EIR

Executive Intelligence Review

March 17, 1981 $10.00

Springing the monetary trap on Reagan
China cuts capital investment in half
A Hobson's choice for Mideast policy?

LaRouche-Riemann model on Mexico: a $100 billion export market

[THIS PAGE IS INTENTIONALLY BLANK]

Founder and Contributing Editor: *Lyndon H. LaRouche, Jr.*
Editor-in-chief: *Criton Zoakos*
Editor: *Robyn Quijano*
Managing Editor: *Susan Johnson*
Art Director: *Martha Zoller*
Circulation Manager: *Pamela Seawell*
Contributing Editors: *Christopher White, Uwe Parpart, Nancy Spannaus*
Special Services: *Peter Ennis*

INTELLIGENCE DIRECTORS:
Africa: *Douglas DeGroot*
Agriculture: *Susan B. Cohen, Robert Ruschman*
Asia: *Daniel Sneider*
Counterintelligence: *Jeffrey Steinberg*
Economics: *David Goldman*
Energy: *William Engdahl*
Europe: *Vivian Zoakos*
Latin America: *Dennis Small*
Law: *Edward Spannaus*
Middle East: *Robert Dreyfuss*
Military Strategy: *Susan Welsh*
Science and Technology: *Marsha Freeman*
Soviet Sector: *Rachel Douglas*
United States: *Konstantin George*

INTERNATIONAL BUREAUS:
Bogota: *Carlos Cota Meza*
Bonn: *George Gregory, Thierry LeMarc*
Chicago: *Paul Greenberg*
Copenhagen: *Vincent Robson*
Houston: *Timothy Richardson*
Los Angeles: *Theodore Andromidas*
Mexico City: *Josefina Menendez*
Milan: *Muriel Mirak*
Monterrey: *M. Luisa Gómez del Campo*
New Delhi: *Paul Zykofsky*
Paris: *Katherine Kanter, Sophie Tanapura*
Rome: *Leonardo Servadio*
Stockholm: *Clifford Gaddy*
United Nations: *Nancy Coker*
Washington D.C.: *Laura Chasen, Susan Kokinda*
Wiesbaden *(European Economics)*: *Laurent Murawiec*

Executive Intelligence Review (ISSN 0273-6314) *is published weekly by New Solidarity International Press Service 304 W. 58th Street, New York, N.Y. 10019. In Europe: Executive Intelligence Review, Nachrichten Agentur GmbH, Postfach 1966, D. 6200 Wiesbaden*

Second-class postage paid at New York, New York and at additional mailing offices.
Subscription by mail for the U.S.: *3 months—$125, 6 months—$225, 1 year—$396, Single issue—$10*

EIR

From the Editor

Speaking both as a specialist on Mexico and as a dedicated opponent of the Global 2000 design for eliminating billions of people from the earth, I think our Special Report this week goes a long way toward rigorously clarifying why economic growth is possible and necessary.

The report presents segments of the 20-year industrial development program for Mexico just completed by the Mexican Association for Fusion Energy and by the U.S. Fusion Energy Foundation, *EIR*'s collaborator in our LaRouche-Riemann econometric work.

The Mexico program depends on multibillion-dollar industrial imports—especially for nuclear power—and we contend that the United States should head the list of contractors. The Global 2000 strategists who launched the Carter administration's cold war with Mexico have a program of their own, however. Through the Stockman-Volcker policy, they intend to mutilate every fiber of the U.S. economic and R&D strength required to play our proper role as technology exporter to the globe.

In this issue, we go after the budget crisis from several directions. Kathy Burdman documents in their own words the way "supply-siders" were handed their doctrine to sugarcoat Malthusianism, not "savings for growth." Warren Hamerman describes how the "leaders of the new administration are rapidly expending their political capital." Contributing Editor Christopher White provides an overview of how Global 2000 has shpaed the Stockman policy. Again we present their own words. They are confident that there will be no development policy or nuclear energy proliferation—and that oil price increases combined with local wars will produce "a hundred El Salvadors," turning into "a hundred Cambodias."

Note in our International section that, for its own economy and labor power, the U.S.S.R. has a completely opposite approach. Next week's *EIR* will present the five-year plan and its implications.

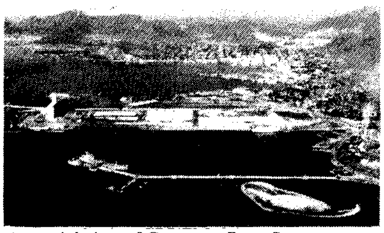
EIR Contents

Departments

Economics

Volume 8 Number 11 March 17, 1981

Special Report



An aerial view of Guyamas Port, Sonora, Mexico. Uwe Parpart/FEF

International

National

Springing a monetary trap on the White House

by David Goldman

President Reagan, according to briefings by senior aides, is determined to be rid of Federal Reserve Chairman Volcker by early summer. But he reluctantly accepts the view of his senior officials—David Stockman, Murray Weidenbaum, Beryl Sprinkel, Norman Ture, and Lawrence Kudlow—that he must cut the federal budget to ribbons to bring interest rates and inflation down. This must be done "to clear firing Volcker with Wall Street," a senior Republican aide says, meaning that the large money-center institutions have dictated the terms under which Reagan may avoid the market disaster Volcker threatened would ensue on his dismissal.

Meanwhile, *EIR* continues to stand by its September forecast that the economy will enter the second phase of depression during this quarter—Reagan's ability to prevent economic downturn is slipping away. The columnists are now warning that the "supply-side" program of tax and budget cuts will fail and leave the new administration in jeopardy months after it took office.

What the public sees via the news media is a Venetian *commedia dell'arte,* with the President cast unwillingly in the role of the old infatuate surrounded by scheming and dishonest servants. *The cited officials designed the "supply-side" program to fail in its given objectives.* A group of economists led by "supply-side" guru Robert Mundell lifted at least part of the curtain to the inner workings of how this came about. Here and in the accompanying report on the origins of "supply-side economics," we introduce the scriptwriters and stage managers.

The Siena group

In a set of presentations before a financial community audience at New York's Pierre Hotel March 1, the "International Monetary Advisory Board" of the Securities Group warned 1) of a monetary crisis brought on by the U.S. Federal Reserve; 2) of a general flattening of advanced-sector living standards, followed by 3) a return to the sort of gold standard that existed before the creation of national central banks.

Ten years ago, the group's core came together under the auspices of the 500-year-old Monte dei Paschi Bank in Siena, the living symbol of the continuing power of the old Venetian-Genoese financial oligarchy. Chaired by a Jesuit-trained Canadian, Robert Mundell, the Siena conferences were a summer outlet for the staff of the super-secret Bank for International Settlements, the "central bank for central banks" founded half a century earlier at the old palace of the Cassa di San Giorgio in Genoa, the bank that had once held title to the debt of the Spanish Empire. In that group were the Bank for International Settlements' chief economist Alexandre de Lamfalussy; Italian central banker Rinaldo Ossola; Swiss banker Nicola Krul; Dresdner Bank economist Kurt Richebächer; and the Cassandra of world monetary affairs, Robert Triffin.

Minus Triffin, now in semi-retirement at the Jesuit Louvain University in Belgium, the same group presented a scenario last week that, however extravagant, has two claims to be taken seriously. First, they represent the immediate continuation of the old European oligarchy that has never accepted the legitimacy of the sovereign nation-state—a point Mundell rubbed in during an interminable review of the last two centuries of the gold standard. Second, the speakers at the Securities Group symposium trained the entire corps of advisers who sold "supply-side economics" to Ronald Reagan in the first place. This was underscored by the presence, as the defender of the administration's chances of success, of University of Southern California economist Arthur B. Laffer, the best-known spokesman for "supply-side economics," and Mundell's prize pupil.

Conference chairman Eugene Birnbaum, a Siena regular when he was Chase Manhattan Bank's economist, opened the meeting with what he called "an unpleasant introduction," warning of monetary chaos.

"It is amazing to me that the newspapers and other media have taken little or no notice of the fact that for some weeks now we have been witnessing unprecedented changes in the world's foreign-exchange markets. Just two and a half weeks ago, for example, on February 11, the dollar was trading at DM 2.15. On February 15 the dollar reached a high of DM 2.25 and on the very next day it was trading at DM 2.18. Last Friday the dollar ranged between DM 2.08 and DM 2.13. The volatility and thinness of the spot and forward foreign-exchange markets have equaled or even exceeded all earlier chaotic episodes in our experience with floating exchange rates. Spreads between bid and asked quotations for the major currencies have been beyond anything before witnessed. Last Friday there were one hundred basis-point spreads between bid and asked quotations for major currencies against the dollar."

Birnbaum continued, "The kind of behavior of the foreign-exchange markets is a matter of great significance. The paralysis spreads uncertainty through all financial markets. Such chaotic activity generates heightened uncertainty, higher interest rates, and at the same time magnifies windfall gains and losses from economic transactions. The lack of monetary stability and direction is global in character and it necessarily inhibits all investment and trading activity, domestic and foreign."

Birnbaum ridiculed "the belief that the dollar can be stabilized by controlling a measurement of a quantity which is referred to as the money supply" as the cause of instability. Instead, he argued, the Federal Reserve should set a dollar price against gold, and intervene to reduce the money supply every time the dollar falls against gold, a simple, and cataclysmic, solution.

But there is another reason for the extreme instability of the foreign-exchange markets than the actions of the Volcker Federal Reserve. Birnbaum revealed—and was backed up by attending Bundesbank director Norbert Kloten—that the "Siena" tendency had pulled off a coup in West German monetary affairs (see Foreign Exchange).

Bundesbank President Karl-Otto Poehl, under the pretext of stabilizing the West German mark, introduced what Birnbaum praised as the same system into West Germany. Whenever the dollar rises against the German mark, the Bundesbank now intervenes to reduce the German money supply. Poehl's action, as Arthur Burns explains in an appended interview, was taken in direct contravention of West German Chancellor Helmut Schmidt's monetary program. The Bundesbank two weeks ago suspended all regular refinancing of the banking system, forcing the West German capital markets into crisis conditions, with interest rates on overnight money swinging wildly between 14 and 30 percent.

This policy action by the Bundesbank, which Birnbaum hailed as the leading edge of the "Siena" program, produced the crisis results Birnbaum cited in his speech! This "very important monetary-policy flaw in the Reagan economic strategy," Birnbaum concluded, leaves Reagan with "absolutely a zero probability of success in the effort to end inflation and start economic growth."

Reagan will end up steamrolling living standards through the federal budget mechanism, Birnbaum said. "For the last 50 years the government has continued to extend its insurance umbrella to the point where coverage is now available for fatherless children, import competition, the inflationary erosion of pensions, various occupational hazards, and almost any kind of potential disaster that can befall humanity. . . . The insurance industry is well aware of this danger. For example, the current nationwide plague of arson is attributable to a significant degree to the fact that fire insurance policies exist. The risk that the mere existence of insurance may encourage episodes of the disaster insured against is known in the insurance industry as 'moral hazard.' "

In fewer words, Birnbaum argued that forms of social insurance encourage laziness and eliminating such insurance will provide work incentives. Arthur Laffer, who followed him to the lectern, accepted the same principle, with the extraordinary claim that OMB Director Stockman "is not cutting the budget, but changing the incentives and disincentives [for work] built into the [social insurance] system. This is on the same principle as the tax cuts, and the two will work together very well."

Laffer delivered a few one-liners against austerity economics, acting as the de facto administration spokesman in the gathering. Attacking Carter's claim that the problem is too much consumption, Laffer said, "You can almost hear old Arthur Burns saying 'It's going to hurt me more than it hurts you—*whack*!' Arthur Burns is the only guy I know who can project a father image without ever having gone through puberty." Satisfied with the guffaws, Laffer turned the floor back to his elders and teachers.

The path of collapse

Dresdner Bank economist Kurt Richebächer—who is more influential in the U.S. and England than inside his own bank—described, with some accuracy, the conditions for a deepening depression. "This is a different type of recession than the last one. The previous 1973-1974 recession was characterized by commodity speculation and inventory buildup leading to a quick drop and quick recovery. Now instead of a few imbalances, the whole ship is out of balance."

"My monetarist friends," Richebächer continued, "ignore two important things. One is the growth of debt as opposed to income, and the second is the content of debt formation. Has it gone for productive or unproductive purposes? What is particularly frightening is that debt has gone less into real productive assets and real capital formation, and more to finance consumption, company losses, inflation hedges, and so forth."

But Richebächer concluded *not* by proposing a redirection of credit flows to real capital formation—the "Irish" model—but by advocating a decisive monetary crunch. "The sharp retreat of the Federal Reserve last year to easy money was a fatal mistake. It is not high interest rates that Europe shudders at, but the perspective of continually high interest rates due to the blunders of the monetary authorities, their failure to act decisively. In 1929, the same policy put the whole of Europe under extreme pressure, and triggered a depression." Privately Richebächer predicted to his friends a sharply falling economy for at least the next two years, and continued wild fluctuations on the foreign-exchange market.

Minneapolis Federal Reserve economist Thomas Sargent, a graduate of the Defense Department's systems analysis group and a star of the "Siena" tendency's second generation, summed the proposal up without ambiguity: "The end of inflation occurs when governments stop running big deficits [as when] the League of Nations imposed restrictions on fiscal policies on central European countries during the 1920s. This means austerity. We tried austerity once before [with the Specie Resumption Act—ed.] in 1875, and it worked." Of course, the Specie Resumption Act produced the great 1879 crash, and one of the worst depressions and civil-unrest periods in American history, and also left the post-Civil War United States beholden to foreign, especially British, capital.

Arthur Burns on Germany

Part 1 of a March 2 interview with former Federal Reserve Board Chairman Arthur Burns, prospectively the next U.S. ambassador to Bonn, that was provided to EIR.

Q: Dr. Burns, what is your prescription for the long-term economic ills facing West Germany?
A: West Germany's biggest problem is inflation, and fighting inflation must be their first priority. To do this means they will have to go into recession, and Germany will just have to sweat it out. While many people have complained that Mrs. Thatcher has been unsuccessful—and we have now a new word in the dictionary, Thatcherism—nevertheless it is her program which must be followed. Only in Britain has inflation been brought down sharply, the cost of living has fallen much more than in other countries, and this is the model.

Q: Have the United States and Germany reached some deal on convergence of interest rates, now that short-term dollar and deutschemark rates are the same?
A: No. A deal cannot be struck. 1) Neither Poehl nor Volcker are personally willing to enter into a deal. 2) If they did, it would only increase inflation to act together to lower interest rates. Schmidt will continue to press his case, and he must, because convergence will not placate him. Convergence means that Germany will retain these very high interest rates, which Poehl wants to do. Of course, that will stabilize the deutschemark, and even buy some time, because the devalued mark at these rates will help exports and the trade balance. But convergence can never placate Schmidt, because he cannot politically tolerate the recession he's getting. He's coming under tremendous political attack for it, when unemployment is increasing. I don't see how they can placate Schmidt, I'm sure he'll press his case.

Q: But what will happen?
A: Fighting inflation is the priority both in Washington and at the Bundesbank, and Schmidt can continue to complain all he wants, but neither Poehl nor Volcker will pull back. What will happen? Nothing will happen for a while. Will Schmidt publicly lean on the Bundesbank? I doubt it very much. So let him complain.

But the penultimate word was given to Mundell, the spiritual leader of Siena. The Columbia University economist now lets his gray hair reach his shoulders, and wears incongruous sporty suits and tinted glasses. From a top place in the economics profession, he has personally deteriorated to the point that he no longer takes organizational responsibility for such conferences. But Mundell, with a rasping voice and awkward gestures, remained the authentic voice of Siena economics.

"The prime focus of the gold standard is predictability," Mundell began. "One-fortieth to one-fiftieth of all wealth has always been held in gold, and the proportion has not changed. The gold standard has never been at fault. When it was suspended in 1797 that was not the fault of the standard, that was Napoleon's fault. . . . When there was inflation in the 19th century, that was not the fault of the standard, that was the fault of the War Between the States. . . . We changed our monetary standard after 1968, and had inflation. The standard wasn't obeyed during the Vietnam War, when we printed money to finance the war. The standard led to crisis and collapse in 1971. But the fault doesn't lie with the standard. It lies with the operators and interruptors of the standard."

Reagan's policy would merely lead to "deeper recession" due to Stockman's "strict fiscal policy," the inventor of supply-side economics warned. He assailed Paul Volcker's "crude Friedman-type monetarism" as "absurd," arguing for the gold standard method Birnbaum had outlined earlier. And he concluded with visions of empire: "The United States still can be the leader of the West, if it pegs the dollar to gold. The Italians would be better off pegged to the dollar than to the mark [in the European Monetary System], the mark is in a terrible position. The whole Common Market would be much better off if they pegged to the dollar, than to the absurd system they are trying to work now, it isn't working," Mundell said, as Eugene Birnbaum tried to quiet him. The guru's speech had extended ten minutes over the alloted time limit.

The gold standard Mundell wants is the opposite of the European Monetary System approach, which uses gold as a backing for a currency stabilization fund. Rather, like the Specie Resumption Act, it imposes an ironclad limit on credit creation, removing the function of governments in the creation of credit—and reversing, if implemented, the entire evolution of the modern republic since the end of the 18th century. This is the plan, and the order-of-battle, of the old European family and financial power which never forgave the American Revolution or the introduction of Hamiltonian central banking. By springing this trap on President Reagan, it hopes to accomplish one of the great *revanchiste* exercises of all time.

Parson Thomas Malthus.

Why supply-side economics is an antigrowth swindle

by Kathy Burdman

Office of Management and Budget Director David Stockman and Rep. Jack Kemp (R-N.Y.) told President Ronald Reagan last December that unless he applied their new brand of "supply-side economics," the administration would face an "economic Dunkirk."

Now, two weeks after the President's major economic package has been presented, with Stockman firmly in the saddle of economic policy, the nation's basic budget for scientific research, nuclear energy, and vital water projects is being slashed dramatically. Federal Reserve Chairman Paul Volcker still has interest rates at 19 percent, with Stockman's blessing, and the economy is heading deep into recession.

We have Dunkirk. Is this some mistake, some miscalculation by the supply-siders, who so strongly preach the economics of growth?

Not in the least. According to a top source at the Volcker Federal Reserve, supply-side economics is "not a growth policy." "Supply-side economics is just a new public-relations argument to help the administration sell the same program Jimmy Carter failed to sell to the American people," said the New York Fed official.

"Carter knew the major problem was to cut inflation, and rationalize industry, but he couldn't sell it. Look at the supply-side policy recommendations now, they aren't all that different. What's the difference between Jack Kemp's tax cuts and Carter's tax reform? Not much. Look at Stockman's budget cuts. Carter tried to cut the same water projects. And the tight-money policy is identical. The difference on monetary policy is practically zero."

How did this happen? Stockman, Kemp and the other supply-side boosters claim their bold new tax cuts and related measures would stimulate an economic boom by encouraging individuals and corporations to work harder for more post-tax income and thus "supply" more wealth to the economy.

The February issue of the *Morgan Guaranty Survey* has a very sober view of what is actually afoot—a shift from a capital-intensive to a labor-intensive "postindustrial society." "The new supply-side philosophy is different in its emphasis," Morgan writes. "Instead of focusing on the leverage between the size of the nation's capital stock and the nation's output of goods and services, the new supply-side thesis stresses the role of the work effort as a key conditioner of the volume of total production."

That is, while high interest rates and reduced government infrastructural development make capital investment in industry nearly unaffordable, individuals will work more hours at less productive jobs for marginal increases in take-home pay. The society will shift to a lower level of technology, and lower per capita energy consumption.

In fact, as we shall show, the real authors of the supply-side doctrine are the leading agencies committed to world industrial and population reduction, the same agencies who backed the Carter administration. They are the Basle-based Bank for International Settlements, the International Monetary Fund, the University of Chicago Department of Economics, and its leading light Milton Friedman.

The ancient pedigree

"There's nothing new at all about supply-side economics," the New York Fed official said. "Supply-side economics was invented by the central bankers at the Bank for International Settlements many years ago."

Supply-side economics, the central banker continued, is not just a pleasantly hefty tax-cut program. From the beginning, he said, a severe tight-money policy such as Volcker's has been the second pillar of the theory, without which tax cuts are regarded as "inflationary." Harsh budget cuts are also intrinsic to the package, he said. "The core of supply-side is that fighting inflation comes first."

From the beginning, the Fed official said, the BIS plan was to shut down major components of basic heavy industry in the West, particularly in the United States, in favor of "postindustrial" activities. "The idea is to rationalize older, more inefficient industries," he said, "and increase investment in new high-technology" postindustrial sectors.

Combining tight money with indiscriminate tax cuts means that newer "information age industries"—computers, microchips, finance—with high cash flow get the breaks. Heavy industry (auto, steel, construction, chemicals), which is already deep in deficit, has no profits and thus no tax incentive. With high-interest rates, it will be deprived of badly needed capital for investment, and will not survive.

The Bank for International Settlements is an old hand at policies prejudiced against heavy industry. Formally the central bank for Western central banks, the BIS and its Basle, Switzerland staff traditionally serve as the think tank for the ancient Venetian oligarchy and its cothinkers in the City of London and the older Swiss banking families. It is these oligarchical families, as *EIR* has documented, who invented the "postindustrial" thesis, in their efforts to weaken the United States, West Germany, and other industrial nations.

Supply-side was stacked from the beginning to promote deindustrialization, *EIR* has learned. The scheme was drafted in 1961 by Canadian economist Robert Mundell, then a staff economist at the International Monetary Fund in Washington, D.C. The IMF is the supranational body created by the BIS central banks after the war to impose Malthusian austerity on Third World nations.

As Mundell told a researcher recently, his ideas were shaped under his professor, Lord Robbins, chairman of the London School of Economics and frequent counselor to the BIS. Robbins was himself the leading disciple of Friedrich von Hayek, the Vienna monetarist and godfather of the "shock therapy" school of tight money. Mundell today is the chairman of the Italian aristocacy's private-sector advisory board to the BIS, the Siena Group.

"Tight money was the very basis of supply-side economics," Mundell himself stated recently, "because the idea was first and foremost to avoid inflation. I then came up with the theory that we could add to this a tax reduction, instead of the classical tax increase, to provide incentives for investment. But the touchstone was tight money."

In other words, supply-side economics is Newspeak. Labeled a policy for industrial growth, it is meant in fact to promote the economic contraction policy of the 18th-century ideologue Parson Malthus, as supply-siders readily admit. Malthus wrote that since population grows faster than scarce resources, the best policy is to reduce industry, so as to reduce the population.

Mundell left London, moved to the IMF Research Department in 1961, and proceeded to publicize just this thesis. The next year, he published it in the IMF Staff Papers, where it received wide circulation in the United States.

Mundell in 1967 moved to a professorship at the University of Chicago to work with Milton Friedman, the leading U.S. "shock therapy" monetarist, and Arnold Harberger, chairman of the Chicago Economics Department.

Malthusian premise

There they firmly grounded supply-side economics on the genocidal policies of Parson Malthus.

"We worked from the premise that economics is the science of how to get the most out of scarce resources," Harberger said in an interview. "We based ourselves on Malthus, and on Adam Smith. With tight money, resources were going to be very scarce. So the whole point of our tax cut was to get people to produce more by removing the disincentive of taxation."

Harberger and Mundell both affirm that the intellectual author of their tax incentive scheme was Sir Jeremy Bentham, economist to the 19th-century royal British East India Company, and his quack psycho-economic "pleasure-pain calculus." According to Bentham, man, like any animal, will do more work, which the British consider a form of "pain," provided that he receives marginally more money, food or other reward, thereby maximizing his "pleasure." Like a donkey, say the supply-siders, give the U.S. taxpayer a marginal increase in take-home pay, and he'll work more.

Militant supply-siders insist it doesn't matter what the donkeys do with the tax-cut proceeds—for with tight money, they'll never invest it in industry. Taxpayers are free to either build homes or gambling casinos. As William Fellner, a close collaborator of David Stockman at the American Enterprise Institute told *EIR*, "We cannot imagine that we can determine what is productive and what is not. Who are you or I to say that steel mills are more productive than high-rises or gambling casinos? Whichever is more profitable is more productive."

And in a tight-money environment, industry is definitely not profitable. By the early 1970s, the BIS itself began holding seminars for central bankers on the new supply-side doctrine to explain how it could be used to sell the "postindustrial" society, as our Fed source reported to me.

The sales pitch

But that was not what the public was told. When the supply-side debate finally hit the press big, Mundell's theories were billed as the ultimate in a dramatic new variety of economic-growth policy.

Supply-side actually received its first press in 1968, when Chicago's Milton Friedman and his friend and protégé Robert Mundell staged an argument over whether President-elect Richard Nixon should cut taxes, in order to bill Mundell as a "progrowth" alternative to Friedman. Friedman and Mundell called in a *Chicago Sun Times* reporter, Mundell recounts laughingly, who wrote a story on Mundell's call for tax relief and Friedman's violent opposition. "Split at Chicago School" ran the headlines. No mention was made of the tight-money policy

Then supply-side went to Washington. Mundell and Friedman had one of their bright young Chicago students, Arthur Laffer, hired on as chief economist to the Budget Office in 1971. Laffer's boss at Budget was Friedman's friend George Shultz, for 20 years the leading labor economist at Chicago, and today a supply-side convert. Together, Shultz, his Budget deputy, Caspar Weinberger, now secretary of defense, and Laffer reorganized the federal Budget Office into the currrent Office of Management and Budget, giving it the tremendous new powers that Laffer's close collaborator David Stockman enjoys today.

Laffer used his prominence at OMB to publicize the supply-side thesis, by drawing the now-famous "Laffer curve." The curve is based on the most elementary fallacy. It purports to show that because rising tax rates discourage investment, which is true, then merely cutting tax rates and nothing else will increase investment, which does not necessarily follow—especially with tight money!

Laffer rose to national fame during 1974, when *Wall Street Journal* editorial page editor Robert Bartley, another student of Milton Friedman, put Laffer and *Journal* staff writer Jude Wanniski in touch with neophyte congressman Jack Kemp, the former Buffalo Bills quarterback who had done a stint as public-relations man for the Marine Midland Bank.

"Jack's unhappy that he's not getting any publicity," said Bartley of Kemp, who was trying to write a tax bill. The *Wall Street Journal* fixed that, once Kemp bought the Laffer supply-side program, and publicized the Laffer curve widely. "I just went wild over that curve," said Wanniski. Meanwhile, Mundell and Friedman had another Chicago student, Paul Craig Roberts, hired as Kemp's tax-bill writer.

Roberts and Laffer then assigned Chicago economist Norman Ture, yet another Friedman student, to do a hoked-up econometric proof of the Laffer curve, in what has got to be one of the biggest con jobs in economic history. Ture, now undersecretary of the U.S. Treasury for tax policy, invented a program that purported to show that a tax-cut bill written for Kemp by Roberts and Laffer would boost GNP by $151 billion and produce a net increase, not decrease, of $5.2 billion in tax revenues.

"No one believed it, not even Jack," Roberts admitted. "But he knew it would get him attention, so he went ahead and used it."

As for Kemp's "anti-austerity" credentials, by 1975 Kemp "was a confirmed Friedmanite," Ture told a journalist. "Friedman is one of Kemp's personal inspirations. They are close personal friends. Kemp has read everything Friedman has ever written.

"In fact, all of supply-side economics is based on Friedman's classical theory. If the Fed issues too much credit, there is inflation. To stop this, reduce the supply of money, and increase the supply of goods through tax cuts. You can't have one without the other."

Counting up the results

The culmination of supply-side economics is found in our new budget director, David Stockman, who got his post with the combined backing of Jack Kemp and Canadian economist Glenn Campbell, the head of Milton Friedman's Hoover Institution.

Stockman, Kemp, and Jude Wanniski today are acting to implement the current economic policy of the Bank for International Settlements. Once again, it is Carter administration policy: the systematic reduction of world population as called for in the Carter *Global 2000 Report* (see page 51).

Global 2000, which calls for the elimination of 2 to 4 billion people through economic austerity between now and the year 2000, was first conceived by the same European oligarchs who run the BIS. In 1976, *EIR* Contributing Editor Lyndon H. LaRouche, Jr. met with BIS directors, and warned them that the BIS and IMF tight credit and budget cut programs would mean genocide in the Third World by 1980. "Yes," the BIS officials agreed, "that's probably true. But the policy is necessary."

In the United States, Stockman's budget cuts will mean sub-zero economic growth, and sub-zero population growth. Supply-side economics means the planned shrinkage of our urban populations, as transfer payments are deliberately cut off to "allow some cities to die and people to be removed," said Heritage Foundation analyst Stuart Butler, a consultant to Jack Kemp, recently.

According to Harvard sociologist Daniel Bell, Stockman's mission at OMB is to use his "slash and burn" approach to the budget to push the United States "toward the postindustrial future outlined in the Carter administration's President's Commission on a National Agenda for the Eighties." The Carter Agenda Eighties report called for the dismantling of heavy industry in U.S. northern cities and the dispersal of populations out of the cities into other areas of the country.

