

EIR

Executive Intelligence Review

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EIR

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EIR

From the Managing Editor

In this issue, we report on the overwhelmingly successful founding meeting of the Club of Life in Rome on Oct. 20-21. Ten months of organizing efforts led by West German European Labor Party Chairman Helga Zepp-LaRouche, drew leading scientists, trade unionists, civil-rights, religious, and political leaders from five continents to the Italian capital, where they began a unified effort against the policies of technological suppression and mass extermination sponsored by the Club of Rome.

Mrs. Zepp-LaRouche remarked to the assembled anti-Malthusian leaders: "The Club of Life is like a fisherman's net, fishing out the world's best minds and pulling them together."

This week our Special Report describes a central aspect of the crisis with which the new Club of Life must quickly mobilize others to deal. While economic collapse, disease, and, on some continents, mass starvation overtake the underdeveloped sector, the industrialized nations are also plunging toward a new Great Depression, above all the United States, the once-industrialized giant on which world economic recovery still depends. *EIR* economists, aided by the LaRouche-Riemann econometric model, project that the fourth-quarter economic performance of the American economy will, at an unlikely best, continue the 7 percent per annum downturn which characterized the previous quarter. At worst, as *EIR*'s reports on the collapse of American steel output, machine-tool production, and skilled labor demonstrate, the U.S. economy is heading toward a "point of no return," at which it will become permanently unable to sustain and reproduce itself.

Clinically insane is the proper classification for the individuals and institutions leading us to this global economic holocaust, under cover of the myth, that a U.S. economic recovery is "just around the corner." This issue of *EIR* provides a closer look at this species of clinical insanity, which takes the organized social form of oligarchism, with two family portraits. See our International Section for a case study of the Wittgensteins of Central Europe and our National Section for a profile of the Mellon dynasty, the first in a series which will expose the American "bluebloods" as feudalists and racialists, by and large as evil as their European sponsors.

Susan Johnson

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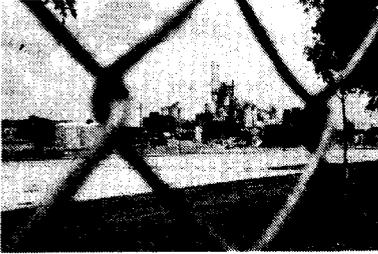
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Andean Pact carries out *Populorum Progressio*

by Christian Curtis

The heads of state of the Andean Pact nations—Venezuela, Colombia, Peru, Ecuador and Bolivia—plus Panama will meet “as soon as possible” to “coordinate joint action for the renegotiation of the foreign debt,” Bolivia’s new president Hernán Siles Zuazo announced in a nationwide television and radio address Oct. 14.

In so doing, these six nations have declared full-scale warfare against the International Monetary Fund and the large international banks, who are trying to impose usurious debt collection that threatens to economically destroy Ibero-America. The Andean countries have taken up the banner of Pope Paul VI, who, in his 1967 encyclical *Populorum Progressio*, proclaimed that “the rates of interest and duration of loans must be allocated such that they are bearable for all.” Such a credit policy, the Pope declared, “is necessary for economic growth, human progress, and industrialization,” because “development is the new name for peace.”

President Siles Zuazo told the press that Panama had also been invited to join the five Andean Pact democracies for the summit in La Paz, Bolivia, and he suggested that the debt action should then spread to the entire continent. “Only joint action by all the countries of Latin America,” he explained, “can force our creditors to soften their conditionalities for renegotiating the foreign debt.”

Moreover, such an Andean Pact initiative could set a precedent for the entire so-called Third World. In an interview with the Caracas daily *El Nacional* of Oct. 16, Siles Zuazo said he first hopes to establish “a common front for the renegotiation of the debt” among what are called the Bolivarian countries, then to extend the alliance to all of Latin

America, and, finally, to the entire developing sector.

The surprise announcement is the first time ever that debtor nations have given notice of their intention to band together to resist the genocidal conditionalities that the banks are trying to impose on a case-by-case basis.

More than simply seeking strength in numbers, the Bolivian proclamation of a “debtors’ cartel” is an implicit threat that, if the international monetary system is not reformed to permit their economic development, they will jointly refuse to pay their debt and bring down the whole house of cards anyway. The use of such a “debt bomb” has been repeatedly identified by American economist Lyndon LaRouche as Ibero-America’s strongest weapon for forcing the creation of a New World Economic Order.

Attack on Dope, Inc.

There will be one other item on the agenda of the La Paz summit: a coordinated, multilateral attack on all narcotics trade, gun running, death squads, dirty money conduits, and fugitive unrepentent Nazis that have enjoyed refuge in parts of South America since the defeat of the Third Reich. These drug and assassination networks are the ultimate “enforcers” of bank policies. Historically, as the reports below indicate, Third World leaders who dare challenge the usurious policies of their creditors wind up dead at the hands of assassination units bearing names such as Aguila, Palladin, and The Bridegrooms of Death. As numerous public accounts in Latin America have carefully documented over recent weeks, these death squads are founded and financed by the “P-2” Freemasonic networks of Europe’s old oligar-

chy—the same networks that own the banks that hold the developing sector's debt.

The oligarchy has much with which to be concerned. It is estimated that the combined debt of the Andean Pact nations, plus Panama, is in the range of \$60 to \$70 billion—more than enough to bankrupt a large number of the area's creditors. Already two presidents—Colombia's Belisario Betancur and Peru's Fernando Belaúnde—have indicated their support for the summit proposal. "The steps are being taken" to carry it out, Belaúnde told reporters Oct. 16. And even the Mexican government has endorsed the idea.

Venezuela has not formally replied, but veteran diplomat Hilarión Cardozo, Caracas's former ambassador to the Organization of American States, traveled to Argentina last week to muster support for the plan there. He told the press Oct. 17 that all of Latin America must "treat external financing for development as well as foreign debt in a multinational way and not bilaterally." The next day he was in Washington, chairing the meeting of the Economic and Social Council (CIES) of the OAS, where he reiterated the call for a united debtors' front.

Wall Street and European bankers responded to the news of Siles Zuazo's speech with shock and disbelief. "It's not true," said a banker at Swiss Bancorp flatly. "It's not possible," a spokesman for Lazard Freres investment house assured callers. "I'm flabbergasted," confessed an officer of France's Paribas, when reached for comment.

Disbelief was followed quickly with threats of retaliatory economic warfare against the "uppity" Andean nations. A high official for the IMF told banking sources that "all credits would be immediately cut off to the debtors cartel" if they proceed with their plans. "The entire short-term debt of these nations will be frozen. They'll all end up like Mexico," he growled—a reference to the credit cut-off and capital flight operations which bled the Mexican economy white over the course of 1982. Combined with such outright thuggery, the IMF official elaborated, "the banks will try to pick the bloc apart" by telling the better-off members of the Andean group, Venezuela and Colombia, that they will get preferential treatment if they break from the cartel. "If they don't cooperate, then they will be treated like the worst basket cases."

What particularly enraged the international banking community is not so much that a debtors' cartel has been formed, but the fact that it hit them from a totally unexpected direction. Ever since Mexican President José López Portillo nationalized his country's banks on Sept. 1 and imposed total foreign exchange controls, the IMF and its oligarchic sponsors have known that they had a fight on their hands in Ibero-America. When the Mexican head of state and his Brazilian counterpart, João Figueiredo, one month later delivered addresses to the United Nations General Assembly calling for radical measures to reshape the international monetary system to foster industrial growth, the bankers braced themselves for the worst—an alliance among the continent's largest debtors: Mexico, Brazil, Argentina, and Venezuela, who

together hold some \$250 billion in debt. So, the oligarchy concentrated on containing the continent's Big Four, through a combination of threats, enticements, and simple stalling tactics.

But then the bankers were outflanked by a collection of small countries that they had considered too unimportant, and too bankrupt, to ever dare to stage a "slaves revolt." In fact, however, the Andean Pact has always been a likely candidate to act on the basis of the *Populorum Progressio* encyclical, since the Pact itself was founded on Papal doctrine. *Populorum Progressio*, published in 1967, called on developing nations to "take advantage of their proximity in order to organize among themselves, on a broadened territorial basis, areas for concerted development; to draw up programs in common, to coordinate investments, to distribute the means of production, and to organize trade." This is almost a word-for-word description of the founding charter of the Andean Pact, written two years later.

As for why Bolivia has suddenly become a leading nation in world history, there is every indication that that country's return to democracy and its current bold policies are a product of international collaboration among Ibero-American republicans. The well-attended Oct. 10 inauguration of Siles Zuazo was in itself both a celebration of constitutional government and a summit of presidents and other high-level officials. The presence and active organizing of the head of Mexico's ruling PRI party, Pedro Ojeda Paullada, was particularly important in forging the necessary unity.

'Development is the name for peace'

The following are excerpts from Pope Paul VI's encyclical Populorum Progressio, dated March 26, 1967. Subtitles and emphases are in the original.

. . . If further development calls for the work of more and more technicians, even more necessary is the deep thought and reflection of wise men in search of a new humanism which will enable modern man to find himself anew. . . . This is what will permit the fullness of authentic development, a development which is for each and all the transition from less human conditions to those which are more human.

The universal purpose of created things

“Fill the earth and subdue it”: the Bible, from the first page on, teaches us that the whole of creation is for man, that it is his responsibility to develop it by intelligent effort and by means of his labor to perfect it, so to speak, for his use. If the world is made to furnish each individual with the means of livelihood and the instruments for his growth and progress, each man has therefore the right to find in the world what is necessary for himself. The recent Council reminded us of this: “God intended the earth and all that it contains for the use of every human being and people. Thus, as all men follow justice and unite in charity, created goods should abound for them on a reasonable basis.” All other rights whatsoever, including those of property and of free commerce, are to be subordinated to this principle. . . .

Private property does not constitute for anyone an absolute and unconditioned right. No one is justified in keeping for his exclusive use what he does not need, when others lack necessities. In a word, “according to the traditional doctrine as found in the Fathers of the Church and the great theologians, the right to property must never be exercised to the detriment of the common good.” If there should arise a conflict “between acquired private rights and primary community exigencies,” it is the responsibility of public authorities “to look for a solution, with the active participation of individuals and social groups.”

If certain landed estates impede the general prosperity because they are extensive, unused or poorly used, or because they bring hardship to peoples or are detrimental to the interests of the country, the common good sometimes demands their expropriation. While giving a clear statement on this, the Council recalled no less clearly that the available revenue is not to be used in accordance with mere whim, and that no place must be given to selfish speculation. Consequently it is unacceptable that citizens with abundant incomes from the resources and activity of their country should transfer a considerable part of this income abroad purely for their own advantage, without care for the manifest wrong they inflict on their country by doing this.

Industrialization

The introduction of industry is a necessity for economic growth and human progress; it is also a sign of development and contributes to it. By persistent work and use of his intelligence man gradually wrests nature's secrets from her and finds a better application for her riches. As his self-mastery increases, he develops a taste for research and discovery, an ability to take a calculated risk, boldness in enterprises, generosity in what he does and a sense of responsibility.

Part II: The development of the human race in the spirit of solidarity

There can be no progress toward the complete development of man without the simultaneous development of all

humanity in the spirit of solidarity. . . .

Every nation must produce more and better quality goods to give to all its inhabitants a truly human standard of living, and also to contribute to the common development of the human race. Given the increasing needs of the under-developed countries, it should be considered quite normal for an advanced country to devote a part of its production to meet their needs, and to train teachers, engineers, technicians and scholars prepared to put their knowledge and their skills at the disposal of less fortunate peoples.

We repeat once again that the superfluous wealth of rich countries should be placed at the service of poor nations. The rule which up to now held good for the benefit of those nearest to us, must today be applied to all the needy of this world. Besides, the rich will be the first to benefit as a result. Otherwise their continued greed will certainly call down upon them the judgement of God and the wrath of the poor, with consequences no one can foretell. If today's flourishing civilizations remain selfishly wrapped up in themselves, they could easily place their highest values in jeopardy, sacrificing their will to be great to the desire to possess more. To them we could apply also the parable of the rich man whose fields yielded an abundant harvest and who did not know where to store his harvest: “God said to him: ‘Fool, this night do they demand your soul of you.’ ”

In order to be fully effective, these efforts ought not remain scattered or isolated, much less be in competition for reasons of power or prestige: the present situation calls for concerted planning. A planned programme is of course better and more effective than occasional goodwill. It presupposes, as we said above, careful study, the selection of ends and the choice of means, as well as a reorganization of efforts to meet the needs of the present and the demands of the foreseeable future. More important, a concerted plan has advantages that go beyond the field of economic growth and social progress; for in addition it gives significance and value to the work undertaken. While shaping the world it sets a higher value on man.

But it is necessary to go still further. At Bombay we called for the establishment of a great *World Fund*, to be made up of part of the money spent on arms, to relieve the most destitute of this world. What is true of the immediate struggle against want, holds good also when there is a question of development. Only world-wide collaboration, of which a common fund would be both means and symbol, will succeed in overcoming vain rivalries and in establishing a fruitful and peaceful exchange between peoples.

There is certainly no need to do away with bilateral and multilateral agreements: they allow ties of dependence and feelings of bitterness, left over from the era of colonialism, to yield place to the happier relationship of friendship, based on a footing of constitutional and political equality. However, if they were to be fitted into the framework of world-wide collaboration, they would be beyond all suspicion, and

as a result there would be less distrust on the part of the receiving nations. These would have less cause for fearing that, under the cloak of financial aid or technical assistance, there lurk certain manifestations of what has come to be called neo-colonialism, in the form of political pressures and economic suzerainty aimed at maintaining or acquiring complete dominance. . . .

Developing countries will thus no longer risk being overwhelmed by debts whose repayment swallows up the greater part of their gains. Rates of interest and time for repayment of the loan could be so arranged as not to be too great a burden on either party, taking into account free gifts, interest-free or low-interest loans, and the time needed for liquidating the debts. Guarantees could be given to those who provide the capital that it will be put to use according to an agreed plan and with a reasonable measure of efficiency, since there is no question of encouraging parasites or the indolent. And the receiving countries could demand that there be no interference in their political life or subversion of their social structures. As sovereign states they have the right to conduct their own affairs, to decide on their own policies and to move freely towards the kind of society they choose. What must be brought about, therefore, is a system of cooperation freely undertaken, an effective and mutual sharing, carried out with equal dignity on either side, for the construction of a more human world. . . .

Equity in trade relations

The efforts which are being made to assist developing nations on a financial and technical basis, though considerable, would be illusory if their benefits were to be partially nullified as a consequence of the trade relations existing between rich and poor countries. . . .

In other words, the rule of free trade, taken by itself, is no longer able to govern international relations. . . . One must recognize that it is the fundamental principle of liberalism, as the rule for commercial exchange, which is questioned here. . . .

Still deeply impressed by the memory of Our unforgettable encounter in Bombay with our non-Christian brethren, We invite them anew to work with all their heart and their intelligence towards this goal, that all the children of men may lead a life worthy of the children of God.

Finally, We turn to all men of good will who believe that the way to peace lies in the area of development. Delegates to international organizations, government officials, gentlemen of the press, educators: all of you, each in your own way, are the builders of a new world. . . .

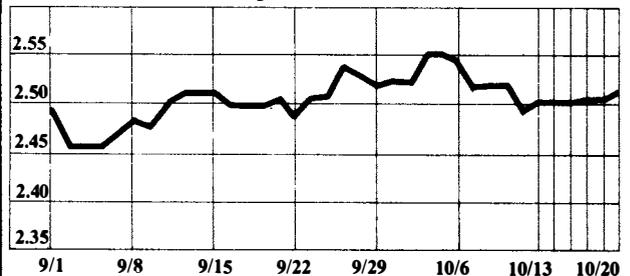
Government officials, it is your concern to mobilize your peoples. . . to make them accept the necessary taxes on their luxuries and their wasteful expenditures, in order to bring about development and to save the peace. . . .

For, if the new name for peace is development, who would not wish to labour for it with all his powers? . . .

Currency Rates

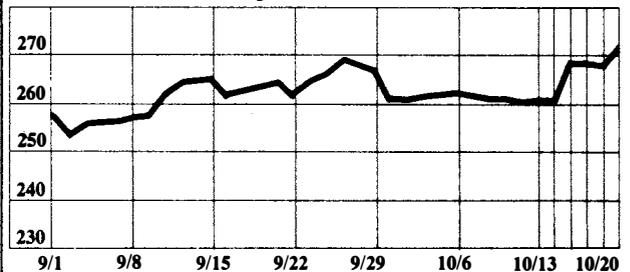
The dollar in deutschemarks

New York late afternoon fixing



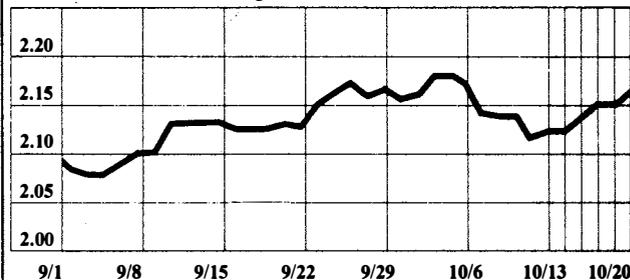
The dollar in yen

New York late afternoon fixing



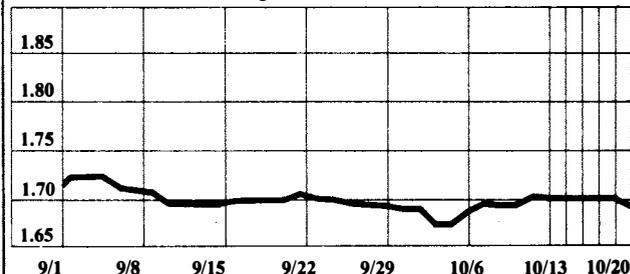
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



A war against Andean drug financiers

by Christian Curtis

The emergency meeting of Andean region heads of state called for by Bolivian president Hernán Siles Zuazo Oct. 14 will take place in La Paz in early November to plan a joint offensive to “eradicate the neo-Nazi organizations that are embedded in Bolivia and which have infiltrated various military institutions,” according to a report in the Mexican daily *Excelsior* of Oct. 17. Originally proposed for the purpose of forging a unified negotiating position on the foreign debt of the five Andean Pact nations plus Panama, the summit will thus also map a joint strategy for liquidating the networks of old Nazi assassins and cocaine traffickers that would stand in the way of such Ibero-American unity.

In an Oct. 15 interview with the Venezuelan daily *El Nacional*, Siles Zuazo announced that he had begun preparations with Peru and Colombia, the two other cocaine-plagued nations of the Andean Pact, for “a war to the death against drug trafficking.” He added, “We propose carrying out the fight against the illegal drug trade to the fullest extent.”

Both Colombian President Belisario Betancur and Peru’s Fernando Belaúnde have accepted Siles Zuazo’s summit invitation, and it was sources in the Colombian foreign ministry that provided the basis for the *Excelsior* report that the governments involved understand “drug trade” to be synonymous with death squads and fugitive Nazis.

There is an excellent reason why foreign debt and neo-Nazi assassination teams should be on the same agenda of a meeting of Ibero-American heads of state. Siles Zuazo and his colleagues know that they cannot confront the international banks without neutralizing the banks’ most effective instrument of “economic policy”: murder. Siles himself was the subject of a hit contract held by neo-fascist Italian terrorist Pierluigi Pagliai, who was arrested and deported to Italy on Oct. 11. According to numerous published accounts, Bolivian, Italian, and U.S. authorities have traced Pagliai’s \$2 million in payoff money for the planned assassination to banks in Argentina controlled by members of the secret P-2 Freemasonic lodge of Rome. P-2 was banned by Italian police last year for directing terrorism, drug traffic, and coup plots against the Italian state.

As numerous Latin American newspapers and public of-

ficials have acknowledged over recent months, after the story first broke in *EIR*, behind P-2 stands the London and Swiss banking establishment, Henry Kissinger, and even the British royal family—via the Grand Mother Lodge of the City of London. Evidence and testimony submitted in Italian courts has named Kissinger as a co-conspirator in P-2 activities, including the murder of Aldo Moro.

Kissinger is also suspected by Ibero-American authorities of being behind a strange series of murders and otherwise unexplained deaths within a six-month period in 1976—the last time there was serious discussion among developing-nation leaders of using debt moratoria against the banks. According to reports published in Venezuela and Italy, authorities in Bolivia and elsewhere have discovered evidence linking the cocaine mafia, death squads, and renegade Nazis such as hunted SS officer Klaus Barbie to what French police several years ago began calling the “Black International”—the feudal families of Europe’s ancient oligarchy and their hangers-on. These families own P-2.

Paris authorities found hard links between Black International hit squads—particularly a group known as Palladin—and the 1976 murder in Buenos Aires of former Bolivian President Juan José Torres, a man known to have earned the special hatred of Henry Kissinger. According to the Venezuelan daily *El Nacional* of Oct. 19, Palladin included Pagliai, the man paid to try to murder Siles Zuazo.

Within six months of Torres’s murder, over a dozen prominent Latin American figures met untimely deaths, including two former Brazilian presidents considered allies of Torres. There have been published charges in Brazil that Juscelino Kubitschek’s car had been tampered with when he died in a supposed one-car accident one month after Torres was killed. Four months later, João Goulart died in Argentina of what Brazilian sources now say was poisoning.

The trail from the Pagliai and Palladin role in the Torres case threatens to expose the entire P-2/Black International apparatus in South America, with international repercussions. Pagliai was immediately extradited to Italy where he is wanted for the 1980 bombing of the Bologna train station that left 85 people dead. The bombing was ordered by P-2.

In Bolivia, Pagliai was operating a death squad known as The Bridegrooms of Death, which included Stefano Della Chiaie, another Italian fascist wanted for the 1969 bombing of the Piazza Fontana in Milan, and a West German terrorist named Joachim Fiebelkern. Palladin, Bridegrooms of Death, and a group called “Aguila,” were all centrally coordinated facets of the same operation, financed by P-2 via Argentina. And according to Venezuela’s *El Nacional* of Oct. 14, these death squads also had the backing of the Unification Church of Sun Myung Moon.

As *Excelsior* noted Oct. 17 in this connection, “The dismantling in Bolivia of the ‘Aguila’ organization headed by Klaus Altmann (alias, Klaus Barbie) and by Licio Gelli of the Italian P-2 has exposed an entire network of neo-Nazi organizations in South America.”

Paul Volcker's 'recovery' talk is aimed at Ibero-American debtors

by Kathy Burdman

The much-heralded U.S. "recovery," the stock market boom, and the Federal Reserve's leaks that it is lowering interest rates have an urgent foreign policy motive, *EIR* learned in late October. Federal Reserve Chairman Paul Volcker and his advisers, including Morgan Guaranty Executive Committee Chairman Dennis Weatherstone, are deliberately promoting the hoax of a U.S. recovery to con Ibero-American and other developing nations into paying their enormous debt.

It is clear even to some of the financial wizards on Wall Street and their friends in London and Switzerland that leading Third World nations know it is useless to expect credit, even if they accept the gruesome "conditionalities" demanded by the International Monetary Fund, as long as the United States is collapsing its own economy. That point was made by Mexican President López Portillo in his United Nations speech Oct. 1. It is also well known to the Third World that unless the United States and other "advanced" nations embrace the program of Lyndon LaRouche (see page 31), there will be nothing but continuing collapse.

Put bluntly, the only purpose of the U.S. "recovery" is to immobilize Brazil and other big debtor nations until resistance to debt collection can be eliminated—militarily.

Volcker and the Morgan bankers are worried that the collapse in lending to the Third World leaves developing countries with no choice but to default. "The problem is that we have already shot our one bullet," admitted Morgan chief domestic economist, Milton Hudson, to *EIR*. "The only threat we have to convince them not to default is that they will be cut off from all loans and trade. But they *are* cut off."

"The [debt] problem is unmanageable if the U.S. recession continues any longer," said Richard Dale, a Senior Fellow at Washington's Brookings Institution and former partner of London's N. M. Rothschild & Co. Dale, a British subject who is close to Morgan Guaranty, noted that Secretary of State Shultz, a former Morgan director, is advised by Morgan's Weatherstone and Morgan chief economist Rimmer de Vries.

"The Morgan people and George Shultz want those inter-

est rates down," he stated. "Volcker is looking for an excuse to listen to Shultz, and he's extremely concerned about Latin America. The only card we have left is to convince them that it's not in their interest to default. We have to give them new credits, and we have to give them a different economy."

The hard U.S. line at the September International Monetary Fund-World Bank meeting in Toronto has been given up, says Dale, and the administration for the first time is talking directly to the banks about bailing out Brazil. They are holding trilateral talks set up in Washington by Figueiredo during his last visit, with the IMF and high-level Brazilian representatives.

'We have to give them a U.S. recovery'

Volcker himself, addressing Japanese bankers in Tokyo in mid-October, was forced to warn that "we cannot control the international debt situation. I can assure you that we can hold the line and keep U.S. corporations from failing," he said, referring to the U.S. stock market bubble and Fed lending plans. "However, internationally, I can assure you of nothing," he went on, pleading with the Japanese to "stick together" with the U.S. authorities.

But Volcker's Federal Reserve economists readily admit that they have no intention of changing "fundamental policy," and that the U.S. heavy industrial base will never be allowed to recover. A top Fed official told us flatly that "Industry will not be able to borrow to produce. We know that there will be more unemployment, not less."

Even the Fed's own industrial production figures demonstrate a collapse in U.S. industrial production at a 7.2 percent annual rate in September, and a 19.2 percent rate of fall for the month in capital goods production. This is in line with Morgan Guaranty's prediction that U.S. capital spending will fall by 5.6 percent in 1983, on top of a 4.3 percent drop in 1982.

How Brazil is being targeted

A source close to Morgan told this writer that Treasury Secretary Donald Reagan and Secretary of State George

Shultz, both allies of Volcker, are putting together a phony "emergency bailout package for Brazil," seen as in danger of "going the way of Mexico." "If Brazil does not get more credit soon," he said, "we would have the threat of Brazil, the Andean Pact, Mexico, and Argentina all defaulting on their foreign debts. Brazil could begin a process which would wreck the international banking system." Morgan Guaranty and Volcker want the Brazil crisis to be "forestalled."

Mr. Dale said that "Brazil is down to less than \$4 billion in international reserves and within weeks they will be unable to pay." The Brazil desk at the International Monetary Fund in Washington confirmed that Brazil received perhaps \$700 million in new loans during September, but that is totally insufficient. If bank lending to Brazil does not restart, the IMF official said, the banks will be "forcing Brazil into a corner" and the country will run out of reserves and default.

Insurance companies sources reported in October that American International Group, the major export insurer, has cut off all export insurance to Brazilian importers, a measure which Mexican importers suffered months ago. AIG officials refused to comment, but the insurance sources said that "the entire industry thinks Brazil could be another Mexico."

One conclusion that is hard to escape is that Volcker, Morgan and Co. are frantically trying to counter the influence of *EIR* founder and contributing editor Lyndon H. LaRouche, Jr., who has advised Mexico, Brazil and other nations to declare debt moratoria. *EIR*'s Latin American Editor Dennis Small and Director for Economic Forecasting Uwe Parpart toured Brazil for two weeks in September. They met with Planning Minister Delfim Netto and his staff, and gave a presentation at the Superior War College in Rio de Janeiro on the LaRouche-Riemann economic model.

Parpart and Small demonstrated that the LaRouche-Riemann model results prove that the U.S. industrial base is collapsing in terms of production and investment, at a 10 percent annual rate. (For the latest quarterly forecast, see this week's Special Report.) Not only will there be no recovery as long as Volcker is mismanaging the U.S. economy, they said, but if Ibero-Americans want to create a New World Economic Order, they must wield their debt as a weapon.

Scarcely two weeks later, Morgan's Dennis Weatherstone and Latin Director of the bank, Anthony Gebauer, were touring Brazil, and were quoted widely in the Brazilian press assuring government and private business that U.S. recovery is around the corner. Gabriel Gutierrez, Latin director of Wharton Econometrics, similarly forecast a large rise in U.S. imports from Brazil for next year, during a Rio tour. George Shultz himself is reported to have told Brazilian President Figueiredo to expect a strong U.S. recovery in 1983.

'Playing the game'

What's going on, Brookings fellow Dale revealed, is a desperate effort to keep the Ibero-Americans "playing the game."

The "recovery" began when Morgan's Trust and Invest-

ment Division, with \$17 billion in U.S. equities under management, began buying like mad into the stock market, Wall Street brokers told *EIR*. Morgan chief domestic economist Milton Hudson's private estimates say the U.S. economy will never get out of zero growth. But, publicly, he is advising investors that the Fed has shifted policy, and recovery is here.

Volcker might even lower interest rates a good bit more, at least to hear Morgan tell it, Richard Dale said. Weatherstone and George Shultz want the London Interbank rate at which Third World countries borrow to fall another 3 percent, to around 9 percent, and that would mean the U.S. prime rate would have to come down to 9 percent too—"and fast." It will be a short term game, if it happens. Even though a quick credit shock might provoke some consumer buying, most companies will handle this out of inventory sales; *no one* is expecting any new production or capital investment.

Slow starvation plan at Morgan

Morgan Guaranty's World Financial Markets complains in its October issue that international banks in the Bank for International Settlements Reporting Area have cut gross lending to the non-oil LDC nations from a \$50 billion annual rate in the first half of 1982, to a \$32 billion annual rate in the third quarter, and an apparent \$15 billion annual rate in September!

But it should hardly be assumed that Morgan is promoting a boom in the Third World by turning back on the credit spigot. Morgan promotes a "best case" scenario to channel just a bit more money into key Ibero-American countries to prevent defaults, and keep nations starving slowly.

The Morgan newsletter argues that it would be "counter-productive" to allow bank lending to the Less Developed Countries (LDCs) to continue to fall or remain level during 1983. This worst-case scenario would have a "sledgehammer effect on major borrowers" by causing a sharp depression. They calculate that Gross Domestic Product growth in LDCs overall would fall by 3 percent and collapse by 5.5 percent in Latin America. Imports would be cut by \$45 billion and \$30 billion, respectively.

This would "jeopardize the ability of these countries to pay interest on existing loans." In short, the "debt bomb" advised by LaRouche would be dropped.

Morgan instead counsels banks to increase their rate of lending by a measly 10 percent during 1983, half the 20 percent of increase in 1981. They calculate that this would soften the "sledgehammer" blow, causing only a fall in GDP in the Third World as a whole of 1.5 percent and "only" a 3 percent fall in Ibero-America. Imports would have to be cut by a "mere" \$23 billion in all LDCs, \$15 billion in Ibero-America.

And this recipe, at best a slower form of genocide, depends on a U.S. "recovery" which Volcker, the Morgan boys, and George Shultz know is nothing but a public-relations ploy.

Making waves

A revival of the Kondratieff theory is being promoted by Club of Rome circles. It's a fraud used to justify the depression.

In 1921, Russian Kerenskyite socialist Nicolai Dmitriyevich Kondratieff revived the theory of inevitable 50-year economic "long waves" first promulgated in 1901 by that resourceful British intelligence agent Alexander Helphand-Parvus. Surfacing in the West in 1936, the theory enjoyed a brief period of interest, until it was definitively shown, except for price indices, to be without empirical basis, and also without rational explanation. Not even Kondratieff could explain why an economy should exhibit a 50-year "fertility cycle" progressing like a crop of wheat from spring planting to death in the winter. The theory seemed to have found its own winter, following the footsteps of Kondratieff, who disappeared into Siberia in 1930 and was never heard from again.

