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Executive Intelligence Review

March 23, 1982

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EIR

From the Managing Editor

Western concern about Soviet military-industrial capabilities is matched only by the crude and often tendentious manner in which those capabilities have been estimated. This week we bring together the Fusion Energy Foundation's research, the LaRouche-Riemann econometric model, and *EIR*'s Soviet Sector analysis to identify the actual strengths and weaknesses of the U.S.S.R.'s defense base, with emphasis on the strengths no other Western analysts have properly identified.

EIR's own capabilities have been expanded, starting last week, by our co-optation of one of NSIPS Press Service's senior editors, Christina Nelson Huth, as Features Editor. This means greater "free energy" and expertise for our weekly Special Reports and other *EIR* features.

Further LaRouche-Riemann model results coming up in *EIR* include: 1) a study of the relationship, both historical and projected, between U.S. infrastructural investment and U.S. productivity gains or losses; and 2) a simulation of the effects of continued high interest rates and of the proposed Weinberger defense budget on the industrial economy.

And we look forward to an expansion of our European economic coverage, because Economics Editor David Goldman has begun a visit to Western Europe.

Susan Johnson

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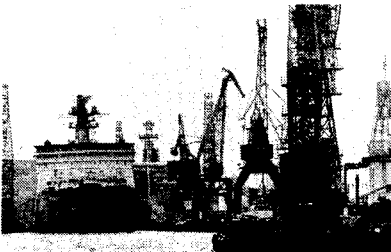
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Oil-price plunge will ravage Third World producers

by Richard Freeman

World oil production levels, which in the non-communist world exceeded 50 million barrels per day two years ago, may now fall to 40 million barrels per day or below. OPEC oil production, which averaged about 32 million barrels per day for several years, may drop to half that figure. And the price of a barrel of crude oil which last year reached as high as \$40 and is currently \$34, may hit a floor of \$15 per barrel by mid-summer. These are the set of predictions released March 8 by Texaco Oil Company, British Petroleum, the Hudson Institute, and others, including the newspapers *Le Figaro* in Paris, and the *Financial Times* of London.

The predictions of lower oil prices should not be taken as a sign that the world will return to the good old days of cheap energy. Certain of the multinational oil companies, and the Anglo-Dutch oligarchies standing behind them, are after all the same people who forced on the world a 13-fold increase in the price of oil following the 1973-74 Middle East war, and the 1978-79 Iran "revolution." Their game is not to return the world to prosperity through cheaper oil prices. Rather, they intend to use a price drop to fracture OPEC into a thousand pieces, by sending prices crashing. Leaving nothing to chance, the oil multies are dumping oil stocks onto a

glutted world oil market. Oil consumption has dropped, because a world plunged into the depression that Federal Reserve Board Chairman Paul Volcker's high interest rates have created has far less need for oil. According to a statement by Kuwaiti Oil Minister Sheik Khalifia Al-Sabah March 9, certain multinational oil companies are dumping 4.5 million barrels of oil per day onto the market in an attempt to force the price down.

This will create an oil shock in reverse. The purpose of the shock is to destroy the ambitious development programs of some of the most advanced and more populous Third World nations, led by Mexico, Indonesia, and Nigeria, which depend on oil revenues to finance their programs.

"The world oil markets will become a dog-eat-dog situation," stated Mr. Lippey, the chief economist of British Petroleum, March 9. "The fall in the oil prices could lead to instability. I wouldn't be surprised to see a coup d'état in Indonesia; the coup attempt in Nigeria was just the beginning, and a coup in Saudi Arabia cannot be excluded."

The oil price strategy reflects the 1975-79 "Project 1980s" perspective of the New York-based Council on Foreign Relations. According to the CFR study, the

developing sector should be forcibly "delinked" from the advanced sector, thus condemned to underdevelopment. At the same time, the Project 1980s projected a collapse of world trade and a "controlled disintegration of the world economy."

Trigger for lower prices

The world depression caused by Fed Chairman Volcker's interest rates has reduced oil imports and oil consumption dramatically. In 1979, for example, the United States imported 6.51 million barrels of oil per day. By February 1982, this was down to below 3 million barrels. A marginal amount of the drop is due to energy efficiencies or switching to alternative systems, but most of it results from the decline in industrial use of oil. In Germany, between 1980 and 1981 that nation's use of oil dropped 16.7 percent. Overall, world consumption of oil shrank by 11 percent between January 1981 and January 1982.

This sent world oil stockpiles held by companies, nations, OPEC producers, etc. to 110 days' worth of supply, when 80 to 90 days is considered normal. Since a day's worth of stocks is roughly equal to a day's worth of production—currently 45 million barrels per day—the excess 20 to 30 days worth of stocks means that an extra 900 to 1,350 million barrels exist out there to be dumped.

This "oversupply" set up the conditions for an interesting set of maneuvers. According to one well-placed oil analyst, President Reagan and the leaders of Saudi Arabia conspired to use the glut of world oil production to begin a controlled lowering of world oil production and thus freeze Libya and Iran out of world oil production. This would be a political move that would change the face of Middle East politics.

Whether by getting wind of this, or simply deciding that the time was propitious for a bear raid, the British-Venetian forces responded to the over-stocked world oil situation with a dumping spree and threats to bust OPEC. Thus, the week of Feb. 15, the British National Oil Company cut the price of North Sea light crude, which competes with North African light crude, by \$4 to the price of \$32 per barrel. Britain has used the price cut to undercut Nigeria, and has actually replaced Nigeria as the second largest seller of oil to the United States. If the price falls as low as \$25 to \$28 per barrel, not to speak of \$15, it will wreak havoc with developing sector producers. And three of those producers, with some of the most ambitious development programs, largest populations, and highest import demand from the West are in special jeopardy: Mexico, Nigeria, and Indonesia. Among them these nations have more than a quarter of a billion people.

The best way to evaluate the situation is to see how vital oil is to a nation's development programs. In the

case of Mexico, it was projecting for 1982 oil exports of 1.5 million barrels per day of light and heavy oil of \$30 per barrel. This would yield \$16.5 billion worth of export earnings, or more than 75 percent of Mexico's expected \$19 to \$20 billion of total merchandise export earnings for this year. But what happens if Mexico's production for export is lowered to 1.1 million barrels per day, as it has been, and the price of Mexican crude is cut by an average of \$4 per barrel? Mexico's expected export earnings from oil would plunge to \$10.5 billion, or a cut of Mexico's total projected export earnings of one-fifth. This slashes Mexico's ability to carry on its internal development programs: not only do oil exports provide foreign exchange with which to buy high-technology goods, but oil production also provides more than a quarter of tax revenues.

Last month, Swiss and British banks forced Mexico's currency, the peso, to undergo a 40 percent devaluation. A top think-tanker connected with the Council on Foreign Relations stated March 9, "The estimates I have from knowledgeable sources is that Mexico needs \$30 billion in gross financing, \$20 billion in net, this year. They simply won't get it. Mexicans think they can carry on, but the 3 percent budget cutback they've announced doesn't mean anything. . . . They will have to cut capital investment in long-term projects, the petrochemical industry . . . steel . . . maintenance on roads and railroads . . . [and] slow the ports projects. . . ."

Nigeria, with 80 million people—more than one-fifth the population of the continent of Africa—is struggling to bring its population into the 21st century. Oil revenues provide more than 90 percent of its export earnings and almost the entirety of its budget revenues. In February, British-controlled forces ran an assassination attempt on the President of Nigeria, Shehu Shagari. And at the end of February, British Petroleum and Phillips Petroleum pulled out of a natural-gas liquefaction project in Nigeria that all but killed the project. Now London bankers predict that Saudi Arabia will have to bail out Nigeria financially, which will run a payments deficit even if it cuts back its development projects.

Indonesia, another major oil producer, has 110 million people. Though for the last few years it has run balance of payments surpluses, a fall in the price of light crude to \$28 per barrel would wreck its development programs. The country is still a net importer of rice; its development programs never reached the level of producing enough food for its people.

Banking collapse

The lowering of oil prices occurs against a background of tremendous financial upheaval. The high

interest rates in the United States continue to drain capital from Europe, causing extreme currency exchange-rate instability. If OPEC moved into deficit, and withdrew funds from the Eurodollar market, the basis for international debt rollover would shrink drastically. OPEC has \$125 to \$150 billion in Eurodollar deposits, about half the core deposit base of the Eurodollar banks. Upon this base, with a multiplier of from 4 to 6, the banks have lent out \$1.2 to \$1.6 trillion to each other, and more importantly to third world nations which need the funds for debt roll-over.

The OPEC surplus in 1981 was \$66 billion. For 1982 Chemical Bank estimates that OPEC's expenditures for imports, transfer of resources, and charges for insurance and shipping come to \$220 billion. Then, at an oil price of \$28 per barrel and an OPEC production level of 18 million barrels per day, OPEC will run an approximate \$50 billion current-account deficit, even if it cuts back on development projects. Were the price of oil to fall as low as \$15 per barrel, and the OPEC production level to 16.5 million barrels per day, OPEC would run a deficit of between \$100 and \$125 billion.

While Saudi Arabia and Kuwait may achieve a surplus this year, even if the price of oil falls, other OPEC nations, including Algeria, Iran, and Ecuador, as well as Nigeria and Indonesia, will probably run deficits. In the event that the Saudis lend them money, that would amount to the same drain on the Eurodollar deposit base as a direct withdrawal of their own funds. OPEC already drew approximately \$15 billion from its Eurodollar deposits in 1981; if members go into deficit, the rate would be at least doubled.

As an economist for Texaco Oil in London commented March 9, "I could see a few large banks going bankrupt if OPEC withdraws deposits. This would mean that international lending would be curtailed."

The consequences for the Third World, which has \$100 billion in balance of payments and current account financing for 1982, according to the IMF, are obvious.

The world is not completely helpless in the face of such a "reverse oil shock" threat. Under the conditions of collapsing oil prices, notably Japan and Germany, but also the United States, would realize a sharp improvement in their terms of trade. If the Germans and Japanese were to make the increase in their current account surpluses the basis for credit expansion geared toward increasing world trade, their economies could survive the shock, and begin to put the Third World on its feet.

In order to make such potential practical, Germany and Japan, in tandem with Saudi Arabia, would have to peg the deutschmark and the yen to give gold backing to this long-term trade credit. The Eurodollar market would then cease to be the central source of international liquidity.

Documentation

'Multis are dumping, social chaos will follow'

From a March 9 interview by EIR Wiesbaden correspondent Mark Burdman with Herr Löncke, a Hamburg oil analyst:

Burdman: How do you see the OPEC situation?

Löncke: We don't know yet what OPEC will do exactly, but I can say that prices are certainly falling. Even if OPEC goes below 18 million barrels a day, it doesn't make an impression on the buyers. After all, interest rates are too high for the companies to maintain stocks, so they will try to sell off surplus reserves in response to the rather depressed level of activity now prevailing; so the companies are drawing down stocks.

The lower prices and production are rather difficult for Nigeria. Their planned liquefied natural-gas project has effectively been killed. The Nigerian national oil company was going to put in 60 percent of the cost, but Phillips and BP [British Petroleum] dropped out, and the project is dead. Nobody is going to take their place.

There will be problems for Algeria and Libya too, more so Algeria. Algeria is certainly in bad shape. Algeria priced itself out of the market, especially in respect to gas sales. Their crude is too high. They're losing volume every day, and they have no reserves to speak of financially.

Burdman: What does the situation you are describing mean for German exports to OPEC countries?

Löncke: It will certainly mean that our exports to that part of the world will decline in the second half of the year and through 1983. There will be no reversal in the decline of income in the OPEC countries for at least a couple of years. They will have to get along with a much lower level of income. This will certainly hamper them in ordering new technology imports. We in Germany will be hit by this, there is no doubt about it. To calculate exactly how much would be very difficult. . . .

Burdman: What effect will the situation have on OPEC lending?

Löncke: The Arabs with money will now only lend to their close circle of friends. The rest of the community needing money will be squeezed out. I am thinking of India, Bangladesh, and South American countries. There will not be much left after lending goes to Iran, Iraq, Algeria, and Nigeria, the OPEC countries in deficit. And

even this income may become scarce if the Saudis go down to 6 million barrels a day. Such a level is clearly possible; there is a lot of pressure. This would be sufficient for their budget, and would allow others to produce more. There is pressure along such lines, also from Kuwait and the Emirates.

From a March 9 interview with Mr. Maynard of Texaco Economics in London:

Burdman: Can you comment on talk of a \$15-per-barrel OPEC price?

Maynard: The \$15 figure was based on a report I can send you. It was speculation on a pretty extreme case. We think that things could fall quite precipitously before resistance is mounted effectively enough. Such a level would have catastrophic consequences for OPEC. There would be amazing political problems, many countries [in OPEC] wouldn't be able to run any more, pure and simple. This is true particularly for the countries with high populations, like Indonesia, Nigeria, and Ecuador. These places have clearly balanced budgets which they have to maintain.

What you have now in the oil markets is a ratchet down; every time there is a fall, another level of drop is necessitated, and so on. Twenty-eight dollars a barrel may be an adequate price, but production of 18.5 million barrels a day is too high. It has to go down to at least 16.5 to 17 million to be at all effective. This is mostly going to have to come from the Saudis. There is no alternative. . . .

Burdman: Do you think the Saudis could go to 6 million?

Maynard: I don't see why not. They could balance their budget at that level. For a short period of time they could go to that level.

Burdman: What effects are likely on the international credit and recycling situation?

Maynard: There is a danger of a bank crash if the reserves are pulled out by OPEC countries. The question I ask is how quickly they could pull reserves out. The problem is that the money has not been kept as cash in the banks but has been loaned out. Look at how much money is going into Poland! It would be very dangerous if any revenue-hungry country tried to pull out their reserves. I'm thinking primarily of Iran, although someone like Iraq is a possibility too. Look at the Iranians, they are selling as much gold as they can. This is an extreme case, admittedly, that such a crash would occur: The OPEC countries would try to pull their money out, find it already loaned, and the crash would be on. . . .

From a March 8 interview with Parviz Mina, former head of the Iranian state oil company:

Burdman: What is your judgment of OPEC's future output?

Mina: It's very difficult to protect the market price of oil through cutting production, since many OPEC countries are in great need of money at this point. I'm thinking of Nigeria, Libya, Algeria, and others. . . . Nigeria would be happy at the 18.5 [million barrel per day total OPEC output] figure, if it didn't have to reduce prices. But the recent moves by the British oil companies put Nigeria under great pressure. If there is a cutback in Nigeria and elsewhere, there will be considerable budget deficits.

Burdman: What is your information on oil-company drawdowns of stocks?

Mina: I think the level of these drawdowns is 1.5 million barrels per day, not 3-4 million as is sometimes mentioned. The companies still have excess, with the estimates being that there are 103 days' overall inventory still existing. The companies will draw down more in the coming months, because prices will drop further, and the companies want to beat the price drop by selling as much as they can now.

Because of the high interest rates, it is no longer logical for the companies to keep stocks. . . . With interest rates high, the oil companies have the incentive to make quick cash, when money is worth 14-17 percent on the international markets. Their idea is to sell their stocks and make as much cash as possible.

From a March 8 interview with Mr. Bretherton of the International Energy Agency in Paris:

Burdman: What do you consider the most important factors facing OPEC?

Bretherton: Two factors are defining the situation. First, demand figures are absolutely horrific; January consumption figures show that the trend for demand was down 11 percent in comparison with the previous January. There's a 2 million-plus volume drawdown in the OECD countries, and maybe as high as 4 million for the whole world. Eleven percent is a hell of a lot of drop.

Second, 1981 ended with pretty high stocks for the companies, and the industry is now trying to run the stocks down. By our estimation, there's a 4 million barrel a day drawdown of stocks now taking place. With OPEC producing at 20 million, this makes for quite a glut. . . .

Burdman: Could prices go as low as the \$15 per barrel figure cited by Texaco?

Bretherton: It's conceivable, purely by the market, if demand is weak, and stays that way, and there is a stock overhang, prices will continue to fall. Then you have North Sea and Mexico coming into the market, which means it will be harder for Iran, Iraq, Libya, Nigeria, and so forth to maintain their market share. A country

like Nigeria, which is now producing 1.4 million barrels a day, is moving slower than events, and the markets are moving against them. Nigeria will have to scale down their expectations of income, at the same time they are committed to high levels of spending.

Our view is that now demand will slow down in 1982. The previous expectation of an upswing in demand is now disappearing. Demand in 1982 will be far weaker than expected. The demand decline, in our view, could accelerate.

From a March 8 interview with Mr. Lippey, economist at British Petroleum's London headquarters:

Burdman: What is your estimated range of drawing down of stocks by the companies at this point?

Lippey: It's within the range of 1.5-4, it's uncertain exactly how much, but it's within that range. It *ought* to be near the higher end, that is traditionally what happens at this time of year, but I don't think it's being drawn down at such a high rate, since the demand is just not there for so much oil, and oil is being pumped out now as fast as the demand is there. There are 103 days of reserves now, significantly above the 90-day figure under the IEA [International Energy Agency] statutes, but demand is very low; my information is that Japanese and U.S. demand has fallen more than expected in comparison with European demand. . . .

Burdman: What effect would a war in the Mideast have on the price and production?

Lippey: A war would mean a giant yawn. If Iraq blows up, it makes no difference at all. It wouldn't matter if this happened anywhere, except for the Saudis. . . . the drop in production would be made up by the North African producers. . . . It's a dog-eat-dog picture in OPEC. There would simply not be enough money to go around if oil sold at \$28 a barrel at 18.5 mbd. If the Saudis can't go down in production, the other OPEC countries are in trouble. There are discreet discounts now being offered here, there, and everywhere. The BNOC [British National Oil Company] price cut has put the cat among the pigeons. . . . The action of non-OPEC producers—the U.S., Mexico, Britain, Egypt—has jumped the gun on OPEC. OPEC has lost its markets.

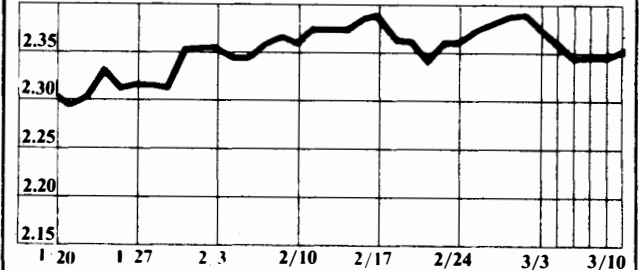
Burdman: What does this mean for the political stability of these countries?

Lippey: I wouldn't call them stable entities in the first place, would you? What keeps Saudi Arabia from going under? . . . Any of these regimes might just keel over. . . . The fall in the oil price could lead to instability. I wouldn't be surprised to see a coup d'état in Indonesia; the coup attempt in Nigeria was just the beginning, and a coup in Saudi Arabia cannot be excluded.

Currency Rates

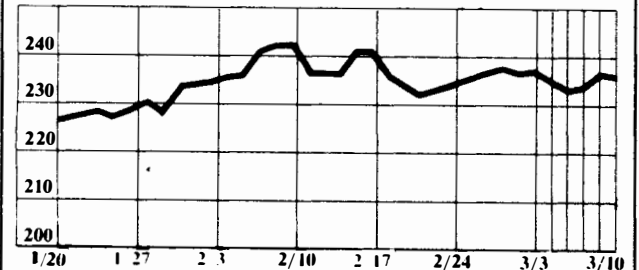
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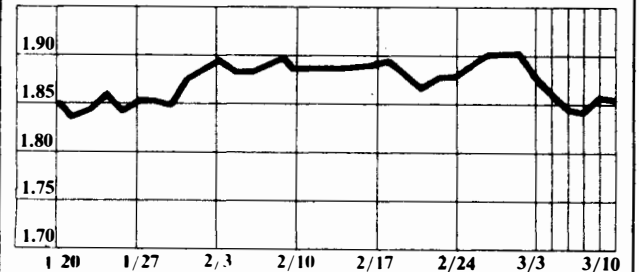
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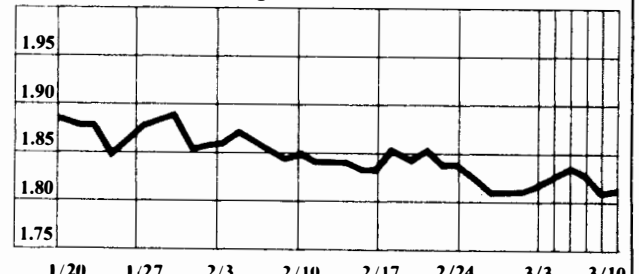
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New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$1.3 bn.	Indonesia from U.S.A./West Germany/Japan	Pertamina, the Indonesian state oil company, has signed with Kellogg of Houston and Thyssen (TRT) of Düsseldorf for turnkey construction of petrochemical complex. Plant at Plaju oil refinery in southern Sumatra will turn 30,000 bpd of naphtha into 400,000 tpy benzene and other aromatics. Plant will include 250,000 tpy terephthalic acid facility. Kellogg will engineer; TRT administer and procure. Pertamina is ordering \$400 mn. equipment for it, including high pressure vessels, directly through 4 Japanese trading companies, which will sign deal with Pertamina in May and thus get Japanese Exim-Bank credits. Legally, Kellogg and Thyssen are prime contractors.	<i>Nihon Keizai</i> comments on scheme of Toyo Menka Kaisha, Itoh, Mitsui, and Nichimen: "The Japanese traders kept themselves from becoming a main contractor in the Indonesian project. They apparently found it risky to do so, considering the stalemate of a similar project in Iran." In general, however, Japan-Indonesia projects are on the increase.
\$700 mn.	Maputo from Italy	Maputo (formerly Mozambique) has awarded an Italian consortium contracts for 56 separate agricultural projects, which will employ 90,000 persons. Program will irrigate 89,000 acres of croplands and improve 420,000 acres of pasturage. Partners in Coboco consortium are Italian state-owned Condotte Dacqua and Italstat, and private Lega Cooperative.	Italian Foreign Ministry arranging financing under state-state agreement. political conditions not revealed.
\$450 mn.	Malaysia from Japan	Malaysia has ordered plant which will turn Australian iron ore into 600,000 tpy sponge iron and 560,000 tpy steel billets. Plant will use natural gas from offshore its Trengganu site. Will be joint venture owned 70% by Malaysia and 30% by Japanese partners, including Nippon Steel, Mitsubishi, Chiyoda, and Daido.	<i>Financial Times</i> say Japanese beat Voest of Austria because willing to take equity share. Financing from Japan's Ex-im of \$285 mn. in yen at 7.7%; other Japanese sources providing \$67 mn. at 6.5%; all for 10 years.
\$300 mn.	Iraq from Spain	Iraq has contracted project management of a \$300 mn. antibiotics plant from Foster Wheeler's Spanish subsidiary.	Includes design, engineering, and construction supervision.
UPDATE			
\$486 mn.	South Korea from France	France has sewn up South Korea's ninth and tenth nuclear plants and is leading for 13 more planned by Korea. Alsthom-Atlantique was recently awarded contract for turbine generators and other components. Framatome subsidiary of Creusot-Loire had been given contract for nuclear steam supply system in Nov. 1980. Korea negotiated downward Alsthom-Atlantique's winning bid by reducing exchange risk through pricing equipment in Swiss francs not subject to price escalation.	Will be financed at 7.85% over 15 yrs. with grace until plant completion. Financing by Société Générale, Paribas, Banque Française du Commerce Extérieur, with govt. export aid.
\$460 mn.	China from West Germany	Following long negotiations on the mill contracted from Scholemann-Siemag for the practically abandoned Baoshan steel complex, it was agreed that delivery of the cold strip rolling mill would be postponed for three years.	Little better than cancellation.

The Fed's new squeeze

The central banks are flexing their muscles against private lending to developing-sector governments.

The March 8 monthly meeting of the Bank for International Settlements in Basel, Switzerland, cast a baleful eye on what central bankers there deem "excess borrowing" by the nations of the developing sector, my Washington sources say. Since the last IMF Annual Meeting in October, central bankers have been demanding that the commercial banks cut out their lending and force the Third World into austerity, but to no avail.

Now the BIS is ready to move, and the U.S. Federal Reserve is, as always, taking the lead. If U.S. Federal Reserve Governor Henry Wallich gets his way, American banks and perhaps others will soon be hit with a new set of central-bank lending controls which could enforce "a real contraction in world credit," my top source at the U.S. Treasury reports.

Wallich is proposing, on behalf of the BIS group, that the U.S. Fed force American banks to set aside penalty reserve requirements on any loan to a developing country which goes into rescheduling. These reserves would be required on extant loans as well as future loans. Since there are, in fact, potentially dozens of billions of dollars of such loans to countries in Eastern Europe, Africa, and Latin America already on the books, this could cost the banks a great deal.

Wallich's proposal, which he printed in the *New York Journal of Commerce* March 3 and 4, is clearly

coming from his friends at the Bank of England and the Bank for International Settlements. Christopher MacMahon, Deputy Governor of the Bank of England, told the New Jersey Bankers Association on March 2 that "although the international banking system proved resilient to the upheavals of the 1970s, there is little doubt that . . . the increasing burden of debt is increasing risks in international lending. Decisions on financing the payments deficits of LDCs must be turned over to the bank supervisors and the IMF," he said.

Emil van Lennep, Secretary General of the Organization for Economic Cooperation and Development, the sister organization of the BIS, demanded in Paris the same day that "major LDC borrowers will have to move toward economic strategies which are less dependent on international trade and finance."

Under the title "Weak Loans Need More Rigorous Treatment," Wallich writes that private banks must now be made to stop their high rates of lending. "Rescheduled loans have increased in the past few years . . . and are becoming an area to which bank supervisors and regulators must give increasing attention." Banks should be required "to make a reserve allocation against non-performing loans," he concludes.

This will mean "contraction of world credit," my Treasury source confirmed, because the Fed is ex-

pecting a new round of reschedulings due to continued high interest rates and the jitters in the market caused by the Polish debt debacle. If the Fed then requires banks to set aside reserves of as much as 1 percent of their reschedulable loans, it would cost the banks \$10 million in lost interest on the money set aside at the Fed for each \$1 billion of debt rescheduled.

Since the Fed is also contemplating classifying any renegotiation of a debt as "rescheduling," there is at least some \$10 billion in such debt upon which the Fed is ready to slap reserves. That alone adds up to \$100 million in direct profit loss, in a sector which can ill afford it.

And, such reserves come directly out of the "high-powered money" the banks would use as a base for multiplying their lending many times, said my source. A \$100 million set-aside of reserves could mean \$1 billion or more in new loans never made.

The Fed will then be taking a direct, hands-on participation in the renegotiating process, telling Third World borrowers on exactly what terms they can renegotiate the loans, he said.

"It means very substantial U.S. government interference in the so-called free market. It means telling the sovereign borrowers what to do."

Wallich, he noted, is advocating this extreme position because the Polish debt crisis has not slowed the rate of international lending as much as the Fed had hoped. The Reagan administration is reluctant to make such a government intervention, but "if there is another debt crisis like Poland, Wallich may get his chance."

Bailout time for the S&Ls

Paul Volcker busts the federal budget once again; what's really needed is low interest rates, at once.

The near-bankrupt U.S. savings and loan industry is about to receive a hefty bailout from the federal Treasury on the order of \$8-\$10 billion within the next weeks, my Washington sources now concur. High time, too, for if the administration waits much longer there will be many more S&Ls in need of mergers and federal bailouts than there is money in the insurance funds. Behind the move is new support for S&Ls from White House Counselor Edwin Meese, who for political reasons is advising President Reagan to act.

But what this drastic action shows above all is that Reserve Chairman Paul Volcker is responsible for busting the U.S. budget. It is Volcker's interest rates which have bankrupted the S&Ls, and forced them onto the federal dole. This occurs when the U.S. deficit is already rising at \$20 billion a year for every one point Volcker holds interest rates above 10 percent. Now Volcker is costing the taxpayers another \$10 billion, for starters.

The White House moved after a call by the U.S. League of Savings Associations and the National Savings Bank Association March 3 for a \$10 billion package of federal relief. U.S. Savings League President Roy Green proposed at a press conference that the U.S. Treasury establish a new Community Depository Conservation Corporation which would pay S&Ls an interest-rate supplement on their holdings of low-paying mortgages. This

fund could also be used to give direct capital assistance to S&Ls whose net worth (capital) falls below 1.5 percent of assets.

Green flatly told the press that Volcker is the real problem. "We have waited for interest rates to fall, and we can afford to wait no longer," he stated.

Volcker's rates are the reason why the S&Ls must pay out an average of 16 percent on deposits, while earning only an average 9 percent on mortgages. This gave the S&Ls a loss of \$6.4 billion in 1981, and they are losing close to \$1 billion a month now.

Days later, Presidential Counselor Ed Meese met with the S&Ls, and for the first time began to plead within the White House for a bailout. The free-market maniacs at the Treasury continued to argue that the government let the S&Ls "die," my source said, and no policy has been firmed up yet, "but it is only a matter of weeks before the White House gets something through."

Heavy lobbying by the industry and word that the White House thinks the situation is dangerous is also about to move Congress. When House Banking Committee Chairman Fernand St. Germain (D-R.I.) called for a \$10 billion S&L bailout last month, it seemed no one in Congress would consider spending the money. But certain conservative Republicans have begun to move.

"There is absolutely no way the Congress would or will walk away

from its commitment to guarantee savings," Senate Banking Committee Chairman Jake Garn (R-Utah) told the press in mid-March. This statement, not widely publicized, refers to the fact that until now, deposits in S&Ls have only been insured up to the \$7 billion assets of the Federal Savings & Loan Insurance Corporation, which has never had any legal mandate to obtain further Treasury funds should its own resources run out. While Garn did not advocate any concrete bailout plan, this statement indicates a real change.