Bell, whose 1973 book *The Post-Industrial Society* first publicized the idea of deindustrialization, and who is a member of the Carter Agenda Eighties commission, told a reporter that he had been one of Stockman's professors during Stockman's Harvard days, and that Stockman "had maintained a consistent outlook dating from his student days . . . as a believer in the postindustrial thesis. Stockman's idea," Bell said, "is to remove all government impediments to the postindustrial society and let market forces take care of the rest."

"A particular postindustrial barometer," Bell said, "is Stockman's cuts in internal improvements and related programs. . . . This gives industry the message that the free ride is over. It will force investment into areas that are profitable, such as high-technology electronics and the service industries.

"Unfortunately, Stockman cannot talk openly about his 'postindustrial' ideas in his current environment," Professor Bell added.

"Stockman's role is to let Chrysler and other heavy industrial companies like it crash, to create a permanent labor pool for the postindustrial corporations," Stuart Butler of the Heritage Foundation told an interviewer recently. "We have to let them know that we're not going to rebuild these old industries. That's why Stockman was the only congressman from Michigan to vote against the Chrysler bailout, and Kemp agrees. They want to allow the old industries to go."

Population in U.S. cities can then be reduced, Butler said. "The budget should be structured, Stockman believes, so that people aren't locked into cities by subsidies. Unemployment extensions, welfare, food stamps tend to keep people in areas like Detroit, which can't support them. So the subsidies should be removed through the budget, which Stockman is already doing. That will reduce urban populations."

In the Third World, the supply-siders are calling for more overt mass population reduction. In the March 2 *Wall Street Journal*, Jude Wanniski, under the title "The Laffer Curve and Foreign Policy," denounces the "development model the U.S. urged on the rest of the world after 1945. Infrastructure—roads, waterworks, power plants, steel plants, docks, even a steel industry—was advanced as the key to development." Such industrialization, he writes, was government "interference," a "disincentive" to the individual. Representative Kemp, aides say, plans hearings soon in the House Appropriations Committee on this topic.

Such industrial programs, Wanniski and Kemp believe, should be shut down, and replaced by tax cuts, "incentives for people," instead of "things." In many of these countries, these programs stand between millions and starvation. Counting up the results of supply-side economics in the Third World will have to be done as a body count.

Poehl: Germany's Volcker?

Has the head of the Bundesbank gone crazy, Frankfurt bankers wonder, as the credit markets gyrate.

Karl-Otto Poehl, head of the West German Bundesbank, indicated his complete understanding of and agreement with U.S. monetary policy in meetings with U.S. officials in Washington last week, reports the *Neue Zürcher Zeitung*. Belying his recent public expressions of concern over the difficulties that high interest rates in the U.S. were causing the German economy, Poehl went out of his way to explain and justify both the present U.S. high rates and the policies he has implemented in Germany, which have already raised German interest rates significantly and introduced a degree of volatility to the German money markets that German bankers regard as ruinous.

Poehl is reported to be very unhappy with the strong attacks on American interest-rate policy emanating from Bonn, in particular from Chancellor Helmut Schmidt, who has made it clear in repeated interviews over the past two weeks that he regards U.S. interest rates as destructively high. Schmidt has argued that high U.S. rates compel other countries to raise their interest rates in order to prevent mass capital outflows, and that this in turn causes severe economic restriction unrelated to domestic requirements.

Poehl told Washington he regards the recent sudden jump in German interest rates caused by Poehl's decision to hike the Lombard rate (the rate at which banks borrow against securities holdings at the Bundesbank) by 33 percent to be the direct result of Germany's high current account deficit. According to the *NZZ*, for years Poehl has been recommending that other countries with current account deficits impose similar restrictions, and now he is "taking his own advice to heart." Thus, Poehl has signaled that he agrees with U.S. Federal Reserve Chairman Paul Volcker 100 percent on the propriety of both U.S. and German high interest rates, despite their manifest *inflationary* effect.

Poehl further defended this package of measures—deregulating the Lombard rate and taking a flexible stance toward the needs of German banks to get refinancing from the central bank—by saying it was the only alternative to "very severe austerity" (i.e., depression) later, and said the Bundesbank was doing everything possible to prevent the latter eventuality.

The real story of what Poehl is up to, however, was told on the current West German currency markets the first week of March, and by worried German bankers behind closed boardroom doors.

Defying the law of gravity, and the law of rational currency trading, the deutschemark fluttered wildly against the U.S. dollar all week, most recently falling from 2.17 on March 2 to 2.12 March 3, for no solid reason. Such day-to-day instability, as Poehl and every apprentice banker in the world knows full well, wreaks havoc on foreign trade and all transactions that involve currency exchange.

Meanwhile, German bankers have begun climbing the walls. Poehl is "going crazy" according to one well-placed banker in Frankfurt who reflects the majority sentiment, and Poehl is, "to vastly understate it, being rather erratic," closing the Lombard window one day, opening it the next, jacking rates the third, and so forth. Bankers distrust Poehl, he added, because Poehl "won't listen" to them.

In short, the Bundesbank's policy is designed to provoke total market instability. Whether the mark ultimately falls or rises is of secondary interest to Poehl. If this instability is allowed to continue, it will, among other things, halt all deutschemark lending to the Third World, a goal Poehl has publicly endorsed.

The exchange rate chaos is so great, in fact, that it has already become grist for the strict monetarists' mill. Eugene Birnbaum, head of The Securities Group , a U.S. arm of the Siena banking group and a notorious advocate of a deflationary return to a strict gold standard, last weekend decried the exchange rate instability between the dollar and mark, citing it as a strong argument for the Siena group's nostrum for all economic ills.

Given that any such deflationary medicine can only cause a sharp depression, Birnbaum's proposal is to jump from Poehl's frying pan into Siena's fire.

Gold by Montresor

Tucker, Anthony warns of shakeout

A reliable forecaster's evidence, and how the 'Siena scenario' for remonetization fits in.

Tucker, Anthony Day's gold and credit markets analyst August F. Arace warns that a few large financial institutions may "try to reshape the gold market for their own purposes," by pushing the price down below the $400 mark.

Arace, who has one of Wall Street's best track records in forecasting gold-market price turns, told *EIR* he fears that large private holders may "shake the ribbon merchants out of the market," and then accumulate a large volume of gold at a very low price.

The Tucker, Anthony analyst uses an index of U.S. foreign and domestic liabilities to calculate an implicit gold price, assuming that U.S. gold stocks should roughly cover half of total liabilities. During the past five years, he notes, this "gold correlation ratio" has stayed in line with the gold market price. In a Feb. 26 memo to clients, Arace noted, "The lowest gold price reached on London fixings in early 1981 was approximately $483 per ounce. That is about 85 percent of the 'ratio price,' and represents an 'oversold' price for gold, *although not as 'oversold' as we prefer.*"

The London gold fixing on March 3 was only $463, confirming Arace's warning that "the probabilities favor a decline in gold to below $480 an ounce. Continued credit restriction by the Federal Reserve, high relative-dollar interest rates, and a firm dollar relative to other currencies are likely to impart a continued negative bias to the activities of gold traders."

The behavior of the gold price indicates that the "Siena scenario" (see page 4) is in operation. The Siena proposal to return to the gold standard should not be read at face value, but in terms of its economic and financial implications. With foreign official liabilities in excess of $160 billion and gross foreign private liabilities around $1 trillion, U.S. monetary gold, worth about $120 billion at the current price, cannot possibly back up the dollar, with the United States in a sharply worse trade-deficit position.

A return to the gold standard could be accomplished only in one of two ways: either through a massive rise in American exports to provide real value to the dollar, or through the liquidation of large amounts of foreign liabilities. The Siena scenario implies a shakeout on the Eurodollar market in which the U.S. would go through a sort of Chapter 11 bankruptcy proceeding. This is the implication of last week's conference of the Securities Group's International Monetary Advisory Board.

If the trend continues, it would match the developments that gold analyst Arace is warning about. A continued squeeze on the credit markets both in the dollar and West German mark sectors would force the liquidation of gold by many marginal holders, faced with high interest-carrying costs and liquidity difficulties. The gold price would then soar upward, in the context of gold remonetization. Then, according to *EIR*'s estimate, the minimum price for remonetized gold would be in the $500 to $600 range for cost-of-production reasons.

Otherwise, the post-remonetization price of gold is a political question under this gloomy scenario, reflecting the terms of bankruptcy the U.S. would presumably negotiate with its foreign creditors.

In any event, Arace believes that "the gold price will trend toward the mid-to-lower $400s." The political assumption this implies is an uninterrupted deflationary policy on the part of the Federal Reserve.

Before the April meeting between West German Chancellor Schmidt and President Reagan, it is too early to say whether the deflationary trap will spring according to plan. Schmidt will present to Reagan a plan for coordinated reduction in interest rates including Europe, Japan, and the United States, a plan which represents Reagan's own best chance of avoiding a depression and the political collapse of his administration.

It is interesting that the European financial elite that created the Siena Group is taking an increasing gold portfolio position, betting on their own scenario. The one-fortieth to one-fiftieth of all wealth still held as gold, in Robert Mundell's estimate, is heavily distributed on the side of Europe's old financial families. According to one authoritative estimate, the Society of Jesus—the Catholic order that educated Mundell, Triffin, and other leading "Siena" economists—is the single largest gold holder outside of the central banks themselves, with about 30 tons of the metal.

World Trade by David Ramonet

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
$1 bn.	U.S./Brazil/Holland	Shell Brazil SA and Billiton BV are to join with Alcoa Alumino SA, in the aluminum project being built in northern Brazil by the latter, an affiliate of Aluminum Co. of America		Scheduled for completion in 1984.
$1 bn.	Indonesia from U.S. and W. Germany	Thyssen Rheinstal Technik GmbH of West Germany, and Pullman Kellogg of the U.S., won the contract to build an aromatics plant in south Sumatra. Thyssen will be general contractor. Kellogg will do engineering and construction.		Plant to be owned by Indonesian government and operated by Pertamina.
$217 mn.	Iraq from Japan	Japanese consortium won contract for construction of an international telecommunications network for the Iraqi News Agency.		Agreement signed.
$150 mn.	U.S./Egypt/U.K.	C.E. Lummus group of U.S., El-Nasr Co. of Egypt, two Egyptian banks, and British Pelkington to establish joint venture to manufacture float glass at plant in Egyptian desert.	U.S. Agency for Intl. Development to provide $60 mn. loan to help finance company.	
UPDATE				
$350 mn.	U.S./Japan	Kennecott of U.S. and Japanese Mitsubishi have completed agreement to jointly modernize, operate and share production facilities of Chino copper mining and processing facility at Silver City, New Mexico.		
$200 mn.	Brazil from West Germany	Construction of eight nuclear plants in Brazil, by Kraftwerkunion. The agreement was set up in 1975.	Nucleabras has requested from Dresdner Bank of Germany, to raise a $150 to $200 mn. Eurocredit to build the plants. Terms still to be negotiated. Additional financing expected by West German state-owned Kreditanstalt für Wiederaufbau.	

The key to collectibles

An expert provides some of the initial elements of a guide to successful investment in works of art.

Over the last few years, articles advising individuals to invest in art have been appearing in mass-circulation magazines—from *Fortune* to airlines' courtesy publications. These articles make the point that art prices have increased more rapidly than any other so-called commodity.

This is true. A recent confidential study by Sotheby Park-Bernet, the world's largest auction house, documents the fact that art prices for old master paintings (paintings executed before about 1830) have increased in value over the last 10 years more than the equities markets in either the United Kingdom or the United States, and have advanced well above the inflation rates.

But what these articles fail to make clear is that to invest successfully in collectibles, particularly the fine arts, requires great knowledge and international connections. In this and future columns we will provide our readers with some basic pointers to orient the collector or investor. But let me sound a caution right now: no column can provide the specific information regarding a particular work of art needed to judge its value—either in money or aesthetic terms.

First, let's understand what we are referring to by fine arts collectibles. Throughout the more than ten thousand years of recorded history, every civilization has produced a special class of artifacts in which the skill of the artisan has been raised to a level of emotional and intellectual intensity that calls forth a special response. There has always been a brisk trade in these items over the centuries. But today there.is a new twist. Investors, as distinct from collectors, have become involved because works of art are now perceived as hedges against inflation, that is, their value, based on annual art auctions, is appreciating faster than the rate of inflation. This is accelerating the appreciation of works of art, resulting in inflated values for minor works, or art to feed the need of hot-money-seeking investment.

The best example of this phenomenon is the rapid rise in the prices of 19th-century European sentimental genre paintings. Every subject from drunken cavalry officers to prepubescent children holding hands has fetched record prices at such highly respected aution houses as William Doyle Gallery in New York and Butterfield & Butterfield in San Francisco.

In contrast to this speculative bubble, however, there is a sound basis for appreciation of the value of selected works of art. These objects, in truth, represent very precious assets. Their value is part of the values of our civilization, and short of a total, massive devaluation of all the assets of our civilization (not impossible in these perilous times), such works of art must appreciate over time.

So it is to this class of works, historically mature, that the investor, as opposed to the speculator, should turn. The investor must ask the following questions: are these works aesthetic? are they in good state of preservation? are they sufficiently representative of the particular class of works to which they belong to convey its historic significance?

For example, an artist such as Rembrandt is so significant that even a tiny scrap of a drawing by him has great value. But the same is not true of a follower of Rembrandt's, such as Govaert Flinck. There the collector or investor must show judgment. Since authentic works by Rembrandt are now so rare, his followers have become the objects of attention.

This is valid to the extent that they genuinely reflect the tradition. To be a true student of Rembrandt is itself a notable achievement. Hence we have a criterion here for judging the value of the work: how important is it as a creative effort that participates in the Rembrandt tradition? On this basis one can make relative value judgments among a class of works, and then test their values in market terms as reflected in auction prices, etc.

In my next column, I will give *EIR* readers a case study of a valuable art-work transaction to make the present discussion more concrete.

Dr. D. Stephen Pepper is an internationally prominent art scholar specializing in Old Masters, and a consultant to PFA, Inc. in New York City.

Rep. Bailey on U.S. growth needs

The following excerpted interview with Rep. John Bailey (D-Pa.) was conducted by Barbara Dreyfuss.

EIR: Congressman, you just returned from the Wehrkunde meeting in West Germany where Herr Ruehl, speaking for the German government, indicated that Germany would like to contribute more to defense but is hampered by their economic difficulties caused by high U.S. interest rates. You are a cosponsor of Rep. Ronald Mottl's resolution calling for lower interest rates.
Rep. Bailey: I am one of those who have doubts about the value of high interest rates. There are other things we can do to break inflation. We can make the U.S. attractive for investment with things like tax incentives, tax credits, refundable credits to spur investments. We have a poor depreciation schedule. It is hurting our domestic investment and doesn't make us attractive for foreign investment. I don't think that high interest rates are productive. The problem is lack of capital formation and investment. We have to put technology in the field for betterment worldwide.

EIR: West German Chancellor Helmut Schmidt has repeatedly stated over the last several weeks that high interest rates are crippling the German economy. Would you comment on that?
Rep. Bailey: I would say to Schmidt that if his reasoning is solid on the role interest rates here play on their country then he would have the right to complain.

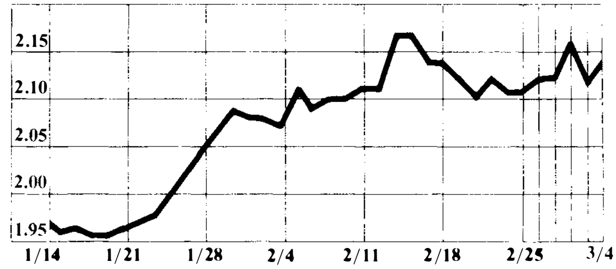
There is no question that this country and Reagan have got to understand the international implications of all these things. When I went to the Wehrkunde meeting it was eye-opening. . . . They deal with these problems on an international level and we are a little blind to that.

EIR: The German finance ministry has called for an interest-rate disarmament conference. Would you agree with that?
Rep. Bailey: What is the harm of sitting down and talking? Of course I support it. The world economy is interdependent and we are asking for a crisis unless we establish institutions to deal with the international economy, resources flow, monetary system, trade balances. Americans have to learn about world markets.

Currency Rates

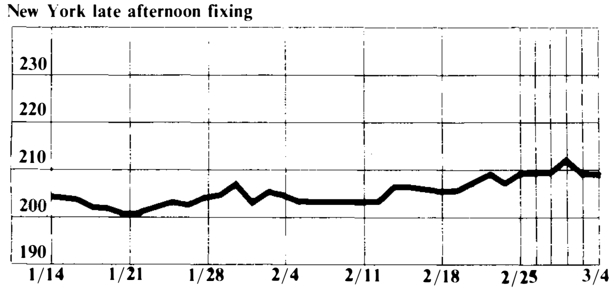
The dollar in deutschemarks

New York late afternoon fixing



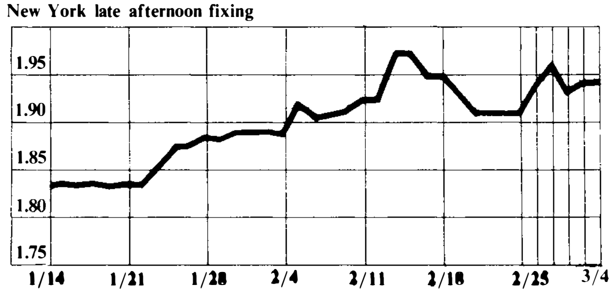
The dollar in yen

New York late afternoon fixing



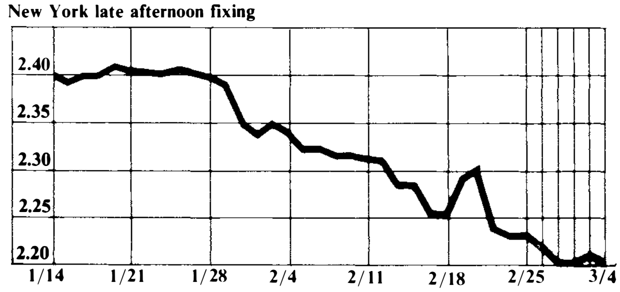
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Business Briefs

International Credit

French issue global energy development plan

The chairman of one of France's largest banks said today that top French government officials supported a plan he issued for a $100 billion lending institution to finance global energy development. The banker, Banque Nationale de Paris chairman Maurice Laure, released the plan in a *Le Monde* article on March 4.

The Laure plan, which the banker discussed with Foreign Minister Jean François-Poncet and Finance Minister René Monory before their recent trips to the U.S. and Mexico, would assemble a gigantic fund to finance nuclear and oil development in the Third World. The plan combines features of the year-old world energy program advanced by Mexican President José López Portillo, and the 1975 LaRouche International Development Bank proposal.

Laure stated in the interview that his program is totally opposed to that of the World Bank, the International Monetary Fund, and the Brandt Commission. "The International Monetary Fund is causing trouble with its absurd monetarism," the banker said. "They have a cure that kills the patient."

Military Spending

Weinberger budget: a quick fix?

Defense Secretary Caspar Weinberger told Congress March 4 that the proposed Reagan administration defense budget for fiscal 1982 will be $38 billion higher than this year's, bringing it to $223 billion.

The budget would turn the U.S. Army away from traditional conventional forces toward an integrated group of Rapid Deployment Forces-type "special units" for deployment in various regional hotspots. For the weapons component, the DOD proposes a lot of gadgetry that is very expensive, very prone to break down, and very hard to fix.

Weinberger proposes a large shipbuilding program that would increase the active U.S. fleet from 456 ships to 600. However, some 50 or more of the "new" ships will simply be those taken out of mothballs, and, according to one Navy expert, "retrofitted with a lot of electronics." According to another defense expert at Honeywell, "in addition to ships, the U.S. will go with the MX missile, the B-1 bomber, and the Trident II submarine."

The B-1 bomber technology is already obsolete, while the ill-conceived MX system will cost more than $100 billion. This defense expert stated, "If we build the MX, the B-1, and the Trident II, we will have to sharply cut the NASA program. We are not looking for, nor will we get, any major breakthroughs in technology if we follow this course."

Next week's *EIR* will carry an extensive evaluation of the proposals.

Domestic Credit

Weidenbaum: cut money supply 25 percent

Murray Weidenbaum, the head of the Council of Economic Advisers (CEA), told the Senate Banking Committee March 4 that "money supply growth should be cut 25 percent from last year's target levels."

Weidenbaum admitted at the hearings that "we are in a soft economy, that's very clear," in view of the fact that monetary constriction will further weaken U.S. production levels. But, he said, he fully supports the monetarist goal, set by Treasury Undersecretary Beryl Sprinkel, of reducing the U.S. money supply growth rate by 50 percent between 1980 and 1986.

Working in coordination with Federal Reserve Chairman Volcker, the major money center banks are meanwhile very gradually lowering the prime lending rate to best corporate customers to a range of 17 percent. On March 3 the commercials, led by Chemical Bank, reduced the prime rate from 19 to 18.5 percent. The trend does not affect significantly the credit-availability situation.

Agriculture

Senators vote freeze on dairy prices

In what is being widely advertised as the first key congressional victory for President Reagan's budget-cutting plans, on March 4 the Senate Agriculture Committee voted 14 to 2 to forego the next regular six-month adjustment in the dairy price support level due in April. The full Senate and the House must also approve the decision.

Committee chairman Jesse Helms (R-N.C.) dramatically read a statement from the largest farm organization, the American Farm Bureau Federation, giving broad endorsement to the Reagan "anti-inflation program" prior to the vote. Only Senator Leahy (D-Vt.) and Senator Andrews (R-N.D.) opposed the move. Leahy said that the freeze "breaks a promise to dairy farmers to stabilize their markets" and accused the administration of "changing rules in the middle of the game." Andrews stated only that he had not been sent to the Senate to "rubber-stamp" for any President, "no matter how popular." John Melcher (D-Mont.) voted "present."

The full Senate is expected to consider the matter later in the month, but House spokesmen doubt that the House will be able to consider it before the April 1 deadline. Under the existing law, dairy prices are maintained at 80 percent of parity and automatically adjusted twice a year.

This is the preliminary skirmish in what may be a decisive battle for the entire farm sector. Dairy has been singled out for attack because it is the best of the various commodity programs, which some members of the Reagan administration, notably OMB chief David Stockman, think are completely "obsolete." Stockman and others such as the liberal lobby Common Cause and Naderite "consumer advocates" have attacked the farm programs as "subsidies" and "boondoggles" for farmers and "ripoffs" of the consumer.

The administration will present its recommendations for additional changes in the basic dairy program on March 10.

Corporate Strategy

Ford to take Charter off the hook?

Charter Oil Company has apparently found a way to escape further investigation regarding its role in the infamous Billygate affair. Charter had funded Jimmy Carter's brother Billy to secure Libyan oil contracts for the company. Now Charter has announced that it has hired Gerald Ford as a "special consultant" who will tour the world on Charter's behalf.

It is unlikely that President Reagan or the GOP would now welcome an investigation of Charter if a leading member of the Republican Party, former President Ford, could be tainted by the scandal. Some say that whatever Charter is willing to pay Ford is "money well spent."

Water

Northeast drought exposé draws blood

After *EIR* water expert Leif Johnson, speaking for the National Democratic Policy Committee, exposed the Northeast water hoax in a CBS radio editorial reply March 5, one of the hoax managers asked to initiate a "dialogue."

Bob Alpern of the Citizens Advisory Committee on Water Resources and Coastal Management said he found the editorial reply "controversial and provocative." But, he demanded, why not be "more concerned with ground water on Long Island, coastal erosion or polyvinyl chloride pollution in the Hudson River?"

Johnson told the New York radio audience that the New York State Department of Environmental Conservation had helped flush 135 billion gallons, a quarter of New York's reservoir supply, into the Delaware River to "protect fish life." The water hoax was compounded by Mayor Koch's layoff of a third of the water supply employees and failure to pay for spare parts for the Hudson River pumping station.

Alpern is a former traffic and planning commissioner of White Plains, New York, who says he is a volunteer with the Citizens Union Research Foundation. He says the foundation is running the New York City crisis through Department of Environmental Protection Commissioner Francis X. McArdle's office. "They even put out our stuff directly from their office."

The Citizens Union Research Foundation is the second-level coordinator of the Northeast water hoax. It created the environmentalist umbrella group organization to propagandize the "crisis."

Despite a record February rainfall, Alpern said, "This could be the worst drought in 500 years."

Banking

Jake Garn opposes interstate banking

Senator Jake Garn (R-Utah), head of the powerful Senate Banking Committee, told a National Savings and Loan League audience last week that under his chairmanship, the committee will have "a rather large bias against interstate banking."

Garn warned against "undue concentration" of the banking system resulting in 12 or 15 large banks like Citibank, Bank of America, and Chase Manhattan. If interstate banking were allowed, Garn warned, the medium-sized banks would be the ones eliminated.

Regarding the Banking Committee, Garn said it "should do a lot more oversight," which would include the effects on the thrift institutions of the money-market funds sold by brokerage houses.

Briefly

- **RENE MONORY,** the French finance minister in Mexico for talks with Finance Minister Ibarra Muñoz and President López Portillo, said he expects the Arab OPEC countries to make substantial loans to the IMF, adding that these new funds ought to be lent to the poorest countries on softer terms than at present. IMF credit, he stated, "must be accompanied by a true plan that permits these countries to take off economically." He called on OPEC and the industrialized nations to finance agricultural, mineral, and other development projects.

- **BRAZIL** has already obtained 20 percent of its 1981 financing requirements as international banks got on board a lending boom that began with a $1.4 billion French nuclear export-related loan.

- **U.S. FACTORY** orders in January dropped 0.3 percent, in the first drop since last summer. Construction fell 4 percent.

- **HAL TAYLOR,** a former writer for the *New York Times* and *Wall Street Journal,* says it is unfair to assume that Republicans invented the policy of subminimum wages for youth under 18. In the March 15 *Journal of Commerce,* Taylor describes the plan as the 1967 brainchild of archliberal Paul Douglas.

- **THE AMERICAN** Constitution mandates Congress to "promote science and the useful arts," states the Fusion Energy Foundation in a National Science Alert to its 15,000 members, American scientists, and the public at large. The message charges that OMB Director Stockman and his misguided backers threaten to end the United States' 200-year tradition of progress and scientific leadership through their budget cuts, especially in the fields of applied and fundamental science.

Mexico: a $100 billion neighbor

by Robyn Quijano

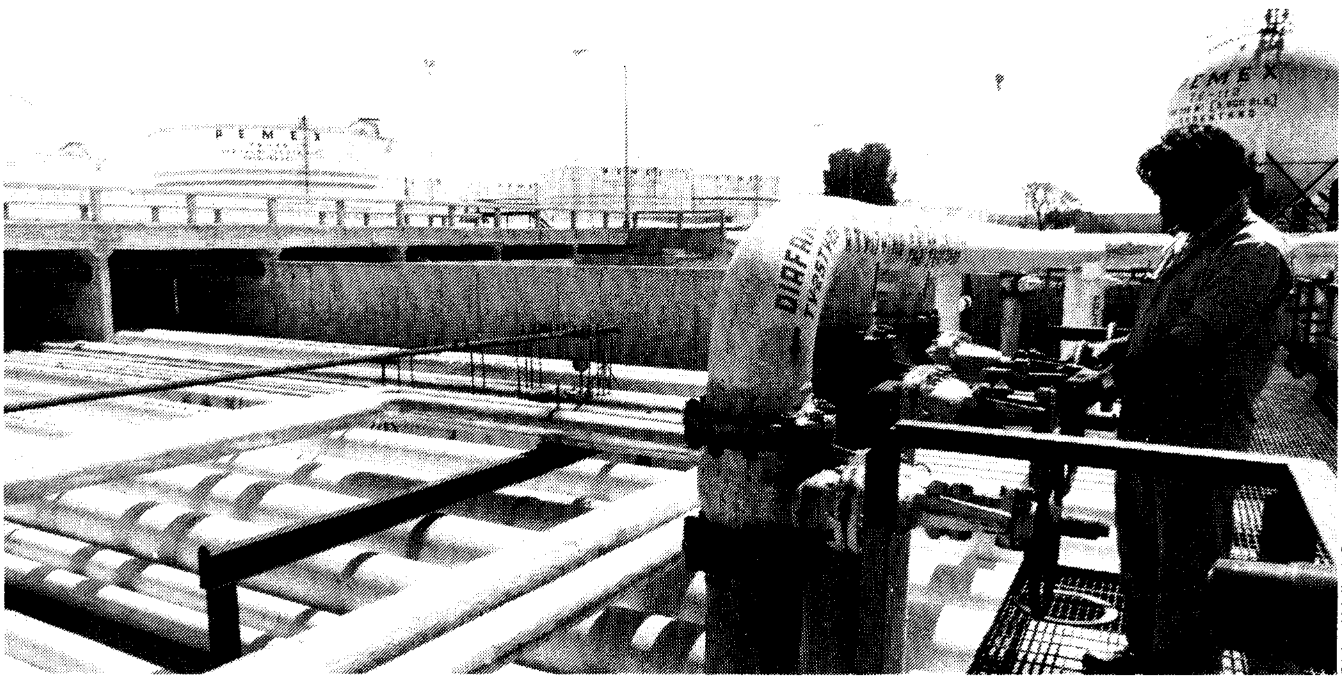
The Mexican republic, rich in oil, population, and the political will to rapidly become a fully industrialized nation, is a $100 billion neighbor—not, despite the Malthusian propaganda of the Carter administration, a dangerous horde of excess workers poised to revolt or invade the United States.

