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Executive Intelligence Review

January 5, 1982

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Executive Intelligence Review
(ISSN 0273-6314)
is published weekly (50 issues) except for the second
week of July and first week of January by
New Solidarity International Press Service
304 W. 58th Street, New York, N.Y. 10019.

In Europe: Executive Intelligence Review,
Nachrichten Agentur GmbH,
Postfach 2308, D. 6200 Wiesbaden Tel: 30-70-35
Executive Directors: Anno Hellenbroich,
Michael Liebig

In Mexico: EIR,
Francisco Diaz Covarrubias 54 A-3
Colonia San Rafael, Mexico DF. Tel: 592-0424.
Japan subscription sales:
O.T.O. Research Corporation
Takeuchi Bldg.
1-34-12 Takatanobaba
Shinjuku-Ku, Tokyo 160
Tel: (03) 208-7821

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International Press Service
All rights reserved. Reproduction in whole or
in part without permission strictly prohibited.
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
Academic library rate: \$245 per year

EIR

From the Managing Editor

For the first time in *EIR*'s history, we devote an entire issue to a year-end review, prepared under the direction of Editor-in-Chief Criton Zoakos. We found this a useful undertaking, and—despite the dangers and defeats over the past 12 months to partisans of technological growth—a particularly happy one, for it underlines *EIR*'s own importance internationally in challenging and undermining the mass murderers known as Malthusians.

What is on every policy-maker's mind as we go to press is Poland. Below you will find an overview of the seemingly disparate policy elements required to supersede such crises: exposure of the British intelligence/KGB operatives who are manipulating Eastern Europe and the Middle East as superpower flashpoints; the susceptibility in Washington, D.C. to the Friedmanite version of the same decapitalization and decentralized "sharing the poverty" that Solidarity's KOR radicals demand; and the necessity of international monetary reorganization, industrial investment, and Western export expansion as the prerequisite for rescuing, not only Poland, but the OECD economies as well.

During 1981, *EIR* has provided the quality of intelligence and judgment required to deal with this conjuncture. The question is to what extent it will be acted on. We look forward to a 1982 of very nasty policy fights and very tangible gains for the cause of human development.

Susan Johnson

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What the world needs to survive in the 1980s

by Editor-in-Chief Criton Zoakos



Courtesy of the United Nations

This year-end issue of the *Executive Intelligence Review* places before you a panoramic summary of the “story behind the story” respecting the momentous developments which steered the fortunes of our species during 1981. The individuals who report to you the various aspects of this past year’s developments, the authors of the articles which follow, are not ordinary journalists, nor merely astute analysts enjoying a certain reputation in their particular fields. Above all, they are men and women distinguished by the commitment to introduce a morally informed scientific perspective and outlook into the public affairs and political struggles of the various nations to which they belong. In many respects, they and their association helped shape the events upon which they are reporting.

Repeatedly during the course of this past year’s many sharp crises, this review and its distinguished founder, Contributing Editor Lyndon H. LaRouche, Jr., asked publicly the question: “Do we as a nation, do we as a species, have the moral fitness to survive?”

With him, our numerous subscribers and clients as well as our staff asked the same question: “Do we as a nation, as a species, have the moral fitness to survive?”

As of this writing, despite the enormity of the Polish crisis, and of the Middle East crisis, and of the world financial crisis, and of that in Central America, and of that in strategic relations, the human species has sur-

vived. We have therefore demonstrated the moral fitness to survive through the year 1981. It has been a close call. Prying into what lies immediately ahead for the human species, we can say that the modest achievement of having made it through 1981 calls for a very short and sober celebration. A much more profound, a tougher, and a better-informed “moral fitness to survive” will have to come into play if the dangers that lie ahead are to be defused and defeated.

The toll

First of all, not all the human species survived during the past year. Tens of thousands died meaningless deaths in the swamps and jungles and on the pavements of Central America, on the plateaus of Iran, in the arid, starving wastes of Africa. The shooting wars that are taking their toll are “Thirty Years’ War” population-control scenarios. There are State Department officials left over from the Carter administration who, saying what they really think off the record, take pride in the death rates among “child-bearing age females” in Central America’s combat zones. There are IMF planners and analysts who explain to journalists how they have cold-bloodedly calculated the African death-by-famine rates as a result of the IMF’s credit

Locust plague in Ethiopia: the imperative of mastering nature.

control "conditionalities." In Iran, Ayatollah Khomeini and his British intelligence and Soviet KGB backers have unleashed domestic genocide, carried out with the brutality required for executions of 9-year-old children.

This suffering is the result of policy. The politics of 1981, perhaps more than of any other postwar year, were directly determined by "species" policies, in the sense of population-control policies.

When President Reagan entered the White House in January, he inherited an administration which had been committed to a detailed world population reduction program, Jimmy Carter's *Global 2000 Report*, which in scope and scale was one hundred times worse than the genocide carried out by the Austrian hippy Adolf Hitler. *Global 2000* called for the elimination of *two billion* people worldwide by the year 2000 A.D. In a public speech during August 1980, the then Secretary of State Edmund Muskie stated that *Global 2000* would not be merely a Carter administration program but it would be a general orientation of binding character for any future American government.

After his formal assumption of office, our current Secretary of State, Alexander M. Haig, Jr., mustered enough of the English language to state that he, too, is committed to the Global 2000 doctrine of population control. A coalition of morally corrupt Senators and Representatives, goaded by a more corrupt media campaign, have continuously throughout the year fought to keep alive this commitment to genocide one hundred times worse than that of Hitler. Their fight has taken the form of ensuring that Federal Reserve Chairman Paul Adolph Volcker is not removed from his office by President Reagan.

The new President

In this and many other fields of battle, Mr. Reagan has been a besieged President. He brought into the White House his own well-known disadvantages, but he also brought an intangible asset of great political value: his personal decency is that of a man who is absolutely committed to do his moral best to rise up to the challenges confronting his high office. In an extremely adverse situation, with the worst political advice available, with inadequate prior preparation, with assassination threats and actual assassination attempts, with an increasingly chaotic world situation, with sabotage and outright betrayal among his economic advisers, with the Federal Reserve, the big banks, and the Eurodollar market at war with him, President Reagan succeeded in salvaging a sense of measure and proportion in his work. This perhaps more than anything else is the cause why we merely survived the year 1981.

With a lesser man we would have now been past the gates of the inferno. But with a true statesman, the electoral mandate given to President Reagan in November 1980 would have become the basis for having made

1981 into the beginning of a new great era of prosperity and fulfillment for the world and for the United States of America. In this sense, 1981 was not the year in which we "survived," it was the year of missed opportunities: the year 1981 will be characterized by historians as a great moment which found a little people, in the words of the great German poet Friedrich Schiller.

When Reagan came into office, the American people were ready for great things. Their vote was an overwhelming rejection of the pathetic and vicious Jimmy Carter's *Global 2000 Report*. The nation wanted its nuclear industry to be revived; it wanted Paul Adolph Volcker to be kicked out and credit to flow back into industry and agriculture; it wanted the government's finances to be taken out of the hands of New York City's treacherous "investment banks."

The secret in American popular politics is not the citizens' loud resentment of "huge federal deficits," it is the fact, which citizens implicitly know and resent, that these huge deficits place their own sovereign government at the mercy of those bankers who, in connivance with the Federal Reserve which the banks control, will market and squander their government's credit at the bankers' pleasure and for their own profit.

During January, the world strategic alignment was equally filled with great possibilities. In Europe, there existed a strategic understanding among President Giscard of France, Chancellor Schmidt of the Federal Republic of Germany, and President Brezhnev of the Soviet Union, working in tandem with Japan and Mexico's President López Portillo. The "Paris-Bonn-Brezhnev axis" had been the strategic combination which had kept the world alive during the four insane years of Carter and Brzezinski. The principals among these forces had worked out a grand strategy for stabilizing the world situation by means of an ambitious industrial and commercial revival centered around the European Monetary System, designed to channel credits for industry, R&D, agriculture, and commerce, and around the blueprints for an East-West cooperation for the purpose of developing the impoverished Third World. It was the counterpart to Global 2000.

At that time, powerful international interests, centered around a European financial mafia associated with the notorious Propaganda Due (P-2) conspiracy, the exposure of which in Italy by Vatican-allied forces later brought down the Forlani government, launched a conspiracy in France which succeeded in toppling Valéry Giscard d'Estaing and replacing him with the "pastoral socialist" François Mitterrand, a pathetic, vicious creature controlled by the same Permindex financial interests which during the 1960s had been exposed by District Attorney Jim Garrison as being behind the Kennedy assassination.

Thus, the Giscard-Schmidt-Brezhnev axis was broken. Lord Carrington's Britain took over the chairman-

ship of the European Community and thus the European Monetary System, the most effective opponent of Paul Volcker's world monetary strategy, was wrecked. The Socialist International of Mr. Willy Brandt, deployed by "conservative" Lord Carrington and Mrs. Thatcher with help from the Soviet KGB, launched a massive effort throughout Europe during the spring and summer, for the purpose of installing socialist governments à la Mitterrand throughout the continent. They promoted a large-scale, neo-Nazi movement under the guise of the green or environmentalist party and its adjuncts in the other parties, in tandem with a synthetic "peace movement" whose principal objective was to act as a battering ram for toppling governments. The new Mussolini, Socialist Bettino Craxi, made repeated and desperate assaults to take over the government of Italy. Chancellor Helmut Schmidt remained under constant attack. A British intelligence asset, Socialist Andreas Papandreou, was installed as Prime Minister of Greece, bent on two assignments: augment joint KGB-British intelligence operations in the Balkans, and provoke a new complication in the crisis-ridden Middle East around a Greek-Turkish conflict over Cyprus.

The Suslov-Ponomarev-IMEMO faction in the Soviet leadership, a faction committed to a program of destabilizations, ideological manipulation, and Bukharinite "post-industrial" schemes, took the occasion to challenge President Brezhnev's war avoidance strategy, pointing to the sad facts that Brezhnev's peace partners, Giscard and Schmidt, were either eliminated or about to be, mostly thanks to their efforts in combination with British intelligence and related forces in Western Europe. This particular Soviet faction, in fact, was caught conniving with British intelligence and allied Western European "solidarist" networks, associated with P-2, in the internal destabilization of Poland.

It is to this day the joint endeavor of the Suslov-Ponomarev-KGB faction and their British intelligence and other associated services of the West, to cause such a wreckage of the Polish nation that will necessitate a brutal Red Army intervention. Such an intervention will have the effect of catapulting into dominant positions in the Soviet bloc and in the West those very same forces, both East and West, which are now joined in the effort to cause the Polish blowout. These seemingly disparate agencies share in common an outlook and a perspective which is found in the *Global 2000 Report*.

What is it then that has kept the world alive? Those of us who are privileged with a certain knowledge of how major policy decisions are shaped "behind the scenes," cannot but feel gratitude for the wisdom of the leadership that Pope John Paul II has injected into these great matters of policy. Since the defeat of the Paris-Bonn-Moscow axis, a tenuous coordination has been improvised among Pope John Paul II, Chancellor

Schmidt, and Presidents Reagan and Brezhnev, bringing in other important forces such as López Portillo of Mexico, the present Japanese leaders, and Prince Fahd of Saudi Arabia.

This tenuous arrangement has managed to work together on major issues of war and peace, in trying to defuse critical situations. All the situations in which they have intervened so far; Poland, the Middle East, Central America, the explosive world monetary situation, remain extremely critical as the year ends. Particular strategic explosions have been averted so far, but the explosive potential within each situation continues to rise inexorably. The patient is still alive, but the fever is nowhere near breaking. The danger facing the world cannot be handled by such ad hoc arrangements.

The human species now urgently needs new wisdom through which to see its problems and work out solutions. The pathology among great numbers of people which has allowed the genocidal obscenity of Global 2000 to be accepted in the public consciousness must be torn out. This wisdom, so urgently needed, is embedded in the great Papal encyclical *Laborem Exercens*, issued last September, and its accompanying pastoral exhortation, *Familiaris Consortio*. It contains a certain immortal conception which can be called the "genius" of Western civilization; and it is the idea for which this review was created and to which it has been dedicated to in the eight years of its existence—the consubstantiality, so to speak, of science and morality.

Humanity's imperative, in Judeo-Christian terms of reference, is to increase and multiply, and dominate the earth. This is the moral content of our species-existence.

We rise up to that moral height, as a species, by means of affecting fundamental breakthroughs in our mastery of the causality governing the universe; we translate those breakthroughs into new technologies; we develop the new technologies into new industries which are capable of sustaining new members of the species endowed with the ability to take up the torch and continue the never-ending act of creation by means of new qualities of scientific knowledge and thus great dominion over the universe. This scientific knowledge is not itself wisdom. Wisdom is the employment of this knowledge for the purpose of making the human species into the living image of God, helping in the ongoing act of creation and "subduing the earth and dominating it."

Even in our own brutalized, banalized age, politics is absolutely determined by ideas. What you saw in this past year's world political theater, was being moved by the great clash of two ideas: the bestial, genocidal idea of the *Global 2000 Report*, and the idea of wisdom as it has been championed by the political association of the *Executive Intelligence Review* and its Board Chairman, and as it has been reaffirmed by the Pope.

Depopulation Policy Counteroffensive by Vatican, LaRouche

by Paul Gallagher, Executive Director,
Fusion Energy Foundation

During the course of 1981, the neo-Malthusian elite sponsoring the Club of Rome and Global 2000 was forced to acknowledge openly that their march toward worldwide depopulation through depression and warfare was meeting a formidable counterattack from two world leaders whose initiatives had increasing and intersecting effect: Lyndon H. LaRouche, Jr., and Pope John Paul II.

During 1981, genocide on the scale of an entire continent—dwarfing the evil of Hitler—began across Africa, only a few years after the murderous depopulation of Cambodia. The bi-partisan Committee for a New Africa Policy, formed in the United States at the end of 1980, warned that a full decade of relentless IMF credit shutoff to African countries had set off famine and warfare which would kill *tens of millions*. Despite the breakdown even of reliable statistics in African countries, it is clear that just such genocide is in fact occurring there. The spread of the grip of “IMF conditionalities” and usurious interest rates worldwide during 1981 brought the Malthusians very close to global destruction of mankind’s God-like powers for expansion and dominion over nature, which they despise.

But they now confront mobilized opposition forces whose potentials they fear: the organizations and collaborators of Lyndon and Helga LaRouche, and the influence of the aroused Vatican of John Paul II in world affairs and among the world’s populations.

By last month, Stephen Mumford of the International Fertility Research program, was quoted in this outburst: “LaRouche is an agent of the Vatican. . . . He is my enemy, and I am his.”

The real development of the battle against Global 2000 was more complex than Mr. Mumford would have it. This battle saw the *Global 2000 Report* debunked and denounced before audiences of hundreds of U.S. and foreign government officials in Washington, D.C., and made a term of opprobium *even as it is being implemented there*.

The fight which at this moment centers on the attempt to nullify an evil law which mandates euthanasia in the nation’s capital itself, began a year ago with LaRouche’s moves to save Italy, and other U.S. allies in Europe, from the gestapo of Global 2000, the Socialist International of

Willy Brandt.

The most crucial development has been the Vatican’s aggressive public renewal of the commitment of the Catholic Church to scientific and technological progress, as the weapon against its enemy, population control. The leading initiatives of this campaign have been the recent, great papal encyclical *Laborem Exercens (On Human Labor)*, and the pastoral exhortation against population control as a policy of nations, *Familiaris Consortio*, released on Dec. 15.

In a less widely-known initiative, the Church’s international Academy of Science has been restructured, and has begun a strong advocacy of nuclear energy over recent months. Subsequently the Spadolini government of Italy, strongly stabilized against Socialist “New Mussolini” Bettino Craxi by both LaRouche’s collaborators and the Vatican, launched the first ambitious nuclear development program of any recent Italian government.

In December 1980, LaRouche had made a crucial intervention on behalf of the disintegrating national sovereignty of Italy with the publication of a book, *A Gaullist Solution for Italy’s Monetary Crisis*, published in both Italy and America. In that book LaRouche reprised the great role of Pope Paul VI in stabilizing Italy prior to his death and the killing of his ally Aldo Moro, and appealed to the leaders of the world’s great religions to fight for a restoration of scientific and technological progress out of increasing economic depression and chaos. Exerpts from LaRouche’s book, read alongside John Paul II’s *Laborem Exercens* issued eight months later, show the powerful initiative LaRouche launched against the depopulation mafia:

The function of material progress must be situated, conceptually, within the statecraft of Western civilization’s Augustinian tradition of city-building, of nation-building.

The increase in material consumption, which is absolutely necessary to prevent biological and moral holocausts such as that of the fourteenth century’s “new dark age,” is not a moral end in itself. *Material progress is, in each of its moments, an intrinsically ephemeral, although indispensable means for creating the circumstances favorable for cultivating the divine potential of the individual member of society generally.* . . .

“Purgatory” is a condition, as we noted, in which the whole universe is wrongly separated by the mind into two hermetically distinct parts. The one part, is that of individual secular man seeking “earthly paradise” within a narrow, ephemeral passage from cradle to grave. For the moral citizen of “Purgatory,” the moral universality, the “spiritual,” is the “other world.” . . .

The continuously efficient Creator is not sepa-

rable from the universe He efficiently continues to create. Indeed, if we develop ourselves to become able to plumb the lawful ordering of our material universe sufficiently, it is the consubstantial instrument of the Creator, the *Logos* of both Plato and the Apostle St. John, which confronts us most directly in that way.

There is no conflict between the opening verses of this Gospel of St. John and science properly conceived on this point. The person of transformed conscience recognizes his or her requirement for material conditions of mortal life. These are not seen as “things in themselves,” as objects defined by self-evident appetites and passions. To the person who has entered “Paradise,” these material conditions are merely the necessary, intrinsically ephemeral things which afford that person, an instrument of Christendom as a whole, the needed moral capacities to perform the quality of work assigned to the person’s ephemeral mortality.

This shift in moral outlook is the precondition for fundamental scientific discovery.

LaRouche then develops the basic metric for the progress of mankind, his increased power to multiply and master the continuing creation of the natural universe.

The characteristic of human behavior is the manifest power to rise economically and morally above the political self-debasement and stubborn stupidity of sheep. This is measured not only in the power of mankind to increase the species’ population, but to develop, at the same time, and in the same way, a society whose average member represents potentially a greater such power than the average individual of a previous generation.

We measure this “ecological” result of human achievement first in terms of *relative population density*. We express the process so manifest by adducing a process of rising values for the *potential relative population density*.

As these words were published in Italy, Luigi De Marchi, head of Planned Parenthood in that country, was demanding publicly—and with impunity—the *reduction* of Italy’s population from 60 million to 20 million by the year 2000!

In the best and most powerful sections of John Paul II’s *Laborem Exercens*, the same identity with the work of the Creator of the Universe is discussed, in the Pope’s call for the scientific progress of man’s work, and the increase of his numbers and powers:

The expression “subdue the Earth” has an immense range. It means all the resources that the earth (and indirectly the visible world) contains and which

through the conscious activity of man, can be discovered and used for his ends. And so these words, placed at the beginning of the Bible, *never cease to be relevant*. They embrace equally the past ages of civilization and economy, as also the whole of modern reality and future phases of development.

While people sometimes speak of periods of “acceleration” in the economic life and civilization of humanity or of individual nations, linking these periods to the progress of science and technology. . . . At the same time it can be said that none of these phenomena of “acceleration” exceeds the essential content of what was said in that most ancient of biblical texts. As man through his work, becomes more and more the master of the earth, and as he confirms his dominion over the visible world, he remains . . . in every phase of this process within the Creator’s original ordering. And this ordering remains necessarily and indissolubly linked with the fact that man was created, as male and female, “in the image of God.”

. . . In the final analysis it is always man who is *the purpose of the work*, whatever work it is that is done by man. . . . In work, whereby *matter* gains in *nobility*, *man* himself should not experience a lowering of his own dignity.

As the Second Vatican Council says, “throughout the course of the centuries, men have labored to better the circumstances of their lives through a monumental amount of individual and collective effort.” . . . They can justly consider that by their labor they are unfolding the Creator’s work, consulting the advantages of their brothers and sisters, and contributing by their personal industry to the realization in history of the divine plan.

The cited passages of LaRouche’s Italy book and the best passages of *Laborem Exercens* ring together as a single note, to the great potential joy and revival of mankind. In the encyclical, John Paul II extended his attack on Malthusianism to international relations, insisting that “man’s ‘dominion’ over the earth . . . should also find a *central place* in the whole *sphere of social and economic policy*, both within individual countries and in the wider field of international relationships.”

In the “Pastoral Exhortation” released last month to Catholic clergy worldwide, the Pope was far more explicit in his attack on the *Global 2000* world outlook. He demands

the utilization of the immense possibilities placed into the hands of man by science such that it be truly geared to the development of the human being in his entire truth, in his liberty and dignity.

Science is called on to ally itself with wisdom. . . . For this reason the Church condemns as a grave offense to human dignity and justice all those activities of government or other public authorities which attempt to limit in whatever way the liberty of spouses to decide on the question of children. Consequently any violence used by such authorities in favor of contraception or sterilization or abortion must be completely condemned and rejected forcefully. In the same way it is to be abhorred as a grave injustice the fact that in international relations economic aid given for the development of peoples be conditioned by contraceptive, sterilization, and abortion programs.

Most recently in Italy, at a December 1981 conference to revive the teaching of the great Augustinian Christian humanist Dante, organized by associates of LaRouche, representatives of the Church and of several scientific and cultural ministries of the still-surviving Spadolini government, joined the leaders of LaRouche's Humanist Academy in presentations to nearly 2000 teachers and students on the tasks for human progress required of those who understand Dante's *Paradise*.

At the same time in Germany the forces led by Lyndon and Helga LaRouche are directly confronting the emergence of a mass fascist movement for the first time since World War II—the “green” Malthusian movement and its shock troops of brainwashed youth victims of the drug culture.

Germany, whose birth rate has been far below zero population growth replacement levels for a decade, and whose youth are demoralized and victimized by intensive “collective guilt” notions imposed upon their view of history, is led by a Schmidt government fighting to maintain what remains of Europe's stability. The green movement is driving to collapse the Schmidt government and obliterate all that survives of the former Schmidt-Giscard alliance, to be replaced by the Global 2000 chaos of an attempted “return to the phase of pastoral society,” in the words of François Mitterrand.

Beginning in the summer of 1981, Lyndon LaRouche and Helga Zepp-LaRouche, Chairman of the European Labor Party, launched a campaign to stop the Greenie menace, branding it “the resurgence of fascism on behalf of the Club of Rome.” Repeated series of forums and town meetings in defense of science and nuclear energy were organized, featuring Helga Zepp-LaRouche, who wrote and presented major interpretations of the importance of *Laborem Exercens* for the revival of science and human progress. Many university forums featured the noted space scientists Dr. Friedwardt Winterberg and Dr. Krafft Ehrlicke, and leading fusion scientists from America and Germany.

The green fascists repeatedly attempted physical at-

tacks on these meetings; but a debate was set raging through the Social Democratic Party of Schmidt, which peaked in December. The trade-union factions of the party broke into the national press with calls to revive the SPD as “a party of advanced industrial society” and to drive the environmentalist fascists out of the party. Lyndon LaRouche publicly denounced the “second time” collaboration of the German Lutheran churches in many locations with the green fascist re-emergence. The networks of the Catholic Church in Germany are now using their influence in the Christian Democratic opposition to stop opportunistic tendencies from allying with the Greens against Schmidt.

The Papal warning against forced depopulation policy has caused a profound shock to the Club of Rome networks internationally. In one of the world's “show-cases” and battlegrounds of population control, Colombia, the planners of the World Bank, Ford Foundation, and Planned Parenthood are suddenly confronting resistance they thought would not emerge again in that afflicted country. Colombia's birth rates dropped sharply throughout the 1970s due to the highest rates of malnutrition, infant diseases and mortality, sterilization and contraception in Latin America. Colombia's Catholic Church, which has cooperated with the depopulation policy for a decade in all of its government-fostered aspects, now may be shifting.

The Papal Exhortation appeared, for Colombia, in the wake of a late October tour of that country's universities and other leading institutions by Dr. Steven Bardwell, a scientific collaborator of LaRouche at the Fusion Energy Foundation and author of the most widely circulated denunciation of the *Global 2000 Report*. Bardwell met with both Church and trade-union figures who had been tolerating or leading lonely resistance to the advance of the anti-natal policies fully organized and backed by the Colombian government. Since that time, however, leading circles in the Church in Colombia have for the first time used the word “genocide” to refer to the implications of the policy they have been tolerating.

On Dec. 15 in Japan, a country whose future outlook on science and population questions is crucial, the government's Population Problems Advisory Council warned that Japan faced a population crisis because of too few births since the oil crisis of 1973. Japan's birth rate has dropped to 1.74 children per couple, well below replacement level.

The Population Problems Council warned of a coming shortage of skilled workforce, and inability to continue to support national pension systems as the population is growing older. It calls for economic incentives to *increase* the birthrate. Japan thus joined numerous Third World nations whose government's publicly recognize, despite the propaganda of the Worldwatch Foundation, Ford Foundation, and so forth, that their birth rates and

population growth rates are too low for continued economic development. But as an advanced nation Japan's new policy may have greater repercussions elsewhere.

The Population Problems Council statement was issued immediately after Dr. Bardwell's attack on Global 2000, entitled "The World Needs More People," appeared in the 100,000-circulation Japanese science magazine *Cosmos*.

In the United States, the battle against Global 2000 was launched in Washington, D.C. by two conferences of the Fusion Energy Foundation (FEF) and *Executive Intelligence Review* in May 1981.

On May 13 Dr. Bardwell and Uwe Parpart, FEF Director of Research, were joined by former Rep. Mike McCormack in presentations to 130 representatives largely of government and embassies, on the potential for qualitative expansion of the resource base available to human population through fusion energy development. The following week many of the same individuals and others from government and private thinktanks in the capital, attended a debate between Parpart and *Global 2000 Report* co-author Nicholas Yost, Jr. The debate's result was unquestionable, even to Yost's colleagues in the audience.

During that debate (see *EIR*, June 9, 1981) Parpart noted,

When a cow is born today, we consider ourselves richer. But when a human child is born, we are said to be poorer as a result. This situation is intolerable. This is the situation which must be changed.

Parpart's remarks were later widely quoted in the journals and newsletters of pro-life organizations in the United States. Two months later the Fusion Energy Foundation released the Bardwell article debunking Global 2000 in *Fusion* magazine, at a United Nations press conference. As news coverage of the article intersected its broad international circulation, LaRouche's forces in the National Democratic Policy Committee began a major campaign in defense of Chicago's Cardinal Cody, against the schismatics seeking to depose him as part of an effort to split the American church from Rome on the "population question."

LaRouche exposed the direct links of the schismatics and Jesuits to the Planned Parenthood and Ford Foundation elite (McGeorge Bundy, Stephen Mumford) who were openly hoping for the death of the Pope, and to the "back-to-nature" cultists of the Anglican Church anthroposophic heresies.

In September the American Life Lobby newsletter published an extensive and thorough attack on the *Global 2000 Report*, drawing on material from *Fusion* and *Executive Intelligence Review*. The establishment of a "common language" for purposes of identifying the enemy has raised the potential among LaRouche's forces and a

wide range of religious groupings for joint initiatives against *Global 2000*'s implementation.

This potential is being tested by the fight to overturn the Washington, D.C. Act 4-115, the "Natural Death Act of 1981." The groups mobilized against the death bill include black Baptist ministers, Roman Catholic priests, the National Catholic Physicians Association, the American Life Lobby, National Black Women's Political Caucus, area Jewish leaders and the local chapter of Moral Majority, the National Democratic Policy Committee, national Anti-Drug Coalition, and state and local chapters of pro-life groups who have offered support in moving Congressmen to stop the law from taking effect.

With the January resumption of Congress, "petitions of disapproval" of the death act will be introduced—not at all the manner in which the Club of Rome, Population Crisis Committee, and their ilk wished to see the congressional debate on Global 2000 formally begin.

LaRouche will present a major address in New York Dec. 31, "More Evil Than Adolf Hitler: The Genocide of Carter's Global 2000 and Global Futures Policies." Close to a thousand people are expected to hear the presentation.

U.S. Malthusians

Global 2000 shifts rhetorical gears

by Lonnie Wolfe

In early January 1981, a spokesman for the Population Crisis Committee/Draper Fund, the group acknowledged to be the most powerful of the advocates of global population reduction, offered the following assessment of the upcoming year: "If we had our preference, we would certainly have wanted Jimmy Carter to stay in office. But I think you'll be surprised about how much influence our ideas will have in the policy considerations of the new administration. We'll make the transition."

Looking back over the year, this assessment has proved correct.

Carter administration policy was controlled by the genocide lobby from the highest levels. Exerting their influence through Secretary of State Vance and National Security Adviser Brzezinski, they organized the administration to produce a blueprint for the next 20 years—

the *Global 2000 Report* released in July 1980, and its follow-up, *Global Futures*, released in January 1981.

Global 2000 was the effective updating of the original zero-growth document, the Club of Rome's *Limits to Growth* report. If its policy-planning assumptions are accepted, then the United States is committed the reduction of the world population levels by upwards of two billion people by the turn of the century.

Statements by Carter administration officials such as Assistant Secretary of State Thomas Pickering make it clear that the *Global 2000 Report* would have been the key international planning document for a second Carter administration.

According to sources close to Henry Kissinger at Georgetown University, *Global 2000*, tainted as it was with environmentalist rhetoric and no-growth arguments, could never be openly accepted by the new administration. As Reagan took his oath of office, the Kissinger crowd was busy reworking *Global 2000* as national-security doctrine.

