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Executive Intelligence Review

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EIR

From the Managing Editor

Our Special Report in this week's issue was written by Special Services Director Peter Ennis, who spent the last three weeks of July visiting Japan. He traveled to Kyoto, Nara, Hachioji, Takai-Mura, and Tsukuba (a "science city," site of one of the largest tandem-mirror nuclear fusion reactors in the world) as well as Tokyo, where he met with business and government leaders.

To grasp Japan's potential *policy-making* importance among industrialized nations, consider the following. The French potential for world leadership in the direction of resolving the world debt-financing crisis by methods that would generate industrial recovery has been knocked out under the Mitterrand government. West Germany has retreated from initiatives to generate liquidity for high-technology trade and investment among North and South, East and West. The United States, as we emphasize in this week's National and Economics sections, has succumbed for the present to Herbert Hoover policies whose international implications are as horrible as their domestic consequences. Japanese leaders see all this, and weigh the possibility of an independent effort to rebuild the world monetary system and the world economy. Exerting independence from Washington, D.C. would be a drastic postwar departure: the fact that such a policy is being debated gives a measure of their fears of what will happen otherwise.

Topics of Special Reports upcoming in the near future include the Harriman family's record of sponsoring and funding Nazism in the United States and abroad, and a dossier on Henry Kissinger's role in the murder of former Italian Prime Minister Aldo Moro, a dossier which also explores Henry's relations with Soviet intelligence early in his career, and some relevant aspects of his personal life. We look forward to highly beneficial shockwaves from those reports.

Susan Johnson

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Michael Evans/White House

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The Mexico debt crisis and the International Monetary Fund

by David Goldman, Economics Editor

Western central banks, at the behest of the U.S. administration and Federal Reserve Chairman Paul Volcker, have arranged an unprecedented \$1.5 billion loan to Mexico, which ran out of cash and imposed full exchange controls Aug. 13; the central-bank package is additional to \$2 billion in cash (oil prepayments and agricultural credits) from the U.S. government.

Whether this package, plus a \$4 billion, three-year credit agreed "in principle" with the International Monetary Fund, will constitute a bailout for the bankrupt debtor, whose \$80 billion in private-bank obligations are sufficient to bring down the Western banking system, was fought out at a meeting Aug. 19 and 20 held at the New York Federal Reserve Bank, attended by Mexico's major commercial-banking creditors. In essence, Mexico received the \$3.5 billion to relieve immediate cash needs on its estimated \$500 million per week interest debt service, but only a 90-day rollover of the principal.

The 'debt bomb' dimension

No details are available at deadline concerning the terms which Mexico will pay for the rescheduling, but doubt has emerged in the minds of the creditors about whether they may turn Mexico into the bloody example that the International Monetary Fund staff originally wanted, i.e., eliminate not merely all government subsidies of basic consumption items but break the institution of the presidency and the political power of the Mexican labor movement, which implies a

violent constitutional change. The threat of the "Ibero-American Debt Bomb," a proposal associated with this publication's founder, Lyndon H. LaRouche, Jr., and now a matter of highest-level discussion among Argentina, Brazil, and Mexico, has become a matter of sober evaluation in the public press.

Le Monde of Paris editorialized on its front page Aug. 18, "Individually, Mexico, Brazil, and Argentina appear weak; but they could turn their individual weakness into collective strength by combining against their creditors." And the London *Guardian* wrote Aug. 16, "Some economists argue that the present high demand for credit is caused by this desperate need to borrow to pay off interest, which in turn keeps interest rates high—a particularly vicious circle. One logical way out of this is for developing countries not to reschedule—which leaves them still paying the interest—but to deliberately refuse to pay anything. Interest rates would come tumbling down, but so would world economic activity and the weaker Western banks."

The *Guardian* comment concluded, "This shock would hurt us more than them, and the day may come when a big debtor is tempted to do it." That evaluation is accurate, even in the case of Mexico, 70 percent of whose industrial sector depends on re-assembly of imports from the United States.

Federal Reserve officials insist that a moratorium declaration for Mexico, even conjointly with other Latin American nations, would represent a messy form of suicide, since the United States would allegedly respond with a full trade boy-

cott. The threat is less impressive for Argentina and Brazil, whose economies are relatively more self-sufficient, than for Mexico's fundamentally flawed import-substitution economy. However, under the terms the International Monetary Fund has demanded, Mexico would have nothing to lose in any event, and might gain from regional integration with the rest of Latin America.

In short, the Fed and the IMF are bluffing, and the British and French press have gone to the extreme length of pointing this out to them in public print, in the midst of the most brutal negotiations over the future of the monetary system since the quadrupling of oil prices in December 1973 exposed the weakness of the world credit system.

Annual IMF report

This public exchange tells more about the behind-the-scenes debate in the central banking circuit and at the two international institutions, the International Monetary Fund and Bank for International Settlements, which propose to "manage" the crisis, and steer it towards a world financial dictatorship. No less than the latter conclusion must be drawn from the black-and-white statement of the IMF's just-issued Annual Report, which demands the maintenance of tight monetary policies in the Western nations, and the elimination of such "structural rigidities" as wage levels protected by government subsidies, among those the IMF specifies by name. Mexico's case, in which the IMF is demanding reductions of living standards (through elimination of subsidies and union-busting) of a sort that no *constitutional government* in Mexico could tolerate, strikes equally at West Germany, where the Schmidt government is maneuvering to use government guarantees to prevent the liquidation of a 120,000-person employer, Germany's sixth-largest employer, the AEG-Telefunken group (see article, page 11). Ultimately, the "international institutions" aim at the program of the 1922 Genoa Monetary Conference: no government might obtain credit or spend money without IMF approval, and no commercial bank might lend money without BIS approval, the ultimate "one-world federalist" dictatorship.

The IMF report "urges a comprehensive policy approach in the fight against inflation and unemployment. It cites the importance of various rigidities and structural imbalances that have become imbedded in the economic system, especially with respect to wage bargaining, price setting, and certain aspects of government spending and taxation. . . . The approach required would need to include measures designed to reduce or eliminate existing rigidities and structural imbalances in the fiscal field, in the goods and labor markets, and in other problem areas, such as regulatory burdens and excessive subsidization or protection of ailing industries," stated an IMF press release of Aug. 22. The report also demands "both maintenance of restraint in financial policies and public conviction that such policies will not be reversed."

Ultimately, the report concludes, the meatgrinder into which national economies pass will churn out "stable ex-

change rates," a program otherwise circulating under the label "a New Bretton Woods System," named after the 1944 agreement that reset fixed exchange rates and lasted until America floated the dollar in 1972. "While recognizing that it is impossible to achieve stable exchange rates as long as inflation is not under control, the report points out that the stability of exchange rates could be enhanced by achieving greater control of budgetary deficits, while continuing to pursue prudent monetary policies; by reducing structural rigidities in wage bargaining and price-setting mechanisms; and by adopting some flexible forms of incomes policy." In other words, under the pretext of the Versailles agreement to work for greater stability of exchange markets, the IMF proposes to dictate policies to national governments which no government might accept, in effect becoming a form of world government itself.

For Mexico in particular, a secret June 25 IMF Staff Review of the Mexican economy stated, "The public-sector deficit in 1982 would be in the neighborhood of 11 percent of GDP, and thus would continue to require financing on a scale that has to be viewed as exceptional and unsustainable. Clearly, further large reductions in the public-sector deficit will have to be made in the near future to lessen the risks of high inflation and severe balance of payments pressures. The adjustment of public-sector prices [e.g., subsidized basic items' prices—D.G.] to realistic levels and the elimination of subsidy payments out of the budget should be expected to play an important role in the correction of the fiscal imbalance."

Who will 'exploit' the crisis?

No one is better aware than the IMF that the \$600 billion-plus overhang of developing-nation debt is unpayable, and liable to ruin debtor and advanced-sector creditor alike, unless the two agree to a form of rescheduling that promotes international trade and aids in restoring the depressed industrial economies, of the form this publication advocates. The IMF does not propose to *prevent* such a crisis, but *to use it* to increase its own powers and those of its semi-private sister institution, the Bank for International Settlements (BIS).

From this vantage point, the central-bank bailout of Mexico has a double significance. Mexico failed to activate the debt weapon, and, whatever the final IMF terms, will pay brutally for dealing with the international institution; but the *threat* of the debt weapon has been sufficient to persuade the Reagan administration and the central banks themselves to throw their monetarist scruples to the wind, and hand over some \$3.5 billion Mexico could not obtain otherwise. In short, they have decided to paper over a general banking collapse visible for the September period, as Lyndon LaRouche suggested they might (see *EIR*, Aug. 24), postponing matters to next January or February at the latest. The fact of the bailout itself puts the BIS on the map in a way it could not previously claim, as the agency to which the U.S. government itself must go to deal with a crisis on its border that

threatened the American banking system (some \$48 billion of Mexico's \$80 billion public and private debt is to American banks). But the central banks' largesse to Mexico, even though it will benefit only the country's creditors and not the country itself, nonetheless hauls into public view the exposed weak flank of the international institutions and their associate banks: the debt bomb would "hurt us more than it would hurt them," as the *Guardian* and *Le Monde* admitted.

"Mexico did not roll over and die," commented a senior official at the General Agreement on Trade and Tariffs headquarters in Geneva. "They still have resources they may draw on." But even if Mexico staves off the most exorbitant of the IMF's demands, the state of the world economy alone implies a profound crisis for that nation. Whatever concessions it must make to the IMF will deepen that crisis.

The exposure of the central banks' weakness, however, will not be lost on Brazil, which for the first time is having trouble raising the immense volume of funds it requires to handle a \$80 billion debt burden, nor on Argentina, already \$2.5 billion behind in payments on its \$40 billion debt. Although Mexico was unable or too internally divided to persuade the other two countries to join in a common front against the IMF, the fight has not been won by either side. It will erupt when the central banks' money runs out, that is, before year-end. Meanwhile Brazil and Argentina have a greater incentive to push for favorable rescheduling terms. The debt bomb is still ticking.

From a discussion with a leading GATT spokesman on Aug. 18:

I agree with you completely that the financial system is about to go bust. I am not aware of any contingency plans negotiated between the central banks, except the old BIS Concordat. All bankers I talk to say that the central-bank arrangements are so vague that any sudden crisis would overtake them totally. I do not think that adequate international preparations are in place.

Central banks can be lenders of last resort even for extreme illiquidity. What about insolvency? Large writeoffs for banks mean a negative net worth—bankruptcy. Illiquidity merges into insolvency. If huge sums were to be involved, for this, governments, treasuries, would have to be involved and step in. Then that means virtual nationalization of banks!

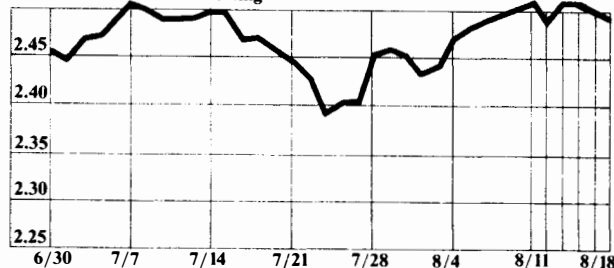
Next we have a timing problem. Sept. 10 is the deadline for renegotiating the 1982 Polish commercial debt. Then the Mexican problem is building up. . . . I expect November and December to be terrible.

Yes, I have heard the same as you concerning Shultz's views on this. . . . But where would the power be behind a McNamara-like world central bank? It could only work with the backing of the main financial powers, the G-10 etc. It cannot work, and if it did it still would not fit.

Currency Rates

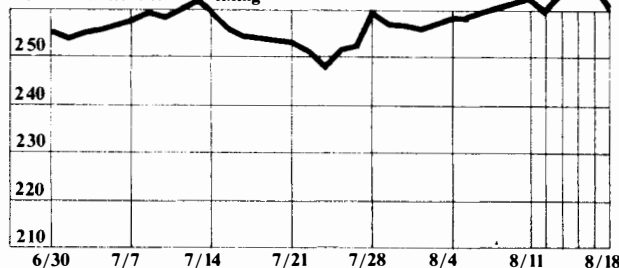
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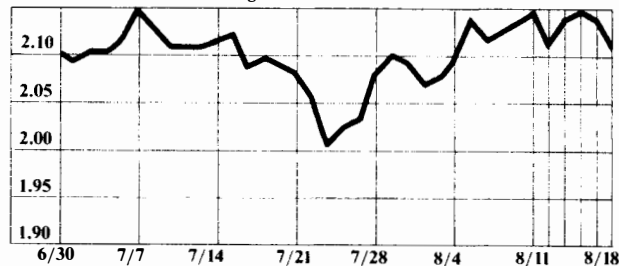
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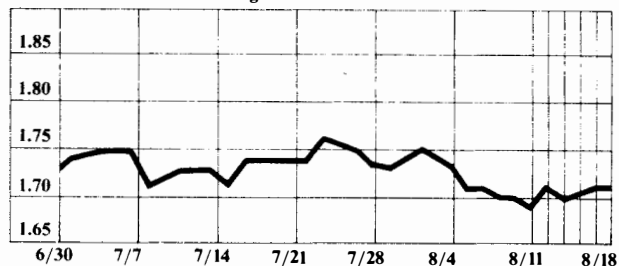
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Japanese analyst at Daiwa calls for an LDC debt moratorium

by Laurent Murawiec, European Economics Editor

For the first time, a major institution other than *Executive Intelligence Review* has stated publicly that a general, but orderly, moratorium on the debt payments of developing sector nations is the only alternative to chaotic financial collapse. In a paper circulated from his London base, Tadashi Nakamae, the chief economist of Japan's Daiwa Securities European branch, warns starkly, "The banking system has only one of two choices, either accept a moratorium on interest payments or face some sort of default."

The significance of the circulation of Nakamae's paper cannot be overstated. He is very well-regarded in Japanese financial circles and often cited as an authority on international finance in the European press. Nakamae's proposal for a debt moratorium comes at a time when, according to the *Japan Economic Daily* of Aug. 17, bankers in Japan fear the eruption of "a global money panic or a great depression."

The paper, entitled "High Interest Rates: An Alternative View (The consequences of a disappearing OPEC surplus)," was written in July. It begins with a demonstration that the reasons usually presented by official circles for explaining the high level of interest in the dollar sector, are non-existent at best. To a background of a U.S. current-account surplus of several years, of a decline in U.S. inflation, Nakamae adds the swollen "net savings" of the U.S. corporate sector (retained profits plus depreciation, minus fixed business investment, adjusted for inventory changes) to household savings, in order to calculate U.S. net savings. His conclusion, and that of the figures is: "If we look at individual domestic markets in isolation, economic factors overall would justify an ease in monetary conditions and lower interest rates. The argument that higher interest rates are the result of rising budget deficits no longer applies. . . . The real cause of high interest rates is not domestic, but external."

The Euromarkets

Very large amounts of credit have fled the United States, Nakamae argues—one could say they have flown out of the

U.S. economy: "The central question is where are these outflows of U.S. capital going? The answer is 'the Euromarkets.' There has been a large demand for credit on the Euromarkets to finance the balance of payments deficits of non-oil LDC's and Eastern European countries. The outstanding debt of the 21 major LDC's has reached \$440 billion, of which \$140 billion is due this year. In addition, the current account deficit of these countries is estimated at \$60 billion, of which roughly \$45 billion is for interest payments. In 1982, credit demand to finance their deficits and roll over existing debts will surely exceed \$200 billion."

Since OPEC has dried up as a source of Euromarket deposits, "the burden of supplying the necessary credit to the Euromarket has shifted from OPEC to the United States," a notion entirely borne out by the most recent statistics tabulated by the Bank for International Settlements (BIS), "because most deficit financing of Third World countries is denominated in dollars, and, due to high credit demand in the Euromarkets, dollar interest rates have remained high and have attracted capital outflows from Europe to the U.S. market in the form of dollar bond investment, and so forth.

"U.S. private sector liquidity, together with the massive outflow of money from Japan and Europe, has been providing funds to the Euromarket. Large demand for credit on the Euromarket has kept dollar rates at high levels, thereby reinforcing capital outflows from Japan and Europe."

Nakamae then shows that with a \$1.6 trillion Euromarket (total international bank lending outstanding) at the end of 1981, compared to a \$1.7 trillion U.S. domestic market (total assets/total liabilities and capital of U.S. domestically chartered commercial banks), "it is extraordinary that such a vast dollar market . . . has been completely ignored when examining possible causes of the high level of interest rates.

It is the "North-South debate" which must be solved, Nakamae concludes this part of the discussion. "Arguments concerning international interest rates and exchange rates were, in the past, limited to the industrialized countries. For the

first time, the North-South question has taken the lead in the debate and may be the heart of the problem.”

Oil import bills; deepening recession world-wide; sharp decline in commodity prices and higher U.S. interest rates—“the combination of these factors brought about the deterioration of their balance of payments which further damaged their credit standing.” The Japanese analyst then reports a striking series of figures published by the Ministry of Finance in Tokyo, which illustrate the depth of the disaster, which is a table of Japan’s export growth by area (in quarterly change from year earlier, in percentile).

	South East Asia	Africa	Latin America	Comecon
1980				
1st quarter	14.6	16.1	10.6	-8.6
2nd quarter	15.6	80.7	34.0	6.5
3rd quarter	16.5	51.5	42.3	33.8
4th quarter	25.7	68.6	49.7	68.1
1981				
1st quarter	23.2	50.6	58.8	50.3
2nd quarter	16.5	23.5	30.3	21.7
3rd quarter	10.0	33.8	6.0	-9.6
4th quarter	-0.8	-12.3	-4.5	-24.7
1982				
1st quarter	-4.7	5.0	-7.3	-20.8
April/May	-7.7	-25.5	-9.6	-23.2

This acceleration in the rate of decline of Japanese exports to developing countries embodies most aptly the collapse of the world economy as a growth- and development-oriented system.

Of course, Nakamae continues, the collapse of imports has meant a sharp contraction of domestic economic activity with “three serious consequences . . . serious political and social unrest [are] on the increase. The Polish permanent political tensions and the Argentinian invasion of the Falklands are typical reflections of economic instability. The second consequence is the sharp contraction of economic activity in LDCs has contributed to deepening the world economic recession. The third problem . . . is that despite the improvement in their trade balance, LDCs’ current balance of payments has not improved significantly. This is due to the burden of interest payments which has been increasing monthly.”

“Two-thirds of the deficit on current account (of LDCs) are due to interest payments,” Nakamae shows in facts and figures for seven major developing countries [so-called NICs (newly industrialized countries): Argentina, Brazil, Mexico, Chile, Korea, Thailand, and The Philippines]. From 1980-81, “the increase in the current account deficit was entirely due to the growth of interest payments.

“Thus, deficit financing has actually become interest-payments financing. It is the need for the financing of these interest payments which has maintained high credit demand, which, in turn, has prevented the lowering of interest rates. This vicious circle of high credit demand maintaining high interest rates, and thereby increasing the debt burden and the credit demand further, has been taking place concurrently with the deepening world recession.

Capitalizing interest payments

“The current level of interest rates is extraordinary. . . .

[It] could only be brought down by freezing the interest payments burden, which is at present the major source of credit demand in the Euromarket,” Nakamae asserts, also criticizing the practice of rescheduling, which, he correctly points out, is little more than capitalizing interest payments. Large-scale reschedulings in 1982 would but settle the appearance of the problem, and make it more acute next year. Further, “this type of rescheduling ignores the major economic problem; that is, as the weight of interest payments within the current account deficit increases, the net transfer of resources will not take place, although the financing of the deficit is achieved. A current account deficit with a trade surplus for the LDCs implies a net transfer of resources from the South to the North. Consequently, from the point of view of the deficit countries, *it would be more economically prudent to seek financial default* rather than desperately attempting to reschedule the debt [emphasis added].”

“However, if a moratorium on interest payments was applied, most of the credit demand on the Euromarket would disappear immediately and interest rates would fall. “This sharp fall in interest rates would in turn substantially reduce the burden of an interest-payments moratorium for the international banking system.

“It is unlikely, however, that this practical solution would be implemented in order to rescue deficit countries except if a serious crisis developed. For instance, the default of a debtor country could force international bankers to apply a moratorium. Clearly, the international banking system has only one of two choices, *either accept a moratorium on interest payments or face some sort of default.*

“The major problem,” the Japanese analyst concludes, “is the North-South problem. As long as the financial aspect of the North-South problem is not solved, the world economy cannot enter a new recovery phase. Actually, the industrialized countries must not only solve the financial problems but also expand domestic demand in individual countries, allow a free flow of exports from the Southern Hemisphere and assist their economic recovery. Through this process, the industrialized world would be helping itself recover.”

Western European and North American officials and bankers are in dire need of this type of wisdom. We wish that Tadashi Nakamae’s excellent argument sparks an urgent debate on both sides of the Atlantic—before the more explosive part of the alternative occurs in uncontrolled defaults.

Britain's economic-warfare experts aim to cut U.S. off from Mideast oil

by Judith Wyer

Iraq's Aug. 12 sinking of two commercial ships that were approaching Iran's oil port, Kharg Island, poses the ominous potentiality for the two-year-old war to expand into a broader conflict, and disrupt vital oil exports from neighboring states. The same day the Greek and South Korean vessels were sunk, Iraqi President Saddam Hussein declared Iran's Kharg Island and surrounding waters a military exclusion zone.

'U.S. out of the Mideast'

Less than 48 hours after this latest escalation in the Persian Gulf war, Occidental Petroleum Chairman Armand Hammer issued a statement reiterating his long-standing position that the United States should sever its dependency on oil from the troubled Middle East and make Mexico its prime source of imported oil. Hammer, an advocate of denationalization of Mexico's petroleum sector, along with oligarchical interests running the Bank of England, British Petroleum, and Royal Dutch Shell, is acting on behalf of a strategic scheme to push the United States out of the Mideast, making Mexico and South America its "Western hemispheric strategic reserve." This is a component of a grander scheme to divide the world economy into spheres of interests in which American influence in the Mideast would be lost to what, in shorthand, can be called the British.

These same interests, who control the Basel-based Bank for International Settlements (BIS) and the International Monetary Fund, are putting Mexico through a financial meat-grinder in order to break its longstanding resistance to the surrender of its oil to the United States. A financial austerity program in Mexico could unleash what New York bankers call "the Iran treatment" in Mexico. In any case, in the short term Mexico will probably waive its ceiling on exports to the United States in order to increase sales and bring in badly needed short-term cash in order to preserve internal stability. The major U.S. oil companies are waiting for the opportunity to buy more Mexican oil, but they are likely to ask Mexico to lower its price, as they did earlier this year. This presents the possibility that Mexico will have to increase its oil sales by as much as a million barrels a day, which would make it

the second largest developing-sector oil producer behind Saudi Arabia.

The first sign of increased oil sales to the United States materialized in mid-August when Washington announced a \$1 billion advance payment for Mexican oil to go into the U.S. government strategic reserve. Since 1977 there has been a slow but steady shift by the United States away from Persian Gulf oil towards Mexico and Great Britain. In the second quarter of this year, as Saudi Arabian oil exports began to dip to the current 10-year low, Mexico for the first time overtook Saudi Arabia as the United States' largest supplier of imported oil.

Both the financial crisis in Mexico and the worsening Gulf war are being manipulated by the British and Swiss to further their objective of forging Eastern and Western hemispheric economic spheres of interest. The idea of restricting the United States to the Western hemisphere is not new. It originated at the end of the 19th century in London and was advocated by Winston Churchill and his mentor, the Canadian business tycoon Lord Beaverbrook.

As the Mexican crisis continues to unfold, chaos both in the Persian Gulf and on the Arab-Israeli front are calculated by London and its allies to further impel the United States, beginning with the oil companies, to retreat from the region.

Khomeini's strategy

The key asset London controls in facilitating this process in the Mideast, is the Iranian dictator Ayatollah Khomeini. At this writing, a quiet shift in the factional balance of Khomeini's inner circle is giving a group known as the Hojaitai unprecedented powers. This grouping, which controls Foreign Minister Velayati and Defense Minister Salimi, advocates a full-scale assault on Iraq's capital city of Baghdad in order to overthrow Iraq's President Saddam Hussein and install a Khomeini-style Islamic regime there. Such a development would of course shift the overall balance of power in the Gulf and give Khomeini and his British backers a far stronger hand in their drive to push the United States out of the area.

Ayatollah Hashemi-Rafsanjani recently declared that Iran is preparing to deploy 1 million fighters against Iraq, and issued a very stern threat to Iraq's neighbors, Kuwait and Saudi Arabia, that it is "un-Islamic" to allow their territory to be used to ship imports to Iraq. Last month Kuwait put its military and border patrols on the highest state of alert for fear that the Iranian drive to seize Iraq's Persian Gulf port town of Basra would spill over into Kuwait.

Khomeini is expected to launch his boldest offensive yet against Iraq by early September. According to a well-placed French Mideast analyst, Iran aims at gaining "total political dominance" over the Gulf, replacing Saudi Arabia. Velayati and Khomeini have repeatedly beamed Arab-language radio broadcasts into the Arab Gulf states announcing Teheran's intention to oust the United States from, and overthrow its allies, in the region.

These fanatics are acting on behalf of the same British Petroleum and Royal Dutch Shell which helped install Khomeini as part of a strategy for returning the Gulf to the colonial status it suffered under Britain in the 19th century. Only last month did an official of the Iranian Oil Ministry declare, for the first time, Iran's readiness to re-open relations with multinational oil companies, with the exception of those based in the United States. The quiet relationship which developed two years ago when BP and Shell began marketing Iranian oil is about to expand.

London and the oil war

Khomeini's Iran, BP, and Shell further intend to drive the price of oil on the speculative international spot markets substantially below the Saudi price, in order to drive a wedge between Saudi Arabia and the American oil companies that market Saudi oil. Since World War II, the Saudi-American alliance established through the Arabian American oil company has been the foundation of U.S. influence in the Arab world.

Thanks primarily to British Petroleum, the volume of crude oil moving through the normally marginal spot market has increased over the past year, acting as a major factor (along with the continued depressed pattern of world oil consumption) in the downward spiral of prices. As a result the four American oil companies, Exxon, Socal, Texaco, and Mobil, which market most of Saudi crude at a price well above the spot price, have been losing up to \$3 a barrel on Saudi oil. This translated into record losses for these companies in the second quarter of this year.

What will the Saudis do?

Even though the American oil companies are moving almost 4 million barrels a day less than their official contracted offtake level due to the collapse in Saudi production, they are requesting that the Saudis allow them to further drop the amount of oil they market. Last week, the Saudi-controlled *Middle East Economic Survey* issued a cloaked warning to the oil companies that if they do not increase their purchases

of Saudi crude, then Riyadh was prepared to market its own crude via its state-owned oil company, Petromin. Over the past 36 months, both BP and Shell have begun to cultivate unprecedentedly good relations with Peromin.

According to a source at Mobil, "the company is taking a bath because of the amount we are losing on Saudi oil." Given the scale of losses, these companies cannot afford to market more of the relatively expensive crude, and Saudi Arabia cannot afford to market less. At an estimated export level of just over 5 million barrels a day (about half what Saudi Arabia was selling just over a year ago), the Saudis and the other balance-of-trade surplus Gulf Arab states depend upon their high oil income to fund Iraq's war against Iran. Since the second quarter there has been a sharp downturn in Saudi and Kuwaiti financial support for Iraq, thus weakening Iraq's economy and military strength against Khomeini.

Pumping well over 2 million barrels a day and selling the crude at low prices on the spot market, Iran is underselling Saudi Arabia and its neighbors, knowing it will cut into their oil incomes and erode their support for Iraq.

Behind the scenes, a faction of the Saudi royal family is reported to be talking to the Khomeini regime about a future accommodation under the guise of forming an "Islamic alliance" which would allow Saddam Hussein to be sacrificed. The key go-between in this process is a prominent courtier in Riyadh, Marouf Dawalibi, who in April was named as the "mediator" between the Arab Gulf states and Iran. Dawalibi is the former head of the elite Swiss-based organization Islam and the West, a crucial link between Khomeini's Muslim Brotherhood and the Club of Rome, a leading neo-Malthusian grouping in Europe that favors recolonization and sweeping depopulation in the developing sector.

The secret contacts between Saudi Arabia and Iran, which are also proceeding indirectly through Saudi Arabia's neighbors, Bahrain and the United Arab Emirates, are meant to shift the factional balance within the Saudi royal family towards the reactionary Muslim Brotherhood wing of the family under First Crown Prince Abdullah, who has won heightened power following the death of King Khalid in June.

Arab sources report that at present there is a fight building within Saudi ruling circles, including the Saudi Petroleum Council, over how to respond to Khomeini's overtures and the future of the Saudi-U.S. relationship. Saudi Petroleum Minister Zaki Yamani was recently rumored to have tendered his resignation in response to a plan that Saudi Arabia cut its ties to the U.S. oil companies; Yamani has been identified with the pro-U.S. faction of the family centered around King Fahd.

A source at Georgetown University's Center for Strategic and International Studies observed Aug. 18 that the U.S. with its eyes focused on Lebanon, may be surprised at what develops in the Gulf. He declared complacently that in the long run, the only safe future markets for the United States will be south of the border.

The West German showdown over AEG: bankruptcy versus nationalization

by Renée Sigerson

After weeks of stalemate, the West German federal government and 24 banks reached agreement Aug. 18 on a financial lifeboat package for the insolvent Allgemeine Elektrizitäts-Gesellschaft (AEG), the nation's seventh-largest corporation, which nearly plunged into bankruptcy in mid-August. Using government guarantees, the banks are providing two large loans, adding up to just under \$900 million. This lifeboat now allows AEG to go through composition proceedings in court for a reorganization of its payments and debt backlog, which amounts to \$1.5 billion.

Immediately at stake in the AEG crisis are 120,000 jobs; more broadly, the results of the reorganization of AEG will affect the entire West German economy for years to come. The financial collapse of AEG marks a pivot-point for the country. Either the Federal Republic will plunge into British conditions of permanent depression, or it will seize upon the challenge posed by a collapse-ridden world economy to launch an export-based drive for economic development in the Third World. Whatever the outcome of the AEG reorganization, it serves as a bitter reminder to West German leaders of the penalty for continuing the present drift, and a blow to their capacity to reduce it.

Unemployment in Germany now stands at its highest level since 1950, 7.5 percent. Early this month, the Federal Labor Office, which foresees an aggravated downturn of industrial output, issued a report predicting that by 1990, Germany will have 3 million permanently unemployed, as Britain does.

Within the banking consortium there is operating a clique of financiers around electronics magnate Peter von Siemens, who view dismembering AEG as a stepping stone to top-down, "post-industrial" reorganization of the German economy. Von Siemens, acting here in his capacity as a board member of the Deutsche Bank, is coordinating his moves in the consortium with AEG's foreign creditors in Switzerland, as well as with the U.S. "technetronic age" bastion, United Technologies Corporation (UTC) of Connecticut.