The same institutional forces that ran the Carter administration intend to prevent Mexico at all costs from becoming "a Japan on our border," in the words of Zbigniew Brzezinski. Henry Kissinger, who has personally decreed that Iranization is the fate of any nation that decides to industrialize too fast, and his friend Alexander Haig, are determined to force Mexico to give up its aggressive drive for economic development—thereby, through slower growth, actually deepening the preconditions for Iranization.

But there exist greater possibilities for a change in U.S.-Mexico relations than Alexander Haig would wish. The pre-inauguration meeting between Ronald Reagan and Mexican President José López Portillo in January gave both leaders the hope that relations between the two neighbors could be transformed. There was a sense of good will that has since been somewhat poisoned by the maneuvers of the secretary of state. Yet the relationship is still to be defined when the two presidents met in Washington next month.

Our Special Report this week is intended to be a weapon in the hands of American businessmen, labor leaders, and other constituency spokesmen whose livelihood depends on a new kind of U.S.-Mexico entente, based on oil-for-technology deals that will assure the rapid industrialization of Mexico and a U.S. boom in high-technology industries.

We present here excerpts from the conclusions of a just-completed program, "The Industrialization of Mexico, 1980-2000," developed by the New York-based Fusion Energy Foundation (FEF) and the Mexican Association for Fusion Energy (AMEF). This study, based on the LaRouche-Riemann econometric model (developed by the *Executive Intelligence Review* in collaboration with the FEF) challenges the basic assumptions of all the other well-known econometric studies of Mexico, which uniformly claim that oil income is inflationary, that rapid industrial growth leads to social instability, and that petroleum exports should be limited lest the Mexican



Richard Melloul/Sygma

"Miguel Hidalgo," a Petroleos Mexicanos refinery in the state of Hidalgo.

economy become totally disrupted by its new wealth.

The program specifies a sharp expansion of oil exports and domestic consumption, and an average 11 percent annual growth rate for tangible output.

The program you will read in detail below, and the economic method on which it is based, are now being fiercely debated among the economic planning elite of the public and private sectors in Mexico. As we go to press, the author of the LaRouche-Riemann method, economist and *EIR* founding editor Lyndon H. LaRouche, Jr. is in Mexico as the featured speaker at the annual week-long International Symposium on the Economy, sponsored by the Monterrey Institute of Technology and Advanced Studies (ITESM).

Teaching the 'science of technology'

LaRouche will tour Mexico for 10 days, presenting the Mexican program and the economic theory, or "science of technology," that underlies it. In the process, LaRouche intends to demonstrate both the fraud of the Wharton model and the danger of Friedmanite thinking in any guise for the future of a developing nation like Mexico.

This trip will be the high point of over a year of activity in Mexico by the FEF and AMEF. Dr. Uwe Parpart and Dr. Steven Bardwell have been invited to Mexico numerous times to present the program and the LaRouche-Riemann method. Dr. Bardwell was recently invited by the Mexican Petroleum Institute to present the model at a conference on econometrics.

The debate and the educational process that have involved hundreds of engineers and planners over the past months culminated in a conference sponsored by the FEF and the AMEF on Feb. 19 and 20 in Mexico City.

The 150 participants at the conference represented eight Mexican government ministries, numerous private sector firms, banks, educational institutions, and research groups. Dr. Parpart and Dr. Bardwell of the FEF and Cecilia Soto, Patricio Estévez, Dr. Luis Abreu, and Jorge Bazua of the AMEF presented the results of the LaRouche-Riemann model.

The theses of the FEF program were supported by a presentation from Dr. Alfonso Rozenzweig, director of industrial port development for the President's Office of Special Development Projects, who outlined the present commitment of the Mexican government to construct four huge industrial ports within the next 20 years.

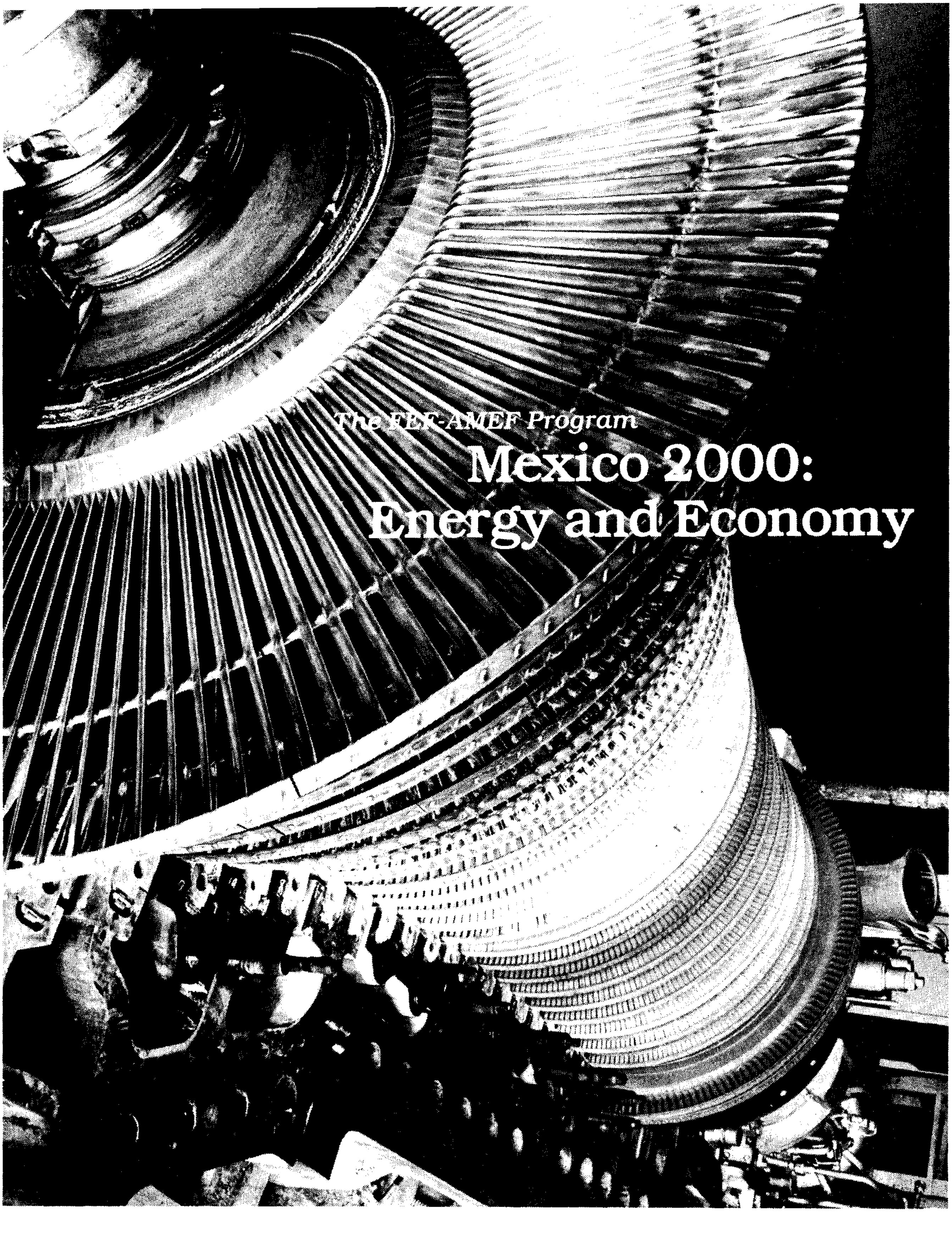
The development program of the Mexican Industry Ministry (Sepafin) was presented by one of the subdirectors of that institution, Narciso Lozano. This National Industrial Development Plan (PNDI) coheres with the growth rates projected by the LaRouche-Riemann model, although PNDI projections only go to the year 1990.

Presentations were also made by Agustin Paulin of the National Council of Science and Technology, and Alfredo Heredia of the Mexican Petroleum Institute.

The conference's dramatic demonstration of the incompetence and actually subversive nature of the low-growth rate, appropriate technologies policy of the World Bank and International Monetary fund, as well as the model results, went well covered in the Mexican national press, expanding the development debate to every corner of the nation.

The FEF-AMEF Program

Mexico 2000: Energy and Economy



EIR presents here the introduction to the "Mexico 2000: Energy and Economy" development program by Dr. Uwe Parpart, director of research for the Fusion Energy Foundation. The development program, formulated by the Fusion Energy Foundation and the Mexican Association for Fusion Energy (AMEF), was presented at a Feb. 19-20 conference sponsored by both organizations in Mexico City. Among the 150 participants were representatives of eight Mexican government ministries, leading private firms, and engineering, research, and educational institutions.

For its Mexico development projections, the FEF-AMEF team employed the LaRouche-Riemann computer model, the only such econometric tool to have successfully predicted recent trends in the world economy.

The motion of this aggressive approach to Mexican developmment received added impetus with Democratic Party leader Lyndon LaRouche's call in Houston, Texas recently for an "oil-for-technology" package between Mexico and the U.S. as the keystone measure to free the Reagan administration from the Volcker "no-growth" stranglehold.

The discovery, starting in the mid-1970s, that Mexico possesses much larger petroleum reserves (certainly in the 200 billion barrel range) than had been previously realized, affords it a unique opportunity among the larger Third World sector countries to substantially reduce by four to five years the time that would "normally"—even with an ambitious development program—be necessary to become a modern industrial nation.

Our analysis demonstrates that by no later than the year 2000, the great majority of 115 to 120 million Mexicans should be able to enjoy a standard of living comparable to that of the average inhabitant of the Western European nations in the year 1980. Key to the success of a rapid development effort leading to such a result are extensive oil-for-technology deals between Mexico and several advanced sector countries, which could become a model for beneficial North-South relations in general, and are essential to overcoming critical capital goods shortages.

By 1990, oil revenues representing production for export of 3.5 million barrels per day of a total daily production of 10.5 million should be allocated to finance capital goods imports, to optimize the tempo of industrial development. At such a coupled oil export/capital goods import level, the Mexican economy can operate at a substantial growth rate in industry of 12 percent per year, powered by annual productivity increases whose lower boundary will at no point dip below 5 percent.

Why rapid growth?

A "go slow" attitude in the exploitation of petroleum reserves represents the greatest threat to Mexico's future. The rapid conquest of underdevelopment must be squarely based on—for its tempo depends upon—continuation of the aggressive oil exploitation program of the past several years. At an early point in the 1990s, reaching production levels of 10 million barrels per day would be desirable and guarantee Mexico the rates of capital formation in the economy which, in the course of the 1980s, will make the country less and less dependent on raw materials extraction.

It must be understood that these growth rates are not arbitrary, representing targets that would be "nice" to achieve. They are variables that depend on detailed time-phase investment decisions, estimates of when plant, equipment, and elements of infrastructure representing such investments will come on line, and how this will affect production and growth rates. They conform, on the other hand, to an absolutely essential structural requirement for the Mexican economy, without which large-scale social dislocations and the dreaded "Iranization" of the country may in fact become consequences of insufficient development.

Mexico, because of its anomalous population structure and oppressive rates of unemployment and underemployment, must between now and the year 2000 sustain annual rates of job creation and industry of 6 to 7 percent. It is the uniform evidence from both advanced and underdeveloped countries that underwent successful development since the end of World War II, and also analytically provable, that the combination of 12 percent industrial and 5 percent productivity growth rates is the minimum at which such rates of job creation are possible without hyperinflationary consequences.

The oil-for-technology strategy should be seen as the basis on which the principal existing bottlenecks can be eliminated. During the two-decade period ahead, Mexico must begin to make provisions for its energy future beyond the oil era. The 1985-1990 phase will be a crucial transition period in which a first series of nuclear power plants can come on line.

By the year 2000, more than 60 gigawatts of power must come from nuclear sources. This signifies more than simply a transition to a new mode of energy; it means a transition to a mode of functioning as a modern industrial economy as a whole, and is simultaneously one of the greatest challenges to Mexico's manpower development, if the country is to achieve the status of a truly independent republic.

To say that Mexico's economists—including those who operate the Diemex/Wharton Mexican econometric model at the Wharton School of the University of Pennsylvania in Philadelphia—are the principal obstacle to the country's successful economic development would clearly be to overstate the case. However, there can be little question that incessant talk of the dangers of "petrolization," association of the near 30 percent rate of inflation with the oil boom, lobbying for oil production ceilings to preserve the national patrimony, and so on, have gone quite a way in injecting doubt and uncertainty into government policy. It is necessary, in particular, to put to rest the "oil carries inflation" argument in order to permit an unobstructed view of the true dynamics of development.

The 'oil-inflation' fraud

There is much controversy over the extent to which imported inflation contributes to the overall Mexican inflation rate. We shall not attempt to settle this matter here, except to say that we regard that contribution as significant. The domestic inflation component is said to be due to excess demand—an excess of the oil revenues running up against limited productive capacity, production and distribution bottlenecks, and so forth.

Well, why not concentrate on rapid expansion of production capacities, instead of the omnipresent clamor for "cooling off" measures and currency devaluation? The very argument presented to demonstrate that the oil boom causes rising rates of inflation reveals that the true cause of the problem lies elsewhere: in certain profound structural weaknesses of the Mexican economy which can only be cured through an aggressive investment policy in the sectors in question.

Nor is there any difficulty in identifying the weak and inefficient sectors and structural imbalances in the economy which cause the inflationary drag on the economy as a whole. Before making that identification, let us concede: there is no question that even the best thought-out investment policy does not produce miracles overnight. And there will undoubtedly be a certain inflationary lag between today's spending and tomorrow's production capacity. However, such a shortage-causing time-lag can be covered by a judicious import policy. It is the more profound structural problems and the political roadblocks to their elimination which cause all the trouble. To these problems we can now turn.

Subsistence farming

By far the largest problem for the Mexican economy is the tremendous inefficiency of the agricultural sector. While a clear distinction must be made between the significant, modern, import-oriented farm sector and the bulk of the agricultural sector, which consists of subsistence farming, the overall performance of the sector is so poor that in 1979 and in 1980 large quantities of food had to be imported. Oil revenues diverted for this purpose, of course, contributed nothing to economic development and became a pure source of inflation.

It is the 18 million rural poor which largely earn Mexico the title of underdeveloped nation. Only a program aiming for the most rapid total elimination of subsistence farming will be able to secure for Mexico a solid economic future. We are fully cognizant that implementation of an agricultural development program on the U.S. side is not merely a technical problem, but is meeting and will continue to meet major political problems.

Skilled labor shortage

The second major problem in the Mexican economy is more difficult to pinpoint, and at present principally shows up in the initially seemingly unrelated problems of crucial weaknesses in the capital goods sector and extraordinary manpower shortages, principally in the highest skill categories.

The difficulty is as follows: while Mexico has experienced impressive annual economic growth rates averaging close to 6 percent during the entire 1955 to 1980 period, this economic growth has been entirely lopsided, favoring consumer goods industry to the almost total neglect of basic heavy industry. Until the recent period, the preferred areas for development were the easy profit, high-turnover, low-risk, low-technology areas. Under these circumstances, of course, there is no need to train a highly skilled labor force supported by a well-developed engineering and scientific manpower pool.

Past sins of omission have now turned into major bottlenecks, and the continued almost total lack of output of graduates with advanced degrees in the natural sciences, physics, and mathematics in particular, has reached the dimensions of a national scandal.

Transportation

The third major bottleneck in the Mexican economy is the transportation system. Transportation functions as a central determinant of productivity in any economy—to the extent that goods are reliably and rapidly transported. The economy has a "conveyor belt" that speeds up production. Without that ability, productivity decreases and hence, inflation increases. Goods pile up at the border of Mexico; rail cars are used as warehouses while awaiting shipment; trucks are used for long-haul bulk shipments, etc. These problems impede the rate of production and the rate of absorption of investment—they cause inflation.

But these problems can be solved with investment in highly developed technologies. Mexico must put the sort of priority on investment in transport that the Koreans did in the early part of their economic "miracle." Almost half of the investment made in Korea in the early 1960s was in the development of a transport system, which paid off many times over in the 1970s. Extensive rail systems must be built which are electrified, rectified, and double tracked. A modern highway system must be built. Large ports must be constructed. In all these areas, technologies exist for rapid massive construction of transport facilities. Mexico has private sector companies internationally famous for their abilities in the sort of crash construction programs used by military forces. Mexico needs several Cam Rahn bays!

Oil for technology

All three of these problems can be solved with a forceful application of investment paid for by oil revenues. The potential exists in Mexico's oil reserves to solve the dependence on those reserves. Like any endowment, this oil will have been successfully used, if, at the end of a generation, it is no longer needed. The FEF program provides a strategy for the transformation of Mexico from a raw material producing country to a capital goods-producing country.

The role of these oil exports is most dramatically shown in the way that they purchase the critical capital goods for Mexico. In 1982, we project that Mexico would use approximately 20 percent of its oil revenue for purchase of capital goods. This import of capital goods would represent about 75 percent of the capital goods needed in Mexico. However, by 1990, about 50 percent of the oil revenue would be used to purchase less than 60 percent of Mexico's capital goods needs—the other 40 percent would be produced domestically. By 1995, Mexico would be producing more than half of its capital goods requirements. And by the year 2000, Mexico would be producing 75 percent of its capital goods requirements.

LaRouche-Riemann model

The FEF program presented here is a "proof of principle" experiment—we have shown that Mexico can become an industrialized country by the mid-1990s. The FEF program is *not* a prediction of how that development will happen; nor is it a statement of how this industrial development must happen. But, it is a demonstration that Mexico need settle for nothing less than rates of growth of national product of 12 percent per year, and the transition to a modern, industrialized country in the lifetimes of most Mexican citizens today. Any claim of the impossibility of these goals is scientifically false.

As has been described in more detail in several publications, the LaRouche-Riemann model reproduces in numerical form the dominant cause-and-effect relations of an economy. This model shows how investments are generated, how their disposition affects future production. It gives the economic planner, industrial manager, or governmental economist, the ability to derive impact evaluations for a given investment strategy. We have used the model to devise a specific investment strategy which shows without a doubt that Mexico can industrialize, and lays bare the principal causal features of the process of development.

The motor for the Mexican economy, as for any economy, is the gross profit in tangible terms which it produces. Every economy which is growing does so first

The urgency of a full education drive

From Part VII of the Fusion Energy Foundation's draft program for Mexico, headed "Education and Science: The Key to Mexico's Future."

The task of education in Mexico is twofold: to bring into existence a world-class scientific elite, and to imbue the population at large with elementary scientific literacy and an understanding of how science is the key to national sovereignty and development.

The problems we face in reaching these goals are also dual. First, the objective skill-level profile of the Mexican population; and second, the political or ideological antiscientific prejudices prevailing in much of Mexico's education system. The domination of education in Mexico by the enemies of industrial progess must be addressed. . . .

Despite almost 40 years of fairly steady economic growth, Mexico is practically a nullity in scientific achievement and number and quality of scientists, outside the field of petroleum. The list of annual Ph.D.s awarded in Mexico is a disgrace. In ongoing basic research and development, Mexico has a pitiful 5,896 scientists actively engaged, one of the lowest in absolute numbers of significant countries in the world. . . .

Part of the problem is the cancerous expansion of "socially relevant" curricula at the expense of natural sciences. Compare Mexico to [South] Korea, a country that began less than 20 years ago as a very backward, nonindustrial nation, and that has now achieved a development level at least on a par with Mexico. Mexico had 112,942 students enrolled in the social sciences in 1975, compared to Korea's 37,247—while Korea, with half the total population of Mexico, had 17,022 students in natural science to Mexico's 14,042. And Korea had a far higher completion rate.

Mexico's enrollment in secondary education is also very insufficient. In 1976, Korea, with half the potential student body of Mexico, and enrolled 2,675,000 in secondary education, compared wth Mexico's 2,142,800. In elementary education, while Mexico reports nearly universal attendance for three to six years of schooling, this has been achieved only with very large class sizes of 40 to 50 pupils, too large for efficient primary education.

Courtesy of the United Nations

Pupils in a rural school.

because it produces more tangible output than would be required to replace the inputs to the previous cycle of production. The difference between the total tangible output and the requirements for production at the same level is the gross tangible profit. This real surplus product is the source of monetary profit and is the driving force of an economy.

But, it is not enough merely to have produced this tangible profit; some portion of it must be reinvested in expanding the scale or quality of production if an economy is to progress. This portion of gross profit, called S′ in our model, provides the fund for new capital investment, expansion of the labor force, and expansion of circulating capital inputs like energy and raw materials. These two aspects of real economic systems lead to the formulation of two corresponding parameters which quantify the most essential aspects of successful economics;

Productivity = gross profit divided by wages (in tangible terms). This ratio measures the effectiveness and efficiency of deployment of any economy's reason for existence—its population.

"Free Energy Ratio" = S′ divided by equilibrium costs. This ratio measures the rate of directed investment in an economy and can be mathematically shown to give the instantaneous growth rate of the total tangible product.

Mexico's development depends on implementing a set of investments which increase these ratios as much as possible!

Agro-industrial cities

The essential ingredient in any successful investment strategy for Mexico is a solution to the agricultural problem. Agriculture today in Mexico functions overall as a drag on the economy. Its productivity is about 65 percent of the average in the economy. That means that the sector contributes less than its share to the total pool of tangible profit; it consumes 21 percent of total wages but produces only 11 percent of the profit.

But, more importantly, there is a part of agriculture, a subsector of subsistence agriculture, which is a net drain on the economy. In this subsistence sector, the productivity is lower than the rate of consumption of nonproductive items (services, etc.) so that every peso invested in subsistence agriculture actually *decreases* the economy's ability to expand. There is a clear solution to the agricultural situation in Mexico—the subsistence fraction must be eliminated as quickly as possible, and the remaining fraction must have its productivity increased as rapidly as possible.

Our program accomplishes the first goal within ten years—after 1990 the subsistence sector of agriculture has decreased to less than 1 percent of the total economy. To raise productivity in agriculture requires massive investments *in industry*, most of all, and then a means of transferring those industrial products into agriculture.

We have formulated a unique strategy of "concentrated investment" in the construction of up to ten agro-industrial complexes and ports—new cities based around advanced energy production and integrated industrial production, irrigation, and fertilizer production facilities. These new cities are the conveyor belt which moves the knowledge and capital to the countryside required to raise agricultural productivity.

Education and urbanization

The second essential ingredient in a successful investment program is an aggressive education and urbanization program. Again, we have not proposed a broad-based, mass literacy campaign to train the labor force Mexico needs. Such a program may create a level of mediocre education suitable for the World Bank's "ruralism," but a different approach is demanded for industrial development.

Rather, a top-down attack on the problem is necessary. Because of such a strategy, India is today favorably positioned for its own development. During the 1950s, every large regional center was equipped with a center for teaching and research. What more profound remembrance could be left of a national leader than that of Nehru's—almost all these institutions have above their entrance, "Established by Jawaharlal Nehru."

To raise productivity at 5 percent per year, to expand the industrial labor force at the rate of 8 percent per year, to urbanize Mexico with construction of ten new cities, requires an initiating cadre force of engineers and scientists who can transmit their knowledge to expanding layers of the population, in the manner that the Ecole Polytechnique did in France in the early 1800s.

Mexico can use the construction of agro-industrial complexes to generate not only energy, food and manufactured goods, but even more importantly, to educate "on the job" the citizenry of a modern industrial country.

Radiating out from these new urban centers will be engineering and scientific know-how, the tools of culture and the world view of a modern country, and the human side of the resolution of the problem of subsistence agriculture. Here are the jobs at high-skill levels and wages needed to build and maintain an urban labor force. With these new cities, the large economically inactive population of Mexico can be employed, the tragic underemployment of the labor force reversed, and educational and cultural resources built.

Finally, the Mexican economy must actually produce the industrial output required for its survival and growth. This can only be done by rapid and large-scale investment in industrial steel, cement, capital goods, and electricity. All must grow at rates in excess of 13 percent per year. Mexico is uniquely positioned to accomplish this goal using its oil revenues. South Korea, on the other hand, used labor-intensive investment in textiles to generate the surplus required for industrialization. Mexico can be spared this step with aggressive exploitation of its oil.

Our model shows that the revenues from this oil can more than adequately provide the margin of surplus needed to purchase capital goods in the critical first 12 to 15 years of industrialization. With a petroleum output growing at an average rate of 8 percent per year over the next two decades, and with the export of approximately 3 to 4 million barrels per day, Mexico can provide itself with the capacity for rapid industrial growth.

Mexico initially depends, in our program, on heavy investment in petroleum. But by 1988, only 24 percent of total investment goes to petroleum. The economy changes qualitatively, with larger and larger investments in industrial and capital goods sectors. By the end of our program, the capital goods sector itself is receiving 8 percent of the total investment per year and growing at an accelerating rate.

This strategy passes the acid test of our program—it transforms the Mexican economy from a raw materials producer, which it will continue to be for 8 to 10 years, into a capital goods-producing country. The ratio of imported capital goods to domestically produced capital goods under our program begins at roughly 2.0 in 1980, but decreases by 1995 to less than 1.0. That is, Mexico is rapidly approaching the capability to produce its own requirements for continued industrialization.

At that point, which our study proves can be achieved in the early to mid-1990s, Mexico realizes its potential as a modern nation-state. The true source of national sovereignty will be within the grasp of the Mexican republic. There is no other path to true national independence.

Proposed location of some agro-industrial nuclear complexes (Nuplexes), by the year 2000 in the Mexican development program

Large agro-industrial complexes based on advanced energy sources are essential for Mexico's overall development, states the Fusion Energy Foundation program. Nuclear reactors—optimally, high-temperature gas reactors—and magnetohydrodynamic power generators will provide the base for chemical fertilizer plants, steel plants, desalination plants, and electricity grids. Three of these complexes are discussed in the program.

Northern plateau: Half a million acres in the hot, arid, and thinly populated area are to become an agro-industrial center permitting the development of natural gas and mineral ores. Near Torreon, two high methane gas-fueled 1000-MWe magnetohydrodynamic generators coupled with steam turbines would be installed, providing energy for irrigation via subsurface pumping and for fertilizer production.

Sonora region: Near the extreme northwestern cities of Mexicali and Tiajuana, 3 million acres can be developed, based on nuclear energy for copper refining, fertilizer, and desalination.

Central plains: 3 million acres in the Guadalajara vicinity could be farmed, triple the present extent, with nuclear energy to expand irrigation and construction of reservoirs.

Centered in areas of Mexico that most need manpower, infrastructure, and energy, the advantage of the "nuplexes" is to serve as central points of outward waves of education, urbanization, and industrialization, states the program.

The LaRouche-Riemann model shows industrial transformation

by Dr. Steven Bardwell

Alexander Hamilton, one of the greatest American economists, rigorously identified the central concept of any industrial development program:

> The employment of machinery forms an item of great importance in the general mass of national industry. 'Tis an artificial force brought in aid of the natural force of man; and, to all the purposes of labour, is an increase of hands; an accession of strength, unencumbered too by the expense of maintaining the labourer.

"Artificial labor" solves the three essential paradoxes of development:

1) Labor power development: a skilled labor force is required to run the machinery of an industrial plant, yet this labor requires the output from that industrial plant for an urbanized, modern standard of living. Without that standard of culture, this labor force cannot function.

2) Infrastructural development: a functioning industrial economy depends on an efficient transport and warehouse system, reliable and plentiful energy, and a dependable communications system. In proportion to the speed, reliability, and efficiency of this infrastructure, an industrial plant is productive. Yet, all the raw material of this infrastructure requires the output of industry—railroads require steel, etc.

3) Machine tools and capital goods: every aspect of industry depends on machinery, especially the machinery that makes other machinery (machine tools). Yet, these capital goods can only be manufactured by industry.

Application to Mexico

To address these "paradoxes" of development in Mexico, the AMEF-FEF program prescribes a aggressive use of oil revenues to purchase the capital goods necessary for industrial growth; a Korean-style infrastructural construction program to solve the bottlenecks in water availability and transport; and finally, a serious program to discourage growth of the subsistence agriculture sector, combined with incentives for urbanization and education of the peasant populations.

