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From the Managing Editor

‘**W**hatever tends to increase the power of man to associate with his neighbor man, tends to promote the growth of commerce, and to produce that material, moral, and intellectual improvement which leads to freedom,’ wrote Henry C. Carey, later an adviser to President Lincoln, in 1853. The transportation system of the United States offers an example *par excellence*.

Only a few years ago, that system was in all respects the world’s best—despite underfunding of highway maintenance, austerity-wracked urban transport, neglect of water-freight needs, bankers’ savaging of the rail network, and stagnation of air-carrier technology.

Instead of addressing those unnecessary deficiencies, the Carter administration began (with the collusion of Sen. Ted Kennedy and other congressional saboteurs) to tear apart that bicentennial success. The method was deregulation of trucking and airlines.

One reason they succeeded is that “deregulation” is a semantic trick. The buzz-word was designed for partisans of business growth who equate it with ending absurd paperwork and the like, or with what they unreflectively imagine to offer a competitive remedy for inefficiency and mismanagement.

Nonsense. Deregulation of transport is *de-industrialization*. It is a giant plank in Paul Volcker’s British-inspired platform of turning the United States into an impotent federation of bombed-out regions. with no memory of America’s past technological greatness and political passion.

The competition envisaged under this program is the competition of the 1930s. In this light, it is instructive to review the commentary on Braniff International Airlines’ recent collapse. The pundits accurately take note that the company was finished off by the combined effects of deregulation and Mr. Volcker’s so-called recession.

But, you are told, this is a case of slashing deadwood and rejuvenating the free market. “Deregulation gave Braniff the latitude to make errors. Such freedom is what free enterprise is about, and it is difficult to believe the country would be better off without it.” Who is speaking? The liberal *New York Times*, which, like all liberal spokesmen these days, is a raving Friedmanite proponent of deregulation.

We would love to give the *Times* editorial board the full freedom to consume salmon containing certain deregulated microbes. But among those who have been coddled into tolerating the idea that deregulated survival-of-the-fittest means anything other than the triumph of Paul Volcker’s insane slaughter, many can be enlisted to defend the American System of material, moral, and intellectual improvement. Let us enlist them.

Susan Johnson

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Correction: The wrong value was given for savings in water transportation in our May 11 article on how Canada would benefit from NAWAPA. The correct figure is \$1.6 million per year, based on a saving of 25 cents per ton.

Special Report



François Mitterrand has brought France into a new imperialist "entente cordiale" with Britain. Here he is shown on June 29 of last year, enjoying breakfast with British Prime Minister Margaret Thatcher before a European summit meeting in Luxembourg.

Alain Nogues/Sigma

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Group of Thirty plans for post-crash controls

by Richard Freeman

The Group of 30, the bankers' consulting group to the International Monetary Fund, is demanding that a new international bankers' council be created that will dictate all new credit flows to private borrowers and governments in the increasingly likely event of a world financial collapse. This council, dubbed a "Consultative Group for International Banking," would be composed of central banks, commercial banks, and the Bank for International Settlements, the Swiss-based financial command center that stands behind U.S. Federal Reserve Chairman Paul Volcker.

A G-30 report released May 3 states: "The growth of the international banking system has increased the potential range of problems created by bank failures. . . . Moreover, the transnational structure of the international banking system and the potential global spread of contagion have enormously complicated the management and resolution of bank failures and distressed bank situations."

This brings the G-30 to its central concern: who is the lender of last resort—normally a task undertaken by central banks—during a financial crisis?

"Debates about dealing with distressed banks in an international context have tended to concentrate on lender of last resort facilities," the G-30 report, entitled "Risks in International Lending," states. The G-30 proceeds to nominate its international council, which includes the central banks, as the new supranational final lender of last resort to the banking system of the West. The international council would take credit negotiations

with individual banks out of the hands of sovereign underdeveloped nations, and force these nations to crawl to a private bankers' consortium to obtain essential new credit.

The international bankers council, it is also expected, would be used to enforce the demand put forward May 7 by a London merchant banker, who also heads one of England's most powerful families—that in order to receive a new credit line, an underdeveloped nation would have to put up *80 percent of that loan as security* in the form of industrial and other assets of the nation itself.

Third World nations have not had to collateralize their government loans since the period prior to World War I, when colonialism still reigned. Under the Group of Thirty's international council, the developing sector's mortgaged belongings would pass straight to financial front men for Zürich and Geneva, the retainers of the modern descendants of the oligarchical doges of Venice, and the royal household of Britain.

Who is the Group of 30?

A glance of the roster of names of the "financial experts" who comprise the Group of 30 confirms the point. The authors of "Risks In International Lending," include:

- Geoffrey Bell, director of Schroeders Bank International, the bank that financed Hitler's rise to power in the 1930s;
- Rainer Gut, speaker of the executive board for Crédit Suisse, one of Switzerland's top three banks;

- Henry Wallich, governor of the U.S. Federal Reserve Board, whose usury policy since 1979 has brought the United States into depression;

- Dennis Weatherstone, chairman of the executive committee of Morgan Guaranty Bank;

- John Heimann, former U.S. Controller of the Currency, and now chairman of the executive committee of Warburg, Paribas, Pincus;

- Peter Cooke, chairman of the Basel Committee on Banking Regulation and Supervisory Practice, which has proposed drastic credit contraction; and

- Edmond Safra, a Lebanese banker and chairman of the Republic National Bank of New York, who is one of the world's biggest gold dealers and dirty-money specialists.

The New York-headquartered G-30 was formed in 1979 as an advisory body to the IMF. It is chaired by former IMF managing director Johannes Witeveen. Its advisory body, which includes some but not all of the above authors of the "International Lending Risks" report, is composed of strategically picked representatives from oligarchic families and their financial power-bases around the world, including Robin Pringle, former editor of *Banker* magazine, the executive director of the G-30; Abudul Aziz Alquraishi, governor of the Saudi Arabian Monetary Agency; Roberto Campos, Brazilian Ambassador to London; Janos Fekete, deputy governor of the National Bank of Hungary, Alexandre Lamfalussy, head of the monetary and economic department of the BIS; Jacques Maisonrouge, chairman of IBM World Trade; Christopher McMahon, deputy governor of the Bank of England; Tomaso Padoa-Schioppa, director general for economic and financial affairs of the European Community, and one of the more powerful Venetian financiers; Claude Pierre-Brossolette, chairman of Crédit Lyonnais; Robert Roosa, partner of Brown Brothers Harriman and former U.S. Undersecretary of Treasury; Anthony Solomon, president of the New York Fed; and Cesar Verata, Prime Minister of the Philippines and chairman of the IMF and World Bank Development Committee.

'Too much lending'

The report begins by stressing the overexposure of all banks to international lending. "While borrowers's debt burdens have grown," it states "so have the relative magnitudes of bank's international loans in loan portfolios. Recent U.S. data highlight the growing importance of LDC borrowers: the aggregate exposure of the nine largest U.S. banks to LDC's has increased from 1½ times total capital in 1977 to more than double capital in 1980, and by the end of 1980 there were 80 instances of U.S. banks with exposure to single LDC's greater than 30 percent of capital funds."

The findings were ordered written up by former U.S.

Comptroller of the Currency John Heimann and Geoffrey Bell of Schroeder's International, two leaders of the Group of 30. The writing was executed by members of the staff of Heimann's Office of Comptroller of the Currency (OCC): C.F. Mackenfuss III, former Senior Deputy Comptroller for Policy, and Steven J. Weiss and Judith Walter, the director and deputy director of the OCC's Strategic Analysis Division.

The report focuses on two essential points: 1) commercial banks in the advanced sector have lent too much both to the Third World and the lower rung of advanced sector nations; and 2) there is no way of curbing this international lending within current political geometries because banks are bent on preserving their narrow self-interests and thus by dispensing funds, inadvertently providing the finances for industrial activity to be continued.

The report concludes, often explicitly, that this lending must be slashed and then policed by a body that transcends national borders and interests. One is reminded of the writings of Thomas Hobbes, who recommended the dictatorial oversight of a "Leviathan" to regulate the over-competing war of all against all. In this case, the BIS and central banks will regulate the banking system "for its own good."

With regard to the banks' propensity to lend too much, even for such things as raw materials and natural development, the G-30 report warns with consternation that, "there are past instances, for example, of banks' enthusiasm for lending being based on a country's natural endowment with a concomitant realistic appraisal of the country's ability to *manage* its natural resources [emphasis in original]."

Second, the G-30 study complains, banks constantly disregard country risk danger signals and do not listen to guidance from above. "In the end," the report states, "even very sophisticated country-risk assessments may be overridden by other considerations. . . . There is still a tendency for individual banks to pull in different directions. Divisions among banks during a time of crisis tend to be along national lines. The divergence may have any number of roots, including . . . political pressure from home governments."

Third, the commercial banks are often powerless to act against a developing-sector borrower. Official LDC debt reschedulings, according to the G-30 report, have been conducted by the Paris Club, a grouping of government representatives of lender nations. But, reports the G-30, meetings of the Paris Club have broken down recently, because the commercial banks are becoming more involved in Third World lending, and are not represented at the Club. "In the case of Peru [in 1976]," the report states, "the banks discovered that they alone did not have the sanctions to impose conditions for economic adjustment"—that is, the ability to

impose austerity conditionalities on the debtor nations, as does the International Monetary Fund.

The Group of 30 therefore demands that its proposed council of commercial banks, central banks, and the Bank for International Settlements, assume the following prerogatives:

- Setting "sovereign risk": The international council would determine which countries have debt loads that will not be refinanced. The council's standards will be much tougher, the report makes clear.

- Rescheduling: Commercial banks would be forced, according to a plan devised by Swiss henchman Henry Wallich, to set aside loan loss reserves; and write off certain Third World loans.

- "Co-financing" with the International Monetary Fund: The IMF would become the enforcer on loans. The G-30 also specifies a plan whereby debtor governments would be required to kick in a certain amount of tax money as insurance for the private banks on their loans.

- Dictating lending terms, including interest rate levels, maturity terms, and roll-over agreements.

But even these powers are not enough, as a member of the British nobility, whose ancestor was the financier behind the Stuart restoration in 1603, indicated in discussing his demand that debtor nations put up physical collateral on 80 percent of their loans.

"The old families of Europe are meeting and deciding where to put their money when the financial crash occurs," this merchant banker explained. "In fact, I just had dinner the other night where we discussed this subject. Many are putting their money into either cash, property, or the favorite government stock of their choice.

"We know that the Third World, particularly Latin America, is making approaches to central banks and commercial banks to get confirmed credit lines. The banks want a safety net for their lending, and the Swiss are planning to ask that 80 percent of the loans they make be secured."

What this arrangement means, particularly with the investment trusts of the oligarchy (the *fondi*) buying up their "favorite government stock," is that once the debtor governments are thrown into default, the wealth of a nation, its national patrimony, will be turned over to the *fondi*.

This is the system that permitted the British to take over and loot Egypt in the 19th century. Increasing percentages of the Egyptian cotton crop and government assets were mortgaged to Baring's Bank and other British banks, and when after a succession of usurious "refinancings" the Egyptians were no longer able to pay, the British military was sent in to enforce "orderly" debt collection arrangements and to assume political power in Egypt.

Congress to force a debt default crisis?

by Richard Freeman

The offices of Sens. Daniel Moynihan (D-N.Y.) and Robert Kasten (R-Wisc.) reported May 11 that the Senators will introduce an amendment this month declaring in default the nearly \$1 billion debt of Poland to the U.S. government and its guarantee agencies. Jerry Lewis (R-Calif.) reported May 12 that he will introduce a similarly worded amendment into the House at the first opportunity. The purposes of the amendment, according to its sponsors, is to "curb the money available for the Soviet military build-up," and to demonstrate that "détente now is over." In fact, the amendment, as its sponsors are well aware, may be the trigger for a generalized 1931-style banking collapse.

Poland has \$25 billion in total outstanding foreign debt. Written into its loan agreements is what is called a "cross-default clause," which says that if any one creditor of Poland declares the country in default, all other creditors must do likewise. The government and banking system of West Germany alone have \$6 billion in loans to Poland. Although the total U.S. public and private bank lending to Poland is not thought to exceed \$3 billion, as one group of commercial bankers told Senator Kasten's office April 19, "if Poland is declared in default, there could soon be other East bloc defaults."

"Moreover," the bankers continued, "a European country damaged by the Polish default could then declare a Latin American nation's debt to be in default if a Latin American country didn't meet its payment schedule. U.S. banks hold over \$109 billion in loans to Latin America. The United States couldn't protest, because our having declared Poland in default would have hurt the Europeans," the bankers said. That is, in a Polish-triggered debt-default, the U.S. banking system would be the biggest loser.

Yet both Kasten's and Moynihan's offices have dismissed that reality. Representative Lewis of California, the House sponsor of the amendment, told a reporter May 12, "a banking collapse is a possibility," but the risks justify taking that chance. The crew of Senators and Congressmen who are sponsors or leading supporters of

the Kasten-Moynihan amendment as well as the Lewis amendment are not just "anti-communist" dupes. In fact, most of them followed very respectfully the recommendations that were outlined for them by the May 1 London *Economist*, the financial organ of the British oligarchy, which in an article entitled, "Don't Feed the Crow," stated, "Poland's martial-law regime . . . hasn't started to rebuild a country worth lending more money to." Most are acting on a conscious policy of bringing down the U.S. economy.

The U.S. traitors include:

- **Sen. Daniel P. Moynihan**, the house-toady of Averell Harriman, the grand-daddy of Tory liberalism whose marriage to the mother of Winston Churchill III symbolizes his allegiance to the British. Moynihan was special assistant to Harriman during Harriman's years as New York Governor. Moynihan works with the U.S. support group for the Polish Solidarity union, deployed to destabilize Poland and cause a debt crisis. He also headed up the group that pushed for passage of the Biden Resolution April 29 in the U.S. Senate, which commits the United States to support of the British colonial invasion of the Malvinas Islands.

- **Senator William Proxmire (D-Wis.)**, the liberal head of the Senate Banking Committee, who opposed the bail-out of the financially troubled Chrysler Corporation.

- **Senator Bill Bradley (D-N.J.)**, an outspoken defender of Federal Reserve Chairman Paul Volcker's murderous high interest rates. Bradley, the son of a prominent banker, was a Rhodes scholar.

- **Senator Ted Kennedy (D-Mass.)**, a leading U.S. exponent of de-industrialization.

- **Senator William Armstrong (R-Col.)**, a blow-dried Republican known for his budget-cutting tirades, run by the Heritage Foundation—a KGB-British Fabian Socialist think tank.

- **Representative Jerry Lewis (R-Calif.)**, is a second-term Congressman with very close ties to the Heritage Foundation.

The line-up

A Kasten aide disclosed May 7 that Kasten is working with Defense Secretary Caspar Weinberger, Defense Undersecretary Fred Iklé, who is the scion of a Swiss banking family, and National Security Council Director of Research Norman Bailey in attempting to force through the amendment.

Kasten and Moynihan had introduced this amendment into the Senate once before on Feb. 10. It lost by a vote of 55 to 39. But both claim now that the many Republican Senators who voted against it (only 18 out of 52 Senate Republicans voted for it on Feb. 10) did so only to give the White House more time to work out an East-West policy, and because the amendment was

attached to a bill they did not want bogged down in debate. Many of these Senators, the bill's sponsors claim, have indicated that they will vote for the amendment when it comes up for vote this time.

The amendment will put pressure on President Reagan and the President's relationship with America's key ally, West German Chancellor Helmut Schmidt, in the event that it is able to pass both houses. If passed, the amendment will feed the atmosphere in which Chancellor Schmidt could be toppled. An aide to Senator Moynihan stated May 11, "the détente period is over. Schmidt is fighting a rearguard action to try to keep it alive. Politicians like to live in their illusions."

Some hope to use the amendment vote to discredit the President. As an aide to Senator Kasten reported May 7, "If the amendment passed both houses of Congress and Reagan were to veto it, that would mean that a Reagan-controlled Senate had rejected the policy of a Republican President; that would send shock waves around the world." Reagan is known to oppose the amendment.

More broadly, the purpose of the amendment is to accomplish the "controlled disintegration" policy goal of disrupting world trade by first wrecking East-West trade. It is the collapse of world trade, under the influence of the Volcker high interest rates, that caused the East bloc debt situation to become a problem in the first place. The collapse of the West's economy slashed the East's ability to export—and therefore their ability to earn the hard currency they need to pay back their debts.

Lazard Frères investment banker Felix Rohatyn proposed in the April 19 *Wall Street Journal* that Poland's debt be declared in default, after which the central banks of the Western governments would buy it up and impose political conditions, including arms reduction, on the East bloc nations. A Moynihan aide reported that "Moynihan agrees that either a central bank or the government should buy up the Polish debt held by commercial bankers even before the banks declare default. This would allow governments to put political control over East-West trade." Nathaniel Samuels, the vice-chairman of Lehman Brothers, Kuhn Loeb investment bank and the head of the American holding company subsidiary of the Assicurazione Generale di Venezia e Trieste, the most powerful insurance company in Europe, proposed April 7 that all East-West trade be put under the control of the Bank for International Settlements, as *EIR* previously reported.

To accomplish this not only Polish, but all new credit extensions to the East bloc, must be slashed. "Moynihan still wants to see the Siberian gas pipeline stopped and eventually all credit and technology flows to the entire East bloc cut way back," his aide stated May 11.



Lionel Olmer: economic supremacy is the issue in U.S.-Japan frictions

by Richard Katz

In an exclusive 2½-hour interview with *Executive Intelligence Review*, Lionel Olmer, Undersecretary of Commerce for International Trade, explained the *domestic* economic strategy lying behind the recent escalation in Washington's economic pressure on Japan.

Olmer hopes to preserve the remnants of America's technological, economic, and political supremacy—not through direct promotion of this country's own industrial-technological progress, but by using the threat of trade friction to prevent Japan, or any other nation, from challenging what remains of American economic advantage.

Olmer, who spent much of his career in U.S. Naval Intelligence and later became staff director for the Foreign Intelligence Advisory Board under Henry Kissinger, believes, as he told Congress Nov. 3, "Technological leadership and economic leadership generally can translate into political, diplomatic, and military leadership." *EIR* asked Olmer whether this issue, rather than simply fair access, was at the root of U.S.-Japan trade frictions, and whether Washington policies were designed to prevent Japan from overtaking the United States in economic and technological leadership. "I wish I could say they are designed with that in mind," Olmer answered, "I am urging that we think along those kinds of lines. I think we are doing that intuitively."

U.S. post-industrialism

EIR has repeatedly shown that the cause of America's decline is a long-term policy of shifting this country to a "post-industrial" services economy, a shift so escalated by Paul Volcker's high interest rates that the nation's largest employer is no longer General Motors; it is now MacDonald's hamburgers. Japan, on the other hand, has used a system of close government-business cooperation, low interest rates and special low-interest credits for new technologies, and tax credits for productivity-enhancing investments to achieve its unparalleled record of growth in productivity, living standards and industrial growth.

Olmer said that he believes the shift to a post-industrial services economy in the United States "is in

large part inevitable." He added, "I believe it is very important for the United States to maintain an industrial base of production. Technological innovation can only come from a domestically generated base."

EIR asked why the United States doesn't simply end its industrial decline by adopting a policy like that which has worked so well in Japan. Olmer replied, "It's not in our nature to applaud central government planning." Asked about providing directed low-interest credits to expand productivity, he countered, "We don't favor that." Asked about changing Federal Reserve policy to lower interest rates generally, his only answers were, "We're attempting to reduce the budget," and "What would that do to inflation?"

Olmer's attitude is seen throughout the Commerce Department. Its policy is to reduce alleged "overcapacity" in steel. The December 1981 Commerce report on auto states that the production, employment, and profit levels of peak year 1978 will *not* be achieved again, even with full economic recovery and even if Japan restrained auto exports.

Olmer told *EIR* he disagrees with the "limits-to-growth" arguments of the Club of Rome. "I recall reading how the computer program generated so much false data that the conclusions of the Club of Rome were quite false. I don't accept the Malthusian view of history. I don't think we're in an era of limited resources or limited growth." Yet, in practice, his economic prescriptions parallel those of the Club of Rome, i.e., an overall shift to a services economy but retention of some manufacturing, particularly in the electronics-computer sphere. However, Olmer does not intend to allow the presumed outcome of U.S. industrial decline, the surpassing of America by Japan in technological leadership and per capita GNP perhaps by the year 2000.

In 1975, the Council on Foreign Relations began a study called the 1980s Project. The leaders of the Project, such as Cyrus Vance, Zbigniew Brzezinski, and Michael Blumenthal, went on to run the Carter administration. One volume in the published study, *Alternatives to Monetary Disorder*, by a British adviser to the

International Monetary Fund, Fred Hirsch, suggests that a major cause of international economic turmoil in the 1980s is friction between "liberal" economies based on the ideas of Adam Smith, such as the United States and Britain, and those based on the ideas of Alexander Hamilton such as Japan, West Germany, and Gaullist France, particularly if the latter ally with the developing countries. The remedy Hirsch proposes the United States and Britain take is as follows: "*A degree of controlled disintegration in the world economy is a legitimate objective for the 1980s and may be the most realistic one for a moderate international economic order.*" Carter appointee Paul Volcker publicly endorsed this statement shortly before his appointment as Federal Reserve Chairman. Lionel Olmer is carrying it out.

Olmer's strategy

As the "idea man" on international economics, Olmer has emerged as the leading architect of American foreign trade policy, surpassing even U.S. Trade Representative William Brock, nominally his superior.

Beginning last fall, Olmer helped engineer a major change in the focus of American economic policy toward Japan. Previously, Washington, along with businesses and labor unions, focused primarily on the effects (real and imagined) of Japan's *exports*, such as steel, auto and semiconductors. Olmer shifted focus to Japanese *imports* and used that issue to demand that Japan dismantle—"fundamentally restructure," as he puts it in public speeches—its entire economic system, ostensibly because it inherently discriminates against imports." Even in those instances where the intent is not principally to impede imports," Olmer told a New York audience April 12, "structural biases in the Japanese economy produce that effect."

At the heart of Japan's successful economic structure is close cooperation among banking, industry, and government, including what Olmer attacked as "the Japanese practice of targeting future growth industries." Using administrative guidance, the Ministry of International Trade and Industry (MITI) helped propel Japan not just to higher growth, but to successively higher technological levels. Japan quickly moved from textiles and toys to steel and chemicals, to autos and machinery, and is now moving to computers and industrial robots.

Japan's big business is organized along *keiretsu* lines. In huge business groups such as Mitsui, Mitsubishi, and Sumitomo, industries from almost every sector are grouped together around a bank and trading company. In cooperation with the *keiretsu* system, the governmental Bank of Japan functions much like the U.S. National Bank set up by founding father Alexander Hamilton, which did so much to lay the basis of American economic success. In fact, the founders of

modern Japan in the 1868 Meiji Revolution learned their economics by studying the writings of Hamilton and by working with Hamiltonian economists associated with Abraham Lincoln.

The scrap-and-build system

The result can be seen in the difference between Japanese and American investment programs in steel. In steel, as elsewhere, the Japanese apply the "scrap-and-build" system. Even if a plant is only 10-to-15 years old, and even if the full debt is not paid off, if it is technologically obsolete, Japanese managers can get loans and tax incentives to scrap the old plant and build a new, modern one.

As a Japanese business consultant told *EIR*, "We know that the new plant will not only have higher operating profits, but will produce enough profits to pay for amortizing the old scrapped plant." The result is that Japanese steel firms can make steel at half the cost of U.S. plants, using almost 30 percent less iron ore and coking coal per ton of steel and 30 percent less labor time.

EIR asked a banker from Morgan Guaranty if he would make a loan to a U.S. steelmaker for a similar scrap-and-build program. "No," he quickly answered.

One reason why Japanese industry can afford to think about profits in the long term, rather than quarter to quarter, is that in the Japanese *keiretsu* system, stockholders do not hold shares for quick profits or dividends, or buy and sell quickly. There are relatively few major shareholders, mainly among other *keiretsu* members, who hold the shares indefinitely for long-term capital gain. Foreigners have difficulty taking over such firms, because the major shareholders do not wish to sell out; foreign minority shareholding, however, is becoming increasingly common.

Olmer's April 12 speech was a call to dismantle this system. Among other things, Olmer demanded "encouragement of foreign acquisition of Japanese companies" and "anti-trust restraint of the *keiretsu* industrial and trade system." Without these measures, he warned, "a deepening cycle of U.S.-Japan trade frictions will be difficult to avoid."

The "friction" threat is being implemented through the congressional-administration commitment to legislation enforcing "reciprocity" in trade. Some congressional sources expect a bill to be on the President's desk by summer.

The impetus for the "trade reciprocity" bills began following Olmer's Dec. 1 testimony to the Senate Finance Committee, in which he claimed that the reason for 1981's record \$18 billion trade deficit with Japan "was not lack of competitiveness . . . not the strong U.S. dollar or high U.S. interest rates. . . . The fundamental reason for Japan's surplus is a profound inequal-

ity in our access to the Japanese economy.” This he blamed on Japan’s business structure.

The reciprocity effort

During the early spring, Sen. John Danforth (R-Mo.) introduced S.2094, the most prominent of a number of “reciprocity bills” with wide support in Congress. Among other measures the bill would add absence of “Substantially Equivalent Competitive Opportunities” as a criterion for retaliatory action by the President under Section 301 of the 1974 Trade Act. This section allows the President to restrict imports of goods, or place extra tariffs on them, or impose fees or restrictions on services from other countries, if the United States determines that the foreign country acted in an “unreasonable” or “discriminatory” manner. Retaliation need not be confined to the offending sector. Under the Danforth bill, which the administration is jointly revising with the Senate, if it is determined, for example, that Japan does not offer the United States the same market access for cigarettes that we offer for Japanese goods, then the President can restrict Japanese goods ranging from autos to computers.

The Danforth legislation would also add services and investment to 301 coverage, and Olmer told *EIR* that in practice the reciprocity legislation would tend to affect services more than goods trade. “Services are not covered by the GATT [General Agreement on Trade and Tariffs] International Agreements. Also, we feel we have a wide-open market in the services sector. Increasingly, the volume of trade reflects the growing importance of that sector.”

Olmer denied that the administration would invoke retaliatory import restrictions. The real effect of the reciprocity legislation, he said, would be to give the administration leverage with other countries. “We are working bilaterally with a great deal of vigor to convince them that they should remove these impediments to our imports.” In reality, with world trade falling, the potential for 1930s-style trade war is dangerously high.

At May 6 Senate hearings, many of the constituency groups one would expect to support the bill, if it were truly aimed at protecting American industry, opposed this reciprocity provision, including the American Association of Exporters and Importers, the American Chamber of Commerce in Japan, the Computer and Business Equipment Manufacturers Association, and the Legislative Representative of the AFL-CIO. Earlier, the American Farm Bureau announced opposition.

The following is excerpted from an interview with Lionel Olmer conducted by Richard Katz May 7.

Katz: In your Nov. 3 testimony to Congress, you argued that technological and economic leadership translates

into political and strategic leadership. Is the root of U.S.-Japan friction not so much the issue of fair access, but a political issue of relative economic power if Japan does surpass the U.S.?

Olmer: I don’t think it is yet, but I think it could become that. It is a perception I have which, quite frankly, I’m trying to share with others and gain agreement.

World leadership has traditionally been thought of in strategic terms, i.e. military, diplomatic, and political; much less so economic. In the last 10 years there has been an awakening to the importance of international economics, the effects of world trade, of capital flows, of investment flows, and so forth on the ability of nations to conduct their affairs.

That realization has not yet taken hold in Japan. It has only been a couple of years that Japan has become an industrial giant. It has yet to overtake the U.S. in terms of per capital GNP, if in fact it will. Some say it may by the year 2000.