Conservative House Republican Barber Conable of New York on March 5 endorsed the St. Germain plan, saying "We're going to have to bail them out," and support is reported to be growing among House Republicans.

According to my sources, the White House itself has told Treasury Secretary Donald Regan to prepare a list of "options for the President" regarding the S&L crisis. These reportedly include a public statement by the President or Donald Regan that the U.S. Treasury pledges its "full faith and credit" behind all deposits. This would be used after an emergency arose; such a dramatic announcement would have little use in forestalling an emergency, since it might frighten more depositors than it soothed.

The only real option is a bailout fund. "Theoretically we won't spend a cent," one White House aide told me, "but that's just theory. In politics, you have to be more practical."

However, unless there is a lowering of U.S. interest rates in a few months, the bailout could double or triple and become a major budget headache for U.S. taxpayers.

Congress to trade off nuclear programs?

by Marsha Freeman,
Science & Technology Editor

Could it be that the Director of the Office of Management and Budget, David Stockman, has used his own anti-nuclear prejudices to purposely put together a budget request that so devastates other energy research and development programs that nuclear energy has now become a target for cuts in order to restore other programs?

During the four years of the anti-nuclear Carter administration, the U.S. Congress voted funds to continue work on the Clinch River Breeder Reactor (CRBR) in Oak Ridge, Tennessee, to demonstrate its support for nuclear energy over the objections of the Energy Department. The liquid-metal fast-breeder-reactor program was seen as epitomizing the nation's long-term commitment to commercial nuclear power because, in addition to producing electric power, the breeder produces more fuel than it consumes and could provide an indefinite supply of nuclear fuel.

Now, for the first time in a decade, the administration in Washington has expressed its support for nuclear power development, but it has submitted a fiscal year 1983 budget request for the Department of Energy that has provoked an anti-nuclear backlash in the House and Senate.

Last year, for the first time in history, a combination of the free-marketeer Republicans and the anti-nuclear Democrats in the Science and Technology Committee succeeded in voting down funding for Clinch River. It was restored on the full House floor. This year it is unclear whether the added weight of the disgruntled coal-state representatives who have previously supported nuclear development will swing a majority of the House and Senate against nuclear energy.

An "unbalanced" DOE budget

The research and development budget submitted by

the administration for the Department of Energy for FY83 proposes to reduce funding from \$2.822 billion in FY82 to \$2.184. This does not take inflation into account. The bulk of the proposed reductions falls in the solar, conservation, environmental, and fossil-fuel programs.

Though there have been protests from the solar and soft technology lobby that their programs were cut by over 80 percent, most of those programs never had any reason to receive federal funds. The fossil fuel research, however, included high-technology programs such as magnetohydrodynamics and other coal, oil, and natural-gas research which is necessary to make the most efficient and economical use of these resources.

Senators and Congressmen have registered strong objection to the slashing of the fossil-fuel R&D budget from \$566 million in FY82 to the proposed level of \$107 million. Most of the FY82 funding was money put back into the fossil-fuel programs after the OMB tried to end them last year. Through the budget cycle Congress clearly expressed its judgment that these programs should continue. Now the DOE is trying to use these R&D dollars to *end* these programs by re-programming the authorized funds.

In hearings before the Senate Committee on Energy and Natural Resources on Feb. 23, Senators from coal-producing states such as Kentucky and Montana told DOE Secretary James Edwards that the only place left from which to take money for the devastated coal programs was the nuclear budget. Specifically targeted was the breeder.

Senator John Melcher (D-Mont.) stated that the "coal R&D programs, compared to nuclear, are out of proportion. The budget is warped toward nuclear," he continued, "and defies all common sense." Edwards lamely interjected that even the nuclear programs were cut in the FY83 budget, from \$1.089 billion last year to a proposed \$1.016 billion for FY83, but that did not allay the anger of the Senators.

Wendell Ford, a Democrat from Kentucky, warned: "Nuclear programs will die if the fossil programs die. Clinch River was funded last year because Congress also doubled the administration's request for fossil-fuel" programs, he stated.

Angered by Edwards's feeble defense that the government had to fund the nuclear R&D programs because the industry had been financially "burned" by the Carter administration, Ford replied that "it is a riot that we talk about needing government funding for nuclear when you're getting ready to 'burn' industry that works in the fossil-fuel programs, now." None of the coal-state Senators agreed with the administration that the private sector would pick up the R&D if it were dropped by the government, and in the case of magnetohydrodynamics (MHD) research, they insisted that it

should cohere with the administration's stated philosophy of funding "long-term, high-risk, and high pay-back" energy R&D.

"MHD was zeroed out of the budget," stated Senator Melcher, "even though it is the only ongoing R&D program to use coal for central-based electric power generation. It has already generated some electricity and is nearing the point of reaching its goals. It will increase the efficiency of producing electricity by using coal up to 50 percent, as opposed to conventional steam-turbine methods, which are only 34 percent efficient.

"MHD will be better at meeting federal standards for polluting emissions," Melcher continued, "and also for thermal pollution. It will be low-cost with high reliability and availability." MHD is a direct conversion process which burns coal at a high temperature and converts it directly to electricity without the use of steam turbines.

Melcher was supported by Rep. Albert Gore (D-Tenn.) a week later when the Energy Secretary appeared before the House Committee on Science and Technology on March 4.

"The OMB sees that MHD is moving along with great promise," he stated, "and is anticipating building a demonstration plant" if success continues. That is why [the OMB] zeroed it out—because they are not committed to a large-scale, possibly \$500 million demonstration of a needed technology. "The majority in Congress support this technology," Gore continued, "and you are turning the constitutional process upside down" by seeking to "reprogram the funds authorized by Congress to work on MHD" to terminate the program. "Why has the administration chosen to negate the Congress's action?" he asked rhetorically.

The danger in the current situation was summarized by Rep. Harold Volkmer (D-Mo.), who stated that he had "always supported the breeder and nuclear programs, but now I see an unfairness. I will have to vote with the other members to take money out of the breeder and nuclear for other programs."

'Free enterprise,' not Clinch River

Another kind of attack against the breeder and nuclear budgets came from freshmen Congressmen who have swallowed whole hog the administration's "free-enterprise" ideology. Rep. Vin Weber (R-Minn.) stated at the hearings that he was elected "to pursue the development of the economy based on the philosophy of a radically new role for the federal government," which does not include funding for demonstration projects like the breeder and synthetic fuels. Rep. Judd Gregg (R-N.H.) chimed in that the Clinch River breeder project had been "assessed by this committee last year as a failure, a white elephant, and non-economical."

Republican Rep. Claudine Schneider from Rhode Island, known for her anti-nuclear proclivities, told DOE representatives the following day that their budget "lacked total credibility" because of the conflict between their "free-market" rhetoric and support for Clinch River.

The pro-nuclear leadership of the House Science and Technology Committee has recognized the danger of this backlash. In her opening statement on March 4, Marilyn Bouquard, Chairman of the subcommittee on Energy Research and Production, which has jurisdiction over the nuclear and magnetic fusion programs, charged directly that the "administration's funding recommendations are generally unacceptable."

"We hear daily that the DOE is on the verge of precipitous action to break up critical R&D teams, a gesture which can only be interpreted as a direct contravention of the will and intent of both this committee and the existing law," she stated. After scoring the imbalance in the program funding, Mrs. Bouquard pointed out that the "nuclear programs in fission R&D and fusion have now become enormously vulnerable targets," even though the budget proposes "a 30 percent reduction in nuclear fission R&D and a significant reduction in real dollars for magnetic fusion."

"Can the administration seriously expect this committee to support these kinds of drastic measures all in the name of short-term economic recovery?" she demanded.

Mrs. Bouquard came to hearings on March 5 to discuss a report recently done by the DOE's Energy Research Advisory Board (ERAB), which recommended downgrading the Clinch River breeder to a "low-priority" project due to the lack of nuclear power plant construction.

Bouquard introduced into the hearing record a letter sent by Scientists and Engineers for Secure Energy, which is based in New York City, in reply to her request for a written response to the ERAB report. Their letter states that the ERAB recommendation on Clinch River "misrepresents the role of Liquid Metal Fast Breeder Reactors (LMFBR's), and in particular, CRBR. The Clinch River project is a necessary step in bringing the LMFBR program out of the paper-study and experimental phase and into the realm of practical use."

The project will "provide the United States with an option for an orderly transition, if such a transition is needed, to a virtually unlimited fuel supply for electric energy production," the letter continues.

Cong. Don Fuqua (D-Fla.), who chairs the full Science and Technology Committee, opened the hearings with the Secretary by stating that there is a "philosophical disagreement between the administration and the committee"; and there has been a "disregard of Congress's strong support for nuclear energy."

'Free-market' plan boosts dirty money

by Valerie Rush

The much-heralded Caribbean Basin Initiative, promised by Reagan administration officials for months as a new policy framework for dealing with the Caribbean and Central America, was finally unveiled last month by President Reagan in a speech before the Organization of American States in Washington. With all the lip-service paid to "economic health" as the key to stability in that volatile region, the program announced by the President on Feb. 23 is in fact a *carte blanche* to Rockefeller and the drug-related interests behind his U.S. Business Committee for Jamaica to turn the Caribbean into a "Hong Kong West" of slave labor and drugs.

Marijuana production, along with transshipment of cocaine, heroin, quaaludes, and black-market weapons, are today the single largest "industry" in the Caribbean. For most of the English-speaking islands, independence has been a cheap cover for the British colonial interests to retain control over their properties and the old rum-smuggling routes now turned to drugs. The Spanish-speaking Caribbean and the "banana republics" of Central America are run as private plantations of United Brands Company and its interlocking financial interests. It is the "magic" of this dirty-money marketplace which the Caribbean Basin Initiative is intended to promote; its chief sponsor is David Rockefeller, the former chairman of Chase Manhattan Bank, which in recent years has increasingly depended on "hot-money" flows from Hong Kong and the Bahamas for its solvency.

The philosophy of the CBI, according to Reagan's OAS speech, is based on the "fresh view of development" which he had taken into the Cancún meeting on North-South cooperation last October: a long-term "free-enterprise" model to "help our neighbors help themselves." The \$350 million in supplemental U.S. aid will be directed toward the drug-linked "private sectors" while U.S. technical assistance and training programs will be geared toward "creative private entrepreneurship."

Jamaica is the model of "making freedom work," Reagan told the assembled Latin American diplomats, because its strategy of "reducing bureaucracy and dismantling unworkable controls" is pulling in investment.

By making Jamaica the model Reagan told the governments represented at the OAS gathering that the United States will promote drug-based economies. Jamaica's Prime Minister, practicing voodoo priest Edward Seaga, has never been shy about what constitutes the essence of his nation's "recovery": drug revenue. During a January 1981 tour of the United States Seaga bluntly declared on national television that his government could not and would not stop the marijuana trade—and the United States should learn to live with it. In one of his first statements after taking office in November 1980, Seaga told Jamaica's bankers to ask no questions about the origins of money offered for deposit, just "grab it!"

The centerpiece of the plan—granting Caribbean products duty-free entrance into the United States—may result in some increase in the legal side of the economy such as goods produced in Hong Kong-like sweatshops. The increasingly drugged and impoverished people of the Caribbean are to be put to work assembling gadgets from semi-manufactured parts shipped in by U.S. manufacturers, items which will then be "re-exported," duty-free, back into the United States.

Colombia: drug money put to work?

A new element in the Caribbean Basin Initiative could be Colombia, reportedly peeved at its exclusion from last fall's Nassau summit of the United States, Mexico, Venezuela, and Canada to discuss the Caribbean/Central America region.

Vice-President Bush's visit to Bogotá last October included an explicit invitation to join the Nassau Four in their efforts "to try and stabilize the political and economic situation" of the Caribbean. In Reagan's OAS speech Feb. 23, Colombia received honorable mention as a "potential donor" to the CBI program.

What Colombia is likely to donate, however, is a well-oiled apparatus for laundering the dirty money expected to flow in increasing amounts through the Caribbean's free-enterprise economies. Colombia, whose own economy is today fully dominated by the financiers of a mammoth and highly lucrative trade in illegal drugs, is now prepared to export its expertise.

Until recently, the Colombian government's aggressively publicized "opening" into the Caribbean has been more word than deed, with Colombia's credit-starved productive sector unable to expand operations to meet the challenge of a new market and its banks unwilling to take the risk. A series of monetary measures announced by the Turbay government on Feb. 15 was ostensibly designed to free up the credit and provide the incentives for just such a move. Those measures, combined with an official green light to Colombia's drug-bloated financial sector to set up shop in the Caribbean, are Colombia's credentials for participation in Rockefeller's new "Hong Kong West."

Illiquidity at home, cash outflow abroad

by Valerie Rush and Carlos Cota Meza

The announcement of President Reagan's Caribbean Basin Initiative (CBI) on Feb. 26 brought a flood of protest from Colombia's private-sector producers, especially those involved in production of sugar, bananas, coffee, and leather goods. The elimination of duties on U.S. imports of these products from the Caribbean Basin, they protested, will give unfair advantage to Colombia's competitors in that region. "It could prove catastrophic," declared one large sugar grower.

Yet Colombia has just promulgated a series of monetary measures with the alleged purpose of opening up the Caribbean to Colombia's commercial and financial sectors. Those measures will in fact impose a "final solution" on what were once Colombia's industrial and agricultural sectors, and deliver the economy to the financial interests behind that country's drug trade.

The huge quantities of drug money that have flooded Colombia's financial sector over the past five years have given immense power—both political and economic—to entities like the Bank of Colombia, Colombia's largest. This "dirty" liquidity—combined with the government's Friedmanite policies of tight money—has enabled the country's three or four largest financial groups to bankrupt and buy out one chunk after another of the productive economy, to the point that even some of the fiercest Friedmanites in industrial circles, such as the president of the National Industrialists Association, Fabio Echeverri Correa, have begun to demand lower interest rates and "a genuine industrialization program."

Economist Edgar Gutiérrez Castro, at a conference last month in the depression-wracked city of Medellín, warned that Colombia was undergoing a process of "de-industrialization, when it is imperative that just the reverse occur." He pointed out that of 28 major industries in Colombia, 24 had drastically cut back their work forces in 1981, 14 due to negative growth rates. At least 78 percent of the industrial sector, he said, is suffering a underutilization of capacity that is reaching 30 percent in many cases.

The textile industry, once the pride of Medellín and the entire country, is now operating at less than 50

percent of capacity and, according to latest figures, laid off some 180,000 workers in 1981. Nearly every textile company which has managed to survive to date is now threatened by or in the midst of labor strikes.

Food production, which grew by a reported 8.1 percent in 1979, *declined* at a 6.4 percent rate for the first nine months of 1981. Colombia, traditionally touted as having an "agricultural vocation," is today a net importer of food.

The new program

The government's latest measures could prove a disaster for the already weakened economy. The stated intent of the Feb. 15 decrees is to bring interest rates—now about 45 percent—down "naturally" by issuing credit "for production, not speculation." In fact, while the measures do "unfreeze" a portion of the country's banking reserves, the extra liquidity is to be channeled into government-run "development" funds *whose priority by law is to pay off the foreign debt*. What liquidity does escape in the form of "credit for domestic capital-goods production," its nominal purpose, will do little for an industrial sector presently indebted by up to as much as 60 percent of its assets.

The new measures also order a reduction in previous import surcharges on both raw materials and many consumer goods from 35 to 20 percent—guaranteed to finish off domestic producers such as the textile and auto industries—and allow for increased foreign indebtedness of the private sector, a measure widely interpreted as a violation of the Andean Pact's Article 24, which prohibits foreign takeover of an economy.

Probably the most significant aspect of the government's new economic package is its Caribbean initiative. In a meeting with the nation's top 19 banks Feb. 12, Development Minister Gabriel Melo Guevara invited the Colombian banking sector to enter the Caribbean offshore market as part of the government's strategy of "commercial colonization" of that region. Bank of Colombia president Jaime Michelsen Uribe took up the challenge with a proposal to form a single trust company made up of all of Colombia's banks, to facilitate "a more efficient penetration" of the Caribbean.

One Washington-based Colombia-watcher observed that Colombia had neither the transport capability nor the internal economic health to "open up" the Caribbean as a marketplace for Colombian goods. He acknowledged, however, that Colombia's drug-generated liquidity, with no place to go in the bankrupt Colombia economy, could establish a cozy home for itself in the Caribbean. As the London-based *Latin America Weekly Report* observed in its Feb. 26 issue, "Colombian financial presence in the Caribbean . . . fits in very well with such key aspects of U.S. policy towards the area as the Caribbean Basin Initiative."

Business Briefs

International Credit

East bloc debt sound, Austrians conclude

While the American financial press has tended to portray the East bloc as on the verge of massive debt defaults, others who deal extensively with the bloc contest that view. According to the March 10 *Neue Zürcher Zeitung*, the Austrian-East Bloc Chamber of Commerce has evaluated the possibility of steady payments by East bloc debtor nations to the West. It concluded that only Poland and perhaps Romania present serious debt-finance problems.

Romania, the Austrian Chamber found, had "liquidity problems," but the holders of East German debt are "not threatened," and Czechoslovakia, Hungary, and Bulgaria have very sound credit ratings.

The sole outstanding problem in the region, the Austrian Chamber stated, is Poland, which has \$27 billion in public and private debt it owes to Western nations and banks. The March 11 London *Financial Times* reported that Poland is defaulting on two notes, one for \$35 million, whose lead manager is Amex, and another for \$30 million, whose lead manager is Banque Nationale du Paris. But the Austrian Chamber of Commerce concluded that even here, it appeared that "Poland has everything covered."

Domestic Credit

U.S. interest rates pushed up by debt-finance needs

After earlier signs of weakness, interest rates bounded upward for the week of March 8-12 on the strength of the increase of \$3.4 billion in money supply for the latest reporting week. Three-month Treasury bill rates had bounded down to as low as 12.32 on March 9, but rose 40 basis points by March 11. And the prime lending rate, which had been lowered to 16.0 percent by many money center banks on March 6 was raised four days later by two Detroit banks back up to

16.5 percent. The money-center banks may follow.

The problem of interest rates is that though business loans have stagnated at large weekly reporting banks at \$198 to \$199 billion for the last five weeks, the volume of commercial paper is still rising, and corporate loan demand still refuses to contract. Thus, though official inflation has declined over the last several months and producer prices fell a tenth of a percent in February, corporations are not benefiting, because their interest-rate costs are still sky-high, requiring more and more bank borrowing.

Conference Report

Marshall Fund relays orders to governments

Under the auspices of the German Marshall Fund, leaders of the Socialist International met in secret March 11 in New York to lay out the policies they hope to dictate to world governments. The occasion was the first meeting of the Board of Directors of the Institute for International Economics, the \$4 million think tank founded by the German Marshall Fund late last year.

The meeting was held at the boardroom of the Lehman Brothers Kuhn, Loeb investment bank on Wall Street, chaired by Peter Peterson, Lehman Brothers chairman, who also heads the IIE board. Peterson is the U.S. chairman of the Brandt Commission, the Socialist International lobby for population cuts in the Third World.

Other attendees included W. Michael Blumenthal, Jimmy Carter's Treasury Secretary; Karl-Otto Poehl, the Social Democratic head of the German central bank; Raymond Barre, former Prime Minister of France; Lane Kirkland, head of the AFL-CIO; Andrew Young, Carter's U.N. Ambassador and a Brandt Commission associate. Several ostensibly conservative advisers to President Reagan were present as well, including Alan Greenspan and George P. Shultz, members of the President's Economic Advisory Board.

"We intend to become the non-gov-

ernmental channel for new economic policies," one participant told a journalist. "We're going to take over world policy initiatives."

The meeting discussed "a new proposal on how to manage world exchange rates, another plan on the management of world trade, and a third on East-West trade and how to handle that," a source said.

World Trade

Japan may buy U.S. grain for Third World

The Japanese government is considering a plan to buy U.S. grain for cash and resell it to Third World countries on a deferred-payments basis, according to a report in the Japanese daily *Asahi Shimbun*. The report stated that Washington officials had been approached and responded favorably to the idea, though Japanese Agriculture Ministry officials are unwilling to confirm details.

The plan was developed in response to increasing U.S. demands that Japan open its markets further to American farm products—a demand rejected by Japanese producers.

Economic Diplomacy

U. S. to Europe: 'drop dead'

The U.S. delegation at the March quarterly meeting of the Organization for Economic Cooperation and Development provoked a harsh confrontation with its European allies, *EIR* has learned. The U.S. delegation to OECD's Group of Ten Deputies and Working Party III meeting in Paris was led by Undersecretary of the Treasury Beryl Sprinkel, an outspoken isolationist and monetarist.

At the meeting, entitled "Problems and Policies in the Present Conjuncture," West German and other European delegates repeated the judgment of West German Chancellor Helmut Schmidt

that high U.S. interest rates are ruining Europe.

The U.S. delegation, however, refused to listen to the Europeans, U.S. Treasury sources said. "We haven't listened to Germany up to now, and why should we change policies?" a Treasury official said. "Schmidt's complaints are nothing new. He's been complaining for months. So what? It's the same old song, and we still disagree. Now he's got some new nuances he's added; he says there is danger of a world depression. So what? We don't buy it. . . . We still insist that if the German currency is weak because of high dollar interest rates, that's not our problem. We're on the right course, and we will not change our monetary policy. Interest rates cannot be brought down by loosening credit."

"They [Europe] can take it or leave it," he concluded. "What choice do they have?"

European Community

Budget-cutters may scotch French economy

The French economy, which has been artificially maintained by a large budget deficit, may undergo a sharp contraction as a result of new proposals by French Socialist President François Mitterrand.

As a result of deficit pump-priming, largely into wasteful areas, consumer incomes have been maintained, and output has been supported. According to the latest report from INSEE, the official national statistical bureau, French industrial production in January 1982 was unchanged from a year earlier. Thus, France, unlike the economies of the United States and Germany, has stagnated but has not sharply declined.

But on March 10, Mitterrand announced that he will limit the budget deficit to 3 percent of total Gross Domestic Product (GDP). This would cut the deficit to 125 billion francs, from an original projection level of FF 200 billion. That will remove the props to production. Meanwhile, INSEE projects that French imports this year will grow three times as fast as the growth of the GDP,

and that imports may total 8 billion francs per month.

Public Policy

German central banker lies about depression

West German Central Bank President Otto Poehl, on a visit to the United States this month, has been advising Americans in press briefings and private meetings to ignore some of the warnings of Chancellor Helmut Schmidt about the dire consequences of Federal Reserve chairman Paul Volcker's high interest rates.

Showing a stronger loyalty to the Swiss bankers who control central-bank policy than to his own government, Poehl told the *New York Times* March 11 that Schmidt did not mean to accuse the United States of causing a depression, which, Poehl said, was "uncalled for." Schmidt, Poehl lied, was merely engaging in domestic politicking for a German audience, "reflecting the pressure the Chancellor is under from the left wing of his own party."

Also on March 11, Poehl told a meeting of the German Marshall Fund in New York that while he does not support Volcker's high interest rates per se, he "totally supports Volcker's efforts to cut the U.S. budget," according to a report from a participant at the meeting.

Poehl, an associate of the secretive Swiss-based Mont Pelerin Society, said, "The U.S. deficit must be crushed." He continued: "Volcker is not a free agent and cannot lower interest rates at will, but must have a victory on cutting the budget before rates can come down."

Only on the question of Europe potentially "decoupling" from the United States altogether was Poehl in agreement with Schmidt's publicly stated views. The idea has gained currency among leftists in Europe, but, Poehl said, "Europe would have to take intolerable steps to accomplish this."

"Germany would have to impose exchange controls worse than those now imposed by France. This cannot work. It is not a solution," he told the Marshall Fund group.

Briefly

● **ALEXANDER HAIG** is apparently trying to collapse the world gold price. Haig told a Senate hearing March 10 that the U.S. credit squeeze against Moscow has forced the Soviet Union to dump over 60 tons of gold onto the market during January. The report, which Haig presented as a hot State Dept. intelligence study, is not only a story which has been out in the gold market for weeks, but a lie. As *EIR* has reported, the Soviets are swapping the gold with central banks and keeping it carefully off the market.

● **THE FEDERAL DEPOSIT** Insurance Corporation, in violation of the 1956 Bank Holding Company Act, has allowed Chase Manhattan and Republic National Banks to bid for the assets of the failing New York Bank for Savings, a mutual saving bank. The FDIC cited the size (\$3.5 billion in assets) of New York Bank for Savings as the reason for its action to allow commercial-bank bidders for the thrift's assets.

● **AN INDUSTRIAL ROBOT** with "sight" functions has been developed by a research group at Tokyo University. The robot, which employs a mini-radar function, can find objects and take them to a designated place.

● **SHOICHIRO KOBAYASHI**, president of Kansai Electric Power Company, told the press Feb. 26 that Japanese firms and Westinghouse of the United States would be able to sign a contract for development of an advanced (nuclear) pressurized water reactor (PWR) early in April. Agreement has already been reached among Japanese users of a PWR and the U.S. firm that of the total development cost, five electric power firms, including Kansai Electric will supply 10 billion yen (about \$42.4 million), and Mitsubishi Heavy Industries, Ltd. and other Mitsubishi group companies 10 billion yen.

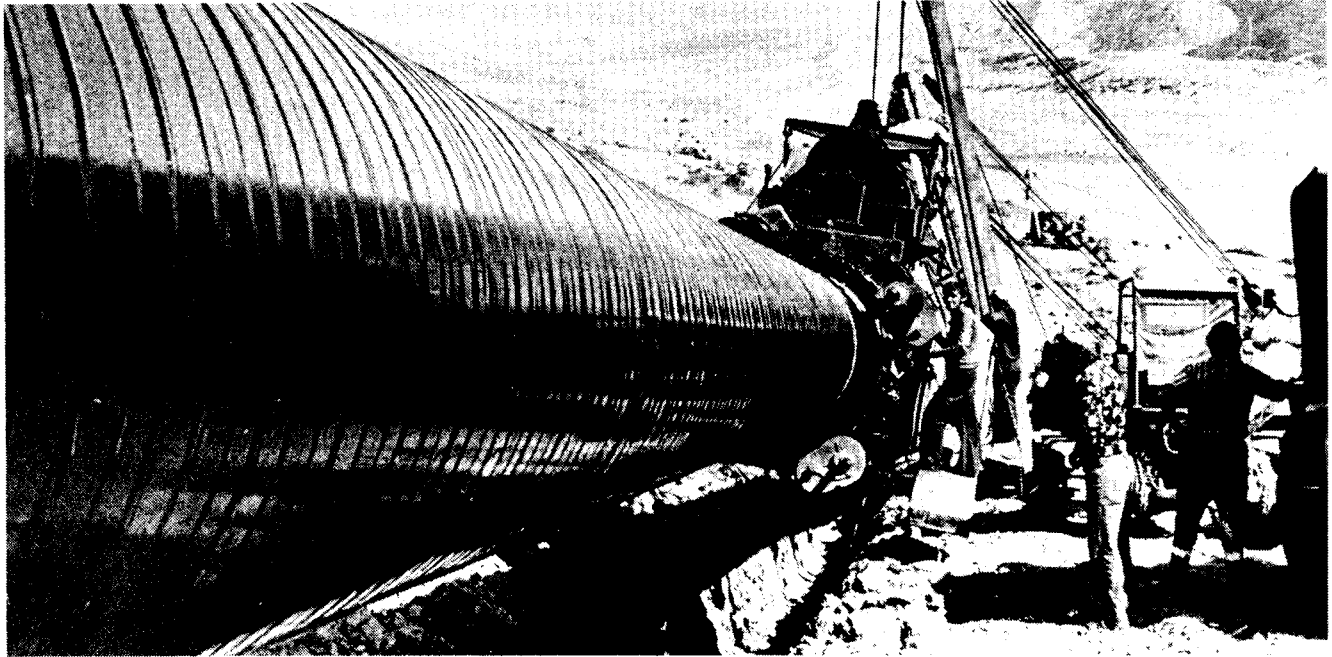
The hidden strengths of the Soviet economy

by Uwe Parpart, Contributing Editor

Before December of last year, the dangerous and illusionary “crumbling empire” perspective of developments in the Soviet Union and its East European allies had continually gained ground among Washington government, intelligence, and military circles. According to this not exactly original perspective, first vigorously promoted by Carter’s National Security Adviser Zbigniew Brzezinski and more recently publicly endorsed by President Reagan, bureaucratic mismanagement of the Soviet and East European economies, exacerbated by large military expenditures, will in the foreseeable future lead to increasing economic hardship, popular dissatisfaction, and unrest throughout the East bloc, and a buildup of centrifugal tendencies in the outer reaches of the empire (i.e., non-Russian Soviet nationalities, etc.). The final collapse will not be far behind.

But the evidently stabilizing effect of the Polish military takeover—some knowledgeable analysts, such as John Erickson of the University of Edinburgh (see *EIR*, Jan. 19, 1982), foresee an extended period of East bloc stability—will have dashed some fond expectations and perhaps calmer voices will now be given a hearing. Not, of course, if Henry Kissinger can have his way. Kissinger at a recent Washington gathering of the Committee for the Free World beseeched U.S. and West European policy makers that now more than ever is the time to be tough, to keep NATO together, to hold out at all costs, thus to ensure that in ten short years, the final victory will be ours.

