

# EIR

Executive Intelligence Review

October 12, 1982

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# EIR

## From the Managing Editor

Our publisher has called to my attention an example of why the *Executive Intelligence Review* costs \$400 for a year's subscription, and *Business Week* costs \$35. In its Oct. 4 issue, *Business Week* carried a cover headline, "End of the Office Boom: Developers Face Financial Ruin—Bankers are Left Holding the Bag." It is appropriate to recall that in our June 29 issue, *EIR* published a Corporate Strategy column by Leif Johnson titled "Real-Estate Crash Has Already Begun," noting that asking prices for top-quality New York City office space had already dropped 20 percent over the past three months, and predicting that half a dozen former high-flying U.S. and Canadian names would be bankrupt before 1983. The next week, in our July 6 issue, Mr. Johnson elaborated on "The Humpty-Dumpty Commercial Market," identifying a withdrawal of foreign speculative funds as one factor in the future acceleration of the crash. Richard Freeman, in a July 20 feature, reported at length on the Houston commercial real-estate market: "The Boom is Turning Into a Bust."

As all investors know, the space of four months can make quite a difference, as far as economic intelligence is concerned.

*Business Week*, which features so many Friedmanites on its editorial staff, has the peculiar distinction of having been the only business journal to endorse Jimmy Carter in 1976.

This week's Special Report examines the record and the cultish world-outlook of Milton Friedman and the Mont Pelerin Society. Their British liberalism prescribes "free trade" for the commodity speculators, drug traders, real-estate barons, and usurers; suppression or destruction of industries wherever possible; and diversion of credit to bolster fictitious paper at the expense of technological growth.

In our International section's report on the United Nations General Assembly statements from Ibero-American leaders, you will find the underdeveloped nations' response, expressed with the utmost clarity. These policies, stated Mexican President José López Portillo, have put the world "in the throes of the worst economic crisis since the Great Depression," which could result in a return "to the Dark Ages with no possibility of a Renaissance." The nation-state must be defended "at all cost against economic liberalism." If the industrialized sector refuses to acknowledge that the sine qua non of debt repayment is expansion of the real economies of the indebted, he said, "this will end in defeat for everyone."

Next week, our Special Report on Brazil will pursue this theme.

*Susan Johnson*

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From left, Citibank's Walter Wriston; Milton Friedman; George Shultz; President Reagan; Paul McCracken. No degree of economic catastrophe seems to dent the Friedman cult's belief in its British-devised formulas. UPI

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## Five million layoffs in the U.S. by spring?

by David Goldman, Economics Editor

The prospects for the next six months can be expressed, roughly speaking, in terms of another million industrial layoffs and three to four million white-collar layoffs, the first mass unemployment in the latter category since the present depression began. That implies an "official" unemployment rate of 14 percent by April 1983; but the rate of exclusion of working-age Americans from employment, already at about 23 percent by *EIR*'s calculation, will rise to the order of 27 percent, comparable to the worst of the First Great Depression.

Although the August unemployment numbers show no change in service employment to speak of, the drop in U.S. retail sales in August and presumably also in September, marked by the closing of 336 Woolco stores, will begin to bite into retail employment. Then there is the 17 percent p.a. drop in production of office equipment, the great "information society" boom gone sour, and the collapse of office building. The orgy of corporate overhead expansion apparently came to a dead stop during the spring, and corporations will be seeking to pare overhead costs by eliminating white-collar personnel.

If corporations have stopped building office buildings and buying office equipment, they will presently stop employing white-collar workers. At this point, the same GNP multipliers that have puffed that measure of the economy up to levels which disguise the rapid deterioration of the underlying economy will work in reverse, and the economy will see the depression spread from the production-workers' ghetto to much broader layers of the population.

All available evidence indicates that the Volcker bubble

in the U.S. credit system, the \$100-billion-per-year capitalization of corporate interest payments, began to let out air during the third quarter, with devastating consequences for the American economy. The credit system data suggest that the 4 percent drop in August durable-goods orders was no fluke, nor was the 50 percent decline in steel output and the 40 percent decline in aluminum output in the course of this year. Finally, the highest bankruptcy rate since the 1930s has persuaded major institutions to liquidate their holdings of both financial and non-financial company commercial paper; money-market funds to shun the certificates of deposit of major commercial banks, and bankers to tell their leading borrowers to stabilize their drawings at roughly the present levels.

With consumer-goods industries still flat at their depression lows, only two expense items on corporate balance sheets can absorb the shock of a credit environment which, if not yet a shutoff, is still a dramatic slowdown in the rate of lending.

These are, first, *capital investment*, the one category of industrial companies' expenditures which rose uninterruptedly in nominal terms between 1977 and the second quarter of 1982, when it ran at a \$263 billion p.a. rate. Over the succeeding four quarters, i.e., through mid-1983, corporations will be lucky to sustain a \$180 billion annual rate. The second is the economy's *white-collar workforce*. The United States has lost about 2 million production workers so far this year, bringing the total to 21 million, against a constant level of 64 million service workers. Once the economic contrac-

tion reaches a certain threshold, the economy will not generate the surplus required to employ so many people in overhead functions.

### What is Ronald Reagan talking about?

The above summary was the subject of considerable analysis in *EIR* earlier this year, and has since been echoed by Salomon Brothers and other Wall Street bond houses. President Reagan's Sept. 28 press conference, therefore, prompted a remark by one investment house chairman that "Reagan and [Treasury Secretary Donald] Regan may be naive, but the rest of them *must* be lying through their teeth." The behavior of personal income, on which the administration's official recovery forecast depends, no longer has any significant relationship to economic activity. As the August import numbers show, any small increases in demand will be met through import increase more than through production increases. Panic savings among people who fear losing their jobs and other factors are cited to explain the 0.9 percent drop in retail sales in August; but this is not to the point. *The reduction in goods-producing employment has put a ceiling on consumer purchases.*

The potential for change now lies in corporate, not consumer, balance sheets, and, under the present monetary regime, is only negative. No one has told the President about this.

Since corporations increased their liabilities at a \$100 billion annual rate during the first half of the year, they paid no net debt service, but merely capitalized the old interest into their new debt. Conventional econometric models ignore debt service, on the presumption that it will always be refinanced; for this reason they have been consistently wrong since Volcker came into office. However, lenders will ultimately determine how fast corporations may raise their indebtedness in order to cover existing interest costs. The metastability of the past year in an otherwise crisis-prone credit system is based on an unstated agreement between lenders and corporations that the latter will borrow a sum equal to their debt-service costs, less the savings created by a 7 percent annual rate of decline. However, they sought to keep capital expenditures stable (at a low, and entirely insufficient, level), in order to maintain the margin of capacity required for recovery, at least in a few industries, e.g., office equipment, oil equipment, office buildings, and other economic fluff.

As of July, when the rate of expansion of commercial and industrial loans at commercial banks dropped briefly to nothing (it picked up somewhat in September), and the commercial-paper market folded for the duration, it became clear that this *modus vivendi* between creditors and debtors had fallen through, because the debtors were "borrowing too much." Against a rate of expansion of total credit-market borrowings of about \$100 billion during the first half, the third-quarter rate will probably turn out to be between \$20 and \$30 billion per year, judging from fragmentary available data.

Barring a change in other factors, corporations will, by

simple arithmetic, have to find some way to cut costs by that amount. What is the status of these other factors?

1) **Interest rates**, adjusted for corporations' ability to pass on debt-service costs through higher prices, are actually higher than at any time since Volcker took office. A 13½ percent prime rate translates into 15 percent or higher effective borrowing costs; against a 6 percent inflation rate for the year, *the "real interest rate" is 9 percent, or the worst ever.*

2) **Corporate profits**, already down to 1966 levels adjusted for inflation and inventory values, will fall slightly during the third quarter, and probably fall steeply during the fourth quarter.

3) **Final sales**, falling for the last two quarters, will not improve.

Data through the week of Sept. 15 show a declining rate of reserve growth relative to previous levels; earlier, a significant rise in August reserve growth lent an appearance of a Federal Reserve shift, but that trend collapsed in September.

The above summary makes sense out of the 50 percent decline in steel output so far this year. Steel cannot remain at such low levels if the rest of the economy picks up. However, a survey of steel users indicates that the collapse of steel shipments may provide a useful guide to future production plans of steel users. Like the machine-tool industry, whose order backlog fell from \$3.3 billion at the beginning of the year to only \$1 billion in August—which implies virtual drying-up of machine-tool output within months—other capital-goods industries are working off existing order books, but cannot sustain their present low level of output for long.

As a whole, capital-goods industries' consumption of steel has fallen by 31 percent this year. In construction, whose production index is down 6 percent so far this year, steel purchases are down 30 percent. Some of this extraordinary discrepancy may be due to extremely cautious inventory policies on the part of steel users, but that could only account for a marginal effect. What squares with the financial data is the assumption that new commercial construction, following the post-May bust in the real-estate markets, is about to fall to zero, while homebuilding, staggering along at last year's miserable levels, has no hope of improvement.

In conclusion, all the data point to *a 25 percent or larger decline in capital-goods production, and a much faster rate of physical-output decline* than the 7 percent p.a. registered so far this year.

### Popping the GNP bubble

Of course, reports of a second- and third-quarter rise in GNP, even though the latter are likely to be revised downward to show a substantial decline, only demonstrate how useless the Gross National Product measure is in the first place. Reductions in inventory and marginal increases in sales of services made up the rise. However, the question is inevitable: how long can the economy go on sustaining 64 million service workers while the rest of the economy remains paralyzed?

By March of 1983, there will be hell to pay.

# BIS presses its farcical debt-reorganization plans

by Kathy Burdman

In a series of private meetings at the Bank for International Settlements in Basel, the Swiss National Bank in Berne, and at the Mont Pelerin Society Annual Meeting in Berlin, a consensus was reached during September to prepare for a possible “global debt reorganization,” participants have told *EIR*.

Politics, it seems, has replaced bank accounting in the BIS’s chambers as the topic of the day. The political refusal of Mexico, Brazil, and other Ibero-American nations to submit to drastic austerity being demanded by their creditor banks has challenged the entire post-war control by the BIS over the world monetary system. To maintain their “aura of power,” the central banks of the BIS are now ready to do anything—lie, cheat, fudge, and roll over—to prevent Mexico and others from declaring a debt moratorium.

That is, once the Third World has been “staved off” from its political challenge, under the BIS scheme, nations will be divided from each other, the momentum for debt moratoria will be blunted, and the BIS will still control the system. Should this particular political fiction prevail, a new depth of credit cuts and living standard reductions will not be far behind, under the momentum of the advanced-sector economic collapse.

## ‘LaRouche’s solution not the only one’

“We must agree to renegotiate the entire debt” of Mexico and others, one participating economist told *EIR*. “If they refuse austerity programs now, we renegotiate anyway, to avoid a total non-payment where the banks will have to write it off as a total loss. Renegotiation is better than nothing. We must stave them off from defaulting, at all costs.”

“We must prevent a collapse of the international banking system,” a top BIS official added bluntly.

By refusing to negotiate an agreement for domestic austerity programs with the International Monetary Fund, and by demanding instead new credits for trade and development, Mexico, Brazil and others have won a certain political victory, the economist said. “We can’t force them to give in to the IMF now,” he said.

There is also rampant fear at the BIS and in the City of London that *EIR* founder Lyndon H. LaRouche, Jr., who has

widely circulated a plan entitled *Operation Juárez* for world debt reorganization, may take over all such negotiations unless the BIS has something to offer. “*Operation Juárez* is an expert view on what might be done to solve the Third World debt crisis,” one Lloyds banker in London told *EIR* at the end of September. “But Lyndon LaRouche’s solution is not the only one.”

The basic idea behind the new BIS debt reorganization was publicly outlined by Henry Kissinger, a self-avowed asset of the British elites, in a speech Sept. 21 before the Quadrangle Conference at Washington’s Georgetown University. “The imposition of IMF conditionalities may be a cure worse than the disease,” he stated, “they may bring about revolutionary conditions. Some kind of new financial structure, something like the [1944] Bretton Woods understanding, must emerge.”

Kissinger’s statement represented the political debate which took place days before at the BIS, the participating economist told *EIR*, at which a three-step procedure to “stretch out the debts” was detailed:

“One, stop offering countries like Mexico cash up front.” The BIS does not believe that when a country stops paying its debts, it should get a roll over right away. He stated, “The BIS thought the Fed was over-hasty” in lining up a \$2 billion credit plan for Mexico in August.

“Two, before any money is paid, take the hard line and first demand more concessions on a change in domestic economic policy by the debtor,” he stated. “We must make it plain that they must agree to domestic austerity, and to implement an austerity program written by the IMF.”

“Three, renegotiate the entire debt.”

This boils down to two bluffs and a retreat, as the reader will have noticed by now, for the first two proposals have already been rejected by Mexico and other nations! Asked just what the BIS will do if nations continue to resist, the economist admitted that all that is under discussion is a huge bailout of the Eurodollar market banks, through a regulatory ruse to allow debtors to “stretch out” payments vastly.

“If they refuse the IMF, if they refuse austerity—we go ahead and renegotiate anyway,” he stated. “They are not paying a cent now. We have no choice but to get as much

austerity as we can, and then restructure. If they refuse the IMF, we're stuck."

The actual renegotiation will be purely accounting science-fiction, to allow banks to maintain the "present value" of unpayable loans to Mexico and other nations on their books, as 100 percent good paper, he said.

"First, we take all the debts due immediately, the debt of six-month to two-years maturity," he said, which in the case of Mexico, for example, would be some \$8 billion in short-term debt and \$11 billion in principal payments due in 1982-83. This sum "is then stretched out to be paid over a 10- or 20-year period." That is, instead of paying \$19 billion in the next fiscal year, Mexico would only pay \$1 billion.

"Second, we take some of the interest due this year, and capitalize it, grant new loans to help pay the interest," he said. That is, instead of Mexico having to pay its \$10 billion in interest due over 1982-83, perhaps \$5 billion would become a 20-year loan, and the payment reduced to the remaining \$5 billion.

Thus, instead of Mexico having to pay a total of \$29 billion in interest plus short-term and long-term debt principal, the BIS scheme would reduce current payments to \$6 billion, for example, over the period of a year.

The reader might protest that this is "book cooking," and that the loans are no more payable than before. The reader is correct. "But there is no one to stop the BIS from doing this, since they *are* the regulators," the economist laughed. "If we can reduce the principal payments, and thus ensure some sort of regular flow of interest payments, then technically that means that the loans are 'paying' loans, and may be valued at 100 percent."

### The case-by-case gambit

The BIS hopes to conduct these stretchouts on a "case-by-case" basis, playing Third World nations off against each other, he confirmed.

"We're already doing this all over the globe," a top Citibank official told *EIR* Sept. 30. "We're restructuring all of Mexico's loans, giving them time to pay. Mexico is too big to force it to go to the IMF. We don't mind if they refuse. We can roll it over now. After we finish with Mexico, we can get on with the job of restructuring the biggest debtors of the Far East."

If it becomes necessary, the BIS may even agree to joint negotiations with debtor countries, but only if the BIS, and not Western governments, controls the meeting, the source said. "Governments are irrelevant. They are in no position to do anything. It is a matter between the private banks, and their regulators, the central banks, how to handle these loans. The U.S. Federal Reserve and the other central banks of the BIS will do it all."

The Fed and the BIS are ready to change the accounting laws of the United States, he said, to begin further reducing the debt threat to banks by forcing bankers to *write off* the debt of countries like Mexico altogether. In this "worst-case

scenario," the bank would declare a large percent of the loans in fact to be "bad" or non-paying, and would have to take a loss on the bank's profit accounts for that portion. In the write-off case, he said, the trick is to reduce the banks' profits from each bad loan slowly enough, over a period of years, so that it does not collapse the bank (see *EIR*, Sept. 28). The BIS economist cited the example of an Austrian bank which, with the BIS's blessings, was recently allowed by the Austrian central bank to take "billions" in bad loans to Poland and other East bloc nations, and write them off over *fifty years*. Writing it all off this year would have "wiped out the capital of the bank," he said, but writing off one-fiftieth was manageable.

### The Fed's new rules

Without the oversight of the U.S. Congress, the U.S. Federal Reserve has already issued a set of "new principles of accounting," *EIR* has also learned, which codify the new BIS approach. The idea, a senior Fed official told *EIR* in an exclusive interview, is "to write off the debt in an orderly manner, to prevent it from becoming a systemic problem for the banking system." The new Fed accounting scheme, issued to banks in late September by Fed Supervisory Director John Ryan and U.S. Treasury Comptroller C. Todd Connover, has the following provisions:

**1) Gradual write-off of loans** to "countries such as Poland whose loans go into 'non-accrual status,'" the Fed official said. If Mexico and Argentina do get a total rescheduling, he said, the Fed may actually force major U.S. banks to declare some 10 to 20 percent of the loans "unpayable," and write them off over 10 to 20 years. This would mean, the Fed estimates, that perhaps some \$10 billion in totally worthless Mexican and Argentinian paper might have to be written off over the next decade.

That would cost the U.S. banks as a whole perhaps a \$1 billion profit reduction in 1982-83, which the Fed considers "a manageable amount." "Some banks [i.e., Chase Manhattan] have written off as much as \$250 million in the Drysdale bankruptcy alone," the Fed official said.

**2) Increased penalty reserves.** The Fed will force banks to take additional funds out of profits, and set them aside as "penalty reserves" which can be put back into profits in case of future write-offs. Such a new reserve levy of 1 percent, for example, would cost U.S. banks perhaps \$100-\$200 million if implemented.

**3) Increased capital-to-asset ratios.** Banks will be required to hold a higher percent of equity capital to total loans (assets). Citibank today for example has only \$5.5 billion in capital to its \$120 billion assets, a below 5 percent ratio. Higher capital will give banks more to write off loans against.

**4) Flat country limits** on how much a bank can lend to a given country, and other strict lending limits, the Fed said.

"The idea is to reduce the bank's exposure in the Third World," making them less vulnerable to debt moratoria, the Fed source stated.

## U.S. nuclear exports: the potential demand

by Steven Bardwell

Every modern industrial nation was built by a series of "great projects." The United States owes the prosperity of its western states to the building of the transcontinental railroads and power dams, and the industrialization of the southern states to the Tennessee Valley Authority. Germany was created by the *Zollverein* customs union project of Friedrich List, which unified the country with canals and roads. Siberia today is becoming an economic power because of the construction of the Baikal-Amur Mainline, a huge northern parallel to the Transsiberian Railroad.

None of these economic transformations could have been accomplished with a piecemeal set of infrastructure projects. Rather, a new conception of geography, of economic reality, and a vision of "man's domination of nature" was required which transformed the economic laws of that time and country.

The necessity of industrial development of the Third World today demands a similar vision of global economic transformation. The industrialization of the developing sector cannot be accomplished with an incremental program of construction of new roads, dams, or energy production, even if such projects were being funded—which they are not. Only a break with the current collapsing monetary system can permit the restarting of infrastructure building. The world today needs a series of "great projects."

This insight was the starting point for the "great projects" proposal contained first in *EIR* founder Lyndon LaRouche's International Development Bank document (1975) and the later proposal of Japan's Mitsubishi Research Institute in 1981. In both of these documents, a series of continental transformations are proposed for Africa, southern Asia, Siberia, North America, the Amazon Basin, and the Middle East.

Proposed projects include the greening of the deserts of the Sahara, Sahel, and the Arabian peninsula; the construction of a dam across the Bering Straits that would control sea currents flowing from the Arctic Ocean, and temper the atmospheric conditions in the North Pacific Ocean; and creating a vast lake in the Congo and Chad regions of Africa by damming the Congo River, which would also improve the natural conditions in the area. Three major canals, including a new Panama Canal, the Kra Isthmus Canal linking the Indian Ocean and the South China Sea, and a canal in the

Qattara Depression in North Africa are also proposed. Water control projects for North America, the Indian subcontinent, the Mekong Delta, and South America, would also generate vast amounts of hydroelectric power.

### The role of energy

Both the LaRouche and Mitsubishi proposals, while not specifying how the energy for such projects would be generated, stress the critical role of energy in these projects—on the one hand, the incredible energy deficit in the developing sector today; on the other, the astronomical requirements for energy in any serious development strategy.

The Fusion Energy Foundation commissioned a study on the solution to this energy deficit by Jon Gilbertson, a nuclear engineer with long experience in the field of commercial energy production. This study, summarized below, came to a number of striking conclusions:

1) In agreement with other analyses of energy consumption, the role of electrical energy was found to be qualitatively different than that of thermal energy. Electricity seems to be a unique "driver" for industrial growth because of its ability to provide high-intensity forms of energy. With an energy flux density ( $\text{kW}/\text{m}^2$ ) many orders of magnitude higher than fossil fuel combustion, electricity is cheaper and more efficient. The rate of industrial growth, while not closely correlated with total energy use, is very closely tied to the rate of growth of electrical energy. Historically, the rate of electrical energy growth must be one and a half times the rate of desired economic growth.

2) The biggest impact of advanced technologies in the production of energy is not in the direct creation of tangible output, but rather in increases in productivity that are induced by the introduction of those technologies. That is, not all electrical energy technologies are economically equivalent; nuclear electrical energy, for example, not only produces electricity more cheaply than coal or oil, but more importantly acts as a transmission belt for the spread of new technology, more highly skilled manpower, and more efficient production techniques into an economy. This characteristic of nuclear energy very closely resembles the overall impact of infrastructure investment more generally: Its main economic significance is the increase in productivity that results from faster and more reliable transport and communications.

3) To take advantage of these properties of electrical energy, and especially nuclear electrical energy, will require a massive expansion of the world's nuclear construction capacity. Not only are present facilities inadequate for the construction of nuclear plants on the scale necessary, but present construction *technologies* are inadequate.

4) Gilbertson proposes the full-scale use of construction techniques which have been proven to be capable of powering a massive expansion in nuclear construction but have yet to be implemented. These standardized, floating nuclear technologies, as we document here, offer the only realistic way out of the growing energy deficit.

# Standardization of power-plant output required to meet the world's needs

by Jon Gilbertson

The United States of America's 1950s "Atoms for Peace" program had as its major objective the provision of high-quality electric power and heat for the modern industrial development of the underdeveloped world. If a New World Economic Order is organized for a recovery from the current world depression, the ambitious nuclear-electricity production goals of Atoms for Peace could still be achieved, despite the 15-year U.S. default on its nuclear exports promises.

This is the conclusion of a current Fusion Energy Foundation review of the potential new reactor and fuel technologies and reactor production methods of the immediate future through the end of the century. Standardized, "mass produc-

tion" capabilities for nuclear reactors, now emerging in several nations including the United States, show the potential to make up for 20 years of neglect.

The FEF survey found that by full utilization of the standardization methods they have been developing, the world's five leading nuclear-producing nations would turn out the equivalent of 1,300 gigawatts (GWe) electric power (one gigawatt is roughly the size of a modern full-sized, 1,000 megawatt plant) by the end of the century, from (France excepted) what is a virtual standing start (see Figure 1). Such an achievement would fall short by nearly 50 percent of meeting minimum power needs of modern industrial and

**Figure 1**  
**Accumulated nuclear plant production capacities**  
(in GWe's by nation)

Nation	1990						2000					
	Std. Plnt.*		Flt. Plnt.†		Tot. Plnts.‡		Std. Plnt.		Flt. Plnt.		Tot. Plnts.	
	GWe	GWe/yr	GWe	GWe/yr	GWe	GWe/yr	GWe	GWe/yr	GWe	GWe/yr	GWe	GWe/yr
United States.....	182	20/yr	8	4/yr	190	24/yr	446	32/yr	216	24/yr	662	56/yr
U.S.S.R.....	73	8/yr	—	—	73	8/yr	153	8/yr	60	8/yr	213	16/yr
France.....	52	3/yr	—	—	52	3/yr	90	5/yr	60	8/yr	150	13/yr
Germany.....	37	3/yr	—	—	37	3/yr	82	5/yr	60	8/yr	142	13/yr
Japan.....	42	2/yr	—	—	42	2/yr	78	5/yr	60	8/yr	138	13/yr
Nation Total.....	386	37/yr	8	4/yr	394	40/yr	849	55/yr	456	56/yr	1305	111/yr
INFCE/Seaborg World Requirements.....					600	70/yr					1510	110/yr

**Summary of accumulated major component production capacity—five nation totals**

Component type	1990						2000					
	Std. Plnt.		Flt. Plnt.		Tot. Plnts.		Std. Plnt.		Flt. Plnt.		Tot. Plnts.	
	#	Rate	#	Rate	#	Rate	#	Rate	#	Rate	#	Rate
Reactor pressure vessels.....	386	37/yr	8	4/yr	394	40/yr	849	55/yr	456	56/yr	1305	111/yr
Steam generators.....	772	74/yr	16	8/yr	788	80/yr	1689	110/yr	912	112/yr	2610	222/yr
Primary coolant pumps.....	1158	111/yr	24	12/yr	1182	120/yr	2547	165/yr	1368	168/yr	3915	333/yr
Turbine-generators.....	386	37/yr	8	4/yr	394	40/yr	849	55/yr	456	56/yr	1305	111/yr

Source: Fusion Energy Foundation, 1982.

\*Standard Plant

†Floating plant

‡Total plants

agricultural standards in the Third World—the basic task of decolonization. But if India, Sweden, and other nuclear producers whose programs have been conceived only for their own use, develop export capacities as well, the year 2010 might see the achievement of such “modern” (i.e., 1980) standards of power use for the entire world.

Thus, ten years later, the nations of the 21st century could achieve the levels, and the purposes, of nuclear power use set forth in global planning documents of the mid-1960s. The clearest and best-known of those was authored by former Atomic Energy Commissioner Glenn T. Seaborg, a physicist who discovered several transuranic elements.

What are these standards? Seaborg’s book *Man and Atom*, aimed at worldwide electricity use of 6,000 kilowatt-hours (kwh) per capita, by the year 2000. For comparison, current U.S. standards are over 10,000 kwh per capita per year. European standards average about 5,000 kwh per capita inclusive of less-industrialized European areas like the Iberian peninsula. In stark contrast, Third World electricity-use standards today are typified by Egypt’s 335 kwh per capita annually. The vast energy gap Seaborg saw, and aimed to close with nuclear power, is not only as wide as ever, but both advanced and underdeveloped nations have stagnated since 1979 in this crucial parameter.

Competent studies repeatedly demonstrate that electricity growth must “lead” economic growth by at least 50 percent; all attempts to “decouple” the two have been fraudulent substitutions of distorted GNP or money-supply figures for real economic growth.

Nuclear construction worldwide has equalled less than one-third of even the “first-stage” goals of Seaborg’s study, and U.S. capacities have fallen into complete disuse. Thus the importance of the FEF survey’s finding that a “last chance” still exists for a nuclear production drive which might ap-

proximate what has been known for 20 years to be necessary.

While France has achieved in practice the closest and most effective approximation of rapid, nationally standardized production of nuclear reactor units, the United States, the U.S.S.R., and Japan are all converging on extremely similar large-sized, optimally efficient standard unit designs, and all have greater ultimate capacities for mass-production than France despite its successful experience, because of their much greater industrial depth. The United States is actually by far the closest to an actual mass-production capacity for completely-assembled reactors. The “floating plant” production facility pioneered by Offshore Power Systems in Ft. Lauderdale, Florida, is now nearing final licensing by the Nuclear Regulatory Commission, although it is without orders from anywhere in the world at the depth of the current depression.

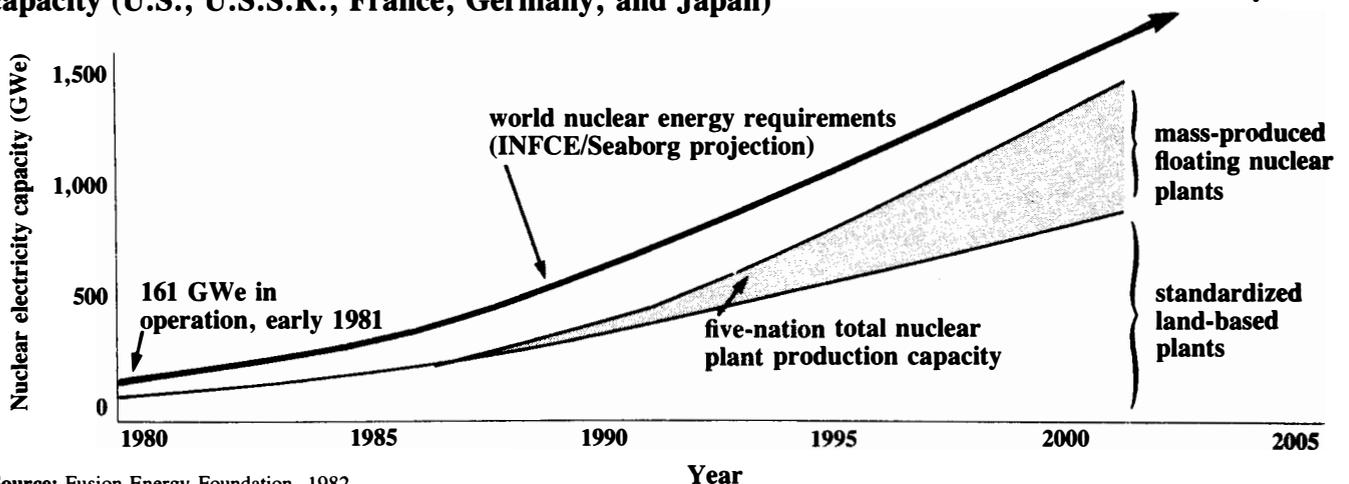
### Standardized reactor construction

Figure 2 shows that this total potential for the leading nuclear-producing nations over the next 20 years is increased by nearly 50 percent (the shaded area) because of the promise of standardized reactor-production methods by the mid-to-late-1980s.

Figure 3 demonstrates that by far the largest block of essential nuclear production capability remained in the United States as of the end of the 1970s; by 1982 the U.S. program’s goals have dropped by nearly 50 percent in three years (unlike those of France, Japan, and the Soviet Union, whose domestic production goals remained near their maximum capacities.)

Standardized reactor construction involves choosing one plant type and size, or perhaps two sizes, that have already been built successfully several times, and tooling up the supporting component manufacturing industry to continuously reproduce components for these reactors only. Based

**Figure 2**  
**World nuclear energy requirements vs. five-nation nuclear power plant production capacity (U.S., U.S.S.R., France, Germany, and Japan) to 3,600 GWe by 2010**



Source: Fusion Energy Foundation, 1982

on world experience to date, that single-sized reactor is approximately 1,000 to 1,200 MWe and is either a pressurized water reactor (PWR) or a boiling water reactor (BWR), which are both classified as light water reactors (LWRs). This large size has been chosen based on the optimum for the combustion temperatures characteristic of current nuclear fuels. The reactor type LWR produces electricity most economically relative to other types of reactors available today. For export to developing nations, however, a smaller 300 to 500 MWe size will probably be chosen as the most economically feasible, since many regions cannot handle the output of the larger reactor in one location, and will not be able to for years to come.

Another big advantage in addition to the advantage of efficiency in the production of components for such plants, is in licensing the plants. That is, if exactly the same plant has already been licensed before, its duplicates could be licensed almost automatically since every safety feature had already been previously approved by the licensing agencies. The only differences would be in the site-related considerations. However, standard plants will literally take years off both construction and licensing time.

