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Argentine economy at the brink
Who's who in the new U.S. cabinet
The Middle East situation Reagan faces

**The succession fight in Moscow:
What's at stake for the West**



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EIR

From the Editor

This week's Special Report, "The Succession Fight in Moscow: What's at Stake for the West," was written by our Soviet Sector Editor, Rachel Douglas. It analyzes the fight for leadership in the upcoming post-Brezhnev era, a fight that will dominate the February party congress. The policy divergences go far beyond the usual "hard" and "soft" classifications. At issue is whether the group Mrs. Douglas refers to as the "builders" will continue Soviet advances in science and industry—and a correlative policy of cooperation with their capitalist counterparts abroad, including the potential for joint development of the Third World—or whether the "class war" Bukharinites will suffocate growth at home and help foment instability throughout the world.

The rest of our international coverage this week focuses on the traps that are being laid for the Reagan administration in Central America, in Italy, and in the Middle East, where our intelligence chiefs also identify what a positive, post-Kissinger American policy would look like. Featured in our economics coverage is a tally of the damage done to Argentina since its industrialists and military men allowed British liberal Economics Minister de Hoz to shut down manufacturing, wildly expand foreign debt, and sap the living standards of a skilled, productive population.

Our National section includes extracts from the cabinet appointees' confirmation testimony not covered in the news media, and an exclusive interview with the new Senate Armed Forces Committee chairman, John Tower. I'd also like to call your attention to the "yellow alert" contained in the Facts Behind Terrorism column.



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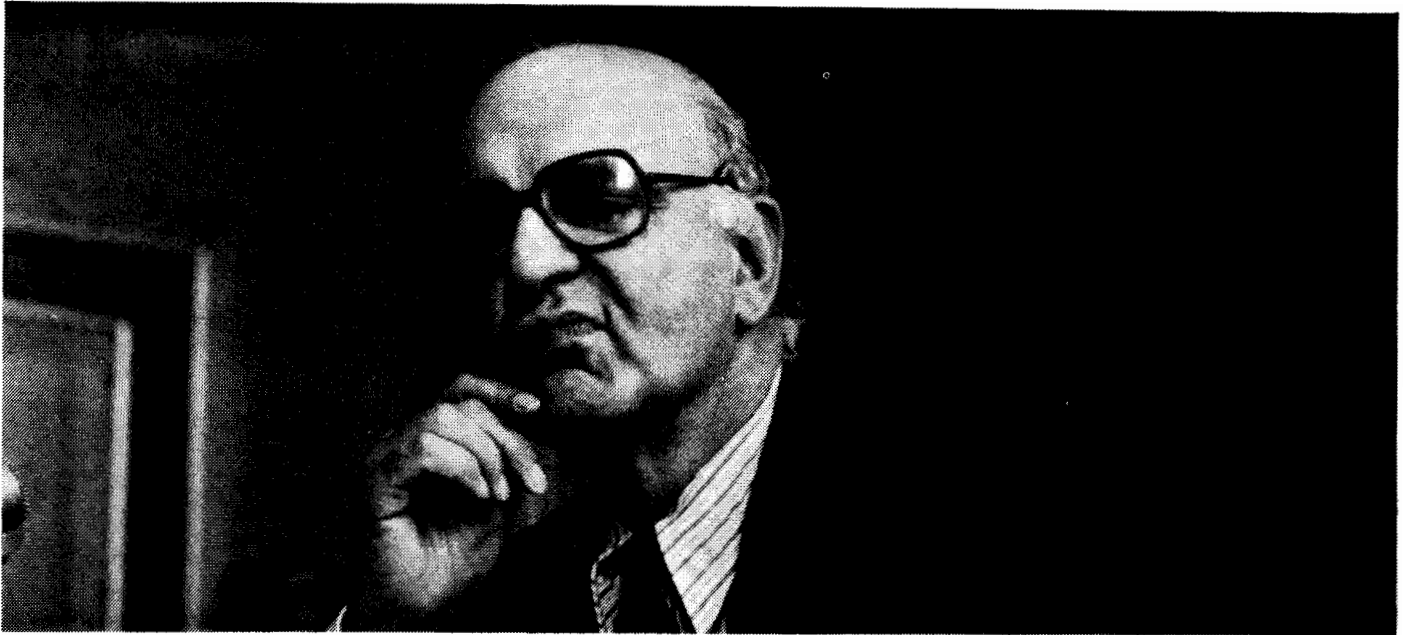
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“Watchful observers tend to ask themselves whether Volcker and Miller are merely incompetent or downright insane.”

— Lyndon H. LaRouche
Contributing editor, *Executive Intelligence Review*

When Federal Reserve Chairman Paul Volcker introduced his credit control policies last year, the EIR was quick to sound the alarm to the danger of “Dr. Volcker’s horse liniment.” The Volcker package would not be anti-inflationary, EIR warned, but would carry the “Friedmanite stagflation” of the Nixon years to extremes.

Finally, red-faced economists and government officials are now admitting that “something” went wrong.

The Executive Intelligence Review is now making available a comprehensive series of studies on the American economy to show why the Volcker measures had to fail, why the country’s economists missed the boat in forecasting the trends for 1980, and why EIR’s LaRouche-Riemann econometric model was right on the mark.

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A legacy of treachery

When James Earl Carter was booted out of office last November by a landslide that turned historically Democratic constituencies against their own party, there was reason for optimism. Americans would happily bid farewell to the base morality of the Carter administration. There would be an end to the drug-infested White House, the policy of destabilization against our foreign friends and allies, and the economic policy of controlled disintegration—tight credit, and collapse of basic industry—all paving the road to Brzezinski's postindustrial society.

There would be a new beginning, and a proud America based on support for the industrial development and growth and stability of the world's nation-states would replace the humiliation of the hostage fiasco.

But Jimmy Carter, a creature of the Trilateral Commission and the Council on Foreign Relations, is determined to haunt the Reagan White House with the legacy of his treacherous policies.

Just days before the Reagan inauguration, Carter ordered the Federal Reserve to begin transferring what could add up to nearly \$10 billion in gold and Treasury securities to Iran.

If Carter succeeds in handing the outlaw Khomeini regime billions of dollars in exchange for the hostages, the already teetering U.S. economy may go through the floor just in time for Inauguration Day. If the payoff goes through, according to the Federal Reserve itself, the Iranians will probably take the dollars and dump them, causing a run on the dollar. This, together with a number of international crises being worked up by the Socialist International, will hand Reagan a legacy of chaos designed to stall any potential for putting the U.S. economy and foreign policy back on the track.

The dollar blowoff is simply the leading edge of the oligarchical design to ensure that a Reagan progrowth policy doesn't have a prayer against the so-called postindustrial society.

Working overtime against the new Reagan ad-

ministration for this oligarchical design are the Socialist International, the London Financial community, the Jesuit Order, the Soviet KGB, and the Heritage Foundation, which has infiltrated Socialist International and KGB moles into the Reagan camp.

Western Europe has been particularly targeted, since the progrowth governments in France and West Germany could forge a formidable alliance with President Reagan around policies to get the world economy moving again.

High-ranking Socialist International representatives stated this week that Western Europe is soon to be put through "the most profound social crisis since 1967-68. In fact in many ways it will be worse and more chaotic."

This scenario for social convulsions in Europe has as its immediate aim the ouster of French President Giscard d'Estaing and his replacement with Socialist Party Secretary-General François Mitterrand; the mobilization of the left wing of the Social Democratic Party in West Germany—the postindustrial "greenie" faction—to oust or paralyze Chancellor Helmut Schmidt; and the continued terrorist destabilization of Italy leading to a Mussolini-style reign by Socialist Party boss Bettino Craxi.

Carter also has his hands in setting up U.S. involvement in a fighting war in El Salvador—another crisis waiting on the doorstep of the White House.

The fact that Carter so blatantly defied the Congress and the incoming administration, taking emergency powers in his last days in office, indicates how much the postindustrial strategists fear the potential of the Reagan administration. America's big industries, small businesses, labor, and farmers are showing themselves totally unwilling to put up with four more years of economic devastation. But it will take a well-aimed and well-educated fight to quickly rid the world of the Carter legacy.

Blackmail against the new administration

by David Goldman

Federal Reserve Chairman Volcker's decision last week to raise short-term interest rates again, after a momentary break in the upward spiral, is a political signal directed at the Reagan administration. Volcker has set a trap for the President, with the intent of compelling the White House to accept a Margaret-Thatcher-style policy of "economic pain" despite its intentions to the contrary.

Thatcher's semi-official representatives in Washington, the British-led Heritage Foundation, have succeeded in placing a few key people inside the economic decision-making bodies of the new administration. Their objective, as probable Treasury Undersecretary Norman Ture put it, is to let matters deteriorate until Volcker and the Treasury Department will have the clout to tell Reagan to let interest rates go through the roof and reduce money supply growth to zero.

Among Heritage economists and their Wall Street collaborators, who include former Rite-Aid chairman Lewis Lehrman and Bear, Stearns economist Larry Kudlow, the word is that the 21 percent prime will be a *floor*, not a *ceiling*, for domestic interest rates. In interviews with *EIR*, Kudlow, Salomon Brothers partner Benjamin Rowland, and other Heritage supporters predicted that Fed Chairman Volcker would bring rates up to the 24 to 25 percent level before any peak was evident. Lehrman is a member of the Heritage Board of Trustees, and Kudlow has testified on behalf of Heritage before Congress.

Why would an avowedly conservative think tank like the Heritage Foundation wish to destabilize the Reagan administration? The answer has a great deal to do with the fact that Heritage is intertwined with the socialist

British Fabian Society (see National section). Heritage spokesmen in fact are threatening Reagan with leftist "social chaos and revolution" in the words of Lewis Lehrman, who is close to the Socialist International in Europe. Lehrman predicted this week that Reagan will follow Volcker's policy and be "Thatcherized," adopting the austerity policy of Britain's Margaret Thatcher, and that the left would rise up against him.

This group apparently has the inside track on the Fed's plans for the next two weeks, judging from Paul Volcker's actions on the market. By the Fed's own criteria—which this publication considers dubious—the sharp drop in the money aggregates and commercial bank lending during the month of December should have permitted some easing of the money crunch. When the Fed released money supply data to this effect on Jan. 9, most Wall Street "Fed watchers" predicted a near-term easing of interest rates.

Of course, reading the entrails of the monetary system turned out to be a waste of time. Paul Volcker and his *political* faction are committed to wresting control of economic policy from Ronald Reagan, who sincerely wants to carry out the mandate he received from American voters in November. The Fed's actions stem from political considerations, and all ideological pronouncements concerning monetary aggregates and interest rates are so much Delphic pap.

As matters stand, despite the likely appointment of Dr. Ture to the new Treasury undersecretary post for tax policy and the selection of Friedman student Beryl Sprinkel of Harris Trust as undersecretary for monetary af-

fairs, Reagan does not like the monetarists' counsel. "We can't be certain if Reagan will tell Volcker the right thing. It remains to be seen," said David Meiselman, editor of Heritage's journal, *Policy Review*.

Jack Kemp, who insists that "austerity is the problem, not the solution," more closely reflects the President's personal outlook. In an interview with *EIR* published Jan. 20, Kemp outlined an ambitious program, including both personal income and investment-related tax cuts, and an agreement with the European Monetary System to restore the dollar to gold convertibility. However, Kemp indicated that the latter monetary proposals were not for immediate action. And Kemp has not persuaded the new administration that his tax proposals will necessarily produce an economic upswing.

According to the Heritage scenario, the Federal Reserve will tighten interest rates until the economy hurts and the White House demands a change—and the moment of truth for Reagan will have arrived. Volcker, according to Salomon Brothers seer Rowland, will probably threaten to resign and destroy the "credibility" of the new administration in the monetary sphere.

What makes the Reagan administration susceptible to this form of blackmail is the narrow-gauge approach of Reagan's most powerful subordinates. Treasury Secretary Donald Regan, a top-flight administrator at Merrill Lynch, shows no sign of having the scope of understanding of monetary affairs to avoid the trap ahead. "You can only bring interest rates down by one of two methods: either by having a recession, or by altering expectations about inflation," says Merrill Lynch money-market economist Donald Maude. "And you can't bring down inflationary expectations in a short period of time." Maude describes Regan as a "level-headed executive" who will take orders only from the President.

But the Merrill Lynch economist worries about the Fed's "credibility." He told *EIR*, "There is always the possibility of a real shake-out on the markets. But it won't happen if the Fed can maintain its credibility. If that were damaged, then short-term interest rates would really shoot up."

Apparently, both the Reagan administration and Bonn, the allied government that is likely to have the closest relations with the Reagan White House, are working under the dangerous illusion that they can take their time in addressing the crisis that the Volcker Federal Reserve has set in motion. What will most probably emerge out of the economic policy meeting with President-elect Reagan in progress at *EIR*'s deadline is an ambiguous false consensus. It is likely to include a decision to continue the congressional bailout of the Chrysler Corporation; a mandate to reduce the federal budget that does not address what degree of economic "pain" the administration will tolerate; an agreement to institute Kemp-Roth tax cuts during the coming summer (rather

than immediately, as Jack Kemp would prefer); and some promising initiatives on the energy and environmental regulation front.

However, as our econometric simulation of the impact of Volcker's interest-rate policy indicates (see *EIR*, Dec. 10, 1980), the economy will turn down sharply before the end of the first quarter. Reagan will have a much worse problem on his hands than his new Treasury secretary, for example, is counting on.

Bonn floating

West German Chancellor Schmidt should be explaining to the new White House that the future of the Western economies depends on the success of the dramatic monetary and development initiative he proposed two years ago with French President Giscard d'Estaing. He should strongly reinforce Rep. Jack Kemp's input on the question of bringing the United States into the European Monetary System, and extending this collaboration into a global development effort that, among other things, would boost American exports by about \$100 billion per year.

But the West Germans have put off completing the second, credit-issuing phase of the European Monetary System until sometime in 1982. Meanwhile they are hoping that a slow fall of American interest rates will take pressure off their own currency and reduce capital outflows. The Bonn chancellery has written off economic growth for the coming year, and is hoping to hang on long enough to institute the European Monetary Fund in about 18 months. Apparently, Chancellor Schmidt views West Germany's economic ties to Saudi Arabia (see International Credit) as a short-term palliative, rather than as an opening to a much broader degree of collaboration on monetary and trade matters, in which the United States also has a major interest.

More encouraging is the announcement by Sen. James Sasser (D-Tenn.) and Rep. Bill Alexander (D-Ark.) of legislation—in the form of resolutions in both houses—to compel the Federal Reserve to give priority to credit for the tangible wealth-producing sectors of the economy. The Sasser and Alexander proposals, in different ways, embody a plan released in December by the National Democratic Policy Committee for reform of the Federal Reserve System. The plan, in brief, would compel the Fed to introduce discount-window participations in loans for tangible goods production instead of the present open market operations, namely, dumping new money supply into the large money markets, where it never reaches American producers.

What the President needs to avoid the Heritage Foundation trap, above all, is the right points of orientation toward those he ranks among his peers: the Congress, the leading American economic constituencies, and the leaders of allied countries.

Ture and Rowland on 1981 credit squeeze

The following interview with Treasury Undersecretary for Tax Policy designee Dr. Norman Ture was provided to EIR by a Washington source.

Q: What does the Heritage Foundation Project Report on the U.S. Treasury, which you headed, recommend the Federal Reserve do with monetary policy?

A: Our section on monetary policy simply says that control of inflation is not located in fiscal, in budget actions at all, but in money supply, pure and simple. What we must do to reduce inflation lies not in the budget, but in credit: we must very, very severely restrict credit. The Fed has not done enough. The Fed must do more. The Fed's portfolio of U.S. Treasury securities is larger now than when they began the credit squeeze. We should reduce money supply growth to *zero* for a time if necessary.

I think that the Federal Reserve instead has played a substantially passive role, and I think we'll get another monetary explosion if the Fed does not hold interest rates to where they are. I hope that the secretary of the treasury and the President will be able to persuade Mr. Volcker: "Let's forget about interest rates, and bring monetary expansion under control." At this point the problem is an absence of monetary authority, rather than the active participation of the monetary authority. We've had a 20 percent run-up in the money stock since the middle of the year.

Q: So now interest rates must continue to rise?

A: If you have that kind of expansion of the money stock, they will soar. . . . If the Fed can insist on and arrange for a very slow rate of growth in money, then we might see a decline.

Q: And if the figures are not so good, rates will be headed up?

A: Sure, if we get any resurgence in the money supply, 21 percent for the prime rate is going to be the floor, not a ceiling. I don't think there is any natural law that limits it.

Q: What about the danger of a U.S. dollar crisis?

A: Our report said that we could care less about what happens to the dollar. We just get our domestic house in

order, deal with inflation here, and the dollar will have to take care of itself. Suppose the Fed did announce zero growth in the money supply, and collapse credit. The dollar would be perceived as very sound.

Benjamin Rowland, a partner in Salomon Bros. Corporate Finance Department close to Lewis Lehrman and the Heritage Foundation, told EIR of Volcker's plans.

EIR: Does Norman Ture's appointment mean Ronald Reagan will be swayed toward Volcker's monetarism?

Rowland: It's not decided. Reagan himself has divided loyalties, divided between those who believe in the efficacy of Kemp-Roth tax cuts, and those who consider tax cuts wildly inflationary, as I do.

EIR: Will Volcker do what Reagan tells him to?

Rowland: No. I think Volcker will maintain a tight money policy, and if he comes under pressure for easing, he'll put up a fight and might quit. If challenged, he'd rather leave, from the contacts I've had with him.

EIR: Do you think Ronald Reagan will challenge him?

Rowland: Sure. But he is a man of great personal integrity and would rather leave office.

EIR: If the President doesn't want a recession, why wouldn't he just go ahead and force Volcker out?

Rowland: I don't think he would. It would obviously be very bad to lose such a major, well-respected figure in such a time of economic difficulty. I don't imagine it would be in anybody's interests to force a figure of Volcker's stature out. He won't be pushed into a corner, not without reacting publicly and clearly, and the undesirability of that reaction is great enough, I suspect, that he won't be pushed into a corner. It would have a very bad effect on the markets.

EIR: What does that mean for interest rates in 1981?

Rowland: They're going to be high, current levels at least. They're going to be volatile, certainly double-digit. I don't think we've seen the peaks in the present circumstances. I wouldn't be surprised if they went up to a prime of 24 or 25 percent.

Lewis Lehrman: rates cannot come down

Lewis Lehrman, adviser to the Reagan Transition Team and board member of the Heritage Foundation, made the following comments in an interview made available by Washington sources.

Q: Will the new administration succeed in stabilizing the U.S. economy and lowering rates?

A: My view is that there is a comprehensive program needed now, which I outlined in a recent proposal published by Morgan Stanley, for the U.S. My role in the administration has become very controversial, because I don't believe that marginal tax cuts are the answer to our problems, nor are budgetary cuts sufficient. It's my view that we need a comprehensive reform of monetary policy, domestically and internationally, from the top down, to lower monetary growth while cutting fiscal growth, and it has to be done promptly. But there are people resisting this view more highly placed than I.

Q: You mean the Nixon-Ford traditionalists?

A: Yes.

Q: What about Jack Kemp?

A: Jack agrees with some things, but he's a supply-side tax cutter. Stockman is a budget-cutter. None of this makes sense in the absence of international reform. The international monetary system is falling apart. But unfortunately, the issue of international monetary policy is not one that will preoccupy this administration.

The U.S. must organize the international system. Step one: we announce the intention to create a convertible currency, to peg the dollar to gold. Step two: we establish a balanced budget. Step three: we renovate our regulatory agencies. Step four: we systematically reform our tax structure. Step five: we rebuild our fighting forces.

We then convoke an international monetary conference, in which we elaborate a fixed-exchange rate regime, based upon the dollar as a convertible currency. We prohibit, by threat of force and by treaty, protectionism. We underwrite a world of order.

Q: But the new administration won't do this?

A: I'm pessimistic. And then we don't have stabilization.

Q: What about these record interest rates?

A: They would stay high.

Q: How long can we survive with twenty percent interest?

A: Eight more years. If things do not change during this regime, the election of 1988 will be truly a revolutionary one, in the good old American revolutionary sense. The coalition building up to a change, which came together behind Ronald Reagan, will have fully materialized by 1988, a coalition of people who are not prepared to accept twenty percent interest rates and seven and a half percent unemployment.

I think the political divisions in this country will become much more radicalized, and we could see real social chaos. There is no such thing now as a left-right division. But the conditions you've observed in England right now are a precursor. You've observed the demolition of the Labour Party, the destruction of its vital center and the commandeering of the Labour Party apparatus by the radical, autarchical national-socialist left, led by Foot and Benn. That could not have happened in the absence of eighteen months of agony, worklessness, and bankruptcy that came from Margaret Thatcher's efforts. *Mutatis mutandis*, in the U.S. you will get similar effects. The Democratic Party will be commandeered by those who are prepared to adventure the most. The economic crisis makes for different kinds of politics. Then the conservative coalition behind Reagan will be pulled in half by the left and the right, forced to choose.

Twenty percent interest rates continuing, worklessness at the level of seven to eight percent, the loss of whole segments of American industry which are unable to adapt, like steel and auto, among others, are going to change the way Americans think about politics. The rich companies will get richer, and the leveraged and declining industries will fail very rapidly.

Q: What would this mean for Europe?

A: I don't think there's a thing Reagan can do with the European Monetary System, except observe these Lilliputians, like Helmut Schmidt. The Europeans have failed in every respect. The EMS has been a clever bit of financial chicanery, but of no consequence, all rhetorical flourish. . . . The EMS gold standard angle is an inefficacious application of even the most nominal aspects of a gold standard.

The EMS is doomed without the U.S., without the kind of global program I've outlined. . . .

Q: How long can Europe hold out with these levels of U.S. interest rates?

A: Under these conditions, Western Europe will remove itself from what is left of the Western Alliance, both politically and economically. Increasingly, they'll develop economic policy characterized as protectionist. Quotas, tariffs, more subsidized industry, more export subsidies, and trade arrangements with the Soviet bloc. It's starting already. Europe will be Finlandized. U.S. power in Europe will decline, even more rapidly than over the past ten years.

European monetary arrangements don't mean anything. There is now a DM bloc, but not by choice. It's like Topsy, it has grown, and it will disintegrate with the volatility of the mark.

Heritage calls for U.S. autarchy

The Washington-based foundation advises Reagan to opt out of the international monetary system.

Policy guidelines written by the Heritage Foundation for Ronald Reagan's U.S. Treasury Department transition team propose that the United States greatly reduce its role in world monetary affairs.

In particular, the Heritage plan would allow the phase-out of the reserve role of the U.S. dollar.

The plan also rejects cooperation with America's allies in the European Monetary System and asks cuts in lending to the Third World.

Although President Ronald Reagan himself seeks no such result, Beryl Sprinkel, the man in line for undersecretary of the Treasury for monetary affairs, is in agreement that "there is no need to pay any attention to the international monetary system or the dollar. Let it take care of itself," a Heritage source says. "Why should the dollar have to be an international currency?"

The foundation, which officially advises the Reagan transition team, bills itself as a conservative think tank. Why would a conservative group seek a decline in America's world standing? Essentially because Heritage is the U.S. subsidiary of the British Centre for Policy Studies, headed by U.K. Industry Minister Sir Keith Joseph. This grouping seeks domination of world finance by the City of London and its continental European allies, who have always sought to

quash the funding potential for development represented by the U.S. and thus the dollar.

The Heritage guidelines are contained in a secret Heritage Project Report on the U.S. Treasury for the Reagan transition team, written by a team headed by Dr. Norman Ture, the Washington consultant who is in line for undersecretary of the Treasury for tax policy. The international monetary section was written by Wilson Schmidt, former assistant treasury secretary, now a professor at Virginia Polytech.

According to Schmidt, "The international section of the report basically says: 'to hell with the international markets.' As Beryl Sprinkel intends to present the case to Reagan, we should concentrate on getting our domestic house in order, on cutting money supply at home and deflating. If we do this right, the dollar will have to take care of itself."

Sprinkel, currently chief economist at Chicago's Harris Bank, was trained under Milton Friedman, who works closely with the Heritage Foundation. According to Schmidt, he and Sprinkel are "close collaborators."

"In particular, I advocated in the report that the U.S. government cease all foreign exchange intervention to support the dollar," Schmidt said. "It's just government interference in the markets."

The Heritage report also rec-

ommends decimating U.S. exports, and thus the U.S. balance of trade by "shutting down the Export-Import Bank. It is a terrible program, a tremendous interference with free trade, and the budget-cutters should do away with it."

The current troubles of the European Monetary System, caused by the dollar's gyrations and rocketing U.S. interest rates, are "not our problem," according to Schmidt. "Let the Europeans take care of themselves. The EMS is an artificial mechanism that doesn't work anyway; you can't fix exchange rates."

In particular, Schmidt advocates that the U.S. Treasury "immediately resume gold sales. U.S. gold should be returned to the private markets." If Europe, which has monetized gold, objects that this destroys the gold reserve base of the EMS, "that's their problem," he said. "Let the EMS sell off its gold and hold dollars as reserves instead."

Regarding the Third World, Heritage recommends the U.S. pull out and allow bankruptcy. "We practically recommended a phase-out of the Treasury's Office of the Assistant Secretary for International Affairs (OASIA)," Schmidt said. "The Treasury has been worrying too much about the Third World. Let them fend for themselves. If their commodity export prices collapse, it's too bad; that's the free market."

Except for big debtors like Brazil, "U.S. banks should cut lending to the Third World," he said. "And the government can't bail them out with Third World policy. If they make bad loans, let them pay for it. We can deal with the Third World defaults on a case-by-case basis."

Saudis back up the German mark

Bonn has launched bilateral diplomatic initiatives in order to strengthen its currency.

Following consultations held in Riyadh Jan. 10 and 11, Saudi Arabian and German financial officials announced that Saudi Arabia will purchase over \$3 billion worth of German government promissory notes during 1981.

Rumors are circulating through international circuits that behind the debt-financing deal, a wide array of economic cooperation accords are also under discussion. *Der Spiegel*, the *Frankfurter Rundschau* and other German sources have reported recently that talks to sell the Saudis Krauss-Maffei's Leopard II tank in exchange for oil supplies are in an advanced stage of preparation.

During 1981, Germany is expected to post a balance of payments deficit of at least \$18 billion, an all-time record. For months, the German mark has been under very heavy foreign exchange pressure, hovering between 1.95 and 2.01 to the dollar. But following the talks in Riyadh, a leading Swiss commercial bank reported they expected the mark to appreciate gradually to the 1.80 level over the year, if U.S. interest rates ease.

Frankfurt sources report that the Saudis will pick up an additional \$1 to \$2 billion worth of German debt notes consigned to German commercial banks, which the government has promised to designate "marketable abroad." This will mean Saudi backup for 20 percent

of the total German current account deficit.

The Saudi-German cooperation deal has come under public attack from left-wing parliamentarians, and has also produced alarm in Britain's Conservative Party.

The left-wingers claim that the centerpiece of the arrangement is a firm commitment by Chancellor Schmidt to sell Leopard II tanks to the Saudis, and that these sales are "unconstitutional."