We will show in the following that Brzezinski and Kissinger’s “crumbling empire” thesis and their policy recommendations based upon it must be rejected, if only because the principal pillar of their thesis—their analysis of the state of the Soviet economy—is thoroughly mistaken. Gross underestimates of major aspects of Soviet economic development are nothing new. In 1977, the CIA published completely untenable forecasts of Soviet energy resources and production; in 1976, the CIA was forced to admit that its estimates of Soviet military expenditures had been off by as much as 100 percent over extended periods of time. In both cases, gross strategic miscal-



APN/Sygnma

This gas pipeline linking Mozdok in the North Caucasus with Kazimagomed in Azerbaïdzhân will be completed soon.

culations would or could have been the consequences of such incompetence.

A just-concluded study of the Soviet economy as a whole, conducted by the Fusion Energy Foundation and the *Executive Intelligence Review*—with special attention to the military component—demonstrates that published accounts by private institutions (e.g. Wharton Economic Forecasting Associates) or government agencies on this topic are as inadequate and unreliable as the just-cited topically more limited CIA reports. The *EIR/FEF* study finds, contrary to prevailing “crumbling empire” theories, that:

1) while experiencing major difficulties especially since the second half of the 10th Soviet Five-Year Plan (1976-1980), the CMEA economies *retain a significant growth potential in the immediate future, augmented in particular by Siberian development;*

2) Soviet and East bloc economic difficulties, insofar as they are due to mismanagement and related social factors, will tend to be alleviated rather than exacerbated by enhanced military command influence in economic management and resource allocation;

3) the Soviet economy, since at least 1977, has sustained military expenditures averaging close to 50 percent higher than previous highest estimates by “Team B” analysts in the United States.

Ironically, therefore, those who could not resist pushing the Solidarność destabilization tactic to the brink, will soon find that they have brought about the opposite

of their intended result; nor, we should add parenthetically, should any illusions persist that forcing the Soviet Union into ever-increasing military spending will lead to the imposition of intolerable hardships upon the Soviet population. The Soviet population’s ability to tolerate such hardship is a known and tested quantity. The U.S. population’s is not.

Trouble in 10th Five-Year Plan

As just noted, the Soviet economy, after an extended period of growth in productivity and major categories of output throughout the early 1970s, was not able to sustain this performance during the 10th Five-Year Plan (1976-80). In the final phase of the plan, the situation reached crisis proportions in several sectors of the economy, most notably agriculture, and the growth rate of overall labor productivity collapsed to almost zero in 1979-80. Table 1 (see next page) provides a comparison of Soviet and U.S. economic performance in tangible goods for key categories over the past 20 years. The figures show that consumer goods as well as heavy industrial output fell to near zero-growth levels in the period after 1975. The LaRouche-Riemann model, used in all aspects of the *EIR/FEF* study and fed with official Soviet data* normalized for constant 1980 rubles, fully confirms a sharp post-1975 drop and draws attention to what must have been relatively sudden major investment decisions. These developments, however, should not be too consoling to American observers, since growth rates in the corresponding period for the United States were generally negative.

In first approximation, two general types of cause, both widely discussed in Soviet and western publications, can be held responsible for the dramatic collapse in Soviet growth rates after 1975:

1) There were bad harvests in 1972 and 1975, and consecutive bad harvests again in 1979 and 1980. Shortfalls in fertilizer production, and a general state of disrepair of harvesting equipment (of up to 50 percent!) and farm machinery in general (especially tractors) further exacerbated an already bad situation. The cumulative effect of the grain imports required to overcome agricultural production deficits and the diversion of investment to subsidize food consumption and production so taxed the economy that industrial output suffered.

2) While capital investment has absorbed over 25 percent of total economic output during most of the post-World War II period, the efficiency of capital investment (output per unit of capital) has declined severely in the 1970s. This is due to failures to eliminate major bottlenecks in the supply of materials (including metals) and energy and in the transportation infrastructure, which in turn has given rise to an ever-increasing, productivity-depressing backlog in unfinished construction. There is a clear trend of investment capital flowing preferentially into the machine-building and metal-working sector rather than into the crucial infrastructural, transportation, energy, chemicals, agricultural machinery, and food processing sectors.

Production and productivity losses resulting from bottlenecks have been further exacerbated by a tendency for capital investment to go to repairs of old facilities at the expense of new construction, and to "in-width" expansion of production in the same technological mode at the expense of the introduction of new technologies into the production process. The cumulative effect of such inefficiencies has been the development by the late 1970s of a serious threat to the further orderly and productive expansion of Soviet economic activity.

The 'super-military-spending' hypothesis

While points 1) and 2) describe the phenomena observed and reflected in Soviet economic statistics, they offer little help in the identification of the underlying causes, especially of the precipitous decline in growth rates after 1975. Generally, three different kinds of explanations, not necessarily mutually exclusive, but assigned different weight by different analysts, have been put forward:

1) Bureaucratic mismanagement, lack of economic freedom and incentives, etc. have been the favorite

explanation offered by the "crumbling empire" theorists. And there can be no question that widespread mismanagement and planning foul-ups exist; in fact, they are widely discussed in the technical as well as non-technical Soviet literature on economic subjects. There is clear evidence, in particular, of recognition of the negative consequences of the retrogressive capital investment

Table 1

Food, steel, machine tool, and energy production, U.S.S.R. and U.S.A.

Food production	1965	1970	1975	1980	
Red meat (kg. per capita)					
U.S.S.R.	38	44	50	48	
U.S.A.	78	83	78	77	
Grain (kg. per cap)					
U.S.S.R. (5 year ave.)	569	693	717	775	
U.S.A.	950	910	1160	1310	
U.S.S.R. average annual growth in per capita production, preceding five years:					
Meat (red)		+3.0%	+2.6%	-1.0%	
Milk		+3.4%	+0.7%	+0.3%	
Grain		+4.0%	+0.7%	+1.5%	
Steel production (kg. per capita)					
U.S.S.R.	397	480	557	559	
U.S.A.	617	580	490	447	
U.S.S.R. average annual growth in per capita production, preceding five years:					
		3.9%	3.0%	0.4%	
Electricity production (kilowatt/hours per capita)					
	1965	1970	1975	1979	
U.S.S.R.	2214	3065	4102	4721	
U.S.A.	5878	8000	9360	10493	
U.S.S.R. as percent of U.S.A.	38	38	44	45	
U.S.S.R. average annual growth rate, preceding five years					
		6.7%	5.9%	3.6%	
Machine tool output (thousands of units)					
	1960	1965	1970	1975	1977
U.S.S.R.	188.9	220.6	243.3	281.5	290.3
U.S.A.	62.2	93.3	73.5	92.7	89.6
U.S.S.R. average annual growth, preceding five years:					
		3.2%	1.9%	3.0%	1.5%
				(for 1976-77)	

Source: James Grant for JEC

profile of the economy. However, it is the judgment of this writer that to the extent that justified dissatisfaction with management performance has led to "Libermanite" decentralization and "free-enterprise" experiment in the Soviet and East bloc economies, such experiments have not succeeded and have actually contributed to a worsening of economic performance. The often-cited "Hungarian model" is hardly relevant in this context; decentralized management and a market-style incentive system are limited to certain specialized sectors of agricultural production and the units concerned were permitted not to incur (or have charged to them) infrastructural and other costs which previously depressed their profitability. The principal problems to be resolved in agriculture are cultural and social. In industry, the major roadblock to be overcome is the effective translation of scientific and technological advances into broad-based productive techniques. Any attempt to blame the centrally planned character of the Soviet economy itself for the recent downturn clearly ignores the sharply conjunctural character of this crisis.

2) The relatively depressed state of the world economy in the second half of the 1970s has been cited by both Soviet and western analysts as a significant contributing cause of Soviet difficulties. In light of the fact that the Soviet economy is the most independent of the United States and Western Europe of any country in the world, importing in every category less than 10 percent of its own production, the only question is the extent to which the depressed world economy has affected Soviet performance. The effect is probably larger than the 10 percent import figures indicates. Especially in the area of new, high-technology-based investments the Soviet economy has relied to a much higher degree on western imports, and in some areas, such as the chemical industry, up to 30 percent of total investment has been imported from and co-financed by the United States and Western Europe. Since world-inflation thus specifically hit highly sensitive new investment categories, and since high technology investments are the principal motor of economic growth, there can be no question that imported inflation and related factors have had considerable influence on recent Soviet and CMEA economic development. Still, the LaRouche-Riemann model analysis of the Soviet economy shows that by themselves world depression shocks were nowhere near sufficient to account for the post-1975 downturn in the Soviet economy. The single most significant factor is clearly:

3) massive increased military spending. The

exact size of such increased spending and the historical and future consequences for the Soviet economy of the level of military spending we have determined to now exist and to have existed throughout much of the 10th Five-Year Plan, will be analyzed in Steven Bardwell's discussion below. As already indicated, we have found that for at least five years now Soviet military expenditures have been up to 50 percent higher than the highest previous U.S. estimates.

It is our contention that particularly the dramatic decline in Soviet industrial productivity in the past several years can be uniquely explained on the assumption of our "super-military-spending" hypothesis. The argument is as follows:

In any economy, rapid increases in military spending can be achieved only at the expense of a) the level—qualitatively as well as quantitatively—of consumption of the population (including health and social services, etc.), and b) new investment, especially in infrastructural terms.

The immediately observable consequences would be pressures on the consumer goods sector, and a rapid further proliferation of bottlenecks in all non-military sectors of the economy as the demands of increased military production and capacity utilization and expansion put heavy new strains on an already stretched transport and energy supply system. Massive new delays in civilian construction of the reported kind would be inevitable, with immediate dire consequences for productivity figures.

Assessing the empirical evidence before us, we conclude that the Soviet economy has in fact given off all the signs one would expect if the "super-military" thesis were true. The effect of the depressed world economy on the CMEA sector must be reassessed in this light: the net profitability of the Soviet economy as a whole might have been high enough to cushion the civilian sectors against the worst consequences of the increased military budget; but imported western recession removed that cushion.

What then lies ahead for the Soviet economy? Viewed in purely economic terms, Soviet military spending at the present level is sustainable only if pre-1975 and higher productivity growth rates are restored to the economy as a whole. The question then comes down to identifying whether there exist any margins immediately in the economy to accomplish such a productivity recovery, and whether there exist a somewhat longer term potential in the economy which would allow stabilization and recovery to be maintained even under still-worsening world economic conditions. It is our conclusion that both the technical economic and the encompassing political preconditions exist to allow for an in-depth reversal of the present crisis situation.

In the short term, the added influence of the military in all sections of government, of which the Polish military takeover presents the most radical case, will lead to more effective and decisive moves against the grossest forms of economic mismanagement and counteract negative consequences of decentralization. Ironically, therefore, what forms of obvious mismanagement exist in the East bloc economies provide under the changed political circumstances after Poland a certain significant margin of economic recovery. In the somewhat longer run, this same added military influence defines an optimal chance of more immediately bringing to bear on the Soviet economy as a whole the thinking and leadership of the scientific and military elite. This elite has a greater chance than the entrenched bureaucracies of instilling a fighting morale in the population and of mobilizing the Soviet economy from the standpoint of those areas of strength which give it potential advantages over its U.S. counterpart. Aside from general structural consideration discussed below, these areas of great potential strength in the Soviet economy are identifiable as follows:

1) a large and rapidly growing pool of scientific and engineering manpower characterized by unsurpassed excellence precisely in certain fields most intimately related to future economic and military strength. These areas include the theoretical branches of mathematics, physics, astronomy, electrochemistry, and fluid dynamics. Soviet excellence in the field of atomic particle acceleration is well-known, and Soviet efforts here point to an early development of controlled thermonuclear fusion power, as well as the development of a particle-beam weapons system. Soviet laboratories also lead in laser research, particularly the use of lasers in fusion research, and as weapons against missiles and satellites.

2) The sizeable and growing impact on the economy as a whole of the large Siberian infrastructure projects, elaborated below.

3) The build-up in the past 20 years of an impressive and growing reservoir of machine tools. In this same period, total U.S. machine tool stocks decreased by 7 percent, while the Soviet Union experienced a 250 percent increase.

The hidden strength of the Soviet economy lies primarily in the potential inherent in these three crucial areas. Greater influence of the military-scientific complex on the Soviet economy as a whole defines the imminent possibility that this potential will be unlocked. And among civilian economists, as well, there appears to be an increasing awareness of what is required.

*Source: *Narodnoe khozyaistvo SSSR v. 1978q.*, supplemented by figures from the 1979 and 1980 editions and data of *Ekonomicheskaya gazeta*, no. 5, 1982.

Soviet military costs:

by Steven Bardwell, Military Strategy Editor

All experts (both real and self-advertised) agree that the most problematic aspect of studying the Soviet economy is the extent and effect of the Soviets' military spending. However, a few facts are universally acknowledged:

1) Military expenditures are grossly understated in the Soviet budget as officially prepared;

2) Actual Soviet military expenditures are greater (as a percentage of total output) than those of the United States;

3) The overall quantity of Soviet arms expenditures has increased secularly over the past 30 years.

The standard estimates of the Soviet military budget are reproduced in Table 1. All of these estimates use the same methodology to arrive at a figure for the Soviet military budget: the official Soviet output figures are taken to represent a sum total of economic output, and subjective criteria are used to determine the distribution of that output between civilian and military customers. Even the careful estimates of Soviet watcher W. T. Lee use this "inventory" method; his disagreement with the estimates of the CIA and Stanford Research Institute is that, first, they mistakenly include some output from the machine-building and metalworking industries in the category of the civilian economy when Lee's contention is that it should be included in the category of the military, and secondly, that a portion of the science budget is actually military R&D. However, even Lee's figures, if correct, only show a Soviet military budget which is comparable to that of the United States, larger in percentage terms but nearly the same in procurement terms when all uncertainties of dollar-ruble conversions, differences in pay scales, and so forth are taken into account. These marginal differences between the Soviet and U.S. military budgets are then the basis for heated

A more realistic picture

debate between policy-makers who all agree on this method of evaluation.

a scientific estimate

The unique power of the LaRouche-Riemann model is its ability to get behind the superficial picture of an economy provided by output and inventory figures in order to arrive at an understanding of the causal features of an economy. Such a causal analysis of the Soviet economy, working from a data base assembled by Clifford Gaddy of *EIR*'s Stockholm bureau, shows, contrary to all other estimates, three facts about the Soviet economy:

1) The Soviet economy functions at this point in a qualitatively different mode than the U.S. economy: it has a **positive net reproductive** ratio, that is, it is growing in its ability to reproduce itself, while the U.S. economy is not.

2) There were two important, sudden shifts in the internal composition of the Soviet economy, one in 1975 and again in 1978. These shifted a **substantial and unrecorded amount of output** to the military and significantly impeded civilian production. All "inventory methods" of estimation are inherently incapable of detecting this "hidden" component of the Soviet economy. Thus, our estimate is of an **additional 38 billion rubles** per year at minimum spent on the military.

3) The Soviet economy, with its present rate of technological innovation, is **incapable of sustaining this massive diversion** of resources to military expenditures. Our projections show that a point of net disinvestment will be reached by 1985, if current trends in productivity continue. However, only **small increases in productivity would be required** to make even this large military diversion "affordable" for the Soviet Union. Such rates of productivity were realized as recently as the early 1970s, so that, should a policy stressing advanced scientific research in the U.S.S.R. be adopted, the Soviet military budget could continue to grow.

The LaRouche-Riemann model analysis of the Soviet economy begins with the examination of the recent trends in the basic categories of real, tangible output and investment. Figure 1 shows the most basic of these, the overall composition of the Soviet workforce, with

U.S. figures for comparison. The striking difference in the percentage of productive industrial operatives between the two countries expresses most succinctly the potential strengths of the Soviet economy. The overhead expenses for the Soviet economy are significantly less than those of the U.S. economy because of the higher proportion of workers involved in the production of tangible output and the much smaller service sector. To some extent this reflects the relative backwardness of the Soviet economy, the lower productivity levels, and the more labor-intensive agriculture. But this relative underdevelopment of the Soviet economy should not obscure the more important fact that the Soviet economy has not suffered the cancerous growth of a parasitic real-estate, services, "post-industrial" sector as has the United States. This accelerating deindustrialization of the United States is responsible for the remarkable drop in the proportion of the United States workforce involved in the production of tangible goods in the period between 1970 and 1980. The fact that the Soviet Union has *not* undergone this transformation toward what former National Security Adviser Zbigniew Brzezinski hailed as the "technetronic society" is its greatest relative strength today.

The depth of this advantage is illustrated in Figure 2 with a comparison of the number of scientists and engineers involved in research and development in the two countries. The drop in absolute terms of the figure for the United States in the period after the height of the Apollo program is symptomatic of the social and economic policy introduced in the late 1960s.

The consequences of these demographic facts were noted in the introduction to this report: the Soviet economy for the period between 1950 and 1975 was growing at a consistently high rate; it had all the indications of an economy in the later states of industrialization. However, in 1975 there is a sudden and qualitative change in the growth rates, investment structure, and productivity of the Soviet economy.

Table 1

Other estimates of Soviet military expenditures

	1960	1966	1970	1975	1980 ¹
CIA ²	18	21	24	25	29
SRI ³		17	23	25	29
W.T. Lee ⁴	18	29	47	73	83

¹ Estimated from CIA published growth rates.

² In billions of 1970 rubles.

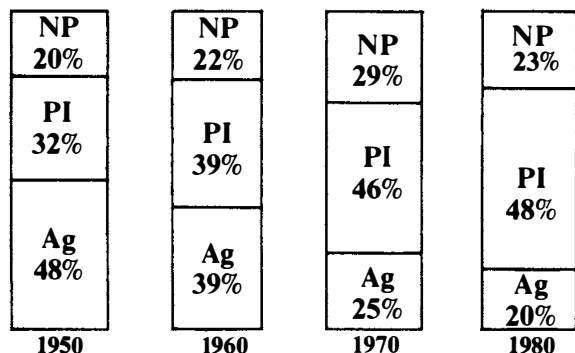
³ In billions of 1970 rubles, median estimate.

⁴ In billions of 1970 rubles, median estimates. Defense analyst W.T. Lee's findings were published in his 1977 book, *Arms, Men and Military Budgets*.

Figure 1

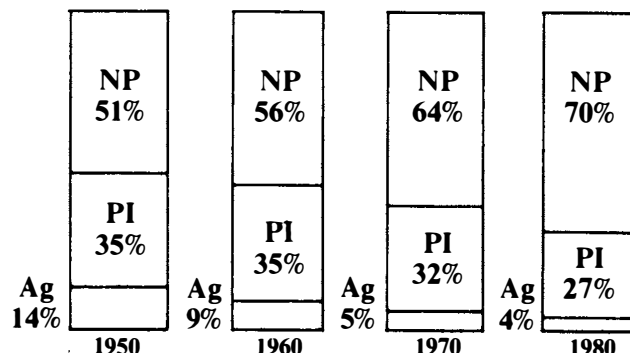
Employment by sector—U.S.S.R. and U.S.A.

U.S.S.R.



NP—Non-productive sectors
 PI—Productive industry
 Ag—Agriculture

U.S.A.



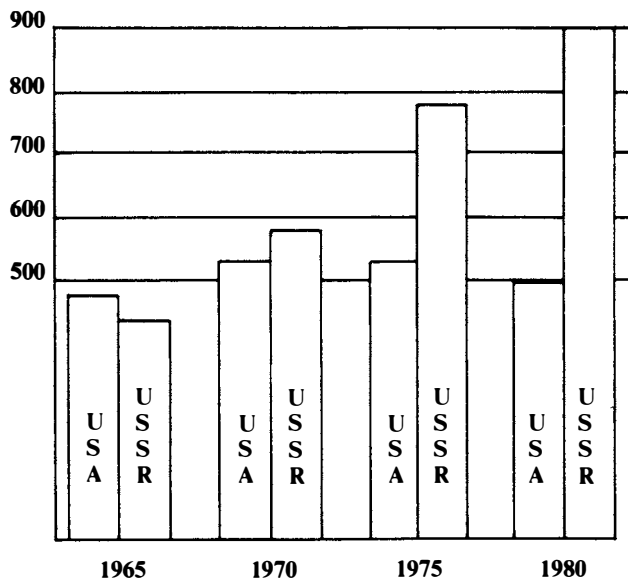
Source: LaRouche-Riemann model data base.
 (totals of over 100% are due to rounding)

The cause of this drop has been fiercely debated in the West. We have rejected the explanations which would, somewhat self-consolingly, explain the Soviet economic difficulties by crop failures, pressure from declining Western economies, growing costs of maintaining the Soviet bloc countries, or accelerating inefficiencies in the Soviet economy itself. Our study shows

that something else was the primary determinant of Soviet economic behavior in the late 1970s; we believe that diversions of increasingly large amounts of tangible output were made to the Soviet military, diversions which were neither recorded as military expenditures or as output in the first place.

Figure 2

Scientists and engineers—U.S.S.R. and U.S.A.
 (thousands employed in research and development)



Source: LaRouche-Riemann model data base.

What the LaRouche-Riemann model revealed

The starting point for the LaRouche-Riemann model study is the data presented above on the real output of the Soviet economy. This data has been compiled for the Soviet economy from 1950 through 1980 and reduced, using a set of special algorithms, to the following quantities:

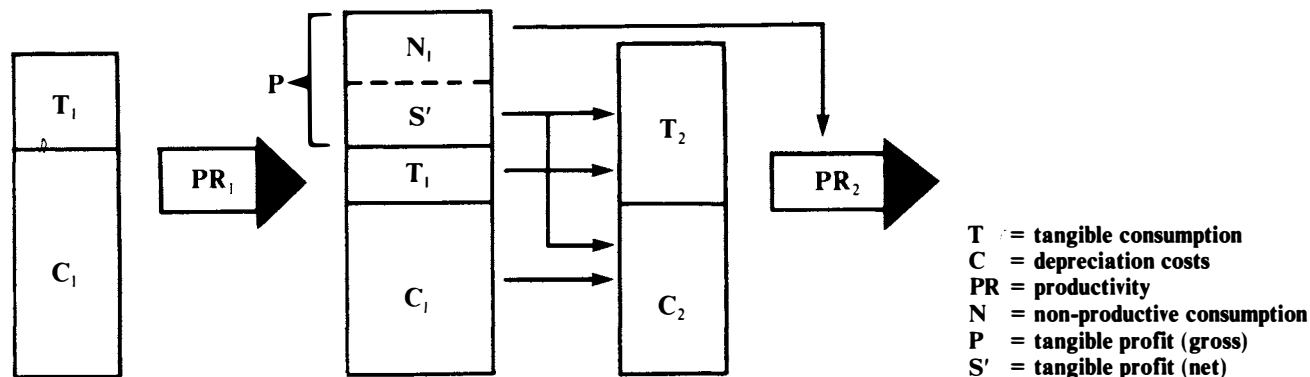
1) **Total tangible consumption by the productive work force.** The work force in demographic terms is divided into two categories, those producing tangible goods (and transportation services) and those involved in all other enterprises. The workers in the first category are analyzed in terms of their consumption, to derive an estimate of their total tangible consumption (housing, food, clothing, but not services). This figure then represents the annual investment, in currency terms, of tangible output devoted to the reproduction of the workforce. This amount will change from year to year, reflecting both changes in the living standard of the workforce and changes in the size of the workforce at constant levels of consumption.

2) **Total investment in plant, equipment, agriculture, and transportation.** This quantity is measured from official statistics and is used to calculate the changes in capital stock from year to year.

3) **Total depreciation costs.** This quantity, a part of total investment, expresses the equilibrium costs of

Figure 3

LaRouche-Riemann modeled reproduction of an economy



maintaining existing plant, equipment, agriculture, and transportation facilities.

4) **The difference between the sum of depreciation and total tangible consumption is calculated and called total tangible profit for an economy.** It represents the fund out of which all overhead expenses (those not directly productive of tangible goods), research costs, and new investment must be made. This fund, aggregated for the whole economy in our data base, is the margin of production above the equilibrium expenses required for maintenance of the workforce and capital stock.

Using these quantities, a number of subsidiary quantities are calculated which provide an "intrinsic" picture of the Soviet economy and the basis for projecting economic behavior.

1) **Gross reproductive capability or ratio.** This is the ratio of total tangible profit to the sum of the equilibrium costs of the economy. It is a measure of the total productivity of the tangibles-producing base of the economy. This quantity is, historically, very closely correlated with traditional measures of productivity and profitability, depending on the level of technology in an economy, on the development of infrastructure, and on the quality of the workforce.

2) **Total net reinvestment.** The yearly change in tangible consumption, added to the net new investment, gives an estimate of the portion of total tangible profit which is reinvested in the production of tangible output. This quantity, called S' , is an unnormalized measure of the growth potential of an economy. In the United States, for example, S' has been negative for the past several years as the economy has begun to decline in the production of tangible output and its reinvestment.

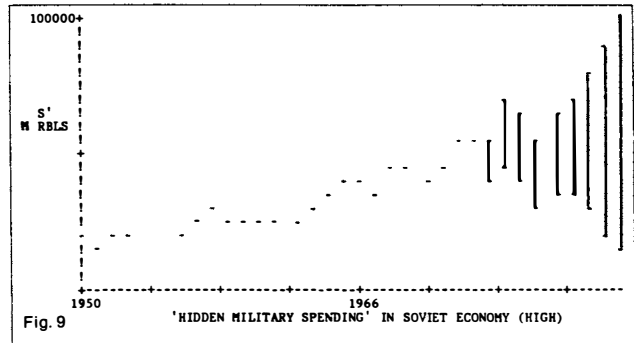
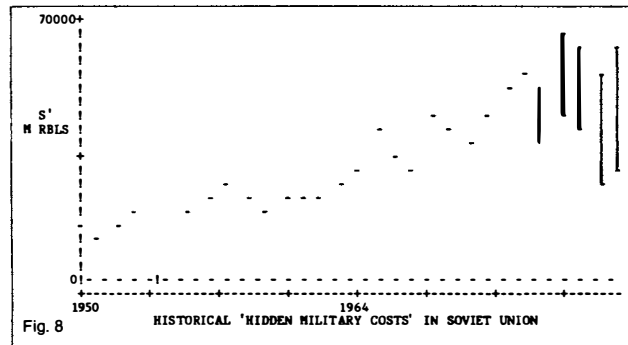
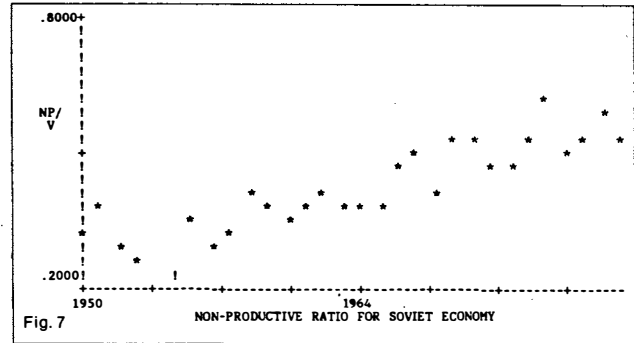
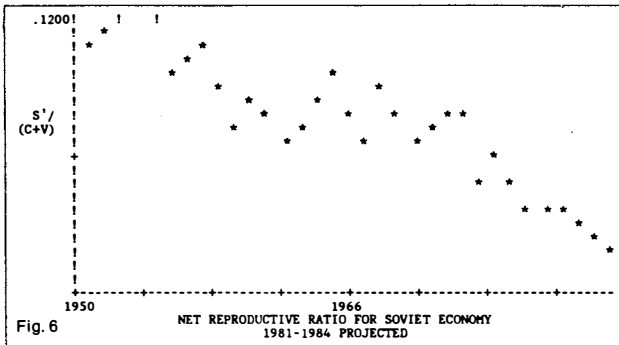
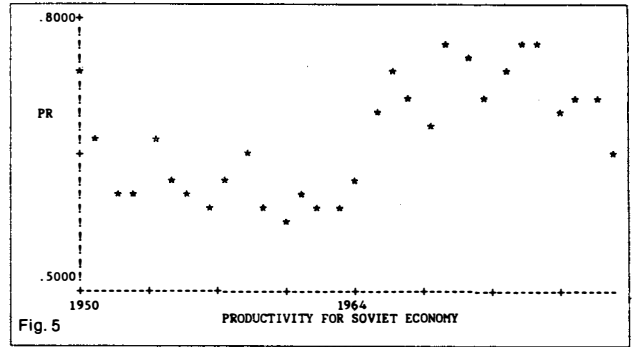
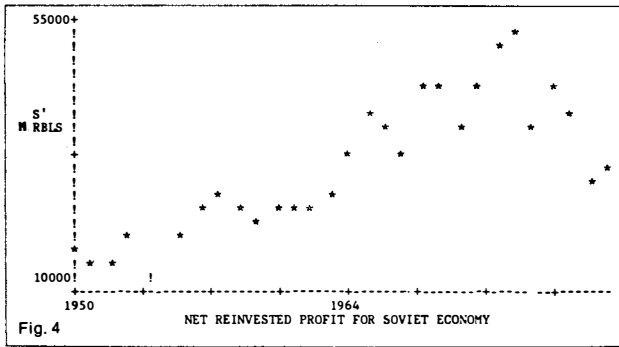
3) **Nonproductive consumption.** The difference be-

tween the gross tangible profit and net reinvestment represents a quantity of goods which are consumed without reappearing in the next cycle of production. This nonproductive consumption includes all services (both necessary and unnecessary), government bureaucracy, military expenditures, and scientific research.

In the United States, this non-productive expenditure has grown enormously over the past 20 years, as the speculative and parasitic parts of the economy have increased. However, a growing non-productive consumption can also reflect the process of industrialization, rising living, educational, and cultural standards, and increasing commitments to research and development. Non-productive consumption, while assigned a single quantitative value, is much more a figure of qualitative significance. In the case of the Soviet Union, non-productive consumption has grown steadily in per capita terms (see Figure 7), and for the period 1950-75 this slowly rising ratio was directly and tightly correlated with rising productivity. The correlation—which does not exist at all for the U.S. economy over the last 15 years—reflects the economic importance of investment in education, research, health care, and other necessary but non-productive economic activities.

