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Executive Intelligence Review

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# EIR

## From the Managing Editor

In September 1978, *EIR* carried an exclusive cover feature on the breakthrough at the Princeton University Large Torus tokamak research facility which confirmed the feasibility of magnetic-confinement fusion energy: the attainment of a 60-million-degree fusion reaction. In September 1980, we ran a Special Report on the passage of the Magnetic Fusion Energy Engineering Act of 1980, sponsored by Rep. Mike McCormack, which mandated \$20 billion over the next two decades to establish an engineering-stage program.

This week's Special Report describes a third breakthrough in the drive to make available this cheap, safe, limitless source of high-density energy. Even under absurd budget restraints, the polarization of fusion fuel has put fusion energy applications closer in reach. We are delighted to make available the Fusion Energy Foundation's ground-breaking work on this subject, in the hope that Americans will be emboldened not to allow the United States to lose its lead in this field out of "fiscal conservatism"—if that happens, it will be the first time any nation ever threw away such capabilities.

Next week, we plan a Special Report on the financial and economic conjuncture in Mexico.

We wish to relay the following message from European Economics Editor Laurent Murawiec and European Executive Director Michael Liebig:

"Those of us at *EIR* who knew Sir George Bolton, a former director of the Bank of England, chairman of the board of the Bank of London and South America, deputy chairman of Lonrho, and a former IMF and BIS official, had been impressed, despite sometimes considerable differences of view between us, whenever we met with him, with the the breadth of knowledge he possessed and the experience he brought to bear on policy questions respecting in particular developing countries' economic and financial affairs.

"His recent death is regretted, and his experience will be greatly missed, not least in the City of London, at a time of profound changes and turmoil in the financial situation of the 'Third World,' especially Latin America. Sir George would certainly have been one to grasp the deeper meaning of developments afoot in that part of the world, to realistically assess the geopolitical loss and profit accounts, and to react with a measured sense of balance. This will be greatly missed."

*Susan Johnson*

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## Deranged central bankers attempt lending clamps

by Laurent Murawiec, European Economics Editor

One of Edgar Allen Poe's most insightful short stories, "The Facts in the Case of M. Valdemar," narrates the "mesmerization," *in articulo mortis*, of a very sick man, and how a suspended lease on life is granted to him in this artificial way, until inevitably, the patient has to be awakened from hypnosis, at which point, Poe's story ends, "upon the bed, before that whole company, there lay a nearly liquid mass of loathsome—of detestable putrescence."

This is the sight with which the international financial community is being presented—of its own doing. Years of a blind policy of refinancing ever-growing masses of worthless financial paper without creating real value in return, followed by a vicious squeeze on productive credit, have brought the whole system to the point of breakup.

The Euromarkets are cracking at the seams. But market developments are simply a reflection of the deeper *political* process spearheaded by the Latin American nations' rejection of the deflationary world order demanded by the controllers of world credit, the world's central bankers and their club at the Bank for International Settlements.

### A deflationary order

The September annual conference of the IMF, as *EIR* reported last week, was characterized by Third World debtors' enunciation of their utter inability—and unwillingness—to pay their accumulated \$660 billion liabilities. In response, "international authorities" foolishly elected to pontificate about the Third World's "excessive consumption," to warn that deficits would not and should not be financed, and to

threaten commercial banks in the advanced sector to toe the party line.

The Swiss authorities laid it out in their own quiet, deadly way: "There is going to be a generalized effort to stop net indebtedness from growing, a very deliberate effort to stop the flow of fresh credit to the debtors. Whatever they do, the [Third World] will have to develop a mechanism to reduce their imports. The aim is to return to equilibrium in current accounts, for the whole Third World. There is going to be a cumulative contraction of economic activity. Zero growth in the OECD in 1982, predictable zero growth in 1983. . . . This cumulative contraction will worsen, with no element able to provide a stimulus. There is no recovery in sight. We are headed for a major deflation."

The source of the "putrescence" emanating from the world monetary system is an ideology which dictates that at whatever cost to humanity, the magical precepts of the mechanisms of "free enterprise" must be preserved. During the IMF conference, the delegates were confronted with the consequences of this insanity through the wide circulation of a special document written for the occasion by international economist and Democratic Party leader Lyndon LaRouche. Titled "Conditionality is a Nuremberg Crime," the opening paragraphs spell out the consequences of pursuing the banks' gameplan for reorganization of international debt through further global reductions in living standards. In the opening paragraphs of that document, LaRouche states that we are faced with "the threat of the worst international financial collapse since the middle of the fourteenth century. Now,

as during that fourteenth-century crisis, the usurious practices of the Lombards are accomplishing the common ruin of the debtors and creditors alike. . . . rather than permitting a correction in the foolish 'free-market economy' delusions causing the present depression, the forces which have caused this depression have . . . proposed to destroy entire nations and peoples through austerity-measures, rather than compromise any part of their 'free-market' fanaticism." Since the IMF meeting, this ideology has been at work in the "contingency planning" oozing from central banks. To the extent that the central bankers have determined that a frontal attack on indebted Third World countries had to be ruled out—mainly due to the political opposition to their policies spearheaded by Mexico and Latin America—the emergency measures now under way aim to achieve the same results "through the back door": by means of a major clampdown on the banks.

### Fed maneuvers

A New York-based former Bank of England employee now adorning the rooms of the Brookings Institution, was also spouting one of these insane, 'scenarios' of how central bankers were going to re-establish their divine right. "—— will go under," he cited a major New York bank; "Hong Shang will go under, the entire offshore markets will go under, and we'll set up an international banking supervisory board. Offshore entities are privateers riding on the shoulders of governments and central banks," he affirmed with newfound sanctimoniousness. "But now, money is flowing out of the offshore centers. Only New York and London will remain. We will have total leverage, governments will be forced to accept it. Banks will collapse, there is going to be coronary seizure of deposits on the interbank market. We'll have total central bank-controls."

Together with the BIS, the U.S. Federal Reserve has worked out a new set of "accounting policies" which are supposed to allow the banks to "write off" Third World loans, while massively cutting credits to the Third World, Fed officials revealed to *EIR* on Sept. 16.

Until now, as in the case of Poland, the banks have been allowed to carry loans, which are de facto in default at 100 percent value on their books. Poland, for example, has been in default for the last two years, but no U.S. bank has been forced to write off a cent in Polish debt losses. Because Poland had the upper hand due to the Mexico scare, the banks have just given the Poles a soft rollover on their 1982 debt, in which Poland will only pay 5 percent of the principal and 30 percent of the interest due. This situation, theoretically, could also be allowed for Argentina, Brazil, and Mexico, if they refuse to pay, the source said. But this is "politically unacceptable."

Therefore, under "new principles of accounting" laid down in collaboration with the BIS, the Fed will demand that banks start classifying bad debt, initially by small percentages, writing off, say 10 percent of a loan to Argentina this

year, 20 percent next year, and so on. "We will try to manage this so that at no point are too many countries being written off," a Fed official said. "We must prevent the writeoff from being so high a charge to the profits of banks that it threatens the system."

The writeoffs not only protect the banks from threats by debtors—who, after writeoffs, will have less leverage over the banks—but have the added advantage of forcing banks to lend less overall to the Third world, the Fed source stated.

Another Swiss spokesman stated, "Mexico has had an 8 percent growth rate these last years. They would have had to stop anyway. Why can't they stop growth for a while? Just one year or two? Just to adapt! You *cannot* keep on growing at such rhythms! To stop growth a while, that's not the end of the world!"

That leaves the sphere of economic policy and becomes the sort of obsession requiring medical attention. To further one's understanding of the wicked, sick minds that still claim the prerogative of running world financial affairs, read the Sept. 13 editorial of London's *Financial Times*, "A Postscript to Toronto," complaining that if "some useful progress was made toward underpinning the creaking structure of international credit yet the partial rebuilding of the structure was not discussed and may yet prove unavoidable."

After advocating great IMF powers and more IMF money, and heavier official supervision of banks, the City newspaper declares: "What is now needed is some imaginative thinking about ways of *refunding* part of the debt of insolvent countries to lessen their threat to and dependence upon the banks and to replace short term floating rate loans with long-term finance on the least onerous terms possible."

How, Sir? With turning the new IMF facility proposed by the U.S. Treasury under the name of special fund into a "refunding facility" issuing long-term, IMF-guaranteed bonds on the markets in order to buy at a discount the rotten, nonperforming bank debt of bankrupt debtors. Why so? "The pressing need is for contingency plans to replace a substantial amount of sovereign bank debt when and if the *credibility* of such debt to the banking system can no longer be sustained."

Maintain the fiction of life without its substance: Edgar Allan Poe was describing more than magnetic phenomena.

### The state of the Euromarkets

The Euromarkets have turned into a Frankenstein's monster that has escaped anyone's control. And the deformed creature is now falling apart. Eurobonds issued by U.S. and Canadian banks have been hit by three successive waves of panic selling. One Bank of America bond is trading at 92 of par! In two weeks, these securities have lost 3, 4 or more percent of their market value, and this is effectively shutting most banks, be they American or not, out of the bond markets. Banque Nationale de Paris learned that being French shuts them out of the fine-terms league. Danish paper is being dumped as the country staggers into bankruptcy. As for the "Third World," to float a bond, Mexico would have to offer

yields of upwards of 30 percent, Argentina of 25 percent, and Brazil of 20 percent.

Only a handful of top, triple-A U.S. corporations, or a tiny minority of sovereign borrowers, e.g., New Zealand and Uncle Sam, are now able to command the best terms, along with a rapid shrinking platoon of international banks.

On the certificates of deposits (CD) markets, premiums and differentials are widening according to the frightened risk-rating assessment made by banks. Not only has there been a massive, accelerating flow out of bank deposits, which has deprived banks of crucially needed resources—the Euro-interbank market has started to contract, as banks have, systematically if prudently, been reducing their credit-line exposure to fellow-banks. While statistical data are not available, it is known that a process of “tiering” has set a dividing line between a vast majority of banks assessed as a risk, and the handful of “risk-free” banks. CDs now must yield about 2.5 percent above same-maturity U.S. Treasury bills to find buyers.

Italian banks are ostracized since the Ambrosiano affair. Scandinavian banks have to pay more, because they are seen drawing heavily, more than normally, on their credit lines. Most German banks are paying the price of their potential bad-loan troubles. CD issuers, additionally, must accept much shorter maturities than they either wish or absolutely need to avoid severe maturity mismatching.

The offshore markets are being quickly drained of liquidity—so quickly that trouble is indeed expected soon, or a virtually total transfer of the offshore operations back to on-shore branches of banks—with the implied bringing under regulation of the masses of liquidity thus transferred. “All in all, what’s happening means a significant increase in the cost of financial intermediation,” one banker said, “and a contraction of the interbank market. Sources have already dried up to a great extent with the disappearance of OPEC surpluses. . . .”

“Good” Euro-debtors are becoming rare birds. Brazil, for example, the second most voracious Euro-borrower, even though it is politically wooed by the BIS and the IMF, has already suffered in the last few weeks a total drying out of new loans from banks—including German banks, which are now virtually boycotting it. Debts of various dimensions now explode every day, from Bolivia, just declared in default, to Ecuador, which loathes a visit to the IMF but cannot pay its 1982 maturities, to Argentina (see article, page 10).

“All the debts certainly cannot be repaid. Therefore, we’re going to reschedule, gradually, all of the loans to the Third World. We must do this in as orderly a fashion as possible, to prevent, at all costs, an international banking collapse,” one of them said Sept. 16. “There will be case-by-case handling of each Third World debtor, to ease the rescheduling and prevent crisis.”

“Credit won’t totally vanish,” one senior European central banker said, “There will be market-tiering, and a total freeze of loans to quiet a few countries. But we’ll muddle

through. . . It won’t collapse. The question is that of the speed of the global deceleration. It will not be a global freeze, but a gradual cooling off. I agree that major reschedulings are inevitable, and frequent ones at that, given the maturity profile. Of course, this all means depression, an additional depressant factor added to an already stagnant world economy. But please, no collective debt rescheduling, but a case-by-case treatment, seriously negotiated!”

“Collective debt rescheduling” is the Venetian diplomatic term for the danger facing banks that developing-sector nations will join Mexico, unleash a “debt bomb,” and simply refuse to meet payments on the terms the banks have outlined. “Even though Brazil, Mexico and Argentina deny the existence of a formal agreement—will a debtors’ ‘cartel’ hold the banks hostage?” *La Repubblica* of Milan headlines a major article on Sept. 15. “New York financial circles are haunted by the specter of a ‘syndicate of Latin American debtor nations. . . for the moment, Brazil, Mexico and Argentina deny. . . . Creditor banks and in fact the whole international financial system have become the hostages of the colossal Latin American debt. . . [This] strengthens the Latin American countries’ ability to put pressure on banks and international institutions. . . .” “We do not need to purchase weapons any more, our best weapon is the debt,” said a Latin American banker.

Similar articles appeared scattered in the international press. “Debts are [Mexico’s] strength” was the headline on the *Frankfurter Allgemeine Zeitung* article, acknowledging that “Mexico finds itself in a position of strength.”

The economist and former Banque de Paris et des Pays Bas board member Jean Denizet warned in the daily *Le Figaro* on Sept. 11 that “orthodox” methods of handling the debt lead either to hyperinflation or brutal deflation, he stated, “One may well assert that the world’s financial establishment, the IMF, the BIS, the main central banks . . . have underestimated the severity of the over-indebtedness that has built up for the last 10 years, virtually without any accompanying buildup of growth of investment. One cannot imagine a physical growth fast enough to be able to prop up the masses of claims and debts built up on nothing throughout the world. What would be needed would be a world policy to revise debt according to objective criteria.”

What generates panic among central bankers is not so much the disintegration of the Euromarkets—after all, they were privately explaining quite peremptorily a few months ago that they intended to provoke a “limited, secondary banking crisis in September, a pre-emptive strike to cleanse the markets and discipline them.” What has the central bankers on the run is the debt bomb. The sweeping decisions implemented by the President of Mexico towards debt reorganization have discredited and destroyed the rules of the game they have run for decades. In the new geometry generated by the “debt bomb” they are but the still somewhat powerful, but obsolete, remnants of an age past. How understandable their panic!

# Will Colombia's private banks get the Mexico treatment?

by Valerie Rush

Mexico's bank nationalization is reverberating across Colombia, as a nationwide debate on how to deal with that country's drug-tainted financial system has produced a series of legislative proposals for nationalizing Colombian banking. Colombian President Belisario Betancur has been sending a series of messages to the Reagan administration that Colombia is no longer within its "sphere of influence," and those moves have begun to elicit a mass response the kind of which would make it possible to carry out such nationalizations.

In addition to reiterating his commitment to bring Colombia into the Non-Aligned Movement, Betancur has on several occasions since his Aug. 7 inauguration reminded the Reagan administration that Colombia, in the aftermath of the Malvinas war, will define its own national priorities from now on. In an interview this month with a Miami radio station, Betancur charged the United States with treating Latin America with "Olympian disdain, as its own backyard," and unexpectedly announced that he was prepared to consider renewing relations with Cuba should that country demonstrate a parallel interest.

## A 'National Development Bank'

Foremost among the financial reform proposals now before the Colombian Congress is the one drafted by Betancur's economic adviser Hernando Agudelo Villa, entitled "An Alternative to Nationalization of the Financial Sector." Agudelo Villa, a close associate of the new Finance Minister, Edgar Gutiérrez Castro, insists that the country's central bank be turned into a national bank whose task is to guarantee priority funding for vital development projects, including hydroelectric installations, mining, heavy industry, agricultural modernization, and low-income housing.

The goal, writes Agudelo Villa, is "to guarantee that a substantial portion of national savings and banking credit is oriented through forced investment by the financial corporations . . . to the financing of basic development activities of the country. Thus a distinct reordering of financial resources would be achieved, which now go in unsuspected quantities for speculation."

Agudelo Villa's title for his plan, "An Alternative to Nationalization," was intended as a warning to Colombia's private banks. At a meeting of the Colombian Banking As-

sociation on Sept. 5, Agudelo Villa's colleague on the presidential advisory team, Joaquín Vallejo Arbaláez, declared that unless the chaos threatening the country's financial institutions was resolved, the banks would face Mexican-style nationalization.

Backing up Vallejo's statement, another legislative proposal has been submitted to the Congress from the anti-monetarist faction which Agudelo leads, calling for full-scale nationalization. The proposal, authored by Liberal Senator Lara Bonilla, calls for the central bank to either convert reserves held by private banks into central-bank stocks, or purchase majority control outright, thereby taking over management of the private banking sector. The Colombian Communist Party, which has long included bank nationalization as part of its program, has issued an informal endorsement of the Lara Bonilla proposal.

## Nationalization plan draws support

Support for the nationalization drive is coming both from the powerful labor movement and the press. In a document presented by the UTC labor federation, Colombia's largest, to a Sept. 6 meeting of the National Labor and Wages Council convoked by the President, the usurers and speculators who dominate the country's financial institutions are targeted as the number-one enemies of the nation. The document asserts that what is required is "a financial and fiscal reform" that will guarantee that all national capital is dedicated to development, "and not to speculation and other such activities."

Elements of the press are similarly undertaking the job of educating the population on the desirability of nationalization of the banks. An example is a series of articles by the widely-read economics columnists Jorge Child and Jorge Méndez, detailing the histories of banking houses in Colombia whose speculative activities have successively collapsed whole chunks of the Colombian economy.

In his latest column in the daily *El Espectador* of Sept. 10, Jorge Child endorses the Mexican nationalization measures, noting that the Mexican decision "has dealt the fiercest blow to Milton Friedman and his 'Chicago School' they have ever suffered in Latin America." Observing how López Portillo generously offered to compensate the expropriated Mexican bankers, Child wryly comments that were the Colom-

bian government to nationalize the private banking system there, it could discount the mass of fictitious wealth accumulated by the speculators, and thereby get off cheap.

Colombia's private bankers have made their initial response to the nationalization proposals. Drug-tainted financial czars like Ardile Lulle and Jaime Michelsen have publicly insisted that the chain of financial scandals in the country were "isolated incidents" and that nationalization was "unacceptable."

The arrest of 13 senior bank executives earlier this month, related to one such "isolated incident" of fraud committed by the sixth largest financial house in the country, has been followed by the arrest of another financial magnate and his coterie of vice-presidents, whose unveiled organized-crime connections threaten to lead to still another banking house.

## A plan for creating a real credit system

*In the past two weeks, numerous national political figures have submitted legislation to the Colombian Congress urging some form of state intervention or control of the financial sector. One of these proposals, entitled "An Alternative to the Nationalization of the Financial Sector," was submitted by Hernando Agudelo Villa, a member of President Betancur's economic advisory council and spokesman for the anti-monetarist faction within the Liberal Party. Excerpts follow from the Agudelo Villa proposal. Emphasis has been added.*

The entire banking system, including that of savings, by essentially constituting a service derived from the State, is a public service . . . by virtue of which the State delegates management of credit and of savings, retaining the right to oversee fulfillment of those activities it has transferred such that service for the necessities of the community is guaranteed; and also retaining the right to cancel the concession when it believes that the services rendered no longer meet the criteria fixed by law. . . .

The free market, based on high interest rates . . . cannot without the decisive intervention of the State allot resources in an efficient and rational manner such that investment is made in areas advantageous for the country . . . . If high interest rates are maintained, if enormous sums are permitted to go to speculation, if savings, credit and resources in general are permitted to remain in the hands of small groups or individuals, it will be impossible to stimulate development and reactivate the economy. And if the State does not direct its monetary policy adequately, it will be impossible to control the inflationary process which is distorting the entire economic process.

It is well known that savings constitute the indispensable foundation for investment and growth of the productive sector. But when it is channeled into speculation, it becomes a dangerous factor for the economy. This is what has happened in Colombia. During the seventies it is undeniable that the financial sector demonstrated great dynamism with respect to the rest of the economy in terms of growth of resources, new services and institutions, and participation in the Gross Domestic Product . . . . Nonetheless, one must be warned that the sector strengthened itself on the basis of repeated speculative cycles with financial resources from within the sector itself, to the detriment of the financing required for productive investment; and a huge volume of resources flowed to highly profitable short-term stocks, to the buying and selling of real estate, to importing and financing of durable consumer goods, particularly automobiles. The Colombian economy was converting to an economy of speculation and idleness, based on usurious interest rates. . . .

Faced with this situation, it becomes difficult to envision the process of industrialization the country requires to increase and diversify its exports, develop its mining program with largely national capital, encourage hydroelectric plans, etc.

Therefore . . . a change of direction which would channel an important part of national savings to basic investments for developing the country becomes imperative. And, since it is demonstrated that the free market has been unable to channel these resources appropriately, it will require compulsory measures such as forced investments to give a social orientation to investments, even while they remain fundamentally in private hands. . . .

The new functions of the Monetary Board will include: regulating admissible and obligatory investments of the commercial banks, insurance companies, financial corporations, savings banks and, in general, all financial intermediaries with the object of channeling part of the national savings to the financing of high priority development projects. . . .

The functions of the Central Bank, in its role as *National Development Bank*, will include:

assigning, through yearly budgets, resources to go for financing the five principal sectors: agriculture, industry, non-coffee exports, energy and mining projects, and low-and middle-income housing; . . . fixing and varying interest and discount rates according to the importance of the respective operations; allowing the banks to keep part of their reserves in operations favorable to the development of the national economy; consigning official deposits in banking institutions to a credit policy designed to strengthen production . . . and exercising control over those investments made with resources provided for financing its programs. . . .

The resources of the Central Bank, for its activities as *National Development Bank*, will come from . . . a "National Development Bond" whose purchase by all financial intermediaries will be obligatory. . . .

# Colombian labor federation proposes industrialization push

*At the Sept. 6 meeting of Colombia's Labor and Wages Council, which is a policy-making body convened by President Betancur and including his entire cabinet as well as representatives of the nation's labor, business and financial sectors, the president of the largest Colombian trade-union federation, the Colombian Workers Union (UTC), read a document condemning monetarism as immoral and calling for rapid industrial development of the country. Excerpts from that document follow.*

The past congress of the UTC adopted a presentation on the Colombian economy which formulated various proposals for the industrialization of the country. As its first point it refuted the monetarist economic theories which claim that inflation is caused by wage increases. . . . We want to clarify the two underlying causes of inflation:

First, is that employment such as services and bureaucracy, is increasing at the expense of the productive sector of the economy. Fewer productive workers are forced to sustain a larger non-productive population, and this is an inflationary burden on the economy.

The second is the high interest rates which channel capital into "high-profit" activities, an elegant name given to investment in real estate speculation, UPACS and other speculative papers. At the same time it makes investment in industry and agriculture prohibitive, creating a situation of maximum quantity of financial paper with minimal tangible goods from production. . . . The speculative bubble is about to burst. . . .

Monetarism has done much damage to our country, not only because of the reduced consumption but because it has created a moral crisis in which lust for profit and easy gain predominates. For example: Why do the businessmen see wage increases as an expense that will diminish their profits? No! Salary is not an expense but an investment in the labor force to enable it to have living conditions necessary to be productive. If you invest in health, education, food and housing you guarantee an increase in productivity and scientific and technological advances will expand more rapidly.

We must improve wages! Improve technology! Fight for lower interest rates and encourage heavy industry! Thus one will see one's business prosper and on this basis we can forge an anti-monetarist worker-industrial alliance.

Another clarification: There are many people who believe in good faith that technology causes unemployment. . . . Think for a moment of Japan. There, instead

of feudal techniques, they are using and producing the most advanced science and technology. They have territory half the size of Colombia, and besides, almost all its territory is mountainous. It has to import its food and raw materials, but it is nonetheless an industrial power. Has industrial development caused unemployment in Japan? No, on the contrary, although they have 120 million inhabitants, they need more workers; they have a labor deficit. The government is asking parents to have more children. . . .

We want the country to become an industrial power between now and the year 2000 and for this we require:

1. Develop heavy industry, steel, machinery, machine tools, capital goods, construction materials and electrical-generating equipment. The Atlantic Coast must become the center of national heavy industry with a steel complex to use the coal from the Cerrejon project. . . . For this we will need nuclear power.

2. Develop the agricultural potential of the Magdalena river basin presently used for extensive cattle grazing. Through the construction of dams and other water control projects we can prevent floods, guarantee irrigation throughout the year and thus recover millions of hectares for mechanization. Thus, we could double agricultural production. . . .

3. Expansion of the transportation infrastructure. . . .

This program will guarantee growth in the population's living standards and enable the absorption of the unemployed population. . . .

Now the question is, how to finance this industrialization program? Very soon our country is going to be exporting coal, nickel and other minerals. We must have strict exchange controls to guarantee that not a single dollar or peso leaves the country to import perfume, candies, liquor and other such things. . . . All earnings must go to import capital goods and high technology. That is the only means of abandoning technological dependency. Having machines that produce machines. . . .

5. Finally, we require a financial and fiscal reform that will guarantee that all national capital is dedicated to this program and not to speculation. . . .

There is absolutely no technical or financial problem with this program. The problem is political, deciding to do it and defeating those who oppose it. If President Belisario Betancur decides to take these steps, he can be absolutely certain that he will have the unanimous support of the entire Colombian labor movement.

# Mexico maintains a war footing on debt

by Cynthia Rush

High-level Mexican government officials, according to well-informed columnist Manuel Buendía, are prepared to “declare a debt moratorium” on Mexico’s \$80 billion foreign debt if Mexico is presented with no choice but to accept IMF conditionalities in order to obtain further international credit. Buendía’s cabinet source, he reported on Sept. 12, added that a Mexican debt moratorium would be followed shortly by similar action from Brazil and Argentina.

An advisor to the Interior Ministry, Edilberto Cervantes Galván, gave an unusual public statement to a group of the ministry’s officials three days earlier explaining why Mexico felt it had maneuvering room to reject tough IMF demands. A Mexican rejection “of the rules of the monetary game will mean the imminent bankruptcy of the international financial system,” he stated.

Certainly sentiment in Mexico is growing, fueled by the bank nationalization mobilization, for a line against traditional IMF austerity medicine.

Fidel Velásquez, the head of the Mexican Workers Confederation (CTM), which forms the backbone of the ruling Institutional Revolutionary Party (PRI), stated flatly Sept. 10 that Mexico will never accept, as it has never accepted, conditions which harm the interests of the majority of the population. If the IMF conditions demand ceilings on salaries, “these will never be accepted in Mexico,” Velásquez said, adding that any freeing of the prices of basic items will also be opposed. It is well known that both a cap on salaries and unfreezing of prices are part of the IMF proposed package for Mexico.

The Electrical Workers’ Union placed an advertisement in the capital’s press calling upon the government to reject IMF conditionalities. Other parties, including the United Socialist Party of Mexico (PSUM), issued statements calling for a “drastic rejection” of the IMF’s “draconian measures.” The Mexican Labor Party distributed a quarter of a million leaflets nationally under the headline, “And now, debt moratorium!”

Many adherents of the bankrupt IMF system, recognizing at least near-term reality, are putting out the line that every-

thing will be different under incoming President Miguel de la Madrid, who takes office from López Portillo Dec. 1. “Since it is unlikely in the remaining two [sic] months of his term López Portillo will move to undo the harm he has already done,” wrote *Business Week* in an editorial Sept. 20, “incoming President de la Madrid should denationalize the banks and free up the peso as soon as possible. . . . Until Mexico embarks on this sort of constructive course, it will not be a creditworthy candidate for an IMF bailout.”

The popular mobilization to root out speculation and turn the country’s credit system to productive uses has a built-in momentum which does not obey calendar dates, however. A Sept. 12 statement by de la Madrid’s handpicked president of the new Mexican Senate, Miguel González Avelar, reflected the force of this mobilization: “De la Madrid will not accept international pressures such as those of the IMF,” the Mexico City press paraphrased his comments.

Also operative for de la Madrid is the same basic sense of defending Mexico’s sovereign existence which López Portillo displayed over the last month, and which was vividly described in columns by Joaquin López Doriga Sept. 12 and 13. Based on inside sources, López Doriga recounted how Mexican Finance Minister Jesús Silva Herzog had been told by U.S. Treasury Secretary Donald Regan in mid-August that U.S. help in a bailout package depended on Mexico’s accepting below-market prices for its oil. Briefed by Silva Herzog on the Regan demand, López Portillo gave telephone instructions: “The demands are unacceptable. Suspend negotiations and return immediately. There is no deal.” When Silva Herzog communicated this message to Regan, the U.S. position changed immediately and an initial agreement was worked out on more equitable terms.

Throughout most of the rest of the continent, factions favoring a Mexican approach are in a fight with oligarchical groups allied with the IMF. The battle in Argentina is the most openly fierce, because the country’s debt crisis is the most advanced. The new Argentine ambassador to Mexico, Rafael Vásquez, told the Mexico City daily *Excelsior* Sept. 10, that “the debts of Mexico, Argentina, and Brazil, which add up to \$205 billion, are not a disadvantage, but an opportunity against the powerful.” He was hinting at the feared “debtors’ cartel.”

However, Argentina’s President, Reynaldo Bignone, backed the initial steps of an IMF deal worked out by Finance Minister Jorge Wehbe in Toronto. On Sept. 13, Argentina and Great Britain simultaneously lifted the mutual freeze on assets which had been in place since the Malvinas war.

An indication of the internal brawl this first step occasioned was the fact that at the eleventh hour of the original deadline for lifting the freeze, Sept. 12, Argentina suddenly announced a postponement. It lasted for only 24 hours, as it turned out, but the delay served to emphasize that in Argentina any agreement with tough IMF conditionalities is a paper one; the political muscle to see through such austerity does not exist.

# Closing the Mexican flight-capital spigot

by Renée Sigerson

The Mexican government's determination to permanently shut off flight-capital outflows will have several broadscale effects on United States financial institutions. So long as the private U.S. business ventures which have been involved in Mexican flight capital flows over recent years keep a "cool head," no unmanageable problems should result from these Mexican measures. However, the internal effects on the United States cannot be ignored.

U. S. intelligence sources have indicated that a substantial portion of the \$8.5 billion already invested from Mexican sources in U. S. real estate was organized and deployed by Southwestern insurance companies in the United States known to be running many other kinds of financial scams. These funds largely constituted downpayments on continuing projects, whose total value is reported by Mexico to be \$30 billion.

The Mexican government has given its citizens until the end of September to repatriate the exported flight capital. The government argues that this hard-earned portion of the nation's capital stock—worth 50 percent of Mexico's total foreign debt obligations—must be available for domestic industrialization.

Since the announcement on Sept. 1 of the full exchange controls which made private capital export illegal, handfuls of Mexican citizens have begun the process of putting up U.S. real-estate holdings for sale, and in some cases have even repatriated these liquidated holdings. On Sept. 13, Mexico took further measures and outlawed the private jewelry market, which has been widely used for smuggling smaller denominations abroad.

At this point, it is possible to identify two specific ways in which the Mexican measures directly affect U.S. financial institutions by denying them flight-capital investment.

## Real-estate problems

Although Texas banks have vehemently denied that Mexican capital ever played an important role in Texas real-estate development, there are many indications the matter is not that simple. These indications include the hysterical tone of

assertions this reporter received from Texas real-estate groups that despite the exchange controls Mexican flight capital will continue to flow unabated over the border.

No figures exist in any official agency on either side of the border as to how much of the \$20 billion committed to real-estate development was targeted for Texas, nor how much of the \$8.5 billion is already placed there. Recently, the *Houston Business Journal* attempted, on the basis of dozens of area interviews, to determine what percent of investment in Houston real estate was foreign-originated. To the extent that these funds are largely placed with "syndicates" in which U.S. citizens front for foreign investors, they discovered, it was virtually impossible for them to quantify the presence of foreign funds.