Just before the inauguration, a meeting of several hundred environmentalists and population-reduction advocates was convened in Washington under the auspices of the Audubon Society, to make plans for dealing with the Reagan administration. They decided to create a coordinated lobby to push for their ideas in whatever form they could be effectively marketed. Five months later, this grouping reconstituted itself as the Global Tomorrow Coalition, an umbrella lobby of more than 25 groups, including the Population Crisis Committee (PCC).

Meanwhile, an elite group of former government officials and so-called prominent citizens, the Committee for the Year 2000, was created by these networks with the express purpose of selling the global population-reduction doctrine of Global 2000 to the conservatives inside the administration and the business community. The Committee included GOP environmentalists like Russell Train (currently heading the World Wildlife Fund), former Nixon cabinet member Elliot Richardson, and Arco chairman Robert O. Anderson of the Aspen Institute, as well as Cyrus Vance. The group has been quietly lobbying with Reagan administration officials for "global futures planning" and the creation of an "improved" global model.

The March meeting of the U.S. Association for the Club of Rome gave a clear public indication that a shift in emphasis and language had indeed taken place. The Club of Rome, created by the NATO command in the late 1960s, is synonymous with the doomsday predictions of the *Limits to Growth* report. But at this meeting, Club members were told that to be effective with the new administration, they would have to sell their genocidal ideas in an "upbeat" fashion. A new book, commissioned especially for the American audience, was titled *Making*

It Happen.

The spokesmen for such groups as the PCC privately speak of important covert supporters, such as Secretary of State Haig, his undersecretaries Myer Rashish and James Buckley, State's Population Affairs bureau, as well as the outspoken Peter McPherson, director of the Agency for International Development (AID). They also mention Budget Director David Stockman, along with figures in Treasury and Commerce.

These officials, collaborating with members of the Committee for the Year 2000 and the PCC, have designed Reagan administration policy to accomplish the objectives of Global 2000. Commenting on the global austerity policies endorsed by the Reagan administration, Phyllis Piotrow, former director of the PCC, said with satisfaction in an October interview, "Mortality rates will go up."

Domestically, a parallel phenomenon is taking place. The Stockman budget-cut program will reduce U.S. population growth. A Club of Rome spokesman said that cuts in welfare and social security will cause "poor" people to die but termed the cuts necessary. Stockman, meanwhile, while cutting funds for a myriad of social support programs, managed to increase funding for international population-control programs from \$190 million under Carter to \$211 million in FY 1982.

Twice this year, these covert supporters of Global 2000 have worked to undermine potential Reagan administration collaboration with the developing sector and bring policy in

First, the State Department and Treasury Department worked overtime to keep the United States behind International Monetary Fund austerity policies as the July 19 Ottawa summit of industrial nations approached; and they helped gain Reagan administration support for a provision of the Ottawa communiqué terming population growth in the developing sector a problem.

Following the Ottawa summit, Rashish and Robert Hormats in State, along with their counterparts in Treasury, moved to lock the administration into support for a "free-market" approach to the developing sector and a re-affirmation of support for IMF austerity in advance of the October Cancún North-South summit. This policy was enunciated in an October speech drafted by Rashish, Hormats et al., and delivered to the Philadelphia World Affairs Council. The speech, which included a call to cut Third World food subsidies, was repeated by Reagan at the Cancún summit.

Just prior to the summit, Garrett Hardin, an outspoken supporter of population-reduction policies, reported that the Reagan free-market approach to the developing sector would wind up reducing population levels at a faster rate than any contraceptive program. Support for IMF policies, said Hardin, meant support

for what he termed "lifeboat economics"—writing off whole sections of the developing sector.

The January Audubon leadership conference had discussed the importance of using Congress to put pressure on the White House, while giving support to sympathizers inside the administration.

Immediately afterward, Rep. Richard Ottinger (D-N.Y.) introduced legislation committing the United States to support policies of zero population growth worldwide. The legislation, HR 907, had preliminary hearings in April. But the bill drew considerable fire, with Ottinger being branded as a genocide merchant, and it remains bottled up in committee. In June, Sen. Charles Mathias, a senior GOP member of the Foreign Relations Committee, sent a letter to President Reagan co-signed by 84 Senators and Congressmen, demanding that the administration move on the policy recommendations of the *Global Futures* report.

The reply letter reported that the administration would soon begin its own study of problems raised by Global 2000. In November a task force was put together under the direction of State Department operatives around James Buckley and the Council on Environmental Quality. Sources close to the project say that plans are to cast the new report "in national security and free-market language that the White House will understand."

In late October, Sen. Mark Hatfield (R-Ore.), chairman of the Senate Appropriations Committee, introduced legislation that would create a mechanism in the executive branch to study all U.S. long-range policy from a Global 2000 "systems" approach. The bill, S-1771, like the Ottinger legislation, would commit the United States to a zero population growth policy, both domestically and internationally. The genocide lobby views the Hatfield bill as the "most significant piece of population legislation ever introduced into Congress." They point out that for the first time they have secured support from prominent Democrats and Republicans, giving it a chance for passage next year. Sources report that in October, Myer Rashish's crew at the State Department drew up a hit list of developing-sector countries whose "unstable populations" will cause political unrest. Rashish's group recommends that the United States prepare to write off these countries, seek other sources of strategic materials, and prepare to contain the political and social turmoil. In late February, sources in the State Department's Office of Population Affairs confirmed that the Haig State Department was in fact running the El Salvador civil war as a depopulation war, and laid out in detail how such a war would be used to depopulate countries. Thomas Ferguson of the State Department told reporters in February that El Salvador had an exceptional fertile population

that resisted population control methods. The civil war would reduce the child-bearing population, he said.

In the critical area of defense policy, the promoters of the Global 2000 doctrine have increasingly held sway, despite the Reagan administration's talk of restoring American military power. The purported "military buildup" has in fact served repeatedly as a fairly effective cover for restructuring the U.S. military into a Roman Empire-modeled imperial army designed to enforce the Global 2000 policy.

The stated policy objectives of Secretary of Defense Caspar Weinberger are, in their essential strategic features, those long advocated by Gen. Maxwell Taylor, who along with Robert McNamara oversaw the conduct of the protracted Vietnam War as a "body-count" population war. The core of Taylor's doctrine, which he ensured was repeatedly injected into debate over defense policy and the defense budget during 1981, is that the primary strategic theater has shifted from Central Europe to the developing sector, particularly areas such as the Persian Gulf, Africa, and Latin America. One of the inspirers of Global 2000, Taylor cites the "overpopulation" of the Third World and resultant competition for increasingly scarce resources as grounds for expecting wars in the developing sector, and thus for shifting U.S. military capabilities away from strategic, in-depth war-fighting and into more primitively equipped (and less costly) "conventional" forces much like the marauding legions of the Roman army or Britain's 19th-century colonial forces.

As *EIR* documented on numerous occasions this year, the official defense guidances issued by Secretary Weinberger to the armed services conform precisely to Maxwell Taylor's doctrine, aimed at retooling the U.S. military to enforce genocidal population wars in the Third World. The code rationale, in effect, for asserting the priority for such marauding shock troops, is the Reagan administration's promotion of Jimmy Carter's Rapid Deployment Force (RDF) as an accelerated response capability to "hot spot" crises *beyond* the NATO theater.

The Weinberger guidances, reiterated in the fall after the administration decided to leave the issue of new strategic weapons substantially unresolved, would make this restructuring-for-genocide of the U.S. military virtually irreversible. The armed services have been instructed to design their forces through the late 1980s in accordance with the main strategic theater, and that they must prepare instead to fight multiple "small" wars throughout the developing sector. Consequently, more of what remains of U.S. fighting capabilities is to be cannibalized for "no-win" operations conducted by units like the RDF, which Weinberger has recently designated an even higher priority.



The Year in Review

JANUARY

- 2 U.S. prime rate hits 21½ percent, highest level since Civil War.
- 3-7 Rumors mount in the Italian press that the Italian government will adopt *EIR* founder LaRouche's "heavy lira" currency reform.
- 5 Reagan holds successful meeting with Mexican President López Portillo in border town of Ciudad Juárez.
- 14 Chrysler Corporation put through limited bankruptcy proceedings by Wall Street banks; \$2 billion in sacrifices demanded by Paul Volcker as condition for receiving \$400 million portion of bailout loan.
- 20 Reagan inaugurated President; Jimmy Carter, perhaps the worst President in U.S. history, leaves the White House. The American hostages in Iran are released. Called "a day of wonderful if uncertain hope" by LaRouche.
- 23 26th Soviet Party Congress convenes in Moscow; Brezhnev calls for talks with the West.
- 25 Chancellor Schmidt charges in West German press that Anglo-American interest-rate policies are destroying the world economy.
- 27 Mexican President makes state visit to Indian Prime Minister Indira Gandhi.
- 27 British Prime Minister Thatcher in Washington to meet with Reagan. Rep. Jim Jones (D-Okla.), Chairman of the House Budget Committee, declares meeting should occur in London so Reagan could see the actual effects of British economic policy for himself.

FEBRUARY

- 1-5 Riots in West German cities including West Berlin and Hamburg; environmentalists and "peace movement" shocktroops join in united action for the first time.
- 4 Rep. Byron Dorn (D-N.D.) introduces "Paul Volcker Retirement Act of 1981," which would enable Congress to remove a Federal Reserve Chairman during his term of office.
- 5-6 At Paris summit, West Germany's Schmidt and France's Giscard call for "interest-rate disarmament conference."
- 11 Gen. Jaruzelski appointed Prime Minister of Poland, pledges to deal harshly with Solidarity dissidents, especially the (British-linked) KOR group.
- 12 Publication of the book *Hostage to Khomeini* by *EIR* Middle East Editor Robert Dreyfuss, with Thierry LeMarc, a major step toward dismantling British intelligence operations in the region.

MARCH

- 3 Fifty thousand riot at the Brokdorf nuclear plant site near Hamburg, West Germany.
- 12 Seagram of Canada and British Petroleum-controlled corporations buy up major shares of American companies producing strategic raw-materials producers.
- 14 New strike wave in Poland.
- 14 Reports of widespread infanticide in China break in the European press.
- 17 150 businessmen and labor leaders from the Ad Hoc Committee Against High Interest Rates demonstrate in front of the Federal Reserve in Washington.
- 24 European Community summit in Holland; proposal to lower interest rates internationally supported by every government but Great Britain's.

Lyndon LaRouche and Helga Zepp-LaRouche (c) in Princeton, Wisconsin on July 12.

NSIPS

- 25 Israeli Labor Party candidate Shimon Peres proposes economic cooperation with moderate Arabs and joint action against "terrorism and fanatic movements."
- 29 Trilateral Commission meets in Washington.
- 30 Attempted assassination of President Reagan. John Hinckley, Jr. is charged.
- 30 Abscam trial of Sen. Harrison Williams (D-N.J.) opens in Brooklyn.

APRIL

- 10 U.S. Interior Secretary Watt announces accelerated oil and gas leasing in Outer Continental Shelf.
- 12 First Space Shuttle launched: most complex technology man has ever sent into space.
- 12 Finance ministers and central bankers from the U.S., U.K., Japan, Italy, France, and West Germany meet in London, brawl breaks out over interest rates.
- 14 LaRouche issues "Emergency U.S. Policy for the Endangered Nation of Lebanon."
- 16 Attempted assassination of French President Giscard at Corsican airport.
- 24 Parti Québécois wins landslide victory in provincial elections.
- 26 First round of French presidential elections; Mitterrand's vote tops Giscard's.

MAY

- 1 Electronic Funds Transfer in effect for U.S. banking system.
- 3 Sen. Williams found guilty in Abscam trial. Senate Ethics Committee schedules expulsion hearings.
- 10 Socialist International Vice-President François Mitterrand defeats Valéry Giscard d'Estaing in second and final round of presidential elections.
- 13 Attempted assassination of Pope John Paul II in Rome by terrorist Ali Agca, the day before Pope was to release the benchmark *Laborem Exercens* encyclical.
- 20 Chancellor Schmidt meets with Reagan in Washington, urges action against high interest rates.
- 21 Propaganda Due scandal breaks in Italy with release of list of 962 names of senior military and governmental figures belonging to fascist-connected Freemasonic Lodge. P-2 later revealed to be coordinating center for terrorism.
- 26 Italian Forlani government collapses as Socialist Party chief Bettino Craxi refuses to pull out the Socialist members of government implicated in P-2 scandal.

JUNE

- 6 Swiss central bank chief Fritz Leutwiler announces European central-bank takeover of international credit and monetary policy, speaking at American Bankers Association meeting in Lausanne.
- 7 Israeli raid destroys Iraqi nuclear-research facility Osirak; reactor was incapable of producing weapons-grade materials.
- 8-9 López Portillo in Washington in effort to stabilize Central America and U.S.-Mexico relations.
- 14 BIS report says U.S. interest rates will cause 1930s-level world depression, urges deeper fiscal austerity.
- 22 U.S. Presidential Gold Commission established to assess role of gold in monetary policy.
- 26 Austerity budget package passed by Congress; press hails Reagan's success.
- 28 Vatican Secretary of State Cardinal Casaroli charges that assassination attempt on Pope was a plot, links world avoidance of nuclear war to Pope's survival.

JULY

- 2 David Rockefeller holds White House press conference announcing that economic partnership with Jamaica will be the model for U.S. relations with Third World, although Jamaican Prime Minister Edward Seaga had repeatedly flaunted the Jamaican economy's dependence on marijuana exports.
- 5 Riots begin in British cities, ultimately cost millions in lost tourist dollars during Prince Charles's wedding.
- 11 Israel begins new blitz against Lebanon.
- 12 LaRouche declares in Princeton, Wisconsin that he is available as the Democratic Party's presidential nominee in 1984.
- 14 Polish Party Congress results in major shake-up of Central Committee.
- 21 Ottawa summit meeting of U.S., U.K., Canada, France, West Germany, Italy, and Japan. Impasse on interest-rate question leaves economic policy in hands of BIS. East-West relations targeted in order to pressure Chancellor Schmidt. Communiqué calls population growth a problem.
- 30 House-Senate resolution introduced by Sen. John Melcher (D-Mont.) demanding White House action on interest rates.

AUGUST

- 3 PATCO air-controllers' strike begins in U.S.
- 5 U.S. and U.S.S.R. fail to reach new grain pact, but extend old one despite State Department counter-efforts.

- 5 Poland announces it cannot finance a 21 percent interest rate on fourth-quarter component of Western bank-debt rescheduling package.
- 6 Brazilian éminence grise Golbery forced into retirement by Kissinger-linked military faction.
- 9 U.S. government announces decision to develop the neutron bomb.
- 13 Reagan signs into law the Economic Recovery Tax Act of 1981 and the Omnibus Budget Reconciliation Act of 1981.
- 24 Mel Klenetsky, New York mayoral candidate backed by LaRouche and National Democratic Policy Committee, successfully defends ballot status, opening prominent campaign to reverse city's moral and economic collapse.
- 25 *EIR* reports that Third World debt has reached the \$160 billion level, and predicts that martial law under Jaruzelski will become a major option in Poland.

SEPTEMBER

- 1 U.S. administration announces intent to cut \$100 billion further from the federal budget for the next three fiscal years, including \$10 billion in the 1982 defense budget and \$30 billion the following two years.
- 8-15 Israel's Begin visits Washington seeking strategic accord with Reagan.
- 14 *Laborem Exercens* released by Pope.
- 18 U.N. votes to retain mass murderer Pol Pot as legitimate representative of Cambodia.
- 19 Solidarity Day demonstrations in protest against Reagan's economic policy.
- 23 Italian court rules that assassination attempt on Pope was result of conspiracy.
- 25 Miguel de la Madrid announced as the 1982 candidate of the ruling PRI party for Mexico's presidency.
- 26 IMF meeting begins in Washington; U.S. Treasury Secretary Regan pushes for lending cuts to Third World.
- 27 Elections in West Germany: in major setback for Schmidt, Green Party emerges as electoral force.

OCTOBER

- 1 Same-day international bank clearing begins.
- 6 Egypt's President Sadat murdered; *EIR* identifies British intelligence and Muslim Brotherhood as instigators.
- 19 Bicentennial celebration of Franco-American victory over the British at Yorktown, Virginia; Reagan meets with Mitterrand.
- 19 Polish Prime Minister Jaruzelski made party chief.
- 20 Re-emergence of terrorist Weatherunderground in Nyack, New York incident, leading to revelation of plans to stage major attacks on law-enforcement facilities in U.S.
- 21-23 Reagan gets lesson in "American System" economics at North-South summit meeting in Cancún, Mexico. Japan, Mexico, India, and others mount major attacks on IMF austerity policy during first-ever International Meeting on Cooperation and Development.
- 21-25 Muslim Brotherhood supporters and controllers meet at Houston's Rothko Chapel. *EIR* exposés dampen meeting.
- 28 AWACS plane sale to Saudi Arabia supported by vote in U.S. Senate; historic victory over effort to destabilize Middle East.
- 31 Saudi Crown Prince Fahd announces eight-point peace plan, implies Arab recognition of Israel.

NOVEMBER

- 11 Poland formally applies to join the IMF.
- 15 Thousands of "green" fascists riot at Frankfurt Airport; Hesse Governor Holger Börner warns of re-emergence of Nazi tactics against technological progress.
- 20 Club of Rome stages meeting in Washington, reveals penetration of government and corporations by zero-growth fanatics.
- 22-25 Soviet President Brezhnev meets Schmidt in Bonn; both pledge renewed East-West peace efforts. German-Soviet natural gas pipeline deal just completed.
- 27 Arab League summit in Morocco collapses without endorsing Fahd plan when Syrian President Assad fails to appear.
- 29 Geneva Theatre Nuclear Reduction talks between U.S. and U.S.S.R. begin.
- 30 Japanese cabinet reshuffle strengthens Prime Minister Zenko Suzuki.

DECEMBER

- 1 Senate leadership postpones vote on Senator Williams's expulsion until after year-end recess, providing time for defense of constitutional government.
- 2 White House acknowledges renewed assassination threat to President Reagan, asks press not to publish details of presidential security arrangements.
- 3 Reserve-free International Banking Facilities introduced in the U.S.
- 13 Martial law declared in Poland.
- 14 Israel formally annexes Golan Heights in defiance of U.N. Resolution 242 and Camp David accords.
- 19 Reagan announces that U.S. will suspend strategic cooperation agreement with Israel because of Golan move.
- 23 All due process motions denied in the Harrison Williams case.

Reaganomics, Volcker, and the traps of 1981

by Richard Cohen, Washington Bureau Chief

All through the course of 1981, *EIR* issued repeated warnings that the most gaping vulnerability of President Reagan and his administration lay in their initial "Economic Recovery Program"; indeed, all during the late 1980 transition period and into the early stages of the administration, the President and his closest political advisers made it clear that administration foreign policy and international economic policy would be determined by the hub of presidential concern—their domestic economic program.

The importance the President-Elect had attributed to his domestic economic program was made dramatically clear during the transition period, when Reagan spokesmen had warned alarmingly of the potential necessity of declaring an "economic emergency." However, what ultimately came forth as the President's Economic Recovery Program fell far short of what would be required in order to recapture the growth potential of the U.S. economy—and therefore the world economy.

Long before the David Stockman scandal, in which the OMB director revealed to the *Atlantic Monthly* that he knew all along that the U.S. budget deficit would go out of control, *EIR* exposed, through exclusive interviews and analysis, that "supply-side" economics was a hoax directed against both the American economy and the White House. The tax-cut package was designed to facilitate, not capital investment in essential industry, but "postindustrial" writeoffs and flows into "sunrise" and speculative areas. The supply-siders cheerfully revealed

that they designed their package to sell the basic Volcker policy of high interest rates and reduced living standards to a pro-growth President.

The stakes

The President's program as it was initially outlined virtually ceded control over the all-important area of monetary policy to the Federal Reserve Board and its Carter-selected Chairman, Paul A. Volcker. Without securing control over U.S. monetary policy and advancing an approach outlined early by *EIR* founder Lyndon H. LaRouche, President Reagan's "economic recovery program" was sure to be doomed.

Critically, the Reagan program failed to advance a reform of the world monetary system that would allow the U.S. government to discipline London-controlled private and offshore markets, as suggested under the LaRouche gold reserve proposal, and simultaneously failed to seize control of direction of the nation's credit by allowing the Federal Reserve Board free rein.

Under the "controlled disintegration" policies for the U.S. and world economy, policies heralded in the late 1970s by a coordinated series of volumes published by the New York Council on Foreign Relations as the *Project for the 1980s* and publicly stated in 1979 by Paul Volcker, popular belief in and government encouragement of unlimited growth and progress were to be considered the enemy—in direct contradiction to the President's viewpoint.

What surfaced during the course of 1981 in a series of battles with the President was the Malthusian anti-growth approach of Volcker, the Council on Foreign Relations, the Trilateral Commission, and their supranational banking arms, the International Monetary Fund (IMF) and the more secretive Bank for International Settlements (BIS), along with their agents within the Democratic Party and Republican Party.

Starting in May 1981, this reporter charged that the vulnerabilities in Reagan's economic policy, once seized upon by his opponents, would lead by the end of 1981 to a series of assaults—including public scandals—against his most trusted advisers, and by 1982, if not remedied, would begin to turn into a full-scale “Hooverization” in the midst of economic disaster.

The Malthusians were forced to step up their timetable when they realized that Reagan represented potentially something more than an ideological obstacle to their basic policies of deliberately limited resources, genocidal population control, and global resource allocation.

The combination of the stunning passage of the AWACS arms sale to Saudi Arabia, under the direct leadership of the President, and perception of a potential independent foreign policy tilt in the Middle East, by mid-fall increased the pace of the timetable of assaults against the President.

In addition, presidential recalcitrance against a deafening roar even from within his own party and administration for tax increases and cuts in the defense budget had stirred the Malthusians to more intense activity. While the President clearly does not understand how to get out of the current economic crisis and has shunned intervention against the Fed along the lines suggested by LaRouche, he has, from the vantage point of the Malthusians, also refused to give in on commitments to national defense and the Pentagon and a tax meant to appeal to middle-class “entrepreneurship.”

The test

Reagan's somewhat astounding ability to secure enough conservative Democratic votes to pass his first round of budget cuts and defeat a previously boasting Democratic House Speaker Tip O'Neill made headlines in mid-May. However, two days following the astounding victory, major press were touting an alarmed response from Wall Street. Indeed, during that period the stock market had dropped; interest rates had remained stable and were about to climb, completely contradicting the projections of the President's economic advisers. Indeed, *EIR* was the first to report that the Wall Street and Fed reaction was rigged. Alan Greenspan, negotiator for would-be Vice-Presidential nominee Gerald Ford during the 1980 Republican National Convention, along with other former Ford economic advisers and



A 1981 National Democratic Policy Committee demonstration in Los Angeles.

close associates such as former Fed Chairman Arthur Burns, engaged in a process of inciting fear throughout the markets, privately reporting that the President's success meant nothing and that the federal deficit would increase.

The Greenspan-Burns actions were coordinated with Stockman, who, operating in conjunction with his collaborators, two days after the great success promoted the astounding proposal for a sizable cut in the Social Security system. In addition, Stockman proposed at that time a series of recessions in the FY81 budget of some \$5 billion. White House Chief of Staff James Baker III identified these cuts as needed to offset increased costs due to irregularly high interest rates not projected in the original Carter 1981 budget.

Stockman's shocking Social Security cut proposal was immediately defeated in the Senate 96-0. Yet the actions by Stockman, Greenspan, and Volcker immediately following the initial Reagan congressional success were all aimed at pressuring the President to accept a further deep-cuts policy which in early June would expand to calls not only for cuts in entitlement programs including Social Security, and further cuts in the domestic budget, but also cuts in the projected defense budget and the virtual elimination of Reagan's tax breaks, in order to meet the expense of high interest rates both in terms of direct government interest payments on debt and also loss of government revenue due to the induced recession.

On May 28, Reagan gave a private interview with the New York *Daily News* in which he lashed out at Wall Street's unexpected negative response to his budget cut proposals.

Reagan's move had been encouraged early in that week during a May 24 appearance by House Majority

Leader Jim Wright on national television. There, Wright broke with an announced confrontationist line against the President initiated by House Speaker O'Neill. Wright instead proposed that he and others such as House Ways and Means Committee Chairman Dan Rostenkowski might consider a compromise on Reagan's Kemp-Roth tax bill in exchange for Reagan action on interest rates.

Indeed, Wright brought his proposal directly to the President in a June 1 meeting at the White House. By then, however, it was clear that the President had failed his initial test, rejecting the Wright alternative. As a softener, Reagan obtained Volcker's support of a watered-down version of his tax cut policy. Yet (again as only reported in this journal), two weeks following the Lausanne meeting which had apparently made peace between the President and the Federal Reserve Board Chairman, central bankers—meeting in Basel, Switzerland, at the annual conference of the BIS—issued an outright condemnation of Reagan's policies, charging that high interest rates could only be brought down by a Reagan reversal on tax policy, deeper cuts in the U.S. domestic budget, and an all-out assault on the U.S. defense budget. One week following the BIS meeting, Reagan met with Democratic Senators opposed to Volcker's high interest-rate policy and once again rejected an appeal for bipartisan action.

Containment

Reagan's apparent tax and budget successes during the spring and early summer obscured the fact that he had seriously undercut potential anti-Volcker allies in the Democratic Party and succumbed to a dangerous extent to the deep-cut dictates of the Malthusians; however, during the course of the summer congressional recess, Reagan stood firm against attempts by Stockman and White House Chief of Staff Jim Baker to fulfill one leg of the BIS program—deep cuts in the defense budget.

On Sept. 13, the President announced his opposition to the Stockman approach, calling for only \$2 billion in defense cuts for FY82 and \$11 billion for FY83 and '84, compared to Stockman's total proposed cut of \$30 billion for those years.

Importantly, Senate Majority Leader Howard Baker and Congressional Campaign Committee head guy Vander Jagt, together with House Minority Leader Bob Michel, led a chorus of anti-Wall Street rhetoric that made Reagan's famous interview with the *Daily News* look mild. The Republican leadership—while attempting to keep the interest-rate ball in Reagan's court—were now talking about 90-day time limits within which rates must come down, and serious losses in the '82 election if this were not made to happen.

In addition, close Reagan associate Sen. Paul Laxalt

was said to be in negotiations with Sen. John Melcher of Montana, the author of a new bipartisan resolution expressing the sentiments previously put forth by Wright and by Senate moderates, urging bipartisan support for presidential confrontation with Volcker on the interest-rate question. Already Rep. Bill Alexander of Arkansas, a close Democratic associate of Wright, had announced his intention to introduce the Melcher Resolution in the House. There were also strong signs from both liberal House Republicans and conservative House Democrats that the President's coalition for deep cuts would not stand up during the October session.

From the vantage-point of the Malthusian/Volcker/BIS crowd, this combination had to be contained. The elements of containment were already clear at the Sept. 8 meeting of the AFL-CIO-linked National Coalition to Lower Interest Rates. At that meeting, AFL-CIO operatives, under the tutelage of federation President Lane Kirkland, blocked a resolution in support of the Melcher Resolution and instead supported a policy acceptable to Volcker—namely, credit controls.

On Sept. 17 at a national meeting of the Democratic National Committee, the AFL-CIO connected Democratic National Committee Chairman, banker Charles Manatt, challenged delegates who offered a resolution condemning the Fed's interest-rate policies. Manatt insisted that high rates were not to be blamed on Volcker, but on Reagan. The day before, House Speaker O'Neill, an opponent of earlier moderate Democratic attempts to seek a bipartisan front against Volcker, gleefully told a meeting of the House Democratic Caucus, "The monkey is off our back. These are Reagan's deficits and Reagan's interest rates." And on Sept. 19, Kirkland—heavily under the influence of the Socialist International and its representatives in the labor movement headed by International Association of Machinists President William Winpisinger, United Auto Workers President Doug Fraser, and American Federation of Government Employees President Kenneth Blaylock—launched the Solidarity Day demonstration in Washington against the President and his budget cuts. The interest-rate question was infrequently raised there, and when raised, on Reagan, not Volcker.

In late September they succeeded in rallying large-scale Democratic support in blocking the Melcher Resolution from getting to the Senate floor, prior to a much-heralded speech by President Reagan. And, in a meeting of the House Democratic Steering and Policy Committee, Missouri's Rep. Richard Gephardt led a charge of O'Neill-backed elements to block Alexander's attempt to lead a bipartisan move against Volcker (see below). This all-out attempt to contain congressional furor over interest rates on the part of the Democratic Party leadership was flanked by a move coached by Stockman within the administration itself to deflect

similar sentiment among Republican congressmen. Indeed, in a Sept. 15 presidential meeting with the Republican House and Senate leadership, the interest-rate question was debated extensively, and Republicans were told that they should keep up the anti-Wall Street rhetoric, but nothing serious would be done at this time on interest rates.

And throughout this period, Volcker, appearing in Brazil in early September and then on Sept. 16 before the Senate Banking Committee, confidently snubbed the Congress and the American people, reporting that interest rates would remain high for at least six months. Already, on the Senate floor, Socialist International-connected legislators such as Bill Bradley (D-N.J.), Ernest Hollings (D-S.C.) and Gary Hart (D-Colo.) were proposing increased taxes in FY83 and 84.

In early September, administration sources were openly admitting what Baker had signaled before—that high interest rates were seriously un-balancing the budget. The previously estimated \$42.5 billion deficit for FY82 was now going to be \$60 billion. *EIR* predicted at that time that it would be at least in the \$80 billion range, as later admitted by the administration.

On Sept. 24, President Reagan responded with his address to the nation, calling for an additional \$16 billion in cuts and increased taxes in an attempt to find a middle ground between popular outrage at interest rates and Wall Street requirements for deep cuts.