Based on historical examples provided by the industrial development of Europe and South Korea, it is clear that growth rates in excess of 10 percent per year (in

Figure 1
Total tangible output
Trillions of pesos

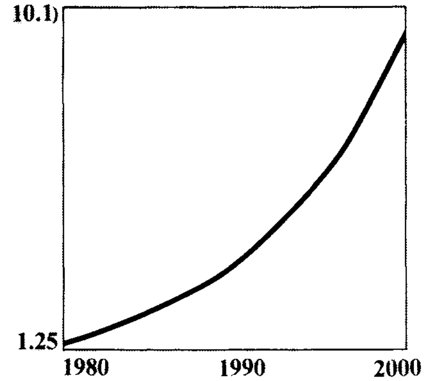


Figure 2
Total tangible output
Trillions of pesos (logarithmic scale)

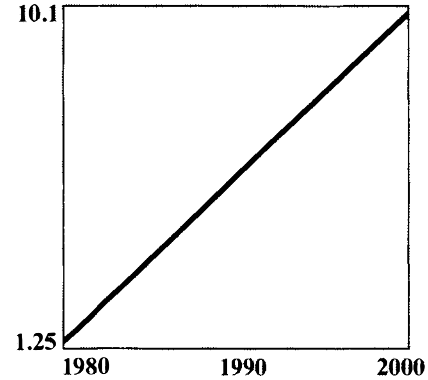
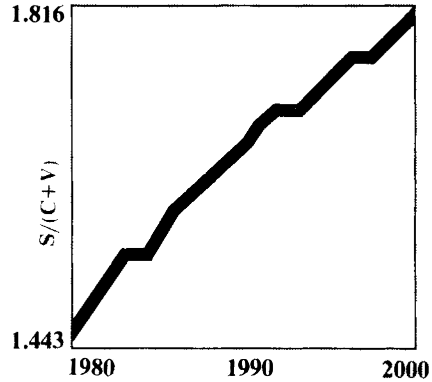


Figure 3
S/(C+V) total economy



tangible output) are not only possible, but, in fact, necessary if employment and productivity are to grow. In the experience of these countries, there is a direct correlation between periods of growth rates greater than 10 percent in industrial sectors and falling unemployment. South Korea, for example, experienced an average growth rate for almost 10 years of 13 percent per annum, and urbanized a population which was, in 1960, more rural than India today.

Figures 1 and 2 show the total tangible output of the Mexican economy under the AMEF-FEF investment program. As Figure 2 shows, we have demonstrated the feasibility of an average growth rate in real terms of approximately 12 percent over 20 years. This growth rate results in a roughly 8.5-fold increase in the size of the Mexican economy over two decades.

The composition and efficiency of the economy changes both as a means and end of this growth. Figure 3 shows the rate of "economic energy" generation in the economy. The gross tangible profit generated by the economy is shown as a ratio of the equilibrium or replacement costs for production. This fundamental measure of productivity of the whole economy shows a rising tendency over the course of the 20 years of our program. But, as Figure 4 shows, the fact that this ratio rises at a decreasing rate is due to the decreasing role of petroleum and the conservative assumption made in our program of no qualitative new technology taking its place. Figures 12 and 13 give a quantitative indication of the changing character of the Mexican economy as it industrializes. In spite of the last 15 years of economic growth, Mexico is, in 1980, a largely agrarian economy (in contrast, for example, to Korea). This agricultural sector is rapidly replaced, after 1980, by the petroleum sector and after 1990, the industrial sectors. Agriculture's growth rate shrinks from 9 percent per year to 6 percent by the year 2000, while industrial sectors increase from 11 percent to 15 percent per year. The most critical phase of this growing contribution of industry to the Mexican economy is in capital goods, which grow steadily from 1980 to 1990 and then, in what is a turning point for the Mexican economy, in 1991-95, grow at an accelerating rate. By the year 2000, capital goods must be as large a part of the Mexican economy as agriculture.

To accomplish these goals, a unique strategy of "concentrated investment" has been developed. The construction of agro-industrial complexes—nuclear factories producing fertilizer, industrial raw materials, and energy—are the centerpoint for waves of rapid growth, education, and technological change. Much in the way that the Koreans used the textile industry, these new cities, and the industry they create, will be the stepping stone to countrywide industrialization.

Rapid rates of industrialization

The driving force of this process of industrialization is defined by the rate at which reinvestment occurs—S′/C+V—shown in Figure 5. This "free energy ratio" expresses the ability and willingness of an economy to productively invest tangible surplus. As long as this ratio is rising, an economy is functioning in a mode where its current consumption is directed not merely to replacement of inputs, but also to preparation for succeeding modes of production.

In engineering terms, the success of rapid industrialization requires high rates of capital intensity, shown in Figures 6 and 7. The ratio of capital used to productive employees' consumption shows the amount of "artificial labor" at the command of the workforce. This ratio rises, in all sectors (see Figure 7), but rises about twice as fast in the industrial sectors as it does in agricultural

Figure 4
Annual rate of growth of S/C+V) total economy

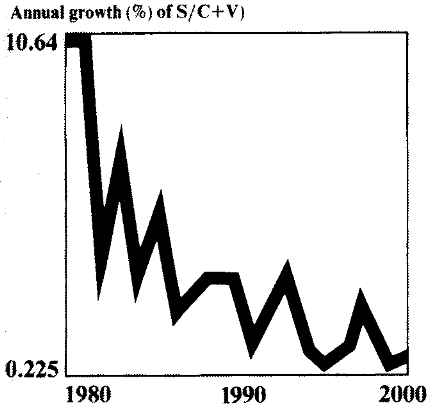


Figure 5
S′/(C+V) total economy

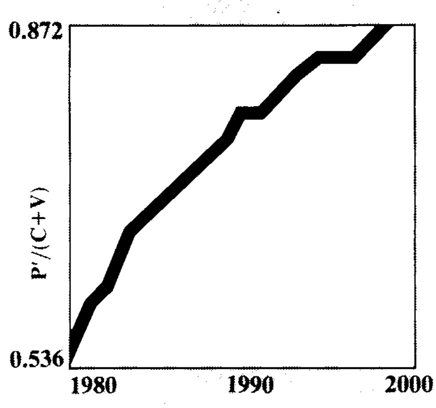


Figure 6
Capital intensity of the economy

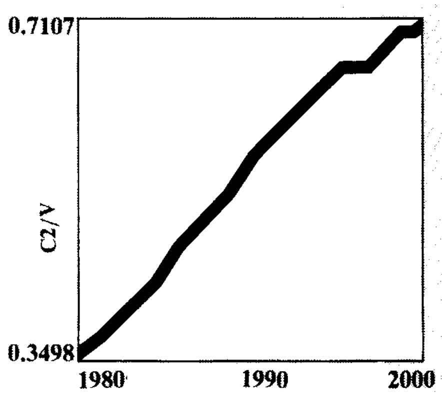
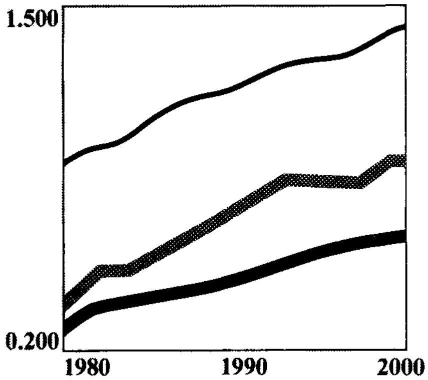
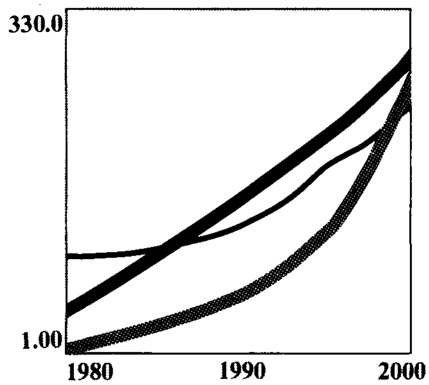


Figure 7
Capital intensity by sector



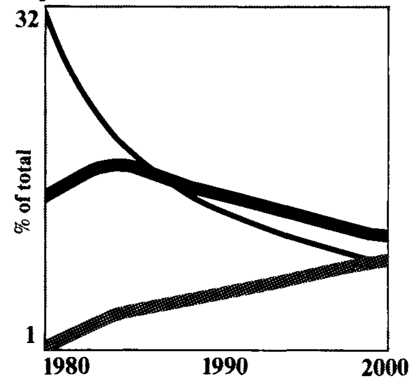
■ = agriculture ■ = capital goods ▌= oil

Figure 8
New capital investment by sector
Billions of pesos



■ = agriculture ■ = capital goods ▌= oil

Figure 9
Sectoral distribution of new capital investment



■ = agriculture ■ = capital goods ▌= oil

sectors. This differential rate of capital intensity is the most important feature of the relative emphasis that must be given to industry. Figures 8 and 9 show the same feature in terms of new capital investment.

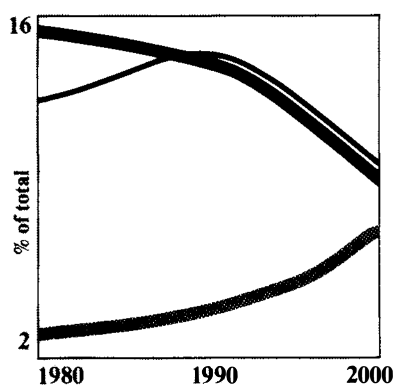
The key to Mexican industrialization is the surplus generated by the petroleum sector. This surplus comes from large rates of investment in that sector. However, as Figure 9 shows, the Mexican economy must rapidly change from a raw materials exporter to an industrial producer—this transition occurs in an irreversible form during the early 1990s. This transition cannot take place earlier without seriously slowing the rate of growth of the economy and, perhaps, missing entirely the chance for industrialization.

Urbanization and manpower development

Figure 10 shows the changing living standards of the Mexican workforce. While levels of consumption (of tangibles) increase rapidly (at about 8 to 9 percent per year), in all sectors, the relative portion by sector of consumption changes dramatically over the course of Mexico's industrialization. The dominant tendency is the decrease of agriculture from almost 25 percent of the consumption (higher in number of workers since the average wage is lower in agriculture) to about 14 percent by 2000. The industrial sectors account for two-thirds of the consumption by the year 1991, the beginning of the final transition period (see Figure 11).

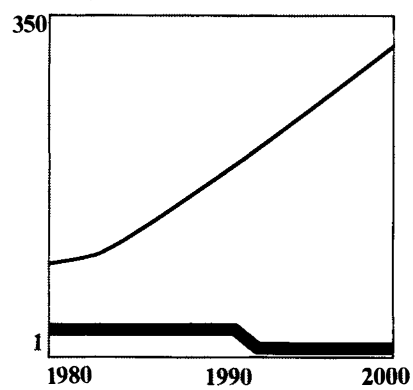
As important as this general shift in composition of the workforce is, the more critical element is the rapid decline in the subsistence agriculture workforce after 1984. This sector, since its level of services and nonproductive consumption exceeds its productivity, is a net drain on the economy. That is, it is not only unproductive in a relative sense, it is actually parasitic on the rest of the economy. Without the most rapid possible disappearance of this sector—and the misery, poverty, and ignorance that it means—Mexico cannot develop. Fig-

Figure 13
Total tangible output by sector



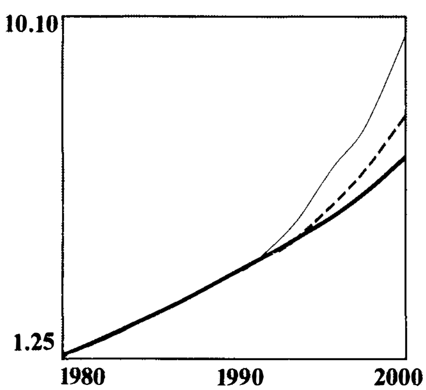
■ = agriculture ■ = capital goods ▌= oil

Figure 14
Tangible consumption in the two agricultural sectors
Billions of pesos



■ = subsistence agriculture ▌= agriculture

Figure 15
Total tangible output: comparison of strategies
Trillions of pesos



| = AMEF program
¦ = zero growth in petroleum after 1985
▌= investment in subsistence agriculture

Figure 10

Tangible consumption of productive workforce by sector

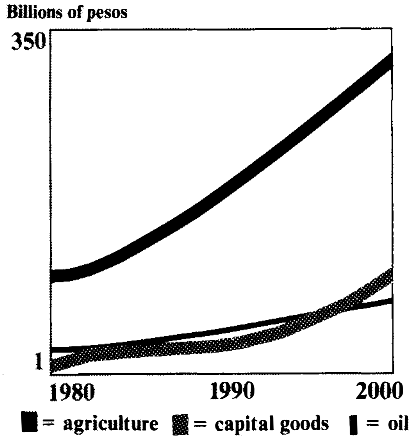


Figure 11

Sectoral distribution of tangible consumption of productive workforce

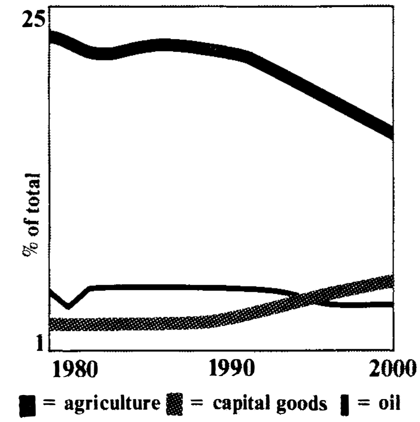
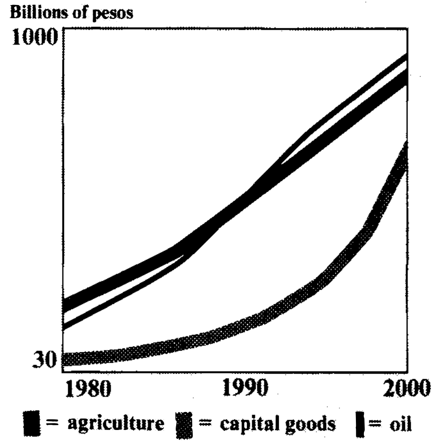


Figure 12

Total tangible output by sector



ure 14 shows the rapid change in the composition of the agriculture sector required for industrialization. The subsistence sector, which accounts for more than one-quarter of agriculture in 1980, shrinks to less than 1 percent by 1990. This must occur not only for the productivity of the Mexican economy, but, even more, for the human potential that such a transition implies.

The alternative

There are two dominant features of the Mexican development program described here: 1) the aggressive exploitation and export of petroleum; 2) the rapid destruction of the subsistence agriculture sector.

The advisability of both of these steps has been challenged by various representatives of the World Bank, the United Nations Institute for Training and Research (Unitar), and even some officials of the Mexican government. Two alternative simulations were prepared which contrast these options with the investment strategy proposed by the AMEF-FEF. In the first of these, we assume that oil output is held constant after 1984, at approximately 2.5 to 2.7 million barrels per day. The second of these invests the surplus that would have been used in petroleum's development, in the sector that "needs it most," subsistence agriculture.

The results of these differing investment strategies are contrasted in Figures 15-18. Even under very generous assumptions of the negative impact of the other investments, the total output of the Mexican economy is about 80 percent of its size with the slower petroleum investment (by 1999) and about 65 percent of its possible size if this investment is diverted to the subsistence agriculture sector. Consumption in agriculture suffers even more (as shown in Figure 16)! As Figures 17 and 18 show, such a plan would doom the Mexican economy to the permanent status of an agrarian economy—productivity and capital intensity are so low that industrial development becomes impossible.

Figure 16

Tangible consumption of productive workers in agriculture:

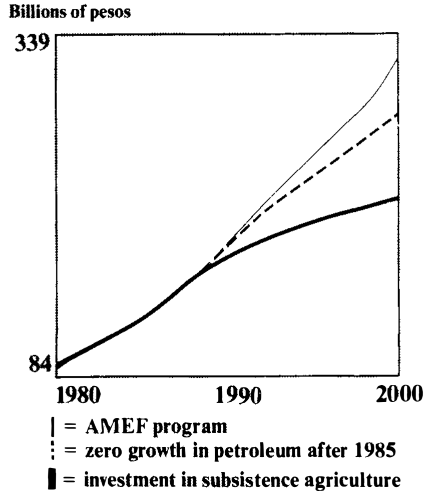


Figure 17

Productivity: comparison of strategies

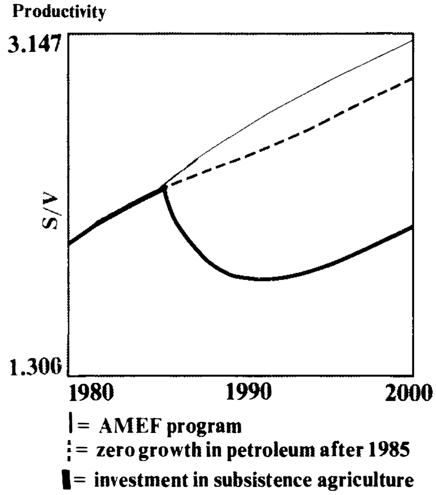
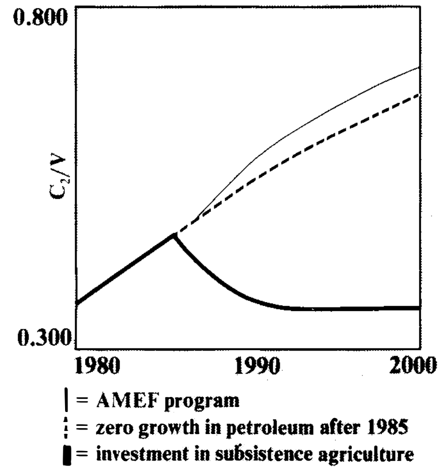


Figure 18

Capital intensity: comparison of strategies



Oil-for-technology deals: the potential

by Timothy Rush

EIR estimates that the American share of Mexico's skyrocketing imports could reach $100 billion over the next years. That is two-thirds of the total $150 billion Mexico can be expected to import over that time.

Imports surpassed $15 billion in 1980, a whopping 55 percent increase in nominal terms and something on the order of 35 percent in real terms. Over 80 percent of the imports are capital goods, other producers' goods, and raw materials.

Will rapid growth continue to make this $100 billion potential market a reality?

The official Bank of Mexico statistics for 1980 released last week show last year's growth at 7.4 percent. This is slightly under the target of 8 percent, but nevertheless one of the highest in the world. Extraction and refining of petroleum led the growth categories with 17.5 percent, followed by communications and transport at 10.5 percent, industry at 8.5 percent, and agriculture at 7 percent. Manufacturing slowed its percentage increase to 5.6 percent, from some 8.5 percent the year before. This was due partially to supply bottlenecks and partially to lags in production while new investment comes on line. Investment itself increased by a healthy 15.8 percent, and there is reason to expect the manufacturing rate to pick up in 1981.

The basis for extending the boom into the next five years is being laid now.

First, the central impulse for the boom, the oil development program, is taking its next expansion steps:

Pemex director Jorge Díaz Serrano announced Feb. 26 a new $3.6 billion program of investments in basic petrochemicals for the 1981-1985 period. The plan calls for the construction of almost 50 new processing plants and would increase Mexico's annual petrochemical production threefold, to 28 million metric tons from the current 8 million metric tons. Díaz Serrano termed the Mexican petrochemical industry, which has grown at 18 percent per year for three years, "the fastest growing petrochemical industry in the world."

Pemex subdirector Adolfo Lastra Andrade told Mexican oil geologists March 2 that Mexico will install seven specialized gas-processing platforms in the oil-rich Campeche Bay in the course of 1981. Two of the platforms, he said, will be the largest in the world.

In the rhythm of Mexican economic life, most large investments are tailored to phase out at the end of each six-year presidential term, leaving a cyclical "dry period" before the new administration gears up its own plans.

But given the extended lead times of the oil expansion and its central role in driving the entire economy forward, the upcoming *sexenio* changeover in 1982 will be different, and the next president—due to be chosen later this year—can expect to inherit a solid basis for continuing the growth drive without letup.

Other crucial investment programs are finally getting in gear after initial delays, and like the Pemex expansion, should carry over into the next administration.

Some $2 billion is slated for port development over this year and next. The planning for this attack on one of the biggest bottlenecks took some two years. As ports development director Alfonso Rosenzweig told the Mexican Association of Fusion Energy (AMEF) conference two weeks ago, this was precisely because the planning is long term: 20 years. More than ports, it's a complete program of city-building. At two of the four principal sites, there is not even a building standing in the area slated for development.

The first contracts for "groundbreaking" on one of these sites, the Altamira location 10 kilometers north of Tampico on the Gulf coast, were signed a month ago. Other contracts are expected to follow soon.

Though still troubled by delays, the steel expansion program is similarly poised for a takeoff. Due to strikes, electricity shortages, and planning delays, the steel industry stagnated at approximately 7 million tons last year. Many of these snags are now shaken out. Key projects such as Las Truchas stage two are "go" for this year and will see completion sometime early in the next presidential term.

As outlined in previous sections of this Special Report, none of this exceptional growth perspective and enormous export market can be taken for granted. The LaRouche-Riemann model shows that an even more ambitious growth plan will have to be carried out if takeoff momentum is truly to be achieved. Key bottlenecks in agricultural productivity and transport will have to be solved. Antigrowth political offensives, both domestic and foreign, will have to be defeated.

But a very solid basis for the required growth of the next years is not only in place, but expanding, and this is very good news for U.S. businessmen.

Oil for nuclear

Mexico is paying for the tens of billions of dollars worth of capital goods it needs with oil money. Exports last year rose even faster than imports—a 74 percent leap, about 50 percent in real terms—and the increase was all oil.

This is the world's biggest oil-for-technology deal. "Oil for technology" has been the conscious and explicit government policy since 1978, and the Mexicans have become expert negotiators.

One of the items now moving to the fore is "oil for nuclear" and this may be one of the best specific planks in an overall oil-for-technology policy that Reagan could outline at his late-April summit with López Portillo.

The Mexicans went with U.S. technology when they first entered the nuclear field a decade ago. Now their first two reactors at the Laguna Verde site on the Veracruz coast are close to completion. But over the past three years, as they have systematically built up the planning and technical framework for the next phase of expansion, the Carter administration wrote the United States out of Mexico's nuclear future. Infuriated by Carter's attempt to deny Third World nations crucial advanced technology under the pretext of a flimsy "nonproliferation" concern, Mexico established oil-for-nuclear talks with France, Sweden, West Germany, and Canada.

At the Third Nuclear Conference of the Pacific Basin in Acapulco the week of Feb. 16, Mexican officials announced that two to three new plants will be constructed in the vicinity of Laguna Verde. This is the next step toward an ambitious goal of 20 plants in operation by the year 2000 as ratified in Mexico's energy program of November 1980. Federal Electricity Commission Director Alberto Escofet Artigas stated that bidding for the plants will begin this summer.

French Atomic Energy Commission member Bernard Jampsin summed up France's approach in the phrase, "We need oil, you need technology." Heading up a large contingent in Acapulco, Jampsin stated that nuclear development is not an "alternative" but a necessity. "There are many poor countries who are going to need energy to survive," he said, and no other source than nuclear is realistically available.

France offered Mexico special aid in developing the capability to independently enrich uranium. French scientific attaché Olivier Massenet declared that "France has dedicated great efforts to achieve its own technological independence. It therefore understands very well that Mexico wants the same. And France has a great interest in going to great lengths with Mexico in terms of technology transfer."

The U.S. nuclear delegation was headed by American Nuclear Society President Harry Lawroski (see interview), who told the conference that with the change of administrations in Washington, there was hope that the Carter administration's antinuclear policies will be turned around. Lawroski called urgently for such a revision, and heralded the prospects for an oil-for-nuclear exchange with Mexico if that is done.

Mexico lost no time in telling America that this is the kind of message it has been waiting to hear. The head of Uramex, Mexico's government uranium monopoly, told the Acapulco meeting of scientists and energy officials that keeping Carter's antinuclear stance would "hold back Mexico's development." Francisco Vizcaino Murray stated that with such changes, "everything points to improvement in nuclear energy relations with the U.S." The CFE's Escofet, ticking off the list of countries who will be invited to bid this summer, included the U.S. for the first time in four years as a potential partner.

It will take a great deal to re-establish America's credibility in the multibillion-dollar nuclear market, but the Acapulco meeting showed that the path is open and Mexico a good place to start.

Interview

ANS's Lawroski on nuclear exports

In the following excerpted interview with EIR*'s Timothy Rush, Harry Lawroski, the president of the American Nuclear Society and a featured speaker at the just-completed Third Nuclear Conference of the Pacific Basin, explains his approach to reviving U.S. nuclear exports to Mexico and other leading Third World partners. Lawroski is a chemical engineer who has spent 23 years in the nuclear industry, after 8 years in oil refining R&D. He has been involved in nuclear safety studies, design and construction of plants, and has done consulting in the energy industry for the past five years.*

EIR: How does it look for some kind of oil-for-nuclear exchange policy with Mexico?

Lawroski: Well, it's obvious that Mexico realizes that their supply of oil is a limited supply of energy. And so they are looking forward to setting up energy systems that allow them to have a continuing energy supply and they look upon nuclear as one of those items. Nuclear is not the only one, but they are looking at it as a very significant portion. The impression I got in talking to [Mexican Federal Electricity Commission director] Alberto Escofet is that they are going to use their capabilities at producing and exporting oil to buy the technology for nuclear power and actually try to build as much as they can within Mexico so that they can utilize their own people's capabilities. They plan to do that by contracting with an outside supplier, using the nuclear steam supplier as the nucleus, and work through the capability of providing the reactor, the fuel manufacturing, the equipment manufacturing.

EIR: What sort of price tag would you see in terms of U.S. nuclear export potentials?
Lawroski: Oh, I think we would be talking in the order of several billion dollars.

EIR: If we put together the situation in Mexico with other Third World countries anxious to develop nuclear energy, what do you think would be the overall market the U.S. might tap into?
Lawroski: I would have to say we're talking about something on the order of $50 billion.

Now Mexico feels that they must have an internal capability to build their energy systems. They have, as you know, signed some sort of an agreement which says that they will not use any of their technology for weapons development. They've made that very, very clear. And they're very upset with people who would not believe them in their good faith in their not pursuing the weapons material.

EIR: You're probably familiar with their work with the Tlatelolco Treaty, which declares Latin America to be a nuclear-free zone?
Lawroski: Yes, that's right, they are a signatory to that treaty, and they're really upset if anybody doesn't believe them. I think the [Carter administration] nonproliferation legislation basically—if you look at it—says they don't believe them. . . .

EIR: It seems after many years of friction with the Carter administration, when U.S. nuclear technology wasn't mentioned by Mexican officials, that they are now again beginning to consider the U.S. as a prospective bidder.
Lawroski: Well, they're including us, but I would have to say they don't classify us as what we would call a "heavy" yet, until changes are made in our policies. My understanding is that they will ask a couple of the U.S. companies to bid.

It's an opportunity, that's the only thing you can say at the present time, but it's going to mean that we're going to have to get better relations with our neighbors. You know, they're just across the border.

EIR: And what kind of signals are you getting from Washington?
Lawroski: We know that there are people in Congress who would be receptive, particularly in the Senate. . . .

EIR: Your presentation in Acapulco seemed to be pointing toward educating the United States about the opportunities that we have in exporting nuclear energy.
Lawroski: We feel very strongly that we ought to use the technologies we have in order to reduce the tensions throughout the whole world, particularly in the competition for oil and gas. The ability of the Third World to use oil and gas is considerably greater than to use nuclear technology. If we go into competition and continue to use as much oil and gas on the free world market, we are in competition with the Third World. And we're tough competition, because we have the resources and the money to buy it.

EIR: Either in the ANS or perhaps out of the Acapulco conference, do you have a perspective on reviving the concept of nuplexes and the floating nuclear plants?
Lawroski: I think there will be a revival of interest in that—yes, indeed. I think that we will begin seeing a modularization of construction. We will probably be seeing smaller reactor sizes in the developing countries. . . . I see these in the range of 5, 6, and 700 megawatt-sized reactors. When you get into that size, you can now start to modularize the construction, float them, and bring them right over into place.

You have the same concept as Westinghouse had down in Jacksonville, Florida, and I think in many respects that may be revived. Mexico would be looking at [floating plants] for the simple reason they do not have large supplies of inland water. . . .

EIR: The focus on the Pacific Basin is very interesting, from the standpoint of making that into a functioning economic unit. There are basically two conceptions about that development. The first, is to leapfrog high technology as it develops, and to export each successive generation to build up the region as a whole. The second is the old geopolitical concept of maintaining the technology in selected areas, and exporting raw materials from the less-developed portions of the region. Which was the focus in Acapulco?
Lawroski: Well, I would say the first. Since the cutting off of oil in 1973-74, and again in 1977, and now with the conflicts in Iran and Iraq, people are getting really uptight about depending on supplies of energy from other parts of the world. . . . So they're looking much more closely at indigenous supplies of energy. . . .

If you go to the fast reactor concept, of course, the breeder, now you start to get into real independence. The Japanese for instance, have been taking a very hard look at extracting uranium from sea water. Well, it's expensive, but that expense isn't anywhere near as much as if somebody shuts off your oil supply or your coal supply.

And environmentally, it's tremendously more sound than handling coal. The fast reactor, from an electric production standpoint, really starts giving countries the capabilities of having indigenous supplies of energy, and being able to store it really quite conveniently.

A Hobson's choice for Mideast policy?

by Mark Burdman

As *EIR* goes to press this week, the critical question of what policy the Reagan administration will adopt toward the Middle East has by no means been definitively resolved. A number of options are known to be available for discussion, but whether they are in fact discussed depends on what stance the administration takes toward a package of advice presented to it during the closing days of February by visiting British Prime Minister Margaret Thatcher.