As *EIR* first reported on July 20, the Houston and Dallas real-estate bubble is heading for a collapse by no later than early 1983. These markets alone are valued at \$50 billion. Most of the committed Mexican funds, Texas bankers report, are placed in ranches and condominiums. However, considering that a further \$20 billion investment commitment was in progress at the point the Mexican government intervened, it is by no means a wild assumption to say that \$2 to \$5 billion was headed for the Houston-Dallas markets. This means that an additional 5 to 10 percent investment inflow there has been cut off, a margin which cannot be sneezed at.

Another way to view this is that an expected inflow on the order of \$5 to \$100 million weekly was cut off before it got going. Instead, Mexicans are now trying to sell out (admittedly, many will do so at a discount). The collapse of the Texas real-estate bubble, foreseeable prior to Mexico's moves, is thus now even more likely.

## Organized crime

Texas bankers report that large, single-sum investments that come in from Mexico have often arrived in the form of trust placements from the Cayman Islands. The Caymans trusts are dominated by insurance companies and Canadian banks (Canadian investors are the largest single group of foreign investors in Texas).

The "syndication" of these investments behind private investor trusts does indeed make them difficult to trace. If indeed, as U. S. intelligence circuits assert, the camouflaging of these investments is a service made available by organized-crime networks in the Southwest, this has further implications for the United States.

In demanding full transparency of their national capital flows, the Mexican government is opening the gateways to cracking these organized-crime operations further. Hundreds of investigations by U.S. state-level insurance regulators have revealed that organized crime has been responsible for a deluge of fleecing operations and bankruptcies throughout the Southwest, including looting operations against pension funds. If U.S. agencies and elected officials react intelligently, Mexico's efforts should serve to bring to light new information on how such illegal operations work.

# A two-pronged U.S. attack against Brazil

by Mark Sonnenblick

Washington is organizing business sectors in Brazil to believe that the U.S. trade warfare which is driving them—and Brazil itself—to bankruptcy is caused by Brazil's joining the fight to reorganize the world money system. The "business-front" offensive, combined with on-going U.S. encouragement of a hardline military coup, adds up to a two-pronged assault on the government of President João Figueiredo.

The Henry Kissinger grouping in the Reagan administration is using the same tactics which prepared the way for the 1964 coup in that country. During the early 1960s, U.S. Ambassador Lincoln Gordon and U.S. military attaché Vernon Walters developed the "islands of sanity" ploy, in which the United States acted with hostility toward the central government, while lavishly financing those state governors who were conspiring to overthrow it.

Figueiredo, ironically, fought next to Walters in Italy during World War II and played an active role in the 1964 coup. He is now trying to pave the way for a return to stable civilian rule in Brazil, but may find his plans stymied by his erstwhile American allies.

Secretary of State George Shultz sent a sharp message to Figueiredo warning that Brazil will be destroyed, should Figueiredo use his speech opening the U.N. General Assembly on Sept. 26 to join with other developing nations in demanding a new international economic order.

Shultz delivered the threat by way of Brazilian "businessman" Mario Garnero during a Sept. 10 meeting between the two in Washington. Garnero has been a partner of Shultz since they got together with Bill Simon and the European oligarchy in Salzburg, Austria, in 1975 to found an operation called "Brasilinvest," which was supposed to "attract foreign investment to Brazil." This year, however, Brasilinvest is leading an open capital-flight parade by investing Brazil's hard-won dollars in such ventures as the purchase of First Women's Bank in New York City. Garnero also rubs noses with those who hold national sovereignty in low esteem in the Aspen Institute's Western Hemisphere Governance Project.

Shultz met with Garnero after having slammed his door in the face of several Brazilian cabinet members who had wanted to discuss with him what Brazilian Industry and Trade Minister Camilo Penna calls the growing "guerrilla trade war" between the two former partners.

Trade relations are extremely tense. The United States has been clamping down quotas or tariff surcharges on one Brazilian export after another. The latest flap is over the small Bandeirante planes used by deregulated airlines and now facing exclusion hearings. Bilateral aircraft trade has been running seven to one in favor of the United States during the last three years.

The Brazilian daily *Folha de São Paulo* reports on the message Shultz sent President Figueiredo through Garnero: "The less Third Worldist Brazil acted in international forums, the faster Brazil's problems with the U.S. would be solved. . . . Third Worldism is not acceptable from Brazil, because of its weight in the world. . . . Those countries which have attempted such positions [Mexico and Argentina] are now standing hat-in-hand at the U.S.'s doorstep. Shultz told Garnero he is watching President Figueiredo's U.N. visit 'with great interest.' "

## No loans plus no trade equal moratorium

The outrage of the Kissinger networks against the alleged "Third Worldism" of Brazil's military regime does not come from any danger of the staunchly anti-communist Figueiredo "abandoning the West." On the contrary, it stems from the fact that Figueiredo's cabinet members are beginning to point to the insane economic policies of the Volcker-Reagan administration which, they document, have thrown the West into a depression, and the "South" into bankruptcy and genocidal austerity. Under these conditions, those responsible for the disaster fear Brazil will use its \$80 billion debt as a weapon to force a more rational economic system.

- Finance Minister Ernane Galvêas offered the IMF meeting in Toronto a succinct analysis of this disaster. His conclusion startled U.S. representatives who had seen Galvêas as the cabinet member most willing to execute bankers' orders. According to the Brazilian press, these U.S. IMF representatives sought out Garnero to put a stop to Brazil's recognition of reality.

- Industry and Commerce Minister Camilo Penna asked 500 businessmen and officials at the Inter-American Conference on Trade and Investment in Washington, D.C., Sept. 10, "If the prices paid for our products fall due to foreign inflation and if we are impeded by protectionism in the industrialized countries from exporting, how will we obtain the foreign exchange to pay for our imports?" Penna strongly implied that debt service was also at stake. After having been treated shabbily by Shultz and special U.S. Trade Representative William Brock, Penna intimated to Brazilian journalists his message to the United States was, "Don't push us!"

- Planning Minister Delfim Netto, Brazil's economic

czar, had his aides release a study this month which shows that Brazil lost \$18.4 billion this year due to the U.S. Federal Reserve Bank's jacking up of interest rates. The study gives a conservative figure of \$3.4 billion for extra interest payments on Brazil's debt, but calculates that due to the depression factors noted by Penna, Brazil's painful export drive will yield it only \$21 billion this year, instead of the \$36 billion which would have been earned under 1979 conditions of trade. It observes that the \$18.4 billion loss is approximately what Brazil has to borrow from bankers this year just to pay debt service and make ends meet.

The Brazilians are coming to understand that they have gained nothing but trouble from throwing their economy into a politically dangerous recession in order to show bankers how "well-managed" their debt structure is.

### 'Without the U.S., no Brazil'

Also keeping a close eye on Figueiredo's planned United Nations activities is Brazilian Army Minister Gen. Walter Pires, who was invited to spend the duration of Figueiredo's New York trip fraternizing at the Pentagon and U.S. military bases. Pires was invited by Vernon Walters, the roving ambassador for the Harriman-Kissinger tendency in Washington, on Aug. 23 during Walters's marshaling of anti-Figueiredo military elements in Brasilia. Pires is reportedly working with the most repressive military factions in Brazil to scuttle any moves toward representative government, and is thus a visible internal threat to Figueiredo's presidency. General Richard Cavazos, commander of land forces, U.S. Army, landed in Brazil Sept. 6, to curry the favor of the army's anti-Figueiredo factions.

Cavazos surprised Brazilians by declaring that Brazil and the United States were so interdependent that "without Brazil, there will be no United States, and without the United States, there will be no Brazil." The daily *O Estado de São Paulo*, a traditional mouthpiece for U.S. geopolitical interests in Brazil, responded, "It may be asked whether these elegies and professions of closer relations between Brazil and the United States are of any use to us when other parts of the Reagan administration—those responsible for economic and trade policies of the great nation of the North, deny in practice all those good intentions."

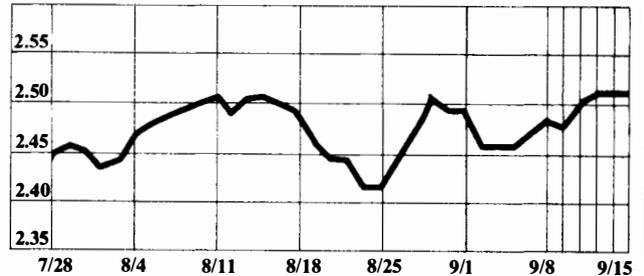
The U.S. threats and blandishments toward Brazil may have an effect contrary to those intended by their authors. An American professor just returned from extensive talks with his friends in the Brazilian military confirms that most Brazilian officers blame Paul Volcker's policy of high interest rates for their country's economic difficulties. "Pires could be dumped by younger generals if he appears to be the U.S. catspaw," he prophesied.

Figueiredo himself shows no sign of wavering. His spokesman told the press after the President had received Shultz's sharp warning that the U.N. speech would focus on two points: disarmament and the need for a more just international economic order.

## Currency Rates

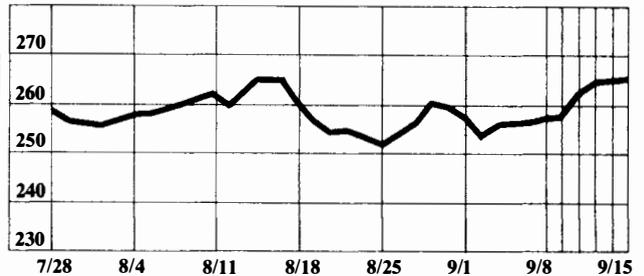
### The dollar in deutschmarks

New York late afternoon fixing



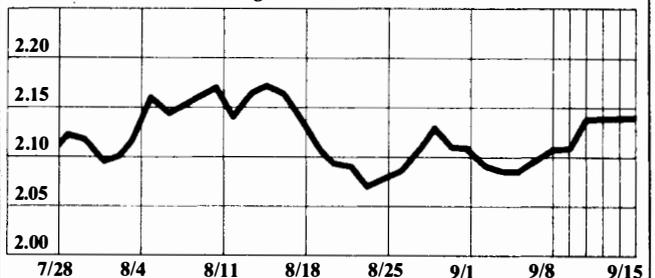
### The dollar in yen

New York late afternoon fixing



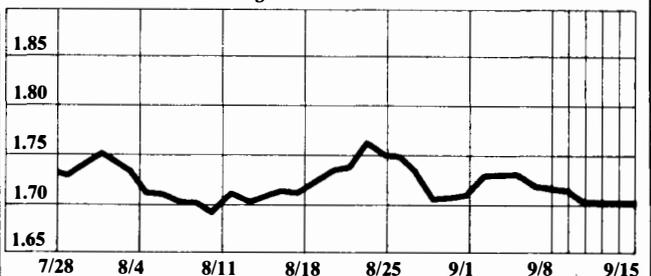
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



# Japan debates its response to the Ibero-American debt crisis

by Richard Katz

The Mexican debt crisis has put Japan's political and business leadership in the uncomfortable position of once more having to decide whether to buck Washington. The Finance Ministry is supporting the Washington-led International Monetary Fund (IMF) effort to impose on Mexico and other Latin American debtors conditions of economic cutbacks, particularly contraction of investment, as the prerequisite for any debt restructuring. The majority of Japanese bankers and businessmen disagree with this policy: they fear the IMF policy will stifle the world investment growth upon which Japan's economy depends.

Almost half of Japanese exports consist of capital goods. The Japanese know that any clampdown on developing-country investment will prolong the 10 percent export plunge Japan has already suffered this year. However, because these businessmen are afraid of the political repercussions of challenging Washington or destroying the credibility of the IMF, the Finance Ministry line has prevailed so far. Nonetheless, the businessmen are still seeking some way to avert the destruction of their markets.

"We are in a real dilemma," stated one banker, "because we must decide how to handle the entire Latin American situation. We have to decide whether to support the American bank position, or whether to support Mexico."

"The IMF conditionalities are no good," said another banker. "You can't simply go into a country and tell them to devalue again and again, to cut the budget, and to cut investment. I have been telling people here that the man on the street in Mexico will not tolerate the level of austerity being demanded by the IMF. On the other hand," he continued, "you cannot simply roll over the debts of every nation. That would be inflationary. So there must be some compromise between these nations and the IMF."

This banker's skepticism toward IMF methods is common in Japan. What has thus far kept Japan from opposing the IMF is not so much an aversion to rollovers, but the lack of a political alternative. An official of the Ministry of International Trade and Industry (MITI) expressed the quandary best, asserting, "The Mexican crisis is not just a crisis of that country, but a reflection of the problems in the entire international monetary system. Personally, I think Mexico should be handled like we handled corporate liquidity crises in Japan: the debts are set aside or stretched out while the econom-

ic foundations are rebuilt. Personally, I don't agree with all the IMF conditions. But I don't see any alternative. The most important thing is to preserve the entire international system. If the IMF system is destroyed, there will be chaos. Some sacrifices will have to be made."

## Japan's stake in the debt crisis

Japan's stake in resolving the debt crisis does not lie primarily in its new role as one of the world's major creditors (in 1981, according to Bank of England estimates, Japanese banks issued 23 percent of all Eurocurrency loans). More important is the fact that, with half of Japan's exports composed of capital goods, Japan's economic future hinges on restoring growth in tangible investment globally. Indeed, a large part of the reason Japan has become such a large international banker in the last six years is to finance its exports, half of which are bought by the developing countries.

The international credit crisis, which is decimating investment in both advanced and developing countries, is constricting Japan's export markets. As of August of this year, *Japan's total exports have fallen an inflation-adjusted 10 percent from August of 1981.* (See Figure 1.) The primary cause was the fall in capital-goods exports.

The export plunge already caused a 3 percent production decline and investment decline in the first half of this year, a decline expected to continue.

The issue thus facing Japan is not simply whether the Latin American debt crisis is resolved in a way which gets the bankers their money back. Japan's economic future hinges on whether the debt restructuring is conducted in a way that promotes a new program of industrial investment.

The IMF's and international bankers' program, however, is calculated to do the opposite: This plan was presented starkly to *EIR* by an official of one of the banks on the 14-member international steering committee of Mexico's main creditors. "From an academic standpoint, I suppose I could agree that after debt restructuring, Mexico and other countries should get new credit if world trade is to be revived.

"But, in reality," the banker continued, "the international economy is going to face a few more years of the stagnation we have seen in 1979-82. Mexico is never going to go back to the 8 percent growth rates it had before; that was too ambitious. In fact, for many years Mexico will have

to grow more slowly than even the slow world average. No one will give them the credit to finance new investment. The same is true of other countries in the same debt situation.”

This banker's view is also the view of the Bank for International Settlements (the bank of central banks), the IMF and the Reagan administration. If this view, which is the corollary to Volcker's investment-killing high interest-rate policy for the advanced sector, prevails, then Japan's export prospects are finished—because without investment in the developing countries, there won't be much in the advanced sector either.

### What will Japan do?

So far the Japanese government has lined up with the IMF. At the Toronto IMF meeting, Finance Minister Watanabe warned that “Japanese banks would not lend money to countries that cannot pay their debts,” adding, “Countries receiving assistance must strive to help themselves.” Watanabe told the press that the Finance Ministry (MOF) would issue new “administrative guidelines” aimed at contracting new lending to the developing countries. According to JJI press, the MOF wants to limit a bank's loans to any single country to no more than 30 percent of the bank's net worth. In the case of one of Japan's largest banks, Fuji Bank, with more than \$84 billion in assets, the guideline would amount to about \$550 million. Currently, long-term loans are subject to a limit of 20 percent of net worth to any single country. However, the biggest increase in overseas lending in the last two years has been in nominally short-term loans, which can be used to evade the guidelines. Watanabe's new guidelines, if they became official policy, would include short-term loans as well, and would slow future lending. One banker explained, “The limit would not force retrievals of outstanding loans for most banks, but it would slow future lending.”

### Japan's capital goods strategy

There is an important, but minority, view in Japan amenable to a negotiated debt moratorium. One MITI official told *EIR*, “The important thing is to keep production and trade going. As far as the debts go, if the developing countries cannot pay, eventually you're going to simply have to change the due date on the debts.”

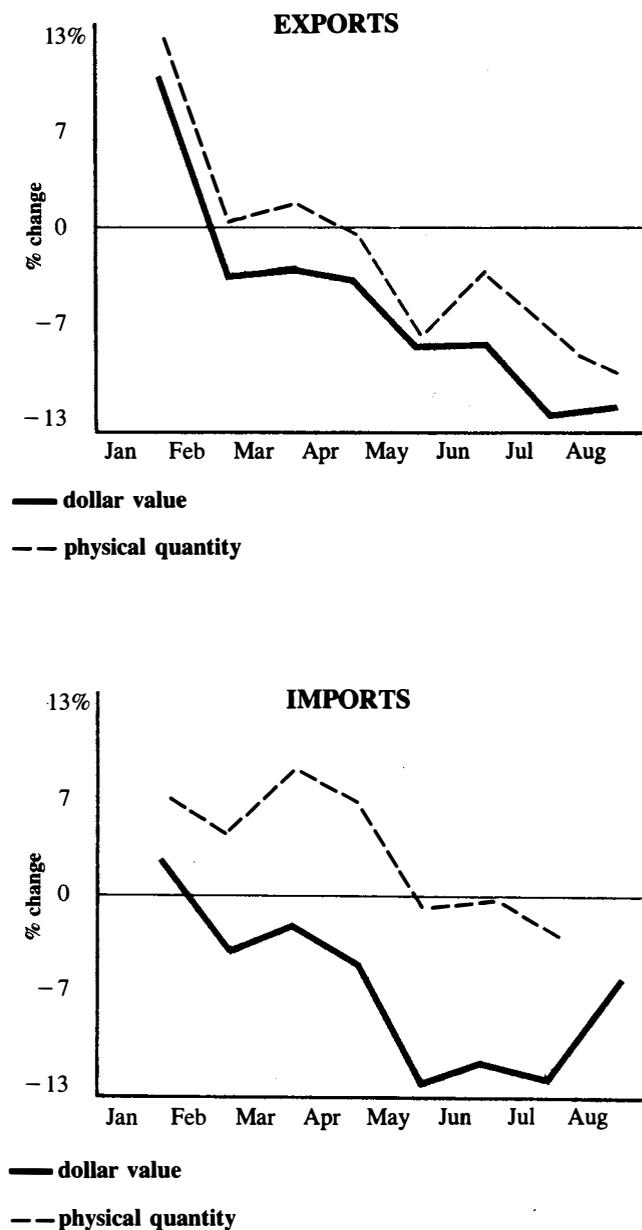
Similarly, the respected economist Tadashi Nakamae of Daiwa securities has said that debt moratorium is the only alternative to default (see *EIR*, Aug. 31). The heart of Nakamae's argument was that, “As long as the financial aspect of the North-South problem is not solved, the world economy cannot enter a new recovery phase. Actually, the industrialized countries must not only solve the financial problems but . . . assist their [developing countries'—ed.] economic recovery. Through this process, the industrialized world would be helping itself recover.”

Nakamae's argument is in many ways a restatement of the strategy that has guided much of Japanese government economic planning since the early 1970s. In 1971 the Industrial Structure Council of MITI had issued a “Longterm

Figure 1

### Japanese trade plunges in 1982

(Percent change in trade from the same month of 1981)



Dollar value is simply the export/import figure in dollars *not* adjusted for either price changes or changes in the yen/dollar exchange rate. Physical quantity adjusts for both price and exchange rate changes, thus producing a measure of trade in terms of autos, tons of steel, barrels of oil, etc.

The major reason for the wide discrepancy between the dollar value and the physical quantity drops is the 15 percent devaluation of the yen since January plus, on the import side, large drops in the price of oil, other raw materials, and farm products.

Source: Japan Ministry of International Trade and Industry (MITI).

**Figure 2**  
**Composition of Japan's exports**

	Capital equipment	Industrial supplies	Consumer durables
1964 .....	26%	45%	15%
1968 .....	31	39	19
1972 .....	34	34	25
1976 .....	40	33	22
1981 .....	43	26	28

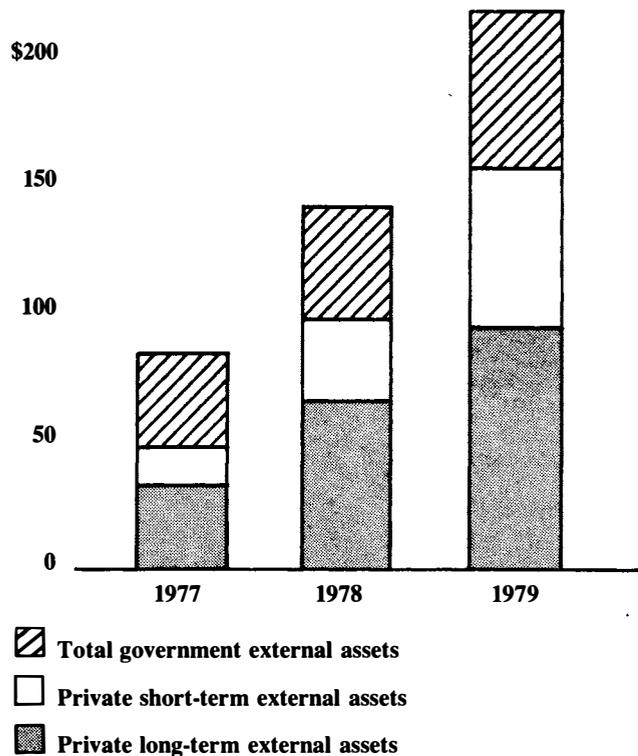
Source: Japan Ministry of International Trade and Industry (MITI).

Capital equipment includes electrical and non-electrical machinery and transport equipment; industrial supplies includes textiles, metals, industrial chemicals; consumer durables includes household electrical appliances, passenger car, toys, and musical instruments.

Generally, except for metals (which increased in proportion), industrial supplies have a lower technological content than either capital equipment or consumer durables. The biggest reason for the drop in the industrial supplies portion is the drop of textiles from 10% of total trade in 1964 to less than 1% in 1981.

**Figure 3**  
**Japanese overseas loans and investments mushroom**

(Total outstanding external assets at end of year in billions of current dollars)



Source: Bank of Japan

Vision of Japan'' whose thesis was that economic growth in the advanced sector could not be sustained for long unless the developing countries were being industrialized. The MITI document charted an economic strategy for Japan in which Japan would upgrade its own technological development in large part by aiding the transfer of industrial technology to the developing countries.

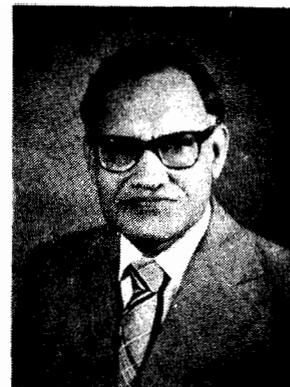
In the early 1960s, MITI had decided to make Japan a major exporter of capital goods as part of its technological advancement. Up to that point, the bulk of Japan's exports were industrial supplies, mainly textiles and basic steel. Beginning in the early 1970s, in line with the "Longterm Vision" strategy, the developing countries were added as a major target market for capital goods sales. By 1981 a record \$12.8 billion in contracts for entire industrial plants was ordered from Japan, primarily from developing countries. This was almost 9 percent of Japan's entire exports.

As a result of this program, capital goods steadily grew as a portion of exports. (See Figure 2.) Even though a majority of capital goods are still exported to the advanced sector, the developing countries have become an increasingly larger part of this market.

In part Japan managed this export feat because it deliberately undertook a program of foreign lending. The large Japanese banks, who usually belong to business groups together with trading companies and heavy industry producers, became an important source of international credit. Of the 1981 total of \$160 billion in private overseas loans and investments, it is estimated that about half went to the developing countries. Aside from the amount that funded Japanese subsidiaries or resource projects in those countries, most of the rest funded Japanese trade with the borrowers, either directly or indirectly. (See Figure 3.)

Japan has cooperated, in particular, with Mexico's development program, helping steel, petrochemical and other projects. Of Mexico's \$80 billion debt, an estimated \$11 billion long-term and \$5 billion short-term is held by Japanese lenders. Now, precisely because the Volcker high interest rates and the IMF austerity programs have wiped out investment in both advanced and developing countries, Japan cannot find markets for its capital goods. In the first half of 1982, Japan's exports of industrial machinery fell 23 percent, machine tools fell 17. In contrast motor vehicles fell "only" 6.6 percent and home electric appliances "only" 3.3 percent. The world investment collapse, not the consumer spending decline, is Japan's essential export problem.

On September 30-October 1, Japan's Export-Import Bank will sponsor a major symposium in Tokyo with cabinet ministers and top businessmen from Brazil, Mexico, Argentina, Venezuela and Peru. Peruvian Prime Minister Manuel Ulloa and Brazilian Planning Minister Delfim Netto will be giving addresses on promoting Japanese-Latin American economic cooperation, along with former Foreign Minister Okita. One of the panels is on financing. What happens at this symposium will be the next indicator of what Japan will or won't do.



## Indian agriculture: 'Bold policy, statesmanship and vision'

*Director of the Indian Agricultural Research Institute (IARI) since 1977, Dr. Jain holds one of the most important positions in the country in the management and coordination of agricultural research and education, on the one hand, and transfer of technology to the farmers, on the other. His responsibility is to plan, organize, manage and administer the central research and post-graduate training program in India in the field of agriculture. The Institute, with a staff of more than 1,400 scientists and technicians and with 14 regional stations across India, is one of the largest institutions of its kind in the world. The Institute is the hub from which India's agricultural modernization was built and directed.*

*Prior to assuming directorship of the Institute Dr. Jain had headed its Division of Genetics since 1966. Under his leadership the high-yielding-varieties development program, the major instrument of India's agricultural modernization strategy, was designed and launched. Dr. Jain also planned the diversification of the improved-varieties program so that the production of grain legumes, oilseeds and other crops could be increased in the same manner as the cereal crops—a program now in full swing.*

*More recently, under the direction of Dr. Jain the Institute has developed strong programs in soil and water management, extension education, and technology transfer—also known as the "lab to land" program. The Institute has a modern Nuclear Research Laboratory. The Institute has also become an important national coordination center in the country for a number of All-India Coordinated Research Projects.*

*Dr. Jain is a member of the Board of Trustees of the International Maize and Wheat Improvement Center, a member of the International Board for Plant Genetic Resources, and a co-editor of the Zeitschrift für Pflanzenzüchtung (Journal of Plant Breeding), Berlin.*

*Dr. Jain has conducted basic research, taught advanced courses in genetics and published more than 100 papers in some of the foremost scientific journals of the world. He has received some of the highest scientific awards in India, including the Jawaharlal Nehru Fellowship. Dr. Jain was cited in the Republic Day honors list announced by the President of India in January 1981 for his contribution to Indian agriculture.*

*Below is an edited transcript of an interview EIR Agriculture Editor Susan Brady conducted with Dr. H. K. Jain in New Delhi, on Aug. 16 during her tour of Indian agricultural, industrial and scientific centers this summer.*

**Brady:** India has come on the map, having gained self-sufficiency in foodgrains, as a developing sector country that's successfully created a viable modern agriculture. Dr. Sylvan Wittwer from Michigan State University, following a visit to Punjab several years ago, asserted that the greatest progress of all time in agriculture did not take place in the United States, as many believe, but in Punjab, where yields were doubled in a 10-year period from 1965 to 1975. How was it done? What was the key to India's success?

**Dr. Jain:** The potential was always there. You must have seen, even in the course of your brief visit, that India is very richly endowed with all the natural resources which go for very high agricultural production. Above all, we have tremendous resources of irrigation water. In addition, we have sunshine throughout the year, which is not so in most temperate countries—Canada, for example. There you can take only one good crop; you can't take three crops a year, which we can do here. Then, something which is not widely appreciated: India has reasonably fertile soils—some of them are very fertile, in fact some of the best in the world. Right here where we are located, in the Gangetic plains, we have alluvial

soils which are very, very fertile—and although we have badly treated them, they still retain their fertility. Over the rest of the country also—considering our rainfall pattern, and leaching of nutrients—I would say basically Indian soils are still good. Now that is very different from a country like Brazil, for example, which is a very large country but because of heavy leaching there are problems of toxicity of various kinds—for example, aluminum toxicity is a major problem in Brazil. And then you know the situation in Africa, where many soils have been eroded because of dry conditions.

So, we have a combination of many favorable factors. In fact, I keep insisting that India has the potential not only to be self-sufficient, but to be a major exporter of foodgrains simply based on the potential. So, your question really is: what was it that was keeping us back all these years? Why could we not have done it earlier?

The answer is very simple, so simple indeed that it may come as a surprise to you: namely, that basically we had been living with a *traditional agriculture* for more than 5,000 years. Traditional agriculture has many virtues: one of them is that it doesn't require too much support from industrial inputs like chemical fertilizers. (Right now in your country there's a great deal of criticism of modern agriculture because of pollution and other environmental hazards, which to my mind are greatly exaggerated.) But let me say this, that we really didn't have a choice—we didn't have an industrial base.

The other reason probably was that the kind of population pressures which we have now didn't exist earlier. You'll be surprised that at the turn of the century India was doing very well in agriculture—we were self-sufficient—not because our agriculture was characterized by a very high productivity, but because our needs were not very great. The population was small, kept so because of disease, epidemics, and lack of medical services.

So when India became independent in the late 1940s, we became conscious of two things: first, we thought we must improve the nutritional standards of our people, because, although we had some sort of self-sufficiency, it was not self-sufficiency in terms of the recommended levels of nutrition. Secondly, with massive investments in public health services, starting with the 1950s, India's death rate declined very sharply and the population pressure started to build up.

This became very clear in the 1960s when we had some serious droughts—far more serious than anything you saw during your trip, and, I must say, probably for the first time in the 5000-year history of Indian agriculture, some very, very far-reaching decisions were taken by the government of India.

Fundamentally, the decision was that even in a developing country like India, with all the problems of resources, with all the problems of farmers who are not very literate, with all the problems of creating an infrastructure—we *must modernize, and we must modernize essentially on the lines*

*the Western countries had done earlier.* Now, this called for some very bold public policy decisions, statesmanship, and vision. Fortunately we had leaders in the 1960s who embarked on this very ambitious program—because I want to tell you that there were many people who were highly skeptical about our moving to this modern agriculture. . . .

### 'Agriculture requires industry'

**Brady:** There's a debate that still goes on about agriculture *versus* industry. . . .

**Dr. Jain:** Right! Now in the 1960s, it was absolutely clear that there is no room for debate, that if you want to talk about agricultural development, platitudes will not do. You have to take some very difficult decisions.

What is *modern agriculture*? Basically it is based on two things: the geneticists produced what we call genotypes, a combination of genetic factors which can interact favorably with a highly manipulated environment to give good yields. Now, how do you really manipulate this environment? You do this by giving massive doses of chemical fertilizers, because in traditional agriculture there's very little fertilizer, and plants need nutrients just as we do. Then you need to provide irrigation. You need to provide pest control. You need to provide better farm tools. These are the things we had to give to the farmers—for the first time, and it was not easy. But I'm very happy that the leaders at that time did not listen to the skeptics, and they moved fast; they moved forward, and you see the results today.

Let me first give the results in terms of the buildup of the infrastructure. We are today the fourth largest producer and consumer of nitrogen fertilizer in the world. This is rather remarkable when you consider the fact that 20 years back we used very little chemical fertilizer at all. We have the second largest area in the world under irrigation. No other country in its entire history has invested so much, and is investing so much, in irrigation. In the next 20 years we are planning to add two and a half million hectares every year to our irrigated land so that by the end of the century we will have 113 million hectares, which is our total potential for irrigation. So it is these bold policy decisions which helped.

Now, these were the decisions on the part of the government leaders, but this advance presented a very great challenge to scientists. How do you really react to a situation where you have been called upon to develop a new technology? All the time the emphasis has been on "relevance," and "relevant" means "traditional"—that is, no fertilizer, no pesticides, no other inputs. And suddenly you are told that the farmers are going to use fertilizer now, and water, and you must now come up with all the other kinds of seed varieties which will take advantage of this!