Since the mid-1970s, the theory has been dusted off in order to argue that the unfolding depression engineered by the Bank for International Settlements, the U.S. Federal Reserve Bank, the International Monetary Fund and the major U.S. banks, is somehow inevitable. The latest effort to bring Kondratieff's waves into public consciousness was a featured *New York Times* article on Oct. 17.

The article itself is sheer propaganda; it makes no effort to present empirical evidence that the waves exist at all. An accompanying chart merely shows that U.S. wholesale prices more or less followed Kondratieff's wave pattern. But falling prices are often a sign of economic growth, and do not reveal anything in them-

selves about the health or sickness of an economy—and the post-World War II inflation breaks the pattern, as the *Times*' graph shows.

The *Times* article counsels against doing anything to forestall the present depression, but rather to "try to get inflation and debt under control," a policy whose "effect is to reinforce the fourth Kondratieff downturn—not to resist it." I.e., policy should reinforce, not resist, the slide into the greatest depression in modern history.

The fascist implications of this policy have been spelled out in recent years by the Club of Rome-linked hoaxster Jay Forrester and his colleagues at the MIT Sloan School of Management.

Forrester first received public attention for a fraud he published for the fascist Club of Rome in 1972 entitled *Limits to Growth*, in which he employed a computer to show that if there are no new technologies developed, the world will run out of resources within 150 years, a conclusion about as profound as saying that if a person fails to eat for several months, he will undoubtedly die. However, Forrester and the Club of Rome have tried to use the results of the study ever since to argue that only zero growth can preserve mankind from disaster—while they have bent every effort to prevent the technological breakthroughs that would save the world.

But the Third World rejected the Forrester-Club of Rome conclusions out of hand as precluding economic development and condemning them to

genocide, and the hoax was ridiculed even in the industrial countries outside of hardcore environmentalist circles.

To resell the same conclusions in more effective disguise, Forrester decided to bury them under literally millions of statistics and thousands of equations in a "new, improved" version of the model, called the System Dynamic National Model. Based on a purported "simulation" of an "ideal" economy, Forrester and colleagues concocted a model that, low and behold, displayed "long waves" that matched Kondratieff's! Eager to establish that he had "corrected" the earlier model's omission of technological progress, Forrester claimed that the explanation for the cycles was that applied technologies led to "overbuilding" of the capital goods industries, such that only stagnation and depression can eliminate the overcapacity.

This is a remarkable assertion, one certainly not dictated by his model, which *excludes* technological change of any kind.

Indeed, Forrester's model economy is analogous to considering a catatonic an "ideal" human being. Total stagnation in population, consumption, income, and production are assumed, and "random fluctuations" of ± 2.5 percent in consumer demand are the "engine" which makes the model do anything at all.

Thus, Forrester's model has no connection to any known economy on earth. Perhaps this explains why it generates Kondratieff curves.

According to Forrester, the Kondratieff curve entails fostering "a new political culture" consistent with a "post-industrial" society, and consistent with the depression conditions: a "strength through joy" culture, and "new forms of government," that is to say, sufficiently authoritarian to impose such policies.

Brazil boxed in

The balance-of-payment problems are surfacing, despite Morgan's effort to keep the debt under its political control.

For the first time, Brazil's central bank has announced that the September foreign-accounts statistics would remain secret until the climate of international speculation about Brazil's liquidity ceased. From now on, rumors will be the only thing on the market.

What has happened is that Brazil is being put into a form of receivership run by Morgan Guaranty and its allies to keep alive the *illusion* of liquidity until after the crucial Nov. 15 national elections. Even without the September statistics, one can calculate how big the hole is.

The daily *Folha de São Paulo* put its economists to that task, Oct. 17. They simply added up the dollars which will come into Brazil by the end of the year with those which will leave. Comparing the totals with those offered by Planning Minister Delfim Netto in the official balance-of-payments projection he issued at the beginning of the year, they found a gap of \$6.6 billion.

The biggest portion thereof came from the Federal Reserve's high interest rates, which forced Brazil to pay out \$12 billion on that account, instead of the \$9 billion anticipated by Delfim, who had believed that 1982 would be "a year of recovery."

The international depression and punitive terms of trade also caused Brazil to fall short—by a whopping \$2.3 billion—of the \$3 billion trade surplus forecast by Delfim (see *EIR*, Oct. 26).

That, despite the Brazilians slicing \$5 billion out of expected imports at the price of continued economic contraction, and doing every little thing possible to increase exports by heavy subsidies and clever accounting gimmicks. The latest one will give Brazil an officially estimated \$1.2 billion in exports on oil platforms and ships which are "exported" to Banco de Brasil's Cayman Islands leasing division and then "leased" back to Brazil.

Not surprisingly, the \$2 billion in expected foreign investment failed to materialize. During the first half of the year, net foreign investment was actually negative—for the first time since the 1964 coup made Brazil an attractive place for investors. (Brazil still is, except for the world crisis.)

How has Brazil dealt with the \$6.6 billion payments gap?

Delfim has acknowledged \$2 billion of it, and raised his 1982 borrowing needs projection from \$11 to \$13 billion; the last \$4 billion of this must be scraped together during the last four months, despite the shut-off from the banks.

In addition, Brazil ran up its short-term debt, which unofficial estimates put at \$12.9 billion at the beginning of the year and must be around \$15 billion now. Even that possibility began to close up in the spring, and ended completely in the past few months.

Brazil has had to draw down its reserves to meet payments. A central bank official leaked that Brazil had sold part of its gold reserves in July to

meet a \$60 million payment. *Estado de São Paulo* reported that the government had to borrow \$250 million from Petrobras in August to meet payments.

Thus, it is logical that foreign reserves have fallen from the \$7.5 billion at the beginning of the year to the \$4 billion level currently estimated by sources close to Morgan Guaranty and the IMF. Those reserves, however, are in untouchable forms including receivables in arrears from export clients such as Poland, Mexico, Argentina, and Venezuela, and some \$800 million in gold.

Morgan has pulled out all the stops—not only to convince Brazil that there would be a recovery in the United States, but to convince bankers that they could trust Brazil.

Morgan widely publicized a \$100 million syndicated loan it led in October, the first since the summer. And it quietly convinced the Brazilian government to grant an ex post facto federal guarantee to an old unsecured syndicated loan which the state of Goias had allowed to go into arrears.

Delfim has released, piece by piece, a picture of how he plans to keep Brazil out of formal moratorium next year, under the terms of Morgan's "optimistic" scenario for the banks financing a 10 percent increase in debt. That means that the banks would roll over principal and would finance only \$8 to \$9 billion of the \$15 billion service-account deficit Brazil will show next year.

With no more reserves to run down, Brazil will have no choice but to eke out a trade surplus of \$6 to \$7 billion next year.

Delfim promises to do that, even if it means import cuts so drastic that they can hardly be imagined—and would not have been imaginable at all had interest rates not come down somewhat.

Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
UPDATE			
\$4.5 bn.	East Asia from Panama from U.S.A.	Ebasco Services has plan to turn 6.6 mn. tpy of high-sulfur Illinois Basin coal into methanol on the Atlantic side of Panama. The methanol would be shipped by pipeline to the Pacific side for shipment via super-tanker to Japan, South Korea, and S.E. Asia.	Feasibility study being financed by \$500,000 U.S. AID grant.
	Japan/Italy from Brazil	Kawasaki Steel (Japan) and Finsider (Italy) have backed out of their commitments to buy 20 percent each of the steel from a new plant they are building in joint venture with the Brazilian state-run steel company. Tubarão mill will be belching out 3 mn. tpy of slab steel starting in June 1983 without assured markets for much of the production, which was supposed to go to the Japanese and Italian partners for 18 years. Brazil will seek to find markets for the steel, at almost any price, since debts on the plant will soon start coming due.	Marubeni, C. Itoh, and Japan Lease International have agreed to help finance the project's completion by buying its coking furnace and then leasing it back to the Tubarão partners for 10 years, according to <i>Yomiuri</i> . Morgan Grenfell of England has run a similar lease-back operation with Brazil's similarly troubled Açominas steel complex which gave up ownership of its blast furnaces to the bankers.
CANCELLED DEALS			
	Australia from France	Dresser (France) is being threatened with cancellation of order from Santos (Australia) for 3 natural gas compressing units because Dresser was having trouble obtaining components.	Dresser (France) was cut off from U.S. components in a Washington reprisal for its having followed French government order to work on a Soviet gas contract. Who were those sanctions aimed at. . . ?
\$116 mn.	Thailand from Europe	Thai Airways International has switched its order for two long-range planes from the European Airbus A-300 to Boeing's 767. Reason is that Airbus could not meet delivery date due to changes in the GE engines which Thai Air insisted upon.	Boeing order is worth \$121 mn., minus \$15 mn. trade-in for 3 aging DC-8's.
\$106 mn.	Jamaica from Europe	Air Jamaica has cancelled plans to buy 2 Airbus A-300 jets from its makers. Instead they will save \$20 mn. by taking 2 of the Airbuses which Laker used for 6 months on his Skytrain. These planes will be repainted and flying to New York, Miami, and Toronto in November.	
NEW DEALS			
\$65 mn.	U.K. from U.S.A.	Wang Laboratories is building a computer and word processor plant on the campus of Stirling U. in Scotland. Will use 60 percent U.K. components in its entry mode.	Wang's U.K. sales up 65 percent last year. They like its "menu."
	U.S.S.R. from Italy	Soviets will produce in Georgia small Italian tractors using technology of Goldini and 17 hp engine technology from Ruggerini. Soviet production of 50,000 engines per year will be larger than Ruggerini's Italian output.	Tractors will modernize specialty fruit, grape, and olive farms of Georgia.

Business Briefs

U.S. Economy

Japanese pessimistic about U.S. economy

Japanese businessmen and economists met by *EIR*'s Uwe Parpart and Daniel Sneider in Tokyo almost universally expressed skepticism about the Reagan administration's claims of an early recovery. Though many of the government and private economists had been basing their plans on an expectation of a second-half recovery this year, now almost no one expects a recovery this year.

The trade-dependent Japanese were particularly concerned with the effects of U.S. recession and high interest rates on world trade and on the import potential of the developing countries. At one think tank which specializes in analyzing developing countries, the staff stressed that U.S. interest rates had not come down sufficiently to allow a recovery.

The Japanese see the continued decline directly translated into drops in exports. In September, Japan's overall exports fell 11.6 percent below September 1981 worldwide, and Japanese exports to the United States fell 16.4 percent. This is the eighth annual decline in a row, the first time this has occurred in 30 years.

Economic Ideology

Nobel goes to world's worst economists—again

The 1982 Nobel Prize for Economic Science was awarded Oct. 20 to George J. Stigler, one of the closest collaborators of fascist "free-market" economist Milton Friedman. Over the past 14 years, 8 of the 12 American recipients of the prize have been members of Friedman's Chicago School.

A very different judgment of the competence of Friedman's policies has recently come from Chile, where, after nine years of monetarist policies that have utterly wrecked that nation's productive capabilities, the central bank was forced to ask for a moratorium on Chile's debt principal. Pinochet is relieving his Chicago School advisers of their responsibilities.

Stigler is a prime proponent of the elimination of all government economic regulation, including minimum wages, rent controls, and utility controls. His work over the past decades has been aimed at proving that regulation has only adverse effects on prices. Deregulation under the Reagan administration has "not been a stunning success," Stigler admitted Oct. 20, in spurring a recovery of the trucking industry through the "magic of the marketplace," but he blamed resistance by labor and industry leaders.

Debt Strategy

Kissinger calls for 'thoughtfulness'

Continuing his function as mouthpiece for the international financial oligarchy's "softened" approach to debtor Third World nations in the escalating world credit crisis, Henry Kissinger told the American Bankers Association convention in Atlanta, Georgia Oct. 18 that the United States must "substitute thoughtfulness for raw power" in dealing with international economic problems. In an Oct. 22 speech in Washington, he additionally advised, that "conditionalities"—austerity programs designed by the International Monetary Fund (IMF) as preconditions for loan agreements for Third World countries—must not be so provocative and harsh that governments just refuse to implement them. As the history of the IMF's programs shows, when the conditionalities are too overtly abrasive, they "are not carried out," or, they cause the overthrow of pro-IMF leaders. Kissinger pronounced: conditionalities must be "political," as well as "economic conditionalities."

Kissinger explained his approach saying that since the U.S. share of the world economy had fallen from 52 percent in the 1950s to 22 percent in 1982, "thoughtfulness" was particularly important in relations with Third World nations—reiterating the policy he outlined to Britain's Royal Institute of International Affairs in May. Kissinger stated that the United States must follow the British path of controlling a stagnating world economy as a financial center, rather than leading it as a great industrial power.

Kissinger reiterated that to merely re-

schedule debt payments from nations such as Mexico and Argentina would not suffice. He emphasized the need to maintain private lending to these nations, as any abrupt shift in economic policy could "grease the way" for political upheaval in these nations.

Labor

An unemployment-led recovery in the U.S.?

Commerce Department Secretary Malcolm Baldrige greeted his department's announcement Oct. 20 that third-quarter real (inflation-adjusted) U.S. Gross National Product had risen by 0.8 percent with the exclamation that "the recovery is baked into the cake right now."

If Baldrige is correct, this will be the first unemployment-led recovery in history. The third quarter GNP increase was led by an increase in personal spending and inventories. The inventory increase did not occur because of any rise in orders or sales. The personal spending increase resulted from higher personal income, but in September total wages and salaries fell a sizeable \$400 million from the month-before level.

While increases in dividend and interest income were a factor, it appears that the largest portion of the personal-income increase is attributable to higher unemployment benefit payments! As the total of jobless officially rose by nearly 750,000 in the third quarter, more unemployment checks went out. Transfer payments also rose.

Resource Policy

IMF, World Wildlife Fund target Brazil

The International Monetary Fund is demanding that Brazil abandon its Amazon development program, one of the most ambitious integrated infrastructure projects in the world. The Amazon program includes the Grande Carajás iron mine, the world's largest and purest currently known iron deposit.

A high-level IMF official asserted re-

cently that "public-sector spending must be slashed" in Brazil, which is reportedly down to \$4 billion in monetary reserves at the end of October. In exchange for any financial bailout, the IMF is demanding either the Brazilian government halt all spending on the projects, or turn them over to the financing, and control, of the foreign private sector.

Concurrently, the World Wildlife Fund has made Brazil a particular target.

Moves to stop economic development were laid out in a secret meeting of Georgetown University's Center for Strategic and International Studies, led by Henry Kissinger, held in Rio de Janeiro last November.

Concessions are already being lined up. "Planning Minister Delfim Netto has agreed to demands from the banks to bring down the public-sector deficit from approximately \$20 billion to \$9-10 billion by 1983. . . . Public-sector spending on the big development projects will be cut to zero next year," the IMF official stated.

Flight Capital

Hong Kong threatened by offshore contraction?

Some British circles are convinced that Hong Kong is already losing its stature as an offshore banking center, and that some stormy banking failures could break out there at any time. One source close to the Bank of England says that Lloyds Bank's Hong Kong subsidiary will collapse soon, and that it will have to be bailed out by the Bank of England. Hong Kong itself, however, will suffer from the event, he predicts, because it has no central bank itself to handle such emergencies. "The entire Hong Kong banking system is based on property," he notes, "with two-thirds of the stock market based on property."

He foresees the island's leading institution, the Hongkong and Shanghai Banking Corporation, similarly running into problems, since "over 100 percent of Hong-Shang's capital is tied up in completely uncovered collateral real estate, the value of which is now collapsing."

In the two months from mid-July to mid-August, \$22 billion in funds flowed into London from other offshore banking cen-

ters, such as Hong Kong and Luxembourg. Ten billion of that flight capital, it has been estimated, was previously placed in German mark denominated instruments.

Mideast banking centers are similarly faring poorly, with capital outflow reported from Bahrain and other locations. Two weeks ago, the Kuwaiti stock market collapsed. Only New York and London are apparently deemed safe centers for funds.

Foreign Exchange

Bankers back exchange-rate management

Lord Eric Roll, chief of London's S. G. Warburg, Giovanni Magnifico, economic advisor to the Italian central bank, and a host of financial writers and bank economists put out an alert on world debt relations at an exclusive conference in London the week of Oct. 18-20.

Lord Roll set the tone for the event, a regular gathering sponsored by the European Banking Forum. Central bankers and the International Monetary Fund, he intoned, are now in an unprecedented alert to contain dangers to an overburdened global credit system. This alert, he solemnly added, was the precondition for "preventing a greater catastrophe" than has already occurred in the "precarious international financial situation." In one speech after another, the attendees warned against undue panic, and urged that international banks keep lending to debtor countries at moderate levels to keep the system intact.

Morgan Grenfell economist Francesca Edwards reported that the U. S. Federal Reserve and the Bank of England are now working together to ease interest rates. Bank of England officials assert that these actions, in effect since July, have kept currency parities remarkably stable, allowing for a predictable flow of marginal emergency funding to debtors in danger of defaulting.

As a prescription for further "crisis management," Magnifico recommended that Third World debtors begin to receive strictly limited issues of a special 12-year bond, jointly floated by the World Bank and private banks, to help consolidate uncontrolled debt burdens now on a short-term maturity.

Briefly

● **ARGENTINA** is under pressure to sell off its gold to finance debt payments. Reports on the current visit to Buenos Aires of International Monetary Fund Western Hemisphere director Walter Robichek reveal that Robichek has asked Argentina to draw down gold reserves to meet foreign debt demands. If upvalued to \$400 an ounce, Argentina's gold would be worth \$22 billion.

● **SIEGMUND WARBURG**, founder of London's S. G. Warburg, died Oct. 19. Warburg, along with London's Sir George Bolton (also recently deceased) was a mastermind of the creation of the Eurodollar market. Summarizing his career, the *Financial Times* noted Warburg's ingenuity in designing operations "through which influence can be wielded way out of proportion to the size of the bank's balance sheet."

● **DITCHLEY II**, the second meeting of the "private IMF" bankers' cartel run by Chase Manhattan and Morgan, is to be held in New York at the Hotel Vista Oct. 26-27. Senior officials of 36 major British, U.S., and other banks plus IMF Director Jacques Delorsière and top central bankers met secretly, in violation of anti-trust laws, to determine how much to cut LDC lending.

● **HENRY KAUFMAN**, the Goldman, Sachs economist who speaks for Federal Reserve Chairman Paul Volcker, in a Tokyo speech Oct. 21 demanded measures to "restore confidence" to world banking. Kaufman urged the early establishment by the IMF of a \$50 billion "emergency fund" to bail out Third World debtors, while asserting that the Fed had succeeded in producing a "recovery" in the U.S.

LaRouche-Riemann model debunks the myth of U.S. recovery

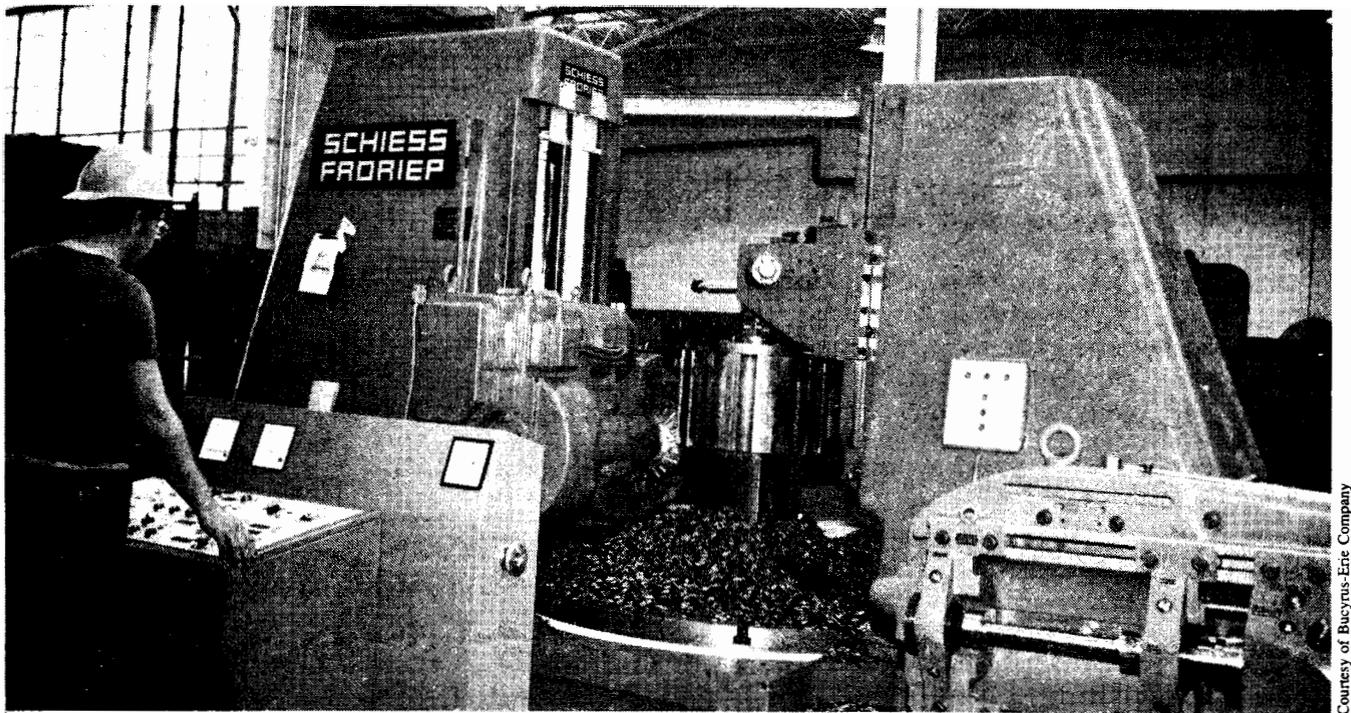
by Christina Nelson Huth, Features Editor

In a May 6, 1980 Special Report, *Executive Intelligence Review* asked, "Can the American economy recover?" In that report, we documented the underlying decline in the industrial capacity of the U.S. economy, and demonstrated, with the aid of the LaRouche-Riemann econometric model, the existence of a "point of no return," past which the U.S. economy would lack the means to reproduce its own capital stock and labor force, and enter a type of "thermodynamic death."

The minimum survival requirement for the U.S. economy, we projected two and a half years ago, was a relatively gigantic infusion of investment into the industrial, agricultural, and transportation infrastructure sectors of the economy, sufficient to result in a 3 percent per annum rise in the economy's overall productivity, as measured against the long-term baseline established in the 1970s. Such an unusually high growth rate, characteristic of the best periods of post-war American economic behavior, could be achieved, we specified, through employment of the most efficient energy technologies, tax policies which offer strong penalties against service and speculative investment, university programs favoring the physical sciences and engineering rather than liberal arts, upgraded training programs for skilled workers, and monetary arrangements favoring long-term credit extensions and a gold-backed international monetary system.

EIR projected that such policies would pull the U.S. economy toward recovery over the medium term, resulting between 1983 and 1985 in a takeoff of total economic surplus (S); economic surplus available for productive investment (S'); the free energy ratio or instantaneous growth rate of the economy (economic surplus available for investment as compared to the economy's wage and capital investment costs, or $S'/C + V$); and the total tangible output of the economy.

Needless to say, no such economic recovery policies have been carried out by the Reagan administration. The impending disaster was evaluated by *EIR* economists with the aid of the LaRouche-Riemann model in December 1981. We predicted on the eve of the new year that, with the unabated continuation of Federal Reserve chief Paul Volcker's policies of credit strangulation of American industry and agriculture, "the United States economy will undergo a 10 percent reduction



Courtesy of Bucyrus-Erie Company

The U.S. heavy-machinery sector is entering a phase of permanent shrinkage and manpower shortages.

in industrial and other tangible-goods output between mid-year 1981 and mid-year 1982.” The actual reduction in economic output, as measured by the Federal Reserve’s own industrial production index, was 10.2 percent. Our New Year’s Eve forecast included a projected – 7 percent growth rate for 1982. The December-to-August per annum rate of decline announced by the Reagan administration was 6.7 percent.

The new recovery myth

These statistical indications of the inside-out rottenness of the American economy give the lie to the Federal Reserve’s most recently minted hoax: that the fall of interest rates will result in a significant loosening of credit, an upswing in domestic production, increased consumer spending, and a short-term consumer-led recovery in the United States. This new version of a U.S. recovery myth is being prepared not only for domestic consumption, but for an international audience. As we detail in this week’s Economics section, Secretary of State George Shultz, Fed Chairman Volcker, and the New York money-center banks led by Morgan Guaranty, are desperately anxious that the nations of Ibero-America may declare a joint debt moratorium, on the heels of the Andean Pact’s recently announced “debtors’ cartel.”

Think tankers and analysts around the Federal Reserve unabashedly assert that the appearance of U.S. economic stability, and the promise of a U.S. recovery that will bring with it increased U.S. imports of developing-sector commodities, are necessary to calm the Third World, and prevent the chain-reaction debt default they fear will bring down the

bankrupt international monetary system.

Developing-sector policy makers should be first in line to take into careful account the results of the LaRouche-Riemann model projection for the fourth-quarter 1982 performance of the U.S. economy, presented in this Special Report. As we have emphasized, no method of economic analysis can “predict the future”; the LaRouche-Riemann model is a policy tool which can accurately determine the trajectory caused by a given economic policy.

As with our third-quarter projection, we present here two possible trajectories of U.S. economic performance (neither leading toward the mythical recovery being advertised by the Federal Reserve and its press outlets): 1) a moderately speedy road to permanent depression, charted by means of extrapolating the current trend of collapse in the productive sectors of the economy, under the at-present unlikely condition that the Federal Reserve acts to ensure no further restrictions in

The entirety of the LaRouche-Riemann forecast for the first half of 1983 is now available from *EIR* for \$1,000. Subscriptions to *EIR*’s quarterly econometrics services, one of whose available components is a \$15,000 global survey, may be discussed with Special Services Director Peter Ennis, at (212) 247-8820.

credit flows to industry and business and 2) a steeper decline in economic health, brought about by sharp credit attrition to the economy's productive sectors.

A third trajectory—that of 1929-style economic blowout ensuing in the wake of the international banking collapse feared by Morgan Guaranty and its friends at the Fed—of course exists, but has not been made the subject of the fourth-quarter projection we report on here.

As we elaborate below, without a well-coordinated effort by the U.S. administration and the Federal Reserve to inject funds into the goods-producing sector of the economy, the rate of decline in America's production of tangible goods increases to 10.8 per annum. But even a partial reflation would probably only succeed in holding the present 7 percent rate of decline (first trajectory). Except for a drastic and unexpected reversal of monetary policy, i.e. the adoption of a policy of directing cheap credit to the goods-producing sector of the economy, an economic recovery is ruled out.

Largely due to the attrition of employment from hitherto-protected service industries, we expect the unemployment rate to reach 14 percent by official count by the second quarter of 1983.

Total U.S. imports are expected to decline by 4 percent in terms of physical volume in 1982, and by 10 percent in 1983. However, in the capital goods, consumer goods, and automotive categories, imports are expected to rise by 10 percent in 1982, and fall 5 percent during 1983. Total U.S. exports are expected to fall by 11 percent in physical volume during 1982, and by 20 percent during 1983. In the categories of capital goods, consumer goods, and automotive, the decline for 1982 is 17 percent, and will be above 20 percent for 1983.

Point of no return?

The question is not whether Volcker's current manipulation of the interest rate will miraculously produce a U.S. recovery, but whether the Fed chief's monetarist policies have already brought the U.S. economy past the point of no return. The United States is rapidly being stripped of its basic industrial infrastructure. In the 10 months before June 1982, U.S. steel production dropped to 40 percent of capacity. Since steel companies are now cannibalizing the tools of their idle facilities to maintain those still in production, the nation's 1978-79 capacity of 110 million tons cannot now be restored without major new construction.

America is also losing the ability to produce its own tools. Machine-tool orders for 1982, in constant 1972 dollars, will be less than one-fifth those of 1979. The skilled labor pool of machinists and tool-and-die makers which manufactures these tools is disappearing. According to the Bureau of Labor Statistics, there was a 50 percent drop in the number of skilled machinists employed in the U.S. industry between 1972 and 1980. As we emphasize in this report, the fundamental deterioration of the U.S. industrial base is taking on a character of *irreversibility*.

The model's fourth shows the scope of

by David Goldman, Economics Editor

From the LaRouche-Riemann forecast, titled "Two Paths Into Depression for the American Economy," by David Goldman, published in the July 27, 1982 issue of EIR:

The present forecast, a survey of the second quarter of 1982, is not substantially different from our December survey in terms of its base-line projection. No other computer-based service can come close to making such a claim. We project—on the assumption that the policy of the Federal Reserve remains unaltered through the period under consideration—a 7 percent decline of economic activity in the 1981-82 comparison. That is to say that there will be no economic recovery, but little spectacular downward motion in the rest of the year—with one great proviso: that the financial system does not break down. In the latter case, which now appears next to unavoidable, economic activity will turn down again sharply by year end, and the annual rate of economic activity will be substantially lower—perhaps 13 percent lower—than the 1981 average. . . .

At least half of all capital investment in the United States (gross, not net) has been directed toward energy-saving rather than raising productivity; the remaining capital investment *is not sufficient to even maintain the existing stock of plant and equipment*. That the fundamental productivity level of the economy should continue to fall is therefore not surprising; the overall productivity level of the economy correlates precisely with the rate of improvement of national infrastructure. . . .

The extent to which the abandonment of capital stock in steel and other industries will inhibit future recovery—let alone the rapid attrition of industrial labor—remains to be determined. A program of capital-stock rebuilding, starting with electrical-utility and other basic infrastructure requirements, could, starting from the 1981 economic profile, still yield an economic recovery in the middle and late 1980s.

quarter forecast the U.S. disaster

In our report on the LaRouche-Riemann model third-quarter projection for the U.S. economy, "Two paths into depression for the American economy," *EIR*, July 27, 1982, we identified two possible trajectories for the U.S. economy under most-probable political conditions. The first represented a continuation of the 7 percent rate of decline of tangible output *EIR* had forecast in December 1981 which had actually occurred during the first half of the year; the second assumed a financial crisis, and a sudden cutoff of credit to industry and households, leading to a 13 percent annualized rate of decline in tangible-goods output.

Under present unstable political and monetary conditions, no precise forecast is possible or meaningful. Short-run economic developments are the result of political decisions by governments and central banks mediated through the stereotyped decisions of market participants; but we have entered a world in which most governments do not understand what is occurring, let alone have precise plans to engage the problems they confront, and in which the shaky world consensus identified with the International Monetary Fund has broken down into open opposition.

The present situation has been well characterized by one banker as a "slow-motion financial crisis." A general financial crisis could occur at virtually any moment, bringing the trajectory of the economy downward into the "crisis" scenario range identified in our last report. Conceivably, the Federal Reserve could change policy and ensure that at least the first half-year's rate of credit extension were maintained. However, our base-line forecast assumes a continual gradual deterioration of credit availability. The sector distribution of this decline is rooted in the fundamental assumption that lack of credit availability will principally affect capital investment, and hence investment-goods industries (except for the electrical equipment and transportation-equipment sectors, which stand to benefit modestly from the defense-budget increases).

To the extent that LaRouche-Riemann model forecasts have, since November 1979, accurately specified both the direction and magnitude of economic shifts, this accuracy

reflects correct assumptions concerning the likely course of monetary, fiscal, and regulatory policy. No forecaster can "predict the future." Given a specified policy or set of policies, the LaRouche-Riemann model can accurately forecast its impact on an economy or set of economies. Within the provisos stated, the present forecast is accurate.