Through her public speeches and policy briefings, Britain's Iron Lady presented the view that the United States is now confronted with two alternative policy routes in the Middle East. Either, the Reagan team pursues the "next stages" of the Carter administration's Camp David treaty, including that treaty's secret protocols involving the extension of NATO into the Middle East, the U.S-supported Egyptian takeover of Libya, and the "division of labor" between Israel's Mossad intelligence service and the the Muslim Brotherhood to run destabilizations along the so-called arc of crisis extending from Israel's eastern neighbors through the Indian subcontinent. Or, as the "alternative," the administration focuses all its attention on deploying an American or multinational "rapid deployment force" as the lead feature of a military buildup and confrontation with the Soviet Union in the Persian Gulf.

Thatcher's policy map for the Middle East is the context in which Secretary of State Alexander Haig has recently been insisting that he plans to relegate the Arab-Israeli dispute to a secondary position during his planned April 3-8 trip to the Middle East, in favor of a primary concentration on the "East-West global struggle." Haig has been the central point-man inside the administration for Mrs. Thatcher's Camp David-or-Gulf confrontation "Hobson's choice," neither of which has yet received official White House blessing.

But if the White House stays mum about Haig's deference to Thatcher, United States policy in the Middle East will soon fall into a shambles.

The Camp David/Gulf militarization policy framework is foredoomed.

On the Camp David side, no Arab leader outside Egypt's Anwar Sadat takes the treaty with any seriousness at all. Jordan's King Hussein, the Arab League's official liaison with the Reagan team, has repeatedly denounced the Camp David arrangement, most recently referring to it as a "dead horse." Speaking for a consensus of the Arab leaders (minus Sadat), Hussein has proclaimed Camp David a crude attempt to polarize the Middle East and to make it into an arena for a NATO-Warsaw Pact confrontation.

For the same reason, Thatcher's speeches on the Middle East in New York and Washington caused an enormous storm in the Middle East. In these speeches, Thatcher insisted that a "new departure" for Anglo-American policy-making would have to depend on three interrelated features: 1) the creation of a "rapid deployment force" that would include participation of British units immediately and French units at a later date; 2) endorsement of a report just issued by the New York Council on Foreign Relations and London Royal Institute of International Affairs and their counterparts in West Germany and France, calling for a French-British-American-German-Japanese "directorate" to oversee a military confrontation with the Soviets in the Gulf; and 3) the juridical extension of NATO into the Middle East.

Over the Feb. 28-March 1 weekend, Thatcher's proposals drew fire from Arab press. A newspaper of the United Arab Emirates accused Britain of wanting to "revive its abominable occupation of the Gulf." A newspaper in Qatar proclaimed that the Gulf states "totally reject any guardianship" from the outside. *Al-Nadwa*, a Saudi Arabian newspaper, accused Thatcher of flaunting Britain's desire for "domination, escalation of tension, and establishing zones of influence" in the Gulf.

The outburst so shook up the London newspapers that the *Times* and the London *Daily Telegraph* have since run editorials and commentaries strongly questioning the viability of Thatcher's schemes. These editorials may reflect a factional tendency in London, represented by Foreign Secretary Lord Carrington, that fears that Thatcher is not only playing with an empty hand but also may provoke an oil cutoff in the Persian Gulf by precipitating a showdown with the region's countries.

Mobil, Philby, and a new Gulf crisis

In the days immediately following Thatcher's departure from the United States, *EIR* uncovered a nest of operatives centered in the Cultural Affairs and Political Intelligence divisions of Mobil Oil in New York that *is* committed to inducing the Reagan administration into such a dangerous showdown with the Gulf countries. This Mobil group has influence within Haig's State Department and Richard Allen's National Security Council through its funding of the Thatcher-linked-Washington Heritage Foundation and Georgetown University. It also has direct long-standing connections into the British-run, Kim Philby Comintern wing of Soviet intelligence, which has maintained oversight for the deployment of countless radical Arab grouplets in the postwar period.

With its right-wing Tory and left-wing Philbyite connections, the Mobil-centered group has the capability to pull off a new crisis in the Gulf. Its two foci for this are overthrowing the regime of Saddam Hussein in Iraq and running a "cold coup" inside Saudi Arabia against the pro-American faction around Crown Prince Fahd, the two most committed leaders in the Gulf to high levels of oil production at moderate prices and to oil-for-technology arrangements with Western Europe.

According to Washington sources, Mobil Oil intelligence operatives have recently held long strategy meetings at the Heritage Foundation. Out of these meetings, one source reported, has come the directive for Haig to focus his April Middle East travels on "an ultimatum to the Saudis: join with NATO in the fight against global Soviet aggression, or face the loss of American protection." This ultimatum will "produce a U.S.-Saudi confrontation, and tip the hand inside Saudi Arabia in favor of that conservationist crowd that wants low production at the highest possible price."

To heighten pressure on Haig, the Mobil-Heritage-Georgetown grouping has dispatched British Persian Gulf specialist J. B. Kelly for "many a long meeting with Richard Allen over at the NSC," the source revealed. Kelly is the author of *Arabia, the Gulf, and the West*, a 1980 book calling for an Anglo-American "recolonization" of the Gulf.

At the same time, the Mobil crew is playing the other side of the fence in Baghdad. Several Mobil agents have recently been dispatched to Iraq, under cover of "American overtures" to President Saddam Hussein and making contacts with Iraq's oil officials. In reality, Mobil's agents have been establishing contacts with—and control over—the motley array of Iraqi opposition groups who are preparing for a coup sometime this spring if the Iraqi army fails in its plans for a spring offensive against Iran.

Mobil's case officer in Baghdad is reportedly Joseph Malone, a former CIA station chief in Lebanon and Central Treaty Organization coordinator for the eastern Mediterranean who is an intimate of Mobil Cultural Affairs coordinator Jack Hayes. Investigators had earlier pinpointed Malone as one of the orchestrators of the series of 1975 events leading up to the assassination of Saudi Arabian King Faisal, through his connections into the British-run MK-Ultra drug crowd that had brainwashed the Saudi prince who assassinated Faisal.

Malone has also had ties for almost three decades into the KGB circle around British triple agent Philby. Informed observers regard it as no accident that shortly after Malone's assuming his post in Baghdad, Iraqi Communist chief Aziz Muhammad surfaced at the Soviet Party Congress to issue a blistering attack against Saddam Hussein and demand his overthrow. Muhammad's comments were inserted into the March 1 *Pravda* by the Philby-KGB crew, despite the fact that Soviet President Leonid Brezhnev is known to want to maintain close Soviet ties with the Iraqi Hussein.

If the Mobil crowd succeeds in its destabilization of the Gulf, oil prices will go sky-high, with devastating effects on the world economy. Several Mobil directors, notably London-based Arab financier Suleiman Olayan and former U.S. ambassador to Germany and Turkey George McGhee, support the global austerity and population-reduction objectives outlined in the State Department *Global 2000* environmentalist report, and regard very high oil prices as a means for reaching these objectives.

To get out of the box created by this Mobil bunch working along Thatcher's lines, President Reagan would have to shelve the fundamental premise of the British in Middle East policy: that crises there can only be managed, not solved.

Nuclear energy pivot of five-year plan

by Rachel Douglas

An economic strategy based on an "infinitely developing nuclear power industry" was the most important policy adopted by the just-ended 26th Communist Party Congess of the Soviet Union. The Soviets have decided that nuclear-powered, high-technology industry is indispensable for economic health and for a fully adequate military defense.

President Leonid Brezhnev and Prime Minister Nikolai Tikhonov gave the Party Congress the core of a development policy for 1981-90, which will determine the remainder of the century. Its main theme is raising labor productivity. Increased per capita energy throughput in the economy, industrialization of agriculture by creation of farm-factory administrative units or "agro-industrial complexes," a possibly temporary shift to slightly higher rates of growth for consumer industries than for producer goods sectors—these are to offset an expected dip in young people entering the work force.

The attempt to stabilize and then raise the Soviet living standard is geared to increasing labor productivity. Tikhonov projected a rise in productivity of 17 to 20 percent during 1981-85, which would account for "no less than 85 to 90 percent of the growth of national income." The Soviet drive for efficiency centers on high-technology industrial growth and R&D. Brezhnev proposed "regrouping of scientific forces," while Tikhonov emphasized the improvement of scientific research for the economy.

Nuclear power and Siberia

The pivot of the Soviet economic strategy is the U.S.S.R.'s energy program, which Tikhonov stressed was under Brezhnev's personal supervision. It provides for accelerated nuclear power development to the degree that nuclear and hydroelectric power will give over 70 percent of the 23 percent increase in electricity production in the next five years, and all of the increase in the populous industrial areas of European Russia.

In an article published Feb. 21, just before the congress opened, Academy of Sciences President and party Central Committee member A. P. Aleksandrov described the energy program as a phased structural improvement of the power industry aimed at creating an "infinitely developing nuclear power industry."

In the first phase, the U.S.S.R. will reduce domestic use of oil for power generation by a sharp increase in natural gas extraction, all of it in the abundant fields of the West Siberia industrial growth region. Oil today is burned to generate one-half of Russia's electricity, but by the year 2000 it will be phased out and used only as a raw material for the petrochemicals industry. Aleksandrov stressed that the Soviets will be able to remain net exporters of oil to Eastern Europe and "certain other countries" for at least 30 years, and longer if special extraction technologies are employed.

But the planned increase in Soviet power production will come entirely from coal, with the application of advanced technologies like magnetohydrodynamics (MHD), and nuclear sources.

A 30-year transition to "a nuclear power industry suitable for the long term," Aleksandrov said, would have several new components. In the immediate future, the new technology of the "nuclear thermal power station," which generates both heat and electricity, will be built for heating Russian cities.

Next, Aleksandrov demanded speedy development beyond nuclear plants that consume uranium. This means building more nuclear fast-breeder reactors (the U.S.S.R. has two in operation already; the U.S. has none), which produce more fuel than they burn, and also fission-fusion hybrid reactors whose high-speed production of plutonium "will ensure any necessary rate of development of the nuclear power industry."

Meanwhile, Aleksandrov said, an intense thermonuclear fusion power development effort will proceed in parallel and become ready to take over when feasible.

Science and industry

A flaw which could retard Soviet scientific progress was evident in several reports at the Congress: a demand that science be exclusively the handmaiden of industry. There are indications, however, that the high-technology direction of Moscow's new Five Year Plan has opened the door for certain Soviet economists with a more advanced conception of science.

On Feb. 21, the Central Committee economic daily carried an article arguing that a "new, capital-intensive type of socialist expanded reproduction" was on the agenda. The author, Prof. V. Lebedev, is known for a ground-breaking August 1980 article in *Pravda*, where he insisted on "the fundamental achievements of science." The developments that count, Lebedev said, are those that create a new dimension for the economy, one not predictable by planners working within an existing technology structure.

Giscard campaigns against Socialists

by Garance Upham Phau

French President Valéry Giscard d'Estaing officially announced March 2 that he would seek another seven year term in office. Giscard's principal opponent, François Mitterrand of the Socialist International, had already announced his candidacy and spewed forth his main campaign theme: that Giscard is a "monarch" who must be overthrown. Jacques Chirac of the "Gaullist" RPR is also running to build support for Mitterrand with his attacks on Giscard; Gaullist Michel Debré is opposing him.

To elect Mitterrand, said President Giscard in his campaign kickoff remarks, would mean "goodbye to the stability of the franc and freedom of enterprise. . . . Goodbye to nuclear independence and France's rank in the world."

At stake in the election

Giscard is stating the implications of a socialist program which would put a brake on industrial growth by channeling credit into crafts and shops only, stop nuclear energy, and bring France back into NATO.

The Socialist perspective for France—if Mitterrand is elected—is a return to the heyday of the Fourth Republic, when the nation was a virtual satrapy of Britain.

Giscard stressed that the Socialists "remain the same, with the same leaders who have fought relentlessly since 1958 against the Fifth Republic."

Created by General Charles de Gaulle, the Fifth Republic gave France a strong republican constitution, with a presidential system that makes it perhaps the most stable nation in Europe. The Fifth Republic gave France a nuclear development program that is the world's largest relative to its gross national product, and made it the world's third-ranking nuclear power militarily.

Foreign policy key

President Giscard has stated his conviction that France's foreign policy is at stake in the election—thus challenging Gaullist RPR Party candidate Jacques Chirac's contention that Giscard's dialogue with Soviet President Leonid Brezhnev is proceeding from a position of weakness.

Giscard came under fire from both Chirac and Mitterrand when he visited Warsaw last spring to meet Brezhnev to seek a resolution of the Afghanistan crisis.

"France wants to be and must be a partner in peace," the French president told *Figaro* magazine in an interview published this week. "I know that when one uses the word peace, some people understand it as a reference to experiences such as Munich—as resignation and national abandonment.

"But this is not what it is," Giscard continued. "The search for peace consists of studying all possibilities for resolution of crisis before they reach catastrophe. . . . Firmness consists in leading a high level policy, by clearly defining its objectives, and by providing oneself with the appropriate means of action."

Reasserting his complete support for and cooperation with West German Chancellor Helmut Schmidt, Giscard attacked the "neutralist trend" in Western Europe, a hit at Socialist International Chairman Willy Brandt, who has been pushing for total disarmament as a means of destabilizing the Schmidt government.

Domestic troubles

The high rate of youth unemployment is a factor that has hurt the president. With this in mind, Giscard has relegated Prime Minister Raymond Barre, an advocate of tight credit and austerity, to the back seat—with orders to hold his tongue—until after the election is over.

A major unanswered question is whether candidate Georges Marchais's Communist Party will give its votes to Mitterrand in the expected runoff against Giscard, or will abstain. Close to the Soviet leadership, the Communist Party knows the Kremlin's preference for the foreign policies of Giscard, but the deteriorating economic situation does weigh against the president.

The dispute between the Socialists and Communists has recently been exacerbated with Marchais's denunciations of Mitterrand for backing the ecology movement and supporting legalized marijuana.

Marchais has upped the ante by demanding that Mitterrand pledge himself to putting Communists into ministerial posts in exchange for the party's 20 percent share of the nation's vote.

President Giscard has fueled the conflict by remarking that Mitterrand would either "govern with the Communists" or would "betray their voters after having benefited from their votes." This would mean chaotic strikes by Communist Party unions. Hence, says Giscard, his reelection offers the "only alternative" to rule by "the party of disorder and consequent doom."

'The enemy is Europe'

A first-hand report by Susan Welsh on London's efforts against the Franco-German alliance, as voiced by Chatham House.

"The longer-term reality in Europe is that of Franco-German cooperation," the Englishman said grimly. "The British have by and large opted out, or have not known what framework of relations to have with their allies." William Wallace, director of studies at Britain's most prestigious think tank, the Royal Institute of International Affairs—known familiarly as Chatham House—was addressing an audience of European experts at Columbia University on March 2. "An intelligent British strategy would be to quietly sow doubts in Germany about their relationship with France. But this would take a very long time now. We've lost so much time.

"The problem facing Europe is not how to deal with the Soviet Union, despite what Mrs. Thatcher says. She doesn't understand foreign policy at all! . . . The real question is how to deal with the United States and Japan."

If the Soviet Union is not the problem, why has Wallace's Chatham House just issued with great international fanfare a new 50-page study titled *Western Security: What has changed? What should be done?* whose principal concern is "enhanced Soviet military threats both in Europe and in Third World regions"? The study was funded by the German Marshall Fund and prepared by the institute's director and the directors of the New York Council on Foreign Relations, the Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik in Bonn and the Institut Français des Relations Internationales in Paris.

The top four institutes of what has been called the Atlanticist establishment are trying to reassert their control over the "new nationalism" of continental Europe. In the past three years especially, this upsurge has challenged the supranational institutions through which British elites and their counterparts abroad have controlled the policies of other nations. The particular preoccupation of these elites is to prevent the Franco-German alliance from drawing the "nationalistic" Reagan administration into its orbit.

The problem in Europe, Wallace declared, is how to "square the circle" of combining national sovereignty with the "federalist" relation of interdependence which was originally the foundation of the European Community. "People at my institute are stressing very much the need to review the theoretical framework for understanding the problem of national sovereignty, in view of what is called the 'new nationalism.' . . . This is the issue that fascinates me the most—especially regarding France. . . . In Germany, too, there is a new confidence, an emerging sense of nationhood."

The European Monetary System, created in 1978 by France and the Federal Republic of Germany, is the embodiment of this new situation in Europe. Great Britain has to this day refused to join, out of aversion to the EMS's Phase One fixed currency rates and Phase Two global development financing plans. Wallace believes this was a deadful mistake, since it deprives Britain of a most important channel for influence. "The EMS is stalled right now, but it is likely to move ahead into its second phase, if not this year then next. . . . The British did not know the name of the game at all. We should have gone in. We also failed to build on the potential that existed for a British-Italian coalition."

Wallace admits that "the Franco-German relationship goes very deep now," deeper than the mere personal friendship between Chancellor Schmidt and President Giscard. "You even find French and German civil servants working in one another's ministries." If Giscard or Schmidt were to disappear from the scene, would things change fundamentally? Wallace is not sure, but he remains hopeful. "Giscard may be around for another seven years. But Schmidt may *not.* It's beginning to look like he's getting tired. . . . It is not impossible that Mitterrand will win the French election. The French are bored with Giscard. The 'arrogance of power' is beginning to get a bit out of hand. . . . It is possible that the picture will begin to change in both France and Germany."

The Royal Institute is initiating a special priority research project on the France-German relationship, Wallace announced.

Crisis management

The *Western Security* document of Chatham House et al. proposes that interlocking networks of "directorates" be created to deal with crises in various parts of the world, and to focus world politics eternally around the theme of crisis management with Moscow. European armed forces will be deployed to the Middle East and other areas outside NATO's perimeter, but—in an ostensible concession to German wishes—not under the auspices of NATO. "Dialogue" with the Soviet Union will be maintained within tightly controlled limits, as "the arms control process" is maintained to try to head off any Soviet edge in advanced military technology. Restrictions on high-technology exports to the Soviet Union will be "maintained and even tightened." Seven-nation summit meetings of the industrial capitalist nations will discuss political and security concerns as well as economic ones, and the groundwork will be laid for these summit meetings by an elite supranational corps of technocrats responsible to no national constituency ("perhaps some type of a permanent, though small, secretariat").

The proposed system of "directorates" of "principal-nations groups" is an updated version of the Trilateral Commission, tailored to the now even more urgent task of thwarting the Franco-German alliance. Like the Council on Foreign Relations' *Project 1980s* studies, the new document's basic premise is the "controlled disintegration" of the world economy as a defense of "the liberal order" against the "dirigism" of continental Europe, Japan, and the U.S.S.R.

In *Western Security* we read that "the period ahead will also be one of prolonged economic crisis worldwide. It will be characterized in the West by very low growth rates combined with high inflation and high unemployment rates. These economic difficulties can be expected to sharpen North-South tensions, increase competition among Western nations themselves, and produce potentially dangerous social tensions within Western democracies. . . . Scarce resources have to be reallocated and new responsibilities shouldered. . . .

The authors of the Western Security report

Royal Institute of International Affairs (Chatham House). Director: David Watt. The RIIA is the "mother" institute to the other four think tanks which participated in the *Western Security* study. It was founded in 1919 as part of a project begun in the 1880s by British colonialist Cecil Rhodes. Rhodes declared that the "true aim and purpose" of such a policy-formulating establishment should be "the extension of British rule throughout the world . . . [and] the ultimate recovery of the United States as an integral part of the British Empire."

David Watt participates on a regular basis in highly confidential meetings, under the auspices of the "Anglo-Russian Round Table," with Nikolai Inozemtsev of Moscow's IMEMO think tank and Georgii Arbatov of the Soviet Union's U.S.A.-Canada Institute. These are the Soviet institutions which, together with the KGB, are most opposed to the European Monetary System and most in favor of the world-federalist policy orientation which Chatham House shares.

Council on Foreign Relations. Director: Winston Lord. The CFR was established in 1921 and was modeled directly on the RIIA; it is America's number-one "patrician" think tank. The CFR's **Project 1980s** study, undertaken during 1975-76 by individuals who later became the top policymakers of the Carter administration, was "the largest single effort in our 55-year history." Its premise was that the main strategic conflict in the world is not between East and West, but between "liberalism" and the dual threat represented by the economic policies of Alexander Hamilton and Friedrich List on the capitalist side and Karl Marx on the socialist side.

CFR Director Winston Lord was a former National Security Council official under Henry Kissinger and a participant in the Project 1980s enterprise. The executive core of the CFR includes John J. McCloy, Robert Roosa, Gabriel Hauge, and others who also comprise the core of the German Marshall Fund, which financed the *Western Security* study.

Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik. Director: Karl Kaiser. This institute was set up in the 1950s, modeled on the RIIA and CFR under the auspices of John J. McCloy, the postwar American High Commissioner for Germany. Karl Kaiser is a member of the Trilateral Commission and the London International Institute for Strategic Studies (IISS), and is a central figue in conduiting RIIA-originated policies into the Federal Republic of Germany. It was Kaiser who last year shocked attendees at a meeting of the Aspen Institute by proposing that West German troops be deployed to Turkey and other areas. The *Western Security* pamphlet cites Turkey as "strategically key" to the Mideast, and demands the deployment of West European military forces to areas throughout the Third World.

Institut Français des Relations Internationales. Director: Thierry de Montbrial. Montbrial is a member of the Club of Rome. IFRI is a principal instrument for imposing the Club of Rome's zero-growth perspective in France. It works closely with the **Interfuturs** group, an Aquarian set of futurologists led by H. G. Wells-trained Bertrand de Jouvenal, also a member of the Club of Rome. Together with the other three institutes cited above, IFRI is involved in "research projects" aimed at subverting the economic policies of French President Giscard. Both IFRI and Interfuturs receive generous financial support from the German Marshall Fund.

Peking halves capital investment, and jeopardizes the China Card

by Richard Katz

Only the most desperate farmer will slaughter his breeding stock or devour his seeds. Unlike the 1958-60 Great Leap Forward, the current economic crisis in China has not yet descended to that level, but the state of mind of the regime has. China just announced a *near-halving of its capital investment* for 1981. Going beyond any previous shift from heavy to light industry, the new measures strike at the core infrastructure of energy and transport. If continued, such cutbacks doom any hope China ever had of becoming an industrial or military power.

While some Westerners, including some U.S. State Department sources, applaud Deng Xiaoping as the David Stockman of the Far East, others fear that Deng's latest move undermines China's credibility as an economic-military power. That in turn would jeopardize the whole "China card" geopolitical strategy so carefully built up since Henry Kissinger's 1971 visit to Peking.

Deputy Prime Minister Yao Yilin, a Deng factional ally, announced the new investment-gutting measures at a Feb. 25 meeting of the Standing Committee of the National People's Congress, China's nominal legislature. Yao announced that the overall national budget for 1981 would be cut $10 billion (14 percent) to $65 billion, but that the capital-investment portion would be cut by an astounding 45 percent ($16 billion) to only $20 billion. In addition to the overall cuts, $6 billion was shifted from investment to immediate consumption, as well as to light industry. The previously sacrosanct areas of energy and transport were included in the cuts, although factories are already being closed due to bottlenecks.

Part of the political motivation surrounding the frantic measures—the need to buy off an increasingly restive population—was revealed when Yao announced wage bonuses to scientific, health, and other workers bypassed in the last round of the now-suspended bonus program.

Political considerations also came up during Peking's discussions with Japanese emissary Saburo Okita. Okita had been sent to Peking to demand an explanation, and compensation, for China's abrupt cancellation of $1.5 billion in contracts with Japanese firms for projects in steel and petrochemicals. Ironically, Okita is the eminent Japanese development economist China had hired in 1978 to critique their economic plans. According to the Feb. 20 issue of the *Far Eastern Economic Review,* in addition to demanding compensation, Okita warned the Chinese leaders that their light-industry orientation is inherently inflationary and will preclude real economic development. Okita was informed in turn that certain political problems necessitate a stress on immediate production of consumer goods.

The "certain political problems" are the workers' strikes and food demonstrations that have spread to several Chinese cities, as well as the rural demonstrations against high prices for consumer goods. In addition, Yao pointed out in his speech the powderkeg of 20 million urban unemployed. Yao did not mention that many of them are unemployed because Deng's previous measures had shut down many factories.

Deng can ill afford a repetition of the mass unrest that occurred during the 1976 economic downturn. He has yet to consolidate his grab for total power. Despite an ongoing purge of military and civilian opponents who favor heavy industry, opposition is still so active that Deng has been unable to convene the Communist Party Central Committee Plenum and Party Congress originally planned for January. Such convocations are necessary if he is to stuff the party with his supporters and ensure his dynasty.

The energy crisis

The new budget is not simply a continuation of the Dengist shift to light industry announced at the September 1980 National People's Congress, notwithstanding U.S. State Department reports. It is a crisis-management tactic brought on by an unforeseen economic crisis that hit China during the October-December quarter.

For 1980 as a whole, China claims an 8.4 percent growth in industrial production—divided between a one-shot 17 percent spurt in light industry and a dismal 1.6 percent rise in heavy industry. A comparison of the 8.4 percent final figure with much higher claims earlier in the year indicates a sharp dropoff in growth, perhaps even an actual downturn, beginning around the final quarter of 1980.

At a hastily convened Central Committee working conference in January 1981, newly installed Dengist Premier Zhao Ziyang began to reveal the dimensions of the crisis in a secret speech. The production dropoff had been so severe as to double the 1980 budget deficit to $8 billion from the $4 billion projected in September.

Zhao stated the crunch would worsen in 1981. The measures outlined in the Feb. 25 Yao Yilin speech were prepared. The first public hint of this was the burst of cancellations of foreign contracts beginning in January.

Yao's speech revealed more of the details of the crisis. Oil output will fall from the 1980 level of 106 million tons to only 100 million tons this year, and keep falling to only 80-90 million tons by 1985. In 1978, China had predicted a 240 million ton output by 1985—and was widely believed. Yao revealed that coal output will fall 6 percent in 1981 alone from 358 million tons to 339.

Yet Yao announced that China would cut investment in oil and coal. As late as last fall, Deputy Premier Bo Yibo had told *China Business Review* that energy was a priority, along with light industry and transport. While details have yet to be announced, informed sources indicated the nature of some of the cuts. In oil, China will probably reduce 10 major inland oil exploration and drilling projects costing billions of dollars, in favor of production-sharing joint ventures with foreign firms for offshore exploration, in which China lays out minimal cash in advance.

In the coal area, the problem is more complicated. China mines sufficient coal, but lacks the transport infrastructure to bring it to users, and the crushing, washing, and preparation equipment that make it suitable for modern mills. Peking has not yet revealed whether the cuts in coal affect the mining or the transport and ancillary equipment, or both.

In addition, the absolute amount of investment in producing thermal power plants will be cut in 1981.

Won't these energy cutbacks close more factories and lay off more workers? "China is cutting steel this year from 35 million tons to 33," replied one U.S. corporate official. "That will free up a lot of energy. Other cuts in heavy industry will have to be the major energy source." Cannibalism of the existing industrial base? "Yes." Peking calculates that for every 1 percent shift in the ratio of light to heavy industry in the economy—now at 46:54 in favor of heavy—it saves 6 million tons of coal. With a 20 million coal drop this year, Peking will have to cut heavy industry 3 percent just to keep light industry even, never mind growing.

Specific transport cuts have not yet been announced. Some sources suggest that they could mainly affect water transport and also perhaps not-yet-begun rail projects. An additional area of cutback is the defense budget—a step likely to increase the military's already acute disenchantment with Deng. It also gives China Card advocates in the West pause for thought.

Though Deng may be able to pay wage bonuses today through the investment cutbacks, the measures definitely portend layoffs, living standard declines, and greater political turmoil for the not-too-distant future.

China Lobby debate

Immediately following the Yao Yilin speech, the International Monetary Fund (IMF) announced that China had drawn down $550 million in Special Drawing Rights from the IMF, plus an undisclosed sum of soft-term loans. The *New York Times* quoted IMF officials commenting approvingly that the latest budget cuts would alleviate China's inflation. Similarly, former Federal Reserve Chairman Arthur Burns—a reckless proponent of the David Stockman version of the Yao Yilin policy in the U.S.—visited China just prior to the Yao speech and reportedly discussed the budget crisis. It is not known exactly what Burns proposed, but Chinese officials were later heard relaying to Japanese representatives the Friedmanesque nostrum that Peking had to end the budget deficit in one year "in order to cut inflation."

More sober Western advocates of the China Card geopolitical strategy, previously ardent admirers of Deng, are openly chastising him for his latest moves. Giving Deng the new monicker of "arch-devolutionist," the March 2 London *Financial Times* reports that even a mission from the IMF, which normally insists on economy-shattering conditionalities, "was apparently taken aback by such a ferocious assault on public investment. . . . It risks leaving China littered with half-built plants, a monument to wastefulness on a gigantic scale." The *Financial Times* warns, "Meanwhile, new unemployment climbs by the millions. . . . Unemployment and growing inflation can only aggravate political unrest."

Deng is trying to shore up his regime by asking for Japanese support, including very low-interest loans plus aid in importing oil, a ploy chastised by some as "robbing Paul to pay Paul." Some Japanese officials, including Economic Planning Agency chief Toshio Komoto are reportedly advocating such help on the grounds that "Asia needs above all a stable China." Other officials add, "Deng and his colleagues need all the help they can get."

