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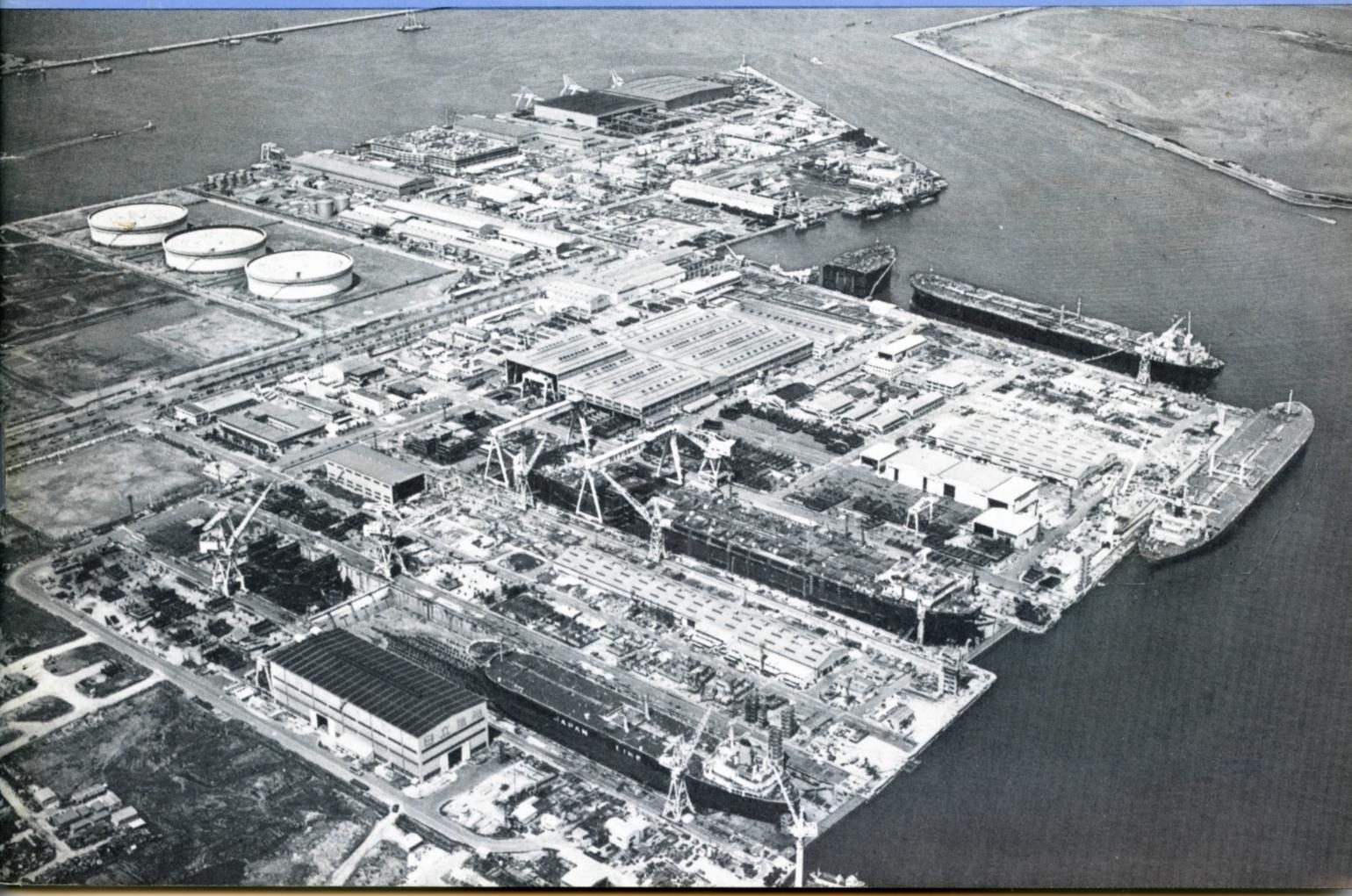
Executive Intelligence Review

August 16, 1983

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Founder and Contributing Editor:

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Editor-in-chief: *Criton Zoakos*

Editor: *Nora Hamerman*

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Tel. (06121) 44-90-31.

Executive Directors: Anno Hellenbroich, Michael Liebig

In Mexico: FIR. Francisco Días Covarrubias 54 A-3

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EIR

From the Managing Editor

At a time when Americans are starting to pay attention to what is known as “industrial policy” and to Japan as its exemplar, our chief Japan desk officer, Richard Katz, brings you a Special Report analyzing the methods behind the Japanese miracle. Starting with the Meiji period, this territorially small nation, lacking in natural resources, deliberately and systematically followed the example (and the advice) of the American System nation-builders who—with the momentum of the Civil War industrial buildup—made the United States into the greatest industrial power in the world. We expect the report to arouse considerable controversy and attract broad attention.

This week we also examine the “hot spots” that refused to wait for the August lull to end, including the currency crises triggered by political warfare, the rise to the Italian prime ministry of a man more appropriately placed in the interrogation chambers of Italy’s magistrates, and the accelerating West German slide toward an accommodation with the “Third Roman Empire” group now ruling the U.S.S.R.

We continue our exposés of the record and current activities of Henry Kissinger—including his efforts to reverse President Reagan’s March 23 policy of developing beam-weapons antiballistic-missile defense, or, failing that, to pervert such weaponry into a mere adjunct of the MAD lineup, leaving the guns at the heads of the two superpowers, while U.S. territory and the American population continue to be defenseless.

Coming up in *EIR* is documentation of the conflicts of interest involved in Kissinger’s post as head of the bipartisan commission on Central America, given the financial and political associations of his Kissinger Associates consulting firm. We also plan an overview of the colossal debt burden of Western European nations, which is making “the debt bomb” a matter of immediate interest not only to those European banks that hold Ibero-American or Eastern European debt, but to the governments which are key strategic allies of the United States. And next week, we will report on the Call to Draft LaRouche—*EIR* founder Lyndon H. LaRouche, Jr.—for the 1984 Democratic presidential nomination, a call issued Aug. 5 by National Democratic Policy Committee chairman Warren J. Hamerman.

Susan Johnson

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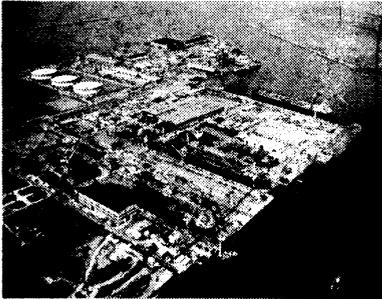
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Corrections: For last week's cover photo, the credit to UPI was inadvertently omitted. In the map of Romania in last week's cover story, apart from other defects, the names of the Bucharest-Danube canal and the Cape Midia canal were reversed in the key.

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Dirty politics fuel the currency crisis

by David Goldman

The European currency crisis which broke July 29, presumably triggered by a sharp rise in interest rates on the New York market, is in fact propelled by strategic considerations. There are two levels of cover story at work.

The first is that European investors are simply responding to higher dollar interest rates. That is not true: as the London *Financial Times* broadcast Aug. 1, Europeans think the dollar is overvalued and are awaiting the chance to pull out some of the several score billions moved into dollar securities during the past two years. The second is that flight capital is fleeing West Germany for fear of the Green movement's peace demonstrations and the "erosion of Germany as the bastion of Europe."

Gerassimos Arsenis, social democratic finance minister and central bank governor of Greece, gave a better indication of the nasty side of these developments Aug. 2, de-linking the Greek drachma from the dollar in a flourish of anti-American rhetoric. In a recent conversation, Arsenis predicted the disintegration of the world into currency blocs, with a Soviet-oriented Western European bloc, including a major combined West German and East German role in the Mediterranean, which Arsenis is trying to negotiate. Ibero-America might splinter off, or become part of a U.S. zone, while Japan would take the Pacific, Arsenis concluded. His action of Aug. 2 is doubtless consistent with this strategic view.

Another Mediterranean development, the appointment of Venetian banking figure Bruno Vizentini as Socialist Bettino Craxi's finance minister, is ominous in this context. Vizentini, long the public proponent of a "government of technocrats" to replace political parties, comes from the open sewer of illicit financial relations that extend, through old Austro-Hungarian and Ottoman imperial channels, to the Soviet

Union. His collaborators in the now-successful venture of placing Craxi, the aspiring Mussolini, in Italy's top political office are the northern Italian industrialists who signed an agreement last month to build three giant industrial complexes in the Soviet Union.

The collapse of the German mark in the past six weeks (from DM 2.45 to the dollar to DM 2.67 Aug. 4) represents less a flight out of European currencies than the beginnings of a European monetary reorganization around a central European bloc. In the process, the dollar stands to suffer the worst of any major currency once this business is over—perhaps by the turn of the year.

Political rupture between the United States and Europe is expected to be the result of the failure of the much-publicized "joint intervention" in the foreign exchange markets by Western central banks. To the extent that this intervention has been represented as a symbol of the alliance's strength, its inevitable lack of success will make matters that much worse.

The *New York Times* reported Aug. 4, "With the strategic arms talks going on and with the deployment of the cruise missiles in Europe coming up in the fall," said a former State Department official with close ties to the administration [read Henry Kissinger—D.G.], 'it's very important to nurture the sense of unity in the Alliance. We have to be seen as being "on the team".' The official added, 'I suspect that the President got a call' from Chancellor Helmut Kohl in Bonn."

This and similar American press comments disguise the fact, now a matter of scandal in the European news media, that the European right wing is moving eastward faster than the German Greens, for example, would consider doing publicly. Exemplary is the late-July visit of Bavarian strongman Franz-Josef Strauss to East Germany, Poland, and Czechoslovakia, during which Strauss argued for a relationship between

Germany and the Soviet Union like the one Germany now has with France; East Germany, he argued, will become like Austria.

This open move by Bavarian finance (i.e., Merck und Finck, the Bankhaus Thurn und Taxis, Allianz Versicherung [Insurance Alliance]) corresponds to major capital shifts by Strauss's financial sponsors. The chief of foreign exchange at a large European bank gave *EIR* his gloss on the subject, as follows:

"It's not economic. Capital is leaving Germany because of the Euromissiles and will leave even more so as we get closer to their deployment date. Things are undergoing a fundamental change in Germany. Germany is going through the same changes that the U.S. underwent during the Vietnam war. There are going to be huge anti-Euromissile demonstrations, and the government has passed laws to allow them to hold people in jail who have been in the demonstrations. Rich Germans are moving a portion of their money out because they realize the proximity of Germany and Europe to the Soviet's border and they see the advent of the Euromissiles. As troubles flare up, as the installation of the Euromissiles approaches, there will be an even greater flow of money out of Germany. There's not a snowflake's chance in hell that currency market intervention by the central banks will succeed. The mark will go to 2.80. Germany's role as the bastion of Europe is eroding."

The problem with this analysis is that the same people who are taking their money out are arranging matters nicely with the Russians, as well as funding the peace movement (see article, page 37).

And, much of the money leaving Germany is not necessarily moving into the dollar (although Euromarket deposit rates at just-worse-then-best-address banks are very attractive at 12.5 to 13 percent). Some of it is moving into Vizenini's Italy.

"This was *not* a disorderly market. This is politics, in the aftermath of the Williamsburg summit, to show there is some unity in the West," said the economist of one of the major Swiss commercial banks. "There are definitely reverse flows now occurring out of the dollar. The reason is simple. The market potential by now is much greater in Milan and Tokyo than it is in the United States. The Milan bourse is 37 percent of its all-time high. The Tokyo bourse is undervalued. But the Dow Jones is close to its record, and it's not going to go much higher. The Italian subterranean economy is the second strongest economy in Europe next to the British economy. It is much stronger than the German economy, which is very weak; the German economy is one of the weakest in Europe."

The Swiss banker added that disinvestments out of the dollar were also being encouraged by two additional things: 1) that there are tax advantages to liquidating in August; and 2) that were inflation to pick up in the United States, and the dollar to fall, then those who already had their dollar investments placed will lose with a "double hit."

Bank of England sources believe that the major European

investment funds are waiting for dollar interest rates to peak before moving out in a big way, an event the London *Financial Times* warned about Aug. 1, and the Swiss daily *Neue Zürcher Zeitung* advertised Aug. 2. At the moment, dollar rates are, of course, doing no such thing. Paul Volcker's slow tightening has intersected growing liquidity pressures on the Euromarket. Much of the present upward movement in interest rates is the result of panic borrowing by Europeans who have dollar obligations coming due, and are seeking to lock in money at current interest rates before rates go higher.

We can expect another 150-200 basis point rise between now and the end of the quarter (if not more), following the 170 point rise in both long and short rates since mid-May. This is due to factors we cited last week:

- Latin American capital flows into the United States, a major depressant on U.S. interest rates, have dried to a trickle since the financial crisis makes it hard to bring money out.

- European portfolio managers have stopped shifting money into long-term dollar bonds and are shortening maturities of their existing dollar paper, anticipating higher rates.

- OPEC deposit attrition from the Euromarket continues.

- European borrowers are still heavy users of the interbank market to finance payments deficits.

- Treasury revenue and outlay data released July 25 show worsening deficit prospects, not the "improvement" due to "recovery" presented in some inaccurate media reports of an OMB mid-year review that, in fact, contained no new information whatever.

In short, the supply of funds to the market is dwindling, while the demand for funds—due to depression-level government deficits here and abroad—continues to increase.

A crescendo of European protests concerning higher American interest rates and the rising dollar will then intersect such voices as that of Henry Kissinger's friend Alan Greenspan in the United States, calling for drastic (defense) budget cuts in the United States. *The New York Times* drew the astonishing editorial conclusion that the Zürich gnomes should dictate American priorities:

"The governors of the United States and the banking gnomes of Zürich now send Washington the same message: You can't walk away from those looming budget deficits. . . ."

"Those high interest rates, now edging higher, are also the primary force behind the recent spectacular surge in the dollar's value. The Zürich gnomes and other investors put their money where it earns the most, so they buy dollars and sell other currencies and further distort the world economy. Belatedly, the administration has jointed with other governments to resist this trend by selling dollars in international markets. But such intervention is a weak and transient remedy that doesn't get at fundamentals."

Fundamentals, to the *New York Times*, mean eliminating parts of the defense budget in the midst of a storm over U.S. defense policy in Europe, so that the *Mittleuropäer* who have arranged the storm may make their own arrangements with Yuri Andropov.

Operation Juárez gets down to business on the debt question

by Christian Curtis

It is considered prudent, if one is not convinced by the expression of the eyes of whomever one happens to be dealing with, to "watch the hands." Applying this maxim to Ibero-American affairs, it would be most beneficial for those American executives, journalists, and State Department officials who are skeptical about the sincerity of Ibero-American intentions expressed at the July 24 Andean Pact presidential summit in Venezuela to create a debtors' front, to pay attention to a series of conferences that have begun since. Watch the hands.

The Ibero-American debtors are not only declaring their right to take united action, if necessary, against their creditors, but they are now building the very instruments that will enable them to repulse the International Monetary Fund creditors' cartel and survive whatever counterattack the international banks might mount. In short, the measures first outlined by *EIR* founder Lyndon LaRouche in his Operation Juárez policy proposal of a year ago are being realized.

Barely had the Andean presidents and other invited high-level officials, including Spain's King Juan Carlos, left Caracas, than the economic emissaries of 23 Ibero-American heads of state convened a closed-door session in Santo Domingo, Dominican Republic on Aug. 1 to commence work on the political, economic, and juridical mechanisms for implementing Point 5 of the July 24 Caracas declaration—the first proclamation by a multilateral meeting of chiefs of state of the right of debtor nations to form their own institution. The purpose of the Santo Domingo meeting is to draft a series of guidelines defining acceptable debt conditionalities.

On that same day, the oil ministers of the four largest Ibero-American petroleum exporters met in Puerto La Cruz, Venezuela to discuss means by which their huge oil surplus, most of which is exported outside the region, can be reoriented to Ibero-American importers, most of whom buy their oil from other sources. By pairing Ibero-American production with consumption, the entire region could easily become self-sufficient in oil.

The debtors' terms

The three agenda items proposed at the Santo Domingo conference on Aug. 1 by Ecuadoran President Osvaldo Hurtado—who formally initiated the presidential consulting process that led to that meeting—indicate quite clearly the direction the Ibero-Americans are taking. Two of the items dealt

with promoting preferential regional trade, including provisions for emergency supplies of oil, food, and vital services. The third topic proclaims the right to expect sufficient credit to permit rates of economic growth above population increases. It was the agenda of a region girding for economic warfare if its terms for survival are ignored.

"The adjustment [austerity] programs of the IMF" have not only not worked, Hurtado stated, but, judging from their results to date throughout Ibero-America, they have only made matters worse.

Homero Hernández, assistant secretary of the Latin American Economic System (SELA), which is sponsoring the conference, told reporters July 31 that the meeting will discuss "guidelines" that creditors must follow. "It is a matter of a joint effort," Hernandez said, "We are trying to discuss problems not in an isolated or unilateral manner, but united, because the depth of the crisis compels us." It is a response to the "divide and conquer" tactics used by foreign interests, he stressed.

Statements by representatives to the meeting concurred on the question of coordinated action on the foreign debt. The president of the Dominican Republic Senate, Jacobo Majluta, declared on Aug. 3: "Foreign debt renegotiation is a question of setting up a mechanism of enormous importance for Latin American integration—a collective response to the difficulties induced from abroad which afflict the region." Majluta alluded to the type of debtors' conditions being worked out, when he remarked that world leaders must be responsible for adjusting debt service burdens to the ability of countries to pay without sacrificing their ability to import, to meet the requirements of present and future generations, and to develop their economies.

In an interview with the Dominican daily *Listin Diario*, Peruvian representative Manuel Ulloa urged the adoption of common criteria on the terms of debt renegotiation. He reported that the meeting had reached a consensus on the need for each country to adopt common criteria on the terms of debt negotiation and that those terms must be over longer periods and at lower interest.

Perhaps the most telling indication of the climate of the meeting was that even the Chilean delegate felt impelled to declare that "elements of common cooperation would be extremely useful," including "the definition of global criteria."

The long-term plan of the leaders of Ibero-American debtor coordination is not to impose joint, global renegotiation, but to ensure that all individual renegotiations take place within the framework of the guidelines being formulated. Or, as President Hurtado put it in his Santo Domingo speech, "We did not come here to form a debtors' cartel, but to establish a long-term program of joint action."

The strategy

It will take one more meeting before Ibero-American debt guidelines are hammered out on paper. The Santo Domingo delegates therefore agreed to Hurtado's proposal that a "Latin American Economic Conference," either at the ministerial or presidential level to be held in Quito, Ecuador before the end of this year, probably in October or early November. This process will culminate in a second summit of the Andean Pact in December in Bogotá, Colombia.

The Santo Domingo declarations were both a warning and a last-hour appeal for reason in Washington, in the face of a crisis that threatens Ibero-American national survival and—ultimately—that of the United States as well. "If the United States remains indifferent, awaiting its own recovery, while the present international economic conditions continue to prevail, we may well all end up sinking," Hurtado warned. The debt crisis smothering the Ibero-American economies, he said, threatens democratic institutions throughout the hemisphere, and raises the spectre of "massive famines," even world conflict. "For better or worse," Hurtado stated, "in the interdependent world of today, the crisis of the Latin American economies could become the detonator of a conflict of global dimensions."

Dominican President Salvador Blanco similarly urged that the unity of Ibero-America is "necessary and urgent" to solve the problems of subsistence and "our terrible political and economic conflicts." He said, "We Latin Americans must be, as well, the barrier which blocks the constant danger of world holocaust, transforming ourselves in a bastion of equilibrium for world peace."

The oil question

Of all the impediments that have kept Ibero-America from realizing this objective, oil has been the biggest.

In their Puerto La Cruz communiqué of Aug. 1, the ministers of Venezuela, Mexico, Ecuador, and Trinidad and Tobago noted that Ibero-America produces almost 6 million barrels per day (bpd), well over its consumption needs. Yet, because of the debt crisis, nearly 80 percent of the region's exports are sold outside of Ibero-America, in order to earn dollars to pay off debt. On the other hand, the big consumers, such as Brazil, frequently have to use their scarce dollars to buy oil outside of Ibero-America.

If the region's oil vulnerability can be repaired, it will free Ibero-America to drop the debt bomb on the IMF and the Swiss. It is well known that Brazil, for example, has repeatedly been broken by its weak oil flank whenever it has come

close to making a move against its creditors. The Wall Street press is gloating that Petrobras, the Brazilian state oil monopoly, has almost been shut off from oil sources because of Brazil's near-bankruptcy and poor credit rating. The fuel situation inside the country has been described by observers as "a national emergency."

At the same time, suppliers like Mexico and Venezuela have been kept from coming to the rescue of other oil consumers because they need to export their oil to the United States for dollars, which they need to pay off their debts and to pay for food imports.

Such ironic "indicators," the ministers agreed, "show the vast possibilities for cooperation that exist" not only among the Ibero-American oil exporters, but "among them and the rest of the countries of Latin America." The ministers also agreed to explore in detail means of "industrial complementarity" among themselves, "particularly in the area of capital goods and consulting services" and "cooperation programs with other countries in the region." Mexican Energy Secretary Francisco Labastida, when questioned about speculation that the ministers discussed the formation of a "Latin American OPEC," smiled broadly, and answered, "No, no—what is going on here is just an 'exchange of information'."

In addition to the Puerto La Cruz conference, the foreign ministers of Brazil, Venezuela, and Mexico—the continent's biggest oil importer and the two largest exporters—met in Rio de Janeiro, also on Aug. 1. Reliable sources report the agenda was dominated by two subjects: 1) Central America, and 2) petroleum.

At the same time, there are reports from Venezuela that steps have been taken that will allow Brazil to increase its purchases of Venezuelan oil in exchange for Brazilian capital goods, without having to use dollars. In addition, Brazil is rapidly shifting from suppliers who demand cash or foreign bank credit, to barter deals with other Ibero-American producers.

Such measures are becoming increasingly vital for Brazil. The IMF is holding Brazil hostage by refusing to give it any more loans until it enacts even more severe reductions in living standards, and the private banks are doing likewise. In late July, it became public that the banks have also shut off Petrobras from its petroleum sources by denying the company credit.

On July 29, the Brazilian central bank took emergency steps to pull in dollars to pay for oil. A new decree mandates that all private foreign payments leaving Brazil must be cleared through the central bank, which means pools of dollars that had been held in offshore deposits as a hedge against devaluation are now to be allocated centrally by the government. A statement from the central bank said the measure was taken "in the interest of national security," in order to keep the oil flowing. Economists cited in the Brazilian press described the step as "a question of national survival."

The question that remains is how long will it take Brazil, once it has oil security, to repudiate the IMF?

IMF group in Congress pushes Rohatyn plan: opponents prepare for September quota vote

by Kathy Burdman

At deadline for adjourning their current session, the U.S. House of Representatives on Aug. 3 voted the authorization bill for an \$8.4 billion increase in America's quota contribution to the International Monetary Fund, and then adjourned until September.

The vote was very close: 217-211, with feeble Republican support for what was supposed to have been a Republican administration bill. Only 72 Republicans voted for the authorization, with 94 opposed. Three more no-votes would have killed the measure. Led by House Banking Committee chairman Fernand St. Germain (D-R.I.), Democrats backed the IMF by 145-117.

Authorizations approve funding in principle, while appropriations muster the cash. And the IMF is still a long way from winning its tribute. As *EIR* reported last week, the House killed the key fiscal 1983 appropriations half of the IMF bill on July 29, by a much wider margin of 213 to 165. The earliest the IMF can receive U.S. cash is under the fiscal 1984 appropriations in October, under House procedures.

Given the tiny margin of votes for the IMF and the fact that Congress is recessing for five weeks to be pounded by constituents against the bill, there is every reason to expect that the IMF cash appropriation will be defeated when they open for debate in September. St. Germain, acting as the front man for Paul Volcker, Donald Regan, George Shultz, and Henry Kissinger—the “IMF lobby”—plans to try to force the IMF cash appropriations through Congress when it reconvenes in September as a rider on a series of 1983 “emergency supplemental appropriations.” But the vulnerability of any such option is clear.

The lead editorial in the Aug. 5 *Washington Post* declared the authorization vote “a triumph of good sense and good politics,” then complains that “it will have to be followed by an appropriation.” But the appropriations committee is “firmly in the hands of people hostile to the IMF, and getting that legislation through the House will require another struggle. The authorization alone won't deliver the money.”

‘Latin America and Congress be damned’

Outside Washington, the national media have clamped a blackout on the July 29 IMF appropriations vote, and wild lying is coming from the Fund and U.S. Treasury Department to try to shore up the IMF's position (see interviews below).

A top official of the IMF called the House defeat of the IMF's 1983 funding “irrelevant . . . of no consequence”; Brazil and others judge U.S. policy by what Paul Volcker and other U.S. officials have done, their “fantastic armtwisting to get support for the IMF. . . . There have always been congressmen who say IMF austerity is too tough. . . . No one takes them seriously.”

Meanwhile, the House of Representatives is being misrepresented abroad as having backed the IMF with all its might, as the IMF and Treasury claim that the mere authorization vote gives the Fund U.S. carte blanche.

One Treasury official was rather blunt: “No one in Brazil, Venezuela, or those other countries will notice that the Congress has voted against the IMF,” he said. “They're too stupid to understand the difference between an appropriations bill and an authorization bill.”

The truth is that just enough sand has been thrown into the legislative machinery to give the American people a last chance to stop their elected representatives from signing U.S. sovereignty and resources over to the IMF.

No matter what they say in public, every congressman knows that to the forces backing the IMF bill, \$8 billion is a drop in the bucket; what they are really after from Congress is a *political commitment*, a commitment not to resist as the U.S.A. is transformed into a “banana republic” under the supranational financial tyranny of the Swiss-based Bank for International Settlements, the Big Brother financial agency to the IMF.

Only one organized force has opposed that perspective effectively—*EIR* founder Lyndon LaRouche's National Democratic Policy Committee. LaRouche's Operation Juárez plan would scrap the IMF in favor of a new international monetary system to provide hundreds of billions of dollars of credit for worldwide industrialization. The “LaRouche lobby” has been conducting an international mobilization of trade unionists, businessmen, farmers, scientists, and governments to swing the U.S. government behind Operation Juárez; a redoubling of that mobilization during the next six weeks is the only chance to catalyze the resistance to the IMF in Congress.

The House version of the IMF authorization bill passed Aug. 3, most of it written by St. Germain after consultations with Bank of England regulatory chief Peter Cooke, is the

first legal step toward committing the United States to a global form of Felix Rohatyn's Big MAC financial dictatorship in New York City.

Title III, the IMF quota section proper of the bill, as amended by St. Germain, would force the U.S. representative at the IMF to see that loan programs are "stretched out." "The United States Executive Director at the International Monetary Fund," it reads, "shall vote against" an IMF loan to any borrowing country "unless the U.S. Executive Director first determines . . . that the IMF program converts short-term bank debt which was made at high interest rates into long-term debt at lower rates of interest," and that "the annual external debt service required of the country is a manageable percent of the projected annual export earnings of such country." In practice, this means, not debt relief, but a long-term austerity dictatorship under which no new credit for production is permitted.

The *New York Times* Aug. 5 commented that the authorization approval brings the case of Brazil to the forefront. "The IMF proposes still more stringent austerity, which is ultimately desirable if socially feasible. The House version of the IMF funding bill urges stretching out all developing nations' debts and reducing their interest rates, but someone would have to pay. If it's banks, they'll shy from necessary new credits; if it's IMF member countries, new funding will be hard to get."

Under Title III, the U.S. Secretary of the Treasury is also mandated to "initiate discussions" on setting up an IMF-run "new Bretton Woods" currency rate rigging system, "to reform the floating exchange rate system," and shall report to the Congress within 180 days on U.S. proposals to do so.

Title II of the bill, "The International Economic Recovery Act," is a directive to the President to report annually to Congress on whether or not and how well he has negotiated global economic reforms such as those Rohatyn has proposed. It reads: "The President shall encourage the industrial nations to work together to relieve the pressures of debt payments on the LDCs, in particular for reducing the financial pressures of their short-term debts, by extending, where appropriate, the maturity of such debt."

It also requires the President to work toward submitting the United States and other industrial economies to the economic dictates of the BIS: "The President shall encourage the industrial nations to take actions on a cooperative basis to adopt fiscal [read: cut defense budget] and monetary policies such as to encourage economic growth."

Title IV, International Lending Supervision, contains a bank regulation provision under which the Volcker Federal Reserve must make U.S. bank reserve requirements so tough that they must immediately begin setting aside penalty reserves against (in effect writing off) loans to not only Zaire, but Argentina, Brazil, Mexico, and all the major debtors.

It also contains a congressional GAO auditing power which would force the Fed and other U.S. regulators to "cooperate with international lending supervisors" such as the

BIS's Cooke Committee to immediately establish tighter controls over international credit.

This comes at the same time that Kissinger's networks internationally, from Lord Harold Lever and the British Commonwealth Office to the Bank of America, are resurfacing the idea of expanding or restructuring the IMF to deal with the fall debt crisis. Following Lever's July 9 London *Economist* article calling for the IMF to conduct global debt restructuring, Commonwealth financial expert Robert Muldoon, the finance minister of New Zealand, wrote a summer *Foreign Affairs* article on the same theme. The accompanying *Foreign Affairs* piece by Bank of America vice-chairman William Bolin proposed the use of the World Bank to restructure long-term debt, while the IMF handles short-term austerity programs. Meanwhile Kissinger, cosponsor with Rep. Jack Kemp of a recent conference on revamping the IMF, held meetings this month with Bank of America executives at the Bohemian Grove to discuss, among other issues, the global debt crisis.

'IMF out of ammunition'

The fact is, as the leading Swiss daily *Neue Zürcher Zeitung* argued in an Aug. 1 analysis, the IMF is no longer capable of handling even the present short-term crisis, let alone a long-term solution. Current IMF commitments are now \$2.7 billion in excess of its present resources, and the sum could rise to \$7 billion by the end of the year. Although these commitments for loans will not fall due until 1984, the IMF's present capacity to operate is hobbled by the shortfall. The shortfall will not be made up even if Congress approves the quota increase.

"Of course, the Fund could always fall back upon its own reserves, but this would mean that its contingent obligations—read the automatic drawing rights of its members upon their reserve tranches—could not be fully drawn, or, in an extreme case, could not be drawn at all. It is evident that such a situation is not sustainable. The managing director of the IMF, de Larosière, has been knocking on the doors of member nations of the General Arrangement to Borrow [the emergency kitty of the Group of 10] as well as Saudi Arabia in an effort to close the financial gap. In the headquarters of the IMF in Washington, the main occupation is to find a solution which will satisfy all sides," the Swiss newspaper reported.

"But at the last meeting of the Group of 10 in Paris, and in discussions with Saudi Arabia, it was shown that a boundary has been set to nations' willingness to spend. From the American side, the question must be posed concerning how new financial resources could be assembled before the Eighth Quota Review has been decided. It is a total impossibility to squeeze additional means out of a Congress whose lower house is having trouble with the IMF quota increase. And in West Germany—the next door to knock on—it has been made clear that the German commitment has finally reached the limit of what might be presumed. . . .

"Thus the front has been closed to a great extent. While

the Fund's new role as savior in time of need has come into the foreground, the potential donors to the Fund are not willing to back up the institution with more than bridge loans to the next quota increase. Concretely, this means that a great deal of the Fund's future ammunition has already been shot off."

The Swiss view efforts to build up the Fund's operating capacity as illusory. According to a aide close to Swiss National Bank president Fritz Leutwiler: "The Americans are going to have to bear the brunt of it."

The terrible irony of U.S. administration policy is that while the Treasury has tied the future of the U.S. banking system to the IMF system, the IMF is losing its ability to maneuver even in the short term.