### **U.S. nuclear production capacity**

As of early 1979, all four reactor manufacturers in the United States were offering utility companies standard plants of the 1,000 MWe size, and gearing up their component production facilities for mass production. In fact, according to an Atomic Industrial Forum (AIF) study released that year, the U.S. nuclear industry would have the capability to produce 25 to 30 full-size 1,000 MWe nuclear power plants per year when geared up to full capacity, then planned for about 1985. This means an industry capable of *producing annually*, 30 reactor pressure vessels, 50 steam generators (BWRs don't need steam generators), 90 primary coolant pumps, 30 complete reactor internals and 30 turbine/generator units, just to mention a few major components. Uranium mining, enrichment services, and fuel fabrication facilities could also be geared up to these production levels by that time, according to AIF.

But since 1979, much of this capacity has been put in mothballs or diverted, as in the case of pressure vessel/steam generator manufacturing capacity recently producing large tanks and equipment for the oil industry. Of course, some of this capacity has since shut down completely and no longer exists because the companies have gone out of business, or at least out of that business. Under conditions of economic recovery and a "great projects" infrastructure-building effort worldwide, it will take on the order of three to five years to replace that once-existing capacity and gear up to those production levels again.

### **Production capacity outside the U.S.**

A look at the current and future construction programs of the other four leading nations revealed the following. The U.S.S.R., which just recently put into operation its Atom-mash reactor-component mass-production facilities on the

Volga River, will soon have the means to produce components for four 1,000 MWe PWRs per year, increasing to eight per year by 1986. France, on the other hand, made a decision nearly ten years ago to produce a standard 1,000 MWe PWR and over the past two to three years has begun to start up some of these plants. The French plan to continue bringing these plants on-line at a rate of three to four per year over the next two decades, and could easily increase this to six per year if the demand existed. West Germany and Japan are just beginning to standardize, but both will soon have the capacity to produce large PWRs at a rate of three per year, with the capability to increase this to five or six per year by 1990 if the market existed.

### **The floating nuclear plant**

To actually be capable of mass producing the entire nuclear power plant, not just its components as is currently done in the standard plant concept, would be the most efficient, productive, and economic way of building nuclear power stations. This involves the old tried-and-proven American concept of assembly-line production, with the final product coming off at the end of the line. For a product as large as nuclear power station, this represents a great advance in assembly-line practices. However, we already know that it can be done, and how it can be done.

Over ten years ago Westinghouse proposed that an assembly-line-based mass-production facility be studied and built if feasible, which would produce floating nuclear plants. This would work in much the same manner as some production plants that have already been built by the Japanese and others. These, such as desalination plants and some petrochemical facilities, are built on floating barges and towed to the purchasing country. In fact, floating nuclear plants, although smaller in size, have been around for a long time—since the first nuclear submarine, the Nautilus was launched in 1955—and there are now several hundred scattered around the world in submarines and aircraft carriers.

However, in Westinghouse's proposal, an actual production-line fabrication plant would be set up and continuously produce FNPs on a several-per-year basis. The feasibility study proved out the concept, and in 1975 Westinghouse began construction of a manufacturing facility in Jacksonville, Florida.

In this facility, which is located in a bay off the Atlantic Ocean, an entire PWR nuclear power station will be assembled on a floating barge-like structure, which can then be towed by tug-boat to any offshore, bay, or river location in the world to provide electricity where needed. The standard size of the plants produced is to be 1,150 MWe, enough to provide electricity to a city of 600,000 people. With some modification, a smaller unit could be produced if the demand were there, especially from the developing nations. The 1,150 MWe plant itself is 400 feet square in area and sinks to a depth of about 44 feet when floating; thus it has the capability of being towed into relatively shallow water, including some rivers.

Once shipped to its final location, in most cases a man-

made island located two to three miles offshore, all that will be necessary to deliver electricity will be to plug the plant into the existing grid via a cable connection, and turn on the reactor. Since the bulk of the world's population and industry is located on or near coastlines or major rivers, a large portion of the world's future electricity requirements can be provided by these mass-produced reactors.

Westinghouse's production plant in Florida could be in full operation if a three-year concentrated construction effort were undertaken. By 1989, it could be mass producing its first completed units. The initial rate of production will be four nuclear plants per year. However, with further modifications, this facility could reach a maximum production capacity of eight plants per year.

All of Westinghouse's existing orders for floating nuclear plants were cancelled in 1978, due to the then-worsening economic depression and the drop in electricity demand. Since then, Westinghouse has kept a small staff on site which has continued a low-key effort to obtain a manufacturing license from the Nuclear Regulatory Commission. It was recently announced that the license is six to eight months from final approval, much to the consternation of many advocates of the shutdown of the U.S. nuclear industry.

Westinghouse's is, of course, just one of several mass-production facilities that could be in operation during the next two decades if the appropriate economic and political climate existed now. The three other major U.S. nuclear reactor manufacturers were considering the building of mass-production plants several years ago, and these efforts could be rather quickly reactivated. Likewise, the U.S.S.R., France,

Japan, and Germany would also be capable of building a mass production facility if the appropriate incentive existed, and could be producing nuclear plants of this type by the early 1990s.

### What can be achieved?

With the existing nuclear manufacturing capacity plus an added margin from the introduction of floating nuclear plant production facilities over the next two decades, the world should have most of the capability necessary for carrying out the much-too-long delayed world electrification program, and therefore the major nation-building projects of a "Great Enterprises" program.

The assumptions of Figure 1 and Figure 2 are as follows.

In 1989, the Jacksonville facility will begin producing floating nuclear plants at 4 per year, increasing to 8 per year by 1993. Two additional mass-production facilities will be added in the United States, one on the East Coast and another on the West Coast, which will begin producing four plants per year each in 1992, increasing to eight floating plants per year each by 1994. A third increment of mass-produced floating plants will be added in the U.S.S.R., France, Germany, and Japan with all four producing floating plants at a rate of four per year each in 1992, increasing to eight per year in each country by 1996.

The total production capacity of all five nations combined, both land-based and floating, by 1990 will be 394 GWe, while by 2000 it will be 1,305 GWe. The INFCE/Seaborg world requirements for those years are 600 and 1,510 GWe respectively. Obviously the projected capacity as represented by these five nations will not be sufficient to close the gap on the world energy requirements by the year 2000 time frame. Even after the production capacity of the remaining 15 percent of the nations with nuclear capability is added, including Canada, the United Kingdom, Sweden, Italy, and Belgium, the total is expected to fall at least 100 GWe short by 2000, and probably more.

However, it can also be observed from the figure, that the gap between required energy and production capacity will begin to close by the year 2000 such that by the year 2010 or so it should be possible to "catch up" and reach 3,600 GWe installed capacity. This was Seaborg's original goal for the year 2000. By this time, total production will also include significant contributions from some developing nations, such as India, Brazil, Korea, Taiwan, Argentina, and Mexico, as well as additional production capacity in the advanced sector nations.

Thus in the year 2010, approximately ten years behind schedule, the goal of the original "Atoms for Peace" program could be met, with over 50 percent of the world's electricity *capacity* being provided by nuclear power. In terms of electricity *consumption*, this will represent nearly 65 percent of the total, since the cheaper nuclear electricity will be 'based-loaded' and run continuously, with the more expensive oil and coal capacity held in reserve and used for peak loading.

**Figure 3**  
Nuclear power plants in operation, under construction, or on order by nation of manufacture, in 1979

Nation	Production goal (MWe)	% of total
United States.....	219,254	52.1
U.S.S.R. ....	45,758	10.9
West Germany.....	36,976	8.8
France.....	36,324	8.6
Japan.....	<u>18,857</u>	<u>4.5</u>
<b>Subtotal</b> .....	357,169	84.9
Canada.....	18,277	4.3
U.K.....	11,581	2.7
Sweden.....	8,280	2.0
Belgium.....	6,518	1.6
Italy.....	4,880	1.2
Others.....	<u>13,787</u>	<u>3.3</u>
<b>Total</b> .....	420,482	100.0

Source: Fusion Energy Foundation, 1982.

# Malthusians move to end nuclear sales

by Paul Gallagher

President Reagan's commitment to restore the United States as a "reliable supplier of nuclear technology" to the world, has been all talk so far. The administration's toleration of Federal Reserve Chairman Paul Volcker's economic wrecking has destroyed demand for nuclear exports in nation after nation. With U.S. power plant exports dead, the administration has now been drawn, particularly since taking London's side in the Malvinas invasion, into using its nuclear fuel supply agreements to foul up nuclear programs like India's and Argentina's. In recent days a high-ranking State Department official characterized the Reagan policy as "essentially still following the Carter administration's example," one which made the U.S. notorious among pro-nuclear political strata worldwide.

Now Mexico, the most recent nation to have its nuclear plans wrecked by the Volcker policy, has rejected International Monetary Fund austerity and spurred a move toward international monetary reorganization, which could generate vast demand for nuclear power in the underdeveloped sector. Continuing their economic and political war against the nations of "the South," the hard-core anti-nuclear Harriman Democrats in Congress, and Henry Kissinger's friends in the administration, have set off a controlled "policy fight" aimed at *legally blocking all U.S. nuclear technology exports to the Third World no matter what real demand exists.*

The mid-September moves, centered in the Senate and House Foreign Relations and Foreign Affairs Committees and the State Department, had as their target the Atomic Energy Act of 1954, and U.S. treaty commitments under the International Atomic Energy Treaties of 1957 ("Euratom") and 1968. On the other side of the U.S. fight over national nuclear policy, this fall will also see an important test of the Atomic Energy Act in the U.S. Supreme Court, which could result in a constitutional reaffirmation of President Eisenhower's 30-year-old commitment to "provide electricity to the energy-starved regions of the world."

## The DOE's "no-nukes" list

In the second week of September, a spate of articles in the *Washington Post* and *New York Times* reported that the administration is "making concessions" to moves in both the House and Senate Foreign Relations Committees, to pass

new non-proliferation legislation. On Sept. 11, Deputy Energy Secretary Kenneth Davis announced a list of 63 Third World countries which now require extraordinary U.S. approval to receive any U.S.-licensed nuclear technology, whether from the United States or from any third country. The list includes virtually every developing nation which is seeking nuclear power development and its application promises a futile new "Soviet gas pipeline"-like tangle between the United States, France, and Japan.

Three days later, Secretary of State George Shultz, in a personal press conference, upgraded the department's informal nuclear exports monitor, Richard T. Kennedy, into a full-time troubleshooter for nuclear non-proliferation, with liaison to the National Security Council.

The day after Shultz's press conference, the congressional Malthusian caucus, led by Sen. Alan Cranston (D-Cal.) and Reps. Richard Ottinger (D-N.Y.), Edward Markey (D-Mass.) and Jonathan Bingham (D-N.Y.), took action to ensure that U.S. nuclear exports will not be revived, even under conditions of increased developing sector demand.

On Sept. 15, Bingham introduced into the House Foreign Affairs Committee a bill, presented as amendments to the Atomic Energy Act, which would completely destroy that act and all U.S. nuclear technology exports. The amendments would: require special exceptions for exports of reprocessing and enrichment technologies to *anywhere*, even Europe and Japan; bar export of U.S.-enriched uranium except for research reactors (very small quantities); bar countries receiving even "non-critical" nuclear technologies from the United States from exporting reprocessing technology to third countries; and make all nuclear exports a national security matter, to be approved, co-equally and case-by-case, by the Secretaries of State and Defense.

The Bingham amendments would block U.S. nuclear exports even under conditions of economic recovery; the administration's "opposed" position, at least in the calculated moves of Kissinger-crony Shultz, would preserve only a nuclear trade with Europe (which would rather make everything itself anyway) and Japan hermetically sealed from the Third World, which does actually need the technology.

## How the "freeze" movement is being used

A full scenario for pushing the duped "nuclear freeze" movement into a complete identification of atomic energy with nuclear bombs, in time for the November American elections, is being retailed by the one-year-old lobbying group, the Institute for Nuclear Control. The first objective of this campaign is to create a mass movement in support of the complete and permanent cessation of all U.S. nuclear exports to the developing sector.

The promotional literature of the Institute for Nuclear Control reveals that it was at first called The Nuclear Club, a play on the semi-secret Nuclear Club of Wall Street of the early 1970s, which passed U.S. atomic weapons secrets to Israel. The Institute features Senate "Three Mile Island in-

investigator" Paul Leventhal; top nuclear physics spook Ted Taylor of Princeton; and the Council on Foreign Relations' well-known expert on 14th century depopulation, Barbara Tuchman.

Its scenario was presented in detail in the September issue of *Bulletin of the Atomic Scientists*, and in a Sept. 12 *New York Times Magazine* feature. The major objective is twofold: to portray the International Atomic Energy Agency as "powerless" to stop the rampant spread of nuclear weapons to new nations through civilian power programs; and to popularize the *British-initiated* slander that Argentina and India are about to become the plutonium-suppliers for a "new elite of nuclear nations outside the advanced sector."

Argentina is the prime target of attack of both the *Times* and *Bulletin* scenarios. The *Bulletin* slander, headlined "Falklands Fallout," claims Argentina is using the Malvinas War as a justification for its ambitions to develop atomic bombs for itself and Germany, and must be stopped; the *Times* article adds Brazil to the Argentine plot to nuke the world. It should be noted that the *Bulletin* author admits that the British deployed naval nuclear weapons massively around Argentina while the Malvinas crisis was in progress, a charge dismissed by so-called "peace movement" spokesmen like William Sloane Coffin to this magazine.

The stated purpose of the *Times* feature was a second wave of "nuclear freeze" movements, this time for "a complete end to the spread of atomic power." It is unencumbered by the truth in even the simplest facts of nuclear technologies, claiming, for example, that "every nuclear plant is a potential bomb factory." The *Bulletin* articles, written by those who know better, are preceded by a long interview with pollster and psychological warfare expert Louis Harris, who says: relations between the superpowers are deteriorating; the fear of nuclear war is now stamped on the mind of the public; now it can be manipulated into a blind identification of all nuclear power questions with nuclear weapons and "defense spending."

### Resurrecting the Baruch Plan

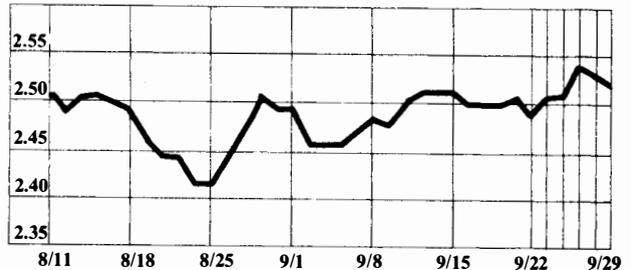
The anti-nuclear Bingham amendments themselves accomplish this, by formally merging national nuclear policy with defense policy, in a way specifically ruled out by the Atomic Energy Act itself. Defense/national security control of nuclear exports, and banning of fuel-cycle technologies to friendly nations, resurrect with precision the notorious "Baruch Plan." This was rejected by the world, and then dropped by the United States in 1947 as foreign policy. In the form of the 1946 "May-Johnson Bill" it was rejected as atomic power enabling legislation by Congress, due to overwhelming scientific opposition. The 1954 Atomic Energy Act, as passed, the 1957 Euratom agreement, and the International Atomic Energy Treaty, all explicitly reject both policies.

*Paul Gallagher is the director of the Fusion Energy Foundation.*

## Currency Rates

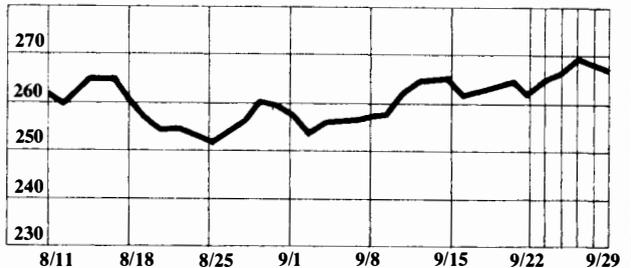
### The dollar in deutschmarks

New York late afternoon fixing



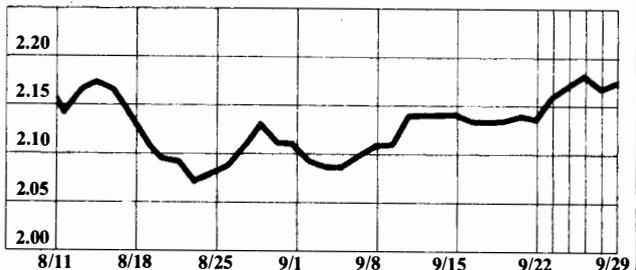
### The dollar in yen

New York late afternoon fixing



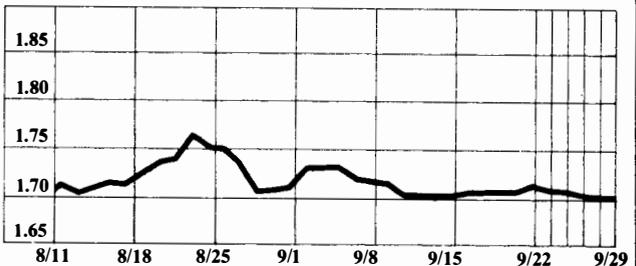
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



## Soviet allies plan integration drive

by Rachel Douglas, Soviet Editor

In a communiqué issued after talks with Czechoslovak communist party chief Gustav Husak in the Crimea in August, Leonid Brezhnev endorsed the convocation of a high-level conference by the Soviet Union and its East European allies to rechart their economic policies. It is likely that sometime in the first half of 1983, such a meeting will take place, with top party officials, rather than merely government economists and ministers, in attendance.

In the ministries and academic institutions of the Council for Mutual Economic Assistance (CMEA) countries, there are discussions in progress about various reform approaches the senior leaders might adopt. But the main point of the agenda has already been determined, and that is how to batten down hatches on a ship tight enough to withstand the worst international crisis since World War II.

### In military terms

The Soviets are talking about their economic concerns ever more frequently in military terms. Nikolai Inozemtsev, a Deputy Chairman of the Gosplan, has outlined the CMEA priorities of economic independence, and above all energy independence, as a response to Western sanctions on trade and the deterioration of the international situation in general, as well as to stagnating output and productivity in the CMEA itself.

"Absolutely essential," Inozemtsev told the Prague paper *Rude Pravo* in an interview published Sept. 3, "is a joint program of actions *both in the foreign policy field and in the economic sphere*. Above all, we must accelerate socialist integration processes . . . to free the gigantic . . . not wholly utilized potentials of the socialist community to develop a self-reliant economy *independent* of the West. . . . Proceeding from the assessment of the energy sector as *the foundation on which stands the basic strategic independence of the socialist community*, the U.S.S.R. is carrying out certain changes in the structure of its own economy" [emphasis in original].

Inozemtsev mentioned further buildup of extractive industries as part of this energy restructuring, although individual CMEA members are already preparing to receive 10 percent or more *less* oil from the U.S.S.R. in 1983.

In the German Democratic Republic, for example, the CMEA's internal sorting out—including serious shortfalls in Polish coal deliveries—meant a 6 percent reduction in fuel and raw-materials consumption in the first quarter of this year.

### Tighter coordination

In the rationalization of resources dictating such austerity, however, there is a pattern of efforts to make the CMEA countries more tightly interknit. Romania, the bloc's first International Monetary Fund member (now joined by Hungary as well), recently signed up to receive three nuclear plants from the Soviet reactor factory, Atommash, which is now under construction. Romania's nuclear supplier used to be Canada.

In the Soviet Union, it is telling that the Politburo member most in evidence to speak on the economy—reams of Western speculation about former KGB boss Yuri Andropov's inclination to lead an early push for economic liberalization notwithstanding—has been Defense Minister Dmitrii Ustinov.

Visiting the industrial city of Kuibyshev for an awards ceremony Sept. 2, Ustinov gave World War II as a model of how to mobilize for production, today. "How people worked!" he exclaimed.

Some Hungarians, full of enthusiasm for the ephemeral benefits of their new IMF membership status, discern and emphasize a debate with the U.S.S.R. over how far to go into war-style autarky.

One Budapest economist wrote in July that there was an opposing Soviet faction in favor of increased "integration" into the world economy à la Hungary's IMF adventure. An economist cited by this Hungarian analysis, Academician Oleg Bogomolov, indeed has told Western guests that he sees no basic obstacles to continuing East-West trade expansion.

But this same Bogomolov stated in an interview for a domestic audience, in the trade union daily *Trud* last July that the CMEA countries would be better off not to have bought certain technologies abroad at the expense of their development at home.

"In the West it has become fashionable to exaggerate the role of imported technology in our scientific and technological development . . ." he said, "[but] fundamental innovations in our technology have occurred precisely at times when sanctions on selling us technology were harshest."

On the ever-vital question of energy, Bogomolov stressed, more strongly than Gosplan's Inozemtsev did in his cited interview, the build-up of nuclear power.

These matters of economic security are at the center of attention in Moscow these days, and will stay that way during the succession of leadership that is already under way.

## IMF goes for the kill in Bangladesh

*The Fund is imposing new levels of austerity and credit restrictions, with murderous results.*

The Finance Minister of Bangladesh, A. M. A. Muhith, shocked the staid pin-striped crowd in Toronto at the annual conference of the International Monetary Fund Sept. 7 when he reported that "millions of his countrymen will die of undernourishment" but that "bankers do not see dead bodies, they can only understand a loan default."

There is every reason for Finance Minister Muhith to be upset. Bangladesh, once dubbed by Henry Kissinger a "basket case," needs massive investment to build up its infrastructure and break away from the present low-level agriculture and an almost primitive technology. Instead, in the name of fiscal discipline, it has been forced by the IMF to undergo a program of total austerity.

This policy is reflected in the Bangladesh budget for the fiscal year 1982-83 presented early this year by Finance Minister Muhith. Incredibly, the budget is designed to produce a revenue surplus of Taka 730 crores (U.S. \$485 million). Muhith has announced that the growth rate for this year is yet to be officially calculated, but is expected to be zero!

The IMF's grip over the Bangladesh economy has been strengthened steadily. "Agencies like the IMF urge us to enter a certain room, but withhold the key," former Finance Minister Dr. Fashiuddin Mahtab told the Bangladesh press last November. "Wash-

ington is, in effect, imposing on Bangladesh policies it has not been able to carry out even at home."

Last year Bangladesh's \$285 million budget deficit drew a sharp warning from Washington. "Bangladesh must be made to observe financial discipline for its own good," said a representative of an international aid organization.

The pressure to impose total fiscal austerity in Bangladesh came to a head when the IMF last year froze 580 million out of 800 million SDRs that the Fund had committed to the Bangladesh government to ease its balance-of-payment deficits. So far only 220 million SDRs have been disbursed.

In 1981 Bangladesh was told that the remaining 580 million SDRs would be made available only when Bangladesh could satisfactorily impose spending and credit controls.

Since then, the World Bank's South Asian regional vice-president, David Hopper, has visited Bangladesh and approved its austere budget. Nonetheless, the SDR freeze has not yet been lifted; the IMF is well aware that the budget as it stands now is genocidal, and they want to make sure the Bangladesh leaders stick to their guns when the inevitable popular revolt occurs.

The IMF has forced Bangladeshi leaders to reduce the subsidies on a number of essential items. More than 50 percent of the population subsists

below the poverty line. But the 1982-83 budget raises the price of rice by 12 percent and price of wheat by at least 10 percent. Prices of irrigation equipment, fertilizers, and petroleum products have also been raised.

In February, responding to IMF pressure, the Bangladesh National Economic Council drastically reduced the annual development plan (ADP) by \$200 million.

Recently an inter-ministerial committee entrusted with the rationalization of the ADP recommended eliminating 365 projects, suspension of 87 more, and reduction of "unnecessary expenditure" connected with another 193 projects. Within Bangladesh it is no secret why this was proposed.

With the continued devolution of the world economy, Bangladesh foreign exchange reserves—which depends heavily on the country's jute products for export earnings—are being drained. Jute products, which account for as much as 64 percent of Bangladesh's total exports, are selling at a much lower price than last year. Even with a 10 percent increase in volume of jute exports last year, earnings were down 34 percent. With this trend continuing, Bangladesh's ability to service a rising foreign debt of about \$4.0 billion is vanishing fast.

The nation is on the edge of an economic holocaust. It is this realization perhaps, that is behind the bitterness and distrust conveyed at the September IMF meeting by Muhith, who has been attacked in his country for his docile attitude toward the Fund. "The hardening of Fund conditionalities and the growing number of inoperative programs raise serious doubts," Muhith told the IMF Board of Governors, "about the adequacy of the Fund as an institution entrusted with the management of world monetary affairs."

# Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>UPDATE</b>			
	Romania from U.S.S.R.	Romania has switched its nuclear program from Canadian to Soviet suppliers. Soviets signed agreement for three of the 1,000 MW water-cooled reactors they turn out on their Atomash. Plants will be installed consecutively on the same site.	Canadians thought they clinched Romanian program with a letter of intent for two 600 MW Candu reactors and licensing of Romanians for using Candu technology in up to 16 future plants. Civil construction has begun on the first Candu unit.
\$3 bn.	India from U.S.S.R. or U.K.	Negotiations underway on Soviets helping expand Orissa steel complex to 1.7 mn. tpy. British also negotiating for it.	Davy McKee of U.K. had its letter of intent revoked in May when sought to raise price and change conditions.
	U.S.A. from Brazil	International Trade Commission of the U.S. rejected complaint by Fairchild Industries that Bandeirante 18-passenger turboprop plane is subsidized in a way unfair to U.S. competitors. The well-built plane comes with excellent low-interest financing conditions. Experts had anticipated that Brazil would be given a "victory" in this highly publicized case as a way of deflating growing Brazilian anger over U.S. trade sanctions. Brazilian Air Force and other military circles especially concerned with this case.	Decision occurred on eve of controversial 15-day visit to U.S. military bases by Brazil's Army Minister. It is also a "grand opening" gift for Brazil's new private-sector lobbying office in Washington
<b>NEW DEALS</b>			
	Austria/ U.S.S.R.	Austria will export electricity to U.S.S.R. during summer when melting snows bring its hydroelectric stations to full capacity and import it from Russia during winter when river flow drops and demand increases.	Deal signed.
\$255 mn.	Singapore from Japan	Marubeni Corp. and Shimizu Construction won contract for 15,000 prefabricated apartments to be built in the form of 12 story buildings in satellite towns throughout Singapore. The Japanese will build a prefabrication plant for local production.	Similar contracts for parts of Singapore's \$800 mn. construction program were won by Australian and French firms.
\$24 mn.	China from Sweden	A pharmaceutical plant is being built by five Swedish firms and the China Pharmaceutical Corporation. The plant will have capacity for 600 mn. tablets, 7 mn. ampules and 500,000 liters of intravenous solution. It will compound and pack Swedish-made bulk chemicals.	China imports \$2.5 bn. annually in pharmaceuticals. The aspirin and other products made in this plant will cure about 1% of that headache.

# Business Briefs

## International Credit

### IMF generous with Argentine government?

Christian Brachet, director of the International Monetary Fund (IMF) delegation visiting Argentina in early October, has reported that he sees no problem in granting that country a standby loan with "no conditions" attached. The IMF team, the first members of which arrived in Buenos Aires on Sept. 22, has reportedly been discussing a \$1.7 billion standby loan that would be made available sometime between October 1982 and March 1983. Of its \$40 billion foreign debt, Argentina must pay \$12 billion in the second half of 1982. It is already officially in arrears by \$2.3 billion, and some analysts estimate the figure is as high as \$5 billion.

Diplomatic sources say that the IMF's apparent generosity toward Argentina is explained by the fact that this South American nation has already complied with the type of "conditionalities" that the IMF normally demands for a standby loan (see Special Report). According to an official at the Argentine central bank, "this will be the first time that it will be unnecessary to recommend a recession before getting an okay for a standby." Argentina is already in a recession.

## Development Strategy

### 'Argentina needs courage,' says Goldman

A lengthy interview with the *EIR* Economics Editor David Goldman, which includes a detailed explanation of how the economic quackery of Milton Friedman and his protégés like former Argentine minister José Martínez de Hoz have devastated Argentina's economy, was published in late September in the weekly magazine *La Semana*, edited in Buenos Aires.

The interview begins with a description of Goldman: "Now, he is certainly a good deal more than the youth who graduated from Columbia University and obtained his post-graduate degree in the very prestigious London School of Economics. Goldman edits

... an important economics magazine that circulates in the United States and Europe. Two of his books have sold by the hundreds of thousands—*The Ugly Truth About Milton Friedman* and *Dope, Incorporated*—and he is considered one of the intellectuals with the most promising future within the economic advisory cabinet of the U.S. Democratic Party."

In the interview, Goldman describes how the application of monetarist economic policy systematically dismantled Argentina's industry. He added that even in its current economic crisis, Argentina still maintains the capacity to develop, provided it demonstrated the courage to apply correct economic policies.

## West Germany

### New Morgenthau plan for deindustrialization

A major reason that certain banking families in Europe worked actively to topple the West German government of Helmut Schmidt is that they seek to use the resulting period of political chaos to impose what amounts to a new "Morgenthau Plan" for the West German economy, sources told *EIR* at the beginning of October.

"Germany must get out of all heavy industry," a member of the elite Mont Pelerin Society told *EIR* in off-the-record discussions, "get out of steel, auto, chemicals, machinery, and other industry. These industries are dead. Entire industries must be phased out. Plants must be closed, entire companies bankrupted and shut."

U.S. Treasury Secretary Henry Morgenthau proposed in 1944 to "take every mine, every mill and factory, and wreck it. Steel, coal, everything."

The plan, the economist said, was discussed at a secret Sept. 7-10 meeting of the Mont Pelerin Society, the organization of European oligarchs led by Bavarian Prince Max von Thurn und Taxis and Austrian pretender Duke Otto von Hapsburg. The meeting, which also discussed the idea of toppling the Schmidt government with members of the Free Democratic Party, many of whom are Mont Pelerin members, occurred shortly before the Schmidt government fell.

The strategy is to plunge Germany into a new "Weimar period" of political chaos, the economist stated, during which the nation will see a succession of governments, each of which is incapable of managing the economy. As a result of this, the German federal deficit will go "out of control," he said, "the finances of Germany will go to pieces." When this happens, he said, "the West German mark will collapse, and there will be huge capital flight out of Germany." Major German banks would go under, he predicted.

The point of the chaos will be to deliberately create the environment in which entire segments of the industrial economy go bankrupt, he stated. "Now is the chance to change the industrial base entirely," he said. "We must have more bankruptcies such as that of AEG."

Replacing industry, the Mont Pelerin economist said, will be "technetronic" light electronics such as computers, telecommunications, and other "post-industrial" sectors.

## Insurance

### Economic warfare continues against Mexico

Mexico could be forced to further slash imports from the United States during the fourth quarter of 1982, a top insurance expert told *EIR* Oct. 1, "because Mexico has no dollars to pay." Mexican public companies "are cutting import orders left and right," he said. All insured exports from the United States to Mexico, which amount to \$250 million a quarter, "have been cut off completely because nobody will insure exports to Mexico anymore," he stated, and non-insured exports are following the same pattern.

The source stated that not only the Eximbank but also AIG and all private insurers had cut Mexico off, which alone would reduce U.S. exports to Mexico annually by \$1 billion. Private exporters not previously insured, who shipped an estimated additional \$15 billion to Mexico last year, "have been trying to get insurance now for the first time, and have been told 'No,'" he said. "So if they don't believe that Mexican importing companies, either public or private, will get

## Briefly

the dollars from the government to pay import contracts, now they may not export at all," he said.