The London *Financial Times,* although damning Deng's latest move, agrees on shoring up the regime. The question is whether the Humpty-Dumpty economy can be put back together again—and if that fails, will Deng suffer his third and final fall from power?

Sihanouk to cover for Pol Pot again

by Ramtanu Maitra

U.S. Secretary of State Alexander Haig has approved a plan to bring the Peking-backed Pol Pot regime back to Cambodia, arm-in-arm with Prince Sihanouk, some of whose family was murdered along with 3 million other Cambodians during Pol Pot's 1975-1979 rule.

The proposal for a united front government in Cambodia is the latest in a series of Peking-Washington efforts to sabotage ongoing negotiations between some Southeast Asian and Indochinese nations to peacefully settle the Cambodia issue. According to reports, Chinese leaders have now successfully arranged for a meeting between Sihanouk—a longtime ally of both Peking and Washington—and Pol Pot's premier, Khieu Samphan, to take place soon in Pyongyang, North Korea.

Haig's approval came to light with reports of his recent meeting in Washington with Singapore's Deputy Premier Rajaratnam. After Rajaratnam had explained how Sihanouk and Pol Pot's Khmer Rouge would form a united front to keep Vietnam militarily engaged, Haig said, "The scenario you have painted I do not find discomforting."

According to a recent article in the *New York Times,* a State Department spokesman said that the United States would welcome the rallying of Cambodian nationalists "in opposition to the continuing Vietnamese occupation of their country, and we believe such respected figures as Prince Sihanouk and Son Sann have a role to play in seeking solutions."

Last-ditch effort

The refurbishing of the Pol Potist "Democratic Kampuchea" group, by placing Sihanouk and Son Sann on top of the Khmer Rouge, is essentially a last-ditch effort by Peking and its allies to save their Kampuchean card. It is widely recognized in the region itself that it is no longer possible to maintain the diplomatic fiction of "Democratic Kampuchea"—which still holds the U.N. seat for the country—particularly when conditions within Kampuchea under the Heng Samrin government are internationally recognized to be greatly improved and stable.

Peking, and its principal allies in the region, Thailand and Singapore, are hoping to stave off the diplomatic pressure mounted from Hanoi for a negotiated settlement of the Kampuchea issue which would involve de facto recognition of the Heng Samrin government. Peking hopes to continue to keep ASEAN and Indochina apart while Peking looks for the opportunity to go to war against Vietnam again.

Meanwhile, some ASEAN countries are opening the door, though only a crack, to talks with the Indochinese states. Earlier this year, just prior to the Nonaligned foreign ministers meeting in New Delhi, the three Indochinese states (Kampuchea, Laos, and Vietnam) made a new comprehensive proposal for peaceful settlement of differences between them and ASEAN, including the convening of regional talks.

The ASEAN response has been formally negative, with insistence on their proposal for a U.N. conference on Kampuchea. However, Malaysian Foreign Minister Rithauddeen met with Vietnamese Foreign Minister Thach at New Delhi. He later told the press at Kuala Lumpur, "We feel that we should . . . keep a low profile so as not to jeopardize the prospects of finding a political solution to the problem." Meanwhile, Indonesian Foreign Minister Mochtar, following a recent meeting with Romulo, stated that "the door was open to any proposals" provided they were "constructive for the settlement of the Cambodian problem."

Khmer Rouge legacy

But Sihanouk, known as the "clown prince" in diplomatic circles, will do anything to regain his puppet throne. As recently as October 1, 1980, in *The Times* of London, Sihanouk insisted that "in no case and in no circumstances" would he consent to play any political role in Cambodia. Then in a recent telephone interview with the French daily *Le Monde,* Sihanouk worried that the Chinese have not replied to his overture for a united front against the Vietnamese. "The Chinese leaders probably want time to consider the matter and consult with their Khmer Rouge friends," he proffered. "We will have to play on their terms."

Inside Cambodia, a recent issue of the *Far Eastern Economic Review* reported that "it is difficult to stop at any hamlet along Cambodia's highways without being led by people—some silent in their anger, others weeping—to the graves. Each village seems to have its local Auschwitz. While outsiders want the Vietnamese out of Kampuchea, the Khmers feel they have been liberated from the horrors of Khmer Rouge rule and want the Vietnamese to stay as long as the threat of a return of that bloody regime remains real. It is a remarkable testimony to the terror the Khmer Rouge inspired that, two years after the end of Pol Pot's rule, it is difficult to find a Khmer who would like the Vietnamese to leave now."

An auto-defense tradeoff for the U.S.?

by Richard Katz

Growing protectionism against Japanese exports, including two bills in the U.S. Congress that would sharply reduce shipments here, are forcing Japan to look to new export strategies as well as to some non-trade stimuli to growth. The promotion of a domestic defense industry or a role in supplying a U.S. defense buildup is one of the alternatives under discussion. Another is expanded export of plant and machinery to developing countries through concessionary credits.

A 26 percent growth in exports during 1980 enabled Japan to survive the consequences of the post-Khomeini oil shock. While most other industrial countries slipped into recession, Japan's industrial production grew by more than 7 percent. This was led by an 18 percent growth in production for the export market while domestic goods grew only a dismal 2.5 percent.

Protectionism both here and in Europe means this process cannot continue in 1981. On March 9, Senate hearings begin on a bill cosponsored by John Danforth (R-Mo.) and Lloyd Bentsen (D-Tex.) to limit Japanese passenger car shipments for the next three years to 1.6 million units per year, a drastic drop from the 1.9 million units shipped here in 1980. A House bill sponsored by William Brodhead (D-Mich.) is even more radical, mandating reduction to 1.2 million units for the next three years with a 5 percent rise in the following two years.

The administration is putting hard pressure on Japan to limit car shipments rather than let the legislation pass. Since the bills single out Japan in an unprecedented way, they would dampen U.S.-Japan relations. However, as one Democratic House staffer told *EIR*, "[Special Trade Representative] William Brock and others like [Transportation Secretary] Drew Lewis indicated that it might be useful in their negotiations to have a bill like this around. Brock is pouring gasoline on the fire of protectionism in Congress. He may not be able to put it out when he wants to."

It is questionable how much the import restrictions would aid U.S. auto sales, which have been hard hit by the gas prices, interest rates, and high sticker prices. Neither the administration nor Congress is putting together a package that would directly aid U.S. sales during the period of Japanese restraint. At most they want to limit antipollution regulations to ease cost pressures and lower sticker prices. The exception is a separate Brodhead bill to grant a $500 tax credit for purchase of new cars, designed in such a way as to apply mostly to U.S.-made cars. But this bill is separated from the import bill and is viewed as unlikely to pass, even by its sponsor.

In any case, the Japanese are likely to accept some "voluntary restraint." Trade Minister Rokusuke Tanaka has de facto agreed to a 1.8 million shipment level for 1981, and sources report possible willingness to go as low as 1.6 million under certain conditions.

Two alternatives

With similar pressure in Europe on autos, TVs, and machine tools, Japan knows it cannot repeat its 1980 boom of consumer durable exports. It will try to expand auto shipments to the Middle East and other new markets, plus non-auto consumer goods to traditional markets. But the added problem of a 4 percent drop in steel exports means Japan must evolve a new strategy.

One alternative is expanding exports of plant and equipment to developing countries. Japan lost a couple of billion dollars in plant sales during 1980 because it adhered to Carter's dictum of high interest loans for such exports while France and Germany used a "mixed-loan" system combining commercial bank loans, Export-Import Bank loans and official development assistance to produce loan packages at the 6 to 8 percent range. According to the Japanese business daily *Nihon Keizai Shimbun* on Feb. 17, Tokyo is leaning toward establishing a similar system. The volume of such a program, if approved, had yet to be announced.

Japanese business sources are also speculating that a deal involving Japan's growing defense budget may be in the works. In a Feb. 24 *Nihon Keizai Shimbun* column commenting that "the car trade issue may well be linked to the expenditure problem," it is suggested that defense spending may have to make up partially for the stimulus lost through slower growth of exports. In fact, some U.S. sources believe the Reagan administration may be using the trade issue to pressure Japan to spend more on defense.

In addition, a big U.S. defense procurement buildup would quickly run into bottlenecks in U.S. capacity in machine tools and electronics. Staff at the Defense Intelligence Agency, Stanford Research Institute, and Georgetown University are reportedly studying ways of getting around the "Buy America Act" to allow purchase of some of these materials for the U.S. buildup from Japan. This would help offset lower car sales here. Defense Secretary Caspar Weinberger's March 4 testimony before the Senate Armed Services Committee on the inability of the U.S. industrial base to support a defense buildup suggests a deal may be in the works.

OSS 'old boys' welcome Maggie

by Scott Thompson

In the Grand Ballroom of the Waldorf-Astoria in New York on Feb. 28, the ranking members of the U.S. intelligence establishment, the Veterans of the OSS (Office of Strategic Services), honored British Prime Minister Margaret Thatcher with the William J. Donovan Award.

As the lights went dim across the ballroom, the affair proved to be a real anglophile orgy. A theme constantly repeated by the scriptwriters for this celebration was that the world had returned again to 1940, only this time Reagan equals Roosevelt; Thatcher equals "Winnie" Churchill; the U.S.S.R. equals Nazi Germany; and implicitly, China equals the main front opened by the U.S.S.R. against the Nazis.

It was a scenario that would make KGB Gen. Harold "Kim" Philby, one of many spooks whose presence was felt, proud at the depths of his deception. It was in no small measure due to Philby's skill at covering up the links between the British Secret Intelligence Service and the KGB-IMEMO crowd today that William J. Casey, the director of the Central Intelligence Agency, could announce to the assembled "old boys" how nice it was when the United States was Britain's "junior partner."

In attendance were most of the key anglophile "old boys" and their dupes.

On the dais were: William Casey, Director of Intelligence and the honorary chairman of the award dinner; Hon. Owen McGivern, dinner cochairperson, former OSS, New York judge; John McCord, national chairman, English Speaking Union; Mrs. David K. E. Bruce, dinner cochairperson, widow of David K. E. Bruce, U.S. ambassador to the Court of St. James and an OSS officer; Hon. Jeane Kirkpatrick, chief delegate of the United States to the United Nations, chief spokesperson at the founding of the Committee for a Free World who proclaimed that body a resurrection of the Committee for Cultural Freedom; John Shaheen, chosen to present the award, a financier in the marts of Hong Kong, Singapore, London, Wall Street, and "a particular favorite and disciple of General Donovan"; Prime Minister Margaret Thatcher and her husband, Dennis; Sir Nicholas Henderson, ambassador of Great Britain to the U.S.; and, Col. Rupert Mayne, representative of the Special Forces of London and Special Air Services.

In the audience: New York Gov. Hugh Carey; former Secretary of State Cyrus Vance; former Director of Intelligence John J. McCloy; Sen. Barry Goldwater: financier John Schiff; Ernest Cuneo; RCA heir Robert Sarnoff; former chief of counterintelligence James Angleton, trained in deception by Philby at Guy Fawkes College in England; former Directors of Intelligence Richard Helms and William Colby; Prince and Princess Nikita Romanov.

The key speech was by Casey who re-lived his days when he was trained in the British "double-cross" system as chief of OSS's Secret Intelligence Section in London. He was, in short, a raving anglophile.

Casey began with praise of Margaret Thatcher: "Not since Winston Churchill," Casey said, "has a British prime minister so well, so vividly, so graciously epitomized this common heritage which we share."

He then outlined the heritage, completely reversing OSS chief Donovan's true, servile relationship with Churchill whom Casey also praised for giving "indomitable leadership" when "totalitarian government in Europe" last, some 40 years ago, launched an invasion in all directions.

At that moment of crisis for Britain, Donovan, a private citizen and lawyer, was sent to England to make an assessment acting as "a one-man CIA to President Roosevelt." After talks with Churchill, Donovan returned and said that Britain had "a will to survive." Lend-Lease followed.

Churchill and Donovan "found themselves in tune." Psychological warfare, irregular forces, each primed with a "full knowledge" of five centuries of British intelligence, would "set Europe ablaze."

And so today, Casey concluded, "We well remember, Prime Minister, that OSS coming into the European war three years late would not have been able to do very much at all, if the British had not taken us in as junior partners and so generously taught us all they knew and all we knew. Today, the intelligence communities of our two countries . . . work together with a special relationship . . . to develop a common perception of the world. . . .

"We are grateful, Prime Minister. We are interested in furthering this collaboration and grateful for your leadership in converting it into wise and prudent policy. We admire the Churchillian clarity and force with which you have responded as, for the first time since 1940, a great power has invaded a small state in Afghanistan and threatened another in Poland. We salute the courage and resolution with which you have undertaken the painful task of ending our economic difficulties."

No doubt Lord Louis Mountbatten, whose name was so frequently referenced by Thatcher and Casey, and who died fighting against the current government's policies, was among those unseen "spooks" who were enraged at this betrayal.

The Saudi-Italian stakes

Armand Hammer is masterminding an ENI-Libya deal that would displace economic ties with Riyadh.

Italian Socialist Party (PSI) chief Bettino Craxi is involved in a filthy scam aimed at breaking Italy's longstanding oil-for-technology relations with Saudi Arabia and undermining Italy's powerful state-owned oil company ENI.

The PSI, in collusion with certain Italian noble families, is maneuvering to make the proterrorist Libyan regime Italy's prime source of oil, in place of Saudi Arabia. The traditionally fiercely independent ENI is supposed to be pushed into the multinational cartel of oil companies, through an agreement expected to be signed soon between ENI chairman Alberto Grandi and the chairman of Occidental Oil, Armand Hammer. The agreement will include the creation of a joint company, Enoxy, supplied with crude oil from Libya through Occidental, and with coal via Occidental's connections in Poland and Romania.

This plan to effectively sell ENI to the multinational cartel conforms to the last detail with a plan put forth in the New York Council on Foreign Relations *Project 1980s* studies, which call for undermining the dirigist progrowth factions within Europe's state-owned oil concerns in order to "reintegrate" those oil companies into a new global energy cartel premised on Malthusian energy austerity.

Since its founding in the early 1960s by the Italian entepreneur Enrico Mattei, ENI has been in the forefront within Europe in challenging the Seven Sisters and seeking state-to-state oil agreements with Arab oil producers based on an aggressive policy of industrial and energy growth.

Last year Craxi ran a smear campaign against the ENI business relationship with Saudi state-owned oil company Petromin. The campaign forced a halt in the delivery of badly needed Saudi crude, and forced the resignation of ENI chairman Giorgio Mazzanti, who was allied to Craxi's arch-enemy former Prime Minister Giulio Andreotti of the Christian Democracy.

Since then ENI has adopted an energy plan dictated by Italy's bloody-minded Venetian nobility based on energy austerity. The policy, which includes transforming Italy into a coal-based economy, was implemented by former Italian Industry Minister Toni Bisaglia.

Shortly after it was announced that Italy would adopt a program for energy based on coal, Libyan banker Abdullah Saudi, recently exposed in the Italian press for funding Italian terrorism, gave ENI a $500 million loan. Saudi, who ran the Libyan-Arab Foreign Bank until last year, remains a close adviser to Muammar Qaddafi and now runs the Bahrain-based Arab Banking Corporation.

Early this January, Saudi Arabian Foreign Minister Saud al-Faisal visited Italy and agreed to a renewal of the state-to-state oil agreements that provide Italy with 250,000 barrels a day of crude.

Shortly thereafter a new spate of scandals on the ENI-Petromin connection was instigated by Italian journalist Fulvio Grimaldi, an aristocratic supporter of Italian terrorism who personally established the link between the Irish Republican Army and Italy's anarchist group Lotta Continua. Grimaldi hails from a drug-connected noble family.

In an article this week in the London-based *8 Days*, Grimaldi coolly stated Craxi's design for ENI. Grimaldi asked: "Will the agreement, due to be signed this month between Italy's ENI and Occidental Petroleum represent an Italian step away from the state oil company's traditional Arab suppliers, and toward increasingly tight links with non-Arab producers and American multinationals?"

The PSI strategy is to consciously provoke disruptions of oil imports to ENI's hungry refineries, forcing the company into the hands of Occidental, which in turn would supply the Libyan crude.

Qaddafi, whose connections to Italian terrorism came to light in the Billygate scandal, is slated to visit Italy sometime this spring to firm up a series of lucrative Italian-Libyan trade agreements. The PSI and its bedfellows in the Italian Mafia are arguing that Rome should override the loud objections from France to Qaddafi's visit.

Last month French President Valéry Giscard d'Estaing personally urged the Italian government not to sanction Qaddafi's visit. Giscard, who faces an electoral challenge from the Socialists, fears the trip could set a precedent jeopardizing France's strong economic links with Saudi Arabia.

International Intelligence

Indian government attacks Paddock brothers

In a *Korea Herald* commentary on the occasion of the signing of a $1 billion trade pact between South Korea and India, Indian Ambassador to Korea V. V. Paranjpe blasted William Paddock for his efforts to deny India food aid during the 1960s.

Paddock, currently an unofficial adviser to the U.S. State Department, is a radical advocate of population reduction through starvation, disease and war.

"There were prophets of doom like the Paddock brothers," wrote Paranjpe, "who in the mid-1960s prophesied that no amount of food aid could save India from a disastrous famine in the mid-1970s, but Indian scientists and farmers proved this dire prediction to be wrong. . . . Over the last 15 years wheat production has tripled . . . today India is becoming a net exporter of agricultural products."

Israeli general suspect in 'Diamondgate'

Israeli General (Ret.) Samuel Gonen, a diamond merchant with suspected ties into the Israeli mafia, has been held in detention in the Central African Republic for the past several weeks, over the protest of the Israeli government.

According to a recent account in the Jewish Telegraph Agency, Gonen is not really being held because his diamond concern owes the Central African Republic money, as had been previously thought, but because French advisers to the former French colony hold Gonen responsible for leaking reports to the press of alleged irregular diamond transactions between deposed dictator Jean-Bedel Bokassa and French government officials. These leaked reports created an aura of scandal and illegality around the government.

Gonen's evident ties to the criminal underworld have been referenced in the 1979 book *Israel Connection* by *L'Express* magazine senior correspondent Jacques Derogy. According to Derogy, Gonen has had past business associations with Samuel Flatto-Sharon.

Spectacular antiterrorist raid in Mexico

Mexican police and security forces, in one of the strongest antiterrorist actions of the past 10 years, moved March 3 to shut down the most notorious terrorist "safehouse" district in Mexico City. This was the Campamento Dos de Octubre, a squatters' settlement established in the mid-1970s and run by gangster Francisco de la Cruz. De la Cruz and seven of his top lieutenants were arrested; the several hundred families in the camp were relocated; and the camp itself was physically razed to the ground. Large quantities of arms were confiscated as well as literature of the 23rd of September League, the leading terrorist organization of the early 1970s.

De la Cruz, the subject of an adulatory article by Alan Riding in the *New York Times* two years ago, ran the camp as a training ground for guerrillas from at least four Latin American countries, according to top security sources. He ran for governor of the state of Oaxaca last year on the ticket of the Workers Socialist Party (PST), a formation also involved in the famous Jesuit-directed peasant conflict in Chiapas in June 1980.

Most recently, de la Cruz achieved fame for offering the fascist archbishop Marcel Lefèbvre protection during Lefèbre's stay in Mexico. De la Cruz saw it as a move to destabilize the Church and to legitimize the political operations of de la Cruz's friends in the Theology of Liberation, under the banner of "rights of the clergy to participate in politics."

The massive security operation sent de la Cruz's friends in the PST, the Mexican Communist Party, and the Jesuit-run daily *Uno mas Uno* yelping that "human rights" have been violated and that "repression" by the state is rampant. They had correctly interpreted the raid as a significant warning by the López Portillo government that it would not tolerate the escalating climate of violence and terrorism most prominently spurred by the PCM in recent weeks. It came just five days after the PCM thuggery had successfully wrested control of an Oaxaca town called Juchitan and installed the first PCM mayor anywhere in the country.

Socialists insist on membership criteria

EIR's Swedish bureau has uncovered documentation that the Socialist International has made population control its primary policy toward Latin American parties at least since the mid-1960s. Piere Schori, the Swedish Social Democratic expert on Latin America, began his career with a six-week tour of Latin America in 1966, specifically empowered to profile parties in 13 countries to decide which applications for affiliation would be accepted. In the internal memorandum he prepared upon his return, Schori cites support for population control as the basis for deciding how "radical" a party was, and whether it should be allowed to join the International.

In the case of Peru, for example, while Schori admitted the neofacist organization of the APRA party, "their paramilitary units . . . and an espionage section," APRA could not be recommended highly because they had a public posture of opposing birth control.

Schori, who just finished meeting wih Haig's envoy Herman Cohen in Sweden, recently published an article in the magazine of the Swedish Social Democrats' international affairs think tank outlining the convergence between "Cuban revolutionaries" and Social Democratic "reformists" in Latin America. The U.S. must realize that the Social Democracy is in control, he argued, and they might as well "use" them.

Britain and Israel to Europe: 'Go Home!'

Walter Laqueur, a top strategist for the London Institute of International Affairs, warns in the latest issue of *New Republic* magazine that Israel will launch a major war in the Middle East if Europe pushes forward on its initiative for peace in the region.

Entitling his piece, "Europe, Go Home," Laqueur compares the European actions to Neville Chamberlain's sellout of Czechoslovakia at Munich in 1938. "But Israel is not Czechoslovakia," Laqueur warns, "nor can the Arabs be compared with Germany in 1938. . . . Israel would fight for its existence. The devastation probably would not be limited to the area near its borders."

Laqueur's sentiments are echoed in comments made by the London-connected director-general of Israel's Foreign Ministry, David Kimche. In an interview published in the March 4 *Washington Post*, Kimche declares: "The European initiative is a non-starter and we reject it totally and finally. . . . The Europeans can shout from morning to night that we have to withdraw and if we don't withdraw, their shouting won't make any difference, will it?"

Polish leaders called to Moscow meeting

No sooner did Polish party chief Stanislaw Kania and Prime Minister Gen. Wojciech Jaruzelski fly home from attending the Soviet party congress than the Soviets summoned them back to Moscow for a summit meeting on the Polish internal situation. Evidently prompted by no specific development in Poland, the Soviets carried out a preplanned initiative to cause a crackdown in Poland.

The communiqué from the talks stated that the Soviet side, which was represented by President Brezhnev, Prime Minister Tikhonov, and the chiefs of defense, foreign affairs and the KGB, called on the Poles to "reverse the course of events and liquidate the perils looming over the socialist gains of the Polish nation." It was the most categorical demand Moscow has presented the Poles with during the months of crisis, and the Soviets coupled it with a statement that the security interest of every socialist country was at stake.

On March 4, Warsaw authorities detained Jacek Kuron, the Polish Solidarity trade union adviser linked to British intelligence, and put him on a regime of twice-weekly contact with the police to account for his activities.

Egyptian officers die in western desert crash

Fourteen of Egypt's top military officers and strategic planners, including Defense Minister Ahmed Badawi, were killed in a helicopter crash in Egypt's western desert region near Egypt's borders with Libya.

While no official Egyptian source has attributed the military leaders' deaths to sabotage by outside powers, Middle East intelligence sources fear that the Libyan regime of Colonel Muammar Qaddafi may soon be implicated in the incident. If so, the sources warn, the spark may have been ignited to start off war in northern Africa between Egypt and Libya, which could spark off generalized war across broad areas of central and eastern Africa.

A possile extension of Egypt-Libya tensions had already been feared following repeated accusations made last week by Egypt's southern neighbor, Sudan, that Qaddafi was trying to undermine the Sudanese regime of Gaffar Numeiry. Egypt and Sudan are linked together by various mutual assistance treaties and any move by the power-hungry Qaddafi against Sudan would constitute in itself a casus belli for Egypt.

Briefly

● **SPAIN** may have "a coup around the corner," reported the *Washington Post* March 5. The king is isolated, and the new Premier, Calvo Sotelo, is besieged from right and left. The Socialists, Communists, and right-wing ultras led by Fraga Irribarne are all demanding to enter the government. The seizure of parliament by the military extremists last month was only "a trial run," states the *Post*.

● **ISRAELI** government officials are consciously abetting the activities of the Muslim Brotherhood organization among Israel's Arab population, West Germany's *Die Welt* newspaper reported March 5. According to the paper, Israel is now one of the rare Middle Eastern countries where the Brotherhood is allowed to operate freely.

● **THE KGB** officials moved up from alternate to full Central Committee membership at the 26th Soviet Party Congress are three career associates of Leonid Brezhnev's, known as his watchdogs within the intelligence and security agency.

● **CHINESE PEASANTS** are reportedly vandalizing and looting construction projects recently suspended by the country's economic readjustment policy. Correspondents for the *People's Daily* at an iron foundry near Peking said the suspended project looked like it had been "hit by an earthquake" after peasants had stripped and sold as scrap much of the equipment left at the site.

● **PAKISTANI** officials at the U.N. privately characterized the hijacking of a Pakistani jet to Kabul "too good to be true" for the Zia Ulhaq government's campaign against its opponents. Officials of the Pakistani People's Party, Zia's main detractors led by the widow of Zulfikar Ali Bhutto, have denounced the terrorist act.

Red alert on Reagan's budget cut plan

by Warren Hamerman

Ronald Reagan has embarked upon a short-term protection of Paul Adolph Volcker's high interest-rate policy at the Federal Reserve and has launched his untenable budget and tax policy without the benefit of scientific advice. All the top scientific positions in the new administration remain vacant. Therefore, the ship of state is steering on a course between Scylla and Charybdis.

No new head of NASA has been appointed. The position of Scientific Adviser to the President is vacant. The key undersecretaries at the Department of Energy are unfilled; the current acting number-two man there held the position of assistant administrator under Carter. Very key posts at the Nuclear Regulatory Commission and Council on Environmental Quality are unfilled.

Actual policy is being determined by Carter holdovers.

It is worse. As the new budget entirely cuts out the MHD (magnetohydrodynamic) program, aims to cripple the fusion energy research program, and aims to handicap the nation's ability to produce new scientists and provide the research and development for new technologies to stimulate the economy, three individuals are running around Washington wreaking havoc. Over at Stockman's Office of Management and Budget, the deputy for science is a former aide to Ralph Nader, Fred Kheddouri. Former transition team leaders Russell Train, a leader of the World Wildlife Fund, and William Ruckelshaus, the head of the EPA under Nixon who banned DDT, are de facto setting policy to destroy science.

Reagan's script

The absence of a scientific viewpoint in the new administration has affected its economic thinking and program. Ten days ago, the State Department officially rebuffed the timely arguments of West German Chancellor Helmut Schmidt and other Europeans that the administration deal with the Volcker problem in the world economy. The State Department officially backed the high interest-rate policy of the Federal Reserve, despite its recognition of "some negative responses from Europe."

With twisted and unscientific logic, the circle around the new President is convinced that, by protecting Volcker's position and policy, they are actually embarking on an anti-Volcker program. The argument goes as follows:

"Volcker is bad. Interest rates must be lowered. Wall Street agrees. Within six months Volcker will be forced to resign. To get Volcker out, you must support the Reagan program to slash the budget, and introduce the tax program. How much interest rates can be lowered depends on how much Congress supports the programs. Volcker has agreed to not oppose the tax program and go on fighting inflation."

This "anti-Volcker" program is currently supported by the national leaderships of the Homebuilders, Autodealers, Savings and Loans Association, League of Municipalities, Business Roundtable, National Chamber of Commerce, and others.

Simultaneously, the Volcker-tainted Reagan economic program is under attack from both sides. Treasury official and archmonetarist Beryl Sprinkel, former president of Harris Trust in Chicago and a close associate of Milton Friedman, charges that Reagan and Volcker are too soft becaue they "only" agreed to reduce the rate of monetary expansion by half over the next six years. Representative Henry Reuss (D.-Wis.) of the House Banking Committee is misquoting Helmut Schmidt and calling for full-scale credit controls.

From the other side, the "social confrontationists" are attacking Reagan and Volcker, prompting me to wonder: why is Reagan pumping new political life back into Ted Kennedy and the defeated liberals?

At the end of February, AFL-CIO President Lane Kirkland read a statement at AFL-CIO headquarters—signed by 157 organizations ranging from the AFL to the NAACP, the United Auto Workers, the United Mine Workers, the American Agriculture Movement (AAM), the Naderite groups, and Speaker of the House Tip O'Neill—attacking the budget cuts as provoking social dislocation.

The same week, 200 Democratic congressmen issued a statement condemning the Reagan economic program and instead calling for: 1) wage-price controls; 2) credit controls; 3) revoking oil deregulation; 4) lowering interest rates.

The Congressional Black Caucus threw in its two cents by attacking Reagan's program and calling instead for labor-intensive service-oriented jobs.

On cue, Ted Kennedy and California Gov. Jerry Brown issued well-marketed statements. Kennedy charged that the administration policy will not only lead to a "rip-off" of the poor but also of the middle class. Environmentalist Jerry Brown tried to paint himself a bigger supporter of science and industry than Ronald Reagan.