The LaRouche-Riemann model analyzes and forecasts the following variables for the aggregate economy and for 29 sub-sectors:

Consumption of the productive workforce, or, in the classical designation, variable capital (V), i.e., the volume of tangible goods consumed by the goods-producing workforce;

Depreciation, or the physical-equivalent replacement cost of the capital stock of goods-producing industries over time;

Net capital investment, or capital expenditures for plant and equipment excess (or shortfall) of depreciation;

Circulating constant capital, or raw-materials stocks of goods-producing corporations; this, plus the two preceding, are symbolized as "C."

Surplus, (S) or valued-added, in tangible terms, i.e., the gross profit generated by the goods-producing industries in excess of their labor and capital input costs;

Non-productive expenditures, the portion of the surplus not directly circulated back into production, i.e., the consumption of the white-collar labor force, office buildings and equipment, government expenditures, and so forth;

Re-investible surplus (net profit), the portion of the surplus (or decline in surplus under conditions of falling output) available for investment in expansion of production of tangible goods;

The gross rate of profit, surplus divided by variable capital plus all capital costs ($S/C + V$), i.e., the economy's potential to produce surplus;

The net rate of profit, reinvestible surplus divided by variable capital plus all input costs ($S'/C + V$); also the economy's instantaneous growth rate;

Labor productivity, or surplus divided by variable capital.

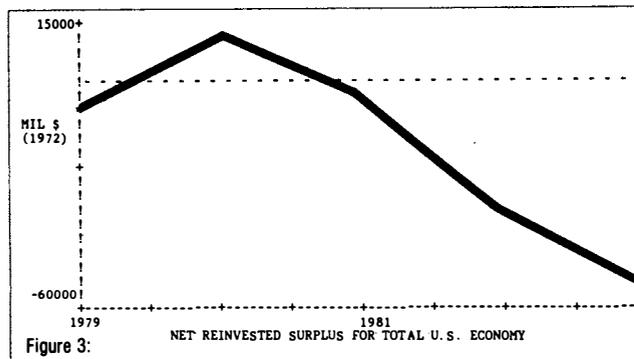
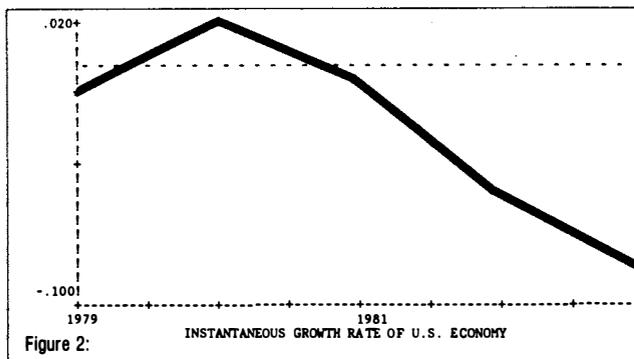
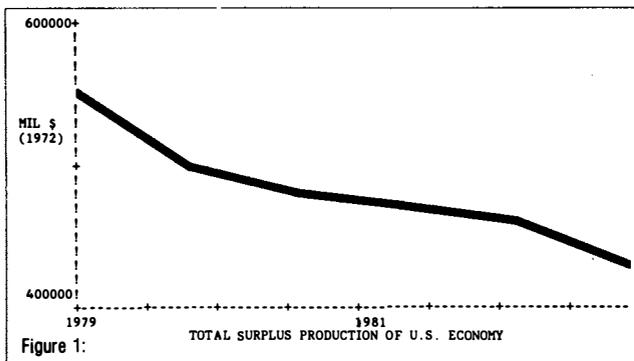
Taken together, the above measures permit the analyst to judge how current production will affect future production. A high concentration of output in machine tools, for example, will have a considerably different impact on future economic growth than a high concentration of output in video games (it happens that the United States now produces more video games, in terms of dollar sales, than machine tools). Excessive concentration of output in non-productive expenditures, i.e., overhead costs, will lower future output.

The basic questions that must be asked of an economy are 1) how the basic physical inputs to the economy are changing in absolute terms; 2) how they are changing relative to their ability to produce profit; 3) what the economy's potential per unit of labor and per unit of labor plus capital is; 4) how the surplus is deployed with respect to future production. Given different assumptions concerning invest-

ment policies and technological specifications, the La-Rouche-Riemann model generates accurate future values for these ratios.

Included below, in the form of computer-generated graphs, are two trajectories for the American economy. The first simply reproduces the historical data through August 1982 and projects the same trends through the end of 1983, for purposes of illustration. The second includes the impact of the credit attrition to the economy's productive sectors.

The LaRouche-Riemann model forecast for the U.S. economy under the present trajectory



The present trajectory

Figures 1, 2, and 3 extend the rates of change of the cited variables to the end of 1983. Nothing is more unstable than an economic trajectory; the "natural" tendency of economies is to grow (or decline) at exponential rates, rather than according to a fixed slope. However, the political background that would turn this trajectory into an actual map of the next five quarters' developments would be accommodation by the Federal Reserve, and pressuring of lenders to keep credit sources open. This policy, if not evident from recent developments, is certainly not to be excluded from the spectrum of possibilities.

Figure 1 shows the present trajectory of total tangible profit, or surplus, for the economy as a whole, i.e. production in excess of labor and capital input costs; surplus meets the consumption requirements of the non-productive sector wage bill of white-collar workers, office equipment, commercial buildings, military goods, etc. As the graph shows, total surplus output of the economy has fallen from over \$550 billion in 1979 to a little over \$400 billion projected for the end of 1983.

Figure 2 shows the instantaneous growth rate, also the net profit rate, of the economy, reinvested surplus divided by input costs ($S'/C + V$). The present rate of decline (for 1982) is slightly over 7 percent, falling to a more than 8 percent rate of decline in 1983.

Figure 3 shows the amount of reinvested surplus in the economy; negative figures indicate a contraction of production. The economy will lose about \$40 billion (in constant 1972 dollars) of output during 1982, and nearly \$60 billion during 1983, under the present trajectory.

Projection of credit attrition

The second series of computer-generated graphs (Figures 4-9) includes the impact of an attrition in the rate of credit expansion to the productive sector. The effect of less credit availability was superimposed on other inputs, which included the effect of the military budget as currently projected, and the Reagan administration's current fiscal policy.

Figure 4 shows simultaneously the three leading components of the expected economic decline. Symbol P shows the net invested profit of the economy, or S' ; this falls to an annual level of almost - \$80 billion (constant 1972 dollars), that is, \$80 billion constant 1972 dollars of lost production, rather than \$60 billion according to the pre-existing trajectory. Symbol C, or net capital investment (a component of reinvested profit) shows that the major decline in the reinvested profit is attributable to a capital investment level that falls below zero, indicated by the dotted line in the center of the graph. Part of the fall is also attributable to a decline in variable capital, indicated by symbol V, or the tangible wage bill of the productive workforce.

Figure 5 (comparable to Figure 2) shows the instantaneous growth rate of the economy under the assumption of

continued credit attrition. The negative annual growth rate falls to -10.2 percent per annum starting at the end of 1982 and continues at that level through 1983.

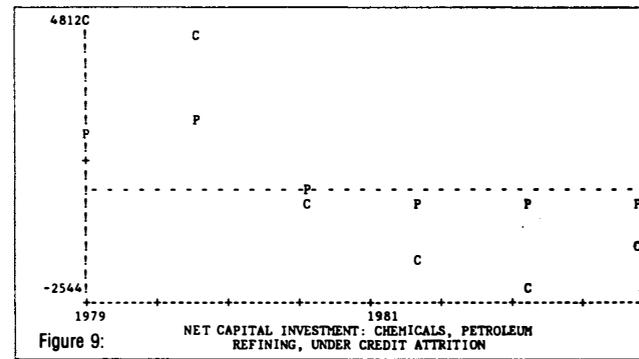
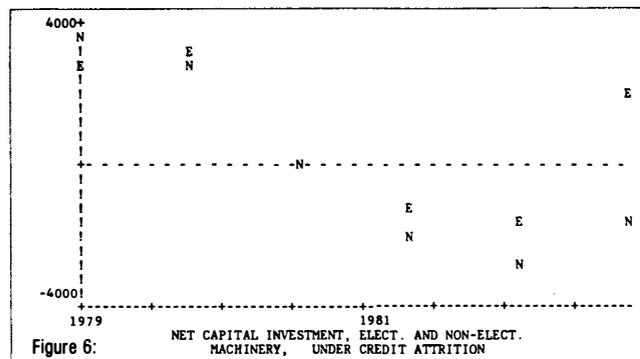
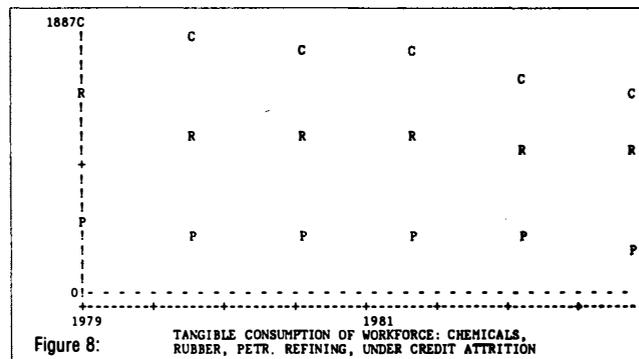
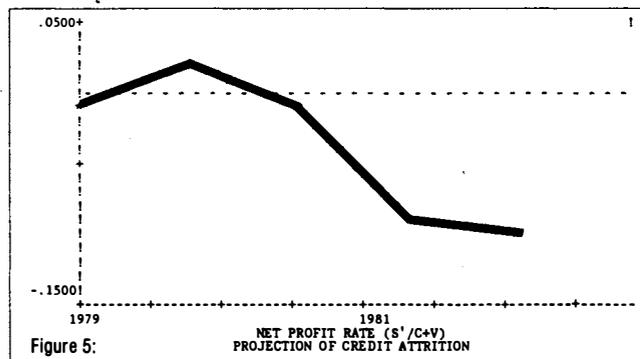
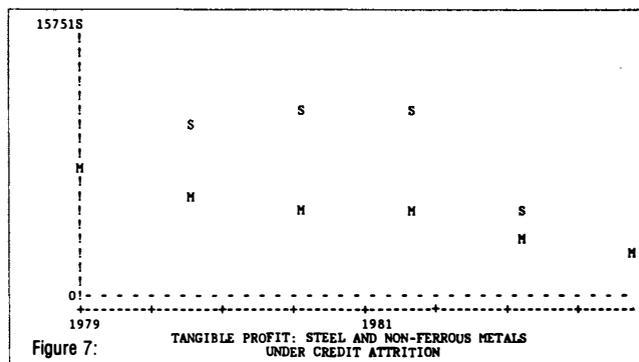
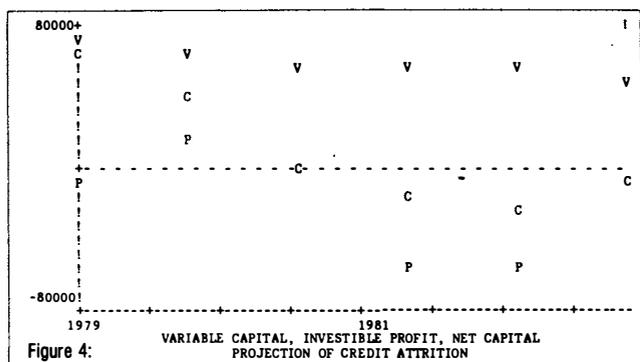
Figure 6 shows the net capital investment of the electrical equipment and non-electrical equipment sectors. From earlier high levels, both sectors' investments decline sharply during the second phase of the depression. Non-electrical equipment investment (symbol N) remains depressed, while electrical equipment investment (symbol E) is brought back up to positive levels as a result of military spending.

Figure 7 shows the behavior of the steel (symbol S) and

non-ferrous metals (M) sectors under credit attrition; steel production falls to 40 percent of its 1979 levels and fails to recover.

Figures 8 and 9 show the behavior of the chemicals, rubber, and petroleum-refining industries, under assumed credit attrition (symbols C, R, and P) on the graphs. Figure 8 shows the decline in the tangible consumption of the labor force in each industry, in millions of 1972 dollars; Figure 9 shows the collapse of net capital investment (investment net of depreciation expenditures) in the chemicals and petroleum-refining industries.

The LaRouche-Riemann model forecast for the U.S. economy under conditions of credit attrition



Why the predictions of a recovery are a fraud

by David Goldman

Because the Reagan administration has tied its entire domestic and international strategy, as well as its political future, to the prediction that the United States is either in process of recovering or on the verge of an economic recovery, it is worth examining the prospective sources of recovery in some detail, and give the recovery myth, once and for all, a decent burial. The four possible sources of a spurt in economic activity are:

- 1) Consumer spending
- 2) Capital spending by businesses
- 3) Government spending
- 4) Exports

We shall examine them individually.

Figure 1
Rise in personal income since summer 1982 tax cut

(billions of dollars on an annualized basis)

	Personal income	Percentage increase
June 1982	\$2,566.3	0.4
July 1982.....	2,592.5	1.0
August 1982.....	2,601.0	0.3

Consumer Spending: Recent statements by the administration indicate that its strategy is overwhelmingly premised on the first item, namely a consumer-based recovery. Consumer spending accounts for 65 percent of all purchases in the U.S. economy.

Supposedly, the \$20 billion combined impact July 1 of the 10 percent personal income tax cut and the increase in Social Security payments would have produced a rise in personal income. However, the July tax reduction and transfer-payments increase have come and gone, with no perceptible effect whatever on personal income.

The figures for personal income since the tax cut are shown in **Figure 1**, which indicates that the entire effect of the tax changes was absorbed in July. By August, the rate of personal income increase was down to 0.3 percent, or the rate of inflation. More importantly, none of the marginal income increase went toward purchases of big-ticket consumer items such as homes, cars, and appliances.

Housing: Housing starts for June, July, and August have registered, in annualized numbers, 0.91 million, 1.20 million, and 1.0 million units, respectively. The average for the first eight months of the year is 0.9 million. For the same three months, June, July, and August, housing permits, which indicate future home construction levels, averaged 0.96 million, little different from the yearly average. There is no apparent momentum.

Several factors rule out any recovery in the home-building industry, now building only 40 percent of the units it built during the 1970s peak. First among these is the mortgage rate, 15.6 percent in August, or 2.1 percent above the level of the prime rate.

Secondly, the median price of a new single-family home rose from \$70,800 in June to \$71,800 in July and \$74,200 in August. The gap between median family income and the median price of a new home is rising; home-building is increasingly concentrated on the higher-price categories, while low- and middle-income housing disappears. In August, new single-family home sales were only 359,000 on an annualized basis, against 395,000 in May and 470,000 in December 1981. The peak for new home sales was 872,000 at an annual rate. The July level of sales of existing homes was the lowest in twelve years, at 1.9 million.

Auto: Auto sales in September were 5.6 million units per year, the lowest level since 1961, and listed production plans for the fourth quarter show a 5.1 million units per year level, the lowest since 1958. This compares to 9.3 million units per year in 1978, the year before Volcker became Federal Reserve Chairman.

Normal cyclical factors which would point, per force, to

Figure 2
U.S. retail sales, September 1981-August 1982
(billions of U.S. dollars)

	Retail sales	Percent change
September 1981 ...	\$87.823	
May 1982	99.827	+2.2
June.....	87.042	-3.1
July.....	89.086	1.2
August	88.292	-0.9

an auto recovery no longer appear to operate. The average age of an American auto has risen from 5.6 years in 1970 to 6.0 years in 1975, 6.6 years in 1980, 6.9 years in 1981, and over 7 years today.

Retail sales in general: As shown in **Figure 2**, retail sales have remained under the May levels despite the tax cut and Social Security payments; under our forecast, they will fall drastically. First, as noted, the rise in personal income over the summer was negligible, since increased transfer payments and tax cuts barely compensated for rising unemployment, lower interest payments to household investors (this is ironically a significant factor in personal income, since interest payments are now 10 percent of Gross National Product), and other depressing factors. Secondly, consumers used the small margin of spare cash either to repay installment credit or to increase their savings, the latter motivated by fear of unemployment. The personal savings rate rose from 6.4 percent of personal income in May to 7.1 percent in July and 7.5 percent in August.

The major depressing influence in personal income is falling employment. Annualized monthly earnings of manufacturing workers, for example, fell from \$333.45 billion in July to \$331.89 billion in August, both due to rising layoffs and to lower average hours worked. As unemployment continues to rise, particularly in the white-collar sector, personal income will fall sharply.

Government spending: Even before the August-mandated tax increases come into effect—the first time that the United States has raised taxes in the midst of an economic downturn since Herbert Hoover—the government sector, despite the modest increase in defense spending, constitutes a significant drag on the economy.

Non-defense federal-government purchases in the second quarter fell at a 57 percent annual rate, while defense purchases rose at a 17 percent annual rate, the only component of government spending to rise. The non-defense drop more than offset the increase in defense. During 1981 and the first half of 1982, the combined spending of federal, state, and local governments rose after inflation by only 0.3 percent. Under present austerity conditions there is no reason to expect improvement from this side.

Foreign trade: August's record \$7.1 billion trade deficit ensues a \$40 billion trade deficit for the year, motivated by both rising imports and falling exports. August exports fell from \$21 billion in May to \$17.5 billion, a decline of 17 percent in nominal terms. Some of this decline may be attributed to the overvaluation of the U.S. dollar, which prices U.S. goods in relative terms about 25 percent higher than comparable West German or Japanese goods. But the largest factor in the drop of exports is the deterioration of the international credit situation.

The largest single drop in American exports occurred with respect to Mexico, which has represented a virtually captive market for American goods, in which foreign-exchange-differential problems have only a secondary impor-

tance. Exports to Mexico were at \$1.2 billion in both May and June, and fell to \$1 billion in July and only \$800 million in August, a reduction of 33 percent. It is expected that exports to Mexico will fall by approximately another \$250 million, bringing the year-end level to less than half the mid-year level. This is, of course, the result of the fact that Mexico has simply run out of cash, and is unable to pay for goods already ordered. The same problem, in somewhat less dramatic form, is being repeated throughout the developing sector, for reasons detailed in the first section of this report.

On the other hand, U.S. imports rose from \$18.2 billion in April to \$22.2 billion in June and \$24.6 billion in August, or a rise of 35 percent since April. The rise in imports occurred in all categories except metal ores and scrap metals, unwanted by a declining steel industry.

The export decline is most evident in industrial categories. **Figure 3** gives the annual levels for 1980 and 1981 broken down by category, with our estimate for 1982.

Within the capital-goods category, which accounts for most of the drop, the largest component of decline is in the non-electrical machinery category, which falls from \$45.213 billion in 1980 to \$44.182 billion 1980 dollars the following

Figure 3
U.S. exports
(millions of 1980 dollars)

	1980	1981	1982 (est.)
Total.....	\$220,705	\$214,054	\$198,524
Foods & fuel....	35,310	36,154	36,444
Industrial			
supplies.....	70,527	66,240	62,723
Capital goods....	72,599	68,653	60,926
Auto.....	15,857	15,910	13,488
Consumer.....	16,174	14,975	13,308

Figure 4
Capital goods exports
(millions of 1980 dollars)

	1980	1981	1982 (est.)
Electrical machinery.....	\$11,817	\$11,061	\$10,344
Computers.....	7,540	7,566	7,213
Non-electrical			
machinery.....	45,233	44,182	39,397
Construction equipment	9,957	9,943	8,705
Power generating			
equipment.....	2,825	2,510	2,209
Machine tools.....	1,704	1,793	1,401
Industrial machines....	4,767	4,622	4,074
Agricultural machinery.	1,926	1,911	1,678
Transportation			
equipment.....	15,550	13,398	10,667

year, and only \$39.4 billion 1980 dollars during the current year. The major declines in the capital goods categories are given in **Figure 4**.

The export picture

What is most striking about the export situation is that the biggest declines have occurred in those categories in which, according to the Department of Labor's massive 1980 study on American competitiveness, the United States still retains an historical and competitive edge—heavy capital goods, electrical-generating equipment, heavy machinery, and so forth. It is no surprise that the major decline should have hit the investment-goods category hardest, at a time when America's major trading partners, especially developing nations, are under financial constraints to scale back their development plans. The pattern of decline indicates that a general decline of world trade motivated by lack of credit to finance balance-of-payments deficits is the problem, not simple lack of competitiveness or a strong dollar.

Exports of capital equipment, the sector in which the United States is most competitive, fell by 20 percent between 1980 and our projected 1982 total in physical terms, while exports of autos, an area in which the United States is least competitive, fell by only 17 percent. Exports of consumer goods, which depend very much on currency differentials in the short run, fell by 21 percent, indicating the effect of the strong dollar in another field. The fact that computer exports have fallen by as much as they have is especially ironic, since the United States computer industry prided itself on a dominant share of the world market.

These export results are the symptoms of an international credit problem which began to show itself in earnest only mid-year. In general, export shipments lag orders by several months. The likelihood, given the international problem described in the first section of this report, is that exports will continue to fall, and at a faster rate.

It also appears that the August rise in imports is not sustainable. Were the July and August rate to continue throughout the year, total imports would rise from \$129.2 billion 1980 dollars in 1980 to \$131.8 billion 1980 dollars in

1981, and \$139 billion 1980 dollars in 1982. The only categories of imports that showed an increase between the first half of 1981 and the first half of 1982 were the manufactures categories; fuels, food, and industrial materials fell off sharply, as **Figure 5** indicates.

Although the August bulge showed an increase in oil imports, the principal rise was concentrated in the capital-goods, automotive, and consumer-goods categories, which had already shown an increase during the first half. This suggests that a portion of the rise in personal income, marginal as it was, turned into demand for imported rather than domestically manufactured goods, the result of deteriorating relative American productivity and the temporarily strong dollar, which attractively price foreign goods. The United States appears to have run into the same problem Britain has experienced recently; as the London *Economist* noted Sept. 18, any rise in consumption is now more likely to be translated into a rise in imports than a rise in production.

Import dependence

It is therefore to be expected that imports in the three strong categories, capital goods, auto, and consumer goods, will fall back to 1981 levels by the end of 1982, and continue to decline steeply through the end of 1983. The expected decline in imports marks a phase change in the course of the depression which began, formally, in March 1980.

As *EIR* has emphasized during the past two years, the extraordinarily high level of imports throughout the entire course of the post-1980 downturn violates all precedents in American economic history. During the last *apparently* comparable decline, the 1974-75 recession, imports moved in precise tandem with industrial production; now imports have formed a virtual inverse function with industrial production. In addition, the 1974-75 decline in imports occurred when the dollar was comparably as strong as it is now, under the impact of the 1974 rise in oil prices, which forced a devaluation of other currencies. It is clear that the currency factor is of secondary importance, and that the high degree of import-dependency in the course of this downturn identifies the last two years' events as a fundamental decline of the American economy, not merely a cyclical decline.

In a May 6, 1980 special report, *EIR* asked, "Can the American Economy Recover?" In this report we documented the underlying decline in the industrial capacity of the United States economy, and demonstrated, with the aid of the La-Rouche-Riemann Model, the existence of a "point of no return" past which the United States economy would lack the means to reproduce its own capital stock and labor force, and enter a type of "thermodynamic death."

Import dependence masks the underlying process involved. It is clear that under conditions of attempted recovery, the American capital goods industries could not produce the range of capital equipment, from machine tools upward, and that the American labor force could not find the skilled workers to make them.

Figure 5
U.S. imports
(millions of 1980 dollars)

	First half 1980	First half 1981	First half 1982
Total.....	\$129,190	\$119,509	\$113,959
Food & fuel.....	9,871	9,202	8,885
Industrial supplies.....	70,289	62,180	53,095
Capital goods....	15,403	16,348	17,680
Auto.....	14,347	12,669	13,517
Consumer goods.....	17,329	16,417	17,104

Machine-tool collapse signals end of America's industrial base

by Leif Johnson

Beginning exactly one year ago, the domestic steel industry began the steepest production collapse in its history. In the 10 months preceding June 1982, steel industry shipments sank to less than one half their previous level.

Capacity utilization of the domestic steel industry is now at 40 percent, which means that 60 percent of steel production capacity is idle. Worse, sources in the industry have produced evidence that certain domestic manufacturers, including U.S. Steel, the largest, are actively cannibalizing existing plants to maintain the operations of those plants which are still producing.

Thus it is now impossible to return the industry to anything near the reputed steel shipment capacity of between 100 and 110 million tons of 1978-79; and the total maximum capacity continues to shrink.

Of all sectors of industry, only defense orders has shown any rise in shipments during 1982, and that rise, from 166,000 tons in 1981 to an estimated 225,000 tons in 1982, is miniscule compared to the size of the steel industry.

Nor have imports, which have risen a marginal few millions tons, come anywhere near the 37-million-ton shipment collapse occurring this year as compared with 1981.

While certain industries like auto, the largest single industrial user of steel, made large inventory draw-downs of steel products early this year, even after the draw-downs were complete, shipments to the industry continued at extremely depressed levels.

Signal of contraction

It is this immense shortfall in steel shipments to industry which measures the extent of coming major production shut-downs. Each industry has a different lead time from the receipt of steel products to the production of that industry's finished goods, with auto being relatively short and oil and gas extraction much longer; but in all key industries, a short-

fall in steel shipments must eventually translate into a production drop. That indicates that total American industrial production will take another leap downward in the coming months.

For example, in the first seven months of 1982, steel shipments to the auto industry dropped by 23.2 percent. But auto production dropped only 8.2 percent from 1981 levels. It is inescapable, therefore, that auto production in the very near future must crumble to something approximating the steel shipment drop—although slightly mitigated by increased use of imported steel and further inventory draw-down.

Judging by the disparity between steel shipments and output, the most precarious sector in the U.S. economy today is construction. In the first seven months of the year, construction activity, measured by total construction put in place in constant 1972 dollars, fell by a marginal 3.1 percent. But steel shipments for construction and maintenance fell by 22.3 percent—more than seven times as much.

Yet, a collapse of some areas of construction like office buildings would have little effect on the productive real economy of the nation—although it would depress consumer sales because of lost wage earnings. Therefore, the coming decline in construction is far less serious than that in the machine tool and equipment sectors.

Production downturns in non-electrical machinery and equipment registered 11.6 percent so far this year. But steel orders from these sectors were down 33.5 percent, three times as much. Since these sectors together are the fourth-largest consumer of steel (leaving aside shipments to steel service centers), the possibility that the industry will maintain its present level of production using inventory or imported steel is nil.

As indicated by the most specialized tool-making sector, machine tools, America's tool-making capability is being

destroyed. Net orders for that industry in 1982, in current dollars, are half of what they were in 1981, which in turn was half of what they were in 1980, when orders dropped 15 percent from 1979. In constant 1972 dollars, the machine-tool orders for 1982 are estimated to amount to less than one-fifth those of 1979.

Those economists who still believe that consumer goods are the key to economic recovery might have looked at steel shipments to household-appliance manufacturers in the first seven months of the year. Shipments fell by 23.6 percent, but production fell by only 15.4 percent, indicating that contrary to the wisdom of the economists, purchasing agents for appliance manufacturers did not foresee an upturn and now look toward a further production decline.

Two industries showed that the downfall of steel shipments had already resulted in a concomitant production decline. Steel orders to rail were off 40.6 percent from last year while the value of new railroad equipment and construction put in place declined by 38.9 percent. Agriculture and agricultural machinery took 25.5 percent less steel and output declined by 23.8 percent. Some economists designate specific industries in such extraordinary decline as "mature"—well rotted out.

Another primary-metals industry—aluminum—shows

much the same pattern as steel. Although much smaller and of less generalized use throughout the economy, raw aluminum output declined 21.8 percent this year over last. Aluminum mill products only slowed by 12.7 percent, indicating here as well a further substantial production decline.

August production figures for aluminum indicate that unlike steel production, which may have bottomed out at 40 percent of capacity, aluminum continues to decline. The industry began the year with a daily raw production rate of 14,400 tons, which then declined steadily to 9,260 tons in August. Exports, which declined 37 percent in 1981 from 1980, have declined another 25 percent in 1982.

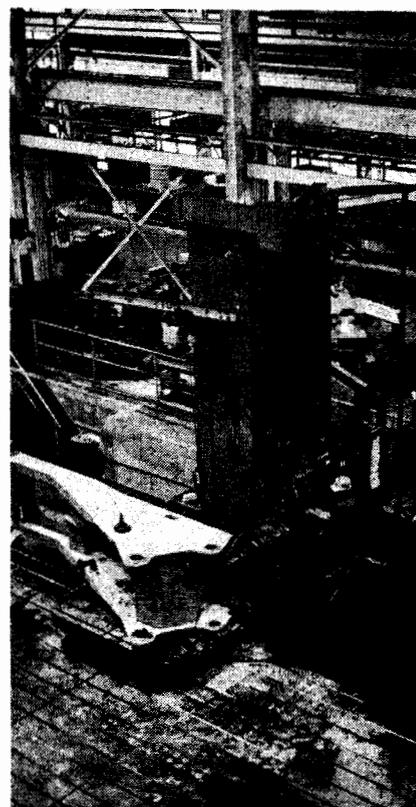
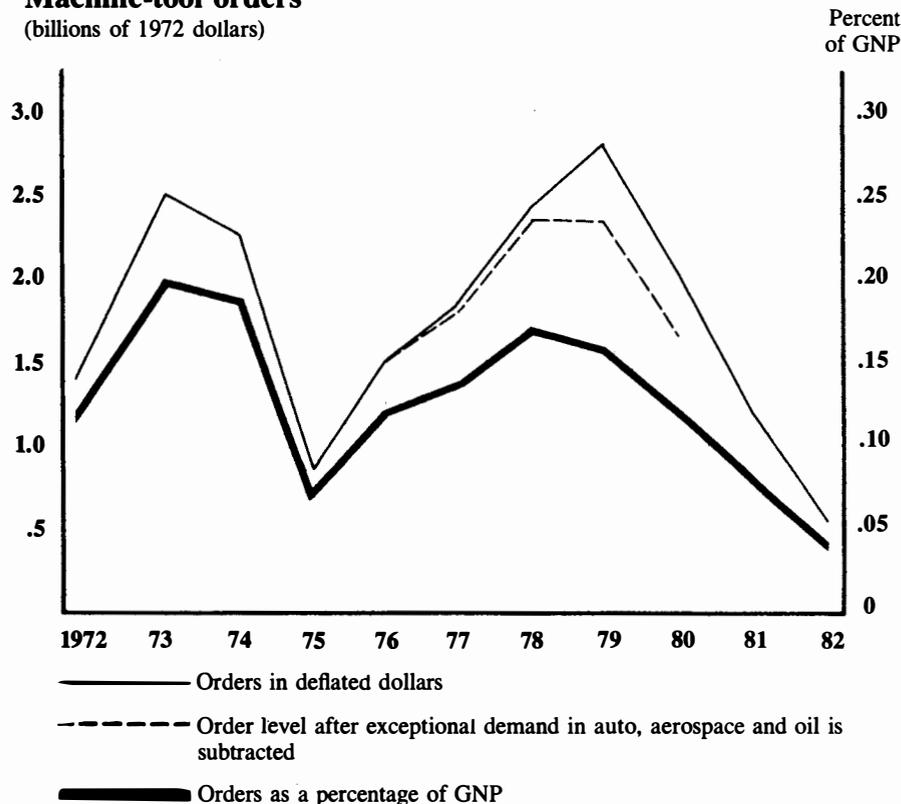
The longer-term decline: machine tools

While the short-term effects of the disastrous drop in steel shipments presage another plunge in production, the longer-term decline in machine tool orders and in skilled labor in the industry indicate that the nation is rapidly losing its capacity to create its own tools.