Rumors sweeping the financial press are also feeding this problem. The Sage Corporation, a consulting firm, for example, has issued a report to exporters, which claims that people should "just write Mexico off completely," because there will be no dollars at all to meet import needs."

### *Flight Capital*

## Hoax behind Latin American debt crisis

Private investment trusts based in offshore banking centers and administered by European oligarchical families have been chiefly responsible for the grave debt-payments crisis in Latin America. These investment trusts control the hard-core \$150 billion deposit base of the Eurodollar market. Through this control, these investment trusts have triggered a capital outflow out of Latin America since 1980 conservatively estimated at \$50 billion.

In Venezuela, \$20 billion was removed from the country's capital base during 1980-81 through offshore channels set up by oligarchical interests. During 1981, \$8 billion left Argentina by the same means. When added to the \$20 billion flight capital loss reported officially by the Mexican government, this indicates that \$48 billion has left these three countries alone.

A large proportion of this flight capital has been "financed" by short-term borrowings from New York and Euromarket banks. These short-term debts have been "refinanced" and "rolled over" by devaluations, raids on the foreign-exchange reserves of those countries, and to a certain extent, medium-term debt consolidation financed by the governments of those countries.

Were these funds repatriated and made available to the central banks of the three cited countries, all would be *entirely solvent* and able to meet payments on their currently due debt and interest rates. The engineering of this flight-capital seizure of the wealth of Latin America is now threatening the integrity not only of the countries involved, but also of their U.S. bank creditors, who have

been foolish enough to finance this outflow.

The chief benefactors of this outflow have been the Swiss and London-based private investment trusts which use Latin American flight capital to bolster their own investment schemes.

A more detailed account of the Latin American flight-capital crisis, prepared by an *EIR* team, will be forthcoming in a future issue.

### *Fiscal Policy*

## Mitterrand out to pick Frenchmen's pockets

The Socialist government of France is now caught in its own vicious cycle of social redistribution followed by stringent fiscal policies as the state deficit grows. First, the very rich were targeted. Then, it was the professionals, as vacation homes were taxed. Budget Minister Laurent Fabius will hunt down every Frenchman's income in order to cover his budget deficit.

Now, "accessory" consumption of the man in the street, such as alcohol of 25 degrees or more and cigarettes will be taxed, by 10 francs per liter and 1 to 3 francs per package respectively, if the proposal by Minister of National Solidarity Pierre Berégovoy is voted up in November.

Aimed at raising altogether around 30 billion francs to finance the social security system is a new hospital bed tax of about 25 francs per night. Already doctors have been persuaded not to prescribe "too much medicine." For the year 1982, Berégovoy announced proudly that the social security system will have saved a total of 19.9 billion francs by the end of the year—cutting 3.45 billion for the sick, 0.8 billion for the old, 3 billion for family welfare, and 10 billion for unemployment.

The line fed to industrialists and trade unions by Minister of Research and Technology Jean-Pierre Chevènement is that all these sacrifices are for the worthy cause of ushering France into the computerized society of tomorrow. But how is the Chevènement type of economy supposed to work if the labor force's standard of living and purchasing power are being systematically undermined.

● **INDONESIA** has been hit with a 36.5 percent drop in oil revenues in the first six months of this year compared to 1981. The decline is due to the fall in world oil demand, and the oil cartel's newly introduced policy of putting quotas on member nations' output. Indonesia is outputting 300,000 barrels per day under its capacity to match its quota. Indonesia derives 70 percent of its overall export revenues from oil sales.

● **TIP O'NEILL**, the Boston Brahmins' Speaker of the House, told the House Banking Subcommittee on Sept. 28 that the country needs a new Reconstruction Finance Corporation (RFC) like the one established by Herbert Hoover in 1930. O'Neill has joined Lazard Frères partner Felix Rohatyn in championing the new RFC, whose purpose, as it was in the last depression, is to put a vise on new lending to corporations and banks.

● **PHILIPPINES** exports fell 9.9 percent in the first six months compared to 1981, pushing the country's current account deficit well over \$1 billion. By year's end, with prospects for sales of its major commodities—coconut oil, sugar, and copper—looking bleak, the country may land a deficit of over \$3 billion.

● **FORD MOTOR** Company will begin to solicit bids in October for its promised \$1.2 billion retooling, according to machine-tool industry sources. However, the machine-tool industry is viewing the potential orders as a mixed blessing. Not only is Ford expected to extract such low prices from the machine-tool suppliers as to force the suppliers to produce at a loss, but Ford will force them to provide the bulk of the financing for the purchases. Competition in the machine-tool industry is so severe that auto manufacturers are forcing producers into constant rounds of underbidding.

## Milton Friedman: the world's worst economist

by David Goldman, Economics Editor

In 1980, Milton Friedman's Mont Pelerin Society—the semi-clandestine monetarist coven he directs in company with Friedrich von Hayek and Max Thurn—met at Stanford University, on the fringes of power, and denounced the oppressive role of the nation-state in the tones of a radical protest movement. But the Mont Pelerin Society's Sept. 7 annual conference in Berlin, two years later, heard addresses by serving officials of the British and American governments, as well as international organizations, including the General Agreement for Trade and Tariffs, and the International Energy Agency. This transformation marks the Mont Pelerin Society's rise from a group of acknowledged cranks in 1947 to the direction of the British and American economies. The result is not merely a depression rapidly becoming worse than that of the 1930s, but, specifically, a depression emanating from the centers of Milton Friedman's influence.

The University of Chicago-based Friedman, whose predictive and prescriptive record is the worst of any economist in the post-war period,\* has become the only man shown capable of making Chilean dictator Augusto Pinochet vomit. While Chile's central bank asked bankers for a moratorium on that country's outstanding debt principal Sept. 15, the Pinochet military government set about cleaning the "Chicago boys" out of the Chilean government, ending nine years of a continuous monetarist experiment—the longest period during which any nation tolerated Friedman's policies. With more debt per capita than Brazil or Mexico, and a ruined industrial base, Chile's entire financial and economic system is in a condition more pathetic than that left by the four-year administration of another monetarist, Argentine Finance Minister Martínez de Hoz. The shambles of the Argentine and Chilean economies have, at length and at immense cost, eradicated Milton Friedman's reputation in the Ibero-American continent.

The Thatcher experiment in Great Britain, meanwhile, has left Britain's economy crawling along at the output level of ten years ago, with 12.5 percent unemployment, the worst by official measure in the entire industrial world. Thatcher advisor Alan Walters, asked whether her monetarist advisors were upset that Britain's industrial output per capita had fallen below South Korea's, told this writer, "Quite the contrary. Some of us think it's a good thing to move it all out to



Courtesy of the Public Broadcasting System

*Friedman, among his other crimes, helped remove the dollar's gold backing.*

Northern Ireland or somewhere, and concentrate on services." Britain's living standard, now lower than East Germany's, is due to fall sharply in what the London *Economist* Sept. 18 called the "Thatcher holocaust."

### **U.S.A.: test case for Friedmanism**

But the worst news for the world economy is that the United States, rather than Britain, or even Israel, where Friedman's influence is considerable, is becoming the world's test case for Friedmanism in its pure form. Friedman conducts seances roughly once every two weeks for President Reagan, who has shown himself sufficiently beguiled by "the magic of the marketplace" to believe the hogwash issued by Treasury Secretary Donald Regan and Council of Economic Advisers Chairman Martin Feldstein, although the latter have given broad hints to the press that they do not believe a recovery is in the offing. In the past year, industrial production has fallen 10 percent, and the state of the banking system implies a much more rapid rate of fall during the coming months (see article, p. 4).

The monetarists, of course, point to an inflation rate that fell, by the Commerce Department Consumer Price Index measure, to 3.3 percent per annum in August, as an evidence of success. In fact, the Federal Reserve program of choking off banking reserve growth without consideration for interest rates produced precisely the opposite effect predicted. The first impact, after the policy took effect in October 1979, was to push the inflation rate up from 12 percent to 20 percent, as corporations responded to the higher interest costs by raising prices; then, with the March-July 1980 economic collapse, they responded by shutting down production, and the infla-

tion rate fell. However, the inflation rate did not stabilize; the world economy went into the worst global deflation since 1931-33, with commodity prices falling more than 30 percent since January 1981, according to the International Monetary Fund's measure. That nearly matches the 50 percent fall in the aftermath of the 1931 events, and it is not over yet.

From the standpoint of credit, inflation reached never-before-seen levels, with U.S. corporate borrowings rising more than \$100 billion in the year to June 30. But the ability of producers, particularly raw-materials producers but also industrial manufacturers, to service this exploding debt service collapsed along with commodity prices, producing a widening "scissors" between earnings and debt repayments requirements that now threatens, for the entire world, a repetition of the dissolution of the Chilean banking system.

But, as British Chancellor of the Exchequer Sir Geoffrey Howe emphasized in a press conference Sept. 3 during the Toronto International Monetary Fund Annual Meeting, the monetarists do not so much measure their success by economic data, but, cultlike, by their success in spreading their odd persuasion to others. That might be compared to a person who responded to an inquiry regarding the effects of herpes by bragging that he had spread it to the surrounding neighborhood. Nonetheless, Howe's point carried some weight. In the face of all real-world considerations, monetarism's influence has reached an all-time high. It took the Chilean junta nine years to disabuse themselves of it. How long will it take us?

\*See *The Ugly Truth About Milton Friedman*, by Lyndon H. LaRouche, Jr., and David P. Goldman. Benjamin Franklin House; New York, 1980.

# Friedman, von Hayek and Adolf Hitler

by Lyndon H. LaRouche, Jr.

If the United States becomes a fascist, totalitarian state, it will be chiefly the “free-market-economy” dogma of Professor Milton Friedman which steers U. S. government policy in that direction. Such a trend is already in progress. The demand that developing nations submit to the murderous austerity of an IMF supergovernment’s dictatorship—all in the name of “economic freedom”—is the issue being used to steer the U.S. government in the direction of a Nazi-like foreign policy against the “Non-Aligned nations” group.

The most shocking thing is that many of the persons who support such monetarist policies are otherwise decent and moral people—like many of the Germans who, otherwise decent and moral—accepted Hitler because of their admiration for the doctrines of Nazi Finance Minister Hjalmar Schacht. Many people, passionately concerned for the freedom and security of the individual, nonetheless support mass-murder and IMF political dictatorship in the name of “freedom,” in support of a usurious doctrine bearing the deceptive name of “free-market economy.”

It is most useful to look at this paradoxical behavior from the standpoint of the history of Apostolic Christianity, beginning with St. Peter’s alliance with Philo of Alexandria against the pseudo-Christian cult leader Simon (“The Magician”) Magus. The “free-market economy” dogma of Friedrich von Hayek’s Mont Pelerin Society is rigorously definable as an irrationalist pagan cult-dogma. From the standpoint of Christian theology, we would class the Mont Pelerin Society dogma under the heading of “Monophysite cult.”

Not only is this Monophysite “free-market” cult-dogma fascistic in consequences of its contemporary practice. Many of its leading exponents, such as Professor Milton Friedman, use the same Wagnerian modes of irrationalist rhetoric employed for the Bavarian molding of Adolf Hitler’s public speaking-style. Typical, as we shall show, is Friedman’s curious neurotic twitch, his use of the cricket-like cacophony, “It’s absurd! It’s absurd!” whenever he is confronted with rational evidence he can not refute. Indeed, one can often discover quite easily who has been indoctrinated heavily by Friedman brainwashing, by the mere fact that a public figure uses this Friedmanite neurotic twitch—“It’s absurd! It’s absurd!”—when confronted with rational statements on policy issues.

A brainwashed victim of “Islamic Fundamentalism” is

typified by the following illustration. It is consistent with the essential, characteristic world-outlook of that poor zombie, that he could hold a loaded pistol to his favorite child’s head, pull the trigger, and explain the child’s death: “It was not I who killed this child. The bullet would not have killed him, unless Allah willed it.”

## What is a monophysite cult?

In short, the cultist rejects the notion of God shared, for example, by Jews and Christians. In place of a Supreme Being consubstantial with the lawful, rational ordering of Creation as a whole, the Monophysite worships imaginary, pagan deities like those of the Hesiodic, Olympian pantheon, or more exactly, Phoenician cult-deities such as Mithra, Cybele, Isis, “Great Mother.”

The pagan cults deployed as models for pseudo-Judaic (Kabbala) and pseudo-Christian (Gnostic) sects, assume that the will of God is “magical.” This has been the case among pseudo-Christian cults since the time of St. Peter’s adversary, Simon the Magician. The model for such pagan cults is the cult-superstition known as astrology—that special pagan gods, superimposed upon the images of astronomical bodies, control the fate of the individual.

The brainwashed victim of the cult believes that he or she has either a direct or mediated “telephone connection” to the stated intent of such a pagan deity, very much like the infantile, superstitious mind reading his daily horoscope, or the Wall Street stockbroker in the small office of the crystal ball-gazer or gypsy tea-leaf reader. The cult-victim believes in a pagan deity, in the image of the mind of an infantile human personality, a greedy, lustful, vengeful pagan deity, who plays nasty tricks on the world, contrary to the lawful ordering of creation.

On this basis, the cult-member is brainwashed into belief in sets of magical principles—such as, and including, “the magic of the free market”—which have no basis in reality, and which are, in fact, contrary to the laws of creation.

For example, the cult-victim believes that those “free-market” policies which have caused the present depression will magically lead to a miraculous economic recovery. On what grounds? The cult-victim has accepted the dogma as a matter of “my deep, personal belief.”

Such cult-phenomena correspond to a well-known psy-

cho-sexual pathology. Like all pathologies, they have the form of "infantile regression," a belief in the "all-powerful mother-figure," a childish belief in the power of magic, like the tumescent adolescent plucking petals from a daisy, muttering the magical chant, "She loves me; she loves me not."

This is no exaggeration of the pathological state of mind of a victim of the Mont Pelerin cult.

The brainwashed victim of the cult says that "free-market economy and political freedom are synonymous." He usually argues, contrary to simple historical fact, that "capitalist society's success was brought about by free-market-economy policies."

In fact, to take up the second point first, in every case but Britain, the success of the Industrial Revolution was accomplished through the "mercantilist" policies of Leibniz, Benjamin Franklin, U.S. Treasury Secretary Alexander Hamilton, France's Lazare Carnot, the American Careys, and the German-American founder of the German Zollverein, Friedrich List. Britain's development was accomplished differently, by looting of other nations and peoples according to the colonialist doctrine of "free trade" defended by the British East India Company's Adam Smith.

In the name of "freedom," the dupes of this von Hayek cult support a vigorous political dictatorship of the International Monetary Fund and Bank for International Settlements. They demand austerity policies already murdering masses in many nations, and already causing hideous human suffering. This fascist-like world super-government is defended by the cult's dupes as "securing freedom," defending the principle of the "free-market economy," imposing such Orwellian "freedom" at the point of a NATO "out of area deployment" gun.

"Your policies are dictatorship, murdering people!" one attempts to reach the rational sector of the policy-maker's mind. His jaw tightens in anger. "We are defending freedom!" He may add: "We are fighting Socialism!"

"You consider U.S. Presidents Washington, Monroe, Quincy Adams, and Abraham Lincoln to have been socialists?" one challenges the cult's dupe.

He will perhaps, often reply to that: "The Founding Fathers were deeply religious people, who believed in the principle of 'free-market economy.'" He simply refuses to accept the fact, that the U.S. War of Independence was fought against the doctrine of Adam Smith's *Wealth of Nations*.

There is another feature of this cultish mental behavior. Usually, the credulous victim is what contemporary sociology defines as an "other-directed personality." His opinions do not flow from rationally ordered inner processes of problem-solving mentation. His policies are shaped by the impact of "peer-group" opinions, by external "authoritative opinions." He does not make up his own mind rationally. He chooses among the opinions impinging upon him from his peer-group, selecting opinions for their "cosmetic" qualities, rather than on the basis of their foreseeable consequences for social practice.

For example, rather than facing a proposition in a rational way, the credulous, "other-directed" personality, will retort insolently, irrationally: "My friends, whom I trust, all disagree strongly with your opinions. Besides, they dislike you personally. They say your ideas are absurd."

In summary of this point, the Monophysite defends his belief in irrationalist doctrines of magic, by aid of disconnecting the calculable consequences of a policy from euphoria associated with belief in the policy as such. "Since it is a beautiful policy, it will succeed in bringing paradise, no matter what the cost in-between."

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*"The pagan cults deployed as models for pseudo-Judaic and pseudo-Christian sects assume that the will of God is 'magical.' The cult-victim believes that those 'free-market' policies which have caused the present depression will magically lead to a miraculous economic recovery. On what grounds? The cult-victim has accepted the dogma as a matter of 'my deep, personal belief.' "*

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In clinical psychiatry, such a state of mind is called "disassociation." In philosophy, it is called "radical nominalism," like Ockhamism.

### **Mont Pelerin destroys the U.S.A.**

Not only are Mont Pelerin policies impelling the U.S.A. into complicity with mass-murderous austerity against developing nations. Every action taken by the U.S.A. since approximately 1965-1969 has acted to destroy the strategic power of the U.S.A.

This is the net effect of the Johnson, Nixon, Ford, and Carter administrations' policy-making on monetary, economic, technological, and strategic issues. So far, the Reagan administration has continued the process of capitulation to the same ruinous policies set into motion by the Johnson and Nixon administrations.

This is most easily demonstrated by looking at the matter from the vantage-point of the relative strategic capabilities of the U.S.A. and Soviet Union. The U.S.A. has insisted upon policies which destroy the internal economy of the U.S. itself—its logistical basis, the quality of the prospective citizen-soldier, and have also weakened and threaten to destroy the U.S.A.'s principal allies.

Despite the self-consoling delusions of General Vernon "shoot-first, ask-later" Walters and others, the United States is presently engaged in destroying its allies south of the Rio Grande, as it has been complicit in supporting ruinous, mass-

murderous policies in Africa, in destroying an ally—the Shah of Iran—in Asia, and in destroying the Middle East with Henry Kissinger's "Bernard Lewis Plan." Now, the same U.S. policy is directed to destroying the economies of Germany and Japan, and throwing the government of the Federal Republic of Germany into a state of chaos.

Logistical strength is based on the scale and quality of production of goods. This strength is based upon the scale and productivity of agricultural production. (By the close of 1982, the U.S.'s monetary and economic policies will have eliminated, since October 1979, approximately 1 million U.S. farms.) Logistical strength is based also on the rate of capital-investment in capital-intensive basic industry and heavy-engineering capacities. It is based on the rate of development of scientific advances and technological progress. It is based on the average number of produced kilowatt-hours consumed per person and per square kilometer. It is based on the development and maintenance of basic economic infrastructure in transportation, water-management, energy-production systems, and basic municipal infrastructure of both industrial activity and social life.

Logistical strength is based upon promotion of trade in goods among allies and potentially allied nations. This demands fostering the prosperity of one's trading partners, through encouraging technological progress (and rising productivity) in agriculture, industry, and basic economic infrastructure. Instead, in the name of "free-market economy" principles, the U.S. is destroying world-trade levels and the economies of its principal, allied trading-partners.

The political complement to the logistical strength is the stability of cooperative partnership among active and potential allies. This means cooperation with governments, political parties, and currents which represent a commitment to development of the individual in society in the context of capital-intensive improvements in agriculture, industry and basic infrastructure. One must be predictably consistent in fostering the strength of such political currents among one's trading partners.

So, the U.S. destroys its own economy and those of its principal allies and trading-partners, in the name of mobilizing a fight against "Socialism." Naturally, the Soviet leadership does not interfere in our progress in destroying ourselves. It prefers to sit, and wait, building its internal economic strength, watching and waiting, at as much a distance as possible, while we successfully destroy ourselves.

The decent sort of persons among the ranks of the Mont Pelerin cult's dupes nod agreement, nodding their heads sadly. Suddenly their depression gives way to mystical elation. They explain: "The magic of the free market" will remedy all of these evils (comes the revolution, everywhere, everyone, will eat strawberries and cream!). As for the collapse of about everything, the devotee shakes his head, astonished at our ignorance of so elementary a point of true belief: "This is the sacrifice we must make, to bring things back into order."

How do these sterling anti-socialists propose this wonderful resurrection of dead economies shall become mani-

fest? One hears of "cycles." "Manichean cycles," one wonders momentarily? The recognition comes to us. This anti-socialist doctrine is a faithful copy of the "long-wave cycles" doctrine developed in the Soviet Union during the 1920s. By Wassily Leontief's teacher, Kondratieff! One wonders: is Professor Milton Friedman, perhaps, a clever Soviet agent sent to cause us to destroy ourselves from within? Nothing so earthly: Look into Friedman's wildly rolling eyeballs.

"It's absurd! It's absurd!"—one hears Friedman and his cult-followers chanting their magical incantation against the devils of self-doubt. One thinks back to shaven, saffron-robed Hare Krishnas at the corner of Sixth Avenue and Fourth Street, Manhattan, shouting their hyperventilated cries of "Hare, Hare, Hare. . ." On this point, the poor fellows are unreachable: "Om, mane, padme, hm."

### **Friedman now, Hitler then**

In point of fact, Adolf Hitler's regime was imposed upon Germany from the outside, by the controllers of Germany's debt in London, New York, and Switzerland. Most Germans, even those who were already adult or adolescent in 1931-1933, have been conditioned by Occupation-propaganda of Wilton Park, etc., into rejecting this fact, even when they are presented with documents proving the case. "No, we Germans did it ourselves. We chose Hitler (and, therefore, we must humbly suffer)!"

It is accurate to say that Germans were conditioned into tolerating the rise of the Nazis, much as many nations are conditioned into tolerating Malthusian and anti-technology irrationalist movements today. The same mechanisms used to condition Germans into tolerating Hitler then, have been used to bring toleration of the Mont Pelerin Society dogma more recently.

Beginning with the spread of the Romantic movement from the Lausanne, Switzerland, bedchamber of the Madame de Staël, Germany was penetrated by a blend of cultural pessimism and irrationalism early typified by the influence of Arthur Schopenhauer, the leading German ideological forerunner of Nazism. This influence was aggravated during the 1830s and 1840s, by the spread of the philosophical-political radicalism of Giuseppe Mazzini's Young Europe organization, and by the spread into Germany of the varieties of British irrationalism associated with Theosophical cults, the Fabian Society and the Oxford University Pre-Raphaelite Brotherhood of John Ruskin and Benjamin Jowett. Houston Stewart Chamberlain's influence in the Bavarian court and the circles around Richard Wagner was the point of concentration of British irrationalist, racialist doctrines leading directly into the rise of Chamberlain's personal protégé, Adolf Hitler.

Max Weber is another major contribution to the possibility of Nazism, through the spread of his pluralist version of populism, the German *Völkisch* movement.

All of the currents leading into Nazism were widespread in Europe generally prior to World War I, including Germany. These proto-fascist currents flowing out of Romanti-

cist irrationalism were generally identified with "modernism," and were concentrated in faddist movements in the arts.

Under the crushing effects of the Versailles Treaty, with the accompanying breakdown and discrediting of institutions, these irrationalist influences spread through the population in ways best typified by the influence of Stefan George, Hermann Hesse's *Steppenwolf*, and ideologues such as Ernst Junger. The common reference-point for all fascist and proto-fascist propaganda of this sort was Friedrich Nietzsche's Dionysian cultism.

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*"Not only are Mont Pelerin policies impelling the United States into complicity with mass-murderous austerity against developing nations. Every action taken by the U.S. since approximately 1965-69 has acted to destroy the strategic power of the United States. The U.S. destroys its own economy and those of its principal allies and trading-partners, in the name of mobilizing a fight against 'Socialism.' Naturally, the Soviet leadership does not interfere in our progress in destroying ourselves. It prefers to sit, and wait, building its internal economic strength. . . ."*

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An outwardly different, but essentially identical development is to be seen in the U.S.A. today. Chiefly through irrationalist movements conduited through the mass-media of entertainment and news publications, the U.S. population has been conditioned to become other-directed, rather than rational. "What the neighbors say," rather than rational criteria of personal judgment, is dominant in mass political and other behavior.

The objective crushing of economic growth within the U.S.A., beginning 1966-1967, has significantly conditioned the mind of most of the population into tolerating irrationalism. Since the U.S. government has behaved with consistent irrationalism on issues of monetary and economic policies under Johnson, Nixon, Ford, Carter, and, so far to date, under Reagan, it appears to many that the world itself has become irrational, and that success in the world depends upon adapting to the irrationality pouring out of government and other leading institutions.

Under these conditions, large portions of the population are driven into assimilating cultish irrationalisms. Politicians and parties, seeking to woo support from such populations,

depend upon cultish augurs (pollsters, etc.) to inform them of the prevailing winds of irrational opinion. The U.S.A. is on the verge of Weimar Germany 1931/1932. We are ready, psychologically, to accept Brüning, von Papen forms of "austerity" as "necessary," and to embrace new Hitlers after a bit of Brüning.

One must not be deceived by the superficial fact, that Friedrich von Hayek was technically an opponent of Hitler. Hayek is a thorough fascist, a British Fabian Society leader, and a professed totalitarian by virtue of his public statements on current political trends. He is essentially an irrationalist, in the same broad sense Ayatollah Khomeini is an irrationalist. He has blind belief, contrary to reality, and denies any reality which specifically contradicts his cultish beliefs.

More profoundly, the international political movement behind the Mont Pelerin Society is itself a complement to the international fascist organization nominally centered today in Lausanne, Switzerland. Not exactly Hitler's specific version of Nazism, but rather what is called variously "Universal Fascism," or "Neo-Conservatism." The coordination of this international fascist movement emanates from within the professional families of the European oligarchy and oligarchical rentier-finance.

These are the families which created Adolf Hitler. True, some disengaged from Hitler later on. The case of Richard Graf Coudenhove-Kalergi's Pan-European Union is exemplary. Up to the eve of Hitler's rise to power, Coudenhove-Kalergi's fascist movement cooperated with Hitler's efforts. Their later break with Hitler parallels the case of Benedetto Croce's circle in Italy: They helped to bring Mussolini to power, and then, variously, led the left-fascist opposition, and became nominally part of the anti-fascist opposition. By 1938, numerous of the circles which had supported Hitler had become nominally anti-Nazi. By approximately the winter of 1942-43, when the Nazis' doom was visibly sealed, many of the remaining Hitler-backing oligarchical families turned away from the Nazis.

The world's leading living fascist ideologue, Armin Mohler of the Siemens Stiftung, explains this complex behavior most frankly. Mohler, a former Swiss volunteer of Hitler's SS, explains his doctrine of "Universal Fascism" in his book, *The Conservative Revolution*, the "Who's Who" of fascist ideology today.

To the followers of Nietzsche's fascist doctrine, Hitler and the Nazis were intended to be merely a temporary phase of world-conquest by fascism. Hitler was to unleash the chaos out of which the precondition for "universal," anti-nationalist fascism would be produced. Once Hitler was securely in power, many of the leading oligarchical families which had created the Nazis distanced themselves from their creation, building for the new fascist movement to arise after Hitler had been "used up."

Fascism is not a sociological pathology of industrial-capitalist society. Fascism is older than Augustus Caesar. It is oligarchism, adapted in form to the circumstances created by the rise of modern sovereign nation-states and industrial

capitalism. The oligarchical families behind fascism, in Hitler's time and now, are "unreconstructed feudalists," to put the point in the language of the man in the street. They are rentier-financier families, whose preferred source of income and material power is speculation in ground-rent of real-estate holdings and usury. It is a political-economic philosophy as old as the Chaldean inventors of tax-farming.

The doctrine of "free-market economy" is a direct reflection of these oligarchs' fascist doctrines.

The center of their doctrine of "free market economy" is their insistence that the currency-issues, credit-policies and public debt of nations must be controlled by a network of privately owned central banks. These banks, in turn, are controlled by the rentier-financier oligarchical families. These oligarchs use their control of banking to foster ground-rent and usury, and to weaken industrial-capitalist institutions, by forcing prices of agricultural and industrial products down to levels that capital-intensive investment is strangled by "free-trade" methods of lowering of prices (and profits) of entrepreneurs.

By keeping entrepreneurial profits from goods-production low, and by looting and taking over farms and corporations by rentier-financier interests, the oligarchs crush the farmers and industrial-capitalists as social-political classes, putting as much industry and agriculture as survives firmly in the grip of oligarchical rentier-finance.

The destruction of German and Austrian capitalists during the post-1938 phases, and gobbling up of industries by the Goering and Himmler trusts, is a meaningful indication of the kind of society the oligarchical backers of the Mont Pelerin Society aspire to bring into being.

Worse, these families wittingly intend to perpetrate genocide against, most emphatically, the populations of the developing nations. This genocide has already begun in Africa, and is endemic in other parts of the world, such as Bangladesh, as well as imminent for parts of Ibero-America.

It is on this point that otherwise decent among Mont Pelerin dupes are most impelled to violate their own consciences. Since the principal mechanisms of genocide are economic and monetary warfare against nations, methods generally under the heading of "IMF conditionalities," these dupes are given the choice of either condoning genocide or breaking with deeply-embedded conditioning to "free-market economy" dogmas.

The irrationality of their beliefs is otherwise crucially demonstrated in another, related manner. On the one side, they profess to be anti-big-government, and against government dictatorship over, and direction of, the economy. At the same time, they support a totalitarian super-government, the IMF, using governments to operate dictatorships against the populations and economy of numerous nations.

Unlike those misled, well-meaning dupes of the Mont Pelerin cult, the powers behind the cults are faced with no such moral paradoxes. They are consistently evil, worse than the Nazis.

## The Friedman grip on

by Freyda Greenberg

No one should underestimate the extent to which, derided though they are in some quarters, the Friedmanites have entrenched themselves in U.S. economic policy-making.

Milton Friedman has come a long way into U.S. policy dominance since his first claim to national economic policy-making, along with his Viennese colleague Gottfried Haberler and William F. Buckley, in Sen. Barry Goldwater's 1964 presidential campaign. As early as July 1980, Milton Friedman dominated the Republican Party platform discussions that were to become the basis of President Reagan's economic policy. It also became clear at that time that the supposed antipodes to Friedman, such as supply-sider Rep. Jack Kemp (R-N.Y.), were but fellow Mont Pelerin Society thinkers. As of this writing, the Friedmanite team that executed the well-known economic and political disasters of the Nixon administration—from George Shultz to Paul A. Volcker—are in every corner of Washington, D.C.

A review of the office-holders and advisers in the current administration reveals the following:

**President's Economic Advisory Board:** There have been no less than 10 outspoken Friedmanites on this policy board since Mr. Reagan took office. In addition to Milton Friedman, the board has included:

- **Charls Walker**, head of Charls Walker Associates. Walker was an Undersecretary of Treasury under President Nixon and was the author of the tax policy promoted by the Reagan transition team. This policy is heavily skewed toward post-industrial, service sector investments and away from heavy industry.

- **Walter Wriston**, Chairman of the Board of Citibank.

- **Art Laffer**, "supply-side economist." Laffer was responsible for introducing Milton Friedman's tight-money policies into the supply-side economic dogma. Like Friedman, after the Penn Central crash of 1971, his reputation has been quietly buried in the face of "supply-side" dissolution. He studied under Friedman at the University of Chicago. Laffer was boosted into prominence by his boss, George Shultz, while they were both at the Office of Management and Budget (OMB) under Nixon. Laffer is a close friend of current Chairman of the Federal Reserve Board, Paul A. Volcker.

