1982, worth \$12.6 billion, was announced in Moscow, Jan. 6, after talks between the Polish and Soviet Foreign Trade Ministers. The agreement guarantees Poland energy and raw materials imports for this year—natural gas, oil, iron, wood, and cotton—as well as heavy industrial machinery worth 4.8 billion rubles. The Soviets will import from Poland 3.6 billion rubles worth of machine tools, construction equipment and capital goods for chemical output. Moscow extends to Warsaw a \$3.6 billion credit line, expressed in rubles in the announcement, to cover the new deficit and that from 1981.

The Soviet-Polish agreement for 1982 in no way addressed the current favorite topic of financiers' and geopoliticians' speculation: will the Kremlin cover Poland's hard currency debt to Western governments and banks? Although rumors abound that the Soviet Union is seeking some new Euroloans, for possible diversion to Poland, the Jan. 6 pact pointed to something of a different order. The Soviets are laying the groundwork for Poland's integration, and that of other Council for Mutual Economic Assistance (CMEA) members, into a more tightly coordinated industrial network.

Some Western analysts acknowledged that under the new pact, Poland will export to the U.S.S.R. commodities which had previously been consigned for export to the West. Through such intra-CMEA measures, the Soviets intend to protect the CMEA from the economic depression which has begun to hit Western Europe, an effort which will not work however, unless the Soviets simultaneously trigger greater internal growth of markets within the CMEA sector.

This does not exclude continuing Polish trade with Western Europe, but merely allows the country not to depend on Germany and France—its major Western trading partners—for solving its economic problems. Since 1979-80, Poland's most serious difficulty has been the stagnation of export orders from these two countries. During the 1970s, Poland took on \$26 billion worth of loans, about \$9 billion of that from those two countries, with the expectation that by building up industrial infra-

structure Poland by the 1980s would be a significant industrial-goods exporter to its creditors.

In 1979-80, however, Western European growth rates began to flatten out. West Germany has had no need of Polish industrial equipment—restricting imports to food and coal; and, due to general Western monetary and economic constraints, its own exporting industries cannot even sustain domestic industrial equipment orders, which in contrast to exports, have been steadily dropping over the past two years.

Which model for integration?

Many Western observers underestimate the degree to which Soviet policy-makers are convinced that economic stabilization of Poland can only be achieved through in-depth industrial expansion and better, more advanced technologies.

This underestimation is expressed strongly, for example, by analysts around Wharton Econometrics, who insist that the primary economic outcome of the Polish events will be an increasing *decentralization* of decision-making within the Soviet bloc.

There is no question that a major debate on centralization versus more local control of industry is under way in the Soviet bloc. As the Wharton circuit is always quick to point out, in recent months the Soviet press has run a remarkable number of articles reviewing and praising the Hungarian economy.

For Western observers, Hungary is the model of a decentralized economy within the Soviet bloc. The Hungarians, led by a clique of bankers trained back in Hapsburg Empire days, introduced this decentralization in the 1960s through a series of price revisions which aimed to bring domestic prices over a long period of time in line with market prices in the West.

The Wharton analysts argue that price adjustment is the first step Poland has to take in order to emulate the Hungarians. In fact, in late December, Polish authorities introduced major changes in the country's price structure, lifting food and other consumer prices 300 percent at one shot. However, these measures in no way prove that the Hungarian approach—which has in fact been a channel through which certain Western banks have attempted to manipulate CMEA from the inside—is now about to become the blueprint for Poland.

The price rises in Poland are put into better perspective by the fact that the Polish money supply for the past decade has borne no relationship to the availability of consumer goods, which have been in extremely short supply. For political reasons, prices had been held to early-1970 levels until last December, although incomes were never matched by a rise in the output of goods wage-earners would have purchased.

Such problems still need to be tackled, and the trade treaty is a first small step in that direction.

Haig confrontationists versus Schmidt realists: which option will Reagan take?

by Susan Welsh

U.S. Secretary of State Alexander Haig's efforts to line up Western European support for tough economic and political sanctions against the Soviet Union and Poland failed at the Jan. 11 meeting of NATO foreign ministers in Brussels. The joint declaration issued by the allies pledged only to begin consultation on what measures might be taken in the future, "recognizing that each of the allies will act in accordance with its own situation and laws." Haig, claiming the meeting as a victory, was nonetheless forced to admit that it is "too soon" to tell whether anything further will be done. "We have agreed to look into the question of further action with a specificity that was lacking before"—that was the most the Secretary of State could claim.

Haig was isolated in Brussels because there is a growing perception in Western Europe that his hardline policy is a threat to world peace, does nothing to help the people of Poland, and will ultimately backfire against the Atlantic alliance itself. *Baltimore Sun* commentator Henry Trewhitt wrote Jan. 11 that the Western alliance has rarely displayed greater public uncertainty than at the present time. Trewhitt cited an American specialist in European affairs: "it would be ironic if the greatest long-term political damage from the Polish crisis is to the Western alliance."

Opposition to Haig comes first and foremost from West German Chancellor Helmut Schmidt and from the Vatican. These two forces, working in close coordination, have been trying to cool the situation and improve East-West relations. Vatican envoys to Poland have been seeking to mediate a peaceful solution. "The Pope and his collaborators are convinced that a cut-off of aid, by aggravating unrest in the population, will push the military authorities to institute even harsher repressive measures," according to the Italian daily *Corriere della Sera*. The Vatican reportedly hopes to link the extension of more aid to a gradual revocation of martial law.

Schmidt and his associates have repeatedly stressed that they view the Vatican as the sole source of reliable information on what is going on in Poland, as opposed to the "exaggerated" stories appearing in much of the

Western news media.

The French government, although it has taken a strong line of attack against the Soviet Union, nevertheless did not appear enthusiastic at the idea of economic sanctions at the Brussels meeting. French President François Mitterrand told reporters that the U.S. sanctions would be more credible "if it wasn't Europe which had to bear the greater burden" of their economic effects. French Foreign Minister Claude Cheysson emerged from a meeting with Pope John Paul II to declare France's full agreement with the Vatican's policy.

The British government is publicly profiling itself as the staunchest of U.S. allies, but is privately understood to oppose the sanctions. Expert British analysts interviewed by *EIR* (see below) pointed in particular to the dangers of an unravelling of NATO if Haig's policy is allowed to continue.

'Two factions'

Chancellor Schmidt, following his Jan. 4-6 visit to the United States, indicated to reporters in his traveling party returning to Bonn that he thought the divisions in Western responses to the Poland crisis were not so much a matter among the NATO allies as within the Reagan administration itself. The Chancellor believes there are two groups of policy-makers with access to the President, reported the *New York Times* Jan. 8. One group believes that Western threats and sanctions will force Poland's Gen. Jaruzelski to make concessions; the other, the "realists," believe that the West should try to hold the military government to its promise of continuing reform in Poland. President Reagan is considered to be on the side of the "realists."

Schmidt, in his meetings with President Reagan, went a long way toward winning the President to this view, Washington, D.C. sources report. He emphasized that the root of the deepening international crisis is not so much the events in Poland, but the danger of a world economic depression. Schmidt forcefully argued against any Western policies which would make the Polish crisis worse and threaten peace in Europe, asking Reagan

pointblank: "Do you want me to remain as Chancellor or not?"

With rapport established between Schmidt and Reagan, Haig was temporarily reined in. He went so far as to chastise his own State Department for officials' high-handed treatment of the West German leader. In a press conference Jan. 6, Haig admitted that "as was sharply pointed out to us, some of the differences" allegedly existing between Reagan and Schmidt, according to U.S. press accounts, "did not really exist at all." The source of these speculations, Haig admitted, was "over-eager" State Department officials.

But at his Brussels press conference Jan. 11, Haig was on the warpath again, demanding "action! action!" and calling for the allies to go along with his sanctions. Responding to a journalist who suggested that there was a double standard in criticizing the Polish military takeover but not that in Turkey, Haig replied: "Isn't it time that our Western critics stop their double standard and isn't it time to give greater weight to the precious freedoms and values with all their failings and stop this masochistic tearing down of our values?" Haig complained that "some still do not understand what is happening in Nicaragua or what is at stake in El Salvador."

With such incoherence coming from the State Department, it is no wonder that European observers are reminded of the years of "incalculability" under the Carter administration. In fact, Alexander Haig's position is indistinguishable from that of Carter's national security adviser, Zbigniew Brzezinski. Brzezinski, in recent speeches and interviews, has forecast the imminent demise of the "Russian empire" and has called on the West to tear up the postwar Yalta treaty if the Soviets invade Poland.

EIR asked leading strategic analysts in Great Britain and the United States to comment on these issues, and found an unusual degree of unanimity against the Haig-Brzezinski approach. These experts perceived that the new institutionalization of military power in the East bloc is a shift with far-reaching implications for the future of the Western alliance.

The British experts responded with dismay to Brzezinski's suggestion that the Yalta treaty be torn up. "This is very dangerous" said Dr. Kavan of the University of Sussex. "It would only make the Soviets tougher, more paranoid. You can't forward the process of the internal disintegration from the outside, it can't be done. If you try, just the opposite will happen . . . the bulk of the people will rally behind the government."

John Erickson, a top expert on the Soviet armed forces at the University of Edinburgh, warned that any Western attempt to "unravel" the East bloc would backfire and create "a unilateralist, neutralist Europe," raising the "can of worms" of German reunification.

Interviews

'Ripping up Yalta would be folly'

Mark Burdman of EIR's Wiesbaden bureau spoke to John Erickson, Soviet expert at the University of Edinburgh, on Jan. 7. Erickson had recently returned from a three-week trip to Poland.

Q: I am interested in your assessment of the recent statements by Mitterrand and Brzezinski, as well as in various European press editorials, calling for consideration of the cancellation of the Yalta accords because of the latest situation in Poland. . . .

A: In the first place, this kind of idea represents a gross misunderstanding of Yalta. If people bothered to look at Yalta, the first thing they would realize is that the West gave nothing away, because it had nothing to give. It's about time that myth were squashed. Yalta is very complicated as it applies to Poland, and by coincidence I have just been studying this very problem. As it turns out, there is a case to reconstitute Yalta as it applies to the original arrangements after the war around Poland. This would mean going back to the three-party system: a communist party, a democratic party, and a peasant party. . . . What I am getting at is that it is absolutely necessary to talk historically correctly about Yalta. No one's bothered to read the Yalta accords vis-a-vis Poland. As for the Yalta accords as a whole, it's simply idiotic to talk about cancelling them: think what that would mean in terms of Romania, Bulgaria, Yugoslavia. You'd have to start getting involved in all these situations; it's preposterous. Instead, we should insist on the precedent for reaffirmation of the Polish constitution, which, after all, Jaruzelski has agreed to live up to.

Q: What Mitterrand and Brzezinski seem to have in mind is that the East bloc is beginning to unravel, supposedly as revealed by the Polish situation, and now is the time to turn on the screws. . . .

A: If you say the East bloc is unravelling, what about the Western bloc, is it unravelling too then? Look at what Poland has done to NATO—a hell of a lot! If you push the unravelling of the East, the West will unravel too. You would then be faced with a unilateralist, neutralist Europe, which is a terribly dangerous game to play. It's

really disguised rollback, that's all it is. These chaps should think for five minutes. You would then resurrect the German problem; people would start demanding German reunification. In American terms, this is opening a can of worms.

Q: Well, Mitterrand seems to have no objections to unravelling his own country, France, so why not the entire West?

A: Exactly, that's his way of thinking. But I'm surprised Brzezinski should be playing around with this kind of idea; I would have thought he'd know better. It just shows you the bankruptcy of Western contingency planning.

Q: Schmidt and the Vatican in combination reflect a different kind of impulse. They seem to think that the economic recession/depression faced by the West, and the danger of war should be linked, as well as that Jaruzelski represents the best option for Poland, in that he represents a barrier to the coming into power of types like Grabski, Olszowski, etc. What do you think of that?

A: It's wrong to think about anybody replacing Jaruzelski. This is 1926 all over again. Remember the Pilsudski coup of that time, and that the army stayed in Poland in power for 13 years. The army is there to stay. This was admitted to me by a senior Communist Party member; he brought up the Pilsudski coup precedent.

Q: What effect will this have on the Soviet army itself?

A: The lesson will not be lost on the Soviet army. In this sense, Schmidt is right about Jaruzelski, in terms that the Polish situation is not a case of high-handed Soviet intervention, but a combination of nationalism and militarism. The party is not in control. The Polish Communist Party doesn't exist any more. After all, it was not Solidarity that marched on the Party; it was the army that marched on the Party.

Q: What does this mean for types like Olszowski, Grab-ski, etc.?

A: Watch for how the Politburo is reconstituted. It will be 50 percent Olszowski-Grabski and 50 percent Kubiak, so they won't be so important. This only reinforces a point I've tried to make. If there is a nerve the West should press on, it's the Polish constitution. Jaruzelski says he is committed to it, force him to get back to it.

Q: I want to get back to the Soviet army and its view of the Polish situation. Will there be a rise in the influence of the Soviet army internally in the U.S.S.R. as the succession crisis advances?

A: The Soviet army will take a leaf out of the Polish book. They'll demand over the next couple of decades a greater managerial role. That's the key thing, in term of

the internal Soviet situation. They'll do a lot of talking about how they're the repository of national virtue, national discipline.

Q: Figures like Ustinov will be important?

A: Forget about Ustinov, he won't last. The key person to look to is Ogarkov. He represents a phenomenon of a group of officers coming to the fore. He's developing very close ties with the Brezhnev personal secretariat. This group of officers is cultivating contacts outside with the Soviet elite. The Soviet military holds the balance of power in the coming period in the Soviet Union. They're going to make very strong claims, insistence on managerial pre-eminence. You'll see too, as long as the succession struggle lasts, an insistence by the military on the maintenance of very strong propaganda about the live danger from imperialism, and so on. The army too will have to build bridges.

Q: Toward people, then, like Suslov?

A: I don't give a damn about Suslov; he's not important. The people who matter are the Secretariats, the Central Committee, and the Politburo. The army is building strong ties to the Brezhnev personal secretariat, to the International Communist Secretariat, and to the defense industries secretariat. Also watch for the army to build contacts in the regions, as the regional situations become more fluid as the succession crisis advances. What I am talking about is a group that is 45-52 in age, with commanders who are about 54, all of whom went to the same academies, and who built very strong personal links over the years. What is happening now is much more to-ing and fro-ing of the Central Committee people and the military leadership than ever before. It's unprecedented. I just spoke to a very senior man in the Soviet power structure who moves in and out of Ogarkov's office. This is an entirely new thing, and it shows that the Soviet military is building bridges to build up its position as an institution as the succession crisis develops.

EIR's Mark Burdman interviewed Dr. Z. Kavan, International Relations lecturer in East-West Affairs at the University of Sussex, England, on Jan. 7. Kavan is an émigré from Czechoslovakia.

Q: What do you see as the effects of the Polish events on the rest of the East bloc, and on the U.S.S.R. itself?

A: The Polish events, it has turned out, represent an exception within the bloc. Solidarity as a phenomenon is unique to Poland. It has to do with the state of the economy there and related things. It's just a pipedream to see the Polish model spreading throughout the bloc. As in the aftermath of '56 in Hungary and '68 in Czechoslovakia, we see things moving in the other direction, the Russians moving to pull things together.



At Yalta in February 1945.

One would have expected Czechoslovakia perhaps to be the most open toward the Polish model, given the fact that there the population is relatively most discontented with the government, after the harsh crackdowns following 1968. But, interestingly enough, the Czechs seem instead to be saying only that the Poles are up to their usual thing. The Czech citizen, the worker there, seems to feel that the Poles should just get back to work. Only in dissident circles does there seem to be any real sympathy for Solidarity. The case of the DDR is like that of the Czechs. Hungary is somewhat different, in the sense that the trade unions there expressed a desire to open contacts with Solidarity.

But the Hungarians are going through a consumer

phase. Unless the economy were to worsen, the Hungarians won't be open to the Polish example.

Q: Your view is not shared by groups like the Committee for the Free World, which think that now is the time to really move from the outside to encourage the so-called disintegration of the Soviet empire, or like other prominent individuals who are calling for the effective abrogation or cancellation of Yalta. What do you think of this latter idea?

A: It's very dangerous, it's the kind of reaction that has been tried verbally with very unpleasant results. A cancellation of Yalta or anything like that would hurt international security. It would only make the Soviets tough-

er, more paranoid. You can't forward the process of the internal disintegration from the outside, it can't be done. If you try, just the opposite will happen. The illustration I use in this case is that of the average Russian citizen. He has very little inherent notion of dissidence; little of this existing among the ordinary people. There is a much greater tendency to conformity than one is likely to believe. The average Russian looks at his relation to the power structure very differently than, say, the American does. It's quite the opposite. If you try to forward disintegration in the U.S.S.R., the bulk of the people will rally in loyalty behind the government.