I must say that my colleagues at this institute and in other places have responded rather well to this challenge, and they received some support from the international community of scientists. For example, we were very fortunate in the 1960s

to be able to get some genes for dwarfing of wheat from Mexico. We also were able to get hold of some very good genetic stocks of rice from the International Rice Research Institute in the Philippines. We organized very major programs of crop improvement. The kinds of varieties we are recommending to our farmers today are very different from those which they had grown for hundreds of years.

Now, in your country this kind of transformation of crop varieties (a complete change in their architecture; you used to have very tall wheats, now they are very dwarf) started very slowly, because your farmers took to improved levels of management in a gradual manner. The breeders were not even conscious of this change, and they were slowly improving their crop varieties.

But in India, since time was not on our side, and we had to bring about this change rapidly, we decided to use major genes. Your people really didn't use major genes for dwarfing; they used what we call a system of poly-genes, genes making small contributions to reduced height; they added together a number of genes and gradually these added to reduce height and increase the proportion of grains. But fortunately the world was in a very happy position 20 years back in discovering *some* genes, especially in wheat and rice, with major effect. That is, a single gene will suddenly bring down the height of a wheat plant from 120 centimeters to 80 centimeters, and if you had two such genes you could bring it further down to 70 centimeters. We said, "Well, we don't have to do what the Americans did over a period of 60 years"—we incorporated this gene directly. You will be surprised how successful we have been in this.

I must tell you that we didn't have such a strong research base 20 years back. The challenge was there, but the country didn't have too many research institutes and universities. That's another area where the government moved very fast. Today almost every state of India has an agricultural university, on the pattern of the [American] land-grant college. And this, to my mind, has played a very big role, because earlier agriculture used to be tied up with these traditional universities where they teach humanities and basic sciences and everything under the sun—and agriculture was just one faculty. This faculty was answerable not so much to the Department of Agriculture as to the Department of Education. We took it out of the Department of Education and we linked it right up with the Department of Agriculture, so that today the latter has very direct linkages with these agricultural universities and they work in very close collaboration.

We had to create an altogether new research infrastructure, and this institute had a tremendous role, if I may say so, in this process. We were ourselves declared a university, not of a very traditional kind, but simply a graduate school, to train a very large number of graduate students. You will be interested to know that in the last 22 years we have turned out from this Institute 2,600 Ph.D. and M.S. graduates, and it is these people who are mostly in the universities in the

states. This Institute was set up, more research institutes were set up and a very large number of new universities were set up. India today has one of the largest research infrastructures, apart from the development infrastructure.

To summarize: we had a very clear objective, but before that I should say we had a great deal of potential and we knew how this potential could be exploited. The government took the right policy decisions to create modern industrial support—in terms of fertilizers, in terms of pesticides, in terms of machines, in terms of irrigation. The scientists were given the responsibility and they have responded. The research infrastructure has been vastly increased, and we have this harmonious interaction between all these sectors.

**Brady:** That interaction, and its success, is particularly visible in Punjab.

**Dr. Jain:** Yes, although you saw the *best* effect in Punjab, you must not go away with the impression that Punjab is the *only* state. Although of course Punjab has moved the fastest, there are other states—even the states which are today considered very backward, for example, Bihar and Uttar Pradesh—even they have made considerable progress.

**Brady:** Are there specific plans, area-wide or otherwise, to generalize the achievements of Punjab?

**Dr. Jain:** First, let me clarify one point. If Punjab has moved forward it is not because the inherent potential for productivity in Punjab is any greater. Some of the other states, like the largest state in terms of area, Uttar Pradesh, or a state like Bihar, in terms of natural resources of sunshine, water and fertile soils—they are as well placed as Punjab. And some parts of Uttar Pradesh, the western part for example, is progressing now almost as fast as Punjab. So has Haryana.

Do we have specific plans? Well, yes, the plans are that there are major universities for research in these states to develop the relevant technology—so the research support is just as good in these states as in Punjab. Perhaps we have to improve the extension services there. That's our greatest concern right now. Perhaps we have also to improve the motivation of farmers.

However I think our greatest gain is going to be education. The new generation, the children who are in schools and colleges now, they are more ambitious and they are more motivated; they are not going to stay with the kind of life that their ancestors lived in terms of nutrition or health care or education. So, with more and more education, with better extension services, with better seed production and fertilizer, and above all with better transfer of technology, things should improve in these states. There is no reason why not.

### **How to transfer technology**

**Brady:** You have mentioned previously the importance, in particular, of providing integrated services to farmers. The Sixth Plan calls for establishing 500 "Agro-Services Units"—

is that what you have in mind?

**Dr. Jain:** If I may say so, I influenced the thinking of the Planning Commission on this point. I did a detailed analysis to find out the factors responsible for slow transfer of technology, and I came to a very major conclusion, which I am sorry to say is still not widely known, even in India. My contention is that in the developed Western countries all that you need is a good production technology, a technology in which farmers have faith. Then you need the various kinds of extension services, advisory services to take this technology to the farmers, just to tell them that here is something that is good for you.

But in India I think we need a third dimension in this process of transfer. I have repeatedly seen that you have a good technology, you demonstrate it on the farmer's field, and he says: "Yes, I'm convinced, but where do I go from here?" He says: "You're asking me to use so much pesticide—if it was merely a question of buying the pesticide I would not mind it; I can go and buy it like fertilizer." But application of pesticide is a little more complex: you need machines, you need dusters, you need sprayers, you need skill, and you need maintenance facilities for these machines. That's one reason why millions of farmers in this country are often not able to adopt a good production technology, even if they are convinced about its efficacy.

My suggestion is that in a country like India we need a large number of agro-services centers—someone who will do the job for you. You pay for it, and get the job done. But of course, it should be as far as possible a non-profit kind of operation, at least to begin with. I know that a rich entrepreneur can go and do the job, but then his costs will be high. I'd like to see a government institution which would not be so profit-minded, but will do the job and charge reasonably for the services.

Now of course in some countries, like Israel for example, the answer is the cooperative services. The farmers come together and organize their own services. In some parts of India, a very few parts, this is beginning to happen now—especially in Gujarat. But I have my doubts that most parts of India will follow this example. Generally the Indian farmer, you must have seen, is very individualistic. He doesn't want to combine with anyone, and he's a little distrustful of what might happen to his land if he joins in a cooperative endeavor.

**Brady:** Have many such centers been set up yet?

**Dr. Jain:** I think we have yet to move in a big way in this direction. We have some sort of centers in our block administration—you must have seen that we have these blocks where services and advice is given to farmers. But I don't think they are well equipped for the service part. They are very well equipped for the advice part, and that's where they have succeeded. But when the farmer says, "Well, yes, I accept your advice but I need your services. . . ." They do their best, but I think they need to be strengthened a great

deal to render this kind of service.

**Brady:** At this point there's a serious problem of infrastructural bottlenecks in the Indian economy generally—power, transportation. . . . Is this a problem for agriculture?

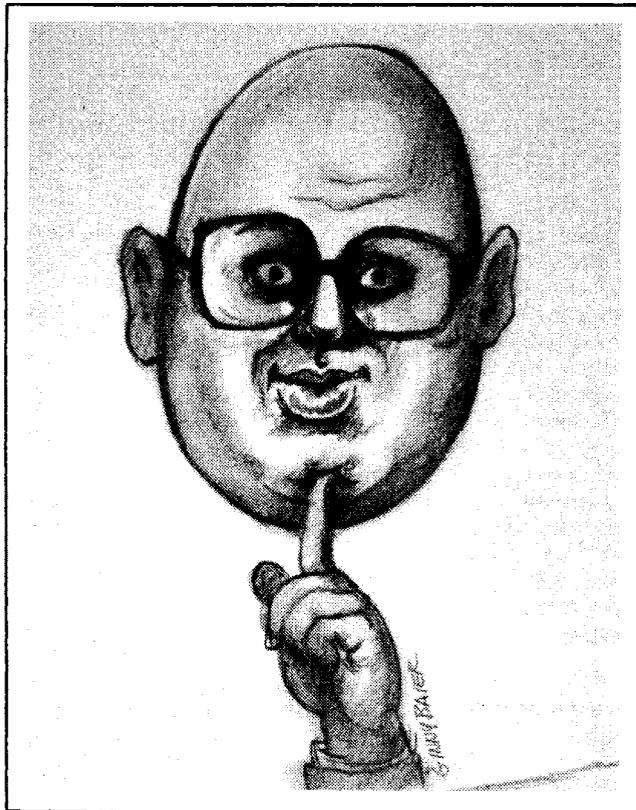
**Dr. Jain:** Especially in the matter of power we have a problem. This problem is felt more in a dry year, like this one for example. We have as you know these enormous resources of irrigation—tubewells, for example, but they run on power. I argued in 1979 that the drought was in a sense a drought of power, where the water was there all the time, only a few feet below the ground or at best a few meters, if you could only lift it—and we didn't have enough electricity, or we could have overcome this very difficult situation. I would say that infrastructure in some respects is a problem, but services are a greater problem.

**Brady:** It is clear that India's capability is strong in the whole range of biological and agricultural sciences. What areas in particular are you concentrating on, and where do you think the coming breakthroughs will be?

**Dr. Jain:** This is my favorite subject. I personally believe that future agriculture of necessity will have to be very different from the present. The basic difference will be that we will depend more on renewable resources of energy, rather than non-renewable ones. But please do not misunderstand me: this does not mean going back to traditional agriculture. This means going for very high yields, even higher than those which you are having now, going for very big harvests, but substituting the industrial inputs with *more* sophisticated scientific inputs. For example, biologically fixed nitrogen.

In my view, probably the biggest breakthrough in agriculture in the next 20 years will be in the field of agricultural microbiology. We are looking for microbes which will do many of the things industrial processes do now. We should be able to identify right in nature many of these bacteria—blue-green algae, and other organisms which we've so far neglected. But if we fail to find them in nature, we can even manipulate them genetically. You know the recent techniques of genetic engineering. Now, I don't want to give you an impression that genetic engineering is already advanced so much that you can do virtually anything—no. In fact, I am sometimes surprised that you have nearly 100 major corporations set up in the last five years in the field of genetic engineering for agriculture. I am not all *that* hopeful, but things are moving. And I think that in the next 20 years, we can use this tool effectively to do many things which we can't do today.

Let me summarize this by saying that when the Western scientists developed the present technology we are following, they did it at a time when energy was not a problem. They were concerned with productivity, which we have now. But now we want to combine productivity with efficiency—and efficiency means substituting the industrial inputs with bacteriological inputs.



## Hoaxter makes good as CEA chairman

by David Goldman, Economics Editor

Council of Economic Advisers chairman Martin Feldstein, who learned to lie from the old pros at Oxford University in England, became the laughingstock of the economics profession—quite an achievement in such a competitive field—when his most famous work was exposed as outright fraud, and this before the entire assembled corps of American economists.

### 'Elementary error'

Feldstein's computer-based study purporting to show that the Social Security system inhibited capital formation drew all its conclusions from an "elementary programming error," two Labor Department economists demonstrated before the Sept. 7, 1980 session of the American Economic Association's annual convention, held in Denver, Colorado. The economists, Dean R. Leimer and Selig D. Lesnoy of the Social Security Administration, demonstrated before 2,500 assembled economists, at a session chaired by the horrified Dr. Feldstein, that the Harvard economist's own arguments

showed the opposite of what he purported to—once the fakery in programming was eliminated.

Feldstein's 1974 study of the Social Security system, the supposed masterwork which won him the presidency of the National Bureau of Economic Research, purported to show that the Social Security system reduced capital formation, by draining funds that people would otherwise save for their retirement, and invest in better fashion than does the Social Security Administration. The rigged results showed a \$63 billion loss to the nation's capital stock between the founding of the system and 1974, allegedly due to the slower rate of growth of savings deposits in the nation's banking system due to Social Security taxes.

In fact, the "elementary programming error" corrected, Feldstein's own data would show a modest improvement in capital investment due to Social Security, as a shamefaced Feldstein admitted before his peers. One wonders why the economics profession tolerates such hokery, but, after a second's reflection, understands that the profession is given over to fakery at the profoundest level, such that indiscretions of Feldstein's sort may quickly be forgiven and forgotten.

Clearly the times demand a man of Feldstein's qualifications at the President's side. Who but an expert in faking data could produce a recovery prediction under present conditions?

### Arranging depression cycles

Feldstein's professional association, the National Bureau of Economic Research (NBER), is the new Delphic Oracle of a yin-yang cycle between inflation and recession, culminating in periodic busts of world-shaking magnitude. Since the 1920s, it has provided an excuse for the Federal Reserve's destructive practice of aborting economic growth before significant capital investment takes place. The NBER doesn't predict recessions: it arranges them. Business cycles are instigated by "business-cycle theory." Only when wartime or similar considerations overrode the Federal Reserve's throttle, i.e. World War I, World War II, the Korean War, and the 1960s moonshot program, has the United States economy renewed its capital stock.

The President, viewing the nation through the beetle-eyes of the pollsters, sees a nation of individuals grumbling over the impingement of the economic crisis on their individual household budgets, imagining that if the symptoms of our economic decay—taxes and inflation—would stop interfering with their household budgets, the crisis would go away as well. No one in Washington believed the Reagan administration could surpass the recent performance of the Commerce Department, which removed the nation's bankruptcy rate from its index of leading indicators, in order to erase unpleasant proof of economic collapse. As the supreme expression of our national petty-mindedness, we now have a chief economic adviser of the sort we deserve: a faker who exceeded his fellow fakers in zeal. If we are willing to tolerate his sort at the Council of Economic Advisers, we have no right to complain of the consequences.

# Business Briefs

## **International Debt**

### **Bolivia in default; Ecuador spurns IMF**

Bank of America, the leader of the banking consortium that has been negotiating a rescheduling of Bolivia's \$400 million debt arrears, declared Sept. 10 that Bolivia is in default.

The banks had earlier cut off all funding to Bolivia after its military government balked at fully carrying out the conditionalities imposed by the International Monetary Fund. The Bolivian labor movement has warned that its enemies were seeking to bring in a government even worse than that of President Vildoso, whose chief adviser is convicted Nazi war criminal Klaus Barbie. The labor movement demanded a full moratorium on Bolivia's foreign debt.

In Ecuador, Vice-President Leon Rodos said Sept. 10 that while Ecuador is trying to obtain a \$1 billion loan to cover short-term debt payments due this year, under no circumstances will it "seek to obtain the money through the IMF, because the IMF conditions its loans to changes in a country's economic policy." This month the country's finance minister was fired when it was revealed that he had invited an IMF team to negotiate a loan.

## **World Trade**

### **British to use GATT against 'nationalism'**

Meeting in a three-day seminar in London, British Empire agents determined to use the GATT ministerial meeting in November to halt "economic nationalism," a term referring to a sovereign nation's desire to protect its own economy from British dumping and trade manipulation.

Sponsored by the Trade Policy Research Center, a front group for the British Foreign Office, the Sept. 2 seminar was attended on the American side by Phyllis Bonanno of the Office of the Special Trade Representative; William Brock, U.S. Trade Representative; and several high-level attorneys and "consultants."

Keynote speaker Kenneth Durham, chairman of Unilever, the British chemical and trading multinational company, declared, "There is no denying that the economic circumstances of today are fraught with danger. There is an urgent need to arrest and, more than that, reverse the gathering trend . . . toward the resurgence of economic nationalism.

"A GATT program is necessary, for governments must present a determined front in the battle against economic nationalism."

The seminar began the day after the Mexican government announced strong economic measures to protect its national economy from free-market looters.

## **Banking**

### **Citibank scandal to cut offshore loans**

The scandal over the illicit offshore activities of New York's Citibank, the subject of a congressional investigation, was deliberately cooked up by the Bank of England and the secretive Swiss-based Bank for International Settlements.

The Citibank scandal is meant to lead to the creation of a "new international banking order," a source close to the Bank of England said Sept. 14. In the new order, he added, U.S. banks, starting with Citibank, will be drummed out of the international offshore markets.

The object, said a top official of the Swiss National Bank, is to cut lending in the \$1.8 trillion international Euromarkets in half.

The new Citibank scandal broke in Washington Sept. 13, when the House Commerce Oversight and Investigations Subcommittee began a week of hearings on Citibank "evasion" of international banking regulations. The House is reviving a huge investigation of Citibank begun by the Securities and Exchange Commission in 1978 and dropped by the SEC early this year for lack of evidence.

The SEC documents alleged that Citibank officials in Latin America, Europe, and Asia violated "bank safety" regulations of the U.S. Fed and foreign governments. Citibank, they claim, refused to set aside emergency reserve funds in case of Third

World default; made loans above the legal lending limits to certain Latin American nations; and "falsified their books" to move good loans from branch to branch, making each branch "look good to regulators."

Citibank has probably committed all those irregularities and more. But the point is the BIS effort to cut lending.

The entire scandal was exposed as a British plot by *EIR* in 1978, when it began. The investigation started when a Citibank foreign-exchange dealer, David Edwards, told the *Washington Post* that Citibank was engaged in foreign-exchange illegalities. Edwards, it turned out, was trained at the London School of Economics and until 1972 worked at London's elite Samuel Montagu investment bank. He worked with Samuel Montagu when he joined Citibank London in 1972, to set up a totally illegal foreign exchange operation at the U.S. bank—and then ratted.

## **Consulting**

### **Swedes say: 'Don't trust IRIS group'**

The Swedish Industry Association has issued a public warning about the activities of the International Research and Intelligence Service (IRIS) group, founded last year by notable international politicians including former British Prime Minister Edward Heath.

The Swedish business group's chief of security, Colonel Selander, states that IRIS should be watched for possible industrial espionage activities. In addition to large funding from the British merchant bank Henry Ansbacher, IRIS is backed financially by the Swedish insurance group, Skandia, which owns seven percent of the international research outfit.

Sweden's state inspectorate is pursuing an investigation of allegations that IRIS accessed sensitive confidential data on Swedish citizens, and then dumped that information into a foreign computer bank.

When IRIS was formed in October 1981, its founders boasted that it would become the leading intelligence service for multinational corporations, providing information that would far surpass the capabilities

of the American CIA. Investigation has shown on several fronts that IRIS is a front group for British and northern European dirty-money networks involved in commodities, insurance and offshore banking.

### **Fiscal Policy**

## **Japan's budget declaration: emergency political ploy**

Japan's "state of emergency" on the federal budget, declared by Prime Minister Zenko Suzuki, is seen as part of Suzuki's attempt to get renamed President of the ruling Liberal Democratic Party (LDP) and thus Prime Minister. His terms end in December.

Suzuki is pushing fiscal austerity and his main opponent, Economic Planning Agency director Toshio Komoto, advocates stimulus.

There is no "emergency" similar to the experience of New York City in 1975; Suzuki is overdramatizing an admittedly serious problem in order to counter demands for stimulus. Two real outcomes of Suzuki's "declaration" are a proposed small tax increase of \$1.5 billion and a possible freeze on wages of government workers.

### **Investment Policy**

## **Is China reversing Deng's anti-industry pogrom?**

Chinese Prime Minister Zhao Ziyang declared Sept. 17 that China will now give priority to heavy and chemical industries in its modernization programs—which would be a direct reversal of the policy Zhao and Deng Xiaoping have forced over the last two years.

According to the English-language *Japan Economic Daily* published by Kyodo News, Zhao made this declaration in a one-hour meeting with Japan's Minister of International Trade and Industry Shintaro Abe. Zhao also told Abe that Japan's cooperation was "indispensable" to the development of

nonferrous metals, energy resources, and the modernization of transport and factories.

The Deng-Zhao policy of reducing investment in industry over the last two years has come under severe criticism within China for ruining the economy and causing political unrest. Zhao's statement to Abe is just one of the signs that the Dengists are being forced to back down. At the Communist Party Congress just ended, the Deng faction was forced to retain on the Politburo one of the staunchest leaders of the "heavy industry faction," Yu Qiuli, whom the Dengists had removed from his government post two years ago.

Moreover, at the meeting with Abe, the Chinese announced reinstatement of three of the major industrialization projects which the Dengists had canceled two years ago, all involving cooperation with Japan. These include the \$3.4 billion, 3-million-ton Baoshan steel project; the 20-plant Na'jing petrochemical project; and the 300,000-ton Shandong Shengli ethylene project.

### **Resource Policy**

## **U.S. Congress looks at Western water**

The Senate Environment and Public Works Water Resources Subcommittee began informational hearings on Sept. 15 on the implications for the delicate matrix of control of Western states' water of the recent Supreme Court decision, *Sporhage et al. versus Nebraska*.

According to committee staff, the implications of the decision are largely unknown, and could range from continued state control of water resources to a broader interpretation that "since the export of a little additional water from a state could never be proven to be the cause of the dry-up of a state, water export could never be halted."

The Supreme Court ruled in *Sporhage* that water was an article of interstate commerce. The Court overturned Nebraska's ban on export of its groundwater for use in Colorado by a farmer owning adjacent land in both states. Presumably Nebraska could have stopped the export if it demonstrated a compelling need for the water in Nebraska.

## **Briefly**

● **TOSHIO KOMOTO**, Director-General of Japan's Economic Planning Agency, recommended to GATT chief Arthur Dunkel during a 20-minute meeting in Komoto's office Sept. 14 that the high U.S. interest rate policy be placed on the agenda of the Nov. 24-26 GATT ministerial meeting in Geneva.

● **THE GENERAL** Accounting Office has just completed a study of constraints on U.S. insurance companies marketing insurance in other countries. The study was performed at congressional request, in preparation for the November international GATT negotiations. Reportedly, American Insurance Group (AIG), the Singapore-based Philadelphia insurance giant, inspired the decision to perform the study.

● **LORD CARRINGTON** has been asked to assume the chairmanship of Britain's General Electric Corporation (GEC). The post brings him again into association with Henry Kissinger, with whom Carrington has formed a New York-based consulting firm. Kissinger is an international adviser to GEC.

● **U.S. CORPORATIONS** "postponed" by one more quarter their plans to increase expenditures for plant and equipment, according to unpublished Commerce Department figures. Second-quarter expenditures fell (at annual rates) by \$4.5 billion to \$323.2 billion. Three months ago, it was expected by the Commerce Department that third-quarter investment would rise to \$328 billion. The third-quarter intention is to now to lower outlays a further \$3 billion.

● **THE FRENCH FRANC** reached an all-time low against the dollar, at 7.1 during the week of Sept. 16, prompting the Socialist government to take emergency measures to avoid another immediate devaluation.

## Fusion power is now in sight for the 1990s

by Paul Gallagher, Executive Director,  
Fusion Energy Foundation

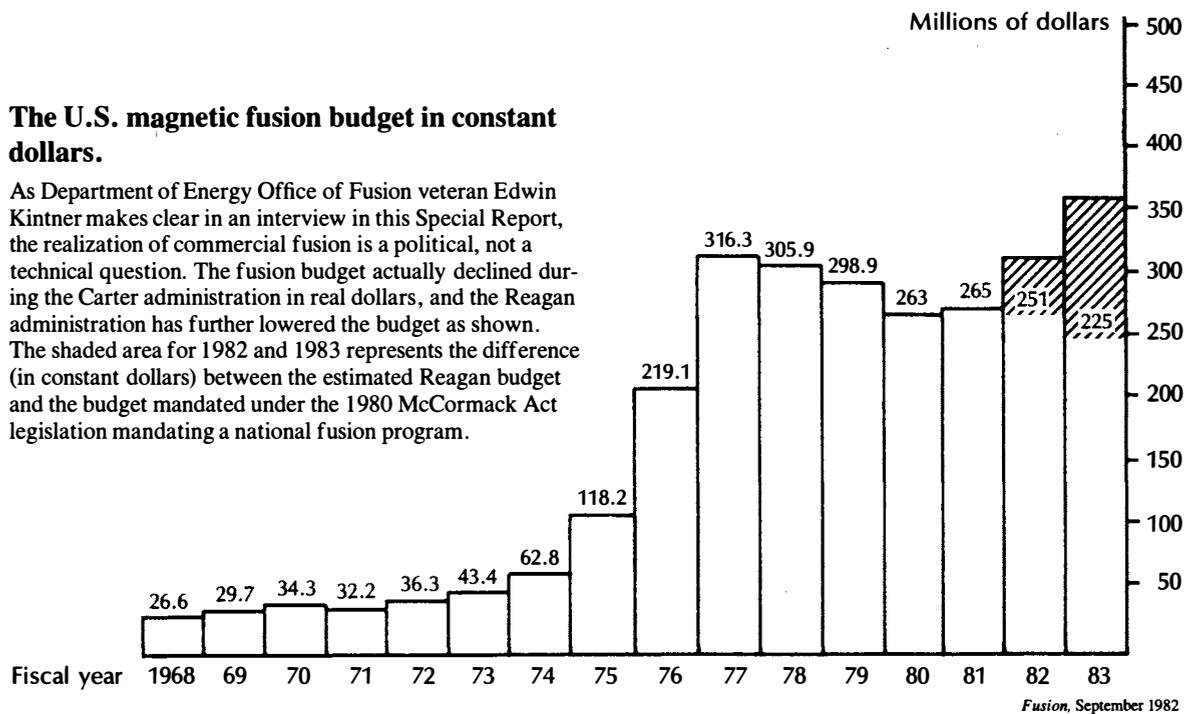
The International Conference on Plasma Physics and Nuclear Fusion is convened by the International Atomic Energy Agency only once every two years, and the ninth such conference, held in Baltimore Sept. 1-8, brought together nearly 1,000 of the world's leading plasma physicists and fusion laboratory experimentalists. The delegation from the Fusion Energy Foundation released a special issue of *Fusion* magazine at the conference, proposing that commercial fusion energy could be brought five years closer, to the middle 1990s, by exploiting the promise of polarized fusion fuels, one of the most-discussed, and least reported, ideas in the international fusion community since April.

The potential of polarized fusion fuels was just one of the recent advances in fusion energy research and development discussed at the IAEA conference. As Department of Energy veteran Edwin Kintner elaborates in an interview in this report, these achievements demonstrate definitively that commercialization of fusion power in the near-term future is a political, not a scientific, problem. The nature of the problem is perhaps best expressed in the recent announcement by President Reagan's Science Advisor, Dr. George Keyworth, that the government's present strategy will not achieve commercial fusion until 2050. Under the rubric of budgetary austerity, this policy not only contravenes the Magnetic Fusion Energy Engineering Act of 1980, which mandates a \$20 billion national expenditure over 20 years to achieve a commercial prototype reactor by the year 2000. It dooms the United States to permanent energy shortage and industrial decay, at the very point that this nation's scientists have proven that there exist no scientific or technological barriers to fusion development by continuing to achieve results in their work—even under conditions of increasing funding restraint.

Early this year researchers at Princeton and Brookhaven labs predicted that deuterium-tritium and other fusion fuel mixtures could be magnetically polarized (spin-aligned) and would *stay* polarized even in the enormous heat of a fusion reaction. This would double or triple the reaction rate, and produce engineering advantages in controlling and directing the reaction and designing the reactor, considered of even greater importance than the enhanced reactions themselves.

## The U.S. magnetic fusion budget in constant dollars.

As Department of Energy Office of Fusion veteran Edwin Kintner makes clear in an interview in this Special Report, the realization of commercial fusion is a political, not a technical question. The fusion budget actually declined during the Carter administration in real dollars, and the Reagan administration has further lowered the budget as shown. The shaded area for 1982 and 1983 represents the difference (in constant dollars) between the estimated Reagan budget and the budget mandated under the 1980 McCormack Act legislation mandating a national fusion program.



The prediction passed accelerator tests at Brookhaven, and when word of the potential came to FEF from Dr. Bruno Coppi of MIT, the Foundation began an immediate and aggressive canvassing effort with scientists and the press, to “break the story” as it had the now-famous 1978 Princeton Large Torus breakthrough in achieving record plasma temperatures.

It took a letter from Dr. Hans Bethe of Cornell to Reagan Science Advisor George Keyworth, however, to produce the first discussion of a testing program for the new breakthrough under fusion reaction conditions, nearly two months after FEF began its campaign. But the scale and breadth of the test program is still vague.

Low-risk conservatism and lack of engineering drive has become the hallmark of the once-dominant U.S. fusion program under Keyworth. Keyworth has made it clear, most recently at Magnetic Fusion Advisory Committee meetings, that his indefinite postponement of fusion is rooted in acceptance of the collapse in worldwide energy growth caused by the economic depression and monetary crisis. The Science Advisor told the MFAC meeting that the world “does not need a new energy source by the end of this century.”

Under conditions of continuing world economic collapse, Keyworth is correct. But the alternative program to permanent global depression and the holocaust of Third World depopulation that will come with it—the debt and monetary reorganization and “great projects” infrastructure development program proposed by *EIR* founder Lyndon H. LaRouche—requires energy. Break the stranglehold of the collapsing International Monetary Fund over the credit supplies

of the developing sector, restart capital goods production for export in the developed nations, and the world economy would suddenly manifest a demand for electrical energy growing so rapidly as to surpass fission growth capabilities including fast fuel breeding within 30 years. By then fusion reactors will have to be in widespread commercial use.

## The Japanese challenge

At the IAEA conference, only the Japanese representatives made a presentation describing a timetable and engineering prospectus for future developments leading to a commercial fusion prototype. The continuing emergence of the Japanese program toward world leadership in fusion is described below, in the article by Marsha Freeman on Sept. 8 presentations to congressional hearings by the leaders of the Japanese and European programs.

Also included in this Special Report are an interview with Dr. Stephen Dean, head of Fusion Power Associates, by Dr. Steven Bardwell, and excerpts of *Fusion* magazine’s special issue on the potential of polarized fusion fuels. The FEF has announced plans to circulate this issue of *Fusion* in 200,000 copies, as part of its campaign to enlist the U.S. citizenry in reviving the nation’s fusion program. This campaign was announced at a public FEF meeting during the IAEA conference. All mission-orientation has been withdrawn from the U.S. fusion program, Bardwell told that meeting. The breakthrough of polarized fusion fuel could “give us a second chance” to move aggressively toward engineering fusion development, he concluded, perhaps five years earlier than any previous government’s estimate.

## Edwin Kintner: 'Achieving fusion is a problem of politics, not technology'

*Edwin Kintner was the director of the Department of Energy's Office of Fusion Energy until January 1982 when he resigned, citing the extreme problems developing in the program as a result of Office of Management and Budget interference. Kintner had, before coming into the program, some 30 years of experience in the development of nuclear technologies, and had been project director, under Capt. Hyman Rickover, of the Nautilus program which developed the first working nuclear power reactor, as an engine for submarines.*

*Kintner was interviewed for EIR by Fusion Energy Foundation Director Paul Gallagher, immediately following the International Atomic Energy Agency conference on fusion Sept. 1-8 in Baltimore, at which he spoke on prospects for fusion at a meeting organized by the foundation.*

**EIR:** You told the FEF session in Baltimore that fusion energy research and development efforts in the United States and elsewhere are continuing to progress in demonstrating technical capacities for fusion power. What are the important new developments, as of this conference?

**Kintner:** There were a number of very satisfying advances reported at this conference. Perhaps the most dramatic was the 4.6 percent beta [plasma pressure] from the Doublet III [tokamak at General Atomic in San Diego]. You remember that just a year ago there were theories, and some experimental evidence from the ISX-B at Oak Ridge, that 2.5 to 3 percent was going to be the limit of beta. Many people were quite concerned about that. Now we have information that there is no such limit, and we have not yet seen any reason to believe these machines have reached their limit. This is another one of the major parameters in fusion, as represented by the tokamaks, in which it now appears we can be reasonably confident; we know we can do it in temperature, and we know we can do it in beta, within the ranges that are required for a power reactor. . . .