That is to say, the cause of the rising productivity is investment in these areas and their realization through investment in capital embodying new technologies. Figure 3 summarizes this reproduction process.

4) After factoring out non-productive expenses, the quality of investment decision in an economy is most sensitively measured by the ratio of S' to the total equilibrium costs of the economy. This ratio, the **net reproductive ratio**, measures, the ability of an economy subject to the given investment decisions to continue to



grow. In analytic terms, this ratio is the instantaneous growth rate of total tangible production.

5) A measure of productivity unique to the model is provided by the **ratio of total tangible profit to total tangible consumption**. This ratio is a slowly changing function of the quality of manpower and the level of technology available to that workforce.

Graphs for some of these quantities are presented in Figures 4 through 7. Figure 4 shows the net reinvested profit for the Soviet economy from 1950 through 1980. This graph shows quite clearly that a qualitative change in the Soviet economy occurred after 1975. While S' had been rising steadily in the 25 years previous to 1975, there is a rapid and sustained decline in the reported investments after that point. This change is shown not only in total reinvestment but also in productivity

(Figure 5) and in the net reproductive ratio (Figure 6). Note that if this recent drop in reproductive capability is projected forward as shown in Figure 6, the Soviet economy reaches zero growth by 1985-86.

The model provides several insights into the cause of this drop. First, as shown in Figure 7, the overhead expenses per productive worker, have not increased in a different way during this period than they did during the previous 25 years. That is, the economy was not more inefficient, attempting to support a larger burden of reported military, service, or scientific endeavors than previously. What happens is that the quite close correlation between productivity and overhead expenses which obtains for the Soviet economy (but *not* for the U.S. economy in the same period) between 1950 and 1975, is suddenly broken. By official statistics and our

modifications of them, military expenditures are included in this overhead category. That is, they are expenditures which correspond to tangible output, but they are invested in nonproductive activities not productive of further tangible output.

However, this "tax" on the productive economy has not increased at a rate different between 1975 and 1980 than it had between 1950 and 1975. In fact, there is no reported statistical indication of the possible source of this difficulty. While the causes noted above of increasing obsolescence and agricultural difficulties are undoubtedly relevant, they are also of insufficient magnitude to account for the simultaneous drop in productivity and reinvestment rates, at the same time that overhead expenses as reported continue to increase.

Our contention is that there are large unreported military expenditures which must be added to the reported output of the Soviet economy. This output was produced, but was diverted to military investments during the 1975-80 period and not reported in official Soviet statistics. This amount is in addition to the most careful *inventory* estimates made of military spending. No other explanation can account for the bizarre changes in the Soviet economy.

To estimate the magnitude of this diversion, we use the most important property of the LaRouche-Riemann analysis—its ability to lay bare the investment structure of an economy, its real growth potential. The Soviet economy's growth potential, as measured by its net reproductive ratio, is easily determined in approximate terms, and it is straightforward to use the model to answer the question: how much additional reported S' would have to be added to the reported S' to restore at least constant growth potential to the Soviet economy? That is, the growth potential is most conservatively estimated to have remained constant during 1975-80 in actual terms. How much unreported S' exists that would account for the apparent drop in the reproductive ratio? Figure 8 shows our "low" estimate of the hidden military expenditures in the Soviet Union for this period. Table 3 tabulates both a low estimate, based on the assumption that the reproductive ratio would not have decreased, and a high estimate, based on the assumption that the reproductive ratio would have continued to increase at half the rate it had been increasing for the past ten years.

It is important to note that this series itself is divided into two periods. During 1975-77 the proportion of diverted S' is about 50 percent of the total reported S' . However, in 1978, this proportion jumps to almost 100 percent of the reported S' . That is, half of the reinvestment fund for the Soviet economy was diverted to military expenditures during the last three years of the decade. Both of these conclusions are important: the Soviet military budget is much larger than reported,

Table 2

Increments of "hidden" Soviet defense spending (billions rubles)

	1975	1976	1977	1978	1979	1980
Low estimate	17.6	22.4	21.6	26.2	34.1	38.3
High estimate	17.6	22.4	33.0	54.0	59.0	64.0

and the structural impact of this spending has changed during the past five years.

Can the Soviets afford their military budget?

Finally, we evaluated the effect of this military spending on the Soviet economy, spending which we estimate to be approximately 70 percent larger than the largest conventional estimates. To do so, we performed two projections for the Soviet economy's future. In the first, present productivity trends continue and the Soviet economy continues to devote 50 percent of its reinvestment fund to military procurement. This projection is shown in Figure 6. The Soviet economy, in this scenario, is unable to sustain these military expenditures and enters a phase of zero growth during the middle 1980s.

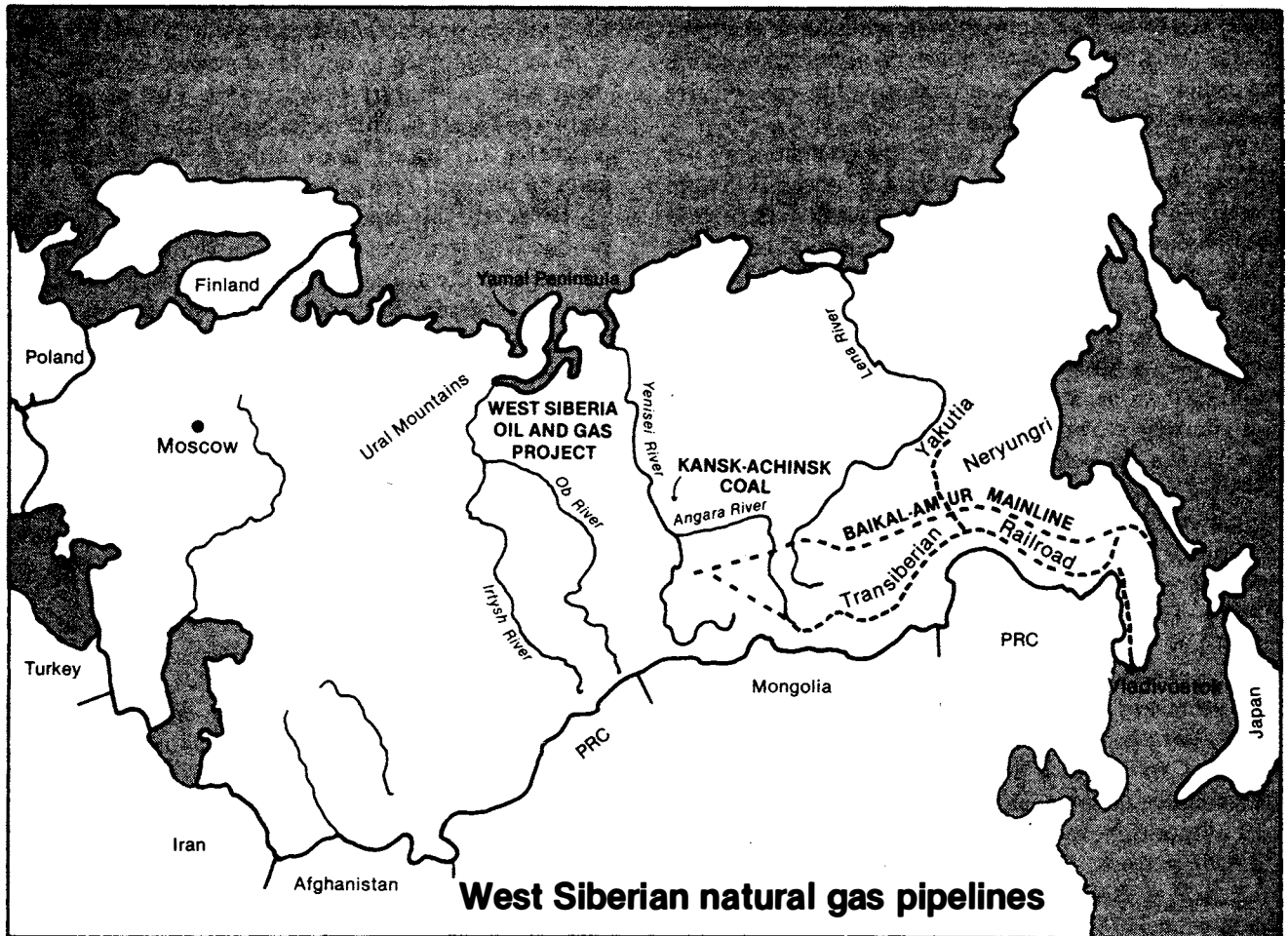
However, this scenario assumes that the abnormal productivity trends of the past five years continue. If we assume that the average productivity growth of approximately 3 percent per year, as seen during the past 20 years, continues for the period 1980 to 1985, the Soviet economy would grow even while sustaining an ever-larger burden of military expenditures. Figure 9 shows the military costs in this scenario, a figure which reaches approximately 110 billion rubles by 1985.

This figure is easily affordable by an economy whose productivity is increasing. That is, if the Soviet Union is able to realize its plans for Siberian development, and to translate even a small part of the advanced technological possibilities of a large military budget into productive reinvestment, its economy will grow rapidly. A large military budget based on the development of plasma technologies and directed energy-beam and space-based weapons, is precisely the sort of military which "pays its own way" because of the productivity increases it effects in the civilian economy.

This simple economic fact is proved in the converse by the current military budget in the United States. The U.S. military budget, lacking a "science driver" of advanced research and development, spending increasingly large sums on existing or obsolete technologies, and orienting more and more away from advanced technologies in its R&D funding, produces not only a decrepit military capability, but also renders itself unaffordable.

Siberian development: the fulcrum of U.S.S.R. economic growth

by Rachel Douglas, Soviet Sector Editor



The acceleration of Soviet military investment correlates with the international situation and NATO strategies. Of course, the commitment of resources to defense has consistently risen since the Cuban missile crisis of October 1962. But the inflection points observed in the mid-1970s and in 1977-78, for instance, followed closely upon international events which must have convinced the Soviet leaders that a constant rate of military expansion was not sufficient for them.

In 1973-74 there came, in rapid succession: the Watergate scandal, just months after Nixon had been Brezhnev's host in the United States; the October 1973 Mideast war; government collapses and social upheaval in Europe in early 1974; the U.S. Jackson-Vanik amendment linking Soviet-American trade to Jewish emigration from the U.S.S.R.; and the proclamation of a "limited nuclear war" strategy for NATO in the initial guise of the Schlesinger Doctrine. The second inflection point, in 1977-78, had to do with the Soviets' realization of what four years with Jimmy Carter as President of the United States were going to look like. Secretary of State Cyrus Vance's March 1977 trip to Moscow with a proposal for "deep cuts" in strategic arsenals, a proposal guaranteed in advance to be rejected, was read in the Kremlin as fair warning that the opposite course, an arms buildup, would probably ensue on both sides.

Since then have come the "China Card" of American geopolitics; the December 1979 "two-track" decision on medium-range missiles in Europe, which the Soviets regularly call a "first strike" decision, and which preceded the invasion of Afghanistan by a fortnight; the Polish crisis; and the ouster of Brezhnev's détente interlocutor Valéry Giscard d'Estaing of France last year.

We may be now at the gravest moment yet, as the Soviets read the international crisis, and the consequences become visible not in defense spending alone, but in the political prominence of the Soviet military. The contingent of generals and admirals on diplomatic missions to every corner of the globe is larger from year to year, and during 1981 their contributions to Soviet party and government publications became more assertive. In a July 1981 article for the Communist Party periodical *Kommunist*, Soviet Chief of Staff Marshal Nikolai Ogarkov defined the military and the economy as a whole as coextensive:

The question of prompt transfer of the Armed Forces and the entire national economy to martial status—of their mobilization in a short period of time—is posed more acutely. . . . Now, as never before, it is necessary to achieve coordination of the mobilization of the Armed Forces and that of the economy as a whole, particularly respecting human resources, transport, communications, the power industry, and means to ensure the resistance

and longevity of the country's economic mechanism. . . . There must be further improvement of the system of the mobilization readiness of the national economy, because a close interconnection among the mobilization readiness of the Armed Forces, the national economy and civil defense is a very important requisite for maintaining the defenses of the entire country at an adequate level.

Brezhnev and the chiefs of industry

Through an ever more perilous decade, when attention to defense was so dramatically redoubled, the core of Soviet foreign policy has nevertheless been *war avoidance*. The central figure is General Secretary Leonid Brezhnev and the central idea is his détente, or "relaxation of tensions" with the West. To understand Brezhnev, as well as the possibilities of the post-Brezhnev years, it is best to set aside the aspect of his foreign policy that is foremost both in Soviet propaganda and in Western ruminations about East-West relations, namely, arms limitation.

Looking instead at Brezhnev's career-long allegiance to the Soviet steel industry and later the national economy, something more fundamental is discernible: this is someone concerned with building a nation state. The staying power of Brezhnev, and of his close Politburo allies Kirilenko and Tikhonov, derived not only from their practiced skills at bureaucratic infighting, but from their more essential identity as chiefs of industry.

For the rest of the world, this quality came out in Brezhnev's negotiations on East-West trade. Because of what Chancellor Helmut Schmidt had to contribute, it was during Brezhnev's 1978 visit to Bonn that it was most fully exploited, when a 25-year cooperation protocol set joint economic development projects as a bedrock for a stable political relationship. Brezhnev's West German television speech had a profound effect on the population—not the greenies and the future peacenik movement, but the ordinary citizenry—because he spoke with fervor about building industry and developing Siberia.

In Brezhnev there is a vestige, however weakly articulated, of what scared the daylights out of H. G. Wells and Bertrand Russell when they encountered the national electrification plan of G. M. Krzhizhanovskii in the 1920s. It caused progress-hater Russell to curse the Bolsheviks for wanting to make the sensitive Russian soul "industrial and as Yankee as possible."

The outlook is more strongly pronounced in other Soviet circles than that of Brezhnev's party comrades. We see it in a Soviet scientist who speaks proudly about "our Count Witte," the tsarist finance Minister who led Russia's late 19th-century industrialization with American dirigist methods adopted from Germany's Friedrich

List. Academy of Sciences President A. P. Aleksandrov expressed it not long after the Three Mile Island accident, when he was quoted as saying he wished America had a vigorous nuclear energy program because that would make us energy-secure, more stable, and less likely to go to war.

The Soviet military, to the extent it houses military professionals who think more in terms of the global power of the state than of party ideology, is another collecting point for such views.

There are, of course, other tendencies in Soviet policy-making which are devoid of the builder's quality. These were embodied by the late Mikhail Suslov, the Marxist-Leninist encyclopedia who yielded to Brezhnev the top party job he helped Khrushchev vacate in 1964, and the old Communist International apparat carried forward by the Central Committee International Department and the KGB. Also included are most of the foreign policy think-tank personnel, who have so corrupted their powers of judgment by studying Western methods of sociological analysis that few of them could begin to grasp the significance of maintaining the Witte tradition.

The economy and the succession

Currently circulated Western scenarios for the Soviet leadership succession open the door to dangerous strategic miscalculation. According to one prognosis, even a neo-Stalinist interlude after Brezhnev would inevitably give way to the ascendancy of liberal decentralizers— young technocrats schooled in systems analysis—when the Soviet economy could no longer support its military burden. German Sovietologist Wolfgang Leonhard has made this case in print. Abram Bergson in the International Communications Agency's *Problems of Communism* (May-June, 1981) and William Hyland in the Council on Foreign Relations' *Foreign Affairs* (the latter written after martial law began in Poland) alluded to it, posing the possibility that "a degree of austerity" (Bergson) will face the Soviet defense sector soon.

In the London *Times* of Feb. 18, 1982, Arrigo Levi, unchastened by the results of British attempts to further a liberal decentralizers' takeover in Poland two years ago, proposed that the West start working on means to strengthen the hand of "economic bureaucrats" against "party bureaucrats" and "military bureaucrats" in the U.S.S.R.

Other British scholars accept the probability of internal tightening up, before and after Brezhnev, but look for a new Russian national-chauvinist leadership to hold the fort against ethnic minorities in turmoil.

Both the "decentralizers" and the "Russian" schemas rely on the crumbling of the Soviet empire, a premise which has proven a less than sure guide in the case of Poland. The flaw in such paradigms, which are

usually dictated by the prognosticator's own expectations or even preferences about crumbling *in the West*, is that they exclude a range of possible new ideas, policies, and institutional arrangements on the other side. The only reliable way to assess Soviet policy is to gauge what the Soviets are doing against what they would do if they were smart—bearing in mind that a combined strategic and economic crisis invites intervention from the military and scientists, who may be able to raise collective intelligence in the Kremlin by no mean margin.

The two futures of Siberia

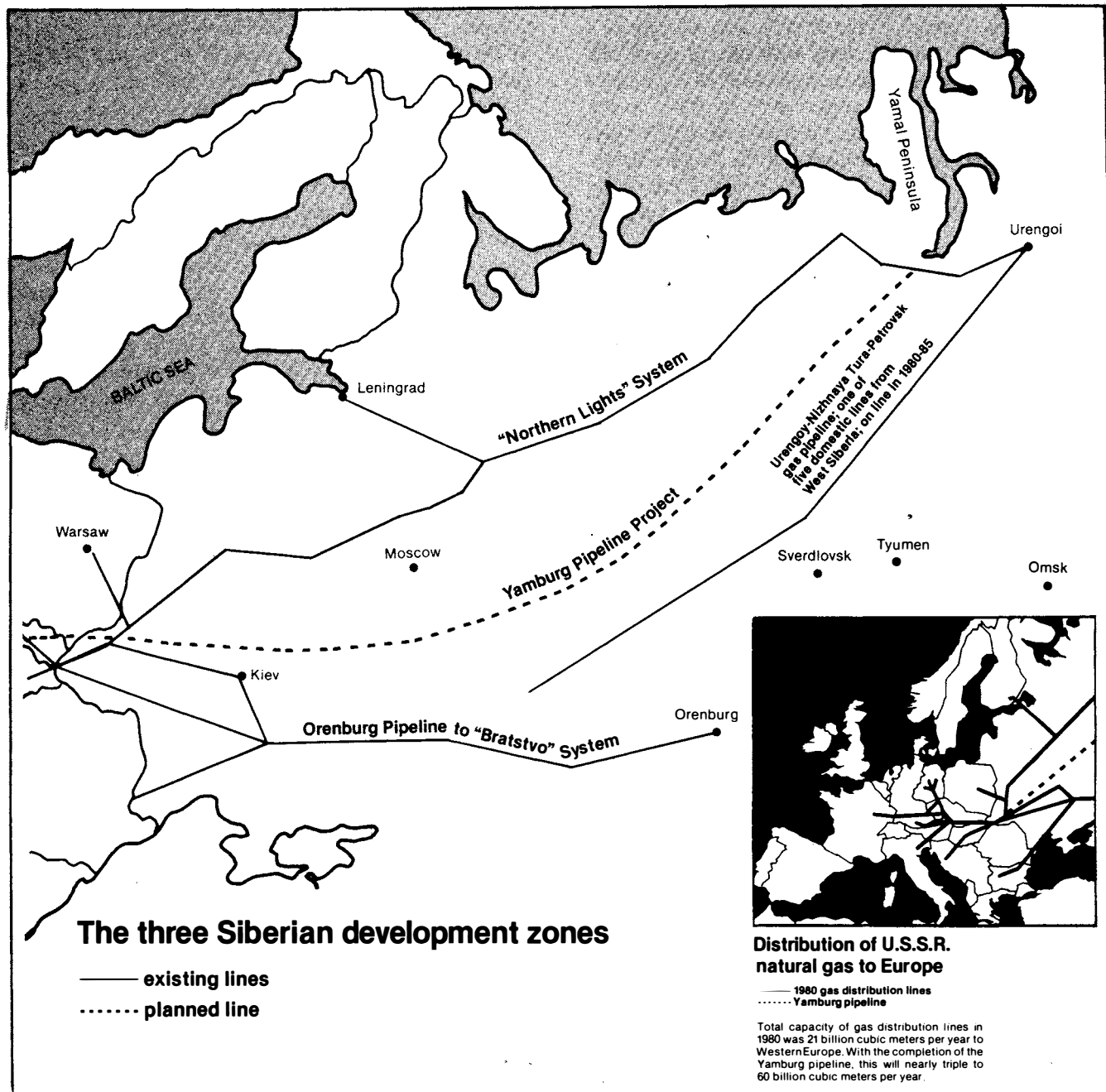
The huge construction projects of Siberia—the region's share of national investments climbed towards 20 percent in the late 1970s—will be of worldwide significance, with or without Western participation. Without the West, in circumstances of aggravated East-West hostility, Siberia will be a main girder of "fortress Russia," and a reinforcement of the U.S.S.R.'s long eastern frontier. Last year a top Siberian scientist told the German business daily *Handelsblatt* that Soviet scientists were projecting development to work without Western technology.

But if the West abandons neo-Malthusianism and gets serious about world economic recovery, then the Siberian frontier will become a boon for trade and development-anchored security, in which the natural-gas pipeline from Siberia to Western Europe will have been the first of many projects.

Most Soviet construction "from the ground up" is now in Siberia. The principle of growth "through better use of already-created production potential and reconstruction and technical re-equipping of existing enterprises" for the rest of the country, is enshrined in the 1981-85 Five-Year Plan, which forbids "location of new and extension of existing power- and water-intensive plants . . . in the European regions." This main line, refurbishing old plants, has been the target of criticism from Soviet economists studying the brake that current investment practice puts on the spread of more productive, new technology. But for now, it is law.

There are three main Siberian development zones, each comprising one or more so-called Territorial Production Complexes (TPC). They are the West Siberian oil and natural gas fields, just east of the Ural Mountains; the Angara-Yenisei river basin in central Siberia; and the land along the north of the Baikal Amur Mainline (BAM), a second trans-Siberian railroad under construction from Lake Baikal to the Pacific Ocean.

West Siberia: The exploitation of West Siberian fossil fuel deposits on a large scale dates only from the 1970s. In 1976-80, oil from the expanse of forest, lakes, and swamps above 58° N latitude accounted for 90 percent of the increase in Soviet petroleum extraction.



This was achieved with the investment of 1 billion rubles a year, or 2.2 percent of total Soviet investment in industry.

Natural-gas exploitation is now proceeding at a faster pace than oil. The Urengoi-Uzhgorod Export Pipeline, commonly known as the Yamburg pipeline after one of the gas fields it will eventually tap, is one of six new gas lines leading from Urengoi, in West Siberia near the Arctic Ocean, being commissioned between 1980 and 1985. The Yamburg pipeline will be 4,465 kilometers long from its source to the Czechoslovak border and will be built in two years time, according to

the Soviets. Earth cuts and road-building for the up to \$15 billion project began soon after the first contract for the gas deal was signed with Ruhrgas in West Germany on Nov. 20, 1981. Wide-diameter pipe and compressors are coming from companies in West Germany, France, Italy, and Britain. Upon completion, the line will triple Soviet gas exports to Western Europe, bringing in 26 percent of West Germany's natural gas (5.5 percent of primary energy consumption) and earn the Soviets as much as \$10-15 billion per year in foreign exchange.

Angara-Yenisei Basin: The Yenisei River, which with

its tributaries comprises the middle one of Siberia's three great river systems, starts with the waters of the Himalayas. On its upper reaches, the 6400 MW Sayano-Shushensk hydroelectric power dam, biggest in the world, is under construction; it is one of 12 dams in place or planned on the Yenisei and the Angara River. Around it is the Sayano TPC, which is to contain the Sayan Aluminum Plant and four clusters of machine-building and light industry development.

In the same region is the Kansk-Achinsk TPC, based on strip-mining the largest prospected Soviet coal deposit, 72.6 billion metric tons of lignite. Soviet specialists are debating heatedly about the best technologies for exploiting this volatile, low-grade coal, but the plan is to raise Kansk-Achinsk's 5 percent share of Soviet coal production substantially. Soviet officials told West German economic officials last year that Kansk-Achinsk could become "a new Ruhr," a center of heavy industry that would invite foreign investment.

Baikal-Amur Mainline: The BAM development project best illustrates the impact of Western investment, or its lack, on Siberian development plans. The original scheme when BAM construction began in 1974, was for 70 percent of its eventual cargoes to be tanked crude oil bound from West Siberia to Japan via a complicated pipeline/freight car transport system. Negotiations for this part of the project broke down, while the Soviets decided to use the West Siberian oil in the western part of the country and for export. Three-way talks among the Soviets, the Japanese, and El Paso Natural Gas Company of the United States also petered out in the late 1970s, leaving exploitation of the trillion-cubic-meter natural gas fields around Yakutsk, north of BAM, an open question; the Soviets had contemplated this as an export venture only.

Construction of the 3,145-kilometer main span of the BAM has gone ahead, and the 1981-85 plan refers to "preparations" for exploitation of iron ore in the BAM zone, which also has deposits of copper, tungsten, manganese, graphite, diamonds, gold, tin, lead, and other minerals. Near one of the iron ore deposits around Neryungri, there is also high-grade coal. This town is reached by the "little BAM" spur of the railroad, already built, by which the coal may be transported to the coast via the first trans-Siberian railroad. By 1979, the Japanese had invested \$540 million in the exploitation of Neryungri coal (13.5 percent of Japanese U.S.S.R. investments up to that time), under an agreement for the supply of 5 million tons per year of Neryungri coking coal to Japan over forty years; the scale-up of deliveries to that level is behind schedule.

Siberian economic specialist Abel Aganbegyan, according to Allen Whiting's new book *East Asian Siberia*, looks north of the BAM area and Yakutsk to

prospects for exploiting Siberian natural gas adjacent to the Bering Strait and piping it out to the Western Hemisphere. This scheme, on the scale of the projects drafted in the Global Infrastructure Fund of Japan's Masaki Nakajima (*EIR*, Feb. 23, 1982), is only at the proposal stage.

Aganbegyan also boosts an even larger infrastructure project, for diversion of waters from the West Siberian Ob-Irtysch river system to the Central Asian rivers that empty into the Aral Sea. A 2,230-kilometer canal, built over 30 to 40 years, removing one hundred times the earth moved to build the Panama Canal, would bring at first 6 percent and later 15 percent of the Ob's flow south to irrigate 15-20 million hectares of arid land. Study and preparatory work for the canal are ordered in the current Five-Year Plan.

Debates on investment, organization

Siberia suffers from the same afflictions as the rest of the Soviet economy: labor shortage, blockage of new technologies, and organization snarls. In one 1981 article, Aganbegyan claimed that 1 million people in Siberia could be taken out of maintenance and repair jobs alone, if cold-weather technologies were gotten off the drawing boards.

Work with the basic unit of Siberian development, the TPC, has yielded potentially fruitful approaches to the problems of organization. The point of interest is not the systems analysts' efforts at optimally juggling the resources allotted to a given TPC, of which analysis there is a surfeit, including at Aganbegyan's Novosibirsk Institute for the Economy and Organization of Industrial Production, but that several Soviet planners trace the TPC to its antecedents in the electrification and industrialization campaigns of the 1920s and 1930s.

Aganbegyan wrote in the Central Committee industry daily last year that the appropriate model for management of a TPC was the 1930s Ural-Kuznetsk project under Stalinist industrializer V. Kiubyshev, who as a government commissar was empowered to reallocate monies and order departments "to do what the state needed done at a given moment." According to Aganbegyan, the West Siberian Petroleum and Gas Complex, for instance, should be overseen by a person of ministerial rank with this degree of say-so. He should be able to cut through on-site parochialism that wastes millions of rubles; another Soviet report on TPC integration recently cited the case of a major rail line built in West Siberia, for which the Ministry of Transport Construction omitted any track to connect the railroad to the towns and plants it was supposed to service.

The exigencies of economic mobilization in the face of international crisis, such as Ogarkov wrote about, can work in favor of application of 1930s-vintage command methods. It may also bring to the fore a

lobby of economists for radical reform of Soviet investment policy as it affects technological advance.

At the 26th Party Congress one year ago, Brezhnev demanded that "industries having a particularly strong scientific base, including defense" make a special contribution to "the regroupment of scientific forces" for the economy. Almost universally treated in the West as a criticism hinting at impending sacrifice of defense requirements for consumer or other sectors, Brezhnev's remark has quite another implication if placed in the context of Ogarkov's thesis on integration of the military and civilian economy: it calls for military-style management, efficiency, and R&D in the whole economy.

The Soviets' problem with industrial technology is that innovation remain bottled up, unavailable to industry at large. N. P. Fedorenko and D. S. Lvov, two top analysts from the Central Economic Mathematics Institute, wrote in November 1981: "Some 70 percent of capital investments go to reconstruction and technical re-equipping of production. At the same time, the percentage of output which meets demands of the highest category of quality remains disproportionately low. It is necessary that the basis and starting point of the capital construction plan be a plan for the development of science and technology." They proposed that the bulk of all new investments be designed to serve as "vehicles for new scientific and technological innovations."

The Fedorenko-Lvov article harks back to a proposal made in August 1980 for how to accomplish such a

transition to higher productivity through technology. Although meagerly followed up since then, it was launched by economist V. Lebedev on the authoritative pages of *Pravda*. Writing in terms of a "struggle" for raising the technological level of the economy, Lebedev proposed that "centralized leadership of scientific and technical progress and the whole economy" be effected through the establishment of large projects to pioneer advanced industrial technologies and serve as beacons to guide their proliferation through the economy. On investment, Lebedev lined up with Fedorenko and Lvov's later argument: "Plans for the steel plant of the future," he wrote, "show the possibility of raising the productivity of labor by a factor of five or six. . . . A new factory will cost nearly 40 percent less than the best of those now under construction. And every branch of industry should prepare well in advance to build and assimilate such facilities; they should be the chief guide for development." In this light, Lebedev recast the industrial branch ministries as "state staffs for the leadership of scientific and technological progress."