Yet, the Japanese still view themselves as vulnerable, an island nation beset by hostile forces, natural and otherwise. That island mentality makes them resistant to change, and to foreign encroachment in markets, ownership of property, and also prevents them from further assumption of larger responsibilities as a world leader.

Katz: The U.S. has political leadership now primarily because of its economic supremacy, but people talk of Japan surpassing us economically 20 to 30 years from now in absolute GNP. Do you think the United States should design policies to prevent Japan from surpassing us?

Olmer: I think that will not happen for a variety of reasons, predominantly market forces. The U.S. market, which is still the largest, most open in the world, will of itself not let that happen. I think we are going to witness a resurgence of American industrial power that will prevent an accession to dominance that some predict for Japan.

The U.S. is looked to throughout the world for a variety of responsibilities, not just the nuclear umbrella. Look at the Falkland Islands, the Middle East. Whether any individual effort on our part actually works or not is irrelevant to this point. The point is that other nations look to us as basically the fairest, the most likely to achieve success over difficult questions.

The Japanese are not ready for that. I asked a Japanese diplomat if they were ready for the political and security leadership they would have to exert on assumption of technological leadership that I think would flow from present trends. He said no.

Katz: In what specific way are Washington’s economic policies toward Japan designed to prevent our loss of political leadership due to loss of economic supremacy?

Olmer: I wish I could say they are designed with that in mind. However, as they actually come out, I don't think they are. I am urging that we think along those kinds of lines. I think we are doing that, intuitively, in our quest for equivalent access to each other's markets and technology. Maybe I don't give sufficient credit. Maybe it's more than intuitive. Maybe others have recognized it and haven't articulated it in quite the same way.

I've started to list the bilateral technology exchange agreements between American and Japanese corporations. It's astonishing. It's done purely as a commercial matter. I think in significant measure they are made by American companies with shorter-term objectives than the Japanese, who have longer-range objectives in mind.

I doubt we will need to come to the point where we view that free flow of technology as potentially damaging to either our national security or our position and responsibility as the major Western industrial power. But I think one thing our government can say is: look, if you want free access to U.S. technology, as you have had, then you have to give free access to American companies.

Katz: At the reciprocity hearings, the emphasis was not on trade in goods, but on services and investment. I think the stress on services is because people think we are becoming a services economy. Investment is something altogether different. Do you think the stress on investment reflects the worry of Japan overtaking us and the political ramifications?

Olmer: No question. It's what I had in mind. You're right, investment is different from services, entirely different. Now, the Japanese equate investment with "take-over." I try to tell them, we're not trying to implant in Tokyo what you see here: takeovers, mergers, proxy fights. I am saying there ought to be an easier way for foreign companies to go about acquiring an equity interest in Japanese companies, or in establishing new manufacturing facilities of their own. What's happened so far is tokenism, but they're not going to be able to hold it back. I think they will find the experiences worthwhile and not as painful as they think. I want U.S. companies to have access to the Japanese workforce, Japanese capital, and ultimately to the Japanese marketplace.

Katz: You have repeatedly said Japan's government should encourage foreign acquisition of Japanese companies. Yet, Sumitomo does not sell itself to Mitsubishi; why should they sell themselves to a foreigner? Mergers and acquisitions are not common in Japan.

Olmer: Firstly, there are cases of Japanese firms buying other Japanese firms. Secondly, what the Japanese government must make clear is that if an American company wants to buy an existing Japanese company, and the latter agrees, that the government will facilitate this, and not put impediments in the way. Japan should open up

its business structure to Americans, who either want to invest in existing companies or build their own facilities.

Katz: Americans setting up their own facilities is different than buying existing Japanese companies.

Olmer: Sure it's different, but it's controlled by the same agency of government which has traditionally kept foreigners out, foreign capital out, and Japanese yen in. It's part of the structure that has to be changed. I'm not saying that we send in some upwardly mobile capitalist freebooter with a fistful of money to buy up every company in sight. I'm not suggesting this be the common pattern, but just that it be made possible.

Katz: There are two issues here. One is the relative strengths of the U.S. and Japan as economic powers. The other is the growing tendency here toward multinational companies—that are not really American in any sense. Is one of your objectives that this multinational phenomenon would become part of the Japanese business and political structure?

Olmer: That's not an objective of mine. I don't think in those terms, but I see it as an ultimate consequence of them opening up.

Katz: You have said repeatedly that the cause of the U.S. trade deficit with Japan is not high interest rates here, nor currency rates, nor lack of competitiveness or productivity, but the greatest cause is Japan's closed market. I've tried to get some figures from the Commerce Department backing that up; I've had a rough time. On what basis do you say that?

Olmer: I say it because the evidence demonstrates that large trade deficits existed when all of those conditions were absent: when the yen was 360 to the dollar; when our interest rates were less than theirs; when there was a strong international economy—we still ran a deficit.

Katz: But not of \$18 billion.

Olmer: No, no. I was going to go on. I cannot deny that I said the greatest cause of the deficit was lack of access. I would probably want to qualify it by saying: sure, those other factors are causes. Clearly, perhaps the most immediate means of eliminating the deficit—and that is not our objective, we are not seeking bilateral balances—but the greatest thing affecting the deficit would be a weakening of the dollar and a strengthening of the yen.

Katz: Are you now saying the currency rate is more important than market access?

Olmer: No, only in immediate terms. But to do something in the long run there has to be a perception and a reality that the Japanese marketplace is open.

Katz: Prior to the Khomeini oil shock and our high

interest rates, Japan's surplus with us was at most \$7-\$8 billion. Now, it has more than doubled. Just to be clear, do you believe their market became twice as closed in those three years? Or in the deficit growth from 1980's \$12 billion, to \$18 billion in 1981, it became that much more closed in one year?

Olmer: No. You can't make those one-for-one trade-offs. Nothing I said should imply a correlation between any single year's deficit and closed-market changes. My guess is that between 1978 and 1981, at least an equivalent amount is due to macroeconomic factors as well as microeconomic factors that relate to market barriers.

Katz: If Japan were to open up its market completely, and answer all of our complaints, do you have a rough estimate of the effect on our exports?

Olmer: The answer is that over a period of four to five years, we think it could amount to \$10-\$12 billion annual difference in our exports.

Katz: Do you have a breakdown of that?

Olmer: My staff can get you the numbers. [As of press time a week later, Olmer's staff said they "had no numbers to provide" that would back up Olmer's claim of a \$10 billion increase, equivalent to 50 percent of 1981's U.S. exports to Japan. Rather, they said the increase would be "substantial."—R.K.]

Katz: Based on your thesis that Japan's closed markets are the problem, you have said fundamental parts of Japan's business structure have to be changed, such as the *keiretsu* system, and the role of MITI. Why do you say this, and what must be changed?

Olmer: I would like to see an elimination or reduction of the cartel arrangement for depressed industry. I would like to see a lessening of the *keiretsu* brother system, in which one buys from the family rather than outside so that, if, for example, a U.S. exporter has a better product at competitive prices, he doesn't get told by a prospective customer, "I can't buy from you, for example, stainless steel, or I'll find that Nippon Steel or Nippon Kokkan won't buy my electric motors."

Katz: If you look at Japan's higher capital investment rates, up to 20 percent of GNP, the "scrap-and-build" system, productivity ratios, improvements in living standard and real wages, and overall growth—it could be argued that the Japanese system of close business-government cooperation, MITI guidance, *keiretsu* groups, i.e. the things that you want dismantled, are responsible for Japan's achievement.

Olmer: I think in significant measure it is a cause of Japanese economic success. I just don't want to see it at the expense of comparable American industries. There was a time when healthy American industries faced

targeted competition from abroad. The social costs to the United States have been staggering. Does the consumer benefit more from a somewhat cheaper product if he has to pay taxes for the effects of disruption of a sector? Japan has had free access to our market in making their achievement. Of 85 anti-dumping cases, the Japanese have more than 30.

Katz: But if I look at the auto industry, our production fell about 3 million since the peak year of 1978, and in that period Japanese imports rose 300,000. Three hundred thousand imports did not cause the fall of 3 million domestic units. Similarly in steel; Japanese tonnage exported here has not increased since the 1977 trigger-price system. I agree the social costs are huge. I don't think Japan is the cause.

Olmer: Yes, but you've chosen certain years.

Katz: I've compared the peak years to this year. The question is whether Japan is responsible.

Olmer: I think the answer is yes, in part.

Katz: This administration has changed the focus from Japanese exports here to our access to Japan's market, and you're saying they have to change their business structure. If Japan's structure is responsible for their success, wouldn't changing their structure lower their economic performance? Why instead can't the U.S. adopt some of the Japanese methods?

Olmer: Japanese productivity growth, but not absolute productivity, has been higher. Japan started from such a low base. Inevitably their productivity will slow. I think you will see other countries in Southeast Asia replace Japan as productivity leaders. You see evidence of that in Japanese trade policy toward Korea recently, shutting off technology in steel and electronics.

Katz: The Japanese of course built the steel plant in Korea.

Olmer: Yes, I know that, and now they are beginning to see some of that come back to them.

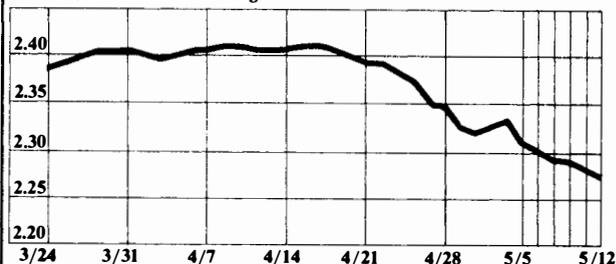
Katz: I would argue that the fantastic success of the U.S. is due to our use in the past of exactly the kind of policies Japan now uses, which countries like Korea or Mexico are following. Now, the U.S. wants to limit the ability of developing countries to develop infant industry through this kind of policy before they become new Japans.

Olmer: But the U.S. development occurred as a result of a growing America, not as a product of exporting to other countries. Japanese or Korean development is delightful to behold. I just don't want it to happen at the expense of U.S. industry. If a nation wants to subsidize its domestic industry, let it, but don't export 90 percent of the product to the U.S.

Currency Rates

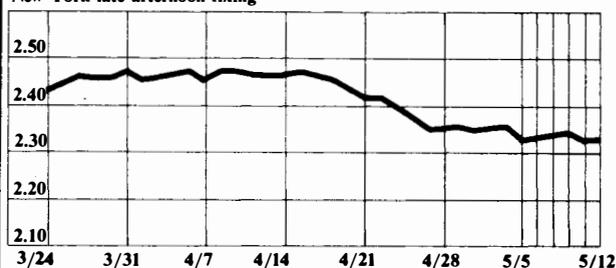
The dollar in deutschemarks

New York late afternoon fixing



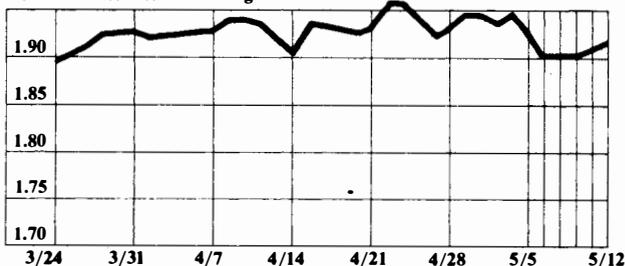
The dollar in yen

New York late afternoon fixing



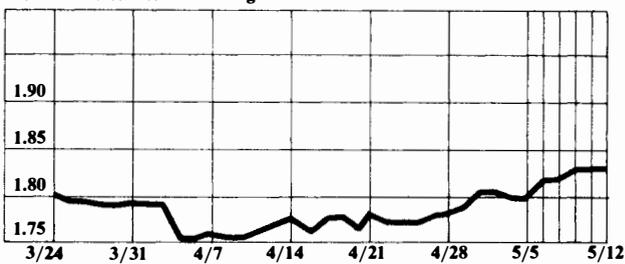
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Katz: A Japanese reporter said of the current frictions, "These always happen when one country is going up and another going down. But I don't understand why the U.S. doesn't have an industrial policy."

Olmer: We don't have an industrial policy because it's not in our nature to applaud government central planning. There are things government directly does or doesn't do that ought to facilitate industrial planning on its own. We made a conscious decision to support space. That had tremendous spinoffs for commercial aviation, for consumer electronics, at which the Japanese have done so well at our expense. We don't believe in going about it the way they have done.

Katz: One aspect of the system is providing low-interest credit to productivity-enhancing new industries or industrial techniques.

Olmer: We don't favor that.

Katz: We might be able to promote a general increase in industrial technology and productivity by the Japanese structure of business-government cooperation that you want to dismantle.

Olmer: I don't know. I think there are a lot of different answers to that question.

Katz: In 1981, world trade fell by an estimated 3 percent and will likely fall again in 1982, the first back-to-back fall since the depression. This will lead to greater trade frictions as nations fight over a shrinking pie. Do you think it is administration responsibility not simply to fight for a fair share of trade for American firms, but also to take positive action to increase world trade? If so, what?

Olmer: That's a good question. The quick response would be the relationship between a strong domestic economy and an increase in world trade. As the U.S. comes out of the recession, then others will. I don't see world trade picking up independent of strong domestic economies in at least the significant industrial economies.

Katz: Will the U.S. bring any proposal on expanding world trade to the Versailles summit in June?

Olmer: No, not that I know of.

Katz: What about restoring Export-Import Bank cuts to help our own exporters?

Olmer: I don't have a happy answer. The answer is that we don't believe in subsidies. We have been working with our OECD partners to elevate the interest rates toward market rates. I support the actions to limit the Export-Import Bank budget, though I sympathize with the problems of American corporations competing with business from other countries that are given government-backed credit.

'Recovery' without capital spending

Volcker's tight credit makes capital spending—the only basis of real recovery—impossible in the United States.

The U.S. economic "recovery" will start before or on July 1. On that date, \$48 billion, on an annual rate, will be pumped into incomes through both the second round of the three-year personal tax cut and Social Security increases. This will provide the economy with extra buying power—or so the story goes.

The May 10 issue of *Business Week* ran a cover story titled "Here Comes The Recovery." That is now the conventional wisdom. After all, didn't consumers increase their borrowing in March by \$990 million, the largest monthly increase since last October? Didn't retail sales increase by 1.4 percent in April? Weren't business inventories run off at the hefty rate of \$40 billion per annum in the first quarter of 1982?

Hundreds of economists across the U.S. are now citing these signs. *Business Week* states in its "recovery" feature, "The U.S. economy is entering the early stages of a recovery. The signs of economic upturn are undeniable."

But, as the Business Council, the organization representing 200 chief executive officers of America's largest corporations, noted at their conference this month in Hot Springs, Virginia, most of the executives there predict a recovery, but not an increase in capital spending. As the chief economist for U.S. Trust in New York, James O'Leary, explained May 11,

"what this means is that unused capacity will be brought into play." For example, the auto industry, which is operating at 46 percent of capacity, may increase capacity usage. Nothing new will be built. O'Leary and other economists say openly that there may not be increases in capital spending for years. U.S. capital-equipment production fell by 10 percent between July 1981 and March of this year and hasn't stopped falling yet.

A recovery without capital spending is a fake recovery, because even were production in some industries to reach the levels of capacity utilization in August 1979, before Paul Volcker became Fed Chairman, they would not be producing the same output, because capacity has contracted.

The only sector that is showing improvement is the defense sector. In the first quarter, incoming defense orders were 50 percent higher than they were a year earlier. The full weight of new orders has not been translated into production; thus defense output can be expected to increase. But as *EIR* has shown, a defense-spending-led recovery may look good in the short term, but in the longer term it grinds up the industrial base without producing real wealth, unless capital is put into modernizing and maintaining that base.

This brings us to the second point. \$48 billion in tax cuts and Social Security payments may seem

like a large amount. Yet under the Volcker regime, a good part of this \$48 billion will be gobbled up by increasing interest payments. Consumers will spend some of the money, but much of it will go toward paying off bills, and corporations in turn will allocate much of their intake toward debt repayment.

Corporate earnings, without adjustment for inflation, fell by 22 percent in the first quarter to \$165 billion, according to Manufacturers Hanover—the sharpest quarter to quarter earnings decline in the post-war period. Corporations with declining profits are not going to increase their capital spending.

Further, as Gary Winglowski, chief economist for Goldman, Sachs investment bank, reported May 3, "In 1947 corporate profits were 10 percent of national income, while total interest payments were only 1 percent. By the fourth quarter of 1981, corporate profits were 7.5 percent of national income, and interest payments were 9.5 percent." The trend got worse in the first quarter of 1982.

Robert Sinche, economist for Bear, Stearns investment bank, stated May 14, "I foresee that as part of the recovery in the 1980s, there will be a liquidation of industrial capacity. This is what the Braniff bankruptcy represents."

Volcker and other Fed governors told Congress May 11 that they intend no basic shift from their tight-money policy. Volcker is not guided by inflation rates, nor by sizes of budget deficits; he is guided by his often-expressed desire to shrink the U.S. economy. Under Volcker, at best, the U.S. economy will recover some industrial capacity usage before it plunges into full depression.

Britain's squeeze comes to Asia

The International Monetary Fund cracks down on the last of the healthy "newly industrialized" economies.

The Interim Committee of the International Monetary Fund, meeting in Helsinki, Finland May 12-14, has resolved upon a fresh round of austerity programs for the countries of the developing sector. The IMF Secretariat in Washington has leaked to the press the names of the next two nations whose industrial development programs the IMF wants cut: the Republics of South Korea and the Philippines.

The IMF, founded by Britain's Lord Keynes, is the major instrument of British economic policy abroad. In recent years, the IMF has concentrated on forcing austerity on the poorest countries. Now Britain is moving to re-impose its 18th-century colonial policy in which *no country* is allowed to industrialize.

Earlier this month, Britain, using the Malvinas Islands crisis as a pretext, created a panic in bankers' confidence which resulted in a drop in lending to prime Latin borrowers such as Brazil and Mexico. A similar scare around possibilities Poland may default has dried up East bloc lending. The last prime credit risks for bankers in the world were the robustly industrializing economies of South Korea, the Philippines, and Malaysia, which have continued to borrow this year at a fast clip. The IMF has now reversed this.

At Helsinki, U.S. Treasury Secretary Donald Regan announced the United States is backing Britain in demanding a crackdown on IMF

and World Bank lending. Regan, who chaired a May 12 meeting of the Group of 10 industrial nations at the IMF conference, told the press that the Group of 10 had decided that they would not expand their government's funding of the IMF and World Bank.

Rather, Regan said the G-10 had decided to "keep a tight rein on lending" by the IMF and the Bank, and to demand further that IMF member nations reduce their budget deficits and "continue with tight monetary policy."

Regan acted in spite of the G-24's May 12 communiqué's demands that the West lower its interest rates, which are causing "continued weakness of economic activity, high inflation, and large imbalances on external current account."

Meanwhile, a secret IMF report on South Korea leaked to a Washington D.C. human rights group was published May 10, calling for an immediate 10 percent devaluation of the Korean won. The IMF sent a mission to Seoul to meet with Deputy Prime Minister Kim Joon Sung in February, who was told that the won is "overvalued."

The devaluation's intent is to do to the Korean economy what has just been done to Mexico—slash imports of industrial goods by a corresponding 10 percent. This will cause a decline in investment by cutting off capital-goods imports.

The last time the IMF demanded a devaluation of the won in 1980, by 30 percent, domestic industrial

production collapsed, which caused mass unrest and provided a cover for the assassination of President Pak Chung Hee.

The IMF also leaked a secret report on the Philippines to another Washington human rights group May 3, which revealed IMF demands for an actual cut in the Philippines rate of economic growth in 1982, as policy, from the government's projection of 5.1 percent real GNP growth, to below 4 percent real growth.

The IMF report demands the Philippine government make a "sharp cut in public spending growth," and specifically stated that subsidies to industry, reeling from high world interest rates, must be cut. Philippine officials denounced the IMF demand as a "double standard," noting that Western nations are spending huge amounts to keep industry afloat.

The IMF is also demanding a cut in the Philippines money supply, and an increase in taxes.

Both countries are already under IMF "surveillance" programs. IMF officials are already stationed in Seoul and Manila economic ministries, directing economic policy. Korea and the Philippines owe the IMF \$1.3 billion and \$918 million, respectively, and are also attempting now to receive approval for new IMF loans of \$652 million and \$356 million.

Worse, should the IMF merely frown on these applications, private commercial bankers around the world will move to cut off additional billions in bank loans which the two nations need this year. The IMF's Asian moves reduce the overall prospects of bank lending to the Third World to little more than zero growth this year.

The Law of the Sea

Kissinger resource-control scheme faced U.S. opposition which didn't get to the bottom of the matter.

By an apparently staggering majority of 130 to 4, the member nations of the United Nations ended an eight-year negotiation process on April 30, approving a final draft of the Law of the Sea Treaty.

The scheme, under deceptive rhetoric about the "common heritage of mankind," is intended by its Club of Rome architects to put development of vast untapped seabed minerals under such complex U.N. controls by a supranational authority as to prevent any development. Further, it sets a precedent to replace legal agreements among sovereign nation-states with a supranational government, a goal of Club of Rome planners since the creation of the United Nations.

Under the treaty, each nation recognizes a 12-mile water boundary. Every coastal nation, such as Argentina, Peru, or Japan has exclusive right over fishing within a 200-mile limit. The most sweeping economic provision gives exclusive rights over oil, gas, and other resources to coastal nations out to the continental shelf, a range anywhere from 200 up to (in the case of Canada) 700 miles offshore.

Now for the sticking point. The treaty specifies that areas outside such defined sovereign regions would come under an entirely "new" concept of international law. This is the crux of the deep-sea mining issue around which the Reagan administration decided to vote "no." Reagan reversed the

Trilateral Commission policy of Carter's Law of the Sea negotiator Elliot Richardson. Venezuela and Turkey were the only ones to join in the "no" vote. In addition, 17 nations, among them West Germany, Britain, and the U.S.S.R., abstained from voting on the treaty.

There are enormously valuable mineral resources in these waters, known to be commercially minable. Private companies and oceanographers have confirmed that discrete nodules on the ocean floor contain enormous resources of manganese, copper, cobalt, and nickel. Manganese is essential to the manufacture of steel and thus to the industrial capacity of the entire world. The United States is entirely dependent today on imports from Brazil, South Africa, Zaire, and elsewhere.

A little background is necessary at this point. In 1970, the U.N. General Assembly endorsed a revolutionary concept introduced by Arvid Pardo, Malta's U.N. delegate, working closely with a co-founder of the Aspen Institute, Elisabeth Mann Borghese. They defined seabed minerals beyond nation-state jurisdiction as "the common heritage of mankind," above any nation-state control. Pardo and Borghese intended to use this innocuous concept to create a supranational apparatus with the potential to control and suppress world resource development. Pardo and Borghese, who along with Elliot Richardson are fierce support-

ers of the Club of Rome and "limits to growth," boasted of building "a whole new theory of economics . . . on this distinction between ownership, which is rejected, and the right to utilize or manage."

In 1976, then Secretary of State Henry Kissinger broke the stalemate between industrial countries, whose private developers have the immediate capacity to exploit sea resources, and the less-developed countries. Kissinger's "compromise" carefully preserved the supranational concept, while appearing to make concessions to private interests. He proposed creation of a parallel system for 20 years where private development consortia such as have already been formed by various U.S., Japanese, German and Canadian corporations would divide any prospective venture 50-50 with a new U.N.-controlled entity, "The Enterprise." The Enterprise, to be initially supported 25 percent by a U.S. contribution, would develop its own taxing powers and mandate that any private firms in seabed mining give it their technology and confidential information.

Although refusing to go along with this gross abdication of sovereignty, Mr. Reagan skirted the basic issue of The Enterprise. Canada and the Group of 77 underdeveloped nations are threatening to ratify the treaty this fall without the United States, which is meanwhile working on reciprocal bilateral agreements with Germany and others.

The result of the backdoor refusal by the United States is further "North-South" animosity with no real development policy, or as one participant for private companies termed it, a "state of confusion."

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$26 mn.	Colombia from U.S.A.	Eximbank is financing polyvinyl chloride plant at Cartagena. Plant will produce 30,000 tpy, expandable to 55,000 tpy for Petroquímica Colombiana.	Badger Pan America of Cambridge, Mass. is to handle engineering and procurement.
\$202 mn.	Canada from U.S.A.	Exim has approved \$83 mn. credit for Pacific Western Airlines to buy four Boeing 767s. Interest will be 9.25-12 percent, depending on disbursal date.	Private banks providing additional \$88 mn.
\$159 mn.	Thailand from Belgium	Belgian metals company Vielle-Montagne is building 74,800 tpy zinc refinery in Thailand.	Machinery to come from Belgium.
\$3 mn.	U.S.A. from West Germany	The first floating steel-scrap guillotine has been delivered by Thyssen-Henschel to Schiavone-Chase of Port Newark. Mounted on a barge that will travel the East Coast, the 1,100 ton shear cuts on site to save shipping costs on scrap to be exported.	A sharp way to cut capacity.
\$167 mn.	Nicaragua from U.S.S.R.	Nicaragua signed 5-yr. aid package with Soviets, including credits for Soviet-built projects.	Also asking U.S.A. for resumption of suspended aid.
	Iran/Nicaragua	Barter agreement signed to trade Iranian oil and petrochemicals and dried fruits for Nicaraguan sugar, meat, cigarettes, and coffee.	Both countries short of cash.
	Iran/Greece	Teheran radio reports Iran signed barter deal with Greece to trade crude oil for petrochemicals and ships.	
\$30 mn.	Tunisia from France	Pechinery UGINE Kuhlmann will supply equipment for plant to separate and purify 120 tpy yellowcake from phosphoric acid in the southern Tunisia phosphate fields.	Tunisia, however, has postponed its first nuclear power plant until 2000.
	Spain from U.S.A.	Foster Wheeler supplying fifth anthracite-fired steam generator for Compostilla II electrical station. Includes ball coal pulverizer.	Components will be made in Appalachian New York and Pennsylvania.
\$56 mn.	Saudi Arabia from South Korea	Contract to build housing for 4,000 workers and foremen at Jubail city awarded to ICC of Seoul.	Jubail will be entirely new city of 350,000 by end of century.
\$33 mn.	Abu Dhabi from Thailand	National Housing Authority of Thailand will build 500 low-rent apartments in Abu Dhabi for Masyra International Corp.	First Thai contract in Mideast.
UPDATE			
\$250 mn.	Mexico from Japan	Mexico's state steel co. Sicasa has signed with Nippon Kikan for four 200-ton electric furnaces for Las Truchas steel complex. Complete turnkey basis, including personnel training.	Japanese Exim Bank financing for this announced at the end of April.
\$2.5 bn.	Colombia from various	Colombian govt. has approved plan for 21 km. Bogotá subway system. Bogotá's mayor says Swiss banks have offered to loan \$1 bn. of the \$1.5 bn. in foreign resources needed for project. Other funds could come from higher taxes on luxury imports.	Colombia is world-famous for its "underground economy."

Business Briefs

Economic Warfare

British asset seizure reported set

The West German Finance Ministry reported on May 7 and confirmed on May 10 that Argentina was prepared to seize British assets in that country. Argentinian press accounts claimed that the government had established a commission to draw up a seizure list.

Meanwhile in Paris, Venezuelan Finance Minister Luis Ugueto confirmed that his country had moved \$3 billion in state reserves from London banks to Paris banks. He termed the switch "a normal commercial precaution."

AFP, the French news agency, reported in early May that Petroven, the Venezuelan state oil company, had withdrawn \$2 billion from London banks.

British creditors are strongly pressuring American banks to demand that the escrow account established by the Argentinian banking authorities to pay British creditors be moved from Argentina to Switzerland.

Banking

Congress fiddles while savings & loans burn

A series of multi-billion dollar bills were passed by the House Banking Committee May 11-12 to assist the nation's bankrupt savings and loan and homebuilding industries. Not only will the Democratic-sponsored bills fail to keep either industry from going under—but both are likely to be held up by the Republican-controlled Senate and possible Presidential veto.