Three items describe the decline in the nation's tool-making capacity. First, the ten-year decline in domestic tool-orders as a percent of Gross National Product (in 1972 dollars); second, a concomitant decline in the skilled workers necessary to the tool industry; and third, the extraordinary

Machine-tool orders

(billions of 1972 dollars)



recent rise in imports, which are proportionately far greater than imports of steel.

In constant 1972 dollars, net new orders for 1973 and 1974 were \$2.5 billion and \$2.3 billion, respectively, reflecting a normal, healthy level of production. The 1975-76 recession produced a ruinous drop in orders, which recovered during the very large auto industry, aerospace, and oil and gas industry retooling.

Then the bottom fell out. 1982 orders are currently running at less than one-fifth those of 1978, while the order backlog, which the industry must have to guarantee continuity of production capability, is expected to be less than \$400 million, about one-seventh its level in 1979.

If the industry does not receive a large number of orders soon, it will eat up its remaining backlog by spring of 1983 and then be forced to shut its doors.

Orders are in sight, which may turn out to be both the industry's and nation's misfortune, however. The first substantial order will be nearly \$1.2 billion from the Ford Motor Company to finish its last retooling. However, Ford is throwing the nearly bankrupt machine-tool industry into intense and possible ruinous competition over the Ford business. Worse, Ford is forcing the machine-tool industry to come up with the financing for the sales, putting the tool manufacturers in a position very much like the one German industry faced under Herman Goering's post-1938 buildup for World War II.

The industry, which is the keystone of the capital-goods sector of the U.S. economy, will thus get orders whose effect will be to bankrupt them. This will create a general reorganization of the industry into a much smaller one, geared increasingly toward war industries.

This transformation of the real economy into a military economy is in general form identical to what transpired in Germany, Italy, and Japan under fascist governments in the 1930s. The process is markedly visible in the decade-long decline of machine-tool industry orders as a percentage of total Gross National Product.

From a level of 0.20 percent of GNP in 1973 and 1974, machine-tool orders (leaving aside the recession of 1975-76) dropped to 0.17 percent in 1978, 0.16 percent in 1979, and then began a disastrous fall in 1980. In that year, machine-tool orders amounted to only 0.12 percent of GNP, dropping to 0.08 percent in 1981, and then, in the current year to a mere 0.04 percent.

Decline in skilled tool-making manpower

In a recent secret analysis on possible manpower shortages for a military buildup in the United States, the Departments of Labor, Commerce, and Defense concluded that there will be no significant shortages of skilled blue-collar manpower and only very marginal shortages in highly specialized design engineers.

Given a steady deterioration in America's skill levels, and the chronically low levels of graduating engineers and

other scientific personnel, how could these three departments arrive at such a conclusion?

The secret manpower study was premised on the shift of much of the remaining industrial sector—after it had been shrunk—into the military. Under such conditions, no significant shortage would appear, especially since the Pentagon would resort to increasingly authoritarian requisitions of manpower from what they call the “civilian” sector.

The attenuation in labor skills in the real economy is exemplified by the decline in the number of skilled machine-tool workers. According to a study in the July 1982 *Monthly Labor Review*, employment of job and die setters declined from 97,000 in 1974 to 91,000 in 1980, the latest year for which figures are provided. Tool-and-die makers slipped from a 1977 high of 193,000 to 176,000 in 1980.

For an industry where men in their seventies are frequently found on the shop floor, some putting in a full work-week, and where the average age is extraordinarily high, the most critical issue is the rate of replacement.

The Bureau of Labor Statistics (BLS) reports a sharp drop in apprenticeship completion for machinists and tool-and-die makers since 1970. For machinists, completions in 1970 were 3,822; completions in 1979 were only 2,450, after a steady decline in the intervening years. For tool-and-die makers, from a 1972 level of 2,825, completions dropped to 1,807 in 1979.

Ironically, despite the drop in completions, the BLS reports a massive 50 percent increase in number of machinists employed in industry between 1972 and 1980. As tool-company personnel and production managers loudly and frequently assert, many of the “machinists” they employ are badly skill-deficient. Thus, it is the declining numbers of the most highly skilled tool-and-die makers and setters categories that more accurately reflect the attenuation of skill levels in the U.S. machine-tool industry.

Remarkably, the BLS study concludes that there is no particular shortage of highly skilled workers, since there is unemployment amongst these tradesmen. They do not, of course, examine the average age of this section of the workforce.

The third indicator of the decline of the domestic tool industry is the explosion of imports that occurred in the last decade. From zero imports at the beginning of the 1970s, foreign tool-makers, particularly the Japanese, have gained between 25 and 30 percent of the U.S. machine-tool market. Foreign-produced lathes account for half of U.S. consumption, and a third of machining centers are now imported. In the “low end” of the market, the cheapest tools, Japanese producers in some cases have a larger share of the market than the largest U.S. machine-tool producers.

If the U.S. economy were growing, an increased rate of importation of machine tools would be a healthy and welcome sign. But coming during the onset of the Second Great Depression, this development points to one of the most serious internal weaknesses in the U.S. economy.

Club of Life launches organizing worldwide

by William Engdahl from Wiesbaden

With simultaneous founding conferences in Rome and Wiesbaden, West Germany joined by supporting founding conferences in nine cities throughout North America and Ibero-America, the Club of Life, an entirely new institution, has been born.

The founding conferences, which took place over a three-day period from Wednesday, Oct. 20 through Friday, Oct. 22, were the actualization of a concept originally proposed by European Labor Party Chairman Helga Zepp-LaRouche to the January 1982 conference in New York of the International Caucus of Labor Committees. That initial proposal was conceived to galvanize a counterpole of optimism throughout the world to the rampant emergence of neo-Malthusian ideology fostered in the advanced sector and increasingly in the developing world by organizations such as the Club of Rome.

Even before the opening words could be uttered in the first day's session, the combined international forces linked to organized crime and preservation of oligarchic hegemony attempted to destroy the embryo of the new institution. Forces including U.S. Ambassador to Italy, Maxwell Rabb, organized-crime lawyer Roy Cohn and his close friend Henry A. Kissinger attempted to strip essential security protection for Mrs. LaRouche and her husband *EIR* founder Lyndon H. LaRouche, Jr.

Mrs. LaRouche has herself been the target of no fewer than three mafia-style vehicular homicide "hit" attempts in West Germany during the past year.

In a packed press conference on Oct. 19 in Rome, one day before the historic event was to begin, founding Club of Life member, Webster G. Tarpley, announced that neither Mr. nor Mrs. LaRouche could be present in Rome for the founding meeting because of the refusal of the Italian government to provide proper security. Flanked by Club of Life founding members from the United States, Italy, Colombia, Argentina and West Germany, Tarpley singled out U.S. Ambassador Rabb, whom he accused of being linked to organized crime figures Roy Cohn and Meyer Lansky, as well as contaminated elements of the West German Bundeskriminalamt and the Federal Interior Ministry of the new Kohl government. Echoing Tarpley's bitter condemnation of Italian official complicity in a threatened assassination set up against the LaRouches, U.S. civil-rights leader Roy Innis, Argentinian journalist Ernesto Poblet, U.S. Manhattan Project physicist Dr. Robert Moon, Colombian trade-union confederation executive Pedro Rubio, Colombian Communist Party central committee member Prof. Julio Silva Colmenares, and European Anti-Drug Coalition leader Muriel Mirak joined in deploring the incredible security sabotage of Rabb and complicit Italian authorities.

Despite the initial note of security tension and attempted disruption of the conference, attendees from four continents regrouped on hours notice and organized two simultaneous founding conferences in Rome and Wiesbaden, West Germany where Mr. and Mrs. LaRouche could participate. If anything, the attempted sabotage steeled the resolve and determination of a most remarkable group of people who participated as founding members of the new institution. From that point, every single speaker in Rome, Wiesbaden and in support conferences openly denounced the disruption efforts of the U.S. Ambassador's office. Subsequent investigation revealed that Ambassador Rabb's own press attaché together with Rome AP correspondent, a Mr. Koo, were complicit in illegal activities to dissuade the journalists attending the press conference from giving any honest coverage. As a result, almost no media coverage of a most extraordinary international event resulted.

The Club of Life is born

Despite these sabotage attempts, involving millions of dollars and billions of Lira, on Wednesday at 10 A.M., in Rome and Wiesbaden, two simultaneous founding sessions opened as scheduled. Several hours later, in the western hemisphere, support conferences in New York, Philadelphia, Los Angeles, Mexico City, Cali and Medellin in Colombia, and Buenos Aires, Argentina, as well as Paris, France were held. More than one thousand people on three continents participated in this unprecedented event. In Rome, some 400 people attended despite the massive harassment efforts. These included the Vice-President of the Southern Italian industrialists association, Mr. Ettore Bermanschi, who, speaking of his own government's security refusal, told the audience, "Countries like this do not deserve to be part of the community of nations."

Other attendees in Rome included representatives of embassies of Colombia and Guatemala to the Vatican, the embassies of Senegal, Venezuela, the Italian Foreign Ministry, the embassy of Vietnam, numerous universities and schools, many with large student delegations. In addition to founding members from four continents who had flown in especially for the event, attendees representing various cultural and trade union groups were present. At the same time in Wiesbaden, with Mr. and Mrs. LaRouche present, more than 75 people gathered.

Within hours, in both cities, participants began to realize the extraordinary quality of what had been created out of the initiative of Helga Zepp-LaRouche one year earlier.

The opening speech of Mrs. LaRouche was presented on her behalf in Rome at the same time she delivered it in person in Wiesbaden, sounding the theme of the entire three days' events, "On the Urgent Necessity to Create a Just New World Order." In Rome, this presentation, greeted with a mixture of anger at the security sabotage and enthusiasm at her actual message by the packed hall, set the tone. It was followed by

the presentation of Webster Tarpley, who anatomized the oligarchical world-view of the Club of Rome.

This was followed by sharp and powerful presentations from Julio Silva Comenares of Colombia on the impact of World Bank policy in developing nations; Dr. Emmanuel Tremblay of the French Right-to-Life organization; Rev. Dibaba Mpolesha from Zaire, who made a powerful denunciation of attempts to force birth control and population reduction and Ernesto Poblet, editor of the respected Argentine weekly, *Búsqueda*, who painted a sharp picture of the decades of British and Milton Friedman economic sabotage of industrial development in his country.

The second session of the day in Rome then took up the theme of a new development policy and how it must be shaped to counter the present IMF-World Bank prescription for genocide. Speakers included a Nigerian nuclear engineer, a Zairean pro-life movement leader, a head of the leading trade union federation of Colombia, a prominent leader of the American civil rights struggles, and a leading Italian industrialist.

Through a complex international communications set-up, frequent instantaneous reports were transmitted from the events in Rome into the ongoing conference in Wiesbaden. From there, through simultaneous telephone and telex hook-up, support conferences in the United States and Ibero-America received instantaneous reports. As speaker after speaker ascended the podium, each of them expressing in his own way their extreme anger over the security breach against the LaRouches, participants at the Rome event began realizing they were participating in the creation of something extraordinary.

Almost as soon as their speeches in Rome were concluded, spokesmen began to change plans and make an unscheduled trip to join the Wiesbaden conference. There, on the first day, the speech of Helga Larouche was followed by that of Spanish economist Alberto Piñero, presenting a chilling picture of the tragic sabotage of the enormous industrial potential of that nation by the forces of the Socialist International and Club of Rome.

Lyndon LaRouche followed this with a presentation on the economic theory behind the New World Economic Order, noting especially the process underway since the Malvinas war in Ibero-America towards forced debt renegotiation.

At the conclusion of his remarks, Piñero told the audience of the profound sense of excitement which brought him to the conference following a reading of the book on economic theory by Mr. LaRouche. "This man took ideas which had been chaotically bouncing in my head and reorganized them coherently. I am honored to be here with him today."

A highlight of the afternoon portion of the Wiesbaden event was the announcement by Dr. Jürgen Spahn of the formation of an international medical research project to battle against degenerative diseases such as cancer. The proposal, Dr. Spahn announced, was the result of an initiative by

economist Lyndon LaRouche and was presented as the counter-initiative of the Club of Life to the hideous and growing proliferation of such ideologies as euthanasia by the Club of Rome and others.

The Spahn announcement, endorsed in the simultaneous presentation in Rome by Club of Life founding member Nancy Spannaus, called for a NASA-scale commitment on the part of both medical scientists and terminally ill patients to participate in organized research into the most promising avenues of cure of these killing illnesses. The audience response was enormous in both cities. Word of the proposal was immediately telexed into the ongoing New York and other western hemispheric Club of Life conferences.

On Thursday, the theme of the second day could be called ecumenical in the most profound meaning of that word. An unscheduled appearance at the Wiesbaden event was made by Prof. Aly Mazaheri, a renowned Iranian scholar who provided a very moving elaboration of the historical context of the struggle against today's forces represented by Kissinger, the Ayatollah Khomeini and the Club of Rome as the continuation of the tradition of Babylon, Assyria and other ancient centers of evil which employed usury and superstition to destroy entire civilizations. "During all these centuries," Mazaheri stressed, "these forces of Babylon have not succeeded in destroying our ideas. For this reason, I am optimistic."

Dr. Mazaheri concluded by reminding his audience of the ignominious fate of Henry Kissinger's ego-ideal, Metternich: "He was the damned soul of the Holy Alliance; and remember how he disappeared. That will also be the fate of Henry Kissinger." Emphasizing the historical fact that it was Persian scholars who preserved the sacred teachings of the Jewish Talmud as the Roman Empire sought to destroy them almost two thousand years ago, Mazaheri stressed a similar ecumenical unity of the positive tradition in Persian, Jewish, Christian and other religions to fight for realization of the principles of the Club of Life.

A similar ecumenical theme was voiced simultaneously in Rome by John Weber, a prominent Jewish American spokesman associated with the Board of Hebrew Union College; Father Prosper Grech of the Augustinian University in Rome; and Dr. Robert Moon, one of the pioneers in U.S. nuclear energy development, whose speech presented from a profoundly religious person, the basis of optimism for the potential of science to create a new era of civilization. This theme was underscored by the second principal presentation by Helga Zepp-LaRouche, "The Philosophical Foundations for a Just World Order."

As of the afternoon of the second day, a number of major policy initiatives had already emerged from several speakers. On Oct. 21 in Rome, John Weber, himself a long-standing member of the Jewish B'nai B'rith, presented a resolution, unanimously approved from the floor, for a reconstitution of the Nuremberg Tribunal for Crimes Against Humanity. The

purpose of this tribunal will be to try those guilty of crimes of genocide against entire populations in the developing sector and industrial world today. Other proposals approved by the conference included the call by Colombian trade union leader Pedro Rubio to establish within the Club of Life organization a North-South labor committee to bring together workers and peasants from the North countries and the South or developing countries to spread the ideas of the Club of Life.

A proposal by Dr. Muriel Mirak to rehabilitate former drug addicts by providing them with productive skilled jobs in developing sector lands also won enthusiastic response. Immediate moves to gain non-governmental organization status for the Club of Life at the United Nations have also been initiated as well as a proposal to create centers in Africa dedicated to the study of the thought of St. Augustine, the great African who is one of the founding fathers of the early Christian Church.

By Friday, the third day of the proceedings, founders had traveled from Rome to Wiesbaden so that they could participate in this historic process with Lyn and Helga LaRouche. Dr. Moon, Reverend Mpolesha from Zaire, nuclear engineer Nicholas Uwazie from Nigeria, Ntumba Kabemba, a Zairean geologist, and U.S. civil rights leader Roy Innis all followed the powerful opening speech presented by Mrs. LaRouche. Indicative of the profound process these leading fighters for justice and life from around the world were undergoing was the opening remark of Roy Innis: "I want to first express my public gratitude to Lyndon LaRouche. . . . I want to commend Helga LaRouche for initiating the Club of Life, an idea whose time has come. . . . If I had joined with Mr. LaRouche's efforts ten years ago, many of my initiatives in the United States and Africa would have been much more successful."

A concluding presentation to the open portion of the founding conference was made by Modesto di Matte, President of the Agricultural Catholic Trade Union in Como, Italy who flew to Wiesbaden this day in order to present his endorsement, as an individual, of Rubio's call for the creation of North-South labor committees to build the Club of Life and his pledge to carry this message back to his region in Italy.

Following the conclusion of the public portion of the founding conference, the founding members withdrew to continue an eight-hour working session to hammer out a joint formal statement of founding principles for the Club of Life.

Next week, EIR will publish extensive excerpts from the speeches at the founding conferences, along with a transcript of the statement of principles, and an evaluation of the Club of Life's organizing effort. A report concerning efforts by the Henry Kissinger-Roy Cohn operation and of the AFL-CIO among others, to counter-organize against the Club of Life will also be forthcoming.

The theory of the New World Economic Order

by Lyndon H. LaRouche, Jr.

The following is the text of the speech by EIR founder Lyndon H. LaRouche, Jr., for the Founding Conference of the Club of Life, October 20 and 21, 1982 in Rome, Italy. Mr. LaRouche is also the chairman of the International Caucus of Labor Committees and chairman of the Advisory Council of the National Democratic Policy Committee in the United States. He is the creator of the LaRouche-Riemann economic model and has written many books on the interrelated subjects of economics, education, and statecraft.

Since a fundamental shift in economic policy of the United States of America, over the period 1966-1969, the world as a whole has been moving at an accelerating rate, into not only a new world economic depression, but also depression-connected genocide against entire nations and people in many parts of the world.

At the moment we are assembled here, we are already inside the opening phase of a new economic depression worse than that of the 1930s. We are, at this moment, at the brink of a chain-reaction of collapse of financial institutions. If this collapse of financial structures occurs, the collapse of combined financial, political and social institutions worldwide will be as devastating as the collapse of Central Europe during the middle of the fourteenth century. Without a more or less immediate, and comprehensive reform of the world's leading monetary institutions, and a profound and sudden change in monetary policies, this combined economic and financial collapse cannot be prevented.

I can add the fact that many among the most influential and powerful financial executives of the world broadly agree with my characterization of the international, economic and financial situation, even though a majority of them continue so far to reject the specific policy-recommendations I have

continued to propose since a Bonn, West Germany press conference of April 1975.

During 1966-1967, the British psychological warfare agency, the London Tavistock Institute submitted a report called the Rapoport Report to the U.S.A.'s Johnson administration. Tavistock expressed professed alarm at the psychological effects of scientific and engineering breakthroughs being accomplished chiefly under the auspices of the U.S.A.'s National Aeronautics and Space Administration (NASA). Tavistock warned that popular admiration for scientific achievements was fostering an excessively pro-scientific, pro-rationalist outlook within the U.S. population.

The Johnson administration accepted the recommendations of this Tavistock report and launched a program then named "The Great Society" as part of a policy of cutting back sharply on technological and scientific progress. This pro-neo-Malthusian policy was deeply embedded within institutions and policies of the United States under Presidents Nixon, Ford and Carter. Although President Reagan is professedly an opponent of neo-Malthusianism, large chunks of the U.S. government as well as influential private institutions of the U.S. are continuing a neo-Malthusian policy at the present time.

Although the recent decade eruption of neo-Malthusian dogmas did not originate within the United States, the acceptance of those policies by the U.S.A. government has tilted the balance of world political forces in favor of neo-Malthusian dogmas and policies of practice worldwide.

This widespread toleration and support for neo-Malthusian policies is an effort to overthrow the most fundamental tenets of Judeo-Christian civilization. Although the 1967 *Populorum Progressio* and the 1981 *Laborem Exercens* are specifically encyclicals of the Roman Catholic confession, in

their essentials these two encyclicals are to be adopted by the nations and peoples of the world, whatever their particular religious profession. These encyclicals are to be used as ecumenical doctrines, addressing the fundamental values of not only Judeo-Christian civilization, but all forces which adhere to the principles of the sacredness and dignity of human life throughout the world.

I ask you to focus your attention for a moment on the manner in which neo-Malthusian dogmas and the depression are interacting at this particular moment of history. Then, I shall stress the connection between the principles of *Laborem Exercens* and modern economic science. Finally, I shall summarize the scientific basis for the establishment of a New World Economic Order meeting the requirement of *Laborem Exercens* and *Populorum Progressio*.

Interconnection between neo-Malthusianism and economic depression

If the leading institutions of the world still adhered to the human values generally accepted as recently as the early 1960s, the governments and political parties of most nations would judge the present and recent policies of the International Monetary Fund and World Bank to be a hideous failure. In former times, we rightly judged economic and financial policies by a certain standard of social performance, by the standard of developing the material conditions of individuals' human life worldwide, and fostering of that technological progress upon which the maintenance of human life depends.

In former times, men and women of goodwill judged economic and financial policies as good, bad, better or worse as the policies succeeded or failed in contributing to the development of the quality of life of the family and the individual in society generally. If we still adhered to those traditional Judeo-Christian values, we would regard the so-called "conditionalities" policies of the International Monetary Fund and other institutions as moral failures, and we would demand reforms of those institutions efficient to the purpose of correcting the evil being wrought by such "conditionalities" policies today.

Today, the spread of neo-Malthusian dogmas has destroyed the essential moral fabric of many governments and other powerful institutions. By spreading the false and evil dogma, that the world is overpopulated, we remove objection to economic and monetary policies whose effect is to savagely reduce the alleged overpopulation.

In some leading circles, including politically powerful circles in my own nation, the United States, it is much worse. The same powerful rentier financier families which supported Adolf Hitler's eugenics dogmas of practice back during the early 1930s are presently demanding that the United States adopt as its day-to-day military policy a doctrine of "population and raw materials wars" against the nations of the developing sector.

General Maxwell Taylor of the Draper Fund's Population

Crisis Committee is typical of but one of numerous powerful influentials, rooted among former Hitler supporters, who demand depopulation of the developing sector as a whole to about half or less the present population-levels by the turn of the present century. Two reports, named respectively *Global 2000* and *Global Futures* issued by the outgoing Carter administration, insist on the same genocidal policies as General Maxwell Taylor, although those two reports demand much lower quantities of population reduction than does a radical genocidalist such as Taylor.

This is not merely a Western manifestation. The purportedly prestigious International Institute for Applied Systems Analysis (IIASA) is prominent among vehicles which link neo-Malthusians of the OECD countries with neo-Malthusians of the Soviet bloc.

Among the fanatics such as Taylor and admirers of the Club of Rome, economic policies which cause genocide in developing nations are praised and supported as means by which savage population reduction will be accomplished. Many of such influential circles support the "conditionalities" policies of the International Monetary Fund because of the well-founded belief that such "conditionalities" policies will foster savage reduction in population-levels among the developing nations.

In the worst instances such as former OECD Director Alexander King, the support for savage population reduction is blended with shameless Anglo-Saxon racialism, demanding savage reduction in population of Turks, Greeks, Italians, and Spaniards as well as darker-skinned peoples of the developing nations generally.

Such conscious genocidalists are to be viewed as fully as evil as the Nazis' eugenics doctrine of practice. However, these evil ones are merely the center of a larger problem. Although most of the persons tolerating neo-Malthusian policies such as the environmentalists, have refused to think through the practical consequences of the dogma, their corruption with such neo-Malthusian belief provides a mass political base of toleration for the wittingly evil work of men and women such as Maxwell Taylor.

So, among the circles directing the IMF's "conditionalities" policies, no longer are economic and monetary policies judged from the standpoint of the sacredness and dignity of individual human life. Human life is now being tolerated or taken away as the convenience of existing monetary policies demands. The repeatedly stated policy-outlook of leading bankers and others has been, over the period since the 1975 Rambouillet Conference, that it is a regrettable necessity that present monetary policies will cause mass death in the developing sector.

Economic science

My chief personal role in the effort to establish a just new world economic order has been to apply my special skills as an economist, to design policy-structures of economic and monetary policies, through which the general objectives of

Populorum Progressio can be brought into durable reality over the period of twenty-five to fifty years ahead.

My standpoint in economic science is essentially the policy adopted by the young constitutional republic of the United States, the policy which Treasury Secretary Alexander Hamilton was first to name "the American System of political-economy." This American System was based on the discovery of economic science by Gottfried Leibniz, and was channeled into the young United States through students of the Oratorian teaching-order, who had been among the leading defenders of scientific education in France and Italy during the eighteenth century. The further development of the American System during the first half of the nineteenth century was chiefly a benefit of the work of France's Ecole Polytechnique beginning 1794, the collaborators of Lazare Carnot.

There was a noble effort to revive this American System policy by President Franklin D. Roosevelt. Prior to his premature death, President Roosevelt had committed himself to a post-war policy of ridding the world of the institutions and vestiges of colonialism, and what Roosevelt described as the continuing evil of British eighteenth-century methods in the world's economic and monetary affairs. He projected what was then called an "American Century" policy for the post-war world, a policy centered around a system of great infrastructural building projects, such as transforming the Sahel region into the breadbasket of Africa.

After President Roosevelt's premature death, the United States discarded Roosevelt's policy, in favor of the policies demanded by Prime Minister Winston Churchill. With U.S. support and toleration, the post-war monetary order of Bretton Woods became a thinly-disguised neocolonialist order. While breakthroughs such as DDT lengthened life-expectancies among populations of former colonial nations, the prevailing monetary policies prevented those nations from consistently developing their economies at rates needed to sustain these populations.

After Roosevelt's death, there were a few leading circles which have attempted to revive policy-initiatives along the same lines. The efforts of France's President Charles de Gaulle and of Pope Paul VI are most notable. The great projects proposal of the Mitsubishi Research Institute illustrate the same direction of effort. Although there have been religious and other forces favoring such a change in policy among OECD nations, the principal political constituency for such an effort has been the so-called developing nations.

My own efforts, especially since my Bonn, West Germany press-conference of April 1975 on this subject, have been chiefly my own work as an economist, taking advantage of my success in developing a mathematical-analytical apparatus of the sort required for a more refined application of the American System.

For example, with aid of numbers of my immediate collaborators, beginning November 1979, we have published a regular quarterly forecast for the U.S. economy. This fore-

cast has been consistently correct, whereas all competing governmental and private forecasts published have been consistently wrong to the point of absurdity over the same period to date.

It is of practical importance that I indicate my accomplishments in economic science over other currents of political-economists, since the points that I have to report to you are not accepted among most economists today. Since my version of economics has produced consistently accurate forecasts, whereas my factional opponents have produced only consistent failures in forecasting, certain relevant conclusions follow logically.

All modern economic science originates with the injunction of the Book of Genesis: mankind must "Be fruitful and multiply, and fill the earth and subdue it." That is not only Judeo-Christian doctrine; any policy which contradicts that imperative is absurd on purely scientific grounds.

In economic science, beginning with the work of Gottfried Leibniz, we measure the performance of economies by their successful increase of the productive powers of labor. This was established as the centerpiece of the American System in Hamilton's December 1791 Report to the U.S. Congress entitled "On The Subject of Manufactures."

The quantity we measure is probably best named potential relative population-density. In other words, what is the average number of persons which can be sustained per square kilometer of habitable, improved land, solely by means of the changes in the material condition of nature effected by the labor of the population inhabiting the land.

In a primitive condition, such as that which the anthropologists name a hunting-and-gathering society, society can not exceed a level of about one person for an average ten to fifteen square kilometers of inhabitable land, which would mean approximately ten millions persons as the total human population of the world at any time. Without modern industry, the total population of the world could not exceed approximately one billions persons, most of which must be living in emiserated conditions.

Mankind rose above the hunting-and-gathering level about twelve thousand years or more ago, with the development of agriculture. The earliest form of true scientific technology was ancient astronomy used for navigation of craft like the Vikings' boats, and the adaptation of this astronomical science for the guidance of agriculture.

Through the development of the heat-powered machine, whose theoretical basis was first elaborated by Leibniz, the modern industrial revolution began in eighteenth-century France, and has brought the existing potential population-level of the world up to about ten billions persons or more, on condition we widely deploy the kinds of technology which are either already in use in some parts of the world or which could be developed for general use during the remaining decades of this century. If we develop commercial thermonuclear fusion as a source of heat-energy for general human use, which can be accomplished during this immediate period

ahead, that would raise the potential relative population-density of the human race to several tens of billions.

The chief among the long-term problems of economy is that without advances in technology, the depletion of certain kinds of natural resources in use raises the social costs of exploiting resources to the level that the potential relative population-density of society falls. If any society adhered to a zero-technological-growth policy sufficiently long, that lack of realized technological progress would by itself unleash the proverbial Four Horsemen of the Apocalypse upon such a misguided people.

In former times, men and women of goodwill judged economic and financial policies as good, bad, better or worse as the policies succeeded or failed in contributing to the development of the quality of life of the family and the individual in society generally. If we still adhered to those traditional Judeo-Christian values, we would regard the so-called "conditionalities" policies of the International Monetary Fund and other institutions as moral failures.

So, since Leibniz's discoveries, we define economic science as a study of the manner in which the use of technological progress maintains and increases this potential relative population-density.

There are several correlated facts of economic development essential to economic science. Since I have more fully elaborated this in recent publications such as *Operation Juárez*, I shall limit myself merely to identifying these points here, and refer you to my elaborated writings on this subject for fuller details. Here, I list merely a few of the most essential highlights of development policy, and then proceed to my concluding remarks.

The most immediate correlative of increase of potential relative population-density is an increase in the number of

kilowatt-hours used both per square kilometer and per-capita. Although scientific progress enables us to use each kilowatt-hour with greater efficiency respecting work accomplished per-capita, the quality of existence of the individual in a society is delimited by the level of average, per-capita quantity of kilowatt-hours used per square kilometer and per-capita.

If a society today relies upon so-called renewable resources of energy, as the misguided World Bank and Brandt Commission suggest, that society will collapse and die. Without so-called artificial energy-sources, which means increasing emphasis on nuclear technologies, the world's population must unavoidably collapse in level by several billions over the course of the coming decades. We require over the course of the coming two to three decades, about 3,000 billions watts of energy added by hydroelectric power generated as part of large-scale water-management projects, and between 7,000 and 10,000 billions watts of nuclear-generated energy, otherwise a new world economic order is unachievable—and hundreds of millions, or even billions of persons will die for lack of energy needed to sustain life.

Next to energy-development itself, we need great infrastructure-building projects. We need great projects of water management, great improvements in transportation-capacity, and consistent policies of improvement in the urban infrastructure essential to industrial development.

Although infrastructure does not necessarily produce end-product, consumable wealth in and of itself, infrastructure-building represents the necessary improvement of nature without which agricultural and industrial development can not prosper.

Finally, but not least, we must rid the policies of nations of those policies of practice which imply that the labor of men is the labor of a mere beast of burden. It is not simple labor which produces wealth, but rather the development of the productive powers of labor. We require populations which can produce and assimilate advances in technologies. Educational programs and correlated developments in popular culture are the indispensable human preconditions for use and improvement of productive technologies.

In economic policy-making and practice, we must never lose sight of fundamental principles. Economics is merely the indispensable means for producing the material conditions of life. It is the development of the power of reason within the individual which reflects the true, proper higher purpose of existence of nations. The individual needs the material conditions of life appropriate to the fostering of his or her divine potentialities, those potentialities which distinguish man absolutely from the beasts. The individual requires a society which gives the individual the opportunity to contribute good, a society which cherishes the good contributed by its members and at the same time discourages wickedness done by individuals. It is the good that must be served. Economics is but an indispensable means serving that higher purpose.