- **Alan Greenspan**, founder of Townsend, Greenspan

# U.S. policymaking

Inc. economics consulting firm. Greenspan was recruited into Friedmanite economics by the radical libertarian author Ayn Rand. He was a consultant to the Nixon Council of Economic Advisers and the Federal Reserve Board under Arthur Burns in 1970-74. Greenspan chaired the Council of Economic Advisers under President Ford. He is on the board of Morgan Guaranty Trust of New York, Morgan & Company of London, and the Hoover Institution.

- **Paul McCracken**, monetarist economist. Chaired the President's Council of Economic Advisers under President Nixon. Has coined such economic analyses as the plunging "Anglo-Saxon business cycle."

- **William Simon**, former Treasury Secretary under Nixon and Ford. Simon is a close associate of Citibank's Walter Wriston and current Secretary of State George Shultz. Shultz brought Simon into the government as Nixon's energy czar in 1973, later into the post of Deputy Treasury Secretary and then hand-picked him as his successor in 1974. Prior to his government service, Simon was a senior partner of Salomon Brothers investment bank.

- **Arthur Burns** is one of the founders of the Friedman school of economics and the teacher of Milton Friedman. Himself trained by the Viennese oligarchs who invented the free-enterprise hoax, he tutored then Vice-President Richard Nixon on economics while Chairman of the Council of Economic Advisers during the Eisenhower administration. In 1969, Burns came into the Nixon administration, serving as special counselor to the President and later Federal Reserve Board Chairman. It was Burns, along with Treasury Secretary Shultz and National Security adviser Henry Kissinger, who engineered the August 1971 decoupling of the dollar from gold and the related political operations run against Nixon himself and America's European allies. Burns is currently Ambassador to West Germany where he participated in efforts to collapse the Schmidt government. Burns is a member of the Mont Pelerin Society.

## State Department

- **George Shultz**, Secretary of State. Throughout his previous tenure in the government from 1969 to 1974, Shultz organized for a radical reorganization of U.S. and Western policy along the lines prescribed by the Anglo-Swiss bankers who seek a feudal, "post-industrial" world. Toward this end,

Shultz has worked since 1965-66 with fellow Chicago School economists Milton Friedman and Herbert Stein in promoting the demotion of gold and the "floating dollar." Shultz has served as Labor Secretary, director of the Office of Management and Budget, and Treasury Secretary.

- **William Allen Wallis**, Assistant Secretary for Economic Affairs. One of George Shultz's first acts as Secretary of State was the appointment of Wallis to this post. Wallis, a member of the Mont Pelerin Society, is one of their top operatives in this administration. Wallis was the first treasurer of the Society and is a former Dean of the University of Chicago's Graduate School of Business, where he was a close collaborator of Milton Friedman.

## Treasury Department

- **Donald Regan**, Secretary of Treasury. Formerly of the Wall St. investment house Merrill Lynch, Regan has been a leader in the deregulation of the U.S. banking system, which is leading to cartelization rather than "freedom." He has worked closely with Citibank's Walter Wriston toward this end.

- **Beryl Sprinkel**, Undersecretary for Monetary Affairs. Sprinkel is second only to Milton Friedman as the leading monetarist economist in the United States. Sprinkel was brought into the Reagan administration by Friedman and has continued to function as an essential property of the Mont Pelerin Society and the Heritage Foundation. Prior to his administration appointment Sprinkel was the Executive Vice-President and chief economist for the Harris Trust and Savings Bank of Chicago. He is a member of the Shadow Open Market Committee, a monetarist body founded by Friedman as a watchdog over the Federal Reserve.

## Office of Management and Budget

- **David Stockman**, director. Stockman's political career was launched by the Mont Pelerin Society when Hillsdale College, the semi-official U.S. college for the Mont Pelerin Society, promoted Stockman's entry into the U.S. Congress in 1975, following Stockman's conversion from a John Anderson liberal to a Mont Pelerin conservative. Lobbying for Stockman's appointment to his current post were society members, particularly member Glenn Campbell, who heads the Hoover Institute at Stanford University.

## Federal Reserve Bank

- **Paul A. Volcker**, Chairman of the board. Volcker played a central role in his capacity as Treasury Undersecretary in the Nixon administration in that period's international monetary undoing. Volcker previously was a career economist at Chase Manhattan and the President of the New York Federal Reserve Bank. Volcker's tight-money policy at the Fed has been the consistent Friedmanite cornerstone for any and all varieties of economic policy that may come out of the White House.

This group of Friedmanites does not include several

prominent Friedmanites who have already left the administration. Among these are **Paul Craig Roberts**, a Mont Pelerin member, and **Norman Ture**, from the University of Chicago, who left posts at the State and Treasury departments respectively; **Murray Weidenbaum**, who resigned as chairman of the Council of Economic Advisers; and Mont Pelerin member **Martin Anderson**, who left his position as the President's domestic policy adviser.

### **Friedmanite policy-making institutions that have insinuated themselves into administration deliberations include:**

- **Heritage Foundation.** This is the leading international funder of the Mont Pelerin Society. Approximately three-quarters of the board of the foundation are members of the Mont Pelerin Society including **William Simon**, foundation director **Edwin Feulner**, director of studies **Robert Schuettinger**, members of the editorial board **David Meiselman**, **Henry G. Manne**, **Allan Meltzer**, and **Robert Moss**. The Heritage Foundation has been prominent in the administration through the entire transition and produced its own transition report, *Mandate for Leadership*, in tandem with the administration's report.

- **American Enterprise Institute.** Over an extended period, this institution has become the Washington, D.C.

gathering place for Viennese economists. Arthur Burns was in residence there prior to his administration appointments and Viennese economist Gottfried Haberler, a colleague of Milton Friedman from the 1964 Goldwater presidential campaign, has been based there. AEI has been the main sponsor of the popularization of Friedman through his TV show *Free to Choose*.

- **Hoover Institute at Stanford University.** This California think tank has put significant hooks into the White House. Friedman is a senior research fellow there. The director of the Hoover Institution is Mont Pelerin Society member Glenn Campbell, who was the top official in Reagan's transition team and selected half of Reagan's cabinet.

Another institution of note, though not of the formal variety, is the network associate with *National Review* editor and Otto von Hapsburg associate William F. Buckley. Buckley, who has reputed direct access to President Reagan, maintains an active network of influence within the Congress, within the new right and neo-conservative movements, and holds a solid base of operations in the Radio Free Europe and Radio Liberty apparatus of the government through his longtime associate Frank Shakespeare and the new appointment of his brother James Buckley to that section of government.

Buckley is a longstanding friend and publisher of Milton Friedman as well as a member of the Mont Pelerin Society.

## **Mont Pelerin fascists in Western Europe**

The Mont Pelerin Society, the mother of today's Friedmanite economics, was formed in 1943 as the operational union of the Oxford-Cambridge, Chicago University, and old University of Vienna networks. Some of the leading proponents of Friedmanism influencing Europe's economic policy today, many of whom are members of the rarely mentioned but ever-present Mont Pelerin Society follow:

- **Otto von Hapsburg**; the pretender to the defunct crown of Austria, who directs the Mont Pelerin Society's German-speaking branch.
- **Friedrich von Hayek**; President of the Mont Pelerin Society internationally and the author of the Society's founding document written with Walter Lippmann's help in London in 1943.
- **Karl Popper**; Viennese philosopher and former President of the Aristotelian Society, was one of the initiators

of the Mont Pelerin Society and later professor at the London School of Economics, a Friedmanite bastion.

- **Bertrand de Jouvenel**; member of the Mont Pelerin Society and co-founder of Aurelio Pecci's Club of Rome.
- **Luigi Einaudi**; member of the Mont Pelerin Society, leading Venetian economist who founded the Bank of Italy, the country's central bank.
- **Max von Thurn und Taxis**; Secretary of the Mont Pelerin Society, and head of one of Central Europe's most evil oligarchic families.
- **Herbert Giersch**; member of the Society and President of the Institut für Weltwirtschaft, Kiel, West Germany.
- **Armin Gutowski**; member of the Mont Pelerin Society and President of the HWWA Institute für Wirtschaftsforschung, Hamburg, West Germany.
- **Pascal Salin**; Mont Pelerin member, Professor of Economics, Université de Paris, Dauphine, France, and initiator of a new Friedmanite institution in Paris, the Economic Institute of Paris.
- **Lord Robbins**; leading British-based Friedmanite and former chairman of the Court of Governors, the London School of Economics.
- **Giovanni Magnifico**; economic counselor, Bank of Italy.
- **Otmar Emminger**; Governor, Deutsche Bundesbank, West Germany's central bank.

# How 'Chicago boys' wrecked Chile

by Mark Sonnenblick

In mid-1973, Leon Vilarin organized Chile's famous "truckers' strike," which helped topple the elected regime of Salvador Allende. Today, Vilarin—still head of the national truck owners' syndicate—complains bitterly, "228 of our members are in jail for debts and 11 have committed suicide. An economic crisis has become a moral crisis because people are losing everything." Vilarin, along with most of Chile's former capitalist class, are cursing economist Milton Friedman, the author of their destruction.

Immediately after the Sept. 11, 1973 coup against President Allende, Chicago monetarist Milton Friedman and his local protégés, known in Chile as "los Chicago Boys," outlined a program for "saving the Chilean economy from chaos." Friedman's program, like Chairman Mao's, consisted of "seven reforms" to dismantle all agencies of state intervention in the economy and turn Chile into a model of "free enterprise and free trade." Their program, which easily won approval from the International Monetary Fund (IMF), mandated massive tax increases, the elimination of tariff protection for national industry, large devaluations, free-floating prices, and wages frozen by dictatorial police powers.

Milton Friedman assured *Business Week* magazine Nov. 26, 1979 that Chile "will be regarded as one of the economic miracles of the twentieth century." What kind of miracle?

Savage reductions in real wages and the opening of floodgates to imported goods caused Chile's manufacturing output to decline in 1974 and then fall another 27 percent in 1975. Friedman then recommended the firing of 25 percent of public employees; the dictatorship complied. Manufacturers closed their plants and found profits importing luxuries for the few oligarchic consumers. The president of the Agricultural Producers Association, which also had helped make the 1973 coup, noted bitterly in 1979, "Tens of thousands of small and medium-sized farmers who produce wheat, rice, corn, and sugar beets are ruined" by imports from countries where farm labor is better paid and more productive.

## A bankers' paradise

For bankers, Chile was nothing less than the "economic miracle" which the City of London's Institutional Investor baptized it in 1979. It paid debt on time, gave away the industries built up by the Chilean taxpayers to foreign speculators at a fraction of their true value, and sold the nation's rich underground mineral deposits to the same foreigners for

similarly ridiculous low prices.

The economy has not been "stabilized"; it has been *destroyed* by the "structural reforms" imposed by Friedman and his associates. Rather than "cleaning out inefficiency," have markedly reduced the productive efficiency of the economy; resource allocation is increasingly irrational.

University of Chile surveys found a remarkable shift in the deployment of the labor force between 1973 and 1977. Productive workers in industry, agriculture, and mining fell from 30.4 to 26.9 percent of the employed population; those in useful services such as transport, construction, and education fell comparably. In contrast, the percentage of those paid for totally non-productive jobs, paper-pushing in the burgeoning banking area and other such services, rose from 34.4 to 53.7 percent of the labor force.

The shift out of production has been accompanied by trade deficits which have expanded exponentially since 1977. In 1981 Chile's trade deficits was equal to 62 percent of its total exports; probably the world's worst performance.

## The bubble bursts

The Friedman "success story" has been propped up only by massive infusions of foreign loans from the bankers most interested in promoting it. When "spendthrift" Allende was killed in 1973, he left a total foreign debt of just over \$3 billion, only about \$600 million more than what he had started with three years earlier. Even with Pinochet's "miracle" shelling out more than half of the country's export income for debt service, Chile's debt has now blossomed to \$17 billion. In contrast to the \$200 million debt service paid in 1973, Chile has to pay *\$4.7 billion this year*. Chile, more bankrupt than ever, is again seeking an \$800 million bailout from the IMF.

During the last year, even the fantasy of "economic success" has been punctured by waves of bankruptcies and new rounds of unemployment. Domestic consumption is down 30 percent. Textile companies have fired 41 percent of their labor force since 1980; metal-working firms have cut payrolls by about 50 percent.

The record bankruptcies of the long-looted productive sector during 1982 were so severe that even the banks which had run the blood letting were threatened with bad debts equal to almost their entire capital and reserves. Chile's monetary authorities have attempted one policy shift after another in an attempt to prevent the oligarchy's banks from crumbling and keep Gen. Augusto Pinochet in the saddle.

Pinochet is desperately trying to get out from under the wreckage left by Milton Friedman, and he is using government intervention to do it.

Over the past eight months, three economy ministers have tried to contain the collapse with massive devaluations, cuts in real wages, increases in tax levels, and government intervention in support of the flagging banks. There is yet no end in sight to the collapse. The prospects are for more truck owners to be in jail, as Milton Friedman's experiment turns into an economic, as well as political, nightmare.

# Friedmanite de Hoz is placed on trial

by Cynthia Rush

Anti-monetarist forces in Argentina are setting a precedent for dealing with Milton Friedman's leading domestic follower, whose policies they charge have violated national interests and undermined national sovereignty.

In early September, a lawyer from Argentina's Justicialista Peronist Party, Jorge Eduardo Solá, filed criminal charges for "fraudulent administration of the foreign debt" against José Alfredo Martínez de Hoz, the virulent monetarist who served as Finance Minister in Argentina from 1976 to 1981. It was under Martínez de Hoz, whose closest friends include Henry Kissinger and David Rockefeller, that the country's industrial capacity plummeted by 25 percent, and Argentina became notorious as a center for "hot money" speculation.

When Martínez de Hoz took up his post at the Finance Ministry in March of 1976, Argentina's total foreign debt amounted to \$7.8 billion. At the end of 1981, it had grown to \$35.7 billion, and today it is close to \$40 billion.

The federal judge handling the case in Buenos Aires, Martín Anzoategui, is charged with investigating the "impressive growth of the Argentine foreign debt," and determining whether it was the "product of a general economic policy which demanded the increase of the foreign debt to maintain a continuous dollar flow . . . or if there were specific crimes committed" in relation to this astronomical growth.

Anzoategui has announced that he will examine the "reasons for the [debt's] growth, from the time that Martínez de Hoz assumed his duties until he ended them; the destination of the funds obtained; the servicing of interest and amortization; the possible granting of commissions to third parties who might have acted as agents in the obtaining of new credits or the refinancing of existing ones, the amounts of said commissions and the names of those who would have stipulated their payment."

According to Jorge Solá, payment of commissions to individuals who helped obtain loans amounted to as much as \$4 billion dollars during the 1976-1981 period. He also charges the de Hoz economics team with having carried out fictitious operations—"loans to themselves"—in amounts as high as \$15 billion, in order to benefit from insurance on exchange and other monetary transactions.

Speaking in his own defense, Martínez de Hoz claims

that the close to \$25 billion in foreign loans contracted during his term in office were "for the benefit of the country," and were directed toward financing the growth of national industry and expanding productive capacity.

## Interest rates at 200 percent

The facts say otherwise. De Hoz's "free market" quackery dramatically slashed credit available for productive investment, forcing annual domestic interest rates up to levels of 200 percent and more. His policy of guaranteeing a monthly peso devaluation at a rate below the peso interest-rate permitted foreign speculators to make a killing on short-term investments with annual net profits in dollars of between 30 to 50 percent. Six billion dollars in "hot money" flowed into Argentina's speculative whirlpool from abroad during that period. Domestic capital also found speculation to be more profitable than investment in industry.

Aside from joining in the speculative binge, Wall Street banks provided loans that allowed Argentina's middle-class to indulge in an orgy of foreign trips and consumer spending, giving the illusion of prosperity in a nation whose productive apparatus was being systematically gutted. The bubble finally burst in 1980 when large numbers of industrial and agricultural concerns began to collapse under the weight of their debt burdens, and brought banks down with them. The new infusions of credit that de Hoz brought in at the end of his term could not prop up the economy for long once the speculative apparatus began to fall apart.

Were it true, as Martínez de Hoz asserts, that the \$25 billion in foreign debt contracted during his term was for the "benefit of the country," then Argentina would not have suffered a 25 percent decline in industrial production between 1976 and 1981, particularly affecting such critical areas as metallurgy, machine-tools and petrochemicals.

The financial and speculative banking sector would not have grown at the extraordinary rate of 34.5 percent during the same period, as compared to a 7.15 percent increase for the first five years of the decade. Nor would Argentina's highly-skilled and literate working population have been pauperized by wage levels that permitted annual increases in consumption of no more than 1.1 percent, as compared to increases of 19 percent for the period of 1970-1975. Had industrial production expanded as de Hoz claims, the nation would not have lost some of its most talented and highly skilled professionals to other countries.

If handled properly, the case against Martínez de Hoz could not only land him in jail, but implicate the entire gaggle of pro-British oligarchs who have transformed Argentina from a promising industrializing nation into an underdeveloped one. Nor is the Solá suit the only one targeting the former minister. Sources close to the military have confirmed that similar investigations into the performance of de Hoz and his "team" are being conducted to determine whether he owes allegiance to "anti-national" rather than "national" interests.

# 'Hitler lives,' says Argentine monthly

*The article printed below appeared in the September 1982 issue of the magazine Búsqueda, published in Buenos Aires by Mr. Ernesto Poblet. A monthly magazine, Búsqueda reflects the views of political forces in Argentina who are opposed to the monetarist policies of Milton Friedman. From 1976 to 1981, Finance Minister José Martínez de Hoz applied Friedman's policies in Argentina and largely destroyed the industrial and agricultural capacity of the nation. In previous issues, Búsqueda published an interview with the Ibero-America Editor of the Executive Intelligence Review, Dennis Small, and also favorably reviewed the book The Ugly Truth About Milton Friedman, written by Lyndon H. LaRouche and David Goldman. The article below appeared under the byline "Cándido Juglar."*

No, it is not science fiction. The demoniacal Führer of Nazi Germany has decided to comfortably install himself in the city of Chicago, adopting the unassuming dress of a university economics professor. For this, he has won himself a Nobel Prize in the field (perhaps recalling the adulation at the Nuremberg Olympic Games), and from his professorship he has sent his armies around the world and has so far occupied no less than half a dozen countries. His obsession with dominating the world and abolishing more than half of humanity has not changed. The only difference now is the mustache. No longer is it that ridiculous little square that constantly moved with his goggle eyes during the hysterical Nazi oratory. Now it is innocent fishing gear and the mischievous eyes of a small Jewish businessman, perhaps to disguise the ferocity of an economic theory that is more damaging than a thousand Auschwitz-style camps.

## Whiz kids replace armored divisions

He calls himself Milton Friedman. He has his barons who protect and finance him (before they were the Krupps or Hindenburgs, now it's the Rockefellers and Volckers). Nor does he have to take the time to build up his armies, guns, and armored divisions on his own. He has found a more astute system. He simply uses the same armed forces of each country that he occupies. It is easy to find ingenuous officers or haughty dictators who can save him the trouble of a violent blitzkrieg. In place of the Panzer Divisions, he sends Finance Ministers with a whole team of whiz-kids who are specially trained in the most "efficient" means of systematically de-

stroying everything created to produce. I remember when the planes of that beast Goering leveled the industrial cities of Europe (Coventry, Warsaw, Guernica and others). But now, bombing was unnecessary. A big-eared Guderian [a reference to former Argentine Finance Minister Martínez de Hoz—ed.] had only to occupy the Finance Ministry for a few years and the result was the same. The factory buildings have been abandoned, leaving the weeds to grow wild. Thousands of workers trample and kill each other to obtain a few hours of work at the port. . . . What a sad imitation of the slave shanties. The Hitler of Chicago wishes, inevitably, to push us toward a fate as recluses, or as dead bodies, in order to supply the "Aryans" of the North.

The new Führer dominates the economic systems of countries like England, Argentina, Chile, Uruguay, Bolivia and none other than the United States through the Chairman of the Federal Reserve. From that little post, Paul Volcker denies funds to international agencies, when it comes to the growth of nations, and hastily aids any operation that implies loading foreign debt on those disgraced countries with economic problems to keep them even poorer and more subjugated. Imposing this fate on many nations from his armchair, the professor at the University of Chicago, the American and British bankers, the Trilateral Commission and the multinationals have already decided that the developing nations will grow no more. They have decided on euthanasia for the poor because they think that human beings are incapable of overcoming the presumed scarcity of food or space to house a conglomeration of developing peoples. Thus they violate man's intelligent being, and the content of the Encyclicals of his Holiness John Paul II.

## Friedman's debt

If the Hitler of the decade from 1930 to 1940 had as his supreme ideal the "superior race," this new specimen from Chicago is no less his equal with his theories on the elites, efficiency, competition, and the opening up of the economy. The former used as his scapegoat the Jews and the communists; the latter uses inflation. When the Friedmanite finance ministers have unleashed galloping inflation (in the name of anti-inflation), they use as a bogeyman another abominable tale of their own invention: hyperinflation. And thus the chorus from the Greek tragedy that proposes to halt all growth as a guard against the horrifying "hyperinflation," is heard in all the big newspapers, in magazines, on TV and radio stations, and in the immense number of institutions grouped by genocidal monetarism.

The monster of Berchtesgaden was right: "We do not owe the greatness, the rearmament and the economic stability of the Reich to the economist Hjalmar Schacht; we owe these to the concentration camps."

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*Búsqueda is located at Hipólito Yrigoyen 615, 7º piso, Buenos Aires, tel. 33-3364 and 34-5161. The subscription prices for 12 issues per year is 360,000 pesos or U.S.\$26.00.*

## Mexico, Brazil demand new financial order

by Elsa Ennis, U.N. Correspondent

Speaking to the United Nations General Assembly on Oct. 1, Mexico's President José López Portillo warned that failure to reverse the present world economic depression could unleash a "regression to the Dark Ages, with no possibility of a Renaissance." Calling on nations in attendance to rapidly create a New World Economic Order which emphasizes production and puts an end to monetarist speculation, López Portillo ripped apart the trade and monetary arrangements established under British tutelage in the post-war period as a scheme aimed at keeping most of the world in a stage of permanent misery and under-development.

The Mexican leader identified the policies of high interest rates and artificially low prices of raw materials concocted by such monetarist ideologues as the U.S. Federal Reserve's Paul Volcker as the two most immediate causes of the financial crisis plaguing many developing countries, threatening to unleash world economic collapse. These factors, he said, are "the two blades of a pair of scissors that threaten to slash the momentum achieved in some countries and to cut off the possibilities for progress in the rest." Such policies, he declared, are responsible not only for a spiraling payments crisis in the Third World but for provoking the lowest growth rates in the advanced sector in recent decades.

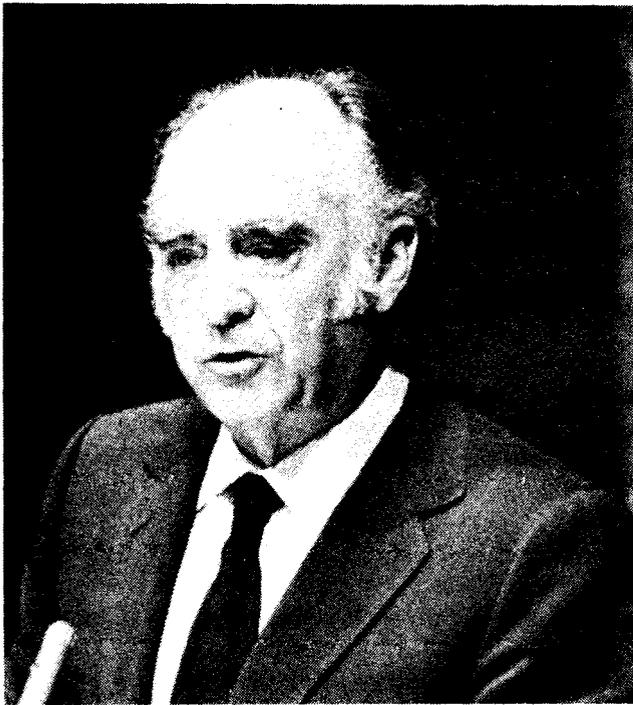
Unless these policies are reversed, López Portillo threatened bluntly, the nations of Ibero-America may be forced to jointly cease payment on their foreign debt. "*Payment suspension is to no one's advantage and no one wants it. But whether or not this will happen is beyond the responsibility of the debtors,*" he warned. "*Common situations produce similar positions, with no need for conspiracies or intrigue.*"

López Portillo has thus brought to a new level the momentum among Ibero-American leaders to form a New World Economic Order. Contrary to previous rounds of vague rhetoric in the United Nations, this year a group of Ibero-American nations led by Mexico and Brazil, have been organizing other Third World nations to unite and begin implementation of that new world order.

Brazil's President João Baptista Figueiredo opened the U.N. flank of that offensive in his speech to the General Assembly Sept. 27 when he warned that "symptoms dramatically reminiscent of the events of the 1930s are reappearing today . . . production investment is being asphyxiated on a global scale under the impact of high interest rates . . . the high cost of foreign debt service creates impossible situations for certain countries." Figueiredo then appealed, "All this sacrifice could be tolerated if, in return, a restructuring of the international economic order could be seen on the horizon within a reasonable period."

After Figueiredo focused the usually vague discussions at the U.N. on the horrifying reality now confronting the world, the foreign ministers of Venezuela and Peru rose to back Figueiredo. Venezuela's José Alberto Zambrano Velasco said that this economic crisis is "the greatest threat to stability, progress and peace in the world."

The Venezuelan spokesman was followed by the Foreign Minister of Peru, Javier Arias Stella, who affirmed that "it is not possible to any longer allow things to continue as they are, because the international economic crisis is at the root of the grave political and social difficulties that confront the international community."



Philip Ulanovsky/NSIPS

President López Portillo at the U.N. on Oct. 1.

### Shultz proposes self-destruction

López Portillo made a point of answering the speech delivered the day before by the Secretary of State of the United States, George Shultz. With a studied and provocative tone which reminded the audience of Henry Kissinger's destruction of the North-South dialogue in the 1975-76 period, Shultz had taken the podium to announce that U.S. policy is to deepen the depression in the advanced sector and to force the Third World to accept the International Monetary Fund's austerity "conditionalities." "Immediate debt problems are manageable if we use good sense and avoid destabilizing actions," he said, "but the magnitude of external debt will almost inevitably reduce resources available for future lending for development purposes. Economic adjustment is imperative, and the International Monetary Fund can provide critical help and guidance."

Shultz went on to blame the present world financial crisis on developing countries' efforts to grow.

López Portillo's answer the next morning: "I want to be emphatic: we countries of the South have not sinned against the world economy. Our efforts to grow in order to conquer hunger, disease, ignorance, and dependency have not caused the international crisis." The Mexican President explained how the onerous debt service now strangling Third World countries' development tripled because of Paul Volcker's decision to increase interest rates, and warned that debt payments might be suspended in order to save developing countries from total destruction. "We cannot paralyze our economies or plunge our peoples into greater misery in order to pay a debt on which servicing tripled without our participation or

responsibility and with terms that are imposed on us. . ."

### An appeal to the North

While posing the possibility of a Mexican "debt bomb" which in turn could catalyze similar moves by other countries, López Portillo made an appeal to the "North" to save itself from British monetarism as the only way to put 30 million skilled workers now unemployed in the advanced sector back to work.

During his speech, Brazil's President Figueiredo was also emphatic in saying that "there is no crisis" between the North and the South, "but rather a profound crisis in the international economic system. The same situation affects both groupings."

Nonetheless, given the advanced sector's insistence on cutting Third World development, as expressed in Shultz's speech, Ibero-American leaders are clearly calling on other Third World countries to prepare for unilateral action such as suspension of debt payments and increasing "South-South" trade arrangements. "The diversity within the Third World," Figueiredo said, "contains unsuspected opportunities for economic complementarity and is a unifying element."

Such unilateral action, in the view of Ibero-American leaders, will not solve the world crisis in itself, but will break the current world political arrangement in which irrational policies are dictated to the developing countries by the likes of Shultz, Kissinger, and the IMF. The ensuing crisis would provide advanced-sector leaderships with the opportunity to reconsider current policies.

Brazil, Ibero-America's most powerful economy, is already aggressively exploring economic "complementarity" in the form of Third World markets for its grossly underutilized capital goods production capability. The president of the state oil company Petrobras, Shigeaki Ueki, is, according to sources at that company, "on full-time deployment" visiting countries to arrange oil for Brazilian capital-goods barter deals. Ueki visited Mexico at the end of September to work out deals for Mexico to repay \$250 million in commercial arrears to Brazil by upping its oil exports to Brazil. Mexico appears to be seriously studying this proposal, and the head of Petroleos Mexicanos, Rodolfo Moctezuma Cid, flew to Brazil soon afterward to pursue discussions.

Late last month, *Gazeta Mercantil*, Brazil's most prestigious financial paper, proposed that similar barter arrangements be concluded with grain-rich Argentina and such oil producers as Venezuela, Nigeria, and China. These kinds of arrangements could prevent Brazil from halving its oil imports next year as previously planned.

### The Malvinas backlash

The war between Britain and Argentina earlier this year was crucial in spurring the leading role Ibero-Americans are now taking in the fight for a New World Economic Order. That event gave Ibero-Americans a political unity they previously lacked and which in turn has shaped the unified re-

action to the financial crisis now closing in on Brazil, Mexico, Venezuela, Argentina and other countries.

Nations which actively supported Argentina's rightful claim over the Malvinas Islands saw themselves threatened with trade and financial embargoes by the advanced sector. This aggression ironically led them to explore the possibilities of increasing their mutual trade and economic complementarity, and they found that they were not as vulnerable as they thought. The realization has also spread that, as the world's biggest debtors, Ibero-American countries are in a position—if unified—to dictate terms to the OECD countries' banks, rather than accepting counter-productive "conditionalities." Now they can talk to the rest of the Third World with a deeper sense of how a New World Economic Order would actually work.

Another catalyst in this process has been the circulation in Ibero-America of the proposals of American economist and Democratic Party leader, Lyndon H. LaRouche, *EIR*'s founder, for a joint debt renegotiation and an Ibero-American common market.

### **Kissinger comes back**

Brazil, as the most powerful developing country, is the key to this emerging unity—a fact of which George Shultz is well aware.

Ibero-American leaders had barely started their New World Economic Order offensive in the United Nations before a myriad of U.S. government officials were deploying a reserve of threats and promises. A clear example is the State Department's recent attempts to "buy up" Brazil by offering it "special treatment." The "whole world market depends on how Brazil manages its situation during the coming years," a State Department official told the daily *O Estado de São Paulo* in late September, adding that from now on the U.S. would turn its attention from Mexico to Brazil.

This strategy of "divide and conquer," a rerun of Kissinger's 1975 use of Brazil against Ibero-American unity, is apparently having some effect on Brazil's most "pragmatic"—and therefore most vulnerable—leaders. On Sept. 29, Kissinger's ally Shultz met with Brazilian Planning Minister Delfim Netto in New York. After the meeting, a Brazilian official told the press that "the attitude of the United States is becoming more flexible, and there is a climate of good will on the part of the U.S. authorities in relation to Brazil."