IMF: 'Congress is irrelevant; debtors listen to Volcker'

From an Aug. 1 interview with an official of the IMF Research Department, provided to EIR:

Q: What do you think of the U.S. House vote July 29 to kill IMF appropriations for the rest of 1983?

A: It is of no consequence. All it means is that the money may not be available until October. But the deadline for passage of the quota increase is not until Nov. 30, and the actual money is not scheduled to be paid until January. Congress is expected to pass the authorization bill this week, and that is what is important. If there is a strong vote to authorize the IMF quota this week, they that will give assurance that the money will be appropriated and available in October. In that case, the fact of a two- or three-month delay makes little difference.

Q: How long would the United States have to delay appropriation to hurt the IMF?

A: The only problem would be if the U.S did not make the appropriation by the end of this year. That would have severe consequences for the world financial system, and the Congress knows that. But I don't have to tell you that, [Treasury Deputy Secretary] Tim McNamarr and [Secretary of State George] Shultz have already spoken eloquently about the disastrous consequences. De Larosière and the IMF are letting them speak for us; we're keeping above it.

Q: But during that little two- or three-month delay, there may be a monetary crisis, with the Brazilian, Mexican, and Argentinian IMF deals falling apart, at least. Why should these debtors submit to IMF conditions if the U.S. government does not even back it?

A: The IMF will have no problem with that. As long as Congress passes the authorization, there won't be any difficulties, because the appropriation will then be no problem.

Q: But if word gets out in Latin America that the U.S. Congress doesn't back the IMF, in the middle of a crisis. . . .

A: Look, these countries take their ideas of U.S. financial policy not from the U.S. Congress, but from Paul Volcker, Donald Regan, and the rest of the U.S. financial officials. They judge the U.S. policy by the fantastic arm-twisting to get support for the IMF, and to get the U.S. banks to cooperate with the IMF in the Latin loan consortia. And they [Ibero-Americans] know they will only continue to get U.S. loans and cooperation if they agree to IMF conditionalities, whether they like it or not. IMF conditionalities are the policy of the U.S. government.

They [Ibero-Americans] don't judge the U.S. by mere legislation on the IMF. Congress's actions mean nothing to them. Whether Congress is only 51 percent or 50 percent behind the IMF has absolutely no effect on the rest of the world.

Q: The statements being made in Congress against the IMF could get out all over Latin America. Bill Patman of Texas charged on Friday, for example, that the Federal Reserve's austerity here has cost the U.S. economy \$1 trillion, and "to endorse the policies of the IMF is to export the policies of the Federal Reserve to other countries."

A: Oh, these people are of no consequence. There have always been congressmen who say IMF austerity is too tough. Then there are those who say the IMF has been too lenient, and the debtor countries must learn to crack down with even harsher conditions, and earn their keep. Let Patman talk. There have always been mere populist and cheap money men in Congress. No one takes them seriously.

The debtor countries don't deal with the U.S. Congress—they have to deal with the Fund, and the Fund is backed by the U.S. administration, and that is all there is to say.

Treasury: 'Latins can't grasp what appropriations mean'

From an Aug. 3 interview with an official at the U.S. Treasury's IMF desk, provided to EIR:

Q: How do you think the Latin American debtor countries will react to last Friday's defeat of the IMF appropriation?

A: We wanted the appropriations approved, it's true, but this is not an overwhelming defeat. Regan is counting on the authorization, and they will be told by the Treasury and the Federal Reserve that the U.S. government is fully behind the IMF. Regan will worry about making the payment later.

No one in Brazil, Venezuela, or those other countries will notice that the Congress has voted against the IMF. They're too stupid to understand the difference between an appropriations bill and an authorizations bill. In fact, outside of the

[Washington] Beltway, no one will understand it. It's irrelevant.

All that's relevant for the Brazilians and the rest to know is that the U.S. Congress is going to endorse the IMF, whether they give it money right now or not, and they'd better get their act together and come to terms with the IMF. If we don't have the money by the IMF Annual Meeting [Sept. 25-30] we'll just tell everyone, "Congress has to have time to deliberate."

Congressional aide: 'Trouble when congressmen go home'

From an Aug. 3 interview, provided to EIR, with a congressional aide who supports the IMF:

Q: What is your reading on the IMF appropriation's chances?
A: It'll be who can marshal the forces over the next month. These congressmen have to have their backs to the wall, and frankly they're not there yet. Hell, [Rep. Parren] Mitchell [D-Md.] got up the other day and said "There's no emergency or we would have passed this long ago."

Now these guys are going back home, where they're going to hear four or five weeks of constituents saying "don't bail out the big banks," and then they'll come back here with their heads all screwed around. The vote today on authorization doesn't settle anything. These guys are going home! And the delay doesn't help. The problem is these guys are hearing *nothing* from their districts that's pro-IMF. The only pro-IMF talk they hear is from Don Regan, and frankly he's just not that exciting to listen to over and over again on the same theme.

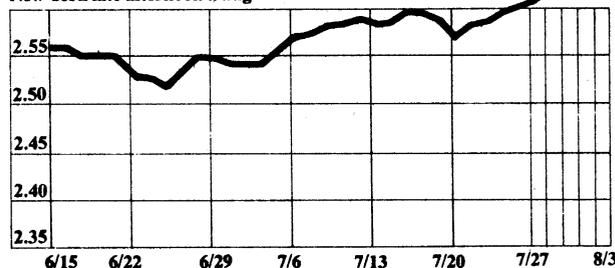
We need something to shake these guys up. Frankly I was amazed at the way the press treated the vote last Friday night [deleting funding for the IMF]. I expected much more hand-wringing, but the press I saw treated it as though nothing happened, no problem. We're not going to make it relying just on editorials in the *Washington Post*—which backfire with Congress anyway. Say, I know this isn't necessarily your line of work, but if you could arrange a little more alarmist press coverage, it sure wouldn't hurt.

Q: Are you anticipating an economic shock during the recess?
A: No, but if you can arrange a few that would be great—ha, ha. What we need is a nice controlled panic or two. Let's face it, voting for the IMF and the big banks isn't exactly the route to political popularity these days. I counted at least 15 votes at first glance in that Friday vote where members who support the IMF were getting one safe anti-IMF vote on the record. So maybe with a little more crisis stuff, we can get these guys to say, "Look, I agree with you about the IMF generally, but there's a crisis now and we can't risk bringing the system down."

Currency Rates

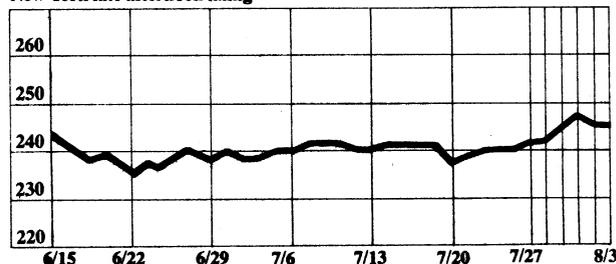
The dollar in deutschemarks

New York late afternoon fixing



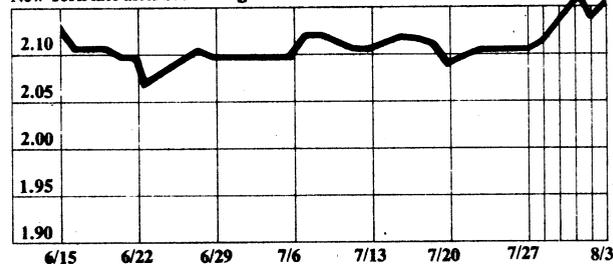
The dollar in yen

New York late afternoon fixing



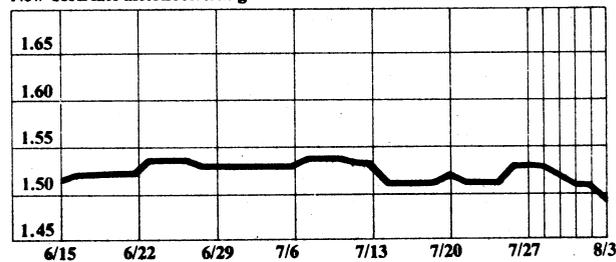
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Yugoslavs fall deeper into the debt trap as separatists feed unrest

by Edith Vitali

At the end of July, Yugoslavia signed an agreement with a consortium of international lenders for a credit package amounting to more than \$4.5 billion. At the same time, the Yugoslav Federal Assembly began discuss the recommendations of the "Commission on Problems of Economic Stabilization," or Krajger Commission, which will form the basis for some 70 laws to be passed within the coming months.

These arrangements mean that Yugoslavia will impose further severe austerity measures on an economy which has already been weakened by drastic cuts of raw material imports, consumer goods, and machine tools on order from international creditors in the last two to three years. Economic depression is making Yugoslavia, which suffered a series of ethnic riots in 1981, all the more vulnerable to political upheaval. The situation is making Yugoslavia extremely vulnerable to the Swiss-based Nazi International and the sponsors of the *Mittleuropa* scheme, who are now deploying the separatist movements cultivated under the Nazi occupation during World War II.

The precondition for the multibillion bridge loan promised Yugoslavia since the beginning of 1983 by the International Monetary Fund, the World Bank, the Bank for International Settlements, and some Western governments was a new law passed by the Yugoslav Federal Assembly on June 30, which makes the Yugoslav National Bank the sole guarantor for the country's entire foreign debt. All of Yugoslavia's convertible reserves—both currencies and gold—are liable to seizure by the foreign creditors in case of non-payment.

Domestically, the new law provides the National Bank with hitherto unknown powers, including the right to commandeered the assets of local and regional enterprises and banks for the purpose of debt collection.

The recommendations of the Krajger Commission in many ways read like the unofficial conditions that the foreign bank-

ers attached to the bridge loan: full convertibility of the Yugoslav currency (the dinar) and a "realistic" exchange rate for the dinar, which will mean a massive de facto devaluation as well as a deregulating of prices along "supply-demand" lines.

Milka Planinc, sometimes called the Margaret Thatcher of Yugoslavia, represents the Liberal-Friedmanite current in the Yugoslav Communist Party leadership. In a recent speech, she implicitly criticized former President Tito because it was under his regime that most of the foreign debt was incurred.

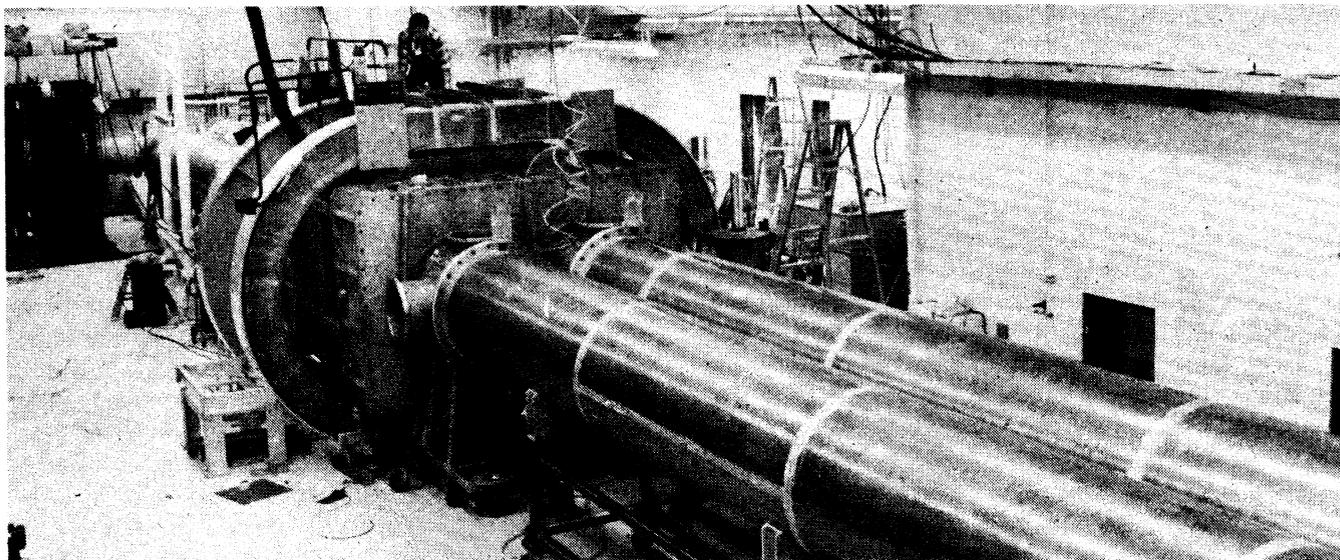
The de-industrialization and lowering of living standards as a result of the austerity policies imposed by the government provide a fertile ground for the re-emergence of nationalist-separatist and religious movements which preach that there are more important things than material well-being.

A trial of 13 Islamic professors, intellectuals, and imams who were organizing for a separate, Islamic Republic of Bosnia-Herzegovina is ongoing in Sarajevo, the capital of that province. The older members of this group belonged to the secret organization "Young Muslims" during and after World War II. In 1943, Heinrich Himmler sent the pro-Nazi Grand Mufti of Jerusalem to Sarajevo, where he called on these Muslims to join the newly created SS Hadjar (saber) Division, while the Kosovo Albanians were organized into the SS Skanderberg Division. The Bosnian Muslim conspirators are said to receive finances from Libya's Muammar Qaddafi, while they are "spiritually" closer to the Islamic fundamentalists of the non-Arab countries of Iran, Turkey, and Pakistan.

Emigré sources report that the Bosnian Muslims are also working closely with Albanian Muslims from the Serbian province of Kosovo, where two years ago separatist-ethnic riots erupted. One quarter of the Yugoslav army is still deployed in Kosovo as the unrest has not been quelled. Indeed, the problem there now is a widespread wave of emigration of Serbs and Montenegrans, who claim they are being driven out of Kosovo.

The Albanian agitators who are calling for an ethnically pure Kosovo are reportedly closely linked, both in Yugoslavia and abroad, with Croatian nationalist groups who in turn maintain links with certain Arab countries and with Bulgaria. The prevalent view is that the Kosovo riots were but a test run for the planned eruption of Macedonian, Muslim, Slovenian, and Croatian nationalist ferment.

Vladimir Dedijer, Tito's former collaborator, who lives in Belgrade today as a tolerated dissident, works with the Bertrand Russell Tribunal on verifying the complaints he has received from 11 Muslim intellectuals concerning violation of human rights by the Yugoslav authorities. Dedijer also is organizing a conference on European minorities in Zürich this fall, where the question of the Slovenian nation—Slovenians today form a republic in Yugoslavia, but are also scattered in Austria and Italy—will be prominent in the discussion.



The krypton fluoride laser successfully tested this June.

Los Alamos x-ray laser advance brings beam weaponry closer

by Charles B. Stevens

Researchers at Los Alamos National Laboratory in New Mexico report that they scored a major advance in the development of efficient, short wavelength lasers with the successful firing of their 20 kilojoule maximum output krypton fluoride (KrF) gas laser system in June. This breakthrough in high-power laser technology has major implications for the development of commercial laser fusion and anti-missile beam weapons.

It has been known for some time that the KrF electron beam driven laser has ideal characteristics for both fusion and military applications if it could be scaled up to an optimal size:

- 1) short wavelength (0.248 microns) for efficient coupling of light energy to fusion and military targets.
- 2) the capability of being scaled cost-effectively to large size;
- 3) the ability to fire repeatedly;
- 4) good efficiency for conversion of input electrical energy into high power laser light (4 to 7 percent).

Los Alamos has now achieved the scale-up to optimal size for the KrF. According to Dr. Allen Hunter, leader of the Los Alamos Advanced Laser Technology Group which

built the KrF, "No other laser system has all of these attributes."

"Initially, the laser-fusion community asserted that krypton-fluoride laser development was too complicated and too costly to consider for laser fusion applications," Hunter stated in an interview, "but the desirable wavelength was something we thought we had to pursue, and our laser works—in 15 months we have developed a laser that this week successfully delivered light energy for an unprecedented low cost." Hunter further pointed out that: "We have shown that this laser is neither complicated nor expensive, and that it can have high efficiency compared with other demonstrated short wavelength laser systems."

These Los Alamos developments completely confirm the projections made in a September 1980 article in the magazine of the Fusion Energy Foundation, *Fusion*, entitled, "Exclusive: Behind the Classified Foster Report; Is Krypton Fluoride the 'Brand X' Laser?" At that time the Carter administration had sabotaged the U.S. inertial confinement fusion (ICF) and high energy laser programs through suppressing the results of the official Department of Energy review of laser fusion by the Foster Committee. The Foster Committee, so named because its chairman was Dr. John Foster of TRW,

had completed a favorable review of the magnetic fusion program in 1978. During 1979 the Foster Committee reviewed the laser fusion effort and concluded that its budget should be doubled based on the potential of the KrF laser for both the research and commercial stages of inertial confinement fusion development. The Carter administration classified the Foster Laser Fusion Review "top secret." As a result Congress cut the overall laser fusion research budget and funds for KrF development in particular. As the *Fusion* article noted, these actions were to "retard the development of commercial inertial confinement fusion as well as halt important scientific advances essential to national defense."

Wavelength and target coupling

EIR founder Lyndon H. LaRouche detailed why short wavelength lasers are most effective in an April 13 Washington, D.C. address to government and diplomatic representatives. (See *EIR*, April 26, 1983 for complete text):

First, if we concentrate even a fairly small quantity of wattage on a sufficiently small area, the concentration of energy . . . can be made sufficient to "boil," so to speak, any material. This much seems to be explainable in terms of the widely acceptable theory of heat; the second principle cannot be so explained. Second, lasers have a property which is sometimes called "self-focusing." This is described more accurately by reporting that each range of the upper electromagnetic spectrum [ranges of shorter wavelength] has very distinct qualities of harmonic resonance. In one [wavelength range], this focuses the energy on the molecular scale, and in higher ranges [shorter wavelengths], the subnuclear scale. To cause a laser to work as desired, one must tune the laser to monochromatic frequencies such that very little of the laser's beam is absorbed by the medium through which it is transmitted, and the beam is tuned at the same time to the part of the spectrum of matter of the target selected. . . .

The principles governing the way in which a coherent, directed beam does work on its target are, most immediately, the principles defined by Bernhard Riemann's 1859 paper, "On the Propagation of Plane Air Waves of Finite Magnitude." . . . In the process leading to the production of the shock-wave, the upper part of the wave overtakes the mid-point of the wave, creating a steep front, which is the shock-wave. The greater the ratio of the height of the wave to the length of the wave, the greater the tendency to produce shock. Obviously, the shorter the wavelength, the more work we get out of the beam used, which is why the upper ranges of the electromagnetic spectrum are so attractive for us.

In terms of existing scientific and technological capa-

bilities, the KrF represents an ideal laser for use in combination with optical systems—mirrors and lenses. No known materials are capable of efficiently focusing or reflecting electromagnetic radiation at wavelengths below one tenth of a micron. At 0.248 microns the KrF is at the very end of the wavelength range which can be efficiently focused and reflected.

On the other hand, the volume of optics needed to focus a laser beam to a given target-spot size varies with the square of the wavelength. In fundamental terms this is because beam divergence, diffraction limitations, increases with increasing wavelength. For example, it is reported that one needs a 10-meter diameter mirror in order to focus a 2.7 micron chemical laser beam onto a missile several thousand miles away. With a 0.248 micron KrF, only a one-meter diameter mirror is needed to achieve the same degree of concentration.

But, as Mr. LaRouche details in theoretical terms, shorter wavelengths are qualitatively superior. This is reflected in the more efficient and qualitatively superior coupling of shorter wavelength laser light to both ICF and military targets. In crude terms this superiority is measured in terms of hydro efficiency, which measures the percent of the incident beam energy that is converted into a shock wave propagating through the target. Longer wavelength chemical laser beams have an inherently low hydro efficiency—most of their energy is deposited as simple heat—while in the quarter micron range a significant portion of the incident beam energy is converted into that of the shock.

But relative hydro efficiencies are only indicative. Qualitatively, the difference is much more dramatic. As a simple illustrative example—which is only a theoretical example and should only be attempted by competent experts—place a few ounces of black powder on a table top and throw a match into it. What happens? The powder will hiss and burn, but in general only the table top will be a little scorched. Alternatively, if we had thrown a sheet of paper over top the black powder just after throwing the match into it, the result would be quite different. And in fact, the table top could end up with little scorching while the walls of the room would have been blown down. By placing the paper over top of the powder we have "shaped" the evolution of the powder's combustion, generating a deflagration wave instead of simple burning. This generates a shock wave which harmonically tunes in to the mechanical structure holding the walls of the room up. If we further shape the explosive into a hollow cone and place at a structural weak point, an entire building or rock formation can be brought down in one fell swoop.

The shorter wavelength ranges of coherent electromagnetic radiation are inherently tuned in for most efficiently coupling to a target and generating the most efficient form of shock wave to achieve the desired result. In the case of ICF this is to produce the most efficient compression of

matter to super densities—the so-called isentropic compression. In the case of military targets it is to most efficiently generate a form of shock wave which most effectively penetrates into the fragile innards of the target.

Because of this and because of its ability to utilize optics and most effectively propagate through air, the KrF represents the leading edge of laser beam weapons qua lasers, at the present time and for the near future. The shorter wavelength x-ray lasers (.04 microns) are indeed more efficient in terms of target kill, but they are limited to operation outside the atmosphere, since they cannot penetrate the atmosphere. Also, because optics cannot be utilized with such short wavelengths, the KrF, which can, represents a crucial complement to x-ray laser space-based beam weapons.

Future developments

While the KrF has not yet been fired at full power, Los Alamos researchers foresee little difficulty in achieving this. More significantly, Los Alamos has now demonstrated that the KrF can be scaled to optimum 20 kilojoule size module for high power levels. Upwards of 30 of these optimum scale modules could be combined to generate sufficiently large single laser pulses needed for achievement of laser pellet fusion net energy generation or for practical beam weapon applications.

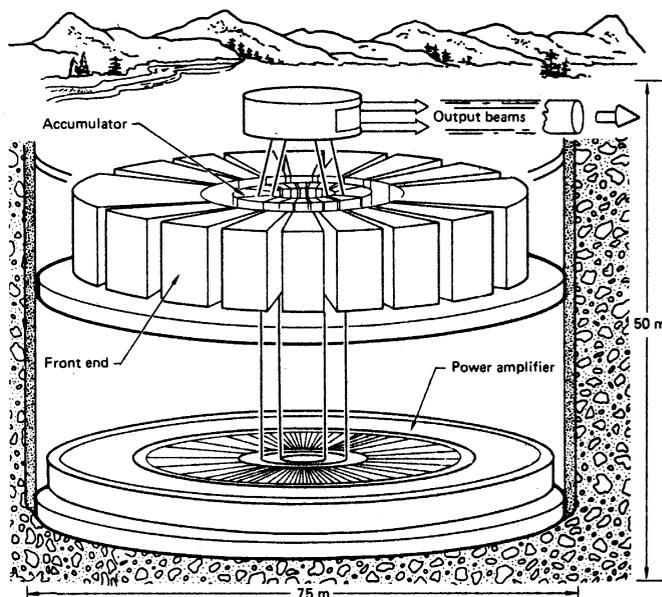
The KrF is an “eximer” type of gas laser which is energized by relativistic electron beams. In order to achieve the maximum efficiency in terms of conversion of input electron beam energy into output laser energy, the KrF laser pulse must be at least several hundred nanoseconds long.

The current pulse-length of the Los Alamos KrF is 500 billionths of a second—500 nanoseconds. Both for effective military application and achievement of laser pellet fusion, this beam pulse-length would have to be compressed by a factor of 100—to 5 nanoseconds. According to leading national laboratory laser experts, this pulse compression can be achieved in a straight forward manner utilizing optical techniques. The specific techniques being projected for further KrF scale-up are those of angular multiplexing and combined aperture operation.

Angular multiplexing consists of breaking the initial laser pulse into a number of smaller pulses, which are then optically stacked in time and space through the use of hundreds of mirrors. Combined aperture operation consists of simultaneously directing the output from several KrF 20 kilojoule modules onto the same set of angular multiplexing mirrors—i.e., one mirror system is able to optically stack the output from many KrF modules at one time. For military applications, after pulse compression, the laser beam optical quality would be improved through the non-linear Raman interaction between the laser light and a gas. This will permit the accurate and efficient long distance transmission of the laser beam through the atmosphere.

The September 1980 *Fusion* article predicted that million

Hardened KrF Beam Weapon



The above diagram, taken from a June 1981 national laboratory report, shows the overall mockup for a 2-megajoule KrF laser beam weapon system. The system would be buried in the ground and would have a pop-up turret for shooting the beam.

joule KrF laser systems could be built with angular multiplexing for pulse compression at a “cost between \$200 and \$300 million.” A million joule high power laser based on existing glass laser technology is currently projected to cost above \$1 billion. The Los Alamos developments confirm the accuracy of *Fusion*’s projections.

Beam weapon applications

Because of its size, a multi-megajoule KrF beam weapon would most likely be based on the ground. Such a laser could operate both directly against incoming warheads as a terminal point defense system and, in combination with space based mirrors for redirection of the laser beam to any spot on Earth, as a strategic area defense system for interception of missiles at any stage of their trajectory. In the second case systems of orbiting mirrors would be kept on station during peace time and backup mirrors would be placed on rockets which would only be launched once an ICBM attack was detected.

While megajoule KrF lasers—if sufficient funds are invested in their development—could be realized within the next five years, there is another fruitful line of development currently being pursued by the national laboratories. This consists of combining the KrF with the free electron laser (FEL). The FEL would be utilized to amplify an input KrF laser beam. Such a combination could increase the overall efficiency of the laser system by more than 25 percent. Experts indicate that this hybrid KrF-FEL system could also be realized within the next five years.

Volcker's old tricks

If interest-rate increases continue, they will wreck the so-called recovery and balloon the federal deficit.

When Paul Volcker told the U.S. Congress July 28 that "interest rates will rise," it was only five days after he had assured the Senate that he would not raise interest rates. That assurance had been the condition for the July 26 approval, by an 84 to 16 vote, of his reappointment to a second four-year term as Fed chairman.

The rate increase—spurred by the liquidity crisis in the Euromarkets (see article, page 4)—confirms the stupidity and spinelessness of the legislators who voted to keep Volcker, and will now watch him blow away the illusion of a U.S. recovery.

At Volcker's confirmation hearings in both houses, congressmen outdid themselves in groveling before the Fed chairman, alternately praising him—House Banking Committee chairman Fernand St. Germain (D-R.I.) declared, "Thank God you are not retiring from public life"—and supplicating him not to raise interest rates. Volcker merely grunted and told the congressmen in effect, "I'm a bottom line guy, do what I say."

No sooner had Volcker been confirmed than on July 29 and Aug. 1 he started raising rates in order to "slow and top out the pace of the U.S. economic recovery" (sic), according to Philip Braverman, chief domestic economist for Chase Manhattan Bank. Volcker's method was to raising the federal funds rate. On May 13, that rate—at which the Fed lends 24- to 48-hour money to the commercial banking system—was 8.48 percent. By July 27, it had risen to an average of 9.50 percent. Then on July 29 and

Aug. 1, Braverman reports, the Fed tightened by selling Treasury securities through the federal funds window to the commercial banks, in order to drain liquidity out of the system, raising the federal funds rate further to the 9.75 percent range.

The Fed can sell Treasury securities, i.e., drain liquidity, on either a system-wide basis, putting the Treasuries up for general purchase, or on a customer basis, in which it approaches banks and asks them to buy. "For the past two days, the Fed has been conducting these operations on a customer basis," Braverman said Aug. 2. "The Fed was saying that the rise in the federal funds rate was fine. It was giving a direct signal to the banks that it wanted rates to raise by doing it on a customer-by-customer basis."

The federal funds rate, Braverman stated, will probably reach 10 percent by late August. The rate is crucial in setting general interest levels: the commercial banks normally peg the prime rate at 1.5 percentage points above the federal funds. Were the fed funds rate to hit 10 percent by the above formula, the prime rate would rise to 11.5 percent.

The rate on government Federal Housing Administration (FHA) mortgages has risen from 11.5 percent seven weeks ago, to 13.5 percent on Aug. 2. And at the same time, U.S. Trust Company announced that it is raising its broker loan rate to 10.25 from 10 percent. The rate is the fee charged securities dealers on loans backed by stocks. Securities dealers, in turn, pass along their increased costs to cus-

tomers buying stock on margin. This increase will take the remaining wind out of the Dow Jones industrial average, which fell 50 points for the five days ending Aug. 2.

The shake-out from Volcker's action, which *EIR* has warned of for weeks, is that the \$700 billion of Third World and East bloc debt becomes harder and harder to service as rates rise. On the domestic side, the construction boomlet that accounted for most of the alleged recovery will expire.

"Housing is going to take a beating in the third quarter," commented Ray Michalski, economist for Bank of America, on July 29. "When conventional home mortgages came down to the 12.0 percent level earlier in the year, they were just low enough that people would borrow to buy homes. But Bank of America's conventional mortgage loan rate has gone up from 12.50 to 13.75 percent just in the last five weeks. Most of the population, by which I mean most of the middle class, won't be able to buy homes."

The other big element of the recovery, as Michalski said, has been auto. "But there is no way that General Motors can keep financing car loans at 9.9 percent, when because interest rates have moved up, the cost of their commercial paper is 9.25 percent and on top of that you must add 1 percentage point for administrative costs."

The increase in rates could lead investors to dump securities in panic, sending rates still higher.

Then there is the U.S. Treasury, which brought to market \$15.75 billion in notes and bonds on Aug. 1-4. The cost of servicing the public debt will rise even further. Volcker's coupon-clipping friends in Geneva, London, and Wall Street, who make such pious attacks on the U.S. deficit, don't mind at all.

Reserves, not butter

Volcker has the U.S. commercial banks flush with funds, but starving for borrowers.

Over the past six months, the Federal Reserve managed to generate a short-lived consumer boom—at the paradoxical expense of a drastic reduction in American living standards.

As part of his scheme to keep his job and to forestall Latin American debtors from outright default, Paul Volcker injected huge amounts of monetary reserves into the banking system. Volcker has also seen to it that U.S. banks received a major new deposit infusion, at consumption's expense.

The only problem has been, and will be, that the deliberate decimation of consumption has permanently reduced the bank loan market in the U.S. industrial economy—a “reserves, no butter” policy.

In fact, commercial banks, during a period of record deposit growth and record availability of non-borrowed reserves from the Federal Reserve, have actually contracted their rate of business lending. Commercial and industrial loans outstanding at the end of June 1983 are lower than at the end of the third quarter of 1982.

U.S. consumers, too, especially during the third and fourth quarters of 1982, borrowed and spent less than during 1981—in the midst of a supposed consumer-led recovery. During the third and fourth quarters of last year, consumer demand for currency, both borrowed funds and use of their own deposits for spending, was so low, due to unemployment, that the currency part of the monetary base collapsed.

While their consumption and credit demand fell, U.S. households simultaneously provided major amounts of

new liquidity to the banking system, in what amounted to a policy of forced savings of household liquidity. In Hjalmar Schacht's Germany of the 1930s, this was done by means of laws requiring savings deposits. Volcker calls it “deregulation.”

During the first quarter of 1983, U.S. households deposited a net inflow (net of all other withdrawals out of banks) of \$377 billion into U.S. banks and thrift institutions, seasonally adjusted at annual rates. The single largest component of this was a set of newly deregulated accounts including Money Market Deposit Accounts (MMDAs) which constitute “small time deposits.” These rose by an astounding \$403 billion during the first quarter of 1983—four times the rate in 1982.

Households' liquidity was quite clearly deliberately targeted by the Fed's new deregulated accounts, since households are the primary source of bank deposits, to a surprising extent. During 1980, for example, households made two-thirds of all new banking deposits.

“People still can't afford to consume,” one Federal Reserve economist argued. “So they might as well invest, and there is plenty of incentive” in the new accounts.