House Banking Committee Chairman Fernand St. Germain's Net Worth Guarantee Act, which was passed by the Committee to the full House May 11, would provide for the U.S. Treasury to spend up to \$8.5 billion during the 1983-84 fiscal years to rescue bankrupt thrift institutions. S&Ls whose net worth (cap-

ital) fell below 2 percent of assets would receive U.S. Treasury certificates to keep net worth up. Only in cases where the S&L then subsequently failed would the Treasury be forced to pay out actual funds.

This means that the bill will add precisely no credit to the S&Ls, which desperately need more credit to make new loans to the housing industry.

The House Banking Committee also voted up for House approval \$4 billion in U.S. Treasury subsidies for the homebuilding industry, which is supposed to also help S&Ls by providing subsidized mortgages. The House voted to spend \$1 billion during fiscal 1982, and an additional \$3 billion during fiscal 1983, on federal mortgage subsidies. The bulk of the money will go to subsidize interest rates on mortgages, such that if, for example, a savings and loan is obliged to charge a home-buyer 15 percent on his mortgage, the consumer may receive up to a 6 percent interest-rate subsidy from the federal Department of Housing and Urban Development.

However, as long as Federal Reserve Chairman Paul Volcker keeps rates high, S&Ls will lose money, since they have to pay twice as much to depositors as they can earn on their old mortgages. Until Volcker's policy is changed, S&Ls will continue to be bankrupted, and homebuilding will continue at historic lows.

International Credit

Hot-money influx erodes U.S. banking

Since the Malvinas crisis began April 2, more than \$18 billion has flowed into International Banking Facilities in major U.S. cities, the Federal Reserve reported May 7. This makes a total of almost \$109 billion that has come in since the facilities were legalized at the beginning of 1982.

International Banking Facilities (IBFs) are a device created by Federal Reserve Chairman Paul Volcker to allow off-shore unregulated banking to take place in major U.S. cities. Under the

Fed's new IBF provisions, any U.S. bank can set up an "offshore" office, physically on-shore in their U.S. headquarters, and begin to take in foreign hot money and make foreign loans. These IBF units are completely unregulated, have no reserves set aside in case loans go bad, and pay no taxes.

The Malvinas crisis "has helped IBFs tremendously," Bank of New York Chairman J. Carter Bacot told *The New York Times* May 7, because when Britain froze Argentina's assets in London April 2, it ruined London's business reputation as a no-politics financial center par excellence.

No one should think this is a victory for the United States, although it is a loss for London. Only Venetian *fondi* stand to win, as hot money undermines the entire economy. This is because the IBF boom helps to shift the entire U.S. banking system and economy away from American System loans for industry, agriculture, and other productive purposes, and toward speculation. Regional banks from all over the country will be putting deposits into IBFs, instead of making productive loans.

Trade

Commerce Secretary to penalize imported steel

Commerce Secretary Malcolm Baldrige, in a letter to the House Commerce subcommittee, said that his department is ready to impose penalty duties against some of the foreign manufacturers accused by U.S. steelmakers of unfair competition.

Under the "critical circumstances" provision of the 1979 Trade Adjustment Act, the Commerce Department may collect penalties up to 90 days prior to a preliminary determination of "dumping" or other trade improprieties. Baldrige announced that "the retroactive tariffs will apply to imports that were rushed into the U.S. market in an effort to beat the department's preliminary determinations."

The Commerce Department action is based on complaints by seven American steel companies against nine European countries and Brazil and South Africa.

The effect of these suits has forced steel imports down 15 percent in March from the previous month.

Gold

British banks endorse BIS gold scheme

Representatives of Britain's N.M. Rothschild and Sons, along with Swiss and other international bankers, roundly endorsed a rapid return to an austerity gold standard such as proposed by the Swiss-based Bank for International Settlements the first week in May. Addressing the London *Financial Times'* annual conference on "Gold and the International Monetary System," the majority of speakers call for a new gold standard to be initiated and controlled by the central banks, such as proposed by outgoing BIS Chairman Jelle Zijlstra late last year.

The so-called "Zijlstra plan" calls for the central banks who make up the membership of the BIS to act, independently of national governments, to set a central bank gold price amongst themselves. Imbalances in world trade would then be settled by the central banks who would pay each other in gold.

However, the BIS also proposes severe credit tightening in every country, which would mean deep economic depression. In order to maintain a stable central bankers' gold price against the U.S. dollar, Zijlstra proposed measures to drain dollars from the monetary system, such as central bank credit tightening, national budget cuts, and wage/price controls.

Mr. Robert Guy, gold-trading director of N.M. Rothschilds in London, told the conference that central banks are already "adopting a more active approach to management of their gold reserves." Central banks may decide soon to "trade gold as actively as foreign exchange," he

said. Guy was seconded by U.S. economist Arthur Laffer, a leading "supply side" gold advocate close to the BIS.

Dr. Hans Mast, Executive Vice President of *Crédit Suisse*, added that central banks will soon be upgrading their gold to the status of monetary reserves, and use them for intervention in the foreign currency markets, just like a currency.

Friedmanism

"Free enterprise" zone troubled in California

A recently launched "free enterprise zone," located southwest of Los Angeles in the township of Dribbles, appears to be in deep trouble. What began as an isolated incident in a small, slave-labor hand-laundry has exploded into a violent general strike, presently engulfing the entire township.

The zone had been viewed as the star project of Mrs. Tom Fondle's Confederation for Economic Degeneracy (CED). CED spokesmen have featured Dribbles as the "community of tomorrow," as proof that people could be "happy and prosperous without using a single watt of light, heat or electric power." Mrs. Tom Fondle itself just recently completed a statewide speaking-tour, promising that the day of a truly non-oppressive form of life-style had arrived.

The trouble began at a small establishment named Whang Gong's British Traditional Hand Laundry, an establishment employing 18 happy female methadone-maintenance cases. Once the iron is heated, over quaint little fires of aged rabbit-dung, the cheerful laundress takes a mouthful of water, which she spits on the laundry as she presses. All was peaceful until Whang Gong caught one of his laundresses swallowing her water on company time, and fired her on the spot.

For reasons yet to be explained, the 17 other happy employees of the Whang Gong's British Traditional Hand Laundry walked out. Mysteriously, that impromptu labor-dispute spread through the labor-force of Dribble.

Briefly

● **ARGENTINA'S** central bank loosened credit to the banking system May 13, by lowering minimum reserve requirements from 16 percent to 15 percent—the bank's third decrease since the Malvinas Islands crisis began April 2. The move will make more than 2 billion pesos (\$1.4 million) available to the banking system.

● **THE INTERNATIONAL Monetary Fund** will get no requests for financial help from Argentina, Argentine finance minister Roberto Alemann told the press May 12. Alemann was speaking from Helsinki, Finland, during the Interim Committee meeting of the IMF, where he attended as the Argentine delegate. Argentina is quite able to pay its foreign debts, Alemann stated, in spite of British allegations, and has no need to submit its economy to IMF conditionalities.

● **BRITISH EXPORTERS** to Nigeria are being badly hurt by the Nigerian import freeze which Britain itself has forced upon the African nation, London firms complained the first week in May. British exporters, who sold over \$3 billion in industrial goods to Nigeria last year, have been hardest hit by Nigeria's reduction in imports this year of over 33 percent. In March British Petroleum collapsed Nigerian oil revenues by dumping light oil comparable to Nigeria's on the open markets, costing Nigeria up to 50 percent of its projected revenues so far this year.

● **THE WEST GERMAN** government expects German banks to increase financing from 90 to 100 percent of their share of the Siberian pipeline scheduled for completion in 1987. German banks, which had held back on further credits to the Soviet Union under U.S. pressure following the Polish crisis last December, are now reported prepared to increase their financing from \$1.12 billion to \$1.25 billion.

How the Mitterrand regime has begun to destroy France

by Philip Golub, Wiesbaden Bureau Chief

During a visit to London soon after his election as President of France, François Mitterrand chose to characterize the central feature of his foreign policy as the reestablishment of an "entente cordiale" between Britain and France. Hardly accidental, Mitterrand's reference to the 1904 treaty which served as prelude to World War I revealed his thinking and implied the qualitative shift French policy was about to undergo: 1) the privileged Franco-German relationship, cornerstone of French foreign policy under de Gaulle, Pompidou, and Giscard d'Estaing, was to be replaced by a privileged Anglo-French policy, and 2) a global redefinition of French Third World policy was about to occur and a more colonial policy styled on the Fourth Republic would replace the nation-state orientation of the first three Presidents of the Fifth Republic.

Socialist France has apparently found in the Malvinas war the ideal conditions to unite these two policies. France has recently given spectacular diplomatic support to Britain, was unequivocal when others in Europe were equivocal and sought vainly to restrain the spread of conflict.

Nonetheless the key to the Mitterrand Regime's foreign policy lies not in its Anglophilia—which is an inevitable, almost hereditary, feature of Fourth Republic politicians—but in the reflection of its own colonial desires it sees in Great Britain's policies. How else can one understand the reference to 1904 entente which had a crucial and lasting influence in Third World history? Under the entente, strategic areas of influence were defined for both colonial powers: Morocco was "given" to France while England "took" Egypt. Ultimately this framework of accords led to the secret wartime Sykes-Picot accord which carved up the entire Mideast between France and England. This second expansionist effort put Syria and what is now Lebanon under French rule whereas Palestine and what was then Mesopotamia were made part of the British Empire which then controlled both the western and eastern access to the Suez Canal.

Mitterrand, unlike many of the younger Socialist technocrats who inhabit



Henri Bureau/Sygma

The scene on Paris's Rue Marboeuf after the April 23 fire-bombing in front of the Lebanese weekly Al-Watan Al-Arabi. Terrorism has joined unemployment and inflation on the list of France's domestic problems under the Socialists.

Paris ministries today, is a pure product of the Fourth Republic. He was 11 times minister in varying functions over the same number of years, and participated at times in a very direct way, in the violent colonial crisis of the Fourth Republic: Indochina, Madagascar, and Algeria primarily. His then-famous war cry over Algeria, "the only negotiation is war," characterized his policy outlook at the time.

The Socialists and the Third World

Thus, the first and since-then reconfirmed reaction of France to the Malvinas affair was to see in Argentina's action a threat to its own various properties, possessions, and protectorates throughout the world. The nostalgia for lost colonial power, coupled with the condescension toward developing-sector populations of the colonial class, has become an evident, central feature of French Socialist policy. Pierre Mendes-France, Mitterrand's mentor, expressed this in a background discussion as the motivating feature of France's Third World policy. Although moderate by Fourth Republic standards, Mendes-France believes today that the developing sector is largely incapable of autonomous industrialization efforts even when given the opportunities to do so. The emergence of new nations as independent powers has, in his view, led to incalculability in international affairs. France's response to this instability of developing sector areas must, in his view, be flexible but capable of military action when required.

If anything, Mendes-France is more careful, more of

a realist, than the Socialist regime which he did so much to foster. French foreign ministry and development officials have unambiguously opted for an end to the transfer of any technology of value to Africa, the bastion of French influence in the developing sector, while choosing at the same time to maintain, if not reenforce, France's military apparatus on the continent. A certain form of triage is already in operation: credits are being cut down, appropriate technologies alone are under discussion. Africa is, increasingly, a mere zone of raw-materials extraction and proxy conflicts. Socialist policy toward Central America has been based on similar outlooks where the military help and funding provided to the guerilla movements there has been part of an effort to weaken American power in the area in favor of a rural ethic which would leave Central America in continuing immiseration.

When the U.S. government, in a burst of Haigian activity, decided to reopen intelligence exchanges strangely interrupted since the 1960s, and began to see in France a new battering ram against Russia, it had fundamentally misevaluated the nature of the new regime, whose policy was and is simultaneously anti-American and anti-Soviet. Mitterrand and his Foreign Minister Claude Cheysson have reiterated time and time again, in public and in private, that the central strategic preoccupation of the Socialist regime is to act to avoid a "new Yalta," a global accord which would bypass French interests in the developing sector. In Paris ministries these days one hears senior officials seriously

espousing the view that French Socialist efforts to heat up Central America are counterbalanced by equally destabilizing anti-Soviet efforts in Eastern Europe and in Poland in particular.

The contrasts to Gaullism

Mitterrand's foreign policy thus represents a complete break with the strategic policies pursued by France over the past 23 years, and a return to those of the Fourth Republic. Interior Minister Gaston Defferre made a point of this recently when he declared that the Fourth Republic was, in his wise opinion, far more successful than the Fifth.

The broad lines of de Gaulle's foreign policy outlook, largely followed by his two successors, were premised on the notion of an entente among sovereign nations in the East-West field as well as in North-South relations. As his speech to the Academy of Science of Buenos Aires in 1964 demonstrates, his central preoccupation was that developing-sector nations, freed from colonialism in the aftermath of World War II, would accede to the technological means and scientific know-how required to master their own destinies.

European nations, emerging from the devastation of the war, would in turn have to define a commonality of interest without renouncing their national sovereignties if Europe held any chance to exert influence in the postwar world. De Gaulle understood that the rapid industrial modernization of Europe would then be of effective value for the nations of the developing sector. Europe's power itself would radiate out from a cemented Franco-German relationship.

By the end of the 1960s, as the international monetary system established at Bretton Woods began to unravel, de Gaulle and his adviser, the celebrated economist Jacques Rueff, were the first to demand a new international monetary order. Pope Paul VI's encyclical, *Populorum Progressio*, and Gaullist France's development perspectives were largely identical in their formulation and outlook. Although never written down in one single document, the idea of world development characterizes all of de Gaulle's works.

From his wartime and postwar experience, de Gaulle understood England: Churchill was as bitter an "ally" as could be found.

The conflict between London and de Gaulle in the immediate postwar period over the Levant region (Lebanon and Syria) is paradigmatic of this fact. De Gaulle in his collected works has noted that he would have declared war on England in 1946 over British Mideast policy had France been capable of doing so. During the war and in its immediate aftermath, Britain had hoped to subdue France. Jean Monnet, working against de Gaulle, provides insight into the problem with his proposal for a merger of France into the British empire.

Concrete realities of British strategic policy led de Gaulle to keep them out of the European Community.

The sweeping contrast of Fourth Republic policies and those of de Gaulle could not have been greater. The Suez Canal expedition of 1956 demonstrated that France had become "a cock-boat in the wake of a British man of war." The repeated efforts towards supranational institutions had made France into a tertiary power, at best, fatally diseased by colonial wars.

De Gaulle and Rueff left Georges Pompidou an economy in full expansion, a strategic defense capability of real value and a development design. With minor changes, Pompidou pursued de Gaulle's policies and though, in a moment of hesitation, he relented on the question of British entry into the EC, he was the first to recognize at the end of his term (which was shortened by an early death) that he had been in error.

Valéry Giscard d'Estaing was elected in 1974 in a world situation characterized by aggravated monetary and strategic crisis. The crucial strategic decision taken in the early years of his term to launch a massive nuclear program protected the otherwise fragile French economy from the violent effects of the successive oil crises. Not a traditional Gaullist, Giscard in 1976, when faced with the incalculable strategic problems caused by the election of Jimmy Carter in the United States, made a thorough return to traditional Gaullist policies in foreign affairs. He and West German Chancellor Helmut Schmidt, both allies of the United States, saw in Carter a mutual danger, which enhanced Franco-German cooperation. The vastly aggravated international payments crisis after 1974 also led to the reintroduction of the debate of a gold monetary system which itself brought about the creation of the European Monetary System and the idea of the European Monetary Fund.

Consequences of Mitterrand's victory

With the defeat of Giscard d'Estaing France is, once again, becoming a tertiary power, a destabilizing rather than a stabilizing factor in world affairs. Liberation theology and colonial inspiration have replaced a design for development and stability.

Worst of all, continental Europe has been profoundly weakened by the anglophile penchants of the new regime, whose domestic instability matches the incoherence of its foreign policy. What policy does France have today toward the Soviet Union? No one really knows—perhaps the government itself doesn't know. France no longer has a war-avoidance policy, but rather a policy of disturbing the possibility of a feared new Yalta.

Ironically, the Mitterrand government, weakening France's world position and hence that of Europe as a whole, has made necessary what it fears most: a super-power understanding if peace is to be maintained in the 1980s.

The Socialist Party loses its mandate to govern

by Philip Golub

It is not uncommon in leading Parisian circles these days to compare the tense and increasingly violent political climate in the country to that of the chaotic last years of the Fourth Republic, or even to the period of sectarian violence which followed the liberation in 1945.

Undoubtedly, the left-right political conflict has sharpened to a degree that has surprised most observers, and France is more divided as a nation today than at any time since 1958, when escalating military crises in Algeria brought on endless domestic crises and a political paralysis which forced Charles de Gaulle out of political retirement and into executive power.

Terrorism has evoked images of an "Italianization" of France, repeated purges of the national police and security forces have left persisting bitterness among security forces and have polarized ministers within the government, all of which has led to intensifying interne-cine "police wars"; the French economy is facing its worst crisis in years, and the government is committing very grave errors of management, which, if pursued, may very well lead to economic collapse.

The most remarkable feature of the national crisis afflicting France is that the predicates of the crisis described above, all result, directly or indirectly, from the manifest incompetence of the new Socialist regime to rule in times of world crisis.

Unlike 1958, neither military crisis nor institutional paralysis resulting from British parliamentary forms are attributable causes of the rapid deterioration of political life and executive authority in France. In retrospect, it is a simple matter to locate how the combination of parliamentary paralysis, the collapse of executive authority, and various bloody and useless colonial enterprises of conquest killed the Fourth Republic. Today, the crisis has different institutional dimensions in spite of the fact that the principal actors in the government are all products of the anti-Gaullist Fourth Republic.

Francois Mitterrand was elected 12 months ago with a small though relatively comfortable majority. The presidential election was followed by the June 1981, legislative elections which crushed both the neo-Gaullist Rassemblement pour la Republique (RPR) and the Giscardian coalition, Union Democratique Française (UDF), giving the Socialist Party an absolute majority in

the newly voted National Assembly.

The image of absolute power was intoxicating, particularly to a class of ideologues who still view Marat, Danton, Robespierre, Saint Just, and other "radical" Jacobin leaders of the French Revolution as their spiritual forefathers. The intoxication lasted until this past March, which brought a stinging defeat of the government coalition in local elections. Throughout last summer, the leading representatives of the Socialist Party were, quite literally, calling for "heads to fall." The new president of the National Assembly and close friend of Mitterrand, Louis Mermaz, denied the rights of speech of the opposition in parliament, citing Saint Just to buttress his argument. Mitterrand himself repeatedly warned the country that a "radicalization" of the government would occur were the opposition to oppose him.

It is parenthetically useful to note that the continuing references to the mythology of the French Revolution served in the eyes of the Socialists to legitimize their policies. Yet the new rulers of France truly are heirs to the class of populist demagogues and agents of the House of Orléans which led the Club des Jacobins.

Threats were followed by action: the police were purged without regard to the consequences this would have on the security of the nation; the large banks and industrial enterprises were nationalized so as to concentrate economic power in the hands of the Socialist state; the heads of universities were deposed, etc.

Opposition sweeps local elections

Today, the real power of the Socialists is much less than their legal power, for although they control the state, they do not have unreserved popular support—quite the contrary. The local elections of March 1982 gave the new opposition more than 51 percent of the vote, and they were preceded by four legislative by-elections last January which were swept by the UDF and RPR.

A careful analysis of the presidential and legislative elections of May-June 1981 shows that the local elections results describe social and political trends more faithfully than the usual voting patterns of 1981:

1) All leading political observers, including the Socialists, now concur that the presidential victory of

Mitterrand was solely attributable to a massive and voluntary switch of RPR votes to Mitterrand. At the time of the elections, leading government officials informed *EIR* that over 1 million RPR or RPR-linked right-wing votes were "given" to Mitterrand by the Gaullists in an effort to defeat the incumbent President Giscard at all costs.

The Socialist Party's vote totals on the first round of the presidential elections on May 10 indicated a very slight progression of the party, but nothing more. The addition of Socialist, Communist, left-radical, and extreme-left-wing votes of the first round did not give Mitterrand the result he achieved on the second round.

2) The RPR, which calculated that while defeating Giscard it would be able to maintain a major presence in parliament, then collapsed. However, the demoralization of the traditional electorate of the ex-majority led to extraordinarily high rates of abstention of both UDF and RPR voters during the June legislative elections. Hence the overwhelming Socialist victory (the elections are not proportional votes where representation is proportionate to vote totals, but rather give a marked legislative surplus to the leading party. Thus the Socialists have over 50 percent of all seats in Parliament with only 30 percent of the vote).

The recent cantonal elections made obvious that those who had switched their vote on May 10 and then in June, switched back to the former Giscardian-majority in spite of the opposition's lack of cohesion and political program. The government, which has shown itself incapable of dealing simultaneously with labor, industry, police, and peasants, found itself nationally discredited. Since March, the government's real power has no relation to its legal power.

Mitterrand's incompetence to rule

One of the elder statesmen of the opposition and the founder with de Gaulle of the constitution of the Fifth Republic, Michel Debré, noted as much in an article in the Paris daily *Le Figaro*. Debré pointed out the distinction between "legality" and "historical legitimacy," the latter being a reference to de Gaulle's notion of the state as representing a nation-state rather than a collection of different interests. Declaring the Socialist government illegitimate, Debré characterized its incompetence to rule.

Since March the government has in its own way proven Debré's thesis: ministers have fought each other in the public arena over security policy, and while the Justice Minister, for example, frees arrested terrorists, the Interior Minister calls on police to "shoot to kill." Mass demonstrations of disgruntled citizens have been occurring: two months ago, the peasants' association demonstrated with over 80,000 people in Paris; two weeks ago 180,000 gathered in the Paris region alone to

protest government projects to close down private schools. A mass demonstration will occur May 15 of the French right-to-life organization against the government's family policy.

Prime Minister Mauroy has seen in this ebullition of opposition activity a threat of great significance and two weeks ago warned of a "general effort to destabilize the government." This counterattack does not diminish the sense that a crisis is looming. The violence of Socialist language and threats over the summer opened the way for equally violent retaliatory efforts. If the Socialist-Communist coalition loses the municipal elections upcoming in 1982, the door will be open for a general questioning of the "legitimacy" of the government. Even the *éminence grise* of the French left and mentor of Mitterrand, Pierre Mendes-France, has indicated his preoccupation over the incompetence of France's present leadership. Under such circumstances early general legislative elections would probably become necessary.

Circles in Paris are, however, speculating about another possibility, that of early presidential elections caused by an early demise or resignation of the President. Rumors abound about the president's state of health, since Mitterrand has shown signs of weakness recently. Whatever the truth of these insinuations, large parts of the opposition are calculating this as a factor.

Some hardliners in the RPR have spoken of a "looming civil war" (Charles Pasqua, chief of the RPR's senate group), others of civil conflict. Within the Socialist Party itself there is such confusion and factional strife, including among ministers, that one gets the sense of a scramble for power.

Prospects for economic instability

Ultimately the Socialists will be confronted with the harsh effects of the international economic crisis which they so long denied for partisan reasons when Giscard was in power. France's economy is extremely fragile and a major shock would throw it on its knees faster than that of Germany or other Western nations. To fulfill his promises Mitterrand has more than tripled the indebtedness of the state, and doubled external lending within a near-zero-growth context. The French economy's expansion is below 0.2 percent this year! Either a vast austerity will follow with inevitable social repercussions or France will experience a hyperinflation which will destroy the franc.

One year has largely sufficed to take away virtual power from the hands of those who have all power. Their mastery of reality and events in the world is almost nil. What will then emerge?

Only one thing is certain: the difficulties now afflicting the Mitterrand regime are only the first act of a broadening domestic struggle for power.

France once again becomes the 'sick man of Europe'

by Laurent Murawiec, European Economics Editor

France in the years of the Fourth Republic, 1945-58, was known as the "Sick Man of Europe," on grounds of the instability of its political system as well as of its chronically weak currency. Now that a Fourth Republic politician has assumed the powers vested unto presidents of the Fifth Republic by its founder, Charles de Gaulle, the France of Monsieur Mitterrand is making great strides toward a recovery of its former nickname.

The Banque de France is spending over 10 billion francs a month in market intervention to support the currency, and the foreign exchange reserves have dropped by nearly 20 percent in the 11 months since the Socialist sweep into power. Reserve losses reached nearly 12 billion francs—about \$2 billion—last March, and the hemorrhage is aggravated by the irrepressibly growing trade deficit.

The cover rate of foreign trade (exports divided by imports) has fallen to a permanent 80-85 percent, and the trade deficit reached 17 to 21 billion francs in the first quarter (according to different criteria). This, in a highly favorable environment where the price of oil and all other raw materials dropped substantially, and where French oil purchases dropped in volume by nearly 25 percent! France has in fact imported consumer goods with the monies liberally distributed by the Mitterrand government—an altruistic, but hardly efficient handling of a national recession.

Exports went up 7.6 percent in the first half of 1981, and went down by 2.9 percent in the second half. Imports were respectively down 0.8 percent and then up 5 percent. The gap widened throughout 1981 and is continuing. Exports stagnated. For the first quarter of 1982, the volume of large industrial export contracts dropped by 10 percent, a harbinger of lower output figures for the next few months. The current depressed state of exports is chiefly due to the growing deterioration of the ability of French products to compete because of their inflated prices.

The Mitterrand regime, admittedly, never counted

on export markets to be a locomotive. Domestic consumption, and the state administration's consumption of services, were entrusted with that task. Real disposable income of households dropped 0.7 percent in the third quarter of 1981, and gained 0.7 percent in the final quarter—at a time when the Socialist government was supposedly massively increasing purchasing power of the population to prime the economic pump!

Inflation has already canceled what nominal gains were granted. The lowest wage earners' purchasing power grew by 5 percent last year, but white-collar workers and professionals have suffered a sizable erosion of their income, which has now nipped off any chance, if there ever had been any, of a consumer-led recovery. Consumption is now shrinking.

Nor is investment likely to provide any relief. Social and fiscal costs for the corporate sector underwent a crushing 15-18 percent increase since the Socialist victory. Investment was up an insufficient 1 percent in the second half of 1981, and down 10 percent for the year as a whole. The national Statistical Institute (INSEE) reckons with a further 7 percent drop in 1982. Recent pro-investment measures announced by a panicked Prime Minister (including cheap credit for the corporate sector, a pause in the overburdening of corporations with new costs, backing off from legislation to bring down the work-week to 35 hours) will ameliorate, but by no means solve the problem. Profit margins and sales opportunities have been so eroded, future conditions are so uncertain, that investment remains essentially paralyzed. The state, which now controls 40 percent of potential investment through the wave of nationalizations, will push the newly-nationalized corporations to compensate for the lag in private sector investment—either at the cost of public finances, or through massive price rises. In either case, the strategy is counter-productive.

'Post-industrial' growth

Only one category of expenditure is growing, that of

the government bureaucracy. One hundred thousand unproductive jobs have already been created, and the administration is consuming vast amounts of unproductive services.

GDP was up a fairly ridiculous 0.2 percent for 1981 as a whole, for all the loud-trumpeted recovery financing done by the redistributionist doctrinaires in government. The INSEE index of industrial output shows how, after a short blip due to the massive pumping of cash into sectors of the economy, the inane Socialist policy has sent economic activity plummeting:

February 1981	130
November 1981	131
December 1981	133
January 1982	128
February 1982	127
	(1970 = 100)

The lack of a sustained recovery, or even of a *status quo ante* stagnation, has resulted in an increase of 300,000 in unemployment since May 1981. Over 10 percent of the wage-earning labor force is now unemployed. Of the 600,000 school-graduates who will hit the labor markets starting next June, not more than half will find a job. By October, unemployment will reach 2.3 to 2.4 million—a socially explosive level. Worse for the Socialists, the year-to-year increase in unemployment obstinately refuses to drop much below 20 percent.