Q: Are you saying, then, that changes in the East bloc can only be effected through something like détente?

A: If we understand the essential point that the management of crises must be clear to both sides. The problem with détente as until now practiced is that there has been an unclear demarcation between internal and external policies. There must be a clear demarcation.

Q: Would you say this is a viewpoint shared by Lord Carrington?

A: I think he is sympathetic to this way of looking at things. What is needed is an overall system to apply to the globe as a whole. A system of trade-offs, a system of rules. Each side must know what must be avoided, what is the area in which it can maneuver, how much give and take there is. . . .

Q: How would such a system apply, say, to the Middle East?

A: I'm not familiar with that area, so let's instead look at Europe. First, each side must agree not to move over the agreed-upon demarcation line. Second, each side must agree not to try to pull out members of the other side's bloc from within the bloc, to make such an attempt to do so. Third, there must be no interference into the internal bloc of the other. Sanctions should only be applied in circumstances where there is a clear crossing of the boundaries: for example, if the Russians should put pressure on Austria around the question of Soviet émigrés, or if the West should demand that there be a change in the government structure of Poland to repay debts to the West. In this case, the Russians could legitimately look for ways to apply sanctions.

The key idea is that détente involves not a solution to global problems, but management of the global conflict. That's the main idea.

Q: In specifics, how do you see the events in Poland unfolding?

A: The chances of Solidarity re-emerging as a major force are very slim. A massive purge of the party will ensue, as massive as that in Czechoslovakia following

1968, in which one-third of the membership was forced out. The Polish CP will shed its reformist, liberal wing. The military regime will stay in power for much longer than one would naively assume, longer than a few weeks, much longer than that. The Poles will wait for another round, but I don't see that next round coming for another 5 to 6 years.

Q: And in the meantime, the idea of the West trying to put the screws on Moscow must be avoided. . . . ?

A: The more the West pressures, the more there will be a battering down of the hatches in the U.S.S.R. and the Russian military will come to play a much more active role in the policies of the country.

The following discussion with a high-level American NATO-linked source was made available to EIR on Jan. 13:

Q: What will be the impact of a military takeover that brushes aside the party? Does it not imply similar dynamics for the rest of the Soviet bloc, starting with the Soviet Union itself?

A: That's what I have been saying for quite a while. The number one question in the Soviet Union itself is not the role of the party in government or in managing the economy. The key aspect is this: the most experienced, the most educated people are the military. They are the most energetic, the most talented ones. So I am not talking in term of a "coup," this is an improper term, but of something already rolling on, a sub-surface "coup"—in fact the military already has three of its men on the Politburo. I expect that for the next five years, the military establishment will come to play a very great role in the governance of the Soviet Union. They have the competence, and that will consolidate the Russian minority of the population, because the army is totally dominated by the Russians. Look at Poland: what I expect in the Soviet Union is being played there, less well-managed and on a smaller scale.

Q: Will the new rulers not have to brush aside all the "pluralistic" policies that first powerfully emerged under Malenkov and Khrushchev?

A: Oh, they sure will, the "Libermanites" and the Gvishiani types are already being downgraded by their own impotence, their own inability. What we're looking at is a new breed of highly-competent, management-oriented young officers. . . .

Q: Tough young colonels, then?

A: That's exactly what I mean. Now the foreign policy implications are totally unclear. Are they going to turn inwards, and repair the damage of the last ten years, or outward, to mask the damage with adventures?

Red Brigades probe confirms Haig link to P-2

by Umberto Pascali in Wiesbaden

Political observers in Rome are noting the great similarity between the terrorist destabilization operation launched in Italy in December and what occurred just four years ago when Red Brigades terrorists kidnapped and murdered former Christian Democratic Prime Minister Aldo Moro.

The Red Brigades kidnapped U.S. General James Lee Dozier, the highest-ranking American officer in Italy, on Dec. 17 in Verona. Rumors began to circulate that Dozier was kidnapped in the context of a fight going on inside NATO secret services, and that Libyan dictator Muammar Qaddafi was directly involved in the operation. The kidnapping was only the first step in the current terrorist offensive. Four top Red Brigades terrorists escaped from the prison of Rovigo, near Verona. On Jan. 6, terrorists attempted to murder Nicola Simone, the deputy head of police in Rome. Simone had two days earlier arrested two terrorists who were attempting to kidnap Cesare Romiti, the executive manager of Fiat.

These operations were to be only the beginning of a major offensive to plunge Italy once more into political chaos and confusion, to culminate in mass escapes of jailed terrorists and a bombing of the Christian Democratic Party's (DC) national headquarters in Rome on Jan. 21, the day on which the national council of the DC was to take place there.

This bombing was prevented only by a dramatic police round-up at three Red Brigades hideouts in Rome Jan. 9, which included the capture of Giovanni Senzani, a terrorist ideologue in hiding since the police uncovered his masterminding of the kidnapping of Judge Giovanni d'Urso, who was conducting investigations of the Red

Brigades last year. Nine other terrorists were captured at the same time, and police found weapons, ammunition, archives, and ideological material stating that the Red Brigades were about to target "objectives of primary importance." Weapons seized included bazookas, anti-aircraft rockets, and a cannon.

The bombing of the DC office would have had the effect of precipitating political chaos in Italy, at a time when Italian Socialist Party (PSI) secretary Bettino Craxi, dubbed in the Italian press "the new Mussolini," was launching a political offensive to collapse the government of Italian Republican Party Secretary Giovanni Spadolini.

But there is a crucial difference between the present situation and the 1978 events: this time Italian national forces and the leadership of the Vatican are counter-attacking. It was this reaction that caused the arrest of Senzani, and effectively halted the Roman arm of the operation. And an unprecedented campaign has been launched in the Italian press giving widespread public exposure to who the controllers of international terrorism really are. As *EIR* revealed as early as 1978, at the time of the Moro kidnapping, these include a very strange ménage à trois: the Mossad, one of Israel's intelligence services; Qaddafi's Libya; and the Italian Socialist Party (PSI) of Bettino Craxi.

Craxi foresees the terror escalation

Both the 1978 terror operation and the current one have the same targets. Four years ago, Moro was moving to create a government of national unity based on an alliance between the DC and the Italian Commu-

nist Party (PCI) of Enrico Berlinguer, the two most important political forces in Italy. This would have guaranteed the stabilization of the nation and pushed forward the process of "de-Marxistization" of the PCI, a process favored by the faction headed by Secretary Berlinguer, whose base is made up of moderate unionists and regional industrialists.

The murder of Moro increased the power of the so-called Third Force in Italy, the PSI. Despite the minor size of the PSI electorate (approximately 10 percent) and the role Craxi played in the Moro kidnapping, including direct public support for the creators of the Red Brigades, Antonio Negri and Franco Piperno (*EIR*, Oct. 6, 1981), Craxi demanded the post of Prime Minister.

Craxi could never have done this without the support of the Haig-Kissinger forces and the Propaganda-2 Freemasonic lodge. What halted Craxi's "unstoppable" grab for power was the explosion of the P-2 scandal in Italy in May. P-2 was formed in the wake of World War II as an operation to destroy the Italian republic. Since then, the fascist lodge has been behind every major coup attempt in Italy and involved in major drug-running, gun-running, and "left" and "right" terrorist operations. P-2 was connected, through the Inter-Alpha banking group and former Ambassador Richard Gardner, to the Carter administration, and was deployed by the same Club of Rome forces that deploy Henry Kissinger and Alexander Haig. Craxi was involved directly, having personally met frequently with P-2 Grand Master Licio Gelli, a torturer for Mussolini's Fascist regime, to discuss political projects.

Following the fall of the Christian-Democratic-led Forlani government as a direct result of Craxi's refusal to pull out of the government PSI members implicated in the P-2 scandal, Spadolini formed a government which, with support from the Vatican, re-launched a policy of internal stabilization and alliance with West German Chancellor Helmut Schmidt.

The Red Brigades threatened several times to launch new offensives against the government, but until the recent period they never materialized. This was due primarily to the partial clearing out of the P-2 connected officials in the secret services. Spadolini then launched a dialogue with the labor unions, and sought rapprochement between the DC and the PCI. Immediately after the declaration of martial law in Poland, Berlinguer dramatically accelerated the development of the PCI as a nationalist force by stating that the party could no longer look to the Soviet model. DC Secretary Flaminio Piccoli broke his preferential ties to Craxi and announced that given the position of the PCI, a new historical phase could be opened for Italy, the beginning of the "moral reunification of the Italian people."

It was in this new political atmosphere that Craxi launched his attacks against the Spadolini government,

demanding early elections. Craxi was convinced that he must move immediately, because the entire machine that he had built up over the last four years was in danger of collapsing.

In a televised press conference in December, Craxi declared that the Spadolini government must go. Then, in threatening tones, he stated that he was surprised at the unexpected inactivity of the Red Brigades, and stressed that it was known that the Brigades act on the basis of a "political plan."

Counterattack

The wave of arrests and the unprecedented press campaign are building widespread support for taking apart the terrorist apparatus. Revelations about the involvement of U.S. Secretary of State Alexander Haig are very important in this connection.

La Repubblica, *Europeo*, and other major press have revealed that the Italian military secret service, the SISMI, has sent huge sums of money through a Swiss bank to Prof. Michael Ledeen, who was Haig's official Special Adviser on Italian Affairs for several months last summer. The press charged that Ledeen was to use the funds, in an operation supported by Haig, to put Craxi into the Prime Minister's post.

The go-between for these funds was Francesco Pazienza, the right-hand man of P-2's Licio Gelli. Pazienza, a close friend of Haig, is a cousin of General Santovito, a P-2 member who, until the scandal broke, headed the SISMI. Santovito, also a friend of Haig, is currently being investigated for his connections to terrorist operations.

The press is again publishing the already-documented links between the present Defense Minister of Italy, Lelio Lagorio, another Haig associate, with just-captured Red Brigades ideologue Giovanni Senzani. Lagorio, a leading figure in Italy's B'nai B'rith, had been associated with Senzani since the latter was a Socialist leader in Tuscany, where he collaborated on Lagorio's magazine, *Città e Regione*.

Panorama magazine published Jan. 11 the confessions of the terrorist Alfredo Buonavita, which documents the involvement of Israeli intelligence with events in Italy. "In 1973 emissaries of the Israeli secret services succeeded in getting in touch with the Red Brigades in Milan," Buonavita stated. "They proposed supplying weapons, ammunition, military training and cover for terrorists in some state apparatus. In exchange, [the Israelis] requested increased activity to destabilize the Italian situation." The emissaries explained that "The Americans were lukewarm [in relation to] Israel. They supported Italy more as their instrument to keep their position in the Mediterranean. The Israelis wanted to change this situation by contributing to the destabilization of our country." Buonavita said, "a member of the PSI," was the Israeli-Red Brigades link.

Is Mubarak shutting down Egypt's Dope, Inc. network?

by Thierry Lalevée, Wiesbaden Bureau Chief

A few days after the formal appointment of Hosni Mubarak as new President of Egypt Oct. 15, an Egyptian journalist interviewed on the BBC stressed that what "Egypt now needs is not a popular government. There have been too many 'popular' personalities in previous regimes. It needs a government which will function, and then [on that basis] become popular."

Now, three months later, Mubarak seems, by all standards, to have been able to meet that challenge. Keeping a low profile, so different from that of his predecessors, he is nonetheless on his way to becoming an extremely popular president. He has not accomplished this by major shifts or changes in Egyptian foreign policy. Rather, he is making a series of ruthless internal reforms which are striking at those corrupted layers probably more responsible than anyone else within the country for the assassination of President Sadat and the attempted destabilization of the country.

In concert with this anti-corruption drive, Mubarak is pushing for the economic reforms essential to rebuilding Egypt, calling for a national meeting to set economic policy at the end of January (see box). As a result of this commitment and the cleaning out of the drug trade at which it is aimed, social peace prevails in Egypt, and, at present, there is no danger in sight to the stability of the regime. This is in spite of the fact that most of the left- and right-wing extremists arrested by Sadat in September have been freed. The hard-core extremists, such as pro-Khomeini Sheikh Kishk and his colleagues, are still jailed, but no one is asking for their release.

Crackdown on Dope, Inc.

Mubarak has made the flourishing drug market one of the first targets of his anti-corruption drive. Since the 19th century start of British colonialism, in Egypt, hashish and other drugs have been sold openly in most parts of Egypt—primarily Cairo. Neither Nasser nor Sadat dared to confront the drug dealers in a country where the average annual consumption has reached five grams of hashish per person, according to recent studies. The spread of drug consumption was one of the main reasons why the Egyptian Army was so easily

defeated in 1967—most high-ranking officers, including Marshall Amer, the chief of staff, were addicts.

A series of well-organized arrests throughout the country began to deal with the problem. After the arrests of hundreds of dealers, the price of hashish has now trebled in Cairo due to lack of supply.

A key reason for Mubarak's war on the drug market is that drugs are a major source of income for the British intelligence asset, the Muslim Brotherhood, in Egypt. Other reasons for the crackdown became clear during the well-publicized trial in December of Egypt's "king of hashish," Rashad Osman. Osman, a millionaire, was put on trial as part of the first series of current purges of those "inner circles" around Sadat. Osman was also a leading luminary of Sadat's own political party, the National Democratic Party (NDP).

Beginning in December, Osman's trial, which had first been kept low-keyed after his arrest in September, quickly became a major political scandal. Under Mubarak's direction, the editor of the NDP's own newspaper, *Mayo*, Ibrahim Saada, began to name the names of associates of the drug-dealer. Those named were compelled to appear in court to defend themselves, including Sadat's brother, Esmat Sadat; Abu Taleb, the former governor of Alexandria; Abdel Akher, Minister for Parliamentary Affairs; and Osman Ahmed Osman, another millionaire. All were accused of having used their political power to favor Rashad Osman's drug dealings.

Results came rapidly. Osman was jailed and forced to pay a significant fine. Implicated ministers were forced to resign. Akher and Meguid, the latter, the "father" of Egypt's Open Door economic policy, were not given jobs in the new government announced on Jan. 1. Even Interior Minister Nabawi Ismael was "kicked upstairs" and put in charge only of local communities. His wife is the member of parliament for the same Cairo district where drug dealers operate for Rashad Osman, and she is known to have received monies and political support from such quarters.

A less publicized purge is going on at other levels of the administration, including police and customs.

Those presently named in the scandal are nothing

but the so-called Egyptian elite which has been running the country for decades. This elite was responsible for the Infitah policy, the open-door policy which was used primarily for its proponents' speculative aims, including drug-smuggling.

Perhaps the most significant persons named in the trials were Abdel Akher and Osman Ahmed Osman.

Abdel Akher, a Minister for Parliamentary Affairs until his resignation in December, was primarily known for his earlier activities as part of the "Assiut Mafia," named after the upper Egyptian town. In the mid-1970s when Sadat decided to dismantle Nasser's Arab Socialist Union to create his own party, Akher was appointed deputy governor of Assuit and was a known proponent of the theory that Egypt had three main enemies: 1) The Christians, 2) the Communists, and 3) the Jews. By promoting such a Dark Ages mentality, the Assuit Mafia helped the reemergence of the fundamentalist cult, the Muslim Brotherhood organization dismantled under Nasser, as a tool to be used against the left. Less known was the fact that this also implied helping the Brotherhood to develop its best asset in the region: the cultivation of opium. Opium is exchanged for weapons, especially Israeli ones, which the Brotherhood could use for terrorist capabilities, including murdering Sadat.

One key leader of the network who acts as an interface—through drug and weapon smuggling—between the Egyptian elite and the Muslim Brotherhood, is Osman Ahmed Osman, cited last June in the Egyptian press as a member of the Italian-based secret-society Propaganda-2, which has been running left and right terrorism in Italy and Europe for the last decade.

Osman Ahmed Osman made his fortune out of the type of building projects like those in front of the pyramids which Mubarak ordered destroyed in December. His son's marriage to Sadat's daughter provided political protection for a man who had been investigated in 1969 by Nasser's head of intelligence services, Amin Howeidy, for his intelligence relations with Israel. Mohammed Metwalli, Osman's second in command, was convicted of transmitting vital military secrets to the Israelis. This is even more ironic considering that Osman is known to have made membership in the Muslim Brotherhood obligatory for his 50,000 employees. In his last months, Sadat began to suspect Osman, and rumors spread of an impending divorce between his daughter and Osman's son.