Power grabs

The Malthusian BIS group happily watched the dissolution of Reagan's majorities in the House and Senate following that Sept. 24 address. The Senate Republican leadership, terrified by the prospect of disaster in 1982, began a campaign to get the President to increase taxes and cut the defense budget. On Oct. 14, Appropriations Committee Chairman Mark Hatfield suggested that the President double his projected cuts for the Pentagon. Ted Stevens, the Majority Whip, suggested the same day that the B-1 bomber program be eliminated. Meanwhile, Republicans on the Senate Budget Committee and Senate Finance Committee, including their respective Chairmen, Pete Domenici and Bob Dole, started to promote a sizable tax increase for FY82, 83 and 84. The pressure increased on Oct. 21 when the government announced a 6 percent drop in GNP for September, followed two days later by an announcement of a 1.2 percent increase in September's Consumer Price Index. Indeed, behind the scenes the word was that the 1982 budget deficit would now be in the range of \$100 billion. President Reagan was forced to announce that a recession had begun. Democrats as a whole were in step with House Budget Committee Chairman Jim Jones, who on Oct. 26 informed his colleagues that yes, the recession is here; Reagan is to

blame; we will do nothing until next year.

In the face of what the Malthusians believe to be the irresistible pressure for deep cuts, these forces received a shock when, on Oct. 28, the Senate narrowly approved the sale of AWACS radar planes to Saudi Arabia. Following Reagan's victory on the Hill, he not only seemed to be moving toward a new definition of U.S. Middle East policy, but would stubbornly resist pressures to increase taxes and cut the defense budget.

These factors led to a late-October decision on the part of the BIS-Trilateral trusteeship to quicken the pace of an already prepared all-out assault on the President. The conspiracy to destroy the presidency, and perhaps even attempt once more to assassinate the President, was kicked off when an interview with David Stockman appeared in the *Atlantic Monthly* in which he openly attacked White House economic policy and called for sizable new taxes. While Counselor Edwin Meese and Deputy Chief of Staff Michael Deaver urged the President to remove the heretical Stockman, Stockman's "godfather," James Baker III, stated that Stockman was the most competent official in the administration, and lobbied the President to retain him.

A week after the decision to keep Stockman, a scandal was launched against National Security Adviser Richard Allen. Allen's removal was immediately urged by Baker, with Meese resisting. And one day after Allen went on administrative leave, another scandal was launched through the auspices of nationally syndicated columnists Evans and Novak against Michael Deaver. The pattern was clear. As one Washingtonian extremely close to the President told me, these series of strenuously pushed scandals (not including the Stockman situation, but now including CIA Director Casey and Labor Secretary Donovan) is aimed at the President himself. And as I have pointed out, the initial goal of this operation, manipulated from the beginning by Henry Kissinger, Alan Greenspan, and the Detroit-based business front for organized crime, GOP fundraiser Max Fisher, was to eliminate the President's closest associates. Political Affairs Director Lyn Nofziger has announced that he will step down in January 1982 after a series of losing skirmishes with Baker. Deaver, now under threat of scandal, has announced that he will also leave in 1982. Allen is effectively gone, leaving only Ed Meese in the White House from among Reagan's original California group. It is also clear that Stockman's revival, and the revival of his policies, was made possible through the auspices of James Baker III. Baker, former campaign director for George Bush and intimately involved in Gerald Ford's campaign against Reagan in 1976, has also promoted his special assistant Dick Darmon, a protégé of Club of Rome member Elliot Richardson, to superstar status in the White House.

Capitol Hill

Senate sidesteps fight with Fed

by Susan Kokinda in Washington

While the issues of budget and tax cuts dominated newspaper coverage of the first session of the 97th Congress, it will be Congress's inability to thus far break the Federal Reserve Board's policy of usurious interest rates which will in reality write the history of the 97th Congress.

For as the second session of the 97th opens in January 1982, the President's party, though the majority in the Senate, will find itself in increasing disarray as high interest rates balloon the federal deficit and leave Republicans looking at 1982 election races with their promised balanced budget hanging around their necks. Republicans of varying ideological and geographic stripes, and of varying degrees of proximity to their next re-election campaign, are scrambling in totally different directions looking for a "solution" to the economic crisis. Already, the Republican Senators representing the Northeast and Midwest have informed the President that he can no longer count on their heretofore automatic votes for cuts in programs affecting their regions.

Indeed, the President's narrow last-minute Senate victory on the AWACS sale to Saudi Arabia in October merely underscores the fact that the President's majority is by no means automatic. And this majority could disintegrate altogether in the wake of the 1982 elections, as a number of incumbent Republican Senators are in deep trouble because of the economy. Political wisdom on the Hill has it that continued support for the Fed by the administration and by Banking Committee chairman Jake Garn may be the single most important factor in defeating Senate Labor Committee Chairman Orrin Hatch next fall.

The key to a governable second session of the Senate, and to the ultimate survival of the administration, lies in the activities of a small but increasingly important group of moderate and conservative Democrats, similar to the Jim Wright, Bill Alexander and Dan Rostenkowski brand of Democrat in the House. It was in fact this group—John Melcher (Mont.), David Boren (Okla.), James Exon (Neb.), Ed Zorinsky (Neb.), Bennett Johnston (La.), Russell Long (La.), John Stennis (Miss.), and Sam Nunn (Ga.)—which gave the President his margin of victory in the AWACS vote. And it is this grouping

which has endeavored to bring the issue of high interest rates to the center of national economic policy discussion for the past year.

Senate sources report that, after a year of jockeying with the pro-Volcker Senate Democratic leadership, some members of this moderate caucus may be preparing to move early in the next session with a serious credit policy as an alternative to high interest rates. Recognizing that the wing of the Senate controlled by Minority Leader Robert Byrd of West Virginia and the Democratic National Committee is unalterably committed to a suicidal policy of credit controls, these forces hope that a good-faith effort by moderate and conservative Democrats on credit policy may provide the President with the route he needs out of his budget/tax trap.

Potential new leadership emerges

Almost unnoticed amidst the press hullabaloo around the House conservative Democratic caucus (the Boll Weevils), a similar, more informal caucus announced itself in the Senate during February 1981. Avowing its intention to support President Reagan's economic program, leading members of the group, however, began to point to the Federal Reserve Board policies of high interest rates as that program's glaring vulnerability. By mid-summer, several members of the caucus—David Boren and Ed Zorinsky—joined two non-members, John Melcher and Jim Sasser (Tenn.) in sponsoring a series of "public policy forums" on high interest rates. While generating no national press attention, the forums yielded two things: 1) the introduction by Melcher of S.J. Res. 104, a straightforward resolution calling on the President to sit down with the Federal Reserve Board and to bring down interest rates within 90 days; and 2) a face-to-face confrontation with Fed member Lyle Gramley, who declared that interest rates would not come down until wage rates were broken. From that point on, at least some Senators saw through the claim that the Fed was keeping interest rates high only in response to Reagan's budget deficit.

A behind-the-scenes battle then broke out between the anti-Fed Democrats and the pro-Volcker party leadership in the Senate, House, and Democratic National Committee. Despite the bipartisan Congressional outcry over interest rates after the August recess, the Melcher resolution went down to a 32-to-56 defeat on Sept. 29, as Byrd-led Democrats looked only for ways to pin the economic malaise on the administration, and Republicans obeyed orders from the administration not to attack the Fed. Nine monetarist Democrats openly joined the Republicans against the resolution.

At the same time as Byrd was trying to knife the administration on the AWACS vote (and Melcher, Boren, et al. were bailing out the White House), Byrd was also maneuvering to take the interest-rate fight

away from the anti-Fed Democrats. A Byrd-orchestrated October "Democratic policy meeting" in West Virginia followed by a November press conference produced an "Emergency Democratic Task Force on Interest Rates," under the leadership of credit control advocate Don Reigle. But the Task Force and leadership-backed resolution, a thinly disguised push for credit controls, garnered four fewer votes on the Senate floor than had the "maverick" Melcher resolution five weeks earlier.

Thus sidetracking the drive for lower interest rates, Byrd succeeded in dragging the issue down to its lowest common denominator, as witness the sham debate with Majority Leader Howard Baker on the Senate floor in December over the inconsequential issue of membership on the Fed Board of Directors.

With Byrd's "Task Force" discredited, the moderates who have made high interest rates their central issue during 1981 have a new opportunity to take the fight beyond mere opposition to the Fed and into the realm of serious policy discussion over national credit policy. As one individual involved in the fight from the beginning said, "The issue is no longer budget and taxes—it is credit. We may be the minority, but we are also incumbents, and we have a responsibility to put forward a serious credit alternative. I hope we can show the administration the way out."

House Democrats in divisive bind

by Ronald Kokinda in Washington

[I hoped] to be able to work with the new President as Mr. Rayburn and Lyndon Johnson had worked with President Eisenhower, not as obstructionists but as constructive helpers, trying to bail him out in the national interest when he got in difficult circumstances.

—From an early 1981 entry in the
diary of House Majority Leader Jim Wright,
Democrat of Texas

The failure of that potential working relationship between the Reagan administration and the moderate tendency among House Democrats has been the reason for the dominance of Malthusians in shaping the economic policy of both the administration and the Democratic

Party. The left/right undercutting of the moderate Democrats—those Democrats committed to crucial economic development programs, including NASA and space exploration, nuclear and fusion energy, water development, R&D, and parity for agriculture—has put the administration at the mercy of the Fabian mole David Stockman and the House Democrats under the leadership of House Speaker Tip O'Neill and other "post-industrial society" advocates.

Regardless of the specific effect on the economy a compromise between Reagan and moderate Democrats on tax and budget would have had, the potential for arriving at healthier policy directions could have been, and still might be, key to U.S. economic recovery. The Achilles heel of the administration, its toleration of Paul Volcker and Federal Reserve Board policies, is the best example. These moderate Democrats are attempting to ensure that adequate, long-term, low-interest credit gets into the productive sector of the economy without resort to credit controls or other such destructive devices.

The process of sabotage

Among the key moderates in this situation are Wright; Ways and Means Committee chairman Dan Rostenkowski (D-Ill.) (whose roots lie in the machine politics of the late Mayor of Chicago, Richard Daley, and who managed Wright's successful 1976 bid for Majority Leader); Budget Committee Chairman Jim Jones (D-Okla.); and Chief Deputy Whip Bill Alexander (D-Ark.). How were they undercut? The answer has to do with the Mont Pelerin-Friedmanite Congressman Phil Gramm (D-Tex.), described by one Southern conservative Democrat as "a good staff person, but untrustworthy." Gramm, who got his position on the Budget Committee with Wright's support on the promise to vote with the Democrats once they had reached a consensus, broke his promise and offered to sponsor the Stockman budget cuts. Pointing to this alternative flank of support, Stockman convinced the President that no compromise should be tolerated, and got his cuts in budget resolutions Gramm-Latta I and II. The "Boll Weevils," a grouping of conservative Democrats whose instincts favor economic growth and who would never tolerate an overtly environmentalist policy, were then rallied to support the Gramm-Stockman approach as a move of support for the President—an approach to budget-cutting that has helped the federal deficit balloon toward \$120 billion for FY1982 alone.

Similarly, a chance for compromise on tax policy was jettisoned, just as supply-siders demanded, once the administration was again convinced it had the votes for Kemp-Roth. Rostenkowski, firmly convinced until the very end that the President's overtures for compromise were genuine, suddenly found himself in a frantic scramble to outbid the administration's tax-cut sweet-

eners, in order to win votes for his own alternative. Any potential was lost for a serious restructuring of the tax code to reverse the speculative and economic overhead categories now getting favorable breaks, in favor of incentives for tangible goods production.

House Speaker O'Neill—who has aided and abetted the strategy of the Socialist International, outlined at their December 1980 conference in Washington, D.C., for radicalizing the nation and destroying Reagan under conditions of economic depression—appeared vindicated in his charges that the administration would not compromise, thereby boosting his factional position within the party. Wright and other moderates, having lost any leverage in their repeated attempts to convince President Reagan that his program could not work unless interest rates were dramatically reduced, were overshadowed by a party position increasingly and intentionally bereft of any policy direction or alternative. O'Neill commented, "When the other side is fighting among themselves, I say don't block the view," as he and other party leaders (notably Democratic National Committee Chairman Chuck Manatt) gleefully awaited economic collapse and, they hope, another liberal Democratic surge in the 1982 elections.

As the administration increasingly defended Volcker and Federal Reserve Board policies, Bill Alexander, a House moderate and Chief Deputy Whip (D-Ark.), introduced H.R. 319 to force the President to consult with the Fed and report back to Congress on how interest rates were going to be reduced. Hoping to get House Democratic Caucus backing, Alexander raised the issue in the Steering and Policy Committee. Here the real policy of the O'Neill wing of the party emerged, as O'Neill's protégé among the younger House leadership, Richard Gephardt (D-Mo.) attacked Alexander for taking emphasis off the "fiscal" solutions to the economy, i.e., more tax increases and budget cuts, and defended the Fed's interest-rate policies. In a subsequent interview with this journal, Gephardt confirmed that he works "closely" with the St. Louis Fed, and demanded cuts in the standard of living, including wage cuts, as a solution to inflation.

As we enter 1982 and the election period, O'Neill Democrats in the House are moving to enforce the Global 2000 blueprint for mass murder by introducing bills for hospices, killing water development and advanced nuclear projects, and ensuring that the euthanasia bill, or "Natural Death Act of 1981" (Act 4-115), becomes law for the District of Columbia, as a model for the states to follow. Whether or not the moderates can find the morality and courage to rally traditional Democrats to regain control of the party remains to be seen. As one member of the moderate leadership told me, "This split between the moderates and the liberals is going to get very deep."

World Finance

The Eurodollar era banking crises out

by David Goldman, Economics Editor

At its moment of greatest apparent triumph, the unregulated world banking system that emerged from the ruins of the Bretton Woods system 10 years ago faces its greatest crisis. For financial history, the subject of 1981 is the unopposed march of the Eurodollar banking system over the fragile defenses of national banking regulation, through the opening phase of a threatened world economic depression. But as the Polish events show in the most lurid light, the further basis of Eurodollar expansion is slim, and the world financial system has entered a crisis of the sort that the 1971 events merely postponed; and whereas the crisis might have been handled smoothly 10 years ago, now it can be confronted only through the most extraordinary and broad-ranging measures.

On Dec. 3 the gates to the citadel of American banking were opened to the besiegers by its supposed defenders, the Federal Reserve Board of Governors, through the much-heralded introduction of International Banking Facilities (IBFs). American banks are now beginning to conduct the same sort of business once exiled to the Cayman Islands, Bermuda, Panama, London, Singapore, and other offshore centers whose volume of deposits, at about \$1.6 trillion, was double the size of the broadly defined U.S. money supply and half again larger than the U.S. national debt. Combined with tax breaks for American banks and perhaps with "free-trade zones" and "free enterprise zones," which forthcoming legislation would make into mini-Hong Kongs on American soil, the IBFs have brought the uncontrolled Eurodollar expansion in the offshore markets back into the heart of American banking.

The IBFs by themselves would not represent so dramatic a shift if not for the accompanying revolution in commercial banking during the past year, including:

- The wholesale purchase of American banking assets by foreign institutions, including Hongkong and Shanghai Bank's 1980 purchase of Marine Midland, Midland Bank's 1981 purchase of Crocker Bank, Standard Chartered's 1980 buyout of Union Bank of California, and Banca Commerciale Italiana's 1981 takeover of Long Island Trust.
- The spectacular two-year growth of the assets of

comes to an end: of control?

money-market funds to \$175 billion, largely to the prejudice of the nation's 6,000 savings and loan institutions, which threaten to disappear from the nation's financial life, and at the expense of the commercial banking sector. For the first time since the Glass-Steagal Act of 1934, investment banks now control a significant portion of the deposit market.

- Mergers between Prudential Life Insurance and Bache Halsey Stuart; American Express and Shearson Loeb Rhoades; Bechtel Corporation and Dillon Read; Salomon Brothers and Phillip Brothers; and Goldman Sachs and ACLI Commodities, among others, to create "universal financial services" giants.

Paradoxical credit expansion

The institutional changes in the banking system, set loose in part by the Reuss-Proxmire Monetary Control Act of 1981, in part by legislation, drew their greatest momentum from the monetary policy adopted by the Federal Reserve Board in October 1979 and continued through to the present. The escalation of interest rates to 20 percent at their all-time peak in nominal terms, and to real interest rates comparable only to the months of 1929 immediately prior to the stock-market crash, shattered the foundations of normal deposit banking. Instead of an orderly deposit market between institutions and savers, non-bank intermediaries and then the banks themselves threw aside their customary range of instruments and offered deregulated high-interest, short-term paper that merely eased further escalation of interest rates.

The lack of monetary control at the Federal Reserve became, as a result, a standing joke among central bankers, and the subject of preachments of damnation at the Bank for International Settlements, the arbiter of the world central banking community. Deregulation threw out the distinction between demand deposits, or "bank money" in the standard definition of money supply, and forms of "non-money" deposits or assets held at non-bank institutions, and above all, wiped out the distinction between reserve-backed bank money generated in the regulated domestic banking system and uncontrolled, reserveless Eurodollars. While the Federal

Reserve kept the rate of growth of its targeted M-1 in the promised range—it has been growing at less than 5 percent over the past six months—the actual rate of credit expansion reached record levels. Deregulation wiped out the means of correlating the Fed's usual measures and the secondary generation of credit in the economy.

Moreover, the credit expansion, which reached 70 percent per annum in the American short-term credit markets during 1981's third quarter, occurred at the expense of an economy whose aggregate balance sheet sank into the worst condition since the relevant numbers were recorded. By the third quarter of 1981, fully half of all new funds raised by corporations paid interest on pre-existing debt, and corporate America was in the same position as Equity Funding, "salad oil swindler" Tino de Angelis, and other chain-letter game operators immediately before their pyramids collapsed.

Unable to continue borrowing merely to pay old debt service, corporations began, in July, to cut costs by laying off workers and reducing production. Production of consumer durables fell 13 percent between July and November, and overall industrial production by more than 6 percent; it will fall by almost as much again before the economy hits the bottom of this particular leg of a general depression.

On the international level, the extent of the explosion of debt-servicing costs has only begun to come to light. World trade this year will probably be 4 percent lower than the 1980 level in real terms. Among the leading industrial economies, only Japan is still growing, and at historically low levels. West Germany is stagnating and in danger of falling substantially; France and Italy are heading into a deep downturn, and England is mired in the depression levels brought on by three years of Margaret Thatcher economics.

The past 10 years have been a slow-motion version of the classical debt-bubble, along the lines of the Mississippi Company in France in 1719 or the New York stock market in 1929. Sources of funds have declined sharply while debt-servicing costs have continued to escalate. Only now has the fact become evident that *the world's balance sheet does not add up*. This is as true in the domestic U.S. sphere as in the international markets, and the conclusion is that a liquidity crisis of a sort the world has not seen since the grim summer of 1931 is in the works for the earlier part of 1982.

Past and future debt finance

Manufacturers Hanover Trust recently published a brief study of the ratio of net savings to net federal financing requirements, noting that in 1960, federal borrowings as a percentage of private savings were 19.3 percent; in 1970, 25 percent; in 1975, 58.7 percent; and in 1980, 78.8 percent. A linear projection of savings and



Herstatt bank director and customers in 1974 following near-collapse of Euromarkets.

federal borrowing trends would indicate that the latter will exceed the former during fiscal year 1982, implying that credit demands of the public and private sector, both at record levels, could only be met by widespread creation of new Federal Reserve money, or by importation of foreign savings. Indeed, substantial crowding out took place in the bond markets during the second half of 1981, when the rate of corporate debt issues slowed to virtually nothing before taking off in the fourth. Worse was avoided only by the administration's ability to persuade Saudi Arabia and other OPEC countries to purchase more than \$20 billion worth of U.S. Treasury securities. But now OPEC savings have fallen as sharply as have American domestic savings, from a net investable surplus of over \$80 billion in 1981 to an estimated \$30 to \$40 billion in 1982.

The spectacular rise and fall of the bond market during the fourth quarter of 1981, including a 17-point rise in the price of long Treasury bonds in the six weeks to Nov. 25, followed by an 8-point fall in the subsequent two weeks, is not surprising. Nor is the "unexpected" stickiness of interest rates on the downside. At this writing, interest rates have actually turned up slightly, an extraordinary development in an economy which has probably lost 8 percent of its current industrial output in the preceding five months. The last time such a thing happened, during the second quarter of 1980, the prime rate had been cut in half within four months.

Other governments' problems in financing their deficits are substantially worse than those of the United States. Starting with Italy, whose government deficit is

11 percent of GNP (against 6 percent in the United States), the rest of the major industrial countries are running government deficits that are proportionally worse, except that in Germany and Japan, traditionally high rates of savings provide a buffer that more than compensates for the additional financing burden. France and Italy are two sectors where a major internal liquidity squeeze is widely forecast for 1982 of a magnitude worse than anything yet imagined for the United States. Reports from Paris say that the French credit system may go through a shock unlike anything in the postwar period when the following year's budget is announced, with double the previous year's deficit, next September.

Most vulnerable in the entire process is the major debtor of the Eurodollar banks, the Third World, whose aggregate foreign debts now exceed \$600 billion and whose annual debt service, according to the International Monetary Fund, exceeds \$100 billion, or about 30 percent of its total exports. Last October's meeting of the IMF pronounced the current-account deficit of the developing countries, at over \$100 billion (two-thirds of which is interest, which is counted into current account), to be "unsustainable." But the same commercial banks that earlier had argued for tough "conditionalities," i.e., austerity preconditions in return for loans, dropped that demand like a hot potato after the IMF meeting, when it was realized that any austerity measures would instantly cut into these countries' ability to manufacture goods for export!

Twenty-one countries have already had to reschedule their foreign debts, nine in the past year and a half alone. Even the largest debtors, such as Brazil, will require rescheduling. But the collapse of advanced-sector economies, particularly that of the United States, which absorbs 40 percent of the non-oil exports of developing countries, means both fewer exports and lower prices for commodities exports, and hence a far worse deficit than in the previous year. Commercial banks remain in the same trap of lending increasing amounts to borrowers whose chances of repaying them grow proportionately smaller.

Central banks and crisis potential

That was the background to the pronouncement of the Bank for International Settlements in its June 1981 annual report that the present deficits of governments precursed a depression "comparable to the interwar years," i.e., the 1930s. To the extent that the BIS suggested that reduction of government deficits was the solution to the threat of monetary crisis, a viewpoint echoed in frequent congressional appearances by Federal Reserve Chairman Paul Volcker, it was belied by the central bank's simultaneous defense of the high-interest policy that had produced the gaping deficits in

the first place. Certainly, a policy of reducing social services could reduce the financial burden on government by permitting defenseless sections of advanced nations' populations to perish. As Milton Friedman argued favorably in 1956, the Nazis "contained" the stupendous monetary expansion of their regime by conquering populations around them, and the money supply, adjusted on a per capita basis, remained under control. But such brutalities were not in the reach of existing democratic institutions, and President Reagan has not been persuaded to shatter those institutions.

As so many times in the past, the last resort of the central bankers is to punish offending governments by letting a financial crisis be unleashed. That was the policy of the Federal Reserve and Bank of England in 1921, again in 1929, and most emphatically in 1931, when the central banks softened up Germany through a shutoff of international credits and a collapse of its currency and some of its major banks, relenting only in return for the placement of Hitler's soon-to-be financial czar, Hjalmar Schacht, at the helm of the Reichsbank.

What the Bank for International Settlements, the arbiter of the 1931 crisis, has in mind, and what its outgoing President, Dutch central bank chairman Jelle Zijlstra, told the IMF meeting last October, comes down to a world directorate of central bankers. Rather than the mere use of interest rates, which have promoted rather than dampened credit expansion, the Federal Reserve must adopt direct credit controls. That such a view filtered into the Bank of England became evident only at the end of December, when the London *Financial Times* editorially demanded tougher action to stop credit expansion. Writing Dec. 17, the premiere British financial paper's editors argued, "Such is America's economic and monetary influence that every other country has an interest not only in the new financial phenomenon emerging there, but also in the controls being devised to rein it in."

The Bank of England had earlier indicated its sensitivity to the crisis potential built up in the financial system, in a September study of the potential for a chain-reaction banking collapse on the Eurodollar market. On Dec. 16, Bank of England Chairman Gordon Richardson summarized the dangers to the world banking system and noted that the Polish events, if they caused banks to act defensively and abandon the process of orderly restructuring of bad loans, could make the entire process unmanageable (see article, page 26).

That the world monetary system is on the verge of a major crisis reaching, through the Eurodollar market, into every national subsector is no longer a matter of hushed discussions in central bank corridors, but of open declarations by the oldest of the world's central banks. What will follow is much less clear. Whether the Polish events will provoke a break-up of loan consortia,

a shut-off of lending to major international debtors, and subsequent defaults by major national debtors and commercial bank failures, is impossible to tell at the moment; West Germany, which has less interest in a Polish debt failure than anyone, may yet persuade the Russians to underwrite the Polish debt, for example.

But Poland, for all its attention in the headlines, is far from the most dangerous trouble spot in the world monetary system; the real-estate markets of various major cities are potentially far more vulnerable, and capable of compromising a far greater volume of risky loans. No one can predict the time and place of the outbreak of such a crisis; the opportunities for it to occur are too widespread for even the Bank for International Settlements staff to grasp in totality.

Two kinds of gold options

The first serious public discussions of gold in 10 years are both an indication of the recognition of crisis and a direction-finder out of it. As BIS President Jelle Zijlstra emphasized, "Gold is no longer a dirty word," although Zijlstra's own version of remonetization is for gold to be a chip circulating among central banks who would simultaneously force back the credit volume available to industry at whatever cost to national economies. Gold will return either to prevent a crisis, or as a result of it; the dollar will not survive major bank failures as a free-floating, still acceptable, but universally distrusted international asset. Gold may become the "only acceptable international means of payment," as Princeton professor Peter Kenen warned the President's Gold Commission in testimony Nov. 18.

However, as *EIR* founder Lyndon H. LaRouche Jr. proposed in these pages in October, gold can be a solution, not merely the bedrock to which the paper monetary system crashes. Backing the dollar by gold, i.e., paying the U.S. current account balance in gold revalued to \$500 an ounce or market price if higher, would immediately restabilize the world monetary system, on one condition. That condition is that the pledge to meet U.S. deficits with gold were backed up by a national effort to rebuild the technological edge of American industry, and wipe out the present \$40 billion per year trade deficit through the high-technology exports America excels in. At home such a policy would require low-interest loans on a priority basis to goods-producing industry; such loans would be non-inflationary as a matter of definition, being applied to new goods production and productivity-improving investments.

That is the course that economists like France's Jacques Rueff and Lyndon LaRouche urged in 1971, as an alternative to the Nixon debacle; it is still not too late to adopt it, in the face of the terrible consequences of wrong decisions.

How the Bank of England plans to exploit the Polish debt issue

by David Goldman, Economics Editor

"The Polish crisis is the most complex that has come up since the end of World War II. The political dimensions that come into play are so complex that I doubt if any of the actors have them all straight. At some point or other, all of the principals have taken all of the different possible positions on loan conditionality. The American banks who were pushing it six months ago have given up on it, and now the British banks are pushing for a sort of political conditionality. We sit around with and discuss this with a fair number of people, and the discussions that go back and forth are hysterically funny. Nobody has a clear idea of how you get out of it."

The above is a summary of a senior Federal Reserve official's trepidation over the Polish debt situation, which the head of the Bank of England has already predicted might turn into the trigger for the next great world banking crisis. In fact, the Fed is less a player in the game than part of the stage-setting. On the one hand, the Bank of England under Governor Gordon Richardson is committed to pressing the Polish debt issue to the breaking point, with profound consequences for the world balance of strategic power and the future of the world economy. But West German Chancellor Schmidt, Soviet President Brezhnev, and Pope John Paul II are apparently working closely to stabilize the Polish internal political situation and its foreign debt position in order to avoid a crisis. Whether they succeed depends largely on the response of U.S. President Reagan.

The West and Poland

To the extent that Reagan gives the West Germans room to work out refinancing and aid arrangements for the Poles, who are no more capable of repaying their debts than they are of leaving the Soviet sphere of influence, negotiations already in progress for a Russian-assisted loan bailout will probably succeed. West Germany's official warning, delivered by Foreign Minister Genscher Dec. 22, that all Western decisions on economic sanctions against Poland must wait until the conclusion of the Vatican informational mission to Poland under Cardinal Poggi, indicated how strong the contacts between Bonn and the Vatican have become. Genscher's remarks also frustrated the hope of State

Department Undersecretary Lawrence Eagleburger, who was in Europe to investigate the possibility of imposing sanctions on Poland.

Behind the scenes, according to the West German daily *Handelsblatt* Dec. 21, the West German banks were already negotiating with the Soviets, following an informal meeting of East bloc heads of state in Moscow the previous weekend on the occasion of Brezhnev's birthday. The meeting concluded with undisclosed resolutions to help Poland economically, the newspaper said. The most important indication that the Russians had taken such a decision, *Handelsblatt* added, was that the Soviets had already moved into the Eurodollar market for funds in approximately the volume of Poland's foreign debt payments shortfall, including a \$100 million loan from a single West German bank.

Whether the Russians actually commit their own credit on behalf of the Poles depends upon a number of criteria, Western banking and government sources emphasized in background discussions during Christmas week; but the overriding among these was the American government's attitude. Should the United States take what is loosely described as the "State Department position," that is, economic sanctions aimed at the Soviets, with emphasis on wrecking the multi-billion dollar natural gas pipeline project, then the Soviets would have no interest whatever in bailing out Poland. They would, in this case, be better served by permitting the West to take the consequences of a Polish default after they had moved into the country militarily, while leaving the possibility of a Soviet debt bailout of Poland to be a bargaining chip following such an invasion.