Another result most gratifying to me is the initial success with the TMX [tandem mirror machine, Lawrence Livermore Lab] Upgrade. I've felt for some time that one of the most important contributions I've made to the program is to get a serious program started on the mirror design side, and the TMX itself did what it was supposed to do: increased the confinement in a tandem mirror by a factor of ten over a simple mirror. The TMX Upgrade was supposed to improve this by another factor of ten; in initial operations they have

done this by a factor of three, and there is no reason in their minds why they should not continue to improve.

Another important advance, known before but reported in Baltimore, was the operation of the superconducting magnet for the MFTF-B [Mirror Fusion Test Facility], which is by far the largest and most powerful superconducting magnet in the world. It got up to full power with no difficulties.

Now those were in addition to the ones discussed at the FEF meeting, with the polarization of ions to increase cross-sections [rates of fusion reactions], and the other advantages which take place from that. So I think it's been a period of steady and important fundamental progress. . . .

**EIR:** You also said, despite this progress, if I quote you correctly, that the United States "may have already blown it," in the effort to commercialize fusion. What did you mean?

**Kintner:** What I said was that one of the most important questions of fusion was not technical at all. That is, whether or not a program requiring as long a time, and as many resources as fusion, could be organized on a political and social basis, in a *directed* way. I felt we had done that, were on the verge of doing it, with the Buchsbaum recommendations of 1980; and I think that what has happened now, the change that has taken place in the program, is not just a matter of money; it is a matter of loss of forwardness and cohesion along a line. The people who are "saving money," don't realize how hard it will be to get the program back on the track, so it has priority as a program; they simply don't understand it.

**EIR:** Of the two mandates of the McCormack Act [the Magnetic Fusion Energy Engineering Act of 1980] which the Department of Energy has since renounced—aiming at a specific timetable for commercialization of a fusion reactor; and the immediate development of a Fusion Engineering Device—are these the aspects of current policy which have had the worst effect on the program?

**Kintner:** Yes, they are. I would, perhaps, put them in different terms. The program has come to the point, from a physics point of view, where it is necessary to accelerate the engineering, to match the physics, so that it is possible to know, in ten years or so, whether fusion is practical, and how much good it can be expected to provide.

Now, that is not going to be possible. Until a systems-integrating device like the FED is built, the understanding on the engineering side won't be there.

The other significant aspect of the Magnetic Fusion Engineering Act which is going to be dead or on the back burner, is that of getting industry involved in a serious way in working on fusion development. . . . I'm talking now, for example, about setting up the Center for Fusion Engineering in an industrially oriented mode, and building it as primarily an industry-oriented activity. Those are going to fall by the wayside, and industry is going to lose interest. These corporations are not going to put their best people or their resources into being small-job shops, for a few million dollars a year, to the national laboratories.

**EIR:** The President's Science Advisor, Dr. George Keyworth, and other officials of the White House Office of Science and Technology Policy, speaking in public, have alleged the unreadiness of certain scientific aspects of the fusion program for the development of engineering.

**Kintner:** That may be, but within the community [the outlook is optimistic]—for example, the summary on magnetic confinement progress to the Baltimore IAEA meeting which was delivered by Harold Furth [director of Princeton Plasma Physics Lab], was very forward in tone. I do know that Ron Davidson . . . says that we are making good progress, that there are still questions we haven't answered, but we're moving, and moving well. I don't think the question is that we're not ready. The question is will we support it? I'm prepared to let people have credit for saving money, but I don't think they ought to simultaneously take credit for being experts in what the program needs to get ahead.

**EIR:** How did the program solve major problems during its past five years, while you were director?

**Kintner:** There were several things indicative of what now needs to be done on the engineering side. One was started before I got there, and I followed through. That was to organize the tokamak program as a program, with a flagship—the TFTR [at Princeton]—and a number of smaller ships, like Alcator A and B, PDX, ISC, and Doublet—all of which had a role to play to increase the base of technical knowledge and insight which would culminate in the TFTR and the JT-60 [Japan] experiments. That's what I mean by a *program*.

Now underneath that, of course, there were another substrate of experiments for the development of information, and development of the theoretical base, the setup of the Institute for Plasma Physics at the University of Texas, and so forth. What we did in addition to that, and this *was* something I had a great part in, was to create a mirror program, with the MFTF and then MFTF-B as the flagship of the mirror system, and devices like Terra, and the TMX Upgrade, and the Tandem Mirror at TRW, and the program at Wisconsin, so that there were a number of different machines, feeding information into this central, flagship of the MFTF-B. And

that's what I mean by a program.

We attempted to have other physics experiments intended to fill in the matrix of physics in the plasma fusion and magnetohydrodynamics field. We couldn't do all those we would have liked to do, but with the machines that we had, and the program we laid out, both toroidal and magnetic, within ten years we would have had a significant body of knowledge contributed to science.

On the engineering side it's a similar thing. You need the flagship—namely, the Fusion Engineering Device, with the objective to make significant fusion energy and extract it—and then under that, there have to be additional development devices which produce the special information of one kind or another, such as the FMIT [Fusion Materials Irradiation Test Facility], and the Large Coil Project, and so forth. You [NASA] could have done all the tests in the world, with rockets, and guidance, and monkeys, and so on; but unless that program had had the objective of sending a man to the Moon and bringing him back, it would have wasted 50 percent or more of its efforts. And that's why you need programs, and you need clear targets.

**EIR:** From the technology-development standpoint, can the current fusion program be compared to important points in fission development?

**Kintner:** There is not a Stagg Field [the first atomic "chain reacting" pile] kind of step. There is not an STR-Mark I [submarine power reactor] stage for fusion. The rational approach, if one accepts that fusion development is an important human goal, is that when you get to the point that you can design and build, with confidence, a machine that produces significant thermonuclear energy, the next step is immediately to do that; and you continue the physics development which allows you to make more refined judgments with regard to power reactors.

As soon as you start this process of designing and building a systems-integrating device, then you have to lay out, on the engineering side, the developments which will support the design and construction of that machine. If you then do that, if you carry it out well, you will then end up with two types of insights. One is in physics, with regard to the best way of confining a plasma in a magnetic field, and the knowledge of how efficiently, in how small a machine that can be done. You also have a body of knowledge, then, with regard to the engineering; the magnets, the materials, the safety aspects, handling. Putting those two together, then, you are at a point where you can make an assessment about what the program can do in the future.

I studied the Apollo Program, and the Manhattan District program, the naval reactors and the breeder program, and I've tried to find a parallel. But they aren't there. Fusion development is a special kind of challenge.

**EIR:** The Nautilus program, in which you were involved, was the first breakthrough to power production with fission.

What kind of problems had to be solved to do that, and how fast was it done?

**Kintner:** There were tremendous problems, and they were so many, and so difficult, that the people involved were quite often discouraged, and quite often surprised. These problems ranged from just not knowing the physics in power reactors, nor the stability of power reactors under loads, nor the materials with which to make the fuel elements, nor how you would be able to inoculate high-speed, high-power motors, pumps, and gears with water lubrication, nor even the simplest question of how you would be able to shield or weld the primary systems. All those problems were solved; the prototype was running in three years; the ship was at sea, and running at full power and full submergence depth in five years.

Now I'm not saying that you could do that with fusion. I'm only saying that so far, it seems to indicate that the same sort of attitude is rational, and that the principles that were enunciated, which I saw come true in the naval reactors program, are valid in fusion: Nature works best for those who work hardest for themselves.

**EIR:** The U.S. fusion program has been, until recently, the largest. How do the other major national, and international efforts, in the case of the European program, stand, and what rate of progress are they making?

**Kintner:** At least for the moment, they're making good progress. Good results came out of ASDEX, in Germany. There are good results coming out of Japan, and I think that the Soviets' work on the T-15 Tokamak is doing well. I think that at least for the moment, the results of the Beckerts Committee indicate that technological development in Europe is going to happen, and the same thing is true in Japan.

But my sense of the matter, with both the Japanese and European systems, is that there may come in those countries a reflex action from the downturn in the U.S. program. Their building up recently, in the JET [Joint European Torus] and JT-60 [Japanese Tokamak] programs, came from the impetus of the United States' acceleration since 1972. They're not going to continue full bore if the United States does not.

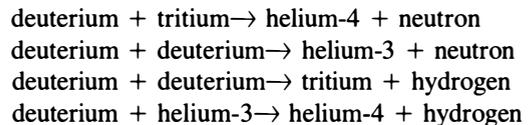
**EIR:** What do you think the impact of the program has been, over the last decade, on the training of physicists in the United States?

**Kintner:** There has been a significant body of bright young people trained and brought into the program. It is inevitable that they are going to continue to produce good results, whether in the fusion program, or outside, in other physics activity. That is a permanent, lasting contribution of the program, absolutely. There is still, and I think will continue to be, an impulse in people to see, in something like fusion, an intellectual and moral challenge, and it will draw to it worthwhile young people who will train themselves, and eventually make major contributions.

## Polarized fuel: the that could move up

Nuclear fusion has been called the ultimate energy source. Using the same energy generation mechanism as the stars, nuclear fusion produces energy more intensely, at higher temperatures, and in more different forms than any other form of energy known. The fuel for fusion is the various light elements, hydrogen and helium being the most important.

The fuel cycles most attractive for fusion energy generation are:



The common ingredient in all these fuel cycles is deuterium, a doubly heavy form of hydrogen that occurs naturally; approximately 1 out of every 6,000 hydrogen atoms has a deuterium nucleus. This isotope of hydrogen shares all the chemical properties of normal hydrogen but has different nuclear properties. The energy attainable through the deuterium-deuterium cycle from a quart of water is equivalent to

**TEMPERATURE REQUIREMENTS  
FOR FUSION BREAKEVEN\***  
in degrees Kelvin

Fuel Cycle	Unpolarized	Polarized
D-T	100,000,000	80,000,000
D-D	350,000,000	220,000,000- 300,000,000
D-He <sup>3</sup>	700,000,000- 1,000,000,000	400,000,000- 500,000,000

\*Assuming standard tokamak conditions for density-confinement time.

Courtesy of Fusion magazine

# research discovery fusion's timetable

that produced by 300 gallons of gasoline. It is estimated that there is enough deuterium in the ocean to last 100,000,000 years at 100 times the present rate of energy consumption!

The rate at which a given mixture of fusion fuels will "burn," or fuse, is determined by the temperature of the reactants, the density of the fuel mixture, and, scientists have only recently stressed, the magnetic alignment, or polarization state, of the fuel. The accompanying table summarizes the conditions that must be achieved in a standard design of a fusion reactor using each of these fuel cycles. The temperature conditions listed combined with density conditions would result in what is called a breakeven plasma; that is, a fuel mixture (at these temperatures in an electrically charged, gaseous state called a plasma) that returns as much energy from the ignited fusion reactions as was required to create ignition conditions.

## A new degree of freedom

The primary approach to achieving the required temperature and density conditions uses the electrical properties of the plasma fuel itself to contain and heat the fuel with magnetic fields. Since the electrically charged fuel nuclei are deflected by a magnetic field, a *force field* can be created that insulates the fuel from the cold (that is, room temperature) containment vessel. A toroidal magnetic field configuration, the tokamak, is by far the most advanced design for such a fusion device.

The use of polarized fuel adds a new dimension, a new degree of freedom, to the quest for fusion energy. Previously, only the temperature, density, and closely related quantities could be varied in tokamak experiments to achieve fusion ignition. It was known that the actual fusion reactions that occurred were overwhelmingly those between particles with the appropriate magnetic alignment, or spins. In the case of a conventional, unpolarized fuel, as many as half the collisions took place under unfavorable alignment conditions, and so only rarely resulted in fusion. The use of polarized fuel, on the other hand, creates a situation in which almost all the collisions between fuel nuclei occur under favorable condi-

tions of magnetic alignment and, depending on the fuel cycle, increasing the *net* reaction rate by a factor between 1.5 and 2.5.

Using known techniques, the spins of the fuel can be aligned, and the auxiliary heating of the plasma (accomplished with beams of fuel particles) can also be polarized. The resulting mixture of polarized fuel provides the optimal conditions for ignition. However, there is one serious problem—a problem that seemed so overwhelming that scientists had not considered the possibilities of polarized fuel for many years: In the extreme temperatures and external magnetic fields of a fusion plasma, would not the polarized fuel quickly lose its state of higher organization as each particle underwent millions of collisions?

At first sight, the answer to this question seems to be an emphatic yes. But the more recent analysis done by a group at the Princeton Plasma Physics Laboratory (J. Kulsrud, H. Furth, and E. Valeo) and one at Brookhaven National Laboratory (Maurice Goldhaber) demonstrated that neither of the two mechanisms thought to depolarize the fuel would in actuality do so. First, it had seemed obvious initially that the collisions that result in the fusion of nuclei would also, when fusion did not occur, result in the disruption of the magnetic alignment of the colliding nuclei. However, a simple calculation done by these scientists showed that by far the predominant kind of collision, a collision governed by the electrostatic repulsion between the particles (called a Coulomb col-

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## Tokamak beta values

Machine	$\langle B \rangle$ %	B (KS)
ASDEX .....	.5	22
JFT-2 .....	3.0	15
PDX .....	3.0	9
ISX .....	2.2	9
T-11 .....	2.8	8
D-III .....	4.7	6
Tosca .....	0.5	5
Reactor needs .....	$\geq 5$	50

Source: Dr. Harold Furth, Princeton Plasma Physics Laboratory

The efficiency of use of magnetic field in a fusion reactor—measured by the ratio of plasma to magnetic field pressures—determines the ultimate power density of the reactor. This efficiency, called beta, has been a major object of research in the magnetic confinement fusion program. Shown here are the highest achieved values of beta in existing large experiments. ASDEX is a tokamak in West Germany, JFT-2 a Japanese machine, PDX a large experiment in Princeton, ISX a toroidal device at Oak Ridge National Laboratory, T-11 the largest Soviet experiment, D-III the world's largest tokamak at General Atomic Corp (in San Diego), and Tosca an Italian machine. The recently reported beta of nearly 5 percent achieved on the D-III is very close to that necessary for a commercial reactor.  $\langle B \rangle$  represents beta and B represents magnetic field.

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lision), cannot disturb the magnetic alignment of the nuclei. That is, this physical interaction does not affect the magnetic spin properties during the collision.

Second, it had also seemed obvious that the strong and rapidly changing magnetic fields that occur in a plasma would themselves act as random polarizers and rearrange the polarization of the fuel in a very short time. But detailed calculations of the effect of these magnetic fields on the magnetic alignment of the nuclei showed that they, too, were incapable of affecting the direction of spin of the fuel. The scientists summed up their results in stating that the depolarization time of a fusion plasma is much greater than the ignition time; that is, a fusion plasma at ignition conditions will burn a long time before it depolarizes.

These theoretical arguments are currently being tested in laboratories in the United States and other countries and the experiments should be completed by early 1983. There is almost complete confidence in scientific circles that these experiments will confirm the following hypotheses:

(1) Polarized fuel enhances reaction rates of all fuel cycles, in bulk plasma as well as in individual collisions (an already demonstrated fact). These enhancement factors are:

D-T increases by a factor of 1.5

D-D increases by a factor of 2.5

D-<sup>3</sup>He increases by a factor of 1.5

(2) The depolarizing mechanisms in a fusion plasma, specifically Coulomb collisions and magnetic field fluctuations, are too weak to depolarize the fuel on time scales less than the ignition time.

### **Applications of polarized fuel**

The advantages of polarized fusion fuel fall into three different areas: (1) the enhancement of reaction rates and relaxation of ignition requirements; (2) the ability to control reaction products and tailor energy forms; and (3) the possibility of using advanced reactor designs and energy extraction techniques.

(1) *Enhanced reaction rates.* The enhancement of the reaction rates for all fusion fuel cycles dramatically changes the timetable for realization of fusion energy for commercial production of electricity. The most aggressive projection for the large-scale application of fusion for electricity production is that of the Japanese. Their fusion research project is planned to operate a commercial prototype fusion reactor, producing 150 megawatts of electrical energy, by 1993. This prototype reactor would then be scaled up to a reactor for export by the year 2000. This aggressive schedule has been confirmed by numerous U.S. government and private studies, which have stated unequivocally that the world's fusion effort (with the exception today of the Japanese project) is limited by funding, not by technology.

This fact was recognized by the U.S. Congress in October

1980 when it passed by an overwhelming margin the Magnetic Fusion Energy Engineering Act of 1980 (the "McCormack Bill"), mandating an accelerated U.S. program with the goal of achieving a commercial prototype reactor by the year 2000. This act has not been enforced, and the funding for the U.S. fusion program has actually been cut since the passage of the bill.

With the advent of polarized fuel, this already medium-term projection for the realization of fusion is significantly speeded up. Estimates are that the relaxation of plasma conditions made possible by the increased reaction rate of polarized fuel would enable a prototype reactor to be built before the end of this decade, and a commercial reactor to be built seven to eight years after that.

The plasma conditions in the next generation of fusion experiments would be very close to those required for a fusion reactor. These machines (the TFTR at Princeton, and the JT-60 in Japan, both scheduled for completion during 1983) were designed to be breakeven machines for the conventional D-T fuel cycle. In addition to achieving the plasma conditions necessary for ignition of D-T, they were to be modified after several years of operation, to actually burn this fuel.

With the development of polarized fuel cycles, however, this experimental program could be modified to shorten considerably the initial plasma demonstration period, and to proceed much more quickly to the actual ignition testing. Since the machine would now be operating not merely in the ignition range, but actually with plasma conditions similar to those in a reactor, the engineering schedule could essentially skip over one stage of experimentation.

Based on previous considerations, fusion scientists expected that TFTR would be followed by an engineering device (the Fusion Engineering Device, or FED) and, only after that step, a prototype commercial reactor would be built by the year 2000. However, by using polarized fuel and modifying the next generation of experiments—TFTR and the JT-60—it may be possible to move directly into a commercial prototype by 1995, conservatively speaking.

This speed-up in the possible experimental program leading to fusion would obviously be possible in all branches of magnetic fusion, not only in the tokamak schedule described above. The magnetic mirror machines, which have shown remarkable progress in the past several years, would also be accelerated, as would be the whole family of more speculative devices. With the plasma conditions so much easier to achieve, it is quite possible that the engineering advantages of some of the alternative approaches to fusion would compensate for their present inability to achieve the ignition conditions for conventional fuels. Thus, the Elmo Bumpy Torus, the reversed field pinches, and the stellarators—all of which have significant engineering advantages over tokamak designs, but have not as yet demonstrated a comparable ability to control a heated fusion plasma—might leapfrog the tokamak for a second-generation polarized fuel burner.

(2) *Control of reaction products.* The most significant engineering challenge posed by fusion development is that of perfecting materials capable of withstanding the intense bombardment by neutrons from the fusion reaction. These neutrons cannot be controlled by the magnetic field (because they are not charged) and so are absorbed in the containment vessel and shielding blankets of the reactor. Indeed, the main factor limiting the technologically achievable energy density in a fusion reactor is the inability of conventional materials to withstand bombardment by energetic neutrons. The main advantage of the so-called advanced fuel cycles, especially the D-<sup>3</sup>He cycle, is that they should theoretically produce fewer neutrons and, correspondingly, more charged particles.

However, conventional advanced fuel cycles are able to deal with the neutron problem in only a partial way because of the systematic inability to control the fusion process itself. Present-day fusion energy is frequently referred to as *thermonuclear* fusion since it is usually assumed that the fusion reactions take place in a random way in a randomized plasma—a condition that is called *thermal*. Polarized fuel changes this condition in two essential ways. First, the products of the fusion reaction (the <sup>4</sup>He particles and the neutrons of the fuel cycle reaction products) are produced in a *preferential direction* out of the fusion reaction.

Second, the kind of fusion reactions that occurs can be controlled by the polarization. Consider the case of the D-<sup>3</sup>He fuel cycle. In a plasma consisting of this fuel mixture, it is clear not only that the D-<sup>3</sup>He reaction will occur, but also that the D-D reaction will occur. With conventional fuels there is no way to control the additional reactions. With polarized fuel, on the other hand, a whole new degree of freedom is introduced into the fusion process that enables us to control to a large extent not merely *when* the fusion reaction happens, but *what* reactions happen.

Since the basic nuclear physics interaction involved in the fusion process is enhanced when the spins of the species to fuse are oppositely directed, consider the result of igniting a D-<sup>3</sup>He plasma in which the deuterium nuclei are polarized in one direction and the helium-3 nuclei in the other direction. The D-<sup>3</sup>He reaction will be enhanced. This is desirable because the D-<sup>3</sup>He reaction produces no neutrons. On the other hand, the D-D reaction will be suppressed (since all the deuterium nuclei have the same polarization). Thus, we can separate the two cycles using the polarization of the nuclei and eliminate almost entirely the neutron production of this cycle.

(3) *Advanced reactor and energy conversion.* Fusion, like fission, is not a single technology, but rather a succession of increasingly complex and flexible machines and techniques for energy production in all its aspects. Many engineers project, in fact, that the greatest impact of fusion energy will be not in the production of electricity but rather in the production of synthetic fuels, cheap process heat, and intense beams of high-energy particles. The use of polarized fuel has a dramatic impact on each of these longer term applications of the fusion process, an impact that depends on the uniquely ordered and controllable form in which the polarized fuel produces energy.

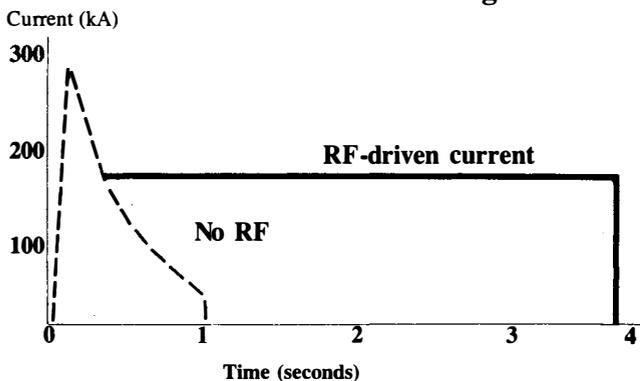
The second and third generation of fusion devices projected on the basis of conventional (unpolarized fuels) were all chosen for their attractive engineering and maintenance features and for their flexibility in the production of different forms of fusion energy. These reactor designs include:

(a) The reversed field pinches. These machines make use of the plasma's inherent ability to create and sustain its own magnetic field. They are among the most efficient producers of plasma magnetic fields and so require small (and easily manufactured) field coils.

(b) Mirror machines. The mirror machines (tandem mirrors, the Elmo Bumpy Torus series, and so forth) all use variations on electrostatic confinement and linear magnetic field variations to produce a fusion plasma that has many advantages over a conventional tokamak plasma.

(c) Spheromaks. These machines resemble a smoke ring generator, and they create a self-structured, toroidal plasma that needs no central support. The engineering advantages of a simply connected chamber (one with no hole in it) have generated great enthusiasm for this relatively new machine.

### “Current drive” in Princeton Large Torus



Source: Dr. Harold Furth, Princeton Plasma Physics Laboratory

A significant engineering draw-back of the tokamak as a commercial power producer has been the necessity for inductive current generation in the machine. The tokamak depends for stability and heating on the existence of a very large current circulating in the machine, which must be induced at the start of the discharge. Scientists had long assumed that this current could only be restarted with a repetition of the original induction cycle resulting in an inherently pulsed operation mode for the tokamak. The mechanical and thermal stresses from pulsed operation created a number of serious engineering problems that had dimmed the attractiveness of the tokamak. But results reported in the last two months show that the current in a tokamak can be sustained for many seconds using powerful radio waves. This technique, called radio frequency (RF) heating and current drive, offers the potential for a steady-state mode of operation for the tokamak.

# Stephen O. Dean: 'Nuclear fusion is ready for the engineering stage now'

*Dr. Stephen O. Dean is the president of Fusion Power Associates of Gaithersburg, Maryland. He was in government service with the Atomic Energy Commission, the Energy Research and Development Agency, and the Department of Energy for 17 years, and held the post of director of Confinement Systems Division of the Office of Fusion Energy in the U.S. Department of Energy until early 1979. Dr. Dean was interviewed for EIR by Steven Bardwell.*

**EIR:** At the International Atomic Energy Agency's Ninth conference on Plasma Physics and Nuclear Fusion in Baltimore during the first week in September, new results in tokamak physics were reported. Will you summarize what you see as the most important developments?

**Dean:** I think this meeting was particularly interesting in that advances were reported on problems which the tokamak was perceived to have by some people, on issues associated with whether they would make attractive commercial reactors, specifically the problems of raising the power density in these machines and, secondly, finding a means of running them in a continuous, (rather than pulsed), mode. I think the most important and impressive results were the ones reported by General Atomic. They reported 4.6 percent beta, [the critical determinant of commercial power density in a fusion reactor] which is about twice what the previous record had been, of about 2.5 percent.

I think the importance of their result was not just that it was a higher number but that the earlier experiments seemed to be showing some kind of saturation or beta limit. General Atomic went well beyond the values at which the other experiments were saturating with modest amounts of input power. They still have a couple of megawatts reserved there so they may go up even further, and they have now reached values which are about what's needed to build the fusion engineering device. This is still somewhat short, in my opinion, of what will be used in a commercial reactor, but even within a factor of two of what I think would make a very nice, reasonable, compact and high-powered type of tokamak, the conventional type of tokamak.

**EIR:** Were these in the ballpark of what was predicted for noncircular cross-section machines like the D-shaped Doublet III at General Atomic?

**Dean:** Nobody really knew what kind of beta values would be reached in these various machines. The power that's available for these machines is sufficient in the long run to run the

machines up into the 10 to 15 percent range. We don't have full power on any of the machines yet, so we haven't really gotten to those values. I think in terms of expectations this is consistent with the original expectation for this amount of power input, but it is beyond what most people thought was going to happen in view of the saturation factor that was being observed elsewhere. I feel that for those reasons the General Atomic results bode well for continued progress toward a higher power density plasma. They also saw evidence that the non-circularity of the plasma was in fact contributing to enhanced plasma conditions and hence confinement, and I think there again it was the first time we have seen definite results that show the advantages of non-circularity.

In addition, on the question of continuous operation, results from MIT, where they showed lower hybrid coupling of radio frequency waves into the plasma at higher density, show that perhaps we can drive the currents in tokamak by non-inductive means so that we could imagine perhaps eventually a steady-state tokamak or one which doesn't require pulsed transformers. This has important engineering implications.

**EIR:** At this meeting I noticed there were a number of results relating to the question of lower hybrid heating, ion cyclotron resonance heating, and other radio frequency heating. Can you give any idea of the relative significance of these?

**Dean:** I think what these results show is that only in the past couple of years have we started to seriously investigate putting large amounts of radio frequency power in a variety of frequencies into plasma. We've almost always simply used neutral beams for heating. Now, all over the world, we're starting to see the effect of putting large amounts of radio frequency power at various frequencies into the plasma. I think without exception we are finding better conditions as we do this. I don't know what frequency we'll eventually choose in a reactor, but I think the significance is that we may have a variety of possibilities. If it doesn't work well at one frequency, we'll be able to use a different frequency. We'll be able to tailor the plasma to behave in a variety of ways.

**EIR:** There are two results of other magnetic confinement machines which generated considerable interest at the IAEA meeting. One is the progress of the mirror machine, and the other is the dramatic change in the assessment of the significance of reverse field pinches.

**Dean:** The mirror experiments I think presented a nice step forward in demonstrating that in the larger tandem mirror we are able to enhance confinement time by something like a factor of three beyond that in the smaller tandem mirror, which of course was itself a factor of a couple above what had been achieved in simple mirrors. So, the mirror program, as we make the machines bigger and change their design, is showing the ability to enhance the confinement and reduce the end-losses.

We don't yet have a full demonstration of thermal barriers, and this is the objective of the mirror program at Lawrence Livermore Laboratory during the next six to eight months. At that point we will be able to make an assessment of what a real tandem mirror reactor will look like. Right now we don't have sufficient fundamental data to verify our assumptions on thermal barriers. But that should all clear up in the next year, and certainly I think we are going in a positive direction. . . .

On the reverse field pinch, we've had the emergence, as a surprise in the last year, of a fairly small experiment doing considerably better than it was designed to do, for reasons which weren't predicted in advance and aren't fully understood but are quite dramatic. One of these is the "dynamo effect," in which the plasma seems able to continue to exist because of its own dynamics in a confined state, independent of what we're doing to it from the outside.

**EIR:** I was impressed by the statements of Dr. Donato Palumbo, the head of the European Community's fusion program, and Dr. Shigeru Mori, the head of the Japanese fusion program, on their continued optimism on the prospects for commercial fusion development and on the broad-based commitment that they've made to fusion research. They reported on a number of impressive experiments. How do these programs fit together with the prospects for progress in the United States?

**Dean:** I think that it's clear that both the Japanese and the Europeans are now committed to fusion as a development program, as opposed to just a research program. They both have program plans that lead to power reactors; both seem to have a more reliable financial commitment to carrying these programs out than we have in the United States. . . . Palumbo said, for example, that he has a five-year budget and he knows that his available funds will not be less than specified in this budget during that entire five years. . . . This gives him the ability to plan his program with some confidence. Mori stated that in Japan, fusion was elevated a few years ago to what they call a national project, and that means that it's not something that is played around with in the budget every year. It means that the country is committed to funding it at the levels required to carry out the objectives of the project and those objectives are quite ambitious.

I think that both the Europeans and Japan have their programs on a par with, at least, and maybe somewhat more aggressive than what the United States has, even though I think Americans could still argue that we are turning out more

interesting results by and large. This is more because we've put more commitment in the past rather than where we stand today. The new European and Japanese machines are comparable to or maybe bigger and better than our TFTR, and they are clearly organized to go the rest of the way.

However, I don't think that there is any likelihood that Japan and Europe will break into the lead in terms of building a power reactor several years before the United States. I think that they are not quite confident of themselves to run away from us in that regard.

**EIR:** You have alluded several times to the uncertainties and the fluctuations in U.S. political commitment to fusion power. In the last year, budget cuts have hit the inertial confinement programs even harder than the magnetic confinement programs, although both areas have suffered cuts in real dollar levels of funding. Will you hazard a guess as to what the future funding profile for U.S. fusion research and development might be?

**Dean:** I am optimistic that things are beginning to improve. I think that it is typical of a new administration that it comes in not knowing what it likes and doesn't like, or liking some things and not having heard of other things. Fusion was one of those areas of ambiguity, and we suffered in the first year of the Reagan administration. But our situation will improve in the third and fourth year as the administration gradually becomes aware at the highest levels what a good program fusion is, and how much it has to benefit in its international activities by pushing fusion. Fusion has a very good reputation internationally, at the highest levels of government in Europe and Japan, and that information is filtering back to the United States' system through the State Department and other channels. There are many international meetings on technology going on right now, and fusion keeps coming up as the example of a good program, well managed, in which there is something to benefit from pushing. This is starting to have an effect on the attitudes of the administration. . . .

So I am optimistic that things are slowly but steadily improving. And there is one thing that I would like to add. Consider the invention of the laser: the laser could have been invented in 1910 by Western man, instead of 1960. And the new developments in polarized fusion could have been realized when the fusion program was started 25 years ago, but they weren't. This and many other things are starting to bubble up now because people are thinking about the program and they will all become incorporated as the program evolves. Fusion still needs much improvement before we can credibly claim that this technology is going to produce electricity more cheaply than coal or nuclear power. But I think what we definitely don't want to do is to wait until all these things sort themselves out at the laboratory level before moving ahead with machines that produce large amounts of fusion power. By moving ahead as quickly as possible, we will put ourselves in the position to really start to learn of the more interesting potentials of the technology, its power handling, and its impact on the engineering.