No balanced budget

The state of public finances is one of the most worrisome aspects of the situation. The last Giscard-Barre budget called for a tiny 31 billion franc deficit. Estimates for 1982 are that it will hit 140 billion. The estimates for the 1983 budget, which will have to be presented by the government by September, call for a 200 billion franc deficit—a full 6 percent of gross domestic product—and unofficial forecasts circulated in Paris suggest that the final figure might be nearer 250 billion francs, or about 7.5 percent of GDP. The large “off-budget” deficit of the National Health Service, 13 billion francs, and of the National Unemployment Insurance Fund, estimated at 37 billion for 1982 and 1983 together, foretell more trouble.

In the first two months of the year, while budget expenditures grew by 27.6 percent, total state income only went up by 11 percent; monetary creation—commonly known as printing confetti money—has provided the remainder. More recently, when Monsieur Mitterrand started to be briefed by those of his advisers whose understanding of figures, if not of economics, is in some way related to realities, he stamped his foot on the ground, and issued orders for the deficit to remain under 3 percent of GDP—a Gallic imitation of King

Canute, one assumes. Inexorably, the Mitterrand regime is being led to a crossroads: either an explosion of costs, inflation, and currency devaluation, or a violent swing to brutal budget and wage austerity. In both cases, the French economy stands to lose. This is nonetheless the debate which opposes the “realist” wing of the Socialists (who militate for gradual de-industrialization and a shift to a “technetronic,” “telematique” society), and the lunatic wing of *sans-culotte* revolutionary levelers.

The overall result is of course inflation, due to the weakness of the franc (most currencies are hitting their historical highs against the French currency), to the level of nominal wage increases—15 percent annually, to the money-printing methods of budget-financing, to the new cost factors imposed on industrial prices, and to the absurd level of interest rates (admittedly none of the Socialists’ fault since the base rate in the pyramid of interest rates has stubbornly refused to move under 15 percent at any time in the last year). The rate of inflation had moderated in the last few months, down to 11 percent, but the latest figures for March indicate an end to this easing: the annualized rate of inflation is now 15.4 percent.

Mortgaging France

The trade deficit, the budget deficit, the inflation differential with major trade partners, the large-scale withdrawals of funds by international investors (France now loses 20 billion francs of reserves a month on trade account and market intervention), and the increasing recourse to large-scale foreign indebtedness (while the medium- to long-term purchasing power of the franc is dropping) will mortgage larger and larger parts of the national wealth. The central bank is losing reserves accumulated in the last two decades of productive expansion, and will probably soon start to mortgage the gold component of its reserves. Swiss banks have been attracting much of the flight capital so dearly paid by the national accounts in the form of currency depreciation—and they will, ironically, be able, at a later phase of the crisis, to buy the productive assets of the French economy at a greatly devalued price.

In 1789 and the few years of chaos that ensued as a year-long process of financial destabilization of France reached its climax, the Swiss-controlled Girondins, the shock troops of Marat and Danton, failed to push through the international, imperial dreams of their Geneva paymasters. The British financiers decided that France had to be destroyed, and the *sans-culottes* in their pay did the job quite effectively. France in the 1980s is faced with the same predicament under its present Socialist government. A mere few months’ time now stands between the French economy and the outbreak of an explosive crisis.

Interior Minister Defferre leads Mafia family warfare

by Christine Juarez, Paris Bureau

François Mitterrand's decision to nominate Gaston Defferre as France's Interior and Decentralization Minister sent chills down the spines of a majority of Frenchmen, including a good number of those who voted for the Socialist Party in the May 1981 elections. Most Frenchmen are persuaded that Gaston Defferre is one of the "untouchable" bosses of the "French Connection" drug ring uncovered by American anti-drug authorities in the early 1970s.

Defferre has done everything possible to live up to this public image, and through massive purges in the police, and a virtual shooting war against his Mafia opponents, Defferre has succeeded, at least temporarily, in installing his own mob in power.

In July, 1981, Defferre declared war against all competent police officers—those who had fought the French Connection drug runners and who had effectively secured France from the plague of international terrorism. In a series of interviews, Defferre accused the police of being infiltrated by right-wing fascist elements, and announced that all such elements would be purged. In the city of Marseilles alone, 2,618 police officials were transferred and redistributed throughout France. But the height of the witchhunt was reached when Defferre decided to shut up Marcel LeClerc, the head of the national criminal brigade, by "kicking him upstairs." LeClerc is perhaps France's most respected police official, and the man responsible for the successful fight against such top mobsters as Jacques Mesrine, the Zemmour gang, and the Guerinis, old friends of none other than Gaston Defferre.

The silencing of LeClerc led to a near revolt in many police headquarters. Francois Lemooul, the head of France's judiciary police and a fighter against the French Connection, resigned in solidarity with LeClerc. In spite of this backlash, Defferre followed his action against LeClerc by taking steps against the Paris head of the criminal brigade, Lucien Aimé Blanc, another respected policeman who also fought the drug mob.

Defferre against the SAC Mafia

At the same time he worked to dismantle France's law enforcement apparatus, Defferre launched a major

fight for control of the Mafia networks hegemonic under the former regime, networks generally associated with the Mafia elements in the neo-Gaullist RPR party and clustered around the Service d'Action Civique (SAC). Major casinos controlled by mobsters or personalities close to the former administration saw their operating permits suddenly canceled, and their managers thrown into prison for fraud. But it was not until early January of this year, when Defferre moved to cancel the operating permit of the large Paris casino known as the Cercle Haussman that he posed a serious challenge to the former Mafia leadership.

Marcel Francisci, the owner of the Cercle Haussman, was closely associated with RPR and SAC networks, and was considered to be one of the top ten most important casino "kings" in the world, and the "cappo di tutti cappi" in France. On Jan. 15, 1982, Francisci's body was found in the garage of his Paris residence. He had been murdered in classic Mafia style.

The Mafia war burst into public view during the recent cantonal elections in France, when, at a public electoral meeting in Marseilles, Defferre accused Charles Pasqua, Bernard Pons, and Jacques Chirac—respectively the Treasurer, Secretary General, and President of the RPR party—of having protected Francisci and his dirty money operations. Defferre went so far as to accuse the RPR officials of having profited from their alleged Mafia connections. Charles Pasqua responded by remarking that it was a "very strange" coincidence that Francisci was found murdered so soon after Interior Minister Defferre had closed down his casino.

War within the family

Underneath all the public accusations, one thing is clear: the French gang war is a fight within the family. Up until Mitterrand's election, all parties to the conflict were on the friendliest of terms. Defferre is merely attempting now to control a machine in which he was formerly only a partner.

Just days after the murder of Francisci, *EIR* learned from reliable sources that Francisci's main business partner in real estate dealings in Corsica was none other

than Jean Pozzo di Borgo, also known as the Socialist Party's man on the island. The same source reported that Gaston Defferre's closest associate in Corsica, one Bastien Lecia, is often seen with Pozzo di Borgo.

But these strange connections date back even farther. The key links between the SAC mafia and Defferre are through the top mobster family of Jean and Dominique Venturi. According to published FBI reports, and to other sources referred to by Alain Jaubert in his book "*D*" *comme drogue* ("*D*" *As In Drugs*), the Venturi brothers have been highly important operatives in the international drug trade for decades. In the years following World War II, Dominique Venturi collaborated with Francisci to organize the Mediterranean drug trade for Joe Renucci, a lieutenant of Lucky Luciano. Renucci's second-in-command, Gabriel Graziani, is known to have been in personal contact with top mobster Carmine Galante, a close collaborator of Joseph Bonnano and Lucky Luciano. Jean Venturi settled down in Canada, where he organized the receiving networks for the dope traffic into North America. Venturi functioned in Canada under cover of his position as official representative of the firm Pastis Ricard, directly under the supervision of SAC vice-president Charles Pasqua, then head of Pastis Ricard's overseas operations.

The Lucet affair

The Venturis were also good friends of Gaston Defferre. The Venturis became notorious for rendering services to Defferre when he was the Socialist Mayor of Marseilles, and this collaboration is ongoing, as was revealed during one of the major scandals to yet hit the Mitterrand administration: the Lucet affair.

In March 1982 Raymond Lucet, the head of the state-owned security company Bouches du Rhone based in Marseilles, was found dead in his villa, apparently a suicide. Investigations revealed that Lucet had used his position to conduct major financial warfare against certain Socialist Party factions centered around National Solidarity Minister Nicole Questiaux, Socialist Party First Secretary Michel Pezet, and the left trade unions CGT and CFDT. The issue of the fight was whether Mutuelle des Travailleurs, the social security company controlled by the factions above, or the RPR controlled Société Mutuelle des Bouches du Rhone, would receive a subcontract from Lucet's company. At stake were a few tens of millions of francs. Lucet, who was close to the RPR, decided to hand them the contract.

But there is more to the story. The Paris daily *Le Monde* revealed that Raymond Lucet had engaged in lucrative business ventures with a Marseilles firm by the name of Cooperative d'Enterprise Generale du Midi. Further investigations revealed that this company includes among its administrators Dominique Venturi.

Mitterrand's policy scorecard reviewed

by Garance Upham Phau

One year after taking office, François Mitterrand has been forced to slow, or outright cancel, the radical projects for reorganizing the French economy he put forth during the presidential campaign. The strong popular pressure that came into play to restrain the government is likely to intensify: in January, four by-elections were won by the opposition; in March, local cantonal elections produced a landslide for the opposition. On May 10 polls published by the Paris newspaper *Le Monde*, a pro-Socialist daily, showed Mitterrand commanding only 40 percent of the electorate, with a paltry 20 percent still supporting his economic program.

Popular disenchantment with the Socialist regime has led to friction between the government's ministers, who are forced to listen to constituents, and the ideologues of the Socialist Party, who want to carry out the original disruptive and actually fascist de-urbanization plans put forward during the campaign. Prime Minister Mauroy is being attacked by both the party ideologues and the free-enterprise business circles for being too lenient on labor. There is talk of his replacement by either Economics and Finance Minister Jacques Delors, or party Chief Lionel Jospin, who recently toured the United States in search of patronage. It is doubtful, however, that even should Delors or Jospin replace Mauroy either one would do better, for it is not good will that is restraining the Prime Minister from carrying out the full Socialist program, but an increasingly angry French population. A conference of so-called French experts, sponsored by the Maison Francaise club at New York City's Columbia University on April 28 and 29, was dominated by grumbling and growling on the failures of the Mitterrand regime to deliver on its electoral promises. Mitterrand's track record can be summarized as follows.

Industrial policy

Of all of Mitterrand's campaign trail promises, he has most fully implemented his pledge to nationalize all of France's major industrial and banking concerns. One of Mitterrand's first actions in office was to nationalize, with compensation from the tax-payers' pockets, virtually all of France's steel, electronics, and construction sectors, all of aluminum and chemical production, half of glass and computer production, and a good portion

of the pharmaceutical industry. But unlike the de Gaulle administration, which nationalized a number of French concerns following World War II, the Mitterrand administration has no industrial policy to speak of.

The London *Financial Times* pointed out May 9 that Mitterrand's economic policy was premised on the general "economic recovery" in the Western world predicted by the experts. That recovery, of course, has failed to materialize. In the midst of continued world economic downturn, the inflationary budgetary and social measures of the Socialist administration have left France with over 10 percent inflation and 2 million unemployed. Also a failure was Mitterrand's campaign to shut down nuclear power plant construction throughout France (see article, page 30). This was, no doubt, one of the major issues on the mind of French expert and Harvard Professor Stanley Hoffman, as he loudly complained at the recent Columbia University conference that Mitterrand's campaign to return France to a "pre-industrial, pastoral society" seems to have been set aside, in favor of "capitalism with a few reforms."

Decentralization

The Socialist promise for administrative decentralization of France was the cornerstone of Mitterrand's electoral program. Decentralization was to be a tool to break the strong institutions of de Gaulle's Fifth Republic, and deurbanize France, by abolishing the traditional prefect system and turning power over to competing regional entities. Today, however, the administration has come to doubt the virtues of decentralization, and some of the most radical aspects of the reform, such as proportional representation, are being junked. By giving control over major policy decisions to local and regional officials—even Socialist ones—the government handed its opposition a very strong means of expression. Reversal of Socialist policy on nuclear plant construction is a prime example.

Labor policy

Mitterrand has initiated the labor-sharing and youth-employment schemes he touted during his campaign, but these are little more than band-aides for the severe economic crisis, and are very similar to those applied by the former Prime Minister Raymond Barre. Unemployment continues to worsen from month to month, and business confidence is at a very low ebb.

The administration has yet to carry out the destructive anti-labor policies for which it was put into power by the French oligarchical interests. Complete labor-sharing would mean workers laboring for 40 hours to earn 35 hours pay, according to an official in the Mauroy cabinet. That official also mentioned the dismantling of the national health care system, one of the best in the Western world. Other Socialist proposals

emphasize the need to institute plant-by-plant bargaining.

Foreign policy

Mitterrand pledged to end his predecessor Valéry Giscard d'Estaing's ambitious foreign policy, which placed France in a partnership with West Germany to create a "superpower for peace" capable of exerting a stabilizing influence in the Third World, in East-West relations, and in key hot spots such as the Middle East.

That pledge Mitterrand carried out. Nowadays, French intervention in world affairs is of the British variety, for destabilization and looting purposes only. Anglophilic Foreign Minister Claude Cheysson, one of the authors of the Lomé Convention for raw materials looting of developing countries, has given complete support to British imperial aggressions in the Malvinas. Insiders say that in exchange Britain had promised to drop some of its opposition to French claims in negotiations concerning EC agricultural pricing and production policies. Although the British did not keep this promise, the French administration is hobnobbing with the British royal household more than ever. The Queen Mother was in France on May 10 to visit with Mitterrand, and as of early May, both Mitterrand and Mauroy are scheduled to visit the British Isles.

In fact, there are no major policy disagreements between the British imperialists and the French empire faction that put Mitterrand into power. There is a relationship that can best be described as a division of labor. As the British are busy in the South Atlantic, the Mitterrand regime is busy developing what may in the future prove useful contacts with the East bloc. Foreign Minister Cheysson was just in Bulgaria, and Mitterrand, who just received Cuba's number-two man Carlos Rafael Rodriguez, is about to go to Hungary. A well-informed source at the Council on Foreign Relations recently referred to more unreported contacts with the East bloc.

Only in the Middle East has the Mitterrand regime apparently pursued a policy independent of British objectives. On the campaign trail, Mitterrand pledged to restore good relations with Israel, and he traveled there following his election. However, both he and Cheysson have refused to endorse the Israeli extremists' plan to partition Lebanon, and are apparently continuing the policies of Giscardian ambassador to Lebanon Delamar, who was assassinated last fall with the complicity of Syrian terrorists. This has brought down further Syrian terrorist reprisals; the recent Paris bombing that injured 64 people was aimed at France as well as the pro-Iraq newspaper. The French also remain the only major Western supplier of arms to Iraq, still locked in the bloody conflict with the Islamic fundamentalist regime of the Ayatollah Khomeini.

Why the Socialists' nuclear shutdown failed

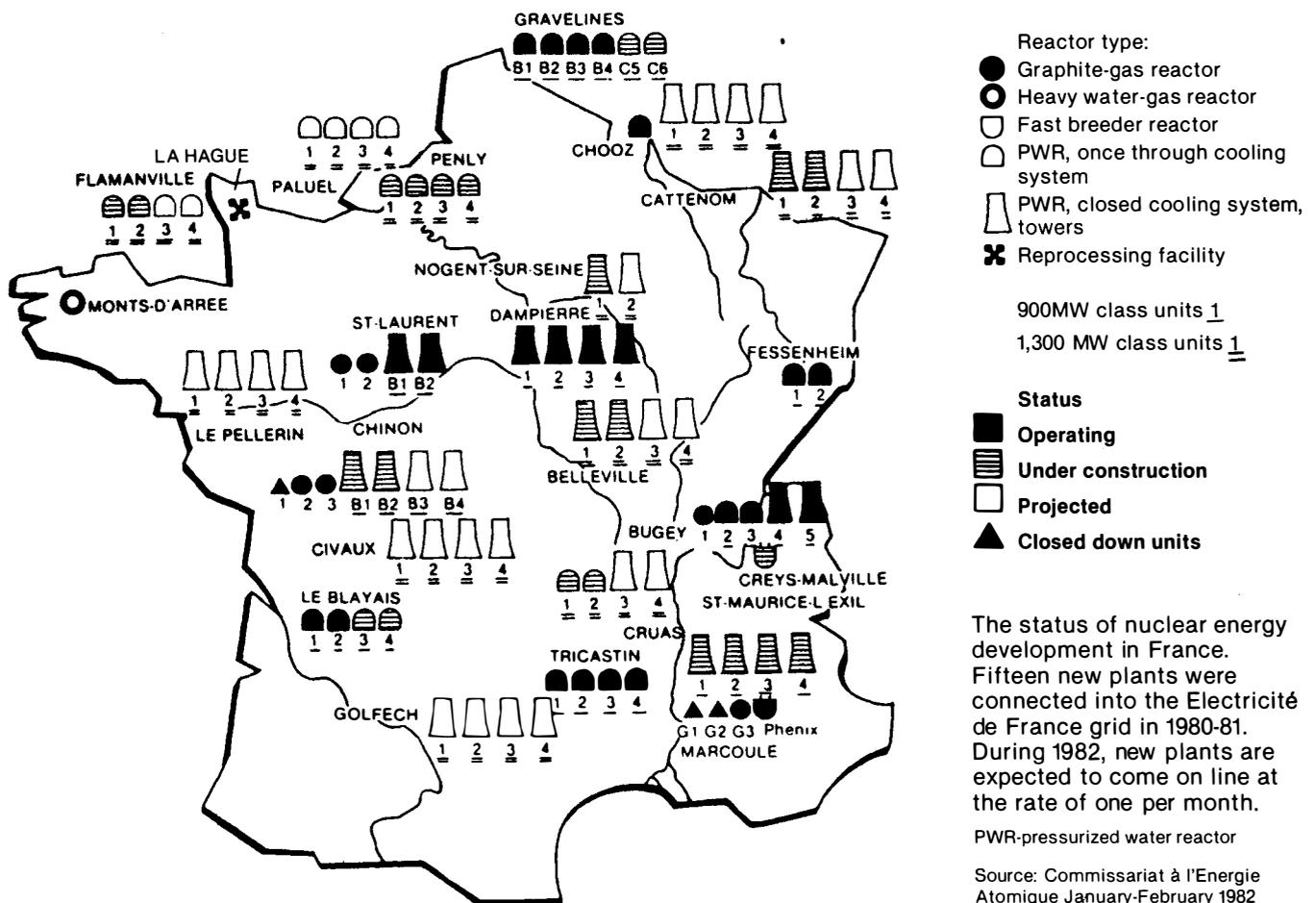
by Garance Upham Phau

With the election of François Mitterrand last May, the future looked bleak for the French nuclear program—the most ambitious of any Western nation—initiated in 1974 by the Pompidou administration and continued by the Giscard administration. Immediately upon his inauguration, Mitterrand announced the cancellation of a planned nuclear plant in Pogloff, Brittany, and a freeze on the construction of nuclear installations at five sites—Chooz, Cattenom, Civaux, Golfech, and Le Pellerin—each of which was targeted by the previous administration for completion during 1982 or 1983.

Little remains of the Socialists' original shutdown

plans. Popular pressure has forced Mitterrand to rescind all but the Pogloff cancellation; in fact, the government has given public assurances to the residents of Brittany that the plants at Le Pellerin shall be built to provide this underdeveloped region with abundant cheap energy.

In mid-October, the government energy program, submitted to the French National Assembly and ratified by that assembly, restored all construction cuts. The revised plan for nuclear plant construction during 1982 and 1983—known as the Plan 1990—does, however, slightly scale down the role of nuclear energy in the economy as a whole. It projects that by 1990 nuclear



energy will supply 26 to 28 percent of France's total energy needs, as compared to the 30 percent projection of the Giscard government. Total capacity has been scaled down to 56 gigawatts, from 60 gigawatts in the original plan. The percentage of electricity that is nuclear-supplied will remain the same, largely because the Mitterrand administration abandoned a Giscard-initiated project to shift national energy use more heavily into electricity by encouraging industry to convert from fossil fuels.

The October program also supported the construction of two additional reprocessing facilities at La Hague, giving the complex a capacity of 1,600 tons per year by 1990. The expansion of La Hague was upheld against all expectations, since the Socialists had campaigned against the reprocessing facility in the presidential drive.

Constituency pressure

What happened between Mitterrand's July freeze announcement and the October adoption of a national energy plan by the National Assembly? Essentially, the Mitterrand administration got caught in its own rhetoric about giving "power to the people." Referendums on nuclear plant construction were held in each concerned community, and in the majority of instances, the localities voted in favor of continued construction. In two instances where the local referendums returned a "no" vote, the anti-nuclear decision was overturned by vote of the regional council. The referendums, in fact, were used to organize large-scale mobilizations in favor of nuclear power, bringing together the Communist Party-run CGT trade union and opposition party officials in the effort. In many instances, even Socialist mayors and other Socialist Party elected representatives decided to listen to their constituents and buck the pressure from Paris for a freeze.

One product of this mobilization was the formation of the Committee to Save Cattenom, the four-plant nuclear complex planned for the Lorraine district near the city of Metz. Two of the Cattenom plants were already under construction when Mitterrand's freeze was announced, and after weeks of intense activity by the French affiliates of the Fusion Energy Foundation and local officials, the third reactor project has been voted up and there are excellent prospects that the fourth will also be constructed. Leaders of the Committee to Save Cattenom cite the recently-initiated publication of the pro-technology French magazine *Fusion* and the formation of the Franco-German Committee for Nuclear Energy—with the participation of West German European Labor Party leader Helga Zepp-LaRouche and French European Labor Party leader Jacques Cheminade—as key factors in the success of their efforts.



Jacques Cheminade

Where has the opposition gone?

France is faced with an ironical and dangerous situation: The population is fast turning against the Socialist government—as the March 14-21 cantonal elections which gave a landslide victory to opposition candidates demonstrated—but there is no leadership in that opposition which offers a coherent alternative economic and foreign policy program. Instead, the opposition has adopted the tactic of taking issue with every particular government decision, an attitude which reached the height of ridiculousness when associates of former President Giscard d'Estaing denounced Mitterrand for going through with a Soviet gas deal that Giscard himself had negotiated and signed.

But the most despicable act of opposition leaders came at the height of the Malvinas crisis in late April when each one acclaimed Great Britain's colonial war in the South Atlantic and brazenly competed with Mitterrand in a contest to jeopardize France's longstanding ties of friendship to Latin America and the rest of the developing sector by fawning over Margaret Thatcher.

For the time being, Jacques Chirac, the Mayor of Paris and a leader of the neo-Gaullist RPR party, is best situated to take the leadership of the opposition. Chirac is a man who will sell his shirt and his soul to whoever can get him into the Elysée palace. If that were to be the

Russians, this rooster would paint his feathers red without hesitation.

In the immediate weeks ahead, Chirac's bid for reelection to the Paris office will be challenged by a relative newcomer on the French political scene. This newcomer, whose influence far outweighs the attention he receives from the national press and media, is Jacques Cheminade, secretary-general of the European Labor Party (POE) in France.

An associate of the American political leader Lyndon H. LaRouche, Jr., Cheminade is positioning himself as the new de Gaulle for the period of crisis now facing France, the leader who stands above the squabbles of petty politicians. The comparison to de Gaulle is readily understood in France, where people vividly remember the general's bid to restore France to its world leadership role, following the disasters of Vichy and the Fourth Republic.

Cheminade, a former candidate for the French presidency and a veteran of the French diplomatic corps, has released two statements strongly condemning French opposition leaders for their failure to provide guidance to the nation on the issue of the Malvinas crisis. Excerpts from both statements follow.

As the first English bombs drop on the Malvinas, there has yet to be one single French leader to condemn the colonial expedition of Mrs. Thatcher. Our submission has encouraged military aggression against Third World countries, and furthermore delivers Latin America to Soviet influences. The Socialist government has re-established an "Entente cordiale" with the monetarist extreme rightist clique of the City of London, and the Opposition follows in its footsteps. I am ashamed of its blindness and pettiness.

How shocking it is to see this bidding in favor of policies leading the world to war! How can [the Paris daily] *le Figaro* write that "British law is our law, whatever might happen"? How can a whole class of politicians be struck with moral idiocy?

Without dealing with the obvious case of old imperial hands hobnobbing with London, I have sought a response from the politicians worthy of esteem who are my allies in the Opposition. All have failed in the decisive moment, because they have degraded themselves in permitting the political debate to be reduced to dogmas, to tags, and sectoral demands. Having lost within France itself the understanding of the policies necessary for the salvation of the Nation-State, how could they possibly now understand a more elevated challenge, that of world peace?

Since May 10 the strategy of the Opposition leaders has been, effectively, to pour oil on the fire of all sectoral demands: those of the white collar workers, truckers, doctors, peasants, and small- and medium-size business-

es. Many of these demands are of course justified in the face of a Socialist policy which has married indecisiveness and incompetence. But to pretend to build an opposition by adding them up leads to a Poujadism which the laws of the Republic deeply oppose. [Poujade was a famed 1950s leader of the petit bourgeoisie, and the term "poujadiste" has come to mean any anarchistic, violent, me-first, interest group activism—ed.] To "Socialism" encouraging the self-expression of all the socio-professional categories and playing one against the other, the Opposition only counterposes "liberal" or "neo-liberal" projects which would accentuate the economic crisis and the disintegration of the institutions, as the experience of the Reagan administration demonstrates. The circle around [former President] Giscard d'Estaing and [Paris Mayor Jacques] Chirac thinks nonetheless that it will be electorally rewarding to counterpose these projects to Socialism, no doubt without realizing the consequences of their actions.

Over the past several weeks, the prospect of a vacuum of power has aggravated everyone's cynical agitation: each is trying to position himself for the future, none is proposing a viable program. [Interior Minister] Defferre and [Justice Minister] Badinter are jumping at each others' throat; [National Assembly RPR group chief] Labbé demands the departure of the President of the Republic; [Socialist Party head] Joxe attacked [Prime Minister] Mauroy. Through all this, the mind of M. Mitterrand seems lost in some imperial and mystical cloud.

Such pettiness would be simply ridiculous in times of peace, but we today live amid an unprecedented economic crisis, and under threat of terrorism in France and war in the world.

Under these conditions, a Grand Design program of government is necessary. The Malvinas affair proves that the Opposition, as constituted today, cannot offer it. The Opposition seeks to exploit outside initiatives, and is incapable of acting as catalyst, thus it bows to London.

What makes the role of my party, the European Labor Party, so important for the future? The European Labor Party is positioned, with its program for peace through technological growth, to be the pole of reference of a new Republican opposition, which can bring together, above partisan labels, all of the nation's anti-Malthusian forces. . . .

In the name of this Republican project, the POE demands immediately the expulsion of Great Britain from the EC and NATO. A member of NATO must no longer be able to engage others in a colonial adventure outside the sector of intervention of the Atlantic Alliance. . . . Great Britain no longer belongs "in the family" of Republican nations. She has put herself on her own outside of any Community based on that principle. Law must ratify her expulsion.