This rise in household bank deposits occurred despite the depressed state of household income, which continues. In fact, the total of new investible household financial assets only rose during 1983 at the low rates it had shown in 1981 and 1982: \$325 billion, \$333 billion, and \$341 billion, respectively.

The difference was that in the first quarter of 1983, households not only put all their new resources into deregulated accounts, but liquidated other investments to do so. Households drew down \$76 billion from investment bank funds including money market funds, cashed in \$65 billion in U.S. government debt, and sold net \$15 billion in corporate stocks and bonds.

Also, these figures also show that U.S. households have not put a cent into the real U.S. industrial economy, not even by way of the stock market. In fact, the figures show that the entire “Volcker boom” on Wall Street of the period since July 1982 occurred while households were *net sellers* of stocks, \$29 billion in 1982 and \$15 billion in 1983.

The same forced savings occurred in the corporate sector. Under direction from their bank creditors, U.S. corporations shut down their demand for commercial and industrial loans, and instead borrowed on the bond market merely to pay off (actually reduce) their bank loans. A major part of the reduction in interest rates was due to a sharp fall in non-bank demand for funds. Corporations in particular just stopped borrowing, because they had no new plant to build, little to produce, and little to sell.

Not only did corporations reduce loan demand, but they saved so much cash that their deposits to banks soared.

Normally, corporations do not provide much of the deposit base for the banking system. In 1982, for example, they deposited some \$25 billion, only 10 percent of their own new assets, and less than 8 percent of households' new deposits. But because corporations were “saving,” there was a huge rise in corporate financial assets of all types, by \$84 billion in 1983, of which \$54 billion was deployed into bank deposits.

Business Briefs

U.S. Industry

Tripartite steel commission formed

Commerce Secretary Malcolm Baldrige and Special Trade Representative William Brock are said to be responsible for convincing President Reagan to form a new "tripartite" Steel Advisory Committee to study the industry and advise the White House on the future of U.S. steel production.

Like the policy-making bodies established by Benito Mussolini in the 1920s, the commission will be made up of representatives of industry, labor, and government.

A previous steel tripartite committee, established in 1979 by the Carter administration, advocated large-scale dismantling of the U.S. steel industry. That committee was disbanded when President Reagan took office.

Military Policy

Problems foreseen for Soviet defense base

The recently released report on the Soviet economy by the Defense Intelligence Agency, presented June 28 at a closed hearing of the Joint Economic Committee's subcommittee on international trade, finance, and security economics, said that Soviet leader Yuri Andropov "appears to be straddling the fence" in a major policy debate over whether to shift emphasis from heavy, defense-oriented industry to consumer sectors.

The report, however, predicted a growth rate in Soviet military spending of between 8 and 9 percent through 1985, which is about 17 to 19 percent of the gross national product. The military growth rate should slow in 5 to 10 years. This information updates a recent CIA study which predicted a growth rate in military spending of only 15 percent of the GNP.

The report states: "The Soviet Union's resource allocation pattern continues to re-

flect the leadership's commitment to a strong defense establishment. However, if improvements in the economic structure do not occur, the Soviet defense establishment is unlikely to be able to sustain high rates of growth for very long without undermining its own economic base,"—an analysis of the Soviet economy and military investment presented in a Washington, D.C. conference Feb. 17-18, 1982.

The DIA noted that there has been wide-ranging debate on whether to shift Soviet resources to areas such as light industry and agriculture, but said no changes are expected in the short term.

"Interestingly, in this debate on investment issues, Andropov currently appears to be straddling the fence. Although he has supported heavy industry in the past, his present emphasis appears to be on those areas required to break bottlenecks in the economy, such as transportation, unfinished construction and retooling and modernizing of machinery."

Mexico

Giant trade surplus far from a success

Jesus Silva Herzog, Mexico's Finance Minister, told a group of Wharton School officials in Chihuahua July 29 that his country is doing extremely well under IMF pillaging. For the first time in 39 years, he said, Mexico has chalked up a semester trade surplus—an incredible \$6.5 billion for the first half of 1983.

These figures are impressive only, however, until it is noted that imports have been demolished by 70 percent and real wages cut by 50 percent, while everything not bolted down is being sold abroad for pennies. Every penny of "earnings" under this package goes into the pockets of foreign creditors.

One of Mexico's senior oligarchist financiers, Adrian Lajous, published an article July 26 titled, "Why Mexico Must Not Declare a Moratorium on its Debt." Lajous, who was the only financial official to voluntarily resign last fall when José López

Portillo nationalized the banks, "warned" that after Benito Juárez stopped paying foreign creditors, Mexico was invaded. Then, Lajous continued, in 1910—the Mexican Revolution—payments were again suspended, and it wasn't until 1940 that Mexico was able to get credit again.

International Trade

U.S.-China trade agreement

The United States and China have settled their long dispute over textile exports, in a move showing that both sides want to improve relations following the Reagan administration's decision to allow the sale of higher levels of technology to Peking. Tensions over trade were high point last winter when Peking curtailed imports of U.S. agricultural goods in retaliation for Washington's refusal to accept Chinese demands for a 6 percent increase in textile imports for 1983. The two sides reportedly agreed on an increase in textile imports of 3 to 4 percent.

Two previous rounds of talks were fruitless, but agreement was reached quickly this time, reflecting an atmosphere substantially improved by recent U.S. concessions in an area considered much more important by the Chinese: high-technology transfer.

During a visit to Peking last May, Commerce Secretary Malcolm Baldrige informed Chinese leaders that their trade status would be raised to allow for the transfer of high technology goods previously blocked on the grounds that such technology might be used for military purposes.

In late July, the United States withdrew its opposition to the sale of a Belgian advanced communications system to China while Japan, according to Chinese press reports, has been given the go ahead to sell China a similar system which had been blocked by the United States.

The United States is now negotiating a protocol with Peking which would lay the basis for bilateral cooperation in nuclear energy development, including the transfer of U.S. nuclear technology to China. It is not

Briefly

yet known whether Washington will permit the sale of the advanced Hyshare-700 computer now being sought by a military-linked University in Northeast China. However, Peking will make great efforts to persuade Defense Secretary Weinberger, an opponent of the sale, when Weinberger visits Peking on Sept. 25.

Operation Juárez

French weekly *Minute* endorses debtors' cartel

A two-page feature in the late July issue of the French conservative newsweekly *Minute* on the Latin American debt crisis describes the potential benefit of Lyndon LaRouche's Operation Juárez for European industry. *Minute* has a weekly circulation of 400,000.

The article, titled "Regrouped in a Cartel, Most-Indebted Nations Organize Against Their Creditors," describes the devastating effects of the \$860 billion developing-sector debt, and how "Western exporters now pay the price of the deflationary austerity imposed upon debtors. . . . The latter . . . are presently establishing a cartel to declare a general debt moratorium and . . . change the rules of the international financial game so that financial cancer does not prevail, but economic development."

The article details the history of the present crisis and "the mafia of the central banks, which in turn takes its orders from the discrete but very influential private banks, the London merchant banks, the Geneva banques privées and the New York investment banks. . . . 'The interest of financiers and those of nations differ. It's sad but real,' a Paris financier says.

"The moratorium is but a first step. 'Operation Juárez,' as the Latin Americans call that policy, includes the establishment of a 'Latin American Common Market,' and also the idea of catalyzing an anti-Malthusian reflex in the United States and a long-term debt consolidation with low interest, a discounting of the old debt in order to generate productive credit and the launching of a string

of great infrastructure projects for energy, roads, canals, ports, and equipment, which would be enormously beneficial for re-launching the economies of France or other European countries."

Developing Sector

Depression hinders Japanese aid

In accordance with Prime Minister Yasuhiro Nakasone's declaration that "there can be no prosperity in the northern countries without developing in the South," Japanese agencies are trying to find ways to implement transfer of industrial technology to the Third World. They are finding their efforts hindered by the world trade decline.

The International Committee of the Industrial Structure Council, an advisory body to MITI, has proposed, among other steps, expansion of official development aid to the South, along with stepped-up renovation of existing factories in developing countries and training of engineers. The committee is headed by Isamu Yamashita, chairman of Mitsui Engineering and Shipbuilding. MITI is about to send a mission to Southeast Asia to explore renovation needs in plants originally built with Japanese assistance.

In a similar vein, the Atomic Energy Commission has proposed setting up a government-business-academic forum to promote cooperation with developing countries on the utilization of atomic energy, particularly Southeast Asian countries. Proposed cooperation includes personnel exchanges and aid in research reactors.

However, the depression in world trade is slowing down the actual transfer of technology to developing sector. Japan's Export-Import Bank reports that its loans to businesses for investment in industrial nations is ballooning, but private investment in developing countries is shrinking rapidly, due in large part to fears generated by the debt crisis. The bank is considering lowering interest rates still further to promote Third World investments.

● **JAPANESE** finance ministry councilor Toshihiro Kiribuchi blasted as a "lethal drug with side-effects" Paul Volcker's tight money policy and consequent high interest rates, during a recent public seminar in Tokyo, according to *Kyodo News*. Among its effects are unemployment in America and capital flight from other countries to New York, Kiribuchi declared.

● **ALAN GREENSPAN** told the governors' conference in Portland, Maine on Aug. 2 that, after the 1984 election top officials of both parties, as well as the White House and Congress, should join "the equivalent of a domestic economic summit" which would aim to create a bipartisan committee to prescribe "solutions" to "tough problems" of cost-of-living increases and taxes. The deficit cannot be dealt with "without political pain," Greenspan said. "The major entitlement program to be addressed is Medicare, and it must be done rather quickly."

● **WILLIAM RUCKELSHAUS** stated that "whatever we do is going to have the potential for very large costs and economic disruptions," when discussing proposals on dealing with acid rain at the National Governors Conference Aug. 2.

● **HENRY KISSINGER'S** aspirations and connections were inadvertently noted in an editorial error in the Aug. 4 edition of New York's *Journal of Commerce*. In a commentary on the atmospheric in Washington, D.C. surrounding the signing of the U.S.-Soviet grain trade package, the *JOC* slipped: "Is it mere coincidence that the Soviet grains and Chinese textile pacts were concluded a week after Henry Kissinger became chairman of a Central American East-West policy committee?" Kissinger's committee, of course, is formally a Republican-Democratic group, with no publicly recognized Soviet involvement or East-West negotiating power.

Japan's industrial policy: made in the U.S.A.

by Richard Katz

In 1868 Japan was a poor, relatively barren set of islands, whose harsh land yielded food only to those willing to stand in the wet rice paddies, arduously planting and transplanting the seedlings. Its people eked out a living standard lower than Indonesia's today.

Suddenly everything changed: that year, a group of officials, *samurai*, and literati inspired by Western progress, but fearful of Western imperialism, took over Japan, determined to remove the fetters of 200 years of Confucian ideological dominance, to industrialize a land without raw materials, and above all to "catch up" to the West. Within less than four decades they had succeeded so well that, to the astonishment of the world, they defeated Russia in modern warfare. Two decades later, Japan's exports competed on the world stage.

All of this appeared to have come to naught in August of 1945. Japan lay in ashes—not only Hiroshima and Nagasaki, but even Tokyo, a victim of continuous firebombing. By 1946 Japan could produce at only 1/6 of prewar levels. Tokyo informed the U.S. Occupation that, without emergency measures, by March 1947 Japan would no longer be able to produce anything, "due to an exhaustion of stockpiles, a lack of imports, and an acute coal shortage." Faced with food riots by Japanese barely surviving on rations of 1,300-1,700 calories per day, Gen. Douglas MacArthur sent an urgent appeal to President Truman: "Send me bread, or send me bullets!"

Today, these images of Japan's past are hardly remembered. They are replaced with the silhouette of an "economic miracle," of a technological giant whose practices Americans are now asked to copy, lest the oriental nation overtake the United States.

Stunning as Japan's success may seem, its transition from feudal backwater to economic superpower was no unforeseeable "miracle." This miracle was planned, the product of what is now called *sangyo seisaku*, or industrial policy. In other times and other lands it has been called by different names, including American System economics, dirigism, and cameralism. But the content remains the same: people, not invisible hands, determining the march forward of the nation.



Members of the 1872-73 Iwakura Mission, which sent 40 Japanese leaders to the United States and Europe to study modern ways. Second from left is Toshimichi Okubo, the architect of the 1868 Meiji Restoration and of Japan's rapid industrialization. Seated is Prince Iwakura, a noble in the court of Emperor Meiji and the new regime's prime minister.

Many Americans, seeing Japan's success, are now debating whether the United States too should adopt industrial policy. In the course of this debate, at least three distinct, equally wrong, images of Japan's practice are generated, sometimes by the same economists who smugly proclaimed—or even welcomed—Japan's 1964-65 recession as the long-predicted end of its “impossible” effort to sustain double-digit growth.

One image, presented by Democratic Party economists like Robert Reich or Lester Thurow, projects onto Japan what they propose here: phasing out alleged “sunset” basic industries, such as steel, through “depressed industry cartels”; and phasing in “sunrise” electronics-computer industries through R&D subsidies and tax incentives. In the second image, Japan Inc. uses government subsidy to build up export-oriented growth industries, giving these sectors a competitive advantage they would not otherwise enjoy. The third, equally misleading, portrayal is often presented by the Japanese themselves to avoid the “unfairness” charges. The claim is Japan really does nothing different; some ads and government statements imply they are even more obedient to “free enterprise” than America since the ratio of state-funded R&D is so much less in Japan.

To help set the record straight, in order to provide the background for a real debate on proposals for an American industrial policy, this *EIR* special report will examine three topics:

- 1) What Japan's industrial policy is;
- 2) How Japan learned it from America in the 19th century;
- 3) The “nitty-gritty” of industrial policy tools: how Japan was transformed into an economic superpower.

What is Japan's industrial policy?

The basic principle of Japanese industrial policy is quite straightforward: It is *maximum leverage*. Through government-banking-industry cooperation, resources are allocated to frontier, growth industries—industries whose development over a 10- to 20-year period propels the entire economy forward technologically; industries which increase the ability of each worker to develop greater skill and produce greater output. Sectors are chosen for development, not for their own productivity, but for their ramifications for the entire economy.

Through the Industrial Structure Council of the Ministry of International Trade and Industry (MITI), Japanese officials and industrialists decide jointly what kind of industrial/technological/labor structure Japan needs on a 10-, 20-, or even 30-year horizon. They then choose key leveraging industries because the *process of developing those sectors* is the most effective way to transform Japan in the desired direction. Those sectors get special investment tax benefits, low-interest credit from government agencies, priority for private bank credit, and government/industry funds for research and development. Special aids are applied particularly to sectors in which it takes years to recover investment, and where short-term “market forces” alone might not dictate a large enough allocation of resources.

Early in the postwar period, Japan's leaders decided to

encourage modernization and capacity expansion in steel, but not because it was important in itself as an export item. Rather, cheaply produced quality steel would lower the costs and raise the productivity of every steel-consuming industry, from autos to shipbuilding to construction. At the same time, the process of building up steel would promote all the supplier and infrastructure industries, including machinery, electricity, and shipping. Their development in turn would promote all the other sectors that they supplied.

In the 1960s and 1970s, MITI promoted semiconductors and numerically controlled machine tools, because these devices reduced the production cost and labor-intensity of untold numbers of items, including televisions, automobiles, and steel plants. Again, export interests were tertiary: significant semiconductor and machine tool exports did not begin until years after their domestic use. For similar reasons, robots, computers, and nuclear energy are promoted now.

Growth and development

For Japan, growth alone was never enough; development was also demanded. In the prewar period, as Chalmers Johnson points out in *MITI and the Japanese Economic Miracle* (see review, p. 32), "the government induced the *zaibatsu* [giant business conglomerates] to go into areas where it felt development was needed. . . . Between 1930 and 1940 [despite the Depression], Japan's mining and manufacturing had more than doubled . . . equally important, the composition of manufacturing had changed drastically from light industries (primarily textiles) to heavy industries (metals, machines, and chemicals). In 1930 heavy industries had accounted for approximately 35 percent of manufacturing, but by 1940 this proportion had grown to 63 percent."

The same qualitative transition took place in the postwar period. In the early 1950s, textiles still comprised 30 percent of exports, with machinery amounting to only 14 percent. Ten years later, due to the state-promoted capital investment boom, textiles were down to 8 percent of exports. Machinery had taken the lead with 39 percent, and metal and metal products came in second with 26 percent. By 1982, forty-three percent of Japan's exports consisted of capital goods.

Exports were promoted not only to pay for resource-poor Japan's imports. Through economies of scale, exports acted as the vanguard for the technological upgrading of domestic industry. Until 1964, export sectors received special benefits. But to claim industrial policy is primarily a matter of "targeting" other nations' vulnerable sectors for takeover—as charged by the U.S. Commerce Department—is simply making Japan the scapegoat for failures at home.

Increased labor power

The foundation of Japan's industrial policy is developing labor power, as can be seen in the textile, television, and semiconductor industries. In America during the 1960s, as labor-intensive methods made domestic production uncompetitive, these industries begged for protection from imports.

They then used the cash flow benefits of protection to ship off labor-intensive, low-skill aspects of assembly to non-union shops in the U.S. South and/or the sweatshops of Hong Kong, Mexico, and Taiwan. Not surprisingly, textiles are now consigned to "sunset" status.

Japan did the opposite: their industrialists maintained domestic production *and* improved competitive advantage by automating the drudge aspects, thereby upgrading the workers' skill content and productivity. Semiconductor assembly was automated and televisions moved to solid-state technology, making the products both cheaper and more defect-free, and the textile industry moved on to capital-intensive synthetics. When the United States finally made a similar switch in textiles, the result was, contrary to popular impression, a move back to a healthy trade surplus from serious trade deficit.

The real product of industrial policy is not specific commodities, or even "cost reduction" as normally conceived, but labor productivity—the ability of each worker to produce much more value-added than before—both by increasing productivity within sectors and by continuously shifting workers to even more productive new industries. For most of the postwar period, Japan enjoyed productivity increases of 10 percent per year, a process interrupted only by the post-1973 world trade turmoil. Japanese cars are cheaper than American-made ones, not only because the steel in them is so much cheaper, but because well-equipped Japanese workers need only 90 hours to build a car, compared to 120 in America.

Productivity gives industry the profits to accelerate the investment spiral. From 1955 to the 1971 monetary crisis, Japan tripled its living standard *and* maintained 10 percent a year increases in both production and productivity—while hardly raising unit labor costs and lowering the consumption portion of GNP. This situation precludes any conflict between higher wages and higher profits; quite the opposite, because labor with a higher living standard is more productive.

'Least action' versus Gosplan

Only a few frontier industries get special benefits or are planned in any great detail. Even in the 1950s heyday, MITI never tried to imitate the Soviet Gosplan in planning every nail and cucumber; that is not industrial policy. Once the economy as a whole is channeled into an ever-growing technological spiral upward through promotion of nodal sectors, private business—i.e., "market forces"—can then be counted on to make the thousands of day-to-day decisions that conform to the needs of both profit and national development.

Because of "leveraging," the amount of direct state intervention in Japan is much less than one might think, especially as MITI's overt direction in the 1950s was replaced by more subtle "administrative guidance." This has led some defensive Japanese and some U.S. "free market" theorists, e.g. *Time Magazine*, to insist that state actions either never did or no longer shape the structure of the economy. Japanese point

to Tokyo's smaller ratio of government R&D funding, implying a less important state role there. Yet, under the proper circumstances "less is more," just like a catalyst in chemical reactions. Effective, leveraged allocation of resources to the right frontier industry can catalyze development far beyond the directly affected sector. Government and industrial leaders achieve the most effect with the "least action."

America has also experienced leverage. During the 1960-67 NASA era, thousands of small- and medium-sized companies sprang up to supply the space effort and to develop commercial spinoffs, boosting the productivity of the entire economy. At the same time, military R&D has built up civilian industries: passenger jets are copied from military jets; private industry accepted integrated circuits only after the Air Force sponsored a demonstration project by Texas Instruments in 1961, while the U.S. government purchased 75 percent of semiconductors as late as 1965. On the negative side, Jimmy Carter's energy price hikes sent thousands of companies into production of computerized energy-use monitors and insulation materials instead of basic industry—a sort of "de-industrial policy."

The means of promoting industry

The tools of Japan's industrial policy are simple and few. To promote a rising ratio of capital investment to total output, interest rates are kept low while accelerated depreciation allowances allow quick plowback of funds into new equipment. When recession cuts demand for the products of favored industries, private credit for capacity-expansion continues to flow so the sector is ready for the next upturn. This enabled the Japanese semiconductor industry to build up while the American sector cut back during the 1974-75 recession. In short, Japan's monetary policy and corporate financial structure allows a longer horizon time than the quarterly bottom line fixation often seen in the United States.

For the favored "leveraging" sectors, the government and business groups provide startup capital and/or low-interest loans to promote R&D or to underwrite investment in risky capital equipment. Outright government grants do not in general go beyond basic R&D. To promote modernization and expansion for "designated equipment" in "designated industries," e.g., steel and machine tools, the government temporarily provides an additional 25 to 33 percent depreciation above normal. At times, MITI and the business leaders simply use "administrative guidance" to direct private investment and private bank credit into nationally needed areas. During the 1950s and 1960s, MITI went so far as to promote mergers and to allocate specialized product-lines among companies within particular sectors.

These measures are complemented by innumerable *temporary* laws or MITI guidances, a process that began in 1953-57 with laws favoring such industries as textile machinery, general machinery, synthetic textiles, petrochemicals, autos, and electronics. To stimulate *domestic* consumer goods purchases, the Ministry of Finance lifted commodity taxes on

transistor radios for the *first two years* after they began appearing on the market. Benefits were then transferred the more technology-intensive tv industry. The Ministry of Finance levied taxes in two-year stages: at first tax rates were subnormal; as prices went down due to economies of scale and improvements in technology, taxes were raised gradually to the "normal" rate.

MITI's strategy differs radically from American suppliers' fixation on cash flow. First, not every sector is treated equally; moreover, unlike such abominations as the 1981 U.S. law enabling sale of tax losses, Japanese tax laws give firms cash flow not so much as a reward for what they have done in the past, but to enable useful action in the future. There are no tax writeoffs to invest in commodities or corporate takeovers. Overall, Japanese firms pay more of the nation's total taxes than American ones—40 percent in Japan versus only 10 percent in the United States. Japanese tax laws promote investment because of their *design*, not just their rate.

What makes these tools work is the political environment. Industrial policy is not primarily an issue of state-private company relations, though certainly Japan's state bureaucracy has immense power to intervene in what are seen in the United States as purely business decisions, and there are considerable state-private interlocks in Japan. The top leaders of both government bureaucracy and the business world come from the same elite schools and marry their children to each other. Officials from MITI or the finance ministry retire from the bureaucracy during their early 50's—a process known as "descending from heaven"—often to take high-level posts in major banks and industries. This helps ensure that finance ministry or MITI "administrative guidance" is followed.

More importantly, industrial policy works because Japan's elite, permeating both government and business, considers economic development a political goal for the nation. Business leaders, many of whom are trained as engineers rather than accountants or lawyers, understand the difference between paper profits and real production. Economic statutes need run only a few paragraphs and do not need haggling by scores of lawyers.

Certainly there are conflicts among the ministries and businessmen as well as between government and business as a whole. Competition between top business groups for market share is very intense. In the prewar period, such antagonism did not stop at coups, assassinations, and rigged bankruptcies of rivals; and Japan is not without conflicts today. Nonetheless, for more than 100 years, regardless of other disputes, virtually every leading figure of Japan has been committed to the overriding national goal of catching up with the West. The 1980 "Visions of MITI Policies in the 1980s" 300-page report began: "For Japan, the period of 'modernization for catching up with advanced Western economies' has ended, and the country is now about to enter the next phase of development."

Japanese economics: the American System

Americans who call Japan's industrial policy unfair to other nations forget their own history: Japanese economics was "made in the U.S.A." Japan's progress-oriented economic tradition is rooted of course in its indigenous history and culture; the Japanese are not simply "good copiers." However, modern Japanese capitalism, the capitalists themselves, and the tools of industrial policy were all forged under the tutelage of the "American System" economists who built Abraham Lincoln's political movement.

Japan's industrial policy began in 1868 with the Meiji Restoration led by Toshimichi Okubo, an official of the Satsuma clan, under the slogan "rich country, strong army." Okubo and his allies came out of the century-old "Dutch Studies Movement." This movement wanted to end Japan's internal decay under a feudal, Confucian-based regime by merging the best of traditional culture and values with the best of Western humanist science, philosophy, and economics. Alarmed at China's fate at the hands of Britain, some of Okubo's colleagues visited the United States in 1867, marveling at its factories and many-storied buildings. They resolved to transform Japan into the kind of industrial power and modern political society they had just seen.

Okubo, the head of the new regime, immediately created a Bank of Japan modeled on Alexander Hamilton's National Bank of the United States. Along with associated private banks, it funneled state-created credit to sectors most useful to rapid national development. Okubo's new Bureau for Industrial Promotion fostered state-owned industries and gave assistance to private industry. Eventually, the industry bureau became transformed into the legendary Ministry of International Trade and Industry (MITI).

Okubo's bureaucracies, and some of the new firms, were staffed by the students of Okubo's ally, Yukichi Fukuzawa, another product of the Dutch Studies Movement. The founder of Japan's first university, he took *samurai* and molded them, rather than the pre-Meiji period merchants, into the new industrial class.

'America is our father'

America was the sponsor and model. As Fukuzawa put it, "America is our father." The Lincoln Republicans had revived the economic ideas and system of Alexander Hamilton through the advice of economists like Henry Carey and the works of Friedrich List. The German-born List had coined

the term "American System" to distinguish America's deliberate promotion and protection of industry from the British system of living off the looting of colonies and slave labor. He was one of the first foreign economists translated into Japanese.

The U.S. State Department, which, unlike Britain, supported the Meiji Restoration, sent a disciple of Carey, E. Peshine Smith, as adviser on tariffs and economics to the Japanese foreign ministry. As America had learned, tariffs not only provided government income, but prevented infant industry from being strangled in the cradle by dumped British imports. Smith's 1871 to 1877 tour of duty was followed by other Americans for the next 34 years. Smith wrote home from Japan, "The Japanese statesmen appear to have sound notions upon the policy of encouraging the protection of native industry." By the time Smith left Japan, one Japanese historian wrote, "the *American System* of protectionist economic theory had become generally common thinking among [Japanese] statesmen, government officials, and philosophers [emphasis added]."

In 1878, Okubo was assassinated by the Black Dragon Society, pro-feudal terrorists with British links. Okubo's opponents took positions of power within the ruling coalition, and weakened some of his policies. In 1881, they sold off state-owned industries, and then applied Paul Volcker-style deflation, which led to a temporary decimation of production and investment.

Okubo's heirs fought back. In 1884, Yataro Iwasaki, the founder of the Mitsubishi business group—also staffed by Fukuzawa's students—issued mass pamphlets demanding restoration of a national bank-based credit system. He cited Hamilton and attacked the London banking model of private generation of credit as a threat to industrial development. He accused his main political opponents, politicians tied to the Mitsui business group, of being British agents. (Decades later the political descendants of the enemies of Okubo and Iwasaki led Japan to the ruin of the 1930s and World War II.) The 1880s fight ended with a compromise, leading to today's Bank of Japan and a commitment to industrialization.

From the 1880s until after the turn of the century, the Japanese state provided one-third of all industrial capital investment, not to mention building of cities and education of the population. In 1896, the government created Yawata Steel, to begin a home-grown steel industry. Aid was given to modernize agriculture, enabling rapid transfer of population from farm to industry as well as export of silk to pay for industrial imports, processes backed up by tax and procurement policy. Additionally, up until the turn of the century, all foreign loans had to be directed through the state-owned Yokohama Specie Bank.

To this day, many Japanese businessmen know the names and ideas of Henry Carey, Friedrich List, and E. Peshine Smith—a sad contrast to the many American businessmen deluded into thinking that their country was built by the ideas of Adam Smith.

Planning a miracle: how Japan became an economic superpower

Japan's famed high growth in the post-World War II era was a direct continuation of the Meiji tradition, e.g., the evolution of the Ministry of International Trade and Industry (MITI) from the Industrial Promotion Bureau.

The tools that created the miracle were forged during the postwar Occupation. However, Japan's prospects were by no means sure in those desperate early years. One faction in the Occupation forces—centered on Britain and its allies among Institute for Pacific Relations (IPR)-associated Americans—demanded the reversal of Japan's industrialization, as the "Morgenthau plan" did for Germany. These forces railed against Occupation Supreme Commander Douglas MacArthur's plan to revive Japanese industry. MacMahon Ball, chief British delegate to the Allied Council, wrote in a 1948 book, *Japan: Enemy or Ally?*: "The greatest danger is that in helping Japan rebuild her industrial strength and restore her foreign trade, the U.S. will enable Japan to establish industrial and economic supremacy in East Asia which her leaders will once again exploit for political purposes."

Like MacArthur, Franklin Roosevelt opposed any Morgenthau plan for Japan, seeing industrial revival as the basis for a U.S.-Japan partnership in Asia. But within days of FDR's death, the anglophile IPR adherents swarmed into the U.S. State Department, dismissed many of the "Japan hands," and reversed FDR's already issued "Initial Post-Surrender Policy Directive." MacArthur's new orders were: "*You will not assume any responsibility for economic rehabilitation of Japan or strengthening of the Japanese economy* [emphasis added]."

In November 1945, accompanied by IPR leader Owen Lattimore, Treasury official Edwin Pauley led a mission to determine Occupation policy. His report recommended stripping Japan's economic capacity:

[We should allow Japan only] enough export industry to pay for imports which Japan must have, but . . . decrease the need for imports. . . . [Allow only] exports that consume Japan's own raw materials such as cement, handicrafts, porcelain and toys . . . [and] give preference to those industries in which labor contributes as much as possible and imported material as little as possible [emphasis added].

Aware, of course, that Japan is 90 to 100 percent de-

pendent on imports for most major industrial raw materials, as well as 20 to 30 percent import-dependent for food and feedgrains, Pauley was sentencing industry to death. His report recommended the removal from Japan of:

- 50 percent of all machine tool capacity and machine tools;
- all tools in the categories of arsenals, aircraft, ballbearings, and aircraft engines;
- 75 percent of all steelmaking capacity;
- 50 percent of thermal power capacity;
- all equipment in 30 percent of shipyards and reduction in another 30 percent;
- all capacity for aluminum and magnesium; and
- most capacity for sulphuric acid, soda ash, chlorine, caustic acid, and other strategic chemicals.

At best, the American de-industrializers suggested Japan should concentrate on textiles at home and for exports. They labelled "illusory" Japanese plans to become a heavy industry economy, arguing that "comparative advantage in cheap labor" made low-skill manufacturing the best choice. The British opposed even the latter, fearing Japanese textile exports would disrupt their markets in their colonies.

MacArthur's view was the opposite, as his economic aide, General Marquet, wrote in 1951:

The U.S. believes that Japan's industrial potential may be utilized advantageously to a maximum extent in order to increase raw material production and industrialization in South East Asia. An attractive opportunity exists in Japan to supply Southeast Asia and other areas with capital and consumer goods. To these ends, efforts should be exerted to enlist the support of various U.S. economic aid and technical missions in Southeast Asia to develop programs linked to overall U.S.-Japan economic cooperation plans.

For Japan, avoiding de-industrialization or being confined to light industry was, like the Meiji-era political battles, a matter of survival. Some of the most significant leaders of this fight were the officials of the Ministry of Commerce and Industry (MCI), a direct descendant of Okubo's Industrial Promotion Bureau soon reshaped as the Ministry of International Trade and Industry (MITI). Postwar MCI of-

officials were exactly the same individuals who had run Japan's march to heavy industry in the late 1930s. Only 42 MCI leaders were purged when hundreds of thousands of businessmen, officers, politicians, and officials were ousted as war criminals. Almost all of the 1950-60s MITI leaders had joined MCI in the 1930s.