Most important, Lebedev placed a premium on "that technology which is created on the basis of fundamental achievements of science," which opens the door to virtually unlimited gains in productivity. He defined such progress as "intellectual credit" to the economy, and recommended sanctions for failure to exploit them.

These are some of the methods available to the Soviet party/military command for improving economic performance in the months and years ahead.

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Britain speeds effort to chop globe in three

by Webster Tarpley from Wiesbaden

Statements by authoritative spokesmen for the British intelligence establishment have established the strategy now being pursued by the London-Geneva-Zurich bankers' cabal and its oligarchical co-thinkers elsewhere on the European continent. These forces are manipulating world political and economic affairs toward economic depression and superpower confrontation out of which they expect to precipitate a new tripartite world strategic constellation composed of the following elements:

1) **Mother Russia**, a neo-Stalinist military dictatorship deprived of economic cooperation with West Germany, Japan, and other states in the development of Siberia, and in which the combined effects of excruciating internal economic bottlenecks and hostile encirclement exacerbate the paranoid xenophobic elements in the national ideology;

2) **Fortress America**, characterized by a paranoid xenophobia of its own specific neo-isolationist variety, in which the Goering-like economic doctrines of the Bush-Iklé-Weinberger Team B military buildup presides over the busting up of trade unions, the demolition of social legislation and pensions, and the general collapsing of the civilian sector of the economy; and

3) **An "Independent Europe"** dominated by a British-Swiss condominium, anti-American and anti-Soviet at the same time, with its own specific form of zero-growth fascist ideology and economics, in which such figures as French President Mitterrand, Italian Socialist leader Bettino Craxi and Bavarian-based CSU leader Franz-Josef Strauss would adapt pragmatically to the basic frame-

work of the extinction of the dollar as a world currency and the concomitant emergence of currency zones, toward which various areas of the underdeveloped sector, notably the Middle East and China, would tend to gravitate.

In such an arrangement, the British, Helvetian, and Venetian oligarchs would seek to manipulate and manage a series of confrontations between the twin paranoid superpowers. British agents of influence, especially in the United States, are now proceeding to act out a series of frontal attacks upon European national interests and sensibilities which will facilitate a breakup of the older NATO structures, including a likely withdrawal of U.S. troops from Europe, in favor of a revived European Defense Community as prescribed by the "Cercle" (Le Cercle Violet) networks. The high U.S. interest rates imposed by Swiss puppet Paul Volcker of the Federal Reserve are the most fundamental cause of the U.S.-European estrangement, followed closely by the economic warfare obsessions of Team B's Caspar Weinberger. The same European oligarchical networks who own expendable assets and agents of influence like Volcker and Weinberger are at the same time the most vociferous in publicly deploring their agents' handiwork. Winning the prize for two-faced hypocrisy are surely those British intelligence networks who have words of respect and recognition for West German Chancellor Schmidt in public, but whose less visible machinations aim at an early overthrow of the Chancellor, as for example through the watertight efforts of *Der Spiegel* magazine.

Creating the European third force

The overthrow of Schmidt, not to mention Italian Prime Minister Giovanni Spadolini, and the thorough wrecking of Vatican Secretary of State Cardinal Agostino Casaroli's diplomacy, are the necessary preconditions for the successful creation of the projected London-Geneva "European Third Force."

In this remaking of the strategic constellation established, not at Yalta, but in the course of the London-promoted Cold War of the late 1940s, the economic issue predominates. High U.S. interest rates, copied, as we should recall, from Margaret Thatcher's great experiment, are now causing a world depression. Former British Prime Minister Edward Heath, a leading member of the World Bank/Brandt Commission, visited Westminster College in Fulton, Missouri, to call upon Europe to decouple economically from the United States in order to defend itself from these interest rates (see below).

Of course, if Heath and his friends were seriously determined to change U.S. interest rates, Volcker would be out of office in 24 hours. But the devastation wrought by these interest rates is designed to provide sober and patriotic Europeans with the proof that the United States has gone collectively insane.

Beyond this, other oligarchical spokesmen are elaborating concepts for the exploitation by the European third force of the power vacuum left behind as the hard-pressed United States dwindles, in French Foreign Minister Cheysson's phrase, into a "regional power." As *EIR* reported March 16, Heath's associate Simon May sees excellent possibilities for "European" intervention into the upcoming Sahara-Polisario crisis (see Africa Report) and Aegean-Cyprus crisis—with "Great Britain as the guarantor power" of course.

Mitterrand's role

The visit of François Mitterrand to Israel last week represents a significant advance for the British goal of a nonaligned Europe. Mitterrand, who since coming to power last year has reversed France's close alliance with Chancellor Schmidt's Germany in favor of ties with London, established close political and intelligence links with the Israeli government, including especially Defense Minister Ariel Sharon. Despite Mitterrand's rhetorical support for a "Palestinian state," a number of accords were reportedly reached on resumed French arms sales to Israel, closer French-Israeli cooperation in Africa, and French diplomatic mediation of Israeli-Arab relations.

Having already positioned France in the Arab world by reaffirming France's traditionally good links to Arab capitals, Mitterrand now believes that Paris can serve as the broker of Middle East affairs, operating jointly with such British Arabists as Lord Caradon, who was in

Jerusalem with Mitterrand. In Washington March 12, Mitterrand may ask President Reagan to step back and allow France to take charge of Middle East diplomacy. Sources in Paris and London report that French influence in Saudi Arabia, established during the era of Giscard d'Estaing, may be used as leverage to pull Saudi Arabia away from its traditional reliance on the United States.

Most British spokesmen join in condemnation of the new "global unilateralist," tendency in the United States represented by Weinberger, Fred Iklé of the Pentagon, and Irving Kristol and Norman Podhoretz of *Commentary* magazine. Weinberger's "go-it-alone" attitude has repeatedly exacerbated frictions between Europe and the United States, notably in his hard-line demands that the Europeans scrap the Siberian gas pipeline and accept a Polish debt default, regardless of the damage such measures would inflict on their national interests. Ironically, this tendency has been fed by the Heritage Foundation, deeply influenced by British intelligence, in Washington. The excesses of these unilateralists elicited the comment of one German think-tanker recently that these Americans are "hysterical." Other attacks on the lunacy of U.S. strategy have come from such pro-British sources as Theo Sommer in *Die Zeit* and Arrigo Levi in the *London Times*.

Carrington and the Hamburg mafia

In contrast to wild men like Weinberger, British Foreign Minister Lord Carrington can cut the figure of olympian restraint and rationality, and the chief of British diplomacy is exploiting the moment to the hilt. Carrington's German audience in Hamburg in early March took an instinctive firm grip on their wallets when they heard him remark: "It is a pleasure for me to be in Hamburg once again, one of Europe's greatest states. I almost have the feeling that I should be treated as an honorary member of that legendary force in German politics, the 'Hamburg mafia.' . . . My presence here is, I hope, symbolic . . . of the excellent relations between the Federal Republic of Germany and Great Britain. I believe those relations have never before been so close, so warm, and so important. And that says a great deal, if one considers how far into the past the links between Germany and Great Britain stretch, and how manifold they are. Our languages are closely intertied.

"The German element in our populations still exhibits itself today in physical traits; we are occasionally still referred to today as Anglo-Saxons, although the true Saxons live on this side of the North Sea. . . . Close bonds continue to exist between our own royal family and the royal families of Germany; the most British of our Queens, Victoria, spoke German with her household."

Ted Heath renews bid to isolate America

Below are excerpts from a speech by British Conservative Party leader Edward Heath, delivered as the 38th John Findley Green Lecture at Westminster College, Fulton, Missouri, on March 2. Emphasis is in the original, as provided by the British government.

The changing face of power

... We continue to live in a world in which the preservation of freedom and the continuation of liberal economic systems depend absolutely on our power to resist the expansionist energies of the Soviet Union. These energies derive their momentum not merely from the simple lust for power, but also from the frustrations of a restless empire in Eastern Europe; from the demoralisation of an economic system which has failed in every Soviet Republic and satellite; from the humiliation of a political creed which has failed utterly to inspire the millions in whose name it is perpetrated; and from the inability of Soviet leaders to derive psychological security from any source other than their growing military arsenal. It is this *combination* of facts which makes the Soviet Union such a peril to civilisation and freedom everywhere. . . .

This brings me, Ladies and Gentlemen, to the next challenge to Western strategy in the years ahead. It is to involve the major regions of the Third World gradually in a full partnership with the West in every sphere of international affairs. . . . Perhaps the most vivid testimony to this necessity is the damage which has been done to the security interests of the West in the Gulf, in the Horn of Africa, and in South Asia by the failure of the United States to develop a close political partnership with India. This is a country which in the next century is set to become one of the world's principal industrial powers, one of its major suppliers of a host of raw materials, and one of the leading architects of international order. . . .

In El Salvador, the [U.S.] administration has claimed the right to intervene militarily should the opposition forces look like winning the civil war. This is justified by the assertion that these forces are the product largely of external communist support. In my judgement, this view fails to give due recognition to the primary causes of the upheaval in El Salvador and in

some other Central American countries. The first is the long history of repression and exploitation of ordinary people by the government in league with an oligarchy of business interests. The second is the devastating effect which the rise in the cost of oil, low prices for the commodities which they export, high interest rates, and a shortage of foreign credit have had on their rural economies. . . .

In Saudi Arabia, the United States still has, in my view, a political profile that is far too conspicuous. The West must beware of pressuring the Saudi government into formal agreements on matters of security. . . .

The inadequate efforts of West European members of NATO to improve the conventional defence of their territory will, I believe, make the use of nuclear weapons significantly more probably should war break out. Moreover, by enhancing Europe's dependence upon nuclear protection by the United States and upon the vagaries of American nuclear policy, these inadequate efforts make nuclear strategy an issue which is immensely controversial and therefore damaging to the cohesion of the Alliance. These facts provide European leaders with a powerful argument for increasing expenditure on conventional defence, which I believe they have failed sufficiently to use. . . .

In Europe many ordinary people feel that should war break out they would be faced with alternative nightmares: on the one hand, desertion by the United States; on the other hand, a nuclear exchange fought by the two super-powers but confined to the European battlefield. . . . The belief of some U.S. strategists in the concept of "limited nuclear war" and in the notion of prolonged nuclear "war-fighting" has not provided solace to the Europeans. . . .

I remain convinced that the causes of this can only be dealt with by closer integration within Western Europe in the realm of security. Only this would give Europeans real confidence in their ability to influence the defence policies by which their security is maintained. It would require us in Europe not only to develop the procedures for coordinating our defence policies within NATO, but also to deepen our co-operation within the European Community in the sphere of diplomacy. The need for common European diplomacy is particularly great in those areas such as the Middle East and Cyprus where Europe has a role to play which is both distinctive from and complementary to that of the United States. . . .

The West can only influence the process of change in Poland, as well as in the Soviet Union, by long-term policies which provide support and encouragement for those who are committed to gradual reform. This cannot be done without deepening our communications with those countries in the realms of trade, political consultation, and discussions on human rights. . . .

We should not, I believe, make ourselves so dependent upon Soviet markets or supplies of raw materials

that we end up by giving her a significant source of leverage over us. Nor should we resume the extension of credits to Poland if no progress is made towards liberalisation and economic reform in that country. . . .

The new religion of so-called "self-reliance" which holds sway in London and Washington will, I believe, suffer its demise as it becomes plain that it damages not only the economies of others but their own as well. In the United States, the unprecedented overvaluation of the dollar caused by the contradictory pursuit of high interest rates and loose fiscal policies is bound to produce large trade deficits and to do further damage to its economic growth. Sooner or later, this will lead to a major fall in the value of the dollar, which in its wake will bring more instability to the world's currencies and impart a powerful impulse to inflation in the United States itself.

The determination of the American authorities to avoid intervention in the exchange markets to help control the value of the dollar will exacerbate these effects. Only the speculators will draw comfort from this situation. The ranks of the unemployed will continue relentlessly to swell. And the rest of the world will probably wait patiently for the next shock which a collapse in the dollar will impart to the global system of trade, finance, and investment.

Yet I believe that Europe neither need nor should wait patiently for this to happen. The Community ought to take action to insulate itself more effectively from changes in U.S. interest rates which are geared primarily to American needs. This could be done by the selective use of exchange controls and by greater supervision of the Euro-currency markets. It would require the Community to develop a more effective policy towards the dollar for the European Monetary System than exists at present. And it would need to be supported by greater harmonisation between the member states of their fiscal instruments, particularly taxation on portfolio investments.

The alternative to these policies is that Europe will be condemned sheepishly to follow U.S. monetary objectives. This will leave it with no choice but to tighten fiscal policies even more sharply. The almost inevitable result would be to endanger expenditure on defence and security. . . .

Some may say that these policies would contribute to the further erosion of international cooperation. I believe that they would do the opposite. First, by helping to stabilise currencies they would contribute to the maintenance of an open international trading system, precisely because turbulent exchange rates are such a potent cause of protectionist pressures. And second, *they would contribute towards the development of a regional approach to the management of global economic and monetary affairs—which I believe will be the only successful approach in the long term. . . .*

Third World Diplomacy

India stresses joint North-South stakes

by Daniel Sneider, Asia Editor,
from New Delhi

How developing countries will face what Indian Prime Minister Indira Gandhi characterized as the "visible deterioration in the global economy even in this short period of four months since the Cancún Summit" was the topic of three days of consultations in New Delhi beginning Feb. 21.

The meeting, requested by Mrs. Gandhi, brought together representatives of 44 developing nations to seek a common perspective on future North-South negotiations to promote modernization of the "South," or underdeveloped sector. Of immediate concern to the participants was the continued foot-dragging by the Reagan administration on entering such talks, and the related administration failure to address the world economic crisis. This crisis, Mrs. Gandhi warned in her opening speech, has "disastrous consequences for mankind."

The New Delhi meeting intersected an apparent intensification of disunity among the developing-sector nations themselves over how to respond to the Reagan administration's stalling tactics. Frustration and anger is running high in all the developing countries over the lack of progress in the North-South talks that have been off and on since at least 1974. A group of radical, "hard-line" nations led by Cuba and Algeria is using this mood among the developing countries to argue for, alternatively, an inflexible confrontationist attitude toward the United States, or a virtual abandonment of North-South talks with a "go-it-alone" strategy for the developing countries.

India, with strong backing from Mexico, sought to use the New Delhi talks as a forum to organize the other developing countries around a viable strategic perspective for future talks. The element Mrs. Gandhi emphasized was the *reciprocity of interest* between the developed and developing countries—the industrialized countries can only recover if they export technology to the so-called Third World.

In the end, the talks failed to reach the desired agreement on how to approach the Reagan administration's foot-dragging, because the developing countries

are supposed to function on the basis of unanimity, but Cuba and Algeria refused to alter their positions. The question of tactics will now return to the United Nations in New York, where the developing countries' negotiating arm, the Group of 77, will further consider the issue. They hope to reach a common approach by March 16, when the U.N. General Assembly reconvenes with the North-South issue on the agenda.

Mrs. Gandhi sets the tone

In her inaugural speech to the delegates, Mrs. Gandhi emphasized the crisis in the world economy, and the consequences for developing countries of sharp cutbacks in financial flows as a result of high interest rates. "One has only to image the effects of prolonged and mounting unemployment, inflation and interest rates," she said.

Mrs. Gandhi was bluntly critical of the lack of progress in North-South relations. "Progress in the developing countries will help to rejuvenate the stagnating economies of the industrialized countries. In turn," she said, "improvement in the economies of the industrialized world offers better prospects for our own development."

Mrs. Gandhi's views found broad agreement among the developing nations represented. Mexican delegation head Jorge Eduardo Navarrete, a top Foreign Ministry official, told delegates in private session that the monetary and trade policies of some industrialized countries were being pursued with the "beggar-thy-neighbor" approach of the 1930s which brought about widespread, cumulative recession."

Navarrete, clearly referring to the Reagan administration and Paul Volcker, criticized the "restrictive monetary policies and increased interest rates" that are causing "increased indebtedness and debt burden" for the developing countries.

The conference discussions were divided into two areas: North-South relations and South-South relations.

Most attention focused on the area of greatest contention, North-South relations, and particularly the stalled effort at the United Nations to convene "global negotiations" on the world economy. The effort is blocked by Reagan administration refusal to concede a broad and comprehensive range for such talks, specifically encompassing the functioning of the International Monetary Fund and the World Bank.

The United States insists that agenda items can only be discussed *within* those bodies, where the weighted voting rights of their Bretton Woods charters gives the United States and other advanced countries control. No progress has been made since the October North-South heads of state meeting at Cancún, Mexico. The current stalemate was solidified in December 1981, when the United States reiterated its policy on this issue, and

proposed that a "preliminary conference" be held before the "global negotiations" begin. While rejecting this U.S. proposal, the developing countries must now come up with a response.

In the discussions, the lack of unity among the developing countries emerged, with Cuba and Algeria adopting their positions that absolutely no concessions be made in an attempt to break the deadlock. Others, led by Pakistan's United Nations Ambassador Niaz Naik (Vice-President of the General Assembly and a key participant in the negotiations) urged compromise, and proposed the convening of an "organization session" for the "global negotiations." This proposal, which reportedly had the go-ahead from the United States, was made in the belief that it is worthwhile to get some movement on the talks, and leave the main issues—the status of the International Monetary Fund and World Bank—for later.

The Indian hosts generally weighed in on the side of the moderates, and their attempts to bridge the positions was reflected in the final statement of the meeting, which called for the developing nations to be "firm and flexible—firm in its commitment to the basic objectives and flexible in its approach and strategy."

Informed sources say the Indian government did not want emphasis placed on the global negotiation procedural issue, but rather on substantial issues like finance and energy, with the aim of "getting something done," rather than getting "bogged down in technicalities" at the United Nations.

The issue which brought out the strongest remarks was financing, followed by the question of cooperation among developing countries themselves. An Indian delegate told the committee on North-South relations, that "oil importing developing countries are being hard hit by recession, by sharp deterioration in the terms of trade, by high interest rates, by adverse exchange rate movement" and by sharp drops in low-interest concessional lending from the institutions like the World Bank's International Development Agency. Countries especially from South Asia and Africa are being told to seek capital in the high-interest-rate dominated private markets, to compensate for the cutbacks in International Development Agency lending announced by the Reagan administration.

The final conference statement condemned this trend as one which will "accentuate the already heavy debt burden of the developing countries." It also attacked "outmoded concepts" such as "graduation," the World Bank's description of a stage when countries supposedly "graduate" from receiving low-interest loans to participating in private capital markets. The statement summing up the talks also condemned "the tendency toward stricter conditionality" in the effort to push private financial flows.

The P-2 death squads

A document on El Salvador outlines the origins of slaughter in Central America and the possibility of reversing left-right collusion.

On March 2, *EIR* founder Lyndon H. LaRouche, Jr., announced the formation of a new Commission for Free Elections in El Salvador. Heading the Commission, LaRouche announced that it would contact the Presidents of Mexico, El Salvador, and the United States in order to pull together agreement on how to stop the dangerous polarization which appears inevitable following the elections if the situation continues on its present course. Negotiations with insurrectionary groups may be one necessary step, LaRouche specified, and the only military action required is to hunt down and summarily execute every member of the death squads now operating in El Salvador.

The targeting of the death squads brought an immediate response from officials in all three capitals contacted by the Commission. "Nobody at all will say anything about the death squads," one Salvadoran official said nervously. "They function just like the Mafia. Anyone who says a word ends up dead the next day." "You'll never get the families behind the death squads," another Latin American security officer stated. "They run them through the military—and keep their names clean." The following memorandum, produced by Commission member Dennis Small, provides initial leads into precisely those higher levels of control.

The principal reason that the horrible warfare in Central America is rapidly becoming uncontrollable is the activities of **fascist death squads** in the area. These paramilitary groupings are linked to: a) the Italian Freemasonic Lodge **Propaganda-2** (P-2), documented in detail by Italian authorities to be the controllers of both international terrorism and narcotics trafficking; and b) certain contaminated networks inside the United States. It is hardly accidental that U.S. Secretary of State Alexander Haig—whose name has appeared repeatedly in the Italian press as complicit in the P-2 scandal—has consistently covered

up this death-squad activity.

The spread of these death squads has made the already difficult Central American conflict impossible to negotiate. As long as they are allowed to operate, violence will escalate between "right" and "left" forces in the region. The reasons are elementary.

The function of these P-2 controlled death squads is *not* to end leftist insurrection. Rather their purpose is to create insurgency by using torture and other bestial methods to induce suicidal revenge-reactions among targeted populations. As an op-ed by William Leo-Grande in the March 7, 1982 *New York Times* reported matter-of-factly: "According to U.S. intelligence estimates, for every civilian the Salvadoran army kills, at least 25 guerrilla sympathizers spring up." An entire guerrilla movement can then be created by introducing a handful of leftist **Jesuit** and **Socialist International** terrorist controllers into such a terrorized social environment. "Left" and "right" atrocities are triggered, in which a genocidal "population war" is the final outcome.

El Salvador is already approaching the point of no return in this regard. Guatemala, with the rest of Central America right behind it, is on the edge of such an uncontrollable holocaust.

Four examples illustrate the case:

1) The 'Triple A' and P-2

EIR has confirmed from Argentine and other reliable Latin American sources that there are—as various other media have also alleged—a few dozen Argentine specialists currently in El Salvador, "advising" the military there on counterinsurgency methods perfected through extensive use in Argentina in the 1970s.

It is documented fact that the 1970s anti-terrorist activities in Argentina were run principally by the infamous **Alianza Anticomunista Argentina** ("Triple A") death squad. The creator and controller of the Triple A

was **José López Rega**, the astrologer and principal adviser to Argentine dictator **Juan Domingo Perón**, and the lover and controller of Peron's widow, **Isabel Martínez de Perón**, herself president of Argentina from 1974 to 1976. López Rega is a listed member of the P-2 Masonic lodge, and was on intimate terms with P-2 founder and Mussolini ally **Licio Gelli**.

Even after López Rega's departure from Argentina in 1975, the P-2 apparatus retained extensive influence in the country, especially the military, through individuals such as:

General Carlos Suárez Mason, currently head of the government petroleum company, Yacimientos Petrolíferos Fiscales; **Admiral Emilio Massera** (ret.), the former head of the Argentine Navy who today heads that country's official social-democratic party; **Raul Lastiri**, López Rega's son-in-law who served briefly as president in 1973; **Alberto Vignes**, Foreign Minister of Argentina from 1973 to 1975; **Arturo Frondizi**, president of Argentina from 1958 to 1962.

In addition to the Argentine advisers currently in El Salvador, there are ongoing negotiations to increase this involvement. The Army Chief of Staff of El Salvador, **Col. Rafael Flores Lima**, was recently in Argentina to discuss these matters with his counterparts there, and received a favorable response.

2) The World Anti-Communist League

The **World Anti-Communist League** (WACL) is an umbrella association of anti-communist groupings which includes a number of overt death squads—such as the Cuban exile groups **Alpha 66** and **Omega 7**, and the Guatemalan **Movimiento de Liberación Nacional** (MLN). The ultra-right MLN is headed by **Mario Sandoval Alarcón**—a presidential candidate in Guatemala's recent elections—who is widely reported to be one of the controllers of Guatemala's "**Mano Blanca**" death squad. The **Unification Church** ("Moonies") of Rev. Sun Myung Moon also support WACL. Another curious fact about WACL is that present at its 1967 founding conference was Costa Rican ex-president **José "Pepe" Figueres**, an active member of the Socialist International and a sponsor of the 1979 Sandinista Revolution. *

3) Benedicto Lucas García and Permindex

Another controller of the death-squad apparatus in Guatemala is **General Benedicto Lucas García**, the Army Chief of Staff and brother of Guatemala's president, Romeo Lucas García. Besides the ongoing assassination of thousands of Guatemalans, Benedicto is engaged in a special operation to drive thousands of refugees across the Guatemalan border into neighboring Mexico, in order to destabilize that country.

Benedicto was trained at the French military acade-

my St. Cyr, and fought alongside French troops in the Algerian war. During this period he established ongoing contact with the **Organisation de l'Armée Secrète** (OAS) networks around **Jacques Soustelle**, who in turn are linked closely to the **Permindex** assassination capability responsible for the John Kennedy murder and the dozen of attempts on the life of French President Charles de Gaulle.

Reliable sources have informed *EIR* that Benedicto is also closely linked to the powerful Central American apparatus of the American company **United Brands** (previously United Fruit Company.) United Brands has a documented role in training both left and right terrorists in Central America at its **Pan-American Agricultural School** in Tequigalpa, Honduras, and at the Jesuit Loyola University's **Inter-American Center**, in New Orleans. The Honorary Chairman of the Board of United Brands, **Max Fisher**, has strong connections to the Israeli Mossad. Benedicto Lucas García, for his part, is a vocal advocate of the Israeli cause, and has been quoted saying that "Israel is an example for our soldiers."

4) Roberto D'Aubuisson

D'Aubuisson is a former officer in the Salvadoran army who runs a large part of the fascist death-squad apparatus in that country. He was an active participant in the 1980 WACL conference presided over by P-2 member General Suárez Mason. D'Aubuisson today is running for the Constituent Assembly in the March 28, 1982 elections, on behalf of the Nationalist Republican Alliance party, and has vowed: "We will exterminate the guerrillas three months after coming to power. . . . Napalm would be indispensable." His campaign spokesman, Mario Redaelli, is quoted as adding: "We don't believe the army needs controlling. Civilians will be killed, war has always been that way. When the Germans bombed London, they didn't tell civilians to get out of the way first, did they?"

D'Aubuisson's campaign is financed by way of the Miami community of expatriate Salvadorans, Nicaraguans, and Cubans. He has also visited the United States on various occasions, at the invitation of the **Council for Inter-American Security** (CIS) and other groups.

Yet D'Aubuisson's campaign is reportedly receiving support from Salvador's *leftist* insurgents as well. Jorge Bustamante, the head of Salvador's Electoral Commission, recently reported: "I think some leftists will vote for him [D'Aubuisson] also. They know that where you have 3,000 guerrillas today, you'll have 300,000 if D'Aubuisson gets into office."

It is this death-squad apparatus which must be dismantled, if there are to be any negotiations to resolve the Central American crisis.

Zia's purges and his own survival chances

by Ramtanu Maitra

During the first two weeks in March Pakistani dictator Ziaul Hag has arrested more than 10,000 supporters of the late Premiere Zulfikar Ali Bhutto's Pakistan People's Party (PPP), the most formidable opposition to General Zia's regime. Police spokesmen said that unnamed top-level government officials were also rounded up.

According to reports from Pakistan, Zia has established two detention camps surrounded with barbed wire fences, one in Lahore Fort and the other 12 miles from Karachi. A few primary schools in Sind and Punjab provinces are also said to have been converted to detention centers.

The crackdown puts an end to press claims of "stability" in Zia's Pakistan. Even parties and individuals formerly supporting the regime are now joining the Movement for the Restoration of Democracy (MRD), in which the PPP plays a leading role. The MRD now encompasses 12 parties; three new parties, including the Jamiat Ulema-i-Pakistan (JUP), which had formerly supported Zia, have joined the movement.

The extent of the crackdown was revealed when Maulana Noorani, president of the JUP, told a press conference that the government had turned Pakistan into a police state by arresting innocent people. Movement spokesmen also suggested that Zia is moving toward a bloodbath which will not only destroy the democratic opposition but engulf the entire region in chaos.

The mass arrests were preceded by a series of events indicating sharp foreign-policy dispute within the ruling junta. In early February, a Pakistan delegation led by the Foreign Minister Agha Shahi was in New Delhi holding preliminary talks on a "no-war pact" with Indian Prime Minister Indira Gandhi. Then Shahi resigned, and was replaced by retired Lt.-Gen. Shahibzada Yaqub Khan, a man with friendly ties in Washington, where he was once Ambassador. On Feb. 24, Agha Hilaly, representing the Pakistani government at a meeting of the United Nations Commission on Human Rights in Geneva, made deliberately provocative remarks against India, and the Indians canceled future talks.

Reliable sources insist that behind these developments is U.S. State Department pressure on Zia to give the United States military bases in Pakistan and to enter

an open alliance with Washington, scrapping Zia's current "non-aligned Islamic conference" profile.

Caught between the State Department pressure and the Pakistani population's growing hatred, Zia is now lashing out with mass arrests. In the process, he may so discredit himself that his fellow generals will let him collapse. One successor sometimes rumored is Gen. Fazle Muqeem, a close associate of Gen. Fazle Haq. The latter was named by *EIR* last fall as part of the drug-trafficking ring in the Pakistani military.

Fazle Haq, the military governor and martial-law administrator of the Northwest Frontier Province, through which there is a gigantic flow of drugs, is the brother of Fazle Hussain, who is wanted by Interpol in connection with several cases involving drug trafficking throughout Europe.

Fazle Muqeem, a retired general, is himself a close associate of General Rahimuddin, the military governor of Baluchistan, the other big drug-producing province in Pakistan. Rahimuddin's daughter is married to Zia's son, and among his associates are Europeans linked to the drug traffic.

A key controller of these generals is the London-based Agha Hassan Abedi, the founder of the Persian Gulf-based Bank of Credit and Commerce International (BCCI), who was named by late Premier Bhutto as one of the people instrumental in provoking the capital flight and social destabilization that preceded his overthrow. The BCCI is tied to the outlawed Propaganda-2 fascist lodge's financial apparatus, and to Libyan-Iranian networks.