The well-intentioned leaders of the new administration are rapidly expending their political capital in a futile effort to induce the constituencies who voted for Reagan to revive economic and scientific growth to "trust them" and back the economic program—even though it would appear to kill off the already sick patient known as the American economy. It is, indeed, a fairly difficult political task to sell a protection of Volcker and implementation of his depression policy as an "anti-Volcker program." It is rather awkward to sell the slashing of scientific and energy programs as a pro-scientific development. Overall, the constituencies who elected Reagan are hurt the most by his program.

There are four inputs into Washington at this time that define the potential leadership allies for the Reagan administration to steer back onto the historic course for which it was mandated in the last election:

- **Chancellor Helmut Schmidt** and a grouping of West German and French officials, bankers, and industrialists are proposing an International Interest Rate Disarmament Conference to defuse the Volcker time-bomb on the world economy.
- **President Valéry Giscard d'Estaing,** the French leader now seeking re-election, has been offering to help Reagan establish a dialogue with the faction of "moderates" in the Soviet Union around Leonid Brezhnev, for the purpose of defusing potential confrontations by cooperating around a common program of economic development in the Third World.
- **President López Portillo** of Mexico, who successfully established a personal relationship with Reagan before Jan. 20 and later established an historic alliance with India's Indira Gandhi, has provided channels and policies for establishing a North-South dialogue for development that would cut through the genocidal conditionalities policy of the World Bank and the International Monetary Fund.
- **Lyndon H. LaRouche, Jr.,** the Chairman of the Advisory Board of the National Democratic Policy Committee (NDPC) and founder and Contributing Editor to the *Executive Intelligence Review*, has mobilized his resources and associates around a 30-day offensive to shift the course of the Reagan administration.

The efforts of these world leaders, LaRouche, Giscard, Schmidt, López Portillo, and Indira Gandhi, have stimulated the potential for a significant shift of policies in Washington toward a program of world economic development and scientific expansion.

Ousting the Volcker policy and the man from the Federal Reserve remains the key toward unlocking the door to a reasoned policy.

On Capitol Hill

Within Washington, the impact of this potential—largely organized by the combination of constituency mobilization in the United States directed by LaRouche's National Democratic Policy Committee and the international diplomatic efforts of the world statesmen I have mentioned—is most in evidence on Capitol Hill.

For example, one grouping of senators and congressmen associated with the Senate Armed Services Committee recently returned from visits to our NATO allies. Senator John Tower (R-Tex.), chairman of the Armed Services Committee, has brought the sentiments of our West German allies directly to the Senate floor. Tower pointed out that the high interest-rate policies of the Federal Reserve weaken the national security of the alliance by undermining its economic strength. Similar concerns have been voiced by several congressmen in the House of Representatives who also recently traveled to Western Europe.

Representative Jim Jones (D-Okla.), chairman of the Budget Committee, has publicly exposed the disastrous consequences of the economics of British Prime Minister Margaret Thatcher. Others from the Oklahoma delegation are voicing similar concerns.

House Majority Leader Jim Wright (D-Tex.) has been leading a grouping from the Texas delegation, including Representative Mattox (D-Tex.) and Rep. Bill Patman (D-Tex.), in open confrontations with Paul Volcker at congressional hearings. Other senators and congressmen from Pennsylvania, New Jersey, Ohio, West Virginia, Louisiana, Kentucky, California, Arkansas, Alabama, Montana, Nebraska, and North Dakota have issued public statements encouraging the need for a sharp reversal of Paul Volcker's policies.

In addition to the antiscience cluster of Stockman, Train, and Ruckelshaus, two other groupings are in the arena in Washington. One is the so-called nuclear mafia, composed of pragmatic officials from three companies: Bechtel, Westinghouse, and General Electric. All three took huge profit losses in the environmentalist climate of the past four years. Now, they are pragmatically prepared to kill every decent science program—from fusion energy to MHD—as long as the nuclear breeder program gets funded.

The survival of science in the United States depends upon a few stalwart political leaders and the Fusion Energy Foundation. Representative Marilyn Bouquard (D-Tenn.), who is replacing Mike McCormack as chairman of the House Energy, Research, and Production subcommittee of the Science and Technology Committee, is one congressional leader who has made clear her commitment to see McCormack's 1980 fusion energy act put into practice.

Calendar for action

Over the next 30 days, the course of the Reagan administration will be determined. If the administration can be placed in a "political vise" between the appropriately focused constituency demand for a true anti-Volcker program for scientific development and economic expansion, *and* the international diplomatic efforts of Helmut Schmidt, Giscard, López Portillo, and Indira Gandhi, the historic mandate of last November's election may be fulfilled.

For his part, Lyndon LaRouche has announced an offensive of activity for this 30-day period. In early March, LaRouche, accompanied by his wife Helga Zepp-LaRouche, the chairman of the European Labor Party, will travel to Mexico.

On March 17, LaRouche's National Democratic Policy Committee is taking part in an Anti-Volcker Day in Washington, D.C. along with business, farm, and labor constituency groups from around the nation. Included in the day will be a rally and press conference at the Federal Reserve headquarters, and intensive lobbying on Capitol Hill.

On March 26 and 27, the *Executive Intelligence Review* will hold a two-day conference, including substantive discussion of an oil-for-technology program between the United States and Mexico and intensive discussion of who's-doing-what-to-whom in Central America.

On March 20, the *Executive Intelligence Review* will also hold a conference focusing upon the policy perspectives of our West European allies. Particular emphasis, on the eve of Helmut Schmidt's visit to Washington and the French national elections, will be given to the overall political and cultural initiatives of France and Germany, the military implications of American economic policy, and other strategic concerns.

Within the next 30 days, the mandate of last November's elections will be determined in substantive form. Now that we are in the month of March, the world has a right to demand that the new administration take over—and that the corrupt policies of the Carter administration be ended.

Warren Hamerman is the chairman of the National Democratic Policy Committee, a multicandidate Democratic political action committee and policy advisory organization.

Stockman's Global 2000 approach

Contributing Editor Christopher White identifies the real planners of the Stockman budget and its consequences for world population potential.

Crucial features of the economic package drafted for the Reagan administration by David Stockman, head of the Office of Management of the Budget, have been lifted directly from the genocide blueprints *Global 2000 Report* and *Global Future, Time for Action.*

These reports, commissioned during the administration of the psychotic Jimmy Carter, committed the United States as a nation to the policy goal of reducing the world's population by over 2 billion people between now and the year 2000.

The adoption of these reports is touted by supporters in the National Resources Defense Council and the World Wildlife Fund as a historical first. "For the first time a major nation has adopted global goals of population control as its policy," an environmentalist spokesman said in a recent interview.

If the adopted features of the Carter program, including the specific evils foisted on the Reagan administration by Stockman, are not reversed promptly, the result intended by the drafters of the plan will be genocide on a scale incomparably greater than anything Adolf Hitler contemplated. In the words of Harlan Cleveland, the NATO-Aspen Institute spokesman who is systematically promoting Global 2000, "With no development policy and a Kissinger-Brzezinski line, we'll get the politics of turbulence and chaos in the Third World. . . . Breakdowns like in El Salvador . . . could easily degenerate into a hundred Cambodias, where, if they haul off and kill one-third of the population, this would be delightful for the demographers."

Those who are now defending the so-called economic package on the grounds that "it should be given a chance to work" should be informed that their ignorance or stupidity is making them accomplices of those whose evil intent is to reduce the world's population by the indicated order of magnitude.

The Stockman budget follows the Global 2000 blueprint in the following areas.

• Proposed cutbacks in science and science education programs.

• Cutbacks in government-backed high technology and infrastructural programs, such as the proposed cuts in NASA space program funding and in internal water resources development programs.

• Cutbacks in labor and social service programs.

The pedigree of Stockman's budget hit list is recognized by supporters of the Global 2000 policy such as John Oakes, former senior editor of the *New York Times.* In a Feb. 17 op-ed, Oakes proposed the elimination of certain water projects, including Tennessee-Tombigbee, the Red River Waterway, and expansion of Lock and Dam 26 on the Mississippi.

In a followup interview, Oakes told an investigative reporter, "I got most of my information for that editorial from the *Global 2000* report and its current update the Global Future."

Who's behind Global 2000

As *EIR* has identified, the Global 2000 genocide perspective was elaborated during the Carter administration by the largest interagency task force ever assembled within the U.S. government, collaborating with selected outside advisers.

The teams were at the time under the direction of Oakes's fellow *New York Times* associate Secretary of State Cyrus Vance and his successor Edmund Muskie.

The task force built upon foundations that had been laid within the State Department and the National Security Council by Henry Kissinger, who was responsible for the establishment of population control offices in both the indicated sections of the executive branch.

Now Cyrus Vance has joined with Elliot Richardson, holder of a variety of government positions under Presidents Nixon and Ford, Aspen Institute head Robert O. Anderson of Atlantic Richfield, and others to form a "Committee for the Year 2000" to ensure that the genocidal goals adopted by the former Carter administration are continued under President Reagan. Senate hearings sponsored by Sen. Charles McC. Mathias of Maryland have already been held to elaborate their genocidal perspective.

This combination, for example, created the ongoing bloodbath in El Salvador in order to further their objectives. As they did so, they gloatingly asserted that new Secretary of State Alexander Haig was their man. Subsequently Latin American desk officer Thomas Ferguson in the State Department's Office of Population Affairs has reported that problems in that country are caused by overpopulation, and that bloodshed will continue until that poulation is reduced. Muskie, Vance, and their allies plunged black Africa into the holocaust of war, famine, and drought which now endangers over 100 million people. The Carter administration repeatedly refused to adopt polices that could reverse that crisis.

The predecessors

The Global 2000 project is the latest outgrowth of a series of efforts set into motion in the late 1960s with the 1967 formation of the neo-Malthusian Club of Rome of Aurelio Peccei as a branch of NATO intelligence and with the concomitant secret recommendations of Robert Rapaport, the Ann Arbor, Michigan-based agent of London's Tavistock Institute, to cut back the NASA space effort because the scientific and technological ramifications of the program were proliferating too rapidly for Tavistock's liking. Stockman's present budget follows the same tradition.

In 1969, Richard Nixon established a Presidential Commission on Population. That commission included in its membership such individuals as George D. Woods, former World Bank president and a spokesman for the genocidal policies of the environmental lobby. The Presidential Commssion reported its findings in 1972, including the recommendation that the growth of U.S. population no longer be regarded as beneficial.

The 1972 report correlated the global availability of cheap, abundant sources of energy and water with potentials for population growth. It was asserted that control of energy and water were key to accomplishing goals of population reduction.

The cited presidential report was followed later in the 1970s by the series of publications sponsored by the Club of Rome, including the Meadows and Forrester *Limits to Growth* tract and others. Using different languages to accommodate to the different susceptibilities of populations to accept policies that mean their own suicide, the Club of Rome reports elaborated the Presidential Commission's argument.

Global 2000, based as it is on conceptions of finite resources, the earth's finite capacity to support life and so forth, continues the tradition.

In 1970 it was projected that there would be over 8 billion inhabitants of the globe by the year 2000. By the mid-1970s that figure had been reduced to approximately 7 billion. By the time Global 2000 was issued, the estimate had been reduced further to approximately 6.35 billion. Despite much lying by the proponents of finite-resource economics, the advocates of Global 2000-type perspectives know perfectly well why such a projected drop has occurred, and why humanity's capacity to support a potentially enlarged population base has been curtailed in the way it has.

These are the circles exemplified by George Ball, coconspirator to install the Khomeini regime, and by the Club of Rome's George McGhee, who, in McGhee's words, exult that "high [oil] prices have kept world population down."

These are also the circles that have fought relentlessly for more than a decade to slow up and stop the development of nuclear energy, and to curtail the investment of funding for nuclear fusion development. Full-cycle fission technology, pushed ahead rapidly more than a decade ago, would have made available the cheap and abundant sources of energy the drafters of the Nixon report on population feared. At the same time, adequate and sustained funding of fusion programs would have contributed to advancing the frontiers of basic science to the point where humanity could be capable of overcoming so-called finite resource problems for an era to come.

Stockman and Volcker

Not surprisingly Stockman's budget axe has fallen particularly hard on both basic science and the fusion program, as part of a supposed compromise with the genocidal austerity policies of Paul Adolph Volcker, who, as an advocate of the Council on Foreign Relations 1980s Project, is himself an adherent of the Global 2000 bestiality.

Volcker, like Cyrus Vance, Elliot Richardson, and Robert O. Anderson, knows that human survival is dependent on constantly enhancing, through scientific breakthroughs, the availability of cheap and abundant energy. He therefore proposes that credit policy be shaped to abort the realization of the moral human obligation to posterity to ensure the continued basis for human existence. Volcker and Vance know what they are doing, despite the fact that the scale of the genocide envisioned staggers the imagination of the ordinary citizen who has grown inured to the constant demand for ever more austerity.

Stockman's proposed budget is an instrument of the broader policy on behalf of which Volcker, Vance, and company are deployed. His supporters and dupes are to be encouraged to change their minds in light of the genocidal consequences of their continued toleration of such efforts and outlooks. Much as they may desire to achieve growth policies, they need to be reminded that a label marked jelly-beans does not always guarantee the contents of the jar.

Stockman's sponsors are not so cautious in the presentation of their policy, as the following inteviews and comments attest.

Documentation

Harlan Cleveland: '100 Cambodias'

The following interview with Harlan Cleveland, provided to EIR, *took place on March 2. Mr. Cleveland is the director of the Hubert Humphrey Foundation in Minneapolis and former director of the program in international affairs of the Aspen Institute for Humanistic Studies, Princeton.*

Q: What is the Reagan administration's foreign economic policy?
A: Reagan doesn't have a foreign economic policy, and the administration is not likely to be at all concerned about economics in the Third World. Haig is taking charge, but so far all he has is a military policy. It sounds just like the old Kissinger-Brzezinski policy, no economic content, but purely looking at the world through the prism of U.S.-Soviet relations. This means we'll be experiencing a lot of trouble, more than if we treated development policy as if it were economics. As I wrote in my piece, "The Triple Collision of Modernization," there are going to be plenty of Irans and El Salvadors; the lack of development policy could result in El Salvadors in over a hundred countries I can think of. In a country like El Salvador, we need a development policy which treats the problem like a land-reform problem. In Iran, we need a policy to deal with and cooperate with Islamic law and domestic culture. Then there is the rate at which modernization, industrialization, is colliding with the fairness revolution, where people just don't think "trickle down" is fair. We need a policy to ameliorate that.

But Reagan has no policy. In fact, I hear he's going to abolish the International Development Cooperation Administration, which Tom Ehrlich set up at the White House. And with no development policy, and a Kissinger-Brzezinski line, we'll get the politics of turbulence and chaos in the Third World, which will then become the drive-wheel of world politics. This failure to ameliorate the development process is a national security issue. Development, industrialization, produces turbulence, security problems, terrorism; it's the most dangerous part of our national security problem today. It's just not on the Reagan agenda. So the major thing I expect is not mushroom clouds, but one hundred El Salvadors. We will be experiencing a pervasive incapacity to govern by national governments all over the world. Governments will be torn apart by the split resulting from this process in society.

Q: What does this mean for Third World economic growth?
A: It means a wider and wider chasm between the El Salvadors of the Fourth World, which will not even have the term "growth" applicable to them, and the Koreas of the newly industrializing world. Growth in the El Salvadors will not be the word. It will be un-growth. It means that population will cease to be a serious problem in these areas.

Q: What about the warnings of Global 2000 on the need to reduce population?
A: As a matter of fact, I found the predictions of world population size and resource scarcity in Global 2000 strikingly optimistic. Previous reports had been much gloomier, had estimated much bigger populations and much more resource scarcity, especially of oil and water, well before 2000. Global 2000's timeframe for running out of things is not so quick. They don't even see any havoc in water scarcity until the turn of the century, which I'd rate as very optimistic. My impression has been that the *one* thing we need to worry about is water. The draining of U.S. groundwater is alarming, the rate we are using it here out West. And it will only get worse, because we have to cut all these water projects, which are harmful to the environment. It can't be helped, it's a double bind.

Q: But what do you mean "more optimistic?"
A: I mean, Global 2000 is much more optimistic about our being able to get population down by 2000. They apparently are taking what I've said about turbulence in the Third World into their calculations.

Q: You mean that breakdowns in El Salvador and so forth will reduce population growth?
A: Within a given country. We've got breakdowns in El Salvador, had breakdowns in Lebanon, and complete breakdown in Cambodia. Mere breakdowns like in El Salvador in these hundred countries won't be enough to make a difference in global population growth, the countries are too small. But these could easily degenerate into a hundred Cambodias, where, if they haul off and kill one-third of the population—which would be delightful for the demographers—this is a much more plausible way to affect world population growth. It is also not inconceivable that we would have El Salvador in the bigger countries like India, Bangladesh, Pakistan—particularly the fairness revolution will hit there, with the trickle-down theory failing completely. These are the countries which would really make a difference to world population.

Q: Do you see such things in the Mideast, any more Irans?
A: Yes, I see the potential for several blowups and disintegrations of capitalist governments on the El Salvador model. Many of these countries do not have governments with credibility to the population under the fairness revolution, like Saudi Arabia. The fairness revolution will not allow Saudi Arabia to go on producing oil at these rates, which are regarded as a handout to the Americans.

Q: Do you see a further rise in oil prices?
A: Yes, and probably a real price rise.

Q: John Swearingen of Standard Indiana said he saw $80 a barrel by 1985.
A: That's in the right direction, but too conservative. We need to have oil prices rise not only with inflation, but we need a rising real oil price to make alternative fuels economic. We should deregulate all oil and natural gas, and let prices rise through the market price mechanism. Then we can do away with government subsidies to synfuels and so on. This is what Reagan is doing, and on this I agree fully with him. We are going to get real environmental conservation through his program, because at higher prices people will consume less. That's what's important—to get a reduction in per capita energy consumption.

Q: What will be the effect of this on Europe?
A: Extremely onerous. Their only answer will be to move further and faster into the innovative industries, information industries which are less energy-intensive, and less resource-using. They will have to move a lot faster. I'm not doing much work on this for Europe, although my brother, Harold van B. Cleveland, is chairing some OECD committee on the subject. But basically Europe will have to make a total industrial policy adjustment as we do here. We can no longer have an industrial policy which just rescues the weak sisters and stifles the strong industries. Look at our priorities—backwards, we rescue Chrysler and sue IBM. Insane. A nonsense policy. We're going to be having a conference here at the end of April on "Industrial Vitalization." Notice, I omitted the "Re-" in "Vitalization." That's for Chrysler and for the steel industry. We have to make clear we don't have scarce resources to throw away on revitalizing these. Chrysler should be merged away, like they do in Japan, and Reagan is heading in the right direction on this. We have to get the government out of providing these services altogether, and bet most of our marbles on new technologies. I mean technologies which are non-energy-intensive and non-resource-intensive. This way we can have a society which is much less energy-intensive per capita, here in the U.S. We should structure all our tax breaks, for example, to much, much faster depreciation, only for these new-technology industries.

Q: Who is coming to your conference.?
A: Malcolm Baldridge, Henry Reuss, people like that. That's who you can talk to about Europe; the best people on Europe are at the JEC.

Q: Will lowering energy per capita help reduce our population growth?
A: Yes, among Americans, but then we'll have to stop the waves of immigration we're going to get. We're bound to have to clamp down hard. As the U.S. population falls, immigrants will pour in. We'll have to come to an agreement.

Q: Could Mexico be the next Iran?
A: Certainly, they're handling it quite badly—the Iran problem. They've forgotten all about the revolution; they have a lot of prosperity for a few. Mexico could be badly unstable.

George McGhee

From a March 2 interview with George McGhee, director and former chairman of Mobil Oil, provided to EIR. *Mr. McGhee was ambassador to Turkey in 1951-53, adviser to NATO and the National Security Council in 1959-61, and ambassador to West Germany in 1963-68. He is currently a director of the Aspen Institute and a member of the Population Crisis Commission.*

Q: What has been the Reagan administration's reaction to Schmidt?
A: Schmidt's statements are not appreciated here in Washington. His judgment is not good. No one is going to listen to him, and U.S. interest rates won't be affected in the least.

Q: Why has there been no Reagan response to Schmidt?
A: There is no necessity felt by Reagan's people to respond to him. They don't care about international pressures. They intend to take care of domestic inflation, no matter what the international ramifications. They have no international policy as far as I can see.

Q: What does this mean for the world economy?
A: U.S. rates will keep rising, or stay high, as long as there is inflation. There will be inflation as long as there is overconsumption and transfer payments in the West.

Q: What about oil prices, do they contribute to the problem?
A: Oil prices will continue to rise and will make the problem worse and worse. OPEC will be raising the price

of oil equal at least to each yearly rise in world inflation. You could say that oil prices are indexed to inflation.

Q: Will OPEC approve the OPEC Long-Term Strategy document indexation?
A: Oil is already de facto indexed. This is the real cause of Germany's problem, it hurts them worst in Europe, and it hurts the Third World. It will only make the German economy worse and worse, and there is nothing that can be done. The administration has no policy regarding this, other than that we must cut our own oil consumption, as the Germans have done.

Q: Does this mean permanent recession for Germany?
A: It means Europe will be in recession for a long time.

Q: You work with the Population Crisis Commission; do you see this leading to a reduction in populaton growth in Europe? Do you agree with the conclusions of Global 2000?
A: German population is already at zero growth; in fact, I think it's sub-zero growth, as a result of this process. German population, European population generally, is not a problem. The most pressing population problem we have is in the Third World. India, China, Bangladesh, Africa, Latin America, still have populations increasing too fast, in spite of the fact that the world recession has reduced per capita income to $150 per year. We've tried to teach them birth control, planned parenthood, it's been a failure. The process is too slow, the populations continue to grow. That's the Global 2000 message.

Q: Hasn't the rise in oil prices affected population at all?
A: Certainly, it has helped a great deal, but not enough thus far. The price of oil bears absolutely no relation to the costs of production, and is hurting the LDCs tremendously. It's already caused a cataclysm in the Third World, they have lost any hope of developing whatsoever because of oil-price increases. Look at Turkey, every cent they have goes to pay the oil bill, they can't spend anything on industrialization.

Q: Is it causing population reduction?
A: Not yet, but it's causing sub-zero economic growth. There will be no growth, in fact, negative growth, in the Third World. That means fewer people.

Q: What will be Reagan's foreign economic policy toward the Third World?
A: None, as far as I can see. They don't feel it is their job. Their lack of foreign economic policy will mean that development in the Thrid World will be increasingly downhill. They seem content to let this happen. There is going to be negative economic growth in the Third World for the forseeable future.

Q: Does this mean the Reagan administration has endorsed Global 2000?
A: I don't think they know what it means. They're simply not aware of the need to have a foreign economic policy.

George Ball

From an interview provided to EIR *with George Ball, author of the 1976 book* Diplomacy in a Crowded World, *and senior partner in Lehman Brothers, Kuhn Loeb.*

Q: What has been the Reagan administration's response to Helmut Schmidt?
A: None. Germany will have to keep up interest rates as long as the administration feels it is necessary for U.S. domestic policy. Reagan feels U.S. policy comes first. This will cause great suffering in Germany, and a deep recession.

Q: Do you see Germany entering the postindustrial society as the U.S. has?
A: They are well on their way. They have declining productivity and they will have to live with the repercussions of U.S. credit tightening.

Q: But what is the Reagan administration's foreign economic policy toward Europe?
A: The administration has no foreign economic poli' toward Europe, except El Salvador. Haig is the only person running foreign policy of any type as far as I can see, and no one is running foreign economic policy. Economic policy is being pushed aside. Haig is running everything, and he's not the least bit interested in Europe. All he cares about is fighting the Soviets in El Salvador, and challenging them generally in the Third World.

As a result, there is tremendous friction between the U.S. and Europe. I spoke to John J. McCloy the other day, he gave a speech at the Council on Foreign Relations three days ago, part of which was based on my recent *Foreign Affairs* piece. Jack is very depressed, he sees U.S.-German relations at an all-time low because of the total lack of Reagan administration concern for foreign economic conditions, and so do I. Unfortunately neither of us have close relations of any sort with the administration. There is not much we can do about it. Eagleburger might help, he knows his way around, but that guy from North Carolina is giving him trouble with his confirmation. There is no policy.

John Oakes

John B. Oakes, former senior editor of the *New York Times,* in a recent interview made available to *EIR,* stated that he supports the ideas contained in the *Global 2000 Report* and states that OMB Director David Stockman used Global 2000 as the basis for his proposed cuts in the U.S. budget. Oakes had authored an op-ed article in the *Times* Feb. 17 entitled "An Insecurity Budget" in which he wrote that the greatest threat to the United States's national security "springs from the unprecedented pressures of global population increase, worldwide resource depletion, and universal environmental degradation, menacing the security and stability of this and every other country. What is new and rapidly more dangerous, is the rate of population growth in the most impoverished countries; exhaustion of renewable resources in the most overpopulated countries, and susceptibility to demographic exploitation in the most underdeveloped countries. . . . [The] U.S. [must] contain these conditions and promote *sustainable* economic development in the Third World, as it does in not adding to the overkill capacity of [industry in] the First World [emphasis in original]."

In the subsequent interview, Oakes said, "I got most of my information for that editorial from [Global 2000] and its current update, *Global Future*. These two reports are extremely important, and we are concerned to advise the public of their findings in every way possible. Overpopulation in the Third World and overindustrialization in the industrial world are the greatest threats to our national security."

Oakes, in his article, intends to prevent such "overindustrialization" by supporting the cuts in infrastructure projects such as the Tenn-Tom waterway, the Red River waterway, the Central Arizona water project and the Mississippi River Lock and Dam 26. In the interview, Oakes complains that the budget does not cut deeply enough at these projects. He said, "I'm told by people close to him that Stockman, privately, is in complete agreement with these cuts I've proposed. He recognizes that they must be cut, for environmental as well as national security reasons and wants to push them through. I haven't asked Stockman about Global 2000, but I understand he is sympathetic to that as well."

Further, Oakes noted, "If Tenn-Tom were stopped today, there would be no futher industrial development along the Tennessee Valley, which would reduce energy consumption. And there would be no further increase in population growth on the northern Mississippi. This would help."

Sen. Charles Mathias

The following excerpt is from a Feb. 27 speech by Sen. Charles Mathias, Jr. (R-Md.) to the Congressional Staff Forum on Food and International Development in Washington, D.C.

The [Foreign Relations] Subcommittee [on International Economic Policy] hearings [Feb. 26-27] included the most sobering testimony on the interaction between poverty and population, and the effects of both on the earth's finite resources. The *Global 2000 Report,* issued in July after three years of research by more than a dozen government agencies, was equally sobering. It found the earth's resources severely strained through reckless exploitation to meet the economic demands of a growing world population.

The report projected a world in the year 2000 of 6.35 billion people, faced with a litany of woes: a wider gap between rich and poor; no increase in food consumption for most people; high fuel costs and shortages of fuelwood; loss of much of the world's farmland to erosion, salinization, and urbanization; shortages of fresh water; a 40 percent reduction in tropical forests; extinction of 20 percent of the species of plants and animals now living; increased acidity of rain and snowfall; rising carbon dioxide levels in the atmosphere and decreasing ozone levels in the stratosphere; and a dangerous and expensive scramble by nations to secure dwindling stocks of energy and mineral resources.

The world depicted by the *Global 2000 Report* would be "more vulnerable to disruption than the world we live in now." It would seriously threaten the political and economic security of the United States. It would be a Hobbesian world: "red in tooth and claw."

It would be a serious mistake to dismiss Global 2000 as just one more in a series of gloom and doom studies. The stunning fact about Global 2000 is that it is based on conservative assumptions: "that the policies of governments and private companies stay much as they are today; that the technological advance continues at the same rate as in previous years, with no revolutionary breakthroughs; and that major wars and other catastrophes do not intervene."

Global 2000, in other words, assumes business as usual. It will all come to pass, as conservative columnist James J. Kilpatrick points out: "If we fail to heed the clear warnings of this study—if we fail to take sensible actions now. . . ."

Justice Department turning into a national police apparatus

by Jeffrey Steinberg

On Tuesday, March 3, the *Boston Globe* devoted a full page to a reprint of a *Washington Post* story praising Federal Bureau of Investigations Director William H. Webster. Three years into Judge Webster's 10-year term, *Post* writer Tom O'Toole asserted, the Bureau has thoroughly cleaned up its once-tarnished image. Minority hiring has dramatically increased, the old J. Edgar Hoover Cointelpro apparatus has been cleaned out, and no longer does the FBI face a battery of civil rights suits and pending criminal trials of top officials.

Even American Civil Liberties Union director Jerry Berman, a former editor of the Philip Agee-linked *CounterSpy* was trotted out to praise Webster's "Mr. Clean" approach to federal law enforcement. "I think Webster has moved the FBI away from politics and toward a focus on real criminal interests. It's a healthy focus," he said.

Beyond this public-relations hype lurks a very different reality, a reality that prompted one career law-enforcement official this week to describe the present state of crime prevention as "our darkest days."

The FBI is making a power play to assume control over *all federal enforcement functions*. Manuevers in the bureaucratic shadows have the aid of some very strange bedfellows—not least the *Washington Post*.

If FBI Director Webster succeeds, the new, reorganized federal law-enforcement community will consist of only one agency: the FBI.