Priority production for recovery

By March 1947, Japan faced an impending halt of production "due to an exhaustion of stockpiles, a lack of imports, and an acute coal shortage." Its response is detailed in Chalmers Johnson's, *MITI and the Japanese Economic Miracle*. Unfortunately, Johnson does not recount the British/Pauley plans nor the factional situation in the Occupation; he does, however, dramatically show how the fight against being confined to light industry created the institutions of postwar industrial policy.

To defeat the "March crisis," the Japanese government set up a Reconstruction Finance Committee (RFC) and an Economic Stabilization Board (ESB). Their job was to get industry going again. They ignored and evaded the faction of the Occupation pushing light industry, the policy of cutting inflation by cutting production, and other mysteries of the invisible hand.

In devastated Japan, the ESB discovered, "a twofold increase in coal production leads to a fourfold increase in general manufacturing." Thus the coal industry came first for RFC loans and subsidies under a "priority production" system. To ensure that priority industries revived, the Economic Stabilization Board (ESB) rationed the woefully inadequate supplies of coal. Steel and fertilizer were first in line.

The ESB disregarded normal price/profit considerations, saying such monetary barometers were totally unreliable in an economy incapable of generating an overall profit. Under ESB direction 15 *kodan* (public corporations) purchased prioritized commodities from makers at prices high enough to cover production costs, selling them to prioritized industries as well as individual consumers at low prices. From 1946 to 1949, subsidies of industrial operating costs and investment took up 20 to 30 percent of the entire government budget.

Contrary to the inflation-fetishists, the system tripled Japan's manufacturing from 1946 to 1950, though the level was still only half of 1940's. Despite this success—perhaps because of it—the Occupation, Johnson writes, "still did not like the indifference to inflation of ESB Director Ishibashi. It therefore purged him."

Import rationing and the creation of MITI

The major block to further progress was foreign trade, still only 35 to 40 percent of the 1934-36 level as late as 1950. Japan would be doomed to a future of textiles and handicrafts unless it could raise import levels and the exports to pay for them.

Private trade was still forbidden to Japanese citizens. The Occupation provided all the raw materials, particularly raw cotton for textiles, petroleum, and food. Then, control was turned over to Japan through a law that would shape the entire postwar development: the December 1949 Foreign Exchange and Foreign Trade Control Law. As part of the law, the MCI and other institutions were reorganized as the Ministry of International Trade and Industry, Japan's new "economic general staff."

Under the law, all foreign exchange earned from exports had to be turned over to the government. MITI in turn allocated the scarce foreign exchange. The de-industrializers hoped this would limit imports and thus industry, but the opposite occurred. MITI had the power to decide who could import what, thus determining what industries could develop, e.g. by licensing the steel firms to import iron ore and coal, or subsidizing imports of machinery-building equipment. It also protected infant industries from foreign imports. Johnson writes, "It was the single most important instrument of industrial guidance and control that MITI ever possessed."

MITI retained this power until the mid-1960s, and often used it ingeniously. Johnson writes:

Between 1953 and 1955, MITI would issue import licenses for sugar to trading companies—which were then selling Cuban sugar in Japan at from two to ten times the import price—only if they had allied themselves with a shipbuilder and could submit an export certificate showing that they had used 5 percent of their profits to subsidize ship exports. [A similar system was used for machinery]. For the two years it was in effect, the sugar-link system supplied some ¥10 billion [\$30 million] to the shipbuilding industry. It ultimately had to be stopped because too many other industries wanted subsidies . . . and because the IMF [International Monetary Fund] frowned on the practice.

MITI also used the law to aid exports in general, by exempting 50 percent of firms' export income from income tax. This ended in 1964.

In 1948 ESB officials drew up a five-year plan, proposing development be led by investment in heavy and chemical industries. They predicted the plan would increase high value-added exports, alleviating trade deficits, and ending subsidies at home. Washington vetoed the plan and took economic power out of MacArthur's hands. In 1949, Detroit banker Joseph Dodge was sent to run the Japanese economy. Under the cloak of fighting inflation, budget deficits, and trade deficits, Dodge prohibited price subsidies and RFC loans to industry.

Johnson writes, "When governmental aid to designated sectors of priority production stopped and SCAP [the Occupation] began to promote export industries, there was a radical reallocation of what little private capital was available. Funds for coal and electric power development de-

clined drastically, while funds for the reestablished textile industry shot up." Total domestic investment fell in 1950 by *one-half* from 1949's still dismal levels, while personal consumption was kept at only 70 percent of 1930s levels through 1952.

The Korean War ended the Dodge policy, and, in 1952, a peace treaty ended the Occupation. Japan once again controlled its own economic destiny.

Hamiltonian allocation of credit

During the Occupation, "industrial policy" consisted mainly of rationing of scarce physical resources, imports, and capital. These were emergency measures in a war-devastated country. Now Japan was ready for more normal forms of industrial policy.

It must be kept in mind, however, what 1950s Japan was like: Japan did not recover even 1940 manufacturing levels until 1955; a majority of people still lived on the farm; and per capita national income as late as 1960 was no higher than Argentina's. As late as 1954, Japan could still produce only 9 million tons of steel, the level of Mexico or India or Korea

today. In many ways, despite almost 100 years of progress, Japan was still what is today called a Newly Industrializing Country. But it was ready to resume catching up with the West.

With the end of the Occupation, Tokyo revived its Hamiltonian credit system. In this system, the state creates all credit, and prioritizes, directly and/or through the private banking system, allocation of credit to those infrastructural, manufacturing, trade, and other sectors that "leverage" rapid national development. The major Hamiltonian financial institutions are the Japan Development Bank (JDB), the Fiscal Investment and Loan Plan (FILP), and the Bank of Japan's use of the "overloan" system of credit to the private banks.

The JDB replaced the RFC abolished by Dodge. In days of scarce capital, it financed Japan's transition from a textile producer and toy maker to heavy industry giant. During 1953-55, 83 percent of all JDB loans went to build up electric power, shipbuilding, coal, and steel, and JDB loans accounted for 23.1 percent of all investment in electric power, 33.5 percent in shipbuilding, 29.8 percent in coal mining, and 10.6 percent in steel.

Depreciation laws speed technological gains

It is now notorious that some U.S. firms buy patents to prevent them from being used "prematurely," lest their existing technology be made obsolete. Some banks use lending power to slow down innovations that might force other customers stuck with outmoded methods to lower prices and profits. This is only partly because some business leaders, like U.S. Steel's Edgar Speer, deny the difference between paper profits and production; U.S. tax depreciation laws haven't helped either.

In Japan, equipment can be depreciated in 6 to 8 years on average, compared to 9 to 11 years, until 1981, in the United States. Accelerated depreciation allows 25 to 30 percent write off in the first year; special depreciations, for specified equipment in specified industries, allow another 25 to 33 percent in the first year (for a total depreciation of 125 to 133 percent of cost). At a 50 percent tax rate, this allows reclaiming 25 percent of cost in the first year. A firm scrapping a factory to build a new, more modern one can write off the entire remaining book value of the plant (minus scrap value) and stretch the tax savings up to five years. And, if a firm proves that *new technology lowered the value of its assets*, it can depreciate its assets by that amount.

All this means, even if a firm has not paid off debts on old equipment, these provisions may still lower capital expenditures enough to make it pay to scrap old machines and get new ones whose higher operating profits pays the debts on both. This is especially true in the favored sectors.

United States tax laws have only some of these features. The Reagan reforms lowered the depreciation time of almost all equipment to five years. Even before that, the United States had the scrap and build provision, but never had the even more important provision for technological depreciation. Nor does U.S. law discriminate among industries to channel investment into areas which most upgrade the economy as a whole.

The important, albeit limited, Reagan reforms have, however, been obstructed by Volcker's credit policy. None of Japan's measures, including depreciation, are isolated "supply side" gimmicks; they are part of a total financial/economic environment. American firms may agree that improved equipment will be more profitable from the standpoint of operating costs. However, the capital costs of getting rid of the old equipment, borrowing at high interest rates for the new, and, up until 1981, the fact that it took so many years to depreciate existing equipment, combine to make total costs so high as to almost preclude rapid modernization.

In Japan, finance is made to conform to the criteria of the real economy; for the United States, it is the other way around. In the end, the Japanese have newer, more productive, and more profitable factories.

As recovery proceeded and capital became more abundant, the JDB's financial importance declined. It lent 22 percent of all industrial capital in 1953, but only 5 percent in 1961 and 4 to 5 percent now. Politically, however, JDB loans still counted: "A JDB loan," comments Johnson, "regardless of its size, became MITI's seal of approval on an enterprise, and the company that received a JDB loan could easily raise whatever else it needed from private resources."

FILP was funded by ordinary citizen's deposits in a postal savings system. Today, it adds up to a Ministry of Finance-controlled bank with four times the assets of Bank of America. FILP financed low-interest loans for industry and, more important, rebuilding infrastructure. As a percent of GNP, FILP loans grew from 3.3 percent in 1956 to 7 percent in recent years. Now, it finances housing construction, environmental protection, and transport.

From 1953 to 1961, direct government financing of industry through JDB, FILP, and so forth comprised a portion of total capital as high as 38 percent in 1953, gradually declining to 19 percent by 1961. It ranged from 12 to 20 percent in the 1970-80 period.

In the much-discussed overloan system, the Bank of Japan creates credit, not by monetizing government debt as in the United States, but simply by making loans to the large private banks. These banks in turn lend to private industry, giving priority to the frontier industries favored by MITI and the JDB, making sure recessions and quarterly bottom line considerations do not interrupt needed credit. They also lend to regional banks.

The private banks provide most of industrial funds, op-

erating as the handmaiden of industry through the "scrap and build" system. Industries like steel with huge investments in old plants get loans to scrap them and build new, more modern ones, even before the old ones are paid off. Industry and banks all know that eventually the total profits will be greater than if the old plant were kept. Depreciation laws allow writing off of the scrapped plant's remaining value [see box]. Japan moved very early into Basic Oxygen Furnace plants, and then repeatedly into larger, more modern, newly built Greenfield plants. In contrast, U.S. steel firms in the 1950s could not get loans for new technologies for fear that this would disrupt the price structure based on old Open Hearth technology. They expanded existing plants with existing technology. After 30 years, the Japanese use up to 30 percent less coal, iron ore, energy, and labor for each ton of steel, and earn more profits.

In semiconductors, American producers were forced to cut back expansion during the 1974-75 recession for lack of capital. Japanese firms, by contrast, kept getting long-term loans to expand their capacity and to automate. In the late 1970s, when U.S. firms could not meet domestic demand, the Japanese filled the gap. By 1979 the latter had captured 40 percent of the U.S. market.

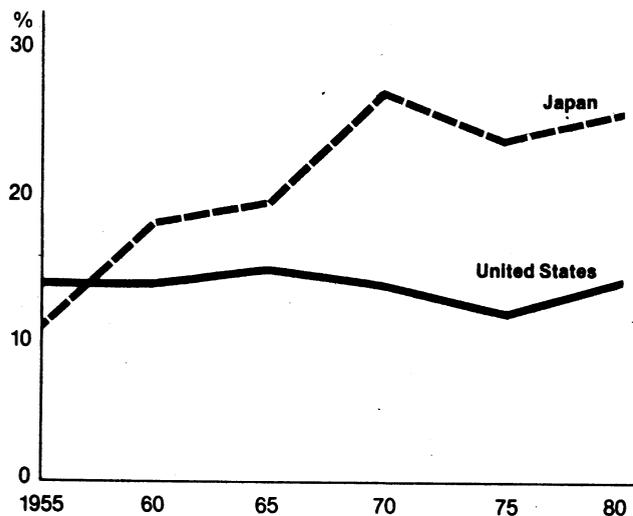
In any capitalist economy, the surplus product of a given year cannot be circulated unless new credit is created to circulate it. Contrary to monetarist myth, credit is not based on savings out of *already existing* consumer or business income. Rather credit is *created by the state* and paid for out of the new surplus generated by investing it. As long as the credit is invested in surplus-generating production, no problem arises.

America has gotten into trouble—where a far more indebted corporate Japan has not—only because the credit created in the United States has been misinvested for so long. The Federal Reserve creation of credit by monetizing government deficits on current expenditures tends to promote current consumption rather than investment. The Bank of Japan's lending of newly created credit to the big banks to lend to industry promotes an investment-led economy.

Tokyo's control of its national credit system is being eroded. Mounting flows of money into Japan through trade surpluses and now-abundant internally generated capital has ended private firm dependence on state-allocated credit. Additionally, Washington now claims that Japan's lower interest rates are an unfair trade barrier, and *prima facie* evidence of closed capital markets, as U.S. Trade Representative William Brock told *EIR* (June 29, 1982). It demands Japan open its banking system to hot international money flows to let its interest rates rise to Volcker levels. Officials within the finance ministry propose acquiescence to such "internationalization" of its credit system, along with an offshore banking system. The Bank of Japan is opposed to this. Nonetheless, Japan remains the only advanced country with a national, rather than international-based, credit and currency system.

Capital Investment, Japan vs. U.S.

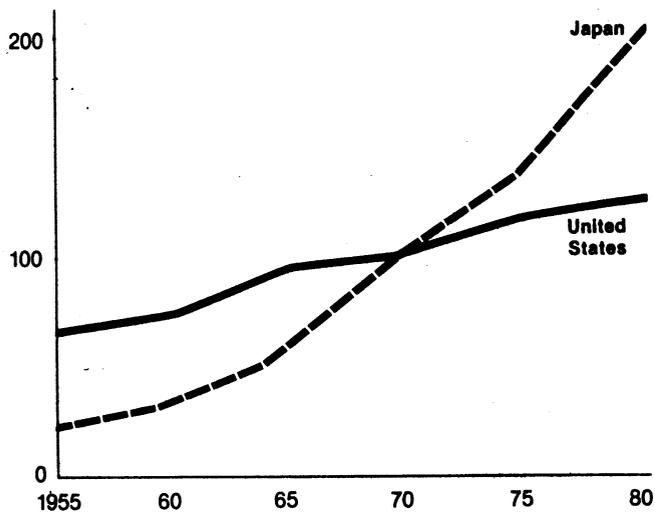
(Gross private fixed capital investment as a percent of GNP)



Source: MITI, U.S. Department of Commerce.

Labor productivity, Japan vs. U.S.

(Index of manufacturing output per manhour, 1970 = 100)



Source: U.S. Bureau of Labor Statistics.

Protectionism on trade and foreign technology

Another weapon in MITI's arsenal, until the 1980 revision of the 1950 Foreign Capital Law, was control over foreign investment, a power used to force transfer of new technology to Japan. Japan's attitude stems from experiences like those of Kiichiro Toyoda, the founder of Toyota automobiles. His story is told in *Entrepreneurship: the Japanese Experience*, a magazine promoted by the Electronic Industries Association of Japan. In 1924 Toyoda developed a time-saving automatic loom that experienced very little operating failure:

The new model was considered such a success it was called the "Magic Loom." . . . In the first year of manufacture orders poured in for 6,000 looms within Japan alone. In time, Toyoda looms were exported all around the world . . . In 1929, Platt Brothers & Co. of England applied for the transfer of patent rights offering 100,000 pounds. . . . Once in control of the Toyoda loom technology, Platts held the monopoly on the production and sales of the Toyoda loom in every country except Japan, China, and the United States . . . however, *Platts sold only 200 Toyoda looms in the following two and a half years. Later, Kiichiro became convinced that Platts had used the agreement as a ruse to stop Toyoda's advances into the British and Indian loom markets. . . . [emphasis added].*

Kiichiro decided to invest . . . in the manufacture of automobiles. . . . Ford and General Motors had already introduced knock-down mass-production sys-

tems into Japan in 1925 and 1926 . . . [and] they drove the budding domestic automobile industry to extinction. From this time until the 1950s, many prominent figures in the government and big business, arguing that Japan would never succeed in developing its own indigenous passenger car industry, held that it was wisest to rely on imports. Kiichiro, however, did not see why something which could be produced in America could not be produced in Japan. . . .

[In 1935] the Automobile Manufacturing Industry Law was enacted, prohibiting automobile manufacturing with foreign capital, and providing an opportunity for the domestic automobile industry to revive.

In the 1950s-60s, American auto firms did not try to export to Japan, never developing the right models for that, but to buy into Japanese firms. MITI stopped this. From all over Europe, stories came back of the American "buy-up" of Europe. MITI used the Foreign Capital Law to avoid that fate, lest Japan lose its ability to build up independent technology and advanced industry.

Computers posed a special problem since IBM had organized itself in Japan as a yen-based firm, IBM-Japan, rather than as a foreign firm. Johnson comments:

IBM held all the basic patents of computer technology, which effectively blocked the development of a Japanese computer industry. [MITI Vice-Minister Shigeru] Sahashi wanted IBM's patents and . . . he made his position clear to IBM-Japan: "We will take every measure possible to obstruct the success of your business unless you license IBM patents to Japanese firms and charge them no more than a 5 percent royalty." In one of his negotiating sessions, Sahashi proudly recalls, he said that "We do not have an inferiority complex toward you; we only need time and money to compete effectively."

IBM ultimately had to come to terms. It sold its patents and accepted MITI's administrative guidance over the number of computers it could market domestically as conditions for manufacturing in Japan. Since IBM leased its machines rather than selling them outright, in 1961 Sahashi responded by setting up a semiofficial Japan Electronic Computer Company, financed by the Japan Development Bank to buy hardware from domestic producers and lease it to customers. To ensure MITI's control, he appointed the old MCI senior, Murase Naokai, president of the leasing company.

Throughout the 1950s and early 1960s, MITI used its control over imports and foreign investment to protect the industries it wanted to build up, a precise implementation of 19th century American System economics.

1960s: Import liberalization

The mid-1960s marked a major turning point. State allocation of credit became less important as a booming economy ended the days of scarce capital, and, in 1964, licensing of imports and direct subsidies to exports were abolished when Japan accepted Article 8 status in the IMF. By that time, Japan began to enjoy regular trade surpluses, making import allocation and export subsidy superfluous. Leaps in modernization left fewer industries at the infant stage where they needed import protection to survive. Many had already become internationally competitive.

Licensing of imports was replaced by tariffs, which were steadily lowered in the late 1970s and early 80s under international pressure. By 1983, Japan had the lowest tariff rates among advanced industrial countries for many items. Exceptions were politically sensitive weak sectors, e.g., tobacco, leather, certain agricultural items, and certain high technology items.

The 1950s-60s import and foreign investment protection and export aids remain a source of controversy to this day, along with charges that Japan's market remains closed due to "non-tariff barriers." This year has seen numerous reports and petitions to Washington by American business associations accusing the Japanese steel, semiconductor, television, auto, and other industries of hiding behind protection until they were ready to pounce on targeted American counterparts.

Yet, over the years, American industries from textiles to television to steel to autos have obtained similar import protection—including export restraint agreements by Japan—but have misused the relief. After obtaining "trigger price" import relief in 1977, American firms used the increased cash flow to move out of steel. The television industry, which waited three years before following the Japanese in labor-saving solid state technology, obtained an export restraint agreement from Japanese makers in 1977. Even then it continued shipping facilities to Taiwan and Mexico. Other industries simply continued outmoded methods.

Japan used import controls to protect advancement; the United States has used them to protect backwardness. High interest rates and tax laws have a great deal to do with such corporate decisions, but the problems did not begin with Volcker. These days, the Japanese advantage is secured, not by protection, but by competitiveness of price and quality. To say America *today* suffers a trade deficit with Japan or cannot compete due to its past or present import barriers is a hoax. The answer is for the United States to adopt industrial policy, and to step up U.S.-Japan cooperation in technology and reviving world trade.

The 'knowledge-intensive' era

Trade and capital liberalization changed the form of industrial policy, not its substance. 1964 saw the creation of the Industrial Structure Council (ISC) of MITI, an "advisory" body consisting of MITI officials and top business leaders.

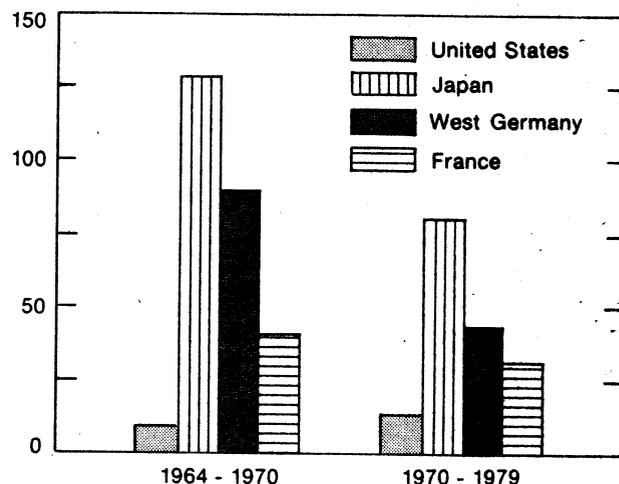
The ISC plans where Japan should go economically over the next 10 to 30 years, decides which are the key frontier "leveraging" industries to achieve the goal, and announces the plan in occasional "Longterm Visions of Japan's Industrial Structure." Through the fabled "administrative guidance," MITI and the business leaders, grouped in the powerful Keidanren association, guide investment to the chosen sectors. The familiar tools of selective depreciation benefits, MITI/industry aid to R&D, JDB loans to industry, FILP loans for required new infrastructure, and prioritized private credit get the "vision" implemented.

In 1971, the ISC proposed Japan move into the "knowledge-intensive" era of technology-based industry, fine chemicals, nuclear and fusion power, bio-technologies like genetics and photosynthesis, industrial robots, and new materials such as ceramics for car engines. The ISC specified that it would be impossible for Japan and other advanced countries to make such a switch without the industrialization of the developing countries since, as MITI officials told *EIR*, the population of the northern countries is too small to permit the division of labor required by a fusion power economy in the 21st century. Japan's crucial aid to the Korean industrialization process followed the issuance of this report. One MITI official recently told *EIR*:

You want to know what our industrial policy is? Look at Korea and Taiwan. See how they are industrializing. We have been a catalyst for that, and must continue to be one. This is our industrial policy. Our internal structure is determined by our international role.

Developing nations justly complain that promises to transfer technology outweigh Japan's deeds, a discrepancy

Real growth of R&D expenditures
(percentage change)



that has grown with the worsening of world trade. Nonetheless, MITI's analysis is not just rhetoric. Half of Japan's exports go to the developing countries and half of the total are capital goods. Japan has now become one of the largest lenders to developing countries, largely to help finance capital goods exports and industrial development projects. As Prime Minister Nakasone told President Reagan, "There can be no prosperity in the advanced sector without development in the South." This is one reason Tokyo wants a partnership with America in Pacific Basin projects.

Industrial policy now faces a major debate sparked by the world economic crisis. Some businessmen and politicians argue that Japan must acquiesce to annual growth as low as 2-3 percent indefinitely due to world conditions. MITI argues instead that technology will eventually restore world growth and that Japan must prepare for this period; it must sustain at least 5 percent growth to generate the surplus to invest in new technologies. The 1980 ISC report declared that Japan had achieved its century-long goal of catching up with the West; Now, it must move on to new goals to deal with its new position in the world. The report rejected

. . . the now prevalent apprehension that technological progress is about to stagnate. . . . [Instead] great expectations are therefore placed on technological innovation providing the key to the solution of various problems in the 1980s. . . . In the past, Japanese industry achieved brilliant results in improving and applying imported technologies. In the 1980s, however, it will be essential for Japan to develop technologies of its own. . . .

It is extremely important for Japan to make the most of her brain resources, which may well be called the nation's only resource. . . . Possession of her own technology will help Japan to maintain and develop her industries' international superiority and to form a foundation for the long-term development of her economy and society. . . . Basing national development on technology should be our aim in the 1980s.

Leveraging industries these days are ones that help create a knowledge-intensive industrial structure. A 1978 law, which will last only until 1986, provides the computer industry with low interest JDB loans for R&D and capital development, along with special accelerated depreciation of equipment. The famous Fifth Generation computer research also enjoys low-interest financial aid from MITI. To help overcome the cliché that Japan can produce hardware, but not software, a 1979 temporary law initiated by MITI allows up to 50 percent tax exemption of revenues from general software sales if the funds are used for further R&D on general software.

MITI is promoting the development of nuclear energy, not only because it is the cheapest, safest form of energy, but because this high-temperature energy can create new

industrial processes, gases and chemicals not available with conventional energy at any price, as MITI official Hiroshi Murata wrote in 1979 in *Nuclear Engineering International*. Beginning in 1973, MITI pioneered research on nuclear powered direct reduction of iron ore into steel. Since 1976, MITI has arranged low-interest JDB loans so the nine electric utilities can purchase nuclear equipment made in Japan. The joint private-government Nuclear Power Reactor and Nuclear Fuel Development Corporation was established to gain independent access to nuclear fuel, and to develop a breeder reactor. *Fusion* magazine editor Dr. Steven Bardwell, who recently toured Japan's fusion facilities, estimates "Japan has the most aggressive fusion program in the world and may beat the United States in commercializing the energy of the 21st century."

This year, MITI sponsored a law providing for the *creation of 19 new cities of a few hundred thousand people each as new "technopolis" centers*. Low-interest loans, tax incentives, cheap land, and depreciation benefits will be extended to firms opening up operations in the new cities in designated high-technology industries, or infrastructural support for the latter.

MITI versus the post-industrialists

MITI scorns the "Atari high-technology" so popular in the United States. One veteran official laughed at the phrase "Atari Democrat." "Atari is going bankrupt, and even Texas Instruments is in trouble. I don't understand people who talk about a 'post-industrial era.' Don't they understand you can't have software without hardware; you can't have white collar industries without blue collar? Don't they understand that maintaining smokestack industries is a national security issue for America?"

Depressed industry cartels notwithstanding, Japan is not scrapping basic industry in favor of high technology. The whole purpose of high technology is to revolutionize heavy industry. When Washington said energy-intensive steel should be scrapped, Japanese firms moved to continuous casting and other energy-saving devices. To be sure, capacity-expansion investments in Japanese steel are in the specialty area, and imports of steel from Korea have increased—from a plant built with the aid of Nippon Steel. However, basic steel is being maintained through heavy investment in productivity and resource efficiency. Textiles have declined as a *portion* of production, and textile imports have increased—which aids sales by developing country manufacturers—but absolute production has increased through modernization.

There is a great deal of talk today about whether America should "copy" Japan and its successful industrial policy. Many of those doing the talking distort what Japan actually does. However, that aside, the real issue is not whether America is to copy Japan. The question is whether we shall re-import from Japan the system we gave them more than 100 years ago.

MITI: the 'general staff' of Japan's growth

MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975

Chalmers Johnson

Stanford, California:

Stanford University Press, 1982.

Cloth: \$28.50; paper: \$10.90 393 pp.

For years this writer has been trying to get people to focus on *industrial policy* rather than labor-management seminars, company songs, and Buddhist equanimity as the key to Japan's economic miracle. Now, "industrial policy" is the latest fad, as scores of politicians and writers either condemn, or urge America to copy, what they (often inaccurately) portray as Japan's industrial policy.

In this atmosphere, Chalmers Johnson's *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* is a breath of fresh air.

In the very first chapter of his book, Johnson, professor of political science, and Asia expert at the University of California at Berkeley, dismisses the "blind men and the elephant" theories now providing grist for best-sellers. Such books claim that Japan's economic miracle is due to "unique cultural factors" like "group thinking"; "unique institutions" such as lifetime employment; plain "market forces"; or low defense budgets.

The lifetime employment system, for example, did not even exist until after World War I and didn't predominate until after World War II. (Ironically, the existence of a lifetime employment system in the Soviet Union is often *blamed* for its low productivity and low worker morale.) Those who point to the docile labor force of a "consensus culture" forget the violent strikes after World War II. Still others, such as William Ouchi's *Theory Z*, look to Japanese management techniques as isolated "gimmicks" that have been and can continue to be successfully transplanted to U.S. factories. Yet, Johnson rightly insists, these techniques alone fail to explain Japan's success—and cannot create American resurgence—without the political-economic environment that made them successful.

Johnson states that these "anything-but-politics" ap-

proaches are not so much factually wrong as woefully insufficient, forgetting that the very existence of some of the phenomenon to which they point is often a result of government policy. For example, the famous high rate of savings of the Japanese is not some heritage of Buddhist mentality, but a recent, postwar phenomena, not unrelated to the simple fact that the first \$3,000 of earned interest is tax deductible.

The developmental state

Johnson belongs, he states, to "the school that stresses the role of the developmental state in the economic miracle."

In America and other countries, the prevailing ideology at present is that of the regulatory state. A regulatory state, Johnson comments, "concerns itself with the forms and procedures—the rules, if you will—of economic competition, but it does not concern itself with substantive matters. For example, the U.S. government has many regulations concerning the antitrust implications of the size of firms, but it does not concern itself with what industries ought to exist."

The developmental state, on the other hand, "has as its dominant nature precisely the setting of such substantive social and economic goals. . . . The government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness. The very existence of industrial policy implies a strategic or goal-oriented approach to the economy."

The "real equivalent of the Japanese Ministry of International Trade and Industry (MITI) in the U.S.," Johnson points out, "is not the Department of Commerce, but the Department of Defense," meaning the crucial role played by the Pentagon and NASA in the development of semiconductors, computers, and aircraft, and the back-and-forth movement of men between the Pentagon and defense contractors.

In a developmental state, says Johnson, "the politicians reign, but the bureaucrats rule." His second chapter gives an excellent introduction to the Japanese economic bureaucracy, the role of MITI, the finance ministry, and the relations between government bureaucrats and the business world. For example, in the United States businessmen and lawyers will often take a few years off from their firm to take a job in the State Department, Treasury Department, or Pentagon. In Japan it is the other way around. Upon retiring from MITI during their early 50s—a process known as "descending from

heaven"—MITI officials usually take high-level positions in major industries. This helps ensure that the firm follows MITI's "administrative guidance." Most postwar Japanese prime ministers have been ex-bureaucrats, usually from the foreign or finance ministries, rather than professional party politicians.

The primacy of the economic bureaucracy also creates an important cultural difference: when we in America wish to read novels about government employees, we devour the spy sagas of LaCarré and Ludlum; the Japanese, on the other hand, find themselves drawn to such best-selling novels as *The Summer of the Bureaucrats*.

Content versus technique and structure

Most of *MITI* consists of a detailed history of MITI's development and its role in formulating and carrying out Japan's industrial policy, as discussed in the article on that subject in this Special Report.

It must be said, however, that there are some problems with this book, particularly for the general reader—problems that arise only when Johnson fails to follow through on his own thesis of the developmental state. The issue at hand emerges right in the first chapter. Almost ignoring his own earlier point that "Japan's political economy can be located precisely in the line of descent from the German Historical School" (i.e., Friedrich List, c.f. p. 25 above) Johnson then goes to say:

[T]he leaders of MITI and other Japanese realized only very late in the game that what they were doing added up to an implicit theory of the developmental state. . . . MITI produced no theory or model of industrial policy until the 1960s at the earliest, and not until the creation of the Industrial Structure Council in 1964 was analytical work on industrial policy begun on a sustained basis. . . . An individual interested in the Japanese system has no set of theoretical works, no *locus classicus* such as Adam Smith or V.I. Lenin, with which to start. This lack of theorizing has meant that historical research is necessary in order to understand how MITI and industrial policy "just grew."

Starting with this thesis, Johnson begins his history, not with Meiji Japan's national goal of catching up with the West and the creation of the Bureau of Industrial Promotion, but in the 1920s by describing the reactions to the economic problems brought on by the 1923 earthquake and 1927 financial crash, and then the reactions to the 1930s Depression and march toward war. Johnson insists that there was a gap between the Meiji era and the 20th century, with a period of *laissez-faire* in between following the 1881 selling off of state-owned enterprises.