Directed toward precisely this unpleasant result have been the efforts of the Bank of England, whose objectives are broader than the Polish issue per se; its Governor, Gordon Richardson, wants not only the end of the major German-Soviet energy project, and an opportunity to impose British designs on the European Community at West German expense, but a fundamental change in East-West relations, and the collapse of President Reagan's tentative efforts toward negotiation with the Soviets. It must be remembered that Richardson, the former Chairman of Schroeders Bank, comes

from an institution that in the 1930s handled the covert financing of Adolf Hitler, and in the 1960s and 1970s maintained on its board of directors such brinksman-ship advocates as present Defense Department Undersecretary Paul Nitze, and Carter Defense Secretary Harold Brown.

An ill wind blows nobody good

Irrespective of Poland's present de facto debt default, the world monetary system is in an impossible bind, as the Bank of England knows better than anyone else. The Bank of England Governor told a West German audience Dec. 17:

Between 1973 and 1980 the outstanding stock of loans from commercial banks to developing countries increased by something approaching \$170 billion—thereby enabling these countries to maintain much higher levels of imports and economic activity than could otherwise have been sustained. . . . Since 1973 there have been twenty-one countries which have had to enter into negotiations to reschedule their debts. As might be expected, given the increased debt outstanding and the higher costs of servicing, the pace had quickened recently, with nine of these countries seeking rescheduling since the beginning of 1980. You will be well aware of the special difficulties of Poland, which raise questions of the broadest political character which the events of the past 36 hours have brought to the very center of our attention. Thus far, the magnitude of rescheduled bank loans has not been such as to give rise to anxiety about the ability of the banking system to handle them. *A more widespread difficulty could, however, arise if a failure to agree on a rescheduling were to lead to a default or moratorium which caused banks to react defensively toward other indebted countries, precipitating difficulties for them* [emphasis added].

At issue is not the 3 to 4 percent of U.S. banks' stockholders capital potentially compromised in an outright default of Poland, or even the considerably larger problem posed for West German banks, who hold \$4.5 billion in commercial debt against less than \$2 billion for the United States, most of which is unbacked by government guarantees. Clearly the \$27 billion in Polish foreign debt may be handled; it represents less than 2 percent of total outstanding Eurodollar banking assets. That is, however, not the issue. Every major developing-sector borrower has been bankrupt, de facto, for the past two years, and compelled to borrow chain-letter style to maintain itself, and the potential for defaults is growing such that an argument that the reschedulings may always be handled is not much different than arguing that Achilles would never



Pope John Paul II

overtake the turtle.

This is well-known to the Bank of England; Gordon Richardson's old sidekick from Schroeders, Geoffrey Bell, released an "opinion poll" of international bankers Dec. 15 to precisely this effect. Bell's poll showed bankers confident in "the system" in general, but querulous about each other. "The international banking system would be vulnerable to chain-reaction collapse in the event of a crisis affecting a significant bank or group of banks," a majority of bankers reported back to the Bell survey. It was conducted through the Group of 30, an adjunct to the International Monetary Fund chaired by former IMF Managing Director Johannes Witteveen. Problems at a single bank "can jeopardize the whole operation" of rescheduling international debts, Bell was told.

An entire array of British-associated institutions, including most of the British and American financial press, has spun out a fantasy in which a crash of the Polish debt and ultimate Soviet intervention into Poland would bludgeon the West Germans back into the NATO fold, collapse the current efforts around the natural gas pipeline with the Soviet Union, and place the world economy under a form of central-bank receivership. Not since Philip II's vision of a universal monarchy under the Spanish and Austrian Hapsburgs at the time of the 1577 Spanish bankruptcy, has the European oligarchy attempted to parlay so much weakness into so much strength.

Some of the suggestions that accompany Richardson's untoward burst of central-banking candor are plainly absurd. Senior American central-bank and government officials dismiss out of hand a suggestion in a

Wall Street Journal editorial Dec. 23 that the U.S. government might trigger a default of the entire \$27 billion Polish debt by declaring its own holdings of Polish paper in default, in order to "hit the Soviets where it hurts, in their credit standing," and ruin the natural-gas pipeline deal. "Governments simply do not do that," scoffed a senior official of the Eximbank, while a member of the Federal Reserve Board of Governors added, "The *Wall Street Journal* is just a newspaper, and not worth the extra dime they have begun to charge for it." Even further off the deep end is a *Financial Times* editorial proposal to refuse further credit to Poland unless the reform process continues, i.e., unless chaotic conditions are allowed to emerge which would make both old and new debt unpayable!

There is a sense of desperation in the British pronouncements. At the Cancún summit of industrial and developing nations, the Japanese and some of their friends, e.g. the Philippines, informed the rest of the world that if the present monetary system were stifling world development, then they would have to find a better one. Such was reiterated in a Japanese government white paper linking world disarmament negotiations to an expanded flow of high-technology exports to the developing sector.

Weapon of choice

What would happen if the Germans and Soviets were able to freeze the Polish debt crisis? The influence of the Bank of England and the Bank for International Settlements, the guardians of the Eurodollar system, would be at risk. In the Mideast, the way would be somewhat clearer for a comprehensive peace settlement along the lines of the Fahd plan, mutually acceptable to the Reagan administration and the Soviets. The worst effects of the monetary crisis resulting from a decade of British-inspired monetary politics and two years of Paul Volcker's imitation of Bank of England methods might well fall on the perpetrators, rather than on the remainder of civilization.

As such, the propensity to use the weapon of chaos and monetary destabilization, allowing the potential for monetary crisis to rear up in a sudden and terrible fashion, must not be underestimated. Since the crisis of 1773, which established the London City as the world's financial center, it has been the weapon of last resort of the British-centered European banking oligarchy, and the weapon of most frequent choice.

The balance hangs on the decision taken in the Oval Office. Should President Reagan accept the advice of his friend, West German Chancellor Schmidt, and of the Pope, he will keep the way open to American help, if only passive help, toward Poland's economic reestablishment. If he follows British advice on the subject, he will permit the eruption of events that he will not—and perhaps no one would—be able to control.

Henry Wallich on Poland

The following excerpts from a Dec. 23 interview with U.S. Federal Reserve Governor Henry Wallich have been provided to EIR.

Q: Governor Wallich, in October during the IMF meeting, you called in a speech before BIS bank regulators for the use of Poland as a test case for central-bank control over loan negotiations. You said that the BIS had to get banks to cut lending by forcing banks to declare loans in default when they in fact were in default, and you said Poland was the first case. Will there be a successful reorganization of the Polish debt? Or, do you see the situation blowing up?

A: The situation will be handled purely as a financial matter by the banks involved. It can be handled.

Q: What is the role of the central banks? Have you gotten more control over the process?

A: I don't want to comment on the role of the central banks, because the private banks will be able to handle this on their own. The debt can be renegotiated as far as I can see.

Q: But I understood from the German newspaper *Han-delsblatt* that the German banks are quite fearful and are moving to make a deal with the Soviet Union to bail out the German debt. The report is that the Soviets will borrow \$4 billion from the West to pay the German creditors of Poland. Doesn't that mean the United States would be left in the cold?

A: I will have to let you worry about that. The Germans would never do such a thing. They are very responsible bankers. Why should they act unilaterally? Cooperation is very important.

Q: Do you believe that the U.S. government might, for its part, do something like the *Wall Street Journal* suggested this morning—pull out U.S. government loans, thus throwing the private loans into default and crisis?

A: I cannot believe this government would do anything of the sort. I will not comment on suggestions by newspapers which cost 25 cents but charge 10 cents more [the *Wall Street Journal* costs 35 cents]. I have heard no such thing.

Q: So you see no financial difficulties with Poland?

A: I will never say never, but I am very optimistic.

Q: Do you see the Polish debt situation developing into a crisis? European banks believe it is deteriorating rapidly.

A: No. Anyway, what difference does it make to us?

American bankers are not that deeply involved. There isn't one U.S. bank with as much as \$100 million in Poland. Individually we have very little exposure, and not that much collectively. They have already long ago classified these loans as doubtful, and it wouldn't change their balance sheets.

Q: But the Germans have quite a lot of money in Poland and according to the German financial papers, they are considering making a deal with the Soviet Union to the exclusion of the United States. This would involve German banks lending the Soviets the money to pay the German banks some of what Poland owes.

A: I've never heard of such a plan. It makes no sense to me. Why should the German banks want to get more Soviet debt now?

Q: Why not? Soviet paper is a lot better than no paper, which is what they'll get from Poland.

A: Is it? Is it better than nothing? I don't think so. Look, the German banks are acting very relaxed. They don't have to make a decision now, or for weeks at all. They don't have to declare the loans in default. The Germans have no reason to rock the boat. They can just let the negotiations go on.

Q: But the Germans believe the situation will blow up, and they need to reach a political arrangement with Moscow.

Q: With Moscow? Why now, if ever? This is the last time that the German government would want to be at cross-purposes with its allies. We're the only thing protecting them from Soviet invasion of Germany. They're utterly dependent upon the United States. They would never choose now, of all times, to treat us this cavalierly. At a moment of major crisis, you don't go out of your way to alienate your allies.

Q: But they would suffer horribly in a banking crisis.

Q: Look, I told you, U.S. bank stock prices haven't reacted at all to the Polish situation. I don't know about the German banks, but that's not important. The banking side of this problem is of no importance. What really matters is the political fall-out. This is the biggest political crisis of the post-war period.

If the Soviets invade Poland, which I believe they will, Europe will run to us. Suppose they move. How will all the little nice guys in Europe react? They will be terrified—the Germans, [even] all the peaceniks. They will run to us. They will be in a very dangerous situation with a very awkward neighbor.

This could be the best thing for the alliance in some time. Look at history—Czechoslovakia [in 1948]. The invasion caused the vote on the Marshall Plan to be rammed through Congress with a mere two dissenting votes. It caused the solidification of NATO, which might

never have been so well-organized. [The Soviet invasion of] Hungary [in 1956] caused an even worse reaction in Europe against the Soviet Union.

Invading Poland now would be much worse for the Soviets than either. There will be major reactions. Europe will turn away from the Soviet Union and toward the United States.

Q: Will it make the emplacement of the Euromissiles, for example, easier?

A: Certainly, much easier, maybe even a fait accompli. Europe will be calling for protection. It will affect perceptions of the Soviets across the board. It will even affect the Middle East. It will be bad for the Palestinians, bad for anyone who smacks of Soviet or leftist influence.

Q: Do you mean it would be bad for the Fahd plan?

A: Certainly the Fahd plan would be weakened. Any identification with the Palestinians would be weakened, any compromise.

Q: Will the United States take strong actions, such as suggested by the *Wall Street Journal* this morning, cutting government loans?

A: No, I doubt it. That's a china-breaking move. Governments, especially this one, would be reluctant to blow up the debt negotiations. I don't see it. I think the *Journal's* editors had a flight of fancy on their own.

Q: What about U.S. moves to try to stop the European-Soviet pipeline deal?

A: That's the first reasonable suggestion you've made. That, now, would hurt the Soviets, is within the authority of the U.S. government, and would be very popular with the American people.

Q: But wouldn't it alienate the Germans?

A: Look, the Europeans can do without a pipeline if they have to. But they can't do without their security. It might well alienate them a bit, but this is not a popularity contest. You have to choose who you're going to hurt.

It isn't the banks who are going to be in trouble. I foresee something on the scale of another grain embargo move—only this time not grain, so it doesn't fall only on the heads of the farmers, which is not practical domestically for Reagan.

Q: Do you mean the President rejecting the current applications by Caterpillar for participation in the pipeline deal?

A: For example, yes, and a great many other people like Caterpillar. Somebody, a lot of people, have to pay. Exports have got to be interfered with, re-classified under national security classifications . . . something must be done.

We'll see what the President says tonight.

1981: the year of the global assassins

by Linda de Hoyos

"It is my duty to raise my voice against the grave and still unresolved phenomenon of international terrorism," Pope John Paul II stated in his Dec. 22 address to the Cardinals and prelates of the Roman Catholic Church. "I cannot forget my own personal experience on that afternoon of May 13 in Saint Peter's Square." The reasons for terrorism, declared John Paul II, "grown from unknown roots which, however, can always be traced back to hatred, to ideological confusion and to the attempt to inject uncertainty and fear into international life. . . . The lasting threat of this grave future for mankind, and my own experience in going through the crucible of such a tremendous test make me raise my grief-stricken voice once more" to appeal to international terrorists to desist from their "mad death threats."

The Pope's appeal is no simple-minded cry against violence. It is a precisely worded call to the world's political leaders and investigative agencies to take determined action to expose the conspiracy that lies behind the series of assassinations and attempted assassinations in 1981 that have brought us so close to a "new Sarajevo."

Of that conspiracy there can be no doubt. In a report released Sept. 23, the Italian court ruled in a 51-page report that the murder attempt on the Pope May 13 was no act of a "lone assassin" but the work of a conspiracy. The report stated: Ali Agca was "not a religious fanatic," but a "bold and proven killer . . . who knew how to

handle a weapon and had nerves of steel. Agca was only the visible point of a conspiracy, though impossible to define, [which] was widespread and menacing and devised by shadowy forces."

Not since 1962-63—when the Permindex international assassination bureau gunned down Italian oil developer Enrico Mattei, U.S. President John F. Kennedy, and made dozens of attempts on the life of French President Charles de Gaulle—has the world witnessed such an intense use of political assassination as in 1981. On March 30, John Hinckley, Jr., nearly succeeded in murdering the new President of the United States. Within a month, President Giscard d'Estaing narrowly missed death at the hands of terrorists at the Corsican airport. On May 13, Pope John Paul II was shot by Agca, a man who had evaded capture by Turkish authorities for more than a year as he crossed unimpeded through Eastern and Western Europe. On Oct. 6, Egyptian President Anwar Sadat was slaughtered while reviewing a military parade. The intensity of the political terror has not abated: French press reported Dec. 21 that the Pope has come under renewed death threats; President Ronald Reagan has been documented to be the target of hit teams now operating in the United States; and Democratic Party leader Lyndon LaRouche is also known to be the target for early assassination.

To take up the challenge of the Pope's mandate brings forth the first question: is there a common political

aim behind these series of assassinations and attempts?

Each of those targeted for assassination in 1981 represented an obstacle to the European-British oligarchy's goal of a world order ruled on the basis of the population-reduction doctrine of the Carter administration's *Global 2000 Report*; a "post-industrial society" in which the threat of progress-committed nation-states would have been eliminated. Global destabilization, population wars, and the destruction of both the United States and the Soviet Union as world powers, are the preconditions for this new world order. Among the adherents of this vision for modern man we find the City of London financial and royal interests; the die-hard oligarchy of Europe led by Otto von Hapsburg; the black nobility of Italy; we find the controllers of the Muslim Brotherhood secret society that put Ayatollah Khomeini in power in Iran and that controls Libyan dictator Muammar Qaddafi. And it is among the adherents of this fascist world order that we find capabilities for political assassination.

Looking at the wave of political terror that has bloodied the year 1981 there are three leads that emerge in pursuance of the "unnamed conspiracy": the exposure of the Propaganda Due secret Freemasonic society; the British Arab Bureau's Muslim Brotherhood; and the continuing capability of the British-Perminindex international assassination bureau. This review will deal primarily with the first.

P-2: an international scandal

Exactly one week after Pope John Paul II had been shot, "the biggest scandal in the history of the Republic" of Italy, as the press called it, broke out when the Forlani government released the names of 962 members of the illegal Freemasonic secret society, Propaganda Due (P-2). A few days later, the entire Forlani government was forced to resign when the Socialist Party refused to pull out its members of the government that had appeared on the P-2 list.

Directed by the Venerable Master Licio Gelli, former torturer for Mussolini's Republic of Salò and one of the sponsors of Libya's Colonel Qaddafi, the lodge had been accused in the past of involvement in arms trafficking, terrorism, illegal currency flight, blackmail, kidnapping, attempted coups d'état, and other criminal activities. But it had always emerged unscathed.

Since March 1981 the Forlani government had had in its possession the names of the P-2 members. The list had been found on the premises of Gelli's villa during a government raid. Also found were 33,000 individual dossiers—blackmail files on every prominent Italian politician, businessman, military officer, intelligence operative, and labor leader. For two months Forlani acceded to pressure from high NATO officials not to publish the P-2 list; but the attempted assassination of

John Paul II placed unbearable pressure to bring to light the evidence against the "citizens above suspicion."

Pressure to keep the lid on the P-2 scandal was understandable. On June 16, the well-known Rome daily *Paese Sera* documented that the U.S. National Security Council under Henry Kissinger in 1969 had made the decision to carry out activities in Italy through the P-2 cover. Case officer for the operation was Alexander Haig, now Secretary of State. Also implicated in P-2 are several members of the Trilateral Commission, notably David Rockefeller, George Ball, and the former U.S. Ambassador to Italy under Jimmy Carter, Richard Gardner. According to *Paese Sera*, dossiers found in the possession of P-2's fugitive leader Licio Gelli showed Haig listed under the category of "friend," and suggested that plans for a coup in Italy were revived with Haig's entry into the State Department. Within a month of the *Paese Sera* revelations, Haig had dispatched State Department adviser Michael Ledeen to Italy with the aim of quashing the spread of the P-2 scandal.

A fascist conspiracy

Examination of the flamboyant career of Licio Gelli, P-2's Grand Master, demonstrates the power of the Propaganda Due revelations in damaging the network of the oligarchy's one-worldist operatives in the United States and elsewhere. Gelli functions as the Lord Chamberlain for the House of Savoy, and enjoys the personal friendship of such diverse personalities as German neo-fascist Franz-Josef Strauss, whose underground circles in Germany were known to safehouse Ali Agca, and Romanian head of state Nicolae Ceausescu; he was among the few Italians to be invited to attend the presidential inauguration of Jimmy Carter in 1977.

Gelli began his career fighting alongside the Spanish Fascists in the famous Tercio, the Spanish foreign legion, and from there became a paratrooper for the Nazis in Finland. Back in Italy, when Mussolini created the Republic of Salò in 1944, Gelli became the official liaison between the Fascists, the secret police of Salò, and the Nazi SS. He also gained notoriety as a torturer, a skill he had learned from the Nazis in Germany.

After the war, under the protection of OSS officer James Jesus Angleton, at the time working to protect the House of Savoy, Gelli was permitted to flee to Argentina, taking millions in flight capital with him. There Gelli became an intimate of Juan Perón's political adviser, José López Rega, the founder of the drug-trafficking terrorist group, the AAA. He also established contact with Aginterpress, the Lisbon press agency that for years had been the brains behind the Black International of Otto von Hapsburg and former Nazi commando Otto Skorzeny.

In the early 1960s, Gelli received orders from the Anglo-American Scottish Rite Masons—namely the Duke of Kent—to return and reorganize Italian masonry. According to the Grand Master of the Grand Orient in France, Roger Leray, this project was based upon a decision taken by the Bilderberg Society, an oligarchical institution composed of Europe's nobility and its international retainers like Henry Kissinger. By 1966, Gelli had been elevated to the level of Master and installed in the P-2 lodge. Among the notables who joined Gelli's lodge were Victor of Savoy, the pretender to the Italian throne; the Savoy Prince Junio Valerio Borghese (the "Black Prince"); Senator Mario Tedeschi, leader of the fascist MSI party; Prince Alliata di Montereale, the primary bankroller of the Sicilian separatist movement. Found among its membership list in May were 170 top military personnel, 30 members of the Italian parliament; three cabinet ministers of the Forlani government including both Christian Democrats and Socialists; and two former heads of the SID, the Italian intelligence service.

As did its 19th-century predecessor, Propaganda Uno, directed by that incendiary agent of Lord Palmerston and founder of the Mafia, Giuseppe Mazzini, P-2 functioned as a political conspiracy, situated on the second rung of political control over both right and left terrorism and the plotting of coups.

On the night of Dec. 7, 1970, P-2's Prince Junio Valerio Borghese attempted a coup d'état led in Rome by neo-fascist commandos who occupied the Interior Ministry. May 17, 1973 saw another coup attempt—this time by the famous Rose dei Venti organization. The conspirators were high officials in the NATO psychological warfare center at Verona and a group of industrialists. Licio Gelli provided the coordination and necessary funding. Gelli's P-2 was also implicated in terrorism, including the Aug. 3, 1974, bombing of the international train *Italicus*, which killed 12 passengers and wounded many others.

There are two avenues of evidence linking the Pope's would-be assassin Ali Agca to P-2. P-2's Prince Alliata di Montereale is the patron behind the *Accademia Mediterraneo*, which sponsors the monthly journal *L'Opinione Pubblica*. One of Montereale's employees in this endeavor is a right-wing Turkish journalist, Nevin Gunn; Gunn is also suspected as an accomplice of Agca.

The other route goes through Libyan dictator Muammar Qaddafi. But first it is necessary to interject the fact that "linked to Qaddafi" does not mean to Qaddafi as the self-proclaimed prophet of Greater Libya or Muslim fundamentalism. Nor does it mean Qaddafi, the pawn proffered to the Soviet Union and its KGB. Muammar Qaddafi is first and foremost a creation of P-2. Libya has been controlled by the Italian black

nobility since Italo Balbo of Mussolini-period fame, a descendant of Mazzini's P-1, ruled over the country as viceroy. Qaddafi himself was trained in Spain under the auspices of Gelli and two of his close associates, Juan Perón and Otto Skorzeny. Gelli, Perón, and Skorzeny, all resident in Madrid during the 1960s, are the actual authors of Qaddafi's Green Book of revolution.

Two days after Pope John Paul had been shot, King Hassan of Morocco sent a confidential letter to Italian President Pertini. According to the Milan news daily *Corriere della Sera* May 16, the letter contained details linking Agca to Qaddafi. *EIR* verified the *Corriere* report. Pertini, a member of the Socialist Party of Italy, has refused to date to disclose the contents of the Hassan letter, claiming it has been "lost."

To proceed to the next level of control over terrorism, we examine the arrest of Italian banker Roberto Calvi on May 19, one day before the scandal broke. A member of P-2 and chairman of the Banco Ambrosiano, Calvi stands at the center of a banking nexus that supplies the funding for international terrorism. The Venetian banker is reportedly the top financial representative for Libya.

According to sources at the Banco Ambrosiano on both sides of the Atlantic, Calvi's bank is one of a grouping of seven interlocked banks called Inter-Alpha. The publicity-shy but powerful international syndicate includes West Germany's BHF Bank, France's Swiss-connected *Crédit Commercial*, the *Kredietbank* of Luxembourg, and the British combination of Williams and Glyn-Royal Bank of Scotland, now merged with the central bank of the Far Eastern dope trade, the Hongkong and Shanghai Bank. Inter-Alpha was founded in 1972 to be the premier flight-capital conduit between the Far East and Latin American "offshore markets," with special expertise in the secretive transfer of very large old family fortunes. With centers in 40 countries, Inter-Alpha is the next level of control over the terrorist protectors and deployers within the P-2 lodge.

It is thus not unexpected to find that one of the most powerful figures in the Inter-Alpha nexus is Aurelio Peccei, founder of the Club of Rome, who in the spring of this year at a Paris gathering endorsing François Mitterrand as President of France, declared that the nation-state must be destroyed since it is an obstacle to the full imposition of a zero-growth world order.

It is Aurelio Peccei who appears to have had command over the Inter-Alpha's own intelligence service, Ultrafin. While still functioning from his 20-year post at the Agnelli family's Fiat company, Peccei ordered that Richard Gardner, later named U.S. ambassador to Italy by Jimmy Carter, be placed in charge of Ultrafin's intelligence operations in New York. From his position as a leading economic light of the Trilateral Commission, Gardner was responsible for preparing monthly

reports “on the world situation and its impact on Inter-Alpha,” according to sources at Ambrosiano.

As for Peccei, from Fiat, he went on to head the Atlantic Institute’s Economic Committee, from which he launched the Club of Rome in 1968, along with OECD’s economist Alexander King, and Hugo Thiemann, counselor to the Swiss Nestlé Corporation, an entity interlocked with Inter-Alpha.

Aurelio Peccei’s presence in Inter-Alpha brings us to the heart of the “shadowy forces” behind international terrorism: P-2 and its terror machinery is the enforcement arm for the Malthusian oligarchs’ Club of Rome.

The Islamic connection

In early September, Egyptian President Anwar Sadat launched a crackdown on the opponents to his government operating under the Islamic fundamentalist Muslim Brotherhood and under the KGB-linked Coptic Church. “There will be no Khomeini here,” Sadat told his nation. In early October, as he was preparing the second phase of his security clampdown, which would have involved government shakeups and a military purge, Sadat was assassinated. But from the standpoint of his assassins’ controllers, Sadat’s major crime was not his crackdown on the Brotherhood, but his determination to build Egypt—the keystone nation of the Arab world—into a modern industrialized country.

What P-2 is for Europe, the Muslim Brotherhood is for the Middle East. Founded by the British Arab Bureau in 1929, the Muslim Brotherhood is the Islamic-wide semisecret society that brought the Ayatollah Khomeini to power in 1979. Khomeini and nearly the entire leadership of his fascist Islamic Republican Party were members of the Freemasonic-modeled Fedayeen-e-Islam, the Iranian arm of the Muslim Brotherhood. The Brotherhood is also the power base of Pakistan’s military dictator Ziaul Haq, and its Libyan ally, the Senussi Brotherhood, backs Qaddafi. In Saudi Arabia, the Brotherhood’s chief is Prince Abdullah, now awaiting a destabilization to take power.

The economic dismantling of Iran and the genocidal elimination of all opponents, including children, to the Khomeini regime, demonstrates the prevailing ideology of the Muslim Brothers. The Muslim Brotherhood’s purge of all “Western influence” from Islam—that is, industrial technology—conforms to the British method of colonial rule by enforced backwardness.

Naturally, the controllers of the Muslim Brotherhood are not to be found in the Islamic nations it attacks. Its strategic directors are Islamic exiles and European oligarchical retainers found in such organizations as the Islamic Council of Europe, the Islamic Institute for Defense Technology, and Islam and the West, located in such cities as London, Geneva, Munich, and Paris.

Under the protection of Jimmy Carter’s Attorney General Benjamin Civiletti—the same attorney general who refused to prosecute the Billygate affair—the Muslim Brotherhood was permitted free rein in the United States, through its fronts, the terrorist Muslim Student Association, the Persian-Speaking Students Group, and the Detroit-based Ramallah Federation. The Islamic Guerrilla Army, operating under the direction of Iranian Muslim Brother Bahram Nahidian in Washington, D.C. carried out the July 26, 1980, murder of anti-Khomeini leader Ali Akbar Tabatabai in Washington, D.C. A Dec. 15 column by Jack Anderson surfaced evidence linking “lone assassin” John Hinckley, Jr. to the same Islamic Guerrilla Army.

The Muslim Brotherhood in the United States, in combination with that section of the American Zionist lobby represented by Max Fisher, Edgar Bronfman, and their ties to the Permindex international assassination bureau, represents the core of the assassination threat against President Ronald Reagan today. That threat emerged in the clear light of day with the Oct. 21-25 conference in Houston, Texas, of the Muslim Brotherhood under the auspices of the Rothko Chapel. Participating in the meeting, entitled “Islam: Spiritual Message and Quest for Justice,” were 23 top-level Muslim Brotherhood strategists from all over the Islamic world. Throughout the conference’s proceedings, its participants rose to hail the murder of Egyptian President Sadat and to call for the spread of the Khomeini revolution throughout the Middle East.

The Rothko Chapel been founded in 1971 by Jean and Countess Dominique de Menil, the family heading up the Houston branch of the Schlumberger Corporation, the world’s largest producer of oil-drilling equipment. Before his death, Jean de Menil had been a member of the board of directors of Permindex, and had been present at the spring 1963 meeting of Permindex directors at Montego Bay, Jamaica, where the Nov. 22 murder of President Kennedy was planned.

The majority of the participants at the Rothko Chapel gathering had come from a gathering in Paris the previous week under the sponsorship of the Muslim Brotherhood control organization, Islam and the West. That conference had been funded by Occidental Petroleum, the Corporation of Qaddafi mentor Armand Hammer. Attending were Britain’s Lord Caradon and the Club of Rome founder Aurelio Peccei. At the conference, the Islam and the West decided to effectively merge with the Club of Rome.

The surfacing once again of the Club of Rome points to the fundamental act that international terrorism is no “sociological phenomenon,” but a weapon deployed on behalf of the Global 2000 policy of genocide worldwide. And the “citizens above suspicion” espousing such a policy must be examined accordingly.

The Vatican

John Paul II declares political war on enemies within and without the Church

by Vivian Freyre Zoakos, European Editor

The Vatican has initiated a rapid-fire series of initiatives over the past year that are downright dazzling when compared to the typically more low-key and slower-paced tempo of the two-thousand year-old Catholic Church in modern times. The Vatican has not only begun to play the core international role in contesting the population-control plans of the Global 2000 strategists, it has also placed itself at the center of global political activity against those strategists' plans for a holocaust of regional wars and superpower confrontation.

As Pope John Paul II has said repeatedly, his main immediate purpose is to secure global peace. Over and above this, his words and actions have also shown that he is concerned with re-establishing the more permanent basis for the future assurance of peace through reviving fundamental philosophical principles both within and outside the Church.

Speaking to the College of Cardinals and Vatican employees on Dec. 22, in the traditional papal Christmas greeting, John Paul identified these twin aims as the primary tasks of his pontificate. He also stated in this speech something that has been increasingly obvious to close observers: that the failed attempt to assassinate him last May was crucial in convincing him of the imperative need to move more aggressively, mobilizing the prestige and power of his office against the warmongers and opponents of science and public morality.

It is sufficient to itemize the initiatives of the papacy over the preceding year to understand the scope of what has been achieved and attempted.

Of primary importance were the actions taken to isolate and partially neutralize the networks which threatened to destroy the Church's own capacity for effective action—networks whose aim has been to capture the papacy for their own evil ends. To this effect, one of the first things done by John Paul was to reassert the Church's condemnation of Freemasonry, putting a stop to well-advanced negotiations for reversing Catholic excommunication of Freemasons.