Poised against this crowd is a large faction around the German trade union movement which wants to settle the entire crisis through partial nationalization. To strengthen the trade union demand, Helga Zepp-LaRouche, Chairman of the European Labor Party and frequent contributor to *EIR*, issued a statement Aug. 15 calling for nationalization to be part of a government-led drive for export-generation to Third World countries. In an open letter also aimed at influencing September elections in the industrial state of Hesse, Zepp-LaRouche calls for Germany to assume world leadership in

the founding of a New World Economic Order.

The European Labor Party is acting to make Zepp-LaRouche's proposal a centerpiece of mass demonstrations on the economic crisis called for Sept. 7 by the German Trade Union Federation.

Most contested in this showdown is the fate of AEG's leading subsidiary, AEG-Technik, which produces heavy capital goods.

Royal Bavarian swindling

The stage for the current fight was set some months ago when von Siemens convinced AEG Chairman Heinz Dürr that the company was condemned to failure unless a foreign investor could be convinced to purchase a large shareholding in AEG-Technik.

The first buyer who entered onto the scene was General Electric of Great Britain. Upon announcement that Britain's GE was ready to buy into AEG, the German trade unions launched a furious campaign of denunciation. The condition of the British economy, they argued, was such that a British shareholder would have to be committed to broadscale cut-backs in production and employment to prevent German competition from wrecking their markets.

GE withdrew its offer, at which point von Siemens brought in UTC. UTC approached AEG with much more finesse, first reaching agreement on setting up a minor joint venture.

The trade unions stuck to their calls for nationalization. According to insider reports, von Siemens walked into the banking consortium meetings blaming the difficulties of the firm on the trade unions. Nationalizations, he said, according to report, were proven to be complete failures by the British and French experience. Above all, a "free market" system must be preserved in Germany.

The utter fraudulence of this argument is underlined by the fact that the one troubled firm in Germany which had to be nationalized, Salzgitter AG, a machinery producer, has been a successful, well-managed firm ever since.

With both sides at complete loggerheads by early July, two other events intervened to spell AEG's tailspin. Reports began to come out that the German economy overall was in worse shape than had been broadly expected for the year. In June, industrial output fell 5 percent compared to May. The mechanical engineering sector, the largest industrial grouping, was even reporting an exports decline over 1981.

In addition, the imposition by the U.S. government of extraterritorial sanctions against Western trade with the Soviet Union cast a dark light on AEG. AEG is contracted for

delivery of turbines, using American GE rotor licenses, to the Soviets. A major subdivision of the firm, AEG-Kanis, has been surviving on this contract. In July, a U.S. Treasury task force discussed at a closed meeting that the U.S. sanctions move, if upheld, would probably drive AEG into bankruptcy.

The panic engendered over the nationalizations issue, combined with these events, produced a breakdown of deliberations within the banking consortium. Von Siemens started having open shouting matches at meetings with AEG's major creditor, Dresdner Bank chairman Hans Friderichs.

The lifeboat proposal, which had originally been proposed on June, was temporarily shelved. Chancellor Schmidt offered the banks a \$100 million government guarantee to at least provide the firm—entering into a tough payments squeeze—a series of promised export credits. For 10 days, the banks appeared to be coming to agreement on Schmidt's proposal.

On Saturday evening, Aug. 4, UTC announced it was withdrawing its bid for 40 percent of AEG-Technik unless a complete reorganization were undertaken. The banks panicked, and Monday morning, pushed AEG into composition proceedings.

Days later, a Swiss financial newsletter, the *Platow Brief* started placing calls to German industrial suppliers, urging them to immediately call in cash payments for deliveries to AEG. Until the Aug. 18 deal was reached, it was entirely open whether even the composition proceedings would succeed in getting off the ground.

Von Siemens is multiply tied to Swiss interests. His faction in the consortium includes the Bavarian Union Bank, which, as the Royal Bank of Bavaria, was set up by—and still services—the oligarchic Wittelsbach, Thurn und Taxis, and other households in Bavaria which put Hitler in power. Von Siemens is also the chief benefactor of Armin von Möhler, an ideological proponent of the doctrine of “universal fascism” who runs the Siemens Foundation. Von Möhler is an associate of the Geneva-based Fascist International. This internationally-based network is striving to take command over the German economy in this crisis situation. Bavaria has strengthened its hand, in the course of the AEG affair, against the Ruhr, Germany's traditional industrial center of gravity; it remains to be seen whether they will capture the high ground for good.

On Aug. 18, AEG's foreign creditors met in Zürich, Switzerland. It remains to be seen how they will respond to the government-backed credit package. Leading up to their meeting, rumors were widespread that they intended to immediately call in their loans, on a cash basis, and drain the lifeboat of its funds. Even if they withhold such sabotage action, the composition proceedings will now drag on for three months. If the Schmidt government refuses to nationalize the firm during that period, AEG can be punctured again and again by the fascist bankers' clique which aims to seize control of it.

Behind the crisis in Canadian banking

by Richard Freeman

The Canadian banking system is on the brink of a collapse far greater than that of the 1930s. This year Canada's Big Five Banks—Bank of Montreal, Royal Bank of Canada, Canadian Imperial Bank of Commerce, Toronto Dominion, and Bank of Nova Scotia—will lose \$1.5 billion; they already have \$5.3 billion in loans that earn no interest and may have to be written off before the end of the year. Canada's banks lent wildly during the energy spree occasioned by Prime Minister Trudeau's National Energy Program, increasing total loans outstanding to largely speculative ventures by a whopping 64 percent between mid-July 1979 and November 1981. Now, the banks are overextended.

On July 8, depositors withdrew \$148 million from the Canadian Imperial Bank of Canada, and in Newfoundland, a large run started at the branches of the Bank of Nova Scotia, which was quelled only when the bank's chairman issued statements assuring the public that the bank was sound.

Part I of this report showed the seriousness of the Canadian banking crisis, and reported that if Canadian banks fail, Canadian banking they could take American banks down with them, because they have borrowed between \$25 and \$50 billion from American banks on the interbank market. Part II will show how the transformation of the Canadian economy laid the basis for a Canadian banking collapse.

Canada has never been allowed to develop as a sovereign nation. Originally nurtured as a British outpost from which to run subversive operations against the United States, Canada was granted dominion status by the British monarchy in 1867, but the parliament and ministers of Canada report not to the federation's Prime Minister but to the Queen of England, a point recently re-emphasized in the 1982 Canadian constitution, which made Queen Elizabeth II the direct sovereign of Canada.

For the most part, Canada has been kept as an underdeveloped raw-materials preserve of the large British mineral extractive companies, banks, and transportation companies, such as Hudson Bay Company, the oldest company in North America and the continuator of the British East India Company, and the Canadian Railroad and Steamship Company, which has its links to the Chinese opium trade, and the large forestry company, MacMillan Bloedel. British raw material looting firms, such as Rio Tinto Zinc, or representatives of the South African based Harry Oppenheimer's Anglo-American gold empire, can be found throughout Canada.

In 1981, a staggering 27 percent of total Canadian tangible goods output—the combined total of manufacturing shipments and minerals production—consisted solely of oil and natural gas drilling and refining, mining, and forestry and wood output.

Canada is every British oligarch's dream of the view of British East India Company agent Adam Smith's view of economics fulfilled: a supplier of raw materials for the mother country, and relatively "free" of people.

Canada's western provinces have been kept artificially backward and unpopulated. Six-tenths of all of Canada's population is concentrated in the area of southern Quebec and southern Ontario on the eastern part of the country. Population in Canada has stagnated at 24 million plus for the last three years. And in June 1981, before Canada's economy started to plunge, its manufacturing workers were only 16.2 percent of the total labor force.

Some of the most essential sectors were never developed such as a machine-tool industry or an adequate base of electrical and non-electrical machinery. In 1981, Canadians spent \$18 billion more on imported manufacturing goods than on home market produced manufacturing goods. Larker Kerwin, president of the National Research Council, estimates that a mere 4 percent of Canadian companies could be considered "technologically advanced." "Countires like Yugoslavia and Belgium are around our level," he said.

Recent developments

In 1978-79, in the aftermath of the British intelligence-run "Khomeini revolution" in Iran, world oil and raw material prices soared. In October 1980, Prime Minister Trudeau unleashed the National Energy Program (NEP). The assumption, according to the NEP plan, was that the price of oil would rise by a real 2 percent per year through the end of the century.

The NEP would capitalize Canada's natural resource holdings and turn the Canadian, British, and Swiss-French ownership of these holdings into dominant world financial leadership.

The Trudeau government announced "mega-energy projects," based on the inflated price of energy. Canada would turn tar-sands into oil in such exotic places in Northern Canada as Cold Lake, Canstar, Alsanda, and Sundata. These four projects alone were budgeted at a cost of \$55 billion to develop synthetic oil at a price of \$70 to \$80 per barrel of oil equivalent. A project to get oil from the Beaufort Sea at the northernmost part of British Columbia, near the Arctic Pole, was budgeted for \$52.3 billion. And so on.

Interest rates and Dome Petroleum

In order to carry out the NEP, which involved buying out other energy or raw material extractive industries, Canada's largest companies went heavily into debt.

At the same time, however, a second process was launched in August 1979, when Paul Volcker was installed as U.S.

Federal Reserve Board Chairman: stratospheric interest rates. In Canada, Volcker was recreated in the person of Gerald Bouey, the head of the Bank of Canada, Canada's central bank. Bouey allowed funds to flow into the corporate takeover mania, but began cutting back funds to Canada's industrial base, which is closely linked to that of the United States.

Then Bouey, under the direction of the Bank of England, began cutting back funds to the entire Canadian corporate sector, including the natural-resources companies.

As the industrial base of Canada and the rest of the world weakened, so did demand, and thus inexorably the price of oil and natural gas decreased. Canada's corporate sector was head over heels in unpayable debt. The case of Dome Petroleum, Canada's largest private Canadian-owned oil company, is exemplary.

By mid-1980, Dome had bought Kaiser Petroleum, Ferguson Oil and Gas Company, the Canadian assets of Mesa Petroleum; the assets of Siebens Oil and Gas, Ltd., and almost half of Trans-Canada Pipelines, Ltd. for a total in excess of \$2 billion. In 1981, Dome bought 53 percent of Hudson's Bay Oil & Gas from Conoco for \$2 billion; this year, it purchased the rest, 47 percent, for another \$2 billion.

In order to finance these purchases, Dome borrowed heavily from the Big Five Canadian banks. A consortium of American banks lent Dome \$1 billion, with Citibank of New York lending Dome at least \$100 million. From a level of less than \$2 billion in 1979 Dome's debt reached \$7.7 billion this June. Dome must pay at least \$1.2 billion and perhaps as much as \$2.2 billion in combined interest and principal payments to the banks in September. Dome's interest payments likewise skyrocketed: In 1980, Dome paid \$291.8 million in interest; in 1981, the amount zoomed to \$724.4 million. In 1982, it is paying \$100 million in interest payments per month, or \$1.2 billion per year. Since Dome's total projected revenues for 1982 are at most \$3 billion, 40 percent of its revenues must go this year for interest. Salaries and operating costs are projected to be \$2.5 billion or more. An official for one of the New York creditor banks stated July 1, "everyone at this bank is damned worried, because we know that Dome can't possibly meet its payment. They'll go bankrupt."

It is rumored that the Canadian government may give Dome a bailout, since Dome is the centerpiece of its energy program. In exchange, Dome would give the Canadian government some depreciated assets, which the Canadian government can sell for cash. This extra cash will ease Dome's cash shortage problems, but will not improve its debt problems, nor make its oil more salable in a depressed market. Dome's bankruptcy may be postponed, but not halted.

Hundreds of other firms are on the edge of, or have filed for, bankruptcy.

A recent survey shows that 66 cents out of each Canadian corporation's dollar of pre-tax cash flow goes to pay debt service. "There definitely will be some big companies that go into receivership," stated Richard Thomson, chairman of Toronto Dominion Bank on June 10.

What drop in interest rates?

Interest rates aren't really falling; it wouldn't do any good if they did. The crash prospect is the reality.

When the stock market chose to rally 39 points on the Dow Jones average on the same day, Aug. 17, that the *Wall Street Journal* revealed that Chase Manhattan had trouble selling its certificates of deposit on the market (as visibly upset Chase officials confirm), events simply demonstrated that the U.S. stock market, given present debt-equity ratios, has leveraged itself into a position similar to that of Hong Kong, where fortunes triple or disappear overnight.

The fact that Chase now pays 150 basis points more than other banks for funding should put a damper on the enthusiasm of the market for falling interest rates, for the simple reason that the rates corporations, consumers, and an increasing number of banks must pay have either remained high or actually moved up while Treasury bill rates have collapsed.

Federal Reserve officials speak of "lower rates for the U.S. government, but not for anyone else," noting that troubled banks (including Chase and Continental Illinois) may be paying 4 to 5 percent more for their money than the Treasury, instead of a percent or two, as is usual.

For banks that funded loans pegged to the London interbank rate (LIBOR), i.e. LIBOR plus 0.5 to 1 percent, falling rates do not help, since many of them cannot borrow at LIBOR, or less than 1.5 percent above LIBOR.

In fact, the reason for the trends in interest rates has to do, principally, with the pre-panic state of the market

and with the collapse of the underlying economy, and secondarily with the pre-panic frame of mind among central bankers. In this singular world, the market phenomena are read by sophisticated investors as cause to dive for the cellar before the twister hits.

First, the "rush for quality" takes the form of a huge rise in the demand for Treasury bills at the expense of virtually all other kinds of paper; investors and even large commercial banks are so fearful for their liquidity that they are willing to invest in short-term Treasury bills even at substantially reduced interest rates, as a matter of safety. That is why Treasury bill rates fell 6 percent since June, and the prime lending rate of commercial banks fell only 2 percent.

Second, as the London *Financial Times* noted in an Aug. 18 editorial entitled, "Depression Finally Overwhelms Rates," the underlying economy has collapsed. Overall lending has dried up; as the Bank for International Settlements figures for the first quarter show, the rate of lending to Eurodollar market borrowers dropped sharply for the first time since the depression began, and the past six weeks' numbers for American commercial and industrial loans show no increase whatever.

Third, the composition of lending has changed drastically, Fed officials and market analysts believe. Corporations are no longer borrowing to finance inventory or pay suppliers, but to repay debt service. This form of distress borrowing does not increase

"money supply," unlike normal business borrowing, which multiplies checking accounts: borrowers take their money from one window and hand it over at another. This accounts for the reductions of the money supply in the past several weeks. In that sense, the drop in rates represents "the only silver lining in a very black cloud," as the *Financial Times* editorial chose to put it.

There is another nasty element in the process, as Chase Manhattan economist Ronald Liesching explains: the Fed is using the Bank of England's ancient "Grand Old Duke of York" routine to market \$50 billion per quarter of federal debt, luring retail investors by letting rates fall and creating hopes of capital gain upon purchase of long bonds, then jerking rates back up—until the next wave of suckers decides that rates have "peaked." Barring an all-out collapse, rates would rise again later this year.

In all this tumble there is a new element: the fact that central bankers see the present collapse in bank lending, which they earlier engineered, turning into a giant snowball which could crush the banking system. The Fed's willingness to permit rates to fall, and bring its own discount rate down along with them, reflects such fear. Fed officials speak of an informal agreement between the Fed and the European central banks to gradually relitify the banking system.

However, since the magnitudes of the problem are potentially much greater than any normal growth in monetary aggregates could cover—London and Swiss banks speak of \$100 to \$150 billion of busted assets this year—and since the circulation of monetary reserves provided by the central banks is frustrated by the "rush for quality," it is difficult to see how this might help matters.

Colombian scandal unfolds

The Grupo Colombia collapse could consolidate the control of Dope, Inc., or destroy it.

The scandal surrounding the collapse of the Grupo Colombia financial house has continued to unravel, posing a unique challenge to the brand-new Betancur government: either it seizes the opportunity to decree a monetary reform which will eliminate the control these big-time swindlers have exercised over the Colombian economy for at least the past eight years, or it hands over the vestiges of national sovereignty to Dope, Inc.

All operations and assets of the Corporación Financiera Antioqueña, a third major financial corporation in the Grupo Colombia sphere, were frozen this month by order of the Banking Superintendent as revelations of fictitious accounts, illegal speculation, dirty-money handling, and outright theft continued to pour in. The group's president and chief stockholder, Félix Correa Maya, has remained free to cover his tracks and collect his profits from the 40-odd companies which remain under his control, but panic-by-association has led to the "disappearance" of at least half a dozen real-estate firms in Correa's home base in the city of Medellín.

Grupo Colombia's links to the interational narcotics mafia are now coming to light. According to an investigative journalist for the Bogotá daily *El Tiempo*, Correa is the sole stockholder of Florida International Bank (FIB) in Miami, the former Perine Bank which serves as Meyer Lansky's primary money-laundering facility for his drug and prostitution rackets during the past 15 years. Cor-

rea's purchase of the bank was made possible with a \$6 million loan from the Italian oligarchy's Banco Nazionale del Lavoro. FIB's current president is Donald Burgess, the former head of Chase Manhattan in Colombia.

While the new administration debates the legal precedents for dealing with the mafia-linked Correa, the country's other financial entities have been frantically trying to turn the Grupo Colombia scandal into an opportunity to force a government-decreed "banking reform"—on their terms.

Led by the number-one financial group in the country, the Grupo Grancolombiano run by Jaime Michelsen, the financial sector has put out statement after statement demanding: 1) that the state must be the guarantor for all private banking activities, clean or dirty, and 2) that banking be consolidated under a "multibanking" system, which would give monstrous control to such institutions as Michelsen's Bank of Colombia.

The Michelsen-dominated National Association of Financial Institutions (ANIF) drowned its annual congress recently in crocodile tears over the fact that it is the savings of the "common people" which are wiped out in a crisis like that of the Grupo Colombia. Said ANIF president Soto Sierra, "It is the state which should be responsible for the management of private savings granted to the various entities of the financial system. . . . In the face of any anomaly resulting from mismanagement by these establishments, the population

must not be allowed to suffer."

Michelsen himself called for a "golden rule" to be set up between the state and bankers like himself, in which the central bank would be the fiduciary agent for the private banks—to maintain the Colombian banking system's "recognized image of competence and reliability" with foreign creditors.

Although it remains to be seen how Betancur will respond to this blackmail—a package of fiscal and monetary measures is expected to be officially announced later this week—certain voices have been raised against Michelsen & Co. The former president of the Stock Exchange, Hernán Echavarría Olózaga, accused Michelsen's Grupo Grancolombiano of the same dirty practices as Correa's outfit, and charged the Turbay government, which preceded Betancur's, with covering for the Grupo Grancolombiano. As a result, he declared, "the national financial system today is a fiesta of sharks devouring the smaller fish . . . and the nation has been left economically and morally prostrate."

Concrete advice came from respected economic columnist for the Bogotá daily *El Espectador*, Jorge Child, who has urged that the state exercise its constitutional right to "expropriate all the assets of a group and of its administrators who commit abuses of confidence in management of savings," also urged that the President create new credit institutions to replace the existing corrupt ones.

Ideally, says Child, a "state investment fund" would intervene in the open market and act as a "counterforce of the state against the private financial speculators."

The first part of this contribution by Valerie Rush appeared in the Aug. 10 issue of EIR.

Organic farming: a pile of manure

“Exporting food is exporting U.S. soil,” says the Aspen Institute, and the USDA is listening.

Organic farming, now being touted by Walter Orr Roberts of the National Center for Atmospheric Research, which is linked to one of the major funders of the environmentalist movement in the United States, the Aspen Institute, is also being incorporated into U.S. agricultural policy making.

Two bills are now before the Congress calling for the U.S. Department of Agriculture to set up programs to disseminate information on organic farming methods, to be financed by USDA research extension grants. And when the dung-worshipping Rodale Press and Organic Farms Inc. testified on the “Organic Farming Act of 1982” now before the House, the Administrator of the USDA’s Agricultural Research Service, the one-time catalytic agency for making U.S. agriculture the most advanced in the world, declared, “There obviously are situations where the required inputs and production outputs are such that organic farming would be the preferred method.”

Organic farming is defined by the USDA as “a production system that avoids or largely excludes the use of synthetically compounded fertilizers, pesticides, growth regulators, and livestock feed additives. To the maximum extent feasible, organic systems rely on crop rotation, crop residues, animal manures . . . off-farm organic wastes, and aspects of biological pest control.”

Aides to Rep. James Weaver (D-Pa.) who is sponsoring the House bill, readily admit that organic farming is

more labor-intensive and that “for a time” output would be significantly reduced. The USDA’s first report in 1980 cites studies showing that if a total shift to organic farming were to occur, domestic food needs could still be met, but concedes that farm exports would fall short.

The Senate has similar legislation under consideration. Both bills call on the USDA to set up programs whereby 1) information on organic farming is gathered and disseminated by the federal government; 2) volunteers work under USDA’s farm cooperative extension systems around the country; and 3) six organic model farms are set up. Funding for this promotion would come from the already skin-and-bones budget for cooperative extension research.

The USDA reflects the mounting influence on farm policy of the Aspen Institute, which is already responsible for wrecking American energy development. Walter Orr Roberts, of the National Center for Atmospheric Research, is tinkering with proposals for how “to do right by the soil” or “living humus,” and is planning a project to look into the economic, political, and “ethical” effects if U.S. grain production were to be cut by 50 percent and prices doubled! Although Roberts claimed that he was concerned not to cause utter hardship, he has already run this scenario through a computer model, and found that it would result in 300,000 deaths outside the United States.

Roberts has also thought about

promoting sheep and goat grazing under trees, a practice which he indicated would solve soil-erosion problems and increase the agro-forestry business; he said this works very well in Khazakhstan. And marginal land should be taken out of irrigation in order to stop depleting aquifers. Too much incentive is being given farmers to produce, causing surpluses which then have to be exported. For Roberts, “sustainability” is the key: producing only enough for the minimum needs of the current U.S. population. “Every time you export U.S. grain, you are exporting U.S. soil.”

Organic farming, the method that keeps communist China in a state of constant famine, needs a 30 percent participation by farmers to produce the desired 10 percent decrease in food production, Roberts estimates. Organic farming certainly will produce the desired lower yields, and “if done at a lower price and cheaper inputs, it’s a plus,” he says.

No matter what the USDA does, the majority of American farmers, who use all methods to increase efficiency, will not accept organic farming. But the USDA is not the only influence. Sky-high interest rates, falling crop and land prices, and rising fertilizer costs all tend to force the farmer into cutting back on something. Family farmers are the target of the organicists. Their economic situation is the worst; they will look for ways to reduce costs; they will do almost anything to stay on the farm. Back in 1906, “Fertilizer Almanac” wrote, “To properly handle a field of 50 acres, the farmer would have to haul about 7,500 loads of manure. If he hauled 100 loads a day, it would take 75 working days to cover the 50 acres.” The organicists expect the family farmers to be compelled to resort to some approximation of that degraded life.

Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
UPDATE			
\$1 bn.	Venezuela from U.S.A.	Venezuela's expansion of the Guri Dam will be completed by a consortium led by Guy F. Atkinson Co., under \$1 bn. contract. When completed in 1986, Guri at 10,300 MW, will be world's second most powerful hydroelectric project, surpassed only by Brazilian-Paraguayan Itaipu Dam. Dam construction was started in 1978 by four Brazilian and Venezuelan firms, but fell 21 months behind schedule due to serious management problems. The Brasven contractors will continue holding 60% of the concrete placement work, while Atkinson will do 40% and manage everything. Dam will cost \$4.6 billion.	Concrete will be poured at 200,000 cu. yds./mo., 24-hrs./day by 8,125 workers so that first pair of the 10 generators can go on stream in Nov. 1983.
NEW DEALS			
\$445 mn.	Saudi Arabia from Holland	Pipeline from Shu'Aiba desalination plant on the Red Sea to cities of Makkah and Taif to be built by consortium of A. Hak Pijpleidingen (Holland) and Rashid Trading of Riyadh.	Contract awarded.
\$152 mn.	Iraq from Japan	Iraq's new medical facilities and Baghdad sewer extension have resulted in \$152 mn. in orders from Toshiba Iryonkiki and Shimadzu Seisakusho for medical equipment, and from Fujita for sewer construction.	Financed through Marubeni Corp.
\$124 mn.	Malaysia from Sweden	Malaysian Telecommunications Administration contracted Ericsson to supply computerized AXE telephone exchanges.	Nippon Electric of Japan won similar order last year.
\$12.5 mn.	U.S.A. from Sweden	MCI Communications has made the first order from the U.S.A. for Ericsson's AXE computerized telephone switching equipment, which has been sold to 40 other countries.	Ericsson plans to move into U.S. mobile-phone market.
\$9 mn.	Hong Kong from U.K.	Babcock won order for 2 continuous ship unloaders to carry coal off ships at China Light and Power's Castle Peak power station.	Uses a bucket wheel in coal ship to continuously feed coal to belt.
\$60 mn.	Colombia from U.S.A.	Great Lakes Dredge is about to begin 18-month job to create 3 miles of channel and 2 turning basins for 60-ft. draft super-colliers. Will load coal from world's biggest coal pit, El Cerrejón, on Colombia's Atlantic coast.	Cerrejón project being built by Exxon and Colombian govt.'s Carbocol.
\$81 mn.	Indonesia from Japan	Expansion of Java port of Semarang to handle ships of up to 16,000 tons has been contracted to Japanese firms led by Toyo Menka.	Japanese govt. offering yen credit covering 70% of costs.
\$50 mn.	United Arab Emirates from U.K.	Abu Dhabi National Oil Co. has contracted Fluor Corp.'s British subsidiary to build terminal to ship sulfur extracted from oil at its Ruwais refinery.	
\$5 mn.	El Salvador from Colombia	Colombian govt. has set up credit line for exports to El Salvador. At 8%, with 1-5 yr. terms.	Colombia wants its private sector to export items other than cocaine, coffee, and flowers.
\$25 mn.	Malaysia from U.S.A.	Scott Paper is building 13,000 tpy capacity plant to turn paper pulp into toilet paper, tissues and napkins in Malaysia.	

Business Briefs

Agriculture

Federal spending cuts slash U.S. farm programs

The Senate is considering the omnibus House reconciliation package, H.R. 6955, which passed the House Aug. 10. The Agricultural Budget Reconciliation bill cuts the farm budget by \$4.6 billion, says the congressional Budget Reconciliation bill cuts the farm budget by \$4.6 billion, says the congressional cuts the long-fought-for food-stamp program was virtually ended; dairy price supports have been frozen; and funds are to be stolen from the Commodity Credit Corporation to pay for a grain set-aside program.

Specifically, the food-stamp program was cut by \$2.5 billion over three years, and severe restrictions have been applied to recipients.

Milk-price supports would be frozen at \$13.10 cwt, and the USDA can dock farmers up to \$1.00 per cwt on their milk sales proceeds if projected government-owned dairy-product surpluses exceed certain target levels.

On enrollment, a farmer receives 50 percent of diversion payment for the 1983 crop and must comply with acreage reductions of 15 percent for wheat and rice.

If he does not enroll, then he forfeits farm-program benefits such as price-support loans, and target price protection. The funds will be taken from CCC Title I of PL 480. U.S. Assistant Agriculture Secretary Bill Leshner let it be known that the administration was not happy with the dairy provision of the legislation.

Third World Development

Sudan drainage project halted for lack of fuel

The only development project of any significance on the African continent is doomed because there is no money to pay for fuel to run the machinery.

After 40 years of hoping and planning, Sudan three years ago began the Junglei

Canal Project to drain the Sudd, the massive swamps in the southern part of the country by a series of canals. The swamps were formed during thousands of years of Nile headwater seepage. The on-again-off-again project would eventually open up millions of hectares that could be cultivated, and would help solve the nation's health problems.

However, the gigantic bucketwheel excavator in use on the project is daily using more fuel than the regional capital of Juba has. The French consortium Compagnie de Constructions Internationales wants the government to let it import fuel directly, but the question of payment would remain. Ironically, Sudan has millions of barrels of untapped oil supplies.

Many problems have dogged the project, which the World Bank believes is too ambitious for Sudan. There is no infrastructure in the south, and transporting the mud dug from the canal becomes impossible; the heat of the summer is drying the mud into concrete when it is left alongside the canal. Digging in the rainy season is hazardous since the canal fills up again. The hindrance seems to be that there is only one bucket-wheel on the project.

World Trade

Gulf states increase West German imports

West German exports to Saudi Arabia rose 64.5 percent in the first six months of 1982, compared to last year, placing Saudi Arabia again at the top as lead Arab country market for German firms. Overall, German exports to the Middle East rose 38.5 percent over this time frame, well above the average rate of growth of exports worldwide of 14.6 percent.

Germany is now running a positive trade balance with the Middle East for the first time since 1978. Imports, primarily of petroleum and derivatives, have dropped 18.1 percent in value terms compared to the first half of 1981.

The financial daily *Handelsblatt* warns, however, that it is still too early to tell

whether these highly favorable developments will hold up until year-end. "The chances for a further export rise of similar dimensions are less favorable," the journal states.

One German institute expects substantial economic benefits arising from the moves toward political and economic union in the Gulf region. The Nah- und Mittelost Verein of Hamburg sees steps towards the formation of a Gulf council, and related efforts for increased economic union and defense cooperation as a potential for further expansion of those markets for German goods.

If political instability or even upheaval spreads in the region, however—a danger which is very great—these markets, which are currently a major support of the German economy, could rapidly shrink.

Public Policy

Zepp-LaRouche: Bonn can rescue AEG

Until the financial crisis around the Allgemeine Elektrizitäts-Gesellschaft (AEG) is resolved, West Germany should impose exchange controls, according to Helga Zepp-LaRouche, chairman of the European Labor Party, which is running a candidates' list in the turbulent election campaign in the state of Hesse.

Zepp-LaRouche issued her proposal for exchange controls in a publicly distributed letter which is circulating widely in Social Democratic Party, labor, and industrial circles.

The proposal also includes a call for Germany to unilaterally remonetize its gold reserves, in order to expand trade-financing facilities in the banking system on a substantial scale; and the establishment of a two-tier credit system giving preference to investment in productive industries.

An extraordinary situation has developed for the West German economy, Zepp-LaRouche points out, mandating that such extreme unilateral measures be undertaken. AEG's failure was the result of deliberate moves by a clique of bankers who aim to use the firm's ills to force industrial contraction on the country.

Briefly

Germany has two choices as to how it will resolve the economic weaknesses brought to light by the AEG affair: it can, under the influence of the culpable bankers' clique, once again make a transition like that made in 1932-33 from "von Schleicher to von Papen"; or it can assume world leadership in establishing a New World Economic Order based on exporting heavy capital equipment to the Third World.