# Will Japan and Europe outstrip the United States' fusion effort?

by Marsha Freeman, Science and Technology Editor

Just over four years ago the U.S.'s magnetic fusion Princeton Large Torus tokamak (PLT) experiment reached record temperatures for a fusion device—over 60 million degrees. On the basis of that exciting breakthrough in fusion research, the federally funded fusion programs in the United States, Japan, and Western Europe were reviewed by panels of scientific experts to evaluate whether the timetable for demonstrating the commercial feasibility of fusion should be moved forward.

The unanimous conclusions of those reviews was a resounding "yes." In the United States, the Congress passed the Magnetic Fusion Energy Engineering Act of 1980 with the goal of demonstrating the engineering feasibility of magnetic fusion by 1990 and commercial feasibility by the year 2000. The European review gave a full go-ahead to the Joint European Torus, now under construction at the Culham Laboratory in England and scheduled for operations next year, and recommended that design work on the Next European Torus commence. In Japan, the Atomic Energy Commission has just completed its formal five year plan and has outlined a timetable to demonstrate engineering feasibility by the early 1990s and commercial demonstration in the first decade of the next century. These recommendations were first announced a year ago following the review of the Japanese fusion program.

But in the last year, the U.S. fusion effort, which was the pacing program for the rest of the worldwide effort, has shifted gears. Under the influence of President Reagan's Science Advisor, Dr. George Keyworth, and economic advisers such as Office of Management and Budget head David Stockman, national policy for fusion research has been put on a 70-year timetable for commercialization and is in the process of being reoriented to a "pure research" program.

It is clear from presentations made in the first two weeks of September at the fusion meeting of the International Atomic Energy Agency in Baltimore and in a workshop before Congress on Sept. 8, that the European and Japanese fusion programs are outpacing the U.S. effort. If this occurs, it will be the first time in modern history that an advanced industrial

nation has thrown away its lead in a crucial science and technology field for the sake of quack economic theories, when there were no scientific or technological obstacles to continued research.

## Japan: number one?

A decade ago, Japan barely had a magnetic fusion research program. In 1975 the government decided that the need to develop fusion as an energy source and the challenge to science and industry represented by fusion research qualified fusion as a "national program." The Japanese fusion research budget has increased 40-fold since 1973.

In March 1981, Japan's Nuclear Fusion Council, led by Dr. Shigeru Mori, decided on an aggressive development schedule for fusion which laid out an early 1990s goal to demonstrate engineering feasibility. In talks over the past two weeks, Dr. Mori and other representatives from Japan have explained that their program objectives were to develop fusion energy for Japan and to "establish a high-technology-based country."

According to Dr. Mori, this entails "concentrated investment in frontier technology research and development." Fusion, he said, is a "driving force and a suitable target for high technology" development.

The June 1982 long-range plan of Japan's Atomic Energy Commission pledges to "vigorously advance fusion energy development," a task which includes the construction of a Fusion Experimental Reactor (FER) to achieve self-ignition and engineering feasibility by the mid-1990s, along with alternate, non-tokamak fusion devices. As outlined at the IAEA meeting, the FER combines tokamak characteristics which, until 1980, Japanese scientists thought would be demonstrated in two separate devices—ignition of the fusion fuel, and engineering demonstration. Now they have decided to do both in the one machine, the FER.

The new plan calls for the construction of a demonstration reactor at the beginning of the next century, based on the results obtained from the FER. After that, magnetic fusion in

Japan will be ready for commercial introduction into the electrical-generating sector.

Japanese industry is already involved in fusion, another contrast to the United States. Almost all fusion experiments now on line were built not by scientists in laboratories, but by large industrial concerns. Japanese industry, therefore, is already building up years of experience and a highly skilled personnel pool which will give Japan a head start on building commercial fusion power plants over the next 20 to 30 years.

Japan's fusion program is not only running ahead of the United States in terms of the time scale for demonstrating technology, but Dr. Mori reported in his statement to Congress that only 30 percent of Japan's energy use is now electric. Though that will undoubtedly increase, he stated, producing synthetic fuels using fusion energy is a main objective of the Japanese program. The U.S. fusion program has been hamstrung financially and has not been able to allocate significant funding to demonstrate hydrogen and other synthetic fuel production from fusion, though the use of this technology to replace finite fossil fuel resources may well be the most important near-term application of fusion energy.

Japanese representatives reported at the IAEA meeting that designs for the FER are proceeding. Three possible devices, all tokamaks, are being considered. The most interesting is the proposal to put the entire fusion power machine under water—the "swimming-pool reactor" design. The water surrounding the tokamak acts as a shield against the neutrons streaming out from the nuclear reaction, and, as Dr. Mori remarked, "this is much easier to move out of the way than concrete" when the machine needs to be repaired or modified.

The Japanese are planning a multi-faceted program to develop the technology needed for the fusion subsystems. This includes various ways of heating the plasma fuel in the tokamak, through neutral beam, radio frequency power, or other methods. It also includes cooperative technology upgrades on the Doublet experiment at General Atomic Company in California.

Japan is also planning technology programs to develop large-scale superconducting magnets which are needed to confine the plasma, research into methods of handling radioactive tritium fuel, and materials research to develop materials capable of withstanding the severe conditions of fusion reactions. Up until the U.S. budget crunch of the past 18 months, Japan had been cooperating with the United States in most of these technology fields. Now they are wondering out loud whether they will have to pursue some of this work alone.

### **Europe close behind**

Dr. Donato Palumbo, fusion director for the Commission of European Communities, reported to the congressional fusion workshop in Washington that the Euratom fusion pro-

gram was following a five-year plan, approved by the member-states' ministers. The program is operating at guaranteed funding levels, said Dr. Palumbo.

After preliminary results are in from the JET [Joint European Torus] under construction, the Europeans will make a decision on the Next European Torus (NET) machine. In the meantime, teams of scientists are working on conceptual designs for the NET, which they expect will be completed at the end of 1984. Dr. Palumbo said that construction on NET could start at the end of this decade.

At this time, the European effort is just a little under the U.S. budget of \$450 million—about \$400 million for this year. The cost of the 20-year effort they expect will lead to a demonstration reactor, will require about \$20 billion over the next 20 years. "This would require tripling the yearly expenditures of each of the large programs" in the European laboratories, Palumbo explained.

The Europeans, even more than the Japanese, have relied on the successes of the U.S. program to garner support for their effort. With budget difficulties in a number of European nations, as well as the United States, they are trying to formulate joint projects that can be cooperatively managed with the United States and Japan. Dr. Palumbo revealed that discussions were held at the IAEA meeting which might produce a joint machine for the reversed field pinch fusion geometry, involving the team of scientists at the U.S. Los Alamos Laboratory. Also, the fusion ignition experiment Zephyr which had been planned for construction in West Germany but was cancelled due to budget constraints, is being redesigned and may be a candidate for international cooperation.

In the area of materials development for fusion, the entire world effort has waited anxiously for the United States to build the Fusion Materials Irradiation Test facility in Washington state, but this facility has been zeroed out of the budget for the past year. Until about a year ago, the Europeans maintained a policy of encouraging the United States to build the FMIT. Now, reported Palumbo, the Europeans and Japanese are considering financial participation in building their own materials experiment.

The effect of U.S. fusion policy on the worldwide research program was evident in presentations from visiting scientists and administrators at the two meetings. Both the Japanese and Europeans are resolved to go ahead with this technology and bring it to commercial realization. They will do this, perhaps in closer coordination, even if the U.S. program continues to stand still.

All parties concerned recognize that the entire world effort will suffer without the participation of the facilities, scientists, and engineers of the United States. Nevertheless the Europeans and Japanese are strengthening their resolve to push ahead in this crucial area without the United States if they must, and are seeking to increase international cooperation to take the shortest path to commercial fusion development.

## Austerity policy: the crux of the West German crisis

by Rainer Apel, Bonn Bureau Chief

With West German Chancellor Helmut Schmidt's announcement on Sept. 17 that his Social Democratic-Liberal coalition government has come to an end, and that new elections should pave the way for a new government legitimized by the voters to implement a "change in general policy," a new period of political uncertainties began. A new government, which will probably be a coalition between the opposition Christian Democrats (CDU-CSU) and the Free Democratic Party (FDP), led by CDU chairman Helmut Kohl, will not be formed after new elections, but by a deal to avoid new elections. The FDP fears new elections because they justifiably sense that many former liberal voters will not honor the FDP's desertion from the coalition. It is said in Bonn that Kohl offered Hans-Dietrich Genscher, the chairman of the FDP and West Germany Foreign Minister until Sept. 17, posts in a new coalition if he left the Schmidt government now. Kohl, as sources in Bonn are saying, would promise to postpone new elections in return for the FDP's deserting the coalition with Chancellor Schmidt.

Therefore, the CDU-CSU and FDP, which have more than the required absolute majority of votes for making Kohl successor to Schmidt, will pose a vote of no-confidence against Schmidt very soon. Insiders in Bonn are saying that this vote of no-confidence, which would install a CDU-led liberal-conservative government in Bonn, might occur immediately after the Hesse state elections on Sunday, Sept. 26, when the expected heavy losses for the SPD in that state will add to the demoralization of the Social Democrats throughout West Germany. Such a climate of general demoralization is said to

be auspicious for the harsh austerity policies planned by the CDU and FDP.

### The economic question

The brains in such a conservative-liberal new government in Bonn will be the FDP, and the muscle the CDU-CSU. The program for the planned brutal austerity measures has already been presented by Count Lambsdorff, until Sept. 17 Minister of Economics in Schmidt's Bonn cabinet. The document he had presented two weeks earlier called for deep cuts in the social welfare budgets, in health care and for cutting unemployment benefits down from 68 to only 50 percent of the workers' most recent wage level. This would mean that many workers' living standards would be cut down to one half of what they and their families have been living on—and many workers are getting laid off these days. Unemployment rates have soared to a new record high of 2 million expected for October, and Count Lambsdorff's proposals, which most of the CDU's leading politicians consider to be on their own track, will reduce living standards for about 8 to 10 million West Germans, or between 12 and 15 percent of the population.

West German trade-union representatives have accurately termed this plan for brutal austerity a "declaration of war against labor," and a series of mass demonstrations scheduled for October, along with strikes during the traditional year-end wage-bargaining rounds, are expected to show how radicalized West German labor has become. Since the traditional labor party, the SPD, has failed to formulate a viable

program for fighting the depression, the labor mobilization against austerity might aggravate social tensions without offering a political alternative. Chancellor Schmidt termed the Lambsdorff plans a “farewell to the post-war social welfare state, and a step into the each-against-all society” when he gave his final address to the Bonn parliament on Sept. 17. There should, however, be no legend-building around the causes of Schmidt’s fall. Although a great deal of the destabilization of the Schmidt government was due to machinations from abroad, one must definitely state that the SPD itself and its Bonn Chancellor contributed to their own fall. On the one hand, the SPD had been forgetting about its obligations to labor, and has, under the direction of the U.S. East Coast establishment’s asset, party chairman Willy Brandt, adopted a course of collaboration with the radical anti-industry ecologists. On the other hand, Schmidt had rejected an offer by labor at the beginning of 1982 for a pact against austerity. Instead of allying with labor in defense of living standards, Schmidt preferred to resort to the bag of political tricks he called “pragmatism”—a policy which could not work, and did not work. Schmidt’s pragmatism forced him to defend the IMF and the rotten world financial order which was causing the high interest rates killing millions of jobs in the industrialized sector. The pragmatic Chancellor accepted the advice of the international bankers calling for an austerity policy as a means to reduce state budgetary deficits; what came out of that was a Schmidt version of austerity which was less brutal than the plan of Count Lambsdorff, but was rightly considered “austerity” by German labor nevertheless.

Combined with the pro-ecologist course of the SPD party leadership, the “social austerity” of Schmidt meant that the labor base of the SPD increasingly turned its back on the party, especially in the recent state elections which featured heavy losses for the SPD. SPD workers proved too weak to be able to change the party’s policy. In a statement issued by *EIR* founder Lyndon H. LaRouche from Wiesbaden, West Germany, on Sept. 17, the SPD was termed a “lost party,” and a call upon workers to join the European Labor Party instead was added. The ELP is, as Lyndon LaRouche said, the “party of the future.”

### **The European Labor Party factor**

The ELP, though small in terms of membership, has helped to mobilize larger parts of the SPD’s labor base against austerity, and the ELP warned Schmidt of the consequences of his own stupid pragmatism. The national chairman of the ELP, Helga Zepp-LaRouche, in recent weeks issued five “Open Letters to the SPD and to the Labor Unions” calling for an end to the debate about social cuts. The “open letters,” which were massively distributed at factory gates, and met a good response from workers all over the country, called on labor to start a debate on the necessity of a New World Economic Order, which would include a low-interest-rate

system of the type just initiated by Mexico’s López Portillo for his own country.

In her second letter, Mrs. Zepp-LaRouche stated, that after his July trip to the United States, “Helmut Schmidt, in the happy belief that this time the U.S. administration did not intend to oust him, reacted pragmatically and told himself, ‘Why should I fight what I can’t change?’ and merely raised his usual protest against high interest rates, with no effect upon his hosts. And thus it became clear that the ‘politics of the possible’ cannot hold off collapse in a crisis as fundamental as the current one. ‘I can’t swim against the stream,’ said the lemming as he marched with his fellow lemmings off the cliff. . . .

“It was praiseworthy that Helmut Schmidt in San Francisco demanded lower interest rates, though it was ineffective; it was, however, totally false, when in the same speech he expressed the view that there is no sense in assisting economic development if at the same time population growth is not halted! Quite apart from the fact that it is impossible to achieve that goal by any means other than war, famine, and epidemics, that comment reflects a weakness in his grasp of economics. It may be humanly understandable that, as far as the United States is concerned, Helmut Schmidt grasps at any straw—but in this crisis, it is politically intolerable in a statesman.”

During the debate following the distribution of these “open letters,” many former SPD members quit their old party and joined the ELP, which has proven to be the only worker-oriented party willing and able to pick up the fight for the defense of living standards and industrial growth, which is a fight against austerity, even if the latter is presented in its Social Democratic form of “a juster share of the burden.”

A strong labor-based political opposition to such austerity is obviously required for West Germany now that the coming CDU/CSU/FDP coalition will launch a brutal assault on workers’ living standards. The Kohl-led conservative-liberal government will only be a transitional regime, since its incompetence in economics will lead to the same catastrophic results as in Britain, and most of West Germany will begin to oppose this post-Schmidt regime. What comes after, either an even more brutal “authoritarian regime” of the post-Weimar 1933 variety, or a labor/industry-based republican government committed to international peace, economic growth, and technology transfer to the Third World—all of this will be determined by the ELP’s mobilization of German labor.

The SPD has given itself away, and thus proven that the Social Democrats have not learned their lesson from history: gross political miscalculations and outright stupidities ruined the last SPD-led government of Weimar Germany in 1930. Looking at Bonn and at the state the SPD is in right now, one must state that the Social Democrats of September 1982 are in no position whatsoever to shape political developments in West Germany in favor of the national interest.

# Israelis extend the occupation of Lebanon: analysis of a murder

by Theirry Lalevée, Middle East Editor

Whoever killed the Lebanese President-elect, Falange leader Bashir Gemayel, had a very precise purpose: to foster chaos, first in the country itself, and as a result in the entire Middle East. Indeed, a few hours after Gemayel's death, this purpose was in full implementation. Under the pretext of restoring law and order, the Israelis moved into that part of Beirut which even during three months of siege they had never captured: western Beirut. Similarly, sowing the seeds of a new civil war, from all sides, countries and organizations were named as potentially responsible for the Falangist leader's death. According to Israel, the Syrians, the Palestinians, the left Nasserite Mourabitoun or even the rival Christian clan of the Franjiehs were potentially responsible. For others who had watched a growing rift developing between Bashir Gemayel and the Israelis, Israel itself was not to be excluded as a party in that mass-murder. Summing up all feeling, the leading daily French-language newspaper *L'Orient le Jour* headlined: "Bashir Gemayel is dead! Syria and Israel will partition the country."

Tragic in consequences for Lebanon, the death of Gemayel is a "link in a chain of conspiracies" as Lebanese Prime Minister Wazzan put it. Gemayel was not killed merely because he was about to become the President of Lebanon on Sept. 23. In a way he was killed more for the effect of his death rather than to eliminate him. Why? To answer that complex question it is necessary to consider that the various "peace plans" now being presented, such as the Kissinger-drafted "Reagan peace plan," and others, have no other purpose than to ensure a certain control over the region's resources, both its human and raw-materials potential. As one observer commented, there is an element of black humor in the present proliferation of "peace plans," coming from the United States, the Soviet Union, and potentially from France and Great Britain, while the entire region is subjected to blood and fire. Indeed, these plans have nothing to do with peace in the region or with an economic development perspective which would give reality to diplomatic agreements. At the root is a war presently waged for the control of the Gulf oil fields and related revenues.

Gemayel was killed as a mere pawn—a role he had accepted by acting as a tribal chief rather than a statesman committed to the development of the entire region. His death

should show Mideast politicians that the era of byzantine maneuvers is over. There is "a new ballgame" in the Middle East, as Reagan's special adviser Richard Pipes expressed it recently; and that means the only way to survive is to begin breaking the ancestral rules of the Levant's diplomacy, in which the British especially are so expert. For Lebanon this means that only a leader with the courage to name the names of the present conspiracies can lead that country and the region toward survival and growth.

## The Kissinger-Bernard Lewis Plan

To understand the *cui bono* of Gemayel's murder, one has to draw the consequences for the nation the *London Times* described Sept. 16 as "a pit of snakes."

Israel's move into western Beirut is clearly the first step of a new military adventure in the country and in the region. Next are expected an Israeli move into the Bekaa Valley, presently controlled by the Syrians, and a move toward the north and the region of Tripoli controlled by the Franjeh clan. To enlist support from the remaining Falangists in such adventures, such Israeli government spokesmen as David Kimche, Director-General of the Israeli Foreign Ministry, didn't hesitate in a short press conference in Bonn to point the finger at the Franjehs as Gemayel's possible murderers. The message was clear: the Falangists are seeking revenge; they will have it if they join with Israel in its new crusade aimed at "cleaning out all terrorist elements from Lebanon," as Radio Jerusalem underscored.

Unfolding as a classically evil RAND-Corporation scenario, such moves will produce a direct confrontation with Syria, provoking either an all-out Arab war against Israel or a partition of Lebanon between the two occupying powers. Meanwhile, Israel will be bogged down in Lebanon.

In sum, Gemayel was killed on behalf of the realization of that plan denounced by the Lebanese themselves in early 1976 as the "Kissinger Plan," a blueprint for the partition of the country between its two major neighbors. Promulgated in the early 1970s, that plan was refined in 1976-77, and came to be known as the Bernard Lewis Plan, after the British intelligence professor based at Princeton University who radically envisaged such plans of partitions and balkanization for the entire region, as *EIR* has detailed.

More recently this plan has been the subject of a series of tripartite meetings between Israelis, Syrians, and Anglo-American representatives. One such meeting was held in July at the State Department between Undersecretary Nick Veliotes and representatives of the Syrian Socialist National Party (SSNP), Syrian President Hafez Assad's intelligence and public-relations branch in the United States. At that meeting, Veliotes is said to have agreed to give Syria territorial concessions in Lebanon in exchange for continued Israeli control of the Golan Heights, if Damascus would assist the evacuation of the PLO from Beirut. A few days afterward, Assad announced his willingness to receive Palestinian refugees and guerrillas, after having stalled all negotiations on the subject for weeks.

A few weeks later both Israeli Defense Minister Ariel Sharon and Assad's brother Rifaat arrived in Washington, officially for totally different purposes. As *EIR* exposed at the time, a joint meeting was held at the Walter Reed Military Hospital in Maryland to seal the arrangements. The premise was that increased tensions in Lebanon would lead to a limited confrontation which could give Assad new credibility, and provide Sharon and Assad with the final pretext to maintain a de facto occupation of the country.

### **The U.S. 'peace initiative'**

It is thus no wonder that when on Sept. 1, President Reagan revealed a new initiative for the Middle East, neither Lebanon nor the Golan Heights was mentioned. Lebanon was to be treated totally as a separate issue, because the team of foreign-policy advisers who, under the guidance of Henry Kissinger, had drafted that new plan considered the issue "settled." The Palestinians had been expelled from the country and crisis-management negotiations on an Israeli and Syrian withdrawal could drag on for a long time, amidst military skirmishes between the two countries.

At the core of the new Kissinger plan is the idea that Israel could trade off Lebanese territory for some compromises, in the form of Palestinian autonomy in the West Bank as British intelligence sources have mooted. Through such a deal Israel would keep part of Lebanon while Jordan joined a Camp David "Phase Two," allowing Washington to appear as a real "peacemaker" in the region. Based on blackmail of Jordan and Saudi Arabia under the threat of "Palestinian radicalization," the whole tricky plan is aimed at giving some pretense of satisfaction to the Saudis while extending the "strategic consensus" limited-war military relationship that Camp David really represents.

While Israeli Defense Minister Sharon was apparently ready to accept such a deal, Begin never had intended to trade off southern Lebanon for territories which he looked at through mystical lenses: "Judea and Samaria." Evidence of a direct deal between Kissinger and Sharon includes reports that, but for the early release of the "Reagan Plan," Begin was about to give Sharon the sack for his repeated violation of the Israeli cabinet's recommendations. The U.S. proposal came just in

time to force a national-unity paranoia which re-cemented the Begin-Sharon team against the "common enemy."

In turn, reacting to the Israeli rejection of the plan, the U.S. administration floated the line, widespread in the corridors of this month's Arab summit in Fez, that should the Arabs make a step toward peace, Washington would ensure the arrival of Labour Party Chairman Shimon Peres in power in Israel. Similarly Washington began to increase its pressures for an early Israeli withdrawal from Lebanon. All of a sudden, Bashir Gemayel was not to be considered the leader of the Maronite community aimed at ruling over a divided "Mount Lebanon" type of entity, but as a President destined to rule over a united country.

And when Mr. Reagan underlined in a speech that Washington was committed to Lebanon's national integrity and to an early withdrawal of "the present foreign forces," the Israeli press commented that this warning was not aimed at Damascus but at Tel Aviv. Consequently Bashir was dubbed an "American agent."

### **Gemayel's maneuvers**

Perhaps the key to understanding recent events was the complicated relationship developed between the thuggish Bashir Gemayel, the Saudis, and Shimon Peres. Following the Fez summit, the Saudis pressed for a Syrian withdrawal from Lebanon, giving Assad an additional \$15 billion on behalf of that effort. And, as much to contain Palestinian radicalism as to meet a commitment with Syria, the Saudis offered financial and political support to Gemayel should he refuse to sign an immediate peace treaty with Begin. As part of the deal, Gemayel would be free to sign such a peace treaty should Peres reach power. While the Israeli government was drawn into playing Sharon's game with Major Haddad (their proxy in southern Lebanon) against Gemayel, Gemayel himself reactivated his old connections with Shimon Peres. The level of tension between Gemayel and the Israelis was increasing on the day of his death, when Major Haddad warned that if the Lebanese government failed to sign a peace treaty, he would "first extend my territory over a 30-mile line. If things turn bad, I will extend it to the whole of the country"—a direct challenge to the authority of the President-elect.

Haddad was only one means of pressure for the Israelis; they had other allies inside Gemayel's own camp such as the Kaslik group of priests. When a delegation led by Kaslik leader Father Mouwanes went to Israel a few weeks ago, not only did they call for a peace treaty but also a friendship alliance along the lines of the old relationship between Phoenicia and Israel—Phoenicia being the codeword for those priests or politicians which want to break Lebanon from the rest of the Arab world. Referring directly to that problem, businessmen close to Gemayel were on the contrary insisting that in these days "it is better to be Arab, and not to speak about Phoenicia." Indeed the Saudi connection may have proven more useful for business than the Israeli one, which, in business terms, primarily benefited the Israelis through

their sale to the southern Lebanese population of the food and construction materials they had seized from the Palestinians in July. In such trade, the Israelis have made already more than \$40 million in a few months, more than the usual trade with Egypt and certainly an incentive to keep the "good fence" wide open.

Most happy about that situation have been the British proponents of a "Third Way," who expect that Gemayel's death and the subsequent chaos will render ineffective any serious attempt by President Reagan to stabilize the area. With that perspective, the British government has been sending to the Middle East a heavy diplomatic squad, involving Defense Minister John Nott, Foreign Office number-two man Douglas Hurd, and a parliamentary delegation. Going from Jordan to the Gulf, Saudi Arabia and Egypt, these British representatives have been advocating that no one but Britain can best "mediate" in the present situation, and try for example to bridge the gap between the American proposals and the Fez peace plan. A similar thing was said to Egyptian President Mubarak when he visited Paris this month, with the French government underlining that both Paris and Cairo had an interest in "not being crushed either by the Pax Americana or by the Saudi-sponsored peace plan."

For these circles, chaos in Lebanon is good news as it means troubles for America and growing pressures for its allies in the region, especially the Saudis. Whether they had a direct hand in Gemayel's assassination is another matter.

Hence the perspective for the region is quite bleak. If Israel follows the suicidal path opened by the duplicity and the deals of Sharon, Lebanon will become its Vietnam, and could engulf Israel entirely into a war that no one can win, but only lose in the most degrading way. Three months of Israel's presence in Lebanon have already shown that.

Only two powers can keep the situation under control. First the United States—if its foreign policy is made by President Reagan and not by Kissinger. Following the administration's forceful denunciation of Israel's occupation of western Beirut, Reagan would have to intervene in Lebanon against *all* foreign powers to establish Lebanon's sovereignty and independence, including against those Lebanese leaders who, like Camille Chamoun, represent interests located in London.

A most important role is being played by the Vatican, as underlined by the Sept. 15 meeting between the Pope and PLO Chairman Arafat; a meeting which could pave the way for an ecumenical reconciliation in the region based on the Vatican encyclicals *Populorum Progressio* and *Laborem Exercens*, both of which are dedicated to peace and development in the world. The Vatican may attempt to launch a dialogue in the Middle East based on *Laborem Exercens*; the Vatican also has cards to play within Lebanon. For Lebanon, as we have underlined, the only potential capable President seems to be Raymond Edde, one of the rare Lebanese leaders not bought by foreign powers. The alternatives to these preliminary steps are blood and fire throughout the region for decades.

## Politics inside Israel: while the Labourites

by Mark Burdman

Israeli Prime Minister Menachem Begin dropped what the Israeli press described as a "bombshell" on Sept. 8, by calling for early elections for the country's parliament and national leadership positions to be held in 1983, two years earlier than the expiration terms of office begun in 1981.

The "bombshell" effect lay in the fact that Begin was setting forth a challenge to the parties and leaders of Israel at a highly sensitive moment in Israeli history: will his policies, evident in the Lebanon war and other characteristic extravaganzas of the recent period, be affirmed by the Israeli electorate, or can an alternative to these policies coalesce in an effective way during the next weeks and months? This question only underscores the profound nature of the strategic, economic, and moral dilemmas Israel's population must confront as a consequence of the ongoing Vietnam-style quagmire that Israel now faces in Lebanon—a quagmire that *EIR* founder and contributing editor Lyndon H. LaRouche, Jr. warned would develop in a widely circulated statement issued soon after the Lebanon war began.

Begin's immediate calculation in calling for early elections is that he thinks he can rally the population over "national unity" and "national independence" against the so-called "Reagan Plan" for the Middle East, which might better be termed the "Shultz-Kissinger Plan," and which indeed is constructed to destabilize Israel—and its Arab neighbors—in the coming weeks. Begin's mood for this campaign was evidenced in a Sept. 9 speech in which he blasted the United States for planning to overthrow him and caustically commented, "Israel is not Chile and I am not Allende."

By adopting the role that one Israeli observer described to me as the "populist playing to the mobs," Begin calculates that he can win enough support to ensure that his Likud Party will be the first in Israel's history to win an absolute majority in the Knesset, or parliament.

With such a mandate, Begin thinks he can move toward effective annexation of the occupied West Bank (or, in Begin's words, establish "eternal rule over Judea and Samar-

# Begin plays to mob remain divided

ia’), and bring the halo of legitimacy over his biblical-fundamentalist strategies for Israel in the Middle East.

## Begin, the Sephardim, and Sharon

Begin’s assumption is that he has emerged politically stronger in the period following the enforced evacuation of the Palestine Liberation Organization from Beirut. From a survey of Israeli sources, it is evident that this calculation has more than a grain of truth: while tens of thousands of Israelis have grave doubts over the strategic and moral wisdom of the Lebanon escapade, the war over the northern border has crystallized a coalition of forces in Israel that is now predominant. This is the alliance between the fundamentalist Begin, believer in Israel being the recreation of the Maccabean warriors of pre-Christian times, with the economically underprivileged Sephardic (or Oriental) Jews of Israel, who compensate for their “underclass” position in Israeli life by regular displays of military superiority over Israel’s Arab neighbors.

Since the Sephardics now number the majority of Israel’s Jews, this newly crystallized relationship represents a potent fact of life in Israeli terms, especially given that no significant alternative identity or culture has been presented to the Sephardic population to take them out from under Begin’s sway.

In trying to capitalize on the chauvinistic and militaristic aspects of the Lebanon war, Begin has maintained an ambivalent relationship with his defense minister, Ariel Sharon, whose ambitions to succeed Begin as prime minister are no secret. Sharon has elaborated a fullfledged imperial strategic conception for Israel, extending Israel’s dominion of action from India in the east to Chad and Zaire in central Africa, which is more comprehensive as a conscious design than Begin’s relatively incalculable actions. Since Sharon, the ambitious architect of the Lebanon war, has become the lightning rod for opposition to that action, it has remained an open question in the minds of Israeli observers whether Begin could at some point decide to isolate himself from the risk that Sharon represents and remove the obese defense minister

and his organized-crime-linked faction from power.

The two men converge, however, on a de facto annexation policy for the West Bank, and a policy of extensive (and illegal) settlements for that region. Both are, in that context, effectively committed to new Israeli confrontations with Arab regimes, including the Hashemite Kingdom of Jordan, the Assad brothers in Syria, and, ultimately, the House of Saud in Saudi Arabia.

The main counterpole, as the call for early elections circulates, is the opposition Labour Party, the largest mass organization in Israel, with 300,000 members and hegemonic control in the trade unions, certain farm organizations, and in leading professional and intellectual layers. It is, however, far from clear whether the Labour Party has the vision and internal political cohesion to rise to the necessities of the occasion and challenge Begin’s bid for a new majority position.

## Labour’s problems

Labour is currently beset by contradictions in its bid to be an effective opposition. The foremost paradox is that Labour Party Chairman and prospective prime ministerial candidate Shimon Peres and others think that achieving power at this point is a function of, as Israeli sources have put it, “reaching an understanding with the United States” over several protocols in the misnamed Reagan plan, especially those centering on an Israeli-Jordanian deal over the West Bank, the so-called “Jordan option.” But the more that Labour makes known its favorable attitude toward the American plan (and the more that certain circles in Washington and London fawn over a Peres premiership in Israel), the more that Peres et al. open themselves up to charges of being foreign agents in the Israeli scene—and thereby vulnerable to Begin’s “national independence” propaganda.

The second paradox is that Labour has calculated that it must fill its treasury with moneys from not terribly kosher sources in order to mount an organizing drive. Israeli sources tell me that Peres has recently been accepting funds from the secretive billionaire Shaul Eisenberg, an internationally based operator whose ties to organized-crime circles are well known. This alone could seriously dull the edge of an effective campaign in the coming months.

At the same time, Labour is beset by ancient petty inter-cine quarrels, centered around a feud between former Prime Minister Yitzhak Rabin and Peres. The opportunistic Rabin (a good friend of Sharon) has recently intensified the split by launching attacks on the “Reagan Plan” at the same moment that Peres was cautiously praising that Anglo-American initiative.