Johnson overstates the case. Although there was a reorganization of the ministries in the mid-1880s, including dissolving the Industrial Promotion Bureau into the newly created Ministry of Agriculture and Commerce, the latter is the direct ancestor of MITI. Similarly, though direct state

guidance of business was diluted during the first decades of this century, the state, as detailed above, provided one-third of all capital investment, and the infrastructure, taxation policy, and procurement needed for industrialization and the never-forgotten goal of catching up. Certainly, the techniques and particular institutions of industry were learned and built up over time through experience with new economic problems. However, there was neither an organizational nor a policy break between Meiji and the later era to the extent claimed by Johnson.

The dissolution of the links to the deliberate fostering of industry and technological progress by the Meiji era founders, leaves industrial policy and the organizational development of MITI as an accumulation of reactions to events, rather than the outcome of willful economic goal-setting. This has two consequences.

Firstly, Johnson gives what this writer—along with certain MITI officials consulted by this writer—believes to be exaggerated importance to the role of Nobosuke Kishi. Kishi, who became prime minister in 1957, had been a major MITI official in the 1920-30 period, as well as an important figure in the fascist movements of the 1930s and in Tojo's wartime regime. Johnson devotes several chapters of the book not to prewar economic policy, but to MITI's organizational development, in order to prove Kishi's instrumental role and the power of the "Kishi line" stretching into postwar MITI leadership. Kishi was indeed important organizationally, but according to MITI veterans, not as seminal a leader from a policy standpoint as indicated by Johnson. This point is important because Johnson's emphasis could lead some readers, despite Johnson's own intentions, to identify Japanese industrial policy with corporatism and fascism. Japanese fascists certainly used the centralized tools of industrial policy, but the two are as far apart as industrial policy and socialism.

This is related to another problem. In the chapters on postwar reconstruction, Johnson demonstrates very excitingly the connection between the tools of industrial policy, and the content, or effect, of the policy, the technological upgrading of the economy. This enables the American reader to understand how the developmental state works. However, in the chapters on the prewar era and the late 1960s-70s, Johnson simply asserts the connection without showing how it works. The prewar chapters concentrate too much on the "Kishi line" thesis, while the chapters on the 1960s-70s concentrate a bit too much on the use of mergers and cartels, rather than other tools which transformed the industrial structure.

We mention these problems, not to detract from the book, but to clarify the issues, since *MITI* will remain the authoritative American history of MITI for some time to come. All in all, *MITI* is a book filled with people—people making decisions, people making history, not invisible hands. It is to be hoped that it is only the beginning of a number of much-needed books on Japan's industrial policy.

Bettino Craxi's links to the mafia and terrorism

by Stefania Sacchi

On July 28, in a street in the Italian city of Palermo, Sicily, 100 kilos of dynamite exploded a FIAT 127 car parked a few steps away from the car of Judge Rocco Chinnici. Four people, including the Judge, were killed, and 15 passersby were wounded. Judge Chinnici was reportedly leading an investigation of 80 Italian politicians who, according to work previously done by Gen. Carlo Alberto Dalla Chiesa, the head of government antiterrorist forces assassinated in 1982, are active members of the Sicilian Mafia. Sources say the 80 politicians include former defense minister Attilio Ruffini and former Palermo mayor Vito Ciancimino, both close to the Fanfani wing of the Christian Democratic Party—the pro-Bettino Craxi wing. Amintore Fanfani, who preceded Craxi in office, is known for his pro-fascist tendencies and support for new prime minister Craxi, the first Socialist to take power in Italy since the fall of Mussolini in 1943.

The Palermo bombing should be considered the warning of what is to come under the Craxi government. As rightly expressed by Eugenio Scalfari, the director of *La Repubblica*, one of the most important Italian newspapers, Craxi's appointment represents not only a change in government, but a "change in regime. . . . Anyone who has not yet realized it, should reflect deeply."

Bettino Craxi, the strongman and capo of Italian politics, has finally realized his decade-long dream and become what will be remembered as the "second Mussolini." Like his predecessor, Craxi has attained this thanks to a combination of international forces which have their center in the Trilateral Commission and in the U.S. State Department, including people like the man accused of ordering Aldo Moro's murder,

former American Secretary of State Henry Kissinger.

Craxi represents everything Kissinger has worked for since the beginning of his career. Kissinger wants to render the United States a captive nation of the supranational forces opposed to industrial development, whose goal is zero population growth to maintain the international financial power of a small elite of huge family *fondi*, or funds, and ready, in order to achieve such goals, to use terrorism, drugs, and political assassination.

Austerity, austerity

When the Trilateral Commission had its international congress last April at the Hilton Hotel in Rome, the case of Italy was brought forward by Italian industrialists and university professors, to impress on the minds of Trilateralists that a drastic change would be the only solution for the serious Italian crisis and at the same time making it clear that Italy could very well be used as a test-case for the diffusion of Trilateral ideas all over Europe.

Kissinger took up the task of the practical carrying out of the plan, and the day after the end of the Rome meeting, went to Milan and met Bettino Craxi in his office at Piazza del Duomo. Industrialist Gianni Agnelli had already given his blessing to the operation. Craxi was told by Henry Kissinger that he was to attack the Italian government, to provoke its fall, early elections, and a rapid implementation of the austerity measures demanded primarily by the Swiss banks. The best man to run a government to implement such austerity would be Craxi himself.

The program Craxi announced, even before he formed an

actual government, is a carbon copy of the policies of the supranational forces he represents. Total domestic austerity will be imposed on the population starting with an effective freeze on workers' wages. There will be little organized opposition: the trade unions had already stopped being effective last January, when a deal among industrialists, government, and trade unions reduced the strength of the cost of living escalator.

Craxi's proposal is to create a National Solidarity Fund built up with private and public industry shares and with sizeable deductions from workers' wages. This fund would make up for the loss of jobs by launching a pick and shovel program throughout the country for the unemployed. A drastic drop of public spending will create the necessary framework for realizing the program. On July 29, Craxi summoned Bruno Storti, chairman of the Consiglio Nazionale Economia e Lavoro (CNEL), the National Council on Economics and Labor, an entity founded after the war as a consulting body for the government, where industrialists, representatives of the state, and trade unions would work together. Storti and Craxi were reportedly instead trying to find a way to use the CNEL as a tool of social control.

Massachusetts Institute of Technology economist Franco Modigliani will be called to Rome to be at the side of the prime minister as an economic adviser, representing Milton Friedman's Chicago School of Economics and the "technetronic society" advocates like industrialists Carlo De Benedetti and Bruno Visentini (who both favor the Communist Party, even though they belong to other political formations). Modigliani has already released his proposals in the pages of the last issue of *Espresso* magazine. In an interview he insisted that the best way to cut public spending is to cut social services, while fighting 16 percent annual inflation in the country, and freezing salaries for two years.

Modigliani's proposals are in tune with the early proposals of various economists of the Socialist Party of Italy, like Luigi De Marchi, who, during an interview with *EIR* in 1981, declared that Italy is overpopulated and by the year 2000 more than 40 million people (from a total population of less than 60 million) should be done away with. Implementing the social service cuts proposed by Modigliani would make this target easy to reach.

The second stated aim of the newly appointed prime minister is to get an agreement with Soviet "czar" Yuri Andropov: Craxi has declared he wants to meet Andropov very soon. It is easy to see in his move an attempt to delay the installation of the Euromissiles, while giving lip-service to the Americans on this subject.

How Craxi threatens the national security of Italy is probably best expressed by the enthusiastic welcome Craxi gave to the white book put out by the Radical Party of Marco Pannella, detailing the site of each single secret military installation and missile base in Italy, both of the Italian army

and of the United States. After the press conference where he presented his book, Pannella gave a copy of it to Craxi, who promised that the "actions of the Radical Party will be taken into consideration by the new government." It is not astounding, therefore, that the Radical Party has pledged its full support for the government, a move which follows the introduction of several former Radical Party candidates in the Socialist slates during the last election campaign.

But the most important facet of the "great reform" to be implemented by Bettino Craxi will be the institutional reforms, including several changes in the Italian post-war Constitution, the same Constitution which was originally made to ban forever the taking of power by any regroupment of the forces which brought Mussolini to power in 1922, and Europe and the world to war. Craxi's expressed aim is to give more power to the prime minister's office as first step, which will lead to other reforms, including that of the banking system, which would give a sort of dictatorial powers to the Bank of Italy. The Bank of Italy involvement in flight capital from Italy and in recycling of drug and weapon smuggling dirty money through Switzerland has been reported in *EIR*.

Why Craxi?

The personal profile of Craxi makes him an ideal candidate for filling the post of the strongman. The Trilateral Commission hopes that he will be able to use the same methods he has always used to make his lightning career: straightforward hooligan methods. His career actually started in the fact that he is the son of a socialist lawyer from Sicily, who became deputy prefect (the second-highest law enforcement post) of Milan under Socialist leader Riccardo Lombardi just after the war. Even in high school he is remembered for his frequent fist-fights with "opponents" and for his job as bouncer during political discussions. In the early 1950s he was a bully at the Milan State University. When only 23, he was made a member of the Central Committee of the Socialist party, being the protégé of Pietro Nenni, leader of the autonomous faction of the Socialist Party (PSI) (those who refused to merge with the Communist Party). Craxi went to Rome and soon became the number-two man in the faction. At the beginning of the 1970s he was elected a deputy to the national parliament but still remained in the shadows. But an article in *Time* magazine, in 1972, depicted Craxi as "one of the 40 most important people in Italy," at a time when he wasn't a nationally-known figure at home.

From the very beginning of his career in the party Craxi used hooligan methods, ruthlessly attacking political rivals, particularly Francesco De Martino and Giacomo Mancini, who in succession held the post of secretary-general. When De Martino's son was kidnapped, the leftist leader had to quit as secretary, leaving more maneuvering room to careerist Craxi. Some say that the kidnapping of De Martino's son was organized from inside the Socialist Party, using the Mafia

fringes in Calabria. Many point to Craxi, who profited the most from it, as the culprit. Finally, in 1976, during a famous party congress held at the Midas Hotel of Rome, Craxi became the secretary of the party. But the Christian Democrats and the Communists were implementing the "national solidarity" government, and there was no place for a so-called third force, a "socialist centralism," as Craxi himself called his plans for total hegemony in the Italian political scene.

In 1978 the real nature of Craxi's leadership came into the open. During the kidnapping and the murder of Christian Democratic party chairman Aldo Moro by the Red Brigades terrorists, Craxi invented the "party of negotiation" line. This program was counterposed to the no-deals line of the Italian government and of Pope Paul VI, and was intended to bring the Red Brigades leaders into direct talks with the government and recognize them as a legitimate political force. Craxi was working in tandem with Henry Kissinger, who had several times threatened the life of Aldo Moro, as he had done with Pakistani premier Ali Bhutto who was hanged by current dictator Zia ul-Haq in 1979. Kissinger threatened both politicians for the same reason: Both wanted the development of nuclear power in their countries.

The "negotiation" line helped Craxi to strengthen his personal power inside the party. Slowly but steadily, Craxi paved his way in the Socialist Party to becoming a full-fledged dictator: the same method he is using in national politics now.

Destabilization: the PSI's password

Becoming the "party of negotiation" during the kidnapping of Aldo Moro is a very good example of the modus operandi of the Socialist Party: *Metropoli*, the magazine which represented the Red Brigades line at that time, was financed by Socialist senator Antonio Landolfi and by Socialist deputy Giacomo Mancini, both accused by the Italian magistracy of the crime of "building an armed gang," but not prosecuted because of their parliamentary immunity. The center of the Red Brigades in France is the language school Hyperion, identified by various law enforcement agencies as the headquarters of terrorism in France. Hyperion is led by the fugitive Red Brigades leader Simioni, who was, together with Craxi, leader of the Federazione Giovanile Socialista Italiana in Milan (the youth organization of the Socialist Party) during the 1960s.

Now, with the uncovering of the "Bulgarian connection" in the context of the international drug/weapons smuggling from Eastern Europe to Italy, the network which also ran the attempted assassination against Pope John Paul II in 1981, two trade unionists, Luigi Scricciolo and Paola Elia, both working in the international secretariat of the UIL trade union, led by Giorgio Benvenuto, who is close to Craxi, have been implicated in the investigation. Judges Imposimato and Priore, the same judges who issued the subpoena for Henry Kissinger to testify on the question of the assassination of

Aldo Moro in April 1983 (which Kissinger illegally evaded by hiding in the American Embassy) have decided to interrogate Irving Brown, following the testimony of Paola Elia and her husband Luigi Scricciolo, who was second in command in the UIL after Benvenuto.

The Mafia connection

The second important point to take into consideration when discussing the role of the PSI in trying to destroy the Italian republic is its links to the Meyer Lansky connected drug traffic. Socialist deputy Loris Fortuna, the lawyer of "instant banks" set up by London crime king Luigi Torri in London beginning in 1974 to launder drug money overnight, was the first to call for the legalization of "soft" drugs in 1974. Torri became known in 1962, for his involvement in the notorious "Number One" Rome night club cocaine smuggling scandal. The names of FIAT owner Gianni Agnelli and of former Bank of Italy Governor Guido Carli have also come up in the same scandal.

The Socialist establishment in Milan has been historically connected to, if not created by, the drug Mafia through the connection to Joe Adonis, responsible for having brought the drug network of Meyer Lansky to Italy after the war. Adonis, through mafioso Italo Ialongo, maintained direct and continuous contact with former Milan mayor Aldo Aniasi (notorious for having, as Health Minister, legalized the public distribution of methadone, or synthetic heroin, in August 1980). Craxi's power base is still in Milan, where he is said to own, through frontmen, one-third of the town, mainly restaurants and entertainment buildings.

A third very important point to analyze is the PSI's defense policy. Socialist defense minister Lelio Lagorio is responsible for plans to transform the Italian army into, on the one hand, an army for "city-control," with normal soldiers having the status of disaster fighters—a social control force under the newly created "Ministry for Civil Protection." The other part of the army is supposed to become an elite of well-trained special corps, which could be deployed all over the Mediterranean area and Europe. Discussions are already in progress as to whether to send Italian troops to Bavaria, in support of Franz-Josef Strauss's *Mittleuropa* project (see article, page 37). This would include having American troops leave Europe, and removing Europe from American influence and moving it politically closer to Moscow.

In conclusion, the appointment of Craxi and everything this has brought about can be considered the accomplishment of the schemes of the illegal Freemasonic Propaganda-2 Lodge of Licio Gelli and of its superior, the Montecarlo Committee, of which, according to published reports, Kissinger is also a member. Their plan, now largely implemented, was to bring Italy into a state of total chaos and confusion, where key Mafia assets could take direct power. Thus Italy, under Craxi, is becoming the wedge for Andropov's strategy for the conquest of Europe and the Mediterranean.

The Atlantic alliance: will the U.S. let Kissinger and Andropov destroy it?

by Susan Welsh

Soviet General Secretary Yuri Andropov is preparing an offer to the Federal Republic of Germany which may rip apart Western Europe's alliance with the United States before most Americans know what is happening. According to a leak from Hungarian officials published in *The Observer* July 31, the Soviet Union is preparing a new "peace offensive" in Europe, whose "long-term target, they believe, will be a united and neutralized Europe with a reunited Germany at its heart." The "leak" comes from Andropov himself: it followed a series of meetings in Moscow between the Soviet leader and Hungary's Janos Kadar, which resulted in "complete identity of views on all subjects discussed." Andropov is known as the "Hungarian connection" in Moscow, dating to his tenure in Budapest during the 1950s.

The Russians' long-range strategic plan, reports *The Observer*, "will entail fundamental changes in their policies towards Eastern Europe and the West, including their past opposition to German reunification. The reason is the recognition by the Soviet Union that the development of nuclear missiles has destroyed the rationale for maintaining the states of Eastern Europe as a 'buffer' between Russia and the West. However loyal Poland and Hungary and the rest might be in a nuclear war, they could do nothing to prevent the annihilation of the Soviet Union."

How will Western Europe and West Germany in particular respond to the Soviet "peace offensive"? The political institutions which have governed the continent since World War II have been virtually destroyed, contrary to prevalent wishful thinking in the United States.

The Federal Republic of Germany, the heart of NATO, is undergoing a political transformation as far-reaching as that which changed Weimar Germany into the Nazi state. Many U.S. conservatives take at face value Christian Democratic Chancellor Helmut Kohl's professions of staunch pro-Americanism, and wishfully anticipate that the "hot autumn" of riots that the KGB-financed peace movement has promised for Germany will not materialize. But the political institutions of the Federal Republic now resemble a house infested with termites: to the outside observer the structure appears intact, but only up to the moment that a stiff wind comes along and the whole thing collapses into a pile of dust. Both "left" and "right" in West Germany are converging on vari-

ations of a scheme known as *Mittleuropa*—a central European entity independent of the United States, including a reunified Germany achieved through a deal with the Russians. The economic and other underpinnings for such a deal are currently under negotiation, even as official communiqués insist that business is proceeding as usual.

In Italy, the June 26-27 elections which brought Socialist Bettino Craxi to power signify a new regime of corporatist austerity which the international press is widely comparing to that of Benito Mussolini, whose centennial is currently being celebrated with great fanfare. Craxi, who is also viewed by some in Washington as a U.S. asset, announced as one of his first post-election statements that he wants to go to Moscow to meet with General Secretary Andropov, to try to bring about a deal which could avoid the deployment of U.S. Pershing and cruise missiles in Europe at the end of this year. Meanwhile high-level discussions recently took place in Moscow between Soviet economic officials and Italian industrialists, including the head of Confindustria, the Italian industrial association, aimed at significantly expanding Italo-Soviet trade. (Bilateral trade volume rose by 35 to 40 percent from 1981 to 1982.) Agreement was reached on a multibillion dollar contract for Italy's leading auto producer, FIAT, to build a huge car production plant the size of the famous Togliattigrad facility. Two other giant projects are under discussion.

The principal obstacle to the Soviet grab for Europe is France, with its fierce national commitment to its independent nuclear deterrent, the *force de frappe*. But the French government is weak and fissured, the economy is sinking through the floor, and a wave of incendiary violence has broken out throughout southern Europe, even before Germany's "hot autumn" gets fully in gear. In Corsica, southern France, Spain, Greece, Calabria, Sardinia, and southern Yugoslavia, hundreds of hectares of forest are on fire, traced in several instances to arson activities of political separatist groups.

Soviet manipulations in Germany

The Soviet Union is attempting to delay the start of the U.S. missile deployment in Europe at least six months past the December 1983 deadline, to give centrifugal tendencies

in Europe more time to develop and to place the confrontation over installation of the missiles right in the middle of the U.S. presidential election campaign. Behind-the-scenes diplomacy in Europe now is intense, following on Chancellor Kohl's July 4 visit to Moscow.

While offering economic deals and the plum of reunification, Moscow is warning of dire consequences if Western Europe fails to fall into line. A front-page commentary in *Pravda* Aug. 1 stated that West Germany has the most to lose if NATO goes ahead with the deployment of "first strike weapons"—the U.S. missiles. "The military danger to the Federal Republic would increase many times. Its widely developed relations with the Socialist states would be threatened." Soviet Defense Minister Marshal Dmitri Ustinov warned in *Pravda* July 31 of "countermeasures" which the U.S.S.R. would take, and denounced the United States for

Numerous analysts are predicting that the Kohl government will not survive the coming social explosion. Old Swiss Nazi Armin Mohler of the Siemens Foundation is calling for a "national front regime" that would decouple West Germany from NATO.

allegedly having a "first strike" policy. Ustinov attacked President Reagan's policy of developing beam weapons for anti-ballistic missile defense, saying that "space is being threatened with nuclear strike weapons under the rubric of laser and beam installations. . . . Such a country is the United States of America."

Germany's response to the Soviet carrot-and-stick tactics is a widespread, nearly pervasive longing for an independent *Mittleuropa*—which in reality would be a Soviet buffer state. What *EIR* has reported on these developments for the past several months is now a topic of daily discussion in the pages of the German press and at conferences throughout Europe. For example, Duino Castle in Trieste will be the setting in September for an international conference on "*Mittleuropa*—Yesterday and Today," sponsored by Austrian President Kirschlaeger and Italian President Pertini. The conference will discuss how to redraw the map of Europe to "overcome the artificial structure of the Yalta System" which has divided Europe since 1945.

The *Mittleuropa* agitation comes from both the Protestant "left" and the Catholic "right" in Germany. Egon Bahr,

the Lutheran theoretician of Willy Brandt's *Ostpolitik* and leading disarmament spokesman of the Social Democratic Party, declared in a recent interview to *Stern* magazine: "We are the hostages of both superpowers. I cannot close my eyes to the fact that the two German states are the combat zone for the superpowers." Bahr, who was recently in Moscow, has called on the Social Democrats to join the peace movement in the streets this fall to prevent the installation of the U.S. missiles.

Role of the churches

Bahr's line dominates the Evangelical (Lutheran) Church in West Germany, which in turn has been a principal bridge to East Germany throughout the postwar period. This has become so apparent that defense ministry spokesman Lothar Ruehl gave an interview Aug. 2 to the *Neue Osnabrücker Zeitung* calling on the church to clarify whether or not it still conforms to the constitution of the Federal Republic, which makes it the right and duty of the state to defend its citizens.

Bahr finds strange co-thinkers these days, most notably Franz-Josef Strauss of the predominantly Catholic and ultra-conservative Christian Social Union (CSU) party in Bavaria. Strauss masterminded an extraordinary one billion deutschemark (\$.39 billion) government credit guarantee for loans to East Germany, approved by the federal cabinet at the end of July. Strauss emphasized that this is only part of a larger political arrangement, and CSU opponents of Strauss's move report that a total of 4 billion deutschemarks is under negotiation. No sooner was the deal clinched than Strauss went to East Germany for a first-ever "private meeting" with Socialist Unity Party chief Erich Honecker. The contents of the meeting were not disclosed.

This then is the setting for the "hot autumn" of violence which is ready to take off. Numerous analysts are predicting that the Kohl government will not survive the coming social explosion, and a replacement will have to be found. Armin Mohler, the Munich-based old Swiss Nazi who runs the Siemens Foundation and espouses the ideal of a "conservative revolution" (known in plain English as "fascism") is calling for the creation of a "national front regime" that would include Kohl or some other middle-of-the-roader and Egon Bahr from the Social Democrats. Mohler's Grand Coalition would preside over the decoupling of Germany from NATO and from the United States, and the destruction of German industry and scientific potential. Isn't Mohler worried by the convergence of his views with those of the Left? Not at all, he told an interviewer. "I am very much amused that the right-wing and left-wing extremes are shoulder to shoulder in this movement."

There is no force within Europe today that is strong enough to change the current political dynamic. If a shift is to come, Americans will have to wake up and mobilize to regain what this country fought World War II to achieve in the first place.

German Lutherans: pawns and controllers in the peace movement's autumn violence

by Martina Weiss

The Lutheran Church in West Germany (Evangelische Kirche Deutschland—EKD) is more like a politicized encounter group than anything ordinarily thought of as religion. It is also, as EIR reported July 19, the breeding ground for the "hot autumn" of violent protest against the deployment of U.S. Pershing missiles in Europe and other nastiness that calls itself the "peace movement."

If anyone doubted either of those observations, a visit to this year's annual conference of the EKD, held in Hannover June 8-12, would have proved most convincing—as the following eyewitness account suggests.

Picture a "socially significant sensitivity session" with 140,000 participants (60 percent under 25 years old)—waving lavender handkerchiefs for peace, swiveling to jazz band spirituals, eating up praises of Khomeini's "necessary" revolution, and discovering that the nature-violating arrogance of Europe and the United States is the source of most of the world's evils.

Add to this the first-ever presence of the Russian Orthodox Church: "Group leader" Archbishop Pitirim of Moscow solemnly picks up a bell inscribed with the word "Peace," tinkles it a few times and announces, "This language anyone can understand." In case some do not, he explains that "This means peace; this bell is happier than I am."

The conference crammed more than 2,000 workshops into five days and nights. Along with peace and ecology, "Living Bible" sessions, and group singing and dancing, the affair was capped with peace demonstrations and street theatre. The conference's closing religious service was a presentation of "Christian aerobics."

Some of the slogans that galvanized mass meetings held with Social Democratic peace apostle Willy Brandt and Social Democratic Party official Egon Bahr: "Institute Peace," "Find Understanding of One Another," "Talk with One Another," "Project Creation."

'Barbarism too is necessary'

Professor El Aouni of Berlin and Social Democratic parliamentarian Hartenstein told the Lutherans that Khomeini's revolution was necessary as an essential step for the emancipation and development of the self-consciousness of Islam. Khomeini's was like the French revolution, they said. Both

involved murder and terror, but must be seen as decisive for the development of mankind. For the modern Christian's predicament, the Lutherans were given a new interpretation of the story of Jonah: Jonah was ordained by God to set the depraved city of Nineveh aright. If Jonah did not convert the city en masse within 40 days, God would destroy it. Failing an attempt to flee, Jonah returned to the city and preached its destruction. The incredible happened: the people of Nineveh repented; and God spared the city.

"And thus a king allows himself to be moved by the peace movement among his subjects; he steps down from his throne, removes his royal garments, and, clothed in grey, mourns with his people," said Pastor Jörg Zink of Stuttgart, a friend of Lutheran president Erhard Eppler, advocate of a nuclear-free Central Europe.

"It will not be the words of the supposed realists who will save our world, but rather those who believe in the miracle of conversion and in God's salvation through Grace. . . . Count on improvement, on the complete transformation of East and West. Stop thinking in terms of 'friend' and 'enemy.' . . . I see no other hope for the future but God's grace." Thus spake Prof. Simon, a West German federal judge.

Zink: "The time is past in which it could be thought that the mythical is the primitive and that Christian belief can be grasped better after the mythical has been cleared away."

Affinity with the mythical, the wild, and the dead provided the backdrop for the Lutherans' conjuring the preparations for the "hot autumn." The conference leaders showed films of their friends the Greens in hot confrontation with police over construction of the new runway at Frankfurt Airport. Pastors with considerable experience explained the theological justification for the "right of resistance," under the motto "Had Christ been humble, he would not have been crucified." (Or as the American Indian Movement says, "It's a good day to die.") Simon assured the Lutherans that the peace movement is within the best traditions of the constitutional state.

Mass meetings generated hysteria about nuclear war. But neither pastors nor lay leaders offered solutions to the growing prospect of nuclear confrontation. Only members of the small European Labor Party offered the prospect of doing away with the insane Mutually Assured Destruction doctrine; their distribution of leaflets entitled "Hiroshima Was a Nuclear-Free Zone. Too" generated excited discussion among

the delegates, particularly young people, who wanted to discuss President Reagan's new strategic doctrine of Mutually Assured Survival through the development of anti-ballistic-missile directed-energy weapons.

But it wasn't only the prospect of nuclear war which was used to create hysteria. The prospect of "ecological catastrophe" was unfolded again and again from the pulpits—by regional parliamentary representatives, judges, pastors, and housewives. Technology is destroying nature. We now face destruction. The crucial task for mankind outlined in the Book of Genesis—to multiply and subdue the earth—is a "misinterpretation."

"Having so much energy perverts us into self-important assertion against our *environment*; we would otherwise be *with* the environment. This leads to the world coming more

and more to resembling man," which must be stopped, said Prof. Meyer-Abich of Essen, who was slated to be federal minister of the environment in a Social Democratic government had it won the last election. "Above all, it is with touch," said the professor, "that I directly feel the resistance of the felt object against myself. When I touch, I am touched. Here we thus experience directly that we belong to Nature."

Labor Minister Norbert Blum added, "We need more praxis and less theory. We have too many college graduates. Those who think with their hands ought to be as highly regarded as university graduates."

Where is the Lutheran Church going? The ayatollah of de-schooling, Ivan Illich, gave more than a clue when he was invited to tell the 140,000, "Have the courage for poverty, even spiritual poverty."

The irrationalism in the German Protestant Church

"Poverty" and "repentance"—these are key terms in today's German Protestantism, and all the propaganda around lavender scarves has one meaning: the mystical color of repentance is violet. Although they are also central terms in Lutheran belief, the terms "poverty" and "repentance" belong more to the belief-structure of Calvinism, the fundamentalist brand of Protestantism.

This is the significance of the fact that the Protestantism of the Hanover convention is dominated by Calvinism or by the Protestant Reformism which has emerged from Calvinism. The East-West dealings run by the German Evangelical (Lutheran) Church (EKD), serving as a back channel for the Russian Orthodox Church between today's West and East Germanies, are following the tradition of the "Prussian Protestant Union," which has always been more Calvinist than Lutheran.

The presence of Moscow's Archbishop Pitirim at the Hanover EKD convention underlined the "reunion" going on between the belief and organizational structures of the Calvinists and the anti-technology Russian Orthodox.

Though nominally Lutheran, the members of the Protestant Church within the realm of the Prussian Hohenzollern monarchy, which adhered to the creed of Reformed Protestantism, were made members of the new "Union" in 1810-15 by royal decree. This decree officially ended the period of religious—and thereby political—liberalism in Prussia.

Modern anti-Semitism also stems to a large extent from that founding period of the Prussian Protestant Union. The Union became the main cultist motor for the pan-

Germanic ambitions of Prussian imperialism thereafter. The notion of a special *Mitteleuropa* destiny for German politics, which came to such a brutal high point in European history under the Nazis' Third Reich, originated in this period as well. This was the era of anti-republican repression under the dictate of the Vienna Congress Restoration of 1815.

With such ideological orientation, it was not coincidental that the Protestant Church backed the Nazis even before they came to power, and even more after they had taken power in 1933.

After 1945, the fight between Lutherans and Calvinists broke out again, and the main issue of dispute was the foundation of the German Christian Democracy. The Christian Democratic Party (CDU) was supposed to become an ecumenical merger between the Catholic and the Lutheran Church, but this concept was undermined by the Calvinists, led by their main mouthpiece, Reformed Church theologian Karl Barth, who demanded that Christians avoid party affiliations and that the churches be rebuilt after 1945 "from below," that is, by "repentance" and acceptance of the postwar poverty imposed by the occupation forces and the Marshall Plan.

The Barthians declared that revitalization of real Christianity could only be achieved through a long process of mass flagellation, called "collective guilt of the German people for all Nazi crimes." They thus became the main transmission belt for the mass brainwashing of the Germans during the military occupation period which served in the late 1960s and early 1970s as a basis for helping the EKD to build the ecology movement against modern German industry. German producers of nuclear energy were libeled, for example, as Nazis, and numerous EKD-related activists told the ecology movement following them that any further development of modern technologies would lead to a "fascist nuclear society."

Klaus Barbie's lawyer: a KGB operative

by Laurent Murawiec

The "Butcher of Lyons," the Gestapo killer and torturer Klaus Barbie, presently awaiting trial for crimes against humanity in a French jail, has taken the most flamboyant of the leftist lawyers of Paris, Jacques Verges, as his lawyer. No liberal or left-wing publication questioned the strangeness of the bedfellows: Verges, the former Maoist, the passionate lawyer for the Algerian freedom fighters, defending a Nazi!

Jacques Verges was born in Thailand in 1924, the son of a French father and a Vietnamese mother. The family moved while Verges was young to the French island of La Reunion in the Indian Ocean, where Verges's brother is currently the secretary-general of the local communist party and a rumored KGB station chief. Verges reports, unverifiably, that he participated from age 17 in the Resistance in mainland France. After the war, he became one of the leaders of the Anti-Colonialist Student Association in Paris, along with his friend, young Pol Pot.

Verges exhibited such talent that he was sent to Prague as an executive committee member of the International Student Union, a Soviet front, where he worked under Alexander Shelepin—the head of the Soviet "youth movement," the Komsomol—who was to head the KGB in the early 1960s. There is no doubt that Verges had been recruited to fulfill KGB functions, given his assignment: running the so-called International Student Relief Fund, a front for Soviet intelligence's logistical operations.