That day in a U.N. back room, U.S. ambassador Jeane Kirkpatrick met with Peru's Foreign Minister, Arias Stella. There are no public reports on what pledges or warnings were communicated to the Peruvian official. Nonetheless, Third World representatives have expressed fears that an "International Economic Emergency Plan" proposed by the Peruvian government may be turned under U.S. pressure into a trick to distract the Third World from the task of building the kind of New World Economic Order that would be free of British monetarist dogmas and dedicated to independent industrial development.

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## **López Portillo's Statement**

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# **'Without development, no debt can be paid'**

*Excerpts follow from the official English translation of the address by Mexican President José López Portillo to the United Nations General Assembly on Oct. 1. Subtitles and emphasis have been added.*

... Mexico sees in the United Nations the best and highest international forum, in which it is possible to hope for rationality in the face of the overriding presence of the absurd: since the unparalleled infamy of the Second World War, this has been the only setting where arguments can be put forward in the light of reason and the law for preventing a new conflict that very probably would be the last; it represents the only way to revitalize the pursuits of civilization.

If these words seem exaggerated to us today, let us ponder the fact that less than forty years have passed since the end of that war. Let us recall that it was preceded, in fact was brought on, by an economic recession, and that the despair caused by that setback proved to be an evil counselor of peoples and governments. Let us remember that a prolonged debasement of reason and of life itself came before the absurd and death became the controlling influences. . . .

### **Interdependence and economic decolonization**

This makes it essential to bring together the two fundamental areas of negotiation for which the world is waiting: the one that will lead to détente between the two superpowers, and the one that will reorganize relationships between countries with different levels of development. These two conflicts, East-West and North-South, we repeat, has all of mankind crucified. Only through the convergence of both areas of negotiations can there be established a new international order—one which includes the process of political decolonization and the fundamental challenge for international society: economic decolonization. . . .

At the same time, when the international community is incapable of generating the minimum conditions needed for generalized progress, peoples have to choose between the misery of abject subsistence and the harsh road of revolution. Such is the drama of Latin America today. Such are the prospects of most of the nations here represented.

At the present moment, rather than a summons, what is needed is a warning: the world is absolutely interdependent, and not one of its parts can save itself if the others are

doomed. . . .

But Mexico's most constant preoccupation and its principal occupation in international affairs is the transition to a new economic order.

We have insisted that the entire gamut of the economic relationships of the developing countries with the industrialized world must be transformed. Such relationships have appeared as items on the agendas of numerous international conferences, but the progress made has not been particularly encouraging. Thus, we thought of convoking a summit meeting of the main industrialized countries and a representative number of developing nations. Rather than negotiating topic by topic, the idea was for heads of state and government to express their firm political willingness to take a qualitatively significant step in the negotiations that had come to a standstill by recognizing the need to seek this essential new order. . . . Tragic paradoxes that we have been unable to resolve were presented [at the February North-South summit] in Cancún: recession in the countries of the North, due, among other things, to the lack of a market for their goods, which the South requires but cannot purchase because of inadequate financing; funds from the countries of the South that are placed in the North and loaned to other countries of the South; the persistence and even the worsening of monetary and financial practices that have, time and again, proven to be insufficient and ineffective both in the South and the North.

Faced with such paradoxes, we maintained that financing the joint development of rich and poor countries was not only rational but the only possible path to achieving a healthy world economy. . . .

## **World deterioration**

Many things have changed since that time. In recent years, we have witnessed unprecedented hostility, rhetorical belligerence and lack of understanding between the superpowers. In 1982, the world saw the outbreak and escalation of outright armed conflict in many areas. . . .

What most concerns and affects the majority of countries, however, is the extremely serious deterioration of the international economy, particularly in the poor countries, where three-fourths of the world's population lives and where the consequences of the crisis reach tragic dimensions.

Steadily decreasing income, due to the plunge in raw material prices, on the one hand, and higher interest rates and shorter terms of payment, on the other hand, constitute the two blades of a pair of scissors that threaten to slash the momentum achieved in some countries and to cut off the possibilities for progress in the rest.

In fact, it is generally recognized that the world is now in the throes of the worst economic crisis since the Great Depression. Growth rates both in industrialized countries and in the developing world are at the lowest levels recorded in recent decades. Open unemployment, endemic in poor countries, has also already become widespread in the most pow-

erful nations. All over the world, men and women are losing their jobs. The reduction in inflation in certain countries, attained through huge sacrifices in employment, does not mean that the problem has been overcome. The enormous growth in interest rates over the last three years has not only created an intolerable burden for debtor nations, but has also spurred uncontrollable speculation and capital flight of an unforeseen magnitude.

The events that have occurred over the past few years have more than confirmed the need to tackle energy problems in a comprehensive manner and in close coordination with other areas of the world economy. Petroleum sales abruptly shifted from a sellers' to a buyers' market and produced surpluses that have again caused prices to fall and have discouraged efforts to bring about the energy transition.

The present disarray has been detrimental to the oil-producing countries and has been a victory for no one, since it only added to the crisis. The decline in available financial resources caused by plummeting petroleum prices has taken us from an unresolved energy crisis into a financial crisis that deepens recession and threatens the stability of the international monetary system.

In such a situation, specters arise that could seriously threaten the world if the present trend continues. The most dangerous one is that the social pressures caused by economic dislocations could end in an explosion. . . .

A second specter that appears to be dangerously close at hand is a North-South and North-North trade crisis in both basic and industrial commodities. . . . When the entire world is in the midst of a severe recession, the only exportable item is the crisis itself. If recession in industrialized countries continues to push down the prices of raw materials and to restrict the entry of manufactured goods from the South, both our problems and yours will become more critical. . . .

Maintaining the flow of trade under such conditions necessarily implies the establishment of lines of credit that will make it possible to pay industrialized countries for goods and services. To sustain growth in the South countries and maintain employment in the North countries, the amount of such credit has to continually increase, and even more so if the cost of the accumulated debt goes up because of higher interest rates.

Reduced availability of credit for developing countries has serious implications not only for the countries themselves, but also for production and employment in the industrial countries. We cannot continue in this vicious circle, since it could well be the start of regression to the Dark Ages, with no possibility of a Renaissance.

## **The debt question**

And here we have a third threat. I refer to the serious problems of lack of coordination in the international financial system. As everyone knows, heavily indebted countries, including Mexico, have recently been forced to begin renegotiating their foreign debt.

This is a paradox that makes one reflect on the fact that the growth of many of the countries of the South is being criticized by the very countries that made loans to them for that purpose and that now haggle over extending the credit needed for continued growth, when only growth will make it possible for the former to repay the latter and purchase from them.

Today, Mexico and many other countries of the Third World are unable to comply with the period of payment agreed upon under conditions quite different from those that now prevail.

*Payment suspension is to no one's advantage and no one wants it. But whether or not this will happen is beyond the responsibility of the debtors.* Everyone must negotiate seriously, carefully, and realistically. The international financial system consists of several parts: lenders, borrowers, and guarantors; and it is connected with those who produce and those who consume, those who buy and those who sell. It is everyone's responsibility and it must be assumed by everyone. *Common situations produce similar positions, with no need for conspiracies or intrigues. We developing countries do not want to become vassals. We cannot paralyze our economies or plunge our peoples into greater misery in order to pay a debt on which servicing tripled without our participation or responsibility and with terms that are imposed on us.* We countries of the South are about to run out of playing chips and if we cannot stay in the game, this will end in defeat for everyone.

I want to be emphatic: we countries of the South have not sinned against the world economy. Our efforts to grow in order to conquer hunger, disease, ignorance, and dependency have not caused the international crisis. A more immediate cause is the decision to arm, to fight force with force, dragging all the economies, directly or indirectly, toward this senseless objective.

But we can overcome the crisis.

Less time will be required if we can count on the rational support of the international financial community and not on reluctance or punishment for sins we have not committed.

Such support will be of benefit to both creditors and debtors, for all belong to one world in which, if we are all part of the problem, we are also all part of the solution. We need foreign exchange to make payments and purchases. Our counterpart also needs to buy in order to make collections and sales. This is a healthy relationship which is to everyone's advantage. It is that simple. Mexico is a good illustration of the various North-South problems. . . .

In recent years we have made every effort to meet the needs of our population by developing its great productive potential, in conjunction with the needs of the world economy and supported by substantial external financing. For four years we grew at over 8 percent annually; we doubled our installed industrial capacity; we rose from 18th to 4th place in oil; we tripled hydrocarbon production during that period; and we undertook the urgent task of intensive social devel-

opment, thereby generating more than 4 million jobs to absorb not only the already existing unemployed but to provide work for the new generations.

The greatest growth in our history was dramatically interrupted in 1981. Our plans, which had been programmed and budgeted on the basis of four successive fiscal years, suddenly could no longer be financed because of a drop in the price of raw materials, including petroleum, and because of the higher interest rates on already contracted external debt, which tripled the cost of servicing. A pernicious sequence of inflation, devaluations, mounting prices and wages, braked our prosperity. In just three years, capital flight was double the level of foreign investment in our country. Thus, the financial system and freedom of exchange, especially in light of our proximity to the wealthiest country in the world, led to exhaustion of our reserves. It is easy to talk about, but for 70 million Mexicans who had begun to look forward to better times, it is a brutal reality.

Our way of being, acting, and managing our affairs has been distorted in the media, which made us appear in the eyes of the world as a country incapable of shaping its destiny and incompetent to administer its resources, so that the alternative would have to be our subordination to the ruthless ambition of the outside powers. Developing countries like Mexico have suffered countless experiences like these. Many of our problems are made worse by tendentious reports that in themselves bring on the results they announce.

## **Mexico's new policies**

After major attempts to correct this economic situation, my government decided to go to the root of the evil and extirpate it once and for all. There was obviously an inconsistency between internal development policies and an erratic and restrictive international financial structure.

A reasonable growth policy could not be reconciled with freedom to speculate in foreign exchange. Therefore, we established exchange controls.

Given our three-thousand-kilometer border with the United States, exchange controls can only function through a banking system that follows the policies of its country and government and not its own speculative interests and the fluctuations of international financial chaos. For this reason, we nationalized the banks.

We have been a living example of what occurs when *that enormous, volatile, and speculative mass of capital goes all over the world in search of high interest rates*, tax havens, and supposed political and exchange stability. It decapitalizes entire countries and leaves destruction in its wake. The world should be able to control this; it is inconceivable that we cannot find a formula that, without limiting necessary movements and flows, would permit regulation of a phenomenon that damages everyone. It is imperative that the new international economic order should establish a link between refinancing the development of countries that suffer capital flight and the capital that has left these countries. At least

they should get the crumbs from their own bread.

In the face of these dramatic realities, we are lectured about economic liberalism at all cost, which is not applied even in the countries that most passionately defend it. To the contrary, the danger of losing their national integrity has led many governments—among them, ours—to intensify their economic reforms and to strengthen the role of the State in directing their national economies; these are cases of legitimate defense.

Mexico is open to negotiation in every sphere and every forum. . . . We have the resources, tradition, and history to reinforce the principles laid down by our social and popular Revolution. We are sure that, as a country bordering both North and South, our fate is of concern not only to Mexicans but to all developing countries. To all of them I can say that we must hold our heads high and stand together, today and always, in dignity with our shared struggles and hopes.

Never as now has the principle of sovereignty over natural resources and economic processes had greater validity. The terms of the debased relations that we suffer could lead to the dissolution of sovereignty itself. The interference of transnational corporations, the growing concentration of financial facilities, the subordination of the banking systems to the great metropolises, the massive outflow of capital, and the imitation of models alien to our development *endanger the very existence of the nation state*.

Although its formal links have been broken, dependency persists, and the pattern of domination on which the colonial regime was founded has even been reinforced. The concentration of wealth and power increases, while vast regions of the world become more and more impoverished. In the present situation the international cooperation mechanisms that we have devised have been useful in soothing some upright consciences, but they have been altogether incapable of solving the serious everyday problems that are structural in nature.

The charges levelled by the countries of the South in this respect were accurate and farsighted.

In proposing a new order, we sought a profound institutional reform capable of rechanneling international economic relations. We would have liked to avoid the tremendous deterioration of recent years and to have mitigated the crisis. But it is never too late.

Historically, major transformations usually occur when there is no other course to take, which accounts for the distance that separates prophets from revolutionaries. Major ills call for major remedies.

International economic relations should be reviewed judiciously and with a sense of commitment. Let us not look for culprits, but rather find people who will be responsible for the future. Tracing the ultimate cause of our ills is a task for historians, not for political leaders.

Undertaking that immense task of political and economic integration requires a change in attitude. Until now ideological manichaeism, which nurtures the hegemony of the great powers, has held sway.

There has been a tendency to impose the same systems of the past, and in a tense dialectical relationship, as yet unresolved, the doctrines and strategies of change have confronted vested interests, love of compromise for its own sake, and the conservative instincts of empires that never end. Therefore, the global economic negotiations must provide the opportunity to reconcile these opposing views in formulas that are compatible with the needs of the present. It is urgent to convoke these negotiations; they cannot be postponed.

Nor can the supposed dispute between the specialized agencies of the system and the sovereignty of this Assembly be put forward as an excuse for delaying the dialogue. All the United Nations dependencies have been created by our sovereign decision; all of them function within a legal framework, and are to be respected.

The justification for these international bodies is not to be found in the persistence of undesirable inequalities, but in the search for rational solutions to the crucial issues of our time—disarmament, collective security and development.

The United Nations Organization and its member nations have reached a crossroads. We have the forum we deserve and there is no other. If we do not know how to use it to overcome the crisis and establish a more just order, and above all one compatible with our times, there will be no other opportunity. Global negotiations should begin immediately and should be conducted seriously and with every intention of reaching agreement. World peace and security are threatened today more than ever. . . . We must safeguard them at any cost. Any solution or any concession is preferable to the alternative. We cannot fail. There is justification in expecting the worst. Not only the heritage of civilization is at stake, but also the very survival of our children, of future generations and of mankind.

Let us make what is reasonable possible. Let us recall the tragic conditions in which this Organization was created and the hopes that were placed in it. The place is here and the time is now.

Let us hope that the logical confrontations of pluralism, the understandable outbursts of dissidence, complicated by the frustration of impotence, and the unavoidable delays in negotiations do not disable the supreme good represented by the United Nations.

Let us not resign ourselves to the United Nations becoming bogged down in formal procedures, while outside it, pressures are brought to satisfy selfish interests that cannot withstand the test of a generalized legal regime.

We are all part of this union. It is as strong as we wish to make it, particularly those who have the real power and therefore the ultimate responsibility. We have created nothing better or more efficient. Again and again I shall repeat what I have said here. . . . These are times for deciding whether mankind belongs to the powerful, or the powerful to mankind. This has never been truer than now. Here we shall know the answer, and the centuries to come will bear witness to it.

# Brazil, Venezuela warn of return to '30s

*In the opening speech before the United Nations General Assembly Sept. 27, Brazilian President João Baptista Figueiredo called on the developing-sector nations to join together in exploring "unsuspected opportunities for economic complementarity"—after lambasting the IMF-free trade dogmas that have brought on the current economic crisis. Venezuelan Foreign Minister José Alberto Zambrano, next at the podium, agreed with the Brazilian President that the restructuring of the international economy should be the only subject of debate at the United Nations General Assembly this year. The following are excerpts from these speeches.*

## **João Baptista Figueiredo, Brazilian President:**

A few decades ago, an unprecedented economic depression and uncontrolled political tensions brought about a catastrophic war. The society of sovereign states decided then, in 1945, to create a vast network of institutions to further cooperate between governments in order to avoid a repetition of such severe economic crises, promote economic and social development, ease political tensions, and spare future generations from the scourge of war.

Symptoms dramatically reminiscent of the events of the '30s are reappearing today. . . .

It is, indeed, the seriousness of the international situation that, for the first time, brings the President of the Federative Republic of Brazil to the United Nations. Never, in the history of this organization, have the risks and threats to the peace, security and progress of nations been so serious. . . .

In truth, there is no crisis between North and South, but rather a profound crisis in the international economic system itself. The same situation affects both groupings. . . .

The North must understand to its full extent—and its potential for enriching international trade—the inescapable fact of the definitive emergence of the Third World as a dynamic partner, and of its search for a position of greater prominence in the world economy.

As for the South, the moment has arrived for us to give effective expression to the cohesion we have been able to preserve above external difficulties and internal differences. We must move towards the consolidation of a truly solid interdependence among Latin America, Africa, and Asia.

We must make it clear, by deeds as well as words, that the diversity within the Third World contains unsuspected opportunities for economic complementarity, and is a uniting element, not a fact to be used as a pretext for initiatives—such as the arbitrary discrimination among developing countries embodied in the concept of "graduation"—which aim at undermining the cohesion of Third World international co-

operation for development and the North-South dialogue. . . .

The efforts of the Third World to change normative frameworks, decision-making structures and discriminatory rules in institutions such as the IMF, the World Bank and GATT, among others, have been fruitless. . . .

The principles of free trade must not be applied selectively and arbitrarily only to the flow of capital, while the transfer of technology is inhibited and the capacity for action by capital-importing developing countries is restricted. . . .

Interdependence should not be a concept hostile to national sovereignty. . . .

I cannot fail to voice here, on behalf of the government and people of Brazil, the feeling of deep disappointment at the lack, so far, of any practical follow-up to the Cancún meeting. We watch with anxiety the continuous and even accelerated erosion of the instruments and institutions which should bring about a solution to international problems. . . .

The crisis we face is global in more than one sense; it affects practically all countries and encompasses both the financial and commercial spheres. It is not only broad, but also deep: productive investment is being asphyxiated on a planetary scale under the impact of high interest rates, and of the uncertainties over the prospects of international trade and finance.

It is as if a sudden paralysis of a large economic power in the developed world had taken place: such is the situation created by the fact that 30 million highly qualified workers are now unemployed in North America and Western Europe.

But the effects of this crisis situation on the countries of the South are even more devastating:

- The non-oil-exporting development countries have experienced over the last three years a deterioration in their terms of trade unequalled in history. Their often successful efforts to increase exports have been neutralized by declining foreign exchange revenues;

- Years of patient investment in the creation of an export infrastructure, which made it possible for consumers in developed countries to acquire products from the South under advantageous conditions, have been frustrated by unsurmountable protectionist barriers;

- The persistence of high interest rates makes existing long-term investments unprofitable and threatens to undermine the viability of projects which are indispensable for overcoming present difficulties;

- The high cost of foreign debt service creates impossible situations for certain countries, as shown by recent events which dramatically affect a few of the most promising countries of the South.

All this sacrifice could be tolerated if, in return, a restructuring of the international economic order could be seen on the horizon within a reasonable period of time. Regrettably, this is not the case. The present economic policy of the great powers is destroying riches without building anything in their place. The decreasing fluidity in financial flows and the mounting difficulties in international trade are destroying the prospects for overcoming present difficulties. . . .

It is essential that the developed countries agree to take initiatives in order to: liberalize trade; expand international financial flows; adopt a new policy on interest rates; and urgently start revising the international monetary system. . . .

As for the question of interest rates . . . it is in everybody's interest to avoid a dislocation of the developing economies which would result in an undesirable destabilizing effect on the countries of the North. . . .

The solution to the present crisis does not lie in aid for developing countries, but in assuring conditions that would enable them to meet their obligations through a fair return for their work. . . .

We are at the threshold of a new world. May God grant that, thanks to our efforts, it be a better world.

Thank you very much.

### **José Alberto Zambrano, Venezuelan Foreign Minister:**

Venezuela, like many other developing countries, observes with profound concern the persistent deterioration and rapid decomposition of the international economic situation. The extreme gravity of these processes and their inevitable social and economic consequences escapes no one, representing the greatest threat to stability, progress and the peace of the world. . . .

The symptoms of the situation can be synthesized in the following indicators: low growth rates . . . a decline in international commerce . . . monetary and currency instability . . . extraordinarily high levels of indebtedness, with super-high costs on servicing that debt; brakes on productive investment and the proliferation of financial speculation; alarming, and growing proportions of unemployment. . . .

The situation described is the consequence of contradictory and erroneous economic policies and the disorganization and dysfunction of the world economy on three levels: commercial, financial and monetary. The absence of any rules of the game, more obvious daily, and the growing arbitrariness, annuls any possibilities for pre-planning, and feeds a generalized anxiety. . . .

Thus we see how the developed countries, instead of stimulating in a healthy way the development of export possibilities for the developing countries by means of fair payment for their primary products, a policy which in the long run would have resounded in a healthy expansion of world trade for the benefit of all, have preferred to finance the imports of the Third World on scandalously onerous terms. The consequences of these actions are visible: after a period of expanding international trade, artificially and pathologically fed in large part by the growing indebtedness of the Third World, the weight of the corresponding financial obligations turns against the very industrial nations by drastically reducing the capacity of the developing countries to import, which virtually eliminates them as factors of international trade growth.

The global debt of the developing sector will surpass the

incredible figure of \$600 billion by the end of 1982. This debt has imposed unbearable obligations upon the exchange earnings of the developing countries, and created their growing insolvency. In Latin America alone, the debt will reach \$280 billion by the end of this year. Amortization of this debt equals 56 percent of all export earnings of Latin America. . . .

That situation poses an unprecedented challenge for the international financial system. There is one unquestionable fact: the economies of the industrialized countries cannot be sustained without the support of a firm development of the Third World. . . .

We have been battling for a complete restructuring of the international economy, and we have denounced the policy of making the weight of readjustment fall upon the developing countries. . . .

It is necessary to create a climate of mutual confidence to contribute to a new channel for the world economy which is the precondition for a reduction in international tensions, and for the building of a more rational and more human world where harmony, justice and peace can prevail."

## **Peru: emergency plan**

*In this speech to the United Nations General Assembly on Sept. 27, Peruvian Foreign Minister Javier Arias Stella joined Brazil and Venezuela's calls for a total reform of the world monetary system. "It is not possible any longer to allow things to continue as they are," Arias Stella stated bluntly, and announced that his government was calling for the adoption of an "International Economic Emergency Plan" to "encourage the recovery of the world economy."*

*Arias Stella explained in a press conference that he was holding extensive discussions with his colleagues from around the world on Peru's proposed plan.*

*Excerpts from Peruvian Foreign Minister Arias Stella's speech to the United Nations General Assembly:*

The accumulation of foreign debt constitutes for all countries, both industrialized as well as developing nations, a burden and a risk which threatens not only their economic progress but the very stability of the international financial system.

It is not possible to any longer allow things to continue as they are, because the international economic crisis underlies and is at the root of the grave political and social difficulties that confront the international community . . . It is urgent that despair not spread. . . .

We deem it advisable to call for the adoption of an International Economic Emergency Plan, in which all the states and organizations of the international community participate, without discrimination or self-exclusions. To this end, my government will promote at the current General Assembly the examination of a proposal for the immediate adoption of

such a plan. . . .

We also encourage the immediate convocation of a meeting to establish a General System of Trade Preferences among the developing-sector nations, as a practical and efficient way of promoting our economic ties.

*The following is excerpted from the Peruvian memorandum for an International Economic Emergency Plan issued by Arias Stella:*

Since the crisis of 1930, we have not faced such an alarming situation for the international community. . . .

Most worrisome about this crisis, as dramatic as it is already, is that it could not only linger on for a long time, but might become worse if some emergency measures are not taken in order to prevent the deterioration of the situation and, by the efficient use of resources at our disposal, provide the immediate assistance that will produce the necessary reactivation of the international economy.

If these urgent measures are not adopted, the results of the crisis will heighten international tension to the levels of a conflict without historical precedent with unpredictable social consequences at the global level.

For this reason the Peruvian government proposes to the international community that it examine, with the urgency that we know the matter requires, the adoption of an International Economic Emergency Plan that would benefit from the work and support of existing international institutions. . . .

International financial guarantees that would facilitate a greater flow of resources should be considered. The urgency of ensuring an adequate growth of concessionary financing should also be taken into account, especially for the least-developed countries. . . .

We should urgently undertake the study of policies that would activate the flow of commercial, financial and technological exchanges. We think that a way to reduce international recession and to alleviate the problems derived from foreign debt, is to increase foreign trade. The measures to be adopted in the short term in order to attain that end must be urgently studied, conscious that we can agree on measures that the urgency of the crisis requires, without detriment to national policies. This could include tariff and non-tariff negotiations, or negotiations on specific commodities that would bring about immediate results.

We should look for a level of consensus needed to halt and reduce the protectionist trend, which is aggravated by the international crisis.

This proposal, which takes into account elements which are at this time being expressed in various forums, aspires to obtain a consensus for its prompt adoption and immediate implementation.

We think that the United Nations . . . is the forum where this International Economic Emergency Plan should be studied and where a decision should be taken on its implementation.

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## INDIA

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# Gandhi and Brezhnev hold strategic talks

by Paul Zykofsky from New Delhi

Less than two months after her visit to the United States, Indian Prime Minister Indira Gandhi flew to Moscow on Sept. 20 as part of India's ongoing efforts to reduce international tension. Gandhi projected this sense of her visit in a speech at a banquet in her honor, in which she described the international situation as "bleak and forbidding" while warning of the danger of a major "global conflict breaking out" over some regional conflict. In this context, Gandhi stressed, as she did in Washington, that India is committed to working for an improvement in U.S.-Soviet relations.

The theme of Gandhi's diplomacy during the past few months, which has also taken her to Europe and several developing-sector nations, has been that the developing nations need peace to get on with the urgent task of economic development and nation-building. Speaking to representatives of Soviet public organizations on Sept. 21, Gandhi noted that "unfortunately events during recent years have not produced a congenial atmosphere in which developing countries can effectively pursue their paths of self-development."

During her visit to the Soviet Union Gandhi specifically expressed concern at the "militarization of India's neighborhood"—a reference to the U.S. supply of advanced fighter planes to neighboring Pakistan, and to the encouragement of military bases in the Indian Ocean.

Soviet President Brezhnev responded to India's concerns by proposing that NATO and the Warsaw Pact commit themselves to desist from extending their sphere of activity to Asia, Africa, and Latin America. While Brezhnev did not elaborate on this proposal, observers in New Delhi viewed it as a response to NATO plans—formalized during the South Atlantic Malvinas crisis—for "out-of-area" deployments and

the possible use of Pakistan as a base for the Rapid Deployment Force.

Brezhnev also expressed his country's readiness to resume negotiations with the United States on reduction and limitation of military activities in the Indian Ocean "at any moment."

### **An exceptional welcome**

Gandhi was given a warm welcome in the Soviet Union. In a break with protocol, Soviet President Brezhnev was present at the airport, along with top members of the Soviet leadership, to meet Mrs. Gandhi upon her arrival Sept. 20. Thousands of people lined the streets of Moscow to cheer Gandhi's motorcade, and on several occasions Brezhnev stressed the importance the Soviet Union attaches to Gandhi's role as a leading world statesman, both as head of an influential nation of 700 million people and as the foremost leader of the non-aligned developing nations. As host country for the summit of non-aligned nations early next year, India will become chairman of the movement for the next three years.

As part of this red-carpet treatment Mrs. Gandhi was given the unusual opportunity to address Soviet citizens at several public forums. She also spoke to the Foreign Affairs Commission of the Supreme Soviet, and was a guest at the Soviet space training center in Star City, where she was given a tour by prominent cosmonauts. Shortly before her departure for the Soviet Union the Indian government had announced that two air force pilots had been selected to prepare for a joint Indo-Soviet space flight in 1985.

The basis for the close relations between the two countries was explained by Gandhi when she noted that the Soviet Union had "stood by us in our moment of difficulty," a reference to the Soviet support for India in the 1962 war with China and the 1965 and 1971 wars with Pakistan. "I am sure in your own problems you have found understanding from India," she added, "even when our political philosophies and systems differ and our views vary."

Brezhnev echoed these sentiments, noting that "our friendship and our cooperation have become an important and beneficial factor of world politics—a stable and growing factor. This factor acts in favor of strengthening peace and the security of the peoples. This is especially valuable in the present troubled international situation."

Behind these expressions of political friendship are extensive economic ties built up between the two countries over the last three decades, including assistance in the 1950s and 1960s in building several steel plants which the United States had refused to build. In addition to major assistance in establishing a capital-goods industry in India, at present the Soviet Union has also become India's largest trading partner.

### **New areas of cooperation**

During ministerial-level discussions and meetings of the

Joint Indo-Soviet Commission chaired by the two countries' Foreign Ministers just prior to Gandhi's arrival in Moscow, the two sides chalked out several new areas of economic cooperation. These include:

- Credit as well as technical assistance for the expansion of the Visakhapatnam steel plant, currently under construction, from 1.8 million tons to almost 4 million tons;
- Assistance in expanding the Bhilai and Bokaro steel plants;
- Credit and technical assistance for an aluminum project in Andhra Pradesh;
- Soviet involvement in helping to build the Paradeep steel plant, a project originally agreed upon with the British firm Davy International but cancelled by India earlier this year when the British raised further conditions;
- Sharing of Soviet experience in land reclamation, including use of explosion blast methods for building dams and linking of rivers;
- Soviet agreement to sign a long-term contract for purchase of over 500 million meters of cloth per year; and
- Signing of a science and technology protocol for 1984-87 which includes several new areas of cooperation such as genetic engineering, lasers, systems analysis, and high-temperature and high-pressure materials research.

### **Nuclear power**

In addition, while Gandhi was in Moscow the Soviets formally reiterated an offer first made in 1979 to build a 1,000 megawatt nuclear power plant and an 800-1,000 megawatt thermal plant. The conditions under which the Soviets would build and supply fuel for the nuclear plant have not been spelled out. Given India's difficulties with the Tarapur nuclear plant (including problems with U.S. supplies of fuel), it is unlikely that it will go in for another atomic power station dependent on foreign-supplied fuel. But Gandhi agreed to study the proposal before making a final decision.

Brezhnev summed up the Soviet attitude toward economic cooperation by pledging the Soviet Union's "fullest possible help" for the future development of basic industries, including steel, non-ferrous metals, heavy engineering, and energy.

While acknowledging the Soviet Union's offers of economic assistance, in her speech to Soviet public organizations Gandhi also placed emphasis on the need for establishing a new international economic order.

"Economic development in a country which suffered long years of colonization needs enormous resources in capital and technology," Mrs. Gandhi said. "These are difficult to procure, even in relatively advanced and prosperous countries. They can be obtained only if there is worldwide consciousness that economic development is not the prerogative of a few strong countries, but must be spread far and wide among the formerly colonized and exploited lands. Only thus can development flourish."

# Club of Rome ran the Beirut massacre

by Thierry Lalevée, Middle East Editor

The massacre in Beirut of more than 1000 Palestinian men, women and children on Sept. 16-17 was not the result of an uncontrolled move to avenge the assassination of President-elect Bashir Gemayel. It was a cold-blooded operation planned by leaders of the Israeli-controlled militias of Major Sadam Haddad and secondary leaders of Amin Gemayel's Falangist Party in an attempt, as one of the criminals, Elias Hibeika, put it, "to embarrass Amin Gemayel," the new President, and renew the seven-year-old Lebanese civil war.

As investigations by *EIR* confirm, the overseers of the massacre such as Haddad, Hobeika, and Israeli Defense Minister Ariel Sharon, are themselves pawns in a broader design on the part of the genocidal Club of Rome and its networks in the Middle East. Along the lines of the Club of Rome-sponsored *Global 2000 Report*, the entire Lebanese civil war and the ongoing dismemberment of the country were run as part of a plan to check the growth of the Arab—and other—populations in the region. Indeed, the Lebanese conflict has been conceived as a laboratory experiment on how to destroy a population.