Zepp-LaRouche is also calling for 40 percent nationalization of AEG.

U.S. Trade Policy

Senators propose Office of Strategic Trade

In the wake of the controversy surrounding the imposition of sanctions against firms involved in the gas pipeline project with the Soviet Union, Sen. Jake Garn (R-Utah) introduced a bill on Aug. 13 to create the Office of Strategic Trade. The bill (S.2837), would establish an independent federal agency to centralize the export administration that currently is carried out by the Departments of Defense, State, Commerce, and Agriculture.

Co-sponsors of the Garn bill are Senators Cohen (R-Maine), Armstrong (R-Colo.), East (R-N.C.), Hatch (R-Utah), Symms (R-Idaho), Thurmond (R-S.C.), and Moynihan (D-N.Y.). Moynihan, since the pipeline became a major issue in Washington, has been threatening to introduce legislation to control credit for exports abroad. The Garn bill omits such provisions, but according to aides to Garn and Moynihan, an amendment may be attached to deal with credit. According to a Garn aide, "Garn, Kasten, and Lugar are all very keen on the credit supervision." Moynihan may also sponsor a separate "complementary" bill to handle credit provisions.

Garn's and Moynihan's offices admitted that it is highly unlikely that this bill could be enacted this session. Rather, the Senators are planning to mobilize what they think is a consensus for such supervision and centralization, and pass a bill in the next session of Congress, when the Export Administration Act comes up for reauthorization. It is

this act which would be amended by the proposed legislation. All U.S. trade to the Soviet Union and to the East bloc and trade of "strategic" items elsewhere would come under the purview of the new office.

The bill was unanimously referred to the Senate Committee on Banking, Housing, and Urban Affairs. Banking Committee staffer Paul Freedenburg has been credited with drafting the bill.

The bill embodies the "post-industrial" assumption that the United States ought to try to cripple other economies, rather than exporting the most advanced technologies.

Financial Scandals

Saudi silver scam shakes Belgian and British banks

The shock waves still are being felt in Europe and the Mideast following the March 15 announcement that a wealthy Saudi silver trader had defaulted on \$200 million in credits from the Belgium Kredietbank. According to the *Mideast Report*, Aug. 15, Abdullah Saleh al-Rajhi, the son of a prominent Saudi foreign-exchange dealer, used the credits to finance a speculative silver scheme that went bad. Rajhi had put up his private real estate in Saudi Arabia as collateral for the credits; but it turns out that foreigners are banned by law from owning Saudi land.

Not only Belgium's Kredietbank, but Britain's Midland Bank, the Johnson-Matthey industrial group of London, National Westminster Bank, Lloyds Bank International, and Thailand's largest bank, the Bangkok Bank, are claiming past-due obligations from the young Saudi.

One of al-Rajhi's business partners, a young Kuwaiti investor, Ghazi al-Jassa, is being sued by British, Belgian, and other banks for about \$300 million.

As a result of declining oil export income, many of the petrodollar-rich Gulf oil-producing states are now going into deficit. Since 1974 the rich Arab oil producers have been seen by western bankers and economists as the silver lining in the deepening world financial crisis. These latest developments are proving that outlook an illusion.

● **JAPAN'S EXPORTS** for July fell 12.8 percent from the year before in dollar value, and 7.1 percent in physical volume. Imports for July were down 12 percent in dollar value. So far January-July exports are down 4.5 percent from 1981, and Japanese analysts predict that 1982 will show the first absolute decline in exports in 30 years.

● **JAPAN'S MACHINE-TOOL** exports are running 20 percent below last year's moderately depressed level, occasioning large production cutbacks at the nation's largest machine-tool companies. Japanese customs figures indicate a June machine-tool export of \$76.4 million, a 20 percent drop from the year before. Exports to the U.S. showed the most radical drop, reflecting the gutting of U.S. industry. June exports to the U.S. dropped 37 percent from the year-earlier level.

● **NUCLEAR REACTOR** exports from Japan may begin in a few years, if plans by the Ministry of International Trade and Industry come to fruition. MITI has just set up an advisory board to develop plans for export of reactors, processing, waste disposal and other equipment. Its plans will be ready within 18 months, reports the *Mainichi Shimbun* of Aug. 16. Japan would become the eighth exporter of such technology.

● **THE AMERICAN STEEL** industry's 20-year diversification out of steel production has doubled the ratio of management to blue-collar employees. In 1960, the industry employed 571,552 hourly wage employees and 121,664 managerial level personnel, giving a ratio of management to production workers of 21.2 percent. In June 1982, the industry employed 93,853 salaried employees and only 201,016 hourly workers, yielding a management to worker ratio of 46.7 percent, more than twice the figure in 1960.

Japan's dilemma: can the U.S. strategic decline be reversed?

by Peter Ennis, Special Services Director

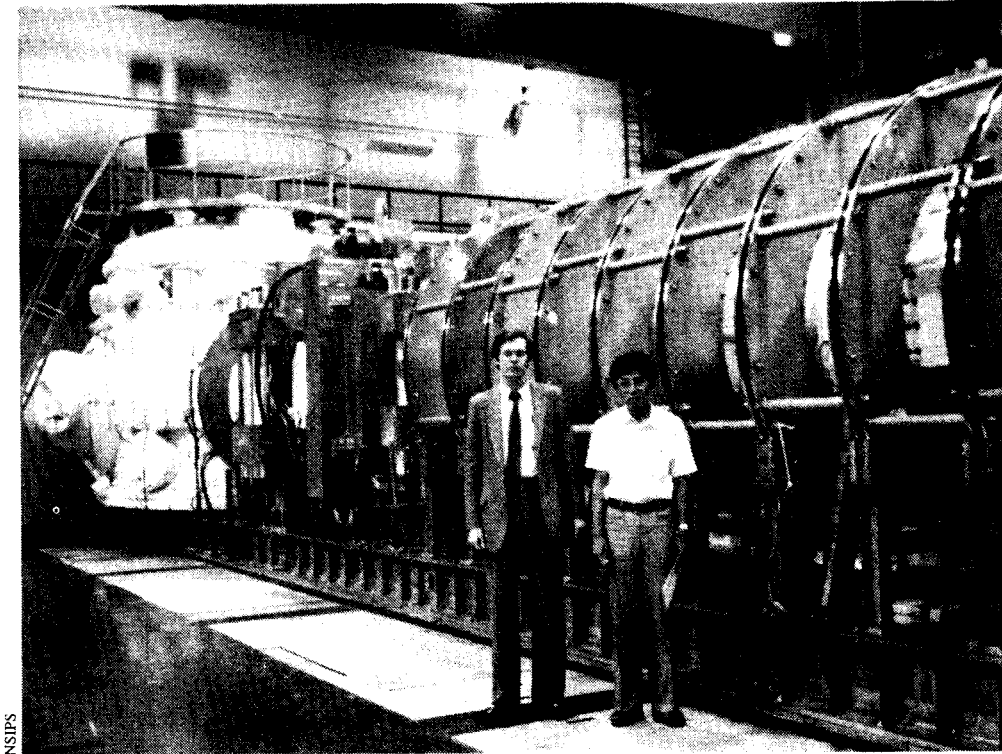
Recently, during a lengthy conversation, a Japanese friend described to this writer his view of the international political and economic environment surrounding Japan. Japan, he said, is like a person standing on the bank of a river, watching a destructive fire rage on the opposite bank. The observer, he said, must determine if the fire will spread across the river, and if he sees that it will, then he must decide how to respond. Three options are available: do nothing, and be engulfed by the fire; try to insulate his side of the river, so the fire cannot engulf him; or, try to extinguish the fire. Japan, he said, increasingly sees that the fire can indeed spread across the river, but has yet to choose its option.

When I complimented my friend on his poignant use of imagery, he rejected my compliment, insisting that he is a "typical Japanese," and that the fears he described are now common throughout Japan.

During the course of a three-week visit to Japan, this writer talked with business, political, and journalistic leaders, and found that a high degree of anxiety about the world economic and political situation does indeed exist throughout the country. On the one hand, almost all Japanese are extremely proud of the enormous progress made in the country since World War II. On the other hand, almost all of them have an extreme feeling of vulnerability, that their geographically tiny country, endowed with no raw materials, has developed an economy so powerful that its future is now inseparable from the course of international events—events which Japan, in the view of most Japanese, can only slightly influence and certainly not control. The old Japanese saying, "when the world economy sneezes, Japan catches a cold," is now taking on strategic meaning for the Japanese.

Most people in Japan firmly believe that the roots of the last world war lay in the 1930s decade of depression, and they fear that the growing instability of the world economy today could lead to a similar fate—a new world war which Japanese are all too aware would lead to their destruction.

In essence, the Japanese now see the world undergoing a process identical in every essential feature with the process that led to World War II. The anxiety in Tokyo is compounded by the fact that the United States, the country that Japan



Mr. Ennis (l) with Dr. Atsushi Mase, Associate Professor at the University of Tsukuba's Plasma Research Center, in front of the Tandem Mirror Gamma-10 experimental fusion reactor, now in construction. The Gamma-10, one of the largest machines of its kind in the world, reflects Japan's commitment to high-technology development in general and advanced energy sources in particular.

NSIPS

has depended on throughout the post-war period to maintain world peace and stability, is increasingly seen in Tokyo as the "fire across the river": a major contributor to, rather than a force against, the growing world crisis.

The disastrous 1930s

The last time around, in the 1930s, the Japanese responded by asserting their world military power. In the midst of world economic depression, export markets which had collapsed by half, waves of protectionist legislation, and threats to supplies of vital raw materials, Japanese policy amounted to a military effort to create an autarchic economic structure throughout East Asia—a structure designed to allow Japan to control its own destiny and weather the raging international storm.

Most Japanese see as disastrous the consequences of those military actions; not only was Japan virtually destroyed, but the country was occupied by a foreign power for the first time in its 2,000-year history. That the defeat and occupation were the result of Japan's first real effort to exert itself as a world power has enormously influenced the way Japanese leaders think today. Few Japanese feel guilt for World War II, which they see as having been caused by the world depression. But very few see as viable any effort by Japan to again assert itself as a world military power, strategically independent of either the United States or the Soviet Union. Instead, they insist on the necessity of depending on American power to provide the environment of stability in which Japan can develop. The high degree of continuity between Japan's pre-war and post-war leadership has strengthened this view.

Alliance with America

Therefore, a discussion at this time with a Japanese leader on the proper response to the world's crisis inevitably boils down to Japan's relationship with the United States. The Japanese analyze in-depth the world's strategic, especially economic, problems, but insist that only the United States can act to restore world economic and political stability.

At the same time, Tokyo is watching in horror the effects of America's "shoot yourself in the foot" policies—high interest rates, low capital investment, hostility towards the developing countries. They wonder whether or not America is unalterably on a course of decline. Will Japan, allied with the United States, be engulfed by America's decline? Or will America's decline lead to a rupture of the U.S.-Japan alliance, leaving Japan alone, as in the 1930s, to fend for itself in the midst of growing world tension? Or, can Japan take actions to help reverse the decline of America? These are the questions Tokyo is now grappling with.

Ultimately, the Japanese reluctantly admit, their only option is to try to get the United States to act as a positive force once again in world political and economic affairs. In this regard, Japan will have to provide leadership to an America that was once the inspiration for many countries, including Japan. The dilemma for Japan is to find ways to effectively communicate to Americans the disastrous nature of its policies and provide concrete alternative directions. Failure to change the course of American policy surely means the long-term decline of the United States and possibly war with the Soviet Union. In either case, Japan would surely be engulfed by the fire.

How Tokyo is evaluating its relationship with Washington

“You see that building over there?” my friend asked me, pointing out the window to an oddly-shaped structure. “That’s the Education Ministry. It was one of the few buildings in all of Tokyo left intact throughout the bombings.”

As my friend spoke, we were standing in a restaurant on the top floor of Tokyo’s well-known Kasumigaseki Building. From there we could overlook much of the city; to the one side were the huge Imperial Palace grounds, which dominate Tokyo in much the same way Central Park dominates New York. In the distance to the other side was Tokyo Bay, leading to the huge port at Yokohama. With the city beautifully lit up at night, it was difficult for me to imagine conditions of war-time destruction. But my friend—a leading business executive in his mid-70s—clearly had no such problem. For him World War II was like yesterday.

“Look out over the entire city,” he said to me. “Virtually nothing you see right now existed at the end of the war. Most of Tokyo was rubble, and we had to rebuild it all.

“I know this well,” he continued, “because I worked in the Munitions Ministry here in Tokyo throughout the war. I would report to work early and stay until about six at night. Then I would return home, where I assumed the role of air-raid shelter coordinator for a district of the city. From 1943 until the end of the war, I got an average of three hours of sleep at night.”

What is remembered

Upon listening to my friend, I realized how profound an impact the war still has on the people of Japan. The ease and clarity with which my friend spoke is typical of virtually every Japanese past the age of 45. Japan’s near destruction, and the occupation of the country by a foreign power for the first time in Japan’s 2,000-year history, has unalterably affected the thinking of this nation.

It is not only the sheer destructive nature of the war that

is vividly remembered. Personal, nagging aspects are recalled as well.

“You know,” my business friend said to me toward the end of dinner—laughing somewhat nervously that his story might sound trivial—“the thing that really sticks with me is the day my home in Tokyo was bombed. I had accumulated a large collection of foreign language books during my studies overseas, but had been unable to store them in a library for safekeeping. When my home was bombed, I quickly sifted through the rubble, hoping I might find my books. When I finally saw them, I moved some wood to get closer, but some dwindling flames suddenly expanded and ignited my books before I could get to them. I just stood there and watched them burn.”

For younger people—those who were children throughout the war—the memories are slightly different, largely because most children were evacuated from bombing target zones and sent to safer places. But the profound nature of their memories, memories very much on the surface of their minds, is entirely the same.

“The thing I remember the most is Aug. 15, 1945,” said the 47-year-old owner of a marketing firm in Tokyo. “That’s the day the Emperor spoke to us and announced the end of the war. You see,” he continued, “We had never heard the Emperor’s voice before. He was a god to us and had never before spoken to the Japanese people.

“That day, I was home from school, and my older relatives all gathered around the radio. The Emperor spoke at exactly 12:00. The entire nation was listening. “His announcement was a complete shock to us. We all thought we were winning the war! That’s what we had been told.”

As my friend spoke, his partner in the firm, who is also 47 years old, nodded in agreement. “I was in school when the announcement was made,” the partner said. “The teacher turned on the radio, and after the Emperor spoke, none of

us knew what to do. We just sat there quietly—including the teacher.”

Both men emphasized the feeling of helplessness that existed throughout Japan at the end of the war. “I was so malnourished at the time that you could barely recognize me,” the marketing-firm owner said. “This was the condition throughout the country: many people were starving. I remember my mother came to visit me in the children’s shelter outside Tokyo that I had been evacuated to. She was completely desperate when she saw my condition. Actually, during the war she formed an organization of mothers to try and provide special food supplies for children.

“When the war ended, and we knew the American troops would soon come, we had no idea what to expect. We did not know what they would do. But one of the first things the Americans did was to supply food. We are extremely grateful to America for that.

“Also,” the owner continued, “I think MacArthur’s decision to keep the Emperor was very important. Without the Emperor’s presence to keep us together, I think Japan might have collapsed socially.”

For a second, the three of us—the two partners and myself—were all quiet. Then, the marketing firm owner looked at me and said, “Sometimes, I still find it hard to believe we have come so far in reconstruction. I remember so well the conditions in Japan at that time. Sometimes I don’t know what else to do but shake my head in disbelief at the progress we have made.”

Legacy of the war

For the Japanese, World War II and the subsequent occupation of Japan represent a fundamental branching point in their history. Many Japanese would say that the “lessons” of the war have been learned. On the one hand, Japanese are extremely proud of the remarkable achievements they have made in rebuilding their country, to the point that now, in many parts of the world, the term “Japanese” connotes a quality of product and workmanship to be emulated. At the same time, the Japanese fear their achievements are vulnerable to shocks from events occurring outside of Japan.

A widespread agreement now exists in Japan that, be it for reasons of poor geography, poor endowment of natural resources, or (some people say) racism prevailing in the West, Japan is not well positioned to promote its own independent political leadership role in the world. As one leading business executive told me: “If Japan is to remain an independent nation, we have no other option but to maintain an alliance with the United States. For this, we hope America can be revived.”

But what can Japan do to help revive America, or what will Japan do if America is not revived? I asked these questions to many Japanese from different walks of life, and the answers received were vague at best, reflecting widespread indecision on these issues.

“I simply do not know what we will do if America keeps going down,” the same executive said to me. “What I do know is that the American government has got to take strong action, and soon, to correct the problems in your country. The first thing the U.S. government must do is immediately lower interest rates. After that, the government must take action to revive capital investment. Without capital investment, there is no future for any country.

“Now,” the executive continued, “if you ask me whether I think this will actually be done, I would have to say no. That’s why I am rather pessimistic. I fear America will just continue to sink. The problem, as I see it, is one of leadership. I spent time in your country during the 1930s, and I saw Roosevelt first-hand. But ever since Roosevelt, the quality of your leaders has been going down. I am sorry, but when I look at people like Ford, Carter, and Reagan, I must say that these people are nothing.”

Significance of the steel industry

Like many Japanese leaders, this executive has watched in shock the continuous deterioration of the American steel industry. For many Japanese, a nation’s steel industry personifies the strength of that nation, so the decline of the American steel industry is viewed in Japan as an ominous sign.

“A short while ago I had the opportunity to talk with an old friend, who is a leader at U.S. Steel Corporation,” the executive told me. “U.S. Steel just purchased an oil company, so I said to my friend, ‘What the hell are you guys doing spending \$4 billion to buy Marathon Oil? Do you know what I could do with \$4 billion?’ I told him that the most modern steel plant in Japan, which is the most modern in the world, cost us only \$3.2 billion. U.S. Steel could have built an entire new plant for that \$4 billion, or modernized many existing ones. But my friend did not give me much of an answer. I think it’s clear that soon, U.S. Steel will no longer be a major steel producer.

“This is typical of the situation in the United States right now,” he continued. “There is no capital investment taking place whatsoever. That is why I am so afraid America will just decline.”

Another Japanese executive, the research director at a private bank, told me a similar story concerning the American steel industry. This executive, long familiar with the United States, told me that he recently talked with former officials of the Kennedy administration, who relayed to him the following story.

“These men told me that in the early months of the Kennedy administration, the President made an offer to the American steel companies to provide government assistance of any kind that would help to revive the industry. According to these men—and they were involved in the discussions—the steel executives declined any help. They told Kennedy that nothing could be done to save American steel.”

Japan looks to the Third World

With the prospects of a declining America in mind, there is widespread perception in Japan that one of Japan's highest priorities is to maintain good relations with the developing countries. There is almost an instinctive reaction in leadership circles that Japan's true friends are in those countries.

In part, this reaction is caused by the ever-present Japanese requirements of natural resources, many of which are located in the developing countries. But a deeper source of this Japanese thought is the realization—still very much alive in the leadership—that until 100 years ago, Japan was also a thoroughly underdeveloped country.

“If the world comes down to questions of power,” an economist at a Tokyo research institute told me, “the only power we Japanese have is our technology. We can give this technology to other countries, and use this as the basis for friendly relations. The countries that really need our technology are the developing countries, so those are our true and potential friends.”

A Japanese well versed in foreign policy, who has extensive dealings with officials of the European Economic Community, made similar comments to me, noting an additional factor of racism in the West against Japan.

“You know, it's a funny thing,” he began, “but the racism directed against Japan is often also directed against the United States. Let me give you an example.

“I have a lot of dealings with Viscount Davignon, the EC Industry Commissioner. He is from an old Belgian aristocratic family. And you should hear him talk about Americans. He hates Americans—calls them *nouveaux*. Well, you can imagine what I am thinking when he says that kind of thing about Americans. If that's the way he sees Americans, I know very well he is looking at me and thinking, ‘What a barbarian.’

“In this sense, maybe the United States and Japan are in the same boat. I have always thought that the most important alliance in the world for economic development should be among the United States, Japan, India, and Australia, for the development of the Pacific region. That is the way to deal with those aristocratic racists.”

Numerous sources in Tokyo emphasized to me that, for geographical and cultural reasons, the region of Southeast Asia remains the most important developing-sector area for Japan.

Japanese government and business leaders are said to be studying ways to deepen Japanese political and economic ties with those countries. “We are particularly interested in ideas that we can implement on our own,” one government official informed me, “without the need of assistance or cooperation from other developed nations.”

The new factor in the thinking of these Japanese leaders is the attention being given to India in recent months. Prime Minister Indira Gandhi visited Tokyo several weeks ago for a short time, and Prime Minister Suzuki made a point of praising India's “omnidirectional foreign policy.” Were In-

dia and Japan to expand relations and cooperate on economic and political matters throughout Asia, it would be a powerful political combination, a model for North-South relations which in turn would lay the basis for easing of East-West tensions.

America: the bottom line

For the Japanese, however, fundamental questions of policy will come down to what happens in the United States. A leading Japanese journalist put it to me succinctly: “I don't know when or how, but America just has to be revived. Otherwise we are in big trouble.”

One effort the Japanese are continuing to make to influence American policy is to coordinate with West Germany—as Washington's friends—and present policy alternatives to the White House. Well-informed journalists confirmed that Japan and Helmut Schmidt's West Germany are currently closely coordinating monetary policy, trying hard to avoid a default on Poland's debts to Western banks and to achieve a reduction in American interest rates.

However, since the election defeat of French President Giscard d'Estaing, a close ally of Schmidt, in 1981, Schmidt's power within the European Community has been reduced, and the role of the EC as a potential source of policies to revive the world economy has diminished. During this period, trade tensions between Japan and the EC, under the influence of people like Viscount Davignon, have grown. Current French President François Mitterrand is promoting an “independent Europe” policy line, with anti-American overtones, which serves to undercut Schmidt's efforts.

Moreover, some Japanese believe they may be running out of time to shift American policy, and they are particularly nervous about the instability of the international monetary system. The chief economist of one leading Japanese bank informed me that the recent turbulence in the Eurodollar market, including the collapse of West Germany's huge AEG industrial firm, has led many Japanese financial experts to fear an international banking collapse.

An Asian initiative?

In this regard, an economist with a leading Tokyo research institute informed me that several organizations in Japan, led by the Finance Ministry, are quietly studying the idea of establishing an Asian regional monetary system, based on the Japanese yen, should an international monetary crisis occur. Japanese authorities based at the Manila headquarters of the Asia Development Bank are said to be intimately involved in this planning.

While no substitute for a global solution to growing international monetary instability, such an Asian regional system, could only exist politically if it were based on the principles of large-scale technology transfer from Japan to the area's developing countries. In this regard, these Japanese plans could evolve to a model for solving the global monetary crisis.



Japanese business leader: 'We should cooperate with the developing nations'

Mr. Shigeo Nagano, President of the Japan Chamber of Commerce and Industry, is well known as one of Japan's great business leaders. At the age of 82, Nagano is perhaps best known for his role in the building of Japan's steel industry, the third largest in the world. He was a leader of the Japanese steel industry before and during World War II, and he is still Honorary Chairman of Nippon Steel, the largest private steel company in the world.

In addition to his experience in Japan's domestic political and economic affairs, Mr. Nagano has been one of the most influential persons involved in formulating Japanese foreign policy, especially toward the developing countries. Among the many positions he now holds are: adviser, Foreign Ministry; adviser, Ministry of International Trade and Industry; and chairman, Prime Minister's Council for Foreign Economic Cooperation.

When Mr. Nagano talks, several things are particularly striking to the listener.

One is the enormous power wielded by the older generations of Japan, and the continuity between Japan's pre-war and post-war leadership. Nagano remembers World War II as if it occurred yesterday, and he is extremely proud of the recovery of Japan to its current position as one of the world's premier economic powers. At the same time, he is acutely conscious of the danger of war that exists in the world today, and the vulnerability of Japan to world political and economic shocks.

Also striking is the way Nagano, and other Japanese business leaders, conceive of the developing countries as nations with which Japan must cooperate. Japan may be the only developed nation today whose business leaders are actively promoting huge development projects for the developing sector; Nagano himself has dedicated much of his time in recent years to organizing the construction of a second sea-level Panama Canal.

Mr. Nagano was interviewed by EIR Special Services director Peter Ennis in his Tokyo office on July 26.

Ennis: Can you describe your basic forecast for the world economy for the coming period? What do you expect to happen?

Nagano: So far the world economy has been getting along somehow. It has been particularly good for Japan, and Japan has been in good condition—so far.

But now, the worldwide recession has closed in and the world economy is now staggering along in very bad shape. Japan is no exception.

Japan is a small country with only 37,000 square kilometers of land. We have no resources: no iron ore, coal, petroleum, lumber, food, clothing, copper, or oil. Give one example of a natural resource, and we don't have it.

So for this reason, it has been imperative for Japan to export as much as possible, so that we could buy those raw materials, and so far we have been buying these raw materials and then giving them added value, with our brains, our labor, our technology, and so forth.

Until 100 years ago, we simply did not have to do this. We had a population of only 30 million, and Japan was isolated from the rest of the world. We did not have to import or export.

Now, our population has increased by four-fold, and it is now 117 million. This means Japan must buy and sell in order to survive, and perhaps we are the most vulnerable country in the world to the ups and downs of the world economy. For this reason, we are strongly hopeful that the world economy would recover, including current exchange rates of currencies, and for this we hope that the United States would stabilize its interest rates at a more reasonable, lower rate so that we can start returning to a more normal economic position.

Ennis: You anticipated my second question, which concerns interest rates. Can you describe what effects the American high interest rates have had on Japan?

Nagano: Well, Japanese money goes out of the country because of American high interest rates. Our money is going out now, which weakens the yen.

Ennis: Many people say that the problem in the world economy is how to create more demand, or to improve purchasing power, especially in the developing countries. I understand you have given a lot of thought to this question. Can you give some of your ideas?

Nagano: Japan depends a great deal not only on the developing countries, but on countries from all over the world, for our daily needs. For example, the case of food. Most of our imported food we buy from the United States, and the United States is not a developing country. In any case, including the developing countries, Japan must be liked and understood by the whole world, or else we will not be able to export our goods and support four times the population that we had only 110 years ago.

In order to do this, we hope that the peace prevails, so that the poor developing countries will be able to create more demand. This is important for them not to be enticed into an undesirable direction.

For this, they need our cooperation, and we should cooperate with them for their developing efforts as much as possible so that they can develop themselves and thereby create world economic demand.

Ennis: You have paid attention to India, including the agricultural potential of India, should irrigation and other projects be built. Can you describe why you are interested in India?

Nagano: India is one of the great countries in the world. Of course, when you say "a great country," it depends on the definition of "great country." You may call a country great because of the vast area, or you may call it great because of the large population. In the case of India, the country is situated geographically right in the middle of the world congregation of people. With a population of 650 million people, it has the second largest population—second only to China. For this country to stay on course is very important, so that the country would not be steered away into undesirable ideology. If there is any political unrest in that country, Japan will be affected because we are both in the same continent, Asia.

The idea of large irrigation projects in India came from the construction of a second, sea-level Panama Canal, on which I am currently working very hard. I thought that with a large number of earth-moving machines, the Panama Canal construction could be quickly and cheaply accomplished, thereby enabling the depreciation of these machines to be divided into two projects.

My interest in India, and the food problem in that country,

led me to think that if the water streams of the Himalayas could be diverted into the Rajasthan Desert, they could irrigate a huge area for food production.

The Food and Agricultural Organization (FAO) says that by the end of this century the world's population will increase by 50 percent, and that there will be food shortages for sure. So the India idea came to my mind many years ago when I was talking with Ambassador John K. Galbraith, who was the U.S. Ambassador in India at that time, and to Japanese Ambassador Nasu, who is a well-known agronomist. The three of us got together and talked about the India food problem, and after that I have been thinking of perhaps depending on ODA—Official Development Assistance—for the irrigation purposes for India. With the increased food production in India, we can invite the political stabilization of that area.

Ennis: Clearly there is not a lack of physical demand in the world economy, when you simply glance at the needs of the developing countries. The problem appears to be that the debt of the Third World is preventing it from buying products from the developed countries. How do you propose to deal with the Third World debt problem?

Nagano: You see, the developing countries have many reasons for their unrest, including starvation, revolution, political unrest, and so forth, and their minds are always in turmoil. Some countries might wish to help them, and others may not wish to help them at all, and right now there is a confrontation.

My idea is that we should realize the recommendation made by the United Nations for ODA. I am the Chairman of the Prime Minister's Council for Foreign Economic Cooperation; this is the council that sends the recommendation for ODA to the prime minister. For myself, personally, I think we should realize what has been recommended concerning the amount of ODA to be provided to the developing countries. The Pearson Commission recommended spending 0.7 percent of GNP as ODA for the developing countries each year, and I do hope that the world's nations are thinking along this line.

Ennis: More specifically, following the Argentina-Britain war, there is some quiet but important talk in Latin America for Brazil, Mexico, Argentina, and Venezuela to jointly speak to the international banks about debt renegotiation. Would you favor responding in a favorable way to such an initiative?

Nagano: Perhaps these countries have the common feeling as developing countries that they have been victimized by the developed countries. In addition, all the Latin American countries have one common language—with the exception of Brazil, all of these countries speak Spanish.

I am the President of the Japan-Latin America Association, and from that standpoint I am naturally sympathetic toward the Latin American countries—I feel very close to them.

But, I think if there is any such necessity for renegotiating

the debts, it should not be restricted to only these four countries. All of the other Latin American countries must be in the same position. Furthermore, all of the world's developing countries must be in the same position.

It seems that in recent times, Argentina had the sympathy of all Latin American countries. I have no intention of criticizing the American position, but the United States stood on the side of Britain in the conflict. I wish the United States could understand the nationalism in Argentina—and the United States being in the same hemisphere, I wish some more sympathy toward Argentina had been shown by America. By the same token, I hope that the United States would extend cooperation to the construction of the Panama Canal. In actuality they seem to have a very good understanding of this proposal.

Ennis: The Eurodollar market seems to be very unstable after the collapse of Banco Ambrosiano. What is your thinking concerning conditions in the Eurodollar market, and overall international monetary policy? After all, we have now had more than 10 years of “floating rates” and other monetary instability.

Nagano: This is one of the issues that the Versailles summit took up. International economic stability was one of the greatest concerns of members of the summit, when they got together, and even they could not come to any effective conclusions.

I am no financial expert and I am not in a position to be able to give a very good and effective answer to this question. But I can say that the United States is the most fundamental member of the summit countries. Whereas trade balances can change year to year, the American policy positions are more fundamental. All of the free world looks to America to improve the situation. So, the measures that America takes strongly effect the rest of the free world. So, we hope the members of the summit can get together again and discuss this matter more thoroughly and can come to a very definite conclusion.