Verges's KGB superiors decided that he would be more useful as a non-communist. Returning to Paris, by 1956 he had become one of the star lawyers on the staff that defended the leaders of the Algerian FLN in French courts. The FLN was a mix of genuine nationalists and assets of a myriad secret services; FLN chieftain Ahmed Ben Bella was a trainee of the Nazi Abwehr, the military intelligence service. In his defense of Ben Bella et al., Verges met for the first time François Genoud, the coordinator of the field operations of the Nazi International, who had become Ben Bella's protector. Verges also met Henri Curiel, whose network was supporting the FLN on behalf of the KGB.

Verges by then had made himself an "anti-imperialist" celebrity. In 1962, he converted to Islam, adopted the name of "Jacques Mansour," married a former FLN bombing specialist, Djamilia Bouhired, and landed in now-independent Algeria, where Ben Bella deployed him as a link with African "revolutionary movements."

Verges was coopted onto the editorial board of the FLN

weekly journal, *Revolution Africaine*; then came one of his about-faces. After having been relieved of his post for mysterious reasons, he traveled in March 1963 to Peking, where he was received by Mao Tse-tung. He was now a Maoist, and founded, with Chinese money, a glossy monthly newspaper called *Revolution*, with offices in Peking, Cuba, London, New York City, Paris, Dar-es-Salaam, and François Genoud's headquarters, Lausanne. An apparent "political break" with Ben Bella ensued in May 1963.

In 1965 Verges flew to Tel Aviv to defend a Palestinian terrorist, and in 1966, an Israeli court dismissed him as attorney to the defendant, a Jordanian terrorist. He was kicked out of Algeria in 1966. Just before that, the leftist lawyer was also defending Moïse Tshombe, the old pawn of the Union Minière du Haut-Katanga, who had been detained by the Algerian authorities.

By 1969, Verges was the defense lawyer for three members of the terrorist Popular Front for the Liberation of Palestine. There is no known reference to what he did or where he was between 1972 and his reappearance in Paris in 1979, except a story published by *Le Matin* that Verges stayed with Kampuchea's monstrous dictator Pol Pot for all those years! Had old acquaintances been renewed?

Re-emerging from the shadows, Verges's first legal client was Japanese heiress and French casino owner Tsutsumi, and his second client the lawyer for the terrorist Baader-Meinhof (RAF) gang, Klaus Croissant, then fighting an extradition order.

Nazi Communists

In May 1982, French police arrested two associates of the terrorist "Carlos," Bruno Breguet and Magdalena Kopp. Breguet had been freed from an Israeli jail after negotiations between Nazi chief François Genoud and the Israeli authorities. The KGB-Nazi connection was subject to no qualms: Genoud himself is said to be in regular contact with the KGB at the level of a directorate leadership. Verges defended Breguet and Kopp; he had stated on television in April 1982 that "Carlos is a man of honor for whom I have a great admiration." By June 1983, Verges was defending the chief of the French terror group Action Directe, Frederic Oriach.

In these circumstances, old friends of Verges, notably Presidential Special Adviser Regis Debray—whose dealings with the Klaus Barbie network in Latin America have never fully been brought to light—arranged the expulsion of Barbie from Bolivia. Debray et al. are seeking to destroy the powerful intelligence, military, and political old boys' networks dating back to the Resistance, whose Gaullist or nationalist persuasions represent a roadblock to the KGB in France.

Verges's method for the Barbie trial is easy to predict: he will use the "Dimitrov method" to "turn the defense into the accusation." Barbie, coached by Verges, will be in a position of charging anyone with anything, and will exploit the extraordinary emotional power attached to the French occupation experience.

'Is Kissinger seeking a depopulated world?'

The daily La Republica in Lima, Peru, published on Aug. 1 a column that reflects much of the continent's attitude toward Henry A. Kissinger. The column was written by Alfredo Ruiz Eldredge, former president of the Lima Bar Association and respected ambassador for the reformist nationalist government of Gen. Juan Velasco (1968-75). Below are excerpts from the article, which appeared under the headline "Kissinger Against Latin America."

Mr. Kissinger is the most perfect expression of the imperial policy of his country. . . . Kissinger attacked and destroyed the governments of Peru, Bolivia, and Chile. He and his people continue to intervene in Argentina, Uruguay, and Paraguay, and, of course, to protect the cruel terrorist dictatorships of Central America and the Caribbean. Remember what the other U.S. President [Franklin Roosevelt] said of Somoza: "He's an SOB, but he's ours!"

'A dagger into Antarctica'

Kissinger always brings with him the most impudent aggression; he tries—though he spits into the wind—to deprecate brown America. It is subconscious vengeance . . . against the historical creators of cultures which are beyond the reach of Kissinger's crimes: Incas, Aztecs and Mayas. The former secretary of state one day asked his advisors, "What would happen if Latin America sunk under the sea tomorrow?" To his people's dismay, he clucked, sarcastically, "Nothing would happen. Latin America is just a dagger stuck into the Antarctic."

The 1968-75 Peruvian government of [Gen. Juan] Velasco stood up to the subversive policies of Kissinger & Co., who went so far as to encourage the [1973 Chilean] coup against Allende by offering Pinochet (whom they armed) a preventive war against Peru; they tried to start this war in July and August 1975, but their plans aborted. Watch out now! Then they did what they could to overthrow General Velasco.

There is something even worse: Kissinger has been accused by the Lyndon LaRouche group of the U.S. Democratic Party of organizing a genocidal "Project 1980s," which seeks "the controlled disintegration of the international economy and of the nation-state," replacing it with "a depopulated



world without technology and controlled by international organizations like the International Monetary Fund, the World Bank, and others that Kissinger works for."

The U.S. expert [Jeffrey] Steinberg of the LaRouche group also accuses Kissinger of forming the Montecarlo Lodge, which he calls "the most genocidal organization in today's world," because it wants to "cut in half the world's population before the end of the century by creating famines, generating war, etc." This accusation was transmitted by the TELAM press agency Aug. 14, 1982. Few newspapers could get it (due to imperial control over information and communication); but, perhaps through a slip-up, the daily *Expreso*, intimately tied to the present Peruvian government, published it on the first page the next day.

Kissinger's genocidal policy has also been denounced by *El Comercio* of Lima, a paper edited by the philosopher Francisco Miro Quesada; by Colombian university president José Consuegra; by the Mexican expert Javier Campos; by the Brazilian geopolitician Victor Manuel Pacheco; and by me.

The dangerous thing is that the leaders of Latin America—be they right, left, or center—and the parties and institutions have not yet come to grips with the criminal policy of genocide now afflicting our brown America.

The need to act

Today, when Kissinger, one of those most responsible for this . . . seizes power, the need for the governments of Latin America to act increases. They can count on the unquestionable support of not only their people, in this matter of defending their very lives, but also on the democratic and progressive centers of the United States. . . .

In *El Comercio* (March 15, 1981), Francisco Miro Quesada urged all the leaders of the Third World to fight the genocide of types like the Paddocks ("create hunger"), the Ehrlichs ("have to wipe Latin America, Asia and Africa off the map") and others through what they called "triage," which means: choosing who should die. This is a terrible policy, from people who make Attila the Hun and Hitler look like beginners.

Terrorism: Path to IMF austerity

The Sendero Luminoso, allied with drug interests, is terrorizing the population of Peru with continuing attacks.

While the presidents of the Andean Pact nations, including Peruvian President Fernando Belaunde, were meeting in Caracas in late July to take joint actions for effective regional integration, Peru became the victim of a destabilization operation which distracted the population's attention from the summit.

On July 21, Sendero Luminoso terrorists blew up six of the electric towers in the grid which supplies Lima. Successful police action thwarted plans to blow up several bridges on the highway connecting Lima with the center of the country. Causing Lima blackouts is old hat for Sendero (whose name means "Shining Path."). But a few days later, the terrorists killed two policemen during a daring and bloody assault on the office of Peru's national detective force (PIP) in the Lima suburb of Miraflores. This was one of their first attacks on a well-guarded military installation outside of the Andean highlands, where they have run low-intensity warfare for two years. The extraordinary logistical and intelligence capabilities revealed in Sendero's attacks suggests that they benefit from cooperation from inside Peru's official intelligence services.

These emulators of Cambodia's Pol Pot brought their characteristic brutality to Lima July 12 with an assault on the headquarters of the governing Acción Popular party while a hundred people were meeting. The results: 2 dead, 32 wounded.

Such actions have induced great fear among the 7 million people who

live in Peru's capital.

The effectiveness of such fear was demonstrated in the "general strike" Sendero ran July 25-26 in the entire Andean highland region surrounding their original nesting ground in Ayacucho. The Senderistas needed neither program nor pickets to shut down every urban activity for 48 hours. All they had to do was seize a school and inform the students that anybody who broke the "strike" would be dead. Dozens of corpses of school teachers and mayors have taught Ayacucho residents not to talk back to Sendero.

Sendero is linked with the cocaine traffickers who operate throughout the Peruvian Amazon and provide them with weapons, according to the interior minister. Two former Colombian air force officers caught with over a ton of cocaine-base paste in northern Peru are under interrogation by the narcotics division of the Civil Guard, which is seeking ties between the drug mafia and Sendero.

This is the same drug-terror apparatus which Nazi butcher Klaus Barbie set up during his decades of clandestine residence in Peru and Bolivia.

Sendero poses little threat of seizing power in Peru—outside the incredibly impoverished mountain areas where, to 2 million terrorized inhabitants, it has a supernatural-seeming power. However, its newly exhibited ability to focus paranoia in the nation's capital is extremely dangerous. *EIR* thinks the terrorization of the population is being performed on behalf of installing the kind of repressive sys-

tem needed for the International Monetary Fund to impose genocidal austerity on Peru.

As part of the program of regional integration of the five Andean countries, Peruvian President Belaunde proposed a common currency for regional trade, a single passport, and linking the Amazon regions through a highway around its upper edge and by connecting the Amazon, Orinoco, and Plata rivers to facilitate economic integration of all South America.

Before the summit, Peruvian political, business, and labor leaders urged Belaunde to fight for a debtor's cartel for joint renegotiation of the region's \$70 billion foreign debt.

Alan Garcia, general secretary of the APRA party, exhorted the president in his mission to Caracas to seek, "joint renegotiation of the foreign debt," the physical and industrial integration of the Latin American countries as well as a "kind of barter."

For their part, leaders of the private sector—now facing severe difficulties—spoke out for turning economic policy from the direction imposed by Belaunde through the finance minister and central bank president loaned to Peru by Wells Fargo bank, to serve the self-interests of creditors. Carlos Verme Katz, president of the conservative National Society of Industries (SNI), called upon all Ibero-American private entrepreneurs to join in a "united front against the creditors." Gonzalo Garland Itugalde, president of the Peruvian Exporters Association, declared the only solution to the economic crisis to be:

- "a unified Latin American market which goes beyond today's system of compensatory credit agreements and operates on the level of central banks;

- "an Ibero-American regional bank which can great credit for development projects."

Crackdown in Juchitán

The government has crushed a Pol Pot-like terrorist enclave in the south: is this a warning to the PAN in the north?

A PRI electoral rally in Juchitán, Oaxaca, July 31 ended with two persons dead and more than 50 wounded. A group of provocateurs led by the radical Maoist COCEI group reportedly shot into a crowd of 15,000 which had gathered to listen to candidates of the ruling PRI party.

The incident was the latest in a series of violent confrontations provoked by the Worker, Peasant, and Student Coordinating Group of the Isthmus (COCEI) since the group's leader, Leopoldo de Gyves, won the mayoralty of Juchitán in the spring of 1981.

The response of federal and state authorities was crushing. On Aug. 3, the Oaxaca state congress, controlled by the PRI, declared the COCEI government in Juchitán void, postponed elections 150 days, and appointed a new interim mayor. The state attorney general issued arrest warrants against de Gyves, the chief of the Juchitán police, and two other COCEI adherents, accusing them of homicide, illegal possession of weapons, criminal association, and damage of property.

A review of the de Gyves rule of Juchitán shows that such accusations are an understatement.

For the last two years the group, which originated in the Mexican Communist Party and in contaminated layers of the Oaxaca PRI machine back in 1973, had turned Juchitán into testing ground for a Mexican version of the genocidal policies implemented by Pol Pot in Kampuchea.

Using revolutionary slogans, de Gyves had created his own "people's militia" which had imposed a reign of

Jacobin terror. Dozens of businesses had been forced to close down under the threat of indiscriminate expropriations, and several schools closed after being accused of spreading "bourgeois education." To prevent the past administration of President José López Portillo from building development projects in the area such as a trans-Isthmus container "land-bridge," the group threatened terrorism and sabotage.

Ties to Central America's bloodbath may in fact have been the element which finally forced the government to act. Last October, several sources went to the national press to charge that de Gyves was building a guerrilla camp and a weapons arsenal. On the floor of the Oaxaca congress Aug. 3, PRI deputy Arturo Molina Sosa revealed that de Gyves had set up a weapons channel to bring arms into Mexico from Central America.

Parts of the group's international connections apparently were established through the magazine *Por Esto!*, which specializes in promoting terrorism in all of Latin America, with special emphasis on Mexico and Central America.

Other groups will be taking lessons from the events. Labor boss and PRI leading figure Fidel Velázquez told the press Aug. 1 that "any party which aids the destabilization of the country should lose its registration," a warning to the PSUM leftist alliance (which includes the former Mexican Communist Party) which has been acting as the COCEI's political "big brother." It was also a warning to the PAN party in the north, which is run-

ning a right-wing version of the kind of actions COCEI has launched in Oaxaca.

But the battle is not over and the risks of a terrorist activation remain high. The secretary-general of the PSUM, Pablo Gómez Alvarez, has told the press the PRI and the government "will see the people's response" to the crackdown on the COCEI. Other defenders of the COCEI, especially the Jesuit-run Theology of Liberation apparatus which has played a central role in building up the COCEI, is planning to raise an international human rights campaign around the crackdown. Bishop Arturo Lona of Tehuantepec, a leading light of the "liberationist" movement, is one of the strongest protectors of the Pol Pot-style "experiment."

A thorough investigation of the COCEI case could well lead to other, even more important, financial and "intellectual" godfathers. Hippie painter Francisco Toledo, whose existentialist paintings sell for exorbitant prices in European markets, is identified by several sources as the group's financial backer.

Another Oaxaqueño painter, Rufino Tamayo, may also be implicated. Tamayo's close connections to the Televisa TV network, associated to the Azcárraga-Alemán business empires, is the point to watch.

An investigation could even touch certain factions in the PRI. The PRI senator for Oaxaca, Andrés Henestrosa, is the chief political protector of COCEI moneybags Toledo. Henestrosa is part of the corrupt political machine of former Mexico City mayor Carlos Hank González, and like Tamayo, is a favorite of the Televisa crowd. Former Agriculture Minister Victor Bravo Ahuja and his anthropologist wife are also reported to be implicated.

An embargo against Qaddafi?

The U.S. has begun to get tough on the Chad question. A great deal more could be done to halt Libya.

Although the government has retaken the last significant northern Chad town of Faya-Largeau on July 30 from Libyan-directed and -equipped rebel forces, Libyan dictator Muammar Qaddafi is still on a rampage. Faya-Largeau was subjected to four days of intensive bombing by Libyan fighter-bombers. As of August 4, Libyan planes were bombing two smaller towns in the region, according to the Chadian government.

Qaddafi-sponsored Chadian rebels, under the leadership of Goukouni Weddei, and mercenaries recruited from around Africa by Qaddafi launched a military offensive from Libya in late June. Faya-Largeau was the first town captured, after which several towns in eastern Chad were taken by Qaddafi's band before the Chad government began driving out the invaders.

Chad President Hissene Habre on Aug. 2 accused Libya of genocide of the civilian population of Faya-Largeau as a result of the Libyan bombings, and Foreign Minister Idriss Misikine reported that large parts of the town have been destroyed in the raids.

The United States is stepping up its role in Chad and other northeast African countries in the face of the threat Qaddafi is mounting in northeast Africa and the Middle East on the behalf of his Russian and Swiss controllers. The Reagan administration initially agreed to send \$10 million worth of military equipment, and later included hand-held shoulder-fired Redeye anti-aircraft missiles. Three American advisers arrived in Chad Aug. 4 to teach Chadian trainers how

to use the missiles. Two AWACS reconnaissance planes, which the Reagan administration announced would be able to monitor part of Libyan and Chad airspace, were sent to Egypt on the same day. At the same time, the U.S. aircraft carrier *Eisenhower* is in the Mediterranean off Libya's coast.

The United States is moving into a vacuum created in large part by French inaction. Chad was part of the former French colonial empire in Africa, and was allied with the French after independence. However, the French have been trying to placate Qaddafi, instead of neutralizing his extensive subversion efforts.

As I reported in the Aug. 2 issue of *EIR*, France wanted to reach an understanding with Qaddafi over Chad, making it possible for the economically strapped French to market arms and other manufactured goods to Libya. Some French circles are hoping for a state visit by Qaddafi later this year. Such a deal would lead to a de facto partition of Chad into zones of influence, with Qaddafi dominating the mineral-rich north, and France maintaining some influence in the south. The French were led to believe that by establishing a close alliance with southern Chad, they could protect their other allies—their former colonies in Africa. It was suggested that, in such a deal, Qaddafi may sacrifice his pawn, Goukouni, in return for recognition of Qaddafi's "manifest destiny" in North Africa.

During the first week of August, several French papers revealed that French passivity—sending only paltry arms to the Chad government—was

due to secret negotiations between Paris and Tripoli. The French press reported further that these negotiations were being handled by the French ambassador to Algeria, Guy Georgy, former ambassador to Libya and Iran, who has also dealt with relations between France and the Soviets with respect to Africa. In the deal being worked out by Georgy, according to the French press, France and Qaddafi would give only limited support to their respective allies in Chad, leaving them to kill each other off. This would indeed accomplish the goals of Qaddafi and his Nazi International/KGB backers. The Swiss takeover of French finances may have a lot to do with French behavior.

Hopefully, the U.S. commitment to help Chad will not be subverted by Kissinger forces in the United States, who would prefer to make the conflict another chip for negotiation with the Russians. This would fit with Kissinger's goal of reducing U.S. power, in this case, primarily in the Middle East. If Qaddafi is free to finish off nation-states in Africa while the Russians and Israel do the same in the Middle East, Egypt, the most important country in the region, would be isolated.

Arming Qaddafi's targets in Africa is not a long-term solution. It remains easy for Libya to acquire large amounts of sophisticated weaponry, which the Soviets and other producers are eager to supply.

The only sure way out is for Reagan to declare a complete embargo on Libya and force Western European nations to do likewise. Although the United States no longer purchases Libyan oil, two American companies, Oasis and Armand Hammer's Occidental, are still the biggest lifters of oil in Libya. An embargo would go a long way to take the wind out of Qaddafi's sails.

India reaches nuclear milestone

"We are to make the desert bloom," says Mrs. Gandhi, as India becomes self-sufficient in fission plant production.

With the dedication by Prime Minister Indira Gandhi of Unit I of the Madras Atomic Power Project (MAPP-I) at Kalpakkam on July 23, India has now joined the ranks of nations with the capability to design and build nuclear power units on its own. The only others are the United States, the Soviet Union, Great Britain, France, West Germany, Canada, Sweden, and Japan. The 235-megawatt heavy water reactor marks a milestone for the people of India and for the developing sector as a whole.

"Our science, particularly nuclear science, is dedicated to development, the achievement of freedom from want, and the provision of essentials and an honorable life for the masses," Prime Minister Gandhi declared. "We are to make the deserts bloom and not make the world a desert. This applies to our nuclear science, indeed to all the sciences."

MAPP-I is the third plant in India's program which proposes to have nuclear power supply a minimum of about 10 percent of total electricity—or 10,000 megawatts installed capacity—by the year 2000.

Unlike the previous two plants, at Tarapur and the Rajasthan Atomic Power Project, MAPP-I is domestically built, and thus is the first nuclear reactor in India that is not under external safeguards and restrictions. More than 85 percent of the installation, including all major and essential items of design and equipment, was produced domestically.

Particularly important, the 250 tons of heavy water required for the

startup of the reactor was produced in India, overcoming what has been one of the biggest hurdles for India.

Industrial "firsts" for India include: the 235-megawatt steam turbine and generator, manufactured by Bharat Heavy Electricals, Ltd., a public sector firm; the first fully prestressed concrete nuclear containment structure in India; and a sea water intake system, with its 480-meter underground tunnel to bring in cooling water.

When Unit II is completed later next year, the Kalpakkam station will deliver 470,000 kilowatts of electricity to Tamil Nadu and the other southern states at a cost expected to be as low as 29 paise (about 3 cents) per kilowatt hour. The completion of Unit I now is especially timely since Tamil Nadu, which is otherwise almost totally dependent on monsoon rainfall to power hydroelectric plants, has faced the failure of three successive monsoons.

For India as a whole, nuclear power has become vital: many factories operate at low capacity due to power outages, while much of the nation's transport system is unnecessarily tied up carrying millions of tons of coal from mine to power plant.

Dr. Raja Ramanna, the director of Bhabha Atomic Research Center (BARC), emphasized at the dedication that the commissioning of MAPP-I "starts a series of new events which, over the next few years, will fulfill the vision of Homi Bhabha [the first head of India's Atomic Energy Commission and the architect of the nation's

nuclear power program] in obtaining self-sufficiency in nuclear power."

MAPP-I sets the stage for the next major step: development of the fuel-producing fast breeder reactor technology, which will allow India to tap the nation's enormous reserves of thorium.

Next year, the Fast Breeder Test Reactor, now under construction at the Reactor Research Center at Kalpakkam, will come on line.

India's nuclear program has had to break through obstruction at home and abroad, from outright "greenies" to closet Malthusians parading as opponents of nuclear weapons proliferation. These obstacles were recalled by speakers at the dedication.

Dr. M. R. Srinivasan, the Department of Atomic Energy's director of power projects engineering, reminded the audience, "There are some votaries of alternative energy systems who argue that it is better to harness wind, solar, biogas, and such resources rather than nuclear energy.

"Those who support a 'small is beautiful' concept in the energy sector are unwittingly consigning millions of people to a hopeless and miserable existence in perpetuity. A lot has been written about the risks of nuclear power or other forms of power, but hardly anything about the risks a majority of our population is facing all the time arising from having no power or energy."

"When we first embarked on our nuclear program," Mrs. Gandhi recalled, "most industrialized nations were very critical of us. Their disapproval, even hostility, continues. Cooperation is withheld, and solemn agreements [to supply fuel and spare parts] are lightly set aside."

She declared that India has reached a stage where nothing will be able to keep back Indian science and technology.

The KGB and the 'Peace movement'

A leading West German security official warned that he expects terrorism in the anti-NATO demonstrations.

In a remarkable statement which has been largely blacked out in the media, Herbert Hellenbroich, the president of the official West German Bundesverfassungsschutz (State Security Bureau)—the equivalent of the U.S. FBI—said on South German Radio that he expects parts of the “hot autumn” mobilization of the peace movement against the Euromissiles to end in acts of terrorism. Hellenbroich went on to say that there also was reliable information that the movement has received more than 60 million Deutschmarks from Eastern agencies via East German channels to the German Communist Party (DKP). This points to control by the KGB with its traditional control of the East German services operating inside the movement against the American missiles.

Since the DKP plays an important role in the hard core of the movement's organizational committees which are planning out the actions against the U.S. missiles, the official statement leads also to the question of how many of the terrorist operations in preparation for the hot autumn have received funding from the KGB. While officially rejecting political violence as an instrument of politics, DKP members hold about 50 percent of the total positions on the movement's organizational committees, and there are enough overlappings between these committees and the violence-prone currents inside the movement to raise the question whether the DKP has not fallen back into the mass upsurge tactics of its political predecessor, the KPD of the late Weimar Republic,

which was often allied with as well as in combat against the violence-prone Nazis.

It is widely known inside the so-called peace movement that the various violence-prone groups it harbors, such as the at least several-hundreds-strong circle of sympathizers and supporters of the Red Army Fraction (RAF), are holding paramilitary training seminars for radical activists. It is known that terrorist actions—such as attacks on ammunition transports and blockades of, and even bomb attacks against, railroads and military facilities—have repeatedly been discussed publicly at various “planning sessions for the autumn demonstrations.”

It is furthermore known to West German security agencies and police that the violent and largely pro-terrorist current of the movement has developed highly professional surveillance techniques which allow an in-depth monitoring of all movements of police cars, of anti-riot brigades, of the level of protection of NATO sites by military police, and so forth.

Members of the notoriously violent movement against the “Runway West” project at the Frankfurt airport have developed a 24-hour monitoring system which covers all military airflights occurring at the U.S. Air Force Rhein-Main airbase. In north Germany, near the city of Oldenburg, about 150 members of a similar group tried to impose a blockade on a canal sluice in order to stop a military transport from proceeding as scheduled. Activists of a related group “welcomed” another ship carrying military

equipment from a bridge over the Rhine River in Cologne. Police officials fear they will have to safeguard all sluices and bridges, if not patrol all water-ways in West Germany, in order to be certain that all military transportation by ship can be protected against terrorists.

The pro-terrorist groups which are harbored by the “movement” have furthermore developed devices which allow them to disrupt police telecommunications and to exert electronic warfare against the communication systems of air bases and army facilities. The sabotage potential that could be at the disposal of the KGB in its planned disruption policy against NATO from these groups must not be underestimated.

Security officials in West Germany draw parallels to past experiences in military history with large-scale guerrilla warfare operations, and they fear that military police or guards at NATO bases will react according to their manuals once such sabotage operations begin to threaten the safety and functioning of the sites they have to protect.

Further, Hellenbroich expressed his concern in the interview that there was no guarantee that one of the soldiers who feels provoked by activists of the peace movement will not shoot. The movement will thus have its martyr, and West Germany might have to face another mass wave of violence resembling that of June 1967, after the student Benno Ohnesorg was killed by police in a violent demonstration in West Berlin.

There are indications, however, that having a martyr is exactly what the string-pullers of the movement are aiming for. Knowing the risks to the lives of demonstrators, to persist in training them for confrontations means that some movement leaders want casualties for ulterior political motives.

International Intelligence

Syria to open 'second front' against Iraq?

Henry Kissinger's and George Shultz's cultivation of the "Syrian connection" could result in the opening of a "western front" by Syria against Iraq, Arab officials fear. With Iran having renewed its attacks on Iraq from the east, a Syrian assault from the west would be devastating for the beleaguered Iraqi state.

At the end of July, Iran began what soon became a two-pronged attack on northern and central Iraq, seizing Iraqi territory in both areas. Although information about the actual fighting is sketchy, it appears that Iraq is taking a beating. Baghdad reportedly fears that cut off from the United States and abandoned by the Soviet Union, whose leaders, like Kissinger, are busy playing the Iran and Syrian cards, Iraq could be crushed.

The same sources report that Pakistan, one of the countries "mediating" the Iran-Iraq war, is covertly assisting the Iranians.

Iraq's problems are compounded by Saudi Arabia's cutoff of aid to Baghdad, reportedly the result of a Saudi decision to play the Syria card.

McFarlane in Mideast: 'open line' to Moscow

Robert McFarlane, the Reagan administration's new special envoy to the Middle East and a long-time associate of Henry Kissinger, arrived in the Middle East on Aug. 1 on the first leg of what is expected to be an extended diplomatic shuttle. The nominal subject of his talks with Middle Eastern leaders is securing a Syrian withdrawal from Lebanon. McFarlane, an arms control specialist who knows next to nothing about the Middle East, is in fact deepening back-channel negotiations with the Soviets through their Syrian allies.

McFarlane has been instructed to remain "open" to virtually anything the Syrians want vis-à-vis Lebanon. According to one Washington-based source close to Israeli intelligence, McFarlane's diplomacy is "going to drag on for years."

Intelligence sources concur that while in Washington in late July, Israeli Defense Minister Moshe Arens and Foreign Minister

Yitzhak Shamir "convinced" President Reagan that his Sept. 1 Mideast peace proposal was a "big mistake." The same sources report that, in the interest of not alienating the American Jewish vote in the critical pre-presidential election period, Reagan has decided to "play along" with the Israelis, despite his distaste for their plan to partition Lebanon. To allay the President's fears, Kissinger has reportedly assured Reagan that Israel's "partial pullback" to the Awali River in Lebanon does not constitute partition, but is step one of an eventual total withdrawal.

Japan-Soviet trade talks to resume

Japan and the U.S.S.R. are extending feelers toward improved trade relations, while political-military tensions remain higher than they have been in years.

Foreign Minister Shintaro Abe told reporters that Japan will hold governmental-level trade talks in Moscow this autumn at Soviet request. This will, says Jiji press service, virtually amount to resumption of the annual bilateral talks suspended in 1981 due to the Polish situation. Abe does not expect either rapid easing of economic relations or across-the-board improvement in ties, but, says Jiji, Tokyo's attitude is becoming more "flexible."

Japan's "flexibility" is, in part, a consequence of eased sanctions on the part of Europe and mixed signals from Washington, consisting of tough talk toward Moscow accompanied by the recent grain agreement and memos from Secretaries George Shultz and Malcolm Baldrige urging lifting of sanctions on oil and gas equipment. Japan's Komatsu is already one of the biggest exporters of pipelaying and related equipment to the Soviets.

Meanwhile, the Soviet news agency TASS condemned Abe for a recent speech accusing the Soviets of expansionism, of threatening to move SS-20s to Asia, and so forth.

Abe had also raised the possibility of controls on the export of high-technology products from Japan to the U.S.S.R. He told a lecture audience that Japan cannot deny allies' charges that high-technology exports from Japan, such as drydock equipment and

truck-making machinery, have directly or indirectly aided Soviet military efforts. However, it is significant that Abe did not propose any specific restrictions.

Peres: 'Japanese' policy for Israel

Against the backdrop of possible early elections later this year, prospective Israeli Labour Party prime ministerial candidate Shimon Peres has issued a policy program that includes an industrial policy modeled on the example of Japan.

Speaking to the *Jerusalem Post's* Mark Segal July 29, Peres put forward a five-point plank emphasizing a rejection of the "Greater Israel" conception, full withdrawal from Lebanon, and, on economic policy, "the change of economic priorities, to enable high-technology industrialization." Peres believes, according to Segal, "that it was no wild dream to contend that Israel could become another Japan" in respect to production, work, and industry.

Segal otherwise notes: "Since his first encounter with John F. Kennedy's America, Peres has been fascinated by that country's employment of technology to ameliorate man's condition."

Evidently, Peres's invocation of the Japanese model for Israel has touched a raw nerve among elements in the Labour Party. Soon after Peres's declaration, former Prime Minister Yitzhak Rabin announced that he would challenge Peres for the premier candidacy. Rabin was very close to Henry Kissinger during his late 1960s-early 1970s tenure as Israeli ambassador to the United States.

Homosexual blackmail freed KGB colonel

KGB colonel Victor Pronin, arrested in Italy at the beginning of the year, was suddenly freed in late July, though ordered not to leave the country. According to *Espresso* magazine, behind this decision there is a story of homosexuality involving Italian journalists in Moscow, the Italian foreign ministry, and Bettino Craxi's Italian Socialist Party (PSI).

In return, the KGB prepared a dossier on the correspondent of *Il Giorno* in Mos-

cow, one Luigi Vismara, who formerly wrote for the PSI's *Avanti*. It seems that the journalist used to sleep with a Russian worker.

Vismara found a sympathetic ear at the Italian foreign ministry, led by Emilio Colombo. A message was communicated to the Russians, who communicated to a visiting delegation of Italian industrialists that their price for leaving Vismara alone was the freeing of Pronin. The correspondent of *Corriere della Sera* in Moscow, Piero Ostellino, ran to Rome to ask President Pertini to do something for his poor friend, and Pronin was released.