Yet, economics has a moral purpose even higher than providing the material preconditions for life. In technological progress, we express mankind's process of perfecting its knowledge of the lawful composition of creation. Through scientific progress directed to that purpose, mankind increases the individual's powers to employ the laws of the universe, but also brings the individual will into improved perception of the lawfulness of creation, and into more perfect submission to the ordering of continuing creation in the universe. In properly directed labor, in the development of the productive powers of labor, we foster reason within society as a whole and within the individual's development within society.

Finally, the monetary problem

The center of the world's problems today is the great power exerted by agglomeration of rentier-financier family wealth, a wealth whose chief institutional basis is the practice of ground-rent and usury. These agglomerations of financier power associated with such families have controlled the forms of dominant financial and monetary institutions ruling most of the world over approximately a hundred years to the present time. Their instruments of power over governments and national economies have been both the privately-controlled central banking institutions of nations, and supra-national institutions such as the IMF, World Bank, Bank for International Settlements and GATT.

Through the predominance of such families in controlling leading financial and monetary institutions, the major portion of the world's supply of lendable credit has been concentrated increasingly in ground-rent and usury, checking and significantly preventing otherwise objectively feasible and sound investments in infrastructure, agricultural development and industry.

Exemplary is the case of the post-war United States. At the beginning of the post-war period, 62% of the total labor-force of the United States was employed as operatives, either in production of wealth or in transporting produced wealth. Today less than 28% of the total labor-force of the United States is so employed. This means, in social terms, that the ratio of economic overhead to production of wealth has been increased from 28/62nds to 62/28ths.

Similar trends exist in Western Europe and Japan, and have infected poisonously the urban culture of numerous developing nations.

The major portion of accumulation of internal and external indebtedness of nations, of combined public and private indebtedness, has been pyramided through lending-policies, and borrowing-policies, which increase geometrically nations' per-capita indebtedness, while contracting geometrically the wealth-producing power of the nations per-capita. Since the 1971-1972 monetary-policy actions and the 1975 Rambouillet monetary conference, the process of pyramiding debts while contracting production per-capita has accelerated. Since the usurious policies introduced by U.S. Federal Reserve Chairman Paul A. Volcker during October 1979, the

usurious pyramiding of debt has accelerated, while investment in long-term production of wealth has collapsed, also at an accelerating rate.

We have presently reached the point, that the existing "conditionalities" of the IMF, World Bank, BIS, and GATT policies, prevent the developing nations from earning the means of payment against usuriously pyramided debt-service obligations. It is not that those nations are unwilling to pay their debts, but that they can not pay those debts without resorting to the kinds of "conditionalities" measures which mean economic mass-murder against their own populations.

This imminent financial collapse of the world economy could be prevented within a proverbial several hours of deliberation by governments, if the will to do so existed. Two sets of measures would be indispensable.

First, governments must reorganize the world monetary order. Governments must bring down the prime interest-rates of banking-systems to between 2 percent and 4 percent by political decision. The existing debts must be reorganized, through establishing a cut-off date for existing obligations, and replacing existing obligations with issues of long-term bonds at low interest-rates.

Second, the ability of nations to develop economically, and hence to pay the new debts as payments come due, requires a gold-reserve-based international monetary order, and the issuance of Treasury currency-notes by governments, to be used for long-term lending in domestic and international development-investments of merit.

The highest priorities for development must be these.

In the developing sector generally, there must be an emphasis upon increasing both the per-hectare yields of agriculture, and the number of hectares included in effecting improved yields for the nation as a whole. This must be done through aid of infrastructural projects defining the environment of agricultural development, and through injections of modern agricultural technologies to improve significantly even the relatively most primitive modes of agriculture presently in use.

A network of great infrastructural projects, emphasizing energy-development, water-management, transportation and urban infrastructure.

A-fostering of capital-goods industries in both presently industrialized and developing nations.

In brief, we must undertake the American Century policy as exemplified by the vision of President Franklin D. Roosevelt.

We may hope that fear of the chaos now on the verge of erupting will bring some of the more sensible elements of the international financial community to their senses, at last. We must welcome such cooperation, but if we are unable to defeat resistance from those rentier-financier and neo-Malthusian quarters, our civilization will die, like Sodom and Gomorrah, for want of sufficient persons with the goodness of will to render this sick civilization of ours still morally fit to survive.

Chinese move toward Moscow and away from Washington

by Richard Katz

Evidence is mounting that in the weeks following the September Chinese Communist Party Congress, Peking made a decision to sharply downgrade its previous strategic alignment with the United States. At the same time, the Chinese talks with the Soviet Union are producing a rapprochement between the two countries at a faster pace than almost anyone had previously imagined.

It is not known exactly what occurred in the secret talks in Peking. However, the Chinese must have been pleased since they agreed to full, continuous resumption of formal negotiations to normalize relations. The delegation, originally in China for only a short visit, will now stay in Peking indefinitely. Talks will alternate between Peking and Moscow.

With these moves, Peking has torn up the "China Card"—the 12-year illusion of Kissinger, Brzezinski, and Haig that the United States could deal with the Soviet Union through geopolitical gimmicks instead of genuine economic and military strength.

The most important developments in Peking's policy shift are:

- a scorching blast at U.S. policy by Chinese Foreign Minister Huang Hua to the New York Council on Foreign Relations in which Huang Hua accused Washington of increasing the obstacles to U.S.-Chinese relations and demanded to know, "Does the U.S. government regard China as a friend or an adversary?";

- an unprecedented criticism of the U.S.-Japan Security Treaty by a leading Chinese official while on a trip to Tokyo;

- Chinese Communist Party Secretary-General Hu Yaobang's comment to visiting French Communist Party chief-tain George Marchais that China would like not only improved state-to-state relations with the Soviet Union but a restoration of party-to-party ties with the Communist Party of the Soviet Union; and

- Soviet leaks to Japanese politicians that they would be willing to withdraw troops from the Chinese border if the Chinese also pull back, an unprecedented offer that meets one of the Chinese demands for "normalization."

Though some of the ascending Chinese political factions are definitely communist ideologues, the most important factor in China's turn away from the United States and toward fence-mending with Moscow is not ideology. Rather, it is China's perception of growing U.S. economic, military, and

diplomatic weakness. Ironically, this weakness was caused by the "technetronic" economic and military policies of precisely the same U.S. factions who pushed the China Card as the appropriate geopolitics of the post-industrial era. In other words, these factions destroyed their own "card."

The Chinese press now continually harps on the weakness of the United States in the face of the Soviets, and on the weakening of the U.S. economy. Earlier, Peking had felt that allying with the United States was its own best bet for access to the equipment needed for industrial and military modernization. Now, Peking is no longer so sure. If a war occurs between the two superpowers, as China warns, the Chinese would like to remain neutral. If they cannot avoid taking sides, they have no intention of allying with the geopolitical loser.

China: "We're nobody's card"

Peking has been distancing itself from Washington slowly but surely ever since the beginning of the year, as *EIR* discussed in its March 16 cover story. However, Foreign Minister Huang Hua's Oct. 6 speech indicates that a policy decision has likely been made to move even further. Huang Hua went beyond China's customary complaints about Taiwan to accuse Washington of *increasing* the restrictions on exports of military-related high-technology goods to China and of *increasing* the barriers to Chinese exports to the United States.

To add insult to injury, Huang reminded his American audience that, the Shanghai II communiqué notwithstanding, "Our government has repeatedly stated that it will never make any commitment to any foreign country that it will not use force with regard to Taiwan."

Huang's acid comments reportedly stunned the Council on Foreign Relations attendees, since he had been viewed as one of the prime architects of Peking's previous "America Card" policy. That policy no longer pertained, the Chinese Foreign Minister told his audience. "China neither plays the U.S. card nor the Soviet card," he insisted. "At the same time, *we will never permit others to take China as a card.*" Premier Zhao Ziyang used the same expression in private talks with visiting Henry Kissinger the same week.

Even more astonishing, according to the October 10 *Yomiuri Shimbun*, Chinese official Sun Pinghua told Tokyo re-

porters that China now opposes the longstanding Japan-U.S. Security Treaty, which Peking had previously supported. "China's mass media have never reported China's support of the Japan-U.S. security setup," declared Sun, who was in Tokyo for a three-day conference as head of the China-Japan Friendship Association. "In principle it is not a good thing for an independent nation to be supported by another nation," Sun added.

Tilt toward the Third World

China's attempt to weaken Japan's ties to the United States is only one element of the new "Third Worldist" posture stressed by Peking. China now calls itself "a socialist country belonging to the Third World." Both parts of the term are important, but two opposing factions in Peking stress different aspects. The ruling Dengist faction has dropped China's previous alignment with the United States in favor of a "Third World" stance of opposition to both "hegemonist superpowers," i.e. the United States and Soviet Union. The Dengists are trying to recruit to China's side not only the developing countries, but also those it calls the "Second World," i.e. Europe and Japan. Thus, the new opposition to the U.S.-Japan Treaty emerges at the same time that Peking is stepping up its economic cooperation with Japan. Peking wants Japan to act as a "Second World" nation, not as an ally of the United States.

The Dengists want a new kind of non-alignment in which China will still retain close ties with the rest of the West but less so with the United States. This was reflected in an Oct. 7 editorial in the Hong Kong Communist paper *Wen Wei Po* "During its recent talks with the United States, China did not denounce the Soviet Union for its "hegemonist" and territorial expansionism. This does not mean that China will no longer oppose the "hegemonism" that the Soviet Union is pursuing. It demonstrates, rather, that China will . . . not stand on the side of the United States to combat the Soviet Union. However, China's policy toward the U.S.S.R. was mentioned during the recent Sino-Japanese and Sino-British talks. This shows China will strictly abide by its independent principles in its relations with the Soviet Union and the United States."

Leaning toward the Soviet Union

A faction that opposes Deng domestically and is gaining strength—a coalition of the Army and the heavy-industry proponents—wants to go even further. They want to "lean toward" the Soviet Union while remaining non-aligned. They do not wish to restore the 1950s domination by the Soviet "big brother." However, as shown by growing visits by Chinese economists to the Soviet Union, this Army-heavy industry faction views the Soviet economic model as more successful than Deng's anti-industry pogroms; they want a return to centrally planned industrial and military buildup. They emphasize the "socialist" part of the "socialist country belonging to the Third World" label. Since this faction great-

ly increased its strength at the September Party Congress, (see *EIR*, Sept. 27), the Dengists have had to make compromises with it.

The results are seen in the current Sino-Soviet talks. Soviet Deputy Foreign Minister Leonid Ilyichov arrived in Peking in early October to resume "normalization talks" for the first time since Peking suspended them in 1979 after the Afghanistan invasion. China announced three preconditions for normalizing relations: Soviet pullback from Afghanistan; Soviet pressure for Vietnamese troop withdrawal from Kampuchea; and settlement of the Sino-Soviet border disputes including Soviet troop pullback from the border.

Knowledgeable observers regarded the final condition as the most important. They were struck by the rapidity of a Soviet announcement of apparent willingness to agree on troop cutbacks. On Oct. 14, Japan's Kyodo press reported that Ivan Kovalenko, deputy chief of the Soviet Communist Party International Affairs Bureau, told a visiting Japanese Socialist Party leader that the Soviet Union would meet China's demand for a drastic Soviet troop pullback if China also pulled back. Moscow has never before made such an offer.

Chinese Communist Secretary-General Hu Yaobang commented to reporters, "The Chinese side sincerely hopes the obstacles to normalization of relations will be removed so that relations between the two countries will embark on the road of healthy development."

Hu went even further in a meeting with French Communist Party (PCF) chieftain Georges Marchais. The CCP just restored party ties to the PCF, having broken them in 1965. Marchais had been regarded, at least in part, as an intermediary for the Soviets. He seems to have obtained some results, for he told the press that Hu had said to him, "It is a pity that ties between the CCP and the Soviet Communist Party (CPSU) were interrupted such a long time ago," and expressed a desire to end the rupture.

Moscow is sending out almost daily overtures to the Army-heavy industry faction. In an Oct. 5 broadcast "Program for Chinese Soldiers" Soviet Radio warned that the Reagan administration's "target is to wipe out socialism," and that "several hundred nuclear warheads have been directed at all the socialist nations, *including China* [emphasis added]." The broadcast concluded that the best way to stop "the imperialist's adventurism" was for all "socialist nations," presumably including China, to conduct joint military coordination."

Kissinger and the State Department are putting out the word that nothing is happening in the Sino-Soviet talks, that China is just playing hard to get, to strike a better bargain with the United States. However, as a U.S. specialist on the Chinese military warns, "Something is definitely up between the Chinese and the Soviets. The Chinese are not just playing maneuvering games. I see things happening I didn't see six months ago. I don't know how far it will go, but Washington had better pay attention."

'We have put drugs in the category of a security problem'

Malaysian Prime Minister Dr. Mahathir bin-Mohammad shocked the world after being unanimously elected to the office by his party members in July 1981 by moving quickly to take over the large, London-based rubber and palm oil plantations in Malaysia. The acquisitions were made by buying up large volumes of stocks, and the plantations put under Malay control. A year ago, in October, Dr. Mahathir further upset anglophiles the world over when he refused to attend the Commonwealth Heads of Government meeting in Melbourne, Australia, summarily describing the meeting as a "waste of time."

This new dynamism and forthrightness in the Malaysian leadership has been coupled with a strong desire to shake off the remaining vestiges of the old British colonial rule. Dr. Mahathir's administration is particularly interested in bringing the much-exploited indigenous Malay population into the mainstream of economic, political, and social activities. Prime Minister Dr. Mahathir has emphasized education and morals-building as the key to developing a new generation of capable and independent Malay citizens. His recent decision to ban video games from Malaysia is an illustration.

Dr. Mahathir has been particularly harsh on the traffickers of mind-destroying drugs. Only recently the Malaysian government hanged six narcotics dealers for pushing drugs among Malaysian youth. In a recent interview conducted at the United Nations with Dr. Mahathir's Foreign Minister Ghazali Shafie, EIR discussed the international drug menace. Prior to becoming Foreign Minister in 1981, Ghazali Shafie was Minister of the Interior. The following are excerpts from the interview:

EIR: How have you approached the problem of drugs in Malaysia?

Shafie: We certainly believe that the question of drugs is not just a simple sociological or neighborhood problem. We think that this problem, if it should go out of proportion, particularly in a country like ours, would indeed pose a security problem. We regard drugs as extremely dangerous, and the problem attracts our highest attention.

Why do we say it is dangerous? In a country where 50 percent of the population is below the age of 21, and since drugs are most rampant among youth, we couldn't imagine a

future for Malaysia if out of that 50 percent even a proportion of them should be affected by drugs. Imagine a country whose leadership has been drawn from this kind of people. There is one kind of study that has not yet been done by anybody: what happens to a person who has been cured, so-called, of drug addiction? Is there brain damage, and if so, what happens if he's under stress and strain? How will he react? Supposing he's captain of a corporation or a Prime Minister, and he's under stress. We have no way of knowing how he will react. I'm not saying he will go back to drugs—that's not my point—but will he react as a rational human being, or will he react differently under stress because his brain has been damaged?

So we really have a tremendous fear of this problem of drugs—so much so that we have put drugs in the category of a security problem, and *not* a social problem. We have enacted legislation that drug distribution on a commercial scale will meet with the death penalty in our country.

We have seen that the problem of drugs consists of five different areas:

1) The first area is, of course, the source. We do not produce these drugs; the source is somewhere in the Golden Triangle [of Indochina], or wherever. It would require an international effort to resolve that problem. Now, it's not so simple as one would make it simply because to those people who grow the opium, the source of your drugs, it is the first and foremost part of their lives. . . . We know, for instance, in northern Thailand, in Laos, and so forth, no matter what the program for crop substitution, you find that they still need the opium for their own use, and secondly, the substitute cannot replace the kind of income which they get in growing opium. That's number one.

2) Second, we have the problem of preventing it from entering our country. That is really dependent on how efficient our authority, or machinery of government is to prevent it from coming in. We have experimented with a number of projects in order to do that—including dogs, and everything else. We still find that the human element is the most effective. In other words, since we know that the drugs are being brought in by syndicates and so on, the infiltration of that group by our authorities is the best way to get leads, and therefore prevent the drugs from coming in. Still, we need

international cooperation because without it we can only operate in Malaysia, and we have to operate outside, in Singapore, in Thailand, Indonesia and so on. And there must be a free exchange of intelligence.

3) The third area is rehabilitation. In other words, how do you bring those who are affected back into normal society? This again is an extremely complex problem. We have experimented with many, many methods. . . . We did find one of the things that is quite effective is to give these kids moral education, religious education so that they could find an alternative to drugs, because you know lots of people take to drugs because they lose hope. If you provide an alternative like a belief in God, you know, the belief that there is a Saviour, and if they get caught up in the idea of this kind of thing you will find that they will not go back to drugs. But the minute they lose hope, then they go back to drugs.

4) The fourth is what we regard as the education side, the conditioning of minds. And here we start right from school, right from infancy. We are trying in our country to make people *hate* drugs, not just to say drugs are dangerous, but drug-use should be hated. It should be the object of aversion. You see, we're all Muslims in our country, and Muslims are not supposed to eat pork. Now there are any number of Muslims who would *eat* pork without feeling nausea; but imagine any one of them if you just put bacon in front of them—they feel nausea. Now that is the kind of thing that we are trying to educate our young people to, that they should feel nauseated even at the thought of drugs, even at hearing of drugs. When I was Minister of Interior I tried to inculcate even amongst soldiers that if they had their feet blown up by land mines, and were given morphine to kill the pain, I reached the level where I got some boys who would refuse that morphine; they would rather bear the pain than take the morphine.

5) The fifth is, of course, research. You need a tremendous amount of research. As I said, one of the things that we still fail to find an answer to is what happens to a chap who has been cured of drugs? Can he be a normal person?

So these are the five areas that we attach great importance to. But we have always said that drugs pose a security problem. As I said, if half your population is subject to drugs and not mentally capable of dealing with problems you're not much of a nation and you can easily be subverted. Then the second part of it is that drugs have been used to get money, to raise funds for the purpose of creating problems for the country. We know, for instance, in our area, along the Thai border, that there are a lot of drugs being sold to support the communist aggregations in order to attack the government.

So, we have always to consider drugs as a very serious problem, and therefore we arrived at the conclusion we did, bringing a law in Parliament, supported by the whole country, supported by the whole Parliament unanimously—opposition and everybody—that the death sentence must be enforced against those people who have been proven to be traffickers in drugs. . . . There's the story of the French

woman, you recall [arrested in Malaysia recently for trafficking drugs]; she had the death sentence, and the judges commuted it to life imprisonment. That shows the seriousness with which we regard the subject of drugs.

In this session [of the United Nations General Assembly] our Prime Minister made this point, and in the last session, if you followed my speech you also find the same thing. In the session that I was in Vienna, when I was a non-elected member of the Drug Commission, we always insisted on international cooperation. But, what is this international cooperation? For one thing, we do not have a proper accounting of the artificial drugs that we manufacture in factories. Most surely this is one area where advanced countries that manufacture these drugs will have a proper accounting centrally so that everybody knows where these drugs go to, and who actually are the users. Because we will need drugs for medical purposes. I am not saying that we should completely abolish the production of drugs. But where, for instance, opium is being exported from, say Pakistan, or Turkey or Laos, there's been no accounting of how much is going out.

EIR: Do you think that with proper international accounting and supervision the drug trade could be. . . .

Shafie: That would be *one* way. I am not saying that this will be the answer to our problem, but this will be one way to make it somewhat difficult to get drugs very easily. Because so many of these people, you know, are very respectable peddlers, like doctors. They think they are doing their patients a favor, and we sometimes abhor all these things but if there's no proper accounting then you find these drugs go in the wrong places.

EIR: You referred earlier to a relationship between drugs and terrorism. . . .

Shafie: Yes, in the sense that drugs could finance terrorist activities. It's one of the methods of funding; I'm not saying that this is the sole method. But we have seen in some countries that it is a method of funding.

EIR: You mentioned syndicates involved in peddling drugs. How well organized do you think these entities are?

Shafie: We feel that these syndicates are international, and they have their agencies all over the place. Therefore, international cooperation is needed. There's no doubt about that. Drugs don't really sell in just one area; it is a worldwide trade, and it needs a very big organization to run it.

EIR: Have you studied the problem of how drug money is laundered?

Shafie: We have as part of our law that where we find this kind of a bulge in somebody's accounts the government has the right to inquire as to the source of this kind of income. The law is very harsh in this regard, and I found tremendous resistance—because I was the one who introduced the law—from our own people because they thought that we might be

abusing this power and might start to inquire into the wrong areas. I do remember that we went to some length because we had to find a way to circumvent our own constitution, which provides for the right to property and income and so on.

EIR: As you may know there is a movement in the United States for the decriminalization of drug use, and naturally our publications have been critical of this. As a representative of a country which has a very good approach to the drug problem, if you could speak to the American population on this subject what would you say?

Shafie: I have spoken to the chief of your Drug Enforcement Agency in Washington. I have expressed my opinion and my abhorrence at the thought that one should decriminalize drugs. If at all, one should do the other way around. One should be making it even more severe, and much more difficult to get drugs rather than to give it respectability. I have a feeling that perhaps in a country like the United States that is so large and so varied in many ways, that there are many people who are liberal enough to think that drugs are a very light problem, that if you can take whiskey or wine, why not get high on drugs, without realizing that the physical and psychological effect on the brain and the mind is much more serious, so serious that we in Kuala Lumpur feel very threatened by drugs.

I have expressed this to the State Department; I have expressed this at the United Nations; and I have spoken with the [former] chief of your Drug Enforcement Agency in Washington, Mr. Bensinger. I went to Washington to speak about this, and I said I really abhor the states in the United States that say, "We can live with drugs"—that is very un-clever, very unwise.

EIR: Are you satisfied with the reaction you got and with current international cooperation?

Shafie: Well, the one thing in the international field that we want to do, and we are taking it up both in Vienna and here, is to transfer the problem of drugs from the Economic and Social Council (ECOSOC) to another council which deals with security—not necessarily the Security Council, but something more than just an economic and social council. The previous chap who was in Vienna, Dr. Ling, was very sympathetic with my idea. Mind you, I am speaking on the basis of my experience before I became Foreign Minister, when I was Interior Minister and Chairman of the Anti-Drug Commission in Kuala Lumpur. We found that we had a lot of sympathy over there in Vienna. The last Secretary General, Mr. Kurt Waldheim, already began to see this as something that we had taken very seriously. I have no doubt that we would find some new attitude, it may not be this year, but we are continuing to press the international community to recognize how seriously we regard drugs and how seriously everyone should regard drugs.

The Propaganda-2 infesting Mexico's

by Timothy Rush

The same international Nazi and neo-Nazi networks currently under fire in Bolivia are in the midst of their most important upgrading and restructuring in Mexico in a generation.

The leading conspirators in this effort trace their histories back to the Cristero movement of the 1920s, the *Sinarauistas* of the late 1930s, collaboration with the Nazis in the 1940s, and the proliferation of paramilitary fascist shocktroop formations such as the MURO and the Tecos in the 1960s.

The reorganization, *EIR* investigation has determined, is to establish the shocktroop wing of a powerful politico-military combination to block the consolidation of the nationalist economic measures recently undertaken by the government, destabilize the incoming administration of Miguel de la Madrid, and prevent Mexico from declaring a debt moratorium on its \$80 billion foreign debt. These networks were already in motion starting early this year, as Mexico's economic crisis dramatically deepened and oligarchical strategists targeted the destabilized middle class to become the cannon fodder for a "pots and pans" movement like that which was sent into the streets of Chile to prepare the bloody coup against Salvador Allende in 1973.

Preliminary efforts to get such a "pots and pans" movement going during the summer months suddenly ran into trouble in the weeks immediately after the bank nationalization and other emergency economic measures of Sept. 1. The nationalist outpouring of support for these measures made overt opposition impossible. The conspirators instead met privately, *EIR* has discovered, to forge a unified command structure and a national movement out of various local and regional movements.

Then on Oct. 8, the reorganized fascist movement opened a new phase, as large open meetings followed in succession in Monterrey, Puebla, and Torreon. Many in this "movement of civic insurgency," as the National Action Party (PAN) likes to call it, or the "Movement of National Integration," as those trying to keep clear of party affiliation denote it, believe that dramatic further worsening of the economy will

circles who are political life

come between December and February, and that mass disruptions can be launched at that time. Some government security specialists monitoring the movement see a slightly longer timetable, and are bracing for disruption in the May-June period. In the meantime, a heightened terrorist watch is in effect.

Orders from the oligarchy

Just as in the 1920s and 1930s, these fascist fanatics are not acting on their own initiative. In the 1920s it was money from the U.S. Buckley family which financed key portions of the Cristero effort, along with Royal Dutch Shell. Vital outside direction was provided by Solidarist ("neither communism nor capitalism") Church networks in the United States and Europe.

Today the movement is taking its orders directly from the European oligarchy, as seen at the Atalaya '82 conference in Guadalajara in January of this year (see *EIR* Feb. 16, 1982). One of the prominent U.S. control points went public in the pages of the *New York Times* Oct. 1, in a paid advertisement by Rep. Larry McDonald (D-Ga.).

The ad charged that Mexico was on the verge of an irreversible plunge into "communism and totalitarianism," and that its nationalist leadership, including President López Portillo and former President Luis Echeverría, "should be eliminated at the earliest opportunity."

McDonald's intelligence and "dirty tricks" unit, Western Goals Foundation, not only has the gangland lawyer and hit contract middleman Roy Cohn on its board, but recently established a European branch in Munich, the European oligarchy's backyard for "Hitler projects," and the base of neo-Nazi Franz-Josef Strauss.

The command structure

The principal figures of a series of secret meetings in September include:

- **Manuel de la Isla Paulín**, former leader of the Uni-

versity movement for an Orientation of Renewal (MURO), one of the most violent rightwing paramilitary groups of the 1960s, based in Puebla. Since then, de la Isla has been part of a higher-level coordinating group, called simply "the Secret Organization."

- **José Angel Conchello**, former president of the PAN party; self-professed follower of Nazi Finance Minister Hjalmar Schacht.

- **Mauricio Gómez Mayorga**, leader of the Cristeros, a backward peasant movement organized as shocktroops on a Christian fundamentalist ideology in the 1920s and 1930s. His father worked as a Nazi operative. Today, his major springboard is *Impacto* magazine.

- **Salvador Borrego**. Former Cristero leader and former member of the Nazi secret services. Builder of anti-Semitism in Mexico. Currently Borrego is creating a new "Movement of National Integration," with "nucleos" to be built up in each local area.

- **Celerino Salmerón**, former Cristero commandant and currently head of a group called the Mexican Traditionalist Falange.

- **Agustín Navarro Vázquez**, director of the Mexican branch of the Mont Pelerin "free enterprise" cult, and writer for *Impacto*.

- **Luis Pazos**, scion of a Veracruz oligarchic family; referred to warmly by William Buckley as the "Milton Friedman of Mexico."

- **Luis Felipe Coello**, former leader of the MURO, head of the magazine *Acción*, which is financed by the private secretary of the powerful former director of the Bancomer conglomerate, Manuel Espinoza Iglesias.

- **Victor Sánchez Steinpress**, representative of the Blue Army of Fatima, an international cult involved in the second assassination attempt against the Pope; currently on the payroll of Ricardo Maregín Zozaya, a lawyer for the Visa group of Monterrey.

The initial conspiratorial group, coordinated by de la Isla, brought in several others because of their regional clout: an engineer named Pedro Novo, who studied in Monterrey, built a base in Guadalajara, and has now moved on to lead the "Civic movement of Sonora"; and a businessman for the PAN party in Torreón, Coahuila named Edmundo Gurza. One of the early meetings was a breakfast session hosted by Conchello and Gómez Mayorga at the María Cristina hotel during the second week of September.

The conclusion of the first rounds of meetings was that the "time to stop socialism" had come. It was agreed that the situation required a national movement, one that would move beyond the capabilities of any single party or pressure group, whether of bankers, businessmen, or middle class associations.

A six-point program

The hard-core conspirators agreed on six points, accord-

ing to sources familiar with the sessions:

1) The new movement would be open to a broad range of anti-republican ideologies, from British-style neo-liberals such as Luis Pazos and Agustín Navarro Vázquez, to the old Cristeros such as Celerino Salmeron. As one participant put it, "This is not the time to discuss theological or philosophical questions. It is a quarter to midnight and what we need is an organization."

2) To the extent there was an ideological framework, it would be "Solidarist" in the mold of the Solidarnosc movement in Poland.

3) The group would begin publication of a weekly journal, originally to circulate underground.

4) The mass organizing phase of the movement would be timed to intersect the next ratchet of economic collapse, predicted for early in 1983.

5) A coordinating bureau on intelligence and counterintelligence, to profile "all the potential enemies of the movement" would be set up; and

6) establishment of an "international umbrella."

Some of these international contacts are reportedly underway, with the Christian Socialist Union of Franz-Josef Strauss, the neo-Gaullist RPR of Chirac, and the fascist MSI of Italy's Giorgio Almirante. The contacts have been made through Mrs. Hildegard Knoderer de Dueñas, a Mexican based in Bonn. Knoderer is the daughter of a German Nazi and a Cristero leader from Colima.

The next step was to contact the current leaders of the MURO and the rival paramilitary group, the Tecos. The Tecos are based in the Universidad Autonoma de Guadalajara and have large land holdings in the state of Colima. The Tecos are part of the World Anti-Communist League, and head its affiliate, the Mexican Anti-Communist Federation (Femaco). They also work with the Movimiento Nacional de Integridad Cívica, based on the magazine *Integridad*, which is in turn linked to the "Tradition, Family and Property" (TFP) sponsored by the former royal house of Brazil and Portugal, the Braganzas.

The MURO and Teco organizations have a long history of rivalry. Salvador Borrego and Muricio Gómez Mayorga are reportedly in charge of sorting out differences. An initial territorial agreement places Puebla and Mexico City under MURO jurisdiction and the area from Guadalajara north, under the Tecos.

Strategy of chaos

Similar to that of their counterparts in Italy, the strategy of the group is chaos. Said one of the leaders in a recent private meeting, "The best thing that can happen is chaos . . . because out of chaos, reaction can be born."

Recent events show that "break-out" into mass actions is now proceeding on a number of fronts;

1) Large-scale speaking tours. José Angel Conchello, one of the more active organizers, has been traveling throughout

the country since Sept. 1 to build "a civic upsurge" against the government. In each locale, he has coordinated campaigns of rumors and anonymous leaflets attacking the government.

2) Terrorist mobilization. In addition to the domestic capabilities of the MURO and Teco groups, there are reports of training camps set up for Mexicans in California under the supervision of the Cuban exile terrorist group, Alpha 66. Octavio Elizalde, leader of the Teco-linked "National Movement of Civic Integrity" traveled to Argentina and Chile late last year to bring back to Mexico what he likes to call "the hot war." Elizalde met with fascist leaders at the University of Chillán, south of Santiago. He would get military training in either Chile or Mexico if he pulled together a group of recruits, he was told, and according to *EIR* sources, he is now recruiting that group.

3) Religious fanaticism. The old Cristero center of León, in the Bajío basin, the site of a joint mobilization of Blue Army of Fatima fanatics and cults based on worship of the Virgin of Guadalupe, Mexico's patron saint. A giant prayer meeting in the central square of León took place the second week of October, and was publicized in paid advertisements in the national press.