Ultimately, from the standpoint of the Lebanese and Israelis associated with the Club of Rome, the aim was to maintain a certain "purity of the race" in the region by reducing the Arab population there. To achieve such a goal—which is also being pursued in the two-year-long war between Iraq and Iran, as they fight each other like gladiators in an arena—these networks have acted in alliance with the old Nazi International and the remaining Mideast assets of the German Abwehr's Department II. Not only did the west Beirut massacre recall the massacres perpetrated by this Nazi division during World War II—these were the same people.

## The Kaslik priests

Records of the activities of the Malthusian Club of Rome are very difficult to trace in the Middle East, for the simple reason that, aware of its ideology's lack of appeal to the people of the region, and of the certainty of a backlash if it were openly promulgated in the way it has been in the industrialized countries, the Club of Rome has chosen to hide

behind other names and other institutions.

At the core of the Club's Mideast deployments is the Kaslik group of Maronite priests led by Father Mouhannes, Father Boulos Naamann, Sherbel Kassis, and others. The Kaslik group aims at remodeling Lebanon into a "Phoenicia" whose inhabitants would be "pure-blooded" descendants of the Aramaics. Its "chivalric" military order is the Order of the Guardian of the Cedars.

The August 1976 massacre of Tel al-Zaatar in Beirut, conducted by Bashir Gemayel's Falangists, was directed by Kaslik leader Father Sherbel Kassis, a member of the Order. Only a quick retreat into monastic obscurity saved Sherbel Kassis from excommunication by Pope Paul VI. For Kassis and his collaborators, the Christian religion is nothing but a cover, coherent with their vision of "Phoenicia," the god they worship is the ancient Tyrean Baal (see *EIR*, Oct. 5). They control most of the drug production in Lebanon, and own huge pieces of real estate as far away as Brazil.

The Falange and other forces are the extension of these priests, who in the 1930s gave their approval, and funding, to Pierre Gemayel's establishment of his Kataeb Party, as the Falangists are known. It was also these priests who during the Second World War used their various political operations to maintain contact with the Nazi regime, while simultaneously playing "the British card" against Gen. Charles de Gaulle.

## The Club of Rome

One direct connection between the Club of Rome and the Kaslik group has been a Syrian named Antoun Makdissi, director of the Syrian Ministry of Culture; the Cultural Minister, Dr. Najah al-Attar, is the sister of Syrian Muslim Brotherhood exile leader Issam al-Attar in Aachen, West Germany. Over the past five to six years, sources report, Makdissi has used his position to disseminate translations of all recent Club of Rome reports, which have been funneled into Lebanon and the rest of the Middle East by way of the Kaslik group, as well as through a certain "Lebanese Club" (Al Nadweh al-Lubnayya), which includes not only the leadership of the Kaslik group, but such individuals as Said Akl, the "poet" and ideologue of the Guardian of the Cedars, who is on the payroll of one of Lebanon's oldest oligarchic families, the Sursoks. These circles also extend into Tunisia, where President Habib Bourgiba, with his strange record during World War II, refers to Said Akl as his guide, and where the Al Nadi al-Siyahi "tourist group" promotes Club of Rome propaganda.

The founder of the Club of Rome, Aurelio Peccei, recently created the Arab Thought Forum, whose Secretary-General, Malek Basbus, is Lebanese. In a recent interview with *EIR*, Basbus openly advocated a Global 2000 program for the region. The Forum's chief controller in the region for the past year and a half has been the French ambassador to Lebanon, Paul-Marc Henry, a director of the Malthusian science and technology division of the OECD for several years, out of which the Club of Rome itself was created.

# Begin scrambles to hang onto power

by Nancy Coker

Israeli Prime Minister Menachem Begin bowed to international and domestic pressure at the end of September and agreed to open a full-scale state investigation into the Beirut massacre of Palestinians. Depending on what the investigation turns up, the Begin regime—including Defense Minister Ariel Sharon, the architect of the slaughter—could collapse as a result of revelations of government complicity in the massacre, in which at least a thousand were killed.

Although the formation of an independent commission of inquiry is seen as a victory for Begin's opponents, Begin himself and possibly even the cold-blooded Sharon may not yet be finished. Numerous Israel-watchers predict that Begin may well weather the current crisis as passions gradually subside inside Israel. Begin may attempt to distance himself from Sharon over the next few weeks, and then move toward some sort of national-unity government.

"Begin has great staying power," commented one veteran analyst. "He's a wily old fox who just may survive this crisis after all."

However, Begin's position is, to say the least, tenuous. The worsening economic situation in Israel in the wake of the war, combined with dissent inside the armed forces, could oust him. One thing is certain: namely, the man Henry Kissinger is looking to, to take Begin's place.

According to Washington intelligence sources, Kissinger is pushing former Defense Minister Ezer Weizman to lead the next Israeli government. It is expected that Weizman, a product of the Royal Air Force and a long-time British intelligence asset, will readily cooperate with the Kissinger-authored Reagan peace plan, which, in true Kissingerian fashion, is designed not to resolve the fundamental issues of the Middle East conflict but merely to sustain an endless series of step-by-step negotiations and "crisis management" at the expense of the region's stability and economic development potential.

The fix for Weizman is not necessarily in, given the distrust he engenders among the Israeli populace and his image as a wheeler-dealer. Israeli President Yitzhak Navon, a protégé of Israeli founding statesman David Ben-Gurion,

is viewed by many as the best candidate for the prime ministry, given his popularity among all elements of the Israeli population, including Israeli Arabs. At present, however, Navon is publicly rejecting appeals that he resign the presidency and actively campaign to become Prime Minister.

## Damning evidence

It will not be easy for Begin to stay in power, given the evidence of government responsibility for the Beirut slaughter. Zeev Schiff, a respected military correspondent for the Israeli daily *Haaretz*, confirmed Sept. 28 that contrary to government allegations, the massacre was no "spontaneous act of revenge" for the murder of Lebanese President-elect Bashir Gemayel. The massacre, said Schiff, was "an act that was planned beforehand with the objective of causing a mass flight of Palestinians from Beirut and Lebanon."

More than anything, it is the opposition of the Israeli Defense Forces to Sharon that will probably determine the fate of the Begin government. The Israeli army is livid over Sharon's efforts to blame them for the Beirut massacre and to implicate them as well in the 1976 massacre at Lebanon's Tel Zaatar Palestinian refugee camp. According to intelligence sources, top military brass have put out the word that they will resign en masse if Sharon continues to sully the name of the Israeli Defense Forces through his irresponsible comments and dangerous actions. Gen. Binyamin Ben-Eliezer, Secretary-General of the Tami Party, one of Begin's coalition partners, has termed Sharon guilty of "blood libel" against the Israeli army and state.

Israeli sources agree that the Israeli Defense Forces could easily turn against Sharon. Seventy percent of Israel's reservists, who make up the bulk of Israel's fighting force, are kibbutzniks affiliated with Mapam, the left wing of the opposition Labour Party. The officer corps itself is also split, with an estimated 50 percent affiliated politically with Begin's Likud and the other 50 percent with Labour.

The degree of disaffection in the army was underscored by Sharon himself, who revealed that two weeks ago he was unable to muster a certain crack regiment for duty in Lebanon because its members opposed the war. Such refusal to fight is absolutely unprecedented in Israel. On Sept. 29, a thousand reserve officers and soldiers sent a petition to Sharon asking that they not be sent to Lebanon because of their opposition to the war. The soldiers who signed the petition are affiliated with an anti-war group called Yesh Gvul, or "There Is a Border."

That Begin is feeling the heat was revealed by his sudden cancellation of a pro-government rally he was trying to organize for Saturday, Oct. 2. The rally was to have served as a response to the 400,000-strong anti-government demonstration held a week earlier in Tel Aviv to protest the Beirut massacre and to demand Begin's and Sharon's removal. The cancellation is viewed as a tacit admission by Begin and Sharon of their weakened position.

# Ungovernability in Bonn to open the way for a Strauss coup?

by Rainer Apel, Bonn Bureau Chief

The advent of Christian Democrat Helmut Kohl as the new Chancellor of West Germany on Oct. 1 forebodes the rapid disintegration of political and economic life in the Federal Republic. Kohl, who will head a coalition with the tiny Free Democratic Party after it deserted the Social Democratic (SPD)-led government on Sept. 17, won a vote of no confidence against Helmut Schmidt, but has no capacity to actually govern the country. The chief of the Christian Democrats' sister party, the Christian Social Union (CSU), Franz-Josef Strauss, is ready to stab Kohl in the back; the new government is unlikely to last until Christmas.

Helmut Schmidt departed from Bonn with a "statesman-like" posture of rising above the fray and waiting for his countrymen to recall him after the CDU and FDP have aggravated the present crises. He left behind a crew of petty-minded, complacent Christian Democratic mediocrities and a discredited Free Democratic Party, who chiefly agree with each other that there should be brutal austerity and March elections to confirm their coalition should be dodged. Despite earlier rhetoric that elections might occur in March or sooner, the Free Democrats know that they would probably gain a vote lower than the 5 percent required for parliamentary representation, and the Christian Democrats, after their disappointing showing in the Hesse state elections on Sept. 26, rightly conclude that they have little to gain from a national balloting, either.

## Political maneuvers

The unholy Bavarian Strauss, who is openly referring to the new government as "transitional" and rubbing in Kohl's face the fact that his new partner, the FDP, is detested, intends to pick up the chips when the Kohl chancellorship disintegrates. Meanwhile, the cabinet is expected to retain FDPers Otto Graf Lambsdorff as Economic Minister, Hans-Dietrich Genscher as Foreign Minister, and Josef Ertl as Agriculture Minister, while the Finance Ministry post goes to Gerhard Stoltenberg, CDU governor of Schleswig-Holstein; the maniacal CDUer Manfred Wörner becomes De-

fense Minister, and Strauss's man Friedrich Zimmerman of the CSU takes over the crucial Interior Ministry.

While a bitter fight has broken out in the SPD between the partisans of the "Green" ecologists and the pro-labor, pro-industry Kanalarbeiter grouping, the FDP is divided over the prudence and morality of having collapsed the Schmidt government. Mr. Kohl knows the risks involved in allying with the collapsing FDP, but, under attack within the CDU for lack of leadership and vision, he decided that now was his only chance of becoming the chancellor, before one of his CDU rivals builds himself up. Strauss's criticism of the liberals has driven the whole coalition to the right at the expense of the "progressive" wing of the FDP, whose main spokesman has been former Interior Minister Gerhard Baum. The fact that Baum and his policy are not represented in the new coalition might lead to a split of the FDP; Genscher, the FDP chairman, had problems in getting his liberal votes together for the vote of no confidence required to oust Schmidt. In a statement on West German TV on Sept. 27, Genscher said that "the tasks we are facing require quick decisions, and therefore we cannot pay attention to those who object to these decisions"—in other words, Genscher would sacrifice his left wing if that meant that the FDP could save its skin in the coalition with Kohl.

This kind of panicked policy by Genscher has intensified the public rage about his machinations to stay in power, no matter with what government or coalition. What smashed the FDP in the Hesse elections, and also, by the way, smashed the hopes of the CDU in the same elections, was the rather successful campaign of the SPD and Chancellor Schmidt, accusing the liberals of "treason in Bonn," and both the FDP and CDU of mounting a cold coup to topple Schmidt and avoid new elections by forming an austerity coalition in Bonn.

The Hesse state election result deserves attention: intersecting the distribution of about 400,000 leaflets and other material by the European Labor Party calling for support to Schmidt, the SPD started distributing 1 million leaflets during the last week of the election campaign denouncing the

liberals "treason in Bonn". While all the poll-makers had predicted a vote of 52 percent for the CDU, of below 40 percent for the SPD and of around 4 percent for the FDP, the actual result on Sept. 26, was a shock for the CDU and FDP: the FDP went down to 3.1 percent, the CDU to 45 percent, and the SPD did unexpectedly well with 42.8 percent. However, the Green Party got into the parliament with 8 percent of the total vote.

### **The austerity question**

The basic factor of instability in the new government in Bonn is its incompetence in economics: the common denominator between the three coalition partners is a mixed bag of conservative, monetarist recipes which prescribe harsh austerity as the only remedy against the depression. As in Britain, this kind of policy will drive unemployment rates drastically up to 3 or more million, will ruin most of the medium-sized and small industries, and will disrupt the system of social peace in West Germany which has been an important factor of post-war stability in this country. Economic chaos will be added to the already existing chaos on the political party front: three of West Germany's states are now governed by minority caretaker governments.

But the Hesse election results have created a shock among all those moving into power in Bonn, and have especially shocked the oligarchy of the "southern tier group," especially, because one of the accompanying effects of the combined election campaigns of the European Labor Party and Social Democratic Party has been that labor leaders and the labor base of the SPD have started to mobilize against austerity as such, and have forced the SPD to reconsider the ideology of "share the burden," the Social Democratic version of austerity which characterized the last phase of the SPD-FDP coalition in Bonn before Sept. 17. This labor mobilization bears the potential of turning against austerity, and of making policy difficult for the coming coalition.

### **Why Schmidt fell now**

Watching this threatening development, the oligarchy behind Strauss's CSU decided to go ahead with the Oct. 1 vote of no confidence, in order to topple Schmidt before the labor-base revolt could position their own plans. Fully aware of the transitional character of the Kohl-led government, the oligarchy of the southern tier is already making plans for an authoritarian regime in a situation which would feature major economic collapse, social unrest, and ungovernability in Bonn. While the intellectual opponent of the oligarchy, the European Labor Party, which has led many campaigns in the past against "Greenies and Counts" (*Gegen Grüne und Gräfen*) and against Strauss and the oligarchy behind him, the mass resistance against austerity lies in the SPD and especially in its labor base. In order to confine or ruin the risks embedded in the coming erosion of public trust in the CDU/CSU, due to the worsening economic crisis, and in the

strengthening of the SPD and the labor movement, the oligarchy of the southern tier group has unleashed its favored submarine in the SPD, party manager Peter Glotz, and his like, to rally support behind party chairman Willy Brandt's plans to turn the SPD into a ecologist-alternative left-wing party while in the opposition in the parliament. This Brandt policy, according to his own terminology "the search of a new majority in this country," which would be at the expense of the SPD's labor base, will split the SPD into two hostile wings: labor versus ecologists.

The oligarchy's calculation is that by paralyzing the SPD in this way, plans for installing an authoritarian regime in the midst of financial collapse, economic and social upheavals, and paralysis in the political party system will create an environment for their coup d'état in Bonn; and it would not be surprising to see Strauss, who has abstained from the Kohl "transitional regime," emerging as the new strongman in

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*Helmut Kohl is definitely a "transitional" Chancellor. The southern European oligarchy intends to impose crushing austerity on West Germany, and render the Social Democratic opposition incapable of countering, while social chaos paves the way for an authoritarian government supplanting the Christian Democratic-Free Democratic coalition arrangement.*

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Bonn, like a phoenix from the ashes. Herr Strauss himself has never left any doubts as to his conviction that only a chaotic situation would pave the way for him to take power. The same thing already happened once in Germany of course: in 1933, when the political and social chaos of the Weimar Republic was exploited by a certain Hitler and his "authoritarian movement," the origins of which lay in Bavaria, and in the southern tier group.

While the situation in the Bonn of October 1982 cannot be compared to the situation in Weimar of September 1932, the signs on the wall are, however, visible enough to impel a labor-based campaign for the defense of living standards, and for new elections to preempt a Strauss coup in Bonn.

# Genscher behind attempt to murder LaRouche?

Information received by this press service has raised the possibility that former West German foreign minister Hans-Dietrich Genscher may have been linked to the second assassination attempt against European Labor Party Chairwoman Helga Zepp-LaRouche, which occurred Sept. 23, exactly a year and a day after the earlier attempt. Mrs. LaRouche is a public figure of the Federal Republic of Germany, and wife of the prominent economist and U.S.A. Democratic political figure Lyndon H. LaRouche, Jr.

Information substantiating these suspicions has been received from intelligence officials of two governments as well as through highly reliable private sources. The possible connection of Genscher to the assassination attempt involves his reported relations with Jack Sommers and Jacques Sarlie.

Under investigation in addition are Genscher's reported direct and indirect connections to United States gangster Roy Cohn, the controller of the East Side Conservative Club, and one of the leading controllers of the American Council on Germany. Cohn is also an associate of the Buckley family and of the five families that dominate the New York underworld. Most especially, he is a colleague of Henry A. Kissinger, and has on occasion killed on order from Kissinger. Roy Cohn is presently reported to be in Rome, where he is seeking to avoid testifying in the United States, according to U.S. sources. He is also reported to be meeting with three known key criminal elements.

Investigation of Genscher, who is also chairman of the BRD Free Democratic Party, is currently proceeding.

According to the professional security agency investigating the most recent incident, a flechette-like projectile was shot into the tread of the left rear tire of the vehicle in which Mrs. LaRouche was traveling to a public speaking-engagement in Frankfurt. This caused a delayed-action "blow-out" of the tire, and could have caused a serious accident but for the anti-terrorist training of the vehicle's driver.

According to evidence of witnesses interviewed after the incident, the actual sniper-attack on the LaRouche vehicle was made approximately 6 to 8 kilometers distant from the point at which the blow-out occurred. Sparks were seen spewing from under the left-rear tire of the vehicle as the automobile pulled away from the Autobahndreieck, Mönch-

hof, a few kilometers west of Frankfurt Airport. The information correlates with evidence discovered by the laboratory.

In the earlier assassination-attempt, on Sept. 22, 1981, a truck of the firm of Spedition Koch, Osnabrück, operated by one Hartmut Klemp, abruptly crossed two successive lanes of superhighway, in what the driver admitted to have been a conscious attempt to cut off the LaRouche vehicle. First, the driver forced the LaRouche vehicle into a highway construction-site, and followed that immediately by attempting to force the LaRouche vehicle through a guard rail. Only the special anti-terrorist training of the automobile's driver prevented an otherwise successful assassination.

Knowledge of a planned kidnap or assassination attack planned against Mrs. LaRouche by U.S. circles was received from two independent security-sources during the past summer. One source merely indicated that a kidnapping and/or assassination was planned. Another source traced the planning of the attack to New York mobster Roy M. Cohn of the East Side Conservative Club.

Consequently, the attempted assassination of Thursday, Sept. 23 involved an effort to break through extensive security screens around Mrs. LaRouche.

Mrs. LaRouche was riding in an armored car secured just a few hours before the incident, hired especially for this occasion. Until the moment the car arrived to pick Mrs. LaRouche up for this journey, the vehicle, which had just come out of a thorough mechanical inspection, had never been associated with Mrs. LaRouche in any way. Although other vehicles in the security caravan may have been known to the perpetrators, the execution of the sniper-attack required a massive, coordinated surveillance of Mrs. LaRouche's movements.

A highly reliable informant has reported that a sum of \$2 million has been paid to circles of the New York East Side Conservative Club for assassination operations against Mr. and Mrs. LaRouche. This is in addition to massive sums otherwise known to have been spent through organized-crime channels outside the Mafia as such for similar covert operations. Part of this covert-operations activity centers around mobster Roy M. Cohn, and another section centers around Cohn's associate, Henry A. Kissinger and Kissinger's Washington, D.C. law firm of Arnold and Porter.

Earlier, also during the past summer, it was reported by several highly reliable under-cover informants, that drastic measures would be unleashed against LaRouche if LaRouche-supported Democratic Party candidates gained significant double-digit percentile votes in the September Democratic primary elections in Minnesota, Maryland, and New York. Even after massive vote-rigging and some large-scale outright fraud, those candidates did reach reported levels of votes of between 20 and 40 percent of the total. It may be a coincidence, but the latest attempted assassination against Mrs. LaRouche came the day of the New York Democratic primary.

## Saddam Hussein's folly

*The Iraqi President is openly protecting Abu Nidal, and making foolish, dangerous deals with the British.*

There is something rotten in the kingdom of Chaldea, presently known as Iraq.

This was underlined on Sept. 25 when, in a two-hour press conference held in Baghdad by Iraqi President Saddam Hussein, he announced to a panel of British journalists invited to the capital for the occasion, that the international murderer known as Abu Nidal (his real name is Sabri al-Banna) "maintains an office in Baghdad and is allowed to enter the country freely."

Saddam Hussein stressed that he "would not define Abu Nidal as a terrorist," and that the Iraqi government "welcomes any Arab militant," Baghdad not holding itself responsible for "what such people may do in others' countries."

This is an astounding statement in light of Abu Nidal's terrorist record: most recently the massacre of the Rue des Rosiers this August in Paris, followed in September by bombings and machine-gun attacks against a synagogue in Brussels. Abu Nidal was already known for his role in the assassination of moderate Palestinians, Israelis and Jews alike.

Analysts immediately put forward several explanations of Saddam Hussein's statements.

Some said he was being clever: Abu Nidal is said to mainly live in Damascus, and any Iraqi acknowledgement of ties to him would force the Syrians to look askance, if not get rid of him. Others countered that as part of the ongoing relaxation of tension between Damascus and Bagh-

dad, in the wake of the Arab Fez summit, they may have begun to "share terrorists." Others claimed that Saddam Hussein was simply acknowledging the fact that Abu Nidal had never left Baghdad.

In fact, Hussein's statement should be seen as an attack on PLO Chairman Yasser Arafat, who has clearly addressed the issues underlying the massacre of Palestinians in Beirut.

In an interview with *Le Monde* a few days after his meeting with the Pope at the Vatican, Arafat denounced Ariel Sharon and Menachem Begin as "not true Jews," stating: "The crime they committed is against Jewish morality and tradition. The real Jews are those who have refused to be associated with the annihilation of the Palestinian people."

"These are Colonel Geva, Nahum Goldman, [Pierre] Mendes-France, and primarily the scores of thousands of Israelis who have demonstrated in the streets of Tel Aviv. To all these peace-minded people and Israeli democrats, I send the esteem and respect of the Palestinian people, who will never forget their solidarity."

In the same interview, as other Palestinian spokesmen did subsequently, Arafat distanced himself from terrorism, asserting that most of the recent operations in Vienna, Paris, Brussels, and elsewhere had been guided by Israel's Mossad.

In conclusion, Arafat stressed: "But who is Abu Nidal? If not a Mossad agent, a vulgar goon. . . ."

A few days later, according to PLO

sources, it was Abu Nidal's men who abushed the PLO's commander-in-chief, Aka Abu Walid, while he was inspecting PLO troops in the Syrian-controlled region of Baalbek, and murdered him. This was perhaps Abu Nidal's answer to Arafat's declaration.

As for Saddam Hussein, it is perhaps not surprising that at his Sept. 25 press conference, he also praised the good relations between Iraq and its former colonial ruler, Great Britain, and the upcoming conclusion of an important arms deal between the two countries.

This underlined the kind of strategic blunders Baghdad has been making over the past two years in its war with Iran. Baghdad is being manipulated around the idea that it will easily win the new round of fighting with Iran. Two years ago, Baghdad was similarly manipulated into invading Iran by Carter's Zbigniew Brzezinski—duped into believing Khomeini could be toppled from power by Iranian exiles as a result. Instead, Iraq was plunged into a two-year meat-grinder of a war.

Baghdad has failed to expose the "Islamic fundamentalism" of the Ayatollah Khomeini as an Oxford University (British intelligence) creation, choosing instead to play an "Arab versus Persian" card. Iraq is now resorting to strategic dealings with the forces who created Khomeini in the first place—the British Foreign Office and British intelligence.

In that sort of game, Iraq will be the loser, as Henry Kissinger indicated in a recent speech in San Antonio, Texas.

Kissinger said: "I was once asked what I thought about [the Iran-Iraq] war, and I said my only regret was that only one side can lose. . . . to prove me wrong, both sides are proceeding to lose."

## Nigeria's constitution targeted

*The opposition party would abolish the strong central government and promote ethnic and regional conflict.*

The upcoming 1983 elections in Nigeria, the first since the 1979 election that led to the return to civilian rule, are being seized on as an opportunity to remove the republican core from the Nigerian constitution.

Any attempt to undermine the Nigerian constitution is an immediate cause for concern for anyone who appreciates Nigeria's strategic significance for Africa as a whole.

For, in a period when economies in Africa are generally deteriorating or collapsing, a Nigerian development success could lead the way out of Africa's condemnation to the role of mere providers of raw materials.

Nigeria has roughly one-quarter of Africa's population, and it has oil, ranking fifth in OPEC oil production prior to the present worldwide oil glut which has driven down production. The government is trying to parlay its large population and oil wealth into the makings of an industrialized country. Oil-producing countries with large populations, such as Nigeria and Indonesia, have been targeted for destabilization by spokesmen for pro-IMF financial networks.

Therefore, recent reports in the *New Nigerian*, a Kaduna, Nigeria daily, that plans are afoot to bring in a British-style parliamentary system, deserve attention.

According to the *New Nigerian*, an alliance of opposition parties, the Progressive Party Alliance (PPA), is working on a plan to take power from the Nigeria National Party (NPN) of President Shehu Shagari. The NPN is

the only party in Nigeria which is not limited to a particular ethnic or regional political base.

The PPA is basically a vehicle being used by Chief Obafemi Awolowo to gain power in Nigeria. Awolowo is the head of the Unity Party of Nigeria (UPN), which is based in Yoruba territory in southwestern Nigeria, and led an unsuccessful campaign against Shagari in the presidential election in 1979. In the early 1960s, before the military took power, Awolowo was jailed for treason. Other anti-NPN parties and factions are also part of the loose PPA alliance.

The plan that the *New Nigerian* warned about calls for Awolowo to be the PPA presidential candidate in the 1983 elections. If he wins the election, the plan calls for him to amend the Nigerian constitution, creating the position of Prime Minister. He would then resign as president, and let Nnamdi Azikiwe become figurehead president (as his payoff for joining the operation). Awolowo himself would become Prime Minister, from which position he would run the country in a more decentralized fashion. This would please the ethnic-tribal and regionally based groups who are unhappy with the impingement of a strong central government on their identity.

The Nigerian constitution is a key factor which makes the industrialization of Nigeria possible. The Nigerian constitution, when it was drawn up prior to the ending of 13 years of military rule in 1979, was explicitly modeled on that of the United States, es-

tablishing a strong central government to direct vigorous development, in which all segments of the population could participate and benefit.

Manipulated regional and ethnic conflict and the resulting violence led to the seizure of power by the military in 1966, and the destructive and murderous civil war in the late 1960s.

Nigeria is vulnerable to the machinations of Awolowo and his backers only because of the economic crisis now confronting Nigeria. Oil income is the backbone of Nigeria's development strategy, accounting for 80 percent of federal revenues and 90 percent of the country's export income.

Nigeria was targeted as the weak link in OPEC, the country most likely to cut its prices below the OPEC agreed rates. The British brought enormous pressure on Nigeria by lowering the price on North Sea oil and dumping oil on the Rotterdam spot market, forcing down the price on the high-grade North Sea oil, which is of the same quality as Nigerian light sweet crude.

As a result of the glut and the resultant soft market, Nigerian production dropped from an expected 2 million barrels per day to about 600,000 barrels per day, and has now leveled off at about 1.3 million bpd, a rate subsequently agreed on within OPEC.

The drop in oil production threatens the \$125 billion five-year development plan launched by Shagari. If the prospects for development which motivated the population to put Shagari in office are not forthcoming, the regionally based parties now loosely gathered in the PPA will have a better chance to undermine Shagari's support by claiming they are not getting its just share of the oil wealth from the federal government. It was aggravation of such issues which resulted in the civil war.

## A De la Madrid card?

*On the eve of the Reagan-de la Madrid meeting, some illusions are dashed about monetarist leverage over the President-elect.*

**F**oreign journalists and other analysts who have glibly been assuring international readers that Mexican President-elect Miguel de la Madrid is opposed to the emergency economic package announced by López Portillo Sept. 1, and will promptly reverse that package when inaugurated Dec. 1, are now shown to have been whistling in the wind. An attempt by the new President to reverse López Portillo's directives has always been doubtful because of the "carry-forward" effects of the mass mobilization behind the new measures; now de la Madrid himself has quashed such wishful thinking.

On Sept. 21, López Portillo sent a bill to Congress which would incorporate the Sept. 1 bank nationalization as part of the constitution. The bill is certain to pass, and will make reversing the nationalization by any ordinary means almost impossible.

The next day de la Madrid broke his three-week silence on the specific Sept. 1 measures. Summoning the press to his office, he called the decision to incorporate the nationalization in the constitution "a vital advance . . . patriotic and revolutionary." The nationalization "will thus remain as one more step in the irreversible advance of the Mexican Revolution," he stressed.

He went further. He justified the nationalization as necessary "to strengthen the Mexican state as the determiner of national development." Echoing the dirigistic mandate of the Mexican constitution activated by López Portillo, the future Mexican Pres-

ident stated the bank takeover "will permit running the nationalized banking system with more fidelity to the purposes of political economy as decided by the federal government in the nation's interest. . . . [It] will help channel savings adequately to the priority areas of national development. . . ."

De la Madrid clearly timed his statements for international effect. The week before he had met with Reagan envoy William Clark for half an hour, during Clark's fact-finding trip to Mexico at the time of the traditional Sept. 15 Independence Day celebration. Some U.S. press drew the conclusion, from the fact that Clark reportedly spent only 25 minutes with López Portillo, that the United States was making a successful end-run around López Portillo by shifting official channels to the President-elect prematurely.

The Oct. 8 meeting in San Diego between Reagan and de la Madrid was almost certainly arranged during the Clark tour, but in the environment created by de la Madrid's unequivocal Sept. 22 remarks, and López Portillo's United Nations address Oct. 1, the meeting is hardly a wedge against Mexico's renewed drive to guarantee its economic sovereignty and development.

This is not all that surprising. Though there is little evidence that de la Madrid was involved in drawing up the decrees, he gave indications of his backing from the first.

On Sept. 3, at the giant support

rally of over one million in the Zócalo of Mexico City, the President-elect was one of just four people occupying the speakers' balcony with López Portillo. The others were CTM labor chief Fidel Velásquez, PRI party president Pedro Ojeda Paullada, and Defense Minister Felix Galván López.

At the time, he issued the following statement: "President López Portillo firmly commands the rudder in the midst of the storm until the last days of his term. He keeps alive the Mexican Revolution and the powers of the Republic. I reiterate to him today my political solidarity and my personal affection."

A well-informed columnist reports that a delegation of hot-headed bankers and banker-linked businessmen attempted to see de la Madrid immediately after López Portillo's Sept. 1 bombshell. They were turned away, and only later got an audience after first having met with López Portillo.

How much does Washington want to play a de la Madrid card? There is no question the State Department is gung-ho.

The White House signals are less clear. During his Mexico trip Clark agreed to meet for breakfast with a group of Mexican and U.S. businessmen, many of them bitter critics of the Sept. 1 measures. The meeting could not have been pleasing to the Mexican government. Likewise the short shrift given to personal discussions with López Portillo.

However, sources in Washington report that Clark's conclusion on his return, was more that Mexico's measures were emergency actions forced in part by factors outside the government's control, than a deliberate "socializing tendency" unfriendly to the administration's free enterprise economic postulates.