Now, as for my personal feeling toward the United States. Japan lost the war 36 years ago, and of course it was a very unfortunate thing that we had war. But the occupation after the war was good, after all, for the new U.S.-Japan relationship. During the occupation, many millions of Americans came as GIs and stayed here and lived here, and went back to their country with affection and understanding toward Japan.

And when the war ended, the Japanese government appointed me as the Governor of the economic restabilization board to bring the Japanese economy back to normal. In those days, Japan had no ships, no money, and food was in great shortage. We were on the brink of having food riots, and we were even afraid of a revolution because the Japanese people had no food to eat and they were starving. The United States came to the aid of Japan, utilizing two funds to buy food for starving Japanese people. Some allied countries seemed to

be not particularly happy about America doing this, but the United States said it was just doing what the international law was telling it to do, since Japan was under occupation and the victors had the obligation to feed the people under occupation, since the people of Japan were technically prisoners in those days. In any case, it was the days of “remember Pearl Harbor,” and all Japanese people were particularly grateful for American aid.

Nowadays, the United States is asking Japan for increased defense spending and increased armed forces, and this means the United States now really trusts Japan and wants to treat Japan as a true and equal partner. In Japan, there is a saying that you should not give a knife to a madman, and by this saying, Americans do not think Japan is a madman anymore.

Ennis: We have a major problem in the United States with a pessimism that has become well entrenched in our society, in part because of the “limits to growth” and other theories of the Club of Rome. Can you describe your general outlook for the future? Are you basically optimistic or pessimistic?

Nagano: Well, let's talk about Japan now, first. Japan is the largest importer of petroleum. Our economy revolves around the importation of petroleum.

At the time of the first oil shock, we simply were at a great loss—we simply did not know what to do as the price of oil rose two-, three-fold. It took a long time and great efforts to overcome this first oil shock. And, I do not want to sound like I am praising the Japanese people, but it took a lot of wisdom too. So, we got through the first oil shock, and then the second oil shock came, and the price of oil again went up two-, three-fold. Petroleum is very important for Japan's economy—we import about \$60 billion worth of oil each year, and we are still struggling through the second oil shock. But, I do trust the wisdom of the Japanese people; we will be able somehow to get through, with great difficulty.

The government had to issue a large volume of government bonds in order to overcome this economic difficulty. There is a huge government debt which would remain as a great burden to our descendents. So, we are now going through the movement of “administrative reform.” You must know about the specialized council. This has become a new, great political movement—that there ought to be equilibrium between income and spending, and I feel as if God is putting the Japanese people to test to see if Japanese can go through with this, and I do trust we will be able to do so.

As for American pessimism, I can well understand this feeling, because America was the richest country in the world, it was the envy of all the world. Actually, America reached the zenith. In Japan immediately after the war we were living like beggars; we were a huge group of beggars as we simply did not have anything to eat or anything to wear. But then, the situation got better and better, so for us Japanese, we simply are a people of optimism, because things got better and better after the war.

The ruling party factions line up for an autumn political crisis

Japan is faced with the likelihood of a major political crisis in early autumn, when a growing dispute in the country's policy-making circles over the proper response to rapidly deteriorating conditions in the world and Japanese economy will intersect expected political maneuverings in anticipation of the November convention of the ruling Liberal Democratic Party (LDP). Two questions are expected to dominate the autumn dispute. First, whether budget cuts and other efforts to streamline the Japanese government should be reduced in priority in favor of measures, such as increased government spending and tax cuts, to stimulate the ailing domestic Japanese economy. Second, whether Prime Minister Zenko Suzuki will be re-elected President of the ruling party, which would guarantee his continued tenure in office.

Through numerous in-depth discussions with Japanese corporate research directors, business leaders, and leading journalists, *EIR* has assembled a uniquely well-informed picture of the economic policy debate now raging in Japan. The information and evaluation we present here has yet to reach publication in Japan or elsewhere, and demonstrates that the implications of this dispute go far beyond the short term concerns often voiced in Japan to reduce budget deficits and avoid increased taxes. Fundamentally at issue is an effort by one faction of Japan's policy elite, associated with Chairman Yoshihiro Inayama of the Keidanren (big business federation) to reverse the basic, high-growth economic strategy that has guided Japan throughout its remarkable post-war development, and impose a "low-growth" economic strategy. This economic dispute will greatly influence the outcome of the leadership struggle in the ruling LDP.

The administrative reform

On the surface, Japan appears to be in an economic policy dispute not much different than that being acted out in Washington: some forces are calling for large-scale budget cuts and streamlining of the government, while other forces resist the proposed cuts. The argument most often made for this so-called administrative reform is that taxes in Japan are already too high, and the huge budget deficits racked up by the government in recent years poses a major problem for the domestic economy. Thirty-two percent of the Japanese govern-

ment budget will be financed by deficit spending this year alone.

The business community in Japan is nominally firmly united behind the administrative reform campaign, led by 86-year-old Toshio Doko, the powerful dean of the business community, and Keidanren's Inayama. Several of the LDP's most prominent political figures have aligned themselves with the administrative reform campaign as well. The two most important are Prime Minister Suzuki himself, who has pledged his "political life" to carrying through with this reform, and former Prime Minister Takeo Fukuda, who is expected to challenge Suzuki for the premiership this autumn.

Nominally pitted against this "administrative reform" view are the proponents of "stimulation" of the domestic Japanese economy through increased public works and generous tax breaks for investment. Economic Planning Agency Director Toshio Komoto, himself a former businessman, is the leading spokesman for this view, along with Shintaro Abe, Minister of International Trade and Industry.

Two views

Several leading business sources, including an executive of one of Japan's leading private firms, and the research director of a private bank, informed this writer that there are two fundamentally opposite interpretations of the administrative reform in Japan, a dispute which transcends the more superficial dispute over budget cutting versus domestic economic stimulation.

At issue is whether the economic guideline outlined by the powerful Ministry of International Trade and Industry (MITI) in its "Policy Vision" for the 1980s, is still the appropriate policy for Japan. In this document, MITI argued that in anticipation of a return to high-growth worldwide in the 1990s, Japan must upgrade its industrial structure to a higher level of technology content throughout the decade of the 1980s, a policy that necessitates uninterrupted high levels of capital investment and annual economic growth rates of no less than 5 percent. Implicit in this policy is that Japan must transfer to the developing countries many of its basic manufacturing industries, while upgrading the technology content of its domestic industrial structure. Precisely this

policy—high levels of capital investment and promotion of frontier industrial development—has been the secret behind Japan's rapid growth.

The debate over the MITI policy guidelines for continued high growth has been sparked by the sharply adverse effect of the world industrial downturn on Japan. In previous recessions, Japan has fared better than other developed nations because of the country's ability to maintain high levels of exports. World recessions have generally been counteracted in Japan by a combination of government-sponsored "stimulation" programs and high export levels, which enabled Japan to have continuous high levels of capital investment—avoiding the productivity declines and industrial obsolescence now smothering the United States. However, the world industrial downturn is now so severe, that Japanese exports in 1982 will show the first drop in 30 years.

In this context, Keidanren's Inayama is promoting the view that the world has entered the "era of low growth," and that the Japanese government and private sector must adapt to this "new reality." Inayama, who is known as "Mr. Cartel" for his opposition to competition in the Japanese economy in favor of tightly centralized coordination, is said to believe that Japan cannot achieve the 5 percent growth rates cited by MITI as necessary to achieve transition to the high-technology industrial structure. The administration reform is seen by Inayama as part of the low-growth strategy; he says fiscal austerity must be maintained because, without the export market to drive the economy, economic stimulation measures will wrack the country with debt and high inflation; and, he says that Japan will suffer from more "shocks," both economic and political, in the coming period, due to the strained international environment, thereby requiring of Japan a centralized "crisis management" capability for both the business community and the country overall.

Former Prime Minister Takeo Fukuda is said by several leading Japanese journalists to be closely associated with Inayama's pessimistic outlook. Since at least the first oil shock, Fukuda has argued that the growing danger of war in the world stemmed from nations scrambling to secure dwindling supplies of raw materials. To avert such disastrous scrambles, Fukuda has said, it is necessary to reduce world economic growth rates and thereby reduce resource consumption. Fukuda has gone so far as to praise the writings of the anti-science Club of Rome (*The Limits to Growth*).

This is not to deny Fukuda's ability to conceptualize and promote pro-growth policies, as was amply demonstrated during his two-year period as Prime Minister, from 1976-78, during which time Japan promoted international cooperation for thermonuclear fusion energy research, and took actions to expand Japan's relations with the developing countries. Several leading journalists who have been assigned to cover Fukuda's career in the past insist he is a strong personality with a firm grasp of and concern for international affairs, and he is known to be extremely worried about the danger of a new world war.

But at the current time, Fukuda is thought to be highly

pessimistic about the political prospects for achieving conditions for high growth rates in the world economy, and is therefore firmly aligned with the Inayama, low-growth camp.

One particularly astute observer suggested to this writer that Fukuda, Inayama, and the other low-growth advocates might be making a blunder similar to that of Japan's leaders of the 1930s. Now, just as then, danger lies with "accommodation" to a low-growth policy, since a shrinking world economic "pie" virtually guarantees global conflict.

Keidanren's recently retired chairman, Toshio Doko, is said to be firmly opposed to Inayama's "era of low growth" outlook, and had a very different intention in mind when he assumed the chairmanship of the government's administrative reform advisory council. One corporate research director familiar with Doko's view says that the powerful business leader thinks the world economy is now in a "restructuring period," in anticipation of the type of "new era of high growth" outlined in MITI's "1980s Policy Vision." Doko is said to view the administrative reform as one part of the process of laying the basis for the "new era."

Doko is said to believe (like many Japanese) that their country was almost destroyed by the two oil shocks, but through a combination of hard work and great ingenuity, Japan not only weathered the crisis, but emerged stronger. In particular, Doko believes that the private sector discovered a seemingly infinite number of means to increase productivity and quality of production as a result of the pressure placed on them in the two oil shock periods. The government sector, on the other hand, did not suffer from the same pressure, Doko says, and therefore did not streamline and make more efficient their operations. Should the government succeed in doing this, he is said to believe, it will be able to make a greater contribution to the "new era of high growth."

Thus far, the Doko-Inayama dispute, now simmering below the surface, has yet to become public. However, the much-orchestrated "unity" of the business community behind the Inayama interpretation of administrative reform has begun to show major cracks.

Japan Chamber of Commerce and Industry President Shigeo Nagano was the first to break the business community's "unity" with a call in mid-July for major government stimulation of the Japanese economy. Nagano, who told *EIR* in the interview included in this Special Report that the administrative reform is "God's test" of the Japanese people, is said by many to be breaking the business unity because his organization represents smaller business concerns which are in desperate economic recession. Sources close to Nagano say this analysis is only half true; the other factor in Nagano's thinking, they say, is his opposition to Inayama's interpretation of the administrative reform.

Moreover, support for economic stimulation, already widespread among small- and medium-sized firms, is being increasingly voiced among the larger industrial firms. Spokesmen for some of these firms are known to be privately arguing that efforts must not only be made to trim government spending, but also to increase government tax revenues

through greater economic activity. For this the large firms are said to be arguing that government stimulation policies are crucial.

The greatest weakness of the anti-Inayama groups, including Doko and public advocates of economic stimulation like Nagano, Komoto, and Abe, is their failure to thus far tween the powerful factions of former Prime Ministers Takeo Fukuda and Kakuei Tanaka. The view is widespread that Suzuki is not capable of providing the leadership, especially in foreign policy, so necessary for Japan at this time.

Struggle against Suzuki

The economic policy dispute should begin to reach a head sometime in September, when the LDP majority in the Diet (Japan's parliament) must decide whether to convene the annual special Diet session to enact a supplemental budget to finance the government's deficit. Should the Diet session be convened, it will likely be the point at which the economic policy dispute intersects the ongoing efforts of some sections of the ruling party to dump Prime Minister Suzuki.

Seasoned observers in Tokyo are describing the political situation in Japan as one of the most unusual in history. On the one hand, Suzuki is almost universally viewed as the weakest Prime Minister in Japan's post-war period—a non-leader who “balances” ideas but has virtually no ideas of his own. (Suzuki's political slogan is “harmony,” which makes him a difficult target for his opposition.) Throughout his long career, Suzuki was a little-known but powerful “fixer” in the ruling LDP, whose expertise was not in providing public leadership for the party or developing policy strategy, but rather in negotiating the deals and arrangements that are indispensable to holding together a political party like the LDP, which is in fact a coalition of contentious factions. Suzuki was placed in power in 1980 as a compromise choice for precisely these reasons, right after the death of then-Prime Minister Masayoshi Ohira, after a deadlock developed between the powerful factions of former Prime Minister Takeo Fukuda and Kakuei Tanaka. The view is widespread that Suzuki is not capable of providing the leadership, especially in foreign policy, that is so necessary for Japan at this time.

On the other hand, there is no visible candidate with a clear mandate to replace Suzuki, a situation complicated by the factional situation in the ruling party. The dominant position in the party is wielded by Tanaka, who is now on trial for allegedly accepting bribes during his tenure in office. Tanaka is at this time the principal source of support for

continued rule by Suzuki. In fact, critics say that Suzuki is little more than the tool utilized by Tanaka to maintain a tight rein over the ruling party. Unless Tanaka can be weakened politically, or otherwise convinced to shift his support to another LDP leader, unseating Suzuki at the LDP convention in November will be very difficult.

At this time, conventional wisdom in Tokyo is that Suzuki will be able to weather the upcoming storm, and will win re-election in November. However, a minority of highly experienced Japanese political observers has reached the conclusion that unhappiness with Suzuki throughout the ruling party, business circles, and the general population has reached such an extent that his opponents will find some means to unseat him. Suzuki's commitment to the administrative reform is already being questioned by powerful business leaders such as Toshio Doko, who fear Suzuki's campaign for administrative reform is more political than substantial. Should Doko or other business leaders strongly denounce Suzuki, it would severely harm his re-election effort.

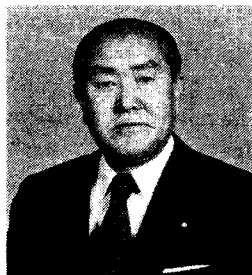
Eyes on Miki and Fukuda

The other factor being watched closely by those who think Suzuki will fall are the activities of three LDP leaders: Toshio Komoto, Minister of Economic Planning who heads the smallest of the LDP's five major factions; former Prime Minister Takeo Miki, who has lost much of his factional strength but maintains much moral authority in the party; and former Prime Minister Takeo Fukuda, who is known to harbor ambitions to return to office. Each of these leaders has a separate strategy for unseating Suzuki; but they have yet to come together in a fashion that could dump Suzuki.

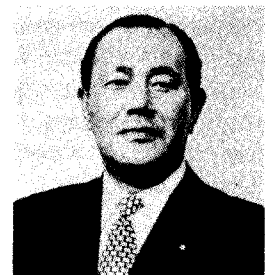
Miki is the leader that has thus far launched the most direct attack on Suzuki. About one month ago, Miki took the unusual step of authoring an article for the magazine *Bungei Shunju*, denouncing former Prime Minister Tanaka for utilizing “money politics” to dominate the affairs of the ruling LDP. Miki has for many years cultivated a “Mr. Clean” image, and is known to harbor a deep hatred of the Chicago-style patronage machine that Tanaka has built up over the years of his career. Following the appearance of the *Bungei Shunju* article, Miki gave a press conference in Tokyo, at which he again denounced the “money politics” dominating the LDP. Though he refrained from mentioning names at that time, in Japan there was no mistaking the fact that Miki was aiming his attack at Suzuki.

While Miki was making noise in Tokyo, people who

Liberal Democratic Party Leaders



Zenko Suzuki



Kakuei Tanaka

know Fukuda began in July to wonder why the ambitious former Prime Minister is being so quiet about his thoughts and plans. The general view is that Fukuda is at this time formulating his strategy for attack against Suzuki, and will launch his campaign in earnest some time in mid-September. Fukuda has two options in approaching Suzuki and the upcoming LDP convention. On the one hand, he can use his power and influence—he had helped put Suzuki in power—to demand that Suzuki return to the “balanced” position that characterized his early period in office. This option is said to be appealing to Fukuda because as a politician he is primarily interested in maintaining his own position of influence in public affairs.

Fukuda’s second option is to lead an open move to dump Suzuki, and to try to arrange for the party to choose him once again as its president. This would guarantee his election in the Diet as Prime Minister by virtue of the LDP’s majority position in that body. It is this second option that Fukuda is believed to be exploring at this time.

While details are not known at this time, one factor working in Fukuda’s favor is the help he is getting from former Prime Minister Nobusuke Kishi. Though he is over 80 and no longer a member of the Diet, Kishi is still one of the most powerful figures in the ruling LDP. Kishi has been meeting quite regularly with Tanaka during the recent period, and is widely thought to be pressuring Tanaka to withdraw support from Suzuki. Kishi is thought to have many different motivations for taking this action, and making Fukuda Prime Minister again is not necessarily at the top of the list. However, not only is Fukuda one of Kishi’s top protégés, but Kishi’s son-in-law, Minister of International Trade and Industry Shintaro Abe, is the top lieutenant in the Fukuda faction. Kishi is known to be hopeful that his son-in-law Abe can one day become Prime Minister, and he believes strengthening the Fukuda faction within the ruling party will assist that prospect.

Miki and Fukuda, while currently pursuing different approaches to dumping Suzuki, have collaborated in the past in such situations, and many believe that their strategies will eventually meet, sometime in autumn.

The Komoto factor

Sources close to Economic Planning Agency director Komoto believe he has made a firm decision to challenge Suzuki for the Prime Ministry. This challenge would complicate an already complicated situation, since Komoto would

pursue a strategy quite distinct from Miki and Fukuda, and it is by no means clear if or how these differing strategies to dump Suzuki would be resolved in favor of one choice.

Like Fukuda, Komoto is also believed at this time to have two leading options for the immediate future, but both of his top options represent direct challenges to Suzuki. Unlike Fukuda, there is little motivation for Komoto to try to bargain with Suzuki for influence.

The first and less likely of Komoto’s options is to try to force the holding of a primary election prior to the LDP convention, in which the several million registered members of the LDP from around the country would vote from a list of at least four candidates. Komoto, who is a very wealthy man, has one of the strongest grass-roots bases of support of all Japanese politicians, and it is believed that many of the LDP national members are loyal to him. Therefore, he would probably do very well in a primary election, laying the basis for him to make a strong challenge to Suzuki at the run-off election, which would be held, as per party election law, at the November convention.

The problem in this Komoto strategy is that the LDP law says that four candidates must be entered in a primary race, and that each candidate must be nominated by gathering the signatures of at least 50 members of the Diet. Whereas the largest three factions in the LDP, the Tanaka, Fukuda, and Suzuki factions easily have the required 50 supporters, Komoto’s faction has only 40 Diet members, and Komoto would therefore require the support of another, smaller LDP faction just to force the primary to be held. While such support from a smaller faction is theoretically possible (the faction of Science and Technology Minister Ichiro Nakagawa is often cited as one possibility), such support is not guaranteed for Komoto.

Komoto’s second option, and the one he is believed to be most actively pursuing, is to try to make an arrangement with Tanaka. One offer Komoto is known to have made is to support the candidacy of Tanaka’s son-in-law for a position in the Diet. Former Prime Minister Miki is said to be extremely angry at Komoto for entering such discussions with Tanaka. Komoto now heads the faction in the party formerly led by Miki.

One additional option Komoto is said to be considering is postponement of the LDP convention until early next year, arguing (like Suzuki) that the special Diet session must be free of political turmoil. This effort, which Komoto has discussed with MITI Minister Abe, if successful, would be a severe blow to Suzuki.



Takeo Fukuda



Takeo Miki



Toshio Komoto

Kissinger-run coup threat against Mexican republic

by Róbyn Quijano, Ibero-America Editor, and Timothy Rush

The rest of Ibero-America and indeed the rest of the developing sector view current developments in Mexico with acute concern. They realize that what is at stake in Mexico is not simply the chronic effort by supranational institutions like the IMF and the Bank for International Settlements to force Mexico to accept some lean years and difficult austerity. Mexico's very aspiration to become an advanced industrial nation is on the chopping block, along with the political system which expresses this aspiration.

Experienced developing sector leaders have a shorthand for this. It's "the Kissinger treatment." In some ways more ominous for Mexico's future than the Aug. 17 admission that it was in negotiations with the IMF, was information obtained by *EIR* that Henry Kissinger plans an imminent trip to Mexico, Panama and Argentina.

Kissinger will be delivering a new package of threats similar to those he issued to former Italian Prime Minister Aldo Moro and Pakistani Prime Minister Zulfikar Ali Bhutto, before he took a hand in arranging their murders.

Mexican President José López Portillo is high on Kissinger's current list. As early as 1978, Kissinger was comparing Mexico to Iran. Nations that modernize too rapidly, as Mexico is attempting to do, will meet an end like the Shah's, he warned. But López Portillo maintained an 8 percent growth rate and invested in heavy industry. He even designed a large nuclear-energy program—the same "flaw" that cost Bhutto his life.

Kissinger's recently created private consulting firm, Kissinger Associates, Inc., is already on the Mexico case. The firm, which includes former British Foreign Secretary Lord Carrington and Robert O. Anderson, chairman of the Aspen

Institute, on its roster, is to specialize in high-level "consultation" on international economic and political matters, bypassing official government channels. One of the seven members of the board of directors stated Aug. 17 that Mexico's economic crisis is "a great opportunity" for the United States to gobble up Mexican real estate and industrial assets.

Kissinger's goals go beyond opening up Mexico for nickel-on-the-dollar looting. His long-standing "Mexico connection" is former President Miguel Alemán, the political godfather of Mexico's drug and prostitution underworld. Alemán's business associates, who maintain control of Mexico's central bank, the Banco de Mexico, are committed to seeing that the current economic crisis finishes off Mexico as an industrial republic. Alemán-linked spokesmen for many months have publicly called for IMF policy dictation. The self-avowed fascists of the PAN party, now the insurgent challenger to the ruling PRI, also advocate going to the IMF, while the PAN has organized businessmen's "strikes" in various parts of the country to paralyze local governments.

Kissinger, and the Hapsburg-centered Central European fascists who created his career, Alemán's, and the PAN, know that their strategy cannot be consummated until the Mexican labor unions are broken. They calculate accurately that once the union leadership's voice on behalf of industrialization is silenced, the PRI party will crumble, too.

They are aiming above all at the institution of the presidency. Everything possible is being done to force President López Portillo out of office before the constitutional transmission of power to President-elect Miguel de la Madrid on Dec. 1. Rumors, placed in nationwide circulation the week of Aug. 14, stated the López Portillo had been forced to

resign, or had been shot and killed, and that the military had made or would make a bid for power. A parallel campaign, appearing more and more in the press, attacks López Portillo as personally corrupt, inept, and the “cause” of the crisis.

The Cárdenas factor

What is most feared by those administering the “Kissinger treatment” to Mexico is the nationalist, pro-development sentiment that has stirred across Mexico in the past, most notably during President Lázaro Cárdenas’ oil nationalization of 1938. It is this sentiment in fact which is the basis for any industrialized nation’s policy toward Mexico; Mexico’s drive to import capital goods and other high-technology equipment, and guarantee internal stability with steady economic growth, corresponds to the national interests of the advanced-sector nations.

Mexico’s Finance Minister, Jesús Silva Herzog, in his Aug. 17 statement confirming negotiations with the IMF, alluded to a basis for rallying the “Cárdenas factor.” We are in a world crisis “resembling the world depression of 1929,” he stated; there is zero growth and “mass unemployment” in the industrial countries. The collapse in oil prices and rise in interest rates which had devastated Mexico’s ability to meet its debt represented “deliberate decisions,” not “random” developments, he charged.

Fidel Velásquez, the powerful leader of the Mexican Workers Confederation, stated the next day that the nation was facing what he called the worst crisis in its history, and that the population must respond with that knowledge. The head of the Mexican Church, Cardinal Corripio Ahumada, released an extraordinary circular read in every parish in Mexico, calling upon the population to rally behind its institutions and its leaders. Mexico’s institutions, the real target of the Kissinger-IMF onslaught, will not be easily broken.

An international monetary expert at the International Institute on Economics (IIE) made the following comments in background conversation in mid-August. The IIE is chaired by Peter Peterson of Lehman Brothers Kuhn Loeb, and the Brandt Commission; its director is Carter administration trade-warfare expert C. Fred Bergsten.

The recent run on the peso was what I call an expectational panic. There was nothing in the economy per se that could account for its ferocity. What happened is very simple: *people outside Mexico* began to think that the economy was not performing up to expectations. *This was then fed inside Mexico*, where it caught fire. This kind of thing is psychological warfare, which becomes a panic [emphasis added].

The shock has been administered now and I think the clouds will clear, provided certain things are done. Internal to Mexico, the single most unsettling problem is the labor movement. There was fear in the international banking community, which was expressed to appropriate Mexican authorities, that the Mexican government was going to give in

to demands from the labor movement for increased wages. They must crush the labor movement’s demands, no matter what the social cost. I have full confidence that the government will do this, and that the new government will make sure that the demands don’t come up again.

The following are comments of a top banker at the New York investment bank of Brown Brothers Harriman, on Aug. 12:

Q: What does Mexico need to get more credit from bankers?

A: They need to do a lot more cutting. The deficit should be cut in half. They must get rid of their two-tier exchange system, it’s ridiculous. They must simply let the peso devalue as it was, much more. They must give more license to private business and foreign investors. They certainly must rescind the 30 or 40 percent wage increase they gave the workers.

The “R” in “PRI” stands for “revolution,” and the revolution is built on the workforce. There is too much collusion between the labor movement and the government. These wage increases must be rescinded—and to do that, it will be necessary to break the power of labor over the Mexican government. We can’t have these wage increases.

Michael Boskins, Stanford academic and policy adviser to George Shultz during the Reagan transition period in December 1980, explained his view on Mexico to EIR in an Aug. 13 discussion.

Q: How do you see the Mexican crisis developing?

A: I think it is extremely unlikely that Mexico over the next 18 months or two years will make timely payments. There will be intense pressure for scheduled payments, drawn out. And I think basically it will be agreed to.

Q: Will a monetary solution imply some fundamental changes?

A: Yes, and I think all for the better. You get demands, for example in Mexico, for very very rapid development and growth . . . that creates a set of institutional built-in demands for continuing rising standards of living. These countries get into trouble this way, then go ahead saying: “In order to preserve our current form of government, American taxpayers will have to finance that, one way or another.” Eventually you have to bite the bullet. I strongly oppose propping up bad decisions. [made by debtor governments] because we’re threatened with a change in government to a form which scares Americans.

There is definitely going to have to be a realization that they cannot provide the increased level of consumption to various groups in the population, without taking it out of other groups in the population, and that the single most obvious place to me is the trade unions.

Q: Legal controls or something on the trade unions?

A: Yes.

Venezuela's OAS ambassador: 'we must unite to renegotiate the debt'

On July 1, Venezuela's ambassador to the Organization of American States, Hilarión Cardozo, delivered a major policy speech upon assuming the presidency of the OAS Permanent Council. In his remarks, Cardozo called on the assembled nations of Ibero-America to unite in defense of the continent's sovereignty and economic development. He urged that vital issues such as debt renegotiation, raw materials prices, and regional security henceforth be negotiated by Ibero-America exclusively on a multilateral basis; and he insisted on the reform of the Inter-American system to facilitate this process.

In an Aug. 6 interview in his Washington, D.C. office, Ambassador Cardozo discussed with Executive Intelligence Review's Ibero-American Editor Dennis Small what progress had occurred on these issues.

Small: Let's start with the most polemical. What do you think of Henry Kissinger's possible return to power in the U.S. government?

Cardozo: I would have to view it in two ways. From the perspective of his return as such, it is a sovereign act and we have no reason to consider it. Now, from the perspective of what it might mean for U.S. policies, one may certainly recall that Kissinger's performance as Secretary of State was not the most brilliant, the best, the most fruitful, nor the most friendly epoch of relations between the United States of America and Latin America. However, men have the right to adapt themselves to changing times, and I believe in the perfectibility of man, in the possibility for a man to mend his ways. We will have to wait and see what ideas he comes back with. But if he brings the same ones, I think they are not particularly well-liked in Latin America; they do not provoke our sympathy or understanding.

Small: I too believe in the perfectibility of man, but I'm not sure I believe in the perfectibility of Henry Kissinger.

Passing to the subject of the reorganization of the Inter-American system, what can you tell me about this? What

reactions have the Ibero-American countries had to your recent speech to the OAS?

Cardozo: I was fairly satisfied by the way it was received by the ambassadors. Many foreign ministries have begun to seriously study the matter. But we have felt that it is not yet the right moment to request their final opinions; this is something we will soon begin to do. But I think it contributed something to focusing the discussions and our concerns.

Small: In that speech, you referred to the International Monetary Fund and the conditionalities which it tries to impose, conditionalities which are not beneficial to developing nations. Can you go a bit deeper into the IMF question?

Cardozo: The economic factor has always and will always be one of the most important elements in relations between men and between peoples. Today in my judgment, it is the primary element for Latin America to consider. Dealing with Latin America's economic situation is also the best way to face the problem of safeguarding the sovereignty and the self-determination of its peoples—because none of the governments of Latin America, nor the Inter-American system, were formed to be subjected to outside influences or enforced government.

Present economic conditions sharply undercut sovereignty. They permit interference from the world's powerful nations, the industrialized countries, which own great capital, and from the international financial organisms which are also controlled and run by big capital. One of these mechanisms is undeniably the International Monetary Fund, which has a very powerful influence. When a country receives the stigma or the anathema from the Monetary Fund, or when a country considers that the proposals of the Monetary Fund are not acceptable and tries to do things another way and gets excluded from the Fund's system, then, to the same degree, all doors to financing and credit sources are slammed shut. Thus, the Fund wields an extremely dangerous instrument. Not that I'm an adversary or prejudiced against the Fund; rather I look

at it realistically in all its intensity. And, unfortunately, the Monetary Fund often, from behind an apparently healthy position of controlling and helping to rein in evasive or perturbing factors in a country's economy, demands cutting social expenditures and programs.

The Fund sees such steps as a natural fact, a "technical problem." But they don't recognize that this cuts into the deepest roots of policy-making and sovereignty. By forcing a government to cut social programs, they could be fostering conditions for social convulsions whose final outcome is unforeseeable—not only internal revolutions in a country and what this might bring in its wake, but even the presence of foreign opinion. This could harm the democratic system, as such, in a country.

I'm not saying the Monetary Fund should change its statutes and give out money without demanding guarantees. No. It's simply a question of seeing if there is a commitment and a desire to favor the progress of people, the advancement of nations. Any measure which in any way leads people to lose faith in democracy, even though it might be "technically" beneficial, will deeply damage the philosophy and the politics of that country.