Similarly, he threw cold water on the formal negotiations that dated from the Vatican II Council days to reunify Catholicism with the Anglican and Eastern Or-

thodox Churches.

Visiting the United States this past summer, Archbishop of Canterbury Robert Runcie had boasted that he expected to be saying Mass inside a Catholic Church by the end of this century. The existing Catholic-Anglican board dealing with the reunification negotiations announced that all differences had been ironed out, and only the Pope's final approval was required for the first phase of reunification to be under way. Formal negotiations were also proceeding between Catholicism and the Eastern Orthodox Church. As the Eastern patriarchs announced in late October at the breakup of their latest negotiating session, sudden problems had arisen in the previously smooth negotiations, problems which originated directly from the Pope. Discouraged, the patriarchs announced that they would continue discussions, but with little hope of progress.

As *EIR* documented extensively over the past year in covering the Propaganda Due (P-2) Freemasonic scandal, there is a very intimate relationship among the highest levels of the Eastern Orthodox Church, the Anglican Church, and Freemasonry. All three contain interwoven networks documentably responsible not only for creating and directing much of global terrorism and political destabilizations, but also for devising the various belief structures that at a more sophisticated level influence decisively international political and moral life.

It was in fact the papacy which initiated the outbreak of the P-2 scandal on May 21, thus unleashing a series of devastating revelations about the inner workings of this evil elite across the globe.

Individuals such as Secretary of State Alexander Haig, leading NATO figures, scores of European government and security service executives, began to be publicly charged as the manipulators of the major contemporary political destabilizations. One immediate effect of the P-2 scandal was that the Forlani government of Italy collapsed, and that of Giovanni Spadolini put in its place. The planned imposition of an Alexander Haig backed socialist government in Italy under Italian Socialist Party chief Bettino Craxi was thus forestalled.

The launching of the P-2 scandal by the Vatican

occurred immediately following the attempted assassination of the Pope on May 13. It was literally one week later that then Prime Minister Arnaldo Forlani was forced to publish a list of hundreds of names belonging to the neo-fascist secret lodge, massively implicating the Socialists as the core fascist political party in the country.

Papal political interventions

The Pope then began to intervene further into Italian political affairs, something which he had earlier decided he would avoid. In an address of Nov. 1, he put into words the purpose of the political activities being undertaken by the Church. He said that there exists "only one truth . . . which goes beyond all ideologies"; pluralism is false knowledge. Politics, like all human activity, must be guided by the need to act on the basis of truth, he said.

Jesuit press organs such as *Civiltà Cattolica* complained loudly. The Jesuits had a lot to complain about.

In the last week of October, the Pope installed his own personal representative, Paolo Dezza, to head the order in his name. In December, he wrote a letter to all the Jesuit provincials throughout the world ordering them to Rome for an international Jesuit conference to begin in late January 1982. The purpose of the conference, he said in his letter, was to have the Jesuits swear an oath of loyalty to the papacy and its dictates. Boldly, he said that those who refused to do so—or act accordingly later—would be summarily dismissed from the order.

In Central America, the head of the Latin American conference of bishops, Archbishop López Trujillo—reinforced the Pope's initiative by writing a public letter to the Vatican Secretary of State publicly attacking fellow bishops who were disloyal to Catholic principles and insisted on collaborating with guerrillas and other terrorist destabilizers. López Trujillo was finally free to speak because the Pope had, in a previous address aimed particularly at the Central American Church, overturned the results of a Central American bishops' conference that had been held in Rome the previous July. At that conference, the schismatics among the bishops had blackmailed the Vatican to go along with their terrorist-guerrilla involvement ("Theology of Liberation") or face the threat of a schism. The conference's concluding document adopting these policies, including the principle of "pluralism," was specifically dismissed by John Paul in his speech.

Schismatics the world over were therefore put on the defensive. They appear to have stepped up their plans for launching an outright schism—before being actually prepared to do so. This was signaled in December when Hans Küng, proscribed from teaching because of his heretical outlook, and now based at the University of Chicago, told the press in an interview that he had

decided he could no longer work inside the Church and felt more at ease among the Catholic "dissidents."

Throughout his career, Küng had been careful to work within the Church as he chiseled away at the basic scientific and moral principles of Catholicism. In the United States, other moves were begun, such as the well-publicized attacks on Cardinal Cody of Chicago and, more recently, pressures on Philadelphia's Cardinal Krol to resign. The hope is that the North American Church is sufficiently corrupt and sufficiently powerful that it can be leveraged to destroy the influence and initiatives of the Pope and his backers. The outcome of the battle is far from decided, but it is important to understand that the schismatic liberation theologians do not have the initiative at this point. They are *responding* to a situation in which the game board is increasingly being drawn up elsewhere.

Finally, in November the Pope also announced that he is ordering an investigation into seminary instruction, first in America and eventually other parts of the world. On the basis of the findings, the plan is to return seminary teaching to the basic principles of patristic Christianity minus the "modernist heresy" component that now prevails.

Simultaneously, the Pope has ordered the revivification of the Pontifical Academy of Sciences, turning it into an instrument for combating the pseudo-science of the Club of Rome genocidalists. The Academy has just issued a transcript of its last session dealing with nuclear energy. The document contains a strong endorsement of nuclear energy, including a harsh refutation of anti-nuclear advocates such as the Italian Emilio Colombo, who was summoned to the Academy's working session only to be rebutted at every turn.

Nascent alliances

In international strategic matters, John Paul II is working closely with West German Chancellor Helmut Schmidt. Following their meeting this fall, the Pope said privately that he was surprised to find that he and Schmidt coincided in their viewpoints on all important questions. It was after this meeting that the Italians—under the government of Spadolini, established with the help of the Vatican—that Italy was brought into the Soviet-German gas pipeline deal. The Pope is also known to be in continual contact with President Reagan, both directly and through trusted channels.

In this respect, it should be noted that knowledgeable sources told *EIR* earlier this year that the enemies of President Reagan and the United States fear that good but relatively unschooled political and moral instincts might be brought into an alliance with the Pope's equally good, and much more educated and sophisticated, knowledge. It is exactly this link which is now taking shape.

France

Socialist Mitterrand's victory reverses Giscard's global stabilization policy

by Philip Golub in Paris

Historians, reflecting in the future about the state of European affairs in the 1970s and 1980s, will undoubtedly locate the victory of François Mitterrand in the French presidential election last May as a crucial and dramatic moment of an unfolding destabilization of world affairs begun in the early 1970s. It is certainly no exaggeration to state that Mitterrand's victory, after 23 years of embittered and violent opposition to Gaullism, has shifted the world balance of power by changing the course of the European policy.

At the center of this development is the shift of alliances of the new Socialist regime.

While Gaullism, and then Giscardism, premised the foreign policy commitments of France on the privileged continental relationship between Paris and Bonn, and evolved the idea of an emerging, powerful, and independent Europe, tightly allied to the United States though capable of sovereign action under condition of crisis, the new Socialist regime has brought France back into what Mitterrand himself described not so long ago as a "new entente cordiale" with London.

Far from marking a mere shift of emphasis, this reorientation of French policy marks the end of a long and sustained period of stability and economic growth centered in the Bonn-Paris relationship. In that sense it is more the absence of Giscard d'Estaing than the presence of Mitterrand at the Elysée which critically shifted European affairs. Thus for the first time in this decade West Germany has been relatively isolated within Europe and domestic left socialist opposition to Chancellor Schmidt has developed into the violence of proto-fascist mobs launched against his government. The political and economic power which the coordinated diplomacy of Bonn and Paris wielded no longer assures a coherent positive policy, be it in economic or security affairs. At the same

time the defeat of Giscard intensified the destabilization of the southern European nations: Greece went socialist last month and now represents a factor of destabilization in the Balkans as well as vis-à-vis Turkey; Spain's political system is being torn apart by the twin extremities of the Socialist International and the extreme right-wing nostalgics; Italy, finally, could hardly have contained major civil conflict and maintained the stability of institutions had it not been for the stabilizing presence of the Vatican.

A "domino" collapse process was introduced by the vacuum left open by the collapse of the Franco-German partnership.

The content of the new entente cordiale as envisioned by Mitterrand and British Foreign Minister Lord Carrington can best be described as a revitalization of the "two imperialisms" policy of the British and French of the pre-World War I period and of the more recent "little entente cordiale": which ultimately led to the Franco-British invasion of Suez in 1956. Thus insiders involved in Middle East politics have described the new entente as a division of labor among the two powers, similar to that worked out in 1916 with the Sykes-Picot accords, which dominated post-World War I French and British Middle East policy.

It is not astonishing that Mitterrand would be predisposed to these policies, given his work for British Intelligence during the war which was directed at weakening and containing the resistance movement led by de Gaulle at the time (1943-45). Nor is it accidental or insignificant that France's post-1947 colonial policies, intimately tied to England's, were worked out by French Socialists, many of whom, like Gaston Defferre and Claude Cheysson, are represented today in the Mitterrand government. Mitterrand's Foreign Minister was able to tell an

interviewer recently, without blushing, that French and British policies are strictly coordinated in weekly sessions and constant telephone contact between "his good friend Peter Carrington and himself." Systematic intelligence exchanges have been reintroduced after more than a decade of cold conflict between the two powers, along with an already rapidly proceeding effort at military integration and nuclear weapons cooperation. Mitterrand's pro-English policy has, of course, been complemented by a dramatic worsening of French-German relations. A very strong personal as well as political animosity marks Schmidt's relations to Mitterrand.

French policies toward North Africa and the Middle East have shifted 180 degrees. Whereas Valéry Giscard d'Estaing made systematic efforts to contain and destroy centers of destabilization, the new government is openly supporting them. Thus while Giscard unsuccessfully attempted to receive U.S. approval and support to overthrow Libya's Muammar Qaddafi, Mitterrand has reestablished very close ties to the madman. Mitterrand also approved of the assassination of Anwar Sadat, referencing the "inevitable dialectic of history" while his Foreign Minister boasted "that an obstacle to peace in the Middle East had been removed."

Libya, Iran's mullahs, the pro-Muslim Brotherhood Syrian government—all of these have become the new allies of France in the Middle East. The insurgents in El Salvador, Cuba, the Nicaraguan junta, and the various liberation movements and insurgencies in Latin America have become the privileged discussion partners of Mitterrand in Central and Latin America. There, above all, where France has little to lose, she can afford to stimulate insurgencies. Where Mitterrand believes he and his backers maintain colonial interests, which demand law and order, such insurgencies are not to be seen. He has flattered, paid, and coaxed numbers of French-speaking African leaders into support of his policies.

Not entirely new, these policies all go back to the Fourth Republic and to Vichy. Yet, if anything, the fundamental orientation has hardened, and become much more vehement and ideological.

Mitterrand, who has always verged on bucolic mysticism, sees himself not so much as a conveyor of British influence—however close he may be to London—but as a catalyst of ideological revolution. Not long ago he wrote that he feels "lost in urban France," and more recently on Dec. 10 he declared in a remarkably candid interview to *Le Monde* that he has a sense of mission that France must return to its pastoral sources, and bemoaned "the destruction of rural and pastoral society, where I find my roots, my form of culture."

Socialism and pastoralism are for Mitterrand the same thing: rural life and Malthusian outlooks. From these stem his ideological commitment to "revolutionary" anti-technological movements, be they liberation

movements in Central America or the post-industrial society micro-chips crowd of the industrialized countries. It is not properly astonishing that this man who collaborated for two years with the only modern French fascist experiment, Petainisme, should find ruralism and corporatism as a model. An intense, very personalized hatred of the urban city correlates to the almost instinctive repudiation of the very powerful notion of the nation state proudly advocated by de Gaulle. This mélange of ruralist ideology and the colonial political outlook is the central characteristic of the new Mitterrand regime.

It is this outlook which determines Mitterrand's anglophile leanings, not vice versa. The new alliance with London is simply natural to Mitterrand's devolutionary policy outlook. Today France has returned to the "two imperialisms" policy of the pre-World War I period but this time in socialist disguise.

The future

To succeed, Mitterrand must destroy and mutilate the institutions of the Fifth Republic and the republican order and must introduce a new social order coherent with his ruralist ideology. French society itself is not fascist—not yet. The vast majority of the population, those who voted for Mitterrand in the hope of raising their living standards or simply the foolish inchoate desire for "change," as well as those who voted against him, do not accept—nor do they understand—the strange mixture of Robespierre, Rousseau, Pétain and Laval that the new President adheres to. The socialist experiment will soon turn sour and behind it stands national socialism: fascist ideology.

He is not mastering the country. He has failed, almost miserably, in his early efforts to crush the opposition and in his crude attempts to purge the institutions. The technological achievements of more than 20 years of prosperity stand against Mitterrand's bucolic goal. He is caught between the promises he made to workers and other groups and the imperious law of world crisis.

He may not survive that paradox. The outcome of the unfolding conflict will largely be determined by the strength of the opposition. Mitterrand will either be forced to back down, repeatedly, and compromise, or a fully consolidated totalitarian socialist machine will emerge to dictate to the country.

The emergence of a strong coherent opposition cannot be expected over the next months. That kind of opposition does not exist and the leader of the RPR (Rassemblement pour la République), Jacques Chirac, who was so instrumental in defeating Giscard, is presently in "peaceful coexistence" with Mitterrand.

Nonetheless most observers estimate that the illusions of the population will die rapidly, probably within the next twelve months. Just as the Fourth Republic died of its bankruptcy, so too will the Mitterrand regime.

West Germany

Chancellor Schmidt faces threat to continuation of war-avoidance policy

by Michael Liebig in Wiesbaden

Helmut Schmidt has now been Chancellor of the Federal Republic for more than seven years. In that time, he has assured himself an exceptional position in world politics. It was largely thanks to Schmidt that the world situation did not fly completely out of control under the Carter administration. That is true for international economic and financial policy, for the relationship between East and West, and for the battle against international terrorism.

Following Schmidt's re-election as Chancellor at the end of 1980, Schmidt was confronted with the threat that everything he had built up since the mid-1970s would collapse. The year 1981 became one of exhausting struggle to maintain a minimum of stability in the Federal Republic itself and in international relations.

Schmidt has survived the year physically and politically; in addition, despite the greatest difficulties, he launched new initiatives in a dangerous world situation. He has accomplished this with his characteristic "Kantian" sense of doing his duty. Schmidt is not an original creative statesman, but he is among the very few today who represent an approximation of a statesman; he is pragmatic, but his pragmatism is bounded by a peculiarly moral categorical imperative. The basic content of Schmidt's policy is a deeply felt commitment to war-avoidance and to restoring the cohesion of democratic industrial society. With all his tactical compromises and weaknesses, in these two respects Schmidt is absolutely reliable and consistent.

Missed chances

The year began with extraordinary opportunities. The Carter nightmare was gone, and Schmidt met with President-Elect Reagan before the latter took office. At the same time, the Franco-German entente stood at its high point, given the strengthened friendship between Schmidt and President Valéry Giscard d'Estaing. The potential for strategic understanding among Reagan, Giscard, and Schmidt was close enough to touch.

Three months later, the bucolic Socialist François Mitterrand had been elected President of France, and Reagan had barely escaped assassination. A weakened U.S. President left American economic and monetary

policy to the Federal Reserve Board under Paul Volcker, which accelerated the world economic collapse. By late summer, Schmidt had been isolated, and his physical condition deteriorated.

Parallel to Schmidt's international isolation, his domestic opponents were mobilized. This applies less to the parliamentary opposition, the Christian Democratic Union/Christian Social Union, under its embarrassingly statureless leader, Helmut Kohl, than to Schmidt's arch-enemies in his own Social Democratic Party (SPD) led by Socialist International Chairman Willy Brandt. Scarcely less dangerous to the Chancellor is the Free Democratic Party, his liberal coalition partner, which controls the Foreign, Interior, and Economics Ministries.

The feat of maintaining his capability to act politically under such domestic and international conditions is a significant achievement. Three initiatives are at the center of that achievement:

1) Schmidt's battle against monetarist high interest-rate policies and the policy of depression crisis-management in the manner of the German government under Heinrich Brüning in 1930-31; 2) Schmidt's persistent efforts to reactivate the East-West relationship, not only in the sphere of arms control, but encompassing a broad stabilization effort in the East-West and North-South spheres; 3) Schmidt's effort to secure a "special strategic consensus" among Reagan, West Germany, Spadolini's Italy, the Vatican, Suzuki's Japan, and Saudi Arabia.

The interest-rate battle

At the beginning of 1981, Schmidt had presumed that President Reagan would be able to force a reversal of Volcker's high interest-rate policy. This expectation proved wrong. Despite an increasingly evident drift of the U.S. economy into depression, with disastrous consequences for the world economy as a whole, Reagan has to date been incapable of making headway against Volcker. In the consultations between Schmidt and Giscard in early February 1981, both expressed the expectation that the United States would drop the high interest-rate policy; in numerous interviews, Schmidt explicitly demanded that this occur. At the end of

February, through government spokesman Lothar Rühl, the Chancellor stated that the policy of high interest rates was endangering the military capabilities of the Federal Republic, by destroying the economic resources which are indispensable for defense.

In early March, Schmidt sent his close financial adviser Horst Schulman and Finance Minister Hans Matthöfer to the United States to sound out responses to the idea of an "interest-rate disarmament conference." Once again, there followed a series of interviews in which Schmidt termed Volcker's policy "dangerous and unacceptable." Simultaneously, together with Giscard and the Saudis, Schmidt began to create credit facilities with lower interest rates to channel credit to the German and French economies, circumventing the German central bank and providing Saudi credits to the German economy through the government-owned Kreditanstalt für Wiederaufbau. The order of magnitude of this operation remained modest, and ended altogether with the election of Mitterrand.

During discussions between Reagan and Schmidt in May, interest rates were again at the top of the agenda. Schmidt was unable to shift the situation, and the economic summit meeting in Ottawa ended in a disaster that accelerated the world economy's slide toward depression.

In the autumn, Schmidt once again began to campaign publicly for lower interest rates. In the meantime, the short-term climb of the dollar's exchange rates as a result of high U.S. interest rates led to a dangerous weakness of the Deutschmark, since interest rates in the Federal Republic were significantly below those in the United States, although at the same time high enough to damage the German economy seriously.

In a series of spring and summer interviews, Schmidt stated that the monetarist policy of high interest rates as well as the Keynesian economic recipes were bankrupt and poisonous for the world economy; high interest rates, he said, would necessarily entail a depressive deflationary policy like that in Weimar Germany under Reichschancellor Brüning. It is well known that the emergency decrees of the Brüning government created the essential economic, social, and political prerequisites for Hitler's seizure of power in 1933.

At the upcoming consultations between Schmidt and Reagan on Jan. 5, the issue of high interest rates will again be given highest priority by the Chancellor.

Schmidt as East-West interlocutor

Much attention has been paid to the issue of East-West disarmament, especially to the opening of the Geneva negotiations on medium-range missiles, a development to which Schmidt contributed decisively. Since the spring of 1981, Schmidt has functioned as perhaps the most important channel of communication

between Reagan and Soviet President Brezhnev. Schmidt has had three meetings with Reagan, and Brezhnev visited Bonn this November; at each point, Schmidt worked on introducing a "stability consensus" between the United States and the U.S.S.R. Schmidt has also made extensive efforts to bring about a meeting between Reagan and Brezhnev.

The issue of stabilization of the Middle East plays a pre-eminent role in this attempt; at issue is an attempt to reach an understanding whose basis is approximately expressed in the so-called Fahd plan for the Middle East. That plan was intensively discussed during Brezhnev's Bonn visit, and Saudi Arabia as well as the Soviet Union had sought Schmidt's mediation on the subject. Schmidt's role also has to be seen as the actual reason for the slanderous remarks of Menachem Begin launched on numerous occasions in Schmidt's direction.

Economic relations have been another focus of the Chancellor's efforts in the East-West area, most spectacularly expressed in the German-Soviet natural gas pipeline deal signed in November. Schmidt's conviction is that economic and scientific-technological cooperation between East and West is a decisive basis for any "stability consensus." Trade with Eastern Europe is a significant factor, in terms of capital-goods exports as well as imports of raw materials. At the same time, economic cooperation with the East bloc is an essential factor in order to influence long-term structural changes in the East in a positive fashion. The role of economic cooperation with the West in the so-called succession battle in the Soviet Union can hardly be overestimated; this is also the context in which to see the long-term economic cooperation negotiated between the Federal Republic and the German Democratic Republic, an agreement which was one of the results of the summit meeting between Schmidt and East Germany's Erich Honecker.

That meeting, overshadowed by events in Poland, was of extraordinary significance. Schmidt and Honecker declared that the firm and common basis of policy for both German states was the resolve, first, that never again would war initiate from German territory, and second, that Germany must never again be destroyed in war. As self-evident as this may sound, it is of particular importance in understanding the moral substance of Schmidt's policy. Schmidt draws on his memories of World War II. The determination to avert war, and the comprehension of economic and political collapse as the fundamental driving causalities of war, are the basis of the Chancellor's policy: *The causal connection between depression, fascism, and war is for Schmidt a personally experienced reality.*

As noted, Schmidt was by and large isolated in the early summer of this year. Giscard's defeat destroyed the strategic configuration which had basically deter-



Helmut Schmidt

mined European politics since the mid-1970s. The German-French entente was replaced by an Anglo-French alliance, in turn closely connected to the Haig wing of the Reagan administration and the Begin-Sharon-Shamir group in Israel. This strategic combination also enjoys the warm sympathies of the opponents of the Brezhnev group in the Soviet Union.

To counter this, Schmidt attempted to develop his relationship to Reagan, based on the sympathy each has for the other as an individual, despite difficulties on the interest-rate question and the Haig problem in security and foreign policy. At the same time, German-Japanese cooperation improved substantially as a result of the visit by Japanese Prime Minister Suzuki to Bonn in June 1981, a new depth in relations which became particularly evident in agreement on opposition to high interest rates as well as issues of East-West policy. Schmidt also developed a "special relationship" with Italian Prime Minister Spadolini, which was further consolidated in the second half of 1981.

Highly significant is the close collaboration between Schmidt and the Vatican, due not simply to the crucial role West Germany and the Catholic Church play in East-West relations. Schmidt has publicly supported the conceptual-strategic initiative of Pope John Paul II as expressed in the encyclical *Laborem Exercens*. This is all the more important because Schmidt's attitude toward "population control" in the Third World had become dangerously ambiguous at points in the past.

It should be remarked in this context that it is no accident that Willy Brandt is the leader of the neo-Malthusian Third World Commission named after him, as well as Schmidt's most dangerous opponent on the domestic political scene. Even the most naive observer cannot have failed to note that Brandt has taken every conceivable opportunity in 1981 to weaken Schmidt and doublecross him on policy matters to achieve the ultimate goal of overthrowing the man who in 1974 succeeded him as Chancellor.

Schmidt's deadly enemy: Brandt

Brandt's modus operandi is the step-by-step dissolution and alienation of the Social Democratic Party (SPD) from Schmidt and his policies. Brandt has promoted and encouraged the "green" Malthusian wing in the SPD, in order to either transform the party under a majority of Malthusians, or to split the SPD and make a new "green" fascist movement out of the fragments of the SPD, the "ecology," "peace" and neo-Nazi anarchist movement.

Brandt's years-long policy of "opening the party" has in practice meant forcing the entry of the anti-technology irrationalist elements into the SPD, against the bitter resistance of Schmidt and the party's trade-union and skilled-worker base. Brandt's operation enjoyed the toleration of the chief apparatchik of the SPD, Herbert Wehner. Although Wehner refrains from any public attacks whatever on Schmidt, and gives the impression of standing somewhere between Brandt and Schmidt, the Jesuit-controlled "general" of the SPD is in fact hostile to the Chancellor. Meanwhile, Brandt has collected an ideologically fanatical neo-Malthusian leadership around himself, consisting of the chief ideologue and agitator of the ecologists, Erhard Eppler; the leader of the SPD in Lower Saxony, Peter von Oertzen; former Mayor Ulrich Klose of Hamburg, Oskar La Fontaine in the Saarland; Volcker Hauff in Baden-Württemberg; Party Secretary Peter Glotz; and the leadership of the SPD youth organization, the Jusos. Brandt has also gathered the support of numerous SPD parliamentary deputies, especially Manfred Coppik, Klaus Thüsing, and Karl-Heinz Hansen. The pro-Schmidt faction of the SPD was able to throw Hansen out of the party only after the greatest resistance from Brandt, although Hansen had denounced Schmidt's policies as "piggishness."

This subversive process of erosion has led to dramatic losses for the SPD in state and municipal elections. West Berlin is symptomatic: in May, the SPD lost the government after being in power for 18 years. The traditional SPD electorate, especially among skilled workers, feels increasingly betrayed by Brandt's "greening" of the SPD. Even though the majority of the population supports Schmidt, this support is transferred

to the party in ever-diminished degrees. If Schmidt were up for direct election as Chancellor, he would easily get 60 to 70 percent of the vote. But less than 30 to 35 percent would now vote for the SPD.

The SPD in 1982

The September 1982 elections in the state of Hesse will be decisive. Hesse's governor, Holger Börner, one of Schmidt's closest allies in the SPD, has been the target of concerted attacks from the environmentalist fascists inside and outside the party; and Börner, whose state has been the scene of widespread violence on the part of "greenie" extremists, has denounced the radicals for their "Nazi" tactics and ideology. Their twisting of legal terminology reminds one of "Nazi jargon," he said in an interview with the daily *Frankfurter Allgemeine Zeitung* Nov. 13. The Greens are attempting to destroy democratic institutions, just as Nazi Josef Goebbels did in Weimar Germany, Börner warned.

Should Börner lose the election, the opposition majority in the upper house of the West German parliament (which is elected directly by the state governments) would be in a position to block every piece of legislation by Schmidt's SPD-FDP government, despite the SPD-FDP majority in the lower house, the *Bundestag*.

There is one conclusion to be drawn from the intraparty warfare against Schmidt in 1981. Schmidt's political survival will only be assured if he takes the offensive against his opposition in his own party, the Brandt faction. The SPD is historically the product of industrial society, associated with economic and social progress, by tradition the party of industrial workers. Under the difficult conditions of probably a 2 million unemployment level by the spring of 1982, if Schmidt and his faction do not succeed in reasserting this self-conception of the party, Schmidt's political survival is doubtful.

Schmidt will have to denounce the "green" movement in his own party for what it is—a fascist movement—and clearly state that the major causes of severe economic problems and unemployment in the Federal Republic are Paul Volcker on the one hand, and Eppler, Hauff, and the "Greens" on the other, who are currently blocking no less than 100 billion deutschmarks in high-technology projects such as nuclear power plants, industrial plants, railways, and roads.

Labor-industrial alliance

Schmidt can count on the support of most of the unions for this offensive. Only a small, but admittedly very dangerous, minority in the trade unions is on Brandt's side. Especially dangerous is the public employees' union, the ÖTV, which is currently in confrontation with the government. Most unions are ready to

conclude a labor-industry alliance to obtain new investments and new skilled jobs. These unions reject a "Brüning" deflation as well as a Keynesian make-work program. Although largely unnoticed, in the course of November and December Schmidt conducted a number of consultations between government, unions, and industry and was able to significantly consolidate already established willingness to collaborate by all parties. Potentially, Schmidt is in a strong domestic position, not only because of his personal popularity, but because of his ability to function as the guarantor of social peace and stability in an economically extremely precarious situation. Even in industrial circles which are either negative or downright hostile toward the Schmidt government because of Brandt's unhealthy influence within the SPD, people understand that no one better than Schmidt is immediately available to head a government that can save the Federal Republic from self-destructive social chaos.

The political landscape has at the same time been revived by the small but aggressive and growing European Labor Party (Europäische Arbeiterpartei—EAP), chaired by Helga Zepp-LaRouche, through its campaigns on behalf of nuclear energy development, restoration of Germany's classical scientific educational standards, and urgent action by all constitutional forces to eliminate the "green" environmentalist neo-fascists (see article page 9).

Minuscule opposition

The alternatives offered by the opposition Christian Democrats are rather impoverished. Strauss, after his smashing defeat in the fall of 1980, is hardly salable, despite intensive efforts. The narrow-mindedness and provincialism of Helmut Kohl horrifies the industrial circles who support the CDU-CSU opposition, as well as many CDU members. The only serious challenge to Schmidt is the pro-growth Christian Democratic Governor of Schleswig-Holstein, Gerhard Stoltenberg, and the "conservative Kennedy" of the Christian Democrats, Walter Leisler-Kiep. Stoltenberg himself has repeatedly pointed out that the Christian Democrats ought not to cherish illusions about taking over the government before 1984; at that point, however, he himself would be available as a Chancellery candidate.

The domestic political situation in the Federal Republic, especially the exhausting warfare against the greens and Brandt in his own party, has cost Schmidt more strength in 1981 than his international political activities. How this "war of attrition" is working was indicated by the October 1981 heart problems of the Chancellor. And in addition to his physical ailments, Schmidt is still one of the world leaders high on the "hit list" of terrorists. Schmidt has remarked that 1981 was hard, but 1982 will be harder.

Post-Carter challenge: the future of Israel's Begin and Khomeini's Iran

by Robert Dreyfuss, Middle East Editor

At the beginning of 1981, in its inauguration issue, the *Executive Intelligence Review* noted that the new Reagan administration had the opportunity to radically shift the premises of American Middle East policy from the policy of the Carter-Brzezinski era. Since 1977, that policy had been guided by the criminal concept of Zbigniew Brzezinski's arc-of-crisis doctrine, under which the Carter administration deliberately sought to foster instability throughout the region stretching from India through Iran, Turkey, and the Persian Gulf down into Africa.

To create the arc-of-crisis, Carter and Brzezinski, under the guidance of the Trilateral Commission, fostered the rise to power of two mentally unbalanced leaders: Menachem Begin of Israel, elected in 1977, and Ayatollah Khomeini of Iran, catapulted to power in 1979 by a Muslim Brotherhood secret-society coup d'état aided by the British Secret Intelligence Service.