Sadat was reacting to a crisis that Osman had deliberately provoked, with the aim of driving a further wedge between the President and the Egyptian population. Using his personal situation as well as his position of Deputy Prime Minister, Osman wrote an autobiography in which he accused Nasser and his family of corruption. Despite the fact that Sadat immediately ordered a parliamentary commission to investigate the book's claims, an orchestrated press campaign accused Sadat of having ordered the book to discredit Nasser and build his own image. Even Osman's sudden dismissal did nothing to clear the suspicion, which was key in mobilizing public opinion against Sadat in October.

At last, Osman Ahmed Osman's star seems about to fall. Investigation of his activities would doubtless bring to light his activities regarding Sadat's murder. This should be Mubarak's next step.

A push toward real economic development

Egyptian President Hosni Mubarak has called a meeting the last week in January of the ruling National Democratic Party and various opposition parties to draw up Egypt's future economic policy. Mubarak is fully committed to a policy, barely begun by Sadat, to reroute Egypt's economy toward expanding its agricultural and industrial capacity, with an emphasis on raising standards of living.

Mubarak has repeatedly stressed that his number-one policy concern is the domestic economy. His aim is to root out the growing drug trade and corrupt real-estate and financial speculation of the moneyed Egyptian elites centered around construction magnate Ahmed Osman Ahmed. Mubarak has stressed that he

will continue Sadat's Open Door policy, a scheme introduced in 1975 to invite badly needed foreign investment in Egypt; but he has made it clear that future investment in Egypt must be oriented to production.

Over the last nine months, Egyptian parliamentary committees have drawn up proposals to limit the activities of the unregulated offshore banks which have been accused of usurious lending practices and promoting capital flight from Egypt. The offshore banks are one facet of the destructive free-enterprise system introduced to Egypt by Henry Kissinger and David Rockefeller via the Open Door policy.

Mubarak aims to revitalize Egypt's economy through the construction of eight nuclear plants in order to meet Egypt's growing energy needs. Mubarak is preparing talks with European and Japanese companies to bring new investment to Egypt, in order to stimulate industry and agriculture.

New Reagan-Begin clash in the works

by Judith Wyer

Another confrontation between President Ronald Reagan and the Israeli government of Menachem Begin is brewing, barely a month after the United States suspended its Memorandum of Understanding with Israel when Israel suddenly illegally annexed the Golan Heights on Dec. 17.

On Jan. 9, days before Secretary of State Alexander Haig arrived in the Middle East, President Reagan issued a statement through the State Department saying that the Memorandum of Understanding would not be resumed; Defense Secretary Caspar Weinberger vented his anger at the Golan land grab on national television on "Good Morning America" Jan. 13; and rumors are flying in Washington that some diehard supporters of Begin will be purged from the National Security Council under newly appointed National Security Adviser William Clark.

Moreover, Weinberger has announced a trip to the Middle East starting Feb. 4, in which Israel is conspicuously left off the itinerary.

All this does not bode well for the success of Haig's effort to resume Palestinian autonomy talks between Israel and Egypt and win approval for the appointment of a special U.S. emissary to conduct "shuttle diplomacy" à la Henry Kissinger in the region. Haig is the administration's most vocal supporter of the Begin government and of Begin's insistence that all Middle East peace negotiations be kept within the Camp David sphere.

President Reagan has publicly mooted approval for the broader peace framework proposed by Saudi Crown Prince Fahd, which foresees Arab recognition of Israel in return for the creation of a Palestinian state.

Informed sources report that Israel is preparing a new round of provocations to drive a wedge between the United States and the moderate Arab bloc led by Saudi Arabia.

• The Mossad—Israeli foreign intelligence—"will stage some kind of terrorist action inside Saudi Arabia using Israeli agents but making it look like radical Palestinians and Yemenis," according to a Washington diplomatic source. The action is intended to dramatize the arguments of Moshe Arens, the new Israeli ambas-

sador who will arrive in Washington this month, that Saudi Arabia is too "unstable" to be a U.S. strategic partner.

Arens, a confidant of Begin, reportedly will arrive with a mandate to sour U.S.-Saudi relations and reverse the U.S. commitment to Saudi stability that was won when the Senate approved the AWACS sale last October. Arens stunned even some of the closest Israeli supporters by his vitriolic attacks on Saudi Arabia during a U.S. visit last October to lobby against AWACS.

• Begin's government is contemplating annexation of the West Bank, according to European and U.S. intelligence sources, who point to statements in early January by Foreign Minister Yitzhak Shamir. Shamir told the Israeli press that Israel could accept peace "only under conditions that will enable us to continue to exist, and that means that Judea and Samaria remain within the boundaries of Eretz Israel." "Judea and Samaria" are Biblical names for the West Bank, and "Eretz Israel" is Begin's religious name for the country.

• An "imminent Israeli invasion of southern Lebanon" is signalled by the recent collapse of the alliance between Begin and the Lebanese Christian Falange," according to an informed Middle East watcher at Georgetown University. In the past the Falangists have acted as Israel's mercenaries, but a "falling out" with Falangist Saad Haddad, who commanded the Lebanese territory bordering with Israel, has reportedly led to Begin's considering occupying the so-called Lebanese buffer zone.

Opposition to Begin

Zionist leaders both inside and outside Israel are beginning to voice opposition to such actions, fearing that Prime Minister Begin may totally isolate Israel at a moment when it is economically strapped.

A signal of things to come was Haig's dropping of the "special emissary" plan, which was supported by Israel. After Haig met with Egyptian President Hosni Mubarak Jan. 13, the Cairo press reported he was withdrawing the plan; neither Egypt nor Saudi Arabia liked the idea.

Shimon Peres, the chief of Israel's opposition Labor Party, issued a declaration rejecting "a preemptive war against the Palestine Liberation Organization, or a military solution to the Syrian missiles in Lebanon" — the pretexts that would be used for an Israeli invasion. But there was resistance even inside Begin's own cabinet.

Housing Minister David Levy challenged both Begin and Defense Minister Ariel Sharon for their covert support for the extremist settlers who are attempting to block the return of the last parcel of the Sinai in April, which would be in accordance with the Camp David treaty with Egypt.

'The U.S. must bow lower,' says Peking

by Gregory F. Buhyoff

Yielding to threats from Peking to downgrade relations with the United States, the Reagan administration announced Jan. 11 that it would refuse requests from the Republic of China on Taiwan to buy advanced fighter jets such as F-16s or F-5Gs, and other advanced equipment. Instead, Taiwan will be allowed only spare parts for already purchased equipment, and continued sales of equipment on existing levels of technology, such as the F-5E fighter jet. The decision was announced at this time, said Washington sources, "in order to send the Soviets a message during the Polish crisis," perhaps because Secretary of State Alexander Haig could not muster up enough support from America's farmers or from Europe to send any other kind of message.

After the world witnessed that, in a China-U.S. contest of wills and principles on the Taiwan arms issue, it was the United States that bowed, Peking immediately denounced Washington for not making the kowtow low enough. "We cannot possibly accept any continued arms sales to Taiwan," declared China's official Xinhua press agency, "and the F-5Es fall into that category." The day after the U.S. announcement, Peking filed an official note of diplomatic protest at the U.S. embassy. Xinhua's complaint that "the U.S. government had announced the decision at a time when bilateral talks are going on," adds additional credence to reports from Washington sources that Haig had led Peking to believe the arms ban to Taiwan would be more severe than what actually occurred.

A compromise

Washington sources described the Jan. 11 announcement as the result of the following compromise: Haig, a supporter of the China Card at virtually any price, was willing to ban virtually all arms sales to Taiwan. In the anti-Soviet atmosphere surrounding the Polish crisis, Haig was able to convince the President to accept as fundamental U.S. strategy the playing off of China against the U.S.S.R. However, the President, who has repeatedly expressed in public his distrust of the Communist Chinese, reportedly specified two conditions: 1) that the relationship with China not involve irresponsible levels and kinds of arms supply to Peking, e.g.

missile delivery capacity; and 2) that the security and sovereignty of the Republic of China on Taiwan not be endangered. The President accepted evaluations that current levels of military technology to Taiwan would suffice to fulfill the second requirement.

Haig's gambit on a partial arms ban failed to soothe Peking, because, in addition to the Taiwan issue, many powerful factions in Peking oppose Vice-Premier Deng Xiaoping's "America Card" policy. Even Deng himself has begun to distance himself of late from a too-close relationship with Washington. Deng's controlled press now commonly refers to the United States as "hegemonist," as well as the Soviet Union, a charge not heard in years. Premier Zhao Ziyang made a speech in North Korea accusing the United States of "contributing to instability in Northeast Asia."

Some China Card proponents, and even opponents, claim that such rhetoric was merely part of tough bargaining by China, as part of their threat to downgrade relations solely over the Taiwan issue. In fact, something more fundamental is at stake. Domestically, Deng is finding it necessary to revive some of the old Maoist ideology in order to control an increasingly restive population. It is difficult in China to shout leftist slogans at home while getting too close to the United States abroad.

In addition, not only Deng's opponents but the Deng faction itself appears to be doubting the wisdom of making itself a target of the Soviet Union through an alliance with the United States when Washington seems to have failed in the diplomatic battle over Poland. When Assistant Secretary of State John Holdridge flew to Peking Jan. 9 to tell Peking of the arms ban to Taiwan and to seek Chinese support for the U.S. line on Poland, he was informed, Kyodo reports, that Peking is sympathetic to Poland's martial law because, as the overseas Chinese press reports, Peking fears the spread of Solidarity-style strikes in China itself.

The most important effect of the partial Taiwan arms ban may not be on U.S.-China relations at all, but on both U.S. friends' and adversaries' view of Washington. As Mr. Reagan himself used to point out, denial of arms to Taiwan abridges the commitment to an ally that the United States made in the 1979 Taiwan Relations Act. As with Haig's June announcement of willingness to sell arms to China, the arms ban to Taiwan will be seen as yet another instance of U.S. willingness to sacrifice commitments to friends and allies for the sake of its courtship of Peking. Both Japan and the members of the Association of South-East Asian Nations (ASEAN) had opposed arms sales to China; ASEAN leaders repeatedly stated that they regard China as a bigger threat than either Vietnam or the U.S.S.R. In light of the decision on Taiwan, how will they now regard current U.S. commitments to them?

ETA: a case study in the Jesuit control of terrorism

by Richard Schulman

In the first part of this feature, the author traced the parentage of the Basque terrorist organization ETA, the leading threat to any form of republican democracy in Spain today. On the highest level, ETA is shown to have sprung from the same British, Venetian, and Hapsburg policy commitments that gave rise to handfuls of other "ethnic nationalist" laboratory creations in the nineteenth century. The anti-Christian Jesuit order is seen to provide the laboratory technicians who profile and manipulate the Basque population.

The history of the Jesuit order as purveyors of racialism and magic, as the assassins of Popes and kings, brings us to where we can understand the origins of the "Basque nationalist" forerunners of ETA. Their well-known activities resulted in the expulsion of the Jesuits from Spain by the Bourbon monarch Carlos III in 1767, and dissolution of the order by the Pope Clement XIV six years later.

Unfortunately, their oligarchical allies were able to reinstate the Jesuits following the defeat of Napoleon. By 1833 they were at the head of the Catalan and Basque rebellion against the successor to Ferdinand VII of Spain. Although defeated, the peasant-rebel forces of the seven-year First Carlist War were rallied by the Jesuits again in 1873-1876 for the Second Carlist War.

Part One ends with the Jesuits' realization that in order to destroy the republican forces they so intensely hated, they would have to imitate them.

One important tactic for doing this was to be the regional autonomist movement—a "local community control" simulation of the nation. The Jesuits' first tentative efforts in Spain in this direction had been taken during the period of the American Revolution. As University of Wisconsin historian Stanley Payne, author of the book *Basque Nationalism* notes, "The [Basque] myth of a common, unsullied ethnic or racial unity was given its first expression by a Guipuzcoan Jesuit, Manuel de Larramendi, who maintained that Basques were the direct descendants of the ancient personage Tubal, recorded in the book of Genesis. Larramendi also produced the

first regular Euskera [Basque language] grammar."

The Larramendi project did not really get going in a major way until a century later, however, with the second defeat of the Carlists. It was only at this point that the Jesuits, to cut political losses, opted to "retool" a portion of their Carlist networks into a Basque National Party (the PNV) which was to serve as a hatchery for the ETA.

The life history of the founder of Basque nationalism and of the Basque Nationalist Party—"mother" organization to ETA—epitomizes this. The PNV's founder, Sabino de Arana y Goiri, was the son of a family of wealthy Bilbao shipbuilders whose fervent Carlist politics expressed itself, as did Joseph Conrad's, in smuggling arms to the Carlist rebels. The central Spanish government defeated the Carlists once again, however. Sabino de Arana y Goiri's father was heartbroken; he bequeathed his sons the task of finding a new opening for the Carlist movement. "The first new direction in the political orientation of the Arana family," a historian writes, "was taken by Sabino's brother Luis, three years his senior. In 1880 he left home for a year's study at a Jesuit college in La Coruna province." In the aftermath of these studies, Luis became a fervid Basque nationalist—and converted his brother Sabino to the cause he learned amongst the Jesuits.

Like most Basques, Sabino's native tongue was Spanish; he didn't even know Basque. So he set about painfully to learn the language and culture he had determined himself to become the perfervid apostle of. When he was finally able, he began writing tracts about the inherent racial inferiority of the servile Spanish race, by comparison with the pure-blooded, freedom-loving ethnic Basque. Thus began the first sustained effort to found an organized Basque separatist movement—by contrast with the Carlist movement, which had sought to install a Basque-based aristocratic family as the monarchs of all Spain. Sabino's efforts took place during the last two decades of the nineteenth century. Thus, as even a writer partisan to the ETA Basques concedes, "Basque nationalism . . . is of only relatively recent origins."

The Jesuits were in something of a rush. Twice unsuccessful in playing their Carlist card, they were frightened to see the Basque region becoming one of the most dynamic areas of Spanish industrial development. During the 1875 to 1895 period, Vizcayan iron production increased twenty-fold, with the result that by the end of the century, Spain was producing 21.5 percent of the world's iron ore, although mostly for export. This development pulled Basque industrialists and workers in two directions. On the one hand, they looked toward Madrid to regulate Spanish trade in their interest while granting their region special tax privileges; on the other hand, they were pulled toward Britain through trade and financial links. The Basque low-phosphorous iron ore—one of the world's richest sources—went to Britain, while British coal returned to the Basque area.

Meanwhile the Basque provinces of Alava and Navarre, the strongholds of Carlism, remained economically stagnant and continued to be dominated by rural notables, wealthy landowners, and Jesuits.

Sabino de Arana y Goiri's literary efforts on behalf of the Basque master-race had progressed sufficiently that by 1894 the Basque Nationalist Party (the PNV) was founded. Neither workers nor industrialists showed much interest in it. The hard core of its mass support came from the region's conservative, intensely Catholic peasantry, rallied by a Jesuit-dominated clergy.

Sabino de Arana y Goiri did not live to see much of his creation. He died at age 38, just at the point that some say he was having second thoughts about the separatist movement he had created. Others with no such misgivings now took his place, such as José Horn y Areilza, son of an English immigrant who married into a prominent Vizcayan family.

The Basque region's florescence in raw materials production soon led to its leadership in Spanish banking. By 1910, thirty percent of Spanish banking investments were concentrated in the Basque provinces—banks that worked closely with powerful circles in both Madrid and London.

When the monarchy was toppled in favor of a Socialist-Freemasonic-centered republic in 1931, Basque nationalism cultivated a liberal aura agreeable to life under the Republic. The historical networks of Carlism, centered in the countryside, meanwhile began training their Christian fascist shocktroops, the *requetes*. In Parliament, the same outlook was represented by the integralist rightwing Christian corporativist party, the CEDA, led by Jesuit spokesman Gil Robles.

The *requetes*, like the Jesuit order itself, had close ties with the Italian black nobility. The Carlists were led by Xavier de Bourbon-Parme, a Carlist descendant named after Francis Xavier, co-founder with Loyola of the Society of Jesus. In preparation for military action against the Spanish republic, the *requetes* received mili-

tary training in Mussolini's Italy. In 1936, the *requetes* were to prove to be the key military force within Spain supporting the fascist overthrow of the Republic, in support of the uprising started in Africa by General Francisco Franco.

There was a parallel Basque-based operation against the Republic within the camp of the Republic's supposed friends in the urban-based Basque Nationalist Party. The PNV, like the former CEDA, had begun as a Christian integralist (anti-Church-State-separation) movement, albeit with a Basque separatist commitment. Capitalizing on the weakness of the Republic after Franco's uprising, a PNV-led coalition of local parties declared the Basque provinces a republic. This was the first time in history that the region had asserted it was a national entity. The formal founding ceremonies took place on Oct. 7, 1936, under the traditional oak in Guernica, at a moment when the Republic was fighting for its existence. The first head of the Basque state was a chocolate maker from Deusto, site of the Jesuit university. Prior to being a Basque nationalist, he too, like Gil Robles, had been a Cortes (Spanish Parliament) deputy belonging to the Jesuit-controlled CEDA party.