After World War II, occupation authorities inserted into the German constitution a provision barring German arms exports to regional "crisis zones." Bonn officials have countered by asserting that not only have they made no formal commitments yet to sell the tanks, but in addition, Saudi Arabia is a bastion of stability in the Mideast, not a "zone of crisis."

British Tories meanwhile have signaled from London and Strasbourg their evaluation that the German-Saudi cooperation is a dangerous setback to British efforts to implement coordinated monetarist credit restraint on Europe's economies.

British Conservative Sir Frederick Hatherwood reported from Strasbourg this week that the European Parliament, the European Community's delegated assembly, will soon vote on a policy paper drawn up by his External Economic Relations Committee on European

-Persian Gulf Relations. The document contains, along with proposals for oil-for-technology deals, a harsh criticism of France for having sold \$3.5 billion worth of naval equipment to Saudi Arabia in 1980, in return for oil-supply lines of credit. The current German arrangement is modeled on those French-Saudi deals.

The criticism voiced in the Hatherwood report is that France's decision to "go-it-alone" in finalizing petrodollar deals with the oil producers "undermines" the EC's efforts to "coordinate" Euro-Arab relations from the top.

The same day the report was announced, a Tory committee representing 100 British parliamentarians announced in London that they were asking Prime Minister Thatcher to bring Britain into the European Monetary System (EMS), the currency-gold pooling arrangement which the British attempted to sabotage at its founding in 1978-79. Britain's conservatives are committed to a policy of using the EMS as a "central bank" to administer harsh credit restraint, and thereby clamp down on French-German policies of expanded international trade.

Britain's current manipulations of EC financial policies, which also include a big fight between Britain and France over Britain's quota in the EC budget, are a major reason the Germans decided to wrap up a deal with the Saudis in the first weeks of 1981. Last fall, EC officials had sounded the Saudis out on a \$10 billion loan for the EC as a whole to finance oil payments. Britain's maneuverings have indefinitely delayed this facility, so Germany and France must use bilateral financial diplomacy to finance their external payments.

Permanent or temporary?

Banks get part ownership of Chrysler under the new de facto bankruptcy reorganization.

Chrysler Corporation was put through a second limited bankruptcy reorganization Jan. 14. The reorganization was worked out at a meeting of the three-member U.S. Chrysler Loan Guarantee Board, the United Autoworkers (UAW), Chrysler Corporation, and Chrysler's creditors, and cleared the grounds for Chrysler's merger with other companies. It is not yet clear whether this new agreement will be sufficient to salvage Chrysler from full-scale bankruptcy and liquidation.

The terms of the agreement include:

1) The \$72 million in "sacrifices" by Chrysler's suppliers:

2) Very harsh sacrifices from the Chrysler labor force. The UAW has agreed to forego for the next 21 months' cost-of-living adjustments and wage increases totaling \$622 million. UAW President Doug Fraser called the agreement "the worst economic settlement" he had ever negotiated.

Another \$161 million in wage cuts was applied to Chrysler's non-union workers.

3) The settlement of \$1 billion in debt owed by Chrysler to a consortium of 200 banks and insurance companies. One-half of this debt was paid to the Chrysler creditors at the rate of 30 cents on the dollar. The other half was converted into preferred stock issued to this consortium of banks.

It is this second part of the debt settlement that is the key to the Chrysler bankruptcy reorganization and will help explain what may be happening to Chrysler in the days ahead.

By the terms of the debt-to-stock conversion plan, Chrysler will issue approximately 20 million shares to this consortium of banks, led by Manufacturer's Hanover, Chase Manhattan, and Citibank at \$25 per share. This would make the consortium the largest holder of preferred stock in Chrysler Corporation, giving them one-fifth ownership of all Chrysler shares outstanding, common and preferred, which (including the new issuance of preferred) will total about 90 million shares.

Bank ownership of Chrysler would be in violation of the Glass-Steagal Act that specifically prohibits banks from owning any industrial corporation. In this aspect alone, the Chrysler reorganization constitutes a dangerous precedent.

There is more. While the 20 million shares of Chrysler preferred stock that the banks will hold (if Congress approves the agreement) are not known immediately to carry voting rights, that may be a moot point.

The preferred stock will apparently carry the equivalent of voting rights in the form of management controls, written into specific covenants. In particular, the preferred

stock issue stipulates, it is believed, definite accrued dividend levels, as well as retained earnings levels, working capital levels, and other performance levels that Chrysler must maintain.

According to one source close to the Department of Transportation, "If Chrysler defaults on these performance levels then it is possible this banks' consortium may be able to have two people on the board of directors."

Such preferred stock gives banks like Manufacturers Hanover, Citibank, and others a clear shot at some of the valuable assets in the event of Chrysler's liquidation, while the arrangement gives Chrysler some breathing room.

Currently, Chrysler has all 40 of its production, assembly, and other plants on the North American continent shut down. Chrysler shut down most of these plants in the first week of December and halted its remaining K and J car output on Dec. 21-23.

Chrysler is now living off its car inventories. This keeps costs to a minimum and brings in new cash flow. But Chrysler still owes its suppliers \$300 million, and this amount is growing by \$50 million per week.

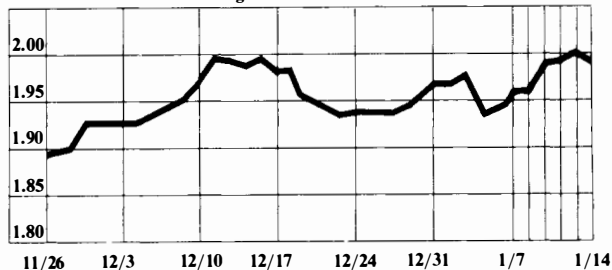
The elimination of a large amount of Chrysler senior debt may clear the way toward a merger. It is easier to sell a company which has a lot of equity outstanding than it is to sell a company with a lot of debt that must be paid off soon by the prospective buyer.

Such a merger could conceivably work. If the Reagan administration reduces interest rates, overrides the tendency that New York banks would have for asset-stripping Chrysler, and gets the economy going, Chrysler will have a slim chance of survival.

Currency Rates

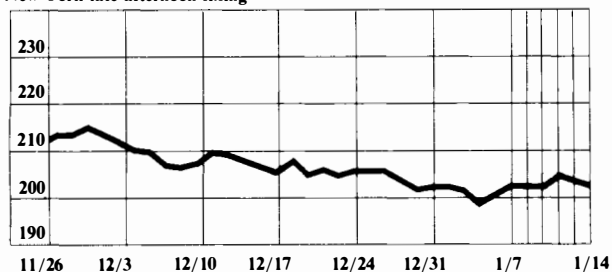
The dollar in deutschemarks

New York late afternoon fixing



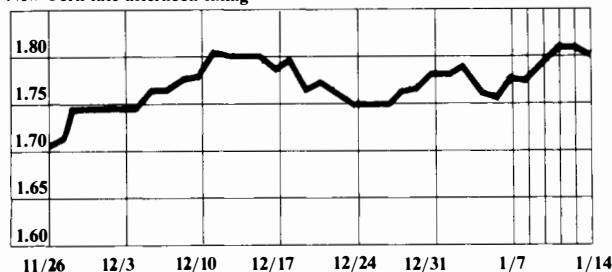
The dollar in yen

New York late afternoon fixing



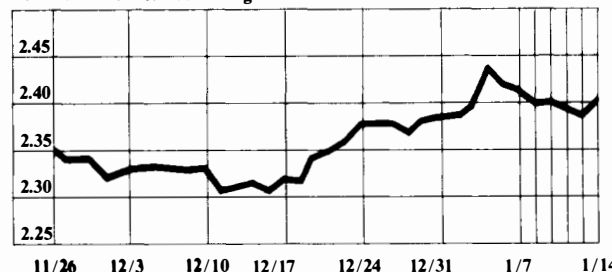
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



A series of EIR Seminars

The Undeclared War on American Banking

In San Francisco:

David Goldman, Economics Editor, EIR
Morgan Moore, Investments Committee,
California Savings and Loan League
Thursday, Jan. 29 2:00 p.m.
Contact: Theodore Andromidas (213) 383-6213

In Los Angeles

David Goldman, Economics Editor, EIR
David Underwood, Chairman,
Secondary Mortgage Committee,
California Savings and Loan League
Friday, Jan. 30 2:00 p.m.
Contact: Theodore Andromidas (213) 383-6213

In Dallas:

David Goldman, Economics Editor, EIR
Monday, Feb. 9 2:00 p.m.
Contact: Carol Leebove, (713) 972-1714

The Middle East: A Trillion-Dollar Peace

Robert Dreyfuss, Mideast Editor, EIR
Salah Mukhtar, Press Counsellor,
Iraqi Mission to the United Nations
Jamil Diab, Honorary Consul-General,
Kingdom of Jordan

In Houston:

Sunday, Feb. 1 2:00 p.m.
Contact: Carol Leebove, (713) 972-1714
or Geoffrey Hall (313) 964-2575

Expanding the Baltimore Port In Baltimore:

Speakers: David Goldman,
Economics Editor, EIR
U.S. Army Corps of
Engineers representative
Monday, Jan. 26 2:00 p.m.
Contact: Larry Freeman (301) 243-0199

Voyager data offer new concept of how Saturn was formed

by Dr. John Schoonover, Director of Physics Research, Fusion Energy Foundation

The data returned to astrophysicists from the Voyager 1 spacecraft as it flew by the planet Saturn revealed all the computational weaknesses of conventional "Newtonian" physics and, if it need be shown, also revealed the fundamental ontological fallacies in the conventional Newtonian model of the universe. On the other hand, Saturn's ring system encouraged some astrophysicists that their theoretical work on the planets is heading in the right direction.

For about five years, Drs. James B. Pollock and Allan S. Grossman, both of Ames Research Center, Dr. Ronald Moore of Iowa State University, and Dr. Harold C. Graboske of Lawrence Livermore Laboratory have been developing a theoretical model for application to both Jupiter and Saturn. The model treats the planets as if they were low-mass stars. On this hypothesis, they have been able to determine the broad features of the two planets' evolution over the approximately 4.5 billion-year history of the solar system.

Their research has provided tentative answers to a number of significant questions. Why does Saturn have a ring system? What is the material composing Saturn's rings? How did it get where it is? Why does Saturn's moon Titan have a nitrogen, methane, and ammonia atmosphere? Why do both Jupiter and Saturn radiate more energy than they receive from the sun?

The Saturnian system is a complex interplay of physical phenomena that in many ways mirror the complexity of the whole solar system. By sorting out some of the important evolutionary questions concerning the origin and development of significant features of that system, it may be possible to gain further insight into the history of our solar system as a whole.

Saturn's evolution

Saturn started out some billions of years ago, according to Pollock's model, as a tenuous gas cloud some hundreds of times the current size of the planet.

Just as in the case of the Sun, which formed from much larger clouds, in which the Saturn cloud was included, the major components were the elements hydrogen and helium. As a result of the formation of a gravitational instability, whose origin is yet to be explained, this cloud began to condense. As it became more and more dense, tremendous heat built up at its center, finally causing molecules of hydrogen to break down into separate atoms. At this point the cloud became hydrodynamically unstable, and over an extremely short period of time, only about one year, the entire cloud collapsed to about its present size.

During that collapse, much of the heat that had already been generated, as well as new heat from this collapse, was trapped inside the planet. Since then it has been seeping out and radiating away, cooling the planet over billions of years.

Following this scenario in detail, Pollock and his coworkers have found that they can account quite accurately for the heat generated by Jupiter. On the other hand, they find that Saturn is radiating more heat than they expected from the model. They hope, however, to account for this discrepancy as terrestrial experiments more accurately determine the properties of hydrogen and helium under the pressure and temperature conditions that exist in the interior of Saturn.

These data are being developed independently of research on planetary formation due to their importance for inertial confinement fusion and the production of hydrogen bombs.

As the Saturnian gas cloud condensed into the planet, the large amount of heat radiated, many times the current amount, would prevent volatile materials such as water vapor, ammonia, and methane present in the cloud from condensing. This material would form a disc at Saturn's equator rotating with the planet. Pollock and his coworkers have determined on the basis of the temperatures they would expect to find at different

distances from the planet, that water vapor could condense into ice in the region now occupied by the rings and the inner moons.

However, it would have been too hot for ammonia and methane to condense closer than comparable to the orbit of the moon of Titan. These results were qualitatively supported by the evidence that the ring material is largely formed of water ice and that Titan's atmosphere is rich in nitrogen, with some methane as well. The nitrogen results from the chemical decomposition by sunlight of the ammonia that would originally have dominated the atmosphere.

Further confirmation of this model is that the satellites outside the region of the rings have progressively increasing densities, indicating a smaller and smaller component of ice in their make up, with more and more dense materials.

Structure of ring system

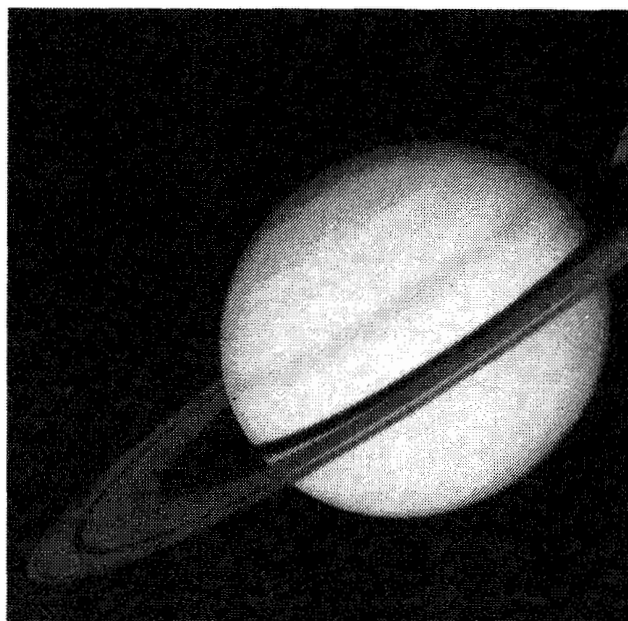
One question that immediately comes to mind is, if Saturn and Jupiter underwent similar evolution, why doesn't Jupiter have a ring system?

The answer to this is not too difficult in light of the low-mass star model. It has been known for a long time that if a moon were to come too close to its planet, it would be torn apart by tidal forces similar to those that generate the tides in the earth's seas. Conversely, within that region close to the planet bounded by the Roche limit, no large moon could form. Now, Jupiter, being much larger than Saturn, generated much more heat during its early evolution. As a result, the material from which a ring system could form could not condense into a ring inside the Roche limit. Outside that limit, it could form into moons. In the Saturn case, the rings are inside the Roche limit, where moons could not form.

There are still many questions to be answered. Why, for example, is there such a differentiated substructure in Saturn's rings? This kind of structure poses severe challenges to the simplistic, and wrong, particle-by-particle interaction dynamics that most scientists are trained to take as primary. The approach embedded in the Pollock model, a continuum mechanics based largely on hydrodynamics, is closer to an appropriate model for this kind of problem.

Hydrodynamics versus particle dynamics

The difficulty with the particle dynamics, introduced by Isaac Newton in the 17th century, is that, when there are more than two particles interacting, the dynamical problem becomes, in principle, insoluble. In recent years, mathematical physicists have shown that the system of three Newtonian particles is capable of taking on arbitrary forms of motion. Since this is clearly not



A new evolutionary model of Saturn has begun to explain why its rings exist.

NASA

what occurs in the real universe, the Newtonian approach to mechanics must be fundamentally flawed.

The types of motions that are becoming more and more recognized as dominant in the real world largely fall under the category of collective, self-organizing motions. These kinds of phenomena can be accessed by a theory that takes evolutionary processes that shape the nature of lawful behavior as primary.

To further clarify the distinction expressed above, take the problem of explaining the existence of planets. According to the Newtonian particle approach, planets are formed by the fortuitous aggregation of one bit of randomly moving matter after another into a larger and larger ball.

Unfortunately, no one has yet developed a plausible mechanism, so this bit of silliness stands as the best theory available. It would probably be a fruitful line of research to consider the formation of subsidiary hydrodynamic singularities in the extensive gas cloud that was the pre-stellar sun, by the actions generated during its own condensation into a star. If it could be shown that these singularities could be the sites of gravitational instabilities such as the one that led to the formation of Saturn in Pollock's model, then we might be able to explain the current spacing and composition of the planets in a rational way.

The Saturn system provides a microcosm for the same sort of process on a solar system-wide scale. This is the case since, so far there is no mechanism that accounts for the existence or the spacing of Saturn's moons.

David Stockman needs an education

Before squawking about Agriculture's 'handouts,' the former congressman should look to where his last meal came from.

David A. Stockman, designated by President Ronald Reagan to be chief of the Office of Management and Budget (OMB), stated in his confirmation hearings on Jan. 7 that, in his view, farm produce price supports and subsidies are "clearly obsolete."

This statement was not some casual aside on Mr. Stockman's part, but a reiteration of a view he has held since at least 1978, when he wrote a lengthy diatribe against farm price-support programs to Agriculture Secretary Bergland.

What makes the apparent views of the OMB director-designate of particular significance now is that they reflect a misinformed prejudice concerning agricultural policy that is shared by others in even more important positions in the Reagan cabinet's advisory circles.

The Heritage Foundation, for instance, has issued a 365-page proposal for the 1982 budget which recommends eliminating 84 percent of current USDA programs that represent nonagricultural activities, in the view of Purdue University Professor Don Paarlberg, author of the proposal's USDA section, and cutting the budget for the rest of the USDA programs by 60 percent, from \$5.5 billion to \$2.2 billion.

It is recommended that the price support loan program—and, mind you, this is a *loan* program not an income transfer program—be reduced by \$1.9 billion, and that lend-

ing by the Farmers Home Administration (FmHA) be halved.

In the current atmosphere of budget-cutting and austerity-mongering, the prejudices and misinformation exemplified by Mr. Stockman's recorded views on agriculture can serve to help implement disastrous proposals. The crux of the prejudice, more readily identified as the free market conceit, is the assertion that the farm price support programs constitute some sort of a handout, or "subsidy."

As then-Representative Stockman put it in his 1978 letter to Bergland threatening congressional enactment of a "cold-turkey policy" for American agriculture: "It is understandable, if not excusable, when members of Congress from commodity-growing regions come trotting in with dog-eared claims and lame justifications for special dispensations that will force the taxpayer to absorb the predictable risks inherent in any line of business activity, including farming. But I would certainly hope that the USDA could exercise some semblance of leadership by occasionally resisting these self-serving, parochial claims. . . . It is about time that the department stop playing nursemaid to the proliferating array of cry-baby commodity groups in this country."

Stockman demonstrated a manner of characteristic detachment from even the market reality for which he otherwise claims to be a

champion in protesting to Bergland that it was "bad enough" for the government to "subsidize" farmers who have suffered drought or other natural disaster losses, but that "the principle implicit in your potato rescue is that producers must be indemnified for nature's acts of beneficence and bounty as well."

But it is precisely the "naturally" volatile fluctuations of market prices that are an impossible problem for the independent owner-operator. In fact, for virtually every year since 1948, American farm producers have produced at a loss, papering over the difference with a growing mountain of indebtedness, loans secured against the value of owner equity, which now threaten to sink the entire farm sector in a collapse of production if not outright bankruptcy.

"If farm operators think that they can do better for themselves with big spreads," said Stockman, "huge machinery investments and scientific farming practices than with a 10-acre-plot, a mule, and last year's *Farmers Almanac*, then let them start assuming the obligations of commercial businessmen—cash-flow management, asset structure optimization, market oriented cropping patterns and futures market hedging."

This line of thought is phony as the proverbial three dollar bill. The independent owner-operator has been assuming the full line of "commercial business obligations" for years—but there is no sane individual who will claim that such obligations include the obligation to continue producing at a loss. Stockman's prescription is, as he seems cynically aware, a program for a return to 18th century agriculture in America.

Argentina at the brink

Mark Sonnenblick describes the extent to which a once-developed economy has been undercut by monetarism.

The once-thriving Argentine economic system may suffer a spectacular blowout before Economics Minister José Martínez de Hoz ends his four-year period of "economic reconstruction" March 29. But if good luck, good weather, and the good graces of his friend and protector David Rockefeller are still with him, "Dr. Joe" de Hoz may manage to bequeath Argentina's new President, Gen. Roberto Viola, the ticking economic time bomb. Either way, things in Argentina are set to explode.

No amount of praise from Rockefeller or de Hoz's monetarist mentor Milton Friedman, such as that lavished by Rockefeller during his November 1980 trip to Argentina, can save the house of cards that he has built up. De Hoz's four-year experiment of applying monetarist nostrums to "reconstruct" an economy suffering from decades of inadequate investment policies offers an object lesson to those advisers of U.S. President Ronald Reagan who recommend that the same failed "anti-inflationary" policies be applied to the United States. Through his "pain and sacrifice," de Hoz has reduced

inflation from the 290 percent level of 1975, the year before he came to power, to "only" 87.6 percent during 1980.

Over its head in debt

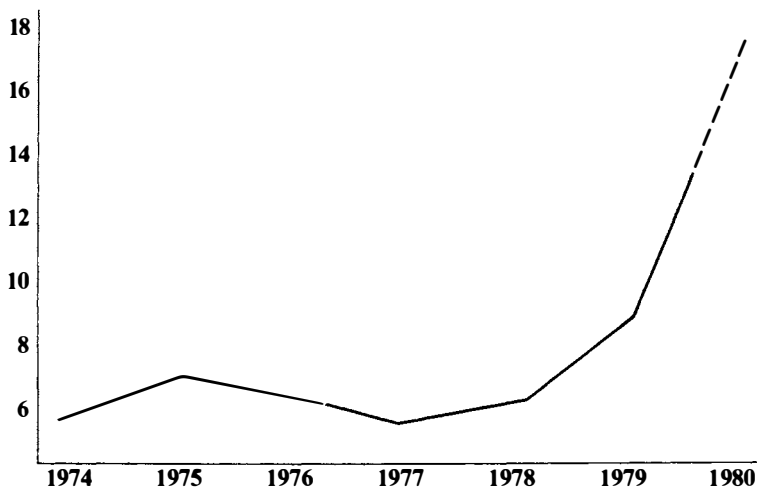
From the time de Hoz entered office with the March 31, 1976 military coup until the present, he has tripled the nation's foreign debt. It has doubled since the beginning of 1979 to an estimated current total of \$25 to 30 billion (see Figure 1). The name de Hoz has such a magic ring in international financial circles that he has even been able to sell bonds of his bankrupt country to the finicky continental oligarchy.

One might think that this infusion of some \$15 billion in foreign capital during a very few years would have launched Argentina into a spectacular economic takeoff. After all, Argentina was one of the few developing nations which had a literate and skilled labor force; a mature, diversified industrial base; fertile plains comparable to the American Midwest; and near self-

Figure 1

Net foreign debt

(billions of U.S. dollars at end of year)



Source: Banco Central; end-1980 figure is an estimate by *El Economista*, Buenos Aires.

Note: Net foreign debt is total foreign debt minus foreign reserves.

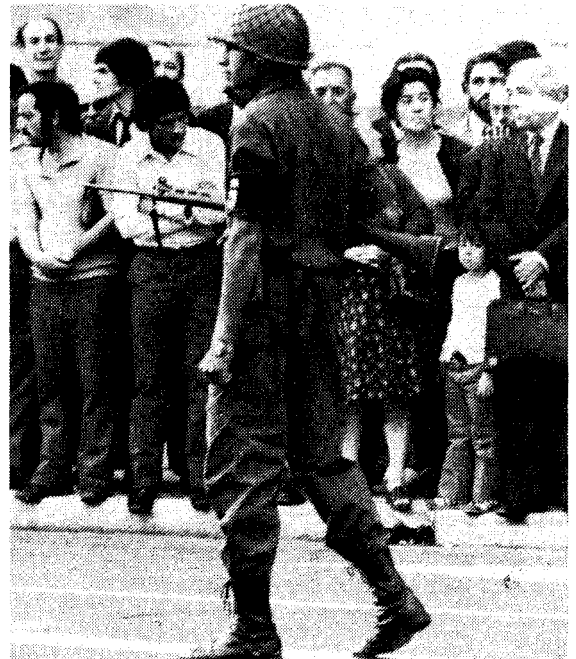


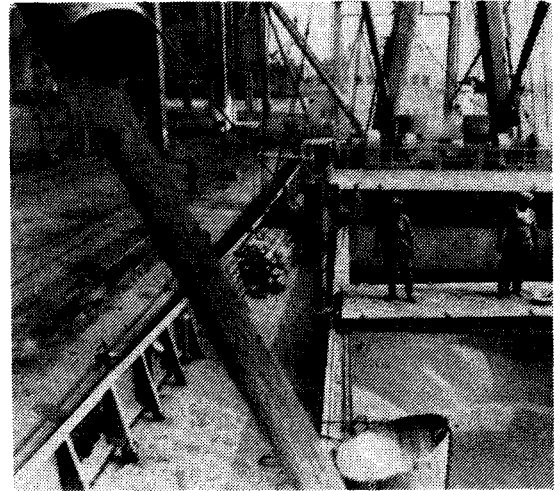
Figure 2

Argentine balance of payments

(billions of current U.S. dollars)

	1975	1976	1977	1978	1979	1980
Exports (fob)	3.0	3.9	5.7	6.4	7.8	7.5
Imports (cif)	3.9	3.0	4.2	3.8	6.3	9.0
Trade balance	-1.0	+0.9	+1.5	+2.6	+1.5	-1.5
Service balance	-1.2	-0.8	-1.0	-1.4	-1.6	-2.5
Net capital inflow	+0.2	-0.5	+1.5	+1.3	+4.4	+1.6
Reserves changes	-0.8	+1.2	+2.2	+2.0	+4.4	-2.5
Gross foreign debt (at end of year)	7.9	8.3	9.7	12.5	19.0	25.0

Source: Banco Central for 1975-79; *El Economista* for 1980, estimated on basis of Banco Central figures for first nine months.



sufficiency in energy supplies. It was probably the one Third World country that could have put that capital to profitable reproductive use with the least trauma.

Despite all these advantages, the monetarist free-enterprise politics pursued by the “wizard of Hoz” have left the country stripped of industrial capacity, with a looted agriculture sector, and with a debt vulnerability far more serious than even that of neighboring Brazil. Rather than strengthening the country’s industrial and agricultural base, the national economy has been inserted into the “free play” of the Eurodollar market, resulting in one of the most spectacular asset-stripping operations in the history of world monetarism.

Endgame

The endgame of this process is now being played out. Argentina is now floating along with some \$6 billion in “hot money” attracted by the 30 to 50 percent annual profits to be made by speculation. The “hot

money” is loaned to Argentina by foreign multinationals, hoary European families, and banks on a one- or two-month basis, which means that if the lenders panic that the looting game is about to end, then Argentina’s \$7.5 billion in foreign-exchange reserves will evaporate overnight. Reserves have already fallen by \$2.5 billion during 1980, and would have been drained completely had not de Hoz granted more and more prerogatives and guarantees to the “hot money” speculators.