As Reagan took office, the *EIR* reported in January, the potential for sharp changes in both Israel and Iran was evident. Within minutes of Reagan's swearing-in, Khomeini ordered the release of the American hostages held 444 days, and it seemed as if the Khomeini regime was nearing the end of its days. In Israel, a badly faltering Begin government faced the prospect of early elections, with polls showing that the more moderate opposition Labor Party would win an easy victory. The efficient removal of Begin and Khomeini would have immeasurably improved the diplomatic prospects for the Reagan administration in the Middle East.

As we enter 1982, both Begin and Khomeini are still in power. The year 1981 has provided much evidence of direct collusion between Teheran and Tel Aviv, including Begin's arms shipments to Khomeini's military forces; and the prospect is for increasing tension, and even renewed full-scale war, arising out of the combination of Begin's Israel and the activities of the Muslim Brotherhood terrorists and fundamentalists.

What happened? How did both Begin and Khomeini manage to retain power despite the change in the White House? What are the challenges that Reagan will face in the coming year as a result?

Without doubt, the principal issue facing the Rea-

gan administration during 1982 will be the nature of its relations to Israel. To be successful, the White House in fact will soon find that it has no alternative except to reach an agreement with leading world powers to "save Israel from itself," as one U.S. official put it on Dec. 22.

Israel's future

Israel is truly at a crossroads. In one direction, Israel faces the prospect of becoming a full-fledged fascist state prepared for a series of endless wars with its neighbors. In the other, Israel can decide to accommodate itself to existence within its 1967 borders, participating in and developing the social and economic life of the Middle East as an equal partner.

Despite Menachem Begin's 1981 rampages, it is beyond doubt that a substantial body of Israeli opinion is quietly coming to the sober realization that only the second course is a feasible one. The delicate task of harmonizing that growing Israeli sentiment with its own diplomatic objectives will require a special skill from the White House in 1982.

The strategic problem facing Israel in the next decade is this: Arab commitment to economic growth and industrialization, the growth of Arab population, and the continued flow of oil wealth into Arab central banks means that by the mid-1980s Israel will face an Arab world with a technological capability and a military-industrial base capable of overcoming Israel's strategic superiority. Because there is no way outside of war to restrain this development tide realistic Israeli planners know that Israel had better play the diplomatic cards it now holds to get the best deal that it can on the Palestine issue.

But another school of thinking is also evident in Israel, and it dominates the regime of Begin and Defense Minister Ariel Sharon. That school argues that Israel can simultaneously increase its own arms-production capacity while actively subverting of its neighbors'. By assisting the spread of "Islamic fundamentalism," by attempting to set up Khomeini-style states in the Arab world, by seeking to undermine Saudi Arabia and destroy the oil resources of the Arab world, by allying

with the Muslim Brotherhood in a conspiracy to set minorities against national governments in accordance with the "Bernard Lewis plan," Israeli strategists believe they can retard the movement for Arab industrialism, and secure the future of their state.

That is the thinking that underlies Israel's current alliance with Khomeini's Iran. And it is the basis of Israel domestic and regional strategy during 1981.

Internally, Menachem Begin has brought Israel closer to becoming an openly totalitarian regime. During the May-June 1981 election campaign, Begin's Likud partisans used such overtly violent and threatening tactics that spokesmen for Shimon Peres' opposition bloc denounced Begin as "fascist-like" and the *New York Times* compared Begin's Israel to Weimar Germany. Likud thugs broke up Labor Party rallies, and Begin's campaign rhetoric appealed to the basest instincts of Israel's uneducated Sephardic strata. Truckloads of weapons, supplied by Begin's Likud to the fanatical Gush Emunim settlers in the Israeli-occupied territories, set up the core of a private militia dedicated to Begin's vision of a messianic state. As mobs chanted, "Begin, Begin, King of Israel!" an angry Peres asked Labor supporters: "Do you want this Khomeinism to take over Israel with idol worship?"

But Begin cynically succeeded in using external events to manipulate the Israeli voters into renewing his mandate. First, the outbreak of a crisis in Lebanon, pitting Israel against Syria, caused the nation to rally around the Begin regime; and the addition of the Syrian missiles to Lebanon in May—along with Begin's bluster threats to bomb them—created tensions that aided Begin still further. Then, the pre-election bombing of Iraq's Osirak nuclear facility in Baghdad, which was universally condemned, won Begin accolades from a deluded Israeli population.

By bombing Iraq, Begin had signaled to the Arab world that Israel would not allow Arabs to develop advanced technologies. "Perhaps Israel next will bomb our universities in Saudi Arabia because they produce scientists," said Saudi Foreign Minister Saud al-Faisal.

Begin, meanwhile, accelerated the activities that led to a series of confrontations with Washington. The aerial bombing of Beirut that left 300 civilians dead in June marked the first low-point in Israeli-American relations, and crystallized the embargo on U.S. arms deliveries to Israel that lasted until just before Begin's September arrival in Washington. The September lull in Begin's rampage ended with General Sharon's provocations on the occupied West Bank, where a new civilian governor used tactics that caused riots and strikes, and with the redoubled Israeli pressures on Lebanon and Syria—culminating in the illegal annexation of the Syrian Golan Heights.

What gave Begin the maneuvering room he needed

to get himself re-elected was the idiotic doctrine of Alexander Haig's "strategic consensus," pursued despite a tour of the Middle East in the spring that resulted in complete fiasco—not a single Arab state even hinted at support for the nonsensical idea of a U.S.-sponsored anti-Soviet Arab-Israeli alliance. To the President, Haig represented Begin's lunacy as somehow useful in the anti-Soviet crusade he envisioned for the region. Those who opposed the idea, like U.S. Ambassador Bob Neumann in Saudi Arabia, were unceremoniously fired by Haig.

Throughout 1981, it was General Haig who consistently undermined the President's Middle East policy. Most egregiously, it was Haig who, beginning in the spring with the April decision to sell AWACS radar planes to Saudi Arabia, opposed that decision and almost succeeded in sabotaging the sale itself.

To the extent that the President could even be said to have a Middle East policy, it centered on the notion that the leading American interest in the area was in Saudi Arabia. The October AWACS decision, a landmark vote that narrowly averted a catastrophe for the United States in the Arab world and managed to secure the U.S.-Saudi relationship for a time, was in fact the major foreign-policy success of the Reagan administration in 1981. Coming only weeks after the assassination of Anwar Sadat and in the midst of new Iranian efforts to destabilize the Persian Gulf, an AWACS failure would have pushed the entire region over the brink into the Muslim Brotherhood's chaotic Dark Ages.

Oil and geopolitics

The AWACS policy and the Reagan commitment to U.S.-Saudi ties in fact led to one vitally important, yet almost unnoticed, victory in 1981. For the first time since 1971, the price of oil on the world market actually dropped, and in constant-dollar terms, declined dramatically. At the start of the year, it had appeared that oil prices might soar out of sight once again, as OPEC hawks demanded more than \$40 per barrel and Saudi Arabia was deemed unable to hold the line. But the administration's support for Saudi Arabia led Oil Minister Zaki Yamani to proclaim Saudi intent to force oil prices lower. "We engineered the glut," said Yamani, noting that Saudi production of almost 11 million barrels a day forced other OPEC states to lower their price. By year's end, the \$40 price existed no more, and OPEC had agreed upon a consolidated \$34-per-barrel fixed price, to be held at that level throughout 1982.

That, alone, was a major defeat for London and the Anglo-Swiss financial and oil interests seeking to push oil prices into the \$70-80 per barrel range.

But Haig's advocacy of the strategic consensus mumbo-jumbo merely served to alienate sections of the Arab world and push the Arabs in the direction of a

London-engineered consensus of a different sort. The April defeat of French President Giscard and the election of the Socialist François Mitterrand deprived Reagan of a crucial ally on Middle East policy, and isolated Chancellor Schmidt of West Germany in his Middle East stability policy. Together, the French and British sought to assemble a European Third Force independent of Washington and NATO, and they viewed the Arab world as the "natural partner" of such an independent Europe. By locking Reagan into a linear U.S.-Israel alliance, London and Paris sought to undermine American influence in the Middle East and eventually to replace it—in the process, appropriating to themselves the vast petrodollar and oil resources of the Gulf.

Through justifying Begin's fascist excesses, Haig almost—but not quite—managed to sabotage the entire Reagan strategy for the region, acting as an agent of influence for Britain's Lord Carrington and the Anglo-French axis in Europe.

Islamic fundamentalism

By the same token, during 1981 Haig continually supported the British SIS project to spread Islamic fundamentalism and the Muslim Brotherhood in the area. That Haig could so brazenly back the Muslim Brotherhood in 1981 was remarkable because the *EIR* had established itself during the previous period as one of the world's leading authorities on Islamic fundamentalism and its connections to the British SIS and the Malthusian "Club of Rome." *EIR* exposés on the Muslim Brotherhood secret society won worldwide recognition during 1980, and early in 1981 the release of the book *Hostage to Khomeini* by *EIR* Middle East editor Robert Dreyfuss effectively unraveled a century of British intelligence activity among Muslim mullahs and imams. At the end of 1981, an international campaign conducted by the *EIR* to expose the Muslim Brotherhood conference at the Rothko Chapel in Houston severely damaged London's SIS capabilities in the Middle East and drew sharp attacks from SIS spokesmen charging that the *EIR* had managed to undermine their patiently built influence in Middle East affairs (see *EIR*, Dec. 1, 1981: "London Places *EIR* at Center of Mideast Strategic Storm").

Concerning Iran, it has been Haig who secured Reagan's grudging toleration for the regime of Ayatollah Khomeini in Iran. Only days before the inauguration, Reagan startled the media and the Iranian mullahs by terming Khomeini and his thugs "barbarians." His statement marked a sharp contrast to Carter's fawning praise of Khomeini, and it led many observers to expect a sharp change in American policy toward Iran.

Yet that change never came. After some initial contrary indications, the White House gave its full backing to the January 1981 U.S.-Iranian hostage deal,

a deal which most legal specialists considered illegal and unconstitutional, and which indeed represented a treasonous sell-out of American national sovereignty. Reagan's decision not to renege on the hostage deal—since the hostages themselves were already home and the deal was clearly extorted under duress by assassins—had far-reaching repercussions: it meant that the administration would not directly challenge Iran's madmen.

Thus, the expectations of many Iranian exiles that the new American administration would assist, or at least not hinder, efforts to topple Khomeini were not fulfilled. After the inauguration, Reagan no longer used the word "barbarians" in relation to Iran, nor did he challenge State Department arguments that the mullahs were the only political force capable of resisting Soviet expansionism. It was exactly this ludicrous argument that had led Dr. Brzezinski to call "Islamic fundamentalism" a "bulwark against communism."

Nor did Reagan act to prevent the regular flow of American weapons to Iran through third parties, black-market operations, and possibly some CIA channels. In particular, a reported steady flow of American-made weapons from Israel to Iran went unchallenged.

Most significantly, Reagan did not protest the overtly and systematically genocidal policies of the Pol Pot-like regime in Teheran. Tens of thousands of mass executions, some involving school children; hideous depopulation programs for Iran's cities; the elimination of all of Iran's industrial base; all this drew no criticism from the administration, which seemed to hope that Iran would just "go away."

The result—amid continued statements from Haig praising Muslim fundamentalism—was that during 1981 Iran drifted slowly into a position allowing the U.S.S.R. controlling influence over many of Iran's institutions. The death of several dozen top Iranian leaders in bombings, such as Ayatollah Beheshti, President Rajai, Prime Minister Bahonar, and dozens of top officials of the Islamic Republican Party (IRP), had the effect of strengthening the radical currents inside the IRP and creating new openings for Soviet influence. Yet, ever behind the scenes, the British SIS was suspected of organizing the tilt toward Moscow, as part of British diplomatic efforts to strike a separate anti-American deal with elements of the Soviet leadership.

The Reagan administration's toleration for the Muslim Brotherhood's activities finally led to the Oct. 6 assassination of President Anwar Sadat of Egypt. That murder, which eliminated the staunchest American ally in the region, was the work of British, Soviet and Israeli intelligence cooperation through the Russian and Coptic churches. Its purpose was to destabilize the entire region, especially Saudi Arabia, and prevent the successful organizing effort around Saudi Crown Prince Fahd's eight-point peace plan.

The Soviet leadership question and the trials of Leonid Brezhnev

by Rachel Douglas, Soviet Sector Editor

On Dec. 19, 1981, Leonid Brezhnev celebrated his seventy-fifth birthday, in October he marked his seventeenth year in power, and in February, Brezhnev emerged from his fourth party congress as General Secretary, the 26th Congress of the Communist Party of the Soviet Union, with his political machine intact and even strengthened by the promotion of his career associates and his family members to higher posts in the party and state security apparatus. The year-end birthday festivities found Brezhnev chastising Western statesmen who ventured to question whether the Soviet leadership was united behind all of Brezhnev's policies.

Yet the Western leader who had gone on record with that question was none other than Chancellor Helmut Schmidt of West Germany, the longest-surviving partner of Brezhnev's *Westpolitik* and one who has striven to disencumber East-West relations from ideologies and hysteria, so as to ground them in state-to-state agreements both on strategic stability and on economic development. When Schmidt spoke out on the sensitive matter of Soviet internal political skirmishing, it was evidently out of concern for the vitality of the Soviet faction agreeable to the same principles, namely Brezhnev's faction.

Brezhnev's disclaimer notwithstanding, 1981 saw Soviet and East European political groupings strain in different directions on crucial, interlocked issues of Soviet posture in the world outside Warsaw Pact boundaries and economic policy inside that alliance. Their disputes will intensify during the period of deciding the succession to Brezhnev and his Politburo colleagues.

Equally momentous for the shape of Soviet policy is the debate percolating in the West throughout 1981, over the future of the Soviet Union and of East-West relations. Behind reams of published speculation on the U.S.S.R. as a "crumbling empire," there were actions on the ground, notably in Poland and Yugoslavia, to further such fractures. This approach to the East, the opposite of Schmidt's, originates with the geopoliticians of England and the continental European oligarchy and descends to their subordinates, in Foreign Offices and State Departments as well as intelligence networks, for implementation. It is this century's version of the designs for dismem-

berment of the Russian and Ottoman Empires that bred World War I. This year, *EIR* founder Lyndon H. LaRouche, Jr. summarized the dangerous outcome of such strategic practice: "Under conditions of perceived threats to the 'Soviet fatherland,' key elements of nearly all Soviet factions will reunite as one fist around the memory of World War II."

Soviet foreign policy

There were three motors driving Soviet policy toward the rest of the world this year: Brezhnev's diplomacy, the machinations of a far-flung network we have called the "destabilization faction," and the distinct voice of the military. They are better understood as policy impulses than as perfectly defined factions, because Brezhnev rules in coalition, and frequent accommodation, with the other two. With the defeat of French President Valéry Giscard d'Estaing on May 10 and the rapidly solidifying Soviet negative assessment of the Reagan administration, these tendencies drew closer together.

The manifest intent of Foreign Minister Lord Carrington and other British strategists, of the Socialist International that removed Giscard and still threatens Schmidt, was to abet the second of these Soviet impulses. For the "destabilization faction" is not essentially a Russian or a communist phenomenon. It is the East European branch of the supranational third force on the world scene—the neo-Malthusian conspiracy that abhors science, industrial progress and politics geared to their promotion.

In the U.S.S.R., it is comprised of the old Communist International (Comintern) machine centered in the party Central Committee's International Department, headed by Boris Ponomarev; the KGB (Committee for State Security), especially its overseas sections, where triple agent Gen. Kim Philby of Russian and British intelligence is housed; and a web of think tanks of which the Institute of the World Economy and International Relations (IMEMO) is foremost. These networks are the outgrowth of an effort that spans the six decades of Soviet history and reaches back into the Czarist period: the effort of British and continental European

oligarchs to sabotage the development of Russia as an industrial republic.

In foreign policy, the Soviet advocates of Third World destabilization and confrontation with the West were expected to entertain the geopolitical gambits of Lord Carrington, respecting division of the Middle East and—in the plans of Lord Bethell, for one—even Eastern Europe. After a summer visit to Moscow, Carrington is reported to have claimed that the icy reception he and his Afghan settlement plan received there was but an ongoing maneuver, to be followed by eventual Soviet acceptance of his brand of global crisis management.

LaRouche warned, "Moscow will exploit the negotiations of the 'new Yalta' agreement [an Anglo-Soviet redrawing of the world map—ed.] without actually agreeing to such an agreement."

Brezhnev's diplomacy: At the beginning of 1981, the alignment dominating Europe was a Bonn-Paris-Moscow collaboration that provided a crucial margin of stability through the perils of Jimmy Carter's term in office. The jaundiced British view of that state of affairs was revealed by a senior British official in the spring of 1981. "The real threat to security in Europe is not Poland," he told the *Frankfurter Allgemeine Zeitung*, "but the Franco-German alliance."

Brezhnev looked for an early signal from incoming President Reagan that the United States might share the French and German policy of dialogue and trade. "Reagan's own statements and those of his advisers show," said Central Committee information official V. Kobyshev on New Year's Day, "that they see the normalization of Soviet-American relations as a top priority. . . . The significance of Soviet-American relations is substantially broader than the interests of just our two countries."

Brezhnev's March 23 speech to the 26th Party Congress affirmed Moscow's belief that Carter's exit had created vital opportunities for strategic stabilization. Brezhnev outlined an agenda of talks on the international crisis and on specific issues, including Afghanistan, which he offered to discuss in conjunction with Persian Gulf security guarantees. Most important, Brezhnev expressed hopes for a summit meeting with Reagan.

Nine months later, the summit meeting is still the subject of feelers between Moscow and Washington, but the only channel of discussion open between the two great powers is talks on intermediate-range nuclear weapons in Europe, which began in Geneva on Nov. 30. Chancellor Schmidt, who hosted Brezhnev in Bonn Nov. 22-25 on the Soviet leader's only trip to the West during 1981, arranged to make a continuing contribution to these "Euromissile" negotiations, through bilateral Soviet-German contacts. The entire undertaking, however, is on the chopping block, as the Reagan

administration considers its suspension as a possible punishment for the crackdown in Poland.

At the Party Congress, Brezhnev also restated his proposal for Persian Gulf security guarantees, first advanced during his visit to India in Dec. 1980. The plan called for the United States, U.S.S.R., Western Europe, Japan, and China to pledge protection of national sovereignty and safe sea transit in a demilitarized Persian Gulf. By mid-1981, even propaganda references to this idea had all but disappeared in the Soviet Union.

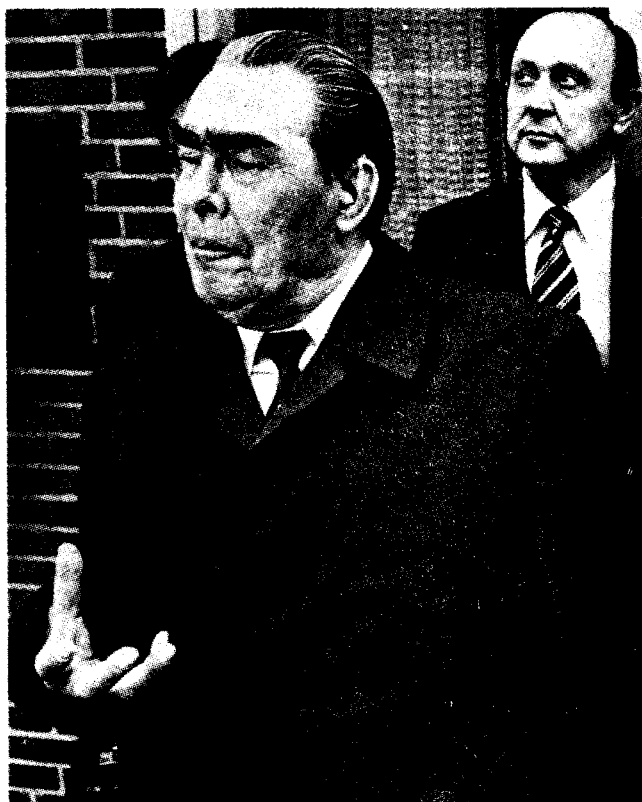
Brezhnev's diplomacy undermined: The defeat of Giscard smashed the heart out of Brezhnev's European diplomacy, even though his rendezvous with Schmidt in November could still witness finalization of one of the economic deals of the century, the multi-billion dollar Siberian natural gas pipeline project.

With Giscard's removal and with every salvo of rhetoric from Haig—so reminiscent of James R. Schlesinger's "aura of power" performances—the argument that nothing useful was to be obtained from *detente* gained ground in Moscow.

There was a veritable upsurge of chaos in which the Soviet "destabilization faction" was implicated. Even as Brezhnev prepared his trip to Germany, Soviet media cheered on the gangs of fascist environmentalists that assembled under banners of "peace"—a poorly named peace movement whose first target was none other than Helmut Schmidt! Ponomarev, who had not so covertly campaigned in France for the Socialist victory against Giscard, went among his foreign communist party networks to promote the mass demonstrations in West European capitals. The Moscow-based Russian Orthodox Church, which is intimately connected with the KGB, made plans for a 1982 peace conference where the Anglican Church intimates of British Intelligence would be prominent guests.

In the Middle East, the interlocking Anglo-Soviet and Anglican-Orthodox intelligence capabilities were implicated in the October assassination of Egyptian President Anwar Sadat. Effusive apologies for Colonel Qaddafi of Libya replaced Soviet propaganda for the Brezhnev Persian Gulf plan, which called for the major powers to guarantee national sovereignty in a demilitarized Persian Gulf, and Soviet military officers made the tour: Libya-Ethiopia-South Yemen. The few, although important, Soviet spokesmen who ventured to welcome Saudi Prince Fahd's Mideast peace plan as a positive step were at odds with others, who found in this yet another "imperialist" plot.

The Russians, then, were playing games with the British. In his October document "Leonid Brezhnev must break with London before it's too late," LaRouche advised saying to Moscow, "Stop your babbling about peace movements and disarmament negotiations and



Brezhnev with West German Foreign Minister Genscher (r).

get out of the British bed. Then, dumb Russians and dumb Americans might finally grope their way toward solutions, establishing world peace without sacrificing the vital strategic interests of either nation." LaRouche continued, "Moscow's instinctive reply will be: 'We gave Reagan a chance, and it didn't work!' So typical of our simple, sentimental Russians! Perhaps it will not work, but it is the only course of action which could."

The military: In June and July, a parade of Soviet generals and marshals marched across the pages of the military daily *Red Star* and the party press, with a single message: the U.S.S.R. has committed resources to ready itself for "the possible war which the imperialists are preparing against the countries of socialism," as top political commissar Gen. Yepishev put it. Brezhnev, too, in his June 23 speech to the Supreme Soviet, denounced "bellicose-minded imperialist circles" and evoked images from World War II, "the holy war against the Nazis." In the monthly *Kommunist*, Chief of Staff Marshal Nikolai Ogarkov responded to NATO debates on "limited nuclear war," with a warning that any nuclear war would involve "all continents" and "the whole of mankind."

Some of the military's statements departed from Brezhnev in points of emphasis. Warsaw Pact commander Marshal Viktor Kulikov, for instance, had an interview published on the eve of Brezhnev's departure

for Bonn in November, in which he omitted all mention of East-West negotiations and named Brezhnev only in the context of the latter's commitment to the Soviet defense budget.

But the underlying truth to appreciate about the military's making itself heard was that there is a bottom line in Soviet security calculations, where Brezhnev and the military and the other factions converge, which simultaneously demarcates the limit of Lord Carrington's flirtations. In August the London *Economist* understandably editorialized about the noise from the Russian brass, "Those mutterings from Moscow should be ignored."

The Soviet economy and the Club of Rome

According to Moscow sources, that bottom line would be installation of the new generation of "Euro-missiles" in 1983, embodying NATO adherence to the fallacious "limited nuclear war" doctrine and, so the Soviets say aloud, NATO's intention to have a "first strike" capability. Whether or not those missiles go into place, the Soviets are not taking chances with their defense spending. The party and government, as one colonel wrote in June, "are compelled to earmark the necessary funds for the improvement of armaments and military equipment." Every ruble of surplus the Soviet economy generates, we learned, is going into defense.

Accepting the principle that a healthy economy is the best measure of a nation's defense, *EIR* found the strategically most important decision of the 26th Party Congress to be its decision in favor of the "infinitely developing nuclear power industry" described by Academy of Sciences President Anatolii Aleksandrov. We suggested that the Weinberger defense budget, by comparison, amounted to a worse security menace to the United States than any Soviet action on its own did.

The third straight bad harvest in the Soviet Union and the burden of aid to Poland posed new difficulties to the Soviet economic plans, but these were scant next to the parasite of neo-Malthusian systems analysis thriving inside the U.S.S.R. In July, Club of Rome founder Aurelio Peccei could boast that Dzhermen Gvishiani, the son-in-law of the late Prime Minister Aleksei Kosygin who co-chairs the Vienna International Institute for Applied Systems Analysis (IIASA), and Academician Yevgenii Fyodorov had joined the board of his organization. In February, Fyodorov endorsed the Carter State Department's genocidalist *Global 2000* report as a step in the right direction. In the theoretical journal *Voprosy Filosofii*, their colleague Ivan Frolov made clear that this faction intends deindustrialization, anti-science policies for the Soviet Union, not just the "imperialist" West. The case of Frolov, a frequent collaborator of Ponomarev's top International Department aide, Vadim Zagladin, illuminated the identity of

the Malthusian faction in Soviet domestic economic debates and the "destabilization faction" of Soviet foreign policy.

Poland: the battleground

The Polish crisis, long before its year-end escalation to the Dec. 13 imposition of martial law, was a battleground where all these conflicts, both those internal to the Soviet Union and those in the West about policy toward the East, were fought out.

A keynote for the entire year in Poland came in the first weeks of January, when environmentalists forced shut-down of a factory in Krakow that had produced nearly one-half of the country's aluminum. Prepared in the 1976-80 period by "small is beautiful" ideologues both inside the regime and among the opposition grouplets patronized by British intelligence, the Polish crisis from the beginning was a deindustrializers' flank in Eastern Europe. That aspect of Poland's destruction reached a milestone in November 1981, with its application to join the International Monetary Fund. The economy is in shambles.

Gen. Wojciech Jaruzelski, the Defense Minister, became Polish Prime Minister in February and party chief Oct. 19, replacing Stanislaw Kania. In the interim, the Polish party congress swept 90 percent of the Central Committee, reformers and orthodox Marxist-Leninists alike, out of office, putting untested men in their place and leaving Jaruzelski all the more powerful. Jaruzelski attempted to effect "national conciliation" through talks with Solidarnosc union leader Lech Walasa and Catholic Church Primate Bishop Jozef Glemp. A rash of strikes and ever greater demands for power from the British-pedigreed extreme wing of Solidarnosc pushed Poland into the downward spiral toward the "state of war" Jaruzelski proclaimed.

Reports that Jaruzelski acted to head off a Soviet bid to replace him with Politburo member Stefan Olszowski ring true in light of the year's developments in Soviet policy toward Poland. While Brezhnev on several occasions gave Jaruzelski a green light to carry out what shake-ups and negotiations with the union and the Church he deemed necessary, the Czechoslovak media, which often reflects the views of Ponomarev and his associates, consistently pushed for the crackdown that finally came in December. When the Soviet party chose to turn up the pressure on Warsaw in the late spring, it was Ponomarev's senior partner Mikhail Suslov who went to deliver the message.

The fact that Olszowski and the ousted Tadeusz Grabski, would-be successors to Jaruzelski, were complicit in the 1980 ouster of Edward Gierek at the very inception of the Polish crisis does not bother their Soviet backers. It is not the first time that the KGB and British SIS back the same horse.

Mexico

Fresh start in Mexico-as LaRouche mounts a

by Robyn Quijano, Co-Editor

Mexican-American relations got a fresh start in 1981, a dramatic change from the open warfare of the Carter years. Presidents José López Portillo and Ronald Reagan held face-to-face discussions four times this year and developed a warm relationship based on mutual respect—a breakthrough that leaves the door open for further collaboration among these neighbors representing North and South.

Despite a lack of concrete progress on economic cooperation, and growing attacks by Mexican officials on the tight-credit policies of the U.S. Federal Reserve, the kind of economic sabotage directed from the Carter White House has significantly diminished. The hostilities caused by such affronts as Energy Secretary Schlesinger's veto of the successfully negotiated natural-gas deal have been cooled. Zbigniew Brzezinski's cocktail-party bragging that the U.S. "will not permit another Japan south of our border," a quote made infamous by *EIR*, has given way to Ronald Reagan's good intentions. We need "a strong, stable, free and prosperous Mexico," said Ambassador John Gavin as he took up his new post in Mexico. The "obstructionism" of the Carter era is over, and the United States will once again be a "reliable supplier" of nuclear energy, Gavin told a nuclear symposium in Mexico last September as U.S. companies joined the bidding for Mexico's ambitious nuclear program.

These changes represent more than just a "thaw." But the greatest potential for the kind of economic collaboration that could make both nations prosper have been stalled by Reagan administration bungling of the crucial economic issues which define North-South relations. And if Al Haig and David Rockefeller succeed in making "free-enterprise" collaboration with the drug-producing colony of Jamaica and not with Mexico, the model for U.S. relations with the developing sector, then Mexico's development prospects will come under renewed fire from Washington once again.

Mexico: a North-South model

Immediately after the Reagan victory in November, *EIR* and its founder, Lyndon H. LaRouche, moved to shape a new model for North-South relations based on

U.S. relations policy initiative

an oil-for-technology approach to Mexico. LaRouche issued a call for Mexico to “exchange a 20th-century resource, petroleum, for 21st-century technology,” emphasizing Mexico’s need for nuclear and other advanced technologies. The United States could solve its economic problems by gearing up its plant to supply a good part of the import needs of that country, putting a million Americans to work in high-technology production.