This quarreling is potentially very demoralizing to the cadre and mass base of the Labour Party. One leading Labourite told *EIR*: “The threat of complications between Peres and Rabin on the political horizon is weakening the party. Circles behind the scenes are trying to prevent this, either by strengthening Peres’ courage to make an effective bid, or by

finding an entirely new face, a neutral face, to head the party.”

### Alternatives to Peres

One favored option, which is being especially pushed by the Party's Jerusalem branch, but also by cadre across the country, is to have current President Yitzhak Navon head the Labour ticket. As Israel's president over the recent period, Navon has established a reputation for statesmanship and, as a cultured Sephardic Israeli, is thought to be the sole prominent Labourite who could effectively oppose Begin. Labour insiders have told *EIR* that pressure is mounting on Navon to step down from the presidency, so he could be eligible for the prime ministerial candidacy and head the ticket in early elections, should they be held. Navon's term ends in May 1983, so if elections were to be in October-November of next year, as is being mooted, the "Navon option" could indeed come to pass.

Another alternative mooted in certain trade union-based Labour Party circles is that of Yaacov Levinson, former head of the powerful bank Hapoalim (bank of the Histadrut National Labor Confederation) and currently head of the Ampal-Israel corporation. Levinson is considered a "Gaullist" in Israeli economic terms, as an advocate of using dirigist methods of state-directed credit for productive ends. He is thought in this respect to be an alternative to the "free-market speculation" economics of the current government, influenced by fascist economist Milton Friedman.

Levinson is not known to be making an active bid for the candidacy for prime minister, but the very talk of such an option underscores the dire straits of the Israeli economy at this moment. Israel is reliably reported to have a total foreign debt at this point of some \$23 billion, by far the highest in the world on a per capita basis. According to one trade-union leader in Israel, "The economy is in very, very bad shape, and the bubble will burst within months. The government is just borrowing money, printing money, encouraging speculation. Agriculture, which used to be the crown of Israel, is being ruined. To get people's minds off this, the propaganda machines all day say, 'We are strong, we are strong.' It is like a drug."

In this context, it is not surprising that certain Labour circles have reacted with interest to the programmatic proposals of Lyndon LaRouche, as representing a possible basis for mobilizing the Israeli population. These proposals are centered on extending the drive for a new world economic order into the Middle East, through joint Arab-Israeli commitment to "Great Enterprises" in water and energy development, reorganization of the Israeli debt, and a renewed scientific and infrastructural development push within Israel. Were elements of such a program to be efficiently adopted by Labour, and were they to be the basis for a new self-identity for large numbers of Israelis, the Israeli voter would have an alternative choice were elections to come to pass next year.

## The political legacy of Nahum Goldmann

On Aug. 29, Nahum Goldmann died in a West German hospital at the age of 87. Immediately, the news was flashed around the world that "a towering figure in Jewish history" had passed away.

Goldmann was co-founder and president of the World Jewish Congress for 29 years, until 1978. For 12 years he led the World Zionist Organization. From the seeming first promise of a Jewish homeland during World War I, through the Holocaust and the founding of Israel, Goldmann acted, as he sometimes put it, as an ambassador at large of the Jews and a citizen of the world (see *EIR*, Sept. 14).

Among his last public acts was an interview given to the West German news magazine *Der Spiegel* published the week of Aug. 22. Believing that it is even more important that Goldmann's voice be heard and understood now that the man himself is no longer with us, we reprint here excerpts from that interview.

**Q:** Mr. Goldmann, you have said, however Israel's invasion into Lebanon turns out, the whole thing could "still end in a political catastrophe." What did you mean?

**A:** I mean, that the aggression against Lebanon is the climax of a line of false development which Israel has taken from the beginning.

**Q:** From the founding of the state?

**A:** Since the founding. . . . From the beginning, there was in Zionism a deep split. A great philosopher and thinker, Achad Haam, from Odessa, claimed against Herzl, that the state is for the Jews quite unimportant, that what is important is a "spiritual center."

**Q:** How should that be possible without a state?

**A:** Since religion, whose power had preserved the Jewish people in the Diaspora for two thousand years, lost its power—most Jews are today no longer strictly orthodox—the Jews must have a new center, that would inspire them to continued existence. . . . Zionism never decided between

the two directions. Chaim Weizmann, my predecessor as president of the Zionist Organization, [and I] belonged more to the Achad-Haam wing. We ourselves said, if all peoples have their state in the 20th century, then the Jews should also have one. But the crucial point was with the state as the "spiritual center."

**Q:** And so a quite different state arose. If you see in that the beginning of that distorted development which led to the Lebanon disaster, that seems to us to be extremely linear thinking. The wars which Israel has undertaken were up to Lebanon, defensive wars, perhaps preventive defensive wars. But this one is clearly an offensive war. Isn't that for you the essential difference?

**A:** Certainly it is that, even though the preventive defensive wars could have been prevented. And above all the Six Days West conflict. In the course of time, the Americans have time this great nonsensical expansion began, this aggressiveness. . . . But I want to immediately add that according to my view, the Americans are more responsible for the bungled situation in the Near East than Israel.

**Q:** For what reason are the Americans to blame for the development in the Near East?

**A:** They have determined Israeli politics. . . . The Jews have placed themselves totally on the side of America in the East-West Conflict. In the course of time, the Americans have gone so far as to consider Israel as a bulwark against the Russian influence in the Near East. De facto, Israel is today a satellite of America, which in my opinion is a travesty of Jewish history. We have not had the prophets, the Bible, and our whole culture so that we could after 2,000 years be a satellite of America in the Near East. . . . In my opinion, there can be no partial peace. The Arabs, despite all their internal contradictions, have yet a great solidarity. I had three long conversations with Sadat. He was convinced that Camp David would not by itself lead to peace. . . . Camp David in itself is to be welcomed. I too would have done that, but I have always said, it will not lead to a great peace . . . fundamentally Camp David rested on a misunderstanding, to put it mildly. If I wanted to put it pointedly, I would call it fraud. Sadat thought he would get the whole Sinai back and that would be a precedent for the West Bank of the Jordan.

**Q:** You have said that the period of Begin is "one of the most catastrophic and unhealthy in the history of Israel;" that you only hoped that it did not last so long "that it became a real danger for the existence of the state." Would you have thought ten years ago that Begin would even have been able as the head of the government of Israel to march into Lebanon with 100,000 men?

**A:** No. I spoke often with Ben-Gurion about Begin. I was a close personal friend of Ben-Gurion's, even though we were political opponents. He considered Begin a fascist and had a very bad opinion of him. I have said of him, he is no states-

man, but rather a provincial, small-town Jew with all the faults of the Jews of the Diaspora. But he is a man of conviction. I consider him far better than, for example, Sharon. He has no conviction, he only has ambition.

**Q:** . . . Israel, the only democracy in this whole region, has entrusted its fate to a political extremist and a former terrorist. Isn't that depressing?

**A:** Israel has not become a state of intellectuals, is not a state which lives on the basis of mind, of social innovation, but rather a little America in the Middle East, with a strong army, a huge armament industry and friends such as the Nicaragua of Somoza and South Africa. . . . The Jews have lived more centuries of their history in the Diaspora than in their own state, and with their own state they have had no great success. . . . The Jewish people have stayed alive thanks to the prophets, thanks to Moses and the Bible, thanks to Einstein and Heine, and not because of generals or Begin's demagogues. If Israel stays as it is today, it is a caricature of Jewish history, a complete distortion. If Israel remains as it is today, very quickly all Jews in the world will plunge into conflict. . . . Begin's aggressive politics and the solidarity of most Jews with him will strengthen anti-Semitism throughout the world. Historically, Jews have always been trouble-makers. The world has accepted that as long as the troublemakers were men like Isaiah or Einstein. But troublemakers such as Begin and Sharon or generals who run wild will not in the long run be accepted by the non-Jewish world. . . .

I went to Palestine for the first time when I was 18 years old, and wrote a book on that. When I read today what I had then hoped, and see what has come of it, I have sleepless nights. . . .

**Q:** What did you think when in 1917 the Balfour Declaration promised for the first time a state to the Jews?

**A:** I was 22 years old; all Jews felt a tremendous enthusiasm. They thought the English would give us our state immediately. I wrote at that time in a German-Jewish newspaper that . . . the day on which the Arabs would give us a Balfour Declaration would be greater. . . . And I blame myself that I did not do enough to represent my viewpoint. . . . I am in favor of the Palestinians receiving their own state, in a confederation with Jordan.

**Q:** That will not happen as long as Begin is in charge. How can he be replaced?

**A:** The bombing of Beirut was a criminal action. The Israeli government has deceived the people . . . Sharon has deceived the government and the government has deceived the people. . . .

My great dream would be for a sort of Common Market in the Near East, consisting of Israel, Palestine, and Jordan. If these three states would work together economically, the Near East could become in one, two generations one of the great centers of the world.

# 'Old' and 'new' mafia: France under siege

by Garance Upham Phau

On Sept. 13, a Paris police station was bombed by the self-styled Curse on the Police/Rossini Committee, which claimed in a communiqué left on the scene that Interior Minister Gaston Defferre was abetting "ultra-leftist cops in the killing of deviants." The name Rossini refers to the death of a young woman in the Rue Rossini last week, after she refused to stop her car under police orders. Defferre had gone public in defending the police action as self-defense, saying on the radio, "Shouldn't a cop shoot when his life is threatened? Or should perhaps a car containing terrorists about to commit murder be let loose?"

Since then, every radical in Defferre's own Socialist Party has raised a clamor about the minister's declaration. An anonymous witness was trotted out to claim that the policeman in question was in no way endangered, contrary to his statements. A Socialist syndicate of magistrates denounced both the police and Defferre, whose ministry has charge over all police, and magistrates linked to this syndicate have opened up court proceedings against the policeman. More importantly, the newly elected head of the Socialist police union FASP, Deleplace, in an interview to the French daily *Le Monde* accused Defferre of protecting a rightist Gaullist-manipulated network in the police which, "enjoying the support of the top echelon of the French police forces," is actively "seeking to destabilize" the Socialist regime.

Deleplace is especially angry at Defferre for his stalling on a law the minister had announced July 13, which would dissolve every "specialized brigade" in the police force. According to *Le Figaro*, such action would strike a deadly blow to the police's capacity to maintain even neighborhood protection and order.

A man who ran the "French Connection" drug-mafia town of Marseilles in the postwar era, and who used the mafia to kill any trade unionist who opposed the transformation of that port city into one of the world's biggest heroin refining and exporting centers, Gaston Defferre is not to be held up as a shining example of what the French nation has to offer. But behind the "get Defferre" movement, which is intimately tied

to French Justice Minister Robert Badinter, is a campaign to demolish every institution of the French state. The fight between the French Justice and Interior ministries is France's manifestation of an international phenomenon of the "new mafia" going for the jugular of the "old mafia," as the European oligarchical nobility moves up its timetable for a new form of fascism that might make the old brand look like a Sunday-school picnic.

## The Grand Orient Lodge

Perhaps it was just a coincidence that "Curse on the Police" should be born and strike just as the meeting of the Freemasonic Grand Orient Lodge drew to a close. And then again, perhaps not.

At the height of the Italian scandal of the Propaganda-2 Freemasonic lodge, revealing the P-2 Grand Master (recently arrested in Switzerland) to be at the center of a fascist-terrorist subversive plot, the Grand Orient of France had speedily denounced Gelli and claimed no connection whatever with those "Italians." However, the speeches made by Grand Orient head Paul Gourdot in the lodge's September conclave show the French Freemasons to be no less fascist than their Italian confrères in their ravenous drive to chew up every French institution from those charged with keeping order to the ones defending the rights of labor to a living wage.

## 'The British control Sicilian organized crime'

A general of the Italian Carabinieri, Italy's anti-terrorist national police, revealed in an interview in the Roman Catholic magazine *Sabato* this month that investigation into the history of the Sicilian Mafia leads to the conclusion that the mafia has been a British protectorate since its founding in the middle of the last century.

The same charge was first made in the book, *Dope, Inc.: Britain's Opium War Against the United States*, in 1978, by David Goldman and Jeffrey Steinberg. *Dope, Inc.* showed that the Sicilian mafia, which trafficks much of the heroin that lands in U.S. city streets, is a wholly owned entity of the British-controlled \$400 billion a year drug cartel.

The general who has come forward to corroborate these charges now carried out his investigation with Car-

Gourdot foresees the present international economic crisis and seeming inability of anyone to come up with an analysis or remedy as portending the "end of civilization," reported *Le Matin* Sept. 14. In that context, Gourdot estimates that a new system must be established which is "neither capitalism nor Soviet-style socialism," and which looks at relations of production in a completely new way. Gourdot put forward as the desirable model the development of "co-operative" structures, coupled with the abolishing of the "wage system," denounced as a means of "oppression" by employers! For those familiar with Mussolini's 1926 corporatist state, Gourdot's program is hardly the "new" system he advertises.

Gourdot then gave good marks to the Mitterrand government of France. "It is possible that the present experiment shall lead to the Social Republic we are looking for." (The name Social Republic was that of Mussolini's 1943-44 puppet regime in Nazi-occupied northern Italy.)

However, Gourdot continued, for this "social republic" to be realized, the Mitterrand government must take steps to fundamentally change "a constitutional status quo whose improvement we have been demanding since the establishment of the Fifth Republic" by General Charles de Gaulle, in 1958. In concrete terms, Gourdot demands: "strengthening of parliament," the general application of a "proportional electoral

representation system" (which would make any stable ruling majority impossible, as in the Fourth Republic), and a general and marked "decrease in the regulatory" practices and capacity of the State.

In plain English, the "Social Republic" is to return France to the anarchy of marauding baronial entities that prevailed in the Hundred Years' War of the 14th century. Gourdot praised the efforts of Justice Minister Badinter to make France a country of "asylum"—asylum for terrorists of all stripes—and he concluded with the pledge of his 30,000 strong organization to devote massive manpower and financial resources to fighting for "peace," rhetoric which these days has become almost synonymous with the destruction of governments and the overthrow of industrial states.

Historically, it was the Orleans branch of the French royal family (and their agent Talleyrand, who reigned Kissinger-like over a dozen French governments for 60 years) that established in the 1780s the Freemasonic lodges that were to run the French Revolution with their "Club des Jacobins," a pure Masonic creation. The Orleans family, which has been British-allied for centuries, is still around, and put Mitterrand where he currently sits; and when the time comes, unless real French republicans muster their strength and show some moral courage, the Orleans have every intention of coming back to rule enthroned amid the rubble of Europe.

abinieri Gen. Carlo Dalla Chiesa. Dalla Chiesa was assassinated along with his wife in Sicily on Sept. 3, months after he had been sent to Sicily with extraordinary powers to wage war against the mafia. The general, who gave the interview anonymously to *Sabato*, explained:

"By studying the history of Sicily, both Dalla Chiesa and I reached the same conclusions. In 1796 the Bourbons of Naples escaped to Sicily where they lived protected by the British navy until after the battle of Waterloo. From that time on, the island became a British protectorate. . . . It was with the support of England that in 1860 Garibaldi landed in Sicily. . . . In 1874, when England decided it was necessary to bring to power the revolutionary left, which was more monarchist than the king, it gave money and financial backing to the very powerful masonic and anglophile Florio family to help Crispi and his gang. In the elections of 1874, with the help of the mafia, the left won 48 out of 48 seats in Sicily. . . . And in 1948, to whom did the Anglo-Americans address themselves to have free passage through Sicily? To mafia boss Calogero Vizzini."

The general further reported that he and Dalla Chiesa came to the following conclusions based on this study:

"First, that the mafia got its historical legitimacy from England, which has had a protectorate on the island since

1796, a protectorate that is unwritten but very solid, a protectorate that, after the war, England passed along to the U.S.A. This is the root of the American links to the drug mafia. . . .

"Second, that the mafia has always been on the side of the winner, because England and America have always been on the side of the winner.

"Third, revolutions in Italy, even the most extravagant ones like Garibaldi's expedition, succeed with the help of the mafia."

The general noted that when Prime Minister Giulio Andreotti put Dalla Chiesa in charge of the fight against terrorism, they were already operating on the hypothesis of growing relations between the mafia and political subversion. Dalla Chiesa was supported in his efforts by the Italian Communist Party, according to the general, but not by the Socialists.

The general concluded: "Dalla Chiesa was struck down at a time when the link between organized crime and political terrorism is more and more close. And this alliance recalls the period of 1860, the Garibaldi expedition, with some foreign forces acting as the glue. The fact that the head of counter-espionage, De Francesco, was sent to Sicily [to replace Dalla Chiesa] makes this hypothesis more credible."

# Red and black terror threatening Poland

by Irene Beaudry

The seizure of the Polish embassy in Berne, Switzerland, the first terror attack on an East Bloc embassy, was a turning point in an expansion of international terrorist operations against both East and West. As Polish television reported to viewers, the Sept. 6 attack on the embassy by armed Polish terrorists was the work of "the same kind of people" as those who had attempted to assassinate Pope John Paul II and President Reagan, and who had succeeded in murdering John and Robert Kennedy.

The "left-wing" and "right-wing" terrorist operations now being created for the East Bloc are those that have been used to destabilize the national government of Italy for the past decade. A year of investigations by Italian law-enforcement officials has shown that both the Red Brigades and right-wing groups are deployed and financed by the European oligarchy whose financial center is the City of London.

The five gunmen who invaded the Berne embassy, after being captured in a bloodless rescue operation on Sept. 9, identified themselves as members of the Polish Insurgent Home Army, an "anti-communist paramilitary organization" preparing similar attacks on Polish missions and embassies throughout Europe, as well as actions within Poland.

Since the spring of this year, sources have been reporting that an armed terrorist group modeled on the World War II Polish Home Army (*Armia Krajowa*) and on the Italian Red Brigades would surface in Poland.

On May 18, the Italian daily *Corriere della Sera* published an interview with a Polish "underground militant," a member of the extreme wing of the Solidarnosc movement, who claimed that a new "armed group has been born" with a base in factories and universities. One month later, the Italian magazine *L'Espresso* published yet another interview with three members of an underground terrorist group in Poland called MRKS. The three said that MRKS had been born in April because their Warsaw branch Solidarnosc leader, Z. Bujak, was taking a far "too moderate" line in the struggle against the regime. The MRKS members compared themselves to the bloodiest of terrorists, the Red Brigades, but claimed that "unlike the Red Brigades, we have the support of the population . . . besides, here we have the conditions to initiate a national insurrection."

The three MRKS members also revealed that the organi-

zation was deliberately modelling itself on the wartime Home Army, which maintained allegiance throughout World War II to the Polish government in exile in London, led by Count Raczynski. This group included the Polish Legion under General Anders, which was attached to the British 8th Army in the Italian theater. Count Raczynski was exemplary of a group of Polish Black Nobility who bankrolled the Mussolini-style fascist coup of General Pilsudski in Poland in 1926. The Count, with the aid of his close confidante and friend, Britain's Lord Bethell, has emerged today as a conduit of funds to the Polish underground since the destabilization of Poland began in 1980.

As in Italy, where terrorism has been employed by the oligarchy to create the climate for a "strongman" fascist government, so a rerun of Pilsudski, the Polish Mussolini, is being contemplated for Poland. There exists a chain of evidence of Red Brigades infiltration of the Solidarnosc union: direct links have been established since the arrest of Luigi Scricciolo in Italy earlier this year for terrorist activity. As director of international affairs of Italy's Socialist-run trade union confederation (UIL) Scricciolo was in contact with underground leaders of Solidarnosc, and reportedly attended the September 1981 Solidarnosc congress in Gdansk, Poland. Irving Brown, who was appointed head of international affairs for the AFL-CIO this summer, worked directly with Scricciolo on support operations for Solidarnosc.

Marta Petrosweicz, who was a leader of the 1968 uprisings in Poland and later fled to Italy, is now a leader of Solidarnosc support operations in the United States. While in Italy, Petrosweicz became the mistress of Francesco Pignero, one of the founders of the Red Brigades, who fled to Canada.

Furthermore, the Pope's assailant, the Spanish priest Juan María Fernández Krohn, reportedly also had links to the Solidarnosc movement. According to the Polish news service PAP, Krohn spent several days in Krakow in July and early August 1981.

Throughout August, underground Solidarnosc leaders urged the Polish population to come out in force and confront the authorities on Aug. 31, date of the second anniversary of the legal creation of Solidarnosc, even at the risk of bloodshed. The appearance of the "Home Army" in Berne indicates that the way has now been prepared for a second stage of hard-core Italian-style terrorism. European Polish experts in both the Club of Rome and in Swiss banking circles have told investigators recently that by 1983 Poland may turn into another Ireland.

The leader of the Berne gunmen originally identified himself as Col. Wysocki, descendent of two 19th-century resistance fighters. Authorities later identified him as Florian Kryzyk, a member of the Polish Secret Service between 1965 and 1969. Elements of the KGB and the Polish Secret Service have been hoping to be able to incite terrorist actions under the name of Solidarnosc to discredit moderates in Poland, and to channel opposition into terrorist violence.

## Deng's Pyrrhic victory

*A surprise at the Peking party congress: the People's Liberation Army asserted its political power.*

The final results of China's 12th Communist Party Congress—the announcement of the new leadership lists of the party Politburo and other leading bodies—proves once again the pitfalls of China-watching. Western observers—including, we must admit, this writer—were convinced, partly by the bold pre-conference statements of top Chinese leaders, that the faction associated with strongman Deng Xiaoping would totally revamp the party leadership.

When the announcements were made, they produced clear evidence that the Dengists have far from total control, and that Deng had been forced to make last-minute compromises with powerful opponents of his faction and its policies. Deng has succeeded in the relatively easier task of finishing off the remnants of the hard-line Maoists, those associated with Mao's successor Hua Guofeng and the so-called "whateverist" faction. Hua himself was ousted from all remaining leading party posts and attacks were made on him, by name, in the party proceedings.

However, Deng did not reach his announced goal of kicking elder party leaders like Ye Jianying and Li Xian-nian upstairs onto a face-saving "advisory council" which was to make way for "younger" leaders associated with the Deng faction. He also failed to downgrade the status of the Politburo itself and transfer the center of party power to the General Secretariat of the Central Committee, which is

packed with Deng followers. Achieving the second goal depended on forcing the old guard into self-imposed retirement.

The key to Deng's problems, which were clearly not fully anticipated by the Dengists themselves, was opposition from the Chinese military—the People's Liberation Army (PLA)—and their semi-allies in the so-called Petroleum Faction, the name given to groupings tied to the heavy-industry state sector who oppose Deng's economic decentralization measures. The army, which has fought budget cuts and seeks weapons modernization, has made common cause with the "industry" group.

The elderly Marshal Ye draws support from the pro-industry/pro-centralization groupings. Before the party congress General Secretary Hu Yaobang and fellow Dengist Wan Li went on the record as telling foreigners that these men and other older people, symbolically including Deng, would retire to the "second line." At the Congress, among the first items was the drafting of letters to aging party stalwarts Marshal Liu Bo-cheng and Mme. Sai Chang expressing gratitude for their service now that they were retiring.

This ruse was countered when Marshal Ye declared to the congress that he had many times asked the Central Committee to relieve him of his duties, but, alas, the CC refused. Faithful always, Ye added, I will continue to serve.

When the smoke cleared, Ye and Li remained members of the Politburo Standing Committee (only Hua was dropped), with Ye ranking above everyone except Hu Yaobang, who is number-one only by virtue of his formal position as party General Secretary. Deng, Premier Zhao Ziyang, Li, and Chen Yun make up the rest of the Standing Committee.

The full Politburo list shows that the PLA was the only real organized national force standing in Deng's way. Out of 28 Politburo members (25 full and 3 alternates), 9 are active PLA men, compared to 6 in the previous list. While Canton military chief and Deng opponent Xu Shiyou was kicked upstairs to the advisory council, others came in, including the head of the important Peking military district, Qin Jiwei. Also appearing on the list is a key member of the Petroleum Faction—Yu Qiuli, who retains his Politburo post despite his ouster earlier from his position as Petroleum Minister and Vice-Premier.

Another interesting token of possible PLA muscle is the ouster from the Politburo of Defense Minister Geng Biao, the first non-PLA man in that post, which he had obtained over the head of Xu Shiyou. Opposition to Geng centered on the issue of the heavy cuts in the defense budget. At the upcoming National People's Congress he will probably lose the Defense Ministry post as well.

Deng will proceed with far-reaching purges in the party membership, particularly of the Maoists. He will follow the standard practice in communist countries of re-issuing party cards. Many Maoists, who entered the party en masse during the Cultural Revolution, will simply find themselves dropped from the rolls. But Deng's success may have the same limits as his attempt to purge the top.

## The Fez summit and the Horn

*Secretary Shultz seems bent on involving the U.S. in a new round of warfare and destabilization in the Horn of Africa.*

Observers of the African scene noted with special interest point IV of the final communiqué of the recent Arab League summit in Fez, Morocco. Point IV is the strongest Arab League statement to date of support for Somalia in its ongoing conflict with Ethiopia in the Horn of Africa.

The strong Arab statement of support for Somalia is a tradeoff between the Arabs and the Reagan administration: In return for the new Reagan Middle East initiative advanced after George Shultz replaced Haig—an initiative mildly critical of Israel's policy in the Middle East—the Arab nations are supporting the anti-Soviet "strategic consensus" policy throughout the Middle East that former Secretary of State Haig picked up from Zbigniew Brzezinski.

Until Shultz came into office, the option for fanning tension in the Horn had been kept at arm's length by the U.S. With the Reagan administration's late-July decision to ship \$5.5 million worth of arms to Somalia President Barre, heating up the Horn has again become an active part of U.S. policy in the Middle East-Horn area—Brzezinski's "arc of crisis."

The Ethiopia-Somalia conflict in the Horn has been portrayed as a proxy East-West conflict since the 1977-78 invasion of Ethiopia by Somalia. However the situation is not so simple.

Ethiopia ended that Somali attempt to annex part of Ethiopia by resorting to aid from the Soviets and the Cubans. Since then, the internal in-

stability of the Somali regime and the growing internal isolation of Somali President Siad Barre has led Barre to offer himself as a pawn to the strategic consensus makers as the only way to maintain himself in power. As one London press source asserts, it is Barre's internal problems that are the key to the conflict with Ethiopia.

In early July, the Western Somali Liberation Front (WSLF) launched raids into Ethiopia, claiming to have killed 250 Ethiopians. The WSLF is a Somali-backed group attempting to "liberate" part of Ethiopia; during the Somali invasion in 1977-78, Somalia claimed that the activity of its military inside Ethiopia was the work of the WSLF.

Following the early July WSLF attack, Ethiopian-based anti-Barre groups captured two Somali villages—Balambale and Goldogob. Since the loss of the villages, little has happened in the conflict.

Internal Somali politics is based on clans. Siad Barre is from the South, and when he took power in a coup d'état in 1969, he ousted the two major northern clans from power—the Issaq and Majerteen. Political groups based on these two clans are leading the attempt to oust Barre.

Barre's support began dropping rapidly after the 1978 Somali defeat. All the benefits that Barre promised would result from the Somalis letting themselves be used in an anti-Soviet crusade, never materialized. In April 1978, after the Somali defeat, north-

ern elements in the military led an abortive coup attempt against Barre.

In early 1980 the Carter administration expressed interest in air and naval access in Somalia as part of the Rapid Deployment Force (RDF) strategy. When talks were initiated, Barre had a shopping list worth \$1-2 billion. When, by August of that year, he was offered only \$40 million, opposition at home asserted itself ever more strongly.

Barre's hopes were raised when Kissinger visited Somalia in January 1981, before Reagan was inaugurated. But in a May 1981 trip to Washington, Barre got very little from the Reagan administration. His support dwindled, and he maintained his witchhunt to keep the opposition in check, with his base of support being reduced to his own clan and that of his mother, a closely-related clan originally from the Ogaden region of Ethiopia.

Executions of officers and men of northern military units for alleged collaboration with attacks from opposition forces based in Ethiopia, and a government shakeup took place early this year after riots in the North, and before Barre's second visit to the U.S. The visit produced no new offers of aid.

At the time of this trip, a member of the Carter administration told me that Somalia was not that important from the standpoint of the RDF. "There's never been a good case for doing much there," he said. "I was puzzled to see the Reagan administration welcome to the old boy. We kept him out."

The source also said that only about 40 percent of the refugee aid that was given to Somalia actually got to the refugees, the rest being diverted to allies of Barre, and finding its way to the black market.

## **PAN runs into trouble in Sonora**

*What looked like a national stronghold a month ago is suddenly shaky for the fascist opposition party.*

**J**ust two months ago, the partisans of the National Action Party (PAN) were jubilant across the country. In the elections of July 4, the fascist "rightwing" party had polled over 15 percent for President, more than double any other opposition party to the ruling PRI. More, it had extended its grip on the tier of northern states bordering the United States, especially in Sonora.

According to plans of the PAN obtained by *EIR* at the time, the party planned a series of violent disruptions and other provocations along the northern border that would parallel the pressure on the southern border caused by the upheavals in Guatemala and the rest of Central America.

Sonora was the linchpin of this strategy, a state in which unofficial estimates placed the PAN as the majority party on the local level. Official totals gave the PAN control of two border towns, San Luís Río Colorado and Agua Prieta, and the state capital of Hermosillo. In addition, the PAN honcho for the state, Adalberto Rosas, refused to give up PAN control of the southern center of Ciudad Obregón, despite an election vote favoring the PRI.

Now, the party's fortunes are reversed. The most important factor in the ebbing is President López Portillo's immensely popular bank nationalization measures of Sept. 1. This has increased the government's prestige and weakened the pro-speculation groups within the PRI which had se-

cretly or not-so-secretly been aiding the rise of the PAN, particularly in Hermosillo.

The PAN was also weakened by an effective campaign by the third-strongest party in the state, the Mexican Labor Party (PLM), to unmask the PAN party's pretensions to represent a Catholic, "pro-business" current. The PLM, which represents a strata of business, labor, and farmer groups oriented to high technology development, showed that the PAN is basically feudalistic in orientation, on the model of the fascist European "solidarist" parties it is linked to, and opposed to fundamental tenets of apostolic Christianity.

A high-point in the resurgence of the forces grouped around the progressive PRI governor of the state, Samuel Ocaña, was a 25,000 person rally to support the bank nationalization held in Ciudad Obregón on Sept. 12.

Ocaña gave the keynote speech to this extraordinary mobilization in a town which had been controlled by the PAN for the last three years. The next day the outgoing PAN Mayor Rosas finally ended his defiance of the state government and turned over the local voting records he had sequestered illegally.

In Hermosillo, although the State Congress certified Casimiro Navarro of the PAN as the new Mayor, it passed a censure motion against him for "lack of political maturity and citizenship." The reference was to PLM charges of

his wrong-doing when he sought refuge in the U.S. consulate, which had otherwise provided support for his campaign, the day of the voting. The State Congress, after listening to a full reading of PLM charges against the PAN, also voted to pass the matter of revoking Navarro's citizenship up to national authorities.

The PAN has a large fascist youth gang apparatus to fall back on. The core group is called the Micos, recruited out of degenerate student layers and widely reputed to be coordinated out of the U.S. consulate. Some 800-1,000 strong, the Micos are reported to be receiving paramilitary training in two sites along the coast of Hermosillo, Cruz Gálvez and La Biznaga; a camp north of Hermosillo called El Tojungo; and the Palo Verde district of Hermosillo proper. Sources identify a shocktroop organizer from Guadalajara, "Adrian," as the chief of the Camps.

Micos threatened that "there would be violence," if the PAN were not confirmed in its control of the Hermosillo mayorship. "We are prepared for any eventuality," stated one representative of the thug group.

In the town of Bacum, outside Ciudad Obregón, PAN-linked youth carried out a physical attack on the PRI mayor's office Sept. 14.