Abedi's payroll includes such agents as Yuseof Haroon, brother of Zia's Interior Minister; Humayun Khan, Toronto-based son of Zia's newly promoted Chief of the General Staff, Lt.-Gen. Akhtar Rahman Khan; Zia's son, Ijazul Haq; and General Chisti. Chisti, who according to informed sources, runs a drug operation with the help of a front man based in Finckley, England, recently bought some real estate in Langley, Virginia, where the CIA is headquartered. Last month, Chisti went back to Pakistan, reportedly carrying a message to Zia to hasten the delivery of military bases to the United States.

Whether the State Department will sacrifice Zia or be content with shoring up the right-wing generals in his support, the overall plan is to push forward with the policy. Secretary of State Alexander Haig and Undersecretary James Buckley have pursued during the past year—from arming the Pakistani army with sophisticated weaponry to financing the drug-peddling "Afghan refugees." Now the State Department, by ignoring the documented evidence of Zia's fascist measures and large-scale drug-dealing among his generals, is instrumental in promoting an imminent bloodbath in Pakistan.

London's operatives plotting new coups

by Thierry Lalevée

When President Hosni Mubarak of Egypt arrived in the West German capital of Bonn, Feb. 11, he was greeted by a demonstration of 6,000 angry Muslims, denouncing his policies of "repression" against the Egyptian Muslim Brotherhood.

These demonstrators had two distinguishing features: first, according to eyewitness reports, most of them belonged to the huge Turkish Muslim community living in West Germany and had been brought to Bonn in a well-organized system of buses from the Rhine city of Koblenz, some 60 kilometers away. A second feature is that, according to the well-established Islamic Centers in Germany, the demonstrators' organization did not exist. Before appearing at the demonstration, the Turks had distributed leaflets in the name of an "Islamic Union of Germany," a name which surfaced only a few days before the demonstration, according to spokesmen for the Muslim Brotherhood in Germany. The West German Muslim community has been split for several years into the Munich-based South German Islamic Community, which is the strongest such organization in Germany. Various local Islamic centers exist in Aachen, Cologne, Dortmund, and Hamburg. "There is no such thing as a general 'Islamic Union' of Germany," an angry Stuttgart member told a reporter.

Behind the shadowy phenomenon of these 6,000 Turkish demonstrators is a very secretive re-organization of the international Muslim Brotherhood apparatus. The Bonn demonstration showed that this reorganization is aimed at establishing a close coordination between the various national operations of the Brotherhood. The Turkish workers demonstrating in support of their Egyptian brothers was a successful trial balloon for how "pan-Islamic solidarity" can be organized.

This reorganization occurred in the last month of 1981, and its full effects are not yet evident. It was necessitated by the developments in Egypt after the Sadat assassination, which were disastrous for the Muslim Brotherhood there. The assassination did not lead to a national upheaval and an Egyptian Islamic republic on the Iran model, as the fanatics of Takfir Wal Higma and

their controllers believed; it led to a national reaction against fundamentalism, with power consolidated in the very popular regime of Mubarak. When Mubarak succeeded in obtaining a full denunciation of Sadat's murderers from Omar Telmesanni, the official head of the Brotherhood in Egypt, as the price Telmesanni had to pay to get out of prison, in a few minutes years of organizing work by the Brotherhood in Egypt were destroyed.

'Mubarak is like Sadat'

For these reasons alone, Mubarak has become the number-one target of the Brotherhood, and the Bonn demonstration was only the most public feature of what is being plotted.

Mubarak's assassination was the subject of planning sessions held over the past months, especially a secret conference held in London in mid-December under the leadership of the aging Dr. Said Ramadan, son-in-law of Muslim Brotherhood founder Hassan al-Banna. Ramadan, the acknowledged leader of the Egyptian Brotherhood in exile, has been plotting ever since he left Egypt at the end of the 1950s, for his triumphal return to head an Islamic republic in Egypt. His base for more than 20 years has been the Islamic International Center in Geneva. Ramadan has been traveling to London since last autumn in what he described as an "advising mission," to initially bring together for the first time in London the Muslim Brotherhood for the entire Islamic world, including official government representatives from Libya and Iran as "observers."

The results of the discussions were leaked a few weeks later by Dr. Marcel Boisard, the Secretary-General of the Club of Rome-created "Islam and the West" Association based in Geneva, which has maintained close links with Ramadan's associates. In a discussion with a journalist, Boisard boasted that the Brotherhood was getting stronger in Egypt by taking advantage of Mubarak's liberalization. Recognizing that the Brotherhood has no broad-based public support, he warned that if the new president did not change his policies, "strong and violent actions are to be expected."

Around Dr. Ramadan, a hard core of Islamic representatives and leaders is now functioning as the international leadership. They include Salem Azzam, the Saudi Arabian who heads the London-based Islamic Council of Europe, and is directly involved in subversive activities inside Egypt under the code name "Hajj abu Mohammed." In this capacity he chairs, with the exiled Egyptian opposition figure who claims responsibility for Sadat's murder, General Shazli, the Tripoli-based National Front. This group also includes Ziauddin Sardar, an environmentalist and a member of the Jamaati Islami who operates as an official researcher on behalf of Boisard's Islam and the West, and the presi-

dent of the Islamic Council of Europe-sponsored Islamic Commission for Human Rights, former Algerian President Ahmed Ben Bella.

This international apparatus, based in Paris and London with branches in West Germany and Switzerland, has defined the new targets of the Brotherhood: the Gulf region, Egypt, and Morocco, which are operations to be carried out in coordination with the new Shiite International created by Ayatollah Khomeini.

With Egypt as the key project of Azzam and Ramadan, Africa has been made the responsibility of Ahmed Ben Bella in Paris, who has received considerable support from the regime of Socialist President François Mitterrand.

According to reports, Ben Bella is expected to lead a massive Brotherhood offensive in the North African country of Morocco, which has also been targeted by Iranian terrorist circles for its collaboration with Iraq. While Morocco is being put under military pressure by the Libyan-sponsored "Polisario" synthetic liberation movement—which was granted recognition by the OAU in the beginning of March—sources report that the Brotherhood has intensified its campaign inside the country after having seized numerous mosques, from which they have delivered anti-King Hassan tirades. The West German-based Moroccan community is being put under pressures by Ben Bella and Libyan-connected Muslims. Moroccan sources report that in Dortmund, a national conference of the Brotherhood was held in early March which discussed the case of Morocco as a priority.

A newcomer in the deployment of the Brotherhood, Ben Bella was quick to make it to the top of the hierarchy after his release from an Algerian jail some 18 months ago. He is trying to become for the Sunnite Islamic world what Khomeini is to the Shiite world. Ben Bella has been supported by the very same circles which created Khomeini. Upon his release from prison, his first trip abroad was to London to meet with the leaders of Amnesty International and the Bertrand Russell Peace Foundation.

Ben Bella is now championing the rights of the developing countries, although as he told *Le Monde* last year, he acknowledges that his earlier commitment to socialism was "wrong" and that Islam alone can provide the answers to the developing countries' problems. At present, he just wants to be called an "anti-imperialist" and it was in that capacity that he was elected president of the Islamic Human Rights Commission in September 1981, which was established in the Paris offices of UNESCO under the auspices of Salem Azzam. The commission was specially created to give Ben Bella an official job, rather than out of concern for human rights, which are continually violated by Azzam's associates in Pakistan.

A U.S. CONNECTION

Islamic Centennial 14 and fundamentalism

by Nancy Coker

In the summer of 1978, when the phenomenon of "Islamic fundamentalism" was still a novelty and the full implications of the "Islamic revival" had not yet become apparent, a group of approximately 20 people were meeting regularly in Washington to plan how the United States could best play the Islamic card. This group was the preparatory committee for what was later to be called the National Committee to Honor the Fourteenth Centennial of Islam, or Islam Centennial Fourteen (ICF), headquartered in Washington.

Officially, the ICF was set up as a nonpolitical organization committed to fostering an understanding of Islamic civilization and culture in the American population. In point of fact, ICF works to deliberately obfuscate Islam, by creating a smokescreen in the name of religious ecumenicism and cultural relativism for such extremist pseudo-Islamic cults as the Muslim Brotherhood. Like the Aspen Institute, which was instrumental in the overthrow of the Shah of Iran, ICF and its executive director William Crawford, retired ambassador to North Yemen and Cyprus, disseminate the view that Islam and modernization are inherently in conflict with one another. This conflict, they maintain, is what undid the Shah, and if there is to be economic development in the Islamic world, it must be reconciled with local prejudices and beliefs.

Last year ICF raised more than \$2 million in tax-deductible contributions from corporations across the country, including most of the major oil companies and construction firms. Although several of these firms are complicit in the true nature of ICF's activities, most corporate representatives interviewed by *EIR* were uninformed that the ICF is advocating an approach to the region that, expressed in economic practice, would severely limit corporate activity in the Islamic world.

The role of Joe Malone

According to ICF insiders, Islam Centennial Fourteen is the creation of Joseph Malone, a long-time asset of British intelligence who operates out of his Middle East Research Associates in Washington. Malone—like ICF director Crawford's family—is a product of the American University in Beirut, a bastion of British



William Crawford of Islam Centennial Fourteen.

intelligence operations in the Middle East and the seat of the British-KGB networks around triple agent Kim Philby, a friend of Malone's. Malone is an intimate of dissidents throughout the region, particularly in Saudi Arabia, where his close relations with anti-establishment "Young Turk" elements have implicated him in the 1975 assassination of King Faisal and the ongoing operation to undermine Prince Fahd.

"ICF was essentially an outgrowth of the Middle East Educational Trust [MEET], a small front group that Malone was running in the late seventies," said one source. "There was some communication with a group in London—Malone had many friends there—who had picked up the idea of building a new organization around the fourteenth centennial of Islam, which is what Malone then went about doing."

The preparatory committee met frequently in 1978, usually at Washington's Islamic Center. Among the early members were Malone; Malone's sidekick at MEET, Jim Johnston; John Duke Anthony of Johns Hopkins; Ralph Braibanti of Duke University; Mohammed Abdul-Rauf of the Islamic Center; Admiral Marmaduke Bayne of Georgetown University; Jack

Hayes of Mobil Oil; and Tom Snook of Exxon.

The State Department and the National Security Council, encouraged by President Carter, repeatedly began to draw on the services of this group of "old Middle East hands," calling them over for "advice" on Iran. "When Brzezinski discovered Islamic fundamentalism, he asked for a country-by-country review by the ICF preparatory group," stated a source. To this day, ICF maintains close links to the State Department, mediated primarily through Crawford and other ICF members such as Philip Stoddard and Malcolm Peck.

"The ICF got a great boost from the Carter administration," said one ICF source. In a letter to ICF Chairman Lucius Battle on July 12, 1980, Carter pledged to "encourage involvement by appropriate governmental agencies as well as by individual citizens."

In the summer of 1979, Crawford was brought on as full-time executive director of ICF. The ICF inaugural gala was scheduled for November of that year, but was postponed because of the hostage seizure in Iran.

"President Carter precipitated the postponement," said one founding member of ICF. "I thought it was a bum decision to postpone. In my opinion, the ICF has taken an easy route by trying not to upset Khomeini or the radical Muslims. I think this could be seen as an effort by Crawford to apologize for the radicals. Crawford lumps everything together that has to do with Islam, all in the name of promoting Islamic culture. He makes no distinction between the radicals and the moderate mainstream. This is inexcusable. As a result, ICF has become a clearinghouse for all kinds of strange activities. For example, the ICF newsletter prints information on meetings held by Muslim Brotherhood radical groups as well by legitimate organizations."

The Rothko Chapel affair

On March 10, Crawford was in Houston for the opening of ICF's "The Heritage of Islam" exhibition. Attending the inaugural was Schlumberger heiress Dominique de Menil, whose husband John was implicated in the 1963 assassination of President Kennedy.

Six months earlier, Crawford had another occasion to meet with Mrs. de Menil, when he attended a conference at her Rothko Chapel in Houston of 25 Muslim "scholars," many of whom were adherents of the Muslim Brotherhood and proponents of Khomeini-style terrorism—all in the name of Islam. Crawford personally blocked requests by the National Democratic Policy Committee and Houston officials that the State Department refuse to issue visas to the Muslim Brotherhood participants. "A friend of mine at the State Department drafted the answer for the Secretary of State and the State Department on this matter," Crawford confided to a friend, "preventing any action that might have prevented the conference from occurring."

Mr. Crawford on the Muslim Brotherhood

The following is an interview with William Crawford, former U.S. Ambassador to North Yemen and Cyprus, and executive director of the Islam Centennial Fourteen, by Robert Dreyfuss, EIR's Middle East editor.

Dreyfuss: What are the objectives of the Islam Centennial Fourteen and what do you hope to achieve in the next year or so?

Crawford: There is a real curiosity [about Islam] that has come into being in the American public because, I think, of recent events and all the headlines. So we're finding a great and mounting receptivity to objective, nonpolitical information [on Islam]. We're not coming from any particular political point of view. We're not lobbyists or pushing the interests of any particular country or any bloc of countries. We're simply in the business of providing basic, objective information. We're finding a very warm reception, indicative, I think, of the kind of interest which is welling up in this country, a lot of it starting from a hostile point of view, understandably enough, given the hostage situation and so on.

Dreyfuss: There's obviously been sort of a well-poisoning going on since the Khomeini revolution, in the sense that a lot of Americans view Islam as a threat rather than simply a religion. What is your organization doing specifically to counter that? You say you provide "simple, nonpolitical, objective information," but I doubt such information exists.

Crawford: I think our "Introduction to Islam" kit pretty well describes the kind of information we put out.

Dreyfuss: What I mean is, if someone in the Muslim world called up some Christian mission and asked, "Is Adolf Hitler an expression of Christianity?" there would be many ways of explaining why that wasn't true. If some American organization asked you, "Does the Khomeini regime represent Islam?" what would you say?

Crawford: They do ask that question frequently, and I say first of all that you must realize that Iranians are Shia Muslims representing only 10 percent of the Muslim world; that they are Persians, not Arabs; that what is going on is a political revolution given a religious label [which] is regarded as absolutely false and an aberration, and a very dangerous one, by most sensible Muslims around the world. . . .

How do we counter all these stereotypes that do

appear in the aggregate threatening to Americans? Yes, in the aggregate it looks threatening, but becomes less so through better information, if you portray the Muslim world for what it is: highly diverse nations, in cultural and ethnic and linguistic terms, going through a process of reaffirmation of pride and independence from the major power blocs, having been inundated by everything Western for over the last many decades and then in frantic pursuit of catching up, beginning to question the appropriateness of everything that's being imported or pushed on them by their own national leadership. This is not a rejection of things Western. It's a more selective approach—"what is appropriate to our own societies." And at the same time I think you find people drawing a balance sheet—what has been achieved after the headlong pursuit of "modernization" and imports of technology and all the rest. And they find that something important is missing in their lives, and that is their own indigenous value system, variously interpreted, and that is Islam. And this is what I think is the implication of what we are seeing when we talk about Islamic resurgence and fundamentalism.

Dreyfuss: What I'm really asking you is to make a value judgment. If some group in the United States—for example, supporters of Ayatollah Khomeini—came to you and asked you to include in an art exhibit some calligraphy done by Khomeini's mullahs in some Qom theological seminary, I presume you would turn them down.

Crawford: Yes, I would.

Dreyfuss: But what about the Ikhwan Muslimun [Muslim Brotherhood]? Would you consider them to represent Islam as they claim to, or would you agree with Sadat's characterization of them as lunatics and dwarfs?

Crawford: I think that they run the gamut from genuinely religious people who are very seriously concerned about the headlong pursuit of Westernization, to those who essentially see their involvement in the Muslim Brotherhood as an expression of political opposition.

Dreyfuss: How do you view someone like Hassan al-Banna, the founder of the Brotherhood?

Crawford: I wouldn't really pretend to be an expert on the Ikhwan. Where I would put him personally, I don't know.

Dreyfuss: But that brings us to the central question. He's revered, but he's a madman. He was an assassin. He had an extremist organization that was allied to the pro-Nazis in the Middle East. He was responsible for killing several Egyptian prime ministers.

Crawford: Well, that I obviously find reprehensible.

Dreyfuss: But you can't separate his religious activities

from the fact that his organization as a whole was extremist. What I'm asking is whether your organization would agree unequivocally that these people are evil?

Crawford: The whole Ikhwan? Or the Khomeini group?

Dreyfuss: The Khomeini group, the Ikhwan, Hassan al-Banna's organization—the whole thing. You say you find his actions reprehensible, but you don't say you find *him* reprehensible. Or do you?

Crawford: Khomeini? Or Hassan al-Banna?

Dreyfuss: Both.

Crawford: Khomeini I do find reprehensible.

Dreyfuss: And the latter? Hassan al-Banna?

Crawford: I don't know. My personal estimate is that there are some seriously religious people, reformists in it. There are others who are in it as an expression of political opposition.

Dreyfuss: I understand that you recently addressed an Islam and the West conference in Paris. I've read their literature, and I've noticed that they're very critical of what they call the "Western development model." . . . Your organization is obviously trying to contact a lot of Americans and explain Islam to them, but I wonder if

you can do that if you associate yourselves with a group like Islam and the West.

Crawford: We are not members of Islam and the West.

Dreyfuss: In October, you attended a conference on Islam at the Rothko Chapel in Houston, Texas, under the sponsorship of Mrs. de Menil. There were a number of radicals at that conference, like Hamid Algar of the University of California at Berkeley, who led a group of chanting pro-Khomeini ruffians into the room. Could you explain your presence at the conference?

Crawford: Unfortunately, I was only there for a day and a half. I have the highest regard for Mrs. de Menil, who organized the conference in order to give Muslims a chance to talk to each other in a non-Muslim environment where they wouldn't feel there was an audience looking over their shoulders, and the press, and governments, and so on.

Dreyfuss: Are you aware that there were people at this conference from various Muslim Brotherhood organizations from various Arab countries, that there were people praising the Sadat assassination, and people calling for the overthrow of the Saudi government?

Crawford: No, I did not hear any of that. Maybe that came up later, but not during the time I was there.

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Britain manipulates Moroccan insurgents

by Douglas De Groot, Africa Editor

The Secretary General of the Organization of African Unity (OAU), Edem Kodjo, unilaterally seated a delegation of the Polisario Liberation Front as a full OAU member-government at the opening of what was to have been a routine Feb. 22 OAU budgetary meeting in Addis Ababa. The Polisario guerrilla organization, nomads backed by Libya and Algeria, has fought a seven-year war against the Moroccan regime of King Hassan II, seeking to have the desert south of Morocco, the Western Sahara, declared an independent micro-state.

Kodjo's sudden extension of recognition, prepared in secret without consulting OAU Chairman Moi of Kenya, provoked an immediate walk-out by 19 delegations of the 50 present. It portends an intensified and "internationalized" Western Sahara conflict, featuring U.S. involvement on the side of the king. It also portends an acute weakening of the OAU, which could cease to exist as an effective instrument for handling African crises.

Morocco was colonized by two powers, France and Spain, the Western Sahara being the former Spanish Sahara. Since 1956, several parts of this area have been joined with formerly French Morocco proper, but the majority of the 120,000 nomadic inhabitants, whipped up by Libya's Qaddafi and short-sighted support from neighboring Algeria, have never been integrated, instead fighting a sometimes bloody war against the monarchy.

At the last OAU summit, King Hassan agreed to a referendum for the Western Sahara. But with Edem Kodjo's recent admitting of Polisario as a recognized government, the referendum is obviously preempted, leaving King Hassan almost no political alternative but to intensify efforts to crush the Polisario rebels.

One of my sources has expressed the fear that "this could lead to a split of the OAU into two organizations, one moderate, the other radical, leaving Africa with no way of dealing with the crises that are being stirred up, and leaving African nations extremely vulnerable to those trying to prevent these nations' development."

Edem Kodjo, from Togo, has closely associated himself in recent years with the Club of Rome, and in particular, its co-founder, Dr. Alexander King. These are circles most interested in preventing African nations' development.

It has been an objective of networks associated with the Club of Rome to depopulate the African continent. Were it possible to draw the United States into "rapid deployment force" involvement in a regional war, these circles reason, all positive U.S. influence in Africa could be eliminated. At present, high-level circles of the British House of Lords are speaking of having Europe under British leadership intervene in Africa as a "Third Force." The content of "Third Force" policy would be that of the Brandt Commission (named for the Socialist International's Willy Brandt), "decoupling" the economies of severely destabilized countries from industrialized nations and returning them to the status of mere raw-materials sources. The Club of Rome's depopulation objective would then be achieved soon enough.

According to Simon May, an aide to former British Prime Minister Edward Heath of the Brandt Commission, the Moroccan-Polisario conflict holds the potential to become an African "El Salvador," not only involving the United States, but with the same potential for discrediting the United States amid nation-wrecking and genocide as the Central American "population war." The Heath aide called the Western Sahara crisis "the most serious crisis after the Israel-Palestine conflict."

The U.S. is preparing to become involved, on cue. Secretary of State Haig, a Club of Rome supporter, recently sent CIA chief Vernon Walters to meet with King Hassan to pledge U.S. support. Similarly the U.S. Ambassador, Joseph Werner Reed, has sought to win Hassan into an open alliance with the United States against the rebels. Reed is a former top-level Chase Manhattan official whom David Rockefeller personally intervened with President Reagan to have appointed. Meanwhile the same Club of Rome-linked (Propaganda-2 Freemasonic) networks to which Haig, Rockefeller, and Walters are linked are behind Muammar Qaddafi's support of Polisario.

Former revolutionary leader Ben Bella is reportedly preparing to "whip up the mobs" in Algeria to retake power on the basis of Islamic fundamentalist furor, which would find a convenient target in U.S. involvement in Morocco. Inside Morocco, too, Islamic fundamentalist ferment includes widely circulated tapes by blind Sheikh Kishk, imprisoned for subversion by Egypt's Sadat. Since the Shah's fall, the same British-supported Muslim Brotherhood networks have targeted the Moroccan monarchy for overthrow. "Without the monarchy in Morocco," I was told by someone who is no friend of the king's, "you would have permanent destabilization."

Thus, Edem Kodjo's recognition of Polisario is, in effect, a well-timed contribution to the staging of crisis and warfare in northern Africa along the lines of the present Central American situation. If it develops according to plan, at least two nations, Morocco and Algeria, won't survive.

Haig sinks deeper into P-2 coverup

by Vivian Zoakos, European Editor

For the past few weeks, Secretary of State Alexander Haig's adviser, Michael Ledeen, has been systematically exposed by Italian government authorities as being intimately linked to the highest levels of Italian terrorism and the international drug lobby. Now a second Haig adviser of even higher rank has been implicated: the notorious Vernon Walters, currently ambassador without portfolio and reportedly Ledeen's superior at the State Department.

The facts about Vernon Walters were published in the issue of the Italian magazine *Il Mondo*, one of the leading investigative journals in Italy. In presenting the new facts of the case, *Il Mondo* correctly points out that Walters's involvement in the Ledeen scandal has implicated the Secretary of State himself much more seriously than ever before.

Il Mondo reports that in February, Ambassador Vernon Walters visited Italy for the sole purpose of forcing a cover-up of the Ledeen involvement with the illegal Propaganda-2 Freemasonic lodge, controllers of Italian terrorism and drug-and arms-trafficking. Not only did he *not* succeed, but subsequent revelations have linked Ledeen to the Red Brigades terrorist gang that kidnapped American NATO General James Dozier.

In publicizing Vernon Walters's mission, *Il Mondo* draws the obvious conclusion that it was not for the purpose of saving Ledeen's relatively low-level neck that a man of Walters's stature risked involvement in the highly dangerous Propaganda 2 affair. Walters's concern in covering up for Ledeen could only have been motivated by fear that were the investigations allowed to run their normal course, Alexander Haig personally would soon become enmired in the scandal.

Haig is already involved. The Propaganda-2 member who had been paying off Michael Ledeen, the Socialist Francesco Pazienza, has admitted in testimony in the Italian Parliament the fact of his own close relationship with the Secretary of State prior to and during his assumption to that post.

The choice of Walters to run the attempted cover for

Ledeen was apt. Used throughout his career as a high-level and very effective troubleshooter, Walters built up his Italian connections right after World War II when he was stationed there as liaison officer between the U.S. and Brazilian armies. Later he was reassigned to Brazil, where in 1964 he coordinated U.S. assistance for the coup d'état of that year, working through the officers who had been with him in Italy. In 1981, he negotiated with the Argentine military advisers for the training of Guatemalan death squads on the sophisticated "public relations technologies" first employed by the Argentine Triple A.

The people under whom Walters worked in Italy in the immediate postwar years, such as James Jesus Angleton—later chief of CIA counterintelligence—were precisely those who organized Italian left-and right-wing networks into the Propaganda-2 lodge. The members of that secret lodge became the controllers and coordinators of the enormous portion of the international drug and arms traffic that passed through Italy. They also created and deployed the various terrorist gangs.

The terrorist connection of Haig's and Walters's subordinate, Michael Ledeen, has since begun to come to light in greater detail following the ambassador's failed visit. Ledeen has been connected to Luigi Scricciolo and his wife Paola Elia, both Socialists and high-level members of the trade-union confederation, UIL, who were arrested in February under charges of being active, ranking members of the Red Brigades, Italy's most infamous terrorist gang.

Europeo magazine of March 6 reported that Scricciolo and his wife had contacted Ledeen in the course of two trips to the United States. The antecedents to this story are that the Red Brigades had issued a communiqué in the period in which they still held Dozier in which they said that the Socialist Party was being controlled from the State Department through an unnamed individual. *Antonio Savasta, Dozier's chief Red Brigade jailer who has since turned state's evidence, subsequently named that individual as Michael Ledeen.*

Europeo reports that Savasta's information came from the meetings between Ledeen and the Scricciolo pair, Luigi and Paola. Testimony from Savasta and the Scricciolo's own cousin—jailed terrorist Loris Scricciolo—identified them and particularly Luigi Scricciolo as being the "public relations" man for the Red Brigades and the liaison man between the Red Brigades, the Irish Republican Army, and the Basque ETA.

Italian anti-terrorist investigators released to the March 10 issue of the Italian newspaper *La Repubblica* that two Americans were part of the 12-man commando team that kidnapped and later murdered former Italian Prime Minister Aldo Moro in March 1978.

One man is already well-known to Italian authorities: Ronald Hadley Stark, who, among his other activities,

recruited potential candidates for the terrorist training camps run in Muammar Qaddafi's Libya.

Stark, who is a chemist, helped set up the Brotherhood of Eternal Love in California in 1966, the organization responsible for working with counterculture guru Timothy Leary to produce approximately 10 million doses of LSD-25 ("Orange Sunshine") in the late 1960s. Stark also maintained a liaison with the terrorist Weatherunderground.

According to federal law enforcement sources, the Brotherhood of Eternal Love paid the Weatherunderground \$25,000 to coordinate the 1979 prison break of Timothy Leary.

French arrest leads into Switzerland

The arrest in Paris in early March of Bruno Breguet, a Swiss national suspected of being involved in a planned bombing of a Paris hotel, has reopened a trail of investigation into an entrenched fascist/terrorist network which has operated out of Switzerland with impunity for decades.

Breguet is not a new name for European enforcement authorities. In 1970, Breguet was arrested in Israel when explosives were found in his possession. Charged with being a terrorist operative for the Popular Front for the Liberation of Palestine (PFLP), he was sentenced to 15 years imprisonment. Then, in 1977, he was suddenly released, whereupon he left Israel for Switzerland, to be employed by Genevan banker François Genoud.

Breguet's association with Genoud was very well publicized. Prior to Breguet's release, Genoud had been openly organizing public support committees for Breguet, to plead in behalf of his release. Genoud's own long-term associations with the Palestinian terrorist circuit were documented in detail March 7 and 8 in a lengthy feature in France's daily newspaper *Le Monde*.

As *Le Monde* reports, Genoud's bank, Banca Arabe Commerciale, was the chief bank used by the Algerian FLN political movement during the 1950s and 1960s. Genoud spent some time in an Algerian jail in the 1960s because of suspicions by Algerian President Ben Bella that Genoud was siphoning party funds out of Ben Bella's control.

Prior to his association with Algeria, however, Genoud had been a prominent figure in the Swiss support movement behind the German Nazi movement. *Le Monde* notes that in 1939, Genoud joined the Abwehr despite his Swiss nationality; other European sources report they are certain Genoud was a close friend of General Wolff, the German commander who oversaw northern Italy for the Nazi party in the final phase of World War II.

Le Monde's exposé on the Breguet-Genoud connection is the latest in a series of hardhitting international probes into the role of Switzerland's banks in protecting

terrorist and organized crime operations.

Since February, Italian, French, and U.S. authorities have been running simultaneous investigations into how the Swiss banking system of secret numbered accounts aids criminality. These official investigations, particularly the French and U.S. investigations, have concentrated on issues of stock fraud, capital flight, and other types of "white collar crime." However, the arrest of Swiss terrorist Breguet, and the *Le Monde* exposé, signal that law enforcement groups are aware that the Swiss banking system is a protection system for much more dangerous criminals than those perpetrating financial fraud.

Defferre's affairs prompt resistance

A new scandal involving French Interior Minister Gaston Defferre broke the first week of March. Defferre was the long-time Mayor of Marseilles, center of the heroin-running French Connection.

Defferre has lost the confidence of almost the entire professional law enforcement corps in France as a result of his attempt to demote—on purely political grounds—one of the country's top policemen, Marcel Leclerc, head of the special criminal brigade in Paris with authority over matters ranging from terrorism to organized crime.

Defferre's attempt led to the resignation of François Le Mouel, head of the Judiciary Police in Paris and the former head of the central narcotics bureau, in solidarity with Leclerc. Le Mouel played a leading role in the dismantling of the French Connection.