Upon the occasion of the first anniversary of the Socialist administration of François Mitterrand, May 10, Jacques Cheminade put out a statement calling upon the French to recover the former greatness of their nation as indispensable to world peace and progress:

One year after the defeat of former President Valéry Giscard d'Estaing the situation in France, in Europe, and in the world has been greatly destabilized. With the imperial expedition of Great Britain in the Malvinas and Israeli strikes against Lebanon, we are on the brink of World War III and still no voice is heard in Europe to face the danger. France acts as the faithful ally of Margaret Thatcher replaying the Suez scenario. . . . The government is doing what I had warned it would do, but the Opposition—the former majority of alleged Gaullists and Giscardians—fight over small issues, thus feeding the corporatist environment and providing no sense of national design on matters of foreign policy and economic program. France is obsessed with its belly button amidst a world going to ashes. . . . Justice Minister Badinter and Interior Minister Defferre have, if with different style, left the nation stripped of its weapons against the terrorism disease. In the meantime the gold and foreign currency reserves of the nation have been plundered by Anglo-American and Swiss financial interests too happy to cash in on their support for Mitterrand. . . . Unem-

ployment increases, the French franc has lost 20 percent of its value against the dollar and the budget deficit has grown from a planned 31 billion francs (6 billion dollars) to 81 billion francs in 1981, 100 in 1982, and 200 billion expected in 1983. The index of industrial production has fallen in all sectors for two months straight.

Afraid of its own misdeed, the government is now calling for a drastic austerity policy and decrease in wages to be replaced with "quality of life" gimmicks. . . . Confronted with such a challenge the Gaullists and Giscardians opposition leaders have learned but little. Chirac proclaims himself the heir of Reaganomics at a time when it has been a proven failure in the United States, Giscard d'Estaing lets his advisers call for a 'new liberalism' Based on the aggregation of individual wills . . . Chirac and Giscard have made no declarations against the British threats in the Malvinas and their lieutenants have highly praised Britain. Under those circumstances, I am committed to bring back reason—the policies of reason—to my fellow citizens. My party the POE is the pole of reference for all anti-Malthusian forces committed to reestablish economic growth and cultural morality. I am proposing a four-point program, similar to that of Lyndon LaRouche's National Democratic Policy Committee in the United States, and in coordination with him will educate my fellow citizens. . . ."

EIR

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NATO backs the British Empire military doctrine

by Susan Welsh

Strategic planners in London and their junior partners in Washington are looking ahead to the next phase of the broader global operation they have set in motion with the Malvinas crisis: the transformation of NATO into an instrument for a British Empire "recolonization" policy in the developing sector.

NATO's Nuclear Planning Group of Defense Ministers gave the go-ahead to such a radical reorganization in the communiqué released from its May 7 meeting. Effectively scrapping the North Atlantic Treaty that has governed military relations in the Western industrialized world since 1949, the ministers agreed for the first time to work together "to facilitate out-of-area deployments in support of the vital interests of all." NATO's area of operation is limited by law to Europe and the North Atlantic. Britain and the United States have been trying for years to get other NATO allies, particularly West Germany, to accept such an extension of NATO, either formally or informally.

"We have been urging this for a long time. NATO has now adopted the British Empire military doctrine," said Sir Anthony Kirshaw, foreign policy adviser to Britain's Tory Party, in an interview with *EIR*. An American strategist linked to Henry Kissinger stressed in another interview that the British deployment to the South Atlantic, combined with the NATO communiqué, have created "the basis for action beyond the NATO area. . . . We are on the verge of a much broader understanding of alliance interests and burden sharing. . . . The role the United States must have played in the communiqué's drafting means we are looking toward

NATO's role in other areas like the Persian Gulf and the Indian Ocean."

Where NATO's treaty defines it as a *defensive* organization limited to such military programs as are necessary to protect European and the North Atlantic from enemy attack, the "British Empire" doctrine is aimed toward *offensive* "rapid deployment force" capabilities worldwide. By endorsing this concept, the United States and Western European NATO members are underwriting the gunboat diplomacy which made the British monarchy one of the most hated institutions in world history. NATO forces are now given free rein to deploy out of area to "face down the Soviets," to enforce debt collection in impoverished "Third World" nations, and to bleed those countries in the "population wars" dreamed up by radical Malthusian strategic planners for the purpose of creating mass slaughter.

Winston Churchill III, in an interview with the West German magazine *Der Spiegel* dated May 10, described the way the Falkland/Malvinas Islands could become the centerpoint for a new geopolitical geometry. Churchill, grandson of the World War II British Prime Minister, is a defense-policy spokesman for the British Conservative Party who has advocated bombing air bases on the Argentine mainland.

"Don't forget the strategic position of the Falkland Islands!" he told *Der Spiegel*. "Should the Soviet Union attack the West one day, the Panama and Suez canals would certainly be blocked off. Then all the trade of Japan, Western Europe, and the U.S.A.—particularly oil supplies from the Middle East—would have to be trans-

ported around Cape Horn or the Cape of Good Hope, near the Antarctic and near the Falkland Islands. It is conceivable that an English-American base should therefore be constructed, to prevent the Soviets from gaining an advantage. A South Atlantic Pact is also conceivable, which would include countries like Chile, Argentina, Australia, New Zealand, and even South Africa."

A representative of Britain's semi-official Foreign Affairs Research Institute told *EIR* that the main point of the Falkland Islands adventure and British support for the extension of NATO into the Southern Hemisphere is that "Britain wants to become a great maritime power again, as it was in the heydays of the Empire." This will necessitate stripping down the British Army on the Rhine (the British troops assigned to continental Europe) for redeployment of troops to areas like the Persian Gulf, he said. He and his colleagues anticipate an early British role in quelling outbreaks in Yemen and in "mediating" NATO efforts to set up a new "security arrangement" with the six-nation Gulf Cooperation Council (see article, page 39).

An Italian foreign-affairs analyst told *EIR* that the reorganization of NATO is already far advanced, and goes beyond anything his country's parliament has been told. Defense of Europe against the Soviet Union is no longer NATO's primary aim, he reported; rather the Eastern Mediterranean, the Arab countries, the Persian Gulf and other parts of the Third World will emerge as the chief areas of activity for NATO's southern flank and Italy.

How far will the U.S. go?

The strategic prize the British are seeking is not the recapture of the Malvinas Islands but the recapture of the United States as effectively the strategic cornerstone of British colonialism. Britain cannot invade the Malvinas without U.S. assistance, particularly as the downing of the H.M.S. *Sheffield* knocked out at least one-third of British electronic surveillance and warfare capabilities, British military experts report.

The Economist of London stresses in its current issue's editorial that "the first of this week's real diplomatic issues is how far the United States, after having tilted towards Britain too late to give itself quite enough leverage on either side, will now go to prevent a NATO ally from suffering naval or diplomatic reverse. It will give the fleet assistance in resupply, quite a help were the fleet to be stuck in the South Atlantic for months. But say, for instance, Britain were to lose either of its two aircraft carriers, an essential troop carrier or equipment ship. The British fleet would then be ineffective. Little force would be left to back diplomacy. Would America conceivably fill such a naval gap?"

U.S. intelligence sources claim that the U.S. armed forces already have sealed orders that if a British

invasion is repelled or the British are otherwise badly hurt, the United States will step in militarily. A U.S. commitment of troops would still require presidential and congressional approval, however, and is not yet assured.

The two top British agents of influence in Washington working to make sure the United States does intervene are Alexander Haig and Henry Kissinger, the same "inside team" that worked to "Watergate" President Nixon in order to remove any economic content from détente, prepare the Mideast oil hoax, and discredit the institution of the presidency. Haig, in testimony before the Senate Foreign Relations Committee May 10, refused to say whether Great Britain is carrying nuclear weapons aboard any of its vessels in the South Atlantic. Jesse Helms (R-N.C.), the only Senator who voted against U.S. support for Britain, asked Haig whether he did not think it an important question; Haig replied: "I think it's very important that it not be aired publicly," and refused to say more.

The same day, Haig joined the British in pressuring Western Europe to extend economic sanctions against Argentina past their May 17 expiration date. "In the present delicate situation," Haig said, the Europeans should immediately announce the renewal of the trade ban.

Former Secretary of State Henry Kissinger, resuming his role as "shuttle diplomat," and met with Margaret Thatcher in London the first week in May. In a major address before the Royal Institute of International Affairs (RIIA) May 10, Kissinger elaborated his undying allegiance to a "special relationship" with Britain, boasting about the fact that when he was Secretary of State, Britain largely made policy for the United States.

British miscalculations

The British gameplan cannot work, since the world—even in Washington—does not operate as London strategists believe it does. Latin American countries, far from lining up to join the kind of new treaty organization Winston Churchill III et al. foresee, are breaking away from London and Washington en masse. A British invasion of the Malvinas or bombing of the mainland will result in direct military involvement on the side of Argentina from at least a half-dozen Latin American countries.

The most profound British miscalculation, however, involves the Soviet Union. Churchill and others are quite convinced that the Soviets will do nothing. But Moscow will not sit by and watch NATO become a mechanism for intervention around the globe; it will respond in its own time and in the manner of its own choosing. The likely outcome, if British gains are not reversed, is World War III.



DOCUMENTATION

Kissinger reveals his 'special relationship'

Henry Kissinger, speaking May 10 before Britain's Royal Institute of International Affairs (RIIA), set forth the scope and the secrecy of the post-World War II Anglo-American "special relationship," and cited his own career as exemplary of British control over American policy making.

EIR will reprint next week the former Secretary of State's extraordinary remarks from the text provided by Georgetown University's Center for Strategic and International Studies, Kissinger's current base. The speech to the RIIA was made during a two-week tour of Europe, during which Alexander Haig's mentor sought to shape a climate of opinion for turning the June summit meetings of Western heads of government into forums for consolidation of a British-dominated supranational system.

Excerpts follow from the RIIA speech, which is titled, "Reflections on a Partnership: British and American Attitudes to Postwar Foreign Policy." Emphasis and subtitle are in the original.

. . . Fortunately, Britain had a decisive influence over America's rapid awakening to maturity in the years following [World War II]. . . Britain has rarely proclaimed moral absolutes or rested her faith in the ultimate efficacy of technology, despite her achievements in this field. Philosophically, she remains Hobbesian: She expects the worst and is rarely disappointed. In moral matters Britain has traditionally practiced a convenient form of ethical egoism, believing that what was good for Britain was best for the rest. . . . But she has always practiced it with an innate moderation and civilized humaneness such that her presumption was frequently justified. In the 19th century, British policy was a—perhaps *the*—principal factor in a European system that kept the peace for 99 years without a major war.

American foreign policy is the product of a very different tradition. . . . Franklin Roosevelt, on his return from the Crimean Conference in 1945, told the Congress of his hope that the postwar era would "spell the end of the system of unilateral action, the exclusive alliances, the spheres of influence, the balance of power, and all the other expedients that have been tried for centuries—and have always failed." . . . American attitudes until quite literally the recent decades have embodied a faith that historical experience can be transcended, that problems can be solved permanently. . . . It was therefore a rude awakening when in the 1960s and 70s the United States became conscious of the limits of even *its* resources. . . .

The Nature of the Special Relationship

. . . During the 1920s the U.S. Navy Department still maintained a "Red Plan" to deal with the contingency of conflict with the British fleet. It was not until the war with Hitler that the gap closed permanently. . . . The Marshall Plan and North Atlantic Treaty, while formally American initiatives, were inconceivable without British advice and British efforts. . . . [Prime Minister Ernest] Bevin shrewdly calculated that Britain was not powerful enough to influence American policy by conventional methods of pressure or balancing of risks. But by discreet advice, the wisdom of experience, and the presupposition of common aims, she could make herself indispensable, so that American leaders no longer thought of consultations with London as a special favor but as an inherent component of our own decision-making. . . .

Our postwar diplomatic history is littered with Anglo-American "arrangements" and "understanding," sometimes on crucial issues, never put into formal documents. . . .

The British were so matter-of-factly helpful that they became a participant in internal American deliberations to a degree probably never before practiced between sovereign nations. In my period in office, the British played a seminal part in certain American bilateral negotiations with the Soviet Union—indeed, they helped draft the key document. In my White House incarnation then [as National Security Adviser], I kept the British Foreign Office better informed and more closely engaged than I did the American State Department—a practice which, with all affection for things British, I would not recommend be made permanent. But it was symptomatic. . . . In my negotiations over Rhodesia [in 1976] I worked from a British draft with British spelling even when I did not fully grasp the distinction between a working paper and a Cabinet-approved document. The practice of collaboration thrives to our day, with occasional ups and downs but even in the recent Falkland crisis, an inevitable return to the main theme of the relationship. . . .

Haig loses the U.S. a traditional ally

by Mark Sonnenblick

The Reagan administration's overt support for Britain's economic and military warfare against Argentina has cost the United States the loss of one of its stronger allies in South America: Brazil.

That message was conveyed to President Ronald Reagan by visiting Brazilian President João Figueiredo during their two-hour meeting in Washington on May 12, according to Rio de Janeiro's *O Globo*. General Figueiredo's visit had been arranged to patch up the smoldering resentments between the two countries ignited by Jimmy Carter's 1977 crusade against Brazil's nuclear energy program and so-called human rights policies. "If the Carter administration began the deterioration of U.S.-Brazilian military relations, the Reagan administration has accelerated it," concluded the Rio daily *Jornal do Brasil*, May 9.

This belies the State Department's assurances that Brazil's lack of enthusiasm for Argentina's seizure of the Malvinas meant Washington could support the British without harming our relations with Brazil.

For most of the past 80 years, Brazil has been "automatically aligned" with the United States—for better or for worse. In 1902, the Morgan banking family and other British holders of Brazil's debt arranged for the "special relationship" Brazil had had with London to be transferred to Teddy Roosevelt's Washington. President Figueiredo fought with the heroic Brazilian Expeditionary Force which took Monte Cassino in Italy during World War II, while the Brazilian and U.S. navies jointly secured the South Atlantic trade routes. "We Brazilians pulled President Lyndon Johnson's chestnuts out of the fire," a Brazilian commander of the Inter-American Peace Force, which took the brunt of the ill-advised 1965 Santo Domingo invasion, confided in a recent interview.

If the Brazilians were annoyed by Carter's antics in 1977, they now feel betrayed by what Secretary of State Alexander Haig has done in the service of England. "The United States must no longer be seen as our traditional ally," *Jornal* quotes an army officer, "since instead of taking a neutral position in this specific case [the Malvinas crisis], the United States showed the Latin American countries that its alliance with NATO is stronger and more important to it than that of TIAR," the Inter-

American Reciprocal Assistance Treaty, or Rio Treaty, which pledges all American republics to defend the Americas from outside aggression.

No more automatic alignment

No one has expressed Brazil's anger over the U.S. "treason" toward hemispheric defense obligations more starkly than the chief of the air force, Brigadier Délio Jardim de Mattos. In his "Orders of the Day" to the troops on the May 8 anniversary of the allied victory over Nazism in Europe, Jardim de Mattos alluded to Haig's shredding of TIAR, other treaty commitments, and the principles of the Monroe Doctrine. He denounced "'automatic alignments,' which are as insecure and deceiving as the times have shown us; . . . history teaches us that the expression 'traditional allies' is a mere rhetorical figure." (See page 38.)

What makes the air force chief's analysis particularly striking is that he is a leader of the pro-American tendency within the Brazilian military which has historically argued that Brazil's military, economic, and political interests could best be served through close harmony with the United States. President Figueiredo shares that pro-American orientation.

Jardim drew the logical conclusion from Haig's acts, which is that staunchly pro-Western Brazil could no longer count on its "traditional ally" to defend it from hostile powers among the developed Western countries. Therefore, he told *Jornal do Brasil* May 9, Brazil was reformulating its entire national defense strategy, to prepare to defend itself without U.S. support. The navy is demanding \$15 billion over 10 years for long-delayed modernization. This newly-credible requirement wreaks havoc with Brazil's already austere spending plans.

The State Department crassly tried to take advantage of the problem it had created by sending Deputy Defense Secretary Frank Carlucci down to Brazil April 26 on what one American expert called "a fool's errand." Carlucci offered Brazil the \$300 million financing needed to build a naval air station on Trinidad Island to guard Brazil's major trade routes. In return, Carlucci begged Brazil to take over the surrogate role in Central American counterinsurgency the Argentines had played for an ungrateful Washington. A prominent member of the Brazilian military elite informed *EIR*: "Not for \$300 million, nor for any price will we get involved in Central America. Carlucci was told so." The Brazil-U.S. military aid agreement Brazil abrogated in 1977 will not be restored.

A leading member of the Brazilian Army High Command lamented to *EIR* Latin America Editor Dennis Small during a late April meeting in Brasilia, "We have been trying to get the message through to the United States that we want to be your allies, but you act like you don't care. No one is listening."

A Brazilian comment on the Malvinas crisis

In an April 27 repartée with the press, Brazil's Air Force Minister, Brigadier Délio Jardim de Mattos answered a question on if the South Atlantic situation required Brazil to reinforce its military power by retorting, "A country can only be militarily rich when it is economically strong. We have always thought we should be powerful, but we are sacrificing ourselves to have the maximum of development with the minimum of security."

In the following "Orders of the Day" on the anniversary of V-E Day, Jardim de Mattos responded to General Haig's abandonment of hemispheric defense commitments. It was read to all the troops and printed in Folha de São Paulo May 8:

Comte de Chambrun rejects Anglo-American arguments

The following letter was sent May 6 by Comte Charles de Chambrun to a prominent American political figure. Comte de Chambrun is a descendent of the Marquis de Lafayette and a former minister of Charles de Gaulle. The letter was made available for publication in EIR.

Dear Sir:

Looking from France, and as a man who knows Latin America very well, as you do yourself, I would say that this Falkland business is a dramatic one for the American continents.

I think we should go back to President Monroe's invitation to my ancestor Lafayette to tour the United States. The obvious reason at that time was to help John Quincy Adams's election to the presidency. The real reason was Monroe's desire to have a president after him who was capable of enforcing the realities of the Monroe Doctrine against British imperialism.

This, by the way, helped the wars of liberation of

More important than the seriousness of the text of a treaty is the seriousness of the men who sign it; true alliances are forged in reciprocity of interests, common threats, shared risks, and similar concrete problems. History teaches us that the expression "traditional allies" is a mere rhetorical figure, capable of enchanting conference tables, but lacking any practical significance, especially when in reference to nations from different worlds.

Except in very special cases, alliances require equilibrium of economic or political power between the parties, since otherwise they would be nothing more than "automatic alignments," insecure and deceptive as the times have told us.

Today we commemorate with the pride of a participant, the day of Allied victory over Nazi fascism.

Though not wanting to deny the importance of that victory, the mark of a worldwide struggle against oppression and tyranny, I find myself frustrated in seeing how distant we are from the peace we fought to win, and not merely to live. What has changed is merely the combat fronts, the forms of pressure, the commitments and the motivations; but egoism, insensitivity, lack of trust, treason, and fear are still the sad realities of this end of the century. . . . That good sense will prevail is our hope.

General Bolivar, who was Lafayette's friend, and is written history to all Spanish-speaking countries of the South American continent. This is why, even though there has obviously been economic over-exploitation in the past of South America by North American interests, the sentiment prevailed of American solidarity and fraternity, in a way as a rival to European and especially British imperialism.

We all know that imperialism never dies. Look at Russia, look at the recent headlines in the English newspapers, look at French reverence for Napoleon. I think it is folly, whatever strategic or other reasons may exist, for America to take sides in the name of Anglo-Saxon solidarity. This is an English concept, but in no way should be American.

Russia is going to exploit this blunder to the hilt. Maybe today will mark the real start of the third world war, fought in a different way probably, but very destructive to our way of life.

Spain will not get into NATO now; at this stage the Russian aim in encouraging [Argentine President] Galtieri's move is crowned with success. For the time being they are still taken aback by the opportunities handed to them, which they had obviously not foreseen.

I do not know how Washington can reestablish its position in the Spanish-speaking countries, but it should try to quickly mend fences.

My best,

Charles, le Comte de Chambrun

Persian Gulf a prime target for a restructured NATO

by Judith Wyer

The May 7 NATO communiqué, in its call for out-of-area deployments by members of the alliance, designated Southwest Asia (the Persian Gulf-Indian Ocean region) as NATO's number-one target. Since 1978, Britain, the mastermind of the plan, and the Carter administration began to lay the ground for this policy with the creation of the Rapid Deployment Force.

Today Secretary of State Alexander Haig is the point man inside the Reagan administration for the same policy, which he promoted in his former capacity as Supreme Allied Commander-Europe of NATO. The installation of Ayatollah Khomeini during the early months of 1979 was integral to creating the pretext for the NATO move into the region.

Now, London and its allies within the State Department and the Pentagon are providing support—including unlimited arms—to Iran, to ensure what they call a “perceived victory by Ayatollah Khomeini over Iraq” in the 20-month-old Gulf war. According to the Anglo-American calculation, an Iraqi defeat will pave the way for upheavals in the Gulf region, upheavals which will justify NATO intervention and permanent military bases under the pretext of protecting oil flows.

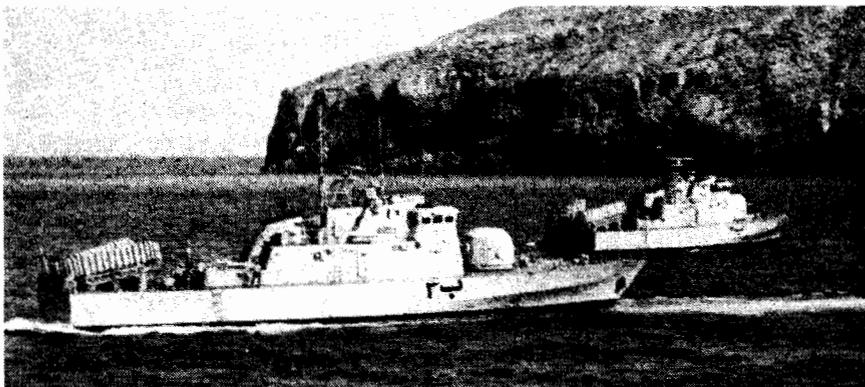
Behind the crisis slated for Southwest Asia is London's drive to recolonize the so-called East of Suez region, using the U.S. military as its colonial gendarme, just as Britain aims to do in the Falkland Islands. An

Egyptian military attaché in Europe told *EIR* bluntly that Britain “wants not only to recolonize the Falklands, but also the Mideast . . . they want to go back into the Persian Gulf and send their armies and navies there as they did in the days of the British Empire.” The source concluded that Britain's design “is based on the worst possible hypocrisy, since they cry about self-determination for the Falklanders but reject it for the Palestinians.”

The stakes in the Gulf war

Iraq, the only Arab Gulf state with a strong military, has been at war with Khomeini's dictatorship to defend not only its borders from Khomeini's drive to export the revolution, but the sovereignty of Iraq's defenseless Gulf neighbors.

According to State Department and Pentagon estimates, to achieve a “perceived” defeat of Saddam Hussein by Iran, an Iranian invasion of Iraq may not be necessary. Forcing Iraq to accept terms of a peace agreement based on the “principles of Islam” for which the fascist Khomeini regime stands would be sufficient. London sources say that the new mediator in the war, Taleb Ibrahimi, who replaced the Algerian Foreign Minister Mohammed ben Yahia who died when his plane was shot down en route to Iran to negotiate a truce at the beginning of May, is thought to be closer to Khomeini's outlook. Ibrahimi is a member of the



Patrol boats from Oman's navy police the Strait of Hormuz.



After an Iranian bombing attack on Baghdad.

NATO-created Club of Rome, which has been active through European-Islamic front groups like Islam and the West in promoting an Islamic fundamentalist bloc to replace the national sovereignty of the states of the Muslim world.

London and its allies in the United States estimate that once the fiercely nationalistic regime of Iraqi President Saddam Hussein is eliminated, the war will be clear for a new level of manufactured crises, including a new eruption of a conflict involving North and South Yemen and Oman, along with Islamic uprisings in the tiny Gulf emirates of Bahrain and Kuwait. Once such crises jeopardize oil flows, the Anglo-American Rapid Deployment Force (RDF), will move into pre-designated bases as an arm of NATO and take control of vital sea lanes through the Red Sea and the Gulf, the choke points for world oil flows.

Britain, the United States, and Israel have maintained secret supply lines of sophisticated arms and spare parts to Iran since the beginning of the war.

Since Iran began a new offensive against Iraq on April 30, it has employed ultra-sophisticated equipment for the first time, including Cobra helicopter gunships which had been grounded due to lack of spare parts. Using arms which had been supplied by the United States to the Shah's regime, Khomeini is now on the verge of defeating Iraq and setting the entire Gulf on fire with NATO's blessings.

Secret Camp David clause

Secret clauses in the 1978 Camp David agreement not only provide for future NATO presence in the Gulf, but also anticipate the consolidation of a regionwide military pact, known as the Mideast Treaty Organiza-

tion (METO), as an adjunct of NATO. The Gulf Cooperation Council (GCC) is in turn to be the seed crystal for METO. According to one State Department official, Islam will provide the ideological basis for such a regionwide alliance in order to supersede the sovereignty of the member states.

The most aggressive advocate of linking the two-year-old GCC, a loose military alliance of Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman to NATO, is the backward Sultanate of Oman—whose meager military is under the command of crack British Special Air Services (SAS) commandos. Oman is thought to be a key party to ongoing secret talks between NATO and the GCC.

Since the days of John Foster Dulles, the first to attempt NATO control over Southwest Asia were Henry Kissinger and his utopian cohort, James Schlesinger, who initiated the build-up of the military arsenal and Rapid Deployment Force depot on Diego Garcia, an island located 1,000 miles south of India in the Indian Ocean shortly after the 1973 war between Israel and the Arabs.

The architects of the scheme are to be found in London after Britain's defeat in the 1956 Suez crisis. The quondam British Defense Minister, Duncan Sandys, developed a doctrine later tested by the British Royal Marines in the 1960s in Kuwait and the Yemens: a mobile strike force to preserve a neo-colonial order in the developing sector. With limited forces of her own, Britain assigned the United States to become the backbone of such a force.

The British mode

Shortly after Defense Secretary Caspar Weinberger

took office, he declared that the Rapid Deployment Force would be modeled on the British Special Air Service. A consultant to Weinberger's Defense Department says that the RDF would not be able to move into the Gulf effectively without the guidance of the British SAS, "who really know the lay of the land from Britain's old colonial days."

Since the RDF came into being under Carter's Defense Secretary Harold Brown, Washington and London have conducted annual strategy sessions on military posture toward Southwest Asia. Both the future RDF bases and the countries designated to play a role in METO are contiguous to vital choke points for sea lanes.

Since 1978 the U.S. government has quietly spent billions building up infrastructure to support the mobile force. One of the first moves taken jointly by the United States and Britain was to lengthen the runways of Diego Garcia (the United Kingdom holds sovereignty over the island and leased base rights to the United States there after the 1973 war).

Now the island can support loaded B-52s, the bomber best suited for carrying tactical nuclear warheads. Today Diego Garcia supports a fleet of air-conditioned cruisers loaded with tanks and other heavy equipment for the RDF.

In 1982 the U.S. allocated for nearly \$400 million

for development of infrastructure for facilities in Egypt, Oman, Somalia, and Kenya, not including Diego Garcia. None of these countries except Oman has yet agreed to permanent base rights; but the crises on the drawing boards are expected to force them into providing base facilities in the future.

The Soviet question mark

With Israeli's return to Egypt of the last third of the Sinai on April 25, a U.S.-lead multinational force deployed into the Sinai Israeli-evacuated bases as a peacekeeping force under the Camp David accords. The U.S.S.R. has responded sharply, calling that deployment the first step in the buildup in the region. Moscow is putting pressure on Turkey to stay away from the RDF, since Turkey, a NATO member, is a key link to the Middle East. And on May 6, the day of the NATO communiqué, *Pravda* issued an attack on Pakistani dictator Zia ul-Haq for his flirtations with NATO in opening up to the RDF the Gudar base near the mouth of the Gulf.

Moreover, the Soviets have reportedly blasted U.S.-Chinese cooperation in a scheme to build up Oman as a stronghold of an anti-Soviet NATO bloc on its southern flank. During the projected October Brezhnev-Reagan meeting, there is expected to be some tough bargaining on the Mideast.