I believe that it is an imperative obligation of the Fund, and all other international organisms, to try to make responsible economic management perfectly compatible with humanity's social progress.

Small: During the last few weeks, the International Monetary Fund, in conjunction with the main international banks of the City of London and Wall Street, has been pressuring many Latin American governments (Argentina, Mexico, Costa Rica, and Venezuela, for example) to impose austerity and budget cuts. In each case, the country's foreign debt has been used as a pressure point to force the adoption of IMF measures.

To counter this the American economist Lyndon LaRouche has proposed that the Latin American nations unite to use their foreign debts to pressure the international bankers to renegotiate their debts in a manner beneficial to the nations concerned. To what degree do you think it feasible for Latin America to unite to renegotiate its debt? Has LaRouche's proposal been discussed, or are there talks leading in that direction?

Cardozo: I believe that the foreign debt problem is today one of the basic economic problems of the Latin American countries. That is obvious. I have stated repeatedly that there are Latin American countries which are borrowing money only to pay off interest on their earlier loans. That way, every time they take out a loan they are reducing the possibility of new loans, because each time they are borrowing to pay more interest, and the interest on the earlier interest. So they are getting into an extremely critical situation which is beginning to be taken very seriously by governments and Latin American regional organisms. I understand that several bodies are promoting the idea of beginning to seriously study how to

deal with this—for example, with a seminar of the best economic brains of the continent.

I also believe that the industrialized countries and the big banks have themselves become conscious that any grave situation which might throttle or paralyze the continent's ability to pay, would have disastrous effects on the international monetary system, and practically make those same banks bankrupt. Therefore, I think that the banks have not declared in default some countries which are already effectively in default, because that would engender panic and lead to a more or less violent confrontation of a number of countries.

The foreign debt problem is today one of the basic economic problems of the Latin American countries. Latin America must take an extremely clear position that some questions must be negotiated multilaterally. It is not a question of debt repudiation. Within Latin America, a way must be found to channel economic resources for countries' own development under conditions of autonomy and independence. A multilateral Latin American solution cannot wait, but must be achieved immediately.

In dealing with this situation, as in other cases, Latin America should study it united. Latin America must take an extremely clear position that some questions must be taken out of the realm of bilateral negotiation and absolutely obligatorily be negotiated multilaterally. Why? Not out of any desire for confrontation; but because the weak must look for a new way to increase their negotiating capacity, their strength and their power. Therefore, in the face of the power of international financial institutions, and in the face of the power of the industrialized countries, the only way of beginning to compensate for the weakness of each Latin American country is by bringing unity inside Latin America and turning that unity into a balance of power.

Therefore, I think this matter should be studied and dealt with collectively, to seek a solution. It is not a question of

repudiating or causing repudiations on this account. That would manifestly not only create a grave situation in the world, but would harm Latin America's possibilities for obtaining new sources for development. Rather, it should be studied from the perspective of finding within Latin America itself some mechanism and some way to channel economic resources, so that countries will not have to submit to pressure wielded against them and so they can find some way of gaining resources for their own development under conditions of autonomy and independence. This is a question which should be discussed and solved as rapidly as possible on a multilateral basis among various Latin American countries.

The thesis that development and population growth must be braked to feed those who remain is a pressure mechanism of those who wield economic power. There are still many vastly underpopulated countries in the world whose resources have not been sufficiently explored, developed, and utilized. The population is a resource of nations so that we have enough labor power, enough hope, and enough will and courage to confront the immense potential for transformation.

Small: What do you think of the idea of forming a Latin American Common Market to defend the area from any kind of reactions which could come up in the face of such a debt renegotiation?

Cardozo: That is the measure which has always been sought as an ideal. Integration has been posed as a Latin American ideal, which would lead to a great Latin American Common Market and permit us to control these trade and production matters.

However, movement towards a Common Market, which in 1960 had been projected to achieve total operation by 1982, has been extremely slow. I think the economic situation and the public debt situation cannot wait for movements taking many years, but rather must be solved immediately.

Small: Let me ask you about your concept of economic development. You are familiar with the Club of Rome and its Malthusian theory that there are insufficient resources and too many people. Do you think that that is correct, or do you share the opposing view that continuous human progress is feasible?

Cardozo: I think that the thesis that you have to brake development and population growth in order to be able to feed those who remain, is really a mental pressure mechanism of the people who wield economic power. I believe that nobody can arrogate to himself the faculty of having greater force and greater power than the Creator Himself. And the Creator of man and of the earth did not and has not set any limits other than those which His own will has shown in the life of peoples and of nations.

Now then, some people, who surely did not participate in the creation of the world, want to arrogate to themselves the faculty of being gods in order to obstruct and destroy its growth and expansion. I don't know if such ideas came into their heads after they were born, or if they would have had them if they had stopped to think whether such ideas would have been beneficial to the world had they predominated prior to their own births.

In any case, I am quite sure that all these are fallacies to try to subjugate man, not to the will of God, but to the evil deeds of men.

Even in India, with its immense disproportion between visible economic resources and the immense quantity of people, one of the greatest protégés of Mahatma Gandhi once told the minister of Agriculture who advocated birth control on the grounds that, otherwise, the population could not be fed—he told him “very well, and who gave you the right to meddle in the private lives of our families to decide how many children we may have? If you are incapable of working to give us food, then resign; because you were appointed minister to find a way to feed the population, not to find a way to kill it.”

Small: As a Pope once said, if you are short of hats, you don't have to cut off heads so that there will be enough hats to go around.

Cardozo: Exactly. I believe that it is perfectly clear that this is not an economic conception, but, in reality, a philosophical and theological conception diametrically opposed to the Christian thought of the Western world. Also, practical experience shows us that there are still many vastly underpopulated countries in the world whose resources have not been sufficiently explored, developed, and utilized. Despite this, they try to bring ideas about control, ideas of negation, or ideas that there should not be population in those countries. But, the reality is the opposite: the population is a resource of nations so that we have enough labor power, enough hope, and enough will and courage to confront the tasks of being countries with an immense potential for transformation.

Venezuela pushes for new continental order

by Gretchen Small

Neither Kissinger's coup in Panama, nor relentless economic warfare against every country in Ibero-America, has yet ended the motion to create a new economic and political order in the continent, organizing which began following the shock of the Anglo-American war against Argentina this spring. Venezuela continues to be the coordinating center of these continental discussions.

Diplomatic initiatives

Representatives of SELA, the Latin American Economic System set up in 1975 to coordinate regional integration independently of the United States, are meeting in Caracas from Aug. 16 to 25 to map out plans for consolidating economic unity. The coercive economic measures applied by the European Community and the United States against Argentina and some of its allies during the war are top on the agenda, with some approximation of an agreement on a "strategy of economic security and independence of Latin America" expected to be reached.

"Latin America has before it the opportunity, infrequent in the life of institutions and men, to give a historic turn to the process of consolidating its economic security, to affirm its autonomy, and to guarantee its rights to an independent development," SELA Secretary General Carlos Alzamora instructed the representatives at the inauguration of the week-long discussions.

As Mexico's financial crisis reverberates in Caracas, radical shifts in international economic policy—both debt and trade—are the number-one item on everyone's mind. *EIR* founder Lyndon H. LaRouche's proposals for an Ibero-American Common Market and joint renegotiation of the foreign debt of the region, have been featured in past weeks in the Caracas press, while Venezuela's Ambassador to the Organization of American States, Hilarión Cardozo, has taken the lead in arguing that it is economics that is at the center of Ibero-America's problems. (See interview, page 34.)

Venezuela was the first stop on a several-country tour of Ibero-America by Argentina Foreign Minister Aguirre Lanari which began Aug. 12, a visit which included strategy ses-

sions with President Luis Herrera Campins, Foreign Minister Zambrano Velasco, and the Foreign Trade Institute head, Sebastian Alegrett. Venezuela's President will visit Argentina "in the near future," it was announced at the end of the visit, where new trade agreements are expected to be wrapped up between the two countries.

Venezuela's role in the area has brought upon it, not surprisingly, the wrath of London and London's operatives. "Venezuela is bracing itself for a major economic crisis" on a scale similar to that wracking Mexico, London's *Sunday Observer* predicted Aug. 15. "Venezuela is expected to be forced to devalue its currency shortly," and President Luis Herrera Campins, "who has relished his role as spokesman for Latin America, will now have to divert his attention to more mundane problems, including unemployment," the *Observer* claimed.

When Standard and Poor issued a new report lowering Venezuela's credit rating from triple- to double-A, despite the country's remaining \$6 billion-plus in reserves, few in Venezuela missed the message. The drop in the credit rating is a "sophisticated mechanism of pressure on those countries that have defended independent postures," Venezuelan central banker Diaz Bruzhual told Caracas's *El Nacional* daily on Aug. 14. "Throughout the crisis in the Malvinas . . . the industrialized countries began a slow but progressive process of pressures, whose highest expression was the raising of the 'spread' on loans solicited by Venezuela," Bruzhual charged. "When some voices began to suggest moratoria on the debt, the alarm in the international financial community became plaintive, and from there, new demonstrations of political and economic pressures took off."

Domestic policies

The final decision in mid-August of the ruling Christian Democratic party, COPEI, that Rafael Caldera will be the party's presidential candidate in the 1983 elections, may pose an even greater danger to Venezuela's international efforts. Caldera is a fervent supporter of the Club of Rome. He has opposed the Herrera Campins government at various points, despite his membership in the COPEI.

The surfacing of Caldera's name in the middle of the Freemasonic scandal in Italy this month, in connection with Roberto Calvi's Banco Ambrosiano, the P-2 lodge, and its successor, the "Monte Carlo Committee," to which Henry Kissinger, Aurelio Peccei, and Licio Gelli belong, may explain Caldera's real political ties.

In an exposé entitled "And the Tapes Tell the Story" in its Aug. 16 issue, the Italian magazine *Panorama* reports that one of Calvi's top mafioso cohorts, Flavio Carboni, who now sits in a Swiss jail, wanted by Italian authorities in connection with the Calvi case, named both Rafael Caldera, and Venezuela's current Ambassador to London, Nestor Coll Blasini, as the "South American connection" to the "powerful Masonic circles" trying to rescue Calvi's ailing operation before his death.

A breathing spell for Colombian politics

by Cynthia Rush

The inauguration of Colombia's new Conservative President, Belisario Betancur Cuartas, took place in an environment not unlike that which surrounded the 1981 inauguration of Ronald Reagan. Sixty thousand enthusiastic well-wishers gathered on Aug. 7 to witness the outdoor inauguration and bid good riddance to a regime that had plagued the country with immorality and economic stagnation.

Belisario Betancur's landslide election on May 30 testified to the Colombian population's demand for growth and progress. The candidate had campaigned against former Liberal president Alfonso López Michelsen on a platform of reversing the monetarist credit policies of the previous eight years, expanding education and jobs, and attacking the enormous financial and speculative apparatus produced as an offshoot of the nation's drug trade. Betancur was backed by an array of forces from both the Liberal and Conservative parties, and enjoyed especially strong support from the country's Catholic Church.

No clearcut predictions can be made at this time as to whether Betancur will be able to carry out his program. As a look at the cabinet reveals, the new administration is an amalgam of political tendencies, including some unsavory Maoist and Solidarist elements; and pressures on the new President to accede to one or another group will be great.

Events in the rest of Ibero-America, where the disposition of foreign debt, defense of economic sovereignty, and reorganization of the Inter-American system are being intensely debated, can also be expected to influence Colombian politics. Betancur has already expressed interest in shaping that debate, even suggesting that his government could shift away from more traditional foreign alliances toward affiliation with groups like the Non-Aligned movement. The Colombian President's statements thus far bolster neighboring Venezuela at a time when it is under increasing attack from the international financial community.

Inside Colombia, the collaborators of *EIR* founder Lyndon LaRouche in the Andean Labor Party (PLAN) and the Colombian Fusion Energy Foundation have taken on the responsibility to ensure that Betancur makes good on his campaign promises by focusing national attention on a program to transform Colombia into a modern, industrialized nation by the year 2000.

Elaborated by the *EIR* and the New York-based Fusion

Energy Foundation earlier this year, the "Colombia in the Year 2000" program was formally presented in an *EIR* seminar in Bogotá last June, and has been disseminated among government, business, student, and trade-union circles in several cities around the country. The program's specific proposals for building major infrastructural projects, developing nuclear energy and capital-goods industries, and carrying out sweeping currency and monetary reform to eliminate the black market, have been presented and debated in universities and science centers and at labor and business conferences in Bogotá, Medellín, and Cali. Future conferences are planned for Barranquilla and Barrancabermeja.

The environment created by the PLAN will partly determine which way Belisario Betancur moves. By itself, his cabinet cannot be relied upon to formulate the initiatives the country requires. The varying political loyalties of its members reveal why this is true.

- Finance Minister Edgard Gutiérrez is a young economist identified with the Liberal Party faction of Medellín politician Hernando Agudelo Villa. He is opposed to monetarist policies and is studying proposals for lowering the current prohibitively high interest-rates and attacking the speculation promoted by financial entities such as that led by Banco de Colombia president Jaime Michelsen Uribe.

- Justice Minister Bernardo Gaitán Mahecha and Agriculture Minister Roberto Junguito have both publicly advocated the legalization of the drug trade. Junguito, formerly associated with the think tank run by arch-monetarist Rodrigo Botero Montoya, said in an interview with *EIR* last March that "drugs are not a problem in Colombia," and that the country would apply "autonomous" methods of drug enforcement that would probably exclude the use of herbicides such as paraquat. (Botero Montoya, a former Finance Minister, is a member of the World Bank's Brandt Commission; *EIR* has repeatedly exposed the World Bank's outright promotion of drug-crop cultivation.)

- Foreign minister Rodrigo Lloreda Caicedo comes from one of the leading oligarchic families in the Valle de Cauca region, and is a political ally of Conservative party leader and former President Misael Pastrana Borrero. Pastrana, in turn, an avid supporter of the Club of Rome's depopulation program, is also a member of the international oligarchy's Order of the Knights of Malta. It remains to be seen whether Lloreda Caicedo will defend independent foreign-policy initiatives, if Betancur launches them, or push British schemes for dismantling nation-states and replacing them with supranational structures defended by his friend Pastrana.

- Betancur's nominee for Health Minister is highly suspect. Jorge García Gómez has declared that his first priority in office will be the creation of an army of 12 million "bare-foot doctors," who, as in China, will administer "basic health care" to the population as a means of eliminating the need for high-technology hospital facilities. "I have been in China," García Gómez declared recently, and "we Colombians could do the same thing."

A dialogue on future Israeli policy: LaRouche, Begin, and Prof. Adelson

by Criton Zoakos, Editor-in-Chief

Events surrounding Defense Minister Ariel Sharon's public chastisement at the Aug. 12 cabinet meeting have set into motion a profound re-examination of issues so fundamental that they touch on the very future existence of the state of Israel. Involved in this matter in a unique and unprecedented way is the American statesman and economist Lyndon H. LaRouche, Jr. and the *Executive Intelligence Review*.

To summarize: The state of Israel, now involved in its Lebanon quagmire, must choose between two rival courses of action: 1) continue drifting from one artificial exigency to the next until the destruction of Israel itself, or 2) launch a ruthless war to exterminate every last British intelligence and diplomatic assets throughout the Middle East, Arab and Israeli.

In a personal letter to Prime Minister Begin, which was published as an open letter on Aug. 6, Mr. LaRouche, among other matters, proposed: "let us, at last, act as centuries of Jewish martyrs acted. Let us help to build, among other good things, an Islamic movement in the tradition of the great Ibn Sina. Let us join the great alliance of Jews with Caliph Haroun al-Rashid and Charlemagne, against that evil, Byzantine intelligence-service concoction, the Ummayyads.

"With whom shall we begin, you ask? With the Palestinian Arabs, naturally, including the Arabs who are already citizens of Israel itself. Instead of manufacturing enemies, whom we turn into Satanic, Asharite beast-men, let us create Arab allies."

The delivery of LaRouche's letter to the Prime Minister was surrounded by a drastic deterioration in Israel's strategic situation and by a series of other controversial developments. Israel has essentially realized that it has been entrapped into a situation in Lebanon from which it cannot extricate itself without major assistance from the United States. With Foreign Minister Shamir's last visit to Washington and with subsequent messages from the White House, culminating in the notorious Aug. 12 telephone messages, the Israeli government, to its horror, has realized that such United States assistance, despite earlier assurances, will not be forthcoming that easily. Having been manipulated into entering Le-

banon, Israel now faces mounting domestic dissension while it finds itself hostage, in Lebanon, to the exigencies of occupation in a disintegrated country and to the whim of super-powers. Looking beyond the immediate horizon, the Israeli leadership sees the swelling tidal wave of anti-Semitic terrorism and irrational rage among Arab populations. Israeli leaders have two questions tormenting them right now: 1) what went wrong? and 2) can Israel survive in these nightmarish circumstances?

After the Aug. 12 cabinet meeting, a spokesman for Prime Minister Begin told the press that "the negotiations over the future of Lebanon are so delicate that we cannot leave them in the hands of an elephant. Sharon's position became shaky yesterday. Ministers have realized how close he was to sinking the whole Habib mission, they know it is unsafe to rely on Sharon any more in the negotiations."

But the matter is much larger than this. Senior Israeli officials, apparently, realize that the strings of policy are not being pulled in Washington but rather in London. This became evident to the more reluctant analysts after Shamir's visit to Washington. This realization, however, ought to occasion a pause for the following reflection.

Mr. LaRouche and his collaborators, such as this review, have warned for years that certain aspects of Israeli and Jewish sensibilities and vulnerabilities are being manipulated by British interests, are being induced by British and Anglo-ophile interests to carry out certain unsavory types of business which Anglo gentlemen would rather not be caught doing. For this we have been viciously slandered as anti-Semitic, by means of slanders retailed by such organized-crime figures as mobster Roy Cohn and Max Fisher, but invariably ordered by Anglican leaders such as Bishop Paul Moore of the Cathedral of Saint John the Divine in New York (and of Morgan Guaranty Bank), and such intimates of Paul Moore as Cyrus Vance, et al.

Professor Adelson's letter

On Aug. 13, one day after the Israeli cabinet and Knesset rebuke Defense Minister Sharon, the prestigious *Jerusalem*

Post published, prominently in the dead center of its editorial page and in the form of a letter to the editor, a highly unethical attack against one of Sharon's outstanding critics, Gen. Mordechai Gur, Labour member of the Knesset who the previous day, together with 13 other parliamentarians had walked out of the chambers in protest against Ariel Sharon's testimony at the time. General Gur, as our readers will recall, had given an interview to the *Executive Intelligence Review* with comments critical of Mr. Sharon. The author of the letter to the *Jerusalem Post*, Prof. Howard L. Adelson, summarily brands Mr. LaRouche and the *EIR* as somehow self-evidently anti-Semitic and then launches into a vehement attack against General Gur for associating himself with anti-Semites.

A highly unusual procedure in trying to silence the opposition. According to Adelson, Gen. Mordechai Gur, the former Chief of Staff, must either admit guilt by association with anti-Semites or he must admit guilt for "insufficient attention to detail and poor grasp of circumstances," i.e., the Professor's spelling of the charge of incompetence. Let us, however, ignore the Professor's "only two alternatives" and do the traditional and proper thing and select the obvious third: Where is Professor Adelson coming from and why is he raising the anti-Semitism slander against LaRouche just as the debate over Israel's very future is raging in the councils of the state? Does the publication of his letter in any way relate to the fact that the Prime Minister received a communication from Mr. LaRouche only four days earlier, or to the

fact that Ariel Sharon, General Gur's target, had his wings clipped at the cabinet only one day earlier?

In New York City Professor Adelson, who professes a long-standing friendship with Prime Minister Begin, appears to be politically close to certain circles known by the name "East Side Conservative Club." These circles include a motley variety such as columnist William Safire, society homosexual William F. Buckley, underworld homosexual Roy M. Cohn, CIA Director William Casey, and the little-known Arthur Ross, a private banker of some rank in British Intelligence. Professor Adelson's political philosophy, as expounded regularly in New York's *Jewish Week*, appears close to the philosophical preferences of the above crew. His "anti-Semitism" slander is definitely borrowed from that notorious *fegele*, Roy M. Cohn. One therefore would not be presuming much if one presumed that the Professor, in writing his filth to the Editor of the *Jerusalem Post*, was doing so in the behalf of New York's East Side Conservative Club.

Now this would make the subject of British intelligence tampering with Israel a very interesting matter. For those who have followed Mr. LaRouche's activities over the years, it is known that the "anti-Semitism" slanders appeared suddenly one fine day under very specific circumstances involving Middle East politics. Beginning in the spring of 1975, Mr. LaRouche developed a systematic approach to solving the Middle East problem based on a set of proposals for inducing Arabs and Israelis to cooperate for a far-ranging

Knesset member: 'Begin should fire Sharon'

The following is an interview with Mordechai Virshubsky, one of the two members of the Israeli Knesset from the opposition Shinui Party. Virshubsky, an outspoken critic of Defense Minister Ariel Sharon's invasion of Lebanon, recently sent Prime Minister Begin a series of cables urging him to fire Sharon. Virshubsky's interview with EIR was conducted by European correspondent Mark Burdman on Aug. 16.

Burdman: Can you comment on your initiative to have Sharon dismissed by Prime Minister Begin?

Virshubsky: There have been three cables. I cabled Begin on Friday [Aug. 13]; he sent an answer that was published; and I have sent another cable. I requested him to demand the resignation of Sharon because he does not any-

more have the full confidence of his colleagues in the cabinet. He has been heavily attacked by most of the ministers. It is unacceptable in a time of war that a Minister of Defense does not have confidence and that his words are not believed.

Today I received an answer from Begin, saying that *he*, Sharon, had the full confidence of the Prime Minister, and that Sharon was a good Minister of Defense, and that the situation is now resolved. He said that according to our system, the Prime Minister is responsible for the actions of the Defense Minister, and he said that I could always introduce a motion of no confidence against the government if I so desired.

What I wrote back, in the third cable, is that according to Israeli law, the Prime Minister has the right to fire a minister if he is displeased by that minister. This is something new in our law; this was changed in 1981. I told Begin he should apply this new section. Admittedly, the whole government is responsible, but a *material* question is involved when the security of Israel is involved, and a Defense Minister cannot perform with the confidence of his Prime Minister. I repeated my call for his dismissal.

There is also the question of relations with America. According to stories today, Sharon has been declared persona

industrial, agricultural and technological development of the region as a whole, combining the best of Israeli technological know-how and industrial leadership with Arab natural resources and manpower. The proposal was circulated widely among American businessmen, intelligence and policy circles, and Israeli and Arab diplomats and politicians. A number of conferences were held, and a certain momentum started building up.

All of a sudden, two highly unusual events were noticed. A certain Arthur Ross approached the LaRouche organization, quietly inquiring about our political perspectives in general and about our Middle East peace proposals in particular. He was coming from the East Side Conservative Club. Secondly, at approximately that time, Edgar Bronfman, Max Fisher, and the Anglican gentlemen at the Aspen Institute started promoting an alternate plan for a Middle East peace between Arabs and Jews, which for a period went by the name "Middle East Treaty Organization." Promptly, afterward, Arthur Ross proclaimed that LaRouche was "anti-Semitic." Organized crime-connected individuals from the Meyer Lansky tradition, such as Roy Cohn and Max Fisher, picked up and started disseminating the slander systematically. Thus the Big Lie myth was attempted, in standard Goebbels style. The inspiration had been supplied by British Intelligence. Prime Minister Begin, because of his life's experience, is probably best equipped to understand this sort of British problem.

Now Professor Adelson resurfaces the matter on the pages of the *Jerusalem Post*. The surrounding political circumstances are unique and invite reflection. The Israeli government, in the middle of conducting war, discovers itself to be entrapped in a quagmire which it had previously thought it would be able to handle with a certain assistance from Washington. Suddenly, Jerusalem realizes that Washington will not deliver on its part of the bargain. Some Israeli officials begin to catch up to the fact that the strings of Middle East policy are being pulled not from Washington but from London. Then this LaRouche communication to the Prime Minister enters the picture. Our Professor, the professed friend of the Prime Minister, rushes to explain that his friends believe LaRouche to be an anti-Semite.

British intelligence's role

However, Mr. LaRouche's long-standing analysis on the matter, one which has earned him so many venomous slanders, not only stands correct and vindicated, but also is the only one available upon which Israel could build a policy to ensure its long-term survival. Not Washington but London is pulling the strings in the current Middle East crisis. This involves Henry Kissinger, Lord Carrington, Kissinger's stable of "bright young boys" still at the State Department. Philip Habib also belongs to the same anglophiliac stable. He was deployed to the Middle East not to serve on behalf of President Reagan but on behalf of the Ditchley Foundation.

non grata in the United States. While the Defense Ministry denies this, I think there is more than a grain of truth in it. He is not accepted by the American government, and our ties with the American government are important, so this is key.

Burdman: Do you see support in Israel for your call for Sharon to be dismissed?

Virshubsky: There are many people who are very dissatisfied with the activities of Sharon, because of the heavy attacks on Beirut. His actions are not regarded in most parties, even in his own, as satisfactory. There is great criticism of Sharon in this respect. Some people say it's a matter of the whole government, but what I say is that the situation vis-à-vis this war is more complex. It was *his* planning that ran the war; *he* got out of hand; *he* did *not* act in accordance with the cabinet; and he has been very harmful to the state of Israel. He enjoys no strong support now in political circles.

Begin is defending Sharon, but this doesn't discourage me. Sharon is harming Israel in Lebanon, and vis-à-vis the free world. This point has to be stressed. Even if the PLO leaves Beirut, this is only the beginning, the problems will only *start* at that point, and men like Ariel Sharon won't be helpful at that point. He uses the idea of power too easily.

The idea that he has to go will become more and more acceptable in Israel. A big struggle over the leadership of the Likud [Israel's ruling party—ed.] is in the offing, and many people don't want him as the leader. And in the National Religious Party, which is usually hawkish, there is a lot of criticism of Sharon.

There is a possibility that he may be stopped. He is a capable general, but we need capable statesmen and capable politicians.

Burdman: How exactly do you see the harm that Sharon has done to Israel?

Virshubsky: Much of the critical approach to Israel now is because of his very tough policy. In West Beirut, there are a few hundred thousand people with nothing to do with the PLO. This creates a very bad impression in the world. Relations with the United States are very strained. How could this be corrected?

This country doesn't have to wage battles when they are not necessary. There were many steps done in Beirut that had a very bad moral influence on Israelis, in the army and outside the army. Much of the dissidence in Israel, which never happened before, is very harmful.

Israeli Intelligence surely knows where Philip Habib was on the week of June 5, while President Reagan was visiting Europe, conveniently as the Israeli move into Lebanon was commencing. Israeli intelligence should inform the Prime Minister of Habib's Ditchley Foundation antecedents. It should also pull out the old files which contain the information that the Ditchley Foundation is an arm of the Morgan and Schroeder's banking interests, the same banks which put Hitler in power in 1933. Then the Prime Minister and any Israeli or Jew who cares will realize that "clever" Israel has been had by British Intelligence.

Washington for the time being is the proverbial "dumb giant" at the mercy of London's manipulations. Israel has enough brains and experience to reach the conclusion that its principal, ultimate enemy is the British, and specifically Lord Carrington's plan for a "third force" and a "new Yalta." British diplomacy and intelligence capabilities throughout the Middle East are coordinating to cause a collapse of United States influence throughout the area, thereby causing a vacuum to be filled by British influence. The prize will be British control over continental European energy supplies, enabling Britain to dictate terms to Europe and thus shape a "third force," bargaining equidistantly between the two "super-powers." The British have rigged America's situation from within by means of alliances with old patrician anglophile families and such crude agents as Henry Kissinger.

To cut through this British game in terms of Middle Eastern realities, the state of Israel has enough experience in such matters to know that there is a difference between the just aspirations of the Palestinian people as represented, for instance, by the Sartawi current within the PLO, and the pathological anti-Semitism of the controllers of such agents provocateurs as Abu Nidal, for example. Competent Israeli authorities possess enough information to verify that the streak of fanatical anti-Semitism among certain Arab circles can be found to originate in the still intact British Intelligence controls over certain aspects of Arab life going back to the time when British Intelligence laundered such Arab Bureau assets as the Grand Mufti of Jerusalem to the Nazi Abwehr, or when they laundered Arab Bureau officer and triple agent Kim Philby, now a KGB general, to the Soviets. Philby's so-called defection to Moscow was too nicely timed to coordinate with the emergence to power (or close to power), of certain old British-Abwehr assets in certain Arab countries under the guise of ostensibly "pro-Soviet" regimes. Those who know of this matter, know what we are talking about.

Israel's existence in the Middle East was exploited by the British, and, in a different but equally cynical way, by the Soviets, to maintain a certain grip and influence over the Arabs. If Israel attempts to build up Arab allies in the way that Mr. LaRouche prescribes in his letter to Prime Minister Begin, the first to object will be the British and their in-place agents of influence among Arabs, in Washington or in Moscow (or within Israel itself). For Israel to develop a national grand strategy which will ensure its long-term viability, it

must commit every one of its resources in courage, intellect and hard work to eradicate all British Intelligence and other influence from all of the Middle East, Arab and Israeli. Given the depth of the present national crisis, given the alternatives available to Israel, its leadership may well do just that. For many years, many Zionist leaders lived and fought conscious of the fact that their purposes and their successes were useful to British grand strategy. The present situation has placed the state of Israel in a position of either destroying itself or becoming the most formidable—and perhaps the first truly successful—adversary of British interests.

The approach which Mr. LaRouche has recommended to Prime Minister Begin might produce such a result. This is why the low life at New York's East Side Conservative Club are so restless. But is Professor Adelson, to whom we shall give the benefit of the doubt, aware of who is pulling his string?

What follows are excerpts from a lengthy letter to the editor by Prof. Howard Adelson of the City University of New York, writing from Jerusalem, which appeared in the Aug. 13 issue of the Jerusalem Post.

It was most disturbing to see the report in the *Jerusalem Post* of Aug. 3 that Labour Knesset member and former Chief of Staff Mordechai Gur gave an interview attacking government policy to the "Executive Intelligence Review." In its report, the *Jerusalem Post* merely noted that the "Executive Intelligence Review" is an "anti-Israeli right-wing American magazine." In fact, it is a principal organ of the self-proclaimed socialist Lyndon LaRouche, Jr. . . . unquestionably one of the leading purveyors of anti-Semitism in the United States. . . . The Jewish leadership in the United States, however, has recognized the danger of giving an unwarranted patina of respectability to a demonstrable, anti-Semitic rabblouser.