The Basque state now issued its own currency and conducted its own foreign policy. Unknown to the Madrid-centered Spanish republic, the Basque "republicans" were actively engaged in negotiations with the Mussolini government for the secret capitulation of the region to Mussolini (first choice) or Franco (second choice).

In truth, the Basque Nationalist Party and its Basque coalition government were but the liberal fig leaf of the Mussolini-trained ultra-right *requetes*. In May 1937, a decisive turning point in the history of the Spanish Popular Front government, the Basque republican army forces could have annihilated Mussolini's incompetent troops. Instead, as one Sergeant Yoldi of the Basque Army later recounted, "the Basque government refused to let us go in for the kill." It was to be the last lost opportunity the Basque—and Spanish—republic were to get. The fall of the Basque region marked the beginning of the end for the Spanish Republic.

The Basque nationalist leaders, meanwhile, had arranged for their personal evacuation on British naval ships. The rest of the Basque republican populace was left to Mussolini and Franco's firing squads. Basque industry and banking, by secret prearrangement with the fascists, however, were left almost completely intact, ensuring the Basque region's economic predominance in post Civil War and post World War II Spain.

World War II

Given the Basque region's intact infrastructure in an otherwise devastated Spain, together with the special tax breaks accorded the region by the government in Madrid, the Jesuits urgently desired to alienate Basques

from the national government, for fear postwar national economic development might remove the cultural backwardness upon which the Jesuits' ideological control of the region was based. Taking advantage of the Church's ecclesiastical immunity under Spanish law, the Jesuits founded Basque language and cultural centers as fronts for re-building a Basque separatist movement. It was within the bosom of this Jesuit-promoted cultural agitation that a radical faction began to take organized form within the clerical-linked PNV.

The nucleus of this radical faction were students at the Jesuit University of Deusto. Committed to an existentialist anti-morality derived from reading Malraux, Sartre, Dostoyevsky, Ibsen, Baudelaire, and Neruda, the students began recruiting others of a similar café-lumpen outlook. In reality, they were part of a broader international movement.

In 1958 General de Gaulle came to power in France. There was concern in oligarchical circles that he would reach out to General Franco of Spain and revive the French-Spanish alliance that had been so important in the 18th century. To intercept this potentiality, Basque, Corsican, and other terrorist organizations were rushed forward to destabilize both nations. It was in this context that ETA received its official founding: in July 1959, the assembled "crazies" within the PNV were split off from the party, re-baptized as ETA, and set into motion as an organization dedicated to the overthrow of the Spanish nation—and less credibly, the French—by violent means.

ETA's clerical connections continued, despite the organization's increasingly open terrorist avocation. An enraged Spanish government demanded that the Vatican put a stop to ETA's Church supporters. As of 1963 there was a new Pope in the Holy See, Pope Paul VI. He responded to the Spanish government's criticisms by ordering Basque priests to stay out of politics. Within days, R. P. Díaz Alegría, S.J., professor at the Pontifical University of Rome, responded that "it was a duty to not be silent in the face of judicial injustice"—a reference to Spanish government trials of terrorists. The Jesuit father was joined in his anti-Papal protest by Dom Casiano Just, abbé of Montserrat—the clerical center of Catalan nationalism—and some sixty Basque priests. Then some fifty Jesuit, Dominican, and Franciscan priests and clerics in France joined in the same protest on behalf of the ETA Basque terrorists.

The Spanish dictatorship of General Franco was brutal and extrajudicial. It was by no means the most desirable form of political rule of the Spanish nation. Yet with all its shortcomings, it was able to endure as long as it did through some approximation of a commitment to the nation's economic growth and geographic unity. It was that commitment that made it infinitely preferable to a Jesuit-ETA-dominated Spain,

pending the stepping-forward of a more viable alternative. It was for this reason that Pope Paul VI was fully justified in opposing the Basque priests' destructive meddling in the "theology of liberation."

In this respect, Spain was fortunate to have de Gaulle in power in France from 1959 to 1969. Basque terrorism could not exist for long were it not for its network of sympathizers in the French border *departements*, to which Spanish Basque terrorists have habitually fled after committing terrorist acts. During the de Gaulle years, life was more difficult for ETA. In October 1964, de Gaulle's police discovered ETA's headquarters in the French society town of Biarritz near the Spanish border. Four of ETA's founders were forced to flee to Belgium, with one of these continuing on to Caracas, founding the Basque terrorist exile community there.

Left turn

In the second half of the 1960s, oligarchical circles behind ETA and the Jesuits sought to recruit radical youth as a battering ram against nationalist governments such as de Gaulle's and the more limited, instinctive form of this manifested by Franco. To recruit youth to a cause having a greater degree of plausibility than the peasant Basque language and the oak of Guénica, a faddish dose of Marxism (Chinese flavor) was inserted into ETA. The Spanish police responded to this in 1967 with numerous arrests of ETA members. The number of Jesuit priests who turned up in the resulting police dragnet became something of a national scandal.

After continued ETA provocations, the Spanish government in 1968 responded by declaring a state of emergency in the Basque provinces, accompanied by a large-scale round-up of suspects. ETA retaliated by murdering a local police chief. The government then moved for a showdown at a major trial of ETA terrorists, held in Burgos in Dec. 1970. It was a set-up of the government. Six of the accused were sentenced to death by the court, whereupon the world press—which at one moment cries crocodile tears for terrorists and bewails their human rights, and the next moment claims they are a Soviet conspiracy requiring a new multibillion-dollar military build-up to oppose—forced the government to back down and commute the capital sentences.

Delighted at the resulting world publicity and binding of the Spanish government's hands, ETA launched a campaign of blackmail and extortion against Basque businessmen during the early 1970s. It was a straight gangster operation. If the family or corporation of the victim failed to hand over the demanded ransom, the kidnap victim was shot and left in a ditch.

Emboldened at the success of these practices, ETA moved on to hardcore political terrorism. On June 6, 1973, Admiral Carrero Blanco had been promoted from

vice-president to president of Spain. Within a short time he would be dead, a victim of an ETA assassination whose purpose was to remove the designated successor to Franco as the aging General approached his death.

Carrero Blanco had the imprudence to attend mass every weekday at 9 a.m. at—of all places—the Jesuits' Church of Calle Serranos in Madrid, which happened to be a few hundred meters from his home. Word of this vulnerable habit quickly got back to ETA. ETA then spent months in the Jesuit quarter—undetected—studying in detail Carrero Blanco's movements. A basement apartment near the church was rented, on the car route the Admiral took between his home and the church. Months of excavations went on, as ETA dug a tunnel from the rented apartment to the street over which the Admiral's car passed. High explosives were then loaded into the tunnel, all this activity somehow incredibly passing "undetected" by anyone in the Jesuit quarter. Then in December 1973, the ETA's explosives blew the Spanish president and his car companions out of the world.

The murders of businessmen, police, and military by ETA continued. Hated by much of the Basque population, the organization periodically tried to find itself a popular cause. In 1980, for example, ETA claimed it was launching a campaign against the corruption of Basques through drugs. ETA, its spokesmen proclaimed, would shoot all pushers and junkies on sight. Hardly four months had passed after this hoopla when a major heroin-cocaine smuggling gang was apprehended by the Spanish police. The smugglers turned out to be ETA members. ETA's "anti-drug campaign," it would seem, was either a hoax designed to gain the organization applause, or if not, intended merely to eliminate the competition, leaving ETA a regional monopoly. The drugs were to have been sold in the Basque region and the funds derived used to finance the organization's terrorist activities.

During 1980 and early 1981, ETA "went for broke" in seeking to provoke a right-wing military coup by assassinating Spanish *Guardias civiles* and field-grade army officers. It also made itself odious both internationally and throughout the Basque provinces by killing the chief nuclear engineer at the Lemoniz, Spain, reactor site, José María Ryan.

Given the well-documented Jesuit sponsorship of the Basque-area witchcraft, Carlism, and Basque nationalism that laid the basis for ETA, as well as the documented launching of ETA at the Jesuit-run University of Deusto and the continued backing the Jesuit order has given the terrorist group under the cover of ecclesiastical immunity, the time would seem ripe to give the Society of Jesus the King Carlos III/Pope Clement XIV treatment—by expelling the order from Spain and having the Papacy dissolve it forever.

FRANCE

Paris court victory against drug sponsor

by Katherine Kanter, Paris Bureau Chief

The 17th correctional court in Paris on Jan. 11 found Dr. Claude Olievenstein, the most celebrated drug doctor in France, guilty of criminal libel against the Parti Ouvrier Européen, cothinkers of American anti-drug fighter Lyndon LaRouche. Olievenstein had falsely labeled the POE a "Nazi grouplet" in a radio broadcast last year.

The international repercussions of the verdict will be felt immediately in the boardrooms of the worldwide narcotics cartel known as Dope, Inc., particularly in that U.S. public relations subsidiary known as the Anti-Defamation League, as well as in certain "French Connection" circles affiliated with the government of France's Socialist President François Mitterrand.

These gentlemen, who have correctly evaluated the intellectual influence of LaRouche and his associates, including the relatively tiny forces of the POE in France, as a serious potential danger to their global drug and dirty-money empire, have pulled out all the stops to circulate internationally the lie that LaRouche and his allies in the International Caucus of Labor Committees are "Nazis" and "anti-Semites." But this verdict marked the second time in a year that a French court has declared their slander line a criminal offense.

On this occasion, the Drug Lobby had apparently counted on the dubious celebrity of Dr. Olievenstein to add weight to their defense. If President Mitterrand is, as he is sometimes called, the "French Jimmy Carter," then Olievenstein is his Dr. Peter Bourne. Last year, Olievenstein, a leading member of Mitterrand's election committee and chief of the Centre Marmottan "experimental" drug rehabilitation center, had publicly called for the decriminalization of all "recreational drugs" in an *Esprit* magazine article. The POE and its General Secretary Jacques Cheminade, who has worked actively on behalf of the French Anti-Drug Coalition, waged a vigorous campaign against Olievenstein and his sponsorship of "recreational" drug abuse.

Olievenstein, who until then had masqueraded as a respected authority on drugs, apparently became so upset by the POE's attacks that he conducted the "I.D.

format” defamations of LaRouche’s allies traced to Irwin Suall of the ADL, operative for the organized-crime-linked Max Fisher-Edgar Bronfman element in the U.S. Zionist lobby.

For this the French court ordered Dr. Olievenstein to pay 5000 French francs (\$1,000) in damages, as well as all court costs. Olievenstein must also pay costs of publishing official notices in two major French newspapers reporting the court’s guilty verdict against him.

The trial

The trial took place on Dec. 14 in front of a full courthouse, including several law students who stayed after the trial to debate the issues raised. One point in particular proved to be highly controversial.

The defendant’s lawyer, Maitre Attal, in effect demanded that the term Nazism be redefined as anti-Semitism. Quite apart from the question of either of those terms being used to describe the POE or its founding members, that redefinition of Nazism would rewrite history from the standpoint demanded by today’s proponents of the genocidal economic policies that were in fact the foundation of Nazi policy. It would leave entirely out of the realm of historic inquiry the fact that the extermination of Jews, Gypsies, Slavs, and other so-called “lesser races” by the Nazis was the inevitable result of the economic and financial policies administered by Hitler’s Finance Minister Hjalmar Schacht on behalf of the London Short-Term Credit Committee representing the European oligarchy’s financial elite. The same policies, applied in any other country in the world today, would lead to the same genocide results, as recently witnessed in Peking Chinese puppet Pol Pot’s Kampuchea.

Schacht and Milton Friedman

The two Jewish witnesses called to testify by the plaintiff’s lawyer, Maitre Varaut, made this point emphatically. Philip Golub and Katherine Kanter explained that Schacht’s policies are today being popularized by Nobel Prize winner Milton Friedman, who advises Israeli Prime Minister Menachem Begin on economic policy. That very afternoon, the occupation of the Golan Heights by Israel came as an unfortunate confirmation of the witnesses’ statements on the subject.

The dossier presented by Maitre Attal in defense of Olievenstein was identical in substance to that prepared by the Anti-Defamation League (ADL) of B’nai B’rith for the *International Herald Tribune*, the *New York Times-Washington Post* subsidiary in Europe which Lyndon LaRouche took to the same court on slander charges last year. LaRouche won that trial and it appears that the ADL was simply trying to obtain a retrial through the Olievenstein case. Maitre Varaut told the court that this is what the defendants were

attempting to do, using what he termed a “clever syllogism”: Nazism=anti-Semitism=anti-Zionism=LaRouche=POE.

Maitre Varaut therefore asked the two witnesses for the POE to express their thoughts to the court about the defendant’s allegation that anti-Zionism=anti-Semitism, and to define the POE’s Middle East policy.

Golub and Kanter stated that from its founding, the POE has defended the State of Israel’s right to exist, while opposing its expansion outside its 1967 borders. Mr. Golub further ridiculed the allegation that organizations affiliated with Lyndon LaRouche are anti-Semitic: in the United States, he said, approximately half of the national leaders of the ICLC are Jewish. And like its counterpart in the United States, the POE has called for Israel’s highly-skilled labor force to be a centerpiece for a regional economic development plan that could help make peace in the region once Milton Friedman’s monetarist economic policies are scrapped.

The Max Fisher angle

In response to questioning from the defendant’s attorney, Philip Golub explained that the organized crime-linked Max Fisher/Edgar Bronfman grouping in North America, operating through the ADL, was responsible for muzzling any exposure of their criminal activities by waving the flag of anti-Semitism when such an attempt is made. The witness declared that the Max Fisher crowd skillfully plays on the guilt feelings of Jews and non-Jews alike in order to pursue their own private aims, which can in no way be identified with the national interests of the state of Israel.

The witnesses concluded by stating that there was indeed a profound policy difference between the POE and Dr. Olievenstein, not only on these matters but on the drug issue itself which explains the attacks of the defendant and others on the POE. Maitre Varaut, using newspaper clippings to prove his point, explained how it could be objectively stated that Dr. Olievenstein serves the interests of the drug lobby, in the same way that NORML with funds from the Playboy Foundation, does in the United States.

More trials to come

The POE next goes to court in its slander case against the satirical weekly *Le Canard Enchaîné*, which wrote in June 1981 that the POE was a “Nazi” group led by a former SS officer. Jacques Cheminade, the General Secretary of the POE, was an infant during World War II, a fact which the authors of the slander neglected to mention in their zeal to attack the POE.

The POE is also considering bringing charges against the daily *Le Monde*, which published a lengthy slander against the POE and the Anti-Drug Coalition just one week before the Olievenstein ruling.

Ghana coup opens door for IMF

With assistance from Libya, the new Rawlings government is poised for devaluation and other austerity measures.

A coup by lower-level figures in the Ghana military, with former Ghana Air Force pilot Jerry Rawlings as its leading public figure, toppled Ghana President Hilla Limann and his People's National Party (PNP) on Dec. 31.

Depicting his move as a blow against corruption, Rawlings in radio broadcasts following the coup said "The alternative that now lies open before us is one of you, the people taking over the destiny of this country, your own destiny and shaping the society along the lines that you desire, making possible what has been denied to you all these years." The coup was widely welcomed by a population completely frustrated by the PNP's squabbling and inability to get the economy moving.

The coup came after a protracted fight over economic policy within the ruling PNP. The International Monetary Fund (IMF) was demanding that the Ghanaian cedi be devalued, and various other subsidies be eliminated, before any credit would be extended to resuscitate the collapsing economy.

Out of desperation Limann and his circle in the PNP, according to African sources, finally decided that no alternatives existed; they agreed to go with at least part of the IMF demand—the much-detested devaluation—if in return quick World Bank loans could be provided in order to get something going in the economy and demonstrate to

the population that some benefits would accompany the devaluation. Limann sent his Minister of Transport and Communication to Washington to make sure that World Bank loans for roads and other projects would be immediately forthcoming if he devalued. Two previous devaluations of the cedi were followed by military coup.

The old guard in the PNP, who date from the period of Kwame Nkrumah, Ghana's first president, without being strongly committed to Nkrumah's nation-building morality, opposed the devaluation because they were afraid that the PNP would lose the next elections as a result, and they would be deprived of the benefits of their positions in the ruling PNP. Limann had been a diplomat, an unknown, and did not have the soiled image of a Ghanaian politician before he became president. But his uninspiring leadership convinced the old guard they would need a new presidential candidate.