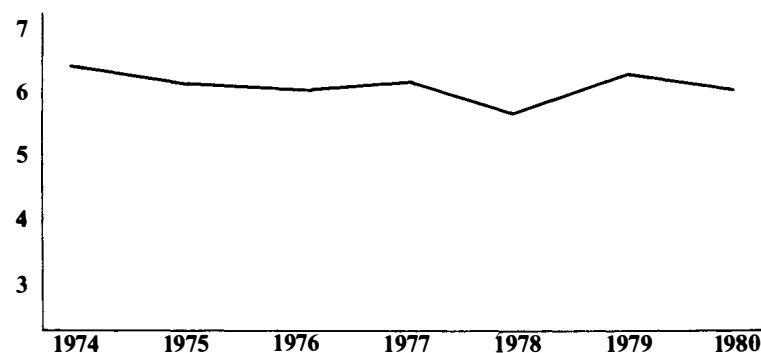
The problem now, however, is that there is no way he can guarantee the speculators security *after* he leaves office in March. And this factor makes the situation extremely tense and highly volatile. A run could be triggered on a moment’s notice.

The “hot money” game depends on domestic peso interest rates’ being several percentage points per month *above* the rate of peso devaluation. Thus, a speculator bringing in dollars is guaranteed by de Hoz, in advance, that at the end of a 28 or 35 day “investment,” he will

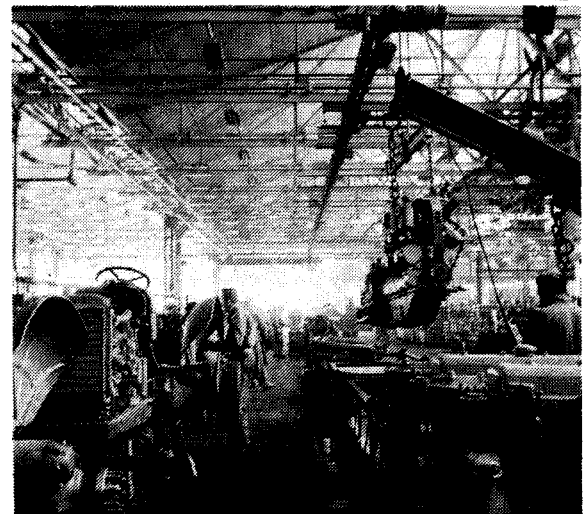
Figure 3

Gross manufacturing production

(billions of constant 1960 pesos)



Source: Banco Central



be able to withdraw his dollars along with 30 to 50 percent annual net profit in dollars.

But the game is now being squeezed by the fact that U.S. Federal Reserve Board chief Paul Volcker is imitating de Hoz's policies of squeezing off credit availability to legitimate industries. This tight-credit policy has led to doubled dollar interest rates and increased borrowing costs for people using dollars, for good or bad purposes, anywhere in the world.

On top of this, de Hoz has sped up Argentina's peso devaluation rate from 1 percent per month to two percent, in return for guaranteeing speculators that they will not be ruined by any big "catch-up" devaluation before March 29. Any significant move in the direction of a large corrective devaluation would threaten the capital of the "hot money" speculators and make government pay more to service its sizable debt.

But Argentine industrialists and farmers who have lost their ability to export competitively—thanks to de Hoz's systematic overvaluing of the peso—are pressing for the peso's value to be halved. In fact, the longer giant steps in that direction are delayed, the more Argentina's traditionally positive trade balance becomes sharply negative, causing further indebtedness, loss of reserves, and loss of international credibility (see Figure 2).

With higher dollar interest rates and slightly faster devaluations both eroding profitability, de Hoz has little option but to keep pushing up domestic interest rates to prevent the game from collapsing.

Theoretically, this process could go on forever.

But the ultimate source of the speculative profits has been the asset-stripping of the *real economy*, and this has been looted to the limit of endurance—a fact which will be violently signaled by a wave of bankruptcies that could rip apart the country's capitalist economic fiber at any moment.

The authoritative Buenos Aires weekly *El Economista* reports "the total liabilities of businesses liquidated in 1980 were more than \$1.2 billion and would be about \$2.5 billion if Sasetru were included." (Sasetru, Argentina's largest private conglomerate, filed for bankruptcy on New Year's Eve.) "Naturally, one would have to add the uncollectable accounts of the businesses held in 'bank clubs' and other gimmicks which disguise their bankrupt condition but are insufficient to avoid the corresponding economic impact."

Each week brings news of the closing of more longstanding industries, ruined by:

- internal markets sapped by declining real wages and by de Hoz's "free trade" policies of facilitating competition from imports to drive down prices;
- exports made uncompetitive and loss-inducing by the overvalued peso;
- a 38.4 percent increase in tax collections last year, in real terms

Buenos Aires commentary

The Buenos Aires stock market has suffered drastic losses due to the general illiquidity of the economy and the much higher profits to be made in speculative investments and asset-stripping of industrial enterprises. Stock market president Julio J. Bardi reflects the betrayal felt by those Argentines who supported the 1976 military coup which brought de Hoz into power. Statements made to the Argentine press by Bardi are excerpted below.

In 1976, the Armed Forces ordered an economic plan seeking to stimulate productivity, to reactivate the productive apparatus, to reduce budget deficits, to encourage productive investments and to reverse statizing tendencies.

However, the economy's global economic growth during 1976-80 was low with large yearly oscillations. The increase was not even large enough to keep up with population-growth. Thus, per capita income fell.

Each Argentine's decreased participation in the sum of goods and services is a grave indication of backsliding, starting with economic stagnation and moving toward social deterioration. The contractive situation is clearly and gravely reflected in those companies which attempt public sales of their stock.

Argentine capitalists have become increasingly concerned about Economics Minister de Hoz's policies, which threaten their very livelihood. On Dec. 9, representatives from 376 business organizations met in Buenos Aires to discuss their consternation. De Hoz asked the military to prohibit the meeting, but was unsuccessful.

We reprint excerpts from the meeting's statement, called "The Declaration of Buenos Aires."

[Current policy] damages profitability, reduces workers' wages, shrinks the internal market, functions as a judge to decide on the survival or disappearance of producers, banks, and finance companies, thus negating the principle of economic freedom which it claims to support. It imposes exchange rates out of phase with reality, dismantles regional economies, and shows itself impotent to stop the flight of foreign exchange and capital and the uncontrolled increase in the foreign debt.

- interest rates 30 percent over inflation which companies must pay each month to refinance their burgeoning debts.

During the last year, the textile business has eliminated 60 percent of its former capacity. Tractors are no longer produced in one of the world's richest breadbaskets. And provincial industries such as winemaking and winter fruits have been hit hard (see Figure 3).

Most industrialists, however, have sought to keep operating by slower payments of their bills. *The Times* of London reported that \$10 billion of the \$60 billion in private loans in the country are overdue. Other British sources provide lower figures, but Argentine circles believe many banks have over 30 percent of their assets nonperforming. This makes them legally bankrupt, and the government has moved aggressively to liquidate 25 such financial entities during 1980. Rather than purge the rotten apples out of the market, as de Hoz and his Wall Street buddies claim, the closing of these banks—which range from over-greedy speculators to some of the most respected banks—has only increased the illiquidity of their creditors.

With banks going under in waves starting last March, de Hoz has acted to reassure local peso depositors by providing for FDIC-type insurance covering all small deposits and 90 percent of large CDs. The treasury paid out some \$3 billion on such insurance during 1980, but the chain letter of bank collapses is now gathering momentum. Such treasury disbursements come on top of an accelerating budget deficit which now equals 4.2 percent of GNP, thus further fueling inflation. Such an insurance policy will not be able to withstand the coming tidal wave.

Viola . . . a new tune?

The incoming government of Gen. Roberto Viola has tried to offer a ray of hope to domestic producers by saying it intends to "reactivate the economy" from its current decline. However, Viola has also said he intends to preserve the main lines of de Hoz's policies. He now faces a tough choice between policies which are equally unlikely to revive the corpse of the Argentine economy. He can *either* 1) continue off the cliff defined by de Hoz, jacking up interest rates and causing the remainder of Argentina's real economy to be auctioned off at scrap value to foreign money operators; *or* 2) reflate the sagging economy by liberally giving out the credit needed to forestall generalized bankruptcy. In the ravaged Argentine economy, this option would lead only to a hyperinflationary blowout more violent than the one that preceded the 1976 military coup—unless it takes place in an extremely supportive international environment prepared to put Argentina's current indebtedness in suspended animation and channel in new capital exclusively for *productive* investment to sustain a genuine economic recovery.



Martínez de Hoz: a British operative

by Dolia Pettingell

The following report on the background of Argentine economics Minister José Alfredo Martínez de Hoz was first prepared in August 1978. Because of its continued relevance to Argentina today, we reprint extensive excerpts.

It would be a mistake to assume that Argentina is currently governed by its armed forces. Argentina is actually largely under the control of a single individual, a man who was born to be exactly what he is: a British agent with an aristocratic pedigree. This man is José Alfredo Martínez de Hoz, and even though his official position in the Argentine government is that of economics minister, his behind-the-scenes activities, decision-making powers, and international ties show him to be the strongman of Argentine politics.

What has been de Hoz's British deployment?

Stopping Perón

Only two decades ago, Argentina was the most advanced country in the entire developing sector. In spite of the fact that dictator Juan Domingo Perón's 1950s rule included complicating corporatist features, Perón was in fact forced to base himself on a labor-industry alliance. His policies, which were explicitly anti-British, expanded national industry and established a vigorous state sector. As a result, during the early 1950s, Argentina was among the nine countries of the world with the highest standard of living. At that time, the Argentine population was the best-educated in Latin America, with illiteracy rates of practically zero.

The British-orchestrated coup against Perón in 1955 was specifically designed to stop this progress in Argen-

tina cold, and reverse it. They installed one of their servile agents in the Economics Ministry, Raúl Prébisch, who was to handle the deindustrialization of the economy and the destruction of the powerful Peronist state sector. Prébisch tried, but he never completed the monetarist task.

For the next 20 years, chaos, anarchy, and faction fighting within the armed forces swept the political landscape. During those two decades, 13 presidents passed through the Casa Rosada (or Pink House, the presidential mansion). Most of them were military men who in one way or another sought to dismantle the Argentine economy.

By 1976, it had become apparent that the only thing that had been achieved was to weaken the economy. The Argentine population, composed principally of a significant white-collar strata and a large labor force, firmly resisted its own destruction. Demonstrations increased exponentially, from labor strikes to student outbreaks culminating in a 1975 general strike that paralyzed the entire country.

In 1976, the British decided to play their trump card. On March 24 of that year, after six tedious months of vacillation, the armed forces finally overthrew Isabel Perón's chaotic government. The grey eminence behind

the military decision was José Alfredo Martínez de Hoz.

De Hoz is the offspring of one of the richest oligarchic families in Argentina. His grandfather was a member of the British Jockey Club, whose members were primarily the oligarchical landowners, the monopolizers of the cattle industry who thus controlled Argentina's principal export for most of the last century. Up until the 1940s, this elite was the real power behind the succession of figurehead presidents.

De Hoz's father continued the family tradition, becoming president of the British-modeled Argentine Rural Society, and of the Association of Breeders of Thoroughbred Horses.

Born in Argentina in 1925, the current de Hoz spent his early years and adolescence in England. He attended Eton, where members of the British monarchy are schooled along with royal family retainers; later he went to Oxford University, where he joined the long line of products of British liberalism. As for de Hoz's impeccable British accent, it dates back to his British "nanny."

Following their stay in England, the de Hoz family returned to Argentina, where, in 1949, Joe was graduated from the University of Buenos Aires Law School with a "gold medal." From there he transferred to Harvard University, where he received another degree from the business school. It is possible that it was during this period de Hoz met Henry Kissinger, also a student at Harvard, with whom he later developed an intimate relationship.

No one enjoys recounting the "charm" of this British product more than the anglophile media. When de Hoz took over the post of Argentina's economic czar he was the subject of extraordinary press adulation. "51, a thin, soft-spoken lawyer" said *Forbes* magazine, while *Institutional Investor* characterized him as a "calm, pleasant-mannered, part-time horse breeder, who combines an air of English patrician refinement with persuasive energy. . ."

His public life

It is no accident that de Hoz began his public career in 1957, immediately after the 1955 coup d'état that toppled Perón. De Hoz was at that point named economics minister in the province of Salta, an appointment probably arranged by incoming national Economics Minister Raúl Prébisch, Argentina's most blatant proponent of the British "free trade" doctrine since the 19th century, and a fervent promoter of making Argentina into a mere "agro-exporter." "It was my great opportunity," de Hoz said after, "to direct the economy of that province as if it were a laboratory experiment."

Two years later, in 1959, with the election of the first postwar civilian government in Argentina, de Hoz was out of the administration. "It was then that I became

The Trilateral angle

Economics Minister José Alfredo Martínez de Hoz is also the Videla government's principal foreign policy adviser, often executing the country's diplomacy himself. He is known to favor incorporating Argentina into the Trilateral Commission, a subgroup of the New York Council on Foreign Relations, as that grouping's first Third World member.

On March 26, 1978, the Buenos Aires daily *La Opinión*, known to reflect the thinking of the armed forces (and therefore de Hoz's policy inputs), devoted page after page to promote the antidevelopment policies of the Trilateral Commission.

"Argentine [foreign] policy must have as its ultimate objective to become Latin America's representative before the Trilateral Commission. . . . Argentina would become a very powerful nation as soon as, instead of defining its policies according to what Brazil is up to, it goes directly to the source of power of the Western world, and of the Eastern world as well. . . . The Trilateral Commission runs the world with an ecumenical spirit."

more and more interested in public life, which, once entered, is difficult to leave, despite the headaches and sacrifices it calls for," de Hoz commented in a 1978 interview.

In the period from 1955 to 1976, de Hoz was in and out of the government, depending upon who was president. He was named president of the National Grain Association, secretary of Agriculture and Livestock, and even occupied the chair of Agrarian Law at the University of Buenos Aires and at the Catholic El Salvador University.

With the help of the anglophile press, de Hoz has become famous as a "liberal intellectual" who reads everything from John Galbraith to Trotsky's *History of the Russian Revolution*. "Few men could match the natural tools that Martínez de Hoz brought to the task—fluent in English, French, and Spanish and possessing a photographic memory to boot," commented *Institutional Investor* in February 1978.

De Hoz is also a monetarist through and through, a fervent devotee of the "free market economy" and an enemy of dirigism. Along with Prébisch, he is a promoter of the thesis that Argentina's manifest destiny is exclusively to be an "agro-exporter," with no industry. He believes that foreign debt payment is sacrosanct, no matter what it does to the standard of living of the population. He agrees with the teachings of Milton Friedman, and totally rejects any protectionism for national industry.

The 1976 monetarist coup

On March 24, 1976, when the Argentine armed forces decided to finally overthrow the "Peronist" government of the cultist López Rega, the lover of Perón's widow and a longstanding ally of the neofascist oligarchic Black International, the country was submerged in the worst political and economic crisis of its modern history. In only one year, from 1974 to 1975, total industrial production had fallen by 9 percent, and then dipped another 5 percent in the first quarter of 1976.

For the Argentine population, 1975 was like an episode out of Dante's *Inferno*. Annual inflation ran at 600 percent; as much as 80 percent of the budget was financed by foreign loans and by printing money at home. Foreign debt climbed to \$10 billion, the third highest in Latin America. One month before the coup, the country had defaulted on its payments, and only had \$2 million in reserves in its central bank. Half a dozen technocrats tried to put the economy in order; all of them failed.

It is an open secret in Argentina that the military was hesitant to take power, not knowing how to handle the economic crisis.

It is perhaps ironic that the man who moved the powerful Argentine armed forces into action was the

"delicate" José Alfredo Martínez de Hoz.

De Hoz and a group of technocrats from the International Monetary Fund drew up an economic plan a few weeks before the coup d'état. After presenting it to the commander of the three branches of the armed forces, de Hoz went to Kenya to participate in a several week long safari. the *New York Times* wrote that "in the middle of the safari, he was called by radio to return to Argentina, about a week before the coup, so that Videla [Commander in Chief of the Army and imminent president] could tell him that the armed forces had adopted his plan and that they wanted the names of those who would carry it out." A few days later, de Hoz gave his first national speech on radio and television. In a three-and-a-half-hour discourse, he exhorted the population to "sacrifice equally."

De Hoz's self-confidence relied significantly on the unanimous trust placed in him by the IMF, the World Bank, and the commercial banks who were Argentina's creditors, led by Chase Manhattan's David Rockefeller, a personal friend of "Joe."

De Hoz's plan was nothing new. It was the classic IMF plan, the British neocolonialist clamp imposed today on most Third World countries.

In the case of Argentina, the main goal was to reduce the galloping inflation by attacking its supposed "cause," the "excessive" public expenditures. This meant laying off as quickly as possible more than 300,000 public employees, and reducing public services to a minimum. This mass of newly unemployed workers would be absorbed through "large-scale investments" in labor-intensive agricultural projects designed by the World Bank, thus eliminating Argentina's highly mechanized agricultural production.

Raúl Prébisch, 21 years earlier, had presented the same "stabilization" plan of laying off thousands of public employees. The other aspects of de Hoz's plan are also identical to Prébisch's. Turn the country's natural resources like oil and minerals over to the multinationals; cut import tariffs and state subsidies for agricultural exports; eliminate all price controls while freezing wages; and impose a strong tax reform that penalized medium sized industries.

Furthermore, to show his appreciation to the international banking community, de Hoz immediately reversed the nationalization of bank deposits that had banks like Chase Manhattan on the verge of closing their Argentine branches. In exchange for this favor, Argentina's international creditors granted de Hoz a six-month moratorium on foreign debt, at the end of which the economy would supposedly be on the way to "recovery."

Thus was laid the basis of the solid romance between de Hoz and the international banking community which remains to this day.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
\$190 mn.	India from Japan/ U.S.	Nippon Kokan, Nippon Steel, Kawasaki Steel, Hitachi Shipbuilding and Brown and Root have won order from India's Oil and Natural Gas Commission to build, transport, and install drilling platforms 150 kilometers offshore Bombay.		
\$150 mn.	Mexico from U.S.	Chrysler is going ahead with expansion plans in Mexico, including Saltillo plant to build 27,000 four-cylinder engines per year.		Most engines will be exported to U.S.A.
\$137 mn.	Peru from France	Expansion of the Machu Picchu underground hydroelectric plant and power lines to Cuzco, Peru. French C.G.E.-Alsthom and Empain-Schneider will provide on turnkey basis.	Buyer credit from Paribas.	Contract signed.
	Afghanistan/U.S.S.R.	TASS reports deal for Soviets to supply vehicles, consumer goods, seed and fertilizer to Afghanistan. Trade between them increased by 24% in 1980 to \$684 mn., short of \$854 mn. target.		Afghanistan has increased natural gas exports to Soviets.
	Israel/South Africa	Deal signed for South Africa to step up coal supplies to Israel on generous credit terms and will permit 45 mn. rand in high-technology investments in Israel.	S.Af. giving easy credits; S.Af. will finance investments in Israel from Israel Bond sales.	Refused to reveal if arms sales and atom bomb cooperation involved.
UPDATE				
\$2.37 bn.	India from U.K.	Indian authorities have announced long-contested decision to go ahead with deal to obtain Jaguar jets from British Aerospace, rather than competing French Mirage 2000s.		As reported in <i>EIR</i> , Dec. 23.
\$1.5 bn.	India from France	French-Indian deal for bauxite-to-aluminum complex at Orissa, as described in <i>EIR</i> , Sept. 16 and Nov. 25.		Signed.
\$1 bn.	Iraq from France	Subsidiaries of Saint-Gobain Pont-à-Mousson will supply and build extension of Baghdad water system. This includes 300,000 tons of ductile iron pipe and five pumping stations.		Contract being negotiated.
\$40-\$50 mn.	China from Italy	FIAT hopes to clinch a contract it has been negotiating for two years with China for FIAT to design Chinese tractors. This would be foot in door for a hoped-for \$600 mn. deal for rebuilding the Chinese farm equipment industry.	Italy granted \$1 bn. credit line in '78, which has not been used.	FIAT's project goal only half that proposed in '78.

Business Briefs

Banking

Fed makes another deregulation move

In a major departure from traditional U.S. banking policy, the Federal Reserve Board voted Jan. 14 to allow U.S. banking organizations and Edge Act corporations to hold investments in foreign companies that do business in this country. The Fed made this decision despite an extensive body of U.S. law (the Glass-Steagal Act) which prohibits U.S. banks from having equity holdings in nonbanking domestic corporations.

To make the break with traditional policy less obvious, the Fed made such investment subject to a number of conditions. The foreign company must be predominantly engaged in business outside the U.S. or in internationally related activities within the country. The direct or indirect activities of the foreign company within this country must be either banking or closely related to banking. In addition, the U.S. banking organizations cannot hold more than 25 percent or more of the voting stock of the foreign company which is doing business in the U.S.

International Credit

Debt reschedulings under way for LDCs

Turkish and Pakistani officials met with creditors this week to work out programs for delaying payment on their outstanding debt. These are the first publicly announced debt rescheduling operations for 1981, a year during which international banks and financial officials are expected to design rescheduling packages for the developing countries worth tens of billions of dollars.

One indication of the volume of emergency debt refinancings on the agenda for the coming months is the just-released projection from the International

Monetary Fund (IMF), the agency which administers austerity management for countries in deficit, that it expects to issue \$7.8 billion in new loans for the first six months of this year. For all of 1980, the IMF issued \$9 billion in loans.

Morgan Guaranty bank is skeptical that IMF financing would alleviate Third World payments problems that much. In its latest projections, the bank reports that the 12 largest non-oil producing Third World borrowers will pour no less than 50 percent of their total export earnings into interest payments and oil imports alone over the next 12 months.

Precious Metals

Gold bears have ulterior motive

The uptick in short-term U.S. interest rates resulted in a sharp decline in the gold price during the last two weeks. The bullion price fell from \$599.25 at the London afternoon fixing on Jan. 6 to \$560.50 at the afternoon fixing on Jan. 16.

Some financial press commentators attributed the drop-off to reports that the U.S. was preparing to transfer to Iran 50 tons of gold which had been frozen when the American hostages were seized.

On Jan. 16 President Carter ordered Treasury Secretary Miller to arrange the transfer of 1.6 million ounces of gold worth \$960 million, to the Iranian central bank account at the Bank of England. Should the hostages be released, the Treasury would instruct the Bank of England to release this gold to Iran to replace an equivalent amount at the Federal Reserve, which has been frozen since November 1979. News of this caused a \$10-per-ounce drop in the gold price on the West Coast.

Iran could be planning to dump some of this gold to purchase arms for use in its war with Iraq. But Iran might also succeed in obtaining gold-collateralized loans, as some British sources have suggested, so as not to part with its precious hoard.

Most New York gold dealers see rising interest rates and growing fears that the Reagan administration will pursue a harsh monetarist policy as the most important depressant of the gold market. "Everyone's gotten real bearish," commented one New York analyst.

Some of the people who are talking gold down now (for example, the big Swiss banks) may be hoping to position themselves to buy more gold in the event of a financial crisis. Two weeks ago, the *Financial Times* reported that the Swiss central bank is considering making a large addition to its gold reserves. Recently, *EIR* was informed by a reliable gold market source that the Swiss National Bank definitely would stock up on more gold.

Domestic Credit

Anti-Volcker efforts spark coalitions

Representatives of farm and auto dealers' groups charged at a Jan. 14 joint press conference that the Federal Reserve's high interest-rate policies are causing a depression and called on Fed Chairman Paul Volcker to resign. Speaking at the press conference, held in front of the Federal Reserve in Washington, were Lawrence Freeman, spokesman for the National Democratic Policy Committee (NDPC), Ed Fuchs and Jim Agnew, both members of the Maryland chapter of the American Agriculture Movement, and Bill Korins of the Maryland Auto Dealers Association.

"I never thought I'd be on a picket line," said auto dealer Bill Korins. "I'm a 40-year-old businessman, but here I am." He related how he had to borrow money for the first time at exorbitant interest rates just to finance normal inventory and expansion costs of his Maryland auto dealership. In the foreground as Korins spoke was a 1981 Bonneville with a sign reading "Under Volcker it costs \$40 a week just to finance this car."

Meanwhile, labor and business leaders met in Pittsburgh Jan. 14 and issued the following statement: "At a meeting of 22 labor and business leaders in Pittsburgh this morning, Stan Hoynitski, executive director of the Pennsylvania Independent Auto Dealers Association, was elected to chair an ad hoc committee whose purpose is to campaign for lower interest rates by reversing the current high interest-rate policies of Federal Reserve Chairman Paul Volcker.

"The Ad Hoc Committee set tentative plans for a demonstration against Volcker's policies that is to be held in front of the Federal Reserve Board's office in Washington, D.C. in February. Plans to mount a nationwide letter-writing and lobbying effort in Congress against Volcker's policies were also discussed.

"Present at the meeting were members of the United Auto Workers, United Steel Workers, the International Association of Machinists and Aerospace Workers, the Pittsburgh Building and Construction Trades Council, as well as building contractors, new car dealers, and independent auto dealers. . . ."

Corporate Losses

International Harvester takes a beating

The International Harvester Corporation, a leading farm machinery manufacturer, announced last week that it was cutting the pay of 26 corporate officers by 20 percent and freezing the salaries of 30,000 white-collar workers for an indefinite period. Wall Street analysts say that the sluggish market for Harvester's products, including farm equipment, trucks, and construction equipment, could force the company into stringent cash conservation measures this year. Some even predict that Harvester, burdened with interest rates on large short-term borrowings, may have to sell some assets to meet its obligations. Harvester posted a loss of \$397.3 million last year

and is also expecting a loss in the first quarter of fiscal year 1981 which ends this month.

Stock Market

What's behind the Dow Jones warnings

The New York stock exchange is concerned that certain major brokerage houses expect a sudden decline in the Dow Jones average, if President Reagan's announcement of his economic policies doesn't succeed in restoring confidence in the economy.

Stock exchange officials are investigating reports that some firms are involved in large-scale short selling of shares, to prepare for this eventuality. While *EIR's* evaluation is that Reagan is intending to get business investment off the ground, Editor David Goldman also thinks the facts documenting the weaknesses of the stock market have to be taken seriously.

One official of the New York Exchange stated in response to rumors that a Dow Jones downturn could occur in the near future: "This scenario is not a rumor. . . . It is a definite investment strategy. There are many people in the big firms who share the theory that the Dow Jones is headed for a major adjustment on the down side in the near future. . . . Now we would certainly anticipate that if a brokerage believes something is going to happen to the market, that they would implement their investment strategy accordingly, which is to say, short the market, especially if they perceived others had not caught on. [Shorts] are at record levels and we anticipate them to continue to rise sharply."

Short selling has risen from 44 million shares outstanding sold short in April to a current record high of 82.661 million as of Dec. 8. The big runup began in July, and has not abated since. One outstanding case is chemical shares, where shorts outstanding on Union Carbide rose from 17,800 in April to 65,824 in December; and on DuPont, from 66,476 to 257,743.

Briefly

● **JOHN R. OPEL**, IBM president and chief executive officer, was elected a Class B director of the Federal Reserve Bank of New York last week. Class B Fed directors are elected by member banks and are intended to represent the business community.

● **JERRY RUBIN**, the former Yippie and Chicago Seven defendant, has been promoted to director of business development at the brokerage firm John Muir & Company, because, he says, of his "communications" skills.