On March 9, an unprecedented meeting of 300 to 400 law-enforcement professionals in Paris denounced the actions of the Minister of Interior. A letter was drafted to be hand-delivered to President Mitterrand by a police delegation, asking him to control his minister.

Defferre's name has also come up in a prominent fashion in the Marcel Francisci affair. Francisci, king of the casino gambling industry in France and an elected official of the Gaullist party in Corsica, was murdered in Paris Jan. 15. Now, the content of a tape found on Francisci's body has been published in *Le Monde*, revealing that Francisci had approached Defferre's lawyer, Paul Lombard, asking him to get another lawyer, Roland Dumas, to intervene, on his behalf with the Interior Minister to reopen the most prestigious casino in France, the Cercle Haussman, which Defferre had shut down. The taped conversations indicate that Dumas—one of Mitterrand's closest political friends since 1958—had agreed to intervene, asking for a 50,000 Franc deposit for the job.

Defferre and the two attorneys deny that any intervention was ever made, and Lombard insists that the taped conversations were excerpted in an incriminating fashion by unnamed enemies.

Part I: The surprising PSD

Not social-democratic and hardly a party, its newly launched presidential campaign bears watching.

As I indicated to you in this space a few months ago, the Mexican Social Democrat Party (PSD) is a very strange political beast.

You may remember that I documented its origin in Monterrey Christian Democrat circles, and its close continuing ties to those circles, despite its evolution into one of the most important directing forces of both terrorism and environmentalism in the country under a "left" political coloration.

Now I present some important updates. At its presidential nominating convention Feb. 28, the PSD nominated 74-year-old former PRI party luminary Manuel Moreno Sánchez as its standard-bearer for the July 4 national elections.

It was not so surprising that the party chose someone from outside its own ranks. It has almost no membership of its own. The PSD had in fact published a long list of potential candidates, with all but one or two from outside the party.

However, the choice of Moreno Sánchez is significant. Moreno Sánchez rose in the PRI party in the late 1950s to the powerful post of head of the Senate, and retains to this day wide political recognition. The decision to nominate him means that the PSD has serious plans to split the PRI "from within." There are unconfirmed reports that the PSD is courting other PRI figures who lost out in the current round of nominations for congressional seats.

One of the PSD's models is the campaign waged by José Vasconcelos, former Education Minister, against the candidate of the fore-runner of the PRI party in 1929. Vasconcelos attempted to split the unity of the governing party with demagogic appeals to "clean out corruption."

Moreno Sánchez was an enthusiastic Vasconcelista at that time. On Feb. 28 he accepted the PSD nomination with an ugly attack on the morality of PRI presidential candidate Miguel de la Madrid.

On behalf of PSD masterminds Roberto Guajardo Suárez and the brothers Luís and Edmundo Sánchez Aquilar, Moreno Sánchez immediately pledged "a new kind of campaign," different from the PRI's direct contact with voters.

The statement implied use of the media and "polling" manipulation which is a hallmark of PSD activity. Under its previous name, Acción Comunitaria, the PSD formed a special subsidiary called the Mexican Institute of Public Opinion (IMOP) in 1975. IMOP in turn designed the media package for the Mexican Communist Party's 1976 electoral bid and published appropriate "polls" to bolster the PCM and discredit the PRI.

The PSD's expertise in this area came directly from close Guajardo Suárez associate Hermann von Bertrand, S.J., who is widely documented as the creator of Mexico's most lethal terrorist group of the

early 1970s, the 23rd of September League. Von Bertrand's teaching specialty is sociological techniques to measure "public opinion." To this day Guajardo, IMOP, and von Bertrand share offices in the same building in Mexico City.

From reliable sources, I have learned that the PSD plans to launch its presidential campaign on or around April 1 in the northwestern state of Sonora. The principal speaker, in addition to Moreno Sánchez, is scheduled to be Adip Sabag—the president of IMOP at its founding and subsequently the operation chief for the PSD's successful environmentalist campaign to prevent the construction of a nuclear training reactor complex at Lake Pátzcuaro in Michoacán state last year. Sabag's speech will be a vitriolic attack on the successor test reactor center now scheduled to be built in Sonora, I am told.

The PSD emerged in Monterrey during the sixties, first as a faction in the Mexican Employers' Confederation (Coparmex), then as the moving force of the Mexican Social Christian Movement (MSC) and the Social Union of Mexican Businessmen.

My associates in Europe are now tracing out the ties of this network into the European "Solidarist" groups, of both "left" and "right" tinctures. When a colleague of mine recently confronted PSD secretary-general Luís Sánchez Aquilar with all the "anomalous" features of PSD activity, he calmly brushed each aside—until my colleague raised the "solidarism" question. Sánchez Aquilar then hit the roof.

In Part II: The PSD's business consulting empire.

The A. Basmouk connection

The dope-dealing Assad brothers of Syria may soon find that they and their friends are out of luck.

Evidence is accumulating that a certain A. Basmouk, a shadowy Syrian national reported currently to be in the New York area, may figure prominently in efforts by Syrian President Hafez Assad and his gangster brother Rifaat to expand their organized-crime networks in the United States.

According to reliable Arab sources, the corrupt Assad brothers are working closely with the Mafia in New York and New Jersey, as well as in Sunnyvale, California, and Lynchburg, Virginia, to facilitate the entry of illegal drugs from the Middle East into the United States. Cooperating with the Assads are several well-placed U.S. Customs agents and Bureau of Immigration officials, whom the Syrian regime has managed to buy off.

Last year, at Kennedy Airport in New York, one Riad Rahmou, a Syrian national related to Hikmat Chehabi, Hafez Assad's chief of staff, was picked up by the Drug Enforcement Agency trying to smuggle in a large cache of drugs from the Middle East.

The incident was immediately hushed up, and Rahmou was released and has never been brought to trial.

Although the Assad family is known to be involved in numerous organized-crime operations, drugs are the mainstay of their dealings. Following Ankara's highly effective clampdown last year on illegal drug trafficking through Turkey—

long the favorite route of Middle East dope smugglers—drug transshipments have been diverted into Syria, and from there to Europe and the United States.

According to Arab sources, the Syrians are working closely with the Israeli intelligence agency Mossad and with corrupt elements in Turkish intelligence to protect and expand the Syrian connection. Specifically, the Assad regime, which is made up almost exclusively of members of Syria's minority Alawite sect has cultivated close ties with its "Alawite brothers" in the opium-growing Iskenderun region in southern Turkey. According to the sources, opium from Iskenderun is being smuggled into Syria by Assad-linked Turkish Alawites.

Syria's connections in Cyprus and Greece, much augmented since the installation of Socialist Andreas Papandreou as Prime Minister in Athens, are also important. Both Cyprus and Greece are reported to be major transshipment points on the Syrian-European drug route. In recent months, Syrian-Cypriot-Greek trade has jumped dramatically, providing a perfect cover for enhanced drug trafficking. At the same time, a direct ferry link between the Syrian port of Latakia, an Assad/Alawite stronghold, and the Greek port of Volos has just been established.

The Greek-Cyprus connection goes deeper. According to intelligence insiders, Rifaat Assad is part

owner of Monte Carlo radio, along with a Greek Cypriot who is reputed to be deeply involved in the international diamond market, a market whose long-standing control by Israeli organized crime and related networks has become infamous.

Syria is also angling to maintain a controlling interest in Lebanon, which is viewed by Assad and his friends in Israel as a highly profitable plantation for opium and hashish cultivation.

To this end, Assad is said to have decided to support old feudal Lebanese warlord Camille Chamoun as president of Lebanon in the elections there this summer. Chamoun, who is known in Lebanon as a British agent, has recently allied himself with the drug-connected Lebanese left and Libya.

The Assad brothers' efforts to expand their sordid operations in Syria into a far-flung international crime empire have run into opposition inside Syria, where a revolt against the regime continues.

Despite reports of an apparent calming of the internal Syrian situation, the town of Hama is said to still be out of Assad's control, and tension grips the country as a whole.

This month, Hammoud el-Choufi, a former Syrian ambassador to the United Nations and firm opponent of the Assad regime, issued a call from Baghdad, Iraq, for the formation of a national front to overthrow the Syrian government. Choufi, who resigned in December 1979 in part because of his opposition to Syrian support for Khomeini in Iran, said that all measures including "armed struggle" would be needed to topple the Assad regime.

International Intelligence

Haig plays dominoes in Central America

Testifying before numerous Congressional Committees and granting "exclusive" interviews to any paper he could find, Alexander Haig launched a personal crusade in early March to blow up any remaining chances for avoiding the outbreak of generalized war in Central America over the next few months.

Haig went after Mexico—the one ally in the area which has offered the United States a strategy for ending the bloodshed. In an interview with the *Los Angeles Times* on March 4, Haig portrayed Mexico as one of the next dominos to fall from the chaos in Central America. The problem with Mexican leaders, Haig pontificated, is that they "are constrained by political reality from doing what an outside observer [i.e. Haig] might presume to be logical action." Guatemala will be another El Salvador leading to "fundamental threat to Mexico in a very predictable future."

Israeli anti-drug investigator threatened

Israeli journalist Yigal Laviv, a well-known investigator of mafia activity in Israel and the source for much of the material found in the French-language exposé "The Israeli Connection" by Jacques Derogy, has received open death threats from the highest levels of those Israeli circles involved in international drug trafficking. The threats have been accompanied by a frame-up of Laviv, who was arraigned in late February on spurious charges of extortion trumped up by the mafia. Several organized crime figures (including the notorious Shmuel Flatto-Sharon, who evaded extradition to his native France several years ago by buying himself a seat in the Israeli Knesset) are implicated in the operation to silence Laviv.

In a soon-to-be-published interview with *Executive Intelligence Review*, Laviv

indicated that the campaign against him is part of an attempt by friends of American mobster Meyer Lansky in Israel to take over the state of Israel. Laviv further specified that the operation against him is being waged by people deeply involved in the international drug trade. Evidence for this comes partly from Federal Bureau of Investigation documents on Israeli mafia drug-trafficking activities into the United States from South America, documents that Laviv himself has seen but which have been suppressed from public purview in the United States.

Energy bill prepares rule by decree

Led by an outraged Joe Clark, Canadian Conservatives have boycotted the House of Commons over the introduction of an omnibus Energy Security Bill which Clark called "as dangerous to democracy as the War Measures Act." According to Clark, the emergency measures planned by Trudeau would "allow the government to set up internment camps." Although the press has been silent on the specifics of emergency measures introduced, Solicitor General Robert Kaplan stated in a news conference on March 8 that "the plans would be used only in a time of war."

Seeking to amend 15 existing laws and implement the National Energy Program (NEP), the Bill will also give Trudeau the right to raise energy taxes by decree. According to the *Toronto Globe & Mail*, Trudeau wants to avoid parliamentary and public discussions. The conservatives say they will not go back to their seats until Trudeau either retracts the bill, separates it in several bills or calls for new elections. The Liberals have rejected all three proposals.

The bill attacks both provincial and private ownership of resources. It would empower the government to take over foreign-owned companies by injecting up to \$5.5 billion in Petro-Canada; give Petro-Can and possibly the Maurice Strong-led Canadian Development Cor-

poration (CDC) 25 percent of new oil discoveries on federal lands; create more state companies at the expense of private corporations; spy on oil and gas activities, and expropriate land (provincial rights) for interprovincial power lines.

This is a rigged crisis timed to coincide with critical restrictions on transfer payments to the provinces for the next five years, and with the rapid ratification of the new Canadian Constitution (British North America Act) in Britain.

On Commonwealth Day March 8, the British House of Commons approved the patriation of the Canadian Constitution by a vote of 177 to 33. The "Canada Bill" is expected to pass the House of Lords quickly. Should that occur before the parliamentary crisis in Ottawa were to be resolved, this would enable Trudeau to constitutionally rule by decree.

Guatemala: terror after election

The presidential elections held March 7 in Guatemala will maintain the present radical rightwing regime in power, and that means added geopolitical difficulties for Mexico, which has staked its future on seeking political stability in the volatile Central American region.

General Aníbal Guevara, former Defense Minister of the current dictatorship, emerged with a reported 37 percent of the vote in a race against three other rightist candidates. Guevara's plurality guarantees he will be named president by a session of the Guatemalan Congress.

Earlier in March, U.S. Secretary of State Alexander Haig announced Guatemala will be the next El Salvador—a remark designed to win backing for a stepped up U.S. military presence. Enhancement of Guatemalan military capabilities will increase pressures on Mexico. Already, atrocities committed by army-sanctioned death squads have sent waves of refugees—sometimes numbering in the thousands—over the border into Mexico, where they are used as political leverage by the left against the

government of José López Portillo. These atrocities are a central factor in the recruitment of peasants into the ranks of the guerrilla insurgents.

At the same time, high-ranking Guatemalan military figures, associates of Guevara, have charged Mexico with sheltering Guatemalan guerrillas and, in some cases, training them.

Guevara's victory, however, has also led to unrest among the right. All three losing candidates are charging vote fraud. At a protest rally March 9 they were arrested for an hour, and their supporters were dispersed with tear gas. Guevara's strongest rival, Sandoval Alarcón, who officially netted 30 percent of the vote, is threatening "civil war" if the election results are not overturned. Alarcón is widely recognized as the behind-the-scenes leader of the death squads.

On the eve of the voting, Pope John Paul II issued an unusually strong appeal for a "stable and secure peace" in Guatemala. The Pontiff prayed for peace in that "tormented country," where "fratricidal struggle" is suffocating "the just and legitimate aspirations for a peaceful, civil coexistence and orderly progress."

CIA, Mossad ran Terpil-Wilson

A complex web of underground corporations, banks, intelligence fronts, and money-laundering agencies served as the support apparatus for the pro-Qaddafi terrorists associated with Edwin Wilson and Frank Terpil, and the entire complex was operated jointly by the CIA and the Israeli Mossad, according to *Spotlight* newspaper. *Spotlight*, a Liberty Lobby publication, based its information on leaks from CIA sources opposed to the CIA-Mossad support for Qaddafi.

The purpose of the CIA-Mossad operation nominally headed up by so-called "CIA renegades" Wilson and Terpil was to promote Israeli-backed terrorism in the Middle East and Eastern Europe, to penetrate the Arab world's intelligence

agencies, and to funnel Arab money into investment portfolios in Zurich, Geneva, Cairo, and Beirut, along with the Chase Manhattan Bank.

The Terpil-Wilson network began its association in the Middle East in 1972, *Spotlight* says, through a hydra-headed complex entitled "Kaplex." The Kaplex entity was based in Paris, where it was called Aerotransmar; Jerusalem, where it was called Air Transport and Services; Frankfurt, under the name Air Services Management; and Cairo, Interairco. Its Zurich, Mossad-run partner was the "Zimex Corp.," which joined with Kaplex and the CIA's Terpil-Wilson to plan destabilization of Sudan, Saudi Arabia, and the United Arab Emirates. Part of the Kaplex-Zimex machine was responsible for the assassination of Egypt's Anwar Sadat and also backed the Muslim Brotherhood in Syria. Both the House and Senate are currently investigating this entity.

Qaddafi: split the Saudi royal family

Libya's Col. Muammar Qaddafi urged the Arabs to rise up and overthrow the Saudi regime in a March 3 diatribe, singling out Crown Prince Fahd and Defense Minister Sultan for special attack. Prince Abdullah, the Saudi arch-reactionary known to be anti-American, was parished by Qaddafi because he "loves Muslims."

Said Qaddafi: "Saudi Arabia has become a bigger threat to the Arabs than Israel or the United States. . . . For us now, Saudi Arabia is enemy number one."

In a televised interview in the United States, Qaddafi also declared that the Saudi decision to reduce its oil output by 1 million barrels per day is "not enough," demanding a reduction of 2-3 million barrels per day more. It is noteworthy that Prince Abdullah, long associated with British intelligence, is known to be an advocate of cutting Saudi output down to 3-4 million barrels per day, half the rate at present.

Briefly

● **THE STANDING** Committee of the National People's Congress of China announced March 8 that the central government bureaucracy of 600,000 will be immediately reduced by 30-50,000. Cuts are to eventually reach 200,000. Consolidation of ministries is eliminating many senior officials, predominantly those who favor retaining heavy industry. Foremost among the latter was Deputy Prime Minister Gu Mu.

● **THE SOVIET UNION** is about to propose arms negotiations with Western Europe which would exclude the United States, according to reports in the Italian, French, and Greek press. Citing "an informed Soviet source," the reports say the talks would deal with parity of Soviet medium-range missiles in the western U.S.S.R. with British and French nuclear forces alone. The Soviets presumably hope to prevent NATO deployment of Pershing missiles in Europe, now scheduled for 1983.

● **THE VATICAN** is mediating renewed negotiations between the Polish government and Solidarność or other labor representatives, according to Roman Catholic sources. Reportedly, Church labor specialist Rev. Alojzy Orszulik has acted as go-between. Other sources say the Pope will postpone a trip to Poland originally planned for August in deference to fears of the effects on the population.

● **RICHARD COHEN**, *EIR*'s Washington Bureau Chief, gave an extensive briefing on Italian revelations concerning the Propaganda-2 Freemasonic Lodge on March 11 at a National Democratic Policy Committee press conference in Washington. This was the first time the Washington diplomatic community had received a full account of the Italian investigations. While U.S. media boycotted the event, 11 foreign embassies were represented, as well as members of the foreign press corps.

Williams forces inquiry into DOJ misconduct

by Molly Hammett Kronberg

In a Capitol Hill press conference March 11, Senator Harrison Williams of New Jersey blasted the American press for having “so distorted the issues” of the Abscam frame-up against him “as to make it unrecognizable.” The international press corps of 100 reporters had hoped that Senator Williams’s press conference—in which he announced he would resign from the U.S. Senate rather than proceed farther with the week-long hearings on whether he would be expelled from the Senate over Abscam—would be a tearful goodbye like Ed Muskie’s or Tom Eagleton’s. Instead, the stunned press heard itself indicted by Senator Williams for its irresponsible and criminal misrepresentation of his frameup. The press, charged Senator Williams, “have said I am a broken man. They have said that my wife was in tears in the gallery. I am not a broken man. And I can tell you that the only time my wife was in tears during the last two years was when she heard of the death of Marie Weinberg. I am reminded of what the great Italian poet Dante had to say about the users of false words, whom he put in the bottom of the eighth circle of Hell, just above the traitors . . .

“I am innocent,” he continued. “I was confronted with men like Judge [George] Pratt and Prosecutor Thomas Puccio who had no hesitation and spared no effort to exonerate those who manufactured crime. . . . If I ever have the opportunity to be in the same room with Mr. Puccio, *I’ll walk out.*”

“I was faced with massive momentum against me in the Senate. Nonetheless we succeeded in getting the facts of the crimes of the FBI and its accomplices onto the Senate floor. I believe it is best now to separate this

exposure from my own personal situation. I plan to go ahead with my personal fight in the courts and I am confident that I will eventually be exonerated in full. . . .

“And, I don’t ‘feel’ innocent; I *know* I’m innocent.”

Most important Senate debate in century

Senator Williams’s aggressive and self-assured resignation speech (which, New York and New Jersey press were quick to note, not only charged as virtually treasonous the judgment-by-the-press but also did not exclude the Senator’s possibly seeking re-election to his old Senate seat) capped a week of the most dramatic, passionate, and constitutionally crucial proceedings in the history of the U.S. Senate.

On March 9 and 10, the fourth and fifth days of the hearings on Senator Williams’s case, grievous misconduct by the Justice Department and Federal Bureau of Investigation in the Abscam operation against Senator Williams was exposed before the Senate. Forgery, perjury, acquiescence in illegal targeting operations by FBI Director William Webster, were all brought out in the debate.

Yet, despite all the revelations, which made manifest that the Carter Justice Department deliberately set out to destroy political opponents of Carter’s administration and the institution of the Senate itself, under Senate Majority leader Howard Baker and Heritage Foundation dominance in the GOP, the 53 Republican Senators were forced into backing a railroad of Senator Williams. The Democratic Senators—under the direction of Democratic National Committee head Charles Manatt and Senate Minority Leader Robert Byrd—were also “dis-

ciplined" into conniving at a railroad. A few courageous Democrats, among them Senators Inouye of Hawaii and Melcher of Montana, emerged as a Constitutional bloc against the expulsion of Williams.

The implications of an expulsion of Harrison Williams stretch far beyond the present. If the Senate were to allow itself to ratify the frame-up of one of its members by the corrupted "Dope, Inc." elements in the Justice Department, it would thus ensure that the U.S. Senate could not survive as an independent institution. If that were to happen, in turn, it would mean that no obstacles remained to the creation in this country of a dictatorship based on a program of fascist economics like that the Carter administration attempted.

'Illegal' to be a Senator

In Tuesday's debate it became clear that with an illegal operation like Abscam in full swing, the constituency representation on which American politics has based itself for 200 years is "illegal" by the standards of Abscam! Senators Howell Heflin (D-Al.) and Malcolm Wallop (D-Wyo.), representing the Senate Ethics Committee and its expulsion-recommendation against Williams, were grilled by Democratic Senators Russell Long, Patrick Leahy, and Joseph Biden on what precisely were the "improprieties" the FBI, Justice Department, and Ethics Committee insist Williams committed. Senator Leahy expostulated: "There are many of us who have business interests, and many bills come up that may correspond to some of these areas. Are you saying that anyone who has an interest in any private venture is guilty of an ethics violation? . . . Because if you are, we are going to be here for a hundred years, trying 99 other Senators." Ethics Committee Chairman Wallop, manically determined to throw Williams out of the Senate, said flatly that the "quid pro quo" basis on which constituency politics functions is an "ethics violation."

Cranston: 'shocked by government duplicity'

Senator Alan Cranston (D-Calif.) rose to present his resolution to censure, rather than expel, Senator Williams. Though Cranston's speech was weakened by his assertion that Williams warranted censure, rather than full exoneration, he insisted that the case of Harrison Williams is an issue on the outcome of which rises or falls America's form of government: "I believe there has been the grossest abuse of power and misconduct by the executive branch of the United States government in the investigation and subsequent prosecution of Senator Williams. . . . Senator Williams faced what was a cruel, unreasonable, unwarranted, improper test. . . . An operation such as Abscam, when directed against the co-equal legislative branch of the Government by the executive branch, poses a very real threat to the separa-

tion of powers. . . . Unchecked abuse of executive branch investigative and prosecutorial powers could escalate into despotism. . . ."

Senator Cranston reviewed the revelations by Marie Weinberg, wife of Abscam conman Mel Weinberg, who in January (one week before her violent death) gave affidavit evidence of Weinberg's bribery of FBI agents and perjury during the Abscam trials in which his was the main testimony against Senator Williams. "There is ample reason," said Cranston, "to believe Marie Weinberg. Her credibility has been clearly established by much independent corroboration. . . . Her husband, on the other hand, is a self-admitted liar who has perjured himself on numerous occasions in Abscam judicial proceedings. . . . I suggest to my colleagues that Mel Weinberg's lack of good character is a red herring being used by Mr. Puccio [chief government Abscam prosecutor—ed] to distract attention from the real issue of the Abscam operation. . . . I am shocked by this government duplicity."

The media and the 'fixers'

Thursday morning's press, March 10, gave an idea how far the media, in the service of the Abscammers, were prepared to go in surrounding the Senate and public with "perceptions" to make the fix against Senator Williams possible. Senator Cranston's speech, and the exchanges between Wallop and Heflin of the Ethics Committee and other Senators, were blacked out. Anyone who relied on the average U.S. newspaper or newscast would have had no idea whatever of the issues before the Senate.

The deployment of Republican and Democratic Senators of the anti-Williams camp on March 10 made obvious the outlines of a railroad. First, the word went out, through the media, that a Republican Senate Caucus under tight discipline was prepared to move against Williams. Although Howard Baker was forced to say three times, "for the record," that no such caucus had met, the virtual dead-silence of the Republican Senators on the most important constitutional issue to confront the Senate in decades made it pretty clear that the GOP controllers—the Roy Cohn-Heritage Foundation-Baker-Bush crowd—had established top-down direction.

Kennedy liberals in the Democratic Party staged a floor-show Thursday afternoon which disrupted the discussion and made it equally clear that the Manatt-Byrd-Kennedy wing of the party was deployed for a "fix."

As the debate opened, Senator Daniel Inouye (D-Hi.) rose to refute, again, the spurious charges against Williams and to stress, again, that the great danger now was that, if the Senate simply used the trial record of the Abscam frameup by which Senator Williams was

convicted, it would lose all independence and instead fall under the sway of a Justice Department and FBI whose conduct is "very much in question." Inouye told his colleagues that all were under great political pressure; they were being told that it was "expedient" to vote for expulsion; the press was insisting that those who rejected expulsion were risking their political careers. But, he said, a monstrous miscarriage of justice was underway, in which the U.S. Senate was being told to presume Williams *guilty*.

Inouye said there were those who criticized Williams for having given too long a speech to the Senate, those who criticized his wife Jeanette for appearing on television to compare Abscam to Nazi tactics; but, said Senator Inouye, *Senator Williams thinks he's innocent*. Under the American system of law, Williams should not have to *prove* his innocence; the American system of law, which was suspended here, assumes a man's innocence until his guilt is proven.

Melcher, Inouye: pro-constitutional bloc

Next spoke Senator John Melcher (D-Mt.). He reminded the Senate of an old Sam Rayburn quote that "political speeches you don't make can't hurt you." However, Melcher declared, he was about to make a speech at great political risk, a speech Sam Rayburn would have advised him not to make.

He focused on the economic collapse overtaking the United States—firm and farm bankruptcies, unemployment. This issue, said Senator Melcher, is one the Senate must address, and must address correctly. But it could be addressed correctly only if the Williams issue were addressed correctly first.

To do that, the Senator attacked Abscam prosecutor Thomas Puccio and Federal Judge George Pratt, who presided over Williams's frameup, and he attacked the credibility of the FBI "evidence" with which the frameup was secured. I refuse to get on this railroad, Senator Melcher said.

In closing his remarks on "vigilante law," Senator Melcher quoted from Robert Bolt's play about Sir Thomas More, *A Man for All Seasons*. There Bolt makes More say: There is God's law and man's law; certain things cannot be trampled on. Though a man tear down the law to get at the devil himself, when the devil turns around to get at you, there will then be left no law standing to protect you.

Here the liberal-Democratic clique intervened; with statements from Senators Leahy (Vt.), Stennis (Miss.), Pryor (Ark.), and Bradley (N.J.). Each asserted that the FBI-Justice Department behavior was heinous, and required immediate investigation, but that Harrison Williams had to be expelled. Senator Williams rose to ask Senator Leahy's opinion, as a former prosecutor, of the conduct of Thomas Puccio. Leahy responded that

he thought Puccio had violated his oath of office, and perhaps should even be disbarred—but still Senator Williams had to be expelled!

A subsequent statement by Senator Pryor provided at the same time evidence of a ghastly level of involvement in the FBI's targeting of Senators by FBI Director William Webster personally, and, also, in its melodramatic effect, a sure way to break up the Senate deliberation and reflection which Senators Inouye and Melcher was trying to develop. Pryor introduced a memo just obtained from FBI files, never before revealed to the Senate, showing that the FBI targeting of Senator Larry Pressler (R-S.D.) was not the freelance action of a lower-level FBI agent but was approved in writing by the FBI Director himself. The stagey method of presenting the evidence (though the evidence itself is powerful proof of the dimensions of the illegal Abscam operation thrown against Harrison Williams) was designed by Pryor and his fellows to distract attention from the constitutional line of argument so carefully built up by Melcher and Inouye.

As the Senate adjourned on March 10, it became evident that the evening press was trying to pillory Senator Williams. Across the airwaves, rumors, vilifications; the press line was uniform: Senator Williams a "broken man," his "fight over," and so on *ad nauseam*.

Certainly that is why the press corps was so taken aback on March 11 when, in announcing his resignation, Senator Williams stressed two things: He said he had accomplished what he set out to do—to bring before the Senate the dimensions of the FBI-Justice Department illegal actions against the legislative branch. Second, he exposed the near-treasonous actions of the U.S. press in acting as judge and jury against an innocent member of the U.S. Senate.

The next step: investigate Abscam

The significance of the revelations before the Senate of gross wrongdoing by the Justice Department and FBI is twofold. First, even some of the Senators who were in the "railroad" camp felt forced to make some of these revelations. They were responding to an upsurge of public sentiment on the Williams case the like of which has not been seen in the U.S. in almost 20 years. Senators' offices were comparing the outpouring of phone calls from their constituents to the passion generated by the Vietnam War.

The second point of importance about these revelations is that, once forced onto the Senate floor, they are now there, in public, to be used to dismantle the FBI-Justice Department Abscam operation which was aimed at the U.S. government. Senator Inouye has pledged an "open; no-coverup" investigation into Abscam. They can be turned against the very people who have tried so hard to "fix" the case against Harrison Williams.

'No budget cuts, no tax increases'

by Lyndon H. LaRouche, Jr.

The following statement was released on March 8 by economist Lyndon H. LaRouche, Jr., founding editor of EIR and Chairman of the advisory board of the National Democratic Policy Committee. Mr. LaRouche was a candidate for the Democratic presidential nomination in 1980.

This is to announce the reasons why I am now encouraging Democrats throughout the United States to pressure Congress for passage of the Reagan administration's combined budget-proposals and tax-proposals as submitted, and to reject all such foolish schemes as the Baker-Hollings finagling.

The main fact to be stressed is that the United States has already entered the Second Great Depression of this century. The depression has not yet become irreversible, although we are presently at the edge of a precipice of chain-reaction bankruptcies of firms, farms, and thrift institutions which would create a condition of near-irreversibility.