At the same time the youth wing of the PNP, led by those who were part of the youth organizations during Nkrumah's period, and are still strongly committed to Nkrumah's goals, also attacked the IMF demands, but from a more political standpoint. The youth group went after "the IMF, the World Bank, and other foreign financial interests," stating: "We of the youth wing of the PNP are aware that devaluations have always been part

of package deals normally presented by Western financial interests to Third World countries with promises of huge credit grants. The object has always been not the solution of the receiving country's economic problems but the reduction of the country to a beggar state."

By mid-December the fight in the PNP was still so intense that Limann again had to put off the PNP's three-day conference or be forced by the old guard to give up his chance to become the presidential candidate in the 1983 elections. It was unclear at that point if Limann retained enough control to carry out even one aspect of the IMF package, the devaluation.

The first thing Rawlings is being pressured to do is devalue the cedi. The London *Financial Times*, and the British weekly *West Africa*, are urging that Rawlings "use that popular support to take the tough measures the economy requires."

This is the second such "anti-corruption" coup that Rawlings, whose father is Scottish, has run in Ghana. On June 2, 1979, he was released from prison by co-conspirators to become the leader of a takeover against the then-military government. He had several high-ranking people executed including three former heads of state, on charges of corruption. He has now announced that people's tribunals will again be held.

In 1979, a Nigerian oil boycott forced Rawlings to stick to his promise to give power over to a civilian government. This time, the first government to recognize Rawlings was that of Muammar Qaddafi, who has offered Rawlings oil, removing any Nigerian leverage and ensuring Rawlings's consolidation of power.

A Soviet shift in the Gulf?

Moscow's moves toward Iraq could soon leave Washington holding the diplomatic bag.

Ronald Reagan may only now be about to pay the costs of President Jimmy Carter's illicit flirtation with Islamic fundamentalism in Iran. Hints of a Soviet shift toward a rapprochement with Iraq, along with renewed appeals by the Teheran mullahs for help from the Pentagon, might turn the U.S.S.R. into the defender of the Middle East from Khomeini's plague.

If the Soviet Union's shift indeed occurs, after prolonged Soviet ambivalence toward Iran and a chorus of Soviet voices praising Khomeini's "anti-imperialism," the United States may be facing a diplomatic trap in the Persian Gulf.

The first reports of a Soviet approach to Iraq followed the downing of an Israeli-sponsored weapons carrier over Soviet air-space, ferrying Israeli arms to Iran from Cyprus. Baghdad lost no time in making that story into a major propaganda coup, ridiculing stupid Arabs who allied with Iran after the 1979 revolution. Moscow reportedly took note, and reopened dormant contacts with Baghdad.

Now, in an article in *Jeune Afrique* magazine, respected French journalist Paul-Marie de la Gorce reports that the U.S.S.R. has resumed arms deliveries to Baghdad, suspended after the September 1980 outbreak of war.

Entitled "The Kremlin Chooses Baghdad," de la Gorce's article notes that Iraq has mended fences with Arab allies of Moscow

(though serious differences remain), and claims that Iraqi leader Taha Yassin Ramadan's trip to Moscow late last year resulted in Soviet arms flowing to Baghdad.

Iraq, meanwhile, has exercised its full diplomatic powers to rally Arab support in its war against the regime of the insane mullahs. At the beginning of January, Iraq called on all Arab countries to completely sever relations with Teheran, citing, among other atrocities committed by Iran, the documented case of Khomeini's subversion of the Arab Gulf states. The Saudis and their Arab Gulf allies may follow Iraq's suggestion soon.

On Jan. 7, the U.S.S.R. welcomed a scheduled visit by Syrian President Hafez Assad to Iran—a mission reportedly designed to seek an end to the Iran-Iraq war. The Soviet commentary, on Radio Peace and Progress, significantly noted that Israel is "trying to win Iran's friendship" and that Israeli officials have called on Khomeini to escalate the war. But Moscow concluded: "Iran and the Arab countries have one common enemy."

Such a remark indicates that the Soviet leadership may now believe that the time is ripe to strengthen its influence throughout the Persian Gulf. Even Saudi Arabia is reportedly considering whether to reopen diplomatic links with Moscow, severed in 1933.

For the United States, time is

running out.

Despite his private belief, voiced only once, on the eve of his presidency, that the Khomeini gang are "barbarians," President Reagan has yet to take action against the Teheran regime. In fact, according to several reports, an Iranian military group recently visited Washington to beg for arms. Although that delegation was rebuffed, Washington is still tolerating third-party transfer of American weapons to Iran. It appears that the U.S. government continues to believe that the Iranian clergy is the only barrier to Soviet influence in Iran!

The problem is compounded by the reported ouster in Iran of 1,000 Tudeh Communist Party workers from government posts, providing an illusory appearance that the mullacracy is "pro-Western." In fact, de la Gorce reports that the Tudeh leadership, including Chairman Kianouri, have abandoned the capital for a refuge in Kurdistan in Iran's northwest, out of the reach of Khomeini's Islamic Guard. As Mr. Reagan may soon learn the hard way, both the Iranian clergy and the Tudeh leadership are mere assets of the British intelligence service, playing a game whose rules the U.S.S.R. may no longer accept.

Ultimately, Iran must collapse. Its economy is non-existent, its finances are exhausted, and Iranians themselves are sick of theocratic fascism. Last week, Iran's labor minister announced severe restrictions on imports due to "cash-flow problems," and Iran's reserves may have fallen below \$1 billion. Dwindling even faster, however, may be American credibility, unless Washington finally decides to clean up the mess Jimmy left in Iran.

When is a casino not a casino?

Tourism Minister Rosa Luz Alegría has yet to explain the difference. It may cost her her career.

As I told you in my Dec. 22 column Tourism Minister Rosa Luz Alegría opened a can of worms when she revealed to a group of interviewers on Dec. 9 that her ministry was "studying the possibility of installing legal gambling games on our borders [with the United States] . . . as a means of attracting more tourism."

Since that date, Mexico's first woman cabinet minister has engaged in a spectacular exercise in verbal gymnastics to extricate herself from this political death-trap—to no avail. When President Lázaro Cárdenas banned casinos in the late 1930s it was to the cheers of a populace which knew all too well the kind of organized crime, prostitution, and corruption the casinos involved. It's now clear that that knowledge has not been lost today.

While the first political shock waves were reverberating in the country, and newspaper columnists opened sharp attacks, the Tourism Minister made the first of her desperate efforts to backtrack. On the national evening news program "24 Horas," she stated that she never used the word casinos in her initial statement. What she meant by games of chance, she said, were simply advanced electronic games which will stimulate "healthy competitiveness" and the expansion of "creative powers." But she did intimate that quite an elaborate plan for border gambling was in fact under consideration. To protect

Mexican workers from gambling too much at machines that were only designed to entrap gullible gringos, she said that Mexican workers could be issued special cards which, coded according to that worker's income, would set a special limit to the amount that each worker could lose.

Alegría's troubles rapidly multiplied. First the National Tourism Council, the fiefdom of Mexico's foremost political godfather of drugs and dirty money flows, Miguel Alemán, put out a statement welcoming the revival of debate on the gambling issue and specifically endorsing re-establishment of casinos. Mexico, faced with the current downturn in tourism, "must not take itself out of a world market such as gambling," the statement proclaimed.

Amidst a further spate of newspaper articles and editorials attacking the proposal, the Mexican Labor Party (PLM) called a well-attended press conference in Mexico City Dec. 22 to detail specifics on how casinos and related gambling serves as a front for laundering drug money.

Things got no easier after the New Year. On Jan. 4-5, *Excelsior* columnist Manuel Buendía published a devastating history of Mexico's experience with casinos and how they bring "organized crime and international prostitution in their wake." Buendía then reviewed the circumstances of the previous

push for legalized casinos, headed up by Ambassador to Canada Agustín Barrios Gómez and Roberto de la Madrid, governor of Baja California Norte, in 1978. President López Portillo called in Roberto de la Madrid, for a personal face-off, after which de la Madrid emerged to inform the press tersely that "It was agreed that there will be no gambling."

Stung into further public rejoinder, Alegría published a column of her own the next day in two major dailies, addressed specifically to Manuel Buendía. It was a demeaning move for a cabinet-level official. She noted once more that she had never actually used the word "casinos" when she had described her proposal to draw foreign tourists into Mexico with gambling schemes, and that she "had publicly stated her opposition" to casinos.

But the Minister also noted that "the results of 1980 showed the drastic diminution of foreign tourism and the increase in expenditure of Mexicans in the United States."

"It is easy to imagine why geniuses of the stature of Einstein dedicated their intelligence to, among other things, developing game theory and to creating mathematical games of chance that stimulate the imagination, train logical thinking and satisfy man's logical instinct—the origin of all the arts, events which manage to unify creation and recreation in one act."

Despite the inspiring rhetoric, she had failed once again to explain how such "technetronic age" gadgetry could possibly pull big-spending American gamblers south of the border to remedy the tourism decline—unless it was indeed just the cover for re-opening casinos and other outlawed gambling rackets.

International Intelligence

Reagan moves to contain Israeli breakaway ally

A well-connected Middle East intelligence source told *EIR* Jan. 14 that President Reagan issued a stern warning to Israeli Prime Minister Menachem Begin two weeks ago through Sen. Charles Percy. During a visit to Israel, Percy warned Begin that if Israel does not evacuate the remainder of the Sinai on April 26, "there will be no U.S. Ambassador in Israel." Percy further warned that "you have crossed the line . . . this is business. Israel walks next to the U.S., any further attacks against your neighbors must be preceded by a consultation with the U.S."

This warning reflects growing fear in Washington that the mad Begin regime is moving into the so-called breakaway ally mode, whereby Israel conducts aggression against the Arab world without consultation with the United States, as it did when it annexed the Golan Heights last month. Washington sources report that the administration is increasingly fearful of the power-play Israeli Defense Minister Ariel Sharon is conducting to succeed Begin.

Haig pushes 'Third Force' in Caribbean

At a quiet meeting in Washington, D.C. on Jan. 8, Sr. Felipe González, who runs Latin American operations for the Socialist International, reported to Secretary of State Alexander Haig on his two previous weeks of shuttle diplomacy, which had taken González from Mexico City to Panama, Costa Rica, and Havana. And according to his own report after the meeting, he found Haig open to the Socialist International plans. González announced to the press after the meeting that he was "optimistic" that the United States will now begin negotiations with the Socialist International. Nominally, the deal is on how to carve up the area: the United States is to put the left into power in El Salvador, and

the Socialist International to allow a relative shift to the right in Nicaragua.

The recent French-Nicaraguan military accord, announced by French Defense Minister Charles Hernu during his visit to Washington this month, is a major component of the accord, and it points to the real policy content of the new negotiations. The author of the French arms accord, according to congressional sources, was Mitterrand's top "revolutionary theorist" on Latin America: Régis Debray, the man who reportedly runs Felipe González as well. The arms sale is a part of Mitterrand's efforts to set up a Third Force between the superpowers, based on a kind of "Rousseauvian socialism" envisioned by Debray, the sources reported.

Destabilization planned for López Portillo

"Foresee in Order to Forestall" is the title of a planning meeting among Jesuit-controlled Mexican bankers and businessmen Jan. 15-18, modeled on the Chipinque meeting of "hooded ones" which plotted the destabilization of President Luis Echeverría six years ago.

The \$2,000-per-head gathering is directed by European operatives from the Universities of Louvain, Munich, Münster, Berlin, and Madrid. The opening presentation was made by Augustin Legorreta, head of Mexico's leading propaganda-2-linked bank, Banamex. Derailing President López Portillo's pro-industry policies is on the agenda.

Mitsubishi Plan author challenges World Bank

Masaki Nakajima, the author of the \$500 billion Mitsubishi Research Institute (MRI) world development plan, directly challenged a speech given by World Bank chieftan A.W. Clausen in Tokyo and counterposed to Clausen's view the Mitsubishi Plan. This is the first time any business or political leader in Japan

has given a public speech promoting the scheme, as opposed to newspaper "trial balloons."

Clausen had told a public seminar in Tokyo sponsored by the *Yomiuri Shimbun* Jan. 13 that the idea of a "north-south" economic configuration is no longer useful because now the world is "multipolar," the favorite phrase of London-based geopoliticians. Clausen went on to say, "The World Bank is a very hard-headed, unsentimental institution that takes a very pragmatic and non-political view of what it is trying to do. . . . The World Bank's mandate is to contribute to the economic success of its developing-country members, but it can make that contribution only if it retains the support of the governments and private markets of its capital exporting countries."

Nakajima, the head of MRI, then rose to state, according to Jiji press service, that the situation of the developing countries is getting steadily worse, and pointed to Mitsubishi's \$500 billion plan for massive development projects in the developing countries as the alternative. Jiji added that one of the motivations behind the Mitsubishi Plan was the view that the World Bank, United Nations, and other organizations have become less effective.

Schmidt: 'I have been silent long enough

Helmut Schmidt gave one of the feistiest speeches of his career in the German Bundestag on Jan. 14, stressing that the bulk of the population supports him in his fight for social stability, higher employment, and lower interest rates. The economic stability of the West is very much a question of security and world peace as well, Schmidt declared.

The Chancellor told his critics that he had been silent long enough in the face of outrageous slanders from at home and abroad. As the Christian Social Union's Franz-Josef Strauss and Christian Democrat Helmut Kohl are calling for a tough line against Poland, Schmidt said,

“old Nazis” are writing letters to the Chancellery demanding the same policy.

But apart from such old Nazis, Schmidt said, 75 percent of the German population supports his policies on interest rates, Poland, and NATO's missiles.

Soviets profess bitterness at U.S. incompetence

The most authoritative commentator in the Soviet government daily *Izvestia* the first week in January wrote an analysis of Western response to the Polish crisis, concluding that the United States had distinguished itself for its sheer incompetence in handling the situation. *Izvestia* commentator Aleksandr Bovin concludes that the United States has developed great skills in digging “deep dungeons” for itself, from which it is then unable to emerge. The United States continuously generates unnecessary foreign-policy crisis situations which it then proceeds to mishandle. To convey this point, Bovin also uses an image taken from a speech by George Kennan, in which the United States is portrayed as a pin-headed dinosaur with a huge, self-destructing tail. I say this, concludes Bovin, not with “malicious glee” but “with bitterness.”

A companion piece in the Soviet party paper *Pravda* on Jan. 8 under the signature Petrov—denoting a highly authoritative commentary—concludes that the United States is determined to actually wipe out socialism in Eastern Europe, but that the Soviet Union will not allow this to occur.

This Petrov piece—which is harsher than anything published in the Soviet press in the wake of the Afghanistan invasion—differentiates between the United States and Western Europe, a distinction which was also emphasized by Bovin in *Izvestia*. This distinction was also carried in a communiqué by Soviet Foreign Minister Gromyko and his Polish counterpart, Czyrek. The communiqué issued following their Jan. 12 five-hour meeting was devoted in the main to an extraordinary detailing of all the major East-West European contracts and treaties of the

past 10 years. The point being made is, of course, that all these advantages will be lost to Western Europe if they go along with the American sanctions.

Scandal implicates Palme socialists

In Sweden, the latest developments in an unraveling scandal implicating circles tied to former Social Democratic Prime Minister Olof Palme put drug smuggling and at least one covered-up murder embarrassingly close to the doorstep of Palme himself. Palme is a scion of the Baltic nobility and Venetian insurance interests now tied to Iris, the private intelligence outfit set up by Ted Heath.

A British national named John Slattery, the key witness in a trial of one Carl-Thomas Edam, who was arrested several months ago in the largest drug bust in Swedish history, was found murdered in Amsterdam minutes before police there had planned his arrest. The Swedish press is now filled with hints that there are “several prominent figures in the periphery of this affair.” Police had felt certain that Slattery would name his prominent cohorts. Carl-Thomas Edam was Palme's adviser on school and educational issues. Later Edam was redeployed to Copenhagen, center of the Christiania drug underworld, to work on a project called “Scandinavia Today” funded by the Aspen Institute's Robert O. Anderson.

The Edam affair is the most recent of a series of explosive Swedish scandals that have broken into the open in past weeks around the narcotics-diamond-casino underworld. Several weeks ago, another major drug scandal linked Palme intimate Anders Thunborg, present U.N. Ambassador, to organized crime czar Jacob Chanow, the diamond king tied to Pakistani and Danish drug networks. This scandal is believed in turn to intersect the one involving the P-2 linked Engelhard Minerals, the head of whose Swedish subsidiary was arrested for smuggling millions of dollars worth of gold from Switzerland.

Briefly

● **FRANK SOUTHARD**, former deputy managing director of the International Monetary Fund and current chairman of the small, elite Per Jacobssen Foundation, told a reporter Jan. 12, “There is little the U.S. can do if Schmidt wants to continue the Siberian pipeline deal. The Germans started it over U.S. objections anyway.” Southard rejected the idea that President Reagan was pushed around by Schmidt in their meetings. “I think that Reagan got more out of it than anyone expected. But the truth of the matter is that as far as Poland goes, the Soviets are taking a big risk, but basically are succeeding and have the situation under control.”