● **THE SOVIET Union** and a West German consortium led by Ruhrgas AG will hold a new round of talks on the projected multibillion-mark natural gas pipeline, according to Ruhrgas sources. The timing of the talks means that an agreement definitely will not be signed before the end of February.

● **RENÉ MONORY**, the French finance minister, was named the new head of the International Monetary Fund's Interim Committee last week. His appointment was backed by the German government, according to *Le Figaro* columnist Alain Vernay.

● **JOZEF PINKOWSKI**, prime minister of Poland, paints a grim picture for Polish coal because of the five-day work week obtained by the Solidarity trade union and cutbacks in overall investment that preclude mine modernization. Brownouts are already predicted because of lack of coal stocks. Coal exports will end altogether.

● **BANK RESERVES** have been drained by joint action of Paul Volcker and New York banks in the last month. The Fed has taken \$.85 billion in reserves out of the banking system, while New York banks have built up a position of \$1.8 billion in excess reserves. For banks outside New York the actions have caused an effective \$2.6 billion drain in reserves.

Moscow faction fight: the stakes for the West

by Rachel Douglas

The 26th Congress of the Communist Party of the Soviet Union, which opens Feb. 23 in the Kremlin, will be a high point in Soviet politics—as vital to the rest of the world as is the makeup of the incoming Reagan administration.

At stake at the 26th Congress is the Soviet leadership succession. And not since 1952 have the “transition” points for each superpower fallen so close together.

The brawl over Soviet foreign policy, especially, is becoming more intense as the 26th Congress approaches. Officially, the congress has to vote up the 1981-1985 Five Year Plan and set foreign policy guidelines for the half-decade ahead. Both areas are already loaded with contending policy lines. Then the congress will elect the Central Committee of the party, the group of about 275 party apparat officials, government ministers, military officers, regional party leaders, and other party notables who comprise this keystone of Communist Party rule. From its membership, the Central Committee will re-elect its Politburo or elect a new one.

Because 11 of the current Politburo's 14 members are more than 65 years old, this year's promotions in the Central Committee—which regional party officials assume national responsibilities and which government and military men rise or fall a notch—determine who will be running the Soviet Union for the rest of this century.

The destabilization faction

If the powerful machine backing destabilization of the Third World and confrontation with the West prevails in Moscow, the path to a peaceful future without nuclear war will be very difficult to find. The alternative choice for the congress is a strengthening of the Soviet policy of “war avoidance,” which has emerged concretely in such initiatives of Soviet President and party General Secretary Leonid Brezhnev as his 1978 economics-centered 25-year cooperation treaty with West Germany or his current idea of a Persian Gulf security arrangement, tentatively greeted by several



Alain Noguez/Sigma

Arab states as an alternative to the explosion of more hostilities in the Middle East.

The evil that will come of victories by the Soviet "destabilization" faction is enormous. It should also be very recognizable to Western eyes, because this faction is not essentially a Russian or a communist phenomenon. There exists in the Soviet Union a network of people who have an *oligarchical* outlook on the world. They think in the terms of geopolitics invented by the mentors of Haushofer, the agent of the European and British oligarchies who wrote Hitler's *Mein Kampf*. To them, it is perfectly acceptable for Soviet actions to result in the death of millions of people in Africa or Latin America, if this serves their geopolitical aims.

These networks are the inside flank of an operation that spans the entire 60 years of Soviet history *and* reaches back into the Czarist period: the operation of British and continental European oligarchies to sabotage the development of Russia as an industrial republic. Today's agents of this international faction descend directly from the anglophile enemies of Russia's 19th-century industrializer Count Sergei Witte and from the Bolshevik circles around British agent Nikolai Bukharin. Bukharin tried to stop Lenin and Stalin from carrying out what he called the "monstrous" industrialization of Soviet Russia. From this heritage, the Russian agents of this international "dark ages" faction take the name "Bukharinites."

They are international networks, coextensive with the controllers of environmentalism and terrorism deployed

against leaders of state and industry in the West. In the U.S.S.R. they are coordinated by individuals like Anglo-Russian triple agent Kim Philby, the famous "defector" from British intelligence who is now a general in the KGB security organization. Their influence is dangerously amplified by those Soviet officials from bastions of power like the military who, especially in the face of confrontationist policies from the United States, get sold on the oligarchical perspective for revolutionary destabilizations, even if such officials started out simply as Soviet patriots.

The chief institutions that are instruments of the destabilization faction's power are:

The International Department of the Central Committee maintains Soviet ties to foreign communists and other "nonruling" parties and fronts, ranging from the British Labour Party to the Palestine Liberation Organization. It descends from the Communist International, or "Comintern," organization; its current chief, Central Committee Secretary Boris Ponomarev, worked on the Comintern staff from 1936 until the organization was disbanded in 1943. From its 1920s sabotage of Lenin's state-to-state foreign policy endeavors, when Nikolai Bukharin was a top Comintern executive, down to the present day, this "Communist Party" track of Soviet foreign policy has often run counter to Soviet state initiatives. Yet it is retained by the Politburo, including Brezhnev, as a historically legitimate element of Soviet power. Furthermore, the International Department's closest patron on the Politburo is the powerful Central

Committee Secretary Mikhail Suslov, without whose machinations Brezhnev himself might never have come to power.

Boris Ponomarev is the most prominent Soviet retailer of the line that, under capitalism in the West, environmentalism is “progressive” and revolutionary.

The KGB, especially its overseas sections, runs Soviet collaboration with Western terror and destabilization teams directed by other agencies of the oligarchies. KGB General Kim Philby, whose father St.-John Philby was one of British intelligence’s biggest field agents in the Middle East in the first half of the 20th century, directs KGB Middle East activities that reinforce the Islamic fundamentalist destabilization of the area.

The think tanks begin with the Institute of the World Economy and International Relations, or IMEMO. This is where British intelligence agent Donald Maclean, Kim Philby’s colleague, works on shaping Soviet perceptions of Europe. IMEMO preaches that unless it becomes socialist, the developing sector would be better off without foreign capital inputs at all.

IMEMO was founded after a 1956 directive from Anastas Mikoyan, an Armenian Bolshevik and Soviet Politburo member whose son today runs the IMEMO spinoff Institute on Latin America. Mikoyan drew on the cadre trained by Hungarian communist Eugen Varga, an adherent of the British school in communist economics, the school of Bukharin.

The think tanks advise the Central Committee and the Politburo; two top think-tankers, IMEMO Director N. Inozemtsev and the U.S.A.-Canada Institute’s Georgii Arbatov, are alternate members of the Central Committee. But the Politburo is still dominated by the associates of Brezhnev. Five Politburo members, including Prime Minister Nikolai Tikhonov and party Secretaries Andrei Kirilenko and Konstantin Chernenko, came up through the ranks from the same Dnepr River steel towns in the southern Ukraine where Brezhnev managed industrial reconstruction after World War II.

The war-avoidance efforts of the Soviet Union stem from the world outlook of these men. They are “production men,” whose careers hinged on building up the Soviet economy after the devastation of the war. Engineers by training, not diplomats, their striving to maintain the security of the U.S.S.R. as an industrial nation has created an impulse in Soviet foreign policy away from the “revolution” or destabilization designs of the Bukharinite faction.

Brezhnev’s 1978 diplomacy with Chancellor Helmut Schmidt of West Germany, for instance, was effective because Brezhnev took with him to Bonn a “builder’s” identity and communicated it to the German population by television, with a speech almost entirely about the hopeful prospects opened by the industrial development

of Siberia. On the basis of the 1978 treaty he signed with Schmidt, Brezhnev continued to carry on a war-avoidance dialogue with Schmidt and with French President Valéry Giscard d’Estaing throughout the precarious years of the Carter administration.

In this same period, the creation of a new “International Information Department” of the Central Committee, staffed by people who had done the legwork of Brezhnev’s war-avoidance diplomacy, served to institutionalize this tendency in Soviet foreign policy.

A major weakness of Brezhnev’s foreign policy is that, despite his overriding of the Philbys and Ponomarevs on specific issues, the institutional power centers of the Bukharinite faction have never been challenged. They are in a position to launch wrecking operations through KGB and International Department channels and, when the time comes, to present Brezhnev’s successor with all kinds of faits accomplis even if they do not seize the top party post directly.

Why the five-year plan is crucial

Because the Brezhnev group’s best contributions to international stability stem from a “builder’s” identity, the debate over economic policy at the party congress will be just as critical for Soviet world conduct as are the foreign policy decisions themselves.

In the face of slowing growth rates and the food shortage aspect of the crisis in Poland, the new five-year plan has already been redrafted to favor the consumer sector. This Polish shift provides an opening for several oligarchist projects directed against the Soviet Union’s own industry: the downgrading of heavy industry, “market economy” reforms, and even the creation of an environmentalist movement inside the U.S.S.R. This direction could not be followed through without a tremendous fight against the science, heavy industry, and military leadership of the Soviet Union, a fight that will unfold around the congress and in the following months.

If the anti-industry Bukharinites were to prevail in economic policy, the Brezhnev machine would lose its base and its basis for conducting war-avoidance policies. The profile of British agent Nikolai Bukharin—“radical” on foreign policy and “soft” on industry—would be complete.

It is in the vital interest of every nation to prevent that or any approximation of it from happening behind closed doors in Moscow. The most potent antidote would be the creation and protection of healthy, sovereign industrial republics in the West and the Third World—which could pull the rug out from under the Soviet destabilization faction’s claim that confrontation with the West is inevitable because the West is collapsing.



Middle East policy at eye of storm

Leonid Brezhnev's trip to India in early December became the takeoff point for a possible fundamental shift in Soviet Middle East policy when the Soviet president, speaking to the Indian parliament, proposed an international agreement to secure sea transit through the Persian Gulf. It was an immediate, practical topic for negotiation with the new American administration. It also meant that Moscow was looking for a broader Middle East policy than its web of alliances with radical states like Libya and Syria.

Then came the souring of Soviet relations with the Khomeini regime in Iran. Before thousands of television viewers, *Izvestia's* senior columnist Alexander Bovin, known for his personal connections to Brezhnev, said that Iran had no revolution today but only a "cultural revolution," like China's, that was destroying education. In another appearance, Bovin went on to contradict the main Moscow line on the Iran-Iraq war by suggesting that Iran drove Iraq to launch it. TASS issued a biting protest against Afghan exile demonstrations permitted in front of the Soviet embassy in Teheran.

In the southern Soviet republic of Azerbaijan, bordering Iran, security officials began to criticize Islamic fundamentalist subversion of the Soviet Union being launched from Afghanistan and Iran. These warnings, voiced by the Azerbaijani KGB chief Gen. Ziya Yusif-

Zade and Azerbaijan's party boss G. A. Aliyev, a former KGB official, marked a spillover of the Moscow faction fight into the KGB itself, since it was the KGB Middle East networks linked to Gen. Kim Philby that shaped Soviet backing for the Islamic fundamentalist destabilization of Iran.

The excerpted television debate between Bovin and Yevgenii Primakov draws the main line of dispute. "Nobody will succeed in establishing a social status quo and stabilizing the situation" in Asia, proclaims Primakov. Says Bovin, "one must not forget the possibility of a change in the situation."

Yevgenii Primakov, a deputy director of IMEMO for many years, now heads the Institute of Oriental Studies, one of the few Soviet think tanks not spawned from IMEMO. When Bobodzhan Gafurov, a respected Soviet orientologist who had headed the institute since 1963, died two years ago, Primakov and IMEMO took it over.

Alexander Bovin was one of the last Soviet writers to say in 1979 that the Iranian mullahs were taking Iran back to the Middle Ages, before the party line was laid down that Islam was "the determining factor of the process of change," as one IMEMO enthusiast put it. In October 1980, Bovin inched toward renewing his criticism when he publicly regretted Iranian President Bani-Sadr's remark that the Iraq-Iran war would not end until Iraqi President Saddam Hussein was overthrown.

Last summer, Bovin made waves with an article on principles of Soviet foreign policy which reflected fac-

Brezhnev with Prime Minister Gandhi on Dec. 10, 1980.

Baldev Sygma

tional friction over the viability of Brezhnev's war-avoidance initiatives. Bovin used the history of Lenin's diplomacy in the 1920s to denounce what he called the "ultimate" approach that rules out accommodation with the West.

A 'left' option?

The question of where the Bovin, and Brezhnev, line will lead if it prevails is not yet answered. The door has been opened for the U.S.S.R. to come to terms with the United States, with France and with its erstwhile ally Iraq on a stabilization plan for the Persian Gulf. Whether the Reagan administration helps hold the door open, by taking up the Persian Gulf proposals, and whether Moscow walks through it are other questions.

The next tack to be expected from the "Philby" faction of the KGB is reorientation to a "left" alternative in Iran, staking Soviet power on the communists of the Tudeh Party as Iran sinks into civil war after Khomeini. Since the Tudeh is as much controlled by British intelligence as are the mullahs, this would hardly end the destabilization, yet it is not explicitly excluded

by Bovin in his commentary.

Soviet relations with France will be a sensitive indicator of which way the Soviet decision goes. Brezhnev's war avoidance has leaned heavily on Giscard d'Estaing's leadership of continental West European rejection of the Carter administration. But Moscow's commitment to Libya's Colonel Qaddafi and his rampages in northern Africa put the Soviets and the French at odds in a strategic region adjacent to the Middle East.

When Boris Ponomarev of the Soviet Central Committee International Department was in Paris in December, he reportedly threatened to seek French communist support for Giscard's socialist opponent in the French presidential election this year unless France made its foreign policy less "Atlanticist," or pro-American. Yet on Dec. 28 a member of Ponomarev's delegation, *Izvestia's* editor P. Alekseev (who is also a Central Committee member), published a warm endorsement of French foreign policy. "The attempts to force upon France an alien will from across the Atlantic did not succeed," concluded Alekseev.

The public clash

The dialogue below is from the unusually open argument on Soviet television between Moscow analysts Alexander Bovin of Izvestia and Yevgenii Primakov, director of the Institute of Oriental Studies. The broadcast, on the Dec. 27 edition of the panel talk show "Studio Nine," was monitored and translated by the Foreign Broadcast Information Service.

Zorin [moderator]: How do you evaluate the present stage of the Iranian revolution?

Bovin: To tell you the truth, Valentin Sergeevich, I do not have the heart to speak about the development of the revolutionary process in Iran. Iran is now living through a period of what I would call a slump and a retreat from revolution.

Recently Imam Khomeini addressed a group of students. The universities are closed there now and a cultural revolution is in progress. That is, they expel all teachers who, as they say, are not quite in the spirit of Islam. . . . This is what Khomeini said: It is the universities which submitted Iran to the authorities of

the superpowers. Do you want to reopen the universities now so that they can again become a bastion of communists who would not let the faithful work and learn? This is Ayatollah Khomeini's reasoning. I consider it difficult to call it a development of the revolutionary process. Maybe the ban on chess can be seen in this light, but I think not.

Primakov: There is an objective side to this. One cannot talk only of the subjective features connected to any words said by the leader.

Bovin: This was not a subjective feature.

Primakov: Yes, when the universities were closed, it happened in a definite situation when the Western agencies operated in these universities. . . . I would just like to introduce a certain correction, because an objective situation exists. This objective situation has not lost its very strong anti-imperialist charge. I think this must be mentioned.

Bovin: Excuse me, Yevgenii Maksimovich, you are a specialist and you should know. But one must not nurture any soothing illusions either. Of course, it is naturally an anti-American course when you call it anti-imperialist. You know very well that the thunder and lightning raging against the United States are immediately accompanied by thunder and lightning raging against the Soviet Union.

Eastern Europe: the flank for deindustrialization

It doesn't usually happen in socialist Eastern Europe, but early this month, environmentalists in the Polish city of Krakow shut down a factory that produced between one-quarter and one-half of Poland's aluminum—an unprecedented event for socialist Eastern Europe. The chief perpetrator was the Mayor of Krakow, who announced that the plant was “dangerous to the environment.”

Polish Minister of Metallurgy Zbigniew Szalajda ventured to criticize the damage Krakow's decision will do to the Polish economy, but there is much worse in store.

The devastation of the Polish economy since last summer's strikes and the overthrow of the Edward Gierek regime is a story every bit as dramatic as the labor turmoil that grabs the headlines. It is a dream come true for the scenario-writers of the Club of Rome and other think tanks of Malthusian deindustrialization. They have succeeded in opening a flank in the Soviet Union's most closely guarded back yard, Eastern Europe.

The Polish leaders who ousted Gierek in September 1980 warned that drastic cutbacks in industrial investment would be enforced. Now they are carrying out this plan.

An 80-member team commissioned by the government to draft an economic reform program has released its preliminary proposals—a blueprint for austerity as harsh as International Monetary Fund conditionalities and as much a shock to economically stagnant Poland as the 1979 Volcker interest rate hikes were to the United States.

'Market socialism'

A keystone of the reform is the adjustment of the prices Polish enterprises pay for imported raw materials to world market levels, reducing government subsidies. Each enterprise will then fend for itself: seek financing, raise productivity, negotiate with the “free trade union” local on wages . . . and face shutdown if it fails to turn a profit in these new circumstances.

To be approved by a communist party congress in March or April, this plan is set for implementation in several phases during 1981. With it there will be industry

cutbacks determined from the top, such as decisions not to allocate funds for certain new, large projects in the nuclear and steel industries.

Who are the brains behind this “market socialism”?

The Polish reform commission worked in considerable secrecy, but its draft closely reproduces the project called “Experience and the Future,” or “DiP” for its Polish initials. DiP, exposed by *EIR* as a front for British intelligence and the international “anticapitalist” and “anticommunist” movement called “solidarism,” was an incubator for the post-Gierek leadership. Its stars were Stefan Olszowski, now the Politburo member directing economics, and Mieczyslaw Rakowski, a powerful newspaper editor and party figure.

Taking its cue from British economists like the Polish emigré Wlodimierz Brus of Oxford's All Souls College, DiP produced a “small is beautiful” prospectus for Poland two years ago.

The pedigree of the Polish reform can be understood also from the case of Hungary. The Hungarian experiment in market socialism, called the New Economic Mechanism, is less in the headlines because it could be put in place without labor unrest—thanks to the peculiar makeup of Hungary's economic policy establishment.

Hungary's quiet experiment

Certain officials of the Hungarian National Bank assumed their posts directly from jobs in the financial institutions of pre-war Austria and Hungary—banks of the continental European oligarchy! Since they did not greatly revise their policies, it is not surprising that National Bank director Dr. Janos Fekete has publicly offered his “personal opinion” that Hungary should join the International Monetary Fund.

In the meantime, Hungary has announced that its currency will be made convertible over the next few years, leading to an adjustment of prices to world levels—similar to what Poland's reformers want to do in one fell swoop.

The Hungarian government was reorganized in December: all specialized industry ministries were abolished and their functions taken over by a single, smaller Ministry of Industry. In Hungary, too, companies are now awarded more autonomy to gear toward “profitable” operations like production for export.

These Poles and Hungarians have cothinkers in the Soviet Union who would like to direct the Soviet economy in the same way, bringing the entire socialist bloc into line with deindustrialization in the rest of the world. But the industry, military, and science community opponents of any such plan are very strong in Russia, so that this will be an area of hot dispute among Soviet leaders at the party congress they will hold in February 1981.

Italy's crisis and the American potential

by Muriel Mirak

Last week millions of Italians sat aghast in front of their television sets as the 15-year-old daughter of kidnapped Judge Giovanni D'Urso read out delerious mumbo-jumbo contained in a Red Brigades communiqué. The broadcast, which had been organized by the Yippie-style Radical Party, totally undermined the weak-kneed Forlani government and its attempts to take a tough stand against terrorist demands for press and media coverage. Judge D'Urso was released the following day, the Radicals and their Socialist Party (PSI) senior partners predictably cried victory, claiming that their willingness to negotiate with the kidnapers and comply with their demands had saved D'Urso's life.

Immediately after D'Urso's release, many seasoned politicians in Rome began to suspect that the entire kidnapping and tug-of-war response had been staged by the PSI. The underlying question was what effect these developments were to have on the months-long Italian political crisis. Would the D'Urso case so seriously undermine public institutions as to make way for a military takeover? Or would Italian society merely continue its downward slide into anarchy until a prolonged Iran style devolution made NATO intervention inevitable? These questions in turn have become the proper concern of the incoming Reagan administration, as well as of Mr. Reagan's backers in the powerful Italian-American community.

Mussolini without arms

Italy's press has been evaluating the dangers or (depending on the viewpoint) the advantages of a

NATO-backed military coup over the last months. Even the leader of the ruling Christian Democratic party (DC), Flaminio Piccoli, told journalists "someone" was campaigning among military layers in preparation for a classical coup attempt. And the someone in question, all agreed, was Bettino Craxi, general secretary of the small but influential PSI. Craxi had indeed been strengthening his ties with the armed forces through his party colleague Defense Minister Lelio Lagorio and his close associate Chief of Staff General Torrissi. Word had it he had gained considerable political influence over the military wing of the Italian secret services, SISMI, and its head Santovito. Additionally, arms manufacturers in the Brescia steel belt, hurt badly by the Davignon plan for reduced steel production, had been courting Craxi in the hope that his militarization plans would mean new outlets for weapons exports.

But such calculations turned out to be shortsighted. Confidential sources confirmed to *EIR* that rumors of Torrissi's pro-PSI sympathies had been overstated, and that the armed forces as a whole would "hold." The majority of the military officers still look to Giulio Andreotti for leadership, in virtue of his having occupied the defense ministry over the years in many DC governments. And the Carabinieri, the military police essential to a coup scenario, would preserve their republican loyalties without bending to pressures.

The fact is, according to Council on Foreign Relations specialist Stanley Hoffman, that at least one-third of Italy's military, reflecting the electorate as a whole, votes Communist. A coup attempt would therefore split

the military along political lines, leading to outright civil war. For this and related reasons, any coup plot would have to have the approval, if not the active involvement, of NATO's central command in Europe.

Unraveling social fabric

If PSI boss Craxi's military option is premature, he has nonetheless succeeded in pulling apart the threads of the country's institutional life. In the parliamentary debate following Judge D'Urso's release, the government all but acknowledged defeat in face of the Red Brigades onslaught. Prime Minister Forlani, himself a captive of rival DC factions who defer to Craxi, made a clumsy attempt to legitimize the cowardly compromises his coalition had been forced to accept. He claimed that the closing of a high-security prison at Asinara and the transferral of a top jailed terrorist had occurred independently of the Red Brigades' demands for just those measures. As for the press's acquiescence to terrorist demands for coverage of their communiqués, Forlani pleaded the case that "democracy" and "pluralism" required protection of a "free" press.

Craxi and Marco Pannella of the Radical Party answered Forlani's sniveling rationalizations with confidence, declaring their method had won out over the intransigence shown by the Communist Party and part of the DC. The result, as the PCI-controlled daily *Paese Sera* put it, is that Italy now has "two governments": the formal DC-PSI-PSDI-PRI coalition, steered by the "parallel" government of the PSI and Radicals, into acceptance of the Red Brigades as a de facto component of Italian political life.

Other vital social institutions outside the discredited and divided parliament are betraying similar symptoms of structural and moral decay. With the sole exception of the director, all the magistrates at the Central Penal Division in the Justice Ministry signed a call to the nation's journalists asking that they print the Red Brigades' messages. Jail guards and other prison personnel, according to the Milan daily *Il Giornale*, have begun resigning in droves for fear of terrorist attacks against them.

The press itself was hopelessly split, as Radical-Socialist controlled press organs like *Il Messaggero*, *Secolo XIX*, and the PSI daily *Avanti* printed everything the terrorists issued, while all other major papers filled their editorial pages with heart-searching inquiries whether to publish or not. Splits along the same political dividing lines are tearing apart the courts, the trade unions, and the police. Not only the institutions but the very concept of legality and republican constitutionality on which they rest has been ripped to shreds.

What will Reagan do?

Perhaps Italy will not fall under the rule of Argen-

tina-style generals. Perhaps, if the scenario on the lips of most Second International think tanks is played out, Italy will die a slow agonizing death, joining the long list of historical examples of civilizations, once great, that regressed into barbarism and nothingness. Such is the opinion of political scientist Giovanni Sartori in *Corriere della Sera*.

If this is the perception being presented to Ronald Reagan by his foreign policy advisers, he would do well to turn them out of doors at once before they lead him into a deadly foreign policy bind. This is not to underestimate the gravity of Italy's crisis, nor to deny that the devolution process is under way. But there is a way out.

Corriere della Sera recently reminded its readers of the way de Gaulle imposed order in crisis-ridden France with the presidential Fifth Republic. Drawing the parallel with today's Italy, clearly the only statesman up to the task would be the DC's Giulio Andreotti. Provided he won over the state industry and bureaucracy as well as the PCI-controlled labor movement to an economic recovery perspective, he could stabilize the turbulent political and social waters consigning terrorist criminals and their sponsors to justice. Such a policy option has been outlined by Democratic Party economist Lyndon LaRouche in his "heavy lira" proposal for a broad-based tax, currency and credit reform, which the Italian press has been debating on its front pages since an *EIR* seminar publicly presented it over a month ago in Rome.

If the experienced statesman Andreotti is known to look favorably on the LaRouche program, his counterparts in the PCI are rumored to be studying it carefully, comparing it to a similar plan one postwar government tried unsuccessfully to carry out.

The question is Mr. Reagan.

This is the enigma that *Panorama*, a widely read Italian weekly, scrutinized in its last issue in a feature entitled "Reagan's America and Italy." *Panorama* correctly identifies the weight the U.S. has thrown into the balance of Italian politics over the postwar decades, recalling John F. Kennedy's go-ahead to the formation of the first center-left coalition, and Nixon's support for the center-right government of Andreotti in 1972. American Presidents; the record shows, have tended toward support of the largest party, the Catholic DC. But this has changed, the influential weekly continues, particularly as far as Andreotti is concerned. When heading up a government that enjoyed first the passive, then active, support of the PCI from 1976 to 1979, Andreotti was applauded by "some American circles" for having shown himself capable of "taming the PCI"; some hypothesized a U.S. acceptance of full government privileges for the PCI. But, *Panorama* continues, "Suddenly Andreotti's star faded, first with his lukewarm acceptance of the Euromissile decision and then with his

tenacious defense of the PCI in the government." Conclusion? Reagan will definitively kill any hopes of the anti-PCI veto's being overridden and will end up embracing Italy's newest strongman, the PSI's Craxi.

Significantly, *Panorama's* scenario, itself a declaration of political intention on the part of the Socialist and oligarchical banking circles that control its editorial policy, depends on two key factors: Reagan's profiled anticommunism and a leading role for the strongly conservative Italo-American community in the Reagan administration's foreign policy posture. Reagan's choice of ambassador to replace the pro-Socialist Richard Gardner will tell which way the White House winds are blowing.

The danger is that Reagan will respond to a hoked-up "Red threat" in Italy and pursue a politically unsophisticated cold diplomatic war against the PCI and labor movement. If that occurs, he may be induced to abandon the DC and back the unctuous Signor Craxi as the most vicious anti-Communist on the scene. Or he may fall totally into the trap being carefully laid by the Second International and Jesuits to promote a new version of the corrupt center-left coalition, with the Mont Pelerin Society's Fanfani allied to Craxi.