“Mexico—a \$100 billion export market” was the theme of LaRouche’s programmatic overture that grabbed the interest of elected officials and industrialists on both sides of the border. U.S. collaboration in the rapid industrialization of Mexico must be the basis for the new relationship, LaRouche wrote, drawing from an in-depth study of the Mexican economy then in preparation by the Fusion Energy Foundation (FEF), and the Mexican Association for Fusion Energy (AMEF), using the computerized LaRouche-Riemann method. LaRouche released a “shopping list” which demonstrated that Mexican purchases of advanced technology could pull the United States out of its economic slump, provided that an entire oil-for-technology package could be worked out between the two nations.

The highest levels of Mexican government and economic planning circles responded positively to the idea, and the first meeting between López Portillo and Reagan in Ciudad Juarez in January set the stage for such an accord.

In February the FEF-AMEF program was presented at the Mexican Petroleum Institute in Mexico City to over 100 Mexican planners, scientists, and students. The details of how to reach a 12 percent annual growth rate to transform Mexico into an industrialized nation by the year 2000 were presented. The plan projected a rise in living standards for the 115 to 120 million Mexicans of the year 2000, to the average level of Western Europeans in 1980.

The launching of the “no limits to growth” program sparked broad commentary and debate in the Mexican press.

LaRouche, widely known as a “friend of Mexico” since his first official visit there as a guest of the ruling

PRI party for its 50th-anniversary celebration in 1979, was in Mexico again in early March. He was invited to address the International Symposium on Economics, an annual event sponsored by the Monterrey Institute of Technology, the principal think tank of Mexico’s powerful Monterrey private sector.

The event and the LaRouche visit were covered by the mass media. “Shaping the outcome of the upcoming Reagan-López Portillo summit is one of my objectives in coming here,” LaRouche told a Monterrey television audience. He elaborated his oil-for-technology proposal, emphasizing that such collaboration could break President Reagan out of the dangerous economic policies that he was following. Such a development would also stabilize the dangerous Central American situation, making Mexican-style development a model for the area.

Mas Noticias, the largest afternoon daily in Monterrey, editorialized: “It would be wise to pay close attention to the words of warning that have just been voiced by the American economist, Dr. Lyndon H. LaRouche. Mexico would benefit if it traded its surplus of a potentially obsolete resource, oil, for modern industrial technologies of the 21st century.”

LaRouche’s proposal stirred great interest throughout Mexico in the private and public discussions he held among Mexico’s elites.

The Mexico City press carried LaRouche’s oil-for-technology program, as well as his sharp attacks on the Malthusians within the Reagan administration. The daily *El Sol*, warned in banner headlines on March 15: “Haig Will Cause the Death of Millions,” detailing LaRouche’s warnings of the genocidal consequences of Haig’s policies for Mexico and Central America.

Mexico’s commitment to cooperate with the new administration was clear. LaRouche returned directly to Washington from his meetings in Mexico, where he reported to 100 representatives of U.S. government departments, businesses, and foreign embassies, in an *EIR*-sponsored event, “The United States, Mexico, and Central America: Conflict or Cooperation?”

LaRouche’s warnings on the effects of Volcker’s interest rates soon found echo in Mexico.

In the weeks before the June Reagan-López Portillo summit at Camp David, all of Mexico was in turmoil over the interest-rate problem, described by one Mexico City daily as Volcker’s “financial earthquake.” Effective interest rates in Mexico had reached 40 to 50 percent. Mexico’s development strategy was in a noose.

I was in Mexico City the first week of June for some private meetings and an *EIR* conference, in which economics editor David Goldman presented the state of the U.S. economy, based on a quarterly LaRouche-Riemann model report. Goldman’s discussion of the dangers of Volcker’s economic policy was again widely



López Portillo (l) at the White House.

covered by the Mexico City press, and he was interviewed on the evening news of the government-sponsored TV station, channel 13. The commentator stressed Goldman's insistence that Volcker's policy constituted economic warfare against such nations as Mexico.

The summit took place that week, and the interest rate question was very much on López Portillo's mind.

The two heads of state reached a "basic agreement on the need to strengthen the economies of the lesser developed nations to bring about the social and economic development of their peoples." The possibility was live that the two presidents might forge a new model for North-South relations.

On his arrival in Washington, the Mexican president had referenced the hostilities of the Carter period by denouncing the dangers of arrogance and submission in international relations. By the end of his two-day stay, the change was consolidated, and López Portillo confided his "profound satisfaction" with the results of the meeting.

The most important concrete achievement of the summit was an agreement to collaborate in cooling out Central America. In the months leading up to the Cancún North-South summit in October, Reagan's confidence in Mexico's interest in the stability of the

region was a crucial counterpoint to Haig's strategy of blowing up the area.

The personal relationship between the two presidents also served to puncture the kind of confrontation Haig was planning for the Cancún summit. Despite Reagan's insistence that the "magic of the marketplace" could solve the development problems of the Third World, useful dialogue took place, as Mexico, India, Japan, and other nations called for fundamental changes in the world monetary system and an end to international IMF conditionalities.

López Portillo defined the purpose of the summit—to overcome the obstacles to worldwide industrialization. World prosperity can be achieved if ways can be found to link the financial resources of OPEC and other nations, the technological and industrial capacities of the developed countries, and the acute need for technology and consumer goods in the developing sector, he said.

Cancún left the doors of communication open between the United States and Mexico, but the implementation of a real development strategy was left on ice.

Economic squeeze

Skyrocketing interest rates and the collapse of oil prices and oil markets has created an economic crisis in Mexico. The squeeze is on for López Portillo's chosen successor, PRI candidate Miguel de la Madrid, to abandon Mexico's present high growth rates and total commitment to rapid industrialization. International financial institutions from the World Bank to Wall Street and their press outlets, have determined that Mexico will pay—through capital flight and internal chaos—for its daring industrialization policy. And the econometric whiz kids of the Wharton School, not coincidentally, agree and advise Mexico to slow down the economy or face Iranization.

While brawls are taking place among the advisers to De la Madrid on the future of Mexico's development, its nuclear program, which will of necessity bridge the two administrations, could set the pace. A decision to go full speed ahead on the nuclear program was made after the designation of the candidate, and will be crucial to fostering a continuity of Mexico's high-technology development strategy, although De la Madrid has indicated that he will give greater weight to the go-slow arguments of the environmentalists and others.

Mexico opened bidding on its nuclear program on Oct. 5, and the United States, France, Canada, Sweden, and West Germany will participate. Mexico has let it be known that its principal interest is in tying the construction of the 20 reactors it projects by the end of the century, to a long-term transfer of technology package.

Strong United States participation in the bidding could be a signal of more positive changes yet to come.

Central America

'Population warfare' takes bloody toll at behest of Haig, Socialist International

by Dennis Small, Latin America Editor

A strong sense of déjà vu was aroused by the press coverage Christmas week of the latest tour through the Central American region of Sr. Felipe González, the head of the Spanish Socialist Party and one of the leading lights of the Socialist International. González hopped around Panama, Cuba, Mexico, and Nicaragua for a week in mid-December, where he met with Panamanian President Arístides Royo, Castro (twice), Mexican President López Portillo, Nicaraguan Junta member Daniel Ortega, and various socialist political figures in the area. González's subject with each was the crisis in Central America, and the upcoming March 1982 elections in El Salvador in particular.

That sense of déjà vu stems from González's nearly identical shuttle activities precisely one year ago, in December 1980. At that time, the Spanish Socialist was the principal liaison between the Central American insurrectionary forces and the Socialist International apparatus that was backing them. González, in fact, flitted between Washington, Panama, and Havana in the first week of December 1980, and personally activated the left's "final offensive" in El Salvador—the violent uprising of that country's opposition forces that kicked off the meat-grinder civil war.

At that time, we issued an extensive dossier on the Central America crisis, a dossier which stunned the major capitals of the world for the "novelty" of its analysis. *EIR* argued that the principal actors responsible for triggering civil strife across Central America were: 1) the **Socialist International**, who openly bragged that they were financing "wars of liberation" in the Third World; 2) the **Society of Jesus**, or Jesuits, whose Theology of Liberation movement provides the vital infrastructure for the guerrillas; and 3) **Alexander Haig** and others within the Reagan administration and around think tanks like the **Heritage Foundation** who provided the "right" foil to the Jesuit/Socialist "left."

EIR also revealed one year ago that the central policy objectives of this axis were: 1) to trigger warfare that would deliberately depopulate Central America, as per the dicta of the Carter administration's genocidal *Global 2000 Report*. As one of its authors, State Department official Thomas Ferguson, stated in a February interview

printed in *EIR*: "The government of El Salvador failed to lower their population. Now they get a civil war because of it"; 2) to split up the emerging U.S.-Mexico alliance for development, by duping Reagan into backing the "rightist" forces in the area while pushing Mexican President López Portillo into supporting the "left"; and 3) to use a polarized environment in the region, and around Cuba in particular, to set another strategic minefield between East and West.

The year's events in Central America have abundantly and tragically confirmed our original evaluation.

There were three distinct offensives launched by Haig and the Socialists in the course of 1981; in January-February, in July-August, and again in November—all designed to provoke a total explosion. In each case, that explosion was narrowly averted thanks to diplomatic and political "fire-brigade" initiatives by the López Portillo administration in Mexico, which was at the center of eliciting support for a negotiated solution from the Vatican, Western Europe, and most directly, some of President Reagan's more realistic friends and advisers.

The result of this series of stand-offs is that Central America at the end of 1981 has still not suffered the massive convulsion Haig et al. are seeking; but the policy of deliberate depopulation gained important ground. As an upcoming *EIR* economic survey will document in depth, the fragile economies of Central America were devastated in the course of 1981. What the Salvadoran insurrectionists of the FDR/FMNL (Revolutionary Democratic Front/Farabundo Marti National Liberation Front) failed to accomplish through targeting vital economic infrastructure for demolition, the International Monetary Fund completed through application of conditionalities in countries like Costa Rica. The result has been negative economic growth rates in every country in the area, and the creation of masses of refugees: *EIR* estimates that in El Salvador and Nicaragua alone over 10 percent of the total population are today refugees.

Three rounds

This cold-blooded process of devastation was thrown into motion on Dec. 26, 1980, with the declara-

tion by the FDR/FMNLFF opposition forces in El Salvador that they were launching their "final offensive" to seize power or at least ensure that "the situation in El Salvador will be red-hot by the time Mr. Reagan arrives" in the White House on Jan. 20, 1981.

That it was. Although the military side of the operation was woefully inadequate to defeat the Salvadoran army, it created the political climate desired by Secretary of State Alexander Haig. The loquacious General issued his famous, now-discredited "White Paper" in February 1981, in which he totally covered up the role of both the Jesuits and the Socialist International, and blamed the entire destabilization of Central America on the Cuban and Soviet governments. Haig used this "big lie" to help freeze U.S.-Soviet relations, at precisely the point that President Brezhnev had expressed his willingness to meet with President Reagan to discuss world problems.

The State Department deployed special emissaries to Europe and Latin America in February to try to organize support for Haig's confrontationist approach. Simultaneously, the Foreign Minister of Mexico, Jorge Castañeda—a Socialist International agent who frequently breaks out of López Portillo's control—began to call for Mexico to break diplomatic relations with the Salvadoran Junta. This move would have aligned Mexico with the area's left, against the United States, and led quickly into full-scale regional war. Mexico itself would have been ravaged by the consequences.

But López Portillo, despite growing leftist pressure at home, refused to break diplomatic relations with the Salvadoran Junta. He organized various Latin American nations in favor of a negotiated political solution to the Salvadoran crisis, and issued a benchmark communiqué to that effect after an April 1981 meeting with Panamanian President Arístides Royo. Their call also urged *all* foreign powers—meaning both the Cubans and the United States—to halt arms shipments into El Salvador so that the crisis there could be cooled out. Brazil told Haig's envoy General Vernon Walters that they found the State Department "White Paper" a misleading, incompetent document, and that the objective situation did not justify any Brazilian intervention into Central America.

The Vatican also aligned itself with the Mexican call for a negotiated solution, through the Archbishop of El Salvador, Arturo Rivera Damas. And the Schmidt government in West Germany sent Schmidt confidant Hans-Jürgen Wischnewski on a tour of Central America which directly countered Haig's provocative approach.

The second round of provocations began promptly in July. The most radical faction in Nicaragua strengthened its control within the ruling Junta in the early summer, by signing a \$100 million accord with Libya, and by purging from the government the relatively

centrist Vice-Minister of the Interior, Eden Pastora. Simultaneously, the Socialist Foreign Minister of France, Claude Cheysson, made a week-long tour of Central America to communicate the Socialist International's full backing for a renewed uprising in the area. Similar visits were made by Father Theodore Hesburgh of Notre Dame University, who runs extensive radical church networks in Latin America; from a Khomeini patron, U.S. Attorney General Ramsey Clark; and from the various regional Superiors of the Society of Jesus, who gathered in Panama in July.

The effects of this mobilization violently emerged on July 31, when Panamanian strongman Omar Torrijos was murdered in a plane crash. Reliable intelligence sources informed *EIR* at the time that Torrijos had been working quietly with López Portillo to try to cool tensions in the region, and the Jesuits and Socialist International therefore viewed him as an obstacle to their plans.

Haig meanwhile moved to put the "right" side of the scenario in place, quietly increasing the military presence of U.S. and various surrogate American forces across Central America. On Aug. 25, *EIR* exposed the fact that a "September Scenario" to blow up Central America had been put in place by Haig et al., and communicated more detailed information on these findings to various governments and intelligence agencies.

The Mexican government, for its part, foresaw what officials described in private at the time as the imminent "Vietnamization" of Central America by Haig and allied forces. On Aug. 28, they issued a communiqué with the French government, in which the opposition in El Salvador was described as a "representative political force" that had to be brought into negotiations.

Despite strenuous efforts by Haig, and attempts within Latin America to counter-organize against Mexico, López Portillo met with President Reagan in Grand Rapids, Michigan on Sept. 17-18, and convinced Reagan that the Mexican option for El Salvador was sounder than Haig's. Four days later, Reagan met with Salvadoran President José Napoleón Duarte. In a 180-degree shift in American policy, he urged Duarte to reach a negotiated settlement to the war, and even publicly suggested that Mexico could help to mediate such a solution.

This rebuff from Reagan silenced Haig and his Jesuit partners only until early November, when they launched their third attempt of the year to blow Central America sky-high. Haig, Thomas Enders, U.N. Ambassador Jeane Kirkpatrick, and other U.S. officials all issued highly provocative attacks at the time on the government of Cuba and Nicaragua, charging them with fomenting revolutions throughout Central America, and threatened them with the possibility of direct military action to stop these activities. A naval block-

ade, for example, was openly discussed in the press as a live American option.

And Henry Kissinger was deployed to South America to line up support for Haig's provocation. He scored his greatest success in Argentina, where the faction favoring Argentine involvement in Central America came to power in a coup in mid-December.

Haig's "mad dog" routine received indispensable support from a cast of characters including Fidel Castro and various Nicaraguan leaders. Their mutual insults, threats, and provocations quickly became known among Washington insiders as the "Al and Fidel Show." Tensions in the region thus continued to mount steadily.

Once again López Portillo intervened, issuing a pointed declaration on Nov. 20 in which he demanded an end to the "verbal terrorism" on both sides. Mexico received enough backup in this effort from the pro-détente faction in the Soviet Union, from military realists in the U.S. Pentagon, and from among other Latin American nations, to succeed in putting a political gag over Fidel Castro's mouth as of this writing. Although the Nicaraguans have not yet responded to the same pressure, Haig was unable to muster enough votes at the Dec. 2 meeting of the Organization of American States to pass a resolution condemning Cu-

ban and Nicaraguan "expansionism." He had to settle for a communiqué endorsing elections in El Salvador before political negotiations occur between the warring bands, a position Mexico strongly and justifiably opposes.

The economic factor

What awaits Central America in 1982 is renewed efforts to unleash total population warfare in the region. The Socialist International has reiterated its commitment to plunge the area into chaos, as reflected in the latest tour by Felipe González. The Jesuits, although besieged by the Vatican, remain very powerful in Central America. The new Galtieri government in Argentina gives Haig an additional factor of support in the Southern Cone for his interventionist strategy.

Both left and right intend to use the prelude to the elections in El Salvador and Guatemala scheduled for early 1982 to accelerate regional mayhem. The initiatives and political combinations which Mexico found adequate to hold Haig and the Socialists at bay throughout 1981 will be inadequate for the task in 1982. The economic devastation of Central America, its growing depopulation, must itself be reversed if there is to be hope of maintaining any kind of political stability in that war-torn area.

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South Asia

India under cloud of Pakistan war danger

by Daniel Sneider, Asia Editor

The past year has bred a new hot spot, one fraught with extreme danger, which may emerge in next year's front pages: South Asia, where, in the shadow of Afghanistan, war clouds are gathering over Pakistan and India. We may witness another war between India and Pakistan, a war which could include the first use of nuclear weapons since World War II.

The dangers in the South Asian subcontinent are not principally caused by the Soviet intervention into Afghanistan, as U.S. policy-makers contend. They are instead the result of the combined efforts from *outside* the region to militarize the area and make it an arena for superpower confrontation. The immediate trigger is the decision of the U.S. administration to provide an unstable, unpopular military dictatorship in Pakistan, one known to be engaged in a semi-clandestine effort to achieve nuclear weapons capability, with a massive infusion of sophisticated U.S. arms.

The Reagan administration's policy toward South Asia essentially picked up where the Carter-Brzezinski policy left off. Brzezinski, who distinguished himself during a visit to Pakistan by melodramatically standing at the Khyber Pass and pointing a Chinese-made machine gun at Afghanistan, had made an earlier offer of arms aid to Pakistani military dictator General Ziaul Haq, an offer rejected as "peanuts." During the visit of James Buckley, Undersecretary of State for Security Assistance Programs, to Pakistan in the spring, the deal was considerably sweetened. By the end of the year, the U.S. Congress approved, in principle, a six-year, \$3.2 billion aid package which included the sale of tanks and the most sophisticated jet fighter in the NATO arsenal, the F-16, a plane capable of delivering nuclear weapons.

The Reagan administration, like the one before it, sold the deal as an effort to bolster Pakistan against the Soviet Union and to build up Pakistan as a military linchpin in the U.S. "Rapid Deployment Force" defense of the Persian Gulf region. In reality, as numerous critics pointed out, the Pakistani regime itself admitted that it

has no intention to go to battle against the Soviet Union, but rather seeks to bolster its aggressive capability vis-à-vis neighboring India, against whom 80 percent of all Pakistani armed forces are currently deployed.

The Indian government of Prime Minister Indira Gandhi repeatedly and forcefully argued that at minimum, the U.S. move would fuel a dangerous and economically wasteful arms race in the region, and threatens to lead to war. As Mrs. Gandhi told *EIR* in an exclusive interview this September: "Our concern is not just our own concern. We see the problem in the larger context of world confrontation."

Since the awesome January 1980 electoral victory which returned Mrs. Indira Gandhi and the Congress party to power, India has reasserted itself. Mrs. Gandhi's role as one of the most experienced statesmen in world politics has been clear during the past year at such events as the Cancún North-South summit, where the Indian leader was a spokesman for all developing countries. During many trips abroad as well as at home, Mrs. Gandhi has repeatedly sounded the theme of the danger of war and the necessity of world economic development to ensure peace.

Mrs. Gandhi's personal leadership is based on the importance of India itself, a nation of 700 million which despite severe problems of poverty has achieved significant industrial and scientific/technological development and agricultural self-sufficiency. While the World Bank and the IMF this past year promoted the model of Communist China, democratic India's achievements are not considered noteworthy or praiseworthy. Yet India has demonstrated the ability to make steady progress while maintaining the largest democratic republic in the world.

Over the past year, with relative political stability prevailing under the Gandhi government, significant progress has been made to restore forward momentum to an economy debilitated by the anti-industrial, ruralist policies of the previous regime. Record harvests are anticipated, and large jumps in industrial production and infrastructural performance have been achieved.

The Indian government is looking forward to the fruits of massive investment in oil exploration. Several new and potentially major oil fields were discovered this past year, raising hopes that by mid-decade India could be largely free of the burden of oil imports which currently eat up 80 percent of export earnings. That, combined with ongoing development of nuclear energy, could fuel a major expansion of Indian industrial strength, bringing India closer to the status of a major world economic and political power in the next century.

All this, as Mrs. Gandhi has pointed out, is what is threatened directly by the dangers of war in South Asia, by a reckless and nonsensical fueling of a new "hot spot."

China

Deng's chickens come home to roost

by Gregory F. Buhyoff

As 1981 comes to a close, Chinese Communist Party Vice-Chairman Deng Xiaoping is faced with political, economic, and foreign-policy crises, all of which stem from his "pragmatic" reforms over the past two and a half years. Not only is the economy in a mess as a result of the "re-adjustment" policy of massive cutbacks and austerity; a breakdown in discipline among cadres nationwide threatens political instability, while Deng and his faction face the politically dangerous prospect of losing the "strategic relationship" with the United States over the question of U.S. arms sales to the Nationalist regime in Taiwan. Though Deng remains in tenuous control for now, the situation indicates that his chickens are coming home to roost.

From press accounts at the beginning of the year, one could hardly have predicted such a year-end state of affairs in China. Saccharine reports heralded the rise of Deng and his faction of "pragmatists," and advocates of a U.S.-China "strategic alliance" conjectured lustfully over the implications of a Deng-led China. Deng's "modernization," they argued, would be enough to persuade Ronald Reagan to discard his affection for Taiwan in favor of the "China Card" pursued so vigorously during the Carter administration. The radical Gang of Four had just been subdued, and the naming of Deng intimate Zhao Ziyang as Premier in the autumn of 1980 ostensibly cleared the way for a new policy line that would lead China out of Maoism.

However, careful observers, notably the *EIR*, provided more sobering estimates of the political situation in China. Deng's ability to harness support from conservative political and military elements waned rapidly after the trial of the Gang of Four, and he met stiff opposition as he began to push ahead for unfettered control. Seven months passed before Deng was able to hold the long-awaited Sixth Party Plenum, where a diluted resolution assessing the contributions and mistakes of Mao was finally passed. The demotion of Party Chairman and

Deng-opponent Hua Guofeng was also achieved at the June plenum, but with great difficulty, and the unchanged overall composition of the powerful Politburo ensured that Deng would not have carte blanche.

Since the fall of 1980, Deng accelerated the economic retrenchment policies begun in late 1978, when savage cutbacks were made in capital improvements and in basic industry while efforts focused on light industry and consumer goods. Major capital construction projects were cancelled and factories were closed, leaving hundreds of thousands jobless. China's credibility with foreign investors sank to an all-time low.

Deng has shown no signs of giving an inch. On the contrary, in what appeared to be a "flight forward" denial of reality, Zhao Ziyang acclaimed the successes of the year and announced at December's National People's Congress that re-adjustment would continue for at least five more years.

In a country where, as Agriculture Vice-Minister Du Runsheng admitted in November, one-third of some 800 million peasants must rely on government handouts, the implications of further austerity are genocidal.

The deliberate gutting of the economy's ability to provide for the Chinese population, however, is not surprising from a regime that has already stated officially its commitment to depopulating the country by some 550 million between 2000 and 2080. In accordance with this policy, China is carrying out a national campaign of forced abortions, sterilizations, and even infanticide, in cases where couples violate the one-child-only law.

Deng has had to contend with widespread breakdown of party discipline and other "unhealthy" trends. The "open door" policy which opened up China to influences from Hong Kong and the West is being blamed for fueling "bourgeois liberalism," (a catch-all term for official corruption), and "anti-socialist" dissent.

But perhaps the most dangerous near-term prospect for Deng is the likelihood of U.S. arms sales to Taiwan. Since Alexander Haig's visit to Peking this June, when he mooted the possibility of arms sales to China, Washington's simultaneous consideration of arms sales to Taiwan has made Deng extremely cautious lest factional opponents accuse him of accepting an arms trade-off at the expense of China's sovereignty. The visit to Washington by Deputy Chief of Staff Liu Huaqing scheduled for August was scrapped without explanation. To shield himself should the arms to Taiwan be approved, Deng has been trying to distance himself from Washington by referring to the United States as a "hegemonist" (a term usually reserved for the Soviet Union), and threatening that China will "react sharply" to any sale of U.S. weaponry to Taipei. Nevertheless, Deng is clearly worried that Peking's "America Card" policy of manipulation of U.S.-Soviet confrontation will fail to capture Reagan, and its failure could take Deng down with it.

Japan

Tokyo emerges from the strategic shadow of the United States

by Daniel Sneider, Asia Editor

Since May 1981, the Suzuki administration of Japan has begun to shape a policy which is by no means "anti-American" but which seeks to define Japanese policy in terms of Japanese national interest and which is willing, usually quietly, to make it clear where the United States, not Japan, is going wrong. This change has been most evident in Japanese policy toward the developing countries, in the Japanese insistence, which was manifested at the Cancún North-South summit meeting, that tensions in the Third world (which can lead to war) must be fundamentally resolved not through East-West military confrontation but through stabilization by means of industrial and agricultural development.

The crucial turn of events in Japan's stepping out of the strategic shadow of the United States into a more independent role in world affairs can be traced to the aftermath of Prime Minister Suzuki's May visit to the United States. A furious political controversy developed in Japan over the use of the word "alliance" in the U.S.-Japan joint communiqué, with Suzuki publicly repudiating that formulation and the implication of Japan acceding to U.S. pressures for a NATO-style military alliance with the United States. Foreign Minister Ito, closely identified with the policies of Alexander Haig, was forced to resign for responsibility for the communiqué fiasco.

The basis of this Japanese view, and of tensions between the United States and Japan, is Japan's superior understanding of practical economics, which has been belatedly recognized in the past year's spate of American books and articles purporting to unveil the secrets of Japan's economic success. The problems do not lie between Suzuki and Reagan, who in fact got along well in their May meeting. They lie in Japanese refusal to accept the premises and consequences of the U.S. Federal Reserve's disastrous policy of depression-inducing austerity for both the advanced and underdeveloped countries. Japan instead has attacked Volcker and called for growth policies for the world economy. This question lies at the root of the U.S.-Japan tensions; and it is the necessity driving Japan to assert itself in world affairs.

The past 10 years of Japanese politics have been relatively tumultuous, witnessing changes in leadership

from the scandals which brought down Premier Kakuei Tanaka in 1974 to the surprising ousting of Premier Takeo Fukuda in 1978, the sudden death of Premier Ohira in the spring of 1980, and the succession of Prime Minister Zenko Suzuki, almost unknown outside Japan. Much of this has taken place within the byzantine world of the ruling conservative Liberal Democratic Party. But it has also mirrored at every point a fundamental debate within the Japanese elite.

Two strategic views

In the post-war period, Japan has shaped its outlook and its role solely in the context of its ties to the United States, assuming a world in which the United States remains the foremost world power. During this past decade of international monetary turmoil, the Japanese have debated how to deal with a world in which the United States is no longer supreme and the world economy is perilous. One side of the debate advocates that Japan unswervingly ride the rollercoaster of U.S. policy wherever it leads, and go down with the ship if necessary, as there is no alternative. The late Premier Ohira was an adherent of that view, as was Ito.

During the Ohira period Tokyo followed Washington, i.e. the Carter administration, to a degree unmatched in Western Europe. Japan adhered strictly to the post-Afghanistan economic boycott of the Soviet Union, foregoing billions in trade deals. Ohira also moved in response to U.S. demands for a greater military buildup and the integration of Japanese forces in NATO-type regional defense structures. This also implicitly placed Tokyo in support of the strategic concept of a Tokyo-Peking-Washington axis against the Soviet Union in Asia, an axis intended to replace the weakened U.S. strategic/military presence in the region.

On the other side of the debate, though more cloudy and differentiated, is the view that Japan must make its own way, though *not* in opposition to the United States. Some in this camp advocate independent rearmament of Japan, up to and including nuclear weapons; but most favor a more flexible, independent foreign policy

which allows Japan, when necessary, to assert its national interest even when it means a clash with current U.S. policies.

During its first year, the Suzuki administration had no apparent distinct policy and Suzuki, who succeeded as head of Ohira's faction in the LDP, seemed to follow the Ohira approach. The May controversy and the ouster of Ito and his replacement by Foreign Minister Sunao Sonoda soon showed a new approach in policy. In early June the Japanese bluntly rejected U.S. demands, made at a Hawaii meeting on defense-policy coordination, for further defense spending buildup. In mid-June Suzuki went to Western Europe, partly to prepare for the Ottawa summit meeting, a trip which was significant for the renewal of close cooperation between Japan and West Germany, a policy markedly pursued by Fukuda and dropped by Ohira. The cornerstone of that cooperation was a German-Japanese agreement on the need to vigorously and publicly oppose the U.S. high-interest-rate policy at Ottawa and elsewhere. Political speculation in Japan noted, not coincidentally, the rising role of Fukuda as the key adviser to Suzuki on foreign policy matters.

Foreign Minister Sonoda earned himself controversy for his blunt statements on U.S. policies—for which he was later sacrificed in a November cabinet reshuffle, although only on the issue of "style." At the June meeting of the Southeast Asian nations in Manila, Sonoda pointedly told Haig that U.S. demands were endangering the U.S.-Japan treaty structure, and also pointedly joined Southeast Asian nations in criticizing Haig's flamboyant statements in Peking, which the Secretary of State visited en route to Manila, on the sale of U.S. arms to the Chinese regime. At the September Shimoda conference of top American and Japanese policy-makers, U.S. participants were reportedly shocked by the willingness of the usually polite and often deferential Japanese participants to lambast the stupidity of U.S. economic policy, its China Card policy, and its overemphasis on the "Soviet threat."

In the fall, with the visit of PLO head Arafat to Japan, the Suzuki government put its weight behind efforts to reach a comprehensive Middle East settlement, including backing the Saudi Fahd plan.