- The Office of Management and Budget has already acknowledged that the Treasury's Bureau of Alcohol, Tobacco and Firearms has been totally axed from the new federal austerity budget. ATF's enforcement functions—which cover all investigations into federal weapons violations, contraband alcohol, and tobacco-smuggling—are to be turned over to the FBI.
- OMB adviser Col. Dick Williams confirmed to *EIR* this week that he is working on a reorganization plan to have the U.S. Customs Service, the Border Patrol, and the Immigration and Naturalization Service dramatically reduced, with all their domestic enforcement powers turned over to the FBI. A former assistant to the Carter administration's drug chief, narcotics legalization advocate Dr. Peter Bourne, Williams later served as Carter's OMB deputy director in charge of domestic policy.

Leading officials in both the INS and Customs have expressed extreme alarm at the Williams reorganization plan, which could be imposed by budgetary fiat without serious congressional deliberation. They note that the domestic offices of both agencies are crucial to all the investigative efforts, particularly those relating to drug-smugglng and illegal money-laundering.

- The Senate Permanent Investigations subcommittee (SPIS) this week issued a series of 11 guidelines for the Department of Labor aimed at forcing more stringent oversight by the federal agency over labor-union corruption.

Contacted by *EIR*, SPIS director William Goodwin admitted that the guidelines were not be expected to be received favorably by Labor Secretary Ray Donovan. "The Labor Department is labor's representation in the administration. You can't expect the Department of Labor to get tough with the unions."

The actual purpose behind the proposed guidelines, Goodwin conceded, is to build momentum toward turning over Labor's enforcement functions to the Justice Department and the FBI. Under such a reorganization, the DOL would be relegated to the role of a regulatory commission responsible for monitoring union compliance with FBI and Justice Department mandates.

- Informed sources in Washington have also indicated that the FBI has put in a bid to assume control over investigative and enforcement functions currently held by the Social Security Administration. This would give the FBI carte blanche to apply its Abscam and Brilab entrapment techniques to the enforcement of welfare and Medicare guidelines.

The drug issue is key

Of all the areas of federal enforcement Webster has set his sights on, the most serious is total FBI control over drug enforcement.

Until the Attorney General Ramsey Clark's term, drug-enforcement functions had been retained by the Treasury Department. This division of labor reflected an understanding that the key to drug enforcement lies not in capturing the smugglers or the pushers, but rather in tracing the drug rings up to their financial control points.

Under Ramsey Clark, the Bureau of Narcotics and Dangerous Drugs was transferred to the Justice Department, and the process of turning federal drug enforcement over to Hoover's gumshoes was set into motion.

In recent weeks, FBI Director Webster has openly called for the Reagan administration to bring the FBI into drug enforcement on both a domestic and international level. In a mid-February Associated Press interview, Webster went so far as to cite the FBI's Abscam, Brilab, and Pendorf political inquisition against noncriminal citizens as the justification for turning over DEA enforcement functions to the FBI. "We have had the most experience handling informants and deploying enormous sums of money."

The FBI's takeover of drug enforcement has already been initiated. The March 3 New York *Daily News* reported on a major drug bust involving an 11-person cocaine ring operating from Miami up to New York City. The largest cocaine buy-bust in U.S. history was carried out not by the DEA, but by the FBI.

Webster and Bensinger

U.S. intelligence sources have confirmed to *EIR* that the Federal Bureau of Investigation is making a takeover move against the DEA. They report that the strong opposition to such a consolidated Big Brother police-state apparatus is being countered by Webster through methods the FBI perfected during Abscam and Brilab: trial by press.

The sources report that over the next month, a series of scandals will be contrived to convince the Reagan White House that the Drug Enforcement Administration is too rife with corruption to be entrusted with the direction of a serious war on drugs. By default, the FBI will be given the mandate.

Judge Webster has recruited a dubious ally to his effort to wreck the DEA. During the last week in February, DEA Director Peter Bensinger, a holdover from the Carter administration, leaked an internal DEA document to the *New York Times.* That document accused the Northeast Region of the DEA (stretching from New England through the Mid-Atlantic states into Delaware) of having failed to meet its quota of drug indictments over a period of months in which heroin and other hard drug use had been on the rise. Using the self-administered press leak as a pretext, Bensinger summarily demoted the deputy director of the Northeast Region and one other top DEA official.

What are the anticipated repercussions of this move? U.S. and West European sources unanimously agree that the spring 1981 period will see the East Coast of the United States flooded with high-grade heroin. The Golden Triangle opium crop, which began harvesting this week, has been estimated at 700 metric tons, the largest bumper crop in history. Preliminary heroin shipments seized from Golden Triangle sources indicate that this influx of heroin is also of unprecedented high quality.

The shakeup of the Northeast region at this time is being viewed as a virtual guarantee that no effective prevention will be mustered against the heroin flood.

One former top-ranking official of the DEA estimated that the disruption of the DEA at this time may ring the deathknoll of the Reagan administration's entire antidrug effort—an effort that was a hallmark of the President's electoral campaign. "The first year of any administration is always the make-or-break-period for serious drug enforcement. If the administration gets entangled in scandals and in reorganizations, then forget a war on drugs."

It is a poorly kept secret in the nation's capital that DEA Director Bensinger is working closely with Judge Webster in the next phase of the FBI takeover move. The two are next-door neighbors and close collaborators. And Bensinger has made it clear that he aspires to a top position in the new, expanded FBI. The nephew of former Attorney General Edward Levi (a leading advocate of the centralization of federal enforcement and the author of the Levi Guidelines that placed severe restrictions of pre-emptive counterintelligence investigations of terrorist activities), Bensinger is a close associate of Charles Percy (R-Ill.), an unabashed senatorial supporter of drug decriminalization. The Percy Amendment of 1979 aborted U.S. government collaboration with Mexico in a paraquat drug-eradication program. Bensinger is also a national committee member of the Anti-Defamation League of B'nai B'rith, an organization that holds official status as an "agent-in-place" asset of the FBI and DOJ.

But who is the original author of the FBI's "Operation Big Brother"?

In 1978, Harvard Law Professor James Q. Wilson wrote a study called *The Investigators.* In that study, Wilson developed the legal arguments that have been the basis for the Civiletti Justice Department's defense of Abscam and Brilab. In the same study, Wilson advocated severing federal and state law enforcement from any accountability to political institutions, in effect, placing the FBI above the Constitution. From 1967, Wilson was a leading participant in the Toward the Year 2000 project, the direct antecedent to the Carter's Global 2000.

Eye on Washington by Richard Cohen

Where Zbig is working now

A certain kind of eeriness pervades any conversation here when the name Jimmy Carter is brought up. Jimmy has become the "forgotten man," or, more precisely, some people just don't want to remember. Official Washington has an efficient way of discarding what it considers its refuse, such as the Nixons, Hayses, and Abscam victims. But in the Carter case, Washington tells itself with actual relief, thank God he's gone and we can forget him.

What caught my eye recently, however, is that the member of Carter's entourage publicly acknowledged as the weirdest of all, Zbigniew Brzezinski, has remained. Zbig has landed a top job at one of the leading pseudo-conservative foreign-policy think tanks in D.C., the Center for Strategic and International Studies (CSIS), located in downtown Washington. What is more interesting is that CSIS is the home base of Henry A. Kissinger, or "HAK," as he is called at the center. Besides HAK and Zbig, CSIS houses a large number of Reagan foreign-policy transition team leaders and high-level influencers, such as HAK's close friend David Abshire, director of the center and transition team chief on foreign intelligence.

Last week I decided to peer into the center to see what new foreign-policy suggestions they were offering the new administration. On the morning of Feb. 27, the center gave its stage to Prof. William Paddock. Widely portrayed as a population expert, he was speaking on, of all things, El Salvador. Paddock looks like a Midwestern farmer but his message would be congenial to Pol Pot. "El Salvador's problem is not land reform, industrialization, or even the Russians. It's overpopulated. What we will see in El Salvador is one military dictatorship after another until its population is halved.

"Technology is not the solution, it's the problem: more technology means more misery." Challenged for a solution by attendees from the AFL-CIO's land reform operation in Salvador, he said, "Nothing can be done. The land determines how it will be used, and there has never been a successful land reform in human history."

When members of the audience brought up examples of developing countries such as Taiwan and South Korea, whose populations have grown with industrialization and have remained relatively stable, Paddock shot back, "Oh, that's not my area. I'm an expert on tropical agronomy." He added, "For those who happen to be concerned about the political situation [in El Salvador], I would suggest that the best thing would be to back the current military and start working with the opposition immediately, and then start working with the opposition to the opposition." At that point one attendee, William Colby, got up and walked out.

George Will loves Islamic fundamentalists

Columnist George F. Will was the featured speaker the day before at CSIS's conference on U.S.-Egyptian relations. He managed to incite a virtual riot of Egyptian government, embassy, and Al Ahram Club officials when he praised the heroics of the pharoahs as exemplifying Egypt's non-Arab national character. This, he declared, is why Egypt can and must break with the Palestinians.

Will, a member of the new Committee for the Free World, also accused the PLO of being the instruments of a Soviet plot—the same formulation promoted by Maggie Thatcher during her Washington visit that week. The author of the concept is Lord Bethel, the key London controller of those great democrats, the Afghan rebels. He and Will, in a manner described by some intelligence sources as "crazy," portray the rebels as legitimate Muslim nationalists, who, unlike Palestinians, must be supported.

Finally, Kurt Biedenkopf, chairman of West Germany's Christian Democratic Union opposition party, delivered a speech at the center on Feb. 25, calling for a year-and-a-half wage freeze for West German workers as the solution to the economic crisis there. Biedenkopf ended his address with the suggestion that Madison Avenue techniques could be used more extensively to convince everyone to accept a lower standard of living.

I asked Biedenkopf what he thought about Chancellor Helmut Schmidt's persistent assault on high U.S. interest rates. He said that the government is merely attacking the Bundesbank—not Federal Reserve Chairman Volcker. This line continues to pop up here ever since.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

House committee members blast Volcker

In separate appearances before the House Banking Committee and the House Ways and Means Committee, on Feb. 26 and March 3 respectively, Fed chief Paul Volcker faced a number of hostile committee members who confronted him with the inflatonary effects of his "anti-inflationary" tight-money policies. Banking committee member Jim Mattox (D-Texas) told Volcker, "I'll be fair, Mr. Volcker, in telling you right off that I'm a hostile questioner. I don't agree with many actions of the Fed. What the Fed doesn't seem to understand is that high interest rates are causing inflation today. . . . If I were your boss I'd fire you and the entire Federal Reserve Board." Mattox went on to note that while it was necessary to balance the budget, the increased cost of debt service on the national debt was the "single greatest percentage increase to the federal budget."

When Volcker avoided Mattox's charges, fellow Texas Democrat Bill Patman followed up with a series of straightforward, but devastating questions about the quantifiable impact of interest rates on inflation. "How much do you think tight-money policies contributes by itself to inflation? Do you find that higher interest rates add to inflation? When you raise the discount rate don't you have a higher rate of interest? What inflationary impact does that have on inflation? We can reduce government spending by reducing the interest rates, can we not, Mr. Volcker? How much will tight money add to the cost of the federal debt?" Volcker only hemmed and hawed that one couldn't draw any quantifiable conclusions about the impact of interest rates on inflation or on the federal deficit.

Capitol Hill insiders noted that it was no coincidence that it was two Texas Democrats who most effectively attacked Volcker, since House Majority Leader Jim Wright, also of Texas, has stated that Democrats must make the issue of high interest rates a central plank in their economic platform.

Hearings focus on population policy

Hearings will begin shortly in the House Census and Population subcommittee on a bill introduced by Rep. Richard Ottinger (D-N.Y.) that would set up an Office on Population Policy designed to limit population growth in the U.S. Ottinger's bill is an effort to implement the *Global 2000 Report* of the Carter administration.

In introducing the bill, H.R. 907, on Jan. 19, Ottinger declared that his bill "declares the goal of population stabilization, by voluntary means, as the keystone of a national policy of planning for demographic change." The bill would set up White House Office of Population Policy to coordinate the drive to stop further population growth. Also it would work to cut immigration into the United States and to enforce the same policy perspective on other nations.

In a speech to environmentalists on Jan. 22, Ottinger declared that his bill was a direct outgrowth of the *Global 2000 Report*. "As the comic strip character Pogo once said, 'We have met the enemy and he is us.' The *Global 2000 Report* sees our swelling numbers as an accelerating vicious spiral, one which depletes our resources and corrodes the environment at a rate which is endangering the complex and fragile systems on which life itself depends."

This is the first time that Ottinger's bill will get as far as committee hearings. Every year before when it was introduced it was referred to the Government Operations Committee and killed by Rep. Jack Brooks (D-Texas). Now Rep. Garcia (D-N.Y.) has agreed to hold hearings and Ottinger attached his bill as a rider to a census bill so that it was referred to Garcia's committee.

The subcommittee on International Economic Policy of the Senate Banking Committee concluded two days of hearings Feb. 26 which were, by and large, a public forum for the proponents of the Global 2000 report. The hearings dealt with the Third World, its economic and population problems. The last day focused on "the population bomb" and what to do about it. The featured speaker was Rep. James Scheuer (D-N.Y.), former head of the now defunct House Select Committee on Population. Sheuer heaped praise on Global 2000, stating that the document provided a "vision of the future." He told the Banking subcommittee chairman Sen. Charles Mathias (R-Md.) and Sen. Chris Dodd (D-Conn.), the only other senator present at that point, "The Third World must be made to bite the bullet. . . . The single most important thing that they can do is control population." Population problems, said Scheuer, dictate that the development of the Third World, to the extent that it takes place at all, must be geared to labor-intensive industries and agriculture. Mathias and Dodd supported Scheuer's outlook. Mathias, who during the hearings entered the *Global 2000 Report* into the *Congressional Record,* delivered a speech that same night in support of it.

Abscam guidelines under scrutiny

Justice Department official Paul Michel appeared before the House Judiciary Committee's subcommittee on Civil and Constitutional Rights on Feb. 26 to announce the content of guidelines promulgated by the Justice Department and the FBI to govern undercover operations such as those used in the Abscam and Brilab operations. The guidelines are currently under review by the new attorney general, William French Smith, and could be revised, but as they now stand they do not prohibit the kind of entrapment procedures undertaken in Abscam and Brilab.

Subcommittee Chairman Don Edwards (D-Calif.) expressed concern about the FBI's use of middle men, who are often criminals. "I am concerned about the risk entailed in the use of middle men, often men who have long criminal records and who sometimes are in the pay of the FBI. How do you control these people and how do you stop them from enticing innocent people?" Michel noted that if by some chance an innocent person is brought into a "scam" situation, "when the illegal offer is made, and if he is innocent, he will just walk away."

Republican Congressman Sensenbrenner of Wisconsin and the subcommittee counsel both asked Michel if he would make available to the subcommittee the transcripts of the Brooklyn court proceedings which are currently examining the procedural correctness of the Abscam operation. These hearings have heard current and former Justice Department officials denounce the Abscam tactics. The subcommittee counsel also asked Michel if he was dismissing the issues raised in that court proceeding overseen by Judge Pratt since the guidelines do not change previous FBI procedures and actually reaffirm the legality of them. Michel said that since the court proceeding was still ongoing, he could not make transcripts available and could not pass judgment on the impact of the final court decision.

The subcommittee has left its agenda open to continue consideration of the guidelines. They have not, as yet, given clear indication as to whether they will challenge the guidelines or let them stand.

Defense Department proposes naval buildup

Defense Secretary Caspar Weinberger presented proposals for a $33 billion increase in the 1981-82 national defense budget to the Senate Armed Services Committee on March 4. Of that total, $15.7 billion is geared for modernization and $4.2 billion for shipbuilding, with 51 new ships slated for building starts or conversions over the next two years. Secretary of the Navy John Lehman had previously informed the press that the United States plans to increase its fleet from 456 to 600 vessels.

Committee chairman Sen. John Tower (R-Texas) opened the questioning of Weinberger by asking whether "we have the industrial base to do this," and when Weinberger answered yes, the senator asked for examples of programs that were not being proposed because "our industrial base could not have sustained them." Weinberger made a generally evasive response, but noted that tactical aircraft, tanks, missiles, and shipbuilding have all been "adversely affected." Senator Barry Goldwater continued on Tower's theme, stating "I am very concerned about the continued deterioration of our industrial base, especially when we cannot compete with the Japanese and the Germans for automobiles, and even avionics and aircraft because we have to worry about our plants not being modern enough."

Former Secretary of the Navy Sen. John Warner (R-Va.) asked Weinberger what he meant when he stated that the U.S. must attain supremacy and superiority on the seas. Weinberger responded, "I mean we must have control of the seas and we must have the ability to defend our allies and go anywhere we need to go, much like England was able in the last century." Warner asked, "Do you mean a 'Rule Britannia' for America?" Weinberger answered, "It was a pretty good slogan then, but I don't care what you call it." Weinberger went on to indicate that the United States would be pressuring the NATO countries and Japan to contribute to the naval buildup, both in terms of augmented military spending and in terms of a "division of labor" of military construction.

National News

Clements calls for lower interest rates

In an interview given to *EIR* at the recent National Governors Conference, Texas Governor Bill Clements called for immediate moves to bring down interest rates, currently set at the 20 percent level by Fed Chairman Paul Volcker.

"The interest rates that we are suffering under, and that's the right word, are deplorable, and they are going to have a very detrimental effect on the economy of this country, and most particularly on our small businesses," Clements said. "I don't know of any business that can survive and borrow money at 20 percent. It's just not possible. So if our economy is going in fact to not only recover but move forward, those interest rates absolutely must come down. This is a fundamental factor."

When asked by *EIR* if he would ask President Reagan to take moves to force Volcker to bring down the rates, Clements said: "I have discussed this issue with President Reagan on several occasions. And I will continue to discuss it with him.

"But you must realize, as everybody else does, that our government being what it is, the Federal Reserve and Mr. Volcker are a separate entity, and that [Volcker] is really not under the control of the President of the United States," the Texas governor continued, inaccurately. "[Volcker] is an independent person, and it is an independent body; that's the way it was originally constituted, and it would take a constitutional change to alter that."

DOS chief lobbyist for continued grain embargo

Congressman Peter Peyser (D-N.Y.) confirmed to *EIR* this week that the key figure in the administration agitating to maintain the grain embargo against the U.S.S.R. is Secretary of State Alexander Haig.

"I'm sure that President Reagan won't lift the embargo, because I have talked to a number of people involved in this both at State and closer to the President. Haig feels that if we are talking tough to the Soviet Union and suddenly we give in, what would the Soviets think?" The congressman said the President had changed his mind about the embargo because the DOS and several other agencies have provided him with data purporting to show that the embargo has damaged the Soviet economy, an argument Peyser accepts as well. Secretary of Defense Caspar Weinberger also supports continuing the embargo, he said.

Peyser has introduced a resolution signed by 75 other congressmen urging the President to keep up the embargo. It has been referred to the House Foreign Affairs Committee. He commented, "In spite of what the farmers say, it has hurt them very little. The grain farmers are not hurting."

Conservative Democratic Forum demands more cuts

The Conservative Democratic Forum, a group of about three dozen extremely conservative congressmen headed by Rep. Charles Stenholm (D-Tex.), met with President Reagan March 5 in an effort to persuade the President that his budget cuts don't go far enough. They presented Reagan with a proposal for \$11.2 billion of further cuts, including funds for financing the strategic petroleum reserve, the Legal Services Corporation and foreign aid programs. The group also included among their cuts, however, a call for the total phaseout of the Davis-Bacon Act, which provides for union scale wages for government construction projects.

President Reagan apparently expressed his gratitude to the group for backing his budget cuts and said he would review their proposals.

The Conservative Democratic Forum did not mention at all the crisis that high interest rates are creating for the U.S. economy.

Sources close to the conservative group report that Stenholm said that the Forum has been discussing the high interest problem privately, and will shortly make a public statement on it and on tax policy.

Congress ups the fight over fusion

In appropriations subcommittee hearings of the House side March 5, Rep. John Myers (R-Ind.) stated that the McCormack Magnetic Fusion Energy Engineering Act of 1980 requires the Secretary of Energy to embark on a program to operate a fusion engineering device by 1990. Testifying for the DOE, Carter holdover Douglas Pewitt stated once more that the current administration has no intention of making a commitment to meet "all the goals set forth in the law."

Myers asked, "You mean you'll pick and choose what parts of the law of the land you will obey?" The act was passed by a large margin in Congress and signed by President Carter.

Pewitt, who characterized the McCormack act as "a permissive piece of legislation," said that after reviewing the fusion program the Reagan admiinistration might not want to build the next-step device. Myers countered that he wants something in writing from the Secretary's office stating that the DOE is not going to carry out the law.

Secretary Edwards has himself repeatedly expressed support for the fusion program. Armed with Edwards's statements, Senators Harrison Schmitt and Mark Hatfield had raked Pewitt over the coals on March 4 at the Senate Appropriations Committee hearings.

In response to continued hostile questioning from the House committee, Pewitt revealed that the world-famous Princeton Large Torus fusion experiment, which still holds the world record for plasma temperature, would be shut down in his budget request as a tradeoff to keep other Princeton experiments on schedule. Other important experiments will be dropped.

In his parting remarks, Pewitt stated that "there is no reason that the country has to have a crash program in fusion since we have so many other sources of energy," and that crash programs waste money!

On March 10 the final Reagan budget proposal for the DOE will be released.

Haig caught plotting with Socialist International

Alexander Haig's envoys to Sweden and Latin America sat down on March 3 to "cordial" discussions with the top leadership of the Socialist International and coordinated deployments over El Salvador, just as Haig was announcing to the American people that the U.S. would have nothing to do with negotiations. Special envoy Herman Cohen told the Swedish Social Democrats outright that "if their attempt to mediate can open a dialogue between the democratic forces in El Salvador, then of course it is good," according to the Swedish press reports. Meanwhile Gen. Vernon Walters, straight from meetings with his "old friend" General Pinochet in Chile, delivered the same message to Latin American Social Democrats as they chatted in a "cordial atmosphere" during a Second International session held in Panama.

Haig spent all week twisting arms in Europe and Latin America to ensure that negotiations independent of Socialist International control collapsed, particularly those proposed by the West German government. Conveniently, Major Roberto D'Abuisson, believed to head the Salvador right-wing death squads, announced March 2 that if the Salvadorean junta entered any negotiations, a military coup would depose its civilian chief, President José Napoleon Duarte. Duarte canceled his trip to Western Europe for private negotiations.

On March 5, however, a West German Social Democratic spokesman officially denied that Socialist International chairman Willy Brandt had been offered a direct role in negotiations, despite the Latin American Socialist International declaration to that effect. Haig and Brandt may have been thrown on the defensive.

Washington rally scheduled against Volcker

The Ad Hoc Committee to Bring Down Interest Rates announced March 3 that it will sponsor a demonstration in Washington, D.C. March 17 against the Federal Reserve's high interest-rate policies, in front of the Federal Reserve's building. Their press release announcing the demonstration said that "in attendance will be approximately 150 trade unionists, businessmen, and farmers from the state of Pennsylvania, along with delegations of farm, business, and labor leaders from other states. The press conference will be followed by a day of lobbying for lower interest rates and Mr. Volcker's resignation.

"The press conference and lobbying efforts are being jointly coordinated by Stan Hoynitski, executive director of the Pennsylvania Indpendent Auto Dealers Association, John McCarrell, President of UAW Local 544 of Pennsylvania, and Mike Bonn, President of USWA Local 2227. Mr. Hoynitski was elected chairman of the committee at a meeting of 22 business and labor leaders in Pittsburgh on Jan. 13. Since that time he has been contacted by numerous business, farm, and labor leaders throughout the state who have expressed their urgent concern about the impact of Volcker's policies on the economy. Many have echoed House Majority Leader Jim Wright's statements that Volcker's policies are not halting inflation, but fueling it. Others have stated that Mr. Volcker's policies if not reversed, could precipitate a major economic collapse.

"The press conference, demonstration, and lobbying activity is being done in Washington, D.C. on March 17 for the purpose of focusing national attention on this problem and urging Congress to assume responsibility for directing the policies of the Federal Reserve," concluded the statement.

Briefly

- **PRESIDENT RONALD REAGAN'S** statement to Walter Cronkite that he favors an open border wih Mexico directly countered the report issued by the Commission on Immigration headed by Global 2000 supporter Father Theodore Hesburgh. At the same time, Reagan approved "tight money" policies during the interview, which would inhibit jobs for immigrants.

- **JESSE HELMS,** the anti-Trilateral Commission conservative senator, was reportedly snookered into support for Alexander Haig by David Rockefeller, who told him how tough Haig is on communism.

- **DAVE VAN HORNE,** a Kentucky state legislator, attacked state Attorney General Neil Welch's operations against Democratic politicians at a press conference this week. Welch is the former New York FBI chief who initiated illegal Abscam operations. Van Horne denounced Welch's "God Squad" electronic surveillance methods in Kentucky.

- **JOHN LEHMAN,** Secretary of the Navy, said March 3 that the U.S. should stop complying with the terms of the unratified SALT II treaty. Lehman is a former personal assistant to Henry Kissinger.

- **JOHN CONWAY,** head of the American Nuclear Energy Council, told the House Subcommittee on Energy Conservation and Power that nuclear power generation could replace 4.5 million barrels of imported oil per day if the 93 reactors now planned are finished within this decade.

- **ABILENE,** Kansas was the site of a recent meeting sponsored by the Dickinson County Farm Coalition, titled "The Truth About the Federal Reserve." Spokesmen for the American Agriculture Movement, for the newly formed Parity Foundation, and for Sen. Nancy Kassebaum, were featured.

Energy Insider by William Engdahl

Small coal-producer program fiasco

Will the new administration do anything to get this cost-effective guarantee moving out of the quicksand?

A delegation of coal-state congressmen recently met with the new energy secretary, Dr. Jim Edwards, to discuss complaints over the failure of the previous administration to implement a program called the Coal Loan Guarantee Program. The delegation, headed by West Virginia Democrat Rep. Nick Rahall, pointed out that since passage of that program, an amendment to the Power Plant and Industrial Fuel Use Act of 1978, the program has failed to issue a final loan guarantee to one single small coal mine.

The issue is important. Independent coal operators produced almost 50 percent of our nation's coal last year. Representative Nick Rahall and other coal-state congressmen successfully gained passage of an amendment to the 1975 Energy Production and Conservation Act (ECPA). That amendment was designed to stem the alarming rate of shutdowns of hundreds of smaller independent coal-mining operations in areas of West Virginia, Tennessee, Ohio, and elsewhere. The federal government, through creation of an administering office in the Department of Energy, would encourage mining operations of a small independent scale (less than 1 million tons per year).

The loan guarantee program was intended as just that: the government guarantees a loan between a private bank and a coal miner, in which the bank and the operator agree on the lending terms.

According to a spokesman for Congressman Rahall, who is the leader for the legislative "coal caucus," a series of absurdly restrictive floor amendments was added to the original act by Arkansas anti-energy liberal Sen. Dale Bumpers. These low-sulphur restrictions narrowed the potential coal seams down to less than 5 percent of Eastern coal by one estimate, 90 percent of which coal is currently under lease to major producers.

Despite these odds, some have persisted. As of now, only one potential operator, a Tennessee coal-mining company with leases on 22,000 acres of coal property north of Chattanooga, has even gotten as far as a written conditional commitment for such a loan guarantee.

In June 1979, more than 19 months ago, Milton J. Bernos, Jr., president of Eastern Minerals Corporation, applied for financing under the program to back up a bank loan of $7.1 million to open an underground mine to produce 400,000 tons per year of low-sulfur compliance coal. At full size, it will produce an estimated 800,000 tons of washed coal per year, and an estimated 200 new jobs for area miners now on welfare subsistence.

Based on verbal assurances from various DOE officials during this 19-month period, Bernos personally invested more than $1.94 million to acquire and prepare the site. The DOE has allowed $1.35 million of this as equity.

I spoke with the officials at DOE in charge of the program, who agreed that the DOE had issued a letter of conditional commitment to Eastern Minerals. After reading that document, dated Dec. 11, 1980, I can see why no loans have been guaranteed in almost four years of this program.

In addition to a loan repayment schedule between Eastern Minerals and the bank, the DOE insists *it* have final say in issuing shares of stock. In addition, the company must maintain project management "in a manner satisfactory to DOE," and pay wages "in an amount determined by DOE to be satisfactory." Further, EMC will not purchase or distribute stock "without DOE's written approval."

Bernos, a man with years of experience in oil and gas as an independent, entered the coal arena because it was the one area of energy production that seemed to have White House backing in the previous administration. He has approached the new President, Energy Secretary Edwards, and the relevant congressmen, to overcome what I call "substitutionism" where the DOE would ensure failure by injecting itself into every phase of a project which even they admitted in no way risks taxpayer dollars.

Because the program was not drafted by the Carter energy planners but by coal-state congressmen eager to reopen mining, this worthy and no-cost program has gotten lowest priority.

Contrast the speed with which Sawhill's DOE planners doled out hundreds of millions of actual tax dollars since passage of the synthetic fuels program last year, to corporations which in some cases did not even have a listed phone.