Both scenarios depend on Reagan's being efficiently cornered and harnessed with heavy "anticommunist" blinders. Either scenario would doom Italy. Under the guise of "fighting the Reds," Craxi and/or Fanfani would be carrying to completion the same policy im-

posed by Carter and his man in Rome Gardner. By backing Craxi, Reagan would in effect be ushering in a lawless political formation which has just been handing over the state to the Red Brigades!

With adequate intelligence briefings and timely overtures to the stable politicians in the DC like Andreotti, Mr. Reagan could prove sharper in the international arena than the scenario-spinners think; deft handling of the Andreotti option would earn the White House the powerful support of both Paris and Bonn, on behalf of strengthening Europe economically and politically. It would contribute more to stabilizing the Mediterranean (and by extension the Middle East) than the bogus Rapid Deployment Force. Reagan must, of course, be aware of the particularly warm relations that Mr. Andreotti enjoys with not only the major Arab nations, but, through fancy diplomacy involving the Vatican and the PCI, with the Soviets as well. If Reagan were to play the Andreotti card skillfully, he would be confirming to Moscow that they have a rational and forceful statesman to deal with in the White House.

If on the other hand the new President follows in Carter's reckless footsteps, and acts according to the profile the Eastern Establishment think tanks have drawn up of him (and of the Italo-American community which helped elect him), then a disaster will ensue in Italy. America will lose its precious Mediterranean ally and unleash a destabilization of the European continent that only the Red Brigades could find rewarding.

The embassy question

EIR spoke to three of the contenders for ambassador to Italy last week. Frank Stella, a Republican Party activist and president of the National Italian-American Foundation, believes the U.S. should help develop Italy's Mezzogiorno into "a manufacturing and industrial region comparable to Northern Italy." Mr. Stella believes "nuclear energy is essential to developing Italy's economy." He also thinks countries like West Germany, France, Israel and NATO itself should provide intelligence and anti-terrorist squads to Italy. He strongly opposes negotiating with terrorists.

John Davis Lodge, former Ambassador to Spain and Argentina, describes himself as a "geopolitician" and close friend of Secretary of State Alexander Haig. He thinks "it's safe to assume that the Russians are involved in backing Italian terrorism," doesn't foresee any major foreign investment in reconstructing the earthquake-ravaged area of Italy until terrorism is dealt with, and cites the countries of South America's southern cone as models for dealing with terrorism.

Jeno Paulucci, best known for founding a hugely successful commercial pizza business, is chairman of the National Italian-American Foundation. He says: "The earthquake presents us with a tremendous opportunity for reconstructing the Mezzogiorno. I'm going to call together a meeting of the top ten U.S. multinational companies and tell them about the advantages of investing there." Paulucci agrees with Stella on the questions of nuclear energy and negotiating with terrorists.

Time bomb for Washington

Cynthia Rush on the externally choreographed crisis building up in Central America, and the U.S. policy choices.

"A small Cambodia is building up in El Salvador," wrote the French daily *Le Matin* on Jan. 9. "The tribalization of Central America is under way."

What has transpired since *Le Matin* wrote that accurate description, is the internationalization of the Salvadorean conflict—precisely the process warned against by Mexican President López Portillo over a week ago. The situation is developing such that by the time Ronald Reagan is inaugurated on Jan. 20, he will be confronted with a "red-hot situation," as described by a leading Jesuit operative recently. The objective is to draw the Reagan administration into a political and military commitment from which it will be increasingly difficult to extricate itself: a "tar baby" scenario.

According to the Jan. 14 editions of several Mexican dailies, troops from the right-wing governments of Honduras and Guatemala have entered El Salvador to aid the Christian Democratic junta against the left. In early January, the leftist forces grouped in the Social Democracy's Revolutionary Democratic Front (FDR) announced the launching of a "final offensive" to topple junta leader José Napoleon Duarte. Now, according to the report of a Honduran general quoted in the Mexican press, there are 3,000 Honduran and 2,000 Guatemalan soldiers who have entered El Salvador to "kill the communists." The cities of Santa Ana and Chalatenango are said to be targeted for attack by these troops.

On Jan. 14, the Carter administration also announced that it is resuming previously suspended military aid to El Salvador in light of the left's offensive and the alleged discovery of Cuban and Soviet weapons in the region. The \$5 million aid package includes two helicopters and six military advisers, who are already in El Salvador to train troops in the use of equipment. The significance of the decision to resume military aid, particularly its implications for the new Reagan administration, cannot be underestimated. According to one diplomat quoted in the Jan. 13 *Washington Post*, the granting of military aid "could shift the whole emphasis of the thing. [The Salvadorean military] have been doing their own jobs up till now. But this could make them more and more dependent on U.S. technical advisers. That's what happened in Southeast Asia."

Further evidence of the expansion of the conflict is seen in the Jan. 15 report that five 30-foot boats, manned by Nicaraguans, had landed on one of El Salvador's western beaches. Although the left is denying that these forces are from Nicaragua, U.S. ambassador Robert White has said that evidence to the contrary "is circumstantial . . . but compelling and convincing." The U.S. "can't stand idly by and watch the guerrilla movement receive outside assistance," White added.

Friendly foes

As *EIR* has previously documented, both sides of the El Salvadorean conflagration are being very carefully coordinated by the Society of Jesus and its "left" and "right" assets in the Socialist International and Christian Democracy.

The chummy relationship between the leader of the social-democratic FDR, Guillermo Ungo, and his "enemy" heading up the Christian Democratic junta, José Napoleon Duarte, makes the point very clearly.

Duarte and Ungo in fact are old friends. They were running-mates on the Christian Democratic ticket in 1972 for president and vice-president. It is only recently that Ungo abandoned the Christian Democracy and "converted" to the Social Democracy to head up the FDR's forces.

Duarte told a *Baltimore Sun* reporter on Jan. 13 that he has begun "an offensive for peace," and has issued an appeal to the international social-democratic movement to name a mediator between the warring parties in the civil war. Duarte has offered to go "anywhere in the world to open a dialogue, even with the guerrillas."

Information made available to *EIR* by reliable sources in Mexico City further proves the orchestrated nature of the El Salvadorean "war." These sources report that "Israeli mafia" elements linked to the international drug trade are assisting the Socialist International in arming both the "right" and "left" sides in El Salvador. Coordinated out of the Israeli embassy in Mexico City, the arms shipments are run through Costa Rica, known as the "Switzerland of Central America."

At the moment, conflicting press reports make it difficult to discern what the actual situation is on the

ground in El Salvador. The first phase of the left's "final offensive" announced in early January was a miserable failure, despite encouragement by U.S. ambassador Robert White who exclaimed at the time that "the genie is out of the bottle and no one can put it back again."

Over this past week, it appears that the FDR has made some real gains. There are reports of guerrilla attacks in as many as 50 cities and some successful recruitment of government troops who have deserted the military. By and large, however, the left's "final offensive" has merely provided the junta with the pretext for accelerating the "tribalization" process described by *Le Matin*.

After the FDR announced its offensive, the military launched a psychological terror campaign under the guise of showing the population how to defend itself

from expected attacks. In El Salvador's second largest city, Santa Ana, police forces reportedly distributed leaflets instructing people how to avoid getting killed in the crossfire. Parents were advised to take only one child out on the streets with them at a time.

What is clear is that there is a real diplomatic offensive on to build up support for the left, and expand the conflict even further.

This past week the FDR's top leader Guillermo Ungo traveled to Mexico as the first phase of his announced "international diplomatic offensive." Ungo is provocatively seeking Mexican recognition of territory "liberated" by the FDR in El Salvador. In an effort to pit López Portillo against the new Reagan administration, Ungo's colleague José Rodriquez Ortiz told the Mexican press that "no one has yet dared to say that the United States could consider an intervention with

U.S. radicals prepare for a 'new Vietnam'

The El Salvador civil war has become the major focus for U.S. radicals to organize support for left terrorists throughout Central America. On Jan. 11, the Committee for Solidarity with the People of El Salvador (Cispes) held a conference at the United Methodist Building in Washington, D.C., attended by more than 1,000 people from 300 groups. The rallying cry of the meeting was "Never Again Vietnam" while the theme of the speeches was that U.S. intervention in El Salvador will become an issue that will drive Reagan from office as Vietnam forced Lyndon Johnson to step down.

The informal sponsor of the meeting was the Institute for Policy Studies (IPS), a well-financed outpost of the Socialist International in the United States. During the 1969 Weatherman-organized terrorism in Chicago, IPS provided a bail fund for arrested rioters.

Following the 1973 coup in Chile, IPS became the employer of Allende's ambassador to the United States, Orlando Letelier. Letelier and IPS organized against the Pinochet dictatorship, but ended up reinforcing the "free enterprise" economics of its austerity regime—compiled by Milton Friedman. When Letelier was assassinated in Washington several years ago,

IPS demanded U.S. intervention in Chile to arrest the suspected murderers, thus driving the dictatorship into an even more repressive role.

The Jan. 11 meeting is intended to kick off a series of followup events, including a possibly violent disruption of the Jan. 20 presidential inauguration. The inauguration rallies coincide with a "National Solidarity Week" of sympathy with the El Salvador rebels, announced for Jan. 18-26 by Cispes. Spokesmen for the Salvadorean umbrella insurgent group, the Democratic Revolutionary Front (FDR), will tour the United States.

The tour will include Chicago, New York, Washington, Baltimore, Memphis, Kansas City, New Orleans, Miami, and Chapel Hill, N.C. Guerrillas operating with the Democratic Revolutionary Front have carried out brutal acts of terrorism; under cover of war-like conditions, the guerrillas have implemented Pol Pot-style razing of the countryside.

Groups attending the Jan. 11 meeting included: the American Friends Service Committee, Workers World Party, Socialist Workers Party, antinuclear groups, National Council of Churches, National Lawyers Guild, National Organization of Women, Maryknoll nuns, a representative of the Major Superiors of Man, Network, and the Puerto Rican Socialist Party.

Also attending were the Communist Workers Party (CWP), the Communist Party USA, the AFL-CIO, the AIFLD (a Socialist International-controlled labor organization), the Anti-Klan Network, the Anti-Klan Coalition, and Chutzpah, a radical Jewish group reported to be working with the CWP.

atomic consequences.” He explained that the FDR is asking Mexico “and other friends to help stop such grave actions.” Backed by Mexico’s Jesuit-controlled left, the FDR is demanding that Mexico halt all oil shipments to El Salvador and break relations with the junta.

High-level operatives in the Socialist International also hope that the Jan. 4 assassination attributed to rightists by these forces of American Citizens Michael Hammer and Mark Pearlman, employees of the American Institute for Free Labor Development (AIFLD) involved in El Salvador’s land reform program, will bolster the left’s position enough to make the threat of a “communist takeover” a credible one. This is a key requirement for escalating the conflict and drawing the United States into a Vietnam-style commitment in the region.

Particularly in the wake of the assassinations, experts like Roy Prosterman foresee a process whereby thousands of peasants, threatened by the right wing with the loss of the land granted them under the reform, will join forces with the leftists. At that point, the “irreversible process of full scale civil war” will have begun and El Salvador will become the “central preoccupation” of the Reagan administration.

Roy Prosterman on El Salvador

The following are excerpts from an interview, made available to EIR, with Roy Prosterman, an international law expert who designed El Salvador’s agrarian reform. It was given shortly after two Americans, Mark Pearlman and Michael Hammer, both involved in the reform, were gunned down in San Salvador, along with Rodolfo Viera, head of the Salvadorean Land Reform Institute, the country’s largest progovernment peasant union.

Pearlman and Hammer, protégés of Prosterman, had been advising the Salvadorean agrarian reform program in a joint project for the U.S. Agency for International Development and the American Institute for Free Labor Development, the overseas arm of the AFL-CIO.

The agrarian program Prosterman directed with Pearlman and Hammer is modeled on the strategic hamlets “pacification” policy U.S. forces applied in South Vietnam in the 1960s. Prosterman was a designer of Vietnam’s Civil

Operations and Rural Development Support program, key to the Operation Phoenix strategy.

In Vietnam, the policy was “counterinsurgency” to create insurgency. Peasants were herded into barbed wire compounds with military guards—“strategic hamlets.” Let out only to work their fields under armed guard, the peasants were given the choice of staying in the de facto concentration camps, or escaping to join the opposition.

The objective of the Salvadorean reform is identical.

Q: Who do you think was behind the assassinations?

A: Both the extremes have a motive; both extremes want to end the land reform program. Both the right and the left are itching to have civil war and therefore want the government to fail. The method of assassination smacks of the extreme right, but it doesn’t make much difference.

Q: How will the killings effect the political situation in El Salvador?

A: The right hopes to stall the reform and in the confusion reverse it. A wave of re-seizures of the land can be expected, and if this spreads throughout the countryside, then we will see a rapid spread of disaffection with law and order and with nonrevolutionary means of change. There are some 150,000 families on the land that could be affected. These people will then see the revolutionary left as their only source of support.

The extreme left is perfectly capable of doing an abrupt about-face and step forward to define themselves as the guarantors of the peasant’s right to land. This could turn around one million people to shifting to the left.

Then you have all the ingredients of a full-scale civil war. If that happens, we are not talking about the tragic 10,000 which died last year, but 100,000 or more deaths. The conflict could draw in countries of the region on both sides of the conflict.

This is the last moment in which that can be forestalled. The only action that can stop this is if Mr. Carter and Mr. Reagan put out a common position supporting the Junta in El Salvador and join their efforts. . . .

Q: This seems very unlikely. What are the prospects without it?

A: Within a very short time-frame, this process could accelerate out of control. It does not take all the families to be kicked off, just a few thousand families, and the lack of confidence will spread. . . .

This threatens to greet Mr. Reagan with a by-then irreversible process of full-scale civil war in El Salvador, spreading throughout Central America. . . . This will become the central preoccupation and diversion of Reagan’s administration and the center of a polarizing debate within the United States.

Dope, Incorporated runs arms to both sides in Central America

by Paul Goldstein

According to highly reliable intelligence reports from Mexico City, the Israeli embassy there has been identified as one of the prime sources for running guns into both the “left” and “right” sides of the increasingly dangerous conflict in El Salvador.

EIR's sources also pinpointed the number-two man in the Israeli embassy as being the key individual responsible for coordinating the funneling of guns via Costa Rica into El Salvador.

EIR's counterintelligence staff is looking further into the nature and origins of the massive gun- and drug-running apparatus in Latin America. The profile of elements of the Israeli embassy's direct involvement in these operations points in the direction of the \$200-billion-a-year international drug cartel, which has been named by investigators Dope, Incorporated.

Centered among the international banks based in London, Hong Kong, and New York, Dope, Inc. has offshore components throughout the Caribbean leading into Canada and Mexico. It is the determining command apparatus for the Israeli elements operating in Mexico. The Israeli aspect of the arms and drug sales ties into a group within Israel identified by French journalist Jacques Derogy in his book *The Israel Connection*. The political forces represented by Dope, Inc. historically overlap in operational capabilities with both the Socialist International-run “left” and its “right-wing” counterparts. They also form the financial and political shock troops of the forced population reduction planned by the World Bank and International Monetary Fund.

The Canadian connection

The Israeli elements in charge of the armaments operations are linked to a notorious gun and dope runner named David Marcus Katz. Although Katz had been identified two years ago as being responsible for Latin America gun-running using Mexico as a base of operations, Israeli sources have told *EIR* that Katz is still operating in Mexico. Katz used the million-dollar arms and narcotics business to funnel money into the National Religious Party in Israel, a party now rife with corruption scandals.

Katz is just one component of Dope, Inc.'s Latin

American capability. Central operational control over Latin American, and especially Caribbean, gun and drug activity is in Canada. The notorious Bronfmans—the bootleg whisky family of the 1920s and drug financiers of the 1970s—and their interlocking financial empire based on Seagrams, the major family-owned company, provide the Canadian connection. Through the Bronfman nexus, the Canadian component of Dope, Inc. has a war room for coordinating these operations which is historically tied to Sir William Stephenson's British Special Operations Executive.

In one of the Bronfman enterprises, Space Research, the arms merchant activity is readily identifiable. Space Research, a high-technology laboratory involved with weaponry, was set up in Highwater, Quebec under the auspices of the Canadian government. At the same time, Space Research developed a weapons-testing and transshipment point in the Caribbean on the islands of Grenada, Barbados, Antigua, and Dominica. Out of this center, major shipments of arms—including high-grade weapons—were made to Israel and South Africa illegally until 1977. An exposé in the Montreal *Gazette* forced the Space Research operatives to limit their activity, but the same apparatus is still in place under the new regimes in the Caribbean.

In Mexico, the Bronfman empire intersects with the Domecq/Bacardi liquor interests. The Mexican ambassador to Canada, Agustin Barrios Gómez, comes directly from this circle. Also tied to these political networks are Foreign Minister Jorge Castañeda and his stepson, Andrés Rozental; Castañeda's wife comes from a leading Russian emigré-Zionist family with Canadian connections.

Another link is the Bronfman lawyer and controller, former Anglo-Canadian Special Operations Executive agent Louis Mortimer Bloomfield. During World War II, Bloomfield built the Division Five-Counterintelligence apparatus of the Federal Bureau of Investigation and later ran the Permindex corporate entity which ran the assassination of President John F. Kennedy. Bloomfield's Mexican contacts are centered around the former president of Mexico and leading oligarch Miguel Alemán.

At the Israeli end of this network is billionaire Saul Eisenberg, whose corporate empire extends not only to all of Asia, but also into Latin America. Eisenberg runs a weapons-development nexus in Israel which is reportedly directly involved in arms merchandising into Latin America. He is presently the Israeli consular official in Panama City.

Working with Eisenberg and the Canadian-based corporate interface is a group of Israeli generals led by Gen. Rehavam Ze'evi. Ze'evi, a.k.a. "Gandhi," set up gun-running operations into Bolivia and Ecuador. Ze'evi was the Ecuadorian adviser in 1977 when the apparatus of financing guns for drugs, especially cocaine, was arranged.

Ze'evi has been identified by French journalist Jacques Derogy as a leading figure in the Israeli mafia which in the United States operates most significantly in Miami and southern California. The Central American interface is through Costa Rica and Panama. Ze'evi is presently the special minister in charge of the police and the interior ministry, providing him with complete command over the illicit arms and drug operations internationally. He came under attack from the Israeli Police Inspector General Hertzal Shafir, before Shafir was forced to resign by the Interior Minister, National Religious Party chief Josef Burg.

The key Israeli mafia figure Ze'evi works with is Bezalel Mizrahi, one of the godfathers of organized crime in Israel. Mizrahi has been definitively linked to U.S. organized crime figure Meyer Lansky. The Federal Bureau of Investigation reportedly has a complete dossier on the "Israeli Generals' Ring."

United Fruit-United Brands

The leading corporation that viewed Central America as its private plantation has been United Fruit—now the United Brands Corporation—currently run by Saul Eisenberg's "Millionaire Club" compatriot Max Fisher. Fisher, along with Eisenberg and several other prominent financiers, in 1968 formed a firm called the Israel Corporation, which handled the illicit funds from the drug and gun-running operations. Fisher's United Brand's fleet of ships run approximately 30 percent of the cocaine out of Latin and Central America. It was through United Fruit capabilities that the 1954 Guatemala coup d'état was carried out.

Most importantly, Max Fisher and his associates in Canada, Israel, and the United States provide a great deal of financing to the Socialist International. Fisher has been a longtime patron of the Socialist International trade union, the United Autoworkers (UAW), and through the auspices of the UAW and its networks many revolutionary groups are being funded. The pay-

ments are conducted through the Institute for Policy Studies, the left-wing Socialist International organization which has UAW President Doug Fraser on its board of trustees.

The Cuban interface

Over the last two years, IPS and its multifaceted offshoot institutions and networks, including the Transnational Institute (TNI) in Amsterdam, have become part of the Cuban intelligence operations in the Caribbean and Central America. Phillip Agee's August 1978 trip to the Cuban Communist Party youth festival consolidated the Cuban intelligence interface. The "liberation organizations" including the Antigua Liberation Front, New Jewel Movement in Grenada, Guadeloupe Liberation Army, Barbados People's Alliance, and Central American liberation organizations, are interlocked between IPS-TNI and the Cuban intelligence organization, DGI.

This is how Socialist International gets its arms for the "revolutionary movements." It is also through IPS that Cuban intelligence monitors Central Intelligence Agency activity in that region. Phillip Agee's *Counter-spy* anti-CIA activity has been instrumental in upgrading the ability of Cuban intelligence in running covert action against the United States. Although most of the U.S.-based CIA actions actually play into the hands of the destabilization effort of the Central American-Caribbean region, Agee's activity provides crucial assistance in pinpointing Cuban intelligence targets.

Cuban intelligence's new chief for the Department of the Americas, Jesus Montane, has announced a "call for armed struggle" in the Caribbean and Central American region. Montane, recently appointed to the Cuban intelligence division concerned with the Americas operation, is considered by U.S. intelligence sources to be running terrorist operations inside the United States as well. Through IPS and related networks operating in the U.S. and Puerto Rico, Cuban intelligence is presently preparing for a terrorist upsurge. The latest bombing at a U.S. air base in Puerto Rico is exemplary of the kind of action that is to be expected.

IPS's Gar Alperovitz mirrored Montane's armed struggle call by stating in Stockholm last summer that, as a result of the Puerto Rican "liberation" struggle, New York City will be turned into another Paris during the Algerian civil war in the early 1960s.

At the end of January on the island of Grenada, the Socialist International, IPS, and Cuban-backed liberation groups will gather to map the further destabilization of the entire Caribbean. If the situation in El Salvador moves along the path of a bloody civil war, the Caribbean will shortly ignite in the same fashion. All the operations are now set in place.

The Middle East: an arc of crisis or a zone of stability?

by Robert Dreyfuss

With the Carter administration era drawing to a merciful close on Jan. 20, Ronald Reagan will face a Middle East in which the two most troublesome and problematic regimes in the region are on the verge of collapse. Menachem Begin's Israel and the Iran of Ayatollah Ruhollah Khomeini are both living out the last days of their existence, with Begin confronting the prospect of early elections against a resurgent Labour Party and Khomeini likely to be knocked out of power by a military coup d'état in the period ahead.

Since 1977, Carter and Zbigniew Brzezinski have pursued a deliberate policy of fostering instability across what Brzezinski was fond of calling "the arc of crisis." In May 1977, with help from Washington, Begin came to power in Israel, hailing his long-time friend Brzezinski; then in 1978, Carter and Brzezinski pulled the rug out from under the shah and helped the Muslim Brotherhood secret society and the Ayatollah Khomeini to come to power in Iran. By manipulating both Begin and Khomeini, the Carter-Brzezinski regime maintained a permanent state of tension in the area that enabled Washington and London to undermine the Franco-German bloc in Western Europe.

Now, with the departure of Carter, it is fitting that both Begin and Khomeini are approaching the end of the line. Their efficient removal will permit the Reagan administration to clear the decks in the Middle East for a policy which veteran observers of the area are calling an "arc of stability" approach.

Last month, during a visit to India, Soviet President Leonid Brezhnev issued a proposal for the establishment of a neutral Persian Gulf, free of foreign military bases and rival navies, and the guarantee of a steady flow of oil to customers in the industrial West and key nations of the developing world. According to intelligence sources, Brezhnev's idea reflects the attitude of some in the leadership of the U.S.S.R. who seek a gentlemen's agreement with the new U.S. administration on a stability policy for the region. Part of that, Iranian sources say, includes a

Soviet willingness to cooperate in the elimination of Khomeini's mullahs in Iran.

The most well-publicized effort to dissuade the Reagan team from reversing President Carter's Middle East policy was Henry Kissinger—though it failed miserably. Having left the United States for the Middle East amid tremendous media hype—regarding which the role of CBS and its chairman William Paley, who sponsored and paid for the Kissinger mission, played no small part—Kissinger gathered around himself the appearance of an official Reagan envoy and fact-finder.

But, during his voyage, Kissinger was publicly disavowed by both Reagan and his designated National Security Adviser Richard Allen and then bitterly attacked and snubbed by the Arab states.

Jordan's King Hussein flatly refused to receive Kissinger in Amman and would not grant him a visa to enter the country. Saudi Arabia, though it did not cancel the visit, gave its press free reign to insult Kissinger and refused to allow him to make any public statements while in the country. Only Egypt, Israel, and lonely Oman welcomed him.

Kissinger's policy recommendations, for a U.S. military buildup in the region, including bases and a direct U.S. troop presence, were echoed later by Secretary of State nominee Alexander Haig, however. Haig's advocacy of a sharp increase in U.S. involvement in the Persian Gulf, in direct opposition to Brezhnev's initiative, provoked a strong reaction from Reagan loyalists and among many on the State Department transition group, according to Washington sources.

Enter the British

More subtle than Kissinger's unsuccessful effort to steer Reagan onto a Middle East confrontation pattern was the deployment of several leading British officials into the area. No fewer than five separate major British delegations were in the Middle East in the first two weeks of January, including the British Foreign Secre-

tary Lord Carrington, former prime minister Edward Heath, the British energy minister, the British undersecretary Douglas Hurd, and a mission of the Conservative Friends of Israel; together, they visited virtually every Arab country and Israel.

Following Kissinger into Cairo by days, Carrington praised PLO Chairman Yasser Arafat and hinted that London might support an independent Palestinian state.

The Carrington remarks, intended to capitalize on the impression that Kissinger's truculent pro-NATO line reflects Reagan administration policy, signaled a last-ditch British effort to salvage their position in the Middle East by increasing London's leverage in the Arab world.

But observers report that what the British really fear is that the departure of Begin and Khomeini, in combination with renewed signs of a push into the Middle East by Paris and Bonn, may provide a crucial impetus for Reagan to join with them in taking up the Brezhnev offer.

Israeli elections: new regional strategy?

by Mark Burdman

Will Israel's upcoming election season usher in new possibilities of peace and stability in the Middle East? Or will these elections, on the contrary, initiate the second phase of the geopolitical Egypt-Israel axis brought under the auspices of the Carter administration's Camp David treaty?

These questions have become of first-order importance during the past days.

On the one hand, the government of Prime Minister Menachim Begin is on its last legs and is likely to cave in at any moment to the overwhelming consensus in Israel favoring elections in the May-June period at the latest.

On the other hand, the advent of Reagan's administration raises the potential that the United States can look at the Middle East from a relatively fresh perspective, unencumbered by the messy legacy of the Carterites.

The potentially positive side of the ledger in Israel resides in the fact that the Israeli Labour Party, in the view of most reputable opinion polls and analysts, could win a majority of the seats in a fair election and thus could become the first party in Israel's history to rule without resorting to Byzantine political deals that drain the capability for effective action.

Given that Labour itself is a mass-based organization and will receive a substantial backing from the Histadrut national labor confederation, a solid showing in a fair

election could give the Labour Party's candidate for prime minister, Shimon Peres, the political foundations to act boldly, commensurate with Israel's interests as a nation-state, rather than be forced to comply with the pressures and the black propaganda from the Zbigniew Brzezinskis of the world and certain not-so-kosher Zionist organizations abroad.

The potential of Peres's hooking up with Reagan in the United States has so disturbed the British families who ruled much of the Middle East for the past 150 years that they have activated two operations against the Labour Party.

One involves the City of London's top assets inside Israel—such as Moshe Dyan, Ezer Weizman, and Ariel Sharon—launching both new synthetic "centrist" parties and anti-Arab provocations on the West Bank. In combination, these actions are aimed at siphoning off Labour's voter support base and manufacturing a political crisis to box in Peres.