Under the circumstances, it should be proper to ask why Labour M.K. [Knesset member] Gur chose to lend credence to the claims of respectability made by an avowed anti-Semite. . . . The fact that some Jews are involved in the activities of Lyndon LaRouche, Jr. in no way mitigates the deed. . . . Gur must have given his interview in ignorance of the real function of the "Executive Intelligence Review." . . . Gur's own colleagues should take him to task for consorting with recognized anti-Semites. . . .

Mr. LaRouche's letter of response to the Jerusalem Post:

There is a certain "logic" in the lying charge that I am an "anti-Semite," in a letter published in the *Post*.

The great musicologist, Heinrich Schenker, suffered the suppression of his work by the Nazis, and his widow died, under the categorical name of "Sarah," at Auschwitz. The same gentlemen who planted the accusation of anti-Semitism against me in your newspaper, to this day accuse Schenker of being a Nazi.

Who is Pehr Gyllenhammar, and what are the Aspen-Skandia networks?

by William Engdahl from Stockholm

Henry Kissinger and other leading members and friends of the Aspen Institute for Humanistic Studies held a closed session with certain political, industrial, and academic leaders from the four countries of Scandinavia this summer. The June 16-20 meeting at an isolated castle outside Stockholm in Saltsjöbaden was co-chaired by Aspen Chairman Robert O. Anderson of Atlantic Richfield and Pehr Gyllenhammar of Volvo. The topic was a "Nordic" version of the Aspen/Council on Foreign Relations policy of controlled disintegration and political fragmentation; next came a two-day executive seminar on "critical world issues" for Aspen trustees and senior fellows.

Gyllenhammar, Anderson, and Kissinger were simultaneously involved in another project: the formation of Kissinger Associates, Inc., formally announced this month, along with former British Foreign Minister Lord Carrington. Thus Pehr Gyllenhammar is involved in two of the world's dirtiest operations: the Aspen Institute, set up before World War II had ended to promote the Nazi policies of resource grabs, "back to the land," primitive technologies, and mass depopulation, under new labels like "environmentalism," of which Aspen is a leading sponsor and funder; and Kissinger Associates, a special operations center for coordinating destabilizations, wetworks, and economic policy manipulation. Gyllenhammar has indeed "made the big time."

The Aspen gathering

Also at the Saltsjöbaden meeting were: Exxon's Jack Clarke, who, as a member of John Connally's Treasury along with Paul Volcker in the early 1970's, had been involved in the 1971 demolition of the international gold standard, with its foreseeable sabotage of world trade and long-term investment; Robert S. McNamara, "bodycount" overseer of the Vietnam War as Defense Secretary and now a participant in former Tory Prime Minister Edward Heath's International Reporting and Information System (IRIS) group; Cyrus Vance, coordinator of the Council on Foreign Relations' Project 1980s, which openly stated that its policy of "controlled economic disintegration" was intended to shore up "liberalism" at the expense of "mercantilist" nations such as Japan, the U.S.S.R., and West Germany; and Countess Marion Dönhoff, publisher of *Die Zeit* in West Germany, who is said to be extremely close to Dr. Kissinger. Mobil Oil

was represented by board member George C. McGhee, and Gulf Oil by chairman Jerry McAfee.

Practically nothing has been reported publicly about the Saltsjöbaden discussions (which undoubtedly included discussion of the upcoming Swedish national elections, slated for Sept. 19); but *EIR* has learned that Volvo President Gyllenhammar played a central role in the session on the future of Scandinavia. "Pehr blamed the earlier policies of [Olof] Palme [social-democratic prime minister from 1969 to 1976] for the present mess," according to a participant who wishes to remain unnamed. Gyllenhammar proceeded to outline a series of proposals for economic "decentralization" within Sweden and among the Scandinavian countries of Norway, Finland, and Denmark.

The Gyllenhammar proposals came in pursuit of a controversial study, "Framework for Swedish Industrial Policy," organized in 1978 by Gyllenhammar's Bo Eckman, and produced by Ira Magiziner of the Boston Consulting Group. That proposal, presented to the parliament and the government, was a blueprint for Swedish industry's suicide. It argued that shipbuilding, specialty steel, forest products, and iron ore mining—in short, the very guts of the industrial exports the world needs from Sweden—be triaged in favor of such tertiary fields as "hospital electronics."

Who is Pehr Gyllenhammar?

The 47-year-old Gyllenhammar has gained international prominence on a number of counts. Policy makers in the United States have been told to expect that the Volvo head will become Prime Minister by 1985. One prominent spokesman for the New York Council on Foreign Relations told *EIR* this month, "Pehr is the man to watch in Sweden. He is actually conservative, and he is emerging as a powerful political force with high ambitions." And, a remarkable set of international "friends," one can add.

Trained in Geneva at the Centre d'Études Industrielles, Gyllenhammar gained the presidency of Volvo by dint of well-chosen associations. He married the boss's daughter. In 1971, by age 36, he was head of Volvo. From this position Gyllenhammar introduced the "industrial democracy" experiments at Volvo which were hailed worldwide as a model for forcing assembly-line workers to self-police brutal speed-up. At that time, Gyllenhammar struck up an association with

the corpulent spook Herman Kahn of Hudson Institute. Volvo became a "model" for the corporation of the future, using the fascist social-engineering methods introduced earlier by Eric Trist, Fred Emery, and Einar Thorsrud, of Tavistock Institute of England.

By 1973, Gyllenhammar had been named to the International Advisory Committee of Chase Manhattan Bank (together with John Loudon of Royal Dutch Shell and Giovanni Agnelli of Fiat, and, of course, the incompetent nominal head of Chase, David Rockefeller, who hired Otto von Hapsburg in the 1960s as his personal intelligence adviser.)

The Kissinger connection

By 1977, Gyllenhammar was joined at Chase by Trilateral Commission executive and former Secretary of State Henry Kissinger. The Kissinger connection proves important for Gyllenhammar, as we shall see. It is also at Chase that Gyllenhammar met a new board member: Alexander Haig, former commander-in-chief of NATO, who with Henry Kissinger ran the inside job in the Watergate operation against the Nixon presidency in 1974. Haig was given the cosmetic job as president of United Technologies, while being groomed for his political role within the United States.

Gyllenhammar himself, becomes a board member of United Technologies two years later. United Technologies, one of the largest defense contractors in the world, is run by a nest of asset-stripping former CIA and McNamara Defense Department types.

Gyllenhammar moves quickly into these circles. By the late 1970s, he becomes a board trustee of the Aspen Institute of Kissinger crony Robert O. Anderson, perhaps the world's leading negative-growth promoter. By 1981, Gyllenhammar becomes Vice-Chairman of Anderson's Aspen, bringing the annual trustees' meeting to Sweden, the first time it had been held outside the United States.

The Skandia Insurance operation

Like his father, Gyllenhammar came out of Skandia, the largest insurance company in Scandinavia. Founded more than a century ago, Skandia is the source of the family wealth of Socialist International operative Olof Palme. Palme's father, as well as his brother, Claes Palme, are tied to Skandia.

Skandia appears, from a variety of accounts, to have been a center of Anglo-Venetian subversion of the Swedish nation-state virtually from its inception. Skandia is at present under investigation by Swedish authorities for illegal transfer of confidential information on Swedish citizens into what is touted as the world's largest private data bank, Edward Heath's IRIS. Formally set up a year ago and incorporated under especially permissive Dutch laws, IRIS is owned jointly by Skandia; by Seascope, a subsidiary of Lloyd's of London insurance group; the Bank of Bilbao in Spain; and by the Bank of Liechtenstein. IRIS is headed by Carrington associate Heath, who is active on the World Bank's Brandt Com-

mission, and former World Bank chief McNamara, and staffed by a panoply of "former" high-ranking spooks from British military intelligence, its Royal Canadian Mounted Police affiliate, and the CIA. Its ostensible purpose is to provide corporate clients with sophisticated "risk assessment" for developing countries, so that they will not be "caught off guard," as happened with the fall of the Shah of Iran in 1979. IRIS operatives neglect to mention that they were part of the covert intelligence network that ran the Iran destabilization—starting with Henry Kissinger's evil counsel to the Shah.

Gyllenhammar's ties with Skandia are ongoing. Three years ago, as part of the transformation of Volvo from a primarily industrial company into a speculative holding company, Gyllenhammar merged Volvo with the rising star of Beijer-Invest. The head of Beijer, whose major earnings derive from spot market trading in commodities, especially oil, is a kind of "Swedish J.R." named Anders Wall. Wall is also on the board of Skandia.

Skandia and CSIR

Skandia is essentially a political outpost of the European oligarchy which created the varieties of 20th-century fascism, and continues to deploy both "left" and "right." Skandia director Claes Palme, the "conservative" brother of Socialist International operative Olof, is chairman of a nest of out-and-out Nazis at the Center for the Study of International Relations.

CSIR was set up in the early 1970s as a vehicle for contact with right-wing regimes in underdeveloped countries, many themselves tied into international narcotics cultivation. One board member is Jacob Sundberg, Law professor at Stockholm University, a member of the Belgian Rex Society, part of the neo-Nazi Malmö International.

The executive director of Claes Palme's CSIR is an expatriate Chinese, Dr. François Hsieh, a.k.a. Chun Hon Hsieh, a 54-year-old operative who is suspected by Swedish authorities of drug trafficking and espionage. Hsieh has been expelled from a number of countries, including Mexico and France, for criminal activities. When Swedish authorities attempted to block his entry in 1970, Sundberg and Public Prosecutor Holger Romander, a Palme appointee, secured Hsieh's political asylum.

Gunnar Myrdal, a former Nazi admirer turned social democrat who is best known in the United States for his profiling of racial tensions, is also associated with the activities of the CSIR. Myrdal, a public supporter of race biology and the World Eugenics Society in the 1930s and 1940s, is today an Honorary Sponsor of the Draper Fund Population Crisis Committee, together with Club of Rome founder Aurelio Peccei. We find Robert S. McNamara and Robert O. Anderson in this evil organization as well. The Draper Fund is explicitly dedicated to drastic reductions by any means necessary of so-called inferior populations.

Such is Pehr Gyllenhammar, and such is Henry Kissinger's milieu.

An anti-narcotics effort spoils the Rolling Stones European party

by Muriel Mirak from Wiesbaden

In the impresarios' intentions, it was supposed to be the biggest success in the history of the rock group, a triumphant return to the musical scene welcomed by oceanic crowds and rivers of money. The hegemony of the Rolling Stones was supposed to be sanctioned by millions of youth who, filling the stadiums of the great cities of Europe, from Paris to Munich, from Madrid to Florence, were supposed to enroll in the armies of drug addicts.

It did not go quite the way Billy Graham, the group's impresario, had planned; indeed, the audiences were much smaller than expected, and in Turin and in some cases in the Federal Republic of Germany, downright "disappointing" according to the organizers themselves, who came close to seeing the entire Italian leg of the tour canceled. For the first time in Europe the group's right to exhibit itself was contested, and in Florence that right was denied. Polemical positions were taken at the highest levels of the Church, and the dope culture was publicly condemned.

It all began last spring when, as soon as the summer tour of the Rolling Stones was announced, the Anti-Drug Coalition decided to make an example of it. In May, the ADC mobilized its tens of thousands of members in Europe (the organization exists in Denmark, Sweden, France, Italy, and West Germany) to inform the civic authorities, political and religious forces, and the press of the true implications of the rock group's initiative. It was not a question, said the Coalition, of a cultural event, as the promoters maintained, but of a huge publicity operation by the international narcotics cartel, Dope, Inc., aimed at recruiting thousands of young people to the drug scene and the Satanic cult of the Rolling Stones. In economic terms, it was a question of unloading that record crop of 600 tons of opium harvested in the Southeast Asian "Golden Triangle," which was perhaps behind the precipitous drop in the prices of heroin on the French markets. The Stones tour would have served this purpose.

Already the first concerts in Germany signaled that all was not going well. In Hanover, where some newspapers published interviews with Mick Jagger trying to minimize the role of drugs in the tour, even going to the point of claiming that he no longer uses drugs himself, others published the press releases of the ADC. The battle heated up right after this in Munich, when on June 10 the spokesman for the Archbishop, the prelate Curt M. Gewien, attacked the group as an "imported pigsty."

The next stop was Frankfurt at the end of the month, and the political climate was scalding. Gabriele Liebig, a candidate on the European Labor Party (EAP) ticket in the September regional elections, had put out a news bulletin picking up the accusations of the ADC, where she urged the local authorities of the state's capital city to follow the example of Florence, which in the meantime had canceled the Stones concert. The biggest German daily, the *Frankfurter Allgemeine Zeitung*, had published Liebig's position, but the concert went ahead anyway. The next day scandal broke out. *Bildzeitung*, with a daily circulation of 3 million copies sold, came out with thick headlines that screamed: "At the Stones' Concert: Drugs Like Never Before."

It was no exaggeration. As even the *Frankfurter Rundschau* and *Frankfurter Allgemeine Zeitung* also reported, not only were coolers and tin cans filled with alcohol all over the concert, stuck in various parts of the "Festhalle," but pills, LSD, hashish, and marijuana circulated like peanuts. Ambulances came and went with sirens blaring in competition with the deafening sound of the performers. The hospitals have refused to give out figures on emergency cases, but informed sources report a hundred or so cases of overdoses, and a police press release, reported in the press, discussed the complete freedom of circulation of pushers while warning parents not to send their children to the repeat concert.

But meanwhile another factor was added, which heightened the nervousness of the organizers of the tour: From Florence the news arrived that the city council of the Tuscan capital, after lengthy debates, had voted 28 to 25 to cancel the concerts, scheduled for July 23 and 25.

The day before the council meeting Maria Cristina Fiocchi, president of the Anti-Drug Coalition in Italy, had given a press conference at the Hotel Croce di Malta in Florence. Before a crowd of journalists of the principal dailies and the RAI-TV, Italy's national radio-television network, Fiocchi unveiled the links between the dope cartel, the Rolling Stones and the cultist networks which gave birth to Hitler and now want to relaunch the Nazi movement. "Both Mick Jagger and Keith Richards," said Fiocchi, naming the two most celebrated members of the Rolling Stones, "are members of the Isis-Urania Hermetic Order of the Golden Dawn, founded by Bulwer-Lytton, the head of the British Secret Intelligence Services in the past century." After explaining the entire background of the tour, Fiocchi concluded: "We want to

stop this concert from taking place. We hope that other cities in Europe will have the courage to say no to the drug mafia. Renaissance Florence was admired by the whole world as the expression of economic, scientific and artistic development. Florence today must play this same role. And the refusal to hold the Rolling Stones concert could be the beginning."

One day later, as all the newspapers were reporting on the press conference, the city council got together for debate that lasted six hours and became frequently "incandescent," as *La Stampa* later put it. At the end the verdict was: The Rolling Stones are not welcome in Florence. The motive? The music of the Rolling Stones is based on the drug culture. The magazine *Gente* gave major play to the role played by the ADC in an interview with Giuliana Sammartino, the editor-in-chief of the Coalition's *Guerra alla Droga* (War on Drugs). According to *Gente*, "It was the ADC that made the Florentine politicians sensitive to the equation, 'Rolling Stone Equals Drugs.'"

Church blasts 'the Stones'

On June 10th the Curia of Munich came out strongly against the Rolling Stones concerts, stating among other things, apropos of Jagger's habit of sticking a hose between his legs and "urinating" on the audience: "If such filth occurred here in Munich, we would have to recall that the Bavarian Culture Minister once said that culture already existed when wild boars were scratching themselves on the trees. If it weren't an insult to the poor beasts, today we would have to comment: Here in Bavaria we have no need to import such a pigsty."

The voice of the Archbishop of Naples, Cardinal Ursi, was also raised against the Rolling Stones concert which took place July 17. During the homily delivered at the funeral of policeman Francesco Prata, killed by an addict, Cardinal Ursi expressed his concern about the "musical performance which is being passed off as art but which is the carrier of principles of violence and drugs."

"The problem of drug addiction is grave," the prelate continued, "throughout the world and also in Naples and, just for this reason, I feel I must express the full bitterness of the Neapolitan Church in seeing this city forced to welcome a performance which carries with it a true culture of violence and the complete lack of moral values."

The Anti-Drug Coalition had asked the cancellation of the Naples concert and provided documentation on the Rolling Stones to the Curia of Naples. Despite the Archbishop's protests to Mayor Valenzi, the concert went ahead.

The ADC poisoned the well in Turin by intervening on June 19 at a press conference called by Billy Graham and David Zard, the manager of the Italian tour. ADC vice-president Giuseppe Matteucci in front of the entire press corps accused the organizers of the concert of favoring the plans of Dope, Inc. The next day the major Genoa paper, *Secolo XIX*, carried Matteucci's charge under the headline, "[Fiat president] Agnelli lays off workers with one hand and sponsors rock with the other."

And right on cue, even though the attendance turned out to be much smaller than what had been projected, prompting talk of almost a failure, the Anti-Drug Coalition's warnings were confirmed at the Turin concert: 200 medical emergency cases of collapse and hysteria, at the rate of 50 an hour, and ambulances that shuttled to the Molinette and Mauriziano hospitals for the victims of dope, two overdoses and ten "circulatory collapses due to consumption of hard drugs," according to *Il Giornale*. According to Dr. Cardellini, interviewed by *La Repubblica*, another daily paper, "The stadium was full of drugs, but they were all well organized, they knew what to do." That is, each one had his own dose with him. One girl, stuffed with heroin, sat down on a broken bottle, but only realized it when her skirt became red with the blood. Not by accident did *La Repubblica* speak of "an almost insane holocaust." With the presence of Fiat industrialist Umberto Agnelli sporting a Mohawk haircut and Socialist Minister DeMichelis accompanied by his own "groupies," the Turin spectacle documented what kind of political collusion had made such a holocaust possible.

As we write, the battle for Naples is going on. The vice-mayor Giulio Di Donato is still promoting what he calls "modern cultural event," and is busy readying the city to host not only thousands of youth from Italy and Europe, but even several ships which are announced to be arriving from Libya and Tunisia, with not only human cargo on board but also, it should be suspected, certain kinds of merchandise. Gianni Pinto, the Communist Cultural Commissioner of the city, is cynically exploiting the sense of inferiority that can strike a citizenry forced to live in poverty, and speaks with quasi-D'Annunzian accents of a "breakthrough from the traditional shutout of Naples and the Italian Mezzogiorno from the international itineraries of culture and the performing arts."

The only voice of reason, other than that of the Anti-Drug Coalition, and of the Christian Democratic parliamentarian Cirino Pomicino who filed a parliamentary interrogatory on the Rolling Stones, is that of Cardinal Ursi, who, speaking at the funeral of the police officer Francesco Prata who had been killed by a drug addict, had words of contempt for the civic authorities which forced Naples "to host an event which carries with it the very culture of violence and the complete lack of moral values." Perhaps as a result of these stands being taken, the city's district attorney expressed his grave worries to the municipal government about the presumed circulation, inside and outside the stadium, of drugs.

Washington bows lower

The U.S. has hocked its Asia policy in order to shore up Deng Xiaoping's domestic political position.

Despite a pathetically ignorant Ronald Reagan's protests to the contrary, the United States government has bowed to pressure from Peking on a matter of U.S. law, in the process of signing a new joint declaration with the People's Republic of China (P.R.C.).

A careful reading of the language of the Aug. 17 communiqué, dubbed the "Shanghai Communiqué II," reveals that Washington has effectively acquiesced to Peking's formula for a settlement of the Taiwan dispute, for the first time committing the U.S. to a "gradual" cessation of arms sales to Taipei and to de facto endorsement of Peking's proposal for a "peaceful reunification" of Taiwan with the mainland. Assistant Secretary of State John Holdridge admitted in testimony to the Senate Foreign Relations Committee Aug. 18 that a "final resolution" referred to in the communiqué did mean a total cutoff of arms to Taiwan. The communiqué declares that "the two governments will make every effort to adopt measures and create conditions conducive to the thorough settlement of the issue," suggesting that the United States, despite promises made to Taiwan July 14, would act with Peking to force Taiwan to accept Peking's oft-contradicted formula for "peaceful reunification." China has conceded nothing in exchange for the U.S. kowtow.

The State Department foisted the capitulation on President Reagan to achieve a "settlement" of the dispute as early as possible in order to shore

up the political fortunes of Deng Xiaoping, whose faction is under increasing attack from opponents for softness on the Taiwan question. In fact, the recent announcement that the long-delayed 12th Party Congress will be held on Sept. 1 undoubtedly hinged on Deng's ability to get Washington to kowtow.

Though not consummated until after his ouster, the "Shanghai Communiqué" is the brainchild of Alexander Haig and the Kissinger-infested State Department, whose willingness to sellout U.S. interests for an alliance with China was a constant source of friction between State and the White House.

Following the furor caused by the communiqué, President Reagan insisted that it was subject to reversal in the event of a military threat to Taiwan, and reiterated that the defense of Taiwan is a "moral obligation." However, Assistant Secretary of State John Holdridge was asked at a Senate Foreign Relations Committee hearing whether the cutoff of U.S. arms was consistent with Peking's demand for an unconditional cessation or Reagan's earlier stand that any arms cutoff be linked to a "peaceful settlement." Senators noted that Peking has still not renounced the use of force. "Holdridge replied with vagueness," complained a Senate source.

The day following the release of the communiqué, the Foreign Ministry in Peking declared that the document was only a "step along the way," and that China would not be satisfied

with anything less than congressional repeal of the Taiwan Relations Act. The *People's Daily* published an editorial the same day egregiously stating, "Taiwan is Chinese territory, and whatever means China uses to resolve the Taiwan issue is purely China's own internal affair"

Deng may need all the help he can get. He intends to carry out unprecedented and risky personnel purges and other "reforms" necessary for his faction to consolidate power. Opposition from elderly conservative leaders will be dealt with by dissolving the Politburo on which many of them sit; senior Politburo leaders such as Ye Jianying and Li Xiannian will be relegated to an "advisory council" with ostensible input into policy decisions. The Party chairmanship will also be abolished, and all responsibilities of the two institutions transferred to the Party Secretariat, a body Deng restored at the 4th Party Plenum and stacked with his own people. As a gesture of compromise, Deng is expected to "retire" himself, but the intended reforms, if successfully implemented will leave his men in power—at least until he dies.

Because the Congress is being held on such short notice, Deng is going ahead without the traditional process of first conducting provincial congresses. This will disenfranchise the mid- and lower-level party membership (where most of Deng's opposition exists) from the process of choosing delegates, a ploy conceived by Deng to control the election of a new Central Committee. However, there is the possibility that such a Congress will be viewed by the general party membership and population as illegitimate, something that could plague Deng and anyone else promoted there should another faction come to power in the future.

'What's bad for them is good for us'

Mexican officials are outraged at State Department documents proposing exploitation of Mexico's economic problems.

Government officials here are well aware of two recent confidential State Department documents inviting the U.S. government to take advantage of Mexico's economic plight to get some political and economic "concessions."

One of the documents, which has been partially reproduced in the press here, appraises the current economic crisis, while the other one assesses U.S. policy in Central America.

"With the wind out of its sails, Mexico is likely to be less adventurous in its foreign policy and less critical of ours" asserts the Mexico document, which according to sources here was authored by State Department Mexico desk officials Frank Crigler and Robert Pastorino.

Most amazing is these officials' conclusion that the present Mexican crisis could be an "opportunity" to force Mexico to give up nationalist control over its economy. "Mexico," the document says, "may be willing to sell more oil and gas to us at better prices; it may ease its restrictions on foreign investment; it may be prepared to negotiate a reciprocal reduction in tariffs and other trade barriers; and it may even be willing to cooperate in managing the illegal migration problem."

A quick reading of the document makes us wonder what the differences between these proposed policies and those of the Malthusian Carter administration are?

The four points of the State Department agenda go directly to the heart

of fights that President López Portillo has had with U.S. government officials over the last few years.

On oil, Mexico closely followed OPEC's price policies and looked for diversification away from dependency on U.S. markets; on tariffs, López Portillo has consistently refused to join the free-trade system of GATT, a move which has been fiercely criticized by the United States. The reader might remember López Portillo's head-on collision with Carter's Secretary of Energy James Schlesinger over the price of natural gas.

The problem of illegal migration has been held over Mexico's head for years. Mexico's fears of a U.S. border shutdown against Mexican undocumented workers took shape this month with the approval by the U.S. Senate of the Simpson-Mazzoli immigration bill.

The Mexico City press played up a protestation by U.S. State Department spokesman Alan Romberg Aug. 17: that "I want to make it very clear that there is absolutely no anti-Mexican campaign in the United States." The official was answering a question posed by our correspondent in Washington.

Nonetheless, the State Department's motto of "what's bad for Mexico is good for us," is reiterated in its Central American paper. "While the trend of events in Central America is running in our favor," the document says, "Mexico's unhelpful role [in the area] is diminishing as that country focuses more on domestic economic

concerns."

The paper then goes on to call for stepping up "right-wing" provocations against leftist Cuba and Nicaragua, a strategy which Mexico has consistently opposed for good reason.

The document's outlook is consistent with statements by State Department officials back in February, when officials gleefully welcomed a devaluation of the peso as a signal that Mexico would be forced away from its moderating role in Central American affairs in order to take care of its economic problems.

Now, what has government officials more worried is the direct participation of Thomas Enders, the Assistant Secretary of State for Inter-American Affairs, in this confrontationist strategy. Enders is reported to have cleared both documents.

Suspicious of Enders's intentions run high in this capital. Government officials are now circulating the two documents and pointing to their similarity with a recent ABC-TV program on Mexico which asserted that the country's economic troubles will soon lead to Iranian-style social turmoil.

Officials know about Enders's long-time association with former Secretary of State Henry Kissinger, an expert in overthrowing nationalist Third World governments.

But despite the deterioration of U.S.-Mexico relations achieved by State Department officials, there is apparently still some chance of recovering the atmosphere of trust and collaboration gained during the four López Portillo-Reagan meetings of 1981. According to the daily *El Sol de Mexico* Aug. 17, recent meetings between López Portillo and U.S. ambassador John Gavin may well be in preparation for a coming meeting between the two Presidents. Perhaps relations can still improve.

Calm before the storm

The Lebanon crisis is far from over, despite the international deal to evacuate the PLO from Beirut.

With the final obstacles to a PLO withdrawal from Beirut apparently removed, euphoria is running high in Washington that the crisis in Lebanon has somehow been solved.

Nothing could be further from the truth.

Not only is there the danger that Israel Defense Minister Ariel Sharon could torpedo the evacuation deal at the last minute, but the chances are high of a new and larger crisis erupting in the post-evacuation period.

The trigger is Lebanon's presidential election on Aug. 23.

The leading contender for the presidency is Falangist warlord Bashir Gemayel, hated by Lebanon's Muslim population for his unabashed alliance with the Sharon faction in Israel. Muslim parliamentarians are threatening to boycott the election in protest against the fact that the fix is in for Gemayel and his fascist clan. Should the boycott occur and should elections fail to take place, Lebanon will be left without a President, given that the tenure of the current president, Elias Sarkis, expires next month.

The stage is thus set, whether or not the elections occur, for warfare in Lebanon between Muslims and Christians. Syria, as protector of the Muslims, and Israel, as protector of the Christians, will almost inevitably be drawn in. The likely result: a small war between Israel and Syria, leading to a partition of Lebanon between the two.

Ariel Sharon is known to look benevolently on such an arrangement;

but he would have liked to combine it somehow with an all-out assault on Beirut to finish off the PLO and murder Yasser Arafat.

Intelligence sources report that Sharon is actively seeking a pretext to go all the way, and recently met secretly with Henry Kissinger in New York to discuss how best to up-end the evacuation deal.

Among the options reportedly considered were the assassination of Prime Minister Begin or opposition Labour Party leader Shimon Peres, or a wave of anti-Semitic terrorism targeting prominent American and European Jews.

According to several Israeli intelligence sources, the idea of a Sharon-choreographed assassination plot against Begin is not to be dismissed. Reports of the plot, or an actual unsuccessful assassination attempt on Begin, are intended to drive him into a "flight forward" political accommodation with Sharon, despite the political antagonism between them.

If the attempt were successful, it would probably mean the early crowning of Sharon as "King of Israel."

Sharon's obsessive bid for power has temporarily backfired on him, earning him the reprobation of virtually the entire cabinet. However, even Sharon's worst enemies concur that his eclipse is not permanent and that he is biding his time until he makes his next move.

Lebanon is not the only country on the chopping block as a result of Shar-

on's military adventurism. Egypt's life is also on the line.

The government of Egypt has stepped up pressure on the Reagan administration to come up with a genuine overall Middle East peace settlement as a precondition for Egypt's cooperation with an evacuation plan for Beirut.

Such an overall settlement, Egypt has stressed, must include a solution to the Palestinian problem that goes beyond relocating Palestinians from one country to another.

In mid-August, Egyptian Foreign Minister Hassan Ali and Minister of State Butros Ghali met with U.S. embassy officials in Cairo to reiterate Egypt's position that Egypt will not take in any Palestinian fighters from Beirut unless the Reagan administration commits itself to a comprehensive peace approach for the Middle East.

Butros Ghali stated that as long as Israel remained in Lebanon, Egypt would not resume Palestinian autonomy talks with Israel. Hassan Ali underlined this point, saying that the autonomy talks could not continue "on the same basis as in the past."

U.S. equivocation on reining in Israel and promoting a general peace settlement has created political problems for Egyptian President Hosni Mubarak, who himself is targeted for overthrow.

Egypt's three opposition parties have banded together to demand radical anti-Israel action on the part of the government, including the recall of Egypt's ambassador from Tel Aviv, and a halt in Egypt's sale of oil to Israel.

"Washington is destabilizing Egypt," commented one Egyptian diplomat. "The irony is that the loser is not only us, but the United States, too."

International Intelligence

Börner finally comes out swinging

Holger Börner, the governor of the West German state of Hesse who faces a tough fight for reelection in September, denounced the radical-environmentalist Green party as "close to fascism" in an interview published in *Der Spiegel* magazine, the equivalent of *Time*, on Aug. 16. Börner said he had no intention of forming any electoral alliance with a party that is opposed to parliamentary democracy, leaves unclear its view on violence, and meets with Libyan leader Qaddafi.

Börner's statement was denounced in a lead front-page article Aug. 18 by the Swiss financial daily *Neue Zürcher Zeitung*, which insisted that Börner should keep an open dialogue with the Greens. "The concept of fascism, through careless use in everyday speech, now has hardly any comprehensible content, but has instead become an expletive, as cheap as it is suggestive," the paper said.

"The concept of fascism, through careless use in everyday speech, now has hardly any comprehensible content, but has instead become an expletive, as cheap as it is suggestive," the paper said.

U.S. deployment to Central America?

On Aug. 11, the U.S. Senate passed a resolution which is already being compared to the 1964 Gulf of Tonkin Resolution. Sponsored by Sen. Steven Symms of Idaho, the resolution commits the United States to using "all means necessary, including the use of arms," to combat Cuban expansionism or a "threat of force" by Cuba in the area.