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Mrs. Gandhi opens new ties with Saudis

by Ramtanu Maitra

Indian Prime Minister Indira Gandhi's four-day trip to Saudi Arabia in late April, the first visit ever by an Indian leader to that Arab state, was watched with a great deal of interest throughout the region. Until recently, Saudi Arabia's traditional ties to the South Asian subcontinent have been to the Muslim states of Pakistan and Bangladesh, and include Saudi funding for the large-scale arms purchases by Pakistan from the United States, an arms deal which has created heightened tension between India and Pakistan.

Mrs. Gandhi's visit was generally seen as a successful effort to establish new bridges between this leader of the Arab world and Hindu India, a nation which has the third largest (numbering some 80 million) Muslim population in the world. Mrs. Gandhi clearly conveyed Indian concerns over the U.S.-Pakistan arms deals, and the bases for deployment of the U.S. Rapid Deployment Force which are rumored to be established in Pakistan. While Saudi leaders avoided any criticism of Pakistan, the final communiqué contained an expression of agreement that the security of the Indian subcontinent and the Gulf region are "closely interlinked," a formulation interpreted by many observers as evidence of a shift in Saudi views resulting from Mrs. Gandhi's visit.

Mrs. Gandhi's government has made concerted efforts to develop closer ties to the Arab world, including visits last year to various other Gulf states. While this is partly motivated by a desire to outflank Arab support for the Pakistani military junta, it is also a reflection of the extensive economic and cultural ties that have developed between India and the Gulf region. More than a quarter million Indian workers are employed in the Gulf—100,000 in Saudi Arabia alone—and Indian companies are major contractors and traders in that area. Indian petroleum supplies come mainly from that region, and India has been encouraging, with some results, greater Arab investment and flow of funds into Indian economic development.

Exchange of strategic views

The Indian view conveyed by Mrs. Gandhi is that the entire region from the Gulf to the Indian Ocean must be neutralized as an arena for superpower conflicts. It is this view which underlies Indian concerns

about Pakistan, which is edging into a full-scale military axis with the United States and with Khomeini's Iran. This has also motivated the Indian position that the Afghanistan issue has been exploited on all sides and must be defused through political negotiations.

There is evidence that the Indian views were understood by the Saudis, who share concerns about instability in the region, particularly from Iran, and agree that the superpowers should be kept out of conflicts. Mrs. Gandhi urged the revival of the eight-point Saudi peace plan, the so-called Fahd Plan for the Middle East, which acknowledges for the first time the right of all nations in the area, including Israel, to live in peace.

The joint communiqué, which followed meetings by Mrs. Gandhi with all the Saudi leaders including King Khalid, contained in turn a Saudi acknowledgement for the first time of India's role in the region as a factor for peace. In effect, the Saudis have disassociated themselves from possible Pakistani military aggression against India.

A more obscure but not insignificant factor in these Saudi openings to India is the large Muslim population inside India. Certain Saudi elements have been proved to be involved in funding extreme Islamic fundamentalist groups within India, groups which have pushed communal tensions and riots against Hindus. The pictures of Mrs. Gandhi being greeted by the Saudi leadership printed in Indian papers are a valuable counterweight against such destabilization operations.

The economic agreement

The last, and not least, importance of the visit is in the area of economic cooperation between the two countries. A joint economic commission was formed. The commission will hold its initial meeting in October, and the Indians have already set up a task force of top government officials from the Finance, Commerce, and External Affairs ministries.

According to reports from Indian government officials, India will among other things help Saudi agronomists. The Saudis are especially interested in collaborating with the Indian Arid Zone Research Institute to develop dry agricultural methods suitable for the Saudi Arabian climate. India, according to official sources, will set up a modern fertilizer complex in Saudi Arabia and then buy back substantial quantities of fertilizer from the proposed complex.

The Indians will also build a large cement plant, financed by Saudi Arabia, whose output will help overcome Saudi Arabia's scarcity of cement.

The joint communiqué calls for Indian firms to provide consultation on various technical services, mining and manufacturing, utilities, and construction. Prospects also exist for cooperation in the fields of trade, transport, finance, and other services.

Behind the failure to reach an accord

by Rachel Douglas, Eastern Europe Editor

In mid-April, the Polish Catholic church and the martial government had resumed talks about "national accord," a dialogue that could begin the restoration of civil rule in Poland. At the start of May, a series of demonstrations under the banner of the suspended Solidarność movement cast the church-state effort to stabilize Poland into question.

Although scant information is available on who organized the demonstrations, they bore the signature of British intelligence agencies that have cultivated a capability to detonate unrest in Eastern Europe, as was done in 1980. Their timing, not only in the midst of Church diplomacy but at a moment when British financial powers are observed in the attempt to squeeze Poland into default on its hard currency debt, points to the same conclusion.

Speaking to the Polish parliament on May 4, Interior Minister Gen. Czeslaw Kiszczak blamed Western intelligence services for the eruptions in nine cities, suggesting that "Perhaps this action is undertaken out of a sense of shame over the Malvinas situation."

Authorities reimposed a curfew and cut telephone communications throughout the country the same day. Only a week earlier Gen. Wojciech Jaruzelski's government and the Polish Catholic Church's efforts toward "national accord and social compact" had secured the release of 800 internees and the lifting of curfew.

The Church moves for compromise

The process of negotiations began on April 13, when Catholic Primate of Poland, Archbishop Jozef Glemp, released a report from his Bishops' Social Council. It was a draft of terms under which the government might eventually come to terms with Solidarność, for whose interred leaders it recommended amnesty. The concessions of 1980, or independent trade unions above all, should be preserved, said the Primate's advisers, but so should "historical realities" be recognized, meaning Poland's alliance with the Soviet Union. They also held that Solidarność had to accept some of the blame for the crisis in Poland, and they warned against terrorism and unrest from "opposition-oriented" youth.

Church-state negotiations followed. On April 23 and 24 Jaruzelski presided over a Communist Party Central

Committee plenum that resolved to make some reforms "still in the period of martial law." On April 25 he conferred with Glemp. The dispatch on their talk said, "a unified effort on the part of the authorities and the community is required" to solve Poland's problems.

Then Glemp flew to Rome for a day of talks with Pope John Paul II. From that conference emerged a pledge from Glemp that the Pope's trip to his native Poland would not take place until "the right conditions" were created, a signal that John Paul II was not going to alight in Poland and enflame popular enthusiasms that could upset the order imposed by martial law.

On April 29, the government released 1,000 political internees, 800 of them permanently. Glemp greeted this as "a step toward creating conditions" under which the Pope could come celebrate the 600th anniversary of the icon of the Black Madonna of Czestochowa, the Polish Catholic shrine.

However, 30,000 people under the banner of the Solidarność movement joined an unauthorized March through the Old Town section of Warsaw on May 1. The military and the police, alerted to the demonstration by advance leaflets, stood aside. When a smaller crowd took to the streets again May 3-4, against state radio warnings not to, the police broke up the demonstration with fire hoses, tear gas, and night sticks. The demonstrations were sharply condemned by the Catholic Church.

At his Warsaw residence, Archbishop Glemp told the *Washington Post*, "We are aware that extremists are behind this activity. This doesn't help at all since it delays the lifting of martial law. We know that someone wants to prolong it—the extremists from both the right and the left. On this point they agree."

Officially, the Polish Episcopate issued a communiqué that held the rioting responsible for "delaying social accord, halting steps toward normalization, and misguiding the youth."

Glemp, after his visit with the Pope, held a long session with Premier Jaruzelski. He argued the protests were organized without the consent of Solidarność leaders. Lech Walesa, he said, had "nothing to do" with the rioting.

The Polish government understands that it is the target of economic as well as street-level provocation. At a Central Committee plenum in early May Jaruzelski accused the West of putting an "iron curtain" around the Polish economy, declaring that if capitalists want Poland to pay its debts they should cancel economic sanctions against the country. Although the Poles have made it clear that they will need debt rescheduling in 1982, editorials in the *Economist* and the London *Times* on May 3 led the London pack that is howling against any form of debt relief for Poland without big political concessions from Jaruzelski's government.

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Interview: Per Engdahl

Fascist leader discusses his links to Swedish socialists

The following interview was conducted with Per Engdahl, leader of the Swedish fascist party, the New Swedish Movement, in Stockholm May 1 by *EIR* correspondent William Jones. Engdahl led the pro-Hitler party throughout World War II, and was an honored guest in both Nazi Germany and Mussolini's Italy during the war. He was an intimate associate of Mussolini's foreign minister Ciano, and of Nazi ideologue Alfred Rosenberg. Engdahl maintained his ties with the fascists after the war through Mussolini's widow, and in the early 1950s hosted the post-war international fascist networks at Malmö, Sweden (see *EIR*, April 20).

Engdahl's remarks about Socialist International leader Olof Palme are extraordinarily candid. Like Mussolini, Oswald Mosley, and others, Palme has a pattern of left-right affinity. Palme's association with Engdahl is also interesting in light of Palme's unprecedented appearance on a nationwide television program in Sweden April 14 to denounce Kerstin Tegin-Gaddy, who is Chairman of the European Labor Party (EAP) in Sweden, as leader of a "tiny fascist-like sect." The EAP was founded by co-thinkers of *EIR* Contributing Editor Lyndon LaRouche. Tegin-Gaddy immediately challenged Palme to a public debate on the issue of whose policies are fascist—the EAP's or Palme's (see *EIR*, May 4). Palme has yet to respond to the challenge.

Jones: You have on various occasions expressed a great admiration for the Swedish Social Democracy in

your writings and speeches. Isn't it somewhat ironic that you, the leader of a fascist organization [Nysvenska Rorelsen—the New Swedish Movement] would find yourself in agreement with Social Democratic policy on so many points?

Engdahl: Not at all. We've always had a much easier time getting along with the socialists than with the conservatives. We've got a lot more in [common] with them. The stab in the back for us has always come from the right: Stauffenburg in Nazi Germany; Badoglio in Italy; Rega destroyed Peronism in Argentina. Our major fights have always been with the conservatives. They have always betrayed us. The Swedish social-democratic workers movement, on the other hand, is a trustworthy ally.

Jones: How do you account for this affinity between your ideology and that of the social democrats?

Engdahl: There has always been a strong corporatist strain with the social democracy. Before the Second World War, when I was in Uppsala, I participated in a debate where Alf Ahlberg, the social-democratic historian, was also present. After the debate, I received a postcard from Ahlberg where he expressed the hope that a social democracy . . . might, together with our movement, be able to accomplish a thorough reform of Swedish society.

During the war, I wrote a series of articles under the title "Hitler as Model," where I compared the social-democratic economic program with Hitler's program from the 1930s. The similarities between the two [programs] were overwhelming. Ernst Wigforss, the social-democrat-

ic Minister of Finance, was impressed. I later had discussions with Wigforss on economic policy. He was aware of the danger of the development of a state bureaucracy as involvement in industrial activity increased. He proposed working out a model, where a corporatist society could be established at the same time that we would keep the state out of the picture.

The managing director of each firm would be the boss, and the firm would be owned by the employees. Sometimes Wigforss wondered which one of us was most radical—he or I.

Jones: Is your movement still involved in international politics?

Engdahl: Our major international contacts are with the MSI [a neofascist party] in Italy. We had contacts with the Ordine Nuovo group, but now they have been banned in Italy. Through the MSI we have contacts with the Lebanese Falangists. In 1978, I was in Italy speaking at an MSI rally. At one meeting in Catania, the police estimated that there were 20,000 people present. Almirante [head of the MSI] was there as well as Blas Piñar from Spain.

Jones: You were also very instrumental in setting up what is known as the Malmö International.

Engdahl: We had a meeting in Malmö in 1952, where we established a commission, of which I was the head. . . . In those days, Malmö was one of the few places where we could see old SS generals mingling with fascists from the French Resistance movement. There were, however, some difficulties getting visas for some of the people. I spoke with the Swedish Prime Minister, Tage Erlander [who groomed Olof Palme to succeed him as Prime Minister in the 1960s. Ragnar Edenman, head of the New Swedish Movement, arranged Palme's appointment to the post of Education Minister—W.J.]. Erlander told me to submit the names of the delegates and he would try to fix these visas. He advised me, however, not to invite Oswald Mosley. . . .

Jones: What do you think of the present leader of the social democracy, Olof Palme?

Engdahl: Highly intelligent. This poor country has a difficult time in appreciating a person like Palme. Palme has come up with a lot of good proposals, but he's not especially creative. His proposals are for the most part based on already well-known ideas.

Jones: Have you been in touch with Palme personally?

Engdahl: Indeed I have. The first time, I discussed education with him, when he was Minister of Education in the late 1960s. I was sitting in the waiting room, when he to my surprise rushed out and greeted me warmly. This was quite unusual behavior, for a member of the govern-

ment to act this way toward someone like me. Palme expressed interest in many of the ideas of the New Swedish Movement. . . . I explained to him how the difference between a democracy and a fascist society was merely a difference in quantity, rather than quality. When our discussion was over, and as I was about to leave, Palme shocked me by taking my coat from his assistant and helping me on with it himself.

Some days later, I received a call from one of our people in Lund, who had attended a meeting where Palme spoke to some students. He asked me if I had spoken to Palme recently, as many of the things Palme said seemed to come directly from the arguments I used. Since that time, however, Palme has been somewhat stand-offish when I met him at a press conferences and the like.

Jones: Do you think that wage-earners' funds [to be used to buy up majority shares in industrial corporations] would be a step toward your corporatist ideal?

Engdahl: It could be, depending on how it is developed. We were actually the first to introduce the idea of funds in Sweden in the early 1950s. At that time the LO, the trade-union organization, would not accept the idea. Now they are for funds.

Then there is the question of how all of this will be financed. We don't like the idea of simply printing up more money and pumping it into the system. That would create inflation. What they ought to do is to create a form of what I call investment checks, bills of credit to be issued for investment purposes only.

Jones: Something like Hjalmar Schacht [Hitler's Finance Minister—ed.] Mefo bills?

Engdahl: Yes, precisely, Mefo bills. This would put a limit on monetary inflation. After delivery of the capital goods, the supplier could then turn the bills in for cash. But I think that Palme would be wise to go easy with the fund proposals before the elections. It could undermine his chances of getting back into power.

Jones: What do you think of the social-democratic crisis program?

Engdahl: It's the best thing they have come out with yet. Relief work, road-building, bridge-building: that kind of thing. Why, for Christ's sake, it's Hitler's program—and they don't even know it. This is the stuff to get industry on their side, and that is what they need.

Jones: What about the greenies?

Engdahl: We can't just blindly burn up our resources in the way we are doing now. Nuclear energy is no answer either, although I am not entirely against it. I am in complete sympathy with the environmentalist movement.

Education under attack in Quebec

Trudeau's new constitution feeds linguistic strife as students rampage over new pedagogical regime.

A few weeks after the Queen of England gave the Canadian constitution to the Queen of Canada, Ottawa's plan to take over the legitimate French language rights in Quebec is already being activated as English-language residents of the province are organized against Quebec's Charter of French Language, Bill 101. Simultaneously, "outside individuals" have been reported organizing violent student protests against the Quebec Education Department's new pedagogical regime, which is aimed at upgrading the educational system for the whole province.

Systematic actions are being planned by the Montreal-based Positive Action Committee, a Trudeau front, to use children as political bait in the fight to challenge Quebec's Charter of the French Language, Bill 101, using the newly proclaimed federal constitution. The chairman of the PAC, Alex Paterson, blatantly told the *Montreal Gazette* on May 8 that "the children are pawns in a political free-for-all."

The first legal challenge comes on June 14 in the Quebec Superior Court, when lawyers will file a motion against the Quebec Minister of Education, Camille Laurin, the architect of Bill 101, and the Quebec Attorney General. The case involves five families who claim that, under the new constitution, their children have a right to an English education in Quebec. These are exceptions to the Quebec law which

restricts access to English-language schools for children whose parents have not been educated in English in Quebec.

On the other hand, the federal Charter, proclaimed without the consent of Quebec, extends that right to children whose parents were educated in the English language anywhere.

Although Bill 101 allows for "any reciprocity agreement" with another province in extending the scope of this right, the real issue here is the republican right to protect French language and culture for 6 million francophones of Quebec.

As *EIR* has documented, it is the principle of nation-building which Trudeau wants to destroy in Quebec by attacking its critical nerve: education. That is why Trudeau has already promised full federal financial support for all such court challenges against the Quebec government.

On May 5, Quebec Justice Minister Marc-André Bedard introduced a bill in the Quebec Assembly, invoking a constitutional provision that allows the Quebec legislature to retain its powers to override certain sections of the federal charter. Yet, unfortunately, the Parti Quebecois leadership has failed thus far to identify Trudeau's operation for what it is, and has chosen to fight a trench war instead of counterpunching.

This strategy of attrition has been outlined by Education Minis-

ter Laurin: "I expect that certain groups will try to use the courts to get their children into English schools," he said. "It would only prove that the Canada Bill constituted an important block to the flowering of our identity. The more such cases, the bigger Quebecers will consider the block."

While Minister Laurin is defensively upholding French education rights on the legal front, his new pedagogical regime for secondary schools has been used as the pretext for violent student protest. On May 4 and 5 more than 30 high schools were closed in the Montreal area, leaving more than 20,000 students out of class. According to the chairman of the Montreal Catholic School Commission, Luc Larivée, the situation was "much more dramatic" than reported by the media. The protests, he stated, had been spurred by "outside individuals," who paved the way for further trouble by leaving behind them "long chains, hunting knives, and jack-knives."

The reportedly "military-like" deployments were aimed at the Education Department's proposal to raise the passing grade from 50 to 60 per cent starting next September. Minister Laurin told students on May 10 that the 60 per cent passing grade will be introduced into the school system over a period of several years.

But even if the Parti Quebecois government is using all available legal measures possible to "retain" whatever sovereignty it has, and is attempting to patch up an already half-destroyed education system it inherited from previous Liberal governments, its present "defensive" attitude will not be enough to stop Trudeau.

The FBI scandal: Part I

The FBI's illegal role in Mexico—up until this month—was one of the Western hemisphere's most closely-guarded secrets.

When we poked into the small but high-powered Social Democratic Party (PSD) in March, readers of these columns will remember, we discovered a nasty combination of U.S. State Department capabilities deployed under a business consulting cover (“Sintemex”) and the above-ground side of a left-environmentalist-terrorist operation. Its usefulness for wrecking everything from republican institutions to economic development plans was apparent—but only with recent events have we learned what a big fish has been caught with this can of worms.

The exposure of the PSD by the Mexican Labor Party (PLM)—[the group which bases its fight for economic development and republican principles on the ideas of the American philosopher-politician Lyndon LaRouche]—has unearthed the name of the U.S. Federal Bureau of Investigation. The story is now coming out of 40 years of illegal FBI infiltration into Mexico.

In late April, the dossier that the PLM had compiled on the PSD went to Mexican Interior Ministry with a request that the PSD's registration as a legal party be revoked because it was foreign-controlled. The PSD's response was to spread the charge that the PLM is a front for the CIA. In this campaign it was joined by the Popular Socialist Party and the Socialist Workers Party.

On May 9, with the left howling, the Mexico City daily *El Periódico* revealed that the charges against

the PLM were “furnished by the FBI.”

The presence of the FBI in Mexico is not new, nor is its use of left-wing groups unusual. In a deal struck between British Special Operations Executive and the American intelligence community in 1938, the FBI was given primary jurisdiction for intelligence gathering and operations throughout Latin America. In the case of Mexico, that jurisdiction has remained.

Today there are twice the number of FBI agents in Mexico as there are CIA agents.

Both Mexican and American patriots, of course, have now become very interested in the PSD scandal, and why the FBI is defending the PSD.

In the early 1970s, it is documented, the PSD leadership worked with the immediate controllers of Mexico's most feared urban terrorist gang, the 23rd of September League.

In 1981, the PSD took command of Mexico's fledgling environmentalist movement and directed it against nuclear energy plant construction, the basis of Mexico's goal of becoming a fully industrialized nation by the year 2000. The man in charge of greenie side of the PSD is Adip Sabag, who, in 1976 ran “opinion polling” on behalf of the Mexican Communist Party.

Sabag is also known to confer regularly with the bishop of the Antiochian Church in Mexico, Chedrawi, who is said to be the key

figure in Arab terrorist capabilities in Mexico and Central America.

The PSD-FBI connection is not the only place that the grimy fingerprints of the G-men have appeared in Mexico. Perhaps more important—and threatening—is the fact that the FBI has also played a major role in an attack on Mexico's highest-level security and intelligence capability, the Dirección Federal de Seguridad (DFS).

The FBI released charges at the end of March against the former head of the DFS, Miguel Nassar Haro, on accusation of complicity in a car theft ring in San Diego. It soon became apparent that it was not Nassar Haro that the FBI was interested in: it was crippling the independent intelligence capability of the DFS as a whole, at a moment when Mexico faces live threats of “Iranization.”

On March 23 the FBI, working through San Diego U.S. attorney Thomas Kennedy, claimed that the FBI investigation had been hampered because Nassar Haro was the CIA's chief Mexico contact and the CIA did not want his position compromised.

The sharing of certain classes of information between U.S. and Mexican intelligence services is a customary and long-standing arrangement. But the Justice Department/FBI “revelation” set off an anti-CIA witchhunt in the leftist press. On April 15, the Mexican Congress was obliged to name a special investigating commission.

The FBI's name never even entered the debate. Now, three weeks later, its role is beginning to come under close scrutiny.

Next week: the 45-year history of illegal FBI activity in Mexico.

Israel, Argentina, and Great Britain

Ariel Sharon—and Britain—seem to be on the outs these days in Israel; is it only pragmatism?

It is not by chance that the current decline of Defense Minister Ariel Sharon's fortunes in Israel coincides with a healthy rise of anti-British sentiment. As Sharon's adventurism is being called into question by top government officials in Israel, so too is Britain's provocative behavior in the South Atlantic theatre.

Soon after the start of Argentine-British hostilities, a rift arose between Israel and Britain. The latter complained about Israeli arms shipments to Argentina, including a recent delivery of Israeli-made Dagger jet fighters to Buenos Aires. Argentina has also bought at least four patrol boats from Israel and a significant number of ship-to-ship and air-to-air missiles. Intelligence sources say that Israel's support for Argentina goes far beyond what has been publicly reported.

In response to Britain's complaints Israeli Foreign Minister Yitzhak Shamir declared that despite British pressure, Israel would honor all previous contracts with Argentina and continue to deliver arms on schedule, although no new deals would be made.

London was enraged.

Those who have dismissed Israel's dispute with Britain over Argentina as "tactical differences" are badly mistaken. The tiff signals a much more fundamental disagreement.

Despite the fact that Israel has long been willing to serve as a pawn of British imperial politics—the

Balfour Declaration, which founded the Zionist claim to Israel, was a British stratagem—there is a potentially healthy basis for an Israeli conflict with London; the fact that British finance capital and political intelligence supported the rise of Hitler's Nazis. Many Israelis, including intelligence officers, have recently told *EIR* that Israel still blames England for Hitler's Holocaust, in which 6 million Jews died.

The latent antipathy to and suspicion of the British reportedly go beyond the old Irgun die-hards and include well-placed government officials from a broad political spectrum.

On May 7, Uruguayan Foreign Minister Estanislao Otero Valdes arrived in Israel for an unprecedented five-day visit in which arms were reportedly discussed. Uruguay, located just to the north of Argentina, is an important nerve center of banking and political intelligence networks linking Israeli, Swiss, and Italian interests, and Latin American power centers.

It is within this low-keyed but palpably anti-British context that Ariel Sharon no longer finds himself the fair-haired boy of Israel's ruling coalition.

In recent weeks, Sharon has fallen further out of favor with Prime Minister Menachem Begin, who has been blocking Sharon's efforts to ignite a full-scale war over Lebanon, knowing that his Defense Minister intends to use a military conflagration in Lebanon to cata-

pult himself into power. Begin, as *EIR* has reported, is said to be the *éminence grise* behind a "Stop Sharon" clique in the Israeli cabinet including David Levy, Yitzhak Shamir, and Yoram Aridor.

At the root of the Begin-Sharon fight is internecine intelligence warfare. Earlier this month, after months of infighting and despite Sharon's opposition, Begin appointed Yekutiel Adam to head the Mossad, Israel's intelligence agency—a move seen by analysts as another effort to block Sharon.

Sharon's own appointments to key positions are still drawing fire. At the beginning of May, Sharon appointed as his press adviser Uri Dan, the official biographer and ardent admirer of organized crime kingpin Meyer Lansky. Former chief of staff Mordechai Gur fought the appointment on grounds that Dan, who was stripped of his journalistic credentials for revealing sensitive military intelligence, is a traitor and a security risk.

The fight around Sharon is a mere reflection of the unsettled political situation inside Israel, where back-stabbing among ministers and rumors of cabinet defections abound.

With the collapse of national unity talks with the Labour Party, Begin is at the mercy of religious parties in his coalition. Hence, his decision to shut down Israel's national airline El Al on the Sabbath. The decision may backfire—and early elections could ensue—following the high court's recent legal challenge of the cabinet on this issue.

Then, the scramble around Sharon—and the British—could come out in the open.

International Intelligence

Jesuits want Sonora antinuclear reaction

As the Mexican government goes ahead with plans to build its first nuclear training reactor in the northern state of Sonora, sources report that a leftist-ecologist coalition met secretly under the leadership of Jesuit Father Esteban Sarmiento at the beginning of May to plan an antinuclear campaign for the state.

The meeting was attended by the Revolutionary Workers Party, the Social Democratic Party, and the Acequia environmentalist group. Sarmiento proposed to the assembled radicals that they form an "ecological protection front," which could obtain support from "some members in the PAN [an ultra-right party] and the private sector." The classic Jesuit method of producing social chaos is to manipulate both conflict and cooperation between "right" and "left."

Sonora's pro-development state government, led by Governor Samuel Ocaña, is facing a small but provocative opposition to its plans. The presidential candidate of the Social Democrats, Manuel Moreno Sanchez, will be using a mid-May campaign tour of Sonora to rally opposition to the research reactor.

The same reactor center project was originally scheduled for the state of Michoacán, but had to be canceled there because of Jesuit-led disturbances.

LaRouche allies enter Hessen election race

The European Labor Party (EAP), the European co-thinker of Lyndon LaRouche, launched its campaign for the Hesse state parliament with a party conference in Frankfurt, West Germany on May 8. As EAP regional chairman Renate Rumpf observed in her welcoming remarks to the conference, the elections have an international significance because they can determine whether Helmut Schmidt survives as Chancellor,

along with his governing Social Democratic-Liberal (SPD-FDP) coalition.

The present SPD governor of Hesse, Holger Börner, is Schmidt's most important remaining political ally on the state level. Schmidt is the leading European spokesman for détente with the East, in an extremely dangerous strategic period.

Should the SPD's performance in Hesse repeat the pattern of the Lower Saxony elections in March, Rumpf warned, where the opposition Christian Democrats and the environmentalist Green Party made large gains, Börner would fall and Schmidt would be weakened.

For this reason the EAP is focusing its campaign on the international crisis, and attempting to defeat the CDU and the greens. The EAP could thus provide both a margin of victory and a coalition partner for the SPD.

The other major task of the EAP campaign was presented by Party Chairman Helga Zepp-LaRouche: to break the Schmidt government away from its decision to support NATO out-of-area deployments, which would make West Germany an instrument of the British policy of military confrontation against the less-developed nations.

Calgary dialogue on resource development

About 50 Canadians braved a 13-inch snowfall on May 8 to attend an *EIR* conference in Calgary on the difference between resource control and resource development, which featured a discussion by *EIR*'s Contributing Editor Christopher White of Lyndon LaRouche's Draft Constitution for a Republic of Canada.