● **THE SOVIET PRESS** has launched a campaign against economic inefficiency—a development very much in line with the “battening down of the hatches” *EIR* expects within the Comecon countries as a result of the Polish situation. An article in the Soviet party journal *Kommunist* criticizes the State Planning Agency, Gosplan, and certain ministries for ignoring the plan directives just approved by the Central Committee and the Politburo in November. *Pravda* charged Dec. 28 that construction procedures optimize short-term, high-cost building operations.

● **GEN. MAXWELL TAYLOR**, who has called for orienting foreign policy toward depopulating the Third World, has called for a policy of dismantling high-technology strategic defense capabilities. In a op-ed in the Jan. 14 *Washington Post*, Taylor says the U.S. should “abandon weapons parity with the Soviets as a national goal.” Instead, Taylor says, the U.S. should reduce its strategic arsenal to one which would be sufficient to devastate, not the military targets, but the command centers, leadership bodies and cities of “the region where the population is predominantly ethnic Russian.”

A two-sided paralysis in American foreign policy

by Lonnie Wolfe

One year into the Reagan administration, the U.S. government is gripped by paralysis in foreign policy. Some of the more vocal participants in what is called foreign policy formulation would disagree. But their wishful thinking does not make for an adequate or coherent foreign policy. If the chaos is not resolved in the coming months so that a sane U.S. foreign policy emerges, the world is headed for disaster.

The dynamic governing U.S. foreign policy is as follows. The Haig State Department has spent much of the year blustering and trying to provoke a confrontation with the Soviet Union or its surrogates in nearly every conceivable corner of the globe. As is the case with many blowhards, Mr. Haig has fortunately been short on substantive action. The White House and in particular the President himself, while declaring insistently that Haig speaks for the administration, has attempted to rein in the Secretary of State and his worst confrontationist schemes.

So Haig has a rhetorically tough policy of confrontation, but no ability to carry it out, while the White House view of foreign policy can best be described as seeking to avoid disaster.

Neither the White House nor Alexander Haig is aware that a major strategic shift is under way, a shift that neither view of foreign policy is capable of handling intelligently.

This is made clear by examining U.S. foreign policy

adventures during the week of Jan. 11-15.

First we had the spectacle of Haig running off to Europe declaring that he was going to press the NATO allies meeting in Brussels to support the U.S. sanction policy against the Soviet Union, a goal of two failed missions to Europe by Haig and his top aide Lawrence Eagleburger. Haig delivered a raving speech about the "Red Peril," which sounded like it was borrowed from an old text of Sen. Joe McCarthy. In the end, the NATO allies approved a communiqué with some tough words directed at the Soviets, but no endorsement of the sanction policy. Haig immediately hailed this as a "great development" and a "wonderful victory."

European sources say that Haig is out of touch with reality, believing that the world is as he wishes.

The issue of European support for sanctions against the Soviets was in effect settled when the President told Haig that he had no desire to re-institute the grain embargo under any circumstances. West German Chancellor Helmut Schmidt, in his meetings with Reagan this month in Washington, told the President, according to reliable sources, that West Germany fully understood the reasons why the United States would not want to re-impose the grain embargo, and that he was sure that the President understood why West Germany could not afford to impose sanctions. There was never any chance that the NATO allies would impose any sanctions, no matter how much Haig blustered.

On a more fundamental level, Haig refuses to accept what is actually happening in Poland. Last month, in a speech before the Commonwealth Club in San Francisco, the Secretary of State intoned that "martial law in Poland cannot and will not succeed . . . it cannot stabilize Poland." En route to Brussels, he repeated that great chaos and Soviet military intervention were still on the agenda. Soviet military intervention is certainly what Haig and his friends in such places as the New York Council on Foreign Relations had desired—and expected from the Soviets. It didn't happen, and it won't happen.

Haig's entire anti-Soviet policy is a shambles. He believes that he can scare the Soviets with words. The Soviets—and much of NATO—aren't listening.

The decision on arms sales to Taiwan this week also reflects the administration's paralysis. By deciding not to sell Taiwan advanced fighter planes, but continue the co-production of the F-5E, the White House made a non-policy decision (see article page 41).

'The Reagan problem'

This stalemate is unacceptable to the CFR promoters of confrontation with the Soviets who control Haig. The problem for their design of destroying both superpowers is, as they see it, the President.

"Reagan has fooled us," said one of these creatures, with close connections to British intelligence circles around Foreign Secretary Lord Carrington. "We thought he would react like an anti-Soviet ideologue to something like Poland. He reacted cautiously. He reacted practically, from his standpoint. . . . We need Reagan to be more of an ideologue."

These circles particularly want to upset any chance of a summit between Reagan and Soviet President Leonid Brezhnev. They point to the fact that Reagan seems influenced by one to one relationships and meetings. They say that it's the President's personal regard for Chancellor Schmidt, for example, that has stymied many of the worst intrigues of the State Department to topple what they consider to be the pesky German.

According to Capitol Hill sources, the Washington, D.C.-based Heritage Foundation, the British Fabian Society's Trojan Horse on the right, has devised a strategy with operatives in the Democratic Party around Sen. Scoop Jackson and his Coalition for a Democratic Majority (CDM) to end the policy paralysis in favor of the Haig confrontationist faction. Their plan includes an attack on the administration for abandoning issues associated with the so-called New Right, like abortion, the school prayer, and busing. A strategy session will take place in Washington on Jan. 21, featuring 50 of these so-called New Right leaders, including Rev. Jerry Falwell of the Moral Majority, Ed Feulner of the Heritage Foundation, the British intelligence-linked mail order czar Richard Viguerie, and Howard Phillips,

another Anglophile who heads the Conservative Caucus.

Simultaneously, and more importantly, the Heritage networks and their CDM-liberal allies are launching an attack centered around the idea that "Reagan is soft on the Soviets." This features two points of argument. First, Reagan "has capitulated to the Soviets on Poland," refusing to bash Schmidt and re-impose the grain embargo. Second, they will claim, our sources report, that the Reagan defense posture is not geared for a confrontation with the Soviets. Here they will be joined quite openly by Jackson and Sen. Gary Hart, the Colorado Democrat who holds the dubious distinction of running George McGovern's 1972 presidential campaign.

Rumors are floating around Washington, following a column by George F. Will, the Heritage-linked conservative, that "a top administration official" will resign in disgust over Reagan's capitulation to the Soviets. Speculation centers on CDM-Jackson operative Richard Perle, currently an Undersecretary of Defense. It is thought other resignations among Heritage and CDM moles are also possible.

In addition, our sources report that should the White House fail to respond, some senators and congressmen controlled by the so-called Madison Group of Heritage-and CDM-linked aides, will introduce legislation to revive the grain embargo against the Soviet Union and threaten legislation to pull U.S. troops out of Europe.

The press conduits of this network are already pouring out the line. Liberal pundit Joe Kraft carried arguments almost identical to Wills's, denouncing Reagan's softness. That same day Katherine Graham's *Washington Post* carried a news analysis piece by Walter Pincus decrying the Reagan administration's defense policy as "unilateral disarmament." Economic oracle Elliot Janeway, part of the outer orbits of the Mont Pelerin Society's Heritage Foundation networks, told a defense symposium in Minnesota Jan. 13 that the administration's defense policy is not geared toward the immediate conventional arms readiness status needed for confrontation.

Both groupings in the foreign policy fracas, the Reagan "disaster-avoiders" and the Haig "confrontationists," have failed to heed the advice of Chancellor Schmidt, offered during his recent visit to Washington. In the communiqué, Schmidt stressed that the current economic depression is the greatest threat to Western national security. In the end, it is the administration's failure to deal with the Volcker problem—the high interest rates and related policies that are destroying the U.S. and European economies and in-depth military capabilities—which makes a mockery of all U.S. foreign policy.

'Won't you please let your grandchildren have a drink of fresh water?'

by Lyndon H. LaRouche, Jr.

The following is excerpted from a National Democratic Policy Committee draft policy discussion paper prepared for a National Conference on Water from Alaska sponsored by the NDPC to be held in Houston, Texas on Feb. 27. Mr. LaRouche chairs the committee's advisory board.

Next to a general thermonuclear war, the greatest single environmental danger to the American people over the coming two decades is the danger that whole regions of our nation will simply run out of usable fresh-water supplies. This is an acute danger in a region within a hundred-mile radius of New York City. The greatest area of present danger lies west of the Mississippi.

This problem has been seen coming, at least by more far-sighted people, for most of the post-war period. Unfortunately, the general public has been kept in ignorance of this policy issue, and certain among influential political circles have sabotaged sound policies and programs, each for one of a variety of reasons.

Now, unless we act quickly, the Great American West is going to die, suffocated by a swirl of dust and sewage. Already much of our agriculture is in danger, as the drought of 1980 ought to warn us. A few more years ahead, the water shortage will grow to become the most acute environmental danger to many facets of our life, as well as to our nation's supplies of food and fiber.

There are three basic approaches which must be combined to overcome this problem.

First, there is the approach which Texas's Representative Jim Wright supported in a book he published in 1966, *The Coming Water Famine*, the so-called North American Water and Power Alliance (NAWAPA). That is the immediate action on which this National Democratic Policy Committee (NDPC) policy outline concentrates. Better management of the available fresh-water supplies of the North American continent will not only solve this particular problem over the decades ahead, but will also become the foundation for an explosion in wealth throughout a region west of the line of the Mississippi River, in Canada, the United States, and northern Mexico.

Second, by creating the conditions for growing denser populations of crops, shrubbery, and trees in present-

ly arid regions, the vapor transpiration from plant-life will recycle fresh water through improved rainfall patterns. This would occur largely as a by-product of implementing NAWAPA and related regional and local fresh-water management actions.

Third, over the longer period, nuclear-energy technologies will provide us unlimited fresh-water supplies, as improvements in technology lower the costs of desalinating sea-water on a large scale, and aid us in turning polluted waste-water into pure fresh water for reuse many times over on the way to the sea. With such technologies, the vast Sahara region can be transformed into a rich, habitable region, together with the Gobi desert in Asia.

As the NAWAPA example shows, the investment in improvement of fresh-water supplies is a highly profitable investment. Every dollar wisely spent on NAWAPA will increase the production of wealth in our Western states many times over during the course of the coming decades. It is the same with nuclear-energy technologies.

There are no practical or economic reasons not to proceed. The obstacles have been and continue to be only political wrong-headedness. Once the facts are considered, we must also say that the political obstacles are downright immoral. There is no morally acceptable reason to argue against taking those steps which are absolutely necessary to ensure that our grandchildren, and their children, can walk to the kitchen cold-water tap and draw a glass of clean fresh water.

Let's begin with plain common sense

My associates and I have therefore pulled together this background report in support of the proposed fresh-water management policy. Most of the detailed work we report—and support—was done by others, not ourselves, over decades. We give credit directly to a few of the most prominent among these persons and agencies, as we have already cited Jim Wright's efforts. Only lack of printed space, not want of respect or affection, prevents us from giving credit to many more. Our job has been to pull the essential work of that sort together, and to supply as the product of our own efforts the glue needed to bring all such elements into one single policy-outline.

Each average year, moisture from the oceans delivers approximately 10 billion acre-feet to the continental United States and Canada by means of rain and snow. Of this total, these nations' continental streams deliver an estimated 4,510 million acre-feet to the combined Arctic, Pacific, and Atlantic oceans. Of this total outflow into the oceans, at least 4000 acre-feet flows into the oceans, especially from Alaska and Canada, without being significantly available to the needs of human populations.

Meanwhile, chiefly because policy-makers have refused, so far, to do the obvious, to bring some of the largely wasted run-off from Alaska and Canada's North to where it is needed, large regions of our continent have been using up underground water-supplies faster than they are replaced. The net loss is currently estimated to be about 90 million acre-feet per year.

This waste of available water is lunacy. It must stop. It is past time to bring the wasted Northern fresh-water supplies south, to where the water is needed. It is necessary to manage the flow of fresh water much better, once it is brought into agricultural and populated regions.

Except for the water directly embodied in living organisms and in underground water reservoirs, the water consumed by plants, animals, and peoples passes through living organisms, either as evaporation or as fluid components of excretions. Our policy must be to increase the throughput of water into the streams, lakes, and other reservoirs of populated and agricultural and forest regions, slowing the rate at which water flows "out of the system" into the oceans, while keeping the levels and rates of flow of streams, lakes, and so forth at proper values.

So, in the simplest and broadest terms, what we must do is to increase the amount of fresh-water input into urban and agricultural regions directly, chiefly by bringing a significant part of the wasted surface-water flow of Alaska and Canada into Canadian, U.S., and Mexican channels of usage. We must accompany this with improved water-management programs, including action on the long-postponed Delaware water management project in the Northeast.

Weather management

The most obvious and largest direct undertaking to be begun now is the North American Water and Power Alliance project (NAWAPA). This is the largest single chunk of the work on water development to be done under governmental sponsorship and coordination. This complements other waterways and other water-management programs, including the Delaware project, the Tenn-Tombigbee project, and a new canal from Lake Erie into the Pittsburgh-centered water-system nexus. Regional and state initiatives should complement

and interface the federally sponsored major projects.

The largest increase in water-flow within the United States, Canada, and Mexico, apart from canals and other fluid conduits, is through increased rainfall. A chief source of this increased rainfall will be evaporation of moisture from trees and other plant-life.

By increasing the flow of fresh water into arid and semi-arid regions, we produce a number of interrelated effects, chiefly increasing the vegetation. This increase in vegetation converts solar radiation into useful biomass (and oxygen production). For each kilogram of oxygen produced from carbon dioxide by vegetation, approximately 165 kilograms of vapor is released into the atmosphere by plants.

The columns of vapor released by vegetation are a marginal, but critical element in the determination of weather-systems. That is, on condition that the volume of such increased vapor-flow is great enough, and over a sufficiently large area, new local weather-systems tend to develop, through which evaporated moisture is recirculated by means of rainfall. At the same time, the weather is moderated through absorption of an increased percentile of solar radiation in the work represented by biomass-growth and moist weather-systems.

Over the coming decades, this secondary benefit of NAWAPA and related engineering works will become cumulatively an increasingly important benefit.

Water management

One of the best tools of fresh-water management is a nuclear-energy plant.

Before a nuclear-energy plant uses water taken in for cooling and other purposes, that water must be thoroughly cleaned. A nuclear plant which produces approximately 1 gigawatt (a billion watts) of electrical output cleans and discharges approximately 75,000 acre-feet of fresh water each day.

This cleaning of the water of our streams and lakes (where fresh water is used by the plant) is accomplished at no net cost to the nation. A nuclear-energy plant produces heat and electricity at a lower cost per kilowatt than any other form of energy-production, a cost which includes the costs of cleaning the water used. Incidentally, the nuclear plant puts less radioactivity into the environment than a coal-burning plant of the same capacity! In fact, the most economical way to decrease the population's exposure to radioactivity would be to greatly increase the use of nuclear-energy production.

If the fresh-water discharge from a nuclear-energy plant is used most intelligently, i.e., most economically, we use the heated water for either industrial or agricultural production, including greenhouse production near the nuclear plants, or to increase fish production in streams and along coastal regions. Meanwhile, the cheapest way in which to clean up a stream or lake is to

embrace the appropriate number of nuclear-energy plants to clean its waters as a by-product of its basic operations. Along ocean coastal sites for nuclear-energy plants, we should cease to waste the benefits of fish-farming potentials available to us.

The case of nuclear-energy production's role in cleaning and otherwise managing our water resources is only the most obvious example of a broad range of many high-technology approaches to economical management of fresh-water throughput. If we concentrate on making energy cheaper, as only nuclear technologies enable us to do this, cheaper energy, especially energy available for use at higher operating temperatures (or equivalent), permits us to deploy various mechanical and chemical approaches to purifying water, and to increasing fresh-water supplies with large-scale, and, ultimately, acceptably economical desalination of ocean water.

The lineup on the NAWAPA plan

The North American Water and Power Alliance (NAWAPA) Plan was developed in 1964 by the Ralph M. Parsons Company of Pasadena, California. The plan would use a natural reservoir, a 500-mile-long valley high in the Canadian Rockies, which contains the headwaters of major U.S. and Canadian rivers. NAWAPA would catch and store the water at this high elevation and transport it down in a series of irrigation canals on both sides of the Rockies.

To the east of the two irrigation canals, through the Great Plains, would run a north-south canal between the Rockies and the Mississippi, with a lateral branch into Lake Superior.

The natural east-flowing rivers would then be used as multiple connecting links between the perimeter canal directly east of the Rockies, the navigation canal passing through the heart of the great Plains, and the Mississippi River.