4) Large-scale meetings of businessmen, housewives, and students. Meetings of this sort, drawing up to 2,000 people each according to press reports, took place under the theme "Mexico and its liberties" in Monterrey Oct. 8, Puebla Oct. 12, and Torreón, Oct. 14. The Torreón conclave was pulled together by the networks of Edmundo Gurza, one of the de la Isla group. Major sections of broader business associations, such as the Mexican Confederation of Employers (Coparmex) and the Businessmen's Coordinating Council (CCE) were activated for this stage.

The slogans at the three meetings were identical: an end to "totalitarianism and socialism"; return of the banks to their previous owners; a return to "Mexican values"; elimination of the nationalist faction in the government.

Luis Pazos, the Friedmanite economist, told a press conference in Chihuahua that businessmen must "go from being spectators to being actors;" the way Edmundo Gurza's brother put it was that "that there is still time to close ranks and rescue our liberties."

The old Cristero and Nazi Gómez Mayorga, gave his fascist trumpet call on the pages of *Impacto*: "What is needed at this moment, desperately, is an organization, an ordering, of all those who agree that we must unify around a single ideal: Mexico. The nucleos of the Movement National Integration form this ordering. The nucleos are based on the human person and his fundamental and primary surrounding, the family. The family is the cement of our movement." Integralism is "not a political party," he continued, it is in favor of neither communism nor materialistic capitalism. "We will be the more radical, the closer we see the presence of the communist menace."

NATO accelerates militarization of the Middle East—with Arab funds

by Judith Wyer and Nancy Coker

When Saudi Arabian financier Adnan Khashoggi visited Turkey this autumn, he was greeted by top Turkish officials not as the notorious gun-runner that he is so widely known to be, but as a moneybags to salvage Turkey's economy and finance an upgrading of the Turkish military. During his Oct. 3-5 visit, Khashoggi conferred with members of Turkey's general staff just two days before the arrival of U.S. Deputy Defense Secretary Richard Perle, and one week prior to the arrival of Defense Deputy Secretary Frank Carlucci and CIA chief William Casey.

The order of business for all four was the same: building up Turkey's military capability as the centerpiece of a scheme to extend NATO into the Middle East and eastern Mediterranean, and make Turkey the site of a regional arms industry, partly controlled by Mideast financiers.

Since the convening of a secretive NATO foreign minister's meeting in late September in Canada, plans to extend NATO into the developing sector beginning with the number-one target area, the Middle East, have dramatically intensified. Turkey, Egypt, and Pakistan—the only states with large standing armies in the region—have been pegged as the foundation of this out-of-area NATO strategy. Lebanon, as well, is now being integrated into this scheme both by virtue of the deployment of NATO forces as peacekeepers, including U.S. Marines, and through efforts being negotiated to triple and heavily rearm the Lebanese Army.

Though NATO is believed to be an alliance to protect vital western interests, in this case Mideast oil, extending NATO out-of-area is not a military policy but a financial one. The bid to extend NATO into the region via Turkey is potentially incendiary given its immediate proximity to the southern Soviet border. But in their zeal to bludgeon the developing sector into acquiescing to the International Monetary Fund's drive to extract debt repayments and loot raw materials, the NATO strategists around Kissinger are ignoring this danger.

Khashoggi and Perle met with the Turkish chief of staff

while Carlucci conferred with the Turkish defense minister in between lightning visits to Greece and Lebanon. The only thing made public about Perle's stay in Turkey was a terse announcement that 10 NATO air and naval bases in Turkey were to be upgraded and modernized, and the United States is to set up electronic listening posts including the dispatch of AWACS surveillance aircrafts to Turkey.

Less than 48 hours before Perle arrived there, Khashoggi had boasted to the Turkish *Daily News* that he was most interested in financing a plan to build a jet fighter assembly plant in Turkey. Khashoggi, a well-established dealer in the international arms black market, declared that the plan was contingent on ongoing U.S.-Turkish negotiations.

A similar scheme was leaked to the *Washington Post* in early October for Egypt, whereby the Saudis would foot the bill for a jet fighter assembly plant in Egypt. According to a Washington source, such "offshore" jet fighter plants, for which Northrup and General Dynamics are known to be in the running, would give these firms a free hand at peddling their merchandise, sidestepping all congressional supervision of sales of U.S. jet fighters.

Khashoggi has maintained longstanding ties with the large U.S.-based arms companies going back to the early 1970s when he acted as the middle man in deals between Saudi Arabia and Lockheed. But Khashoggi's free-wheeling business practices and his well-publicized womanizing forced Riyadh to publicly distance itself from the multi-millionaire. Khashoggi has an equally controversial reputation within the U.S. defense establishment, making any involvement with him and Defense Department officials a scandal.

Though it is not known what the subject of Carlucci and Casey's visits to Turkey was, Carlucci has a long history of brokering arms deals to the Mideast. In testimony to Italian authorities on the Propaganda-2 Freemasonic Lodge's illegal activities during a recent Italian state inquiry, it was revealed that P-2 chief Licio Gelli, Carlucci, and Henry Kissinger had attempted to set up a sale of jet fighter planes to an unnamed

company. Khashoggi is a close business partner of the same fascist P-2 circles that include New York organized-crime lawyer Roy Cohn.

According to Turkish press sources, Khashoggi and Saudi Defense Minister Sultan will both arrive in Turkey later this month, reportedly to resume negotiations on the proposal and to open talks on closer Saudi-Turkish military cooperation.

Pressuring Egypt

Turkish sources report that the United States is secretly attempting to sponsor an Egypt-Turkish pact as the core of tightened NATO control over the sea lanes of the Red Sea and eastern Mediterranean, with Pakistan playing a mercenary role in the Persian Gulf.

But Egyptian President Hosni Mubarak is known to be quietly resisting such a scheme. Egypt withdrew from the third annual Rapid Deployment Force Bright Star exercises, and sources report that the Cairo regime is disturbed at "strong signals" it is getting from Washington that future military aid will be linked to Egypt's signing a written agreement giving military facilities to the Rapid Deployment Force, as Morocco's King Hassan did earlier this year. Such a demand challenges the foundation of Egyptian nationalism established by the 1952 revolution which even Mubarak's predecessor Anwar Sadat, who was far more cooperative with the RDF, would not agree to.

Pakistan's involvement in the militarization plan is already well advanced. Pakistani forces maintain a presence in 22 Muslim countries including Libya and Saudi Arabia. Without the estimated 10,000 to 15,000 Pakistani mercenaries in Saudi Arabia, the Saudi military would not function. In exchange for billions of dollars in Saudi aid, Pakistan mans vital military posts, and Washington sources say the British-trained Pakistani army will further increase its presence not only in Saudi Arabia but in its sparsely populated neighboring oil-producing states.

Greece is fully cooperating with the NATOization of the region despite the campaign promises of Socialist Prime Minister Andreas Papandreu to expel NATO bases from Greece. In a speech just before last week's local elections, Papandreu affirmed he would not challenge NATO's presence in Greece. Ironically Papandreu justified this stance on the basis of Turkey, Greece's regional adversary, becoming militarily stronger!

According to Greek sources, the Greek central bank governor and other high level Greek officials have recently been in Kuwait discussing financing for unnamed military ventures in Greece. Greece already has a burgeoning arms industry, reportedly privately funded by Arab money.

Lebanon is slated to play a vital role in the military build-up of the region, serving intelligence and communications functions as well as an upgraded ground troop capability. The State Department revealed Oct. 19 that for the past two weeks a team of Pentagon officials was in Lebanon, assessing

the needs of a Lebanese army, which U.S. Defense Secretary Caspar Weinberger has already pledged to provide support in expanding. Lebanese President Amin Gemayel met with Weinberger Oct. 20 to discuss findings of the Pentagon team and recommendations from Carlucci. Sources state that the heightened contact between the Pentagon and Lebanon is, as well, a prelude to the dispatch of thousands of U.S. troops to Lebanon. Amin is asking the United States, Italy and France, the participants in the multinational force now south of Beirut, to increase the force's numbers from the current 4,000 to 20,000.

The oil angle

The increase in the NATO and surrogate NATO presence through Egypt and Pakistan, is part of a British-authored scheme to militarize strategically vital sea lanes through which raw materials such as oil are transported.

Last week, Saudi Oil Minister Zaki Yamani became the first government official of an Arabian peninsular nation to confirm that the six-nation Gulf Cooperation Council is now actively considering building a massive oil pipeline system that will carry oil from Kuwait, Saudi Arabia, the United Arab Emirates and Qatar down the western side of the peninsula to an oil depot in Oman.

The Arab country most integrated into the Rapid Deployment Force apparatus, Oman is run from the top by its long-standing colonial overlord, Great Britain. Over the past two years, the United States has invested millions of dollars in building a base on the Omani-controlled Masirah Island near the mouth of the Persian Gulf, from which this month's Bright Star exercises are to be conducted. A rerouting of oil via the proposed pipeline system would give NATO far greater control over the Gulf oil flows. The British and Pakistani officers run the Omani military and security services.

In October, Iraq had signed an agreement with Turkey, a member of NATO, to expand its oil pipeline (Iraq's only outlet for oil exports due to its war with Iran) to 1 million barrels a day, again effectively putting Iraq's oil exports in the hands of NATO.

At the same time, the Defense Ministers of the Gulf Corporation Council convened in Riyadh where not only was the pipeline scheme discussed, but also the establishment of a joint \$30 billion defense budget for the six states. Saudi Defense Minister Sultan proposed a unified air defense system as the first phase of total military integration of the six.

The GCC, as *EIR* has documented, was created by the British as the basis of a broader regionwide military alliance, sometimes known as the Middle East Treaty Organization (METO). An unstated aspect of the Kissinger crafted Camp David Accords, METO is the center of the Mideast policy of the Shultz State Department. Shultz and his top adviser Kissinger have sold a package to Saudi Arabia: the United States will deliver some kind of Palestinian solution in exchange for Saudi backing for the militarization of the Mideast.

A Roy Cohn link to the Dalla Chiesa murder?

by Marilyn James

On Sept. 3 in Palermo, Sicily Gen. Carlo Alberto Dalla Chiesa, his wife and driver were killed by a team of mafiosi. At the time of his murder, the General was investigating the interconnections among left and right terrorists, the drug trade, the mafia and their political backers. Ironically, his death resulted in the granting of extraordinary investigative powers to his successor, Emmanuele de Francesco; it is generally believed that had Rome given Dalla Chiesa such authority when he had demanded it, he would be alive today.

In early October, the Palermo magistrates ordered the arrest of Nicola Alvaro who they suspect was one of the hitmen, and issued an arrest warrant for fugitive mafia "Don" Benedetto Santapaola, the man believed to have ordered Dalla Chiesa's murder. A fugitive since June 16 when he killed rival mafia "Don" Alfio Ferlito and his three police escorts, Alvaro, while maintaining his innocence, has remained faithful to the mafia code of silence; however, Italian authorities believe the General's hit was linked to ongoing gang warfare to wrest control of the lucrative heroin and cocaine trade from the "old mafia." The emerging *nuove famiglie* (new families) encompass the *cosche* of Palermo, Catania, Reggio Calabria and Naples. The Neapolitan group is collectively known as the Camorra, while the southern Italian clans are called *n' Drangheta*.

According to the Oct. 7 Italian daily *La Repubblica*, Alvaro is believed to function as a "pa mafioso" promoting peace among the *cosche* through a refined division of labor. The *n' Drangheta* has since the early 1970s had a monopoly on the "Anonima Sequestri" or kidnapping machine, which they share with the terrorists, splitting the profits 50-50. *Investigative Leads* investigators in Italy report that the "nuove famiglie" have a lock on the cocaine trade and direct access to the poppy fields of the Mideast's "Golden Crescent." The latter may be a lead as to the point of supply for the Russian-made Kalaschnikov weapons.

Interrogations of Alvaro provided evidence of a strong relationship—by blood and marriage—between the *nuove famiglie* and the Montreal, Canada crime syndicate led by "Don" Vincent Cotroni and Paola Violi.

The Cotroni-Violi group along with the Meyer Lansky-controlled Santo Trafficante gang in Florida were the main entry points for the "French Connection." According to authorities in Quebec, who worked with the Crime Commission

there, the Cotroni-Violi group is now a "protectorate" of the New York-New Jersey-based Gambino family.

Since the early 1970s, the Gambino clan has made a systematic bid for control of the illegal drug trade. Sicilian Tommaso Buscetta, a leading *nuove famiglie* man, is believed to have engineered the takeover of the South American end of the French Connection that was run by Auguste Ricord. In 1972 Buscetta and Carlo Zippo, another Gambino emissary, discussed "reorganization" with members of the Ricord gang in Rio. By November, all the Ricord gang were behind bars. Similarly, a recent series of major heroin busts in Milan and Palermo has revealed that leading chemists from the old French connection are now working for the Gambinos. The murders of mafia "Dons" Carmine Galante and Angelo Bruno left the Gambino family in a strong position vis-à-vis Atlantic City, N.J. casinos and the multi-billion dollar heroin trade.

The Gambino family appears to have been chosen as the pointmen in the United States because of their political connections to the Sicilian separatist movement headed by Michele Papa, based in Catania, Sicily. Papa, a central figure in the "Billygate" scandal, was also the liaison between the Separatists and their key funder, Libyan dictator Qaddafi. This association provided the mafia access to both left and right wing terrorist organizations, controlled by the Black or Fascist International, such as the Red Brigades and the Ordine Nuovo. Ordine Nuovo terrorist Pierluigi Pagliai, recently arrested in Bolivia [story, page 8], apparently plugged into the South American network built in 1972 by Buscetta and Zippo, which is a crucial supply source in the cocaine pipeline.

The Gambinos' charmed existence in the U.S.—despite drug arrests and state investigations—is no doubt linked to their choice of attorney: Roy Marcus Cohn. Cohn is a close friend of the current U.S. Ambassador to Italy, Maxwell Rabb, who was involved in numerous businesses linked to Meyer Lansky. Well informed sources have stated that Cohn and mobster Joe Adonis (né Giuseppe Doto) were very close at one time and jointly used the services of the largest Italian daily in the United States, *Il Progresso*. The paper, founded by Generoso Pope, Sr., was heavily subsidized by ex-mafia "Don" Frank Costello. In spring 1981, the paper was bought into by Mario Pirri and his partner Count Carlo Caracciolo. Pirri allegedly was a go-between for the hashish trafficking Brotherhood of Eternal Love. Count Caracciolo owns the weekly, *L'Espresso*, cited in the recent Moro murder trial for maintaining suspiciously close relations with terrorists.

In October, Cohn and Rabb were indicated as participants in operations against the founding conference of the Club of Life in Rome, including the stripping of security for the Club's founders Lyndon and Helga LaRouche [story, page 28]. Gambino assets Anthony Doto (son of Giuseppe) and Dino DiMarco of the Montreal gang were cited by international security experts as possible hitmen against the LaRouches.

Profile of Central Europe's oligarchy: the Wittgenstein family

by Vivian Freyre Zoakos, European Editor

The *Executive Intelligence Review* has been informing its readers for some time that, appearances notwithstanding, the world is run by an international oligarchy composed at the highest levels of families who trace their noble or semi-noble identity back through generations. These families, who share in common a racist, feudal outlook, control enormous financial and cultural (ideological) power which affords them a level of leverage over international affairs that is a substantial multiple of the actual, concrete power they can call their own.

I recently had the opportunity, while on a trip to West Germany, to meet with representatives of the peculiar species known as "the hereditary oligarchy". Among them were the two Princes zu Sayn-Wittgenstein, a family of the South-Central State of Hesse that is one of the powers behind the German non-ferrous metals market. The Wittgenstein brothers, Franz and Casimir, are conveniently paradigmatic of the unsavory, not to say criminal, world view that uniquely distinguishes that race apart, the Black Guelphs.

Casimir zu Sayn-Wittgenstein, president of the Frankfurt-based Metallgesellschaft metals empire, who drips with contempt for all those "mealy-mouthed politicians" who feel constrained to talk only of the "developing" sector and the present "recession", proudly eschews such euphemisms. He speaks instead of his plans for the "underdeveloped" sector in this period of unabated "depression," once the government of Chancellor Helmut Schmidt would be replaced by the more oligarchically controlled regime of Chancellor Helmut Kohl. With self-satisfaction, the Prince explained that he was very sorry but "the little brown and yellow" people are going to have to cut their consumption drastically, and go through some very rough times. "It's an objective problem," he explained, as he happily ran through a list of countries on his hit list. "Our little brown and yellow brothers are taking loans—often in bad faith—without any intention of paying them back. We can't keep supporting them forever. Even some of our white brothers are going to have to suffer."

Perhaps even more telling are the endless anecdotes which identify the Sayn-Wittgensteins' conviction that only mem-

bers of their own class are actual members of the human species, separate from those not "of family," who occupy a rung on the evolutionary ladder somewhat higher than a monkey's but distinctly lower than their own.

One of my first questions to Prince Franz, the elder brother, was whether his family were related to that of the famous philosopher Ludwig Wittgenstein, the protégé of Bertrand Russell. Prince Franz, who currently lives in Munich as a consultant to the British auction house and intelligence operation Sotheby's, sipped his champagne and offhandedly responded: "Of course not. That Wittgenstein fellow was a Jew."

He explained: the Emperor once had the practice of honoring the great noble houses by giving them "little Jews" as gifts. At a certain point, a decree was passed forcing these Jews to exchange their offensive Jewish names for Christian ones. Most of them responded by adopting the family names of their noble masters as their own. Such was the case of the family of the philosopher Wittgenstein; they were the Sayn-Wittgenstein family Jews.

Prince Franz, a tall, aging, polished, and graceful man in his early seventies, sprinkles his conversation with comments of this type. Typical was his characterization of one of the oligarchy's most faithful instruments, the governor of Bavaria, Franz-Josef Strauss, who is also the "power behind the throne" behind the new Kohl government of West Germany. The Prince warmly praised Strauss as "a brilliant man, my dear. So educated." Then, leaning over wickedly: "A little butcher's boy, though, you know. He looks like it, too!"

The Hapsburgs *redux*

By this time I was not surprised when Franz proudly stated that his family had strongly backed Hjalmar Schacht, the 1930s German Reichsbank chief whose fascist economic policies set the pace for the Hitler regime. Of Hitler himself, the oligarchy's instrument, Franz was predictably contemptuous—not unlike his attitude toward Franz-Josef Strauss. The foundation of his politics also came through in his description of the loyally monarchical Bavarian people, who

“wept openly in the streets” when Queen Elizabeth last paid a visit, “from sheer sadness that they too could not have their own monarch.” His hopes for Europe’s future were unambiguously feudal. “Otto von Hapsburg would make a great regent of Germany, or a great president of a United Europe.”

Brother Casimir, who appears the more active manipulator of the two, had himself elected to the European Parliament (alongside von Hapsburg) to work toward just this aim. He is also president of the International Red Cross, which far from its “helping hand” image, is a long-established oligarchical intelligence service. Casimir, now 65 years old, will retire from the powerful Metallgesellschaft corporation this year to devote himself to such endeavors.

Prince Casimir expressed strong agreement with the policies of the Bank for International Settlements (the oligarchic central bank of European central banks) on the issue of establishing a unified European currency. Once again railing against “those damned politicians” (he is fond of well-mannered curses), he said, “My stepfather, the son of the founder of the Metallgesellschaft, told them when the European Economic Community was first established that if they didn’t fight for the principle of a European currency, the fight for European unity would be lost from the outset. But they didn’t listen to him. If we could get a unified currency, the rest would be easy. . . .”

The Metallgesellschaft story

Prince Casimir’s step-father was Richard Merton, son of Wilhelm Merton, who founded the Metallgesellschaft in Frankfurt in 1881. It rapidly became Germany’s largest metals manufacturing company and a world-scale giant; as of 1980, it was estimated to be a \$3 billion company.

Merton, the stepfather, was a Jew. He had, however, the saving grace from the oligarchs’ point of view of also being a multimillionaire, and so, like the Warburgs and Rothschilds, was allowed entrée into the upper echelons of the nobility.

Metallgesellschaft was founded at about the same time that the firm of M. M. Warburg had decided to enter the metals market with the creation of the Hamburg Metals Exchange. The Warburgs, who entered the metals business in conjunction with the Oppenheims’ diamond interests and the Rothschilds, had an interest in Metallgesellschaft from the first. Max Warburg (b. 1867), who was trained by the London Rothschilds, claimed in his biography that he had been the hand behind the post-World War I reorganization of Metallgesellschaft. Warburg, together with the notorious von Siemens, had been among the top advisers of Hjalmar Schacht. Siemens is a 10 percent shareholder of Metallgesellschaft, while the Warburgs owned a “significant portion” by at least the post World War I period.

James Warburg, who worked under British agent Allen Dulles as one of his Office of Strategic Services assistants during World War II, was instrumental in the 1963 founding of the Washington, D.C.-based Institute for Policy Studies

(IPS), and a close collaborator of Aldous Huxley. The IPS has been the central U.S. think tank and laboratory for the “New Left” terrorist movement, while Huxley, working with U.S. naval intelligence, designed the first LSD experiments that developed the techniques for mass subversion of youth populations who were then funneled into the New Left terrorist apparatus. The von Siemens family, working through the Siemens Foundation, has performed similar functions in Germany, although not limited to the left-wing side of the spectrum. The entire lot is one big happy family.

The I. G. Farben connection

Metallgesellschaft can also be credited as being among the founders of one German corporation that gained justifiable notoriety during the Hitler period: I. G. Farben. Originally, the German chemicals industry was the world pacesetter in the development of new technologies, such as synthetic fibers and other products, which rendered it as one of the best expressions of true capitalism. It went through a process of cartelization, however, in the course of which it was taken over at the top by oligarchic instruments to culminate in the I. G. Farben cartel around 1924.

It was in fact I. G. Farben which built Auschwitz, on the basis of a deal to provide cheap labor for the Hitler regime, whose Schachtian economic policies necessitated a process of self-cannibalization of its labor force in order to survive. At the time that I. G. Farben built Auschwitz, its president was Hermann Schmitz, who from 1906 had been picked up and trained in the offices of the Metallgesellschaft. It was Schmitz who negotiated the Auschwitz arrangements with the SS, including the kickbacks to top SS officers in exchange for their service of delivering the slave laborers to Auschwitz.

Schmitz began his career in 1906 as a clerk at Metallgesellschaft, where he caught the eye of founder Wilhelm Merton. Before he was 30 years old, he was put in charge of the company’s foreign operations, launching in 1929 the American I. G. Chemical Company, a U.S. subsidiary of Metallgesellschaft, with Paul M. Warburg on its board.

Schmitz joined I. G. Farben as part of a consolidation deal arranged by Richard Merton (stepfather of the Princes Wittgenstein) and the then President of BASF, Bosch. BASF was the chemicals firm that was to become the largest component of I. G. Farben after the process of cartelization of the chemicals industry was completed. The deal following on the heels of the Versailles Peace Conference at the end of World War I. Merton and Bosch had both attended to defend the interests of the metals and chemicals industries. Merton joined the board of BASF, and Bosch that of Metallgesellschaft. Schmitz was switched by Merton to be a financial officer for BASF. When I. G. Farben was created, Bosch became its first president, turning the job over to Schmitz in 1938.

After World War II, a portion of the I. G. Farben board was put on trial at Nuremberg and later hanged. Metallgesellschaft was left untouched.

The assassination threat to Mubarak

Egypt's President is not blind to the Iran-style insurrectionary plans of the Muslim Brotherhood and BBC.

The Anglo-American press marked the first year of the regime of Egyptian President Hosni Mubarak with a wave of crisis-mongering propaganda which is creating the climate in which the Egyptian leader could be assassinated.

The British Broadcasting Corporation (BBC) and the Public Broadcasting Service, its U.S. sister, spearheaded the transatlantic press campaign with simultaneous showings of a program on Egypt after the Oct. 6, 1981 slaying of Anwar Sadat. The program portrayed Mubarak as weak, unable to solve Egypt's economic ills, and threatened by the same Muslim Brotherhood that murdered his predecessor.

The BBC, an arm of British intelligence, was repeatedly named by the Shah of Iran as provoking dissent against his regime through its pro-Khomeini Persian-language broadcasts during Iran's so-called Islamic revolution.

The Mubarak regime has become a target of the same Anglo-American axis which overthrew the Shah and is pushing for the extension of NATO into the Mideast as the first phase of the recolonization of the developing sector (see article page 44). Egypt, with its large standing army, is viewed in Washington and London as a crucial NATO surrogate.

Mubarak's decision that Egyptian forces would not participate in the third annual Bright Star RDF exercises in October, however, is the strongest of a number of signals he has sent to Washington that he intends to return

Egypt to the Non-aligned movement and resume the fight for a New World Economic Order as the only means available to him of rescuing Egypt from its economic perils. (One secret proviso of the Kissinger-crafted Camp David accords, which Egypt signed with Israel, is that Egypt act as a regional military gendarme—while its economy is transformed into a Hong Kong through the "Open Door" policy Kissinger and David Rockefeller sold to Sadat.

By affirming his commitment to return to the ranks of the Non-aligned Movement of developing states, Mubarak is indicating his unwillingness to continue on the disastrous policy course set by Sadat. After Sadat signed the Camp David agreement, Egypt was ostracized by the Non-aligned Movement.

According to the Indian *Patriot* of Sept. 1, Mubarak has privately assured the developing sector that Egypt will not become a military puppet of either superpower. In late August Mubarak deployed his closest political advisor, Osama al-Baz, to Mexico, a move thought to be part of Egypt's efforts to resume a leadership role within the developing world's fight for more equitable and productive North-South relations.

Egyptian diplomatic sources in Europe confirm that Egypt is carefully watching the ongoing life or death fight of Ibero-America against the International Monetary Fund over the issue of debt repayment. According to these sources, Mubarak and his circle want

to return to the nationalist model established by Gamal Abdul Nasser. Nasser, along with India's Nehru, was one of the post-World War II leaders who attempted to undo the ravages which resulted from British colonialism.

For this reason the same strategist that plotted Khomeini's Islamic revolution to eliminate Iran's industrial-development policy are working on the blueprints of an Egyptian destabilization.

A University of Chicago Mideast buff who worked with the Carter administration in backing Khomeini is now profiling the Egyptian military, looking for Mubarak's likely replacement following a military coup. He and numerous other scenarists in the United States "predict" that a bloody Muslim Brotherhood uprising, triggered by Egypt's economic bind, will "give the Egyptian army the opportunity to move" against Mubarak. One source volunteered that "certain factions of the army want popular discontent now in order to make their own show of force, not against the Islamic fundamentalists but against Mubarak."

The opposition to Mubarak is reported to be forming a Commission on Economic Abuse, which these sources say could be the vehicle for a Brotherhood uprising. Corruption charges are "exactly what the Brotherhood needs" to bring the masses into the streets.

On Oct. 8 the *Washington Post* revived a scandal of an illegal military payoff involving members of Mubarak's inner circle which sources say is rocking Cairo. A Cairo magazine, *Iktasadi*, issued an article in October attacking American researchers in Egypt for "penetrating" Egypt in order to plot a destabilization—a clear sign that Mubarak knows what he is up against.

Labor puts the IMF in check

Labor wage increase demands are called "an ace" in government efforts to resist IMF austerity.

Too many ominous events are coming to a head and too fast," wrote the Mexico City-based English-language newspaper *The News* in an editorial Oct. 19. The daily pointed to a mid-October call by labor boss Fidel Velásquez for a general strike Nov. 1 as the crucial factor in a coming final showdown between the López Portillo government and the International Monetary Fund.

Velásquez's powerful CTM labor confederation and several independent unions are now demanding a 50 percent wage increase—a figure much higher than the IMF is likely to accept as a precondition for a \$4.0 billion dollars financial package now being negotiated with the López Portillo administration.

Velásquez's move has been widely deplored here by proponents of a deal with the IMF such as Mont Pelerin Society spokesman José Pérez Stuart. In a column for the daily *Excelsior*, Pérez Stuart complained that "while Fidel launched the strike threat, the government was telling the IMF that it would not accept salary restrictions because of the pressure of the labor movement hanging over it."

In an interview with the magazine *Proceso* in October, Velásquez in turn explained that if labor leaders don't lead the mobilization for a salary increase, "we will be bypassed by the workers." Labor seems to be determined to get a hike which at least begins to approach the soaring 90 percent annual inflation rate.

The labor-government anti-IMF "conspiracy" was also seen earlier in

October when López Portillo sent a decree to the Senate making a 30 percent increase in the minimum salary obligatory for all businesses. The decree got Senate approval Oct. 20.

The News, the English-language outlet of U.S. factions influenced by British intelligence channels and a loyal IMF fan, nervously pointed out that labor's fighting mood could strengthen López Portillo's hand to make further dramatic anti-austerity measures before leaving the presidential chair Dec. 1. Images of López Portillo giving "surprises" such as the Sept. 1 nationalization of the private banks, now haunt monetarist circles such as *The News* and Pérez Stuart. Fresh in their minds is President Luís Echeverría's 1976 expropriation, days before leaving office, of vast latifundia.

These circles reluctantly admit that Velásquez's call for a general strike is a "master move" to link up Mexico with moves by other Ibero-American countries to jointly renegotiate their foreign debt.

According to Pérez Stuart, the head of the PRI ruling party, Pedro Ojeda Paullada, an ally of Velásquez' from the 1976-1981 period when Ojeda was labor minister, was sent to coordinate this renegotiation strategy with other Ibero-American leaders at the Oct. 10 presidential inauguration of Hernan Siles Zuazo in Bolivia.

Timed with Velásquez's strike call, Ojeda's mission was "to avoid an accord with the IMF and instead look for a global one, in which all the continent's debtor governments will par-

ticipate," declared Pérez Stuart. Days later, Siles Zuazo called on the presidents of the Andean Pact countries to meet early in November to jointly renegotiate their countries' debt.

Beyond the Nov. 1 general strike deadline, political circles here point to Nov. 20, the anniversary of Mexico's 1910 revolution as the day when nationalist forces around López Portillo could make a decisive anti-IMF move. That is three days before the Nov. 23 expiration of Mexico's 90-day deferral of payments of principal on its \$80 billion foreign debt agreed upon by the country's creditors in late August. Some of these bankers are saying that if an IMF agreement has not been signed by that time, they will demand that Mexico pay up.

However, with no credits coming in, the same sources report, this country will be unable to pay. The stage, then, is set for a possible fullfledged debt moratorium, perhaps in coordination with other debtors in the continent.

Bankers in London are already sounding the alarm. Mexico seems to be "drawing out" negotiations in order to get concessions, said the British *Financial Times* Oct. 16. Private banks are beginning to feel "acute concern."

López Portillo, meanwhile, seems to be ready to give some further surprises in the last days of his administration. In statements and speeches around the country recently, he has made clear that he will ensure Mexico's economic and political sovereignty in any negotiations, be they with the IMF or with the private banks.

At a meeting with businessmen in the state of San Luis Potosí Oct. 16, the President pointed out that "even though there is little time left," his government will "take the decisions that we can still take to resolve the problems that still confront us."

International Intelligence

Cult head Moon linked to Freemasonic murder

The Unification Church of Sun Myung Moon was instrumental in maintaining the death-squad and cocaine-trafficking networks that dominated Bolivia from 1980 until President Siles Zuazo's crackdown in mid-October, according to evidence being gathered by authorities of the new democratic Bolivian government. While scores of torturers and drug-runners are fleeing the country, extensive evidence left behind is providing lists of names, financial channels, and safehouses to the investigators in the government of the new president, says an Oct. 14 report in the Caracas, Venezuela daily *El Nacional*. According to the report, the "cocaine group" crowd around ousted dictator García Meza was run by Argentine operatives of the Italy-centered Propaganda-2 Freemasonic lodge, with the participation of members of the Unification Church in Bolivia and Argentina.