The second centers in Egypt. A certain faction in Egypt, personified by Minister of State for Foreign Affairs Butros-Ghali, is trying to build a new NATO-extension geopolitical-military pact in the Middle East and extending into southern Africa. This Egyptian faction, allied to Henry Kissinger and Alexander Haig, is trying to foreclose Peres's (and Reagan's) options by creating a geopolitical fait accompli as Israel's election period gets under way.

The constitutional crisis faction

The anti-Labour sabotage actions of the Dayan-Weizman-Sharon London-allied cabal are right out in the open, and were telegraphed in a Jan. 11 *Sunday Times* of London feature on Israel, highlighting the efforts afoot to deny Labour a working majority.

On one side of the coin, Weizman has been spearheading efforts to form a new "centrist" party, with Dayan as its suggested head. This party has no natural base inside Israel and is a synthetic creation of the same sort as the 1976-1977 Democratic Movement for Change in Israel, which siphoned off enough votes from Labour to help usher in Begin.

At the time, the DMC was a special project of the Trilateral Commission elite that brought Carter into power. Weizman is also a product of the dope-trafficking and banking elites and strategic lunatics that ran Carter.

Weizman was an avid Carter backer during the American election campaign. Now, his campaign orchestrators in Israel claim that he will run a "neoconservative" campaign à la Reagan to capture the mood of the moment.

Weizman's main buddy in the U.S. is Leon Charney, a Carter administration confidant whom the Israeli paper *Yediot Aharonot* has labeled a "mobster lawyer."

Another of Weizman's scenarists is Hebrew University Professor Shlomo Aronson, a pro-Dayan strategist and associate of the U.S. RAND Corporation, who supports Israel's adoption of a "nuclear option" for its military strategy. The RAND Corporation was one agency responsible for Carter's adoption of the provocative PD-59 "limited nuclear war" doctrine. RAND has long foreseen the Middle East as the likely flashpoint for this doctrine.

Weizman's suggestion of Dayan as his party's standard-bearer could create a potent wrecker action. On Jan. 11, the London *Observer* claimed that Dayan is now the "crucial factor" in Israel's elections, especially if he chooses to link up with Weizman and former Finance Minister Yigal Hurvitz, Dayan's old comrade in the "Rafi" 1960s split-off from Labour.

On Jan. 12, after resigning from the government, Hurvitz said he would like to join a Dayan-led "centrist" party. According to France's *Le Monde* of Jan. 12, Hurvitz "stressed that such a centrist initiative could prevent the Labour Party from obtaining an absolute majority during the next vote."

One priority of Dayan and Hurvitz is to prevent any territorial concessions on the West Bank, as favored by the Labourites' official platform. On this issue, Dayan is secretly collaborating with his old "special operations" buddy, Gen. Ariel Sharon, Begin's agriculture minister and the top backer in Israel of the Gush Emunim fundamentalist fanatics.

Sharon is desperately trying to create a crisis in Israeli-Arab relations on the West Bank and in Israel proper, to undercut Peres's policy options and, in the worst case, to keep Begin in power.

Sharon has threatened to bring 200,000 people "out on the streets" at the first sign of any Labour willingness to negotiate on the West Bank. In a Jan. 7 press conference, the Gush Emunim promised to create a coalition of all Israel's pro-annexationist groups "that could deny any other party or party coalition the majority needed to form a government."

NATO and SATO

At the same time, a new strategic geometry is being erected by the Kissingerians in Egypt, led by Minister of State for Foreign Affairs Butros-Ghali, a protégé of ancient feudal families based in Italy.

During early January, Butros-Ghali made a tour of Latin America, intersecting a criss-crossing pattern of Israeli arms sales on the continent. According to the Egyptian press, the purpose of his trip was to discuss creation of a new South Atlantic Treaty Organization (SATO), a NATO affiliate extending into Africa and with support from South Africa and leading Latin American regimes.

Several top-level Egyptian strategists are also dis-

cussing the possibilities of an imminent invasion of Libya and other military actions in Africa conforming to the exigencies of a new expanded military pact of the sort long advocated by Haig and Kissinger.

Opposition to this global extension of NATO is reported to be growing in Egyptian nationalist military layers, centered around Vice-President Husni Mubarak. If this faction's views prevail, Egypt and Israel may be able to relate to each other on the basis of mutually respected national interests, rather than the geopolitical straitjacket defined by Camp David.

The options for Iran after Khomeini

by Judith Wyer

At a State Department meeting on U.S. policy toward Iran in early November, pro-Khomeini specialist Prof. Richard Cottam unhappily stated his conclusion that the only alternative to the crumbling regime of Ayatollah Khomeini is a "centrist military coalition."

Sources present at this and other meetings conducted by the State Department's Iran working group confirm that over the last six months, the Carter administration has been pondering the question of how to shore up the flagging Khomeini regime. But numerous Iran hands now concur with fundamentalist sympathizer Cottam that there is no way to bolster the unpopular government of mullahs that Carter created.

A statement by President Ronald Reagan in last week's *U.S. News and World Report* indicates that he has no intention of following the Carter policy toward Iran. Reagan bluntly stated that he favors a "friendly" relationship between Iran and the United States, but only if "sensible people" head the government.

According to intelligence sources, Paris has become the clearinghouse for a plan to oust the Khomeini regime by no later than March. The source indicates that Britain, Israel, Iraq, Pakistan and Turkey are cooperating through Paris-based channels in plotting a counter-revolution which will probably see the exiled monarchy reinstated.

Government collapsing

Iranian sources report that over the past two weeks, demonstrations have occurred throughout Iran in support of the monarchy. Last week, for the first time since he was crowned shah, the 21-year-old Reza Pahlavi made his first public call for an uprising against Khomeini. It is reported that Reza recently visited Europe to more closely coordinate with exile Iranian opposition

groups on the overthrow of the mullahs.

Fearing that Reagan and the French government will impose a secular government in Iran, the Carter administration is scrambling to arrange a hostage release. The ruling Islamic Republican Party is frantically looking for a way to release the hostages so as to create the appearance of a revolutionary victory for Iran.

An insider with close ties to Iran, however, stated that "the IRP is riding a sinking ship; no matter what they do, they hurt themselves. . . . If they give up the hostages, there are many in Iran who will say they capitulated to the U.S., the 'Great Satan.' If they don't, they are blamed for the economic hardships caused by the isolation of Iran thanks to the hostages.

Carter also hopes that he can lock the incoming administration into a complex long-term set of legalistic negotiations over Iranian assets frozen in U.S. banks and the wealth of the late shah, and force Reagan to accept the mullahs as a legitimate government.

Numerous intelligence sources now concur that Carter, Vance, and Brzezinski, on behalf of their policy of promoting primitivism in the region, gave the green light for the taking of the hostages, whom the hated ayatollahs used to boost their factional strength in Iran.

But Carter's gamble will fail. Some of the mullahs are reported to already be preparing their exodus from Iran. Ayatollah Kalkhali, known as the "blood judge," has fled Iran, taking exile in France.

Reagan and hostages

The Iranian regime has not concealed its anxiety about the Reagan administration. Ahmed Azizi, the spokesman for Prime Minister Rajai, attacked Reagan last week for his statement that he would not give Carter a blank check on the hostage agreement. The same day, Berzhad Nabavi, the head of the Parliamentary Committee on the Hostage Affair, declared: "It is not clear how the negotiations will be conducted with the next government."

The pro-Khomeini *Christian Science Monitor*, which has been a conduit for the Carter administration, reported on Jan. 14 that Carter would like to see his chief negotiator on the hostages, Warren Christopher, stay on with special responsibilities for the talks under Reagan.

Christopher would find himself quite comfortable working under Reagan's appointee for Secretary of State, Alexander Haig. As *EIR* has documented, it was Haig who played a key role in installing Khomeini through the deployment of General Huyser to Iran from NATO headquarters in early 1978. Haig, like Zbigniew Brzezinski and Henry Kissinger, views Khomeini's Iran as an excuse for the cold-war military buildup in the Middle East that he will try to sell to Reagan.

Libya declares war on France

by Douglas DeGroot

Libyan dictator Muammar Qaddafi threatened on Jan. 11 to turn loose his infamous international terrorist networks against the French. This was Qaddafi's response to the recent French decision to put a stop to Qaddafi's dreams of spreading his Khomeini-like ideology all over Africa.

In a message delivered by Islamic fundamentalist demonstrators at the French embassy in Libya and broadcast on Libyan radio, Qaddafi, an avowed admirer of Nazi dictator Adolf Hitler, threatened "an African armed struggle with the goal of destroying French interests in the world if France persists in its interventions on the African continent." A communiqué distributed by the demonstrators stated that "All the French attempts to get involved in the internal affairs of the African continent will be pushed out with unbelievable violence."

Qaddafi's tantrum is a direct reaction to the decision taken by French president Valéry Giscard d'Estaing to prevent Qaddafi's planned *Anschluss* of Africa.

The sudden reversal in French Africa policy came two days after Qaddafi announced on Jan. 6 the formal annexation of neighboring Chad by Libya. On Jan. 8, Giscard met with his top political and military advisers to organize a strong French intervention into Africa to forestall Qaddafi from carrying out his scheme throughout central and western Africa.

Although such meetings are usually kept secret, a public announcement was made afterward saying the meeting was held to study "means of increasing the security of those African states linked to France by defense agreements." On the same day French Foreign Minister Jean François-Poncet left on a trip to Africa. In the Ivory Coast, François-Poncet said, "The development and security of Africa are the two preoccupations of France" and pledged to help any country requesting aid to counter Qaddafi's destabilizations. François-Poncet also met with 25 French ambassadors to Africa to map out the French policy shift. A visit to Senegal by French Minister of State for Foreign Affairs Olivier Stirn, announced for later this month, is part of the French mobilization. The French have also begun bolstering their troop deployments in Africa.

The sudden French reversal contrasts sharply with France's previous passive reaction to the massive Libyan airlift of arms and troops into Chad which began in mid-October. The estimated 4,500 troops of Qaddafi's mercenary "Islamic Legion," plus Soviet-supplied Libyan tanks, artillery, and aircraft resulted in the Libyan takeover of civil war-wracked Chad on Dec. 15.

During this period, the French foreign ministry only issued a mildly-worded statement of concern in the week before the takeover of Chad's capital city, Ndjamena. The statement did not mention Libya by name.

However, the Libyan announcement of its annexation of Chad, came only a few hours after the news was leaked in France that the French government-controlled oil company Elf-Acquitaine, had just been granted five oil-exploration contracts in Libya. This was interpreted as a payoff for French passivity.

In fact, during the late-November Libyan buildup in Chad, Alban Chalandon, president of Elf, was in Libya finalizing the deals. But when the deals were leaked, Industry Minister André Giraud issued a communiqué saying: "The French government was not consulted on the opportunity of concluding an oil agreement between Elf and the Libyan government and thus has not given its approval." Industry Minister Giraud, an advocate of dirigist economic policy, has tangled with Chalandon before, including last July when Chalandon lost his position as president of the ELF holding company.

A change in Soviet policy away from supporting Qaddafi may have provided Giscard the opening to again push an activist Africa policy of Arab petrodollars and European technology—Giscard's triologue conception.

The Soviets, under the influence of the KGB "destabilization faction," had been backing Qaddafi's policy of destroying Africa, seeing this as a way of weakening the West. This same KGB faction has been blackmailing

Giscard, threatening to order the French Communist Party to back the Socialist Party presidential candidate, which would jeopardize Giscard's re-election.

François-Poncet's statement in the Ivory Coast, before going on the first official French visit to Angola Jan. 11, that France intends to develop economic relations with countries linked to Moscow lends further credence to the view that the launching of the French anti-Qaddafi campaign may coincide with the Brezhnev pro-"triologue" faction's gaining the initiative over the KGB "destabilization group."

Qaddafi has made no secret of his intentions. He refers to Chad as part of Libya's "vital living space." He intends to use Chad as the springboard in sub-Saharan Africa to destabilize the rest of central and western Africa. In mid-October he called on the nomadic Tuaregs to revolt: "I declare the frontiers of Libya open to the sons of the Tuaregs in Mali and Niger. I call on them to revolt, raise their heads and take up arms." More than a half dozen African countries have already either broken relations with Libya or kicked out Libyan diplomats. Nigerian officials have charged Libya with involvement in late-December cult riots in Kano, Nigeria, which resulted in the deaths of thousands. As a result of the threat represented by Libya, Nigeria has substantially increased its defense budget.

François-Poncet has bluntly stated that France will not recognize the Libyan annexation since it was not approved by the population. In addition, members of the Organization of African Unity-appointed provisional government in Chad (which Qaddafi claims is allied with Libya) have now opposed the annexation. Chadian Vice-President Kamougue called the claim "an impossible marriage," and Education Minister Abba Siddick said Jan. 9 "that the grand majority of Chadian people will reject the satellization of their country by Libya and that Libyan troops will come up against a popular armed resistance. All the neighboring countries of Chad are now in danger of being destabilized. The most threatened in the short term, in my opinion, is Sudan." A French military delegation arrived in Sudan Jan. 11.

On Jan. 12 OAU chairman, Sierra Leone President Siaka Stevens, opened an emergency meeting of 12 African leaders to organize an emergency OAU summit to deal with the Libyan annexation of Chad, which Sudan President Numeiry had already offered to host. On Jan. 14 the Libyan representatives stalked out of the discussions, which indicates that they had not been successful in preventing the upcoming summit from undoing Libya's annexation of its neighbor.

Qaddafi on Adolf Hitler

In a radio broadcast from Tripoli, Libya on Jan. 9, Libyan strongman Muammar Qaddafi said, according to the Jan. 11-12 issue of *Le Monde*, that "those who, in studying history, have qualified Hitler as 'a crazy dictator who wanted to colonize the world' said this because Hitler was beaten. If he had won, Nazism would not have been considered as a bad thing.

"It is the allies who made a bad thing of Nazism and have presented it that way."

In the article titled "Nigeria: the plan for disintegration" in the Jan. 13 EIR, the party headed by Obafemi Awolowo was incorrectly identified as the Nigeria People's Party. It should have read Unity Party of Nigeria.

Red bishop, black bishop

Two bishops, Lefèbvre and Méndez Arceo, share the same file on the chessboard: terrorism.

A motley crew descended on Mexico in the week after Reagan and López Portillo, meeting at the border, began to set things right for a change in U.S.-Mexico relations.

There was David Rockefeller, saying all the old things which had poisoned relations in the past; a "human rights" delegation spreading lies in an attempt to make Mexico sound as repressive as the shah's Iran; and Ted Heath showed up with some Brandt Commission baggage in tow.

But the uninvited guest who has caused the greatest furor was Marcel Lefèbvre, the schismatic French archbishop.

Lefèbvre sneaked into the country Jan. 7. He immediately proceeded to a small town, Tlaxiaco, in a remote Indian area of the southern state of Oaxaca, where the local priest had been excommunicated for following Lefèbvre's teachings.

In total defiance of Article 33 of the Constitution, which forbids foreign priests the right to say mass, he promptly pronounced mass for several thousand Indians and was making preparations to baptize infants and perform marriages.

Then a wave of national indignation caught up with him, and the Interior Minister, Enrique Olivares Santana, warned him that he would be expelled if he did not comply with the Constitution.

Lefèbvre, at least temporarily, backed off from further masses. He

had achieved his primary goal of polarizing the country.

But rushing to the defense of the most "right-wing" of Church figures was none other than Sergio Méndez Arceo, the famed "Red Bishop" of Cuernavaca. Méndez Arceo argued that any effort to expel Lefèbvre would be an "arbitrary and exaggerated" act. "If it weren't for the fact that he is an avowed dissident against the Pope," Méndez Arceo explained, "Lefèbvre would be just another traditionalist among the many who currently exist within the Church."

More than an "I'll scratch your back and you scratch mine" attitude was involved for these supposed opposing factions, both of whom want to see a direct political role for the Church in defiance of the Mexican Constitution.

The two bishops are master players at the game run at a higher level than "left" or "right": terrorism. Lefèbvre is the direct creation of the blackest of Italy's "black nobility," the Pallavicini family of Rome and Genoa. It is this black nobility which has been documented in recent studies of the Moro kidnapping and related incidents as the real controllers and bankrollers of international terrorism.

For his part, Méndez Arceo is the unabashed defender and "middleman" for almost every incident of terrorism which has taken place in Mexico over the past decade.

And he is now sponsoring a top-level planning session for the next round of terrorism, to be held in Cuernavaca the second week of February. The cover of the meeting is a "Bertrand Russell Tribunal" on "human rights violations" in El Salvador. The chief organizing institution on the European side is Italy's Lelio Basso Foundation, whose founder was at the center of the same Sicily-Libya terrorist network behind the Billygate scandal.

Méndez Arceo and company have attempted to keep the meeting under wraps until all details are in place; Mexican security authorities are only now picking up the trail.

Méndez Arceo just 20 years ago was the Marcel Lefèbvre of Mexico, leading crusades against "communist textbooks" being distributed by the government and attempting to revive the fundamentalist "Cris-tero movement" which fielded a bloody uprising against the Mexican state in the 1920s.

Some of the most notable support for his current Cuernavaca activities comes from the circles of the resident priestess of expatriate Italian black nobility, Princess Beatrice of Savoy.

And in the middle of Lefèbvre's Oaxaca stay, a Méndez Arceo protégé named Francisco De la Cruz invited Lefèbvre to visit De la Cruz's leftist squatters' settlement in Mexico City, known as the "Campamento Dos de Octubre."

De la Cruz, according to reliable security-related sources in Mexico, has trained up to 40 Mexican and Latin American guerrillas at the *campamento*.

Why the invitation? One of De la Cruz's political bases is the same Oaxaca town run by Lefèbvre's excommunicated disciple.

International Intelligence

Soviets comment on Muslim Brotherhood

Alexander Bovin, the Soviet newspaper commentator who has criticized the decline of Iran under Ayatollah Khomeini, has linked Khomeini's policies to the clandestine Muslim Brotherhood operating throughout the Middle East. Although Soviet writers have noted the Brotherhood's activities in Afghanistan and Syria, *Izvestia's* Bovin broke new ground by referring to a coordinated Brotherhood offensive in Iran and Turkey as well.

In a joint interview given by Bovin and Central Committee official V. Kobysh to the weekly *Literaturnaya Gazeta*, Kobysh commented on the new U.S. administration that Reagan and his advisers appear to "see the normalization of Soviet-American relations as a top priority. . . . If Soviet-American relations were of a different character, it would be easier to feel out a mutually acceptable solution" to the Persian Gulf situation.

Mission to Mexico: Rockefeller and Butcher

David Rockefeller brought his "retirement" roadshow into Mexico last week. He held court for three days, seeming to do everything possible to undermine friendly ties between Ronald Reagan and President López Portillo.

Rockefeller particularly underscored his "regret" that Mexico had opted not to join either GATT or a U.S.-Mexico-Canada common market. Reagan had deliberately avoided both sore points in his border meeting with López Portillo Jan. 5, and had stressed the need to forget past difficulties in relations.

Rockefeller introduced his successor as president of Chase Manhattan Bank, Willard Butcher, to Mexico's banking elite as well as several government officials. He made a similar trip to Argentina and Brazil six weeks ago.

At a luncheon in his honor hosted by Manuel Espinoza Iglesias of Bancomer, Rockefeller claimed that the U.S. is "moving out of its recession" because of government collaboration with private banks. In a press conference, he and Butcher insisted that Volcker's high interest-rate policies were appropriate and that Volcker must remain as Federal Reserve chief. The high U.S. rates forced Mexico to raise its rates even higher to retain deposits.

Espinoza Iglesias termed Rockefeller "an edifying example. The correctness of his thinking on the problems of our economies is a clear light that he has generously been sharing, in the midst of a problematic world."

Spate of terror bombings hits China

Press reports from various localities in China describe an outbreak of sabotage, bombing, drug dealing, "counterrevolutionary" leaflets, and other organized opposition to the regime. These incidents, considered serious enough to be condemned in the press, occurred as current strongman Deng Xiaoping tried to assure worried Japanese visitors that China is not going through a power struggle, and indeed is more stable than it has been since the early 1960s.

Shanghai's *Liberation Daily* reports: "Recently in Shanghai and other places . . . there are people who wish to plunge the nation into chaos and are using the methods of the Cultural Revolution to engage in incitement and trouble-making. People are manufacturing bombs, have distributed counterrevolutionary leaflets opposing the leadership, and have formed illegal organizations. Criminals are disrupting the economy, engaging in bribery, selling state secrets, murder, arson, robbery, large-scale gambling, rape and gang rape, kidnapping and drugs." A report from the *Liaoning Daily* in Manchuria reports elements who are "inciting sabotage and planting bombs."

London *Times* correspondent David Bonovia reports speculation that behind the terror bombings may be military circles dissatisfied with Deng's power grab, and that soldiers may be among the bombers.

CABA outlines a U.S.-Mexico setup

The Committee Against Brilab and Abscam (CABA), a group formed to oppose the Justice Department's antilabor entrapment witchhunt, has warned of the appearance of a new FBI scam, "Mexscam," according to the January issue of *The American Labor Beacon* newsletter.

In the new Mexscam operations, CABA reports, FBI agents pose as front men for wealthy Mexican families and impersonate relatives of prominent Mexican politicians to gain the confidence of their targets.

As with the Abscam cases, the Mexscam operatives will create paranoia about engaging in legitimate business relationships with Mexico, the CABA statement charges.

CABA announced that its contacts in Mexico are competent to check the bona fides of any alleged Mexican investor. CABA invites anyone with questions about potential business deals to write to the committee at: P.O. Box 1081, Trolley Station, Detroit, Michigan, 48231.

India launches a diplomatic initiative

The February meeting of the nonaligned nations in New Delhi will be shaped by Indian Prime Minister Indira Gandhi's current dispatch of high-level emissaries to each attending nation to lobby for proposed talks between Afghanistan and Pakistan. While nonaligned members like Singapore intend to use the conference to stiffen anti-Soviet diplomacy,

Briefly

Mrs. Gandhi's effort to defuse the Afghan hotspot reflects the proposal of Leonid Brezhnev, made during his recent visit to India, for negotiations to establish a neutralized zone in the Persian Gulf area.

Pakistan has reversed its former opposition to talks on Afghanistan; China remains the major power opposing negotiations. The Pakistani reversal is believed to reflect pressure from Saudi Arabia, which subsidizes the government of Ziaul Haq.

India clearly wants the nonaligned movement to make economic growth, not "Third World radicalism," its guiding principle. The Indian draft declaration for the conference specifies "a new, rational, equitable, universal monetary system which should be consistent with liquidity and development needs of the developing countries."

People's Republic challenges EIR

A Jan. 14 seminar on U.S.-China relations in Washington, D.C., sponsored by the *Executive Intelligence Review*, produced animated debates. Seminar participants were Dr. Richard Walker, director of the Institute of International Studies at the University of South Carolina and a member of the Asia policy advisory group to Ronald Reagan during his presidential campaign; Stefan Koczak, president of the Committee for a Free China and a retired 20-year veteran of the U.S. Foreign Service; *EIR* Editor-in-Chief Criton Zoakos; and *EIR* Asia Editor Daniel Sneider.

The discussion period featured a formal prepared response to the *EIR*'s recent analyses of China, delivered by Chen Hui, executive director for the People's Republic at the World Bank. Chen characterized *EIR*'s "analytical approach and methodology" as "questionable," because it ignores "the Chinese masses and their aspirations." He then called for the Reagan administration to join China in a front against the Soviet Union.

If China will undergo instability or even chaos as some people—referring to *EIR*—predict, Chen said, wouldn't that allow the Russians to withdraw their forces along the Sino-Soviet border and redeploy them either in the direction of the Persian Gulf or directly in Europe?

In attendance at the seminar were representatives of Bendix, Coca-Cola, Honeywell, IBM, Control Data, GE, GT&E, Mitsui, Fuji Bank, Dow Chemical, Armco Steel, and other corporations; delegates from Singapore, Zaire, Indonesia, India, Pakistan, Venezuela, Italy, the U.S.S.R., Hungary, Taiwan, and South Korea; and officials of the IMF, World Bank, U.S. State Department, Defense Department, Joint Chiefs of Staff, Commerce, Treasury, and Export-Import Bank, as well as congressional staff members.

Willy Brandt wants 'social convulsions'

U.S. think-tankers and European social democrats say they consider 1981 a year with greater potential than 1967-68 for the destabilization of Western Europe, especially West Germany. The Chairman of the Socialist International, Willy Brandt, is described as "looking toward a social convulsion in Europe around which to reorganize and re-invigorate the Social Democracy for the period ahead." Brandt, who also chairs the West German Social Democratic Party and leads its left wing, is loyal only to the Socialist International, not to SPD Chancellor Helmut Schmidt, sources confirm. Schmidt's 1978-80 economic development initiatives in tandem with French President Giscard have already been set back.

The upcoming retirement of SPD parliamentary whip Herbert Wehner is expected in these circles to signal an outright split in the SPD and paralyze the government. Wehner has patched over differences between the party's environmentalist left and the advocates of growth and stability, who have thus succumbed to sterile compromises.

● **MCGILL** University's Trans-cultural Psychiatric Department has come under suspicion for its role in recent cult outbreaks in Kano State in northern Nigeria. Also under suspicion is the Cuban Communist Party's Central Committee.

● **THE HAMBURG** executive board of the Social Democratic Party voted 10 to 2 in favor of completing the Brockdorf nuclear plant. The Jan. 11 vote overruled SPD Mayor Hans-Ulrich Klose, who has vowed to continue to try to shut down nuclear energy production.

● **THE TRILATERAL** Commission's Task Force on the Middle East met in Washington Jan. 14-15 in a private session at the Cosmos Club. Participants included Italy's Arrigo Levi; Japan's Ambassador Kideharra; and the U.S.'s Joseph Sisco, a former State Department underling of Henry Kissinger's. Subjects discussed include "the relationship of the West to the Islamic movement" and "the restoration of a full geopolitical relationship with Iran once the hostages are out."

● **POLAND'S** government has commissioned a panel of economic experts who released a draft economic reform that reportedly would make the zloty convertible as a step toward integrating Poland into the Western monetary system. The move is favored by the International Monetary Fund.

● **RICHARD FALK** will participate in a People's Tribunal, modeled after Bertrand Russell's, to be held in Mexico City on the El Salvador situation, unless he is deterred by officials who recall his involvement in similar events favoring Khomeini in Iran before the shah's fall, and in opposition to the Marcos government in the Philippines.

Who's who in the new U.S. cabinet

by Graham Lowry

The domestic affairs side of the new Reagan cabinet looks favorable toward a gearup of U.S. industry and agriculture. The new chiefs at Energy, Interior, Agriculture and Labor are capable, progrowth individuals. The foreign-policy side of the cabinet—namely, Alexander Haig at State—looks unfavorable.

It is widely argued that a "100 Days" approach to mobilizing U.S. economic recovery would give the administration a decisive element of active support from the constituencies who rallied to dump Jimmy Carter. A second argument for the "100 Days" is less public: it would spin off into an expansive trade and international energy policy, and confine the Henry Kissinger influence at Foggy Bottom.