# International Intelligence

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## ***Witches haunt Spanish elections***

A new party representing witches will be running in the Oct. 28 national elections in Spain. The party, called the "Natural Culture" party, was formed in 1979. According to an interview with the party's secretary-general published Sept. 25 in the Barcelona newspaper, *Gaceta*, the party will run on a platform of alternate life styles; replacing large cities with small, self-sufficient towns based on soft energy sources; a return to agriculture, minus chemicals; replacement of heavy industry with low-capital crafts; and replacing expensive doctors and hospitals with medical self-help. The party's principal present constituency, according to *Gaceta*, are practitioners of witchcraft, healers, yogis, alchemists, astrologists, telepathics, and fortune-tellers. The party's third congress will soon be held in the mountains of Leon.

The *Gaceta* article gives the party six pages of coverage, replete with a photo of party members gathered around a tree, their hands touching its trunk, accompanied by the subtitle "Trees Have Energy." The article, entitled "Witches In Political Power?" could as easily have been illustrated by Goya.

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## ***Church revolt against Laborem Exercens***

A pattern of European church revolt against the principles of Pope John Paul II's *Laborem Exercens* encyclical became visible at the end of September. *Laborem Exercens*, issued last year, stresses the injunction that man "be fruitful and multiply; and fill the earth and subdue it," affirming that this is carried out through the application of industrial technology.

This principle, also powerfully stated for modern conditions by Pope Paul VI in his 1967 *Populorum Progressio* encyclical, was directly attacked by the Franciscan order, at their 3-day seminar celebrating the 800th anniversary of St. Francis of Assisi, held in

Gobbio, Italy. The Franciscans declared that "We must substitute the present attitude of domination-exploitation of mankind, mainly by an industrialized minority. . . . We have to abandon the concept of progress, be poor in quantitative terms . . . reduce the productive activities."

The Franciscan diatribe, under the title of "The 1982 Charter of Gobbio," will be distributed to "men of good will" throughout the world. The theme of the Gobbio seminars, held in conjunction with ecologist groups and other religious associations, was "Terra Mater," Mother Earth.

The French Bishops' Conference, meanwhile, issued a written declaration "On the economic and social situation," in which they call on every Frenchman to change his way of thinking and to adopt a new way of life. They developed a complete austerity program, in social terms, to be spontaneously adopted by faithful Christians. It is, word for word, the program of the proto-fascist trade union, the *CFDT*, which is represented in the French government by Planning Minister Rocard and Finance Minister Delors, and which was recently praised by the Orleans dynasty's Comte de Paris.

Growth and progress were also denounced at the West German Bishops' Conference, by Bishop Hoefner.

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## ***London noses into Soviet-U.S. contacts***

British Foreign Secretary Francis Pym has imposed himself as would-be mediator of Soviet-American relations. Before Andrei Gromyko and George Shultz conferred Sept. 28, each met separately with Pym. Pym and Shultz talked, over breakfast, about unifying Western policy toward the Soviets. In addition to the Pym-Gromyko luncheon, Britain has its Minister for Trade, Peter Rees, in Moldavia for a session of the British-Soviet economic commission at which the Soviet delegation is led by Leonid Brezhnev's son, First Deputy Foreign Trade Minister Yuri Brezhnev.

Prior to his diplomacy with the United States and Soviet Union in New York, Pym told the Foreign Policy Association that

Britain insists upon stronger links between East and West Europe, including construction of the famous Siberian pipeline. London press accounts stressed that Pym's delegation to the U.N. General Assembly would lay claim to the role of middleman between Washington and Moscow—especially by sounding off as "European spokesman" on behalf of the pipeline.

The case for such a "middle" European role was outlined also on the pages of the Council on Foreign Relations' *Foreign Affairs* in its just-released fall issue, by none other than the West German liberal Hans-Dietrich Genscher, whose Free Democratic Party brought down the Helmut Schmidt government. Genscher called for European unity (his style, and London's), to constitute a "pillar" of NATO as strong as the American pillar.

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## ***Mexico attempting to calm Nicaragua-Honduras***

Strengthened with its dramatic domestic economic measures of Sept. 1, the López Portillo administration of Mexico is now turning its attention to ending the population wars which have devastated Central America. Mexico is coordinating with her Ibero-American allies, who have declared their intention to make the "continent a reserve of peace" in the midst of a "difficult world panorama."

The Mexican Foreign Ministry released in late September the text of a protest before the Guatemalan government, to make clear that Mexico will not tolerate violations of its border. Reports are now circulating in Mexico that Mexico will withdraw its ambassador if a satisfactory answer is not received from the Guatemalan government shortly.

On Sept. 16, Mexican President López Portillo had joined Venezuelan President Herera Campins in a peace initiative to end escalating border skirmishes along the Nicaraguan-Honduran border. The two presidents delivered three similar letters to the heads of state of Nicaragua, Honduras and the United States. The letters called for an immediate end to the arms build-up and harsh rhetoric from both sides, the dismantling of

paramilitary camps along the border, and offered their joint offices to mediate a peaceful solution.

But U.S. State Department policy, shaped by Kissinger and the population control lobby, is currently to *foment* a border war between the two countries, a policy they are flaunting as part of the strategy to provoke Nicaraguan radicals into action.

"Well-placed Honduran and U.S. sources" inside Honduras "keep whispering about a November or December invasion, and U.S. Ambassador [to Honduras—ed.] Negroponte refuses point blank to confirm or deny that the U.S. is financing the anti-Sandinistas in Honduras," the Wall Street Journal wrote Sept. 28 on "Latin hotspot" Honduras.

A former Honduran army officer, unnamed, explained: "First you destabilize the Nicaraguans, then you get them to come charging over the border to divert attention from internal problems, and then you ask for U.S. troops to help."

## Portugal sprouts 'green' monarchists

Observers who have been watching with disgust the growth of the "green" parties in European legislatures are taking special note of Portugal, where the Popular Monarchist Party (PMP) entered Parliament and the cabinet two years ago.

The PMP is open about its amalgamation of the feudal and bucolic fantasies. Its 1980 election platform had just three points: 1) environmentalism, 2) outdoor camping, and 3) monarchy. Point 2 recalls the post-World War I German *Wandervogel* movement, which became a fertile recruiting-ground for Hitler's Nazis.

According to Randall Dicks, editor of the monarchist bi-monthly, *The Constantian*, the Portuguese monarchists have been resurgent for the entire decade, and hope to follow the example of Spain, where the monarchy was reinstated.

The PMP's most famous member is Dom Duarte, pretender to the Portuguese throne, who returned to Portugal following the suppression of the Portuguese revolution of

1974-76. Dom Duarte's Braganza family still claims the throne of Brazil as well, where it is closely associated with the fanatical Tradition, Family, and Property (TFP) organization. TFP uses anti-communism and the Catholic Church's Fatima cult to create a mass fascist movement as well as paramilitary forces.

## Belgians in uproar over Hyperion

EIR's dossier exposing the Hyperion language schools as logistical centers for an important European terrorist network, has found an eager audience on the continent, especially among those who want to uproot the terrorist disease. During one week at the end of September, EIR's European headquarters was contacted by four Belgian ministries and the national police, all seeking further information on Hyperion. The dossier has been distributed to all relevant ministries and police agencies in France, Belgium, and Italy.

The Hyperion school has branches in Paris, Brussels, and London. The latter, according to Belgian policies sources, is the control point for the entire network. Hyperion's Belgian centers, which go under the names Eurocom and Eurologos, are coming under increasing attention as the investigation of Hyperion continues.

Italian government authorities have delivered extensive evidence on Hyperion's activities to their French counterparts. Now some sources are suggesting that Hyperion could be a front for certain agencies of NATO, and for the Propaganda-2 (P-2) freemasonic lodge. The exposure of top Italian government and military leaders involved in P-2's subversive activities brought down the Italian government in 1981.

The French government of François Mitterrand has refused to reopen investigations into Hyperion, and British authorities have been similarly unresponsive. But the publicizing of EIR's dossier by the demonstrations and press conferences of the European Labor Party, which wants Hyperion shut down, has increased the heat on the terrorists.

# Briefly

● **MALAYSIA** needs more people, according to Dr. Mahatir bin-Mohammad, an M.D. who is the country's first Prime Minister not educated in Great Britain. Dr. Mahatir told the press that Malaysia's present population of 14 million can be increased five-fold, as long as economic development, including the increased productivity and purchasing power of the population, is taking place.

● **THE VATICAN** representative at the International Atomic Energy Association meeting in Vienna, Monsignor Mario Peressin, made a strong plea for nuclear energy, which he said was crucial for the economies of the developing countries.

● **KISSINGER** came out dirty again in the testimony of Elio Ciolini, who has been the "superwitness" of the Italian authorities' investigation into the P-2 lodge. According to *L'Espresso* Sept. 12, Ciolini has testified about a wild 1978 plot to procure aircraft for an unspecified country—wild because it involved Michele Sindona, Licio Gelli, and the Americans Frank Carlucci and Henry Kissinger.

● **RIGOLETTO** had its premiere as a mafia melodrama set in the 1950s, in London on Sept. 24. Responsible for this transmogrification of the opera, complete with hit man and juke box, is the English National Opera. British critics raved over the re-rigged Verdi, which may come with the company on its American tour.

● **LA CUCARACHA**, the famous tune about a lower form of life, was performed in a slightly revised version *La Cucaracha Bancaria*, *The Bank Roach* for José López Portillo before his speech to the Veracruz Naval Academy on Sept. 24. The Mexican President was greeted by bass Arnulfo Valazquez of the Mexican Labor Party, who led the cheering audience in the refrains to the song.

# The collapse of the 'Reagan revolution'

by Richard Cohen, Washington Bureau Chief

Public and private polls initiated in mid-September have sent chills throughout Washington GOP circles, especially the White House. Signaling an immense shift in public attitudes, the most recent national poll conducted by Gallup reports a 66 percent preference for Democrats in the November elections. A similar poll conducted by Washington Post-CBS indicates a 54 percent preference, with Republican congressional candidates lagging far behind. Sources at the White House say that the most recent administration polls are even worse.

Added shock value was attached to the poll readings because both Republican and Democratic political advisers had by early August foolishly read an imminent recovery for Republican November chances based on what at that time was the continued strong personal rating of Reagan by the public. Now all that has apparently collapsed, and if the trends continue, Republicans will suffer decisive losses in November.

As of the last week in September, the President's pollsters, Richard Wirthlin, Arthur Finkelstein, and Robert Teeter, joined White House Chief of Staff James Baker III in forbidding the President to campaign in the Midwest or the northeast, where unemployment is highest and labor unions are strongest. Instead, George Bush will be promoted into the up-front advocate of Republican candidates in these hard-hit areas. In addition, a high-level in-house White House memo is said to warn the staff that polls now show that the President is "being perceived" by most Americans as "insensitive" and even "cruel." Internally, the administration is bursting at the seams with leaks from Stockman's OMB,

Baldrige's Commerce Department, and even Regan's Treasury Department, that the U.S. economy is about to ratchet down in the fall.

The pathetic, enfeebled Presidential response however was to *lie*. Nervously spouting the rehearsed nonsense that "recovery is just around the corner," the President tried to contain the devastating effect of news scheduled to be announced on Oct. 8, that unemployment would officially go over the 10 percent mark, by announcing it himself.

## LaRouche vote sent early signals

The first signs of an anti-austerity eruption occurred in late spring, when Pennsylvania Democratic gubernatorial primary candidate Steven Douglas, a LaRouche Democrat with negligible funds and under constant media attack, garnered a whopping 20 percent of the vote. Douglas's anti-austerity program was best received by minorities and union workers. In early September, LaRouche Baltimore congressional candidate Debra Freeman received 21 percent of the vote mostly from the same kind of constituency, while in a Minnesota farming district, a LaRouche candidate, Pat O'Reilly, got 37 percent of the vote in a heated congressional primary. Finally in mid-September, LaRouche New York Senate candidate Mel Klenetsky received a telling 17 percent statewide vote, and won a majority in sections of New York City (see article, page 54).

The LaRouche vote's significance was seconded by two other revealing primaries. First, the mid-August thumping of conservative Massachusetts Democratic Gov. Edward King by Kennedy-backed candidate and former Gov. Mike Du-

kakis. Second, the mid-September defeat of Reagan-tainted, Mondale-endorsed New York City Mayor Ed Koch in the Democratic gubernatorial primary to Kennedy-praised Mario Cuomo. In both races the Kennedy-supported candidates were able to spark some approximation of an old-model FDR coalition of labor, minorities, the disadvantaged and in some cases farmers.

Tapping the same constituencies as the LaRouche vote, Kennedy strategists have contoured a phony anti-austerity theme of "jobs and security"; and when Kennedy agent Tip O'Neill proposed new makework job legislation, the frightened White House immediately agreed to support it. While the O'Neill bill passed in the September House Supplemental Appropriations Bill, on Sept. 29 it failed as part of the Senate Supplemental Appropriations bill, gathering just 27 votes. Kennedy charged that the Reagan White House had covertly lobbied against the "jobs" bill and that he, Kennedy, would not rest until the measure passed.

### **The dissembling of the White House**

White House advisors have kept the full political shock of the new polls and the mass anti-austerity outburst from the disturbed President, convincing him, according to White House sources that he has one year's leeway in turning around the U.S. economy if he wants to run for a second term. The President has been told that even a significant set of November losses can be blamed on Republicans in Congress, as distinct from the White House.

Meanwhile, Vice-President George Bush and his followers have moved to create distance between themselves and the President's "Reaganism." In addition, Bush recently sent his "regrets" for a scheduled speaking engagement in tribute to Ray Donovan on Oct. 13. Labor Secretary Donovan is a favorite of the President. In addition, Bush operative Jim Baker is reliably rumored to be leaving the administration after the November electoral catastrophe; the word is that Baker aide Dick Darman will join him for the purpose of setting up a 1984 Bush presidential bid.

According to Washington intelligence sources, after the November disaster, control of the administration is scheduled to move under the full control of Secretary of State George Shultz and his confidante Henry Kissinger. Kissinger surrogate David Abshire, director of the Center for Strategic and International Studies at Georgetown, now a secret consultant to the National Security Council, and according to White House sources "thought of very highly there," is the rumored replacement William Clark as the President's National Security Adviser. Clark in turn will replace Baker as Chief of Staff. White House officials hypothesize that his power will outstrip his predecessors' because both White House Deputy Chief of Staff Michael Deaver and White House Counselor Edwin Meese are both reported to be leaving by year's end. Transportation Secretary Drew Lewis of Pennsylvania will be asked after November to pull off a miracle after he replaces

Richard Richards at the Republican National Committee.

### **Betrayals and desertions**

Only a minority of Reagan's original "libertarian" New Right coalition continues to support the President. On the basis of a series of deals concluded this summer between Kissinger and William F. Buckley, the Buckylys, along with the British-run Heritage Foundation and Sun Myung Moon's Unification Church, are promoting the Shultz-Kissinger takeover, while ostensibly defending Reagan. On Sept. 28 Jeffrey Hart, editor of Buckley's *National Review*, took to the pages of the Unification Church's *Washington Times* to urge that all conservatives promote Reagan for a second term. (On June 24, Hart had used the same vehicle to promote Henry Kissinger for Secretary of State.) Also, the Moonies themselves editorialized last month that Reagan is the only salvation for the New Right.

Rebellion against the White House mounted in late August and September from both Jesse Helms- and Kemp-centered elements of the New Right. Helms, who I've learned is now seriously considering running for President in 1984, has all but broken with the White House. Sources close to him say that Reagan's capitulation to tax demands by the Bank for International Settlements, the non-stop administration appointment of Kissinger people, and alleged White House desertion of "sacred" New Right social issues of school prayer, anti-abortion, and so forth have led up to the break. The Helms-White House split reached a crescendo on Sept. 24 when Senator Helms failed to get enough votes for cloture of liberal filibuster on the issue of school prayer. Helms charged the White House with sabotage while Reagan personally attacked Helms for mishandling the matter.

This open rift symptomized a much larger break with the White House by New Right "social issues" activists; this important electoral element of the old Reagan coalition is now expected to gather around Helms or break into potentially violent radical action groups. But their electoral clout compared to the new "anti-austerity" momentum is marginal. At a recent school prayer rally in Washington, D.C. advertised by its promoters to attract 10,000 people, only several hundred materialized.

More remarkable than the Helms break with the White House, was the total split with Reagan engineered by Rep. Jack Kemp on Sept. 28. Kemp along with other renegade supply-siders, joined an anti-Reagan economic front including Ted Kennedy, Tip O'Neill and Senate Minority Leader Robert Byrd. Warning the President that "jobs are the key issue" and that Reagan-Volcker monetarism will lead to an economic and electoral disaster, Kemp signed on to a Kennedy hoax, the anti-Volcker Joint Congressional Resolution. Behind the Kemp-Kennedy "anti-austerity" posture is a dirtier deal among the forces who gave the country Joe McCarthy and Roy M. Cohn; no real economic recovery program can be expected from this quarter.

# How NDPCers cracked the Harriman machine

by Mary McCourt

National Democratic Policy Committee-backed candidates Mel Klenetsky and Fernando Oliver polled double-digit returns in the New York state primary Sept. 23. These results demonstrate, in the assessment of the NDPC, that the power base of the Democratic Party—the alliance of organized labor, the Italian, Jewish, Irish, Black and Hispanic populations, has begun to reassert itself after two decades of top-down destruction of the party by the Averell Harriman-led Democratic National Committee. The New York results followed primaries in Pennsylvania, Maryland and Minnesota where candidates of the wing of the Democratic Party led by economist and *EIR* founder Lyndon LaRouche got official returns in the range of 20 to 37 percent.

Klenetsky's campaign for Senate got an official return of 16 percent, and Oliver's in the 18th CD in the South Bronx, 13 percent. These returns were far lower, in the estimation of both candidates, than their actual vote, but the DNC was unable to reproduce the massive fraud operation run against NDPC-backed William Wertz in the California primary this June without the computerized voting apparatus used in that state. The vote in the megastate of New York, on top of the Pennsylvania results, critical to any national Democratic candidate, indicates that LaRouche will be a major factor in the 1984 elections.

Mel Klenetsky, who ran for the Democratic nomination for Mayor of New York City in 1981 against incumbent Ed Koch, received a total of over 160,000 votes. This vote, in response to a campaign run on minimal funds and faced with almost total press blackout in the New York metropolitan area, the major population concentration in the state, is apparently not a protest vote, but a response to the program Klenetsky presented in appearances statewide. Klenetsky's returns, in numbers of votes, were comparable to those for each of three candidates in the Republican primary for Senator.

What demonstrates most strikingly the effect of Klenetsky's campaign are the official 30 to 40 percent, ranging as high as 60 percent, returns in Black and Hispanic districts in New York, those areas designated for "benign neglect" by his opponent, incumbent Harriman-Democrat Daniel Patrick Moynihan. Klenetsky got returns of up to 30 percent in Jewish areas where Moynihan's campaign staff and the Anti-Defamation League of B'nai B'rith had conducted a slander

campaign, calling Klenetsky an "anti-Semite" and "neo-Nazi" on the basis of his association with LaRouche. Klenetsky stated to his supporters at an election-night celebration that "The Big Lie backfired, because the perpetrators do not understand the Jewish mind" with its commitment to justice and Socratic dialogue. The real anti-Semite is Harriman, whose family was a leading organizer of the Nazi eugenics movement in the 1920s and 1930s.

The voters in these areas responded to the candidate's program to use the nationally important position of U.S. Senator from New York to rid the U.S. economy of the stranglehold of Federal Reserve Chairman Paul Volcker's high interest rates, and make the state, the tenth largest economic entity in the world, a leader in revitalizing agriculture, steel, and energy production, and the creation of a highly educated, skilled labor force.

A series of half-hour television programs presenting the candidates and LaRouche on the steps necessary to reorganize debt and restart production, reached approximately 1.5 million viewers around New York State.

## The South Bronx congressional race

Congressional candidate Fernando Oliver is charging that his returns in the 18th congressional district in the South Bronx were held down to an official 13 percent in the three-way race only by the use of massive vote fraud by his opponent, Robert Garcia. Oliver's campaign to rebuild the bombed-out South Bronx into the industrial and residential area it was only a generation ago, and to break the control of the Roy Cohn-allied machine of Stanley Friedman, which backs Garcia, has documented the ties of this machine to pushers of drugs and violent terrorism. A pre-election release by the Fact-Finding Division of the National Democratic Policy Committee stated that the man who ran Garcia's petitioning campaign, Ramon Velez is, a leader of the Lincoln Detoxification Center in the Bronx in 1970-76. Law-enforcement officials have documented that members of at least 10 terrorist organizations, including the Black Liberation Army and the FALN, were recruited from the Center.

Garcia also received support and funding against Oliver from the Jewish Community Relations Council, headed by Lawrence Tisch, one of the most powerful insurance and real-estate magnates in New York, embodying the interests responsible for the deliberate destruction of housing in the South Bronx. Oliver has already documented extensive irregularities in the 18th C.D.

In the Democratic gubernatorial race, the organized support of New York labor unions gave Lt.-Gov. Mario Cuomo a 52 to 48 percent victory over New York's austerity mayor, Ed Koch. The endorsements and mobilization of the vote for Cuomo by the AFL-CIO, IBEW, AFSCME and the building trades, focused particularly on the Italian-American population, in conjunction with Black church and community organizations, defeated Koch despite consistent awarding of victory to Koch by the press up to the eve of the election.

## A campaign to rescue Chicago's greatness and reverse the depression



Stuart Lewis/NSIPS

*Sheila Jones is running for Congress on the Anti-Drug Party ticket in the 9th CD in the North Shore and northern suburbs of Chicago, Illinois. Her opponents are Sidney Yates, a liberal Democrat who has been in office since 1948, and Republican Cathryn Bertini, a self-described "protégé" of New York City Council President Carol Bellamy. Sidney Yates, a liberal Democrat who has been in office since 1948. The 32-year-old Mrs. Jones, a music teacher in the Milwaukee public schools for six years, and the Illinois coordinator of the National Anti-Drug Coalition, is running on the four-point program of National Democratic Policy Committee Advisory Committee chairman Lyndon H. LaRouche, to end the depression through immediate reorganization of the international debt and long-term, low interest credit to restart production. Due to constraints in petitioning requirements to run in the Democratic primary, Mrs. Jones decided to run as an independent candidate. Mrs. Jones was interviewed by EIR's Mary McCourt on Sept. 29.*

**EIR:** Why are you opposing Sidney Yates in the November election?

**Jones:** Yates represents the liberal wing of the Democratic Party. Since his entrance into politics, Yates has systematically voted against every pro-growth proposal there is. Specifically, he is an outspoken opponent of the breeder reactor and high-technology programs around that, and voted in opposition to NASA programs from the beginning. Yates voted down funding for the National Science Foundation and to cut the Tenn-Tombigbee water project.

Yates is extremely anti-nuclear—he is a chief endorser of the nuclear freeze movement in Congress, to the point that he is known as the darling of the environmentalists. Yates was endorsed by the Sierra Club, a top environmentalist organization in the United States, which had never before endorsed a candidate in their 90-year history. The Sierra Club has committed money and manpower to this campaign.

Yates was also one of the 11 members of Congress who voted in favor of the sodomy bill in Washington. As you know, the National Democratic Policy Committee organized for a vote of disapproval for this bill, which would have legalized homosexual activity between teachers and students, if the students were 13 years or older. Yates also endorsed the hospice bill, which was a rider on the new tax bill. This

bill gives a \$1,100 cut of Medicare bills, if a family agrees to take a terminally ill patient whom they think will die in six months out of the hospital, and give them no medical care. Yates is very consistent: he is also a proponent of drug decriminalization. He represents a total commitment to the degradation of humanity, which I am campaigning against.

**EIR:** Can you describe some of the programs for the city of Chicago that your campaign would put into effect?

**Jones:** Under the Carter administration, two major programs were slashed in Chicago. These were both vital to restarting industrial production in this area, which clearly would affect the entire nation.

One of these was the Deep Tunnel Project, or TARP, a water-purification program developed for the city. This project had the largest employment of Blacks, skilled laborers, construction workers, and engineers, in the United States. Funding was cut drastically by the Carter administration, and it is now being attacked by Attorney General Tyrone Fahner and Sen. Charles Percy as a boondoggle and a waste of funds in these "limited-resource" times. TARP is non-existent at this point.

The other project, developed by Mayor Richard Daley, was called the Crosstown project. It was a very intricate and efficient highway system which would have linked up the entirety of the industrial steel belt south of the city to the transportation route of the Midwest. That project was also destroyed.

The Chicago steel industry itself at this point has been smashed. User industries like International Harvester are set to go any minute, and with the official unemployment rate around 12 percent, several thousand more are slated for layoffs in the coming weeks. Illinois is running close behind Michigan in unemployment.

My campaign has met with a number of steel union officials recently, who acknowledge that United Steel is going out of business. Steel was the main employer for large sectors of the minority populations, who now see no future in the Chicago area.

**EIR:** How has the collapse of the steel industry affected the city?

**Jones:** The city of Chicago *looks* very good. Mayor Jane

Byrne is doing a lot of sandblasting and tree planting, and the city remains very beautiful. However, three years ago, when I first moved to Chicago, there were almost no homeless people here. Now, there are elderly people going through garbage cans and going through business buildings, begging.

There is a big increase in school-age children hustling on the streets, and school attendance has dropped seriously in some areas. This is being used as one basis for pushing the free-enterprise-zone policy on Chicago, with proposed community boards running local "banking systems" and training youth in minimal skills.

I'll describe another situation. Ron Thelin, the President of the Illinois Cement Masons Union's largest local in the country, is going to be speaking at the Great Enterprises conference. Right now, 85 percent of his homebuilders are out of work. However, Thelin had set up health insurance programs for dues-paying unemployed members. Two weeks ago, he was forced to inform his members that unemployed workers could no longer have their insurance maintained. These are men with an average of 27 years in the union. This is a policy of murder for many of these workers.

**EIR:** Your campaign has made the restoration of classical culture and education in this nation a fundamental issue. Can you describe how you are bringing this issue to voters?

**Jones:** Chicago was the home of the Fabian anglophiles' operation to set up a bastion of British culture, because they wanted to undercut the high standard of German classical culture here. The city has very large German and Jewish communities. The University of Chicago was a center for disseminating the British counter-culture.

My campaign is organizing to overturn the effects of British cultural pessimism here. We have launched a campaign against Richard Wagner, the anti-Semite who was the favorite composer of Adolf Hitler. We have put out several thousand flyers calling upon religious and civil leaders, particularly of the German and Jewish communities, to join us against the resurgence of anti-Semitism, that is opposition to the fundamental Judeo-Christian principles by the cultural pessimists who want to depopulate the earth. The flyer has some unforgettable quotes from Wagner on his anti-Semitism. We distributed these at performances of Wagner's operas here in Chicago.

The other side of this campaign are the *Musikabenden* [classical music evenings] we have been holding for campaign supporters. What was most remarkable about the evenings was when we introduced the conception that politics and culture are one. The issue of saving a nation, of guaranteeing its national security, is the level of that nation's culture. I first described to them what Sodom and Gomorrhah must sound like, that its musical level would only appeal to those senses below the waist. That level of music is not going to build, or rebuild a republic—and they all agreed to that.

We have been opening every meeting in Chicago for my campaign with music, and the only complaints we have been

getting have been, "Not enough music." We arrange to have a piano at every meeting I hold.

**EIR:** Can you describe how German culture was repressed in Chicago?

**Jones:** A major figure in this was Henry Lloyd, who was the architect of the reform movement in the United States in the late 19th and early 20th century. Lloyd was a link of the post-Civil War free-trade movement to the "trust busters" and reform movements. His father was a fervent Copperhead [Confederate supporter] in Illinois.

Lloyd was a key organizer for the Free Trade League. One of the problems Lloyd had was overcoming the British image of the *Taxpayer*, the publication of the Free Trade League. This was difficult in Chicago, which had a very strong Lincoln tradition that hated the British.

Lloyd began to cultivate the Copperhead network in Chicago. For example, the Chicago Life Insurance Company, the Harriman-owned Illinois Central Railroad, Marshall Field and Morgan money.

In 1914, Teddy Roosevelt formed the American Defense Society (ADS), which was designed to bring the United States into World War I on the side of the British. Samuel Insull was secretly appointed as representative of British intelligence in charge of U.S. propaganda efforts. He was bank-rolling the Jane Adams settlement house operation in the Jewish ghetto on the West side.

The American Defense Society was aimed to "protect America from German influence." They launched a campaign to stop the teaching of the German language in American schools, which was passed in 14 states. By late 1917, there were almost no German students in the high schools, compared to 18,000 in 1915, most of whom were not German.

The ADS organized high school chapters in every city and gangs to assault people who defended Germany, and particularly those who spoke German in public.

In 1918, the Chicago German-language paper, the *Staatszeitung*, reported that the ADS had organized a public protest, a mob action against the performance of Sunday afternoon lieder concerts. But ironically, Wagner was being performed by the Lyric Opera Company in Chicago, five or six performances a year, straight through both world wars.

**EIR:** Chicago has become a command center for counter-insurgency organizing and terrorist groups in the United States. How was this done?

**Jones:** Jesse Jackson, Marcus Raskin, and others were recruited to the University of Chicago-controlled Chicago Theological Seminary through Field Foundation and Ford Foundation grants. The Seminary created the "black-power" religious leadership that was a counter to the civil rights movement. This apparatus controls most of the black press and community organizations in the city; and has been used to provoke potentially dangerous situations. But my campaign can neutralize their ability to blow up Chicago.

# Georgetown and the 'economics of pain'

by Stanley Ezrol, Washington Correspondent

*Part II of a report on Georgetown University's Center for Strategic and International Studies "Quadrangular Conference."*

Last week, I reported on the keynote address given by Dr. Henry Kissinger to this Sept. 20-21 conference, "Threats to the Industrial Democracies in the 1980s." This gathering of high-level political and business leaders from three continents, personally endorsed by President Ronald Reagan, was organized around the mystic belief, expressed in the Maoist incantation, "There is turmoil in the heavens, but the situation is excellent," with which Kissinger opened the conference. That is, in Kissinger's words, the current chaotic international situation presents "a unique chance to establish order under the heavens." This week, I will report several episodes of the conference participants' groping towards this new order.

The word "pain" was universally agreed on to describe the intended effect of the new order's economic policies for both the advanced and the underdeveloped sectors. Willard Butcher, the Chairman of Chase Manhattan Bank, was considered a moderate, and in some cases a "bleeding heart" spendthrift by other conference participants because he favors maintaining a modest flow of new credit to the underdeveloped world and negotiations to reschedule outstanding unpayable credits. But Butcher told the conference that "the world has been spending wealth it has not yet created . . . social programs have grown out of proportion . . . growth ambitions of these [developing] countries were excessive." He demanded "now, we must make the necessary adjustments—of course, it will be painful."

Butcher's friend, Otmar Emminger, former head of the West German central bank demonstrated that he is the sort of vampire who is happy when everyone else is bleeding to death. "There are a few bright spots on the economic horizon," said Emminger. "Wages are coming down . . . and a strong attempt is being made to break the link between wages and past inflation." Takashi Hosomi, President of the Overseas Economic Cooperative Fund of Japan, complained about certain "rigidities" in national budgets caused by indexed social service expenditures including Social Security, and suggested that "international cooperation may be necessary to overcome resistance" to cutting these costs.