This depression has been caused by the monetary policies which the Federal Reserve System has imposed on the U.S. economy and world trade since the beginning of October 1979. Unless interest rates are forced down below 10 percent prime rates within weeks, the collapse of the U.S. economy's tax-revenue base will drive the federal deficit toward between \$150 and \$200 billions for fiscal year 1981-82 and generate federal deficits "off the charts" for fiscal year 1982-83.

Obviously, to worry about \$10 or \$20 billions of combined federal budget cuts and tax-increases under these circumstances is sheer idiocy, as voters will remind candidates for Congress during November 1982.

There is no competent basis for disputing my projections. My associates and I represent the only economic forecasting service whose projections have been competent during the period beginning October 1979. By comparison, every other econometric forecast, including those of the Commerce Department, the Joint Economic Committee of the Congress, and the Office of Management and Budget, have been totally incompetent, less than worthless.

For the record:

For the first half of 1980, my associates and I project-

ed a 6 percent decline in the U.S. economy. The actual decline was 8 percent. No other econometric projections but that of my associates and myself anticipated any significant decline for that period.

In September 1980, we projected a temporary recovery, to last into the first half of 1981, which occurred. In May 1981, we projected a 3 percent decline for the remainder of the year, against an actual 3.4 percent decline for that period. Our present forecast, compiled during February 1982, shows us to have entered a depression, with no recovery in sight even as late as the end of

'Economic collapse will wipe out incumbents'

It is now clear that the nomination of Jimmy Carter by the August 1980 Democratic Party convention would cause a landslide crushing of the Democratic Party in the November 1980 elections. . . . Therefore, the best informed perception is that the Democratic Party is now being destroyed almost hourly by Carter-Mondale use of Justice Department frameups and other evil means to blackmail delegates. . . . In any case unless the delegates find the courage to stand up to blackmail, the Democratic Party appears doomed to be nearly destroyed in a vastly worse defeat than the Republicans suffered in 1964.

—June 1980: Draft Democratic Party Platform, "The Next Fifty-Year Economic Boom," by Lyndon H. LaRouche, Jr.

Let us suppose that the methods of blackmail and related tyrannical practices of the Carter administration and of henchmen John White and Les Francis succeed in turning the Democratic convention into a kind of zombie-ritual of renominating Carter. In that case, the most probable consequence is a November landslide victory for Reagan, gutting the Democratic Party's positions in both the Senate and the House—perhaps carrying the House for the Republicans, and numerous state-office positions besides.

—Democratic Party Policy Review, July 1980: "Why Western Europe Broke Out From Under Control of the U.S. Government's Directives," by Lyndon H. LaRouche, Jr.

1983.

These forecasts are based on study of the effects of both the Volcker monetary policy and the Reagan military-spending program on each of all the principal sub-sectors of the U.S. economy. There can be no recovery from the present slide into a 1932-1933-style economic depression—even with increased military spending—without reducing prime interest-rates below 10 percent levels immediately. After a chain-reaction of bankruptcies among farms, firms, and thrift institutions, possibly erupting this spring and summer, even lowering the interest rates will not stimulate any automatic recovery.

The administration and Congress must forget the issue of federal budget-deficits and concentrate all energies on dramatically expanding the federal, state, and local tax-revenue base. I have drafted a comprehensive four-point program which will effect the needed economic recovery. Pending the enactment of such a recovery program, the only action which can halt the presently accelerating slide into a Hoover-style depression is a drastic reduction in prime interest rates.

Therefore, although there are many blunders and injustices in the proposed federal budget, improvements in the proposed budget should be deferred to supplementary budget action over coming months. It is worse than a waste of time to attempt to improve the submitted budget now, an absolutely worthless exercise in legislative theatrics as long as the issue of Paul Volcker and Volcker's economy-wrecking policies is not resolved.

Ladies and gentlemen of the Congress, unless you come to your senses and dump Paul Volcker, the voters of this nation are going to lynch you politically at the polls come primaries and general election this year. Those who fight to rid the nation of the curse of Volcker will earn credit. Those who defend Volcker deserve to be thrown out of office.

LaRouche's four-point recovery program

Mr. LaRouche released the following four-point program in January:

1) Supply low-interest credit to essential goods-producing industries and farms by remonetizing U.S. gold reserves at about \$500 an ounce.

"The Congress," wrote LaRouche, "has the power to issue gold-reserve-denominated notes. These notes should not be used for government spending, but for government lending. They should be lent through the private banking system to farms, industries, and transportation improvements, at interest rates not in excess of 4 percent charged by the government."

By this means, "a large portion of the unemployed

can be automatically reemployed, and the federal, state, and local tax revenue base can be expanded."

2) Produce 100 billion watts of nuclear electricity-output capacity by about 1986-87 and an additional 50 billion watts by 1990.

"This will not cost us a penny, since this energy will represent a major saving to the economy. . . . This will create about 2.5 million work-places in the private sector."

3) Develop an integrated water resource and transportation complex which will overcome the critical problems in these two interdependent systems.

The water resource program, including the long-projected effort to bring water from Canada and Alaska into the states west of the Mississippi and into the Great Lakes system, and the Delaware River basin water project to service the lower Northeast is essential if the nation is to have the water necessary for its agricultural, industrial, and household needs.

Since water transport can be efficiently integrated with rail, truck, and air systems, an integrated container system must be designed which is compatible for every aspect of the transport system. Along with this, the nation requires a rebuilding of its rail system and a maritime fleet for both economic and national-security reasons.

"Like nuclear-energy investment, investment in water-management and transportation-improvements represents a cost-saving as well as other forms of improvement for the economy as a whole."

4) Reorganize the developing nations' debt structures so that necessary world trade can be expanded by \$200-\$400 billion annually.

"If developing nations' debt-structures were reorganized in a sensible fashion, nations such as India, Brazil, and Mexico represent magnificent investments in modern goods-producing capacity through infusions of capital goods from industrialized nations," said LaRouche.

"The great need of developing nations is for rapid infusions of modern agricultural technology—not consumer-goods industries. This is the great market for capital goods of the industrialized nations over the coming 50 years. It is time we acted to make that market a reality."

A lot of people share the blame for this depression, wrote LaRouche: President Jimmy Carter, Fed Chairman Paul Volcker, Democratic National Committee Chairman "Banker" Manatt, and the misadvisers of President Reagan, "and a very great number of other persons, who rejected foolishly what have proven to be this writer's precisely accurate predictions of the result of foolish 'tight money' policies."

But, LaRouche stated, "The practical question is, not who is to blame? The practical question is, can we get ourselves out of it?"

Book Review

Weapons and liaisons: the spook novel as lie

by Robert Zubrin

Death Beam

by Robert Moss
New York: Crown, 1981
\$13.95 416 pages

Toward the end of March 1981, Lyndon H. LaRouche, Jr. and the *Executive Intelligence Review* put out a warning to President Reagan that terrorist networks controlled by British intelligence circles were planning an assassination attempt against the President. Immediately, British Secret Intelligence Services agent Robert Moss and his allies went into high gear to discredit LaRouche, urging the White House to ignore the warnings. Less than a week later, President Reagan was shot.

Now, Robert Moss has come out with a novel projecting that the assassination attempt against the President was carried out by forces associated with Soviet military intelligence. If one comprehends the above information, then one understands all there is to know about Robert Moss and his best-selling spy thriller *Death Beam*. The novel, like the man, is a lie.

Shoveling aside for a moment the mountain of British geopolitical propaganda that weighs the book down like a ton of sin, the plot of *Death Beam* is quite simple. The Soviets, led by the evil Marshal Safronov (who has a claw for a hand), are planning to put a huge neutron-beam weapon into orbit, which they will use to exterminate America and perhaps the rest of the free world. Fortunately, the Mossad has a friend in the East German intelligence service, who joins forces with Israeli intelligence to sabotage the weapon. This discredits Safronov, allowing his opponents in the Soviet KGB to overthrow and execute him, saving the world and allowing the Great Game of geopolitical warfare to continue. According to Moss, the Soviets are inhuman and evil, and the only realistic view of the world is as a struggle for survival between America and the U.S.S.R. This is just an extreme version of the cold-war ideology the British cooked up after World War II in order to recruit the United States to replace Nazi Germany as the British-controlled marcher lord to be sacrificed in a war of mutual annihi-

lation with the Soviet Union. So far, so dull. But a few of the specifics are interesting.

First of all, the "death beam" itself. Aside from the fact that Moss's science is incompetent, since neutron beam weapons are technologically unfeasible and would be incapable of penetrating the earth's atmosphere from space if they were ever put in orbit, it is quite true that an x-ray laser placed in orbit could represent a strategically decisive anti-missile capacity. Such laser systems are considered to be within the near-term capabilities of the Soviet military, while the somewhat further off possibility of an orbiting gamma-ray laser might represent an actual capability for widescale destruction of land areas.

The blockage of U.S. research in these areas does represent a grave threat to America's national security, both because the United States will soon fall behind the Soviet Union in the achievement of the generation of weapons and defensive systems that is to replace the nuclear age, and because of the depressing effects on the civilian economy of national investment decisions that favor "in-width" military production rather than research and development at the frontiers of science.

According to Moss, it is the liberals and the pro-Soviet softies who have stripped America of its advanced military capabilities such as that represented by beam weapons technologies. He is lying. In fact, both the U.S. space program and basic laser research have been systematically wrecked over the past 10 years by no other institution than Robert Moss's Heritage Foundation, and its associated Mont Pelerin Society circle of "fiscal conservatives." To be precise, as recently as last year, Moss's Heritage Foundation went so far as to suggest that the Space Shuttle program be abandoned. If one day Americans face death from the skies, they can blame Robert Moss and his friends.

There is another interesting feature of *Death Beam*. While all the Soviets are evil in Moss's tale, the ones he encourages his readers to root for are in the KGB. To some, the sympathies of the supposedly conservative Moss for the Soviet intelligence service may come as a surprise. Perhaps it has something to do with the commanding role played in that agency by such of Moss's fellow British agents as Kim Philby and Donald Maclean, or with the fact that Moss's Heritage Foundation is riddled with KGB moles, as *EIR* has documented.

Finally, the interesting locales in which Moss places his characters includes the Hotel Carlyle of midtown Manhattan, where *Death Beam* begins. According to persistent and widespread reports, the Carlyle has served as the site for blackmail setups against diplomats and other influentials, sometimes involving the use of young boys. The Carlyle is also reportedly a favorite New York City hotel of Henry Kissinger. Did Moss ever meet Henry at the Carlyle? One of *Death Beam's* sex scenes features an aging KGB agent and a little boy.

Byrd seeks War Powers amendment on El Salvador

Senate Majority leader Robert Byrd (D-W. Va) introduced an amendment to the War Powers Act of 1973 that would specifically prohibit the President of the United States from sending troops into El Salvador unless authorized by Congress and/or to protect the lives of American citizens requiring evacuation.

Despite the fact that President Reagan has repeatedly stated that he has no plans to introduce U.S. troops into El Salvador, Byrd claimed to be taking the action as a precaution. There are indications that more is going on.

Two weeks ago, a former top Carter administration official said that David Rockefeller's Trilateral Commission was about to stage a Congressional coup, seizing control of U.S. foreign policy and using situations such as El Salvador as a pretext for such a coup. The Byrd amendment appears to be an opening salvo in such an effort.

Byrd, in announcing his plans for the amendment, stressed that Congress needed to exercise its power to make and control foreign policy, and that this Administration needed to be "taught that lesson."

While intoning about saving lives, Byrd has no intention of going after the underlying cause of the fighting—the pursuit of a conscious depopulation policy by the State Department. It has been continued by the Haig State Department, as documented by *EIR*. Byrd's office denies that American policy in Central America is based

the Global 2000 design for genocide. A spokesman for Byrd further admitted that he did not think that the resolution, should it pass, would halt the bloodshed in El Salvador.

In addition to Byrd, a former Ku Klux Klan member from the Rockefeller-controlled State of West Virginia, the amendment is co-sponsored by a number of Senators who also have a background in promoting Malthusian policies.

One co-sponsor is Senator Claiborne Pell (R-R.I.) a leading member of the genocidal Club of Rome which is promoting wars in Central America to reduce population. Byrd's resolution followed directly from a trip to El Salvador by Pell two weeks ago.

Population controllers testify in House

On March 10 and 11, Robert Garcia (D-N.Y.) chaired hearings before his census and population subcommittee of the House Postal and Civil Service Committee on H.R. 907, the Ottinger Bill, which would establish a federal Office of Population Affairs to coordinate the use of demographic models in the determination of all national policy and would mandate zero population growth as a national goal of the United States.

Unaccompanied by any colleagues on his committee, Garcia heard testimony almost exclusively from representatives of organizations such as the Sierra Club, Zero Population Growth, and the National Wildlife Institute, which are coordinated by the international environmentalist fascist director-

ate, the Club of Rome. Almost the entire two day proceeding was monitored by Donald Lesh, a former Kissinger National Security Council operative and former executive director of the U.S. Association for the Club of Rome, who now directs the Global Tomorrow Coalition of fifty-five environmentalist organizations. As most speakers stressed support for the provisions of H.R. 907 establishing a demographic "foresight capability" in the federal government, it became clear that this was an attempt to implement the objectives announced by Club of Rome member Gerald Barney at a March 2 conference titled "Creating the Future" sponsored by the Club in Washington. At that conference, Barney emphasized the importance of instituting Club of Rome-style global modelling and forecasting operations in the government. A number of speakers, including Ben Wattenberg of the American Enterprise Institute and Arnold Torres of the League of United Latin American Citizens dissociated themselves from the "population-stabilization" provisions of H.R. 907 but supported the establishment of some kind of foresight capability. Donald Lesh wrote a letter to Garcia on behalf of his coalition which endorsed only the office of population affairs and not the population-stabilization provisions.

Garcia, in his own remarks, admitted that the population-control provisions of the Ottinger Bill were very unpopular because America was founded on a philosophy of unlimited growth. The Club of Rome strategy, however, is to introduce a "capability" into

the federal government for brainwashing the bureaucracy and the general public into an anti-science world outlook, through institutions such as the proposed Office of Population Affairs.

Kemp wants job training for enterprise zones

Seeking support for his floundering urban enterprise zones proposal to create tax havens for low-wage, low-skill employers, Congressman Jack Kemp (R-N.Y.) has proposed legislation to foster "job training" programs in the enterprise zones. His bill, H.R. 5527, titled the Private Sector Opportunities Act, emphasizes private sector activity in such job training.

It would reauthorize Title VII of the Comprehensive Employment and Training Act (CETA) until 1985. This CETA title established private industry councils to coordinate job training programs. Kemp's bill would stress training for jobs in enterprise zones and for enterprise zone residents.

Congressmen to press for greater fusion budget

Four leading House Republicans have decided to fight the attempts of OMB Director David Stockman and White House Science advisor George Keyworth to gut America's fusion program. The four Congressmen, including members of the House Appropriations Committee, which begins hearings on the FY 83 fusion budget March 15, will be circulating a Dear Colleague letter to the House member-

ship urging the implementation of the McCormack Fusion Act.

The Act, passed in 1980, authorizes a twenty year program to have an operational Fusion Engineering Device on line by 1990 and a commercial demonstration reactor ready by the year 2000. Over the past year the Reagan administration, under advice from its anti-science adviser, has tried to keep the fusion program as a "science" project by refusing to begin the engineering design work.

The FY 83 budget submitted by the Reagan administration proposes cutting the magnetic fusion budget from \$456 million allocated last year to \$444 million.

Threaten Schmidt with G.I. pullout

Talk of reviving the 1974 Mansfield Amendment, which calls for pulling U.S. troops out of Europe, surfaced in the Senate last week as Senate Majority Whip Ted Stevens of Alaska railed at America's European allies for their passivity.

In the middle of a discussion of the European gas pipeline deal with the Soviet Union March 2, Stevens declared, "It is time to re-examine our commitment [to Western Europe—ed.] because of their willingness to become increasingly dependent on the Soviets for their daily commerce and daily life . . . if [the Europeans] feel so secure in their relations with the Soviets, then it is time to re-examine our number of troops in Europe."

Stevens was joined by Democratic Senator John Stennis of Mississippi, who stated that a Mans-

field resolution was more relevant now than in the 1970s when it was narrowly voted down.

In an interview made available to *EIR* in February, Angelo Codevilla, an aide to Senator Malcolm Wallop (R-Wyo.) and a ringleader of a group of Senate aides and Defense Department officials who are conspiring to oust West German Chancellor Schmidt, had predicted that the Senate would soon put forward some version of the Mansfield Amendment as part of his efforts to embarrass Schmidt.

Stevens has not decided on the form such a resolution would take. He ordered a staff study to be completed by late March.

Meanwhile, a source close to Senator Sam Nunn (D-Ga.) reported that the Georgia Democrat is going to play the key role in shaping such an amendment. The source reported that Nunn has declared all out war on Europe and would like to deliver a message to the NATO allies and Schmidt in particular. Nunn does not think that reviving the full Mansfield amendment would succeed however; he prefers a more limited form. He is likely to propose legislation that will call for the U.S. not to authorize money for the positioning of an additional two Army divisions in Europe. Mandated by a U.S. agreement with its NATO allies, they would cost approximately \$1 billion each.

Regardless of what finally happens with the amendment, all the talk of pulling U.S. troops out of Europe has the "get Schmidt" conspirators ecstatic. "We're getting a lot of play in Germany," said one ally of Codevilla, "and this weakens Schmidt . . ."

National News

Seaga says Kirkland supports cheap-labor zone

Edward Seaga, the practicing voodoo witch-doctor who is also Prime Minister of Jamaica, told the *Journal of Commerce* that AFL-CIO president Lane Kirkland would not mount serious opposition to the so-called Caribbean Basin Plan, the David Rockefeller-authored scheme to create a "free trade zone" for slavery and drug-running in the Caribbean, which has been foisted on the White House.

Seaga said he had met with Kirkland a month ago and "left the meeting with the impression that labor . . . would not object to the measures . . . as long as these did not lead to loss of jobs."

In his first week in office last year, Seaga ordered Jamaica's banks to accept dollar-profits from the illegal export of marijuana to the United States. The new plan will also allow Jamaica to export tax-free rum, and will grant U.S. tariff breaks to Jamaican goods manufactured with cheap labor.

NASA finds abundant fusion fuel on Venus

The National Aeronautics and Space Administration (NASA) reports that its Pioneer Venus spacecraft has returned data which measure the ratio of deuterium to hydrogen on Venus to be over 100 times larger than it is on the earth. Deuterium is the main isotope of hydrogen which provides the basic fuel for both thermonuclear bombs and thermonuclear fusion reactors. A single gram of deuterium can provide as much energy as \$3000 worth of fossil fuels. According to NASA officials, the extreme plentitude of deuterium on Venus is strong evidence for the theory that billions of years ago, Venus may have had a large ocean which since that time has lost almost all of its light water content to space, leaving the "heavy water" deuterium behind.

Other recent NASA Venus findings include evidence that there are at least two active volcanic areas on the planet

which function as the principal vents for its internal heat.

While NASA's Pioneer spacecraft is still orbiting Venus and providing data, all new Venus probes by the U.S., including the previously planned Venus Orbiting Imaging Radar (for mapping the planets' surface) have been cancelled by administration budget cuts.

'Air Opium' has DNC's Manatt on board

The Chairman of the Democratic National Committee, banker Charles T. Manatt, is on the board of Flying Tiger International, the airline which has earned the nickname 'Air Opium,' according to the March 8 issue of *New York* magazine. *New York* reports that Metro International Airways, a Flying Tiger subsidiary, is currently under Pentagon contract to fly Salvadoran soldiers to Fort Bragg in North Carolina.

An aide to Manatt confirmed that the California banker has been on Flying Tiger's board since 1979, but claimed that "he was never informed about the El Salvador contract."

Flying Tiger got its start running arms to Chinese Nationalist leader Chiang Kai-shek in the 1930s and later earned its nickname for its role in flying drugs out of Southeast Asia's Golden Triangle. It also is widely believed to be a front for CIA operations.

Supreme Court drops boom on head shops

Within a five-day period, the Supreme Court has done what amounts to turning its head while lower courts lower the boom on head shops (stores that feature dope-related items) around the country. Although the Court has made no ruling on the constitutionality of a ban on drug paraphernalia, its latest actions are tacit approval of bans and restrictions being enacted by communities nationwide.

On March 8, the Court refused to hear two separate headshop ban cases filed by drug paraphernalia lawyers de-

manding local ordinances be overturned. The Court's decision bounced the cases back to the Court of Appeals, which in turn has upheld the local laws.

On March 5, the Supreme Court ruled that the definitions contained in an Illinois community ordinance were not "vague" as the dope lobby lawyers had contended. Though the Court was only ruling on the language of the ordinance and not on the law itself, which requires headshop owners to list names and addresses of customers, the law stands.

The March 8 decision in particular is seen as positive by anti-drug forces, since it gives a nod of approval to anti-paraphernalia laws based on a model bill drafted by the Drug Enforcement Administration and endorsed by the National Anti-Drug Coalition. Most municipalities with anti-headshop laws have used this model.

Further, Justice Thurgood Marshall, in the March 5 ruling, said the drug lobby's concept of "free speech" amounted to "speech proposing an illegal transaction, which a government may regulate or ban entirely." The Justice's notion of freedom of speech tied to the idea of public good had been almost abandoned by modern courts.

High Plains Council debates NAWAPA

The "Water from Alaska" aspect of the National Democratic Policy Committee's four-point program to get the country out of the depression was the subject of a heated debate March 4 at the quarterly meeting of the High Plains Study Council chaired by Texas Governor Williams Clements.

The High Plains Council, created by Congress to include governors and selected appointees from six states facing a severe water shortage due to the depletion of the Ogallala Aquifer, met to deliberate over its final report to Congress.

High Plains Council member Keith Farrar, urged a followup study on the feasibility of importing water to the crisis-stricken high plains from Alaska and Canada under a revived "North American Water and Power Alliance"

(NAWAPA) plan of the Parsons Engineering Company, originally developed in 1964.

Nicholas Benton, southwestern director of the NDPC stated, "We are at the point of almost having to make a political revolution just to get a drink of water."

Gov. Clements stated that he thought the discussion was "extremely interesting," but punted on endorsing formal Council adoption of Farrar's call for a resolution to the U.S. Congress.

High Plains Council members felt confident the Council would not submit its final report to Congress this fall without including a recommendation calling for work to begin on a study of a "NAWAPA" approach.

LaRouche awarded injunction against FEC

The Federal District Court in New York City issued a preliminary injunction March 9 against the Federal Election Commission, barring them from launching any new investigation of Citizens for LaRouche (CFL) or contributors to the 1980 president campaign of *EIR* founder Lyndon H. LaRouche, Jr. Blasting the "interminable, inconclusive and oppressive investigations" of CFL being conducted by the FEC, Judge Charles Brieant warned that such investigations "are not, nor should they become, star chamber proceedings."

"It would be hard to imagine a more abusive visitation of bureaucratic power" than the FEC's numerous investigations of CFL, stated Brieant. The injunction is the result of a lawsuit brought last fall, *Dolbeare v. Federal Election Commission*. The FEC has been under fire from both the Republican and Democratic Parties for widespread abuse of its powers.

The Southern District Court of New York ruling in the *Dolbeare* case stipulates that the FEC must expedite its finding of probable cause and conciliate all pending matters, or drop its investigations of CFL. It must also establish procedural safeguards.

The FEC, created in the wake of Watergate, regulates federal campaign financing and provision of "matching funds."

Liberal Dems convene to revive Mussolini

The annual convention of the Americans for Democratic Action (ADA), held March 6-7, put forward a full-fledged Mussolini-style corporatism as the solution to America's economic crisis. The 44-point statement of principles issued by the Socialist International's key U.S. outlet included wage-price controls, work retraining and relocation, establishment of a National Industrial Policy Board and an Urban Infrastructure Board, and a call for "corporate democracy."

Patrick Caddell, Jimmy Carter's pollster, sounded a major theme of the convention when he declared that President Reagan was destroying his own popularity along with the U.S. economy, and that therefore the Democratic Party is the wave of the future. Capitalizing on the President's biggest blunder, toleration of Federal Reserve chief Paul Volcker, an ADA spokesman said the group "will be making the ending of the independence of the Fed one of the major goals we'll be organizing for."

This was echoed at a major conference banquet by Shirley Williams, the leader of England's new Social Democratic Party, who called on American liberals "to rise up and replace Reagan's monetarist policies," which she likened to Margaret Thatcher's.

Among the more than 60 speakers at the social fascist weekend were Michael Harrington, head of the Democratic Socialist Organizing Committee, Club of Rome member and former congresswoman Patsy Mink, Rep. Henry Reuss (D-Wis.), Ralph Nader, Andrew Young, and National Education Association head Terry Herndon.

Many of these were part of the original coalition behind the Humphrey-Hawkins make-work/forced-labor bill, which the ADA is now trying to revive.

Briefly

● **THE WHITE HOUSE**, the National Security Council, and Henry Kissinger's office at Georgetown University are all keeping quiet about a report in *Newsweek* magazine that Henry has been named to head a new "special consulting group on East-West credits" within the NSC. *Newsweek* says that the group also will include David Rockefeller, thus containing "two names certain to irritate" some Reagan backers.

● **THE GUARDIAN ANGELS**, the gang-member-turned-crime fighter group, has been linked to the Dec. 30 Newark, N.J. robbery in which one of the vigilantes was shot by a policeman while allegedly attempting to stop the robbery. According to Newark sources, one of the three suspects in the heist is the son of the second-in-command of the guardian Angels in Newark:

● **MAYOR ED KOCH** of New York City announced March 10 that he will introduce legislation to send small-time offenders to Quonset hut minimum-security camps on Rikers island for terms up to 15 days. The inmates would then be trucked around the city in work gangs, with penalties for escaping ranging up to three years in prison. "They are not concentration camps. They are work camps," the Mayor said in answer to criticism.

● **GORE VIDAL**, the novelist best known for his "picaresque comedy about bisexuality," *Myra Breckinridge*, has announced he will enter the California Democratic Senatorial primary against Jerry Brown. Also running in the race is Will Wertz, who has been endorsed by the National Democratic Policy Committee. Vidal says he will run on a platform opposing any military budget, calling for taxes on religion, and supporting legalization of marijuana and prostitution. Insiders speculate that Vidal has been asked to enter the race to "make Jerry Brown look normal."

Editorial

What about Mr. Haig's ethics?

While Senator Harrison Williams was being railroaded out of the U.S. Senate between March 3 and 11 for "violations of ethics" he never committed, far graver questions arose about the ethics of an individual whose responsibilities and power in the United States may be second only to the President's.

Secretary of State Alexander Haig's name has appeared with increasing frequency in the widening Italian scandal of "persons above suspicion" implicated in the terrorist kidnaping last December of American NATO General James Dozier. As this week's Investigative Leads column documents, two top aides of Haig, Vernon Walters and Michael Ledeen, have now been named in the investigation of Propaganda 2, the secretive "Freemasonic lodge" that was set up after World War II as the Italian command center for international terrorism, dope, and gun-running.

One of the most shocking of the latest revelations is the testimony of Dozier's jailer, Red Brigader Antonio Savasta, that Haig aide Michael Ledeen—accused by the Italians of having been on the P-2 payroll—met twice with Luigi Scricciolo, the ultraleft trade unionist recently jailed as a Red Brigades terrorist.

The gravity of the charges is underlined by another report we publish this week, the special dossier proving that the "death squads" at work in Central America are run by P-2 and other elements in the international network we call Dope, Inc. For at this very moment, Alexander Haig is doing everything to embroil the United States in a reckless military adventure in Central America.

In an interview published March 4 in the *Los Angeles Times*, the Secretary of State summarily dismissed the "last-minute appeal" of Mexican President López Portillo to mediate between the United States and Cuba in pursuit of a political solution to the Central American conflict. The *L.A. Times* interview was taken by all observers as a particular slap in the face to Mexico. Haig predicted that Mexico itself would soon be swept up in the conflagration as it spread from El Salvador into Guatemala (a country where the P-2 linked death squads and insurgents

reacting to them butchered 13,000 civilians last year). Haig sprinkled his remarks with insults about López Portillo's "appeasing" of his opposition.

Haig simultaneously began a frantic media campaign to convince Americans that the Soviet presence in Nicaragua was a threat to American security. After the fiasco of photographs of "Sandinista atrocities" against the Miskito Indians released by Haig, which turned out to be atrocities committed by the Somoza dictatorship, on March 9 reporters were called to the State Department for a photographic display of "Soviet-model obstacle courses" in the Nicaraguan jungle, but still no evidence was produced to back Haig's assertion that Nicaragua and Cuba are arming the guerrillas in El Salvador.

But the next day word was leaked to the press that the President had authorized a CIA covert action option to fund and build a paramilitary force of up to 500 Latin Americans for commando operations against Nicaragua. Another report has it that Haig is considering deploying up to 60,000 American soldiers into El Salvador in a blitzkrieg maneuver. Troops in and troops out, the argument goes, should avoid the mire of a Vietnam.

Why does not Haig take the one action that would stop the bloodshed in Central America—cutting off at the source the flow of arms to both sides? Anyone familiar with Central America knows the weapons come mainly from *private* arms merchants linked to Israeli intelligence and Max Fisher's United Brands. And both right and left are increasingly being advised by Argentines linked to the P-2 lodge.

Could the "why" be linked to some loyalty other than to the United States—some loyalty such as to P-2? Even the aroma of ties to something involved in the filthiest aspects of the genocide being so cynically conducted in Central America, on the part of the U.S. Secretary of State, is a threat to our national security. Not only should the U.S. Senate, so attuned to "ethics" questions, quickly bring the matter under scrutiny, but other U.S. NATO allies besides Italy should find it in their vital interests to demand full clarification.

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