Libyan arrested; aided Sardinian separatists

Judge Mario Marchetti of Cagliari, Sardinia has issued 13 more arrest warrants following his investigations into the separatist plan financed by Libya's Muammar Qaddafi to split Sardinia from Italy. One of the terrorists now wanted is the Libyan agent Ageli Tabet.

Marchetti has also interrogated Michele Papa (the link between Qaddafi and Billy Carter) of Catania, Sicily. This friend of Qaddafi and the Mafia had held a big Italo-Libyan friendship session on Oct. 24, 1981, where the separatists and the Libyans agreed on plans for destabilization in Sicily and Sardinia. The Libyans agreed to supply weapons and money.

Separatists are also reported involved in the fires that have destroyed large parts of Sardinia. The president of the Sardinian region, Angelo Roich declared, "This never happened before. The fires all started June 21 as if they were the product of the same mind, of a destabilizing design realized with managerial science."

U.S. backing for IMF genocide against Guyana

The Guyanese government has charged the Reagan administration with planning to veto a \$52 million loan from the Interamerican Development Bank for water control of rice cultivation because, say the Guyanese, the United States wants them to put nationalized rice production back in private hands. Although the U.S. government is denying the

charge, a Treasury spokesman did admit that the United States was upset with "inefficiency" in Guyana's rice industry and with government subsidies which allegedly give the farmers no incentive to produce. The Guyanese ambassador to the OAS said that U.S. embassy officials in Guyana had informed them of the planned veto.

The U.S. government has just cancelled two planned loans to Guyana, one for the vital rice industry and one for development aid to small farms. The U.S. embassy in Guyana has confirmed the loan cancellations without giving a public reason. The explanation, however, can be found in the fact that in April the Guyanese government told the IMF that it would not go along with conditions which included, among others, a 60-100 percent devaluation of the Guyanese currency.

The effect of the IDB loan veto and the U.S. government loan cancellations is simple: genocide. Already the government has been forced to ban all bread made by wheat flour.

De la Madrid intervenes against PAN

Mexican President Miguel de la Madrid led a high-profile political offensive by Mexico's ruling party, the PRI, in the state of Baja California Norte Aug. 4 against the neo-fascist, separatist PAN party to prevent a duplication of recent PAN electoral victories in the northern states of Chihuahua and Durango.

Finishing a two-day tour of the principal cities, Tijuana and Mexicali, the president announced that the government was giving special concessions to border businessmen who need to use dollars in checking accounts, and was also improving the availability of basic goods in the stores along the border. The agriculture ministry also announced a special loan program for farmers in the Mexicali Valley.

The PRI is attempting to use the July 30 jailing of former Pemex director Diaz Serrano on corruption charges as the way to deflect the PAN's attacks on "official corruption." Just three days after Diaz Serrano was arrested, de la Madrid attacked those "corrupt reactionary thieves" who had abused the public trust while in office.

Briefly

● **'PIMPLE DIPLOMACY'** is the term Flora Lewis of the *New York Times* has given to Henry Kissinger's method of crisis-management: that is, letting a situation come to a head, and mopping up after it ruptures.

● **JORGE DIAZ SERRANO**, presently a senator, was stripped of congressional immunity by the Mexican Chamber of Deputies July 30. As he left the session, where the former head of Pemex had presented his own defense against corruption charges from the attorney general, he was placed under arrest and conducted to jail, in the beginning of what will be a series of political investigations which will shake Mexican political life.

● **CODECO** (Commandos for the Defense of Western Civilization), an extreme right-wing Portuguese group created in 1974 as a front for the dissolved political police, PIDE, issued a communiqué Aug. 1 which said that they would use dioxin in Lisbon to poison the population if the Portuguese police went on searching for other members of the Armenian Liberation Army (ARA) who are said to have reached Lisbon on Friday. The new team of ARA is reported planning a hit against Prime Minister Soares or one of his close collaborators.

● **TUDEH** (Iranian communist party) secretary general Kianouri is alive and well (in government custody) in Iran, according to exile sources. They say his faked execution is part of a deal between Teheran and Moscow which involved an apparent purge of the Iranian communists.

● **LICIO GELLI**, grandmaster of the P-2 masons under investigation for everything from drugs to terrorism to coup-plotting, and currently under arrest in Switzerland, will reportedly be let back into Italy under Socialist Prime Minister Bettino Craxi's new regime.

Washington showdown: MAD versus beam weapons

by Paul Gallagher

President Reagan faces the necessity to relaunch his public campaign for beam-weapon antiballistic missile defenses, to counter Henry Kissinger and the Scowcroft Commission forces in the administration who are insisting that the doctrine of Mutually Assured Destruction (MAD) must be preserved "for another generation," and beam-weapon research buried in a few secret laboratories.

The ground is rapidly shifting around the White House on this issue because of rapid progress on beam weapons only hinted at in most coverage of the ongoing National Security Council Defense Technologies Study review. During the last week of July, Radio Moscow dropped the entire fabricated baggage of claiming the "scientific infeasibility" of ABM energy beams, and admitted that the superpower race to develop and deploy these weapons is on. At the same time, technological breakthroughs continue to point in the direction of *very early development* of beam weapon anti-missile systems, including x-ray laser (see article, page 13), making possible long-range strategic defense against large numbers of missiles.

Ironically, the administration is the only party currently sticking to the public fiction that technological development until "around the year 2000" will be necessary before beam-weapon defense is possible—and it is doing so because of a forced compromise with Kissinger's Scowcroft Commission, the defenders of "MAD."

If Kissinger and Shultz corner Reagan into bargaining away beam weapons at the Geneva arms talks, they will now be developed rapidly anyway on both sides, but in secret, and not for the purpose of ending MAD and "attacking the

means and the causes of war," in Dr. Edward Teller's phrase, but for disguised, limited deployment to protect offensive warfighting and command capabilities.

This is precisely *Moscow's version* of what beam weapons are for. That form of ABM strategy will do nothing to stop the countdown toward a new "Cuban missiles crisis" over Euromissiles, and the collapse of Europe under KGB-run waves of "peace movement" destabilizations and terrorism.

Radio Moscow drops the mask

Radio Moscow, in an English-language broadcast to North America July 26, was responding directly to the new reports of rapid progress in beam-weapons technologies, which appeared in the third week in July in *Aviation Week and Space Technology*, in the *Executive Intelligence Review*, and in the *Frankfurter Rundschau* and other European newspapers. The broadcast followed an extended debate in the U.S. Senate July 19, in which these reports were entered into the *Congressional Record* and numerous senators called for an all-out drive to end MAD, citing the aggressive Russian preparations for ground-based ABM defense centered around laser and particle beams.

The Soviet broadcast, which made liars of the entire Soviet Academy of Sciences on this subject since March 23, is worth quoting:

Lockheed and other companies have conducted studies that show that chemical-powered lasers could destroy ballistic missiles three times more rugged than

the existing models. If developed, these lasers would be put in an orbiting station that would detect missiles after launching and track and destroy them in flight. This is roughly what President Reagan had in mind when, last March, he proposed building an anti-ballistic defense system in outer space: American lasers destroy Soviet missiles.

What is the Soviet Union to do with American missiles, let them in? The answer is obviously no. *

While Moscow admits that an all-out race for beam-weapon defense is on, Kissinger, Shultz, Scowcroft, Robert McFarlane, Alexander Haig, and their congressional allies are trying to impose a suicidal administration consensus reported by one official to be as follows: the United States wants a broad R&D program whose aim is that *after another generation of MAD weapons* is developed and has become obsolete, America will have the *capability* to shift to the predominance of defensive weapons over offensive. This R&D "threat" is the ace in the hole to force the Soviets to stop proliferating new offensive weapons systems.

"Another generation of MAD" is the lunatic scheme of the Scowcroft Commission, put under way in February by Henry Kissinger. It involves offering the Soviets a "deal" based on restructuring both superpowers' offensive weapons from fixed, highly accurate land-based multiple-warhead missiles to mobile single-warhead "Midgetman" missiles. Like all such deals embraced in the name of maintaining MAD since the days of Robert McNamara, this one bears no relation to actual Soviet strategic plans. Radio Moscow's outburst should have made that plain.

But in Washington, a close and careful coordination between Kissinger assets in the administration, and Harriman Democrats opposing beam weapons on the Hill, has been directed to forcing President Reagan and the NSC to subordinate any moves to accelerate beam weapons development to the arms control deals being offered the Soviets through back channels. The go-between linking the two groups has been Kissinger's man on the NSC, Robert McFarlane, who cultivated a "pro-beam maverick" reputation on the Scowcroft Commission for the purpose.

Retooling Pugwash in Europe?

The technological imperative of the beam-weapons race is graphically admitted in an article by one of the leading Western European *opponents* of these systems, Dr. Alan Din of CERN, the European Nuclear Research Center at Geneva. CERN is a European center for the Pugwash disarmament elite among European scientists and home base of the European Scientists for Nuclear Disarmament, formed in 1982 as part of the anti-Reagan mobilization.

In an article entitled "Prospects for Beam Weapons" in the *Journal of Peace Research*, Din attacks those who have "foolishly" attempted to stop beam weapons by denying their

feasibility, calling these "gross underestimates" of technological potentials. Beam weapons will be operational in the 1980s, says Din, and "some kinds could be deployed by the mid- or late-1980s." After reviewing the technologies involved, he concludes that if both powers go for beam weapons deployment, "a U.S. lead in the beam-weapon domain is likely," but Soviet development and deployment is also not to be doubted. Din admits that the 1972 ABM treaty is irrelevant here (it does not ban new, advanced types of antiballistic defense weapons), and winds up insisting that beam weapons must be formally banned by a new treaty, the one proposed by Soviet Foreign Minister Andrei Gromyko at the United Nations banning space weapons.

Kosta Tsipis of MIT is the best known of these "foolish" deniers of beam weapon feasibility, and is the keynote speaker at the ABM beam weapons study group of the Pugwash Conference in Venice on Aug. 26-31, which will feature a 140-man delegation of Soviet scientist led by Yevgeny Velikhov. Tsipis has already begun to change his line, admitting the progress of laser ABM research in an article in the current *Laser Focus*. At Venice, the pretense that beam weapons are unfeasible will have to be dropped. Velikhov is deeply involved himself in developing laser and particle beam weapons for the Soviet Union—reportedly Caspar Weinberger's Defense Department may reveal details on this before the Pugwashers convene.

Gromyko's "let's discuss beam weapons" speech at the June Politburo meeting, in which he refurbished his U.N. space weapons treaty proposal, was the launching point for the intense Kissinger-Harriman "back channel" activity. The focus is an attempt to force Reagan to a summit at which beam weapons become a bargaining chip for "restructuring" offensive weapons structures. Soviet dupes in the United States and Europe are now pushing this treaty to stop beam weapons; one of them, Federation of American Scientists head Jeremy Stone, admitted publicly on Capitol Hill July 26 that Kissinger is one of the pushers (See below).

Defense in the 1980s

It is becoming clear that ground-based and space-based laser chemical ABM systems can be deployed in the 1980s, as both congressional proponents and leading British military experts insist. Furthermore, at least one laboratory in the West believes that a laboratory-scale x-ray laser can be developed in two to three years. This sounds deceptively modest—unlike most high-power lasers, x-ray lasers are considered *more difficult* to build in optically pumped lab versions than in bomb-pumped weapon versions for multithousand-mile-range ABM defense.

Following last month's Leeds, England conference on space weapons, certain British military and intelligence factions are also demanding a "crash program" for beam weapons from the United States. Some of these officials believe that the purpose of the American program will be only to

develop ABM defense for U.S. and European missile fields, naval ships, and so forth, and that "the rest is just political talk." Some U.S. laboratory officials believe the same thing, indicating the "environmental" strength of the line of Kissinger and his British partners Lord Carrington, Lord Solly Zuckerman et al.—"beam weapons cannot be stopped, but they must be made irrelevant to changes in strategic doctrine."

President Reagan and a few scientific and national security advisers have been from the beginning the only members of the administration or armed services who want to totally uproot MAD with beam weapons development. The President must now move back to center stage, fast. His NSC technologies study is due for completion on Oct. 1, but reportedly it is already circulating in draft among cleared scientists and military personnel. The President is reported to be considering a public policy statement based on the report in October. But with reports of technological progress appearing throughout the NATO countries, he could use those favorable developments to go back on the warpath against MAD now. This is the only way to turn the Euromissiles crisis from the not-so-slow death of Western Europe into the arena for forcing Yuri Andropov to accept Reagan's new strategic doctrine.

If the President moves now to fight again for this new doctrine—Mutually Assured Survival—all the artificial "Year 2000" wraps will come off the U.S. program, and a true crash effort can be defined, one which will challenge the laboratories, industry, and universities of the United States and its allies to develop the in-depth capacities to deploy total defense in the shortest possible time. That prospect is the basis for the American people's support of the President's March 23 initiative.

'We are unprotected without the President's ABM policy'

Senator Steven Symms (R-Ida.) made the following statement in the Senate on July 19:

If you visit the headquarters for the defense of North America (NORAD) inside Cheyenne Mountain, you are treated to a sobering simulation of Soviet attack. Our infrared satellites, which stare at the Soviet Union from an altitude of 22,000 miles, see the Soviet missiles' exhaust. The ballistic missile early warning radars see the cloud of warheads and decoys in midcourse. As the minutes pass, awesome and accurate predictions are made of which targets the missiles will hit.

Invariably the visitors will ask at which point the U.S. government will shoot down these engines of destruction. They are shocked to hear that the U.S. government intends

to do no such thing. Rather, by threatening to devastate the Soviet Union, even as we are devastated, the U.S. government hopes by threatening, to avoid war.

Obviously, this hope provides no comfort at all once the Soviets have decided, for whatever reason, to attack. Normal human beings instinctively feel there is something wrong with relying for their safety on hopes concerning their enemy's state of mind. They also instinctively recoil from acts of destruction which are clearly unrelated to their own protection.

That is why President Reagan on March 23 boldly told the country that, henceforth, the U.S. government would try to intercept any missile the Soviets sent our way. This is a philosophy that I have urged for several years, but it will involve a basic change in attitudes even more than changes in weaponry.

The notion that any reasonable defense is impossible and that defensive systems are destabilizing is wrong and ill-founded. Since the mid-1960s, we have lived under a unilateral assumption, as I said earlier, called Mutual Assured Destruction (MAD). Under this assumption, we built enough nuclear weapons to threaten destruction of Soviet cities, and assumed that as the Soviets built their strategic arsenal, they would only try to achieve equality in destructive power. Our military and civilian bureaucrats who thought this up were so sure that this threat would bring perpetual peace that they chose to leave the American people, our industrial centers, and our military installations defenseless against any form of nuclear attack.

But to the surprise of only those who failed to read Soviet military literature and who failed to study the characteristics of their weapons, the Soviets have constructed a massive arsenal designed to fight and win a nuclear war. With but one-fifth of their ICBM force they can now destroy the vast majority of our land-based ICBMs and bombers, plus that half of our missile submarines which is in our port at any given time. The remaining Soviet missile force is then available for blackmail. Of course the Soviets have built a nationwide infrastructure for ground-based ballistic missile defense and are building space lasers. Their program is three to five times the size of ours, and is oriented toward early results.

Our doctrine of MAD and our forces designed to implement it simply cannot cope with this threat. After a Soviet first strike, no rational human being, certainly no President, could or would use our remaining anti-city forces. Why should he? Such forces, if used, would not in any way diminish the Soviets' ability to do us further harm. If we were to use our remaining missiles, we would only make certain our own destruction. This situation is intolerable because it invites greater Soviet boldness in international affairs and because it continues to lower the price to the Soviets of military aggression.

This situation is unnecessary because it is now possible for the United States to build weapons and adopt strategies

that will give the American people real hope of physical safety, and of overturning the present unfavorable strategic balance. This is what the President was talking about. The technology is available for doing this.

'Kissinger was an early enemy of beam weapons'

"Nuclear Freeze" leader Jeremy Stone told a meeting in the Rayburn House Office Building on Capitol Hill July 29 that Henry Kissinger has been aware of the potential for space-based laser anti-ballistic missile systems and has been acting to ban those systems since 1962.

Stone's speech was devoted to an appeal to the nuclear freeze and peace movements in the United States and Western Europe to make stopping President Reagan's beam-weapons program their "number one priority," more important than their agitation against the Pershing II missile deployments in Europe this fall. He strongly implied that Kissinger would act to block this Reagan program from his new post inside the administration.

Stone's group, the Federation of American Scientists (FAS), was holding a day-long symposium on the Hill on how to force a ban on anti-satellite and anti-ballistic missile technologies, titled "Alternatives to an Arms Race in Space."

In the main panel discussion on stopping development of space-based ABM defenses, Stone described in detail the role of the Pugwash conferences of 1961-64 in raising the alarm about the potential for space-based laser and other ABM systems and setting in motion pressure among scientific advisers to governments to ban such defenses. Stone himself worked through those early Pugwash conferences. He described Henry Kissinger as one of his key collaborators from 1962 onward, and said that Kissinger took an in-depth interest in the "threat" of these beam-weapon ABM systems from the early 1960s.

Stone is thus the first principal in the early 1960s Pugwash conferences to reveal what *EIR* has detailed (see Special Report, *EIR*, May 3, 1983, and Special Report, *EIR*, June 7, 1983) as evidence bearing on a requested investigation of Kissinger.

EIR documented in those locations that Kissinger, from 1961 to 1964, led or participated in a string of Pugwash "expert" seminars which examined the feasibility of laser ABM systems, and which had clear evidence of Soviet military intentions to develop them. As early as 1962, only 18 months after the invention of the laser, the Soviet standard military strategy text proposed the development of laser and particle-beam ABM systems. Yet with this knowledge, the Pugwash participants, including Kissinger, set out to quash such work in the West.

Special Report:

KISSINGER'S PLOT TO TAKE OVER THE REAGAN ADMINISTRATION

The surprise naming of Henry A. Kissinger to head the President's Bipartisan Commission on Central America is part of a very ugly and long-standing attempt to subvert the Reagan presidency. But Henry Kissinger's return to official life is far more significant than the Central American appointment would suggest.

This *EIR* Special Report, "Kissinger's Plot to Take Over the Reagan Administration" is essential reading for any citizen concerned about the future of the United States as a republic. Researched and written late in 1982 by *EIR* Washington Bureau Chief Richard Cohen, long before anyone else had an inkling of the Kissinger operation, the report documents a process over months, using the friendly offices of Kissinger confidante George Shultz and others, of quietly inserting "Kissinger's boys" throughout the administration.

The report also supplies background dossiers on George Shultz and Helmut Sonnenfeldt at the State Department: Sonnenfeldt, currently a "consultant" to State, has been repeatedly challenged by Senate committees as a "security risk"; he has been an intimate of Kissinger's since 1945. Further dossiers include top appointees at State, Defense, the National Security Council, and the private business associates of Kissinger, including former British Foreign Minister Lord Peter Carrington and Gen. Brent Scowcroft. Kissinger's numerous private affiliations from Trilateral Commission to the secret illegal Monte Carlo masonic lodge are also identified.

The report is available for \$250.00

**For further information call or write:
William Engdahl, *EIR* Special Services,
304 W. 58th Street, 5th Floor MC-1,
New York, N.Y. 10019
(212) 247-8820**

Dr. K's new post spells trouble on the right

by D. Stephen Pepper

Senator Jesse Helms (R-N.C.) is planning to hold hearings in the Senate Foreign Affairs Committee on the conflict of interest created by Henry Kissinger's appointment to chair the National Bipartisan Commission on Central America. The basis for the conflict, as identified by sources on the senator's staff, is Kissinger's role as chairman of the international advisory board of Chase Manhattan bank. Since Chase is one of the principal holders of unredeemable Latin American debt, and since Kissinger's policy role will directly affect the region, there does exist a real basis to challenge Kissinger's influence on government policy.

This, however, is only the tip of the iceberg. Kissinger's policy and outlook are shaped by his loyalty to an international community whose priorities are directly contrary to the stated goals of the Reagan administration, and indeed to the national interest, not only in the pursuit of debt collection, but even more clearly in arms control policy. Kissinger throughout his career has done everything possible to prevent the development of anti-ballistic missile systems, including deliberately withholding strategic intelligence from then-President Nixon to protect the treaty banning such systems which he had just negotiated with the Russians. ABM system development is a crucial goal of the Reagan administration.

Helms's hearings are now planned for September, and at present he has issued invitations only to Kissinger himself, Henry Paolucci—a conservative Kissinger watcher—and Seymour Hersch, the author of the recent book exposing Kissinger's backstair manipulations (see review, p. 55). Unless Helms makes the commitment to broaden the hearings to include the intelligence developed by Lyndon H. LaRouche's associates, which is available to the committee, the hearings will go nowhere. Kissinger does not have to answer the invitation, and the White House has already stated that on advice of counsel they see no conflict of interest.

A press release of Aug. 3 circulated by the LaRouche-linked news service NSIPS demonstrated that Kissinger has close ties with the law firm of Arnold and Porter, and with its senior partner William Rogers. Arnold and Porter were registered foreign agents of the Sandinista government until August 1981. Rogers, former undersecretary of state for Latin America under Jimmy Carter, is a member of Kissinger As-

sociates, and the law firm represents Kissinger's firm. Between Kissinger Associates and the Arnold and Porter law firm, most of the interested parties to the international debt crisis are involved. It can hardly be claimed that Kissinger approaches Central America without prejudice.

An even more urgent matter for the hearing to take up is Kissinger's deliberate betrayal of U.S. national interest at the time of the first test ban treaty in 1972. As documented in information provided by Lyndon LaRouche to the president of the Senate and relevant committees, including Foreign Relations (see *EIR*, May 3), Kissinger knew but did not disclose to Nixon that the Soviets were proceeding to develop and test beam-weapon systems. As LaRouche's document states, "The simple, clear and irrefutable fact is that Kissinger, et al., employed their positions of trust and influence . . . to falsify the composition of facts available to the Executive and Congress, . . . and that they did potentially fatal damage to the defensibility of our republic."

This is the real skeleton in the closet. But it will take a determined effort from beyond Washington to expose it. Restlessness in conservative ranks could be shaped into a movement strong enough to get Helms on the right track, especially since the Tom Ellis appointment has recently shown that the objections the Senate has been reluctant to raise against Kissinger are ruthlessly applied to conservative nominees. Ellis, a member of the Congressional Club, the major political action committee in Raleigh, North Carolina, was recently before the Senate Foreign Relations Committee as the President's candidate to fill a place on the Board for International Broadcasting. The appointment was shot down when nine members of the committee criticized Ellis's membership in the Pioneer Foundation, a race eugenics organization. Ellis pointed out that it had been founded in 1936 by Boston Brahmins—i.e., the same liberal establishment that created Kissinger.

Secondly, there is plenty of evidence that Reagan loyalists are unhappy about the appointment but simply do not know what action to take. One leading northeastern fundraiser commented, "It's a complete turnaround. Reagan was elected to oppose Kissinger, and now he is in the government." Another individual, who asked not to be named, had led the fundraising in a crucial sunbelt city, but indicated that while he remained loyal to Reagan he would not again go down the line for him the way he did in 1980. Such well-known Reagan supporters as W. D. Mounger of Jackson, Mississippi and Jimmy Lyons of Houston have been reported to be particularly dismayed. Their favorite "conservatives," Judge William Clark and Jeane Kirkpatrick, are both reported to have been "enthusiastic" about the appointment. This leaves them no entry point to influence the administration.

The Helms hearings, however, could help break Reagan free if the conservatives, who now feel helpless to change matters, get behind the LaRouche documentation and ensure that the full Kissinger dossier be made public.

'Tougher than thou' on Central America

While mouthing the slogan "no more Vietnams," Harrimanite Democrats in Congress are working with Henry Kissinger to force broader U.S. military involvement in Central America.

Led by House Intelligence Committee chairman Edward Boland (D-Mass.), the Harrimanites on July 27 pushed through an amendment to the 1983 Intelligence Authorization Act that was billed as a ban on U.S. covert operations in Nicaragua. But the Boland-Zablocki amendment calls for an \$80 million program of "overt" U.S. military operations, to interdict arms flows from Nicaragua and Cuba! That would expand the direct U.S. military role in Central America and set the stage for crisis-management by Henry Kissinger's Bipartisan Central American commission.

The Boland-Zablocki amendment is strongly opposed by the Reagan administration, and is generally given no chance to pass the Senate. But the Harrimanites do not expect it to pass; it is guerrilla warfare to set the President up.

Harrimanite patronage of the measure, whose sponsors admit would escalate the danger of war, was made public July 26, the day before the House vote, when Vietnam War architects Robert McNamara and McGeorge Bundy, joined by former Secretaries of State Cyrus Vance, Dean Rusk, and Edmund Muskie, released statements calling for an end to covert operations in Nicaragua.

Ted Kennedy has announced his intention to fight for Senate passage of

the measure, and Boland made an unsuccessful attempt Aug. 1 to apply it to the 1984 Intelligence Authorization Act as well. That would extend its provisions another year past the Sept. 30 expiration of the current fiscal year legislation. After his appointment to head the Bipartisan Commission on Central America, Kissinger wangled from President Reagan an extension of the commission's mandate from December 1983 to February 1984.

Republican supporters of the President condemned Boland-Zablocki as an approach paralleling the United States' fiasco in Vietnam. They noted that it would leave Nicaragua an untouched sanctuary for arms supplies while requiring a U.S.-directed military operation to try to cut off arms flows to other countries—a policy which they charged failed totally in Vietnam.

The Pentagon has estimated that the overt interdiction program would cost not \$80 million but \$400 million, and Defense Secretary Weinberger has written the Congress that "an interdiction program of this magnitude would certainly require extensive deployment of U.S. personnel. . . ."

Quicker road to 'Vietnam' trap

The fraud involved in Harrimanite professions of seeking to limit U.S. military involvement became blatant during floor debate in the House on the Boland-Zablocki amendment. Boland himself argued for overt operations on the grounds that Reagan administration policy was heading for U.S. military intervention anyway!

"There will be those here today," Boland declared, "who will say that we vastly underpriced what it will cost to effectively interdict arms. To those who say this, I say we should spend what will be necessary and useful to do the job. To those who say that this overt security assistance could cost American lives or will mean a signif-

icant number of American advisers, I ask—where do they think our present policy is taking us? If as the President says, we cannot allow communism to gain a foothold in Central America, how do you suppose we are going to prevent that from happening?"

Rep. Lee Hamilton (D-Ind.), a backer of Boland-Zablocki, emphasized in debate that the program "could also require the use of U.S. military trainers or advisers." Similarly pointing to military escalation, fellow advocate Rep. Wyche Fowler (D-Ga.) argued against the administration's covert operations program by charging they "run the risk of curbing the options of the United States, if during an escalation of hostilities in Central America from Cuba or the Soviet Union, the United States and its allies determined that swift concerted action was required to meet it."

Such plans to escalate the Central American war were not lost on supporters of the President. Rep. Kenneth Robinson of Virginia, the ranking Republican on the House Intelligence Committee, charged that the overt interdiction plan "raises the stakes and increases the risks of interstate war in Central America." Robinson noted that the Democrats' "majority report—not the administration—proposes and even encourages escalating use of U.S. military personnel in Central America," and that it was the Democratic majority on the committee that "first advocated increasing U.S. troop commitment" in the region.

Rep. William Whitehurst of Virginia, a senior Republican on both the House Armed Services and Intelligence Committees, added that Boland-Zablocki "does not take into account the hundreds and hundreds of American military personnel who will be required; they will be placed in a perilous situation. . . . The framers tell you that it is a shelter from further involvement in Central America. I submit to you that the effect of it is going to be just the opposite."

Part II: Ronald Reagan should read *The Price of Power*

by Carol White

The Price of Power

by Seymour Hersh

New York: Simon and Schuster, 1983

\$19.95 665 pp.

Part I of this book review appeared in the previous issue of EIR, dated Aug. 9, 1983.

In July, 1982 Henry Kissinger addressed a group of fellow cultists at the Bohemian Grove in California. At that time he asserted the policy guidelines on which he had operated during the Nixon presidency. Said Kissinger, the United States once produced 50 percent of the world's product; today it produces half of that. We must accept that we can no longer operate as a great power in the military and political sphere. It was the Kissinger doctrine he sold to Richard Nixon which became known as the Nixon Doctrine.

Under Nixon, the United States would systematically withdraw its military presence from Asia, while seeking to manipulate the region by playing the China Card. The war in Vietnam would continue until 1973. While North Vietnam repeatedly expressed willingness to accept a settlement which would have left the country at least temporarily divided, every opportunity was sabotaged by Henry Kissinger at the same time that he endorsed the withdrawal of U.S. ground troops. The United States became less and less able to carry out its policy, except by indiscriminate bombing of population centers.

The Nixon presidency

By 1969, when Richard Nixon came to power, the Vietnam war had already had a devastating effect on the United States. Nixon saw himself following in the footsteps of Dwight Eisenhower. He too would combine toughness with negotiations to end the war. But he reckoned without Kissinger's manipulations. Nixon allowed himself to be convinced that

the U.S. record in the war was so dismal that Washington could only wield a credible threat by assuming the appearance of incalculability.

Although President Johnson had declared a halt on all bombing of North Vietnam in 1968, Nixon was persuaded by Kissinger to begin surreptitiously bombing Cambodia. Initially this was justified as a means of knocking out the North Vietnamese strategic headquarters, located in Cambodia. Step by step this bombing was escalated and ultimately extended to a renewed bombing assault on North Vietnam. Despite the fact that Kissinger knew from Rand studies that strategic bombing not only does not win wars, indeed, it has the effect of stiffening the morale of the victim population, he convinced Nixon to go ahead with the bombing to prove that he had the ruthlessness to deploy nuclear weapons if necessary. Nixon would use the appearance of irrationality in making command decisions as a way of forcing the North Vietnamese to terms. This was Kissinger's madness doctrine.

While at first the bombing of neutral Cambodia could be defended under the doctrine of hot pursuit, since North Vietnamese troops used border areas for sanctuary, increasingly Nixon got locked into bombing as his only possible strategy because of the policy of Vietnamization which he accepted. The solution offered by Kissinger and Defense Secretary Melvin Laird to the pressure generated by the peace movement was to remove U.S. troops and substitute South Vietnamese troops. Since this was a unilateral withdrawal, the U.S. position was systematically weakened. Finally Nixon's only card would be genocidal population bombing.

Targets for the bombings in Cambodia were selected by staffs under the direct supervision of Henry Kissinger. Not surprisingly, considering the security situation at the NSC and the nature of the war, these raids failed to accomplish their nominal purpose—to interdict the movement of supplies and men. Further, the Vietnamese appeared to have advance warning. This reached tragic proportions in the spring of 1970 when Kissinger convinced Nixon that Vietnamization was so successful that South Vietnamese troops would be

able to carry off ground operations in Cambodia without U.S. assistance. Plans for the raid were made known to the North Vietnamese, who massacred the invading troops and carried the day. As a result, the air war was again stepped up.

The pro-American government of Lon Nol, which had replaced the officially neutral Prince Sihanouk, was itself systematically undermined as the bombing destroyed more and more of Cambodia. Ultimately Lon Nol was defeated, to be replaced, not by the North Vietnamese, but by the Chinese puppet regime of Pol Pot, who subjected 3 million of his fellow countrymen to mass murder.

Nixon was very bitter about the intelligence misestimates and the information leaks which led to the failure of the invasion. Perhaps he was suspicious of Kissinger's role, but Kissinger was still allowed free rein. As a result, not only was America's ally, Lon Nol, betrayed, but a chance for an honorable peace in Vietnam was thrown away.

In 1971, forces in the military negotiated an arrangement which was acceptable to the North Vietnamese. It would have put the pro-American General, Duong Van Minh, into power in South Vietnam, in place of the corrupt and universally hated President Thieu. Kissinger lied to Nixon, telling him the preposterous lie that "Big" Minh was a North Vietnamese tool. Not only would a Minh government have been the basis for a settlement of the war, but it would also have stabilized the Cambodian government, which was to have been included in the peace. A Minh government would also have made honest elections possible in the south. As it was, Kissinger backed Thieu's disenfranchisement of his opposition, ending any possibility for a settlement.