Bangladesh, India seek long-term water solution

Bangladesh President Ershad and Indian Prime Minister Indira Gandhi concluded their October summit meeting with a number of hopeful results, including an agreement to find the optimum means by which to augment to flow of the Ganges River, to the benefit of both nations' agricultural and flood-control enterprises.

The two countries terminated the 1977 Farakka water-sharing agreement, due to expire on Nov. 4, and approved a short-term arrangement with the proviso that a long-term solution be found within 18 months.

The joint communiqué following the talks pointed out that the 1977 Farakka agreement had "not proved suitable for finding a satisfactory and durable solution," and that this was based on the "actual experience of the two sides." Hence, "fresh efforts were necessary to arrive at such a solution."

The two leaders directed their experts to expedite studies of economic and technical feasibility of the Ganges-Brahmaputra link canal—although this project was not named in the communiqué—as has been proposed by India, as well as construction of reservoirs at the upper reaches of the Ganges with the involvement of Nepal, advocated by Bangladesh.

The Joint Economic Commission, according to terms of the agreement, will explore the possibility of promoting and expanding trade and establishing industrial ventures through joint collaboration between the two countries, and other developing nations.

Sri Lanka dictator imposes emergency

Following his close victory in the presidential election on Oct. 20, United National Party leader President Jayewardene has ordered an immediate imposition of emergency rule to crush opposition protest over the administration's alleged election frauds.

Jayewardene, who has close personal links with the Socialist International and South African racists, steamrolled a constitutional amendment this summer to hold the election a year and half before it was scheduled. Jayewardene was worried about his declining popularity, and the results of his economic boondoggles, which have already started to backfire.

Since the present administration took power in 1977, the Sri Lankan economy has been under the complete control of World Bank-IMF monetarists. Sri Lanka was turned into an imitation of Hong Kong and Singapore, with free trade zones all along the coastlines. However, the economic boomlet went bust with the world depression, and the country is heading toward disaster.

Jayewardene stripped former premier Sirimavo Bandaranaike of her civil rights in 1980, so that she could not politically oppose him. In recent days his efforts to fragment the opposition have caused riots between the Tamils and Sinhalese, and be-

tween the Sinhalese and Moslems.

During this election campaign, Jayewardene reportedly aligned himself with the Maoist party to defeat Mrs. Bandaranaike's Sri Lanka Freedom Party candidate, Hector Kobbekaduwa. But the election results clearly show that the opposition rallied behind Kobbekaduwa. Jayewardene has sent his army into the streets to silence the protesters.

Open battle for Japanese premiership

An "absolute war" has broken out in the ruling Liberal Democratic Party (LDP) of Japan as negotiations among the party elders failed to come up with a choice for the new Prime Minister. As a result, for the first time in LDP history, there will be an open primary Nov. 23 among the one million registered LDP members. One of the three top vote-getters in this primary will then be chosen by a Nov. 25 convention of the LDP members of the Diet as the new President of the LDP, who automatically becomes Japan's new Prime Minister. The four candidates running in the primary are Toshio Komoto, Yasuhiro Nakasone, Shintaro Abe and Ichiro Nakagawa.

Former Prime Minister Takeo Fukuda, just-resigned Prime Minister Zenko Suzuki, and LDP Secretary-General Susumu Nikkaido met late into the wee hours of Saturday morning to try to come up with a compromise choice in order to avoid the primary, which gives the party elders less control over the selection. However, a compromise proved impossible.

Former Prime Minister Kakuei Tanaka, the chief defendant in the Lockheed bribery scandal, was pushing Nakasone. Fukuda, however, argued that in this time of economic and political crisis Japan needed real leadership, and could not afford yet another Prime Minister controlled by Tanaka. Suzuki and his predecessor, Masayoshi Ohira, owed their posts to Tanaka's support. Fukuda, who was backing Shintaro Abe, said he would like to avoid the primary but would

Briefly

accept a primary rather than allow Tanaka to continue his rule by proxy.

A Tokyo source said the situation in the LDP was "an absolute war, the most bitter situation seen in years with no one willing to compromise." A week of negotiation failed to produce a compromise choice by the Oct. 22 deadline, thus forcing the primary.

Tokyo sources say that Komoto, an advocate of high-growth economics, and Nakasone, a fiscal austerity advocate, are regarded as the top vote-getters. However, they warn that the primary process is unprecedented and the LDP Diet convention is under no legal obligation to choose the very top voter-getter. Because of this, no reliable prediction can be made of the likely winner at this time.

Israel-Soviet Union to renew relations?

When asked by reporters during his appearance at the United Nations General Assembly in early October if he had met with Soviet Foreign Minister Andrei Gromyko, Israeli Foreign Minister Yitzhak Shamir responded that Israel "wanted to resume diplomatic relations with the Soviet Union and was negotiating to achieve this." According to a Washington-based intelligence source, Shamir, who met with Gromyko at the U.N. two years ago, "holds the Soviet portfolio" and is the center of efforts which leading Israelis say will result in an entente with not only Moscow but Eastern Europe. The source reports that very quietly, working through channels via Romania, the only Warsaw Pact country with relations with Israel, the Begin government is moving to open relations with certain Eastern European states, probably Hungary and then Bulgaria.

According to the London *Observer* of Oct. 18, Shamir delivered a speech in Jerusalem last month which called upon the Kremlin to "draw the conclusion from Israel's victory in Lebanon and admit that the boycott of Israel was a mistake." The *Observer* cites Israeli sources who say that a

rapprochement between Israel and the U.S.S.R. has been encouraged by reports from Moscow that the Soviet leadership is ready to re-establish diplomatic ties.

Israel is at the same time moving to firm up closer economic ties with China. Last month Israel began to deliver on a military technology agreement with China, which calls for the construction of tanks. The agreement which was signed a year ago is expected to net Israel billions of dollars in hard currency, as Israel assists China in high-technology ventures in the electronics and military field.

Labor provocations batter India

As Sikh extremism within Punjab takes a violent turn, other destabilizing forces have become extremely active in various provinces in India.

In Bombay, a 9-month old textile mill strike is immiserating the workers and allowing the provocateurs to breed violence that threatens to cripple the city. Behind the textile strikes is a freewheeling leader, Datta Samant, whose terrorist tendencies have been well-documented over this period. Samant, a favorite of the western press, is creating an atmosphere of terror which will force industries within Bombay to seek relocation.

Samant is now actively backed by Socialist International member George Fernandes. In the seventies Fernandes was accused of blowing up railroads, and other terrorist schemes that were part of the plan to paralyze the Indian government. It was this destabilization that ultimately resulted in the emergency measures of 1975. Fernandes is now once again fomenting trouble, at the moment within the Bombay Electric Supply and Transport (BEST) enterprise, by calling for an indefinite strike.

More incidents of violence have meanwhile been reported in Bombay. The fight between rival unions is breaking down law and order. According to a BEST spokesman, buses have been stoned by Fernandes's goons on at least 17 occasions.

● **U.S. ATTORNEY** General William French Smith will be visiting Pakistan. He says they have a terrible dope problem there, but dictator Zia ul-Haq is taking care of it. As *EIR* has documented, Zia and his generals run the lucrative drug trade in Pakistan.

● **BILL BUCKLEY** will be off to Munich in January, to re-wire Radio Free Europe.

● **FREEDOM HOUSE** and the American Enterprise Institute are sending representatives to Guatemala to make a first-hand inspection of the handiwork of Gen. Efraín Rios Montt, the "born-again" dictator who has pledged to kill off the guerrillas opposing his regime. *EIR* is preparing its own dossier on Rios Montt and his influential friends in the United States, parts of which will appear in an upcoming issue.

● **HASHISH**, of the government-tested variety, went on sale at a youth center in Enschede, Holland, near the West German border. The idea, say local authorities, is to keep youth from moving on to "harder stuff." Holland decriminalized possession of small amounts of cannabis products in 1976, and gave local authorities the power to sanction small-time selling.

● **ALFONSO** García Robles, received the 1982 Nobel Prize for his work in drafting and pushing the Tlatelolco Treaty, which established Ibero-America as a nuclear-arms-free zone. His statements upon receiving the award stressed how important this recognition is for today's nuclear freeze movement, which is exactly why he was given the award.

● **GABRIEL** García Marquez, the pro-terrorist author of the famous epic about incest, insanity and perpetual civil war, *One Hundred Years of Solitude*, also got a 1982 Nobel.

The truth about New York candidate Lewis Lehrman

by Charles Tate

The campaign of Republican Lewis Lehrman for New York Governor has won a national media forum in the bellwether mid-term elections Nov. 2. Lehrman, an unknown dubbed "Lew who?" during his primary campaign, had by late October spent well in excess of \$10 million to create and project an image as an intellectual leader and successful small businessman with a novel, if conservative, program for economic recovery and fighting crime. Even if he loses the close gubernatorial race, some predict, Lehrman could emerge from the contest as a significant conservative figure.

But there is not one red cent's worth of truth in the multimillion dollar Lehrman fraud. If New Yorkers fall for it, they will have won themselves the distinction of electing the best man to lead the state into an abyss of economic collapse.

Voodoo economics

The economic recovery program Lehrman advertises is, in bald fact, the very same program which plunged the United States into its present depression collapse. Lehrman is among the leading proponents of the now totally discredited "supply side" formula responsible for the Reagan administration's failure to implement an economic policy for development, and which led it to tolerate the economy-wrecking policy of Federal Reserve chief Paul Volcker. Lehrman was so influential in the initial formulation of these disastrous policies that he was considered as a possible Reagan administration Secretary of the Treasury. (Lehrman's bid for this post was entered with his selection of the pseudonym "A. Gallatin," which Lehrman used on his earliest published economic treatises. He thus announced his adherence to the treasonous tradition of the nation's second Treasury Secretary, Albert

Gallatin, who dismantled Alexander Hamilton's First National Bank and treated the United States to its first depression.)

Lehrman's early role in feeding Reagan his disastrous economic policy makes it clear that the central fraud of the Lehrman candidacy is the claim that it represents a referendum on the Reagan administration. Lehrman has attacked what he describes as "Reagonomics," and has marketed his economic theory as a genuine "conservative alternative."

Examination reveals that there is nothing conservative in Lehrman's economic policy, which can be described as a crazy quilt of 19th century British liberalism coupled with Ezra Pound-like diatribes against cheapening the worth of money. Lehrman's proposal for a return to the gold standard, is designed not to create new sources of credit for economic development, but to contract credit even more savagely than Paul Volcker's double-digit interest rates.

For New York, Lehrman has advanced an economic austerity program more savage than any now imposed on a western industrialized economy. The state budget will be balanced, while taxes will be reduced by 40 percent. This will be accomplished, Lehrman admits, by wholesale slashing of social services. Mental hospitals will expel all but the dangerously insane, adding to the menacing glut of "bag people" in communities across the state; school budgets will be slashed, by offering tuition tax-credits explicitly designed to induce parents to send children to private schools and take the burden of paying for education off the state; public employee unions will be made to heel, or face the threat of being busted by an administration devoted to "a free market in labor;" "able-bodied" welfare recipients—including mothers of infants—will be booted off welfare and forced to take any

job they can find—in a labor market now officially at over 10 percent unemployed.

Lehrman's economic plan is so reckless that even the state's ranking Republican leader, State Senator Warren Anderson, has called it "misguided" even at the risk of handing the Democrats a campaign issue. Anderson, known as the Senate's leading financial expert, endorsed Lehrman nonetheless—but pulled a no-show at the press conference called by Lehrman to announce the endorsement. His telegram of apology explained that he had to dedicate a local bridge.

Lehrman, who has no experience in public office at any level, has argued that his brilliant success at the helm of Rite-Aid, the family business, demonstrates his fitness to occupy the statehouse. To hear Lehrman tell it, his business genius was responsible for the meteoric rise of Rite-Aid from a small grocery concern to a multi-million dollar drug-store chain.

But Rite Aid's chairman and chief executive officer, Lehrman's brother-in-law Alex Grass, has disputed Lehrman's account of his business experience, responsibility, and acumen as grossly exaggerated. Lehrman, he points out, was a school boy when the transition from grocery to chain store was made. When he joined company management, it had already passed the crucial million-dollar mark, and it has seen its greatest period of growth after Lehrman left management. The only period of crisis for the company, a 90 percent collapse in the value of its stock, occurred when Lehrman was Rite Aid president.

Although Lehrman's claim that his Rite Aid experience demonstrates special business skill is just another fraud, his relationship with the company does provide insight into what a Lehrman governorship would mean for New York State.

Rite Aid is a notorious anti-union shop. Most of its employees are non-union, and many of these earn less than \$3.60 an hour. Company policy also favors hiring of non-union construction on new stores. Teamster officials have complained bitterly about Rite Aid's use of non-union truckers. Rite Aid has also effectively "red-lined" New York City, refusing to expand there for fear that its workers will be organized by the Health and Hospital Workers Union, Local 1199, itself a low-wage union.

Rite Aid's Chairman Grass is a former trustee of the Pennsylvania Right to Work Foundation. A Teamster leader said of Rite Aid: "They expect slave labor. . . . If they had their way, there would not be any organized labor in America."

Union leaders also claim that Rite Aid engages in illegal spying on its workers to keep them from union organizing, installing two-way mirrors in employee rest rooms and the like. Two years ago, the Attorney General of Maryland sued Rite Aid for "unlawfully forcing job applicants to take lie detector tests." Rite Aid agreed to pay \$57,000 restitution to 22 workers fired for refusing to take the tests.

But an even better image of the Lehrman program can be evoked by a visit to a branch of Rite Aid's \$14 million subsidiary—Sera-Tec Biologicals, a supplier of blood plasma. Here, the unemployed, welfare recipients, minimum-

wage workers like Rite Aid employees, and college students sell their blood for \$7 a pint. (The low price is reportedly the result of a glut in the blood supply, caused by a growing army of donors who need the pittance to get by.)

If Lew Lehrman is given the chance to run New York the way he ran Rite Aid—as he has promised—odds are he will edge out Paul Volcker in public infamy as "the biggest blood-sucker since Dracula."

But probably the most outrageous of the many frauds of Lew Lehrman is his claim to favor a tough anti-crime policy. Of course, Lehrman's budget-slashing mania will not appropriate a single dollar for an expanded war on crime. He has not taken a clear stand in support of the Reagan administration's war on drugs, necessarily the backbone of any real drive to break the back of crime.

Lehrman has instead offered a necrophiliac fixation on the death penalty as a final solution to the problem of crime, and has made his support for death the top issue in his campaign. In a recent interview, Lehrman found a way to smuggle a reavowal of his support for the electric chair into every answer, no matter how irrelevant to the question.

But even more revolting is the law-and-order candidate's association with notorious organized-crime attorney Roy M. Cohn and quondam Meyer Lansky frontman U.S. Ambassador to Italy Maxwell Rabb.

If the duplicity and contrivance of the Lehrman image makes the candidate appear to be a marionette, then with Cohn and Rabb we meet the puppeteers.

Cohn's "closet" backing for Lew Lehrman is reflected in the total control of his campaign by Cohn's haven for organized crime and homosexual degeneracy, the East Side Conservative Club. Club members, and Cohn intimates in the Lehrman campaign include: **William F. Buckley, Jr.**, whose *National Review* first endorsed Lehrman; **Thomas Bolan**, Cohn's law partner and chairman of the club, who functions as a top campaign aide, and **Serfan Maltese**, New York State's Conservative Party chairman.

Most important among East Side Conservative Club members in the creation of the Lehrman fraud, however, is **Maxwell Rabb**, now U.S. Ambassador to Italy. Rabb, himself a protégé of Sen. Henry Cabot Lodge of the Genoese Caboti family which sponsored the United Fruit Company apparatus that brought together the Mazzini mafia with Jewish Mobster Samuel Zemurray, served as Lehrman's mentor. In the 1960s, Rabb served on the board of directors of three corporations later identified as fronts for the Lansky mob: International Airport Hotel Systems; Seven Arts; and American Newspaper Company. Rabb later joined the board of the Lehrman family's Rite Aid, whose chairman, Alex Grass, has been linked with organized crime kingpin, Detroit's Max Fisher. Rabb's most notorious and most recent implication in criminal activity was his interference in attempts to obtain security protection for Lyndon and Helga LaRouche for their scheduled appearance at the Oct. 20-21 founding conference of the Club of Life in Rome.

Brown, Hayden lose ground with voters

by *EIR's* Los Angeles Bureau

With less than two weeks left before the Nov. 2 general election, both Gov. Jerry Brown and Tom Hayden are losing in their respective bids for U.S. Senate and State Assembly. Two other liberal Democratic Congressmen, Ron Dellums and Phil Burton, are in extremely close races, and the bilateral nuclear freeze initiative, Proposition 12, is now considered a toss-up. Thus, despite the fact that Democrats will probably benefit nationally from President Reagan's capitulation to the policies of Federal Reserve Board Chairman Paul A. Volcker, it now appears that at least Brown and Hayden may not succeed in convincing the electorate that their program of "economic democracy" is better than the so-called Reaganomics against which they campaign.

After the June 8 primary election, San Diego Mayor Peter Wilson enjoyed a 22 percent lead over Governor Brown in the U.S. Senate contest. By September, Brown had reduced Wilson's lead through demagogic tactics, and the polls were showing 46 percent for Wilson and 42 percent for Brown. However, a mid-October poll conducted by Mervin Field indicates that Brown may have peaked. The October poll shows Wilson with 46 percent to Brown with 41 percent. Should Wilson win, his victory will in no way amount to a mandate for him personally or for the course currently pursued by President Reagan. Rather, two-thirds of those who say they will vote for Wilson indicate they will be casting a vote against Brown. This includes 21 percent of the Democratic voters in the state.

While Brown has attempted to make the election a referendum on Reaganomics, Wilson may succeed in making it a referendum on Brown.

Wilson has pointed out that shortly after Brown appointed the son of a convicted pornographer, Milton Luros, to the Los Angeles municipal court bench, he received \$9,000 in contributions from the Luros family and attended a fundraiser held in his honor at the elder Luros's home. Brown is now attempting to elevate Michael Luros to the California Superior Court.

Brown's constitutional crisis

Revelations late in October by California State Comptroller Ken Cory, a Democrat running for re-election, are also helping to write the Zen Buddhist Brown's letter of

introduction to the political hereafter. Cory revealed that the state now has an unconstitutional budget deficit of \$230 million. Brown, as the state's chief executive officer, is now heading a government in violation of its own longstanding balanced-budget constitutional provision. Brown must either further cut state programs and increase taxes—neither course of action a reserved ticket to public office in a depression—or reschedule state debt and hit a number of his powerful financial backers in the pocketbook.

Brown's fiscal predicament, which is becoming a primary issue in the last few days of the campaign, may also hurt Hayden. Brown's opponent Wilson is increasingly attacking the Governor for his connections to the liberal-environmentalist Hayden. In a recent debate, Wilson attacked Brown for his appointment of Tom Hayden to two state posts. Brown was forced to say he had "no regrets" about the appointments.

In Tom Hayden's race against Bill Hawkins in the 44th Assembly District (Santa Monica area), Hayden claims to be ahead, but refuses to release poll results. Hawkins, on the other hand, has released professional poll results which show him at 43.3 percent to 38.6 percent for Hayden, with independents drifting from Hayden.

Hayden spent over \$750,000 to barely win his primary election, and is spending a minimum of \$100,000 on TV ads portraying him as having mellowed since his radical days and, according to the *Los Angeles Herald Examiner*, attacking Lyndon LaRouche's political action committee, the National Democratic Policy Committee (NDPC), although not by name.

During the primary election, Will Wertz, the NDPC-backed candidate for U.S. Senate waged an aggressive campaign against both Brown and Hayden, identifying their liberal Democratic faction as fascist-environmentalist. As a result both Brown and Hayden won their respective primaries with only 51 percent of the vote. Neither has since been fully able to win back broad-based popular support.

There are two other significant races in the state. First, Democratic Rep. Ron Dellums, a supporter of marijuana decriminalization, and Global 2000 depopulation, is being challenged by Claude Hutchinson, whose father was formerly Mayor of Berkeley. After redistricting, Dellums's district is somewhat more conservative. Also the Dellums backed slate for City Council lost in recent elections. Hutchinson is the first opponent of Dellums, who has sponsored euthanasia legislation, to be given a chance to win.

The other important congressional race is that of environmentalist Rep. John Burton against Milton Marks. Marks is a liberal Republican; he is a state Senator and formerly a San Francisco county supervisor. Marks was enjoying a 7 percent lead over Burton. One reason for this is a backlash against Burton for his role in the redistricting. Burton heads the California Democratic Congressional delegation and is one of the more powerful Congressmen in Washington.

75% of pensioners set to be robbed

by Lonnie Wolfe

Nearly 75 percent of all Americans currently paying a portion of their income into pension retirement systems will never receive a penny of pension benefits. Instead, these working Americans are contributing tens of billions and possibly hundreds of billions of dollars to so-called pension managers at oligarchical-controlled banks and insurance companies to subsidize the international capital markets.

"This is the biggest hidden tax, the biggest ripoff in the history of banking swindles," said a congressional source who has studied the problem for years.

Despite the mythology about how every American worker will get a pension when he retires, only 50 percent of the employed workforce are covered by pension plans. Of that 50 percent, only 28 percent, or slightly more than one-quarter, will ever see a cent of their pension benefits. This figure represents slightly less than 14 percent of the total workforce.

These figures were confirmed by an official in the United Steelworkers union, though national trade-union leaders have deliberately misled their members on their matter.

This has occurred for two reasons. In some cases, the depression has driven a company into bankruptcy before a worker became eligible for a pension. The pension reform legislation, ERISA, passed in 1974, was ostensibly created to provide partial guarantees for such workers and for workers whose pension systems went bankrupt. The mechanisms such as the Pension Benefits Guarantee Corporation, are already barely able to cope with the current depression-level of insolvencies. Should the financial markets collapse or several major corporations like International Harvester go under, these mechanisms and the workers' so-called pension protection would collapse with them.

But according to congressional sources, ERISA is a cover-up for the real pension fraud. Volcker's depression has drastically changed employment patterns. *Most workers are no longer expected to work continuously at a given place of employment long enough to qualify for pensions.*

Most pension systems vest after 10 to 20 years of continuous employment. According to a spokesman for a subcommittee of the House Select Committee on Aging, in 1980, the average worker could be expected to change employment after 4.5 years on the jobs. Since less than 2 percent of all pension systems have benefits which are portable (i.e., can be carried from one job to the next), the average worker has

no hope for receiving any pension benefits, as he is recycled from one job to another.

Congressional sources report that the rate of recycling—the speed at which workers are forced from one job to the next or onto unemployment lines—is now uniform throughout the economy, affecting the post-industrial service and high technology sectors as well.

Some funds, like the Teamsters and construction-union programs, are multi-employer arrangements which provide uniform portable benefits at any work-place covered by the company. But the depression is causing workers to look for jobs outside their former industries, with most losing all their benefits.

A United Steelworkers official reported that some arrangements are being made to allow laid-off workers who are close to vesting to receive a portion of their benefits when they are forcibly retired by plant showdowns. The same official admitted, however, that most of these workers will not be able to live on these benefits and will have to seek employment outside the industry.

The big scam

At the same time that this recycling attack accelerated, union leaders were convincing their members to accept improvements in pension programs in lieu of wage increases. More and more money was poured into the funds. And as the depression intensified, actuaries were calculating contributions to pension funds according to previous patterns of growth.

What happens to the billions put into pension funds? They are invested on behalf of the large-money-center banks, such as Morgan Guaranty, and insurance companies, such as the Tavistock-linked Prudential Life Assurance Society, by pension portfolio managers operating from the pension departments of major banks. For the most part, union officials have little or no say in where the money goes. For U.S. Steel, the management of these bloated pension fund assets is strictly handled by its investment bankers.

It is hard to put an exact figure on how much has been looted, but congressional sources say the figure could run into the hundreds of billions of dollars.

The swindle is nothing new. It was first used in Nazi Germany by the Paul Volcker of his day, Nazi Economics Minister Hjalmar Schacht. They called their plan "forced savings." Each week, a portion of workers' income was deposited into a Labor Front account at the Reichsbank. Schacht and his confederates then invested the money as they saw fit. German workers had no hope of seeing a cent of their "forced savings." But at least the German workers were informed that their income was being looted. Most Americans, with the help of such tricks as ERISA, still believe that somewhere down the line they are going to receive their pensions. Many have built their lives around this unlikely prospect.

The record of the 97th Congress: failure to counter depression

by Ronald and Susan Kokinda from Washington, D.C.

While various left- and right-wing political action committees and the national media would have 1982's voter judge Congress on the basis of its performance on the budget, taxes, and various social lightning rods, more fundamental issues defined the 97th session—either by commission or omission. *EIR*'s capsule view of what has really occurred over the past two years on critical policy fronts and the controlling forces shaping the congressional environment follows.

Interest rates and the Federal Reserve

Under the tight control of the international financial Malthusians, mediated through the Harriman wing of the Democratic Party, the Democratic leadership in the House and the Senate moved successfully from a strategy of opposition to one of cooptation in their efforts to protect Federal Reserve Board Chairman Paul Volcker from a campaign to bring down interest rates. By mid-1981, populist and moderate Democrats in the House and Senate—including Sens. John Melcher (Mont.), David Boren (Okla.), James Sasser (Tenn.), and Edward Zorinsky (Neb.) and Rep. Jim Wright (Tex.) and Bill Alexander (Ark.)—had introduced resolutions calling on President Reagan to meet with Volcker on bringing down interest rates. Senate Minority Leader Robert Byrd and House Speaker Tip O'Neill refused to mobilize the party behind these resolutions, fearing that they would rightly shift the blame for the impending depression from the hapless Ronald Reagan to the shoulders of Paul Volcker. Neo-liberals such as Sen. Gary Hart (D-Colo.) and Rep. Richard Gephardt (Mo.) openly attacked the approach. Isolated from effective party support, the Melcher resolution came up for a vote only once in 1981-82.

Democrats and Republicans continued to accept the manufactured lie that the budget deficits were the cause, rather than the result, of high interest rates until the 1982 passage of the budget resolution and the tax increase. Then the Fed came under political attack from both parties, and Robert Byrd and House Banking Committee chairman Fernand St. Germain (R.I.) were retooled in September 1982 to "reform the Fed" and introduced the "Balanced Monetary Policy Act of 1982." Packaged as legislation to bring interest rates down, and written in consultation with Volcker, the legislation is a sham which keeps the independence of the Fed intact and

provides a different mechanism through which the Fed can control credit and selective reflation to bail out certain financial institutions. Byrd and St. Germain were joined by Swiss bank flunky Jack Kemp (R-N.Y.), who introduced a Republican version of the same legislation in late September.

The financial oligarchy intend to have the Byrd and Kemp initiatives as the major "interest rate" efforts in the 98th Congress.

Foreign policy

The President's decision to sell the AWACS to Saudi Arabia and the subsequent Congressional vote dominated the foreign-policy activity of Congress in 1981. With presidential prestige still at a high point, and with a core of independent Democrats such as Boren, Mississippi's John Stennis, and Melcher able to buck the Harriman-dictated policy of their party, the Senate upheld the President by an October vote of 52 to 48, and threw a roadblock into the British plans to diminish U.S. influence in the Mideast.

But that flicker of independence, as a body of Congress voted to uphold U.S. interests, was all too brief. Foreign, and primarily British, domination of U.S. international policy was never more manifest than during the Malvinas war, six months after the AWACS vote. As various British bought-and-paid-for Rhodes scholars, London School of Economics graduates, and assorted hangers-on, such as Sens. Bill Bradley (D-N.J.) and John Tower (R-Tex.) and Rep. Stephen Solarz (D-N.Y.), extolled the need to defend our "oldest" ally, Congress fell in line behind the British defiling of the Monroe Doctrine. Only one Senator, Jesse Helms of North Carolina, who cited the Monroe Doctrine, voted against the resolution supporting Great Britain in May, and only a handful of Congressmen, including Eldon Rudd (R-Ariz.) spoke out against the House passage of an identical resolution.

The right-wing agents of the British have not been inactive, and under their influence the independent Helms and his few co-thinkers recently attacked Mexican President López Portillo's nationalistic moves against the international financial oligarchy, stupidly terming those actions a step toward socialism.

Outside of an occasional knee-jerk and generally impotent reaction of conservatives against a "Kissinger agent"

here and there in the administration, Congress has been successfully tamed.

Abscam

National Democratic Policy Committee Advisory Council Chairman Lyndon LaRouche's warning in early 1982 that Senate capitulation to the Abscam railroad of former Sen. Harrison Williams (D-N.Y.) would spell the death knell of that institution, has been proven resoundingly accurate. In opposition to Williams, Ethics Committee Chairman Malcolm Wallop (R-Wyo.), related to the British royal family and a sometime host of Prince Philip, waged the floor fight on behalf of the forces seeking to further castrate constitutional government. Despite extensive proceedings on the Senate floors, during which "defense counsel" Sen. Daniel Inouye (D-Hawaii) and others raised issues of fundamental constitutional import the Senate never rose to face the issues of the corrupt drug- and terrorist-connected network in the Justice Department which ran Abscam and similar political terror operations. When it became evident that not enough moral fortitude existed in the Senate to clear Williams, he resigned after extracting a commitment for a full Senate investigation into Abscam and related stings.

But the committee set up to investigate the Abscam abuses immediately prostituted itself by hiring as its chief counsel James Neal, a Nashville attorney straight from the Walter Sheridan-connected networks in the Justice Department which ran Abscam. The committee investigation was practically run as an internal housecleaning operation by the FBI and Justice Department themselves. The final report of the committee is expected to conclude that political figures were not targeted by the FBI and that whatever "excesses" occurred, occurred because "corrupt" middlemen such as Mel Weinberg were not subject to close enough supervision.

Science and technology

Congress has so far been unable to establish itself as an institution capable of taking up an aggressive fight for scientific and technological progress. In a number of cases, there has been a defensive battle to preserve important programs.

The administration policy to halt the engineering phase of magnetic fusion energy development, mandated by law in the Fusion Engineering and Research and Development Act of 1980, has not been reversed. Two resolutions, H.J.R. 513, sponsored by Rep. Marilyn Bouquard (D-Ten.), which has 52 cosponsors in the House, and S.J.R. 202, with 20 cosponsors in the Senate, express the sense of Congress that magnetic fusion is "ready to move into a significant engineering development phase." Barring exceptional constituent pressure, it is reported unlikely that the House will take up H.J.R. 513 during the lame-duck session, while it is possible the Senate may consider S.J.R. 202, but not yet certain. However, once Congress reaffirms the engineering effort on fusion, the greater money commitment for an expanded program must also be made.

A bruising battle continues to keep the Clinch River Breeder Reactor under development. The Senate passed funding by one vote, 49 to 48, in the continuing resolution, and will vote on it again when the energy and water appropriations bill comes up during the lame-duck session. The House, which approved CRBR funding by a close 20-vote margin in 1981, will vote on it then. Opponents led by Rep. Lawrence Coughlin (R-Pa.) and Rep. Robert Edgar (D-Pa.) have been recharged by a Government Accounting Office report critical of CRBR.