NAWAPA would move 130 million acre-feet of water per year (MAFY) for U.S. irrigation; another 20 MAFY for navigation; and 100 MAFY for Canada and Mexico. It would cost \$130 billion in 1979 dollars. Instead of being a net user of power, it would supply over 50,000 Megawatts Electric (MWE) in hydroelectric capacity *above the amount of power used to move the water.*

To the extent the NAWAPA and related engineering work develops relatively large-scale throughputs of fresh water, we must foresee the development of new urban centers in our Western states in particular. Our emphasis ought to be on developing the kinds of agro-industrial centers of urban activity most useful to the agriculture and forestry of the adjoining regions, for both the immediate years ahead and the more distant future.

Some of this must involve initiatives by the federal and state governments, especially in such important matters as political decisions setting aside various portions of federal lands and state lands for assigned categories of future use and development, and for establishing priorities for steering credit and encouragement to investment.

With modern energy technologies, especially in the nuclear-technologies' spectrum, "urban" need no longer

Recent lobbying efforts by the National Democratic Policy Committee, led by its Southwestern coordinator, Nicholas Benton, have caused various public figures to again look at NAWAPA.

Kansas State Rep. Keith Farrar who has endorsed legislation to restudy NAWAPA, is a member of the official governmental body charged with finding new water sources to replace the Ogallala aquifer, which is being rapidly depleted, the High Plains Study Council. He prefers the continental approach of NAWAPA to the "regionally limited approach" of the High Plains Council. Democratic Senatorial candidate in California Will Wertz, has released a White Paper endorsing the Peripheral Canal Project in that state, stating: "a victory for the Peripheral Canal will strengthen the nationwide fight for NAWAPA . . . the benefits are . . . enormous stimulation of the U.S. economy as well as the associated advantages from the agricultural development in the Mexican state of Sonora, which would receive 40 MAFY of water."

Robert Delano, President of the American Farm Bureau (AFB), said at the AFB annual convention in San Diego Jan. 12: "There is a great need for a national water policy that clearly spells out this priority while allowing the development of major water supplies to meet present and future needs of the entire North American continent."

But Interior Secretary James Watt's response to a question about NAWAPA at the press conference was: "The economic costs would be staggering and the environmental consequences would be beyond calculation. . . . There are lots of things we can do for better conservation of water resources."

mean "dirty," "slums," or any of the other ugly things we associate with urban life today. Clean water, clean air, clean energy-production, and cleaner forms of industrial technology, are now becoming economical propositions.

It is by looking at policy questions, such as water management, as a division of efforts among government, business, farms, and private households, that the citizen is able to judge efficiently what federal government variously should and should not do, and what is better left to other agencies: state governments, local governments, and private institutions and individuals.

What the federal government must do in this case, which no state government or private agency could do, is to sponsor and coordinate a project on which the national security of our nation depends over the coming years, the water-management project associated with the North American Water and Power Alliance, NAWAPA.

NAWAPA under depression conditions

At this moment of writing, the United States has entered a new worldwide depression. Unless profound changes in U.S. policy occur more or less immediately, the present depression will become worse at an accelerating rate. This depression, unless stopped, will be much deeper, longer, and more savage than the Great Depression of the 1930s.

Therefore, only an ivory-tower lunatic would think of discussing NAWAPA under present conditions, unless he were presenting NAWAPA as part of a package which will assist us substantially in getting out of this depression.

Whether they know much about economics or not, a growing number of citizens are in a mood to demand projects like NAWAPA as economic-recovery projects. With private employment-levels collapsing, citizens will demand that the federal government "do something" to set the economy moving upward again. Politicians who attempt to buck that growing mood in a desperate population will find themselves somewhat less popular than Herbert Hoover was during the 1932-36 period.

The federal government must take drastic action, and not wait too long about it, either. However, the federal government must not adopt any of those crack-brained schemes now rattling around in the mouths of some among our Democratic Party liberals. We need sound economic projects, wealth-creating projects that will return to the economy far more than they cost.

In general, the following recovery measures must be taken immediately. Later might be much too late.

Domestically, the federal government must do the following immediately:

1. Remonetize the gold reserves of the U.S. Treasury. Gold should be priced at approximately \$500 an ounce, the fair price for average production of gold by mines. This gold reserve should be used solely to back

U.S. currency deficits in international markets, with payments in gold made only to governments and central banks which make firm agreements to establish a new gold-reserve-based international monetary system, to replace the International Monetary Fund.

2. The Congress must authorize creation of a new series of U.S. Treasury currency-notes, denominated on an international gold-reserve basis. These notes are not for government spending; they are solely for government lending, at lending-rates of not higher than 4 percent.

3. The new issues of notes shall be lent only on the basis of government participation in private-bank loans for high-technology goods-producing investments.

4. Part of this issue shall be used to provide long-term credit to governmental projects of wealth-creation, such as NAWAPA.

5. A short list of federal government activities and federally sponsored projects must be set quickly into motion. NAWAPA is one of these projects.

Just to provide the reader with a sense of the general kinds of governmental activities and economic projects we propose, the following outline is provided. It is not all-inclusive, but it does illustrate our thinking.

1. Complete construction of approximately 100 gigawatts of nuclear-energy-generated electrical generation capacity within approximately eight years. (This will be a net saving to the national economy, since nuclear energy is the cheapest and safest energy source, as well as the environmentally cleanest available to us. It won't cost us a net nickel over the period of operating and constructing the plants; and it will stimulate exactly the right parts of our steel and other industries, which we must retool to meet nuclear-construction requirements.)

2. The federal government must directly undertake crash combined "basic" and "applied" research efforts in the full spectrum of fusion-energy technology and relativistic-beam physics.

3. The federal government must sponsor or co-sponsor a spectrum of combined transportation-development and water-management development projects, chiefly as public corporations in which the federal government has either a permanent or temporary equity-participation, borrowing lending-issues of U.S. gold-reserve notes through private banks for the operations of these projects.

A short list of such efforts, combined with directed flow of cheaper credit and tax-incentives giving significant economic advantages to high-technology investments in agriculture and goods-producing industry, can easily generate five to eight million goods-producing work-places, while expanding the nation's tax-revenue base sufficiently to bring the federal expenditures budget back into balance with revenues.

Civiletti and the Mandel frameup

by Lawrence Freeman

Former Maryland governor Marvin Mandel, convicted on circumstantial evidence of mail fraud and racketeering in 1977, had his prison sentence commuted by President Ronald Reagan Dec. 4 and was released after having served 18 months in federal prison. The order for Mandel's release came three days after the U.S. Senate agreed to postpone the expulsion hearing of Abscam frame-up victim Sen. Harrison Williams (D-N.J.).

While supporters of Mandel hold former President Jimmy Carter responsible for targeting Mandel, due to Carter's deep bitterness at having lost the Maryland 1976 Democratic primary to Gov. Jerry Brown, the interests of the country as well as Maryland will be immediately better served by examining the career of former U.S. Attorney General Benjamin Civiletti. A national targeting of Civiletti will serve a threefold purpose. It has been confirmed by reliable counterintelligence sources that a second attempt to assassinate President Reagan is still live. This assassination attempt is being coordinated in part by the same networks that could have been exposed publicly in a full investigation of the infamous "Billygate" Charter Oil scandal in 1980, if Civiletti had not personally forced a complete cover-up. Charter Oil interfaces with both the Dope, Inc. domestic circles of Max Fisher and Carl Lindner, and the KGB/Libyan/Armand Hammer networks. A full Senate investigation of Civiletti's cover-up role and Charter Oil itself is in the immediate interests of our national security.

With his position as head of the Criminal Division of the Justice Department and later as the Attorney General, Civiletti was a key participant in the frame-up of Senator Williams. In the case of Mandel, Civiletti held similar authority.

Marvin Mandel was not targeted for his policies per se, but for the fact that he knew how to work with various groupings in the political structure to get a job done. A state delegate since 1952 and Maryland Speaker of the House since 1964, Governor Mandel knew intimately the workings of Maryland politics and the importance of building and maintaining a bipartisan political machine.

It was this constituency machine, encompassing industry, labor, citizens from rural western Maryland, and the farmers from the Eastern Shore, that was seen as too great an obstacle by his opponents. Their policies could not be implemented as long as that machine survived and could wield political muscle in the state.

Tydings: 'people are born to starve'

Civiletti was hatched out of a dirty nest of attorneys under the leadership of former U.S. Senator from Maryland Joe Tydings. It was Robert Kennedy who appointed his close associate Tydings as U.S. Attorney for Maryland in 1961.

One of Tydings's first acts was to hire Stephen Sachs and Benjamin Civiletti as his assistants. This dangerous trio deployed underlings such as Barnet Skolnick, whose trial tactics were called "Nazi-like" by Mandel's wife Jeanne. Skolnick campaigned over the next two decades to destroy the Democratic-labor alliance in the state. In addition to their dirty work in Maryland, this evil group paved the way for and assisted in the illegal Abscam-Brilab witchhunt against the necessary, if inadequate, machines in the Democratic and Republican Parties.

Tydings was the key organizer of the Watergate-Abscam operations, as an important but subsumed feature of a larger policy. As outlined in his grotesquely titled book, *Born to Starve*, Tydings believed that man is the cause of misery and poverty in the world, and his only solution is the Malthusian program for population reduction. He was the first activist in Congress to introduce legislation for this program and continues today to organize for the creation of global institutions that will act outside of and above the governments of individual nations to enforce global genocidal policies. Today, Joe Tydings is a member of the Board and Honorary Chairman of the Draper Fund/Population Crisis Committee, a leading organization behind the infamous *Global 2000 Report* released by the Carter Administration. Tydings helped found the "International Conference on Parliamentarians on Population" at a conference in Sri Lanka in 1979.

White-collar crime

Civiletti, trained by Tydings in the DOJ under the new orientation of "cleaning up white-collar crime," admitted that it was Kennedy's investigations of union corruption that attracted him to the job. He soon launched his own crusade against so-called political corruption, resulting in the jailing of A. Gordon Boone, Speaker of the House in Maryland, for his alleged connection with a savings and loan scandal. Stephen Sachs, who aided Civiletti in the prosecution, remarked on the case, "We're talking about an episode in Maryland public life that was seminal for a whole series of wrong doings and white collar crimes."

Civiletti left the DOJ in 1964, and joined the political powerhouse law firm of Venable, Bajeter and Howard. At Venable, he eventually became a partner, heading up their litigation department before he left in 1976 to work for the federal government at the recommendation of Charles Kirbo, Carter's close adviser. In 1977 Civiletti joined the Carter administration as Assistant Attorney General in charge of the Criminal Division. Fellow Venable lawyer Bob Embry became Assistant Secretary at HUD and Venable's Paul Sarbanes won his first term as U.S. Senator. Civiletti campaigned statewide for Carter's election, was the treasurer and political strategist for Sarbanes, and gave major support to the reelection of Baltimore's Democratic Rep. Parren Mitchell, who has done so much to promote low-wage labor policies and protect high interest rates. It is well known to anyone who reviews the records that Tydings, Civiletti, and Sachs were all instrumental in Mitchell's first congressional victory over incumbent Sam Friedel in 1970. Friedel's victory by 42 votes was overturned after two recounts, to give Mitchell victory by a 37-vote margin.

"Stephen Sachs: public enemy no. 1"

Stephen Sachs, presently Attorney General for the State of Maryland, also received his early training under Tydings. Immediately after leaving the DOJ in 1964 with the rest of the trio, he entered private practice at the firm of his mentor, Tydings, Rosenberg and Gallagher, after he campaigned for Tydings's first and only election to the U.S. Senate. Sachs's early training period in the DOJ initiated the career that makes him "public enemy number one" in Maryland.

Sachs became U.S. Attorney for Maryland in 1967 and three years later launched his crusade against "white-collar crime" that ended with the imprisonment of Marvin Mandel ten years later.

Sachs was educated at the American Friends Service Committee-connected Haverford College, and received further training at Oxford University before he returned to practice law in Maryland. As U.S. attorney, he established himself as "the man to clean up Maryland," when he first attacked Baltimore's pornography district as a "mafia and syndicate" operation and claimed the only way crime continues is with the support of public officials. Sachs soon effectively coordinated perhaps the first "anti-corruption" strike-force operation in Maryland, meeting with the IRS and FBI weekly.

Next he moved to the labor movement, and did a hatchet job on the powerful Baltimore buildings trades unions. In an interview with the *Baltimore Sun*, he discussed his real target: "Of course, there are old standbys, gambling, narcotics, etc. But when I came here, I told federal agencies I was extraordinarily interested in corruption of public officials. Rape and murder

are most serious crimes *but no more venal crimes exist than the rape of public trust*" [emphasis added].

True to his word, Sach's office in 1969 was reported to be investigating three Maryland Congressmen, including Representative Friedel, who was defeated one year later by Parren Mitchell. Attorney General John Mitchell finally put a halt to Sachs's activities, including illegal wiretaps, and in 1970 he was forced out, with a briefcase of 17 unsigned indictments.

As a private attorney with help from Venable, Baetjer and Howard and the *Sun* newspapers, Sachs initiated the next round of Watergating against Maryland's political structure. When the dust settled and the list of casualties was completed in 1977, after 13 years of warfare, 17 elected officials had been removed from office, including two county executives, a governor, and a Vice-President of the United States.

The tragedy began to unfold in 1971 when Republican George Beall, the new U.S. Attorney for Maryland, conducted extensive investigations, essentially fishing expeditions, looking for illegal land deals, kickbacks, and anything else they could find. Beall desired to emulate his two predecessors, Tydings and Sachs, and according to the *New York Times*, "expressed a determination to carry on his predecessors' vigorous investigation of political figures."

By early 1973, Baltimore County Executive Dale Anderson was indicted on charges of bribery and extortion. The surprise in this case occurred when William Fornoff, administrative officer for Baltimore County since 1957 and named in 31 of the 39 counts of indictment with Anderson for taking payments from engineering and consultant firms, was allowed to plead guilty to one minor tax charge and was named co-conspirator, *but not* as a co-defendant in the Anderson indictments. This deal was worked out by his lawyer, none other than Stephen Sachs, in return for cooperation in the probe of other "bigger" public officials.

Fornoff and another one of Sachs's clients at the same time, Joel Kline, not only finished off Anderson, but also opened new investigations into then Vice President Spiro Agnew, who himself was a former Baltimore County Executive during Fornoff's time. Sachs, working with the federal prosecutors and former trainee Barnet Skolnik, who was rehired by Beall, developed the precursor to the Federal Witness Protection Program. Fornoff was given immunity to provide indictable evidence against Agnew, which opened the floodgate to many others who wanted to testify to save themselves, including Lester Matz, president of an engineering-consulting firm, who was represented by Venable, Bajeter and Howard, and Jerome Wolff, president of Greiner Environmental Systems, Inc.

This orchestrated "immunity" tactic involved the use of convicted criminals like stock manipulator Joel

Kline to enable the government to get the information needed one way or another. Kline, for example, flew in from Florida to provide the prosecutors with more information, yet the Florida state government did nothing to investigate swindles aimed at reviving his bankrupt financial empire. Agnew was forced to resign in late 1973, and the credit was given to Skolnik. Not mentioned is the essential role performed by Skolnik's old ally Stephen Sachs.

Get Mandel

Mandel was indicted and eventually convicted on completely circumstantial evidence, on charges that the former governor was a secret partner in various land deals and the Marlboro Race Track, and was doing favors for alleged partners. No hard evidence was ever presented at the trial and none has come to light since.

In 1974, shortly after Agnew resigned, while Mandel was running for re-election, the omnipresent investigations hit Mandel's long-time friends at the Tidewater Insurance Company. He was publicly identified with the grand jury probe by a *Baltimore Sun* article that accused him of easing passage of race track legislation to help his friends. The source of this accusation is Stephen Sachs, acting as lawyer and confidant for his client, Nathan Cohen. Both Kline and Grenier Inc. from the Agnew investigation, provided leads in the Mandel probe, but the real culprit was Nathan Cohen. Cohen, part owner of Pimlico Race Track, was a close business associate of Lester Matz, the same Matz who provided information for the prosecution that led to indictments of former Anne Arundel County Executive Alton, former Baltimore County Executive Anderson, and former Vice President Agnew. Cohen, with Sachs as his lawyer, was the major witness against Mandel in his trial. The *Sun* papers relentlessly continued their written assault against Mandel before his indictment. Mandel lashed back, and calling the stories "The latest in a long series of examples of the McCarthyite inquisition that is being conducted by the U.S. Attorney's office in Baltimore." Mandel added, "This is nothing short of a planned attempt by the U.S. Attorney to manipulate the press against me through smears, innuendos, and leaks to destroy me politically. . . ." Mandel was eventually convicted after a mistrial, and Tydings's and Sachs's protégé Barnet Skolnik was once again acclaimed for his job as the chief prosecutor and labeled "the giant killer."