The past week's round of Senate confirmation hearings generated evidence that Mr. Reagan's choices for the Departments of Labor, Energy and Interior are committed to capital-intensive expansion; the hearings also gave indications that a growth package would meet with strong bipartisan support in Congress.

At the same time, however, foreign-policy voices unmistakably lean toward the crisis-management misadventures that dominated the Carter administration. The new secretary of state is justly regarded in sober European circles as an antagonist rather than an ally, and an open advocate of U.S. and NATO provocations in such strategic hot spots as the Middle East.

Comparable views are on record from National Security Adviser Richard Allen, United Nations Amba-

sador Jeane Kirkpatrick, and—on the subject of increased American military presence in the Middle East—Defense Secretary Caspar Weinberger. If decision making were left to this echelon, the administration's international moves would be a disaster. However, Reagan's highly successful Jan. 5 meeting with Mexican President José López Portillo laid the basis for a dramatic reversal of the hostile relations between the two countries and showed what the White House can do. The big question remains the Treasury, with its powerful interface between domestic and foreign policy.

At confirmation hearings, Agriculture Secretary John Block emphasized increased exports and improved farm mechanization, adding that "history has shown that as we help countries develop and industrialize, they become more affluent and better customers." Interior Secretary James Watt urged the necessity to develop federal lands and water resources. Reagan's labor nominee, James Donovan, cited obsolete capital goods as the main obstacle to U.S. productivity. And former South Carolina governor James Edwards, named to head the Department of Energy, supported the development of nuclear fusion power and the breeder reactor. Governor Edwards told the senators: "Americans are problem-solvers. We should not try to regulate genius. We should turn it loose on the next frontier, whether it be the vastness of space, the core of the atom, the surface of the moon, or the complexity of meeting the energy needs of a growing, thriving, and prosperous nation."

Department of Energy



A highlight of the confirmation hearings on Energy Secretary-designate Gov. James Edwards this past week was an agreement stated by the Senate Energy Committee's chairman, Republican James McClure of Idaho: "Governor Edwards, you have the primary role for the administration of all domestic and international energy policy . . . leading negotiations with the International Energy Agency [IEA] and energy aspects of economic summits."

Observers considered this a signal of GOP conservatives' resolve to reduce the powers of the new Secretary of State, Alexander Haig. Haig is a strong proponent of the Kissinger policy of subordinating U.S. energy considerations to the dictates of the IEA, which has attempted to place the oil reserves of 20 Western industrial nations under supranational controls. As energy secretary, Edwards is not expected to give U.S. backing to the IEA "resource control" schemes. Instead, as his testimony reveals, he is expected to push for the most rapid buildup possible of U.S. energy potentials, both nuclear energy and fossil fuel development.

"Given where we are today . . . I think most Americans agree that we must now emphasize capturing the enormous energy production potential of our own resources. It is production of energy fuels, not their regulation, that will break the chains of our energy bondage. Isn't it time for a clear signal to American producers and to the world that the sleeping giant has awakened and that America is on the move again?"

Edwards, the former governor of South Carolina, has carried his strong advocacy of energy development to his own state, where he spearheaded the development of an impressive nuclear energy capability including the development of the famous Barnwell nuclear fuel reprocessing plant—the only one in the country. (The Barnwell plant was mothballed by President Carter in 1977 as part of his nuclear nonproliferation policy, but is expected to be reopened under Edwards's stewardship at the energy department.)

With fully 50 percent of South Carolina's energy needs now being filled by nuclear-generated electricity, the state can for the first time ever begin to seriously attract industry and business to its borders—a situation that was precluded by prohibitively high cost of energy before Edwards took over in 1974.

At the Senate confirmation hearings, the former oral surgeon made no bones about his support for nuclear development and his opposition to the no-growth policies of the environmentalist and strict conservationist. He testified: "It is within our power to unshackle this

country, to marshal its genius for innovation and problem-solving, to regain our economic vitality and to revitalize America's strength. Tomorrow's energy menu is whatever our ingenuity can make it. Fusion, the nuclear breeder, and wide-scale use of renewables—each has its promise and challenges.

"That is the promise of President Reagan. It is a task in which I would be humbled and honored to join. . . ."

On conservation: "I reject the concept of conservation that focuses on no-growth policies. What we need is a conservation approach driven by the market place that improves the efficiency of use while allowing responsible growth in our economy. The human body uses the least amount of energy when it is asleep, or, in the extreme when it is dead. I want Americans to chose their lifestyles—not have it dictated to them. I want to see America awake, strong, alive. I want to see America employed, producing and consuming,—growing. I reject any idea of energy conservation that stems from fear of the future. I am better off than my forefathers, and I expect American children to have a better life than we do. I want to give them the tools to do it with, including concepts that are only gleams in the eye inside a research laboratory today. I want to build for the future, not bunker down in a fox hole of the present."

On synfuels: Throughout his testimony, the new energy secretary indicated that he would not be married to the energy policies of the Carter administration. "Each program in the department will be comprehensively reviewed as to its effectiveness and extent, if any, to which the program should be continued," Edwards stated, adding significantly, that he is reserving judgment on the synfuels bill which has already earmarked \$20 billion to energy projects over the next three years without as yet specifying what technologies will be utilized.

Department of Labor



Raymond J. Donovan, the new secretary of labor, is respected by both business and labor as a capable and fair man. A one-time Democrat and New Jersey construction executive, he emerged as one of the top GOP fundraisers in the country—pulling in over a million dollars for the Reagan-Bush campaign, and doing it in a state that had been written off by more seasoned Reagan strategists early in the race.

Donovan rose from a \$48-a-week laborer to executive vice-president of the Schiavone Construction Company, and knows how to talk to unionists. He grew up in the old industrial town of Bayonne, N.J., considered becoming a priest, and was graduated from Notre Dame Seminary in New Orleans with a degree in philosophy.

A conservative on the issues, Donovan has been something of an "independent." He campaigned for former Senator James Buckley of New York and has strongly supported the National Conservative Political Action Committee, an amalgam of Buckleyites and pro-growth conservatives.

Donovan joined the Reagan effort in June 1979, became cochairman of the New Jersey campaign effort, and chaired the state effort in the general election.

Donovan is well known among unions and builders in the Northeast, where his firm, the 277th largest construction company in the nation, carries a lot of clout in highway building and other public works jobs. His primary responsibility at Schiavone was dealing with unions, such as Local 825 of the International Union of Operating Engineers. The president of the company is the New Jersey head of the Associated General Contractors, the union-shop contractors' association.

"The people in that local and in all of our locals in New Jersey and New York called me and told me that they think he is a man of his word, a good square-shooting businessman," Operating Engineers President J. C. Turner told the press. Teamster President Frank Fitzsimmons gave Donovan a warm endorsement. Robert Georgine, president of the AFL-CIO's Building and Construction Trades Department said that he was encouraged by reports that Donovan "is a very fair, honest, sincere, strong individual with a great deal of integrity."

At his Senate confirmation hearings, Donovan indicated that he hopes to carry out the President's mandate to get the economy moving again. During the question period, Donovan specifically indicated that economic recovery should not be at the expense of organized labor or American living standards; he insisted that only recapitalization of U.S. industry and a rapid upgrading of skilled labor can combat inflation. "Our people work hard, they want to improve their family situation, the future their children have. . . . But we are asking them to work with machines and equipment that are 20 to 30 years old, and this is our problem. . . ."

The National Right to Work Association and the anti-union Association of Building Contractors both testified in favor of Donovan's appointment, expressing the hope that he would support their policies.

Labor Committee member Edward Kennedy has launched a protracted senatorial rehash of "labor racketeering" charges stemming from a 1978 Justice Department probe of allegedly illegal payments by Donovan's firm to New Jersey Teamsters and politicians. While the 1978 charges came to nought and appear groundless, Kennedy has orchestrated a noisy press campaign charging Donovan with the taint of "labor racketeering," through the work of Kennedy staff assistant Walter Sheridan, an experienced Justice Department operator who ran the original anti-Jimmy Hoffa campaign of the Senate's McClellan hearings and also assisted Bobby

Kennedy's harassment campaign against the Teamsters Union.

On key labor issues the labor secretary designate made the following comments:

On Davis Bacon, which legislates prevailing wages on all federally funded projects—an issue of vital concern to organized labor: Donovan said that he would continue to support the Davis Bacon Act but would consider action to tighten administration of it.

On a lower minimum wage for teenagers: "I do have an open mind," he said, adding, "If it could be proved to my satisfaction that a youth differential would make a dent in the problem without affecting existing wage earners, I would be willing to try it."

On right to work laws: Mr. Donovan said he was opposed to repealing the section of the Taft-Hartley Law that permits states to outlaw the unions or closed shops. But he also said he probably would not support any national right to work legislation.

On unemployment compensation payments' expiration: Donovan did not respond specifically to proposed legislation to extend them, but promised to give the matter high priority, recalling when "unemployment benefits kept soup on my father's table."

Donovan also outlined plans to upgrade the training component of federal job programs and to end the "adversarial atmosphere" of occupational health and safety regulations.

As of Jan. 16, Donovan's confirmation was delayed by the allegations from a Civiletti Justice Department "protected witness."

Ralph M. Picardo, a murderer sentenced in New Jersey to a prison term of 17 to 23 years, but later placed under federal custody, charged that Donovan had made payoffs to him for labor peace with the International Brotherhood of Teamsters at his building firm, according to the *New York Times*.

Although Picardo was first brought under federal protection in 1975, his most active informant status has been under the Civiletti Justice Department's pre-Pendorf warfare against the Teamsters in 1978.

Department of Interior



James C. Watt, Ronald Reagan's secretary of the interior, has caused continual consternation among environmentalists. In his confirmation testimony before the Senate Energy and Natural Resources Committee, Watt renewed his attacks on unnecessary environmental

restrictions on public lands, calling for a "reasoned" approach to the use of federal land for development of untapped energy and water resources, while allowing scope for aesthetic and recreational needs.

As interior secretary, Watt has responsibility for overall management of the 700 million acres of federally owned lands, management of hydroelectric projects, live-stock pasturing, and resource exploitation on public lands. Under intense dispute in the 1970s was how much public land is to be permanently set aside to "protect the environment" particularly in the eight Western states—much of whose land is federally owned.

Damned by the liberal press as "intolerantly prodevelopment," Watt made it clear in his testimony to Congress that he intends to continue his opposition to the policies of the Carter Interior Department under Cecil Andrus. "All too often, the federal government moves in a crisis, not with the precision of a surgeon's scalpel, but with the force of a meat axe. . . . I want the federal and state governments to strike a balance between the development and protection of our natural resources. We can have reasonable development of our energy resources, and preserve our natural environment, if we are given an opportunity to phase in, with proper safeguards, the expansion being demanded by the nation."

Background on the issues

James Watt can be considered an expert on the questions surrounding his department. He comes from Wyoming, with its rich mining lands, grazing ranges, and spectacular mountains. Born in 1938, Watt was graduated cum laude from the University of Wyoming College of Commerce, earned a law degree, and in 1962 came to Washington as an aide to Sen. Milward Simpson, the father of Wyoming's current Republican senator, Alan Simpson. In 1966, Watt became a secretary to the U.S. Chamber of Commerce panel studying natural resources and environmental issues. In the Nixon and Ford administrations, he served as deputy assistant secretary in charge of water resources—a critical issue for the water-scarce Rocky Mountain states—and in 1975 was named to the Federal Power Commission, which intersects water resource management in hydroelectric energy, in addition to its concern with oil, coal, and uranium mining.

It was Watt's activity as president of the Mountain States Legal Foundation from 1977 until his cabinet designation that has upset the environmentalists and the Andrus Interior Department. The foundation was set up in 1977 to legally challenge the one-sided assault of environmentalist groups such as the Sierra Club who have effectively locked up millions of acres of the most energy and mineral-rich lands in the nation. Exemplary of the foundation's activities was the 1980 lawsuit brought against Andrus and Carter's agriculture secretary, Bob Bergland, charging that the two had illegally withheld oil and gas leases on RARE II lands (see page 60) through bureaucratic "catch-22" ploys. Watt charged in one fundraising speech for the foundation that "to achieve the objective of denuding economic

freedom and growth, [the environmentalists] have attacked the Achilles tendon of America's strength—energy."

On the federal government's role, Watt called for sound national policies to "defuse" defensive states'-rights actions to develop resources, known in the West as "the sagebrush rebellion." "We need multiple use of our entire resource base," he said. "I don't see the need for massive changes in any of our laws. We need a balanced perspective. . . . It has been the conduct of an arrogant Department of the Interior that has sparked the 'sagebrush rebellion.' Federal lands should be transferred to the public with common sense, and the DOI should have a good-neighbor policy with local government. We must defuse the sagebrush rebellion." **On the environmentalists,** Watt told the committee: "I think there is a need to tone down the rhetoric and work for compromises that will be in the public interest. There shouldn't be extremism on either side, but a coalition of progress." Among the responses was Sen. John East's (R-N.C.) comment that "we can have economic growth and we must have economic growth. Otherwise we will have no future and no national security. There is the mandate and I hope you hold true to what you think needs to be done."

On Western water resources, Sen. Peter Domenici (R-N.M.) pointed out at the hearings that Secretary Andrus had stalled water development projects, while Sen. Malcolm Wallop (D-Wyo.) warned that Carter's proposed synthetic fuels program could drain the West's existing water resources. "On the average, it now takes 38 years to complete a [water] project," Wallop added. Watt replied that "water resource is the heart of the West. We need to develop new financing mechanisms to make it happen."

Department of State



After days of raucous confirmation hearings on the nomination of General Alexander Haig, the Senate Foreign Relations Committee voted 15 to 2 on Jan. 15 to endorse Haig. As Haig's appointment was being cleared, his actions underscored what his confirmation testimony had indicated—that if Haig has his way, foreign policy in the Reagan administration will be based on the same discredited geopolitics his two predecessors and mentors, Henry Kissinger and Cyrus Vance pursued with such disastrous results.

Haig, who as commander of the North Atlantic Treaty Organization was intimately involved in NATO General Huyser's mission to Iran to establish the Khomeini regime, is now determined to embroil the Reagan administration in Jimmy Carter's deal with the Iranian

mullahs. Numerous Washington and Wall Street sources privately assert that without Haig's go-ahead, the Carter administration negotiations with Iran could not have proceeded as far as they have. Columnists Evans and Novak asserted that the Carter White House sent a secret cable to U.S. negotiators in Algeria to inform the Iranians that Haig had personally indicated his approval of Carter's multi-billion dollar payment to Khomeini. Other sources report that Haig will use the State Department's Iran working group, set up after the hostages were seized in November 1979, as his vehicle to impose his Iran policy on the new State Department. "Haig intends to make them into the dominant group in the State Department if he has his way," declared a source involved in the Carter administration's Iran negotiations.

It was Haig's NATO subordinate, General Robert Huyser, who was sent to Iran by Zbigniew Brzezinski to engineer the January 1979 military coup that overthrew Prime Minister Shahpour Bakhtiar and brought Khomeini to power. Deputy Commander Huyser, who personally gave the Teheran mob over 100,000 automatic weapons in one night, was disavowed by Haig, whom Iranian military exiles and European intelligence sources, among others, nevertheless hold responsible for NATO's complicity in the Iran disaster.

In five days of testimony before the Senate Foreign Relations Committee, which began hearings on Haig's nomination Jan. 9, the former NATO Supreme Commander stated his unequivocal support for the Kissinger-vance policies, including support for the discredited "China card" and the Camp David fiasco. **On China:** Despite the consensus among most intelligent observers that the People's Republic of China is verging on internal political and economic collapse, Haig called on the United States to help strengthen China—possibly through the sale of military items—and defended it as a "stabilizing influence in Asia." Haig cited, as evidence for this view, China's "punitive actions against Hanoi" that followed Vietnam's moves against the Chinese-backed Pol Pot regime in Cambodia—the same Pol Pot regime that murdered 3 million Cambodian citizens.

Haig stated before the Senate Foreign Relations Committee: "Our relationships with China . . . should be based on our strategic motivations. . . . Now with respect to China's role . . . I think that strategic relationship has increasingly begun to suggest that their concern about what they refer to as the search for hegemony by the Soviet Union on their border . . . has given them a motivation for a certain stabilizing influence in the area. Evidence, with a value judgment, their punitive action against Hanoi when Hanoi continued its activities in Cambodia."

On the Middle East: Haig declared his support for the Carter administration's Camp David process, despite the fact that it has been a major stumbling block to

European-led initiatives to resolve the Mideast crisis. Haig proposed, as well, the establishment of U.S. military bases or staging areas in the Persian Gulf, which has already been rejected by moderate Arab states.

In response to questioning from Colorado Democrat Gary Hart, Haig said: "Any application of American commitment of power must be taken with the greatest reservation. And once you do it, you should be aware that you have done something that has a prospect of succeeding. . . . Now if all this is to suggest that I'm recommending an intervention to protect our oil, why, it's clearly circumstances where such a recommendation might be made.

"I am very concerned today about the inadequacy of our capability. . . . I think we have a great deal to do to correct that capability. That's some of the military aspects of it, and I'm talking about airlift, sealift. I'm talking about staging areas, or basing areas. And I'm talking about ready forces capable to intervene at the level of capability necessary."

On Latin America: Haig defended the 1973 Kissinger-backed overthrow of the Allendo regime in Chile as necessary for U.S. national interests. Through his hard-line statements on Cuba and El Salvador, Haig's testimony suggests that he will try to steer Reagan into a confrontation with the left-wing guerrilla forces in Central America.

In response to a question by Connecticut Senator Christopher Dodd, Haig stated: "It would be very difficult for me to support efforts toward the normalization of relationships with Cuba just so long as they are spawning, instigating, manning, and conducting terrorist activities in this hemisphere designed to change by force legitimate governments."

On Africa: In testimony Jan. 14, Haig announced that he hoped to make several trips overseas early in the Reagan administration to include South Africa, an area of "vital importance." He described his attitude toward the nation of Zimbabwe as one of "watchful waiting," noting that Prime Minister Mugabe is an "avowed Marxist." On Angola, Haig said that he was concerned about the presence of Cuban "mercenaries" there, noting that "that situation is clearly a major factor in considering efforts to improve relationships."

On Kissinger: Pressed to explain whether he has any policy differences with the former secretary of state, Haig replied: "I differ on . . . I differ on . . . *strategic strategy!*"

Informed Washington sources report that Haig is attempting to put the State Department under his firm control and to bring the Defense Department under his influence as well. Some Reagan loyalists are interpreting his statement at the Jan. 10 session of the confirmation hearings that he does not feel bound by the GOP platform as a direct challenge to Reagan over control foreign policy. Haig is also reportedly pushing to fill the second-level posts at State with old Kissinger hands.

Senator Tower on military policy

In an exclusive interview, the chairman of the Senate Armed Services Committee, a Texas Republican, discusses the issues.

In this exclusive interview with *EIR*'s Barbara Dreyfuss, Senator John Tower indicates some of his major concerns about U.S. military posture, and declares that the first priority of the Senate Armed Services Committee will be to deal with the manpower and readiness problems confronting our armed forces.

First elected to the U.S. Senate in 1961, the Texas Republican has been a member of the Armed Services Committee since 1965, where he has consistently advocated a strong military.

Before entering the Senate, Tower was a professor of government at Midwestern University in Wichita Falls, Texas. He received a master's degree in political science from Southern Methodist University and did graduate work at the London School of Economics.

In addition to his Armed Services chairmanship, Tower chairs the Senate Republican Policy Committee, and thus is a key member of the GOP leadership in the Senate.

* * *

EIR: Caspar Weinberger has indicated in recent public statements that he's going to defer to the Senate Armed Services Committee in policy.

Tower: Well, number one, I expect to cooperate fully with the new secretary of defense. I've known him well and favorably for a long time, and he has shown every disposition to consult. So I intend to help in every way I can. Defense initiatives, in my view, are nearly due, and should come from the administration. At the same time, I think that we [senators] do have a role to play, especially those of us who have been involved on a contingent basis for many years.

The most immediate priority is solving our manpower and readiness problem, as you've no doubt read about our problems with retention, shortage of experience, and untrained noncommissioned officers.

EIR: How do you stand on gearing up R&D, especially in areas like lasers and beam weapons, and expansion of our space programs?

Tower: I think that research and development are enor-

mously important and we have to broaden our R&D base. We need to look at some programs that probably should have increased funding, programs that show some promise, particularly with applications in high technology.

EIR: Can you be specific about which programs those would be?

Tower: Right now, I cannot.

EIR: Some people would like to have a third SALT agreement involving voluntary limits on research and development. Do you think the Soviets would accept such limits?

Tower: Oh, that sounds a little like pie in the sky to me. I think we first have to advance on the problem of actual arms limitation and arms reduction. That's a pretty difficult aspect to get into when you start talking about research and development, technological base and industrial base, and that sort of thing. Of course, a lot of American defense technology is a spinoff from non-defense technology; the Soviets, of course, dedicate their superior resources to military R&D.

EIR: So we'd have an imbalance there?

Tower: Yes—how do you limit that when the American public's demanding a better detergent and a better television set, and all that sort of thing? The Soviets don't have that kind of consumer demand on their R&D.

EIR: Do you think R&D limitation is something we should look toward?

Tower: I don't think it's practical to think about it right now. We had better advance on the larger problems first.

EIR: What are your thoughts about proposals that both the United States and the Soviet Union should limit strategic weapons, while allowing an unbridled conventional development?

Tower: I think you have to have adequate strategic capability to serve as a deterrent to nuclear attack or nuclear blackmail. I think, too, that you've got to main-

tain a naval capability, certainly, because the maritime edge is awfully important to the United States. In a peacetime situation the Navy is your first line of defense, your precision instrument of diplomacy; obviously that's something you can't forfeit to the Soviet Union.

In conventional terms we need to make a number of improvements. If you lower the threshold of risk to the Soviets, by virtue of either strategic parity or strategic inferiority, then you have to have a better conventional capability to discourage them from any military-political adventures involving deployment of conventional forces.

EIR: There have been suggestions that NATO play a greater role outside its traditional boundaries, particularly in the Middle East. Do you think that NATO should expand?

Tower: It's probably not politically practical right now to try to initiate any kind of dialogue within NATO on expanding the boundaries of NATO. I think that, although beyond the boundaries of NATO we cannot act as an alliance, we must behave as allies. The requirements for a deployment in the Indian Ocean, for example, mean that a larger share of the burden will have to be shouldered in the Western European theater by our allies. It would be impractical to think in terms of contributions of land troops, for example, of NATO troops in other parts of the world.

EIR: Because they wouldn't agree to it, you mean?

Tower: It's not a matter of their not agreeing to it; it's a matter of their being confronted with superior Warsaw Pact forces. Obviously you can't denigrate your defense capability there.

EIR: Europe is not too happy with the proposals to station medium-range missiles on its territory.

Tower: That's a political problem in Western Europe. Among defense specialists there, I think you'll find support for the modernization of our tactical nuclear forces, our theater nuclear forces.

EIR: Japan has been asked to raise its military budget.

Tower: They fell short of what we had expected them to increase to.

EIR: When Senator Stevens was there last week, he said that if they couldn't increase their military budget further, they should increase economic aid to Asian nations.

Tower: I would agree that there's more they can do in extending economic assistance to other countries and that wouldn't be so much of a political problem for them, I would think, as more military buildup. There is, of course, a lingering animus in Japan toward resurgent militarism, there's a fear of it.

EIR: You could see discussing with them economic increases rather than military?

Tower: No, I could see discussing increases in military defenses with them, too; I'm making the observation that increased economic assistance, as it appears to me, would pose less of a political problem, an internal political problem.

EIR: The Carter administration has favored actually aiding the People's Republic of China on a military basis. What is your view on that?

Tower: That's a policy decision that has to be made by the incoming administration. Therefore, I'm not prepared to publicly discuss it.

EIR: What about the PD-59 policy doctrine of the Carter administration, which accepted the possibility of a limited nuclear war? Would you like to re-examine that?

Tower: Let me simply say that I think the United States must possess an urgent, hard-driving kill capability on the part of its deterrent. We cannot afford to rely any more on the discredited doctrine of "mutually assured destruction" [MAD].

EIR: So you are looking at the idea of limited nuclear conflict?

Tower: I don't know what you mean by a limited nuclear conflict.

EIR: Well, where we're not talking about MAD, we're talking about a more selective, limited conflict.

Tower: Most likely, the most limited conflict is one that's confined to theater nuclear force. I think you avoid talking in terms of some kind of limited global exchange; then, of course, the question is to what extent can you limit it. The best thing is to have the deterrent capability so that you don't have to suffer the first strike in the first place. And we have no intention of launching the first strike, and never will have.

EIR: What you're talking about is the capability to respond to a first strike?

Tower: That's correct, an adequate response. A response that discourages the Soviets from testing the idea that a nuclear war would be winnable.

EIR: Do you think we should play a stronger role in Latin America, particularly in the question of military aid to El Salvador?

Tower: Well, avoiding specifics, I think we have to vastly improve our relationship with a number of Latin American countries. We have to take a more pragmatic approach to political situations in Latin America.

EIR: Could you define that a little more?

Tower: No, here we're getting into foreign policy matters.

EIR: It's so hard to separate them out.

Tower: Yes, but you see, that's beyond the pale of my responsibility. What we have to await is for the administration to define its foreign policy objectives, and then try to provide them with the military capability to sustain and implement those objectives.

EIR: One of your staffers said that you view military policy from the standpoint of implementation of foreign policy, and that a lot of your thinking was shaped when you were at the London School of Economics. Do you look toward anybody in particular for having shaped your thinking?

Tower: My geopolitical thinking? I think that a lot of it was influenced by my studies at the London School and a lot of it by experiences I've had.

EIR: Do you plan to make any trips abroad fairly soon?

Tower: I plan to attend a West European defense seminar in Munich in February, and I may do a little other traveling at that particular time, I would say to get an updated feel on the climate of Western Europe. I've spent a great deal of time over there, and I have a pretty steady communication with a number of parliamentarians and defense-oriented officials in the NATO countries.

EIR: Would you stress more communication between the new administration and the new Congress and the NATO allies than Carter had?

Tower: Yes, I believe that it is Ronald Reagan's intent to develop better communications and more regular consultation with congressional leadership. And I believe he can follow through with that.

EIR: On the question of Italy, we have picked up rumors that there might be a coup in the very near future, and the head of the Socialist Party Bettino Craxi might be involved; the Communist paper *Unità* warned of efforts to undermine the government this weekend. Are you going to look into this, since it involves a NATO ally?

Tower: It's something I personally will monitor with great interest. It's not in the purview of my committee other than to keep informed of what's going on.

EIR: Back to the Middle East—Henry Kissinger has made recent proposals during his visit there to station armed forces and air capabilities in the Middle East. Do you see that as important?

Tower: I think we have to have a force capability in the Middle East, and that encompasses a number of things, if not in terms of bases, at least access, base access.

The libel verdict against the IHT

EIR has just obtained the full official English translation of the Nov. 29, 1980 libel judgment won in a French court of law by Contributing Editor Lyndon H. LaRouche, Jr. against the *International Herald Tribune*, an English-language, Paris-based joint venture of the *New York Times* and *Washington Post*.