Lest anyone think that these austerity policies represent "anti-inflation," or anti-high interest rate policies, he should consider the remarks of United States Federal Reserve Governor, H. Henry Wallich. Wallich described his boss Fed Chairman Paul Volcker's policy as "shifting to fighting inflation from fighting unemployment," and boasted, "The cost of this policy has been considerable."

Wallich then demonstrated the same disdain for Europeans which these remarks imply for Americans by saying that his high-interest-rate policy need not have forced up European or Third World interest-rate levels. "This would have been true in a fixed exchange rate system," he explained, "but under a floating rate system, there is no way interest rates would have to rise. . . . Of course, it may be the exchange rate would go down. . . ."

## Out of trade war, a new multinational order

The widespread agreement at the conference on the need to inflict painful levels of austerity in all regions begs the question of how to enforce this. The ultimate goal of the conference organizers is to establish multinational institutions which dictate trade, investment, credit, social welfare, and other policies previously determined by sovereign national governments. A spokesman for the Paul-Henri Spaak Foundation, a collection of European nobility and their sycophants, dedicated to "European Integration," which means the elimination of national governments in Europe and their replacement with a regional government modeled on the Hapsburg Holy Roman Empire, stated the problem by saying that Europe was "based on the notion of the nation state . . . that is now gone. . . . The European Community, the Atlantic Alliance, . . . they are the protectors who protect us from the dangers of the past."

How will the United States become integrated into the foreseen new supranational system? Henry Kissinger's technique of bringing new order out of chaos is known as "conflict resolution." The atmosphere of the conference was hot and heavy with threats and rumors of both East-West and intra-West trade war, sanctions, recriminations, and so on. In the particular case of the hotly debated United States attacks on Europe for Soviet trade involving the Yamal natural gas pipeline, Dr. Kissinger said, "The question is whether we can use the pipeline crisis to develop a fundamental agreement among the industrial democracies."

Despite the conflicts, there was a not-surprising, agreement from both sides of the debate on the kind of solution required. Willard Butcher called for "strengthening" the International Monetary Fund, so that it would be able to "belly up to the bar." Edward Lumley, the Canadian co-sponsor of the conference and Minister of State for Trade, announced, "We cannot become too rigid, we must allow emergency actions. . . . We must take the lead in creating a new order of things. . . . We must create order under the heavens." Robert Strauss said, "We better take our game apart . . . and modernize it . . . to deal with the problems of the day."

# Brainwashing elements in film and how they are used

by Michael J. Minnicino

Part I discussed how two books generated out of the Psychological Laboratory at Harvard University in 1915-16 set the standards for the use of the motion picture for purposes of mass social control. These were Professor Hugo Münsterberg's *The Photoplay: A Psychological Study*, and the Fabian poet Vachel Lindsay's *The Art of the Moving Picture*. Both emphasized the use of film for modern-day cult creation on the model of the ancient Egyptian Isis cult.

With these two very influential books (Lindsay's, for instance, became the textbook of the first film course ever given at a college—at the Columbia School of Journalism in

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1917), the Harvard crowd had, by the time of America's entry into World War I, completely defined what film, and later television, was to accomplish. Between the two, the following key elements were mandated.

**1. The technically hypnotic components of film had to be intensified.** For Münsterberg this suggested a wider use of "the changes of rhythm, the passing through of physically impossible experiences, the linking of disconnected movements, the realization of supernatural effects, the gigantic enlargement of small details. . . ."

**2. As a corollary, photoplays had to emphasize objects.** Lindsay had noted that the huge appeal that the so-called "chase film" has for most audiences is that it shows an object, then takes it away; the rest of the film is concerned with the search for, and ultimate recovery of, the object. Münsterberg concurred, citing the fact that mysteries usually made the most involving films since they were dominated by object-clues. Both men had hit upon a psychoanalytic concept which would be developed decades later: infantile object elation. The best way to entertain the childish masses is to treat them as children, showing them a cookie in a jar and letting them gleefully while away the time trying to reach it. The close-

up film technique only heightened this effect.

**3. Dialogue must never be allowed in films, lest the fantasy state which the film so well creates be broken.** Music could be allowed since it easily heightened the magical effect, but actual human communication would disrupt the film's attempt to deeply implant messages.

Over the subsequent 65 years, the movie industry has strictly kept to these principles of mass manipulation. But what, one may ask, of *Battleship Potemkin*, of Al Jolson opening his mouth to sing, of Hitchcock, Welles, Ford, what about *Casablanca* and *Star Wars*?

## The destruction of dialogue

Well, what about them? There is nothing in the last 80 years of film and television or in the millions of pages of media theory and criticism which significantly differs from the vicious ideas of these two Isis cultists.

There has never been dialogue in film. In fact, as Lindsay and Münsterberg demanded, the reverse has been encouraged. This has been admitted by every major sound filmmaker. For instance, Alfred Hitchcock, speaking to an agreeing François Truffaut in 1955:

When we tell a story in cinema, we should resort to dialogue only when it's impossible to do otherwise. . . . It seems unfortunate that with the arrival of sound the motion picture, overnight, assumed a theatrical form. . . . One result of this is the loss of cinematic style, the other is the loss of fantasy.

Or take a 1968 statement by Stanley Kubrick, speaking about his "groundbreaking" *2001: A Space Odyssey*:

*2001* . . . is basically a visual, non-verbal experience. It avoids intellectual verbalization and reaches the viewer's subconscious in a way that is essentially poetic and philosophic. The film thus becomes a subjective experience which hits the viewer at an inner level of consciousness, just as music does, or painting.

Actually, film operates on a level much closer to music and to painting than to the printed word . . . movies present the opportunity to convey complex concepts and abstractions without the traditional reliance on words. I think that *2001*, like music, succeeds in

short-circuiting the rigid surface cultural blocks that shackle our consciousness to narrowly limited areas of experience and is able to cut directly through to areas of emotional comprehension. In two hours and forty minutes of film there are only forty minutes of dialogue.

. . . The problem with movies is that since the talkies the film industry has historically been conservative and word-oriented. The three-act play has been the model. It's time to abandon the conventional view of the movie as an extension of the three-act play. *Too many people over thirty are still word-oriented rather than picture-oriented* [emphasis added].

Almost every other major director concurs: the battle of the last six and one-half decades has been to *extirpate* the influence of the stage on film. The film media have attempted to eliminate language, and thus contributed to the decline in our power to receive and impart profound conceptions.

Neither does the dialogue play any real part in non-journalistic television. Take, for example, the case of the situation comedy, a major portion of television output. *Three's Company* does not depend on witty dialogue, but on the technical *suggestion* of wit, the so-called laugh track ("They are all laughing, so I should"). The key is not the skill of the joke writers but the high degree of training of the audience with undraped female bodies and sexual innuendo acting as the "shill" or come-on.

### The film's techniques of object-fixation

The original requirements that the film reduce everything to objects (Lindsay actually used the word "toys") for the child-viewer to fixate upon has hardly been strayed from. Alfred Hitchcock, widely believed to be the most influential filmmaker in history, hinged all of his films on the emphatic use of inanimate objects: the four-fingered hand in *Thirty-Nine Steps*, the glass of milk in *Suspicion*, the shower in *Psycho*. In fact, Hitchcock gave a generic name to all these objects—"MacGuffins"—and often had over-sized props of these made so that they would appear more-than-normally emphasized when shot.

What else is the odd fascination that Orson Welles's *Citizen Kane* has for so many but the basically infantile desire to know what the hell "Rosebud" is? All the rest of the film is, in the final analysis, merely murky mystery with striking sets photographed in the unique depth-focus technique of Welles's cameraman, Glegg Toland (which allowed Welles to place physically—and psychologically—disparate objects within the same shot).

A recent director, George Lucas, responsible for the monumentally successful *Star Wars* and *Raiders of the Lost Ark* cycles, let it all hang out when he spoke in an interview a couple of years ago:

I like action, adventure, chases, things blowing up, and I have strong feelings about science fiction and comic books and that sort of world. . . . I was at a film

conference with George Cukor [the famous 1940s director—M.M.] and . . . he said, "I'm not a filmmaker. A filmmaker is like a toy-maker, and I'm a director." Well, I'm a filmmaker. I'm very much akin to a toy-maker. If I wasn't a filmmaker, I'd probably *be* a toy-maker. . . . Just give me the tools and I'll make toys. . . . I don't think that much about whether it's going to be a great movie or a terrible movie, or whether it's going to be a piece of art or a piece of shit.

The development of the film's hypnotic power via technical means over the last years is unquestionable. One need only look at the "sword and sorcery" films, the *Star Wars* spin-offs, and the spate of "demonic possession" films—all relying heavily on wild special effects—which dominate today's screen to see Münsterberg's demand for "the changes in the rhythm of action, the passing through physically impossible experiences . . . the realization of supernatural effects . . . the glaring electric signs which flash up."

Most films are quite similar to common parlor hypnosis: they are viewed in the evening during periods of high susceptibility; they start off boring, like the lulling action of a swinging gold watch, before they shock you with their message. This in turn is played on by the makers of movies, as Billy Friedkin, the director of *The French Connection* and *The Exorcist*, said to a group of film students in 1974:

I figured [Hitchcock] had about 45 minutes in *Psycho* where absolutely nothing happened. It's a dull sort of story but the audience is expectant. The audience knows they're coming in to see this horrific suspense film and they're not getting it. They're getting edgy and then suddenly, he whacks them with it and BOOM, you've got them in your back pocket.

So I figured what I'm going to try and do is make this *Exorcist* go on for about an hour with nothing happening and then see how long I pull the string.

The techniques that make film a powerful manipulator were also not lost on another, more-famous film addict:

Mass meetings usually took place . . . late in the evening—they usually began at 8 p.m.—when, as Hitler knew, man's suggestibility was high, and his resistance at its lowest ebb. . . .

The opening moves of every speech [Hitler] made were hesitant. The attitude of his body was stiff . . . his voice was muted and monotonous. After a few minutes, this apparent unwillingness to communicate gave way to a steadier, louder flow of sentences. . . . Then the flow increased into a torrent; the punch-line was delivered in a loud, sometimes hoarse, high-pitched voice; the end was abrupt. . . . The onslaught on the eardrums of the audience was tremendous: it was estimated that the frequency of Hitler's voice was 228 vibrations per second, whereas 200 vibrations per second is the usually frequency of a voice raised in anger.

## Omnibus banking disaster passed

Impelled by the looming financial collapse, Congress passed the long-stalled Omnibus Banking Bill, which will allow for the reorganization of the U.S. banking system along cartelized British lines. The jumble of bills introduced to bail out the faltering savings and loan industry were streamlined into S.2879, authorized largely by Federal Reserve Board Chairman Volcker. With Senate passage of S.2879 on Sept. 25 by voice vote, banking committee members from the House and Senate immediately went to conference to reconcile the Garn bill with legislation passed earlier by the House. The resulting bill adopted most of the Senate provisions and passed the conference committee Sept. 29.

The major provisions of the Senate-backed bill will serve to make speculation the preferred activity of those few financial institutions which survive the current high-interest-rate regime, and will dry up lending for homebuilding and the agro-industrial base of the country. They include:

- 1) Bailing out a few of the stronger savings and loans;
- 2) Shutting down over 1,000 of the weaker S&Ls, thereby shutting off their lending to homebuilders;
- 3) Granting sweeping powers to the big commercial banks such as Citibank, to move across state lines and industry lines, and to buy up any S&L;
- 4) Forcing remaining S&Ls from making home-mortgage loans as their "break and butter," and beginning to engage instead in commercial-bank type of loans, such as Eurodollar market speculation; and
- 5) Providing a back-door bailout to the Eurodollar market by granting the commercial banks sweeping new domestic powers to move into the bro-

kerage and insurance business, to take over real estate, and to issue a new type of certificate of deposit which will soak up the money-market funds.

While these provisions assuaged the larger commercial banks and S&Ls, the smaller commercial banks, represented by the Independent Bankers Association of America, opposed the bill, warning that it will presage a "dangerous restructuring of financial institutions."

## Committee fiddles while financial system goes kerflop

A subcommittee of the Senate Foreign Relations Committee finally took notice of the international monetary crisis on Sept. 27 on orders from the International Monetary Fund. But the one Senator present—Charles Mathias, who chairs the International Economic Policy Subcommittee, and the collected witnesses, proceeded to console themselves that somehow everything would hold together.

The hearing on "Third World debt" featured Citibank Executive Vice-President George Clark, Lehman Brothers Kuhn Loeb consultant Arthur Garten, Kissinger intimate C. Fred Bergsten, and Deputy Treasury Secretary Richard McNamar—all manifesting different degrees of self-delusion. Mathias tiptoed up to the real issue of the mounting political resistance in the Third World to continued and intensified IMF austerity when he asked, "Won't this inability on the part of countries to grow [under IMF-dictated conditions] bring some risk of political instability?" Citibank's Clark assured Mathias that the commercial banks were now meeting to present a united front when dealing with Third World debtors, and such cooperation

would allow the banks to successfully manage debtor nations' problems.

While the other witnesses were not quite so confident about the banks' ability to manage the strains of the current situation on their own, they were no less confident that with international financial institutions, governments, and private banks all cooperating, the Third World would be kept in line. Garten referred to the "non-problem" of Third World defaults, and McNamar insisted that the current situation was "manageable, transitory, and to some degree self-correcting." Outside of the comparatively marginal increase in IMF quotas and tighter supranational surveillance, the witnesses had no solutions to offer.

Sources on Capitol Hill report that another hearing may be held in December, and that the committee staff (which got their marching orders at the September IMF meeting) hope to open up the 98th session of Congress with a major round of hearings, preparing the way for congressional consideration of quota increases for the IMF and the international development banks. Like the witnesses, they apparently think that the international financial structure can be strung along until that time.

## Shultz, O'Neill kill pipeline-sanction repeal

A last-minute plea from Secretary of State George Shultz—transmitted, strangely enough, through House Speaker Tip O'Neill—gave the administration the margin of votes necessary to beat back a strong attempt to repeal the pipeline sanctions. The vote was 206 to 203 against the repeal.

The fight for repeal was led by

House Republican Leader Robert Michel (R-Ill.) whose Peoria district has been heavily hurt by the collapse of business to International Harvester. Shultz claimed that House repeal would interfere with his ongoing negotiations with foreign ministers of Western European countries that have defied the sanctions.

But supporters argued that the issue was simply one of jobs, and that American companies and workers were being unnecessarily hurt by the ineffective sanctions. Democratic Congressman and well-known hawk Sam Stratton (D-N.Y.) who supported the repeal, charged that "the Speaker killed the thing by talking about Secretary Shultz. This is a jobs bill, period. The Democrats ought to be in favor of that at a time when the economy is in trouble."

## **Clinch River survives Senate vote—barely**

The Clinch River Breeder Reactor Project squeaked through the Senate by a vote of 49 to 48 in the latest attempt by environmentalists and "fiscal conservatives" to kill the advanced research project. Majority Leader Howard Baker—whose home state of Tennessee is the site of the endeavor—used a substantial amount of political chips to effect the narrow victory. But Capitol Hill sources report that some Senators may have cast their last vote in favor of Clinch River under Baker's prodding, and that if another attempt is made during the lame-duck session to terminate it, that effort may succeed.

The embattled breeder reactor, whose completion is vital to future U.S. nuclear capabilities, came under intensified fire recently when environmentalists (who have long attacked

Clinch River) joined in open alliance with such forces as the British-controlled Heritage Foundation, the National Taxpayers Union, and Republican Senators led by Gordon Humphrey (N.H.). Humphrey introduced the amendment to terminate Clinch River in collaboration with anti-nuclear liberal Dale Bumpers (D-Ark.) and attempted to attach it to the stopgap funding legislation. The Humphrey-Bumpers effort was abetted by the release of a General Accounting Office report in the days before the vote, which claimed that the persistently obstructed project would now cost over twice its original estimate.

Following their narrow defeat, Clinch River opponents vowed to raise the issue again in the lame-duck session when the regular Energy Department appropriation is on the floor.

## **Kemp introduces phony interest-rate measure**

Furthering the break with President Reagan which began during the tax-increase fight, Representative Jack Kemp (R-N.Y.) and House Republican Whip Trent Lott (R-Miss.) introduced the "Balanced Monetary Policy and Price Stability Act" on Sept. 29, touting it as an attack on the Federal Reserve Board's "monetarist experiment."

With a few technical differences, the Kemp-Lott bill is very similar to legislation introduced by Senate Democratic leader Robert Byrd (D-W.Va.) earlier this year. Both bills are portrayed as proposals to get interest rates down, by mandating the Federal Reserve Board to target not only money supply but also interest rates (as it did prior to 1979), exchange rates, and prices.

However, Federal Reserve Board

Chairman Paul Volcker was closely consulted by Byrd in the formulation of his measure, and Kemp, in turn, reportedly developed his version in consultation with Byrd's staff. According to sources, Volcker has "no problems" with the legislation, since both bills leave the independence of the Fed intact. More importantly, Kemp's bill in particular contains provisions which make it amenable to the policy of "selective reflation" and financial restructuring by which the international financial oligarchy hopes to weather the mounting Third World debt crisis.

Kemp and Lott, with the quiet blessing of the House Republican leadership, are attempting to give election-nervous Republicans an anti-austerity, anti-high-interest-rate fig-leaf to hide behind.

In a "Dear Colleague" letter circulated with the bill, they state, "The GOP must not follow the line that unemployment is an answer to inflation or that the current recession and joblessness is the price we pay for future prosperity." Kemp is also positioning himself for the 1984 presidential campaign.

As with the Byrd legislation, Kemp-Lott is not binding and would allow the Fed to deviate from the interest-rate targets set. Kemp's ultimate objective, however, is to begin to initiate a reform of the world financial structure, on behalf of his Swiss and London banker controllers. The final provision of Kemp-Lott calls on the Secretary of the Treasury to "seek a meeting of members of the International Monetary Fund to consider reforms of the world's monetary system." Kemp, who has called for a London-authored "new Bretton Woods," cites Mexico as an example of why the current international system is inadequate.

# National News

## American surplus grain to make fuel alcohol

The U.S. House of Representatives passed by voice vote on Sept. 27 legislation (H.R.6142) giving the Secretary of Agriculture authority to convert some government-owned surplus grain into fuel alcohol, Chairman Kika de la Garza (D-Tex.) of the House Agriculture Committee announced.

"This is one of a number of steps we are taking to reduce surpluses and improve farm income," de la Garza said. Rep. Berkley Bedell (D-Iowa), chief sponsor of the bill, said that "converting grain to alcohol can help reduce record grain stocks in a way that will strengthen corn markets and cut government spending." The fuel alcohol produced will be used in government vehicles.

In late 1980, the Ad Hoc Committee for a New African Policy presented the White House with a plan endorsed by several hundred civil rights, trade union, religious, and political leaders for government purchase from U.S. farmers at parity prices, of 18 million metric tons of surplus grain, wheat, and dry milk for shipment to famine-stricken areas of central and East Africa. Emergency food relief, said the committee, would fulfill not only America's moral obligations, but create the conditions in which future markets for American farm and industrial exports can be built. The Carter administration responded with the shipment of only 500,000 metric tons of grain.

## N.Y. bankers shaken by LaRouche leaflet

On Sept. 28, organizers from the National Democratic Policy Committee distributed 100,000 copies of *EIR* founder Lyndon LaRouche's *Open Appeal to Walter Wriston* (the chairman of New York's Citibank), throughout the financial and business districts of New York City.

The text of the leaflet warns Wriston that Citibank could be toppled financially at any time by the "proverbial phone call" from Switzerland or New York. At transportation cross points across the commercial zones of the city, the leaflets were grabbed up by

employees of the major financial institutions.

How did the city's chief bankers react to the city's population being let in all at once on the great secrets of the financial institutions? Many warned that such a leaflet itself might plunge the banks into crisis. But most insisted that they will effect no change in policy in negotiations with their Third World debtor clients as a means for ridding the system of the internal features which could bring on crisis.

A top official at Chase Manhattan responded to the leaflet by attacking the Latin American countries' efforts to set up a joint "debtors' cartel" to negotiate their debts. "I got LaRouche's leaflet," Francis Stankard of Chase said. "I'm going to take what you have said and ask these countries if it is true" that they don't want to pay their debts. "I'm going to question them closely." Stankard then added: "If they say anything like this, there could be trouble."

"We'll eyeball it out with them," he said, "we're going to get them to do what we want."

## CSIS plans Ibero-American conflicts

Henry Kissinger's adviser on Latin American Affairs, William Perry of Georgetown University's Center for Strategic and International Studies (CSIS) led a panel discussion at the think tank on Sept. 23, during which scenarios for the political and military destabilization of Ibero-America were presented. Georges Fauriol, an expert on population-reduction policies and the Caribbean basin and a supporter of General Rios Montt, the Jim Jones-style fundamentalist military dictator of Guatemala, said there was "doubt about the stability of Mexico's somewhat aging political system . . . and concerns in Mexico primarily, and also Venezuela, and some other countries, about the efficiency of political management in those countries. . . ."

Mark Falcoff, an associate of the right-wing American Enterprise Institute, and a recent visitor to Argentina and Chile, listed a dozen potential "hot-spots" in Latin America, naming the Argentina-Chile dispute over the Beagle Islands as his choice for "most likely to blow up."

Perry, who in addition to serving as a

gofer for Dr. Kissinger's Latin American operations, claims to be an intimate of the Bureau of Inter-American Affairs of the U.S. State Department, announced that Thomas Enders, who heads that bureau, is responsible for border clashes between Honduras and Nicaragua. "I think there is some inclination in this government to up the stakes on the Nicaraguans," he said. "If I were Enders, and I think this is what he did do, I would want to up the ante. . . . We are not averse to a little action on the border to keep the Nicaraguans thinking a little bit."

State Department spokesman John Hughes refused to comment on Perry's statement, claiming it was "too broad and sweeping a question for me to comment on." The State Department has often blamed Cuba, the Soviet Union, or Nicaragua for violent destabilizing activity in Central America.

## Mondale featured at gay rights fundraiser

The Human Rights Campaign Committee, the political action committee for homosexual-approved candidate support, held its first campaign fundraising dinner in New York City Sept. 29. Former Vice-President Walter Mondale was the featured speaker.

The Human Rights Campaign Committee, founded in 1980, represents the final step in the "reform movement" drive that has been underway since the late 1950s to transform the Democratic Party.

Mondale's speech emphasized that the 1980 Democratic Party platform and the 1982 Democratic Mini-Convention in Philadelphia opposed discrimination based on "sexual orientation." Observers of the fundraiser say that Mondale's position is much less benign, however, and that he, along with others of its organizers, are involved in the promotion of criminal personality types in public office—including those tending toward sexual abuse of children.

In the late 1970s, Mondale and New York City Mayor Ed Koch were co-sponsors of the New York fundraising dinner to re-elect Rep. Fred Richmond, after he was convicted in Washington, D.C. of sodomy. Richmond's victim was a black youth whom Richmond had solicited and paid; Richmond would have been convicted of a crim-

inal act of pedophilia, but the child reached the age of legal consent before the time the trial took place. Richmond resigned from Congress last month, pleading guilty to charges of possession of drugs and income tax evasion.

During the time Koch was in Congress, an incident involving him in sexual child abuse and a potential murder charge were both dropped from public investigation when the policeman who had apprehended Koch was found murdered just before Koch ran for mayor. The public secret of Henry Kissinger's illicit activities with small boys at New York's Carlyle Hotel has also been consistently protected from investigation and indictment.

Among the committee dinner participants were supporters of the San Francisco-based North American Man-Boy Love Association, which is having a national gathering in Philadelphia Oct. 9 and 10, to discuss, among other topics, how to "withstand pressure from the law" and pursue sexual practices with very small children.

## Zbig doubts 'staying power of democracy'

Zbigniew Brzezinski, the noted New York City based disco-dancer who was Jimmy Carter's National Security Adviser, presented a dinner address to Georgetown University's Center for Strategic and International Studies Sept. 22 conference on "Strategic Response to the 1980s." The socialite described the current situation as one in which the "Euro-centric world order that existed for some two centuries" had collapsed during the first half of this century, to be replaced by a period of "Pax Americana," which collapsed after only ten years. He said that U.S. policy must be "sensitive" to areas outside Europe, including the Third World and Asia, and insisted that the U.S. develop "mobility of American forces . . . for more rapidly deployable forces," for use in these areas as we become "sensitive" to them.

Brzezinski concluded by saying that the need for changes in foreign policy "questions the staying power of our democracy," noting, in particular, the congressional role in foreign policy-making. Brzezinski said he felt a need for a "unifying, historical vision."

## State Department trains radical diplomats

Georgetown University's Center for Contemporary Arab Studies, a division of the Georgetown School of Foreign Service, which supplies more career Foreign Service officers to the U.S. State Department than any other institution, joined the Johns Hopkins School for Advanced International Studies, also a leading training site for American diplomats, to sponsor events on Sept. 16 and 17 to organize radical Arabs and others against the national governments of the Middle East's Arab states.

Dr. Adeb Dawisha, an alleged conservative and deputy director of Her Majesty Queen Elizabeth II's Royal Institute for International Affairs (Chatham House), spoke to a small seminar at Johns Hopkins conducted by self-professed Arab radical Fouad Ajami, a former associate of the Lehrman Institute, the right-wing think tank founded by New York Republican gubernatorial candidate Louis Lehrman. Ajami and Dawisha spoke on the problem of the "Arab brethren who never came" to the aid of the Palestinian Liberation Organization in southern Lebanon, and asserted that the "oligarchies and corrupt feudalists" in the Arab world had been replaced by "bureaucrats" who had produced "a generation of human robots."

The following day, the line presented by Dawisha was repeated at a CCAS meeting of about 400 Arab students and others. This time the presentation was made by professional rabble-rouser Eqbal Ahmad, currently associated with the CIA-run Institute for Policy Studies thinktank. He appeared on the podium with CCAS director, Michael Hudson. Ahmad addressed the audience in the rhetorical demagogic style of Adolf Hitler. "In the Arab world, the modern nation state is the obstacle to patriotism," he said, and threatened "the nations" that "Arab universalism will come back to haunt them." The climax of this speech, which was greeted with loud and sustained applause from both the audience and the Georgetown faculty including Hudson, was a call to arms against all governments in the Middle East.

The Georgetown University conference presentations were punctuated with well-received calls from the audience for terrorist outrages against the Israelis and others.

## Briefly

● **JAVIER PEREZ** de Cuellar, United Nations Secretary General, will present the "U.N. Peace Medal" to Steven Spielberg, producer of such hugely successful cult-brainwashing films as *Strange Encounters of the Third Kind* and *Raiders of the Lost Ark*, for his newest hit *E.T.* Observers say that the award choice points up the fact that the usefulness of this latest glorification of anti-science, solidarist, one-worldist revolt against "grown-ups" was not lost on the U.N. bureaucracy.

● **JEROME VAN GORKOM**, an old friend of Secretary of State George Shultz, was nominated on Sept. 14 to be Undersecretary of State for Management. Van Gorkom is chairman emeritus of the Trans Union Corporation based in Chicago. Trans Union, a multinational, trading and finance company with extensive operations in Switzerland and the Far East, is an outgrowth of the Rockefeller-founded Standard Oil Company, and is currently held privately by the Chicago Pritzkers, who also own the Hyatt Hotel chain. Van Gorkom told *EIR* that he is not only an employee, but is also a friend and "skiing buddy" of the Pritzkers, who have been linked to Chicago's illicit drug culture. Van Gorkom has chaired a Chicago school board finance committee which has imposed austerity on the school system.

● **A MEETING** held in the U.S. Senate in early September attempted to whip up opposition to the Clinch River Breeder Reactor, a vitally necessary project to advance U.S. nuclear technology and the potential for energy production expansion. The bash was supported by people from the Natural Resources Defense Council, the American Enterprise Institute, the National Taxpayers Union, and the Heritage Foundation—a fascinating gaggle representing the British Fabian-controlled "left" and "right" coming together around their common interest in seeing the United States go the way of Great Britain.

# Pakistan: what kind of ally?

Pakistan's dictator, Gen. Zia ul-Haq, the director of a regime under which all political activity is banned and thousands have been sent to jail without trial, is planning to visit the United States in December, to consummate the strategic alliance designed by the pro-Chinese geopolitical schemers in the Anglo-American foreign policy establishment.

The visit, like the alliance it represents, is a travesty. Gen. Zia ul-Haq's regime in Pakistan is the active repudiation of the most basic principles of human dignity, morality, and political rights the American republic was founded to defend. Over the past five years, after Zia's military had overthrown and subsequently murdered the democratically elected Premier, Zulfikar Ali Bhutto, on Henry Kissinger's orders, the Zia regime's crimes against Pakistan have been widely documented in the West.

Today Zia is cynically toying with the life of former Premier Bhutto's widow, Begum Nusrat Bhutto, leader of the Pakistan People's Party founded by her murdered husband. Mrs. Bhutto is suffering from complications that arose out of successive prison terms during which she has been physically and mentally tortured. She has urgent medical needs, and has requested from the government of Pakistan a passport and permission to travel to Europe for treatment. For more than a month now the authorities of Pakistan have refused to respond to her request, evidently out of sheer political vindictiveness. Mrs. Bhutto recently communicated to her sister in London her conviction that Zia ul-Haq wants to see her die.

The case of Mrs. Bhutto is not an isolated one. It is the norm for General Zia's military dictatorship, a regime that, as *EIR* has documented, benefits massively from the flow of heroin into the streets of America. General Zia's regime is so inimical to the needs and interests of the Pakistani population that it has to be protected behind a fortress of what the entire world, were it given the facts, would condemn as fascist law. The suspension of all democratic rights, including elections, was only the beginning. At the end of September a new law was proclaimed: the death penalty will be imposed on all political and other

prisoners retroactive to July 5, 1977, when Zia took power and imposed martial law. The death penalty will also be imposed against anyone who "provides protection to persons guilty of such activities as creating public instability or a sense of insecurity among the people." *The onus of proving innocence will lie with the accused.*

It is a sad fact that General Zia's dictatorship has been supported and guided from brutality to brutality by advice, funding, and weapons from the American government. Zia has been glad to trade a military base, an electronic listening post, or even port facilities to facilitate NATO's "out-of-area" deployments into the Middle East and sub-continent in exchange for protection, from his own people and world opinion alike. American policy defies not only morality in this matter, but logic: can the State Department and National Security Council seriously believe that a leader without a nation behind him will provide the kind of geopolitical advantage they seek?

We join in endorsing National Democratic Policy Committee Chairman Warren Hamerman's appeal to President Reagan to use his moral and political power to ensure that General Zia acts promptly and Mrs. Bhutto gets the medical treatment she requires.

We further endorse Mr. Hamerman's recommendation to the President that he owes it both to himself and to the American people to disassociate the United States from financial, military, and political support of Pakistan's Zia ul-Haq regime.

Will President Reagan, an ardent promoter of human rights and the democratic freedoms we cherish to in America, stoop to shake the blood-drenched hand of the petty tyrant Zia ul-Haq? Will he welcome a man earning the money to silence his own population by shipping tons of heroin to American cities, to kill America's future?

We agree with the NDPC that President Reagan's refusal to do so would find overwhelming support from the American population. We also think it urgent that other nations and individuals follow suit in bringing the full moral and material pressure to bear to assure Mrs. Bhutto's life, and to free the people of Pakistan.

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