Civiletti: Mandel's enemy

After Mandel was convicted on Aug. 23, 1977, he began an appeal process that stretched into 1979. In May 1978 Civiletti was promoted to the number-two spot in the DOJ, Deputy Attorney General, and in this position had a major influence in the government's case

against Marvin Mandel. In point of fact, it was the Civiletti-led Justice Department that forced a new hearing before the full bench of the Richmond Court of Appeals after Mandel had won an earlier 2-1 decision there on Jan. 11, 1979, reversing his lower court conviction. On July 20, 1979, after hearing Mandel's appeal for the second time the appellate court reversed its own earlier ruling with a 3 to 3 vote, and thus reinstated the original lower court conviction. *If the Justice Department had not forced a second hearing before the higher court, Marvin Mandel would never had gone to prison and would have served out his second term as governor.*

A third hearing was requested by his lawyers, but it was denied on Sept. 17, 1979, after successful counter-arguments by the U.S. Attorney's office. By this time, Benjamin Civiletti was directing all policy in the Justice Department, having been sworn as Attorney General on Aug. 16, 1979. In July 1980, Mandel appeared before the U.S. Parole Commission, a department of the DOJ, and on Oct. 2, they ruled he must serve a full two years until May 1982. Again seeking early parole, Mandel petitioned the full Parole Commission in November, and on Dec. 12, 1980, with Civiletti the lame duck head of the DOJ, parole was denied.

Terrorists freed

While the Justice Department was orchestrating the frame-up of Senator Williams and the imprisonment of Mandel, convicted terrorists and assassins were being set free. On Oct. 12, 1981, Kathy Boudin, a fugitive for eleven years and leader of the terrorist Weatherunderground, was arrested after fleeing from the scene of a bloody robbery that left two police officers dead. In May 1979 the Justice Department dropped all outstanding federal warrants against Boudin and five others, including Bernardine Dohrn, a fellow fugitive who once headed the FBI's "Ten Most Wanted" list. Civiletti was responsible for the dropping of charges or pardoning of a total of 16 criminals, who were accused or convicted of crimes stemming from political terrorism while he was a top official. In addition to the names listed above, the individuals are: Lolita Lebron, Irvin Torres, Rafael Cancel, and Miranud and Oscar Collazo, who were freed from their prison sentences resulting from an armed attack on the U.S. House of Representatives in 1950; Imari Obadele, Addis Adabba, and Karim Njabafundi, all members of a revolutionary group, the Republic of New Africa, and imprisoned in 1971 on charges ranging from possession of stolen weapons to murder; Carleston Armstrong and David Fine, wanted in connection with bombing of the University of Wisconsin Army Research Building in which one person was killed; and Eldridge Cleaver, a former leader of the Black Panther Party. Civiletti had definitely set his priorities.

Eye on Washington by Stanley Ezrol



Michael Novak

'Fight to the last Pole'

Georgetown's CSIS is one of the most active organizations calling for action against Poland and the Soviet Union. In December, they organized a symposium calling for the escalation of what they called the "Workers' Revolution" in Poland into a "mass suicide," insisting that "Like Christ, Poland sacrifices herself repeatedly for the salvation of others." What CSIS did not announce at this seminar was their role in deliberately provoking the crisis in response to which they are now willing to "fight to the last Pole." Last November, weeks before the crackdown on Solidarność, CSIS initiated an organization called "Friends of Solidarity" which is directed by a Polish emigre named Chris Ludwiniac and operates out of CSIS's Washington, D.C. headquarters. Specifically, Ludwiniac works out of the offices of top intelligence operative Walter Lacqueur, who resides one-third of the time in Washington, one-third in Lebanon, and one-third in Tel Aviv. Ludwiniac told me the purpose of his group is to coordinate

other organizations in providing "moral and material" support for Solidarność.

CSIS currently includes on its staff a number of ranking Republican and Democratic former Cabinet officials including Henry Kissinger, Zbigniew Brzezinski, and James Rodney Schlesinger. Also at the center are numbers of individuals like Michael Ledeen, Ernest LeFever, and Robert Neumann, who currently act as part-time consultants to the Reagan administration while remaining on CSIS's payroll. In addition, there are a number of "former" CSIS experts like Chester Crocker, Paul Craig Roberts, and Robert Henderson, who hold Assistant Secretary level or other positions in the Reagan administration.

Ludwiniac works very closely in organizing demonstrations against Poland, the Soviet Union, and West Germany's Chancellor Helmut Schmidt with a number of organizations including the "Polish Workers' Task Force." The PWTF, it turns out, is just another name for "Frontlash," the AFL-CIO youth organization. In addition to PWTF, Frontlash also houses the Committee in Support of Solidarity, whose friends at CSIS tell me it is in daily contact with European "Solidarity Support" networks.

Also founded weeks before the Jaruzelski crackdown is a group, Food for Poland, led by right-wing social democrat Michael Novak of the American Enterprise Institute. Novak himself, a Jesuit-trained operative who once wrote a book on how Polish-Americans are preferable to cerebral WASPS because they believe in blood and soil, was appointed as a delegate to the U.N. Human Rights Commission. Reagan's U.N. Ambassador, Jeane Kirkpatrick took leave from a position at AEI to fill her current post. In addition to Novak, Food for

Poland includes on its board a number of Anglo-American intelligence and psychological warfare operatives like Bruno Bettelheim, Norman Cousins, and Sargent Shriver. Also included, lest anyone mistake Food for Poland for a private charity, is Leo Cherne of Freedom House. Cherne, a long-time associate of CIA director William Casey, is the founder of the International Rescue Committee, a "private" agency specializing in recruiting defectors from the East bloc, and was a charter member of the Foreign Intelligence Advisory Board which oversees U.S. covert intelligence operations.

Trotskyite Renaissance

Those of you who mourned the passing of that peculiar form of impotent infantile ranting against those in power known as Trotskyism will be heartened to know that Trotskyite rhetoric, at least, is enjoying a certain revival. The Department of State's closet Trotskyists, shut up since the McCarthy period, have been given free reign in drafting statements against the "Stalinist" threat in Poland. James Buckley, whose counter-culture hero brother William runs *National Review* magazine which is managed predominantly by "ex-" Trotskyists is suspected of some responsibility in this matter.

Last December, the State Department described Jaruzelski's actions as "reactionary—indeed counterrevolutionary." In January, the loyalty oath and other requirements were described as "Stalinist." Haig, in his Jan. 12 Brussels spouting following the NATO foreign ministers meeting denounced western complacency during "twenty or more years of Stalinism," and went on to evoke the "outrage" of the "workers of the world" at this Stalinist betrayal.

National News

Virginia court sanctions 'right to die'

In a ruling hailed by the *Washington Post* and the New York-based Society for the Right to Die, Virginia Circuit Court Judge Albert Grenadier ruled Jan. 11 that a Virginia man suffering from a serious kidney ailment must be permitted to terminate his dialysis treatment even though, in the court's own words, this "will surely result" in the patient's death.

The hospital where Andrew McLellan, an AFL-CIO executive, was being treated petitioned the court to prevent termination of his treatment, but the court ruled in favor of pulling the plug on the chilling grounds that "the state's interest in preserving life, protecting innocent third parties, preventing suicide and maintaining the ethical integrity of the medical practice is overborne by Mr. McLellan's constitutional right of privacy and his right to individual free choice and self-determination."

The Society for the Right to Die's Executive Director, Alice Mehling, told a reporter that the Virginia decision is "marvelous, from our standpoint. . . . Given that we have such scarce medical resources, we must implement some kind of triage."

AAAS session promotes euthanasia policy

Euthanasia was featured at the American Association for the Advancement of Science (AAAS) convention in Washington in a three-hour session Jan. 7 attended by 150 doctors, nurses, and graduate medical students. Titled "Management of Pain and Symptom Control in Terminally Ill Patients," the theme of the session was stated by Dr. Arthur Lipman, Chairman of the Department of Pharmacy Practice at the University of Utah, and Director of the Salt Lake City Hospice: "No physician ever took an oath to *cure*. We took an oath to *care*," the motto of Lipman's mentor, Dame Saunders of St.

Christopher's Hospice in England.

The content of "care" for Lipman and his Utah colleague and co-panelist Dr. Bradford D. Hare, was the use of narcotics to simplify and cheapen the process of dying.

The audience had been saturated with leaflets and repeated interventions by members of the Fusion Energy Foundation, charging the speakers with promoting practices for which Nazi doctors were sentenced to hanging at Nuremberg. It then announced that the concluding speech on "Ethical and Humanitarian Issues" would be cut short.

An agitated Dr. Edward Pellegrino, President of the Jesuit-run Catholic University of Washington, D.C., was able to sufficiently sum up the session, however: "An ill person is a wounded human being and loses his human characteristics," he said. "To *help*, to *help* is the cry. *Never* to cure. Medicine is not a science. It does not deal with universal law."

Worldwatch lauds higher interest rates

Bruce Stokes, a senior researcher at the pro-genocide Worldwatch Institute, stated in an op-ed in the Jan. 14 *Christian Science Monitor*, "There is growing pressure on the Federal Reserve to lower the cost of money so that construction jobs are created and Americans' homebuying dreams have a chance of being fulfilled," Stokes says. "This deceptively simple solution would be a mistake. . . . Since Americans already live in the world's biggest, most well-appointed houses, they should be investing less, not more, in housing. . . ."

"Homebuyers need to borrow less and save more. . . . Demands for cheap money should not take precedence over the country's need for a more productive use of its limited financial resources. The Federal Reserve should have. . . the political courage to withstand current pressure."

The Worldwatch Institute is headed by Lester Brown, a member of the Club of Rome who has openly advocated drastic reductions in the world's population.

Brown is also a member of the advisory board of Cyrus Vance's Center for Democratic Policy, the think tank of the Harriman wing of the Democratic Party. Lester Brown also belongs to the new Institute for International Economics in Washington, financed by the German Marshall Fund.

Is David Gergen leaking again?

Washington insiders are marveling at the staying power of David Gergen, presidential Director of Communications in the Reagan White House. Gergen's Stockmanesque criticisms of Reagan economic policies found their way into a freelance reporter's Jan. 4 *Baltimore Sun* op-ed, and he has given a series of poor performances at White House press briefings.

At the Jan. 12 daily briefing, Gergen capped this series with a 45-minute session on the President's decision to submit legislation to revoke tax exemptions for discriminatory schools, following the administration's decision not to back IRS regulations having the same effect. This is a very touchy situation for the President. Despite a strong anti-discrimination statement released by the President, Gergen's responses indicated that Reagan might favor exemptions for schools that discriminate for "religious" reasons. However, when directly asked by *EIR* if he believed the President might push for such exemptions, Gergen replied, "I don't have any reason to believe that."

Ironically, Gergen's original political involvement was as a civil rights activist and Humbert Humphrey supporter, against Nixon in the '68 presidential campaign. Yet he was hired by the Nixon White House as a speechwriter and became head of the writing and research staff during the Watergate period. Former Nixon aide John Dean, among others, is reported to have strongly suspected Gergen of being the "Deep Throat" lead source to the *Washington Post*, at least in part because Gergen was an old acquaintance of Watergate reporter Bob Woodward from their days

together at Yale. But even more telling is that the individual who, well-placed sources have told *EIR*, was in fact the real "Deep Throat" in conjunction with Al Haig—Nixon tax lawyer Chapman Rose—was the man who pulled off the hiring by the Nixon White House of liberal Democrat Gergen in the first place.

During the Carter years, Gergen beefed up his "conservative" credentials by setting up and editing the American Enterprise Institute magazine *Public Opinion*, whose orientation was social democratic and liberal pluralistic (at best), under a "Republican" cover. But despite this insiders point to the support of Presidential Chief of Staff James Baker III as the only reason the awkward and unpersonable Gergen (who was considered during his tenure in the Nixon and Ford Administrations as a disloyal "chronic leaker") was appointed to the high-access post of Assistant to the President last January, and was further elevated to de facto press secretary following the March wounding of James Brady. Gergen had functioned as Baker's assistant during the transition and was first brought into the Reagan White House as Baker's immediate deputy.

As a result of Gergen's elevation, the White House press operation is now run by Gergen; long-time Gerry Ford aide Larry Speakes; and Pete Roussel, whose closest, long-standing ties are to George Bush and Jim Baker.

AFL-CIO joins DNC in fascist organizing drive

Tom Donahue, Secretary-Treasurer of the AFL-CIO, delivered the keynote address Jan. 14 to Consumer Assembly '82, the annual conference of the Consumer Federation of America. Donahue's presentation of the AFL-CIO's "alternative" to what he called the "18th-century invisible hand theory" of the Reagan administration closely paralleled proposals made Jan. 13 at a Capitol Hill conference sponsored by the "Democracy Project," a corporatist Democratic National Committee-connected group.

Donahue announced the AFL-CIO's intention to hold "Solidarity Day '82" marches on election day in support of the establishment of a National Re-Industrialization Board and a Reconstruction Finance Corporation in which "labor, management, and government" would collaborate to control flows of credit and re-industrialization funding. He also called for "cost-reduction programs in health care" and other areas. Donahue did not, however, announce publicly that the Reconstruction Finance Corporation proposal is promoted by Felix Rohatyn and Eugene Keilin of the Lazard Frères investment bank to enforce a dictatorship over the U.S. economy modelled on Lazard Frères' Municipal Assistance Corporation, which decimated all New York City municipal services except debt service.

Supreme Court tosses out Princeton's appeal

The U.S. Supreme Court upheld its judicial counterpart in the State of New Jersey on Jan. 13 by affirming the decision in favor of International Caucus of Labor Committees member Chris Schmid's right to political organizing on the Princeton University campus.

Schmid had been kicked off the campus for leafleting against Prof. Richard Falk, a leading one-world environmentalist and supporter of the Ayatollah Khomeini. In Princeton's appeal to the Supreme Court, Princeton alumnus and former U.S. Attorney General Nicholas Katzenbach argued that Princeton has the right to harbor almost any opinion whatever while excluding whom it chooses from premises traditionally open to the public.

The Court's per curiam decision simply dismissed Katzenbach's appeal without addressing the constitutional issues involved. However, the decision represents a significant victory against Princeton's effort to serve as a citadel of subversion through promoting the Muslim Brotherhood and other terrorist controllers with impunity.

Briefly

● **THE WASHINGTON POST**, which hounded Richard Nixon out of office, is rumored to be conjuring up a scandal with which to taint top White House advisor Michael Deaver.

● **ALAN CRANSTON**, the Senate Majority Whip who recently sent his constituents a letter extolling the genocidal *Global 2000 Report* of the Carter administration, apparently thinks that his policies have such widespread support they will propel him into the White House. Cranston announced in a press conference Jan. 7 his intention to form a committee to review his possibilities for a bid for the presidency. Said Cranston, "I'm well identified with ... all the Global 2000 issues like overpopulation, poverty and resources depletion."

● **RAY DONOVAN**, who has been the victim of attacks by the Dope, Inc. networks in the Justice Department, has sharply criticized the special prosecutor law which has been used by this network to smear Donovan and other officials. "When unsubstantiated charges can be made by anyone, including convicted criminals, triggering this law, it deserves review," said the Labor Secretary.

● **THE FEDERAL** District Court in Brooklyn has continued its witchhunt against labor officials and labor connected Democrats by garnering an indictment on racketeering charges against Teamsters Local 282 President John Cody, whose local union delivers most construction materials from its base in Long Island to New York City. The indictment comes about one month after Mr. Cody received an overwhelming vote of confidence by his members.



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- 9:00-10:00 a.m. Welcome and opening statements**
- 10:00-12:00 noon Panel: "The Engineering Feasibility of Delivering Water From Alaska."** Experts on plans developed in the 1960s and before, including the Ralph M. Parsons Company's "North American Water and Power Alliance," will detail the feasibility and enormous water and hydroelectric yield potential of water from Alaska to Canada, Mexico and the United States.
- 12:00-2:30 p.m. Luncheon and address: "The Moral and Economic Necessity of Developing Population Growth Potential"** by *EIR* founder Lyndon H. LaRouche Jr.
- 2:30-4:30 p.m. Panel: "The Economic Feasibility of Water From Alaska."** Proofs will be presented that the nation will spend more in increased costs due to scarcity if it doesn't transfer water from Alaska than if it does. Panelists: *EIR* Economics Editor David Goldman; California Democrat Will Wertz, challenging Jerry Brown for the U.S. Senate; and Kansas State Rep. Keith Farrar (R-Hugoton), a member of the High Plains Study Council.
- 4:30-6:00 p.m. Closing remarks and reception.**

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