The meeting opened with a presentation by *EIR*'s Sylvia Barkley on the North American Water and Power Alliance proposal for using water from Alaska and Canada to irrigate and service a major part of the North American continent. After developing the economic necessity for the megaproject, Barkley em-

phasized the effect of undertaking such a project as a national goal, towards uplifting a nation's citizenry.

The theme of citizenship—and the standpoint of the audience—was hit again in White's presentation of LaRouche's Canadian constitution and the kind of understanding of economics a citizen needs. Many in the audience compared White's description of the devastation of the U.S. economy with the situation in Canada.

White's briefing on the Malvinas conflict as a British war against the United States and its ability to help the rest of the world develop its resources was met with concentration and close questioning by an audience that had thought of itself as pro-British.

Kissinger speaks for conventional arms push

Henry Kissinger delivered his second major policy address in Europe in three days on May 12 at The Hague. This address, titled "Strategy, Trade, and the Atlantic Alliance," began with the claim that "our current dilemmas are the result of the decision of all our postwar leaders to base security on technology." He concluded that the only solution to this problem is to make the necessary sacrifices to accomplish massive conventional weapons buildups, as if NATO could, by choice, substitute a conventional for a nuclear strategy against the Warsaw Pact's array of forces.

Kissinger said that the United States should stop "hectoring" Europe on the question of the NATO Euromissiles deployment. He insisted that the only purpose for deploying the Pershing IIs and cruise missiles in Europe was to force the Soviets to attack both those missile bases and U.S. ICBMs should they ever decide to attack Europe. "If our European allies are not persuaded by arguments such as these, however," he said, "we can deploy at sea the intermediate-range weapons we need for a purely American strategy."

Kissinger then announced his ap-

proval for the intentions and directions of the McNamara, Bundy, Kennan, Smith proposal to renounce first use of nuclear weapons. "I share their objective that the West must disenthral itself of the notion that it can substitute technology for sacrifice and destructiveness for effort," he said, but objected that "a statement of no first use would leave us psychologically naked."

Kissinger applauded President Reagan's arms-control message, "a watershed in the American domestic debate." He went on to express a "leaning" toward the position of Sen. Sam Nunn, namely that the SALT II treaty negotiated by Jimmy Carter and Cy Vance should be ratified, with certain modification.

Kissinger insisted that East-West trade should be based on "linkage," but cautioned that it would be foolish to think that economically isolating the Soviet bloc could cause it to "crumble."

New Cyprus blow-up aimed against Turkey

Greek Prime Minister Andreas Papandreu and his Socialist International allies in Europe are deliberately reviving the crisis on Cyprus. A new round of hostilities between Greece and Turkey over the island could weaken the Turkish government, whose military leaders have been resisting Anglo-American pressure to transform their country into a forward base for NATO activities in the Middle East.

Washington analysts identify Turkey as the "first choice" of NATO strategists as a "jumping-off point" for military operations into the Persian Gulf. Pressure on Turkey to become NATO's launching pad is expected to increase following the recent authorization by NATO defense ministers of the use of NATO strike forces all over the world.

Secretary of State Alexander Haig, a leading proponent of extra-European deployment of NATO, arrived in Ankara May 13 to twist the Turks' arms. From

there, Haig went to Greece. Prior to Haig's departure from the United States, sources predicted that if the Turks proved uncooperative, Haig was prepared to give the Papandreu government in Athens the green light to "put the screws" on Ankara through an escalation of tensions with its eastern neighbor, using Cyprus.

Since late last year, Papandreu has been stirring up the Cyprus question, and in so doing has had a falling-out with Cypriot President Spiros Kyprianou.

Both Turkey and Kyprianou have rejected the meddling of Papandreu and the Socialist International. Taking Kyprianou's side in the dispute is the Moscow-backed Cypriot communist party AKEL; opposing him are the Cypriot socialists, the Cypriot Orthodox Church, and the Democratic Rally Party of the pro-British Glafkos Cleridhes. The Greek paper *Eleftheros Kosmos* has threatened Kyprianou with "defeat and overthrow" if he doesn't toe the line.

Turkey has kept silent on the Cyprus issue, nervously hoping it will not be drawn in.

Swedish industrialists buck the British

"The Swedish Foreign Minister's departure from neutrality over the Malvinas threatens important Swedish economic interests in Latin America and in the rest of the developing world," said an advertisement in the Swedish daily *Svenska Dagbladet* during the first week in May. The ad was signed by Knut Frankborn, chairman of Utveckla Sverige ("Develop Sweden"), an association of more than 250 Swedish businesses.

The London *Guardian* of May 8 took note of the ad, quoting a spokesman for the business group as saying, "We think these islands belong historically to Argentina, and we can't see why Britain claims them. If the United States had followed the Monroe Doctrine, it would have sided with Argentina."

Briefly

● **NARASHIMHA RAO** of India added India's name to the list of countries that have backed Argentina in the Malvinas conflict. Clarifying India's stance during a discussion in parliament, the Foreign Minister declared that "India recognizes the Argentinian sovereignty of the Malvinas."

● **DENNIS THATCHER**, Margaret's husband, is the main stockholder in the Falkland Islands Company, according to the Argentine weekly *Convicción*, which is closely linked to the Argentine Navy. The Company holds 64 percent of the island. Britain has refused to make public the names of the Company's owners.

● **MARSHAL OGARKOV**, chief of staff of the Soviet Union's armed forces, indicated in *Izvestia* May 7 the new quality of attention the Soviet military is paying to Latin America since the eruption of the Malvinas crisis. "Argentina is the object of threats and pressures, but [so are] Mexico and other countries of the region who refuse to follow the aggressive policy of the United States."

● **THE ARGENTINE** Industrial Union (UIA) was about to publish a document criticizing the monetarist policies of Finance Minister Roberto Alemann, when, at the last moment, according to the May 12 *Financial Times*, UIA president Jacques Hirsch withdrew the document, claiming that its publication in the midst of the Malvinas crisis was inappropriate.

● **A POSTER** of Italian Socialist Bettino Craxi was a big hit at the early May convention of the Christian Democrats in Rome, which saw an anti-Socialist elected as the new head of the party. The poster shows Craxi with his arms outstretched in a victory sign, while behind him his shadow appears hanging upside down—which is the way Mussolini's body was displayed after his execution.

Reagan is boxed in on eve of summit meetings

by Richard Cohen, Washington Bureau Chief

Ronald Reagan's administration hangs by a thin thread as it moves toward the decisive month of June. The crisis in the Malvinas Islands has served to blackmail the President into writing off a cornerstone of his original foreign policy, the primacy of hemispheric security, in order to protect an Anglo-American "special relationship" promoted by Alexander Haig, Caspar Weinberger, White House Chief of Staff James Baker III, and Vice-President George Bush. These British agents forced Reagan on May 5 and 6 into two disastrous policy decisions, decisions the President had rejected for over a year.

On May 5, the President was bamboozled by James Baker and Baker's co-conspirator David Stockman, Director of the Office of Management and Budget, into endorsing a "deep-cuts" budget proposal authored late last year by Wall Street investment houses loyal to the Swiss-based Bank for International Settlements (BIS) and laundered through the staff of the Senate Budget Committee. In accepting the plan proposed by Committee Chairman Pete Domenici (R-N.M.), the President yielded to demands consistently promoted by Federal Reserve Board Chairman Paul Volcker, James Baker, and Stockman that he raise taxes, cut his proposed defense budget, and commit political suicide by backing cuts in Social Security.

At a crucial National Security Council meeting on May 6, the President, under pressure from Haig, Weinberger, and Undersecretary of Defense for Policy Fred Iklé, finally agreed to endorse a Kissingerian arms-control approach with profound implications for future U.S.-U.S.S.R. relations and NATO policies. On May 9, speaking to the graduating class at his alma mater,

Eureka College in Illinois, Reagan went public with the results of the May 6 meeting, announcing a call for early Strategic Arms Reduction Talks (START)—a willingness to bargain away large sections of future U.S. strategic modernization programs on the illusory hope that the Soviets will give up what the President has referred to as "the Soviet margin of superiority." Speaking in vintage Kissingerese fed to him by Haig, the President also urged the centralization of NATO's economic and political as well as military relations to the Warsaw Pact and especially the Soviet Union, repeating the dangerous anti-Third World and anti-Soviet pressure tactics called for by Haig in a speech the Secretary of State delivered on April 28.

The BIS and the British considered presidential capitulation on the budget and arms control essential if they are to dominate the June Versailles economic summit and the June NATO summit. Intelligence sources concur that the President is now strait-jacketed and will not present a problem for the BIS and British at either summit. In addition, Mr. Reagan, who will meet during June with European heads of state and with Pope John Paul II, will make a three-day state visit to the United Kingdom, where he will meet with the Royal Family and address the British parliament.

White House observers emphasize the growing personal influence of James Baker and his chief assistant, Elliot Richardson protégé Richard Darman, over the President's time: whom he sees, what he reads, and his state of mind. They say that the Baker-Darman "behavior modification" has promoted the formula that the President must overcome his "negative image" among

minorities, the poor, and, with the implications of the May 5 budget and the horrifying May 7 unemployment figures, increasingly the elderly and the working class. In addition, they have urged the President to propitiate the "growing" nuclear freeze movement. In short, they have convinced Reagan that he is on the verge of serious political trouble, and that he must defend himself in public. As a result, while the Malvinas crisis evolved, the President was dispatched to a barbecue in Tennessee, to open up the World's Fair in Knoxville, to visit a black family in Maryland terrorized by the Klu Klux Klan and to speak to school children in Chicago, to defend his position on Social Security.

This series of highly defensive presidential public speeches, appearances, and leaked "expressions of presidential compassion," signal that Mr. Reagan has been relegated to the position of public relations man for an administration whose policies are determined by British operatives Haig, Baker, and Bush.

The May 5 budget decision, it should be noted, was orchestrated over a period of months by Volcker supporters Baker and Stockman, operating, as I have reported, in league with the Senate Republican leadership including Domenici, Senate Finance Committee Chairman Bob Dole (R-Kan.) and Senate Majority Leader Howard Baker (R-Tenn.), as well as Paul Volcker and the Democratic leadership of Tip O'Neill and Senate Minority Leader Robert Byrd (D-W.Va.). Two months of Hill maneuvering and so-called bipartisan bargaining on the FY83 budget represented a game rigged to force presidential capitulation. Thus the May 5 "deep cuts" proposal came from Domenici at a Senate Budget Committee meeting that had just rejected Reagan's less austere budget by a vote of 20 to 0. Domenici, after last-minute backroom bargaining with James Baker, Stockman, and Howard Baker, emerged to announce the new "deep cuts" plan, the proposed \$95 billion in extra taxes through FY85, and that the President would back it.

On May 6, the President took to the Rose Garden to publicly and personally endorse the Domenici plan. Appearing with Domenici and House Minority Leader Robert Michel (R-Ill.), who less than a week later would publicly disown the same plan on the basis of the politically disastrous Social Security clauses, Mr. Reagan, stated, "the deficit-reduction package totaling \$416 billion over three years . . . will continue to bring down the growth in federal spending." The nervous President went on to claim, "It should reassure financial markets by sharply reducing projected deficits next year and beyond."

"Reassuring financial markets" and thus lowering interest rates, which are running at least 15 percent above the rate of inflation, are reported to be the objective of the bewildered President in buying the Wall-Street concocted package. The President will meet at the White House

with U.S. investment bankers on May 13 to plead his case. A White House source believed to be James Baker has told the press, "we recognize that bankers have many reasons to feel that the current interest rates are justified and that market forces including the deficits are terribly important to them. But we think it's important to enlist their support. If the bankers come out of the White House on Thursday and say the President's budget should be passed, that's a major step forward."

The swing group of conservative House Democrats, the "Boll Weevils," announced on May 8 that they have serious problems with the proposal, while the liberal Republican House members, or "Gypsy Moths," have unanimously registered complaints on May 10, House Minority Leader Michel announced opposition to the plan. Yet from the vantage point of the BIS, passage of the budget proposals is secondary. It is Reagan's capitulation which gives them "muscle" at Versailles.

Foreign policy

The President's May 6 acquiescence in Haig and company's policy delighted leading spokesmen for the British-linked Trilateral Commission such as executive board member Joseph Kraft, and Mr. Reagan's May 9 speech got rave reviews in the *Washington Post* and the *New York Times*.

Reagan began that speech by stating unequivocally, "I believe the unity of the West is the foundation for any successful relationship with the East. . . . When the West has stood firm and unified, the Soviet Union has taken heed." East-West trade, former arms control efforts, and the Helsinki accords are termed unrepeatable failures. Instead, he suggests a prudent arms buildup and more importantly the Kissinger-Haig-Iklé fixation on putting maximum economic and political-conventional military pressure on the "collapsing Soviet Empire." Reagan stated, "We recognize that some of our allies' economic requirements are distinct from our own. But the Soviets must not have access to Western technologies with military applications, and we must not subsidize the Soviet economy. The Soviet Union must make the difficult choices brought on by its military budgets and economic shortcomings." Echoing Haig, Reagan intimates that the United States will exert further pressure on Soviet surrogates or areas of perceived Soviet overextension, for the purpose of buying an arms agreement that, sweetened by U.S. commitments to abide by a policy of "strategic deterrence" and forego large-scale strategic modernization, would ask the Soviets to give up their first-strike capability. Thus, the strategic package forced upon the President on May 6 will use the hyped East-West conflict in order to steal the sovereignty of advanced Western nations and centralize it in a British-run NATO, unless Mr. Reagan decisively changes course.

Ending the age of thermonuclear terror

by Lyndon H. LaRouche, Jr.

In a soon-to-be-released policy paper on the necessity for an urgent reform of the U.S. defense posture, EIR Contributing Editor Lyndon H. LaRouche explains why the security of the nation can no longer be premised on the viability of the MAD (mutually assured destruction) doctrine as a strategic deterrent to thermonuclear war. LaRouche proposes the rapid development of a beam-weapons-based U.S. "anti-missile missile" system and U.S.-Soviet cooperation in the deployment of such anti-missile systems to ensure that no nation anywhere in the world can successfully launch a thermonuclear attack. We reprint here the opening section of the policy paper. The remainder of the report, which will be printed by the National Democratic Policy Committee under the headline Only Beam-Weapons Could Bring to an End the Kissingerian Age of Mutual Thermonuclear Terror: A Proposed Modern Military Policy of the United States, deals with the history of beam-weapon anti-missile systems and at length with the history of the republican military policy first formulated during the 15th century in Renaissance Italy.

1. End the age of thermonuclear terror

It is now approximately 30 years since the Soviet Union and United States, respectively, developed a deployable form of thermonuclear bomb. It is now approximately a quarter-century since the likes of John Foster Dulles and then-youthful Henry A. Kissinger introduced to the United States a thermonuclear strategic policy appropriately known by the acronym *MAD—Mutually Assured Destruction*.

So, for a quarter-century, the population of the world has lived under the perpetual terror of ever-ready intercontinental thermonuclear warfare. Since the inauguration of President Jimmy Carter, and especially since the first visit of Secretary Cyrus Vance to Moscow thereafter, the likelihood of actual intercontinental thermonuclear barrages has rapidly become greater than at any time since the "Cuba Missile Crisis" of 1962.

Beginning with the Watergate ouster of President Richard Nixon, and accelerating following Carter's inauguration, Moscow has embarked on accelerated preparations for possible thermonuclear war. It has been discovered recently that recent and current Soviet

military expenditures have been approximately 50 percent or more greater than the earlier largest estimate compiled by the U.S. Central Intelligence Agency. Meanwhile, since the Arthur Burns recession under President Gerald Ford, and accelerating under President Carter, there has been a collapse of U.S. military capabilities at the same time United States' policy has been committed to attempts to roll back the borders of the Soviet bloc and even, as stated official policy, to destroy the Soviet Union from within through promotion of insurrections among so-called national minorities. Meanwhile, it is rightly said by one leading European official, that Federal Reserve Chairman Paul A. Volcker has been doing Moscow's work of destroying the military capabilities of the Western Alliance.

Beginning the April-May 1982 period, into the scheduled European-missiles showdown with Moscow during early 1983, the world is faced with an unprecedented scale and intensity of eruption of strategic hot-spots, under conditions Volcker's wrecking of the U.S. economy has plunged most of the world into the initial phase of a new general depression. All of this proceeds under the influence of a delusion, recently echoed by Sen. Edward Kennedy and others, that the destructive force of the U.S. strategic thermonuclear arsenal affords our nation adequate protection, such that the other elements of our national military capability can be permitted to drift in the direction of the stone age.

It is true that the consequences of intercontinental thermonuclear barrages are beyond the imagination of most persons. The general best estimate is that the first thermonuclear assaults upon the mainland United States will kill between 160 and 180 million residents (and unlucky visitors). In a study prepared for a NATO government by a leading European scientific center, it has been estimated that if only 10 percent of the superpowers' thermonuclear arsenals were exploded, the long-lived radioactive cesium produced would eliminate all higher forms of life throughout this planet within two years of the barrage.

Can this nightmare not be ended?

The worst feature of the Kissingerian MADness doctrine is the false assumption that the foreknown consequences of thermonuclear warfare are sufficient to

prevent any superpower from actually launching a general thermonuclear assault. This obsession with MADness has gone so far as to foster the doctrine that Moscow would tolerate a limited, Europe-based nuclear assault on Russia itself without unleashing a general thermonuclear barrage against the mainland United States.

The consequences of thermonuclear warfare are an awesome deterrent. It is false, to the point of suicidal absurdity, to assume that that deterrent effect is an *absolute deterrent*. Assuming that the fingers on the superpowers' buttons are not insane, *there is only one condition under which a superpower would launch a thermonuclear salvo against the homeland of its adversary*. Any superpower would do so if it believed that failure to launch such a salvo meant the assured *political* destruction of its homeland, or if it believed the government of the other superpower is insane enough to be preparing a preemptive thermonuclear ("first strike") barrage.

Any dedication by the United States, either to theater-limited nuclear warfare in Central Europe, or to "rolling back the Yalta-defined borders between East and West," leads to the point of no-return at which a general intercontinental thermonuclear war becomes, under present arrays of forces, virtually a certainty.

If the government of the United States continues its adherence to the monetary policies set into motion August 1971, or, worse, the Volcker monetarist policies of the present moment, most of the world is already plunging into the depths of a new general depression far deeper, more prolonged, and qualitatively more devastating than the economic depression preceding the war of 1939-45. The opening phase of the new depression was entered during the interval October 1981-February 1982. On condition the presently increasing role of the military consolidates and strengthens the relative stability and economic power of the Comecon and Warsaw Pact, the growing economic weakness of the Western Alliance nations, accentuated by eruptions of strategic "hot-spots," creates a totally unacceptable strategic shift for the United States, a threat of the political subordination of the United States to emerging Moscow hegemony. Under such conditions, almost anything becomes possible.

On condition the friends of Walter Sheridan do not succeed in their present determination to oust President Reagan on pretext of manufactured scandal during the months ahead, the Moscow-Washington confrontation-crisis almost certain now for the months ahead will lead to new, emergency forms of crisis-management negotiations between Washington and Moscow, as both capitals seek to adduce mutually acceptable options for avoiding what otherwise appears to be a certain thermonuclear confrontation between the two superpowers.

In reality, new agreements mutually acceptable to

both governments are available, agreements which involve no capitulation by one side to the other, and which yet introduce new institutions of stability into superpower relationships. Unfortunately, especially under the influence of today's news media, there is usually a large discrepancy between reality and the prevailing perceptions. Under present U.S. monetary and military policies, it will be impossible to bring about fruitful changes in Soviet policy. Unless the United States changes drastically its present monetary and military policies, the thermonuclear catastrophe born of Kissingerian MADness threatens to become the kind of war no one wished to believe could actually happen.

As we approach this early period of acute crisis, it is urgent that the government of the United States be prepared to proceed from both monetary policies and military policies fundamentally different than the policy-trends which have increasingly dominated our policy-making over the recent 15 years. It is also important that such policy-changes be discussed openly, within sight and hearing of Moscow's leadership. The immediate object of such open formulation of changed policies is, that when President Reagan enters into crisis-management negotiations with Moscow, at the virtual brink of a thermonuclear confrontation, the President must have available new policy-options, options which Moscow's leading circles have studied earlier, and which therefore might be more readily considered by Moscow's negotiating-teams under those conditions of crisis.

No workable solution to the impending crisis can be achieved through the present agenda of SALT or START negotiations. Moscow will not accept, under any conditions, an arms agreement which includes the emplacement of any quantity of cruise and Pershing-II missiles in Britain, the Federal Republic of Germany, Spain or Sicily. The point is that such nuclear missiles, especially Pershing-IIs, decrease the warning-time on launch of attack on Russia from about 25 minutes (presently) to as few as several minutes. If the United States insists on deploying Pershing-IIs in Germany, for example, Moscow will retaliate by measures including probably placing Soviet nuclear missiles within minutes of the mainland cities of the United States—this does not mean automatically the emplacement of Soviet missiles in Cuba; 20 years in the advancement of technology of strategic weaponry have produced a range of new options for such deployments.

Apart from the particular issue of Pershing-IIs, no mere reduction in the size of thermonuclear arsenals will accomplish anything of more than cosmetic importance. Reduced arsenals would remain many times larger than would be required to eliminate all higher forms of life on this planet. In any case, disarmament and peace negotiations were the diplomatic swindles preceding the last World War, together with those

worse-than-usual "peace movements" which proliferated under the sponsorship of Bertrand Russell and Aldous Huxley during the late 1930s.

In any case, the only "sincere motivation" for negotiating presently some disarmament in either Moscow or Washington presently is the desire to reduce the economic burden of military-expenditures budgets upon the respective nations.

There are two additional, relatively technical flaws with the continuation of "thermonuclear deterrence." "First strike," the wishful doctrine which presumes that both sides will limit intercontinental thermonuclear salvos to enemy missiles and some other purely military targets, was always intrinsically absurd. Under the

conditions a rational superpower will risk thermonuclear warfare, it will commit first salvos adequate to destroy the in-depth war-making potential of the adversary power; meaning the cities of the adversary nation. Now, the belief that submarine-launched thermonuclear missiles represent an assured "second strike," retaliatory capability is becoming a delusion. Such submarines are themselves becoming intrinsically detectable and targetable as part of the range of "first strike" targets. Submarine-based missiles no longer represent an assured "second strike" capability; their military usefulness is now limited to forward-based "first launch" capabilities.

In brief, all strategic-arms-limitation diplomacy is

Beam weapons and how they work

Conventional technologies, taking advantage of spectacular advances in guidance and propulsion technologies over the past five years, can be used to build an "anti-missile missile." According to authoritative studies by the Los Alamos Scientific Laboratory ("Ballistic Missile Defense—A Quick-Look Assessment," Office of Planning and Analysis, LASL-UR-80-1578, REV, June, 1980), the United States could deploy a system of both low-altitude missiles and higher-altitude interception techniques within five years, with substantial protection available within as little as three years. These systems by themselves are not sufficient, but as part of a comprehensive defense strategy they acquire a significance and effectiveness that they alone lack.

There are four members of the family of beam weapons which can be combined to create an effective ballistic-missile defense system for the United States. They are: **1) Laser anti-missile systems.** Using intense, highly focused light energy produced by a laser, this beam weapon would use its ability to project large energies at the speed of light to burn through an incoming ballistic missile. Both laser weapons stationed in space and on the earth have been studied for application to the destruction of ICBMs. Lasers such as those proposed for anti-ballistic missile systems have been used by the both the United States and the Soviet Union to destroy airplanes and helicopters in flight, and, according to authoritative sources, the Soviet Union has downed a ballistic missile with such a laser. The U.S. does not even plan such a test for another 18 months.

2) Particle beam anti-missile systems. In this version of a beam weapon, a high energy stream of atomic or sub-atomic particles is used to create a shock-wave which destroys the target. These particles, traveling near the speed of light, cause intense mechanical stresses and pulses of radiation which can disable a ballistic missile. Such devices have been tested at Soviet weapons laboratories on a weapons scale; the United States does not plan such tests for several years.

3) Electromagnetic wave beam weapons. These weapons use intense beams of microwaves or radio waves to destroy their target. The intense heating and electrical fields caused by the intense radiation are known to be effective means for disabling the delicate electronics on a ballistic missile as well as for disabling the satellites used to guide and target the ICBMs. The Soviet Union is recognized to be many years ahead of the United States in the experimental development of intense, directed microwave sources. The extent of the Soviet deployment of these microwaves is not publicly known.

4) Plasma beam weapons. It has been known for many years that discrete pulses of highly ionized gas (plasmas) can be generated and accelerated. In a phenomenon closely resembling ball lightning, a self-contained structure of magnetic fields and charged particles can travel long distances with large amounts of energy contained in the plasma-field structure. Studies show that as much as the energy equivalent of five pounds of dynamite (10 megajoules) could be stored in a plasma ball about one-half inch across, traveling at velocities in excess of 1,000 miles per second. This energy, in the highly concentrated form of a plasma-field configuration, would completely destroy an ICBM. The Soviet Union has been conducting active research on this phenomenon since at least the middle 1950s and has recently experimented with large-scale plasma acceleration in the atmosphere.

becoming useless babbling, at least insofar as this diplomacy affects strategic military capabilities of the respective powers.

There is no solution to the continued balance of thermonuclear terror which is not premised on the ability of at least one of the superpowers to destroy a proverbial "ninety-nine and forty-four one-hundredths percent" of the incoming missiles and thermonuclear-armed aircraft deployed against its national homeland.

In principle, such an anti-missile capability now exists, in the form of what are properly termed *relativistic-beam anti-missile weapons systems*. We propose, we insist, that the reformed military policy of the United States be premised upon a commitment to a "crash program" for developing and deploying such anti-missile beam-weapon systems.

We go further. We propose that the adoption of such a high-technology answer to the thermonuclear balance of terror become the central reference-point for a comprehensive reform of United States military doctrine and organization of the Defense Department.

On the assumption that the Reagan administration adopts such a comprehensive reform as policy prior to impending crisis-management negotiations with Moscow, this new U.S. military policy can be the basis for a new approach to armaments negotiations with the Soviet leadership.

Today, a growing number of nations have nuclear-weapons capabilities. Rapidly, those same nations will acquire missile delivery-capabilities for nuclear weapons. Most nations with an established fission-weapons capability have also the potential for creating thermonuclear weapons systems. Thus, even if the balance of terror between the two superpowers were regulated, third powers, increasingly, have the potential for starting a thermonuclear war which must more or less immediately embroil the superpowers' own thermonuclear arsenals.

Under these conditions, the military component of Washington-Moscow negotiations must include agreement to rapid development of relativistic-beam anti-missile weapons systems by both superpowers. Two urgent benefits are to be realized by such agreement. First, to the degree we create conditions of assured destruction for intercontinental thermonuclear weapons systems under war-fighting regimes, the value of such thermonuclear weapons is reduced, and then, and only under such conditions, both superpowers can agree to demobilize such components of their respective arsenals. Second, neither superpower must tolerate the use of even limited thermonuclear warfare by third powers. We must agree to shoot down third-power nuclear weapons on launch by aid of means including orbiting beam-weapon-armed space platforms.

With such agreements, the age of mutual thermonuclear terror is brought toward its conclusion.

Democratic Party

Douglas raises storm in Pennsylvania

by Mary McCourt

The campaign for National Democratic Policy Committee backed-candidate Steven Douglas for the Democratic Party's gubernatorial nomination in Pennsylvania is creating an institution to fill the vacuum of leadership in Pennsylvania politics at a time when the state is facing the worst economic crisis in its history.

Pennsylvania, the leading industrial and energy-producing state in the 19th century, was devastated by the Great Depression of the 1930s, and what remains of its economy is threatened with a total shutdown in the current one. Although Pennsylvania has been traditionally a Republican state, the policies of the NDPC candidate—based on the four-point program of *EIR* founder Lyndon H. LaRouche which calls for gold-reserve-backed, long-term, low-interest credit, infrastructure improvement, nuclear development, and a vigorous campaign to stop drug traffic and use—are clearly essential to reversing the depression conditions in the state.