However, the shocktroops operation has been hit by damaging revelations made by two armed hitmen picked up when stalking PLM organizers in Hermosillo. One confessed that he had been working as a guard for the U.S. Consul in Hermosillo, in communication with next door neighbor PRI Mayor, Alicia Arellano, who had ordered her machine to help the PAN in the last elections. The other admitted under questioning that he was working on the staff of incoming PAN Mayor Casimiro Navarro.

# International Intelligence

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## ***Was Gelli arrested to 'finish' P-2 probe?***

Licio Gelli, the head of the secret Propaganda-2 (P-2) Freemasonic lodge, was arrested in Switzerland Sept. 13 in the company of an unnamed second person. He had been a fugitive from Italy, where he is wanted on charges of espionage and illegal money dealings, since June 1981. P-2's role in international terrorism and drug running first surfaced one week after the first assassination attempt against Pope John Paul II.

The possible cause of the arrest, which was made on the minor charge of carrying a forged passport, was indicated by sources which are very interested in laying the P-2 scandal to rest. According to one, the arrest and trial of Gelli will provide the opportunity to "finally clear everyone," even Henry Kissinger.

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## ***More heat on 'Hyperion' terrorists***

More pressure on the issue of terrorism came to bear against the government of French President François Mitterrand when the European Labor Party (POE) led a Sept. 10 demonstration in the center of Paris demanding the shut-down of the so-called Hyperion Language Institute. The Hyperion school has been repeatedly denounced by Italian authorities as a center of international terrorist deployments.

The POE's secretary-general, Jacques Cheminade, is a candidate for mayor of Paris in next spring's elections.

The demonstrators carried signs reading, "Mr. Prouteau [head of Mitterrand's anti-terrorism task force], the real terrorists are at 27 Quai de la Tourmelles," address of the school; and, "Badinter and Debray must go." Badinter is the current Justice Minister, whom the POE charges has links to terrorist circles himself; Régis Debray is Mitterrand's foreign policy adviser, and was once a "leftist guerrilla" in the jungles of Bolivia—with such connections still maintained.

The French government has repeatedly ignored requests for investigation of the Hy-

perion Institute. On Sept. 16, Oreste Scalzone, wanted in Italy in connection with the 1978 kidnap-murder of Aldo Moro, was released by French authorities. His arrest had come only two weeks earlier, the outcome of a joint Italian-French police operation.

On Sept. 13, the daily *Le Monde* attacked the POE and insisted that there was "no evidence" implicating the school in terrorism. The arrest of the school's three founders by Italian police last February was a "tragic mistake," according to *Le Monde*.

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## ***Execution of Ghotbzadeh a turning point for Iran***

After weeks of delay, the Ayatollah Khomeini's government ordered and carried out the execution of former foreign minister Sadegh Ghotbzadeh the night of Sept. 15, on charges that he conspired to overthrow Khomeini. The execution marks a consolidation of political power in the hands of hard-line mullahs who advocate the spread of Iran's fascist revolution throughout the Islamic world.

These mullahs had become increasingly prominent over the past month. The Iranian press threatened the world with the announcement that Iran is now capable of blocking the flow of oil through the Persian Gulf whenever it desires. Ayatollah Khomeini, who led the taking of American hostages, is now in Mecca conducting rallies of Muslim pilgrims demanding that Saudi Arabia break off all ties to the United States.

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## ***New peace initiative for Central America***

Consolidating a new policy unity between Mexico and Venezuela, Presidents López Portillo and Herrera Campins have sent joint letters to President Reagan, Daniel Ortega of Nicaragua and President Robert Suazo Cordoba of Honduras to propose a negotiated solution to the state of near war between Honduras and Nicaragua, Mexican Foreign Ministry officials announced Sept. 16. "Ways that remain open to halt the current worrying escalation, increase of tension, and

dangerous expectations as to the outcome of the crisis," must be explored to end the "deterioration" of the situation, the three letters stated.

The Washington ambassadors of Mexico and Venezuela presented Secretary of State Shultz with the letter to Reagan yesterday morning. Mexican Foreign Ministry spokesmen stated that the Presidents will await his responses to the letter before offering their own concrete suggestions for peace, but are "implicitly" offering their good offices to mediate a solution.

The Honduras-Nicaragua dispute, fed by steady armed raids into Nicaragua by paramilitary units based in camps along the Honduran border which are being covertly armed by American intelligence, is one of the levers of the British effort to further destabilize the region. The *New York Times* was fit to be tied at the fact that the Venezuelan government, once Haig's strong ally, has now joined Mexico in proposing a solution.

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## ***Pakistan verging on violent upheaval***

The Sept. 13 assassination of Zahoor Hasan Bhopali, a leading member of dictator Zia ul-Haq's Federal Advisory Council, has worsened the tense political situation in Pakistan. Bhopali was the third council member to meet a violent death in recent months.

Incidents of violence have swept all parts of the country. Three prominent right-wing leaders have recently received written threats of assassination from unidentified sources. In mid-September, there was an attempt to blow up the home of the Federal Advisory Council's chairman in Zialkot. Suspicious fires have been set in Lahore, and several incidents of looting and killing have been reported from Karachi.

According to one Pakistani news-daily, university campuses have become arsenals and ammunition depots controlled by fanatical Muslim student groups.

One of the three right-wing leaders receiving a death threat, Interior Minister Mahmood A. Haroon, told a meeting in Lahore: "The country is passing through a very critical situation and anything may happen anytime."

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## Swedish press censors opposition to Palme

Swedish national elections occur Sept. 19 under a cloud of press censorship and scandal. Media have refused to permit publication of damaging material against former Prime Minister and Socialist International figure Olof Palme.

Leading the opposition to Palme is candidate Kerstin Tegin of the small but influential European Labor Party. When Palme slandered Tegin as a fascist, she challenged him face to face on national television last April 14, to debate her on "what fascism is, and whether it is you or I who is a fascist." Swedish TV, state controlled and accepting no advertising, has blacked-out her campaign ever since.

Now, the national press, receiving an ad from a national trade union federation (LO) group, ran the ad Sept. 10, but deleted three paragraphs containing the most damaging material against Palme. "One of Palme's 'professors' [advisers-ed.] was convicted of drug crimes last fall. Others in his circle have had contact with underworld figures," a deleted paragraph read in part.

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## EIR holds Mexico seminars on two continents

*Executive Intelligence Review's* expertise regarding the significance of Mexico's Sept. 1 nationalization of its banking system was called upon for a series of seminars in New York and Western European capitals in mid-September. In New York, 43 representatives of corporations and diplomatic missions attended on three days' notice.

EIR's Fernando Quijano described the Mexican measures in detail, and pointed to the likelihood that other Latin American nations will take similar or even more far reaching actions in coming months. "The world as it existed prior to Sept. 1, 1982 is completely finished. An entirely new set of rules and factors are now governing the world political process," he said. Both U.S. and European press have systematically distorted the nature of Mexico's actions, partly out of wishful thinking, partly to hide the impli-

cations of Mexico's evident determination to resist all "conditionalities" the IMF might attempt to impose.

It is increasingly likely, said Quijano, that Mexico will be joined by other Ibero-American nations to form a common market of the sort specified by EIR founder Lyndon LaRouche.

David Goldman, EIR's Economics Editor, who had just returned from the Toronto IMF meeting, reported that many developing countries were desperately seeking some kind of deal with the IMF to relieve the tremendous financial pressures they are experiencing, but the IMF "held out absolutely no deals; the message was remarkably simple—submit your populations to genocide so the debt can be paid."

In Bonn, West Germany Sept. 14, diplomats from Colombia, Venezuela, Costa Rica, Bolivia, India, Nigeria, Canada, and Japan heard reports from EIR's Dolia Estévez-Petingell, Helga Zepp-LaRouche, and Lyndon LaRouche, who called on the assembled diplomats to scuttle the "British system" and return to the American System of economy, made known in Germany by Friedrich List. Similar EIR seminars took place in Rome, Milan, and Stockholm.

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## Mrs. Gandhi begins visit to Soviet Union

Indira Gandhi begins a seven-day visit to the Soviet Union Sept. 20. This past summer, the Indian Prime Minister visited the United States for talks with President Reagan. Because the seventh summit of Non-Aligned Nations will be held in New Delhi this winter, and Mrs. Gandhi will therefore chair the Non-Aligned Movement for the next three years, her trip to the Soviet Union is considered extremely important.

It is expected that she will focus talks with President Brezhnev and other Soviet leaders on the importance of international economic stability. A two-day meeting of the Indo-Soviet Joint Commission on Economic, Scientific and Technical Cooperation was held in Moscow Sept. 15-16, led by Indian Foreign Minister P. V. Narasimha Rao and Soviet Deputy Premier Arkhipov, co-chairmen of the Joint Commission.

# Briefly

● **CAMBODIA**, devastated by the 1974-78 genocide of Pol Pot who closed all schools, is conducting a campaign against illiteracy, say reports from Phnom Penh. A primary school course has been passed by 82,640 previously illiterate persons, with 482,600 more enrolled in literacy courses. 3,500 new classrooms have been opened to accommodate higher education needs.

● **FRANCE** is reportedly landing a Mirage-2000 jet sale to China worth several billion francs, involving both deliver of goods and know-how. China also purchased radar, anti-tank and anti-aircraft weaponry on the same shopping tour.

● **MARGARET THATCHER** began an Asian tour Sept. 16. She will spend five days in Japan, and proceed to Peking for four days, her first formal visit to that country. Thatcher will also visit the Crown Colony of Hong Kong, and reportedly India as well.

● **SUN MYUNG MOON** of the so-called Unification Church and figures of its unofficial parent body, the World Anti-Communist League (WACL), will hold a "Fifth World Media Conference" in Seoul, South Korea Oct. 4-8. Speakers will include WACL leaders Douglas MacArthur III, Juanita Castro (Fidel's disaffected sister), and Gen. John K. Singlaub (Ret.), addressing such topics as "the manipulative effect of terrorism on the media," and "the moral implications of nuclear energy." In a tasteless display of black (oligarch) humor, last year's event featured "the relation of U.S. media to the political stability of El Salvador." WACL is the main force behind the "right-wing" assassination teams, which along with their "left" guerrilla counterparts, have served to perpetuate genocidal warfare throughout Central and South America.

## An avalanche for LaRouche seen building

LaRouche Democrats Debra Freeman of Baltimore, Maryland, and Pat O'Reilly of western Minnesota polled 20 to 40 percent of the vote in Democratic Party congressional primaries held Sept. 14. With final results still coming in from rural counties of Minnesota, and the count still unofficial in Baltimore, the totals as of this writing are: O'Reilly—37 percent in Minnesota's 6th congressional district; Debra Freeman in Maryland's 3rd congressional district—21 percent; and Lawrence Freeman—9-10 percent in Maryland's 7th congressional district.

According to the chairman of a leading Democratic Party political action committee, "the depression is the big influence behind the beginning of an avalanche of support" for the controversial Democratic Party figure, Lyndon H. LaRouche, Jr.

"Since spring of last year," reported National Democratic Policy Committee Chairman Warren Hamerman on Sept. 17, "Manatt and Kirkland have been attempting to push LaRouche [who chairs the NDPC's advisory board] out of the Democratic Party. The basic issue has been that LaRouche has demanded an end to the policies of Federal Reserve Chairman Paul A. Volcker, while Manatt and Kirkland have been mobilizing a defense of Volcker." Charles T. Manatt is the Democratic National Chairman, and Lane Kirkland is an associate of the Trilateral Commission as well as the president of the AFL-CIO.

"As the depression worsens," Warren Hamerman reports, "Manatt's and Kirkland's efforts to deploy the political machines against LaRouche have begun to backfire. As one New York trade-union official stated week before last, if LaRouche would lose a popularity-contest in the AFL-CIO Executive Committee, Kirkland would lose by a bigger mar-

gin among the members of the AFL-CIO.

"The election results recently tell only part of the story," Hamerman added. He indicated that an all-out effort had been launched to defeat two congressional candidates linked to LaRouche, in the Sept. 14 primary elections in Maryland and Minnesota. "Up to the middle of last week, both those candidates were estimated by news media as either neck-and-neck or possible winners. Despite the all-out machine effort, Mrs. Freeman carried an unofficial 20 percent of the vote and Pat O'Reilly 37 percent. We have a similar situation with a congressional candidate in New York, Fernando Oliver, while the office of Sen. Pat Moynihan has conceded that a LaRouche candidate, Mel Klenetsky, has an estimated 30 percent support against the Senator at present.

"These results indicate that LaRouche represents between 20 and 40 percent of the Democratic Party vote in many parts of the country, even against all-out party machine opposition," Hamerman estimated, adding that the picture in the field, "on the local level," is much more impressive. "The situation that first comes to mind from the recent history of the Democratic Party, is the strength of the reform-Democratic insurgency about a year before it began to take control of large chunks of the Party around the nation.

"As we might expect," he reported, "the spectrum of support for LaRouche-linked candidates is the same President Franklin Delano Roosevelt used to have." He indicated labor, farmers, and black and Hispanic minority grouping as the most significant numerically, "added to the acceptance LaRouche has among some business and professional layers." LaRouche has approximately the same opponents as F.D.R., according to Hamerman, "what F.D.R. used to call the 'economic royalists.' The Harriman and Kissinger people

really hate him.

“It’s ironical,” he added. “Here’s LaRouche, who’s devoted his career in public life to stopping a new depression. Now, it looks as if a depression is what might sweep him into the White House in January 1985.”

### The NDPC-backed campaigns

O’Reilly and Debra Freeman had appeared on half-hour television broadcasts with Lyndon LaRouche during the week before the election, and endorsed his proposals to stop the new Hoover depression by implementing a new gold-backed monetary system.

During his pre-primary broadcast on behalf of the Freeman and O’Reilly congressional bids, NDPC leader LaRouche went directly to the issues which are forcing themselves into the thinking of Baltimore’s unemployed industrial workers and Minnesota’s near-bankrupt farmers alike. “This is not merely a replay of the Depression which Coolidge and Hoover gave us back in 1931-32,” LaRouche said. “This is much more serious.”

Neither the Democratic or Republican Party leaderships, the Congress, nor the White House know what to do to avert this crisis, said LaRouche. He then summarized his emergency action program, based on the economics of first U.S. Treasury Secretary Alexander Hamilton. LaRouche urged Congress to federalize Paul Volcker’s now-independent Federal Reserve system, and issue gold reserve-backed government currency notes for lending through the private banking system to “farmers, to industries, and to people and projects which are building infrastructure—railroads, waterway projects—and also, to export high-technology American capital goods to the developing sector.”

“Vote for candidates who represent that point of view,” LaRouche told Minnesota and Baltimore’s voters. “Send a message to Washington—give the capital, the Congress, the White House, a sharp kick where they need it most.” The message of support for LaRouche’s anti-depression program reached Washington on Sept. 14. Both in the nation’s capital and internationally, it is also being seen as a tally on behalf of LaRouche’s proposal for the Ibero-American use of the debt bomb against its creditors at the International Monetary Fund and the Swiss-based banks, and for the Hamiltonian economic measures taken by Mexican President José López Portillo following his spring consultations with LaRouche.

### A shock for the DNC

The Democratic National Committee had indicated before the primaries that it hoped to hold the NDPC-backed candidates to under 10 percent of the vote. “If they tally in the double-digits, we’ll have to change our strategy,” a DNC spokesman told reporters. That strategy has been primarily one of malign neglect, by which the DNC convinces the major media and their local puppet-candidate to ignore the LaRouche Democrat, except for a few slanderous references. Above all, the DNC has tried to ensure that the economic

program put forward by the National Democratic Policy Committee and LaRouche does not receive media coverage.

The DNC strategy received its first rude shock when LaRouche Democrat Steve Douglas polled over 20 percent in the Democratic primary for governor of Pennsylvania in May of 1982. The Freeman-O’Reilly vote confirms the pattern established in Pennsylvania—strong disaffection of the labor-farmer-ethnic base of the Democratic Party from the leadership’s cosy deal with Federal Reserve Chairman Paul Volcker, and rapidly growing receptivity to the LaRouche program to reverse the depression.

Both the Debra Freeman race against incumbent Barbara Mikulski, and the O’Reilly contest against a former state senator, Jim Nichols, forced the DNC-backed candidates to “fight for their political lives.” Sections of the local media in both areas were forced to concede the possibility of upset victories, so close was the battle.

The Freeman campaign—eagerly anticipated as early as July as a battle between “the beauty and the beast” on a local rock station—concentrated its attack on Miss Mikulski’s rabid promotion of the Carter administration’s *Global 2000* program for worldwide genocide and depopulation. Miss Mikulski’s constituents, who are primarily Polish or other white working-class voters, were shocked to hear that behind the Congresswoman’s liberal concern for the environment was a plan to promote depopulation by returning women to the home to carry out cottage industry, thereby bringing “production” back into the home, wiping out unions, and reducing their incentive to raise children.

Relying on her anti-industrial supporters at the *Baltimore Sun* and the Anti-Defamation League, Mikulski refused to debate Freeman, or comment on the issues of how to reverse the current depression for most of the campaign. Eventually, however, she began to face major defections within her local Democratic machine, to the point where certain local candidates put Freeman on their local promotional ticket.

Up through election day Mikulski was visibly destabilized. The Freeman campaign was able to field 175 pollwatchers on election day—a fact that wiped the smile off Miss Mikulski’s face at every polling place she decided to visit on election day.

The O’Reilly campaign was equally heated on the issues of the economy and Christian morality. O’Reilly’s slogan, “You Don’t Have to Be Gay or Kill Babies to Be a Democratic Candidate,” went to the heart of the Democratic Farmer Labor Party program that his opponent Nichols was supporting. The DFL, the party of Hubert Humphrey and Walter Mondale, actually passed at its last convention platform planks that endorse marijuana decriminalization, abortion, and gay rights. This turn in the party had already driven thousands of conservative Democrats out of the party into the arms of the Milton Friedman-dominated Republicans.

O’Reilly, a family farmer who had run for Congress before and received 33 percent of the vote, was campaigning in a heavily Republican, predominantly farm district. Although

he put on his television ad with LaRouche in three cities, he still was financially unable to cover the entire district, and the DFL in the cities was heavily mobilized against him. But, as in Baltimore, where the remnants of the old-line Democratic Party machine were wiped out in the Sept. 14 primary, Minnesota's DFL was already in a state of disarray. Mondale's second in the state, state Attorney General Warren Spannaus, was defeated by former governor, non-machine-endorsed conservative Democrat Rudy Perpich in the gubernatorial primary.

O'Reilly was hit especially hard by the DFL on the ground of "working with outsiders," a reference to NDPC and LaRouche support. Instead of retreating to local politics, however, O'Reilly responded by calling on Minnesotans to take up LaRouche's economic proposals on an international scale as the only solution to their local difficulties. Over 40 percent of the farms in the area are under threat of foreclosure, and recently the area has once again begun to see 1930s-style penny sales, where farmers band together, shotgun in hand, to prevent repossessed farms from being sold off to other owners. O'Reilly found receptive ears for his proposals that the farmers stop being obsessed with local debt-relief, and support the measures of López Portillo, which provide a model for dealing with the Federal Reserve and an opportunity for farm export markets that are now collapsing for lack of trade credit.

The O'Reilly campaign apparatus was composed of three constituencies—members of the National Farmers Organization; the Minnesota Citizens Concerned for Life; and local representatives of the DFL who were disaffected with the state apparatus. It is a machine that no one expects to go away.

## Incumbents fail to challenge Volcker

by Graham Lowry, U.S. Editor

Private surveys circulating in Congress show that America's collapsing economy is the leading issue on voters' minds, with ruinous high interest rates at the top of the list of economic woes. But both the Democratic and Republican leaderships, even with the day of reckoning at the polls approaching, remain firmly committed to protecting the number one enforcer of America's Second Depression—Federal Reserve Chairman Paul Volcker.

Democratic leaders of the stripe of Senate Minority Leader Robert Byrd and House Speaker Tip O'Neill are proceeding with the final phase of a strategy to Hooverize President

Reagan, according to a scenario put together at the December 1980 conference of the Socialist International in Washington. Key to that strategy on the part of corrupt Democratic leaders is to ensure that nothing be done to prevent a major U.S. economic collapse, and then blame the ruin resulting from Volcker's usury on President Reagan.

Reagan's continuing embrace of Volcker's Friedmanite lunacies has produced exactly the effect the Socialist International sought. That result was demonstrated Sept. 9 and 10 when out of sheer concern for their electoral hides, Republican Congressmen deserted the President in droves to overturn his veto of the supplemental appropriations bill in both the House and Senate. Driven by the spectre of a crushing defeat for the President and his adherents in November, 81 Republican Representatives and 21 Senators voted to override the veto rather than support further cuts in politically sensitive social programs. Only two Republican Senators up for election in November voted to sustain the veto.

### Democrats scrap phony anti-Volcker fight

The Democratic leadership on the Hill, especially Senator Byrd, has repeatedly maneuvered to contain constituency demands for getting rid of Volcker and his policies, and the week of Sept. 13 acted as Volcker's bidding to scuttle even a contrived "anti-Volcker" posture built around a bill introduced by Byrd in the Senate and a parallel measure in the House. Cooked up as a legislative hoax to deflect voter demands for the Fed chairman's head, the bill would simply have required the Fed to announce targets for interest rates consistent with "sustained economic growth." It had no provisions for congressional mandating of cheap credit for productive purposes, nor any power to force the Fed even to hit its own targets.

To lend credence to the bill, which even its promoters said privately could not pass the Senate, the *Wall Street Journal* and *New York Times* gave it simultaneous and prominent coverage Sept. 10, portraying the legislation as "a serious threat" to the Fed's "independence" and its fiscal austerity policy. Staunch Volcker defender Rep. Henry Reuss (D-Wisc.), a sponsor of the House version of the bill, then sent a letter to the White House asking for the President's support, and waved the predictable letter of rejection around as proof of Reagan's responsibility for high interest rates.

Even this limp gambit by the Democratic leadership to appear as opponents of Volcker's depression has been shelved as too risky, especially given the danger that an increasingly angry electorate might force any such public posture of opposition into an actual policy fight. As a source close to Byrd put it Sept. 15, reporting the decision to abandon the bill, "We don't want any hotheads undermining Paul Volcker when we need him."

Retailing a widely disseminated line originating at the Swiss-based Bank for International Settlements, the Senate staffer declared that nothing must be done to "destabilize the Fed" because "we want the Fed to discipline the banking system in this country."

# Democrats split at the Texas convention

by Laurence Hecht

“Party unity”—that is the slogan by which the family of Averell Harriman and their tool, party chairman Charles T. Manatt, have maintained control over the Democratic Party without being able to offer any program. But it did not work at the Democratic Party convention in Texas the week of Sept. 10. Texas chapters of Lyndon H. LaRouche’s National Democratic Policy Committee, led by state chairman Nick Benton, interjected a strong note of political debate into what was to have been a repeat of the vapid proceedings of the national party “mini-convention” held in Philadelphia in July.

In Philadelphia, party chairman Manatt had contrived to keep delegates from the NDPC out of the convention—although it is the largest political action committee in the party. Confused delegates were shuffled like sheep from one gala to another. Political discussion was non-existent; no substantive votes occurred.

But that did not happen in Dallas. Although state party chairman Robert Slagle, who is owned by Jimmy Carter’s Harrimanite political mechanic, Robert Strauss, was easily re-elected chairman, NDPC delegates nominated and seconded Benton, who delivered a 15-minute speech on the international financial crisis, and LaRouche’s program to end the world depression. “The international banking community is now trying to assert that by taking these moves López Portillo has become a ‘socialist.’ Bunk!” Benton said. “What he has done is exactly, from the standpoint of economic practice, what our Founding Fathers did when we kicked out the British to found our nation, and build our economy. Ironically enough, it is also exactly what Franklin D. Roosevelt did in 1939 to finally bring this nation out of a depression.

“The López Portillo policy is exactly along the lines of what we need to do to get our own nation out of the trend toward our greatest depression in history. . . . We must nationalize the Federal Reserve, to put it under the control of the U.S. Congress as the Constitution specifies, and out of the hands of private bankers. We need to remonetize gold, and place a 5 percent ceiling on interest rates. . . . Why are we not convened together here to discuss such things?”

Benton’s presentation stirred a flurry of political debate in caucus meetings, on the convention floor, and in hallways, to the consternation of the convention managers.

By the end of the convention, the Strauss-Slagle crowd ran into opposition when they put forward an extraordinary procedure resolution banning all discussion of party resolutions at future conventions—1,500 of the 3,400 delegates voted against them. Supporting an end to political discussion were the state’s liberals, and the powerful “Gay Political Caucus.” On the other side were Mexican-Americans, black representatives, and farmers, the constituencies that LaRouche’s NDPC has been working to bring together.

It was a very important development, if not quite yet a “split” in the Texas party. Texas is not only one of the larger states—with 26 electoral college votes. Its status as a Democratic Party stronghold reaches back a century.

Trouble for the Harrimanites began before the convention. NDPC leader Nick Benton informed each delegate by letter that Robert Strauss was “a mere tool of an international banking oligarchy that is operating on a scenario to impose 1930s-style fascism on the United States and the world.” He also called Strauss the “sex object” of Pamela Harriman, the British wife of nonagenarian patrician Averell Harriman.

Before the convention, Benton sought to address the Mexican-American Caucus, but its chairman was Slagle’s sergeant-at-arms, who shut off the microphone and had Benton thrown out amid an uproar.

Benton succeeded in addressing the Black Caucus and the Right to Life Caucus, and the chairman of two right-to-life county organizations in Texas endorsed his candidacy for state party chairman. Following his nomination on the convention floor, he rose to address the 5,000 delegates.

“We are on the brink of the greatest depression collapse in the history of this nation,” he stated. “It will bring upon this nation a kind of misery beyond the imagination of most Americans, unless decisive, forceful steps are taken to prevent it, the kind of steps that Lyndon LaRouche outlined throughout his 1980 presidential campaign.

“If the nations of Latin America are forced to organize a Latin American-wide ‘debt bomb’ to protect themselves against the IMF . . . this depression could hit with the full force of a banking collapse within weeks.

“Why then are we not discussing these issues at this convention?”

He answered by pointing to the Strauss-Slagle leadership. “There is not a black or Hispanic delegate at this convention who does not know, in his heart of hearts, that the leadership of the Democratic Party of Texas is a white racist power structure. There is not one farmer, worker, or pro-life advocate at this convention who does not know, in his heart of hearts, that the Democratic Party is committed to zero-growth environmentalism, the policies that are destroying our farms, and creating conditions for genocide on a world scale unparalleled in human history.”

Afterward, a table set up by supporters under a huge banner, “Draft LaRouche,” was mobbed by delegates asking questions on political policy, and demanding answers. It is not what the Strauss-Slagle crowd wanted to see.

# Moynihan affirms his racist allegiance

by Mary McCourt

Ten days before the benchmark Sept. 23 Democratic primary contest in New York State, incumbent Senator Daniel Patrick Moynihan was forced out into the open to announce his loyalty to party patrician W. Averell Harriman. In an interview with the Albany, New York *Times Union* Sept. 13, Moynihan said that he “was proud to be associated with Harriman. ‘If that means I’m in the Harriman wing of the Democratic Party, so be it.’”

Moynihan’s declaration of allegiance to Harriman was the Senator’s first acknowledgment of the campaign his opponent, National Democratic Policy Committee-endorsed Mel Klenetsky, has waged to expose the Harriman family as the leading American supporters of race science in this century, and to bring to the public complete details of Moynihan’s training at Harriman’s knee. Under Harriman’s tutelage, Klenetsky’s published campaign materials have documented, Moynihan has made a political career of promoting racist policies.

## Harriman’s well-kept secret exposed

The Klenetsky campaign has published full documentation of the Harriman family’s sponsorship of the eugenics movement in the United States. Harriman’s mother Mary was the founder and benefactor of the Eugenics Record Office in Cold Spring Harbor, N.Y., which was later funded by Averell Harriman as well. In 1921, the Harrimans sponsored the Second International Congress on Eugenics, held at New York City’s Museum of Natural History. In 1924, a bill to tighten U.S. immigration quotas, written under the supervision of Eugenics Record Office director H. H. Laughlin, was passed by the U.S. Congress. In the late 1930s, this legislation and other agitation by the Harriman-Laughlin crowd, made it impossible for German Jews being persecuted by the Nazis to emigrate to the United States. Up to 3 million Jews, who would have been allowed to enter this country under earlier laws, died in the Nazi death camps.

Moynihan, a protégé of Averell Harriman since he served as his aide during Harriman’s 1955-58 governorship of New York, thoroughly imbibed Harriman’s racialism. After being trained at the London School of Economics, Moynihan founded and championed the racist theory of “ethnicity.”

First put forward in his 1963 book *Beyond the Melting Pot*, the idea of ethnicity boils down to the assertion that it is race, and not economic or class distinctions, which determine an individual’s capabilities. Thus, said Moynihan, various ethnic groups within the United States, including the Jews, Irish, and Italians, had never really been assimilated into American society, and that, due to family structure within the black and Hispanic minorities, these groups would be impossible to assimilate. In 1965, as Assistant Secretary of Labor, in the Lyndon Johnson administration, Moynihan issued the *Black Family Report*, which claimed that black families were inherently inferior, due to the social heritage of slavery. The only way poverty can be controlled among blacks, said Moynihan, is to control black population expansion, i.e., eliminate “useless eaters” as had been done by the Nazi regime under Hitler’s Finance Minister Hjalmar Schacht.

With such a background, it is no surprise that Moynihan should endorse one of the most notorious racist theorists of the recent period, Arthur Jensen, the professor of Educational Psychology at the University of California. In an article published in the *Harvard Educational Review* in 1969, Jensen, basing his work in part on studies Moynihan himself had done during his academic career, asserted that IQ test data proved that blacks are genetically intellectually inferior to whites by 15 IQ points. Black schools, Jensen wrote, “must be able to find ways of utilizing other strengths in children whose major strength is not of the cognitive variety”—i.e., that intellectual education is inappropriate for blacks. Jensen related this supposed intellectual inferiority to the darker pigmentation of the black population’s skin: “The possibility of a biochemical connection between skin pigmentation and intelligence is not totally unlikely, in view of the biological relation between melanins, which are responsible for pigmentation, and some of the neural transmitter substances in the brain.”

In a June 12, 1970 interview with *Life* magazine, Moynihan defended this quackery. A domestic adviser to President Nixon at the time, Moynihan claimed that “the winds of Jensen are gusting through the capital at gale force. . . . Dr. Jensen is a thoroughly respectable man. . . . He is in no sense a racist.” Moynihan added that he had conveyed this view to the President.

Jensen was well aware of Moynihan’s support. As he told an *EIR* interviewer Sept. 1, “I met Moynihan at about that time, and had some correspondence with him. We discussed these problems, because he too had been branded a racist for his Department of Labor report when he was Undersecretary of Labor that he put out about the Negro family.” . . .

“Did he generally view your study as being on the mark?” *EIR* asked.

“He never said anything to me in correspondence or in person or in anything I’ve read by him that’s published, to indicate the contrary,” Jensen answered. “I think he has to be very cautious about his statements in this domain, because of his political position, naturally.”

# The roots of the cinema conspiracy

by Michael J. Minnicino

*The official history of the development of films runs like one of the multi-part "sagas" which have been proliferating on prime-time television: immigrant moguls and starlets, wild-eyed Russian revolutionaries, and haggard French intellectuals, all contributing to the growth of a great, but corrupt art. As EIR's six-part exposé of the origins of the "movies" in the psychological warfare and social control departments of Harvard University and the London Tavistock Institute will document, however, this version should satisfy credulous university film students only. In Part I, series author Michael Minnicino elaborates the work of Fabian "poet" Vachel Lindsay and Harvard professor Hugo Munsterberg, on how the mass-consumed motion picture can be used to degrade the cultural powers of populations through an attack on true drama and the spoken language.*

## **The movies: psychological warfare as a fine art** *First of a six-part series*

The modern world film industry and its later partner, television, were founded at the Psychological Laboratory of Harvard University in the period before World War I. Harvard at that time was involved in a research project to determine the best techniques to rapidly transform the personality. The laboratory's chief, William James, America's leading psychologist and brother of the novelist Henry, had already done some groundbreaking work on the subject with his *Varieties of Religious Experience* (1901-02). *Varieties* had demonstrated that induced mystical experiences comparable to a hypnotic or drugged state, especially when combined with long periods of sensory deprivation (as produced by long periods of bed-rest subsequent to accident or serious illness), could radically restructure a subject's personality.