Japan on North-South relations

Perhaps the most significant and long-term sign of an emergent *Japanese* policy in the world is the approach toward North-South relations. Japan, a nation totally dependent on world trade for its energy, raw materials resources, and much of its food, is naturally sensitive to the condition of developing nations. Japan's very survival depends on an expanding world market, which necessarily means the development of the Third World. During the past year the Japanese have vastly

expanded their own capital lending to the developing countries, a policy of a emergent Tokyo capital market which had started earlier in the mid-70s, but had been curbed during the Ohira administration. Large-scale Japanese delegations have visited countries like Mexico; specifically, billions of dollars have been committed in support of Mexico's grand industrialization plans, and not incidentally are helping to secure for Japan stable supplies of petroleum.

The most visible expression of this Japanese commitment came at Cancún, where Premier Suzuki offered to play the role of a bridge and mediator between North and South. In his opening speech, a speech which won the praise of Third World delegates, Suzuki stated that:

"The road ahead calls for each of us to abandon the false perception that the interests of North and South conflict with each other, and for both the developed and developing countries to extend the hand of cooperation to one another in order to revitalize the world economy and to attain the goal of world peace and prosperity."

These views, and the Japanese bid to play a mediating role, have great credibility precisely because Japan has the unique experience among the advanced industrial nations of having advanced in the last hundred years from a backward, underdeveloped status. Suzuki made this point himself:

"When Japan began to grapple with the task of modernizing the nation about 100 years ago, it was a poor country, small in area and poor in natural resources, inhabited by 30 million people. It had no advanced technology and very little capital. Its leaders were, however, filled with the ardent resolve to attain progress and growth, believing that education was the most essential prerequisite for nation-building, and worked with dedication and determination to lay the foundation for education of the people. . . ."

The U.S. response to this Japanese attempt to assert its role as a responsible leader, a cliché demand chronically made by the United States upon the allegedly passive Japanese, was the deliberate sabotage of Japanese mediating efforts by Secretary of State Haig, who went even to the length of blocking any personal meeting between Suzuki and Reagan. It thus appeared to many, even in Japan, that Japan had once again "failed" to play an important role in the world, deprived of the opportunity by the U.S.

In reality such an event reveals something quite different—that Japan can and must play a special leading role in ensuring world peace and stability through its superior grasp of the fundamental principles of economic growth, manifested in Japan as a model for the rapid development of the developing nations. Those who accuse Japan, the third greatest economic power in the world, of failing to match that economic power with political strength have missed the point.

The legacy of Civiletti still hangs over Justice

by Warren J. Hamerman, Chairman, National Democratic Policy Committee

One year ago, during the transition between the Carter and Reagan administrations, *EIR* founder Lyndon LaRouche, Jr. warned that unless the incoming administration cleaned the entrenched apparatus held over from Benjamin Civiletti, Ramsey Clark, Edward Levi, and Robert Kennedy out of the Department of Justice (DOJ), it would be besieged by terrorism, "Watergate"-style political destabilization, police-state persecution, and even assassination. In the course of 1981, the toll of failing to heed LaRouche's policy counsel has been paid in blood.

Even though Benjamin Civiletti's attorney-generalship was of brief duration—from the summer of 1979 through January 1981—the words "assassination" and "Abscam" evoke the fact that the history of 1981 has been, to an ominous extent, the history of Civiletti's legacy. It was under Civiletti, first as Director of the Criminal Division of the DOJ and then as Attorney General, that the Department of Justice itself openly became the protector of Libyan and Iranian assassins, the Weathermen and other terrorist groups, and big-time narcotics traffickers. It was under Civiletti, as well, that the DOJ nourished political frameup artists and convicted felons to unconstitutionally target for destruction the U.S. Congress and other institutions of government, including the executive branch itself.

Civiletti took the reins of a police-state apparatus carefully insinuated into the Justice Department for 20 years beginning with the Kennedy (DOJ) "old-boys" network around Walter Sheridan, the "inside" man in

the assassination of President John Kennedy in 1963, and continuing through Lyndon Johnson's Attorney General Ramsey Clark, the promoter of Ayatollah Khomeini, and Gerald Ford's Attorney General Edward Levi, the champion of the civil rights of terrorists. Not only did Civiletti's tenure in office represent a period of sustained assault by the DOJ on constitutional government and democratic institutions, but its legacy continues to threaten political life with descent into an Orwellian 1984.

Indeed, although Civiletti himself left office with Jimmy Carter, the DOJ under William French Smith has maintained many holdovers from the Civiletti apparatus such as John Keeney, the No. 2 man in the Criminal Justice Division; Michael Shaheen, head of the Office of Public Responsibility; U.S. Special Prosecutor Thomas Puccio; and Michael DeFeo, head of the Organized Crime Strike Force west of the Mississippi.

Terrorism

During April of 1980 *EIR* published the assessment that its "investigation concerning the series of pardons granted to terrorists and their supporters has revealed that Attorney General Benjamin Civiletti is personally responsible for these acts. If any of the following individuals are involved, directly or indirectly, in any form of terrorist or political violence, then the guilt must be laid squarely on the shoulders of Attorney General Civiletti, just as if he had pulled the trigger or planted the bomb."

The list included Kathy Boudin and seven other members of the Weatherunderground. On Oct. 20, 1981 Kathy Boudin, others from the Weathermen and various terrorist allies were arrested for a bank robbery shootout in suburban Rockland County, New York in which two police officers and a private security guard were brutally murdered. Two years earlier, on Oct. 21, 1979, DOJ spokesmen for Attorney General Civiletti announced the dropping of federal warrants against the self-same Kathy Boudin and seven other Weatherunderground fugitives dating from the 1969 "Days of Rage" riots in Chicago and the 1970 townhouse bombing in New York.

From the period when Civiletti became the Director of the Criminal Division of the DOJ in 1977, through his tenure as Attorney General, he participated in the pardoning or dropping of warrants against 18 known terrorists including: Kathy Boudin and seven other members of the Weatherunderground; three Puerto Rican terrorists imprisoned for an armed attack on the U.S. House of Representatives in 1950; the man imprisoned for an assassination attempt against President Truman; three members of the Republic of New Africa imprisoned in 1971 on charges ranging from possession of stolen weapons to murder; two members of the New Years Gang who bombed the University of Wisconsin Army Math Research Building in which one student died; and Eldridge Cleaver, the leader of the Weatherunderground faction of the Black Panther Party.

After the Weatherunderground bank robbery and murders in Nyack, New York last October, Civiletti told a reporter that he did not have "any particular recollection of events" in freeing Boudin or other terrorists. In the case of the release of the four Puerto Rican terrorists, Congressman Garcia (D-N.Y.) officially stated the role of the then-Director of the Criminal Division, Civiletti:

I worked closely with Civiletti. . . . Civiletti visited my office twice on the question of their release. Bell was Attorney General at the time. He was okay, but Civiletti was the brains behind it. He took a personal interest in the case."

The release of the Puerto Rican Four stimulated an enhanced level of terrorist activity by the FALN and other Puerto Rican terrorist groups, resulting in a series of attacks on U.S. military personnel.

Civiletti was also directly involved in undermining U.S. international intelligence capabilities, freeing the hands of the controllers of international terrorism. He personally approved the decision to block the prosecution of former CIA agent Philip Agee at a time when Agee was roaming Western Europe and the Caribbean colluding with terrorist organizations and publicly exposing Central Intelligence Agency station personnel

abroad, in addition to blatantly turning over classified information to the KGB and Cuban and British intelligence services.

Libyan and Iranian assassins

On July 22, 1980 Ali Akbar Tabatabai, the head of the anti-Khomeini Iran Freedom Foundation, was assassinated in Washington, D.C. by a network headed by Iranian Bahram Nahidian, the Carter administration "contact" to Khomeini. The next day top Carter administration officials met in Civiletti's office and decided to prevent law-enforcement officials from pursuing the assassins for reasons of "national security." Local law enforcement officials, in fact, had been prevented by Civiletti and others from impeding the activities of Nahidian and the Muslim fundamentalist assassins for several months *before* the actual murder.

The national security issue at stake in Civiletti's activities was the coverup of Billy Carter's relationship to Qaddafi and the Libyans. High level intelligence and law-enforcement officials have recently confirmed that several of the Libyan hit men who have been stalking President Reagan were let into the country on "student visas" by Attorney General Civiletti. According to sources, at least two of the assassins now loose in America were in attendance at receptions given by the Libyan ambassador in Atlanta, Georgia and Washington, D.C.; the co-host of those receptions was Billy Carter. And Benjamin Civiletti, as *EIR* previously documented, guided the coverup of the Carter administration's shadowy and corrupt connections to the netherworld of Libyan terrorists and Qaddafi, and their patrons (see article, page 30).

The Williams case, Abscam and Brilab

During 1981 international indignation has grown against the way the Civiletti DOJ unconstitutionally framed the innocent Sen. Harrison Williams (D-N.J.). Under Benjamin Civiletti, the DOJ and FBI were openly transformed into a "political police," conducting frameup and extortion campaigns against perceived political opponents of the administration. According to the Annual Report of the Attorney General, the four-year tenure of President Carter saw over 20,000 Americans jailed as the result of over 85,000 "white collar crime" investigations launched by the FBI and DOJ. While Senator Williams and numerous congressmen were victims of Abscam, labor officials were indicted under the DOJ's Brilab operation.

To conduct these frameups, Civiletti employed thousands of convicted felons protected by the Federal Witness Protection Program to "sting" the targeted individuals.

On Oct. 1, 1981 Senator Williams announced his filing of a \$6 million civil law suit against Civiletti;

current FBI director William Webster; Philip Heyman, deputy attorney general under Civiletti; Irvin Nathan, former deputy assistant attorney general; Mel Weinberg, the convicted felon used by Civiletti to manufacture the aroma of crime in the Williams case; three FBI agents; and Thomas Puccio, the Abscam prosecutor who violated Senator Williams's constitutional rights with abandon.

Although Williams had refused every bribe, he was convicted at the rigged trial conducted by Federal Judge George Pratt. During the trial the judge and prosecution withheld internal DOJ memoranda which proved Williams's innocence. Secret grand-jury documents subsequently revealed demonstrate that the Civiletti DOJ arranged for Judge Pratt to preside over the case because he was in "Justice Department control."

On Nov. 17, 1981 Senator Williams requested of his Senate peers the right to conduct an extraordinary full trial before the Senate itself, with the intent of cross-examining Civiletti, among others. In late November, Senator Williams took the unprecedented action of going to federal court in Washington to demand a full trial before the Senate.

Two days later, Katharine Graham's *Washington Post* ran a front-page box and long feature article attacking Senator Williams and Mr. LaRouche, who mobilized a national campaign to block Williams's expulsion, for forcing to the surface the Nazi corruption in the Carter Justice Department. LaRouche and his associates in the 9,000-member National Democratic Policy Committee (NDPC)—one of the largest political action committee memberships in American politics—could blow the lid off more than Abscam. Williams himself has publicly charged that among Jimmy Carter's and Benjamin Civiletti's primary motivations for "getting" Williams was that in 1976, and again in 1980, the Senator was in the midst of national efforts to prevent Carter from winning the Democratic Party's presidential nomination.

The Nov. 25 *Post* article states: "Senator Williams, who said the NDPC represents his most active grassroots support, described LaRouche and his supporters as 'very thoughtful people' and said their research into the constitutional questions raised by the Abscam case have been 'very accurate.' . . . In literature discussing what he describes as the 'frameup' of Williams, LaRouche . . . describes Abscam as a 'treasonous' action designed to break the will of Congress, then goes on to doubt the 'moral capacity' of Congress to stand up to it. 'There are members of Congress on both sides of the aisle so degenerate or so swayed by political opportunism that they variously promote or condone policies more hideous than those perpetrated by Albert Speer and others under Adolf Hitler,' he writes. . ." On Dec. 1, the Senate officially announced that expulsion proceedings against Senator Williams would be indefinitely

postponed after Williams had established that unconstitutional, illegal and unethical conduct by Civiletti's Justice Department as well as direct perjury pervaded the investigation and prosecution, and Sen. Daniel Inouye (D-Hawaii) stepped forward as Williams's counsel before the Senate.

'Reagagate'

The case of Senator Williams transcends all traditional partisan considerations. In February 1981 *EIR* warned that the new President would be the target of political "Reagagate" scandals and assassination threats from the same people who engineered the frame-up of Harrison Williams. Throughout 1981, the news division of NBC, the *New York Times* and *Washington Post*, and the Justice Department network once wielded by Civiletti did indeed launch a continuous "Watergate" targeting of Reagan through the Donovan and other scandals. The team of Abscam prosecutor Thomas Puccio and Kennedy "old-boy" Walter Sheridan, the same team that coordinated the political frame-ups of Williams and the other Abscam and Brilab targets, were the point men in the operation.

Among other things, Sheridan was the "inside man" who covered up New Orleans District Attorney Jim Garrison's investigation of the Permindex Corporation, which specializes in assassinations against heads of state (see article, page 30). Walter Sheridan, who is known to associate with other Canadian Jesuits around the Kennedy camp, was indicted by Garrison for attempting to bribe witnesses. When Sheridan was exposed (at the time he was working for NBC), most of Garrison's witnesses were murdered. Thomas Puccio and Jack Newfield of the *Village Voice* were later implicated in such dirty work through their friend Esther Newburg, the girl who knows too much about the real story of Chappaquidick for Walter Sheridan's health.

At the time Sheridan was footloose in the DOJ in the early 1960s, Civiletti was working for then Baltimore U.S. Attorney (later Senator) Joseph Tydings. The Baltimore U.S. Attorney's office was a special model operations center used by the "dirty side" of the Kennedy machine. During the period that Sheridan coordinated the coverup of the Kennedy assassination, Civiletti operated out of the Maryland law firm of Venable, Baetjer and Howard (the correspondent firm to Carter crony Kirbo in Atlanta). When Civiletti came to the DOJ in 1977, his first assignment was running the infamous Koreagate scandal coverup.

EIR has documented that the Permindex networks, the terrorist apparatus domestically and the Iranian and Libyan networks are extensively involved in the multi-billion dollar annual drug traffic; Civiletti himself, shortly after being named Deputy Attorney General in June 1979, voiced his endorsement for "decriminalization" of the mind-damaging drug marijuana.

Science and Technology

Will budget-cutting mania make the U.S. second-rate in science?

by Marsha Freeman, Science & Technology Editor

Will an obviously patriotic President reverse 40 years of American excellence in scientific achievement?

This will be the case if the Reagan administration, taking its cue from the Office of Management and Budget, continues into 1982 the policies articulated in 1981. The President's best intentions will not reconcile a British-style budgetary massacre with the requirements of science as the motor of economic growth for the country.

On March 10 the administration made public its changes in the Carter FY82 budget. Severe cuts in the space, fusion, nuclear, and science-education programs produced an immediate reaction from the Congress and in the scientific community. The New York-based Fusion Energy Foundation announced a nationwide "Science Alert" and mobilized its membership to actively register its alarm to the Congress and the President.

Over the spring and summer the Congress held hearings on the 1982 budget and was able to restore funding through fiscal 1982 for major programs in energy, space science, and science education. Correctly reading the danger signals, Congress also held preliminary hearings to make it clear that key members will fight OMB's latest attempts to restructure or eliminate whole sections of R&D in the fiscal 1983 budget. Among other things, the hearings demolished the Heritage Foundation's claim that American industry could make up for cuts in federal funding for medium- and long-term research and development. A key question now is whether pro-growth representatives in the administration itself, such as NASA chief Dr. James Beggs, and elsewhere, can convince the President to personally reverse the OMB policies.

Fusion at a turning point

Fusion energy, the potentially unlimited process which will use hydrogen from water for fuel, can only be developed with continued federal support. Over the last two years of the anti-nuclear Carter administration, a coalition of scientists, congressional supporters, and Fusion Energy Foundation spokesmen initiated a cam-

paign which succeeded in establishing a national commitment to develop commercial fusion energy, when Congress passed the Magnetic Fusion Energy Engineering Act of 1980.

This legislation, which mandated the operation of a Fusion Engineering Device by 1990 and a commercial demonstration reactor by the year 2000, has come under attack by Reagan administration spokesmen, beginning last spring. Pleading budgetary constraints, the OMB and Carter leftovers in the Department of Energy tried to eliminate all engineering design work and experimental new projects in the FY82 budget for magnetic fusion.

Congress restored the budget to at least keep pace with inflation, to a level for FY82 of \$456 million. All the key projects, such as the Fusion Materials Irradiation Test facility, the upgraded Mirror Fusion Test Facility, and the Elmo Bumpy Torus next-step reactor, survived the first budget of this administration, though at a reduced level.

The international fusion community and various specialists in the United States concluded over the past two years that the magnetic fusion program was ready to move into the engineering phase with large-scale participation from high-technology industry. This judgment is now being questioned by people lacking any technical expertise, whose political agenda does not include developing unlimited energy.

At high levels of the administration, no significant opposition has emerged to this attempt to reverse the mandate of the law. There will be a fight on fusion funding during Congress's deliberations of the FY83 budget, but it is not clear whether the issue of the overall direction of the program will be brought to the fore.

It was this general policy impasse that motivated DOE fusion director Edwin Kintner to hand in his resignation on Nov. 30. Other capable people in fusion have left the government as well. The future of the top-notch scientific teams in the national laboratories and

industry is on the line.

For the past 15 years, funding for the U.S. space effort, administered by the National Aeronautics and Space Administration (NASA), has been declining in real dollar terms. There is no follow-up in the manned space program to the Space Shuttle, and NASA's planetary and space science efforts have been continuously pared down.

OMB Director David Stockman threatened to eliminate one-third of the \$6 billion NASA budget when he came to Washington, a threat he toned down as he met resistance. Nonetheless, the OMB cut all of NASA's new starts for FY82 until Congress restored funding for the most vital programs.

Space: regaining lost ground

Unlike the situation in the Department of Energy, the top brass at NASA is determined to regain the lost ground of the past decade. Dr. James Beggs, NASA Administrator, has stated that the space agency needs an increase of nearly \$1 billion in fiscal 1982 to both keep up with inflation and begin new programs for the 1980s.

This is the only way the United States will keep its now tenuous lead in space. For the first time in history, there is now a non-American rocket (the European Ariane) available in the West for launching communications satellites and other instruments into Earth orbit; the U.S. cannot expect to stay in the forefront of space technology without a strong NASA effort.

Stockman has proposed a \$6.2 billion FY83 budget, compared to NASA's request for \$7 billion. No new starts, such as the Venus Orbiting Imaging Radar satellite, are included in the Stockman budget, and even the half-completed Galileo mission to Jupiter is cancelled.

Beggs has directly countered the OMB actions and the rhetoric from presidential Science Adviser Dr. George Keyworth by beginning studies on the next-step possibilities leading to a permanently manned space station, and by having NASA engineers at various laboratories participate in the Solar System Exploration Committee's plans for resurrecting NASA's planetary exploration programs.

This committee, headed by Dr. Noel Hinners, a former chief of NASA's Office of Space Science, has put forward a comprehensive 20-year plan which includes missions to six planets, to the Moon, and to asteroids and comets. The committee proposes that the funding for planetary missions be doubled from its pitiful level of \$200 to \$300 million per year over the 1970s to between \$300 and \$400 million in constant dollars.

Dr. Hinners has pointed out that between 1974 and 1977 the planetary budget, adjusted for inflation, fell by a factor of four. Dr. Beggs has often stated his intention

to reinstate long-range planning for NASA's manned and unmanned programs so that they are not made subject to the vagaries of the budget cycle.

There can be no long-range space conquest, however, and no adequate scientific base if U.S. nuclear energy development is given "the right to die." The attempt to eliminate all the advanced nuclear research and development programs from the federal budget will ensure that nuclear power has no future in the United States.

'Free enterprise' or progress?

In its FY82 budget request for the DOE, the administration zeroed out the Barnwell nuclear fuel reprocessing center, the high-temperature gas-cooled reactor program, and other necessary R&D efforts. There is, as yet, no initiative to develop the fusion/fission hybrid reactor, which would use thermonuclear fusion energy to produce fissile fuel for light-water nuclear power plants.

And the administration, in its promotion of "free enterprise," has foolishly proposed that the near-bankrupt nuclear industry pay for the Barnwell plant. Knowledgeable people in the industry remember that it was not Westinghouse but President Eisenhower and the following administrations that created the civilian nuclear industry, and insist that it is the responsibility of the federal government today to make sure there is a future for advanced nuclear technologies.

The administration's "free-market forces" dogma has also infected its policies in the crucial field of nuclear export, where the United States should be pre-eminent internationally. Science Adviser Keyworth and other administration spokesmen indicate that the Export-Import Bank will not help to make U.S. power plant sales competitive with the low-interest financing available in other exporting nations. The loss of potential contracts in Mexico, Egypt, Taiwan, and other developing countries is likely.

There is no question that the presently stated policies of the administration, as presented mainly through the OMB and the Science Adviser's office, will be seriously questioned by Congress. The response from the scientific community, however, has been disappointing thus far. The National Academy of Sciences has said that if funds for R&D money are limited, they should be shifted from development to basic research.

There are murmurs in the fusion community that it might be best to let the Fusion Act fade away unnoticed rather than "antagonize" the administration by pushing such an aggressive fusion effort. On the contrary, nothing but a frontal assault on this false and destructive slashing of the nation's science programs will prevent what would be a blunder of historically decisive proportions.

Energy

Failure to revive U.S. nuclear power means crisis for industrial growth

by William Engdahl, Energy Editor

Despite the most promising signs, the first year under the Reagan administration has closed with energy policy in dramatically worse shape than when it began. The administration's expressed commitment to "produce our way out of the energy crisis" has been sabotaged.

While domestic construction of power plant capacity continues a sharp downside, the export of power plants, especially vitally needed nuclear plants, to areas of the developing sector, is in far worse shape than ever.

In terms of domestic power plant construction, since the early part of 1981 the United States has lost substantial ground in its nuclear plant construction program.

According to the official account of the Nuclear Regulatory Commission (NRC), 12 plants in various stages of construction have been permanently cancelled. These plants would have provided the U.S. economy with almost 13,000 megawatts of electrical power. To put this magnitude into perspective, this is the annual energy equivalent of almost 128 million barrels of oil, and would generate enough electricity to fully service the needs of six urban areas each the size of Houston, Texas.

In addition to these outright cancellations, postponements of new nuclear construction for months to years have mounted. My survey of relevant national monitoring agencies revealed the situation to be so bad that nobody in the utility industry has an up-to-date idea of how many such deferrals have been made this year.

Major deferrals this past year at the important five-plant Washington State Public Power Supply System (WPPSS) for units 4 and 5 sent tremors through the bond markets. The embattled Diablo Canyon nuclear complex in California remains idle, the victim of the major national anti-growth effort of cultish Gov. Jerry Brown, the Friends of the Earth, and NRC officials. In December the New Jersey utility PSE&G asked governmental permission to abandon its Hope Creek nuclear project.

Overall, some 184 electric power plant units have been delayed or canceled in the 1974-78 period, accord-

ing to a detailed study made by the General Accounting Office to Congress. In 1980, 60 coal or nuclear plants were delayed.

A dangerous analytical fraud is being fostered to the effect that such a collapse in forward construction is no cause for alarm because it is merely a rational response to declining "demand" for future power. In fact, the best historical metric to reveal an economy in a depression is the rate of electric and total energy consumption. The collapse of new construction cannot be attributed to some magic abstract "demand" decline, but to a deliberately induced economic depression by sustained unprecedented Federal Reserve interest rates and related forced disinvestment policies.

Total U.S. energy consumption made a spectacular decline during the period following the 1973-75 OPEC "oil shock," only to rebound fairly rapidly until 1979. That recovery was in large measure due to a shift from oil-based to nuclear-based energy generation, as a growing number of nuclear plants came on line. A convergence of three forces in this latest series of cancellations makes the present situation qualitatively more devastating and more difficult to reverse.

Since 1979, the imposition of a second astronomical price hike for world crude oil has intersected Federal Reserve double-digit interest rates as a deliberate brake on industrial growth. After almost one year of hysterical insistence by Fed Chairman Paul Volcker, in 1981 this interest-rate policy was extended for the first time since the 1954 Atomic Energy Act, to eliminate the traditional preferential lower rate for any utility constructing nuclear plants.

The third force adding to this dangerous trend has been, ironically, the Reagan administration itself. A ledger of steps taken by the administration to revive the beleaguered nuclear industry in the post-Carter period would note that on Oct. 9, 1981, the President put his signature to the first presidential pro-nuclear statement

in almost a decade, since Nixon committed the nation to build 1,000 nuclear plants by the year 2000. Reagan's statement pledged to break the licensing bottleneck which, especially since Three Mile Island, had brought nuclear construction to a virtual standstill stretching construction time out to a 12- to 14-year time span. It also promised expeditious licensing of the 33 nuclear plants estimated ready for startup over the next 6 to 18 months and full support for development of the embattled Clinch River Breeder Reactor project, and encouraged development of necessary reprocessing technology.

Almost as soon as the ink was dry, however, it became clear that commitment to this policy was tragically thin.

Reagan's new Nuclear Regulatory Commission chairman, nuclear engineer Nunzio Palladino, for what appears to be a complex set of reasons, has publicly reversed his initial firm commitment to expedite the licensing of the 33 plants. He has now threatened to freeze licensing for all plants until he is satisfied that the utility and nuclear industry has taken adequate steps to assure that design quality standards for safety have been fully met. As one result, Diablo Canyon is on indefinite freeze for alleged seismic design problems.

Will the lights go out?

Historically, since the early 1950s, growth of future electricity-generating capacity has been accurately called the "engine" or locomotive of economic industrial growth. Historically, such "lead" electricity growth must outpace economic growth by approximately 50 percent. Since the 1950s, for the U.S. economy, this has meant an approximate 7 percent per annum growth in electricity supply to secure an overall 4 to 5 percent economic growth. To underscore the danger of the present trend outlined here, a preliminary survey of U.S. public utilities conducted by *Electric Light & Power*, a leading industry publication, reveals a catastrophic decline in growth of peak demand for electric power for 1981 down to a minuscule 1 percent, a severe shock to most industry analysts.

Already, bankruptcy of formerly sacrosanct blue-chip electric utilities is being mooted in Wall Street and boardroom circles. General Public Utilities, the parent holding company of the beleaguered Three Mile Island plants, is the first likely candidate, but by no means the only one.

This domestic infrastructural collapse spiral is devastating enough within the confines of the domestic economy. Capital construction expenditures for necessary steel, concrete, and high-skilled labor of an estimated \$500 billion over this decade by electric utilities is directly at stake in the narrowest sense. But, in a global context, this infrastructure is necessary if the world nuclear industry is to survive and meet the energy needs of industrializing the developing sector. As lead-

ing scientific spokesmen from the late Dr. Homi Bhabha of India to Dr. Krafft Ehrlicke have repeatedly stressed, nuclear-energy development is the *only* option for the massive task of industrializing the world. In this context, the administration's attempt to reverse the damage of the anti-nuclear export policies of the Carter years is, to date, disastrous.

Not only has the administration failed to make any effective challenge to repeal the most pernicious aspects of the Percy-Glenn Nuclear Nonproliferation Act of 1978. Reagan's choice to head the Export-Import Bank, William Draper III, who should properly provide low-cost financing for nuclear exports, is a rabid advocate of genocidal "soft" energy alternatives for developing countries. David Stockman's Office of Management and Budget is in the process of removing the section within the Commerce Department which facilitates nuclear-export agreements. The Haig State Department to date has carried out an "eyes-closed" policy of arming Pakistan with nuclear weaponry while unilaterally continuing the Carter policy of violation of a 20-year fuel-supply treaty to provide nuclear fuel for India's Tarapur plant, which provides the bulk of electricity to Bombay. Little wonder that observers find little of substance in the nuclear-export policies of the new administration.

Also to be noted are the declaration of cabinet members such as Energy Secretary Edwards to the effect that "bailing out the electric utility industry" is not on their schedule, and the announcement at year's end by President Reagan that he intends to dismantle the Energy Department.

While the final disposition of the department remains to be fought out with Congress next year, certain ominous signs must be noted. The Atomic Energy Act of 1954 created a single Atomic Energy Commission (AEC) with a sole mandate to carry out the Eisenhower administration Atoms for Peace goals. Under the post-Watergate Ford Administration, Congress passed the Energy Reorganization Act of 1974, which created a separate Nuclear Regulatory Commission and dissolved the old AEC into one of six equal sub-agency departments. James Schlesinger's creation of the Department of Energy in 1977 reduced the role of nuclear-power development to one of approximately 12 assistant secretaries. The further relegation of the U.S. nuclear program into the back halls of the immense Commerce Department would bode ill for aggressive governmental action to reverse this crisis.

This year-end review is deliberately sober and stark. As of this writing, only a tiny minority of informed persons has had the courage to publicly address the seriousness of this crisis. No industrial nation in modern history has stood idly by while its electric power infrastructure has been allowed to collapse, outside of wartime destruction.

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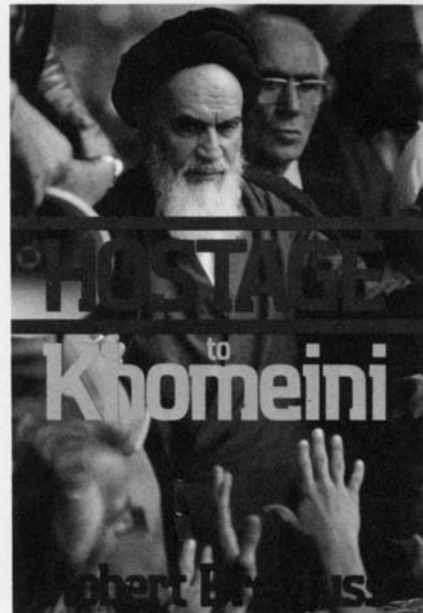
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