Agriculture

Those Democrats and Republicans who have remained committed to ensuring a stable food supply were able to partially deflect the all-out assault launched against the farm programs when David Stockman ideologues who want to dash the American farmer on the rocks of the "free market," openly allied with zero-growth "consumerists" such as Rep. Barney Frank (D-Mass.), who sponsored much of the anti-farm legislation. But to a farm sector that is facing low prices, high interest rates, tremendous indebtedness combined with collapsing real estate values, and a rate of bankruptcies not seen since the 1930s, this was not much consolation.

Early in 1982, over 25 Democrats and over 25 Republicans took to the House floor to outline the "emergency crisis" facing the farm sector, and posed the question as to whether the American farmer would survive until next year. A band-aid approach of small but nevertheless important aid to various farm programs was taken in tandem with an insidious effort to decrease farm production output, such as land-retirement and production-diversion programs, as a means of boosting farm prices.

From the positive standpoint, the Congress has tried to force the administration to live up to its export-drive commitments and utilize the Export Credit Revolving Fund. In the House Agriculture Appropriations bill which will be considered in the lame-duck session, is an additional \$500 million for "direct export credit" to promote purchase of U.S. agricultural goods overseas. The House and Senate have similar legislation for "loan deferment" provisions for the Farmers Home Administration loan programs that will prevent foreclosures on many farms at or near the point of bankruptcy. The economic emergency loan program is also expected to be extended into 1983.

Significant damage was done to the dairy program however, as, first, the 75 percent of parity was ended, and then a 50 cent per hundredweight government levy, with provisions that could raise it to a dollar, was imposed or will be imposed on dairy farmers on Dec. 1.

But the failure to take on the status of the Federal Reserve Board and Paul Volcker's high interest rates, leaves the door open to disaster in the farm sector, and to a propaganda offensive to cut farm production, such as was seen this summer as Agriculture Secretary Block commented that the best thing that could happen was a crop failure.

The Mellons: portrait of an American oligarchic family

by Freyda Greenberg

With this article on the Mellon family, *EIR* begins a series of profiles of the American oligarchy. This series, which will include features on the Morgans, the Biddle Dukes, the Fields, the Cabots, and the DuPonts, will expose the European-spawned but American-based families which have, since no later than the middle of the 19th century, subverted the republican institutions of the United States and whose shadowy eminences lurk behind too many of the political institutions, elected and non-elected officials that dominate U.S. policy.

The Mellon family is the wealthiest of these clans and an excellent example of a technically American family which—by virtue of its political and financial policy, its chauvinistic view of itself relative to the “beastlike” masses, and its fascination with the occult—represents merely a younger variety of old European feudalism. While these older European families would consider the Mellons parvenu cousins, the first American-based Mellon, the Scottish Presbyterian Thomas Mellon, considered the Baptist Rockefellers parvenu. Operating through intermarriage, migration, and international secret societies and freemasonic lodges, the European oligarchy have cultivated branches on U.S. soil. These branches may be technically American; however, from the standpoint of the principles upon which the United States was founded, the Mellons and their ilk are not Americans!

Mellon wealth and politics

While the early origins of Thomas Mellon's wealth remain under investigation by *EIR*, there is certainly no denying that he initiated what may be the largest family fortune in U.S. history.

A conservative estimate performed in 1978 showed Mellon family assets to be at least \$4.75 billion. This figure derives from holdings in Gulf Oil, Alcoa, Koppers, General Reinsurance Co., Mellon National Bank, and the First Boston Corporation, plus proceeds from previous majority interests in these firms, and from endowments and property. Extremely conservative estimates of combined and separate

categories of wealth show the Mellon fortune far in excess of the wealth of the Getty, Hunt, D. K. Ludwig, Rockefeller, DuPont, or Ford fortunes. In addition, the Mellon National Bank, which has branches in London, Tokyo, Frankfurt, and Grand Cayman, has one of the best ratios of capital funds to assets of any U.S. bank.

The family has wielded their wealth to control elected officials since they bought the turn-of-the century Pennsylvania Senator Boies Penrose, who died of overeating in 1921. It was Penrose who pushed Andrew W. Mellon for the post of Treasury Secretary in the Harding administration over the up-and-coming Herbert Hoover. Free-enterprising Mellon was the international oligarchy's favored choice to prepare the United States for the Great Depression. Today the Mellons own, at least, Pennsylvania Republican Senator H. John Heinz III, who himself paid over \$3 million from his own family's coffers to buy his election in 1976.

This is not to imply that the Mellons or their ilk only purchase local politicians. There is abundant evidence that they now own a considerable chunk of the Democratic Senator from Texas, Lloyd Bentsen. Then of course there was the post-Watergate revelation that Mellon's Gulf Oil Co, between 1959 and 1973, spent \$12.3 million in political contributions—\$5.2 million in the United States in violation of federal statutes and \$7.1 million to foreign politicians. \$4 million of this last amount went to the Democratic Republic Party of South Korea. Other money went to Italy, Canada, Sweden, and Bolivia. While such Watergate-era scandals felled many a former prominent figure, the Mellons went by unscathed. The notorious oligarchic henchman John J. McCloy, contracted by the Mellons to “investigate,” produced findings that former Gulf Chairman William Whiteford committed these wrongdoings behind the backs of the Mellons.

The family has dealt decisively with politicians who did not submit to them. When former Pennsylvania Governor Milton Shapp campaigned for re-election in 1974, promising

to divest the Mellon bank of almost sole control (some \$3.4 billion) of state funds, Richard Mellon Scaife, a great-grandson of the American originator of the family, poured his money into the candidacy of Drew Lewis (now Transportation Secretary) in an effort to unseat the disobedient Shapp. When this tactic failed and Shapp was re-elected, Shapp became the target of a federal investigation and was framed and then removed from office for violation of campaign financing regulations. A suit filed by the State Public School Building Authority against the Mellons in 1976, based on findings of a Shapp-initiated probe which showed the Mellons misusing state funds for their own profit, was thrown out of federal court in July 1980. The state opted not to appeal, yielding to the financial drain the litigation had already caused to state coffers.

The Mellons' oligarchic policies

One of the great myths in the United States is that financiers like the Mellon family were committed to industry. The founder of the American branch of the family, Thomas Mellon, became a lawyer in Pittsburgh after emigrating from Ireland in 1818. While at this seemingly modest post, Mellon amassed great wealth by "trading in other people's debts." Mellon's financial "philosophy" does not essentially change through the entire financial history of the family—that method being that whatever appreciates the value of land is good. If that be steel mills, which at one point it was, the Mellons would fund the mills; if that be coal. . . . To say, however, that at any point in their history, the Mellon family was committed to industrial development, would be pure fiction.

In the early years of World War II, long before the abandonment of heavy industry in the United States and its replacement with high-priced real estate and post-industrial businesses, the Mellons were already committed to the scheme. Richard King Mellon, son of Richard Beatty Mellon and grandson of Judge Thomas Mellon, led the founding of the Allegheny Conference on Community Development immediately following the war. The group fought for the anti-pollution legislation which finally ran the remaining-steel and coal-related firms out of the city. In its stead, the Conference developed the Point Park, the Gateway Center skyscraper, etc. In this period and increasingly in the years to come, the way to appreciate the value of land was to tear down the plants and the housing and build office buildings and shopping centers. The Allegheny Conference became the immediate paradigm for groups in Baltimore and Boston, where the Mellons own some 20 percent of the First Boston Corp., and subsequently in major "formerly industrial" cities throughout the United States.

Mellon family foundations have long funded policy institutions that promote this essential scheme. They have funded the Aspen Institute since its inception in 1949; they helped found the Wharton School along with August Busch and Baron Edmund de Rothschild; they have been the principal sponsors of the popularization of Milton Friedman's

free trade policies. Richard Mellon Scaife, the nephew of Richard King Mellon and the great grandson of Judge Mellon, is the leading financial angel of the New Right movement which has provided the ideological cover for Friedmanite policies. Scaife money helped create the Heritage Foundation and supports the Hoover Institution, the American Enterprise Institute, the Institute for Contemporary Studies, the Committee on the Present Danger, and the Committee for a Free World.

In addition to free trade economics and various new right fronts, the Mellons concentrate on conservation and resource control, population reduction, and psychological manipulation. Huge sums of money go to the following institutions for the above-stated ends: World Wildlife Fund, Resources for the Future, Brookings Institution, Overseas Development Council, Population Reference Bureau, Inc., Planned Parenthood Federation of America, Inc., American Friends Service Committee, Program for the Introduction and Adaptation of Contraceptive Technology (PIACT), Population Council, Tavistock Institute, Center for Advanced Study in Behavioral Science at Stanford, the Anna Freud Foundation, Menninger Foundation, and the Academy of Religion and Mental Health. Most recently, the A. W. Mellon Foundation granted \$320,000 to the World Wildlife Fund to prove that the Brazilian rainforest can never be developed without causing irreparable damage to the world's ecology.

The feudal outlook

There is perhaps no better way to see the Mellons' likeness to the old world feudal oligarchs than to meet some of the more illustrious members of the family.

● *Judge Thomas Mellon* was blatant about his total disdain for his fellow man. He adamantly renounced his own roots in Ireland, consoling himself that the Northern Irish Presbyterians were "better than the barbarous Celts of southern Ireland." Regarding the Irish people, he said: "I have known many good, honest, industrious and human people among them . . . but these are the exceptions to the general rule. . . . I have come to the conclusion that the only way to settle the Irish question would be to sink the island."

During the Civil War, he maintained an intimate relationship with the traitorous Secretary of War Stanton (later linked to the assassination of President Lincoln) and urged against the draft: ". . . there is always a disproportionately large class of men fitted by nature for a service which requires so little brain work as that of the common soldier, and who are more valuable to their country and themselves as soldiers at such a time than in any other capacity. It is a mistake to suppose it the duty of every man to enlist when his country needs soldiers. . . . If a man is wise . . . he will avoid the folly of soldiering. . . ."

The Judge believed trade unionism was counter to "natural justice," violating the natural economic laws that distribute capital and labor fairly. Public education was likewise a violation of law: "There is no more reason for compelling

one man to pay, not only for the education of his own children, but for the education also of other men's children, than to compel him to feed and cloth other men's children." His rhetoric in defending the taxpayer from public education and municipal bonds was virtually identical to today's free traders.

While not believing in trade unions, public education, municipal bonds, or the intelligence or sanctity of the American citizen, Mellon did believe in the possibility of establishing contact with the other world. Mellon attended seances in Pittsburgh and also left his family and business in 1892, at the age of 77, to attend seances in Kansas City. The Judge was especially trying to contact his son Selwyn, who had died in 1862. Mellon was also fascinated with the discovery of the aluminum process; however, evidence indicates that this fascination stemmed from his interest in alchemy!

● *Richard Beatty Mellon*, son of Thomas Mellon, was the first in the family to cultivate the British tradition of foxhunting. R.B. built the Rolling Rock farm and country club with his son Richard King Mellon beginning in 1917. This became an 18,000 acre spread in Ligonier Valley, Pennsylvania. Richard King traveled to England in 1921 to develop a "suitable pack of foxhounds" with the aid of the secretary of the Master of the Foxhound Association of England and Ireland, George Evans, Esq. The Rolling Rock foxhunt began in 1924 and is a perennial favorite among anglophiles. There has been an ongoing problem for the Mellons with area farmers who object to the hounds and horses galloping through their property at will. The Mellons, on the other hand, have argued against the farmers using modern fencing, as this hurts the horses!

● *Andrew Mellon* was the most renowned of the second generation Mellons, serving as Treasury Secretary in three administrations beginning with President Harding in 1921. His role in creating the last depression comprises a story itself.

In a more personal vein, Mellon was not especially interested in women throughout most of his life. He experienced a close relationship with Henry Clay Frick who finally fixed Mellon up with Nora McMullen of the Guinness Stout fortune when Mellon was past 40. His marriage was a well publicized failure. During the divorce proceedings, testimony centered on Nora's affair with Englishman Alfred Curphey and the relative sizes of the parties' sexual organs. Nora was not only unhappy with Andrew; she, coming from a European oligarchic background, had trouble adjusting to industrialism: ". . . my joy was saddened by the dread of the thought that this baby was to grow up to stand all alone as the master, not of a loyal set of workmen, devoted tenants and affectionate servants . . . but as the master of an unreasoning horde of wage slaves, with an instinctive hatred for the man in the manor. . . ."

While not successful as a husband, Andrew loved to shop for his children, "he became a connoisseur because he, himself, played with the toys . . . the dolls, too." It is difficult to say what kind of life the Kissingeresque Mellon would have

led today.

Like his father, Andrew also showed a penchant for the "spiritual." It is reported that Andrew was tutored by the Nazi, occultist psychoanalyst Carl Gustav Jung to be a witch.

● *Paul Mellon* is the son of Andrew and Nora, who in his youth held a striking resemblance to Nora's English friend Alfred Curphey. Paul heads the cultural branch of the family, founding along with his father the National Gallery of Art. Paul, who was raised largely in England, lives on an estate in northern Virginia and shared the passion for the foxhunt of his relatives Richard Beatty and Richard King Mellon, both now deceased.

In 1939, Paul and his wife Mary Conover Mellon went to have psychoanalysis with Carl Jung in Zurich, Switzerland. They both returned transformed. Mary, who suffered from what Jung believed was psychosomatic asthma, was anxious to rid herself of it so as to share foxhunts with her husband. Convinced of her cure after Jung's sessions, Mary died of an asthma-induced heart attack following a horseback ride in 1946 at the age of 41.

Upon Paul's return from Zurich he founded two foundations, The Bollingen Foundation and the Old Dominion Foundation. Bollingen sponsored the publication and research of all of Jung's work as well as studies in: the occult, alchemy, Iranian religious consciousness, Erich Neuman's work on the Great Mother archetype, and Alan Watts's psychedelic mysticism. In 1948, the first Bollingen Prize for Poetry was given to Ezra Pound, who at the time was confined to a mental institution and under indictment for treason as a result of his pro-fascist and anti-Semitic propaganda broadcasts from Italy during World War II.

The Old Dominion Foundation funded the Aspen Institute from its founding in 1949 as well as the Tavistock Institute of London. Paul was a firm believer in the mass application of the psychological conditioning methods developed by Tavistock especially during World War II. In addition to his Bollingen-related grants, Paul funded a collection of manuscripts on alchemy and the occult at Yale and in 1949 gave his alma mater \$2 million (today's equivalent of more than \$6 million) earmarked to provide psychiatric counseling for students.

● *Matthew Taylor Mellon* was a confirmed Nazi. He studied under the British mathematician Alfred North Whitehead at Harvard and then studied under Martin Heidegger at the Albert-Ludwig University in Freiburg, Germany. Matthew, already heavily influenced by the then-fashionable H. L. Mencken, became a thoroughgoing Nietzschean. In the late 1920s he began his thesis on the "Early American Views on Negro Slavery" which was used by the Nazis for propaganda material. When the European oligarchy opted to push Hitler into power in Germany, Mellon was already a solid Nazi supporter.

In 1935, Matthew Mellon published the following statement in the *Pittsburgh Press*: "Regarding the National Socialist Government and Germany's future, I have nothing but

strong approval and the highest of hopes for its ultimate successes. Being a property owner in Germany I regard Adolf Hitler as having saved my home from the communistic rabble that would have spread all over Europe had he not come to power in 1933. . . . The German people, with the exception of a few loud-crying minorities who do not matter much, have the utmost faith in him as the one man who can bring Germany back to a respectable place in the brotherhood of nations."

● *W.L. (Larry) Mellon* forsook the Pittsburgh corporate life to enter the field of cult philanthropy that, given the emergence of such potential new Hitlers as Guatemala's Rio Montt, is of major significance today. Supposedly inspired by the work of Albert Schweitzer, Mellon and his wife converted to Disciples of Christ, the faith of the late cult leader Jim Jones. Mellon obtained a medical degree from Tulane University and settled with his wife in Haiti where they built a "hospital" on land given them by United Fruit Co. Simultaneous with their move to Haiti, the government of President Magliore was overthrown by the notorious Francois (Papa Doc) Duvalier. The Mellons got along famously with Papa Doc and later Baby Doc. Regarding these brutal dictators, Mellon said: "Haiti is for the Haitians to govern or misgovern."

Of his medical education, Mellon said: "It burns me up sometimes to think I spent five years at medical school. I could have been here five years earlier. A doctor has no special magic for a place like this." Believing this, "Dr. Mellon" has promoted the continued use of witch-doctors in

Haiti, especially in psychiatric care of the natives.

Mellon funds his hospital through his Grant Foundation. Graduates of Yale and the University of Vermont medical schools are sent to "study" at Mellon's hospital, where they are brainwashed into abandoning advanced medical treatment in favor of a mixture of voodoo and bandaids.

Latter-day Mellons

Current generations of Mellons include a wide variety of deviants, including two suicides. One of the more enterprising of the young Mellons is Billy Mellon Hitchcock, great grandson of Thomas Mellon. Hitchcock got involved in an international corporation: Dope, Inc. He befriended Dr. Timothy Leary in the early 1960s and, according to the *Village Voice* "transformed LSD manufacturing from cottage industry to big business." Hitchcock was finally busted in 1969, when federal authorities caught a courier carrying \$100,000 in cash to Billy from his Swiss banker, Johann F. "Freddy" Paravicini of the Paravicini Bank Ltd. Besides his own drug-related escapades, Hitchcock generously funded counterculture projects. Today he makes movies.

Another characteristic Mellon is Karl, son of the Nazi Matthew Mellon. Karl spent most of his adolescence in mental hospitals and finally met his wife-to-be in the Menninger Institute where they were both undergoing psychiatric care. They escaped and eloped. Karl, who has married twice since, maintains that he has not really changed from those days, but rather the world has.

KISSINGER'S DRIVE TO TAKE OVER THE REAGAN ADMINISTRATION

Now available, a new EIR Special Report

Since at least May 1982, following an underpublicized visit to London, Henry Kissinger has been coordinating a drive to consolidate control of the Reagan administration for the Trilateral Commission wing of the Republican Party. Secretary of State George Shultz is fully collaborating with this effort, which will put Kissinger in charge of enforcing the "controlled disintegration" economic collapse and depopulation of the developing sector. This EIR Special Report, written by EIR's Washington Bureau, provides the details of Kissinger's drive, including the implications for domestic and foreign policy. Includes profiles of Kissinger's collaborators, especially Helmut Sonnenfeldt, and the role being played by the Jack Kemp-led "opposition." Profiles of recent administration appointments also included.

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National News

FY83 NASA budget is increased

The appropriations bill for HUD and Independent Agencies for fiscal year 1983, which includes the budget for the National Aeronautics and Space Administration, was signed by the President on Sept. 30. Though most other government departments will be funded on continuing resolutions until after the Nov. 29 recess, NASA will start on its FY83 budget.

The House and Senate Appropriations Committees agreed to increase the NASA budget by \$197 million, to a total level of \$6.809 billion. The increase will reinstate funding for the modified Centaur upper stage rocket for use with the Space Shuttle and advanced aeronautics and communications research that the Reagan administration had eliminated, with the claim that the "private sector" would finance these projects.

In addition, \$30 million was added for the planetary and space-science programs, which have suffered a continuing decline in the past decade. With this additional funding, crucial projects can be kept in progress, though there is no money in FY83 for any new starts.

Strauss warns of debt bomb

Former U.S. Special Trade Negotiator and Democratic National Committee Chairman Robert Strauss warned a Washington, D.C. conference of the American Stock Exchange Oct. 20 that the New York-London bankers' control over world finance is imperiled by the possibility of a Third World "debtors' cartel."

"It is a very serious thing," Strauss said. "Why a group of these countries could call all the bankers together and tell the banks—'either you give us \$50 billion or we will go home and pull the plug.' I am not predicting this, but this is what some people say could happen.

"The credit system is more fragile than ever before. We need to have more serious

meetings on this, standby measures, increase the money going to the IMF and other institutions, more creditors of last resort, and be damn sure that it is not going to topple. And we are not just talking about LDC debt. Look at the domestic debt, at the agricultural debt in this country."

By contrast, Undersecretary of the Treasury for Monetary Affairs Beryl Sprinkel declared: "We are not in a crisis now, nor do we believe a crisis to be imminent," Sprinkel said. "While the Mexican situation has not yet been resolved, the rapid and effective response of both private and official lenders demonstrates the capacity of the financial system to deal with difficult situations. More generally, borrowing countries are showing a greater willingness to take adjustment measures."

Jerry Brown linked to united Klan danger

According to an article being prepared for *EIR's Investigative Leads* counterintelligence bulletin, circles in the administration of California Gov. Jerry Brown, including Brown appointee Sim Van der Ryn, are working with the est cult of San Francisco. Est leader Jimmy Rosenberg, a.k.a. Werner Erhard, united and took control of the six major branches of the Ku Klux Klan at a meeting of Klan leaders in Stone Mountain, Georgia during September. Attendees Don Black of Alabama and David Duke of New Orleans (leaders of the Knights of the KKK) and Dr. Edward Fields of Marietta's New Order of the KKK and publisher of the *Thunderbolt* newspaper, are identified as leaders of the new "United Confederation of KKKs," a development identified by the ADL of B'nai B'rith and others as signaling escalated danger of violence.

Duke and Black have been undergoing brainwashing during the past two years under Rosenberg, whose cult is now seeking to recruit other Klan leaders. The 100,000-member cult also runs a World Hunger Project from San Francisco, London, Tel Aviv, Stockholm and Sidney. It practices high-fee attack therapy which, according to Los Angeles psychiatrist Dr. Friedrich Haacker and others, produce psychotic patterns akin to

those POWs subjected to brainwashing.

Est members' penetration into the U.S. government include the National Bureau of Prisons, the HEW, U.S. Energy Agency and the World Hunger Project under Dr. Peter Bourne during the Jimmy Carter presidency.

Volcker's 'secret' policy: smash labor

The "secret" weapon in Federal Reserve Chairman Paul Volcker's so-called war against inflation is to slash U.S. wage levels. According to statistics in the Fed's possession, the major "victory" scored by Volcker and his allies over the last year has been a major slowdown in the rate of wage increases. Average hourly earnings rose by only 6 percent last year, as compared to 9.3 percent for the year ending September 1981. This is the first significant decline in the level of wage increases in six years and greater than any in recent memory. For figures that correlate to unionized workers, the decline is even more marked. The average worker's weekly paycheck rose by an annual rate of only 4.1 percent for the year ending September, 1982.

The UAW-Chrysler contract fight is viewed as an important test. The Fed is said to support a "hard line" by the company to block any significant wage increases. The union, which has refused to attack Volcker or his policies, is admittedly trying to buy time.

Shultz calls for upheaval in Eastern Europe

Secretary of State George Shultz told a State Department conference on "Democratization in Eastern Europe" Oct. 18 that his policy of seeking broad NATO trade controls against the Soviet Union is to be accompanied by active efforts to foment political destabilizations within the East bloc. Speaking alongside Undersecretary of State Eagleburger to an audience of operatives who will be working to engineer such destabilizations,

Briefly

Shultz said; "We do not seek to foment violent unrest or to undermine communist countries," but called upon more organizations to "follow the example of the AFL-CIO, which offered strong support for Polish Solidarity."

Among the group of think tankers and oligarchical collaborators in attendance were Michael Ledeen, linked to the Italian P-2 controllers of the Red Brigades; and Irving Brown, the AFL-CIO International Affairs Director. Brown is implicated in Red Brigades terrorism through the Paris office of the AFL-CIO, where his support work for Solidarity was co-ordinated with Luigi Scricciolo, international director for the Italian trade-union confederation UIL. Scricciolo was a Red Brigades member.

Williams Abscam appeal: 'FBI committed crime'

The U.S. Court of Appeals for the Second Circuit heard the Abscam case of *U.S. v. Harrison A. Williams* on Oct. 7. It is not known when the decision will be handed down.

Two of the three judges presiding on the Williams' appeals panel, Judges Newman and Friendly, just this summer upheld Abscam convictions of other U.S. Congressmen. A clerk of the court calendar stated, "The same judges hear the same cases, if possible, to insure there are no dissensions in the circuit." The only other judge who would have been available in the 2nd Circuit to sit on the panel was Judge George Pratt who presided at all Abscam trials in the district, and now sits on the circuit, sources report, "as a reward for his performance in Abscam." He of course had to be recused from the Williams appeal hearing.

Erwin Griswold, former U.S. Solicitor General in the Johnson administration and Williams's appeal attorney, forcefully restated the argument that not only did this 28-year veteran of the U.S. Congress not commit a crime, but most emphatically, the FBI "created crime, it did not ferret out crime." He also noted that if the FBI were tracking down drug traffickers, as it ought to be, there would be "no impropriety" in their actions. The government maintained its position that

Williams must have had predisposition to commit a crime since he did not "turn on his heels and walk out" of the business situations the FBI manufactured.

While most major media did not cover this event, the public finally began to get a glimpse of the real scam in Abscam. On Oct. 7, the *Wall Street Journal* ran a front page article entitled, "Rogues' Gallery, FBI's Use of Con Men To Catch Other Crooks Occasionally Backfires." The sub-headlines were, "Abscam Link Provide Cover For a Big Loan Swindle; Auto Buyers Get Stung, Friend at Chase Manhattan." This article along with a 15-minute segment on *60 Minutes* Oct. 10, demonstrated an approximation of what this news service exposed last year in its coverage of the Williams case: that the FBI's paid convicted criminals were committing crimes with government sanction. As the *Journal* put it, "They can hurt innocent people."

Freeze leaders call for conventional buildup

Arthur Westing of the Stockholm Peace Research Institute explained at a conference of the nuclear freeze movement Oct. 21 that the freeze will involve "a conventional arms buildup." "The freeze may involve more military expenditures," he said. "Disarmament should not be our goal but a clearly defensive military posture." Westing made his remarks at a workshop he chaired of freeze-movement organizers from around the country, held during the "Fate of the Earth" conference sponsored by the Cathedral of St. John the Divine and various environmentalist and disarmament groups.

Another workshop chairman, Ruth Adams, editor of the *Bulletin of Atomic Scientists*, emphasized to the liberal attendees that they had to confront the "national security issue. We must answer the question 'Why are we in this fight?'" The reason, explained Adams, was the Soviet Union. "Our enemy is the Soviet Union," she said.

Stewart Mott proposes to the organizers that they draw up a "congressional hit list" of senators and congressmen opposed to the freeze who win their elections in November by 5 percent or less.

● **EDWIN MEESE** intervened at the last minute to cancel a meeting between President Reagan and the leaders of 14 environmentalist groups. The environmentalists were reportedly attempting to offer a deal whereby they would pull their political punches against the GOP in the November elections in exchange for administration concessions on certain policy matters.

● **RICHARD RICHARDS**, outgoing chairman of the Republican National Committee told the *Washington Post* Oct. 17 that, despite the nation's economic woes, he anticipates that the GOP will only lose about 10 to 15 seats in the House this fall, while retaining control over the Senate. "If the Democratic Party had any upbeat economic program of their own, we'd be in real trouble," Richards said. "But as it is, they're still running against Herbert Hoover."

● **GEORGE SHULTZ** is being touted by the East Coast press for "salvaging the relationship with China" and other imaginary feats.

● **MARSHALL FIELD**, the owner of the Chicago *Sun-Times*, and Mrs. Brooks McCormick will co-host a black-tie dinner in Chicago Nov. 8 to honor Britain's Prince Philip. The dinner will occur shortly after Philip delivers a dissertation at Chicago's Field Museum of Natural History in which he will denounce Brazil's plans to develop the Amazon.

● **HENRY KISSINGER** lost all remnants of composure at the "U.S. Perspectives" conference in Washington on Oct. 22, when *EIR* correspondent Ron Kokinda asked him how his current "soft" line toward the Third World squared with his role in the judicial murder of Pakistan's Ali Bhutto. "I will not take this question!" Henry screamed. Copies of *EIR*'s Oct. issue headlined "How Henry Kissinger Will Be Destroyed" were grabbed up at the lunch break.

The test for labor unions

Many people will be struck by the words of Pedro Rubio, a leader of the Conservative Party-oriented UTC trade union federation in Colombia, at the founding conference of the Club of Life in Rome Oct. 20. Rubio proposed, as part of the Club, a "North-South Labor Committee" dedicated to "winning the support of workers and labor unions throughout the world . . . to fight for the founding of a new humanist world order." Among the squirmers, we expect, will be Lane Kirkland, head of the AFL-CIO in the United States. We also expect a healthy uneasiness among Kirkland's counterparts in that other former industrial powerhouse, West Germany.

In what pass for normal times, organized labor has a fairly good reason for its existence: Trade unions help ensure that the workforce has a decent standard of living and working conditions—so that a nation's economy can be more productive. In a time of crisis, organized labor represents the strongest potential for the political mobilization of a nation. Labor was crucial to the coalition which not only elected Franklin Delano Roosevelt as president, but also mobilized American power to win World War II. To make the point negatively, the same labor movement had no answer to the depression of the 1930s, and failed to stop it. And the physical destruction of the German labor movement in 1932 removed the last obstacle from the path of a certain Adolf Hitler.

With U.S. unemployment at its most severe since the depths of the Great Depression, with half the auto-workers out of a job, with a third of all steelworkers and nearly a third of all Teamsters unemployed, Lane Kirkland has been running a protection racket for the policies of Federal Reserve Chairman Paul Volcker, while the AFL-CIO tells steelworkers—and anyone else dumb enough to listen—to blame the Japanese.

Despite some militant rhetoric, the unions have obediently gone for wage reductions, benefit give-backs, worker plant-buyouts, and other varieties of "necessary sacrifice." But by now it is obvious that many of the laid-off workers will never be rehired or retrained—and that their country's economy is a wreck.

And what has happened to the celebrated "German economic miracle"? It went kaput, even before the

union-backed Social Democratic (SPD) government of Helmut Schmidt was brought down Oct. 1 by demands for austerity from the liberals and Christian Democrats. The West German unions promised mass demonstrations against austerity for Oct. 23 and 30, and Nov. 4 and 6. But the national union federation program—a hodgepodge of housing construction, energy conservation, and something called "ecological balance"—is a useless compromise.

The reality is that the two strongest economies in the West are being pulled down by the collapse of the post-war monetary system. Beyond the AFL-CIO's anti-Japanese racism and tunnel vision, beyond the "realistic" fantasies of Schmidt and the West German unions, there is a response to this reality: It is represented by the call of Pedro Rubio, and by European Labor Party Chairman Helga Zepp-LaRouche, in her seventh Open letter to West Germans in September, telling the SPD and the unions that they "must launch the demand for the New World Economic Order, force a change in the Kohl government . . . mobilize to destroy the IMF, World Bank, Bank for International Settlements and GATT, or the fascist policies of these institutions will plunge us into catastrophe."

As the AFL-CIO schemes to replace Ronald Reagan with a Fabian Democrat, and the SPD digs in to lead the unions in a "long opposition" to austerity, they should consider that the reality represented by the LaRouches' fight for world economic development is being acted upon by leading forces in the labor movements of Colombia and Mexico—perhaps to be joined by other developing nations.

That is the significance of the full support that Mexican President López Portillo is receiving, in his battle with the international banks, from the giant CTM labor federation of Fidel Velásquez. Eleven thousand unions are preparing to strike for a 52 percent wage increase on Nov. 1, and the anglophile elements in the Mexican press smell a plan to thereby "block negotiations with the IMF," coordinated with the Andean Pact nations, who are preparing joint debt renegotiation.

Labor has arrived, with the rest of us, at a unique moment in history in which to account for its existence—or permit the destruction of everyone.

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