James was in constant contact with colleagues studying the same topic. In Germany, several universities were working on the problem led by the Kaiser Wilhelm Institute in Berlin. Most of Britain's major schools had research teams and, by the early 1920s, these teams would coalesce into a unified study group called the Tavistock Clinic, under the directorship of Dr. John Rawlings Rees. The Germans inclined toward electroshock and drugs; the English dabbled in psychosurgery as well as drugs, but, like the Americans under the leadership of James, a confirmed spiritualist, more deeply delved into the potentials offered by synthetic cults.

This research was carried on for decades under several names and with variegated official sponsorship. After the Korean War, it all got popularly lumped under a general title, a literal translation of a catchy communist Chinese phrase: "brainwashing."

The task to which James, Rees, et al. applied themselves is an ancient one: how can a very few—an oligarchy—control the many without overt, repressive violence? In ancient Rome, for instance, mystical cults fed by drugs, such as the Dionysian and Isis sects, had been useful to the oligarchy. But the situation that faced the British-dominated oligarchy at the turn of the twentieth century was substantially more complicated, largely because the United States had developed into a world power committed to technological progress, including policy factions which wished to share that commitment with less developed people around the world. The theorists of the new oligarchy such as Bertrand Russell and H. G. Wells were adamant: the old techniques would have to be technologized if control were to be maintained.

It was under this standing order to find a better way to control the mind that William James and his colleagues discovered the film.

Experiments in making photographs "move" had been going on throughout the second half of the 19th century. They culminated in Thomas A. Edison's kinoscope, the first true motion picture camera, which was unveiled to the public at the Chicago Exhibition in 1893. Edison's peepshows became an overnight sensation, and it was only months before an English impresario developed a projecting device and opened the first movie theater. By the turn of the century, most major towns in America and Western Europe had theaters or could

see films as interludes at stage shows. Film attendance was 10 million per day by 1914.

The potential importance of film apparently came to the attention of the Harvard laboratory via one Horace M. Kallen, an instructor at Harvard's Philosophy Department (of which James was titular head). In 1910 Kallen wrote the first recorded scholarly paper on film, stressing, according to one historian, the striking "magical" qualities of the new technique.

### "The prophet-wizards of Isis"

A device capable of producing "magic" on a mass-basis clearly required the attention of the Harvard team. And attention it got: within six years after the publication of Kallen's paper, Harvard's faculty, aided significantly by Russell and Wells's partisans in the American Fabian movement, had transformed film from a toy into a "fine art" in the mind of the public; at the same time they wrote their new textbooks, congratulating themselves on finding a powerful new tool for social manipulation. They had found a new cult, one much better than old Dionysian variants: the cult of entertainment.

Although millions of pages on film and film theory have been written since World War I, there is really *nothing* in them that is any more than a reworking of the theory and purpose of film outlined in two remarkable books generated out of Harvard in 1915-16: *The Art of the Moving Picture* by Vachel Lindsay, and *The Photoplay: A Psychological Study* by Professor Hugo Münsterberg.

Münsterberg (1863-1916) studied under the pioneer Gestalt psychologist Wilhelm Wundt at Germany's Leipzig University, graduating to a professorship at the University of Freiburg, where he met William James and was recruited to James's conspiracy. In 1892, James invited Münsterberg to head the Psychological Laboratory with him; in 1897 Münsterberg also assumed the chair of the school's Philosophy Department, then a bastion of American Fabianism. By the time he published his study on film, Münsterberg had already become somewhat famous as a Fabian racialist: when war broke out in 1914, he carried on a lively public correspondence with his British friend Wells, claiming that all the "Anglo-Saxon races" (i.e., the Americans, British, and Germans) should unite against the encroachments of inferior peoples.

In *The Photoplay*, the first film book ever written, Münsterberg identifies immediately the use of the film to the leadership of the Anglo-Saxon races:

An interesting side light falls on [the] relation between the mind and the pictured scenes, if we turn to a mental process which is quite nearly related to those which we have considered, namely, *suggestion*. It is similar in that a suggested idea which awakes in our consciousness is built up from the same material as the memory ideas or the imaginative ideas. The play of associations controls the suggestions. . . .

The spellbound audience . . . in a picture house is *certainly in a state of heightened suggestibility and is ready to receive suggestions* (emphasis added).

According to Münsterberg, the film's power of suggestion—what we today call hypnosis—derived from two principal technical elements. Firstly, the enveloping darkness which the early English experimenters had added to the film experience. Secondly and more important was what Münsterberg called "fixation," more commonly known today as "object fixation." Whereas the presentation of live drama shows the audience a whole stage filled or unfilled with actors and objects, noted Münsterberg, the film is the first technique to achieve the *close-up*, the ability to fill a looming screen with a single object:

If on the stage the hand movements of an actor catch our interest, we no longer look at the whole larger scene, we see only the fingers of the hero clutching the revolver. . . . Our attention is entirely given up to the passionate play of his hand. It becomes the central point for all our emotional responses. . . . The more we fixate it, the more its clearness and distinctness increase. From this one point wells our emotion, and our emotions once again concentrate our senses on this one point. . . . On stage this is impossible. . . .

*The close-up has objectified in our world of perception our mental act of attention and by it has furnished art with a means which far transcends the power of any theatre stage* (emphasis added).

Münsterberg went on to explain that stage presentations allow too much higher mental functioning in the audience; during a play a viewer still retains what Münsterberg calls "voluntary attention." That is, although a stage director or playwright may use certain techniques to focus the audience's attention on a particular situation, speech, etc., the play-goer still has the option of *not* fixating; he or she can opt to look at the person who is being spoken about or to, rather than the one who is speaking.

This—for most theater-goers an added, pleasing intellectual level of "dialogue"—is for Münsterberg anathema.

The film with its close-up technique excludes the possibility of such intellectual involvement. In film, all attention is "involuntary"; a new scene bursts upon the consciousness like "an explosion . . . the glaring electric signs which flash up." The viewer sees, notwithstanding what his or her mind believes, only what the film director wants him to see. "It is as if," concludes Münsterberg, using words close to James's in *Varieties*, the "outer world were woven into our mind and were shaped not through its own laws but by the acts of our attention."

### Vachel Lindsay's 'new hieroglyphics'

It is clear that Münsterberg was himself somewhat fixated

with the differences between the stage and the new film techniques. It was left to the strange Vachel Lindsay to elaborate that fixation. Born in Springfield, Illinois, Lindsay (1879-1931) studied at the Art Institute of Chicago and the Metropolitan Museum in New York before achieving minor fame with his poetry, the most notable of which was an outrageously racist piece of overextended onomatopoeia, *The Congo*. Lindsay traveled in the same Fabian circuits as Münsterberg, lecturing occasionally at Harvard, and became the film critic of the American Fabians' most important organ, the *New Republic*, thus earning the title of America's first regularly published film commentator.

In his *Art of the Moving Picture*, Lindsay said the things that the putative scientist Münsterberg could not say credibly. Film represented the greatest *cult potential* anyone had seen in centuries:

We now have a darkness on which we can paint. . . . This is a tomb we might have definitely in mind, an Egyptian burying-place where with a torch we might enter, read the inscriptions, and see the illustrations of the Book of the Dead on the wall, or finding that ancient papyrus in the mummy-case, unroll it and show it to the eager assembly, and have the feeling of return. Man is an Egyptian first, before he is any other type of civilized being. The Nile flows through his heart. So let this cave be Egypt, let us incline ourselves to revere the unconscious memories that echo within us when we see the hieroglyphics of Osiris, and Isis. . . .

Is it too much to expect that some American prophet-wizard of the future will give us this film in the spirit of an Egyptian priest? . . . Here is a nation, America, going for dreams into caves. . . . Because ten million people daily enter into the cave, something akin to Egyptian wizardry, certain national rituals, will be born. By studying the matter of being an Egyptian priest for a while, the author-producer may learn in the end how best to express and satisfy the spirit-hungers that are peculiarly American.

Film, in short, could provide the means to finally develop the ideologically-specific cults that America had resisted for so long. The Fabian goal of a docile global dictatorship was once again a possibility. Says the enthusiastic Lindsay:

High-minded graduates of university courses in sociology and schools of anthropology, devout readers of the *Survey*, *The Chicago Public*, *The Masses*, the *New Republic*, *LaFollette's* [all Fabian organs—MJM], are going to advocate increasingly, their varied . . . causes in films. . . .

The World State is indeed far away. But as we peer into the Mirror Screen, some of us dare look forward to the time when the pouring streets of men will become sacred in each other's eyes, in pictures, and in fact. . . .

Münsterberg, overwhelmed by the manipulative possibilities, breaks the dry tone of his own book to second Lindsay, telling the Fabian social reformers that they

cannot overlook the fact . . . that the masses of today prefer to be taught by pictures than by words. . . . The fact that millions are daily under the spell of the performances on the screen is established. The high degree of suggestibility during those hours in the dark house may be taken for granted. . . . [T]he photoplay must have an incomparable power for the remolding and upbuilding of the national soul.

What is this new "national soul"? Substantially the one hypothesized by Wells in his *The Time Machine*: a society divided into super-cultured, oligarchic Eloi and a completely bestialized race of workers, the Morlocks.

Hence Münsterberg and Lindsay's fixation with the stage. The full power of the film as a tool of ideological manipulation is stunted in a society in which the audience can compare the photoplay with its raw image to the play with its dialogue. And by dialogue, I mean not only the words themselves, but the dialogue in the Socratic sense that is the core of all drama worthy of the name: the intellectual interplay between the words, the presentation of the actors, and the minds of the audience. Although many stage directors at the time (particularly Max Reinhardt in Germany, whom Münsterberg approvingly cites) had been attempting to reduce dialogue's function on stage and replace it with a panoply of jarring special effects and set design, the stage still presupposes for Lindsay and Münsterberg an unacceptably high level of mental activity.

Rather, language itself must be broken down if the film is to work. Film must create a new language, stresses particularly Lindsay, what he calls a "new hieroglyphics." The stage and literature may continue to exist, but only for the cultured elite. The overwhelming majority of people will not read or go to the theater; they will be entertained by the new Dantes and Shakespeares of the "New Florence"—Lindsay's name for Hollywood.

Lindsay's own words darkly echo Wells' description of the Morlocks:

The invention of the photoplay was as great a step as was the beginning of picture-writing in the stone age. *And the cave-men and women of our slums seem to be the people most affected by this novelty* (emphasis added).

The more fastidious photoplay audience that uses the hieroglyphic hypothesis in analyzing the film before it, will acquire a new tolerance and understanding of the avalanche of photoplay conceptions, and find a promise of beauty.

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*To be continued.*

## IMF orders Senate hearings on Third World debt

With two of its staff members fresh from the Toronto meeting of the International Monetary Fund, the Senate Foreign Relations Committee's International Economic Policy Subcommittee is preparing hearings on the world debt situation at the end of September. The hearings, according to sources, were ordered by the IMF to create a climate in which bankers would exercise more "caution" in lending to the Third World. The subcommittee, headed by Sen. Charles Mathias (R-Md.), has been one of the leading propaganda outlets for the *Global 2000 Report* and this "caution" must be translated as credit clamps, austerity, and mass murder.

The hearings will feature Treasury Secretary Regan, New York Federal Reserve President Anthony Solomon, Carter administration State Department official C. Fred Bergsten, and numerous commercial bankers. The hearings will focus on demanding that banks cut their lending and put the new regulations proposed by the Bank for International Settlements into effect to enforce this. While U.S. banks' foreign lending is to be cut, their head offices in the U.S. are to be bailed out, to "keep the system solid," according to Senate sources.

## Helms wants British solution for Mexico

Just four short months after he distinguished himself as the only U.S. Senator with enough intelligence to attack British neo-colonial operations in the Malvinas war, Sen. Jesse Helms (R-N.C.) took the floor of the Senate Sept. 13 to advocate an Adam Smith, made-

in-Britain, neo-colonial approach to Mexico. Claiming Mexican President López Portillo's step of nationalizing the banks Sept. 1 to protect the Mexican economy from speculators and supranational looters was evidence of "moves toward socialism," Helms introduced a resolution which would cut off U.S. lending to Mexico until the Sept. 1 reforms are rescinded.

Specifically, the resolution calls for the U.S. government, and all U.S. representatives to international organizations, to lend "no substantial assistance to the government of Mexico" until the Mexican government: 1) lifts its exchange controls; 2) restores the banks to their former owners or establishes a new private banking system; and 3) ties the peso's value to "something of value, in this case, the U.S. dollar."

## Committees look at budget reform

Not content with the level of austerity now being imposed by the Congress, the House and Senate Budget Committees are beginning a review of the existing budget process, with an eye toward strengthening it in coming sessions of Congress. Nearly identical hearings convened during the week of Sept. 13 in the two committees, who heard from the co-chairmen of the Committee for a Responsible Federal Budget, from Rudolph Penner (now of the American Enterprise Institute and probably the next head of the Congressional Budget Office), and from various members of Congress.

The clear theme running through the testimony was that Congress must be further broken from its historic role in representing the anti-austerity desires of their constituents.

In his opening remarks on Sept. 14, Senate Budget Committee Chairman Pete Domenici (R-N.M.), located the ultimate austerity weapon in the Balanced-Budget Constitutional Amendment (which has been passed by the Senate) and cited the need to "identify transition arrangements that will prepare Congress for the day when the Constitutional amendment is in effect." As proposals worthy of discussion, Domenici suggested more vigorous enforcement mechanisms, a two-year budget cycle, and strengthening the impoundment process "to help limit growth of hard-to-control federal expenditures, such as entitlements."

While Domenici's penchant for the balanced-budget amendment was not shared by most of the other witnesses, who warned that it was an unworkable fiscal strait-jacket, they all agreed that "fine-tuning" of the budget process was necessary in the future. Former Sen. Henry Bellmon (who was ranking member of the Senate Budget Committee) and former Rep. Robert Giaimo (who was chairman of the House Budget Committee), the co-chairs of the Committee for a Responsible Federal Budget, supported the recently introduced Jones-Foley budget reform bill, which takes some of the provisions of the constitutional amendment, such as the need for a three-fifths majority to waive congressionally-set spending ceilings, and would enact them instead as statutory law. The committee, which includes such austerity-minded personages as Edmund Muskie, Peter Peterson, Robert Strauss, and Alan Greenspan, also supports legislation which would establish a "credit budget" so that the federal government could ration credit to entitlements and into such programs as the Export-Import Bank and

the Commodity Credit Corporation. That proposal is supported by the Federal Reserve Board.

Several witnesses warned against any action on budget reform during the remaining weeks of this session, citing the growing frustration of members of Congress over the usurpatious role that the budget process has already attained in limiting the ability of legislators to legislate.

## **Barnes: cut Ibero-American population**

Michael Barnes (D-Md.), Chairman of the House Subcommittee on Inter-American Affairs, invited an official of the United States Agency for International Development and representatives of private population control agencies which receive tens of millions of dollars annually from that agency, to testify before his committee on the urgency of paying them more to stop an allegedly dangerous "population explosion" in Latin America. Marshall Brown, the Deputy Assistant Administrator of AID for Latin America and the Caribbean testified that unemployment is the result of human reproduction. "More people—more unemployment," he summarized his argument.

AID's approach to this alleged problem was further elaborated by Leon F. Bouvier of the AID-financed Population Reference Bureau. He argued that, contrary to arguments generally presented for mass dissemination of contraceptive measures, reducing fertility by means of birth control will not be adequate to stop the "population explosion" in Latin America. He stated that Latin America's problems began in the post-war period when "mortality fell dramatically,

particularly infant and child mortality. Thus, more births survived to adulthood than had previously been the case." He complained that this trend is accelerating. "In such places as Haiti and Honduras . . . life expectancy at birth is still on the rise and . . . there is yet room to considerably reduce infant mortality rates." He went on to echo the racial purity argument associated with Averell Harriman and Adolf Hitler in arguing that this posed a "problem" for the United States because "these nations depend on out-migration to deal with their excess population." He was followed by Jill W. Sheffield of the London-based International Planned Parenthood Federation, whose current contracts from AID total over \$71 million in funding. She described the process whereby her federation establishes private "Family Planning Associations" in developing nations as a base for compelling national governments to support her London-directed population reduction programs.

## **Anti-Japan trade legislation pushed as election nears**

A flurry of protectionist bills and hearings are occurring as the November elections approach, and members of Congress join up with the UAW and the AFL-CIO in blaming the Japanese, and not Paul Volcker, for massive unemployment in the United States. Both the House Ways and Means Committee and the Energy and Commerce Committee engaged in mark-up sessions for several pieces of anti-Japan legislation during the week of Sept. 13. For good measure, the Senate Foreign Relations Committee held a full day of hearings on Sept. 14,

featuring administration trade representatives and embattled companies such as Motorola and Borg Warner, to further set the climate for charges of "unfair Japanese trading practices."

The only legislation which it might be possible to pass during the waning weeks of this session, however, is the Reciprocal Trade and Investment Act of 1982. This bill establishes the principal of "reciprocity"—that is, of forcing the Japanese to drop some of their dirigist domestic practices and open their economy to the United States. While the legislation does more by way of "establishing the principle" than specifying actual mechanisms, it contains several dangerous provisions and precedents. The administration backs the legislation and it was passed by the Senate Finance Committee last June. The House Ways and Means Committee marked up and reported out similar legislation on Sept. 16. However, floor action on any proposal which is not a clear legislative priority, is questionable at this time.

Another bill which has no chance of passage, but is intended to give its sponsors their share of pre-election political mileage, is the Fair Practices in Automotive Products Act, sponsored by Rep. Richard Ottinger (D-N.Y.) and reported out of the House Energy and Commerce Committee on Sept. 15 by a vote of 24 to 17. While proponents of the bill hope for speedy Ways and Means Committee and House floor action before the recess, a Senate companion bill, sponsored by Sen. Wendell Ford (D-Ky.), is unlikely to move this session. The legislation is aimed chiefly at Toyota and Datsun auto imports, and establishes a requirement that cars sold in the United States be built with a significant proportion of U.S. parts and labor.

# National News

## Washington, D.C. election scandals

Mayor Marion Barry of Washington, D.C., easily defeated what had earlier looked like a stiff challenge from former Carter cabinet official Patricia Roberts Harris in the city's Sept. 14 Democratic primary—with help from forces close to the British-run "right-wing" Heritage Foundation who were critical in suppressing exposure of a major scandal involving Barry's ties to the terrorist-connected "left."

According to a Washington source, Ivanhoe Donaldson, Barry's campaign manager, who is affiliated with the terrorist D.C.-based Institute for Policy Studies (IPS) and is also the director of the city's employee service department, arranged an illegal deal with the American Federation of Government Employees (AFGE) union whereby AFGE would receive sole recognition as representative of city employees and automatic dues check-off in return for illegal support of Barry's reelection. AFGE is, in fact, being investigated by the Federal Merit Systems Protection Board for this illegal arrangement, but knowledgeable sources see as even more significant the security implications of the government employees' union—which also represents federal government workers—engaging in such practices and, in fact, itself formally affiliating with IPS under the direction of AFGE president Ken Blaylock.

As in his first election, Barry also received crucial support for his campaign from the city's proportionally very large and growing number of homosexuals—who were in fact actively courted by almost every Democrat on Tuesday's primary ballot.

The "gay factor" was also considered a significant element in the victory of Dave Clarke over incumbent District City Council Chairman Arrington Dixon. Clarke, who is white, was not originally expected to make a strong showing in this overwhelmingly black city, and his victory puts another slick-leftist IPS-connected figure at the top of local government in the nation's capital.

An election scandal that did make it into the press and must be puzzling the capital's international community as much as the locals was the total chaos of the city's "dem-

ocratic" voting process itself, which actually left the result of some local races in doubt and provided—deliberately, many say—a massive opening for claims of fraud. By all accounts, at least 20 percent of voters who went to the polls—including three candidates—found that their registration had been "lost" by the Board of Elections and thus that their vote had to be remanded to "special ballots"—ballots that had to be signed, to be validated and counted later.

## New newspaper mimics TV 'popular culture'

In an unfortunately successful attempt to imitate the banality of television, the Gannett newspaper chain launched on Sept. 15 the first-ever effort at a "national" daily paper, hitting the streets first in five states surrounding Washington, D.C., and soon to be spread to other major metropolitan locations.

The paper's features are heavily weighted with man-in-the-street interviews inquiring how one "feels" about things, and has the major local gossip from every state. *USA Today* clearly intends to make its sports coverage its staple selling point.

However, with the demise of so many local dailies, *USA Today's* hyperactive and contentless format signals an acceleration of the shift toward centralized, top-down (television network-style) control over the nation's print media.

Its first day on the streets, the death of Princess Grace took the front page, while the assassination of the entire Lebanese Falange leadership made it onto page nine (because Gannett "thought that Princess Grace was the most important story in the minds of the people," a spokesman explained). Its second issue led with a baseball story. A spokesman for *USA Today* based in Roslyn, Virginia, told *EIR* that their focus will be "domestic" news, especially "local" stories of the sort that reinforce people's sense of littleness and parochialism rather than national identity; the paper has only two people based abroad; and no in-depth or investigative capabilities.

*USA Today* could have an immediately harmful effect on the *Washington Post* which, despite the death of its competitor,

*Washington Star*, is rumored to be in financial difficulties.

Katharine Graham's liberal establishment *Post* is under surprising challenge from the new *Washington Times* (lavishly funded by the Rev. Sun Myung Moon cult), which just dealt the *Post* a considerable blow by hiring away its writer of the phenomenally popular "Ear" political-gossip column. To maintain its popularity, the *Post* recently beefed up its sports section, launching a major ad campaign on this basis—only to find that this is the one area in which it cannot compete with the painstaking completeness of *USA Today*.

## Banker Manatt defends Harriman

At a press conference called Sept. 14 in Washington, D.C. to unveil the Democratic Party's fall election advertising campaign, Democratic National Committee chairman Charles Manatt defended Averell Harriman, the racist promoter of the anti-industry policies that have been wrecking the Democratic Party built by Franklin D. Roosevelt.

The entire campaign of the DNC, Manatt announced, will be built around the vacuous slogans: "It's not fair, it's Republican," and "The Democratic Party is the party of fairness." The DNC will finance a \$1 million television campaign built around these slogans.

The lack of policy content of these ads was evident even to the Washington press corps. One reporter asked Manatt and Democratic congressional campaign committee-chairman Sen. Wendell Ford (D-Ky.) and Tony Coelho (D-Calif.), who were sharing the podium with him, why no Democratic alternatives to the alleged GOP lack of "fairness" were offered. The three answered only that the DNC "would have no policies to offer."

*EIR* correspondent Stanley Ezrol asked Manatt if it weren't true that the campaign focused on "fairness" because the Harriman wing of the Democratic Party supported deeper and more systematic cuts in American living standards than President Ronald Reagan would ever think of enforcing. Asked why the DNC had not brought in noted economist and Democratic National

## Briefly

Policy Committee Advisory Committee chairman Lyndon H. LaRouche to consult on policy, and campaign tactics, Manatt ordered the ejection of the reporter. His only response had extensive policy content: "Anyone who could attack a fine man like Governor Harriman. . . ."

### Black Republicans side-step the issues

Several hundred black Republicans met Sept. 14-16 in Washington, D.C., at the 1982 Mid-Term Convention of the National Black Republican Council (NBRC), since 1972 the official black auxiliary to the Republican National Committee, where they heard from the President, the Vice-President, and a host of administration and GOP officials.

The focus was not, however, on discussion of policies to beat back the depression already engulfing America's black communities as it threatens the whole national economy; the focus was on the tactical and formal questions of how blacks might gain more influence within the Republican Party. (NBRC Chairman LeGrec Daniels claims this will not be "until we can consistently produce the winning margin in critical elections"—that is, it is purely a question of muscle, not policy.) Other topics of discussion were how to set up auxiliaries to local Republican party machines, recruit more blacks, and elect black Republican candidates.

Consistent throughout was an upbeat prognosis for success of Reagan's economic "recovery" program and resultant trickle-down effects, and a strong push for the administration's "enterprise zone" plan, which would lower standards of employment and wages in chosen inner city areas to "attract investment"—an idea also backed by liberal Democrats.

President Reagan's speech was generally read as almost writing off any prospect for increasing Republican support among blacks but essentially using the occasion to try to assuage uneasiness among white Republicans about sentiment that his policies could be read as anti-black.

Among the several dozen black Republicans running for various offices around the country, political insiders rate the most sig-

nificant as Lucy Patterson, said to have a marginal chance of unseating Democratic Rep. Martin Frost in Dallas. An interview Patterson gave *EIR* at this convention indicates why black Americans fed up with Ted Kennedy and Ave Harriman-style "liberal" austerity will still look for alternatives within the Democratic Party. The main issue for black Republicans, Patterson stated to us, is—the unbalanced federal budget.

### Brinks robbers connected to Israeli mafia?

Security specialists investigating the connections of the Weather Underground-Black Liberation Army terrorists who murdered three guards while attempting to rob a Brinks truck in October 1981, and drug-running organized crime networks, have found leads to the Israeli mafia in particular.

Connections between terrorist groups and organized crime have been well-established in the case of the Italian Red Brigades. In the New York case, these links emerged when New York police and the FBI raided the headquarters of the Black Acupuncture Association of North America, BAANA, in March 1982. BAANA, it was discovered, was the safehouse and planning center for the robbery, and served as a communications center for the BLA leader Joanne Chesimard.

BAANA was run by three acupuncturists, among them Richard Delaney, who is also vice-president of the Straight Ahead Realty Corporation. What the FBI-NYPD investigation has so far failed to look into is that Straight Ahead Realty's law firm is Cohn, Glickstein, Lurie, Ostrin and Lubell, a "highly respected" law firm that represents trade unions, the entertainment media, and terrorists. Sources report that Jonathan Lubell has dealt directly with Joanne Chesimard, as well as with BAANA.

Two senior partners of the firm are board members of the Shenandoah Corporation, owned by the Rapid American Corporation of Israeli-organized crime figure Meshulam Riklis. Among other enterprises, Riklis was a central figure in Bernie Cornfeld's IOS. IOS was heavily involved in transactions with Tibor Rosenbaum's Banque Credit Internationale, linked to Meyer Lansky.

● **ROY INNIS**, national chairman of the Congress of Racial Equality, has endorsed Mel Klenetsky, the National Democratic Policy Committee-backed opponent of Sen. Pat Moynihan in the Sept. 23 New York Democratic senatorial primary. Innis stated Sept. 17: "Black people have had problems with Mr. Moynihan for a long time. He has been a critic of blacks, but he has never offered them a constructive program. . . . Klenetsky has advocated that America approach African, Asian and Latin American nations as equals. . . . I think that the advocacy by any Senate candidate of an equitable approach to financial negotiations with the Third World is worth support. Such ideas are long overdue. . . ."

● **RABBI MAURICE DAVIS**, an early funder of mass suicidalist Jim Jones and a head of the Westchester Mental Health Association involved in the program that spawned "Son of Sam" killer David Berkowitz, is having trouble with his own son. Jay Davis is now on trial for allegedly molesting young girls and boys while he was their religious instructor during lessons three years ago.

● **REP. BILL PATMAN** (D-Tex.) was facing a strong challenge from Democrat-turned-Republican, former Rep. Joe Wyatt, Jr. Wyatt had shared the podium with President Reagan at the Washington Balanced Budget Amendment rally last month, and Vice-President George Bush had come to Texas to campaign for him. But Texas papers have just revealed that the "personal reasons" for Wyatt's leaving Congress in 1980 was his police record of homosexual activity.

● **GUY MOLINARI** (D-N.Y.), a congressman campaigning in Brooklyn last week said, "I strongly support the independence of the Fed. Why, if you gave control of the Fed to Congress, they'd have interest rates cut down to 4 percent in no time."

# In their own name

The promise of fusion energy to fuel the next phase of mankind's global development, ending "Third World" poverty forever and launching space colonization, defines the next great task for humanity. And, as our cover story puts into relief, the only thing that stands in the way of that step now is a political obstacle. In the court of world history, as evoked in Lyndon LaRouche's new book, *The Toynbee Factor in British Grand Strategy*, there is no more precise definition of evil than the forces who, in order to perpetuate their control over the world's "raw materials," have determined to stop such progress. LaRouche's book, circulating in pre-print among world policy elites, is centered on the startling thesis that for more than 10,000 years *republicanism*—expressed in the Judeo-Christian injunction to man to be fruitful and subdue the earth—has struggled against the cancer of *oligarchism*, imposed at one moment of history, and yet to be defeated.

In September 1982, Mexico gave the world a shining example of the republican spirit and, for the first time since the 1930s, the European oligarchy, which usually hides behind its financial, cultural, and "environmentalist" fronts, came forward *in its own name* to launch a direct grab for political power. Those who believe that the world's evils are the fruit of "Soviet communist plotting" or, in a slightly more sophisticated version, of David Rockefeller's Trilateral Commission without its European appendages, should sit up and take notice. The oligarchy is speaking; its capital is London; its program, to bring down the human race in a worldwide fascist holocaust.

● In *Italy*, on Sept. 13, the government reversed its previously "irrevocable" no to demands that ailing, 78-year-old ex-King Umberto II of Savoy be allowed to see his country again before dying. By law, since the 1946 referendum that ejected the Savoy, no male heir to the pretended throne is to set foot on Italian soil. A precedent is now set for Umberto's son, "Crown Prince" Victor Emanuel, whose name was revealed last year on the list of Licio Gelli's Propaganda-2 Freemasonic lodge, linked to every major act of terrorism

in Italy since 1969 and a series of monarchist coup attempts. Not only was Gelli a torturer in Mussolini's secret police, but the Italians voted the monarchy out in 1946 (despite Winston Churchill's efforts to keep it) because Umberto's father, the moronic Victor Emanuel III, had allowed the Fascist takeover in 1922 and seconded Mussolini's every act until 1943.

● In *France*, the Grand Orient Freemasonic lodge has called for Mussolini-style corporatism—demolishing centralized government, making the country a haven for terrorists, and that special goal of "free-enterprise" cultists, fully deregulating the economy. The "lodge" is the direct tool of the deposed, but still ambitious, British-linked House of Orleans, which hopes to profit from the disintegration of the Socialist-led regime.

● In *Greece*, two rightist newspapers have called for the return of ex-King Constantine, an intimate of the British royal family who was godfather to Princess Diana's baby. All indications are that the pro-junta faction in the officer corps has unified with the royalists. The destabilization of the throwaway Socialist Papan-dreou government has begun with a vengeance.

● In *West Germany*, the toppling of Helmut Schmidt's government by aristocrat Otto von Lambs-dorff was heralded Sept. 14 in *Die Welt* when the widely-circulated paper advertised the return of the oligarchy in an article on the 75th birthday party of Prince Louis Ferdinand, pretender to the Prussian throne. The Hohenzollern pretender announced his return to the political arena, launching into a slanderous attack on Chancellor Schmidt's war-avoidance policy as "perverse." The keynote speech was given by Professor Ruhrmoser of Stuttgart, leading ideologue of the new "ultra-conservative" movement, who announced that only a "truly conservative" force could restore German "national identity."

The Mexican example threatens to end the power of the oligarchical species forever. If we republicans fail to seize this moment in history and make sure that happens, it is unlikely there will be a human race.

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