The following is an interview with the candidate by *EIR*'s Mary McCourt.

EIR: What effect is your campaign having on the Pennsylvania electorate?

Douglas: At this point we have over several thousand campaign volunteers, distributing literature in the towns and neighborhoods across the state. These people are farmers, members of labor unions, small businessmen, the traditional backbone of the Democratic Party. This is the biggest grassroots campaign effort that has been seen in the state in decades. Tens of thousands of residents of Pennsylvania who had been disenfranchised are being brought into active policy-making.

I have been very pleased with the response from regional labor leaders. Emil Dicimbre, the former president of the Building Trades Council in Beaver County, is my campaign manager for Beaver County, one of the industrial heartlands of Pennsylvania. My campaign coordinator for Fayette County is Tom Shetterly, the busi-

ness agent for the local carpenter's union, and the Vice-President of the County Central Labor Council. Disaffected Democratic office holders are also supporting the campaign. One of my campaign co-coordinators for Carbon County in northeastern Pennsylvania is Charlie Moser, a former city councilman in the county seat. The home of every registered Democrat in Carbon County will soon have received my political platform, and in most cases a personal visit.

EIR: What is the recent history of the Democratic Party in the state?

Douglas: The Democratic Party in Pennsylvania was the victim of the biggest Abscam operation in the country. Mel Weinberg, the convicted felon used most recently to frame up Sen. Harrison Williams of New Jersey, operated out of Philadelphia. Two pro-labor Philadelphia Democrats, Reps. Ozzie Meyers and Ray Letterer were forced to resign after Abscam convictions in 1981. City Council President George Schwarz and Councilman Harry Janotti wereset up in what Federal Judge Aldisert called a Gestapo entrapment operation. [see *EIR*, March 2, 1982—ed.]

This Abscam operation was meant to be the death blow following 20 years of wrecking the Pennsylvania Democratic Party. Former Mayor Frank Rizzo's machine was forced out of power in Philadelphia; his successor, William Green, has been enforcing the policies of the University of Pennsylvania's Wharton School for a post-industrial city. Milton Shapp, the Democratic Governor, was set up on charges of misuse of funds in 1978.

EIR: How has the state party leadership met this situation?

Douglas: The state Democratic Party made a grave blunder in endorsing a non-candidate for governor at its state committee meeting in Harrisburg Feb. 27. The political bankruptcy of the party machine was demonstrated by the refusal of any Democrat who has even state-wide recognition to run. So the party endorsed Allen Ertel, an unknown central Pennsylvania Congressman, who has defined himself as "the invisible candidate." Ertel has only been in office since 1976; in that period of time his only legislative initiative has been to ally with Ted Kennedy as a prime mover behind the airline deregulation bill.

The purpose of the state party was to *minimize* any campaign activity in the primary, ostensibly to hoard the candidate's resources for the effort to unseat [incumbent Republican Richard] Thornburgh. The real purpose is to cover the fact that the Democratic Party leadership has absolutely no program for dealing with the economic and strategic crisis the nation is facing. The only thing the party leadership seems to have learned from the debacle of the 1980 election is that just as people voted

against Carter in 1980, they will be voting against Thornburgh in 1982. This is criminally inadequate.

What I have been campaigning for is an open primary, where each one of the four Democratic candidates would have been forced to go out and campaign hard on the issues. One long-term Democratic leader and union official from western Pennsylvania told me that my campaign was having an extraordinary impact—and the only reason Ertel is campaigning at all is that I have flushed him out of hiding.

EIR: How extensive is the economic crisis in the state?

Douglas: Pennsylvania has one of the highest unemployment rates in the country—11 percent as of March. In the last decade, manufacturing employment has dropped 20 percent statewide, 45 percent in Philadelphia.

The legislature and the governor's administration are controlled by Republicans who have enacted the worst aspects of "Reaganomics," epitomized by the "workfare" bill passed in early April, which slashed general assistance by 50 percent, and required those cut off the rolls to work at minimum-wage jobs to receive any benefits. Businesses can get up to 90 percent of their state taxes written off by hiring welfare recipients, and buy into other businesses with unused tax benefits. The Pennsylvania state government is supporting speculation in slave-labor projects, not the rebuilding of the steel industry.

EIR: What has been the response of the steel sector to your campaign?

Douglas: The steel valley of western Pennsylvania is being turned into death valley. There has been tremendous response to my proposals for rebuilding Pennsylvania's steel-producing capacity from workers and local steel union leaders, but, predictably, nothing from industrial leaders. Pennsylvania is dominated by U.S. Steel, which is run by the Morgan financial interests. Former board chairman Edgar Speer said several years ago that U.S. Steel was "in the business of making profits, not steel." National steel production is down to 49 percent of capacity—that was the figure as of May 8.

One of the most important effects of my campaign among steelworkers, however, has been the growing recognition that the crisis in American steel is not due to Japanese imports, but to foreign, i.e., British post-industrial ideology; that the high interest rate policy of Federal Reserve Chairman Paul Volcker is aimed at dismantling the capital-goods producing sector of the economy.

One thing steelworkers are coming to understand, for example, is that with the agricultural sector, the largest consumer of steel in the economy, suffering record rates of bankruptcies in Pennsylvania, due to Volcker's interest rates, this has a lot to do with the collapse of steel.

Washington is anglo-defiled by the British

Henry Kissinger and his protégé Alexander Haig appeared almost simultaneously behind podiums on two continents May 10—Henry Kissinger before the Royal Institute for International Affairs in Chatham House, London, and Haig in a rare appearance at the State Department briefing room in Washington, D.C.

Haig's purpose was to announce his profound pleasure at three State Department personnel decisions the Reagan White House had made that morning. These were the promotions of James Buckley to the newly enhanced position of counselor of the Department of State and Richard Burt to Assistant Secretary for European Affairs, as well as the appointment of Rear Admiral Jonathan Howe to replace Burt as Director of the Bureau of Politico-Military Affairs. Haig also announced his satisfaction with the as-yet-unannounced appointees to the posts of Undersecretary for Economic Affairs and Undersecretary for Security Assistance, Science, and Technology. These appointments mark the end of a struggle over the administration's foreign policy apparatus, a struggle which began on Inauguration Day with Haig's announcement that he would be the "vicar of foreign policy," and has been characterized by Haig's euphemistic insistence that foreign policy should be left to "professionals" with close associations to the New York Council on

Foreign Relations, the Trilateral Commission, the Club of Rome, and Georgetown University's Center for Strategic and International Studies—as opposed to "politicians" who represent the policy viewpoint of the elected president. Haig has repeatedly referred to the President's involvement in foreign policy making as "this tortuous upheaval and confusion in foreign policy we go through every four years."

Howe and Burt, both graduates of the Fletcher School of Law and Diplomacy, exemplify the kind of amoral, or rather immoral geopoliticians which these institutions specialize in producing. Burt's prior service was with the Council on Foreign Relations' propaganda bulletin, *The New York Times*, and as Assistant Director of London's International Institute for Strategic Studies, the sister institute of Georgetown's CSIS. Howe, like Haig and almost all of his top aides, was initiated into foreign policy service under National Security Adviser Henry Kissinger and was then promoted to the position of National Security Adviser to Vice-President Nelson Rockefeller. Although James Buckley may, at first glance, seem outside the mode of the foreign-policy professional, despite his exclusive Yale University Skull and Bones cult membership, his background, as described in the May 4 *EIR*, reveals what Haig is actually doing to the State Department under the euphemism of "professionalism." Buckley, along with his whole flaky family, is a dirty trickster for the network of organized-crime families which the British Royal Family oversees. The White House release on Mr. Buckley's promotion acknowledges his actual "dirty operations" role by saying he will perform special "sensitive" missions for the Secretary of State.

Kissinger pledges U.S. to Her Majesty's service

Henry Kissinger's address to London's Royal Institute for International Affairs clarified the significance of the recent changes in Washington. Kissinger opened his speech by associating his and Haig's efforts to "professionalize" the Foreign Service with the history of the British Foreign Office, pointing out that the Foreign Office was founded to replace "politicians" with "professional machinery" to manage Britain's newly expanded sphere of "foreign affairs."

After describing how, during his administrations, he turned the State Department and the U.S. Cabinet into underprivileged and not to be trusted bureaus of the British Foreign Office, he mentions the Falkland Islands escapade as a great moment in that struggle against Americanism and proposes that some structure should be developed for uniting the United States, Western Europe, and Britain firmly under the direction of British methods.

After reading the text of Kissinger's address, which is available through his office at CSIS, a source in recent communication with the Joint Chiefs of Staff exclaimed, "This provides all the evidence we need to take Henry Kissinger and all of the smart asses inside and outside the government who lost their diplomatic virginity serving under him, starting with Al Haig and then on to Larry Eagleburger, Jonathan Howe, Robert MacFarlane, Chester Crocker, Robert Hormats, Fred Bergsten, and Don Lesh, out and hang them for treason." When I suggested that they must be first afforded fair trials, he said, "There'll be plenty of time for that after we open the trap-doors under their feet and before their necks snap."

House passes emergency housing subsidy

The House passed an emergency \$1 billion plan May 11 to help moderate-income families to purchase new homes by subsidizing 4 to 6 percent of the interest rate on new mortgages. Passed by a veto-proof vote of 349 to 55, Congressional proponents hope to generate 74,000 new homes and 140,000 jobs this summer, which would shave one-tenth of one percent off the unemployment rate.

While the rush for any remedies for a housing industry in depression conditions is understandable, the subsidy is a clear congressional capitulation to paying Federal Reserve Chairman Paul Volcker's "protection money" on behalf of the housing industry. Congressional despair of ever challenging Volcker successfully was clear in the comments of House Majority Leader Jim Wright (D-Tex.), one of the most adamant opponents of high interest rates. "There is no alternative" to the subsidy, Wright said. "We have to subsidize interest rates because we can't mandate that they come down." House Minority Leader Robert Michel (R-Ill.) attacked the subsidy, saying that "we're again locking ourselves into subsidies for the next five to seven years when we should be dealing with [economic problems] in the next five to seven months." Michel, however, offered nothing more than the time-worn argument that balancing the budget would bring down interest rates.

An attempt to finance the housing plan by taking money from the synthetic fuels program, offered by two Republicans, Tom Corcoran

(Ill.) and Thomas Evans (Del.), was pointed out to be deceptive since the synthetic fuels program is based on loan guarantees, not direct spending. The House will next consider appropriating the money in a supplemental appropriation bill, granting \$3.5 billion to continue the subsidy over the next seven years beginning Oct. 1, 1982. A similar Senate proposal has allocated \$5 billion for a five-year program.

House passes new reclamation bill

The House passed H.R.5539 on May 6 to revise federal land reclamation laws. The major provision in the bill would amend the current law, which has been on the books since 1902, and increase the amount of acreage receiving lower-cost federally supplied water from 160 acres per owner to 960 acres for a family-farm unit, encompassing 97 percent of all farms and 70 percent of the land under reclamation. Any farm over 960 acres would pay the full cost of water delivery. The vote was 228 to 117, with one abstention.

An amendment offered by Rep. Dale Kildee (D-Mich.) providing that any corporation with 18 or more share-holders holding reclamation land would have to pay the full cost of water delivery for any land over 160 acres, passed by a vote of 220 to 160. Kildee argued that the federal government should not be subsidizing corporate giants such as Southern Pacific Land Company, a subsidiary of Southern Pacific Railroad, and various

oil companies that have large land holdings. Others pointed out, however, that Congressional Budget Office estimates expect a paltry \$10 to \$12 million to be realized in this cost-recovery scheme. Rep. David Emery (R-Me.) offered another amendment to restrict the amount of acreage receiving the lower-cost water to 640 acres, which failed by voice vote.

Water-related and farming organizations have been ready to accept any legislation as preferable to the 160-acre limitation. Environmentalists and proponents of the "small is beautiful" outlook have threatened modern farming operations and the economies of scale that exist today by fighting to attempt to enforce the 160-acre provision, a move that would turn modern operations back to the "160 acres and a mule" situation of 1902.

The Senate Energy and Natural Resources Committee meanwhile passed their version of new reclamation legislation on April 29 with 1,280 acres for a qualified recipient and 640 acres for a limited recipient allowed to receive low-cost water. The full Senate is expected to take the matter up as early as the week of May 17 and the conflicting versions will go to House-Senate conference.

Rep. Mitchell cites Monroe Doctrine

Congressman Parren J. Mitchell (D-Md.) signed the following letter to President Reagan May 13, and is circulating it among members of Congress:

"With the Falkland/Malvinas Islands crisis escalating from a series of verbal threats to a succession of armed engagements, I am very concerned that this administration may decide to provide military aid and logistical support to Great Britain in its undeclared war with Argentina. Such a deviation from the U.S.-espoused position of neutrality would jeopardize U.S. interests and the U.S. commitment to maintain peace in the Western Hemisphere.

"Furthermore, U.S. support for Great Britain would create numerous diplomatic and legal problems. By refusing to maintain a neutral position, the United States would be neglecting the historical ties Argentina has established with the Falklands. These ties, established between 1820 and 1831, were abruptly severed as the United States [under President Andrew Jackson—ed.] forced the original Argentine settlers to leave the Falklands. Consequently, Great Britain was able to declare sovereignty over the Falklands, and establish a permanent colony.

"In addition, as a member of the Organization of American States, the United States is legally bound to uphold and protect the sovereignty of Argentina should the Rio Treaty be invoked. Finally, the Monroe Doctrine blatantly forbids European interference in the affairs of the Western Hemisphere. By supporting Great Britain, the United States would be abandoning its responsibility as a member of the Organization of American States, while at the same time contravening the Monroe Doctrine, one of the cornerstones of U.S. foreign policy.

"I strongly urge your administration to reaffirm its neutralist position by refusing to provide any aid to Great Britain that could be used against Argentina and her allies during this dispute. Such a statement would encourage a negotiated settlement to the Falkland Islands dispute, reassert a U.S. commitment to the Monroe Doctrine and the Organization of American States, and confirm this country's anathema towards colonialism."

Senators outline broad Abscam operation

The first substantive and fully attended meeting May 11 of the Senate Select Committee investigating Abscam resolved to expand its investigation to cover a broad range of government undercover operations of recent years. James McClure (R-Id.), second-ranking Republican on the committee, stated, "If we fail to look beyond Abscam to see if it was typical or atypical, we will fail in our charter."

James Neal, the newly appointed counsel to the committee, presented a preliminary outline of the tasks before the committee at the meeting: 1) what policies did exist or now exist in the Justice Department governing such undercover operations; 2) how do these operations square with the existing laws and policies of the nation; 3) how well were the operations controlled and carried out; and 4) what should be done regarding such operations in the future?

Neal noted that the committee should investigate in particular, when the FBI changed its policies

from its more traditional activities to those of creating opportunities of crime. Committee Chairman Charles Mathias (R-Md.) concurred.

Senator Dennis DeConcini (D-Ariz.) questioned whether it was in the interests of the committee to "look at a very broad scope of investigations. . . . I have reservations about us doing that here." But Sen. Warren Rudman (R-N.H.) disagreed. "I think we would be doing a disservice if we made this investigation so narrow as to fail to fully expose more than that. We are not really interested in what happened to members of Congress, but how the Justice Department does its targeting. I think we have to answer questions: How does the Department establish probable cause or reason to believe that someone should be investigated, and once having made that decision, what procedures and controls govern the investigation? We have to know what are the standards and how they were implemented, and if the standards used in Abscam were different than those used in other investigations."

The Vice-Chairman of the committee Walter Huddleston (D-Ken.) added, "I would feel very uncomfortable if we zero in only on Abscam. We are not in a position of being concerned only about members of Congress. I think we need to do an inventory on whether or not innocent parties have been injured and their civil and constitutional rights violated."

The committee decided to mandate the counsel to prepare a broad inventory of government undercover operations for presentation to the next meeting in two weeks.

National News

Resolution against U.S. purchases of Iranian oil

Congressman Floyd Fithian, an Indiana Democrat running for the Senate, introduced House Concurrent Resolution 333 on May 6 "expressing the sense of Congress—and the outrage of the American people—against the resumption of U.S. oil purchases from Iran." The resolution was introduced after the federal government purchased 1.8 million barrels of oil for the Strategic Petroleum Reserve for \$53.2 million during the week of April 24, effectively ending the ban on oil imports from Iran imposed when the Khomeini regime seized U.S. hostages.

"It is not difficult to understand why the revolutionary Iranian government would want to make its peace with what it used to call 'the great Satan,'" Fithian charged; "the Iranian economy is in shambles and it desperately needs foreign currency to support its war effort against Iraq.

"At the same time we are telling Libya that its support for terrorism and its contempt for the rule of law in world affairs warrants tough economic sanctions," Fithian said, "we are telling the revolutionary Iranians that all is forgiven . . . that is not the message that the people I represent want our government to send to Khomeini and Qaddafi."

EIR seminars launched in New York

A May 13 *EIR* seminar on "The Malvinas Crisis: Strategic and Financial Implications" attended by 40 people launched a regular series of *EIR* policy seminars in New York, as already exists in Washington, D.C. Diplomats from 19 countries attended, weighted toward Latin America, Africa, Eastern Europe, and Asia.

Keynote speaker Criton Zoakos, *EIR* Editor-in-Chief, outlined how institutions are deploying in expectation of a financial collapse, noting the hasty deci-

sion of the New York Federal Reserve to hold a closed briefing on the same theme, at the same time, as the present *EIR* event. Zoakos started by asking for "the true objective" behind Britain's diplomatic and military deployment, way out of proportion to the purported objective of the Malvinas. He identified it in the transformation of NATO for military operations in the developing sector, and the related goal set by the Bank for International Settlements, of turning LDC governments into debt-collecting agencies.

Zoakos posed the strategic necessity for other nations to assess accurately the British grip on Washington and act to break it.

EIR Economics Editor David Goldman reported, from the perspective of his just-ended tour of Europe, on the scope of the potential financial blow-out. *EIR* Latin America Editor Dennis Small showed, country-by-country, how the United States has surpassed even Jimmy Carter in wrecking U.S. relations with Latin America. The panel answered questions for another hour after the speeches.

Allen says Malvinas will hurt inter-American ties

Richard Allen, the former national security adviser to the Reagan administration, said May 13 that the conflict over the Malvinas Islands has "profound and long-lasting implications for U.S.-Latin American relations" which could damage U.S. national interests. Allen told a reporter that "The Reagan administration's emphasis on hemispheric relationships was one of the most important and positive aspects of its foreign policy," but that the current crisis could undo everything the administration has so far accomplished with its southern neighbors.

Allen also said that Henry Kissinger's speech May 10 to the Royal Institute of International Affairs boasting how he subordinated the U.S. State Department to the dictates of the British Foreign Office, is being widely played up in the

Argentine press. "A friend of mine from Argentina called me today and read me some quotes from the speech in Spanish from the newspapers. If anyone thinks that he can give a speech in some remote part of the globe [London—ed.] and that it won't be heard in other places, this should show how wrong they are."

New York City verging on new budget crisis

New York City is facing a new round of crippling work-force reductions and budget cuts in the fiscal year beginning in July, with education to bear the brunt of the austerity. Mayor Edward Koch's \$15.5 billion budget has at least a \$520 million deficit, and it is unlikely that the state legislature will approve a combination of new taxes and increased state aid in this election year.

The state's extra-legal Financial Control Board, which has oversight jurisdiction over the city's finances, is for the first time threatening to veto the budget if Koch does not make sufficient cut-backs.

Frank Macchiarola, the city's superintendent of schools, estimates that the failure of the state to provide \$125 million in increased education aid, plus the loss of \$156 million in federal funds, will result in 4,448 teacher layoffs, or four per school, and the termination of many school programs. If Macchiarola follows through on his threat to sue the city, Koch might well respond by firing police, fire, and other vital personnel.

Koch to introduce work camps in New York

New York City Mayor Edward Koch has announced that in August his administration will begin setting up work camps for "quality of life" offenders.

Within one year, the camps will house 123 prisoners on Hart and Rikers Islands, which could then be quickly ex-

panded to 700 or more, and recycle tens of thousands. "Quality of life" offenders are those sentenced for up to 15 days, and range from three-card monte players to traffic light violators.

According to the Criminal Justice Co-ordinating Department, the ultimate goal is to include virtually all prisoners in city prisons who are not violent criminals, and have them work in city jobs. This would be coordinated with an expanded program of the State Department of Corrections to have longer-term felons engage in public works and municipal jobs throughout the state—following the planned election this fall of Koch as Governor.

The creation of work camps in New York City and State is the prelude for forced labor to replace government workers. It represents the next step in the city's austerity plan, introduced in 1975 under Felix Rohatyn's Municipal Assistance Corporation (Big MAC). Workers in these camps would be given "incentive pay" of 50 cents an hour, at a time when the city and state budgets are being drastically slashed.

Rickover disappoints nuclear-freeze advocates

Admiral Hyman Rickover, the founder of the U.S. nuclear navy and one of the initiators of civilian nuclear reactors, delivered a statement May 9 to an audience of New York's anglophile elite gathered at the Cathedral of St. John the Divine.

The 82-year-old admiral had expressed some pro-disarmament sentiments when he was fired last January. However, in his speech at the cathedral, he disappointed his pro-nuclear freeze audience by refusing to address the issue of "the nuclear debate." Instead, he spoke to the undermining of the moral purpose of the American republic (a deterioration many of those in the audience had been responsible for) which has forced it into the present economic and strategic crisis.

"To work, to create, to excel, is the human purpose in life," he stated. "Re-

sponsibility is the principle which forces a man to become involved. Too many people abrogate their own responsibility for events by subordinating themselves to institutions. . . .

"Ignorance is the source of most of our national misfortunes. . . . We must develop the powers of language and thought of our population, and the written word is the way to advance both. . . .

"We are living on the accumulated moral capital of previous generations. . . . I believe that it is the duty of each of us to act as if the fate of the whold world depended on us alone."

Rickover refused to sit on a panel with Morehead Kennedy and other "peace movement" advocates, and left the cathedral after delivering his speech.

Justice Department target wins election by landslide

William Musto, the Democratic Mayor of Union City, New Jersey, was reelected in a landslide May 11, one day after being sentenced to seven years in prison after a Justice Department frame-up. Musto is one of the last long-time political machine leaders in New Jersey.

The Justice Department operation in New Jersey has been totally enmeshed with Resorts International, Meyer Lansky and David Rockefeller's casino conglomerate. In 1965, two current New Jersey federal judges, Herbert Stern and Frederick Lacey, were deployed by the DOJ as U.S. Attorneys to investigate and prosecute political corruption and white-collar crime in the state.

Stern's immediate superiors at the time, Robert Peloquin and William Hurdley, have since left the department, to work directly for Resorts International as legal consultants under a \$1 million contract.

Musto has been a leader in Union City politics since 1946. He has a strong record of opposing drug use and trafficking, and has been effective in keeping municipal services and education functioning in the city, in the face of industrial collapse.

Briefly

● **THE SOCIETY** for International Development, an organization committed to zero growth, is hoping to get President Reagan and Mexican President López Portillo to speak at its July 18-22 Baltimore conference on "The Emerging Global Village." Appearing at the event are Club of Rome Chairman, Aurelio Peccei, the British Colonial Office's Dudley Sears, the Council on Foreign Relations' James Grant, who is also Chairman of the SID, and Club of Rome member Elisabeth Mann Borgese.

● **GEN. JOHN W. VESSEY**, President Reagan's unanimously approved nominee for Chairman of the Joint Chiefs of Staff, told the Senate Armed Services Committee May 11 that he did not believe the U.S. should get militarily involved in the Falklands war.

● **SUN MYUNG MOON** is supplying the funds and the core personnel to set up the *Washington Times*. Katherine Graham's *Washington Post* has expressed outrage at the appearance of its new competitor. Apparently Mrs. Graham believes that Washington is only big enough for one cult.

● **ALEXANDER HAIG'S** speeches around the nation's capital currently remind many political veterans here of former President Jimmy Carter. Since it is illegal to laugh within 100 meters of General Haig, many political veterans are relieving their tension with Carter jokes.

● **LAWRENCE Eagleburger** has borrowed a special task force from the FBI, to attempt to discover who arranged simultaneous English translations for Washington journalists at a May 13 press conference addressed by Secretary of State Haig.

Editorial

The Machiavellian imperative

The Argentines would do well to look closely at the developments in the Iran-Iraq war. Both Iraq and Argentina were goaded to act by the intolerable political-military behavior of the British oligarchy. In Iraq's case, it was by the surrogate hordes of British asset Khomeini; in Argentina's, it was, of course, the beast itself.

The Iraqis started their war with moral purpose and a hefty local military superiority, initially racking up some brilliant tactical successes. But, just as they were positioned for a drive that could have ultimately annihilated Iran's military power and toppled the Khomeini dictatorship, the Iraqis stopped their armor to entrench around the territory they had occupied. The Iraqis had fallen prey to the longtime British philosophy of "cabinet warfare": the belief that warfighting is fundamentally not military but psychological, and can be accomplished by a combination of "public opinion," trickery, and diplomatic waiting games.

In this way, the Iraqis gave the Khomeini dictatorship the time to further brainwash its subjects, who are now sorely pressuring Iraqi positions through suicidal "human-wave" attacks. Both sides are now sustaining, and can further expect, massive losses—losses far greater, perhaps, than if the Iraqis had driven on to Teheran and ended the war.

Cabinet warfare is an old game. America had a taste of it during the Revolutionary War, when the British oligarchs sent gorgeously dressed soldiers to put down the rebellion. The theory went that the British troops, firing in perfect unison from parade-ground formations, would cow the American "rabble" by their utter discipline. Such was the belief that the British leaders felt it unnecessary to equip their soldiers' rifles with sights for aiming.

The American citizen-militias, equipped with long rifles, made short work of these superprofessionals in most engagements.

Argentine military planners—and their U.S. colleagues—would also do very well to look at the foundations of that historic defeat for the British oligarchy. The U.S. citizen militia was founded by men who had

all studied the works of the Renaissance Florentine Niccolò Machiavelli.

Although he is much-maligned today (like his and Leonardo da Vinci's protégé, Cesare Borgia), the Founding Fathers correctly saw Machiavelli as the first theorist of how a republic must fight a war, and they made his ideas about the militia standard U.S. military policy. They also recognized, like Machiavelli, that in dealing with oligarchies one must never be sucked into "public opinion" games.

War is cruel by definition, stressed Machiavelli, so it is the responsibility of military leaders to make it as mercifully quick as possible. Machiavelli made the distinction: cruelties "well-committed . . . are those perpetuated once for the need of securing one's self, and which afterwards are not persisted in, but are exchanged for measures as useful to the subjects as possible. Cruelties ill-committed are those which . . . increase rather than diminish with time. . . . Cesare Borgia," noted Machiavelli, "was considered cruel but his cruelty brought order to the Romagna, united it. . . . He was really much more merciful than the Florentine people, who, to avoid the name of cruelty, allowed [the town of] Pistoia to be destroyed."

Warfighting means throwing the resources of the whole society—hence Machiavelli's demand for a universally trained citizenry—with maximum force at the enemy's ability to wage war. Diplomatic parlor games are worthless with an oligarchy: "It is impossible to satisfy the nobility by fair dealing . . . whereas it is very easy to satisfy the mass of the people in this way. For the aim of the people is more honest than that of the nobility, the latter desiring to oppress. . . ."

The Argentines have an excellent opportunity to strike before the British forces increase—ensuring greater casualties. They should examine the case of Venice, Machiavelli's most hated enemy and the oligarchical power which, to this day, is allied with the British Royal Family. "Venice," Machiavelli stated, "having obtained possession of a great part of Italy, and most of it not by war, but by means of money and fraud, when occasion came for her to give proof of her strength, she lost everything in a single battle."

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