This "resolve" includes "impeding the creation or use of a military capacity supported from the outside which endangers the security of the U.S."

American men and equipment were involved in war maneuvers inside Honduras, along the border with Nicaragua recently. Joint Air Force maneuvers with Honduras are scheduled to follow. The Reagan admin-

istration has been funding anti-Sandinista paramilitary forces which have been conducting raids into Nicaragua from bases inside Honduras, and is now in an elaborate "chicken game" with the radicals in power in Nicaragua. No sooner was the Symms resolution passed than the Honduran government, the current managers of one of United Brands' less-developed plantations, stepped forward Aug. 16 to "invite" U.S. Marines to Honduras.

The "expected" delivery of Soviet MIG fighter-bombers to Nicaragua in the near future may be enough to bring the Symms resolution into play, a *Washington Post* article argued the next day.

'Claire Sterling is a notorious liar'

EIR founder Lyndon H. LaRouche, Jr., in his capacity as an anti-terror and anti-Nazi specialist, issued a release on Aug. 18 in response to a banner headline in that day's issue of the West German mass-circulation *Bildzeitung* newspaper alleging that Moscow was behind the deployment of the assassin Ahmed Agca, in the May 13, 1981 attempt to kill Pope John Paul II. "The putative authority for this *Bildzeitung* account," states LaRouche, "is the notorious liar Claire Sterling. In point of fact, both attempts to assassinate Pope John Paul II were deployed under the immediate sponsorship of nominally Catholic, old oligarchical families, chiefly families notorious for their earlier backing of Adolf Hitler. . . ."

"Claire Sterling is a hard-core political accomplice of the networks which use these Nazi-network assets of terrorists as "instruments of policy" today. Her role, as an accomplice of Henry A. Kissinger, and other authors of the operations leading to the 1978 terrorist kidnaping-assassination of former Italian Prime Minister Aldo Moro, is illustrative of her attempts to sabotage Italian authorities' crackdown against terrorism in that nation. . . ."

"However, I do not say that there was not a Soviet involvement of some kind in . . . Agca's deployments. The covert-intelligence operations of various East bloc and Western services are far more complexly

involved than perhaps even those governments could explain to themselves. . . ."

However, LaRouche concludes, the fact remains that the above-mentioned "families which created and own the neo-Nazi International behind international terrorism" authored the two deployments against the Pope.

Craxi 'satisfied' by new austerity program

The 10-point economic program announced for Italy by Prime Minister-designate Giovanni Spadolini calls for the most drastic austerity since the war.

This is the price Spadolini was forced to pay for the support of Socialist Party capo Bettino Craxi, whose PSI brought down the previous Spadolini government in early August. While much of the *decalogo* or 10-point policy remains to be filled in, following consultations currently under way between Spadolini and the heads of the five parties which make up the coalition, the broad content is now clear: deep cuts in public expenditures for labor, health, and pensions.

Craxi pulled the plug on the former governing coalition following defeat in the Chamber of Deputies of a Socialist-backed austerity measure to impose increased taxation on the oil companies.

NATO waiting for Spanish chaos

The NATO delegation that visited Spain this month for the ostensible purpose of discussing that country's integration into the Atlantic military alliance, in fact had no such intention, highly placed diplomatic sources in Madrid revealed Aug. 1. The July 26-27 trip, led by British General Nicholls, was made out of what the sources referred to as "pure courtesy," because the delegation made it clear that NATO considers the present Spanish government a mere caretaker regime. The startling "leak," which appeared throughout the Spanish press, is a signal that NATO expects the current moderate government to fall in the coming gen-

eral elections. It is also tantamount to an endorsement of the Socialists, who, as things now stand, are best situated to take electoral advantage of the economic crisis.

Kissinger visited Spain at the end of June, and met with both Socialist Workers Party (PSOE) head Felipe González, and with Fraga Iribarne, head of the right-wing Popular Alliance.

The Kissinger-NATO scenario would catapult Felipe González into power, have him unleash full-scale economic collapse and terrorist chaos, and then bring in the fascist Fraga.

Argentine bishops show 'Path to Reconciliation'

In what has the markings of a Vatican intervention, the Argentine Bishops Conference has issued a public document which addresses the task of political and economic reconstruction facing the nation. Entitled "The Path to Reconciliation," the document is an effort to guide the population and its political leaders through the current period of instability, to ensure a return to civilian, democratic rule.

Citing statements and encyclicals of Pope John Paul II, and from Paul VI's *Populorum Progressio*, the bishops state that any effort toward national reconciliation must be based "above all, on recognizing the reality of man as the image of God. . . ." The bishops' document presses the nation's political parties to clearly make known their "aspirations and programs, and their conception of man, in his economic, social, political, educational and religious aspects."

Heath preaches Brandt gospel to India

Edward Heath is currently touring India promoting the British Foreign Office's "solution" to the international banking and monetary collapse. According to reports from New Delhi, Heath has indicated that the Brandt Commission, the prestigious 'sucker-the-Third-World' policy group he leads, is reviving itself and may be updating its 1980 "Program for Survival" proposals to

shape a zero-growth travesty of the "New World Economic Order."

Addressing an Indian audience, Heath castigated the Reagan administration for its high interest-rate policy and urged that "at least Europe should insulate itself from these high interest rates by pursuing a European bloc approach." Heath told the developing countries that they must give up "the all or nothing" approach and respond to any initiative the industrialized countries offer.

Heath placed special emphasis on the need to reorganize the World Bank and International Monetary Fund (IMF), echoing Robert McNamara's "world central bank" proposals to control international credit top down.

One of the reasons Heath is in India is because the Gandhi government is to become the head of the Non-Aligned nations next year.

Neo-Nazi Genoud controls Arab terrorism

The role of Swiss banker François Genoud in deploying and protecting terrorist brigades internationally is coming into the public light. François Genoud, according to exclusive research published in *EIR* on April 20, had been introduced into the top levels of the German Nazi apparatus in 1935 through his membership in the National Union of Switzerland, and has since been a leading member of the Nazi International in Europe, whose special assignment is the deployment of Arab terrorist squads.

The Aug. 16 edition of the daily *Le Quotidien de Paris* reveals further elements of Genoud's role. In the late 1960s and early 1970s, Genoud worked closely with a Belgian by the name of Jean-François Thiriart, a political adviser to a Paris-based magazine called *La Nation Européenne*. A representative article authored by Thiriart called for the constitution of "international brigades" with the included participation of "Pan-European nationalists." Thiriart has been under investigation in Belgium since at least 1967 for his links to Palestinian terrorists.

The networks exposed in *Quotidien de Paris* are the same as the grouping of Abu Nidal, the anti-PLO terrorist provocateur connected to the Mossad branch of Israeli intelligence.

Briefly

● **N. N. INOZEMTSEV**, the head of the Soviet think tank the Institute of the World Economy and International Relations (IMEMO), died on Aug. 12. Inozemtsev was a leading light of the Anglo-Soviet "round table" conferences held jointly with the Royal Institute of International Affairs.

● **ELIO CIOLINI**, the key witness linking Henry Kissinger to the super-secret Monte Carlo Freemasonic lodge, disappeared from a Swiss prison in the middle of August. The Monte Carlo lodge and its associated Propaganda-2 lodge in Italy are believed to have supervised the assassination of Aldo Moro by the Red Brigades, as well as the 1980 train-station bombing which killed 80. Two other witnesses in the Monte Carlo investigation were removed from the picture at about the same time.

● **HENRY KISSINGER** will be traveling to Argentina next month—as a representative of the *British* government. According to sources in Buenos Aires, Kissinger claims he will work out the terms to which Argentina must agree before the British will unfreeze Argentine assets blockaded in London since the war—to thus free up monies to pay the debt. British terms for ending all sanctions have been repeatedly stated, however: Argentina must sign a formal statement on cessation of hostilities, thereby de facto ceding all sovereignty over the Malvinas Islands—a condition no Argentine government can meet and stay in power.

● **TARIQ AZIZ**, Deputy Prime Minister of Iraq, blasted the Bernard Lewis Plan for balkanization of the Middle East in a lengthy interview with *Le Monde's* Paul Balta, although without mentioning it by name. He said that the Israelis have been working for years on a plan for the "atomization" of the region, which would break up the Arab nations into a mosaic of tribal-based entities. This would enable the Israelis to "easily dominate the region for a century," Aziz said.

President Reagan is being lied to

by Lyndon H. LaRouche, Jr.

The following statement was issued on Aug. 18. Subtitles have been added.

The nationwide television address which President Ronald Reagan delivered yesterday was an old 1931 Herbert Hoover address repeated. Clearly, the President could not have delivered such an incompetent assessment of the U.S. domestic and international economic situation, unless the President had been lied to, massively and repeatedly, by the majority of his advisers.

Aided by the administration's misguided policy toward the Republic of Mexico, the entirety of the U.S. financial system is now on the verge of blowing out. Some European financial authorities are insisting the blow-out will erupt as early as next month, immediately after the scheduled International Monetary Fund meeting. We are sliding into a financial collapse far worse than that of September 1931, and the boys around the White House are assuring the President that an economic upturn has begun!

“Whom the gods would destroy; they first make mad.”

The fakery

First, there was no “bottoming-out” of the depression. The report to which the President referred was not only false, but deliberately fraudulent. *There was, in point of fact, a continued nine percent annual rate of decline of the U.S. economy.* The fakers cooking up falsified government statistics used two misleading figures to manufacture a reported increase in the Gross National Product (GNP).

They counted as an increase in output of goods and serv-

ices, a massive increase in interest-payments. Interest-payments are a deduction from national incomes as a whole, not an increase. Even a junior accountant knows that interest-payments are an expense, not income.

The wildest part of the faked statistics was the government statisticians' counting a decrease in sales as an increase in “inventory.” Inventories of unsold goods did increase, but since when did a retail merchant or manufacturer consider such a sharp drop in sales a sign of prosperity?

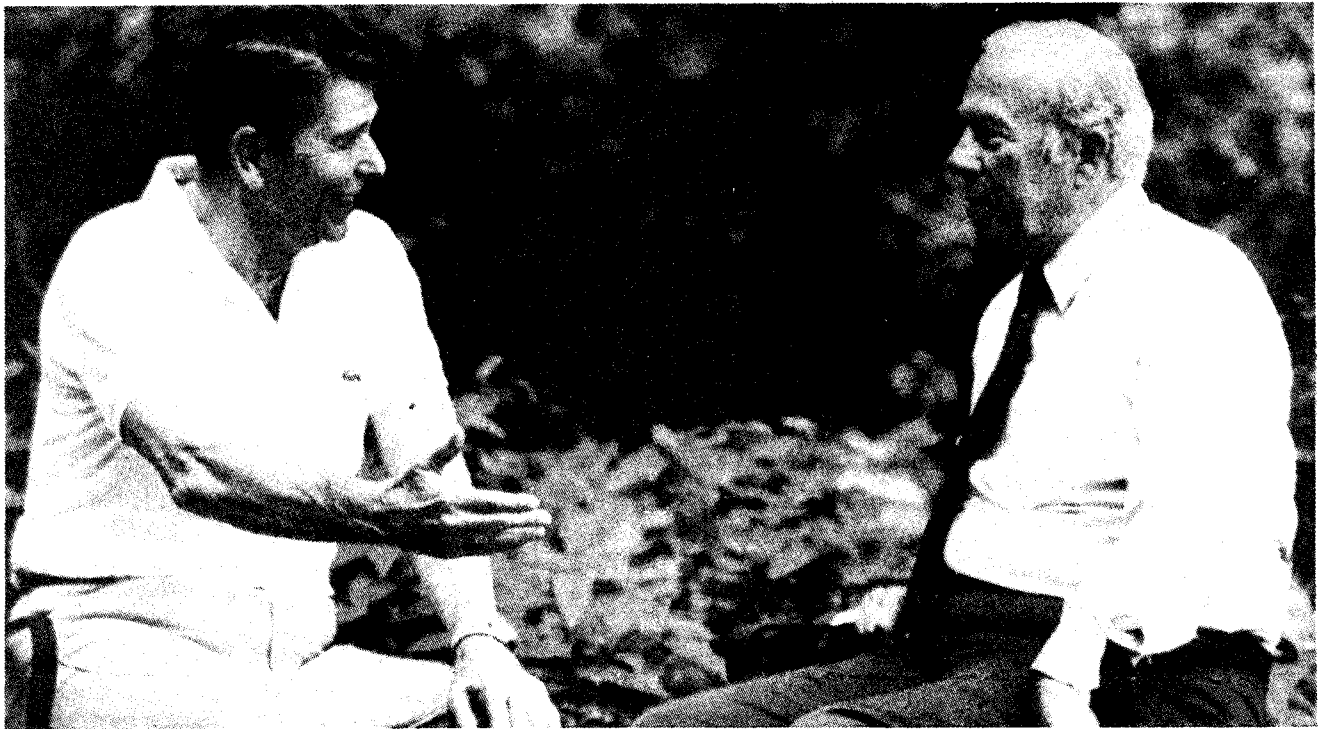
The President was totally misinformed by those who told him that the drop in interest-rates and in rates of price-inflation are a sign of improved health of the U.S. economy. Interest-rates and price-inflation have been pressed downward solely by the deepening of the economic depression.

Price-inflation is being pushed downward by what is so far, during 1982 to the present time, a 9 percent annual rate of collapse of production and sales. Even a minor financial collapse of a few key U.S. commercial banks during September-October will increase the annual rate of economic depression to at least 13 percent per year.

Interest-rates are pushed down in an effort to save the collapsing real-estate bubbles now threatening to go pop in New York City, Houston, and other centers. Internationally, borrowing is beginning to stagnate, with zero-lending for new North-South world-trade, and a general contracting of lending in all markets internationally.

The choices

Unless President Reagan changes his outlook (and his economic and political advisers) immediately, he is going to



Mr. Reagan's trust in the new Secretary of State is misplaced.

find himself walking into the November 1982 elections saying something to the effect, like President Hoover in November 1932, "My economic policies were sound, and would have succeeded, if the Great Depression hadn't prevented them from proving their success."

Personally, given the authority to do so, I could still stop this new world-wide financial collapse.

Back during 1975-1976, I warned in detail exactly what would occur unless we reformed the international monetary institutions. I warned that a new, gold-reserve-based international monetary system must be established, to replace the Bretton Woods system. I warned that we must reorganize Third World debts, to clear the way for an investment-boom in the developing sector. I warned that the use of the Euro-dollar bubble, to refinance pyramided debts through the synthetic bookkeeping-money of a reserve-free, offshore banking system, would lead toward the greatest financial collapse in modern history.

Now, the external debts of most Third World nations are about to go into default. Under present levels of world trade, almost no developing nation can pay even its current interest-payment obligations coming due. "The whole shebang" of the nearly two-trillion-dollar Eurodollar bubble is about to go "kerplop."

The blame lies with official idiots, called governments and banking institutions, which accepted Secretary of State Henry A. Kissinger's policy-demands at the 1975 Rambouillet conference on monetary policy.

If you still prefer Kissinger's (and crazy old Milton Friedman's) lunatic policies to mine, then, ladies and gentlemen,

prepare yourselves to enjoy the greatest financial collapse in modern history. You, ladies and gentlemen, have brought this misery entirely upon yourselves. Since this was of your choice, the only decent thing for you to do, is to prepare to enjoy it.

'An optimist but also a very scared realist'

I am, by disposition, an optimist, but I am also a very scared realist. I witnessed President Reagan's tragic address last night. I watched the Philadelphia Democratic Party mini-convention gloating that a September-October 1982 world depression will be good for the Democratic Party in the November elections. I see the Congress voting like panicked sheep, out of fear of FBI "Abscam-type" blackmail-operations. I see citizens "placing their confidence" in such "respectable authorities." Although I am an optimist by disposition, I tell you now, that I fear that our nation, our people, has lost the level of common sense needed to survive.

If you wish to lead our nation out of this mess, back my leadership now. If you prefer not to support my leadership, then, ladies and gentlemen, enjoy the financial collapse about to come down, crushingly, upon all your misguided, popular delusions. It is your democratic right to choose your preference among these two alternatives.

I will do what is required of me, to attempt to save our nation. Will you? Do you still have the combination of simple guts and simple common sense, to join me in turning this disaster around, at what is now almost the last chance for you to come to your senses at last?

Kissinger and Shultz exploit Ronald Reagan's delusions

by Lonnie Wolfe

Former Secretary of State Henry Kissinger and his allies inside and around the administration are consolidating their hold over U.S. policy as a deluded President congratulates himself on his tax bill's passage. On Aug. 13-15, Kissinger huddled with former top aides from the Nixon-Ford era at a private meeting at Gerald Ford's Vail, Colorado ski lodge. Word filtering down from that meeting is that Kissinger and his accomplices are confident that Mr. Reagan is headed for certain political disaster.

The Fed question remains

The President is in a classic no-win situation. From the outset of the fight for the tax bill, it was obvious that he would be forced to walk away from portions of the political constituency that elected him. That constituency demanded an all-outfight against the Federal Reserve and its interest-rate policies, which are destroying the economy and the Reagan program. Instead of finally taking on the Fed this summer, congressional sources say that Reagan made some oblique threats against Fed Chairman Paul Volcker and then reached an accommodation with him. The President was promised Fed action to reduce interest rates; in exchange, Volcker effectively ordered Reagan to throw his weight behind a fight for a tax increase or face a new rise in interest rates.

So instead of Volcker being fired or forced to resign, by late August, the White House was turning its guns on conservative Republicans and Democrats, demanding that they back a massive tax increase in an election year.

But Reagan advisers knew from the beginning that it would be impossible to pass a tax increase with his previous GOP and conservative Democratic votes alone. The tax vote, even if successful, would therefore force a fundamental realignment of the President's political and congressional majorities. For the first time he would rely on votes delivered by the Democratic Congressional leadership under House Speaker Tip O'Neill. The White House calls this "bipartisanship," but aides to O'Neill are privately laughing at the delicious situation they had put the President in: Reagan locked in a devil's embrace with one of the most hated men in the country, Paul Volcker. This was evidenced by the effusive praise heaped on Paul Volcker by Treasury Secretary Donald Regan following the Aug. 16 stock-market rally.

When the President appeared in the White House Rose Garden to announce the day after that rally that a recovery

was around the corner and to appeal for votes on the tax bill, the red-nosed Tip O'Neill appeared at his side, to announce that he was supporting the bill "for the good of the country." But O'Neill has been sure to tell the press at every opportunity that the Democrats did not think that the tax bill or the President's program would work, and that the economy would definitely not recover, whether the bill passed or not.

Reagan's aides are mounting damage-control efforts vis-à-vis their shattered political coalition. But the leadership of the "New Right," including such Tories as Richard Viguerie of *Conservative Digest*, have indicated that they intend to inflict political revenge on the White House for "its abandoning of conservative principles."

The White House political machine is in horrible disarray. Most importantly, any effort to patch up the coalition is dependent upon the ludicrous assumption that Reagan policies are going to produce a recovery. It is this lie, which the President fervently believes, that will be his political undoing.

The gains for Kissinger

Henry Kissinger is thus prediscouinting the total collapse of Reagan policies and is preparing to step into the void, with his advisers and allies, to dictate policy. The more Reagan is isolated from his base, Kissinger reasons, the more he is forced to turn to the Kissinger wing of the GOP, the so-called moderates like Sen. Charles Percy (R-Ill.), and their counterparts in the Harriman wing of the Democratic Party. This has been referred to by the Kissingerites as Reagan "broadening his base."

Gerald Ford, one of Kissinger's puppet Presidents, made this point in a nationally televised interview from the Vail, Colorado meeting on Aug. 15. Reagan, said Ford, is going to learn the lesson that he must move toward the center of the GOP, where Ford and his friends reside. This, said the man who was Kissinger's choice for "co-President" in the 1980 election campaign, is what Reagan "must do if he is to continue to govern."

George Shultz, one of the Nixon-Ford team members who did not attend the Vail conference, was busy beginning the reorganization of the State Department according to Kissinger's policy lines. He is now conducting a thoroughgoing policy review on all matters, and will overhaul State when it is completed. Shultz, who in his first week in office brought Kissinger to the White House for much-publicized consulta-

tions on Mideast policy, is now meeting with others in Kissinger's orbit. On Aug. 17, he met with former Undersecretary of State Joseph Sisco on Middle East policy. That day, State Department spokesman Alan Romberg confirmed the substance of a Joseph Kraft column reporting that Shultz was preparing to "broaden the foreign policy consensus," stating that he would meet with "experts" on U.S.-Soviet relations the weekend of Aug. 20. Included prominently on the list are Helmut Sonnenfeldt, Brent Scowcroft, and William Hyland, all former Kissinger aides on the National Security Council, as well as Norman Podhoretz, the head of the Committee for the Free World and a recent "Kissinger believer." In addition, Shultz has been shuttling back and forth to Capitol Hill to meet with Kissinger's Senate stooges, Charles Percy and Charles Mathias (R-Md.) of the Foreign Relations Committee.

The major feature of the Kissinger foreign policy is a projected shift in the conduct of U.S.-Soviet relations. Sources report that this policy will resemble what was laid out by another victim of Kissinger's brainwashing, Richard Nixon, in two op eds in the Aug. 18 and 19 *New York Times*. The new détente, which Nixon terms "hard-headed" in an obvious appeal to Reaganite rhetoricians, is a rehash of the old Kissinger "wheeling and dealing" prescriptions. Nixon argues for using both the carrot and stick, stating that it works far better to coax the Soviets than to obliquely confront them. This silly Tavistockian approach to diplomacy as psychological manipulation and warfare is to be the centerpiece of the proposed new Kissinger administration. According to reliable sources, Kissinger himself is now working on the East-West trade question, talking to the Soviets, at the behest of George Shultz.

The Shultz question

The President is a sincere man and he no doubt would be sincerely upset if he understood what was happening to his administration. But he does not. Just as he believes that his economic program will work, he has placed his faith in George Shultz, a man whom the Kissingerites describe as "their asset."

When Haig was fired for insubordination last June, White House sources reported that they distrusted *all* State Department policy initiatives and regarded Foggy Bottom as a nest of vipers hostile to the President. Their plan, at that point, was to deaden the State Department as a policy channel and run all foreign policy directly out of the White House. But Shultz has apparently succeeded in changing this. The State Department still runs foreign policy, pulling the White House along in tow.

"It's time to take off the gloves on George Shultz," *EIR* founder Lyndon LaRouche said Aug. 20 after hearing that the new Secretary of State had referred to Henry Kissinger as the person from whom he was pleased to take his foreign policy. Shultz's rhapsodic remarks were delivered at a press conference and transmitted across the U.S.A. on live national

television, in response to a question by *EIR* correspondent Stanley Ezrol.

In the course of his press conference, Shultz repeatedly echoed the words of Dr. Henry Kissinger, whom he described as a "wonderful person and a great friend," in saying that the "recent bloodshed" in Lebanon provided a "great opportunity" for progress toward a permanent peace in the region.

Ezrol asked the Secretary, "Mr. Shultz, your statement today on the opportunities for an overall peace in the Mideast echo statements made last night on national television by Dr. Henry Kissinger. You have met several times over the last few weeks with Dr. Kissinger, and tomorrow you are meeting with a number of so-called foreign policy experts, most of whom have served as assistants to Dr. Kissinger. The *Executive Intelligence Review* has reported that Dr. Kissinger is becoming the principal foreign-policy adviser to this administration; to what extent are these reports true?" After explaining that legally, the Secretary of State is the leading foreign policy adviser of the administration, Shultz said, "Dr. Kissinger is a wonderful person and a great friend. . . . I have enjoyed the benefit of his insights often. . . . He was one of the first visitors who came to me after my confirmation . . . and I expect to take advantage of his advice in the future. . . ."

Ezrol attempted to follow up his question by asking, "Dr. Kissinger has been named in a number of criminal investigations in Italy. . . ." At that point, Shultz acted to prevent a nationally broadcast discussion of his "great friend's" criminal activities by shouting, "Oh, come on!" and signaling for another questioner.

"President Reagan must be made to understand," said LaRouche, that his Secretary of State cannot remain in office with such an endorsement of Kissinger's genocidal policies in effect. "The United States can no longer tolerate homicidal maniacs in government," said LaRouche. "President Reagan must tell George Shultz, 'either retract your televised statement on Kissinger, or resign.' "

Insofar as Ronald Reagan has "stood for" anything in the minds of those who furthered his career in the GOP, and those who later voted for his presidency, he has stood for repudiation of Henry Kissinger and all his works. Now, if he does not instruct Shultz to retract his blanket endorsement of Henry Kissinger, Reagan will have broken an implicit promise to all Americans to keep Kissinger out of his administration.

Kissinger on U.S. television two nights ago was a sight to behold. Visibly nervous, Kissinger delivered his "historic opportunity" routine on the Middle East. In short order, it became clear to qualified observers that, where Henry said "Camp David II," what he meant was the "Bernard Lewis Plan" for shattering the region into sectarian mini-states, and that every time he spoke of the need for stability in the region or assigned a nation a role in his scenario, he was prescribing the method for destabilizing and shattering that nation—including Israel.

General Graham's High Frontier proposal could advance U.S. military strategy

by Charles B. Stevens, Fusion Technology Editor, *Fusion* magazine

High Frontier, A New National Strategy

by Lt. General Daniel O. Graham, USA (Ret.)

Washington, D.C.: Heritage Foundation

175 pages \$15.00

High Frontier, A New National Strategy calls for a crash program to develop space-based advanced technology in order to achieve an effective defense against nuclear-tipped ballistic missiles which simultaneously opens up a new frontier for general economic growth.

What makes this report one of the most important military-strategy proposals of the 1980s is that it links development of effective defense capabilities with advances in science and technology which are realized through real economic growth. A primary reason for the current economic and strategic crisis is that those who have dominated U.S. defense policy for the past two decades have insisted on decoupling economic and military power. These "post-industrial" pundits, who formulated the utopian concepts of limited nuclear warfare and mutual assured destruction (MAD), have premised their approach on the false assumption that no effective defense against nuclear-tipped missiles could ever be developed. General Graham's *High Frontier* goes a long way toward refuting these "cabinet-warfare" concepts.

But at the same time, in an apparent attempt to achieve some sort of compromise with these utopian policy factions, General Graham has permitted two decisive flaws to permeate his presentation: 1) failure to address the question of nuclear energy development and advanced scientific research; and 2) a fundamental underestimation of Soviet capabilities in precisely these two key areas.

The GBMD perspective

General Graham and his collaborators stated three major objectives in their *High Frontier* study:

- "Nullify the present and growing threat to the U.S. and its allies which is posed by Soviet military power."
- "Replace the dangerous doctrine of Mutual Assured Destruction (MAD) with a strategy of Assured Survival."
- "Provide both security and incentive for realizing the enormous industrial and commercial potential of space."

All this would be attained with a five-year federal government outlay of \$24 billion, a cost less than that currently being projected for procuring an assured second-strike nuclear-retaliatory capability such as represented by the MX missile multiple-shelter program.

The centerpiece in this High Frontier perspective is the realization of a Global Ballistic Missile Defense (GBMD) system. This would be preceded by the deployment of a short-range, point ABM defense of U.S. missile silos, supplemented by civil defense; a manned low-earth-orbit space station; a space-based solar-power system; a high-performance spaceplane; improved space transportation; and general R&D on space industrial systems.

The GBMD, based on existing conventional technology, would be deployed within five years. This would then be supplemented and superseded by more advanced and versatile ballistic missile intercept systems based on advanced infrared sensing devices and eventually by earth- and space-based anti-missile laser systems within 10 to 12 years.

The Global Ballistic Missile Defense (GBMD) system, which is based on existing technology and is to be deployed within five years, would consist of 432 "truck" satellites placed in space orbits covering the entire world. Each truck would carry 40 to 45 self-propelled rocket interceptors called carrier vehicles (CV). In the first-generation GBMD, the CVs would be capable of intercepting either land- or sea-launched ballistic missiles in their booster stage of flight. With the addition of advanced target pointing and tracking systems, such as the infrared telescope now being tested on the Space Shuttle, and increased speed, the CVs would be capable of intercepting individual warheads at any point in their trajectory.

According to General Graham, the GBMD system would be supplemented by ground- and space-based-directed energy weapons, such as high-power lasers, in the 1990s.

In order to achieve its military goals, *The High Frontier* calls for coupling industrialization of space and high-technology R&D as the cornerstone of its defense policy. For example, General Graham details a program for improving the existing Space Shuttle to the point that the cost of material placed in orbit is lowered to less than \$100 per pound. This development would provide the essential infrastructural in-

centive for full-scale space industrialization, while making the deployment of the GMBD system both economic and feasible.

The most significant aspect of this economic coupling is that it replaces incremental military R&D and procurement with a high-technology-centered policy. In this way the "rules of the game" are transformed by forcing military capabilities into a new sphere in which existing force imbalances are overcome through making old systems obsolete.

But what at first appears to be a small compromise by the *High Frontier* study with the environmentalist and solar energy forces develops into a crucial flaw when General Graham puts forward the premise that the Soviet Union is technologically inferior to the United States. This leads toward the adoption of a "quick-fix" solution which undermines both the near-term and long-term goals of the High Frontier project.

For example, orbiting solar power stations look good on paper; but from a military and economic standpoint only nuclear power and propulsion will work in fueling full-scale space industrialization. (Orbiting solar power stations make very large, soft targets from a defense standpoint.) Also, in terms of immediately realizing the economic "free energy" required for mounting the High Frontier project, nuclear energy here on earth is essential for reinvigorating U.S. industry. But most significantly, this little compromise undermines what should be the essential cutting edge of the High Frontier project—all-out development of advanced directed-energy weapons and technology.

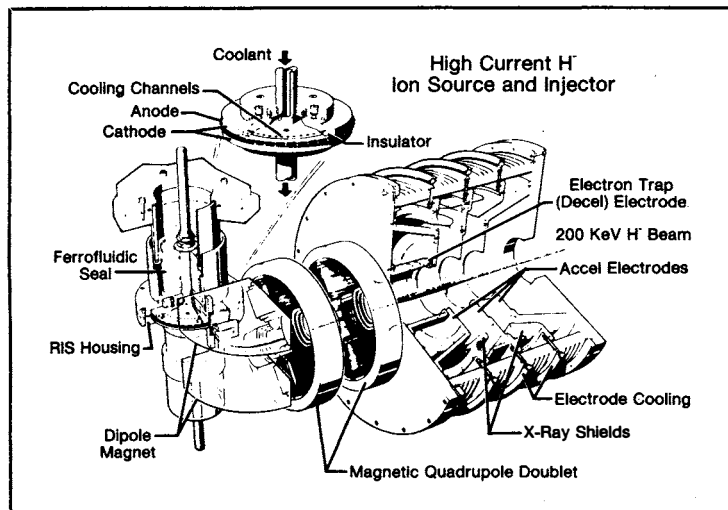
In a soon-to-be-published report, Dr. Steven Bardwell of the Fusion Energy Foundation details a program for the near-term realization of an effective ABM system based on directed-energy weapons. The key to achieving this, as Bardwell specifies, is that directed-energy systems development must be pursued as part of a much broader science and technology program centered around fusion-energy R&D and advanced plasma-physics research. Furthermore, by applying the industrial spinoffs from such an effort as rapidly as

possible and developing a crash program of nuclear fission-reactor construction, Dr. Bardwell shows that the United States can achieve the industrial base needed for both the move into space and technological superiority over the Soviet Union.