Kissinger rejected the solution because by this time he was negotiating with the Chinese and had promised Cambodia to his good friend, Chinese leader Chou En-lai. The game plan was to continue a war of attrition which would destroy Vietnam while destabilizing the Lon Nol regime. As the North Vietnamese wryly put it, the Chinese were willing to support them until every Vietnamese was dead. Ultimately, of course, the war was settled by U.S. withdrawal, and millions of Cambodians were to fall victim to the Chinese puppet Pol Pot.

In 1972, Hersh reports, Kissinger decided that he had to have a peace in Vietnam before the elections, in order to re-establish his position with Nixon, who was moving to fire him. The indications were that Nixon would be re-elected by such a large margin of popular support that he might feel free to get rid of Kissinger. Kissinger needed a public success.

At that point Kissinger went for the kind of compromise solution which he had rejected the year before. But whereas in 1971, the political solution would have been easy, this was no longer the case. In 1971, there were elections in South Vietnam. Only extreme U.S. pressure maintained President Thieu in power. Without this intervention, Minh would have won the election. In 1972 Thieu was "legally" back in power. Kissinger negotiated a separate peace with the North Viet-



Philip Ulanovsky/NSIPS

namese which he then sought to impose on Thieu. Nixon refused to back him by forcing Thieu to accede, and the peace blew up. Kissinger, of course, never forgave Nixon for this public humiliation, and Watergate soon followed.

A peace settlement was negotiated in 1973 which did not extend to a cease-fire in Cambodia. By now the Khmer Rouge had sufficient strength to be independent of North Vietnamese control in any case. By 1975, the Vietnamese had been reunited. Kissinger was then Secretary of State. The following incident occurred, as reported in the Sept. 29, 1981 issue of *EIR* by Daniel Sneider, on location in Cambodia.

"In March 1975, not long before the end of the Lon Nol regime, P. was a witness to goings-on between senior army officers of the regime and the American advisers who were pulling out. In March he attended a special briefing given by an American colonel to top Lon Nol officers. They were told that the U.S. was pulling out but that they should not worry, as there would soon be peace in Kampuchea—*peace between the regime and its Khmer Rouge opponents.*

"P. said that one of his friends was told something still more explicit in private. Those assurances, one U.S. officer confided to a Kampuchean officer, were based on the fact that the United States was in touch with both sides of the

conflict. Even more, he was informed that the United States had been funneling funds to Khieu Samphan, the leader of the Khmer Rouge, through a Khmer Rouge support group in Paris. Something P. also suspects, which I have heard elsewhere before, is that the United States had a deal with the Chinese to let the Khmer Rouge win."

Shuttle diplomacy and the back channel

Nixon's suspicions had been aroused by the misfired Cambodian invasion. By February 1972, when Nixon himself got to China and learned that Kissinger had bargained away Taiwan during negotiations for the summit, his suspicions were increased. There followed a last-minute scramble to change the wording of the final communiqué to remove the promise of immediate withdrawal of American troops from the island.

By the May Moscow summit, Nixon was more than suspicious. Despite explicit orders from Nixon to refrain from discussing arms limitation, Kissinger linked the summit to arms negotiations and began to bargain away America's defensive capabilities. He negotiated an antiballistic missile defense treaty which overlooked the Soviet ABM defense perimeter then in place, as well as their published plans to develop laser and electron beam defense systems, all of which were known to him. (Oddly, Hersh accepts Kissinger's ignorance on these questions despite the fact that Kissinger was a consultant on arms questions during the Kennedy and Johnson era and attended several Pugwash conferences.)

Even given the anti-war climate in Congress, and the notorious pro-Pugwash proclivities of professional arms negotiators, Gerard Smith, the chief arms negotiator for SALT I, was appalled by the extent of the Kissinger giveaway to the Soviets. "My central concern," he wrote, "remained. . . [that] the free ride struck me as completely unacceptable. I knew of no way to justify such a bonus for them and recommended to the President that it not be accepted."

As Hersh recounts, "Smith later learned, to his dismay, that Nixon, in a letter delivered to the Soviets on the last day of the summit, had explicitly backed down on the 'right' to dismantle Titans for more submarines. Nixon's retreat was all the more distressing to the SALT delegation because it was unilateral; the United States was giving up a right to convert old missiles into additional submarines in exchange for nothing." As Hersh points out, Kissinger had fabricated the statistics to overstate the then current rate of Soviet military buildup in order to pretend that the treaty was actually restraining them. While Nixon did not understand this, the professional arms negotiators were aghast—not, it appears, at the consequences for U.S. military superiority, but rather at the grossness of the exaggerations.

Kissinger was able to sell Nixon on the ABM treaty because the peace movement had made it virtually impossible to get any defense spending through Congress. The idea was

that the United States didn't have to worry about arms limitations since Congress would prevent a serious military buildup in any case. Nixon was finally sold on a SALT treaty which deliberately overestimated figures on the rate of production of Soviet submarine and missile capabilities in order to allow the Soviets a major advantage in the armaments race. They are still cashing in on the advantage Kissinger gave them today.

Increasingly, Kissinger's brinkmanship dominated every area of U.S. foreign policy, creating crises where there were none. Hersh reports how Kissinger manufactured a new Cuban crisis, an instance where his incompetence was ludicrous. Intelligence reports showed the construction of soccer fields by the Cubans. Kissinger insisted, mistakenly, that the Cubans only played baseball; therefore the existence of these fields proved that the Soviets were developing a submarine base in Cuba. In another instance, he conspired to bring Hafez Assad, now president of Syria, to power: he claimed that a minor tank incursion by Syria into Jordan was a major invasion. Nixon was convinced that the invasion was inspired by the Soviets, and allowed Kissinger to threaten the Soviets. War was "averted"; Kissinger got the credit, and, as a by-product, the Syrian army was undermined.

The cowboy profile

Kissinger manipulated Nixon by tried and true Tavistock Institute methods, based upon Nixon's profile: the imperative was to act tough. This, of course, is the same profile which is used to manipulate the President today.

In November 1972, after Kissinger's peace effort was "sabotaged" by President Nixon, he gave an interview with Oriana Fallaci in which this gross little man said of himself: "The main point stems from the fact that I've always acted alone. Americans admire that enormously. Americans admire the cowboy leading the caravan alone astride his horse, the cowboy entering the village or city alone on his horse. Without even a pistol, maybe, because he doesn't go in for shooting. He acts, that's all: aiming at the right spot at the right time. A Wild West tale, if you like." This is not interesting as a revelation about Kissinger; it is interesting as a clear statement of the cowboy profile, and its appeal to the American population at large as well as their unfortunate presidents.

Kissinger justified his actions on the basis of a strategy for achieving a new global accord. The hidden assumption was that the Vietnam war had proved that the United States could no longer operate as a great power. The American Century was over. We must be willing to trade spheres of influence with the Soviets. In place of real power we must substitute brinkmanship and the aura of power.

Seymour Hersh describes Kissinger as a man corrupted by power, who acted against his better judgment, and many times showed poor judgment. Was this the case? If we look

back on the Kissinger years, they mark a turning point for the United States. Then began the process, which continued under the Carter regime, in which, one by one, America's allies were destroyed or alienated. Then began the process by which the Soviets were able to overtake the United States on the military front. Then was consolidated a cynicism about politics from which the nation has yet to recover. It was then that we finally lost the notion that the United States should be a positive moral force in the world.

If we look at the record dispassionately, it is here that we must part company with Hersh. In the period in which Kissinger was in power (which of course also spans the Ford presidency), under the guise of negotiating détente, Kissinger handed over more and more to the Soviets.

Perhaps the classic example was his rejection of Egyptian President Sadat's overtures to the United States. Even when Sadat threw his Soviet advisers out of the country, Kissinger was unwilling to allow him to settle the Egyptian-Israeli dispute and reopen the Suez canal. Under the pretext that Egypt was a client state of the Soviets, he refused to deal with Egypt separately from the Soviets. Was this merely a tilt toward the Israelis? As Hersh himself documents, Kissinger insisted that Israel maintain a hard line toward Egypt even at times when they might have wished to bargain.

Kissinger did not serve the interests of the United States. The question is raised as to whose interests he sought to serve.

Who is Henry Kissinger?

In 1958, Kissinger's closest associate, Helmut Sonnenfeldt, was accused of leaking classified information to Israeli intelligence. In April 1973 he was appointed Undersecretary of the Treasury, only to again be charged before the Senate with being a security risk. The appointment was withdrawn and he was appointed by Kissinger as a counselor to the State Department. In April 1976 Ronald Reagan correctly attacked a speech by Sonnenfeldt in which Sonnenfeldt enunciated his and Kissinger's "détente" thesis of convergence. That speech sanctioned Soviet hegemony over Eastern Europe on the basis that the grip of the communist parties in the East block was weakening in favor of new institutions which would act as power factors.

Kissinger's undergraduate dissertation at Harvard was on the same theme. In this 300-page paper, entitled "The Meaning of History: Reflections on Spengler, Toynbee, and Kant," he put forward Toynbee's thesis on the resurgence of a Third Roman Empire which would be built upon the basis of a theosophically reworked Gnostic pseudo-Christianity. The decline of Western civilization would be the forcing ground for a new cultural spirituality.

As *EIR* has reported, both the Russians and the Western oligarchy have before them the Persian model of empire upon which the first Rome was based. Kissinger has remained a thorough disciple of Toynbee, even repeating his criticisms

of Gibbons's attacks upon Christianity, while accepting his basic thesis of empire.

Kissinger's personal history begins in Germany, from which his parents, as Jews, were forced to emigrate, first to London and then to New York. He joined the army from high school during World War II. At that time he only aspired to a career as an accountant, but like many other foreign-born GIs he was quickly assimilated into military intelligence. After the war he stayed on in active duty in occupied West Germany, where he was assigned to the 970th CIC Detachment. Its functions included support for the recruitment of ex-Nazi intelligence officers for anti-Soviet operations inside the Soviet block. As John Loftus documents in *The Belarus Secret*, this unit assimilated a section of the Ukrainian Waffen SS into U.S. intelligence functions as part of the OSS operations. The personnel in question had been directly involved in massive genocide against the Jews.

Not only were these people laundered through U.S. emigration, but through this operation, the Soviet KGB was able to launder a sizeable number of their own Ukrainian double agents, who were thereby placed at the center of U.S. anti-Soviet espionage operations. Not too surprisingly, these operations uniformly failed. Sonnenfeldt also worked in this unit.

Kissinger and Sonnenfeldt's sponsor at this time was Fritz Kraemer, a German who had been educated at the London School of Economics, and was subsequently a member of Nazi finance minister Hjalmar Schacht's party. Kraemer had also been an international leader of the Socialist International and a close associate of Jay Lovestone of the AFL-CIO, a one-time secretary general of the U.S. Communist Party. Thus Kraemer was involved with Nazi-communist links before he joined military intelligence.

After the war Kraemer helped Kissinger enroll at Harvard where he obtained his B.A. in 1950 and his Ph.D. in 1954. During his eight years at Harvard, Kissinger came under the influence of Prof. William Yandell Elliott, who had been a Rhodes Scholar at Balliol College, Oxford. Elliot worked closely with Arnold Toynbee's successor at the Royal Institute of International Affairs, John Wheeler-Bennett, who in turn, put Kissinger in touch with Sir Isaiah Berlin, a British expert on Russian studies at Oxford who was suspected of being the homosexual lover of Anglo-Soviet spy, Guy Burgess. Sonnenfeldt went to Johns Hopkins University and then into the Soviet affairs bureau of the Research and Analysis division of the State Department.

These are the facts that President Reagan should take into consideration. He should ponder long and hard bringing back to power as a Central American expert the man who in 1969 told the Chilean ambassador: "Nothing important can come from the South. History has never been produced in the South. The axis of history starts in Moscow, goes to Bonn, crosses over to Washington, and then goes to Tokyo."

EIR editors release new book on LaRouche

by Donald Baier

The publishers of *Executive Intelligence Review* announced Aug. 1 the release of a new book about the man who has been called the world's most controversial political figure—Lyndon H. LaRouche, Jr.

LaRouche: Will This Man Become President? is an in-depth profile of “who LaRouche is, and how he thinks about policy questions,” presented by those who know him best, his co-editors at *EIR*.

LaRouche: Will this Man Become President? by the editors of *Executive Intelligence Review* was published by The New Benjamin Franklin House, in New York, July 1983. The price of the 264 page paperback is \$4.95.

A candidate for the Democratic Party's 1980 presidential nomination who is the subject of a draft movement for the presidency in 1984, LaRouche is, on record of performance to date by the LaRouche-Riemann economic forecasting method he developed, “the leading economist of the 20th century,” as the *EIR* editors describe.

The book opens with an introductory chapter presenting the current world strategic crisis through the eyes of a Soviet official imagined reviewing the diminishing obstacles to creating a worldwide New Byzantine Empire ruled from Moscow. It establishes LaRouche's view of the necessity for “a fundamental change in the direction things are moving” in the world economy, as a prerequisite to the avoidance of nuclear war or United States strategic surrender.

The new volume conveys a detailed picture of the development of LaRouche's “American System” economic method, from his 1952 application of mathematician Bernhard Riemann's work to measurement of the impact of new technologies upon economic processes, continuing to his first forecast of the 1957-58 recession and international monetary crises to come, through the 1979-83 series of *EIR* forecasts that have proven uniquely accurate about the course of the present U.S. economic depression while “conventional” econometric services were producing a steady stream of errata and absurdities.

The book's final chapter, “An Economist as Science Administrator,” brings LaRouche's latest efforts in advancing “the science of technology” up to date, by describing how he

and his associates have pioneered new efforts toward a mathematical physics appropriate to determining the impact of a beam weapons arms race on the U.S. economy.

It is known in Moscow and other world capitals that in February 1982, at an *EIR* conference in Washington, D.C., LaRouche proposed to an audience of government officials and international diplomats the scrapping of the Henry Kissinger-Robert McNamara Mutually Assured Destruction doctrine of nuclear deterrence, and U.S. gear-up for a 1939-44-style mobilization of science and industry to develop beam weapons anti-missile defense systems. Thirteen months later, on March 23, 1983, President Ronald Reagan announced on national television his administration's decision to move beyond deterrence to the development of these defensive anti-missile systems. The *EIR* editors recount the development of LaRouche's strategic doctrine, while depicting the day-to-day schedule of activities and preoccupations in “The Life of a Strategic Analyst,” together with the origins of *EIR* as an authoritative source of accurate political intelligence and counter-voice to “the Club” of Establishment news organs.

LaRouche's philosophy of government is treated in depth as shaped by a 2,500-year-old republican tradition proceeding from the model established by the Greek philosopher-statesman Solon and his successor Plato. At the same time, the book provides an intimate picture of LaRouche's family, upbringing, and the youthful experiences which helped to determine his political outlook, much of it in his own words.

The book elaborates his thesis of scientific progress that has been one of LaRouche's fundamental contributions to economic science. “The essential feature of scientific progress is not isolated discoveries. The essential feature is the development of methods of discovery, methods which are provably effective in guiding mankind to a series of successive, successful discoveries. . . . The method of discovery is an hypothesis about the kinds of experimental hypotheses associated with an entire range of successive scientific discoveries . . . the *higher hypothesis*. This, too, is improved by scientific discovery . . . [and] is the subject of an hypothesis, which focuses on the question: What directions of development of science lead predictably to an improvement of scientific method? . . . This *hypothesis of the higher hypothesis* was already a central feature of the dialogues of Plato.”

As the editors note, “LaRouche may or may not campaign for the 1984 presidential nomination of the Democratic Party. Future President or not, LaRouche has become one of the international public figures influencing the perceptions and policy-making of governments, major political factions, and other powerful institutions. It is in this connection that LaRouche's activities and influence already touch the circumstances in which you and your family live in this world.”

From this standpoint, the just-published *EIR* volume promises to be one of the most sought-after and influential books of 1983.

NASA's new missions to the Moon and Mars

by Marsha Freeman

When National Aeronautics and Space Administration officials presented their five-year plans to the Congress in planetary, space science, and Space Shuttle programs at the end of July, NASA offered a series of space science missions which would begin to restore U.S. leadership in space and pave the way for a manned return to the Moon and manned missions to Mars.

Testifying July 28 before the Space Science and Applications Subcommittee of the House Committee on Science and Technology, Dr. Burton Edelson, who heads NASA's Office of Space Science and Applications, outlined more than a dozen new missions for which NASA will request new starts between fiscal year 1985 and 1989. They include missions to the inner Solar System planets, the Moon, primitive heavenly bodies such as comets, and Earth-oriented remote sensing programs.

Back to the Moon

Over the past year scientists and engineers at the NASA Johnson Space Center in Houston have been putting together plans for a U.S. return to the Moon. They have made it clear that further unmanned investigation of more of the lunar surface is needed before large-scale colonization can begin.

In its final report issued in April, the Solar System Exploration Committee (SSEC), which was established in 1980 to plan NASA's planetary missions to the end of this century, concurred that such a lunar orbiter mission was necessary.

According to Dr. Edelson, NASA will request a new start for a Lunar Polar Orbiter mission in FY88. The spacecraft would be modeled on the highly successful Explorer class, which has been used for physics and astronomy missions.

Global mapping of the lunar geochemistry could be performed, with an eye toward discovering whether there are reservoirs of ice at the lunar poles. The European Space Agency has expressed interest in the lunar polar orbiter

mission planned by NASA.

The last NASA missions to Mars, launched in the mid-1970s, landed two Viking spacecraft on the surface and provided mankind its first analysis of the Martian surface. In order for manned Mars missions to be launched over the next decades, a thorough analysis must also be made of the Martian atmosphere, the first thing that can be "mined" on Mars.

Mission to Mars

The NASA five-year plan includes a Mars Geoscience/Climatology Orbiter for FY85, to be sent to Congress next January. This would be the first in a series of new near-planetary missions based on the Pioneer-class spacecraft that brought us the first pictures of Jupiter and Saturn.

An atmospheric radiometer would measure Martian water vapor, dust, cloud condensate, and temperature. A gamma-ray spectrometer would look at surface elements, distribution of subsurface ice, and the thickness of the polar caps.

The SSEC proposed that the planetary observer program build to a funding level of about \$50 million per year, to carry out a series of missions near Earth's neighbors. It recommended that the program be initiated in FY85 at a level of only \$5-\$10 million and built up in preparation for a 1990 launch.

Space Station is next

Two missions scheduled for 1989 will require a space station in low-Earth orbit by launch time in the early 1990s.

The first is preliminarily called "System-Z" for lack of a more specific name. It would include a polar Earth orbiting remote sensing system which would be the next generation technology after the current Landsat remote sensing satellites. Advances in infrared sensors and other technologies being tested on the Space Shuttle should be ready for operational deployment on satellites in the early 1990s.

The second mission is a geostationary platform, which would need to be checked out and perhaps assembled in low-Earth orbit at a space station. The platform would host a set of advanced communications satellites and the electrical and other facilities of a single facility would be shared.

NASA Administrator James Beggs has made statements recently reflecting his confidence that President Reagan will give NASA the go-ahead for space station development this fall. The release of the present five-year plan, which includes station-dependent missions for science projects, further indicates the space agency's optimism.

Dr. Edelson stated in his testimony that NASA plans a \$1.5 billion budget for space science and applications by 1990, requiring an approximate 30 percent increase, in real dollars.

President Reagan's decision on the space station in the next months will determine whether NASA is propelled back to the Moon and Mars.

National News

Kissinger speaks for KGB at Bohemian Grove

For the second year in a row, Henry A. Kissinger keynoted the annual two-week encampment of Bohemian Grove which concluded the last week of July. Although few other details of the highly secretive Freemasonic gathering are currently known, Kissinger did give the "Lakeside Chat," the Grove's most prestigious talk and the province of President Herbert Hoover from 1935 through 1964.

According to participants, Kissinger's speech focused on international relations and was highlighted by the following formulation of Moscow's Third Rome policy line and its attempt to induce the United States to deal with Moscow from a position of weakness rather than strength: "The struggle for power in the Soviet Union is such that Andropov is not expected to last. . . . Because of this factionalization in the Politburo the possibility of the U.S. bargaining with the Soviets is very good."

Kissinger also reportedly said that the policies of the United States should be modeled on Britain's in the 19th century. "Britain saw that it was stronger than any single nation but faced a catastrophe if its opponents combined. Therefore its policy was 'balance of power.' Politics should not be decided by our friends but our interests."

Kissinger has been a member of the Bohemian Grove since 1981, first appearing at the Grove in 1979 as a guest. A member of the Mandalay Camp—the most powerful nest in the 100-camp Grove—Kissinger's admission was sponsored by Arjay Miller of Litton Industries. Other members of Mandalay Camp include S. D. Bechtel, Jr.; Leonard Firestone of the Firestone interests; Najeeb Halaby and Philip Hawley of the Bank of America; Edmond Littlefield of DelMonte, the former employer of Reagan special Central American negotiator Roger Stone; George Shultz; Thomas Watson of IBM; Ralph Bailey of DuPont; and William Casey.

Kissinger's peddling of KGB disinformation at Bohemian Grove parallels the reported use of Bohemian Grove by Kim Philby to run operations against Gen. Douglas MacArthur in the 1950s.

Senators attack Indian nuclear industry

Eight senators, led by Rudy Boschwitz (R-Minn.) and presidential aspirant John Glenn (D-Ohio), introduced a resolution on Aug. 4 which would block the sale of nuclear component spare parts for the Indian reactor at Tarapur, pending further guarantees from India—including a ban on the use of peaceful nuclear explosives for development purposes, which would compromise Indian national sovereignty.

In justifying this effort to cripple the Tarapur facility, Boschwitz recently approvingly cited Israel's bombing of the Iraqi nuclear facility in 1981, saying, "The Israelis acted because they did not trust the peaceful intentions of a nuclear program being developed by an enemy and because they had an equal distrust for the international nonproliferation regime. . . . I think the Israelis did us all a favor by reminding us of our responsibility to countries afraid of a nuclear threat from hostile neighbors."

Other guarantees demanded: that the government of India provide "reliable assurances" that it is not engaged in a program to develop nuclear weapons, that it will not explode additional nuclear devices, and that India will extend its safeguard provisions in the U.S.-Indian nuclear cooperation agreement in perpetuity.

The Boschwitz resolution came in response to recent Reagan administration assurances that it would provide the necessary spare parts for Tarapur. In addition to Glenn (who was an author of the 1978 Nuclear Non-Proliferation Treaty) and Boschwitz, other cosponsors were Larry Pressler (R-S.D.), William Proxmire (D-Wisc.), Gary Hart (D-Colo.), and Don Riegle (D-Mich.). Jesse Helms (R-N.C.) and Gordon Hum-

phrey (R-N.H.), the "new right" senator who has sided with the Heritage Foundation and Ralph Nader against the Clinch River breeder reactor, the Garrison Diversion Project, and the Bonneville nuclear plants, also cosponsored the resolution.

Davis's effective attack on IMF

LaRouche Democrat Billy Davis was credited with 11,359 votes—1.53 percent of the vote—after 91 percent of the vote in the Aug. 2 Mississippi gubernatorial primary election was counted. The National Democratic Policy Committee-backed candidate won several districts. Davis has announced plans to call upon all the candidates in the state election to form a coalition for real economic recovery.

There will be a gubernatorial run-off election in 20 days between the front runner, former Lt. Governor Evelyn Gandy, and the second-place finisher, Attorney General Bill Allain. Three hundred U.S. Justice Department officials were in the state to oversee the election. The voting in Greenville was canceled, because voting machines would not register votes.

The day before the election, Davis held a televised press conference in Tupelo, to praise the Mississippi congressional delegation, the only state delegation to vote as a bloc against the \$8.4 million International Monetary Fund appropriation. Broadcast on the state's second largest television station and seen in 20 counties, Davis congratulated Rep. Jamie Whitten for alerting Congress to the attempts of pro-IMF congressmen to use parliamentary maneuvers to break the rules of the House, to get the bill through before Congress recessed.

Davis described in terms that he said "even the press could understand," the disastrous toll IMF austerity measures have taken on exports of Mississippi products. State exports to Brazil and Mexico have dropped 20 percent since last year, leading to the bankruptcy of hundreds of farmers.

Mississippi oil production has been cut by 60 percent in the last six months.

Davis was featured for a half-hour on Public Broadcasting System television. The candidate described his program to make Mississippi a "window to the South" by gearing up industrial and agricultural production, and implementing Lyndon LaRouche's Operation Juárez proposal for Ibero-American economic development, in order to expand the great markets of South America.

Davis's nuclear campaign received national attention. The *Boston Globe* described the "LaRouche Democrat who has been campaigning for 10 nuclear plants to be built in Mississippi." All the other gubernatorial candidates called for dismantling the nuclear industry, because "Mississippi doesn't have the electrical demand."

Heritage, greenies block WPPSS

A coalition of fiscal conservatives and environmentalists has formed to block a financing plan which would allow the completion of two nearly finished nuclear plants in Washington state. Led by arch-environmentalist Howard Metzenbaum (D-Ohio) and backed by groups such as the National Taxpayers Union, the grouping succeeded in putting off consideration of an amendment to the Interior Department Appropriation bill which would have allowed the Bonneville Power Authority to contract with an entity other than the financially troubled Washington Public Power Supply System (WPPSS) to ensure completion of the plants. WPPSS, which has completed construction of Unit 1 and nearly completed construction of two others, recently defaulted on bonds floated to finance fourth and fifth units.

WPPSS's financial problems were largely a result in a decline in demand for electrical energy due to the depression and to environmentalist organization's obstructions which slowed down the construction process. As a result of the default, WPPSS

is not able to get financing for the second and third units.

The Senate Energy Committee amendment, spearheaded by committee chairman James A. McClure (R-Idaho) and the Washington delegation, would simply allow the Bonneville Power Authority, which contracts the power from WPPSS, to contract out to another entity which can get financing and can complete Units 2 and 3. Opponents of the bill consistently misrepresented the action as a "bailout" for WPPSS which would pledge U.S. tax dollars as "loan guarantees".

Metzenbaum and his allies succeeded in filibustering the amendment and as the Senate moved to accommodate its Aug. 5 recess date, the measure was put off until September.

Senate Foreign Relations pushes arms control

The Senate Foreign Relations Committee is continuing its attempts to force the administration into arms control agreements, whatever the effect on national security. The most recent effort on Aug. 2 forced a letter from National Security Adviser William Clark promising that the White House would be reporting to the committee on a nuclear "build-down" proposal by Sept. 20. On that date, committee chairman Charles Percy (R-Ill.) has scheduled a markup session for the build-down and nuclear freeze resolutions.

Larry Pressler (R-S.D.), who is committed to stopping President Reagan's strategic doctrine of directed energy weapons for strategic defense, allied with the eight Democrats on the committee to send a letter to Percy July 27 forcing the convening of the Aug. 2 session on the nuclear freeze resolution. However, as the committee gathered, Pressler, with Clark's letter in hand, switched back to side with the Republican majority on a straight 9 to 8 party line procedural vote, thus preventing consideration of the resolutions until Percy's scheduled Sept. 20 session.

Briefly

● **GEORGE MCGOVERN** told the Jackson, Mississippi *Clarion Ledger* in a late July interview that he was considering running for President. McGovern, in Mississippi campaigning for Jesse Jackson's Operation Push, said he thought Jackson's work was "great," and that he would consider Jackson as a running mate. McGovern will make up his mind by mid-September.

● **JESSE JACKSON** has just left for a trip to Europe including West Berlin and Moscow. The State Department has reportedly asked American embassies to give him distinguished-citizen treatment.

● **THOMAS PICKERING**, the newly appointed ambassador to El Salvador and a long-time fellow traveler in Averell Harriman's arms control and population reduction circles, reaffirmed his role in the drafting of the pro-genocide *Global 2000 Report* at his confirmation hearings. In response to persistent questions by subcommittee chairman Jesse Helms, Pickering said, "My role was to supervise the final preparation and transmittal. . . . I continue to embrace the projections [of *Global 2000*] as reasonable on the basis of the data we used." The *Global 2000 Report* calls for reducing the world's population by 2 billion people by the year 2000.

● **THE REAGAN** administration sent a plan to Congress Aug. 1 for joint government and private funding of the Clinch River breeder reactor project. According to Energy Secretary Hodel, "This is intended to be the definitive, final consideration of the issue." If this plan is not approved by Congress as a rider to the continuing resolution for fiscal 1984, then federal spending on the breeder program will stop Sept. 30.

The Asian horizon

At a conference in Washington on Sept. 15, *EIR* founder Lyndon H. LaRouche, Jr. will present a bold proposal for the United States to give the kind of world leadership and vision of the future Japan's leaders emulated when they adopted the "American System."

Following his recent tour of several Asian nations, LaRouche is calling for a package of five huge development projects in the region which would rapidly lead to the economic revival of the West by creating demand for export of the high-technology capital goods needed to build these projects. Industrial development of the Indian Ocean-Pacific Basin region can lead the way to a "renaissance in the world economy," and also to long-term stability and peace in Asia, since the great projects "would capture the imaginations" of the countries involved, the basis for cooperation to achieve the goals.

The LaRouche proposal starts from the basic conception that the larger the population of a nation, the greater its economic development potential. The number of people living in the Indian subcontinent, China, Southeast Asia, Japan, and the Korean peninsula totals over 2.5 billion.

The region is also endowed with several other elements indispensable for economic development. India has the third largest concentration of skilled scientists and technicians in the world, exceeded only by the United States and the Soviet Union, a pool of trained manpower that will enable that country to rapidly absorb the most modern of technologies. Japan produces a surplus of capital goods required for economic development larger than any other advanced sector nation—capital goods that could be exported to construct the great projects.

The development projects for the Indian Ocean-Pacific Basin region must be viewed as a "package," for both economic and political reasons. *Economically*, the region should function as a unit; the package will allow for large levels of investment in the developing countries, and high production levels in the advanced countries. *Politically*, the package of projects will enable all of the countries in the region to cooperate on a common goal.

Here are the five components which constitute the

heart of the Pacific Basin-Indian Ocean development strategy:

- **Ganges-Brahmaputra water development:** The proposal begins with a plan to construct large water control/hydroelectric projects for the Ganges-Brahmaputra river basin in India, a plan that could eventually turn that nation into one of the world's bread baskets. Simultaneously, India could become a manufacturer of nuclear energy plants for export to the rest of the region. In exchange for energy, India would obtain the means to pay for the imported products to build the water projects.

- **Mekong River Delta development:** Hydroelectric and flood control development of Southeast Asia's Mekong River is the key to enabling Vietnam, Kampuchea, Thailand and Laos to rapidly increase production of food and energy. Cooperation of these nations in such a project would also furnish the basis for settling the region's simmering political tensions, centering on Kampuchea.

- **The Kra Isthmus canal:** A canal across Thailand's Kra Isthmus would cut up to 1,000 miles off shipping distances from the Persian Gulf and Indian Ocean to Japan and the Pacific Ocean, and allow ships to avoid the difficult Malacca Straits. Engineering plans for the construction of the 103-kilometer canal have existed for the last decade.

- **A North-South irrigation canal in China:** While the northern portion of China suffers from water shortages, the southern portion gets abundant rainfall and often experiences flooding from lack of proper water control. Modernization of an old canal linking the Yangtze River in the south and the Yellow River to the north could even out the water distribution between the two great agricultural regions, greatly enhancing China's transportation, irrigation, flood control, and hydroelectric energy potential.

- **A second Panama Canal:** The Panama Canal, already a bottleneck to world trade, would be completely overloaded by the expansion of trade between the Atlantic and Pacific Oceans under the Pacific Basin development package. A new sea level canal across the isthmus, long under study, is urgent.

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