Ironically, the *High Frontier* study loses its most compelling argument by ignoring the fact that the U.S.S.R. has embedded its space-defense program in a much broader program of developing nuclear fission- and fusion-pulsed power technology—space-based fission reactors for both propulsion and energy supplies together with high-energy-dense plasma applications. By focusing on the "quick-fix" type of solution, *High Frontier* overlooks the fact that the Soviets are going for a complete scientific transformation of defense technology. In this way the Soviets will overcome in one giant leap the existing flaws in their military capabilities.

The Harrimanite factions in the U.S. Congress, typified by Sen. Edward Kennedy (D-Mass.), are currently deploying their full capabilities against any type of ABM system. Their strategy is based on keeping the pro-technology forces divided. Recently the House Armed Services Committee passed a resolution calling for delaying the DOD Triad laser-weapon demonstration project, which is based on existing chemical laser technology. The ostensible reason was to increase funding for the potentially more effective "short-wave-length" lasers which are currently at an experimental stage of development.

In this regard the *High Frontier* report provides an extremely useful framework from which to judge such policy decisions. The specific qualities of existing or near-term projections of particular laser weapons are of secondary or tertiary significance. The key question is how a particular defense policy is linked to actual industrial and economic development. Full-scale development of directed energy weapon prototypes will generate a scientific and technological framework in which both are more advanced systems and industrial spinoffs can be realized in the shortest period of time.



Aviation Week & Space Technology

At the Los Alamos federal laboratory, the Defense Advanced Research Projects Agency (DARPA) is developing a rotating ion source and injector which produces continuous-wave beams of negative hydrogen ions. The beams are used in neutral-particle-beam research, essential to developing beam weapons for antiballistic-missile defense.

Irving Brown moves upstairs

The AFL-CIO's veteran supervisor of special operations against European governments, has been transferred to Washington.

The Kirkland leadership of the AFL-CIO has quietly reshuffled its director of international affairs, bringing home the terrorist-connected Irving Brown from Europe to take over for Ernest Lee.

The appointment of Brown is a decision to upgrade the AFL-CIO's role in projected destabilization operations in both Eastern and Western Europe. These operations were the subject of unpublicized discussions at the early August executive council meeting of the AFL-CIO in New York City.

For public consumption, the AFL-CIO issued a statement of complete support for the Israeli invasion of Beirut. The statement was reportedly drafted by Brown and AFL-CIO President Lane Kirkland, both of whom have longstanding connections to Israeli intelligence, the Mossad.

Brown is a controller of the so-called international solidarist movement, created by the black oligarchy of Europe to use workers as cannon fodder in destabilization projects like Poland. One of Brown's contacts in the Federal Republic of Germany is Father Oswald Nell Brüning, who runs money to the Solidarność union in Poland while serving as a theoretical adviser to the "White" Russian fascist NTS organization.

Brown-linked Solidarność operations have begun a new phase of activity, leading to potential violent confrontations with the government. Sources report that Brown is coordinating aspects of these deployments

from his new office at AFL-CIO headquarters.

Brown, now in his seventies, is a protégé of Jay Lovestone, the former editor of the Communist Party USA's newspaper and the long-time international affairs director of the AFL-CIO. In the immediate post-war period, Brown and Lovestone, both members of the British-contaminated intelligence networks of James Jesus Angleton and former CIA director Allen Dulles, used AFL-CIO bag money to topple governments in Italy and France.

Since that time, Brown, who operated from the AFL-CIO's Paris office, has conduited orders and money to the Solidarist labor movements in the East bloc, helping to engineer the upheavals in the 1950s in East Germany and Hungary, in 1968 in Czechoslovakia, and recently in Poland.

This spring, *EIR* exposed Brown as the AFL-CIO's contact man with Luigi Scricciolo, the former head of the Italian labor federation UIL's international affairs department. Scricciolo is now in prison, along with members of his family, for being a member of the terrorist Red Brigades. Brown worked with Scricciolo on support operations for Solidarność.

Sources close to him say that Brown informed the AFL-CIO headquarters in 1978 that all necessary measures should be taken to prevent then Italian Prime Minister Aldo Moro from forming a coalition government with the Italian Communist Party.

Several weeks later, Aldo Moro was kidnapped and murdered by Scricciolo's friends in the Red Brigades.

Brown is now in the process of creating a "non-partisan" foundation, ostensibly to promote "democratic institutions," a plan recently sold to William Casey's CIA networks and to the gullible Reagan White House.

Brown will take effective charge of the so-called American Political Foundation from his office in the AFL-CIO headquarters. The Foundation, whose creation was announced during President Reagan's speech in London two months ago, will conduit funds and orders into various subversive operations now controlled by Brown and his British intelligence-allied cronies in the developing sector and especially in Eastern Europe.

AFL-CIO sources say the "cut-out" project has the endorsement of former Secretary of State Henry Kissinger and Vice-President George Bush, who argued for support within the administration, as well as backing from Democratic chairman Charles Manatt and his party faction.

Sources report that a high-level task force has been put together inside the administration to work on the project, all of whom are coordinating with Brown. They include State Department speechwriter Mark Palmer, who drafted Reagan's London speech announcing the plan; National Security Council staffer Walter Raymond; the yet-unconfirmed International Communications Agency appointee F. Scott Thompson, a close associate of both Alexander Haig and Henry Kissinger; and Defense Department official Richard Stilwell. The group has apparently agreed to offer Brown's good friend and social democrat, Ben Watenberg, a prominent part-time post in the operation.



Mr. Wirthlin at work.

Latter-day astrologer revisited

How is it possible that the President of the United States, like so many of his predecessors, is induced to accept "Big Lies"—such as the imminent economic recovery, the necessity of courting Peking, or the indispensability of Henry Kissinger's overall counsel?

The Kissingers and Paul Volckers receive indispensable assistance from the Washington stage managers, as everyone suspects. These are the pyrotechnicians who juggle polls, computer printouts, and "image" formulas to prepare the White House to accept lie after lie, in the form of disastrous policies, as the magical solution to magically formulated problems—all at the expense of the national interest.

In this column on Aug. 17, we identified a team operating out of the basement of the White House, in the so-called situation room, consisting of pollster Richard Wirthlin, who headed Reagan's transition team for planning and created the Office of Planning and Evaluation; Richard Beal, a colleague of Wirthlin's who was made

head of the new office; and White House director of communications David Gergen. These are more than the President's "PR men."

It has been said of Gergen, who by the way has been often accused of being the notorious "deep throat" of Watergate fame, that "no one sees more of Reagan than Gergen." "Communication needs" are polling, counseling and writing speeches, and most importantly, convincing the President what will sell in Peoria.

While President Reagan's landslide electoral victory reflected the rejection of the "electronic" candidacy and administration of the media-created Jimmy Carter, Carter pollster (and top controller) Patrick Caddell believes the Reagan administration has surpassed his wildest fantasies: "The Reagan people have merged their communications with their political needs in a tighter definition than you've seen in previous administrations. I could kiss them for using thematic approaches. They really do understand the importance of themes as the great projecting force of political management." It is not necessary that the "theme" be true, only that this be projected!

Remember Abraham Lincoln?

At the risk of sounding old-fashioned, it would seem only proper that the President of the United States make decisions, drawing on solicited advice, but determine policy nonetheless based on his fundamental beliefs, i.e., the policies and the morality for which he was elected. For example, even granted the fact that Presidents of recent times do not compose speeches on the order of those composed and delivered by Abraham Lincoln, it might be hoped that speeches would be written by the President, or at least at the behest of the President, and according to his specifications.

Richard Beal began writing Mr.

Reagan's first State of Union address (to be delivered on January 1982) in early September 1981. Beal described this task: "We lay out scenarios for winning and losing. Our work concerns the identification of issues, goals, and principles at the macro level. . . . The whole issue of running the Presidency in the modern age is control of the agenda. We deal with what ought to be the buildup of things six to nine months out. It's a process question."

The situation room team does not always speak gobbledygook, however. Perhaps because they specialize in "communication," they at times do not hesitate to define their art in almost brutal terms. What follows is a startling example of advice and evaluation from this quarter concerning the near-fatal shooting of President Reagan on March 31, 1981. While most Americans froze in shock, the situation-room prophets were involved in a cheerful discussion, revealed in part in a September 1981 *New York Times* magazine feature.

Wirthlin: "His [the President's] image characteristics were those of a conservative, right-wing Republican, fiscally responsible, strong on defense. There tended to be feelings he was brittle, not warm. . . ."

Beal: "What the crisis [the assassination attempt] was about in terms of image was a totally unscripted event. It focused on the President. It did a lot to endear the President to the people. If the endearing thesis is right, his personal attitude might never have come across without the assassination attempt."

Less than a week after the shooting, White House adviser Michael Deaver convened a strategy meeting at Blair House to discuss how to invest this new "political capital." David Gergen specified that whatever Reagan talked about at his first public appearance after recovery would be a winner. The team determined that the topic would be the domestic economy. And so it was. . . .

Califano to cover up Hill drug charges

Despite the conclusion of the Justice Department that charges of Congressional sexual misconduct with Capitol Hill pages are without corroboration, lawyer Joseph Califano, an official in several Democratic administrations, is gearing up for a massive investigation as newly appointed special counsel to the House Ethics Committee. Capitol Hill sources report that Califano's role will be to "find a Republican" to implicate in the apparently more substantive charges of narcotics violations among members of Congress. At this stage, the sources report, all those implicated are liberal Democrats.

"Pagescam" burst into the headlines in June with explosive charges made by several Capitol Hill pages that members of Congress had engaged in illicit sexual activity with young male pages. However, immediately on the heels of that, Rep. Robert Dornan, a conservative Republican from California, announced that he had been cooperating with District of Columbia police and the Drug Enforcement Agency in allowing an undercover agent to pose as his aide. Dornan revealed that evidence had been found of a cocaine distribution ring on Capitol Hill. It is those charges that the Justice Department is still investigating, and that Califano has been charged by the East Coast elite of the Democratic Party to either cover up or mitigate.

Califano has a long career in serving the Dope, Inc.-contaminated elements within the Democratic Party. During the Kennedy and Johnson administrations, he was involved with his close friend Cyrus Vance in the authorship of the notorious "Garden Plot" document, which advocated the abrogation of constitutional protec-

tions in the wake of the civil disturbances of the 1960s. He served, again with his friend Vance, in the Carter administration as Secretary of Health, Education and Welfare. In private law practice he has been a member of a law firm with Edward Bennett Williams, a top Democratic Party financier, whose interests in various sports enterprises have brought him into the orbit of Dope, Inc.

Senate passes racist immigration bill

By a vote of 80 to 19, the Senate passed the Immigration Reform and Control Act of 1982 (S.2222) on Aug. 17 and sent the measure to the House of Representatives for hoped-for passage this session. The legislation, managed by Sen. Alan Simpson (R-Wyo.), originated from the findings of the Heshburgh Commission on Immigration. The Commission based its findings on the racist premises of the *Global 2000 Report*, which posits that an explosion of population growth among the non-white peoples of the world threaten the security of the United States. While Sen. Edward Kennedy (D-Mass.) ultimately voted against the bill, charging that certain provisions would lead to discrimination against Hispanics in the United States, Kennedy was key, along with Simpson in drafting the basic restrictive orientation of the original bill.

Sources in the House Judiciary Committee say that Kennedy's publicized attacks on the bill, which would effectively close the U.S. border with Mexico and establish a police-state identification system for workers, were all for show. "Kennedy has the power as Senate Judiciary Committee Chairman to stop this bill from going through with one phone call, and he didn't,"

said a committee source. "He knew that if he didn't use his powers to stop it, it would pass, and that is what he wanted to happen."

The bill took the following final form: It grants amnesty for illegal aliens residing in the U.S. before 1977, but sets up an inferior "temporary" class of aliens who entered the U.S. between 1977 and 1980. These aliens will be denied any rights to food stamps, welfare, or medicare, and it establishes fines and jail terms for employers who knowingly hire illegal and undocumented aliens. An attempt by Sen. John Tower (R-Tex.) (one of the border-state Senators whose economy depends on the influx of workers from Mexico) to weaken and modify employer sanctions was resoundingly defeated by a vote of 14 to 85.

The bill contains a limited guest-worker program, which will be rendered ineffectual by other draconian provisions of the bill. An attempt by Sen. S. I. Hayakawa (R-Calif.) to add a substantive guest-worker program, which would aid U.S. employers and ease employment pressures in Mexico, was defeated by a vote of 16 to 83.

National interest rate limit demanded

After a year of stonewalling, the House Banking Committee chaired by Rep. Fernand St. Germain (D-R.I.) finally relented and began hearings Aug. 19 in its Domestic Monetary Policy subcommittee on H.R.4572, which would impose a national 10 percent ceiling on the rate of interest charged anywhere in the United States. Referred to as the "National Usury Act," the bill, according to a spokesman for its sponsor, Rep. Gene Snyder (R-Ky.), makes "no exemptions" for institu-

tions such as the Federal Reserve Board. "Our assumption is that everyone would have to honor that," the spokesman said, and therefore the prime rate "would have to be 2 or 3 points below" 10 percent, which would be reached by a series of interest-rate reductions over the next three years.

A panel of five witnesses, all Congressmen, including Jim Wright (D-Tex.), Gene Snyder (R-Ky.), Gene Taylor (R-Mo.), Carl Perkins (D-Ky.), and Louis Stokes (D-Ohio), ripped into the usual constipated and monetarist arguments of the committee members with counter-arguments that the National Democratic Policy Committee has elaborated since its founding.

Representative Snyder told the committee point-blank that "the basic law of this land—the U.S. Constitution—doesn't even mention a Federal Reserve Board. . . . The U.S. Congress has not only the right but the responsibility to coin money and regulate the value thereof. . . . It is our responsibility to put the situation right. . . . Cutting the deficit will not automatically bring interest rates down," Snyder said. "On the other hand—cutting interest rates *would* help reduce the deficit."

Stokes and Taylor elaborated how every 1 percent drop in interest rates reduces federal outlays by \$11 billion, increases federal revenues by \$17 billion, and how a one percent drop in unemployment will decrease the federal deficit by \$28 to \$30 billion.

Asked by Rep. Walter Fauntroy (D-D.C.), who was chairing the hearings, how they dealt with the argument that high interest rates are bringing down inflation, the panelists gave example after example of how interest rates are fueling inflation. "Using high interest rates to control inflation is like controlling a nosebleed by cutting the

guy's head off," Taylor said. "It's the craziest argument I ever heard," Perkins chimed in. Asked by Rep. Jim Coyne (R-Pa.) how they would deal with the flight-capital problem with an interest-rate ceiling in the U.S., Snyder told him it was "not a problem. The Japanese have a national usury ceiling and you don't see them having capital-flight problems. Besides, the Europeans, particularly, the West Germans, are begging us to get our interest rates down."

Both Snyder and Taylor attacked the Fed for practicing policies that only loan-sharks and the Mafia used to practice. "We still have people sitting in prison for doing what the Fed is doing today," Taylor said.

The most fire-breathing of all the panelists was the aged follower of Franklin Delano Roosevelt, Rep. Carl Perkins, chairman of the House Education and Labor Committee. "Carter put Volcker into the Federal Reserve and he has no regard for the people of this country. He's bankrupted more industries, foreign markets have been captured from the U.S. because of high interest rates. . . . If you get this bill to the floor it will pass overwhelmingly, by over 400 votes," Perkins told Fauntroy. "And Mr. Volcker will be stripped of his authority. He's disgraced the American people. The administration is not going to do anything; we have to take action."

Abscam investigators slap Justice on wrist

While citing numerous criticisms of the tactics used by the FBI in its Abscam investigation, counsel for the special Senate Committee investigating Abscam let the Bureau and the Justice Department go with a slap on

the wrist in a preliminary summary of findings presented to the committee on Aug. 18. Despite substantial evidence that Abscam sting man Mel Weinberg and Brooklyn Prosecutor Thomas Puccio were acting counter to explicit Justice Department procedures and directives on many occasions, the counsels concluded that they had found "no indication in anything which they found that would have affected the outcome of the Abscam trials or due process proceedings." The chief counsel to the Committee is James Neal, a former prosecutor in the Hoffa trials, and an intimate of the Kennedy networks in the Justice Department which ran Abscam.

But, as ranking committee Democrat Walter Huddleston (D-Ky.) noted after hearing the counsels' summary, "It is still very vague as to when and how a decision was reached by the Justice Department to switch its 'sting' operations to target public officials. In short, the fundamental question of the politically motivated targeting of the Justice Department, has remained unanswered by the investigation thus far." Despite this obvious gap in the investigation, Committee Chairman Charles Mathias (R-Md.) concluded, "These sting operations might be a method by which the executive branch could interfere with the legislative branch, although it appears that this was not so in this [Abscam] case."

Among the other "irregularities" discussed by committee counsels were failure to document many crucial discussions between con men such as Mel Weinberg and various targets, loss of effective control over Weinberg as he began to direct the operation himself to a substantive degree, and the refusal by the Brooklyn strike force to abide by a Justice Department directive to cede New Jersey investigations to the Newark strike force.

National News

Government publication boosts Kissinger

The latest issue of *Problems of Communism*, an official journal of the U.S. government's International Communication Agency (ICA), gives a free boost to Henry Kissinger and claims that U.S. policy is returning to Kissingerian diplomatic methods.

In an article authored by top British diplomat Frank K. Roberts, the journal, which is widely read in circles following East-West relations, heaps effusive praise on Kissinger's tenure as Secretary of State and National Security Adviser. Ostensibly reviewing Kissinger's self-serving autobiography, Roberts, the former British ambassador to both NATO and the Soviet Union, cites Kissinger's recognition of the uniqueness of the U.S.-British "special relationship" as evidence of his correct policy, and states that Kissinger's recent treasonous remarks at Chatham House are proof that he still holds this view.

Roberts concludes his review, "Thus, the foreign-policy claims made for the Nixon foreign policy executed by Kissinger are not simply pleading. The case made by Kissinger . . . that he contributed to holding the country together in dangerous circumstances by a strong foreign policy is convincing. And for my money, the most important element in that foreign policy was neither China, nor Vietnam, nor the Middle East, but the realistic and tough, yet also open and receptive, conduct of relations with the Soviet Union to which the current administration seems now to be returning."

The ICA is now dotted with Kissingerites, including new appointee F. Scott Thompson.

Why Moynihan hates public education

In the midst of savage assaults on municipal budgets across the land, at a time when public schools in New York are closing for lack of funds, when averages of 40 students per

class are the rule, and when the general rot of the educational system throughout the state has made school hallways in some areas as dangerous as New Yorker Central Park, Senator Daniel Patrick Moynihan is sponsoring legislation that would knock \$500 off the tax bill of anyone who decides to send his or her child to a private school.

Moynihan is a sponsor of the Tuition Tax Relief Act of 1982, a measure that would effectively funnel dwindling tax revenues into private schools. The private schools that would benefit from the tax rebate need not accept everyone, either. Such schools, particularly those of specific religious denominations, would not have to accept children who are not Episcopalians, Jews, Catholics, fundamentalists, and so forth.

As Moynihan explains it, the siphoning off of tax dollars to private schools will allow for the creation of a three-tier system, with "private schools for upper income families, schools resembling and modeled on the English 'public schools.'" Beneath these elite British prep schools for those who are rich and white, there will be private denominational neighborhood schools for the white middle class. And whatever is left of the public school system will become a trash bin for the poor.

Europe overtaking U.S. in fusion?

Fusion expert Dr. Steven Dean, in the most recent newsletter of Fusion Power Associates, reports that the Joint European Torus now being constructed at Culham, England, which is the first European experimental fusion tokamak expected to produce "break-even" conditions for net energy production, should be ready for operation by the end of this year. Dean recently conducted a tour of inspection of the JET, which is comparable to the Princeton Plasma Physics Laboratory's TFTR, the first "break-even" tokamak in the U.S. fusion program. TFTR is slightly smaller than JET, and may be completed as much as six months later, in mid-1983.

Dean notes that there is now an aggressive competition posed by the European fu-

sion program for first achievement of fusion break-even, and subsequently, ignition and actual burning of a deuterium-tritium fusion reaction. Following the U.S. program's engineering breakthroughs in experimental temperatures and confinement times for the hot plasmas, the American program has been scaled back to the DOE dictum that "a new energy source is not needed by the end of this century."

Europe's joint magnetic fusion program has been scaled up during the same period in response to those same U.S. achievements. The fusion budget of the European Community, funding joint projects, has been increased by more than 50 percent for 1982-86, by comparison to the 1979-83 budget which had been running. When combined with national European countries' budgets, the total may increase by 100 percent over the previous period.

Court clears way for paraquat use

The Federal District Court in Washington, D.C. dismissed a suit by the marijuana lobby to prevent the state of Florida from spraying the herbicide paraquat on marijuana crops Aug. 17. As a spokesman for the National Organization for the Reform of Marijuana Laws (NORML) stated, "It means that the state of Florida is free to go out and begin spraying this afternoon."

This is the first case in which the use of paraquat, a commonly used weedkiller, by state authorities has come before federal court. In throwing out the case, the court is giving tacit approval to the use of paraquat. If the state of Florida proceeds with paraquat spraying, it would be the first time the herbicide would be used against drugs in the United States. Paraquat was used to wipe out Mexico's marijuana crop seven years ago.

NORML filed suit against the state of Florida, the Drug Enforcement Administration (DEA) and the Environmental Protection Agency (EPA) in Federal District Court July 30 to block spraying in Florida, which had been cleared by the DEA and EPA. NORML claimed that the authorities had

failed to file an adequate environmental impact statement on the alleged adverse effects of paraquat.

Last year, Congress found that the "evidence" used to pass the 1978 Percy Amendment, named after Sen. Charles Percy (R-Ill.) that barred U.S. aid to any nation using paraquat in its anti-drug program, was fraudulent. After evidence was presented to Congress that straight marijuana is a much more serious health hazard than paraquat ever was, the Percy Amendment was rescinded.

'Draft LaRouche in 1984' petition circulated

Over 200 regional leaders of the United States' labor, farm, religious, and small-business constituencies have signed a petition to draft internationally noted economist and statesman, and *EIR* founder, Lyndon H. LaRouche, for President of the United States in 1984. The "draft LaRouche" proposal was initiated by the National Democratic Policy Committee Aug. 8.

Endorsing LaRouche at this time, the petition states, will "help send a message to Washington, D.C. now which might shock some of the better people among our gutless elected members of the federal executive and Congress" to stop the plunge into economic depression and the collapse of U.S. political institutions.

LaRouche, who was a candidate for the Democratic presidential nomination in 1980, has been the only economist and political figure to accurately assess the depth of the accelerating world depression, and to present an economic program which could immediately reverse international industrial collapse.

The draft-LaRouche endorses particularly represent those constituencies which have been "written" off by the current official leadership of the Democratic Party and national labor organizations such as the Lane Kirkland/Trilateral Commission-controlled AFL-CIO. Endorsers are from the steel unions of the devastated steel industry of western Pennsylvania and Illinois, the building trades of California, who have been

locked out of the Democratic Party by the Tom Hayden-Jerry Brown-Charles Manatt takeover in that state, farm organization leaders from the West and South, labor leaders from the dying port and industrial cities from New York to Washington, D.C., and black religious leaders of California, Chicago, and the East Coast cities.

Campaign to shut down Bohemian Club launched

In San Francisco, the NDPC Fact-Finding Division released Aug. 20 a statement calling upon all patriotic business and civic leaders to "withdraw from membership in the racist, anti-Semitic Bohemian Club cult." A picket line was thrown up in front of the Bohemian Club in downtown San Francisco; a press conference was called; and Bechtel headquarters has already been leafleted. The San Francisco press has blacked out the news to date. The leaflet, titled "A National-Security Risk: The Bohemian Club Cult," states:

"There are few places outside of some dark castles in Switzerland, Bavaria, or Italy where a group of assassins can casually meet to kick things around. Imagine a late-night meeting, perhaps at the Mandalay Camp, which includes the golem Henry Kissinger, William F. Buckley, and perhaps Robert McNamara. The discussion turns to the 'demographic problem' of Latin America. Henry holds forth on his experience with Iran. There are indeed 'too many people,' everyone agrees. Mexico will become another Iran. Henry and Bill emphatically agree. Indeed. And of course there is the 'LaRouche problem.' Quite.

"The Bohemian Club has been an anti-Semitic, racist cult since its founding. Based on the drugs, sodomy, and racism of the incubated 'art' circles, the Bohemian Club is a close relative of Hitler's Thule Society.

"It is long past the time when citizens can tolerate its leaders playing footsy with treasonous filth imported from Otto von Hapsburg's Bavaria or the putrifying British Isles. It is past the time that we could tolerate them making asses out of themselves, with their foolish pretenses, as they carry our great nation toward its doom."

Briefly

● NASA has selected eight companies for contracts of \$1 billion each for space-station mission studies. These studies will help develop specific scientific, commercial, and military mission requirements and architectural options for a permanent orbiting facility, and will then be submitted to the administration and Congress as a possible basis for the next major U.S. space initiative. The companies are Boeing, General Dynamics, Grumman, Lockheed, Martin Marietta, McDonnell Douglas Astronautics, Rockwell International, and TRW.

● AVERELL HARRIMAN may be placed under investigation by the U.S. Department of Justice Office of Special Investigations for his role in denying sanctuary in the U.S. to approximately 3 million Jews attempting to leave Hitler's Germany in the 1930s. The Harriman family's Eugenics Records Office wrote into law racist immigration bills that virtually banned Jews, Russians, and Italians from entering the U.S. An OSI investigator responded to an *EIR* reporter's briefing on Harriman's full knowledge that excluding the Jews from the U.S. meant their extermination, by saying, "This is very interesting, and we are going to have to look it over. . . . Send us all of your material."

● THE U.S. ARMY went on a four-hour all-points alert at Fort Bliss, Texas, in response to a report that Army General (ret.) William Westmoreland was the victim of an extra-terrestrial kidnap plot. Westmoreland was "totally surprised by all the ruckus," when he was finally located, an Army spokesman reported.

● JOHN SAMUELS, chairman of the New York City Opera and several other companies at the Lincoln Center, is an intimate of mob lawyer Roy Cohn. Samuels made \$100 million in the early 1970s, when he came under the patronage of Michele Sindona and several unidentified Luxembourg financiers. From there Samuels became chairman of Exchange National Bank of Chicago, a bank controlled by the Recanati family, which has been linked to the Israeli mafia. Samuels frequents the Carlyle Hotel.

Dr. K., France, and anti-Semitic terror

French opposition leader Jacques Cheminade issued a statement on Aug. 12 demanding the resignation of French Justice Minister Robert Badinter in order to stop the "September of Terrorism" of which numerous Western intelligence agencies have warned. *EIR* strongly seconds Mr. Cheminade's appeal, made in the wake of the Arab commando attack on the Goldberger's kosher restaurant in the Rue des Rosiers in Paris, which left six dead and 22 wounded, and a series of other violent incidents.

Our sources warn that a new wave of anti-Semitic terrorism, unless it is blocked, will include at least one major incident staged in the United States in September or October. It is relevant to recall that in 1972-74, Henry Kissinger, then a Nixon administration cabinet official, was the subject of a top-secret national-security investigation involving plans to activate a synthetic "Black September" Palestinian terror cell in a spree of attacks on prominent U.S. and Canadian Jewish leaders. The investigators successfully penetrated the Kissinger-associated terrorist command, centered around a network of Canada-based British "Peking hands," and averted the bloodbath.

The reason this is relevant to the "September of Terrorism," is not only because, as friendly sources told *EIR*, Mr. Badinter is an "intimate friend" of Dr. Kissinger. Investigation of the recent Paris attacks shows that they all lead to Abu Nidal, the Palestinian terrorist leader and enemy of Palestine Liberation Organization head Yasser Arafat. Abu Nidal and his El Assifah organization, in turn, intersect a pattern of close associations among left and right "pan-Arab" terrorism; leftovers of the Hitler regime; the Israeli Mafia that controls Defense Minister Ariel Sharon; and British intelligence operatives such as Dr. Kissinger this spring publicly avowed himself to be.

Israeli intelligence sources have confirmed the assertion of Paris PLO official Sartawi that Abu Nidal works for the Sharon-led section of the Israeli Mossad. The trail of investigation has led further to a Belgian fascist, Jean François Thiriart, who as far back as 1968 called for "International Brigades" to fight for pan-Arab and pan-European causes (the operative word is Pan, the degenerate

goat-god of Greek mythology!). Thiriart is a close associate of François Genoud, leader of the Black Fascist International, which is made up of former Nazi officials and their admirers. Thiriart and Genoud led efforts in 1970 to free imprisoned terrorists from George Habash's ultra-leftist PFLP, including a lieutenant of the legendary "Carlos," whose name resurfaced in the Paris attacks.

These are the networks Mr. Badinter has been protecting, along with the Armenian terrorist and drug-running operation known in Scandinavia as the "Shoemakers League," and in the United States and Canada as the Armenian Secret Army for the Liberation of Armenia. Well-informed sources have warned us that these "Armenian" assets, which also have ties to the Israeli Mafia, are primed for a terrorist attack in Houston, Los Angeles, or Ottawa.

Any effort to move against these networks will be hamstrung as long as France functions as what Cheminade called a "revolving door" of terrorists. On Aug. 2, Italian Judge Ferdinando Imposimato called Paris the "capital of international terrorism," and demanded that France finally close the Hyperion School, the "language institute" which harbors known Red Brigades leaders. Jacques Cheminade cited hundreds of Italian, Basque, Armenian, and other terrorists "comfortably ensconced in Paris apartments. The French police know their addresses, but they can do nothing."

Badinter was the attorney for Baader-Meinhof lawyer Klaus Croissant and Italian Red Brigader Franco Piperno. His first act after taking office in May 1981 was to free dozens of jailed terrorists, including leaders of the Palestinian-run Action Directe, which has claimed "credit" for the Aug. 11 bombing of an Israeli fruit importer in Paris.

Now Badinter has stepped forward to oppose Interior Minister Defferre's proposal that some measures be taken to prevent the abuse of the right of asylum in France. As long as the Mitterrand government harbors Kissinger's friend Badinter, the blood of anti-Semitic terrorism is on its hands.

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