Under French jurisprudence, the main defense for a charge of libel is the truth of the allegations in question, while under U.S. law, the brunt of the defense can be honest motives for printing falsehoods. The *International Herald Tribune* offered no proof of the veracity of its Oct. 13-14 articles on Mr. LaRouche. Instead, as *EIR* reported Dec. 23, it defended itself by citing other newspaper articles containing the same allegations.

The Oct. 13-14 *International Herald Tribune* articles were reprinted from articles by Howard Blum and Paul Montgomery in the *New York Times* on Oct. 7-8. The libels coincided with the start of Mr. LaRouche's campaign for the Democratic Party's 1980 presidential nomination. In 1976, Mr. LaRouche had run a prominent campaign for President on the ticket of the U.S. Labor Party, which Blum and Montgomery termed "a cult."

Excerpts from the libel verdict follow. Subtitles are in the original.

* * * * *

By the action of Gibault, Process Server in Paris, on the date of Dec. 28, 1979, Lyndon LaRouche summoned before this court Walter Thayer, director of publications for the *International Herald Tribune* and the International Herald Tribune, S.A., as being liable for damages, to answer to the charge of libel against an individual, dealt with in Articles 29 paragraphs 1 and 2, 32 par. 1, 33 par. 2, 42 of the law of July 29, 1881, by reason of an article written in the English language entitled "U.S. Labor Party: A Cult of Paranoia" which begins with the words: "Jim Jones' Peoples Temple," published in No. 30067 of the *International Herald Tribune* dated Oct. 13-14, 1979 on page 7.

The plaintiff demands payment in the amount of 100,000 francs and publication of the judgment to be

pronounced in the columns of the *International Herald Tribune*, as well as in three daily or weekly papers as chosen by the plaintiff at the expense of the accused. . . . Full argument was given on both sides, the plaintiff being represented by Mr. Varaut, the accused and the International Herald Tribune, S.A. by Messrs. Montigny and Legrez. . . . The accused moved for his acquittal by reason of his honest intentions. . . .

The main issue

On the article under consideration, the plaintiff complains of the title: "U.S. Labor Party: A Cult of Paranoia," as well as the following paragraphs:

"none of whom wanted to be named. Some said that they feared for their lives."

"Officers of the party exchange information nearly daily with Roy Frankhouser, who calls himself the Grand Dragon of the Ku Klux Klan in Pennsylvania and who has been active in the U.S. Nazi Party."

"Members of the Labor Party and its predecessors have been arrested on a variety of criminal charges—kidnapping, possession of guns, assault."

"A frequently used tactic—particularly when members are selling the group's literature or disrupting the meetings of other organizations—is to try to incite violence through verbal abuse."

"We find this group every bit as weird as Marxist Rev. Jim Jones' Peoples Temple."

There is cause to examine if the incriminated article is of libelous character and, eventually, if the accused can legitimately uphold his claim of honest intentions.

On the libelous character

The libelous tone is already apparent in the title. In fact, the author associates the name of a political party with an object very different from what it should have: the cult of a mental illness, paranoia, form of psychosis of which the U.S. Labor Party is thus accused and therefore its main sponsor. The latter is alleged to have turned the party of which he took control away from its normal direction in favor of phantasms from a deranged mind.

The author explains that he bases his article notably on interrogations of former members of the Labor Party "none of whom wanted to be named. Some said that they feared for their lives." These remarks clearly express the idea that Mr. LaRouche directs an organization which has so many things to hide that he is ready to have executed those who would divulge information relative to his party, which is libelous.

This accusation of violence and of dubious activity is taken up again in the sentence, "Officers of the party exchange information nearly daily with Roy Frankhouser, who calls himself the Grand Dragon of the Ku Klux Klan in Pennsylvania and who has been active in

the U.S. Nazi Party," a sentence in which the journalist makes a point of close ties between Mr. LaRouche's party and organizations that have lent their names to ideas of racism and violence, which point causes damage to the honor and reputation of a candidate. . . .

These allegations of violence . . . are pursued and made explicit in the following paragraphs: "Members of the Labor Party and its predecessors have been arrested on a variety of criminal charges—kidnapping, possession of guns, assault"; "A frequently used tactic . . . is to try to incite violence through verbal abuse." These statements are thus equally libelous.

Several paragraphs later, evoking the psychological atmosphere of this party, the author states: "Often party officials pick the person that a member is to live with." In other words, he imputes to the leaders and thus to Mr. LaRouche psychological pressure tactics such that members of the party are no longer able to act according to their free will, thus tending to present the political party as a "sect," with all the pejorative connotations that can be linked with this term.

On the honest intentions

The accused, who did not offer to prove the veracity of the defamatory facts, limits himself to maintaining that he acted with honest intentions, informing his readers of what other journalists had written on the subject. Not only have the articles exhibited by the accused appeared for the most part in newspapers belonging to the same press agency as the *International Herald Tribune*, but also and especially it is not enough that other agencies publish the same defamatory information to establish the honest intentions of he who continues these allegations. In effect, Mr. Thayer had the duty, as any publisher of a newspaper, to act with prudence and objectivity and thus to verify the statements that he allowed to be printed.

Mr. LaRouche is free not to pursue all those responsible for defamation without that excusing or justifying the work of this director of publications.

Finally, if this article was written on the occasion of the beginning of the American electoral campaign, Mr. Thayer cannot justify his attitude by the existence of a polemic between Mr. LaRouche in the electoral campaign; on the contrary, he presents his newspapers and those of the press organization to which he belongs as impartial and seeking only to inform their readers.

The accused has therefore not established that he acted with honest intentions, and it is appropriate to pass sentence. . . .

Mr. LaRouche suffered, because of the defamation of which Mr. Thayer is guilty, a prejudice which shall be compensated by the allocation of the sum of 5,000 French francs, and the publications, in abstract, of this decision in two newspapers. . . .

Right meets left in support of postindustrial urban policy

by Lonnie Wolfe

Peter Hall, former chairman of the socialist British Fabian Society, has announced that he supports the proposals of the President's Commission on a National Agenda for the 80s, a set of proposals geared to establish a "post-industrial" concept for federal urban assistance and economic policy in general.

The commission, set up in 1979 under the direction of Council on Foreign Relations member Hedley Donovan, contains prominent representation from the social-democratic leadership of the U.S. labor movement, including AFL-CIO President Lane Kirkland.

The commission plans to formally release its proposal at a Washington, D.C. press conference later this week. Sources on the commission report that the urban policy recommendations will be "substantially the same" as those in the "leaked" draft report.

The commission's proposal received an unqualified endorsement from the London *Economist*, which praised the commission for having the courage to state that industrial-based urban society in America is finished. George Sternlieb, one of the leading urbanologists in the United States, also endorsed the commission's proposals, calling for "the decamping of urban populations in the Northeast and Midwest."

Sternlieb is working on a parallel track with the Washington-based Heritage Foundation, a think tank linked to the Thatcher government in Britain. The foundation has attempted to foist on the Reagan administration proposals for transition to a post-industrial America; Fabian Peter Hall openly collaborates with them.

The new Housing and Urban Development chief, Samuel Pierce, has rejected the Heritage approach of federal intervention to force elimination of rent controls or encourage migration. However, Reagan himself has strongly endorsed Peter Hall's pet "free enterprise zone" proposal.

Hall, who is a member of the Fabian Society executive committee along with Labour Party leftist Tony Wedgewood-Benn, normally works out of the University of Reading in England. That school is noted for its connections to the London-based Tavistock Institute of Human Relations, which spawned the "post-industrial" movement in the 1960s.

Hall came to this country to help push such plans. He is working with the Washington-based Heritage Foundation, the "right-wing" think tank that works closely with Margaret Thatcher's Tory government in Britain. The Heritage Foundation advocates repeal of the federal Davis-Bacon statutes and imposition of right-to-work laws to crush the U.S. organized labor movement.

The foundation is the leading proponent of Hall's enterprise zone proposal in the United States. Heritage policy analyst Stuart Butler, a Scottish-trained academic and a British citizen, boasted recently that he plans to exploit Heritage channels of influence in the incoming Reagan administration to promote the Fabian Peter Hall, whom he referred to as "one of the greatest urban thinkers."

"I am perfectly happy working with the Heritage Foundation and groups like that," Hall told a reporter. "We are living in a period of acute crisis. There is no longer any real point in maintaining the phony ideological distinctions between left and right economic ideas. The way I see things there is a real convergence between the quite left-wing Fabian types and the so-called new right. Both groups unite around their hatred of bureaucracy, their support for local control, and local initiative."

"It is really a question of understanding the roots of these ideas," Hall continued. "Look how many members of the Mont Pelerin Society (the monetarist cult which includes such people as Milton Friedman—ed.) were members of the Fabian Society. How are such transformations possible. It is really only because they are currents of the same liberal economic thought, like Adam Smith and Karl Marx."

"We must face facts," Hall stated. "True Fabians must look to the new right to push through some of our more radical ideas. It is a real irony that Maggie Thatcher and Ronald Reagan may wind up taking us fairly far down the road toward a post-industrial society, despite the fact that we Fabians invented the term."

Stuart Butler of the Heritage Foundation expressed a similar idea recently, stating that the foundation will use the Reagan "right-wing administration to impose left-wing policies."

Hall described his vision of the transformation in stark terms: "There are two Americas. One is the 19th century heavy industrial based society. The other is the growing post-industrial society, in some cases built on the shards of the old America. It is the conflict between the two worlds which will produce the crisis and social cataclysm of the next decade. The two worlds cannot co-exist. In the end the post-industrial world must crush and obliterate the other one."

The industries of the industrial revolution—auto, basic steel, etc.—have reached the "end of the road," said Hall. Hall calls, for example, for "the dismantling of the West German economic miracle." Industry was rebuilt in Germany after the war on "the false premise that industrial growth could go on forever. Industrial growth in Germany is finished and the country will undergo a planned collapse." The most farsighted members of West German Social Democracy, like former chancellor Willy Brandt, understand this, Hall says.

Toward this end, Hall played a key role in a recent study of cities in the Ruhr industrial region in Germany funded by the U.S. German Marshall Fund, which targets for deindustrialization such cities as the steel center, Dortmund.

There is this idea, especially among the working class in Germany and in the United States that production and industrial progress will solve everything, Hall said. "This idea will die hard, but it will die. It will be killed."

"The problem is the grouping in the German Social Democracy and the British Labour Party and the Democratic Party in this country tied to the labor movement. The labor movement is the main roadblock to the post-industrial idea," said Hall. They will make alliances to prevent the scrapping of heavy industry. Their power to hold back progress must be broken."

George Sternlieb: 'Americans should replace the wetbacks'

The following interview is with George Sternlieb, professor of urban studies at Rutgers University in New Jersey, and a principal adviser to the urban policy task force chaired by Mayor Pete Wilson of San Diego, Calif., which drafted the recent transition team report to President Reagan on housing and urban policy. Sternlieb's work was consulted extensively by the Carter administration's President's Commission on a National Agenda for the '80s.

EIR: Dr. Sternlieb, what is your opinion of the Agenda 80 report?

Sternlieb: It's a very important report—not because anything is going to happen immediately, but because it opens up a discussion. It will have a liberating influence. From the viewpoint of cities like New York, it is the best thing that can happen. One of the main problems New York has had is the overwhelming presence of people who cannot support themselves. If the cities can decamp themselves of these people, it will open up the possibility of remaking the central cities on a new basis.

EIR: Do you mean a city based on recreation?

Sternlieb: This is the post-industrial era. The city of Manhattan and its colonies are flourishing. Jerry Heinz is building there. But the immigrants need to go where the blue-collar jobs are, and they're not here.

EIR: Do you really expect Midwestern industrial towns to be able to make that kind of transition?

Sternlieb: No. Certain cities are not going to make it in the post-industrial era. Youngstown [Ohio] is going to have to die, and the faster it dies, by so much will the human agony accompanying the tragedy decrease. There are very real questions about the city of Detroit and what purpose it serves. A few years ago, Detroit had a population of 2 million; now it has 1.2 million, and even that is too much. It is going to have to shrink some more. This is a case in which less is more. Detroit won't disappear altogether—there will still be a major banking center, the new Renaissance Center of hotels and convention centers, but the big industrial plants are a thing of the past. Detroit doesn't have the jobs for its population and it won't have jobs for them.

Now, the bill we are proposing, that is, what the report recommendations say, is that welfare should be nationalized, so a recipient can pick up his check anywhere in the country. This will greatly facilitate labor mobility.

EIR: Do you think the Republicans will go along with that?

Sternlieb: You should remember that this national welfare proposal came out of the Republican Party, out of [Milton] Friedman, and was supported by [Daniel] Moynihan but defeated by the Democrats. There is still a long and thorny trail ahead of this proposal, but that is the way we are going to move.

EIR: To your knowledge, who in the Reagan administration would favor it?

Sternlieb: I would assume that Martin Anderson is very favorable toward this idea.

EIR: But you're talking about shutting down the entire



Machine-tool production in the Northeast: basic industry under fire.

industrial heartland, which is the basis of our economic and military strength!

Sternlieb: You have to be realistic. This is the post-industrial era. There are certain cities that will participate in the post-industrial era and those that won't. There is a very real question as to what function, if any, the old industrial towns have. Cities like Scranton [Pennsylvania], Wilkes-Barre [Pennsylvania], Newark [New Jersey], and Youngstown are all going to have to disappear. On the other hand, Manhattan will be glorious. Upper Michigan Avenue [Chicago's hotel and boutique center] will be glorious; the rest of Chicago will be shitty. The post-industrial era is happening. Blue-collar employment is down. Jobs that used to be in central cities are now in Taiwan or Hong Kong. That's a good thing. The problem is what do you do with all the redundant people.

It's my guess that you cannot reconstruct the United States of the 1950s or 1960s. We are on the verge of a massive worldwide revolution in production techniques. We have a worldwide problem of a redundant labor force. Even in paper-shuffling, the age of bulk employment is over. The only jobs remaining will be those for the trained and talented—lawyers, accountants, and consultants.

EIR: But we will still have to have some industrial employment.

Sternlieb: As far as the United States is concerned, the residual blue-collar employment, like construction, will be in the Southwest.

EIR: You say the main problem is redundant laborers; does that mean you advocate reducing the population?

Sternlieb: It will ultimately be necessary to have zero- or negative population-growth. We are already below zero-growth in Europe, European Russia, and the United States; the problem is that most of the world is still growing. Mexico, at its current rate of growth, will eventually reach a hundred million people, when they can't support half the people they have now. I think it's interesting that in the three Third World countries with the fastest-growing GNP—Mexico, Brazil, and Colombia—the amount of blue-collar employment has not grown at all.

EIR: To sum up, what do you think the report means for the new administration?

Sternlieb: The key issue the administration is going to have to face is whether the United States is really New York City in disguise—whether this country is living beyond its means. What does the United States do so well as to justify its standard of living? We have to optimize our use of population. The cost of reinventing the industrial city is too great. That doesn't mean you don't use the enterprise zones, but we have to realize that that is just a rowboat trying to tow the Queen Mary. Rather than trying to save doomed industrial centers, it would be much more efficient to relocate people to where we are bringing in wetbacks because there isn't enough cheap labor.

The austerity thrust

From an article in the latest issue of the London Economist:

"Cities are not permanent," says the report of a presidential commission on a National Agenda for the '80s, in a sentence that should sound orthodox for a society as restless and open to change as those 200-year-old United States. Yet the suggestion that the federal government should not stand in the way of the drift of industry and people from America's grimier northern industrial heartland to the booming states of the South and the West has been greeted as if it meant the end of life as Americans know it. . . .

The commission . . . wants to nationalise the welfare system because it is only when welfare payments are equal all over the country that the poor and the unemployed in the labour force will become truly mobile. . . .

The lesson for the nastier northern cities is that there is no alternative to disgorging many of their present inhabitants if they are ever to compete as attractive slimmed-down service centers for the new surrounding rural industries.

The Carolina minerals battle goes into federal court

On Jan. 12, U.S. Federal District Judge Woodrow W. Jones heard the case of the Southern Appalachian Multiple Use Council et al. v. Bergland, Secretary of Agriculture. The case, heard in Asheville, North Carolina, was continued to Jan. 24, at which time a decision will be handed down that could affect hundreds of thousands, if not millions, of acres of mineral and forest resources under the jurisdiction of the U.S. Forest Service of the Department of Agriculture.

This legal action is presently the major challenge before the courts against a process implemented in 1977 by then-Agriculture Secretary Bob Bergland. The process, known as RARE II, is the second phase of a Roadless Areas Review and Evaluation process begun in the early 1970s. Two other major challenges, in California and in Wyoming, were both decided against the agriculture secretary. Under the no-growth policies of the Carter administration, the RARE II process was the umbrella under which some 10.8 million acres of forest lands have been withdrawn from traditional "multiple-use," while their suitability for permanent "pristine" status was presumably being studied by the government.

I have covered earlier aspects of this particular North Carolina case (*EIR*, Nov. 11, 1980) because of the importance of what is at stake. The fact that the case has come into court one year after suit was filed, and more than three years after development was halted by the RARE II process, makes it worthwhile to review the substance of what's at stake.

Regardless of the outcome of the decision on Jan. 24 (both sides are expected to appeal), the case underscores one of the most important policy questions which incoming Agriculture Secretary John Block must address.

In 1977, a remarkably persistent geologist Jack B. Brettler, ran smack into RARE II. I say persistent, because it has been principally through his sustained

efforts that the case last Monday in the U.S. District Court in Asheville took place.

Arguing on behalf of the secretary of agriculture was a young attorney from Civiletti's Justice Department who seemed to have a close relationship with the two representatives from the virulently antigrowth Sierra Club, arguing on behalf of the wilderness process as "friend of the court." The Sierra Club has been one of the prime movers and architects of the entire RARE II process, whose seeds were actually sown under the tenure of Nixon Interior Secretary Kleppe in the early 1970s and continued under Carter's tenure by Cecil Andrus.

Resources at stake

In 1977, Jack Brettler filed for routine permission for a prospecting permit on behalf of Appalachian Properties, Inc. for mining of olivine in a 331-acre portion of the Nantahala National Forest of North Carolina. Brettler says the area contains the largest reserves in the East of the mineral olivine, which is necessary in steel-making and making linings for high-temperature furnaces.

This started what a representative from the Sierra group called the "loudest" protest in the nation against the controversial RARE II process. Brettler spurred other groups into action, including representatives of the area's substantial forest products industry—which for years had purchased timber from the nearby forests—the U.S. Farm Bureau, and conservationist groups.

Since the RARE II withdrawals, most lumbermen were now forced to go as far away as Mississippi, at five times greater transportation cost, according to the estimate of one leading industry representative, John Veach, former national president of the Forest Products Association.

In presenting its argument against the government land lockup, the principal attorney for the developmentalists and conservationists, Hamilton Horton III, asked for a mandatory injunction to stop the illegal lockup. Horton argued that Congress had explicitly reserved for itself the authority to determine what should or should not be called wilderness areas. It, in fact, had listed 16 specific areas east of the Mississippi (100th meridian) to be designated wilderness, and another 17 specific areas on which the President and his Department of Agriculture had a five-year deadline to determine and recommend as appropriate for possible wilderness.

That deadline, under terms of the Eastern Wilderness Act of 1975, had expired on Jan. 5, 1980. As Horton argued persuasively, one such area in North Carolina, in the Craggy Mountain National Forest, had not even today been presented to Congress for classification, while Bergland's office seemed to ignore the explicit Eastern Wilderness statute and impose his own criteria to stop development of some of the nation's richest energy and mineral, as well as forest and grazing lands.

In the narrowest sense, at issue before the court is a *de facto* wilderness designation arbitrarily imposed, in flagrant violation of specific law, on lands estimated by the government's U.S. Geological Survey (USGS) to contain immense mineral resources. The area in North Carolina's Pisgah National Forest alone contains enough uranium to fuel 10 to 15 1,000-megawatt nuclear plants for their entire 30-year life. This is the energy equivalent of more than 4.65 billion barrels of oil. The olivine resources are estimated to be the richest source in the entire eastern U.S.

Last spring, USGS further cited the area stretching along much of this "wilderness" study area, the Appalachian Overthrust belt that runs down from New York State to Georgia, as containing substantial and largely unexplored oil and gas reserves similar to those of the vast Rocky Mountain Overthrust that is the source of much recent activity.

AMOCO applied for leases on some 229,000 acres in July 1979 to explore for needed oil and gas. To date, despite the positive recommendation of the local Forest Service director, Bergland's office in Washington, as well as the Department of Interior, has sat on the application. The Bureau of Land Management (BLM) is presently sitting on at least 200 applications for oil and gas leases in North Carolina alone, more than 450,000 acres. In addition, because of RARE II, they are holding up further leases on untold oil and gas reserves in Georgia, Virginia, and Tennessee. One spokesman referred to this as a "lockup of the entire National Forest system in the Eastern United States."

In a response—made available to me through a

constituent—to an inquiry from North Carolina Sen. Jesse Helms, the BLM last month replied that these oil and gas lease applications accumulating over the past two years have "preliminary status report almost complete." And then? "[T]his office [BLM—ed.] will request title and environmental reports from the Forest Service." And then? Assuming the applications are in order, "the case files are transmitted to Denver for clearance by the oil and gas investigative task force." This latter body is a witchhunt apparatus set up last year primarily to hinder noncompetitive leasing for oil and gas by Interior Secretary Andrus and the Justice Department (see *EIR*, March 25, 1980).

Of course, as the BLM explained to the senator, this is not the "final step." Before that could happen, the USGS must make a "known geological structure check" (KGS). If there is found to be a KGS, the lease application must be rejected as noncompetitive. When do they expect this all to be complete? "We estimate that these offers will be processed by mid-1982." That is, merely four years after they were filed!

The 37 steps

Let me draw the point out a little further. I have been given an official flow chart titled "Mineral Leasing on Acquired Land" for merely the Eastern Region of the Bureau of Land Management and the U.S. Forest Service. The document, which in reduced form is more than two feet long, is subtitled, "simplified sequence of interactions [sic]." Under this "simplified sequence," an applicant for mineral exploration rights, even if wilderness was *not* involved, would have to successfully complete an interlocked series of no fewer than 37 steps, including application for prospecting permit, environmental assessment, submission of exploration plan, issuance of "OK to start exploration" and so on. By now, we are at step 13 of 37, with no end in sight—and an actual lease has not even been issued.

To expedite out of this morass, Jack Brettler, through the offices of Rep. Lamar Gudger, assembled representatives of all government—state, local, and federal—agencies involved in review process at his proposed exploration site. Some 13 different agencies were present, from the Forest Service, the Conservation Division of the USGS, the Department of Interior Fish and Wildlife division, the State of North Carolina Department of Cultural Resources (to make sure it did not interfere with any ancient Indian burial grounds), etc.

Most geologists do not share the remarkable tenacity of Brettler. And even he expressed doubt that this insane morass can be reversed before a tiny minority of self-appointed defenders of some pristine state of nature succeed in destroying the opportunity for this nation to survive.

National News

Heritage wants to slash the USDA

Detailed recommendations for curbing the resources of the U.S. Department of Agriculture are contained in the 365-page study written by the Washington-based Heritage Foundation for the Reagan transition team. The study, titled "Agenda for Progress," specifies \$3.3 billion in cuts from the department's budget on the grounds that the allocations are going into "nonagricultural" activities.

Author Don Paarlberg of Purdue University defines as "nonagricultural" activities: 1) payments to compensate producers for market prices below the costs of production; 2) the commodity program, termed too high at \$50,000 per farmer; 3) dairy price supports, to be cut from 80 percent to 75 percent of parity; 4) guarantees for new loans for farm ownership, operation, and emergencies; and 5) crop insurance subsidies and disaster payments.

Paarlberg also recommends that Commodity Credit Corporation interest rates be hiked and loan limits be cut in half to reduce availability of credit.

States prepare for transport deregulation

On Jan. 7, the U.S. Department of Agriculture convened a two-day meeting of state agriculture department representatives to discuss how agriculture must adjust to the passage of the Rail Policy Act of 1980 deregulating railroads.

Dr. Robert Tosoerud, associate director of the USDA's Office of Transportation, an organizer of the conference, told *EIR* that in many rural areas, no transportation service will be available. But, he said, "The law is the law, and what we are trying to do is to discuss with the various state agriculture departments

how they will have to adjust to these new regulations." The problems will center on rail abandonments, increased costs in or loss of, service, and fluctuating rates. Many elevators will be forced out of business altogether.

At the annual meeting of the Country Elevator Council of the National Grain and Feed Association in December, one Iowa elevator operator called dereg "the biggest joke played on country elevators in the next ten years." Elevators and shippers will be left at the mercy of the railroads for scheduling and rates.

To counter this, the USDA is piloting a program to allow farm and business interests to form cooperatives to take possession of abandoned rail lines.

Civiletti protecting cocaine runner?

Evidence emerged Jan. 12 that former Attorney General Benjamin Civiletti attempted to use his powers to protect the leader of a group running cocaine into the United States. According to Assistant Attorney General Daniel Guthrie of Dallas, Civiletti, along with Abscam coordinator Irving Nathan, Charles Carroll, and Ann Hoffman, intervened personally to put "tremendous pressure" on Guthrie to transfer the prosecution of alleged cocaine smuggler Sam Weisgal out of Dallas to Baltimore, where, because of the Weisgal family's local clout, a "sweetheart" plea bargain followed by a super-light sentence could be assured. Weisgal's father, Fred Weisgal, was a leading civil liberties lawyer in Baltimore and currently heads the American Law Division of the Israeli Ministry of Justice.

Guthrie refused to move the case, and found it necessary to resign in protest. Weisgal pleaded guilty in Dallas, where he could get up to eight years in prison. The Justice Department's Office of Professional Responsibility is now investigating the entire case.

Nevertheless, an editorial in the Jan. 12 *Washington Post* admonished Reagan appointee William French Smith not to

indulge in GOP cronyism, but to emulate the outstanding impartiality of Benjamin Civiletti.

Volcker and Block address Farm Bureau meet

Federal Reserve Chairman Paul Volcker delivered one of the featured speeches to the annual convention of the American Farm Bureau Federation Jan. 12 in the New Orleans superdome. Surprisingly, Volcker's speech, another of the now-standard demands for sacrifice, was received politely by the 7,000 attendees.

Volcker had followed an impromptu appearance by Agriculture Secretary-designate John Block, who during his confirmation hearings a week ago expressed concern about the Volcker policy. "Nothing can be done that is legal," Block said, "that can return 20 percent!"

Sources at the four-day meeting of the largest American farm organization reported that bumper stickers that read "Twenty Percent Is Illegal" were being snapped up eagerly in the corridors. A number of state Farm Bureaus, including Alabama, have passed resolutions demanding a reversal of the Volcker policy.

Northeast drought: a planned emergency

A scandal may erupt around the Delaware River Basin Commission, which has announced a "drought emergency" for the four-state area of New York, New Jersey, Delaware, and Pennsylvania. Mandatory water limitations will be imposed on residential and industrial users, and the amount of water taken from the Delaware watershed by New York City will be reduced.

The New York City water system is designed to weather five years of drought; the reason the city's reservoirs lack water after only seven months of a dry spell is that Mayor Ed Koch agreed to release one-quarter of the city's stor-

age capacity, 135 billion gallons into the Delaware River and New York State rivers to maintain stream flow and conserve fish life.

The release was ordered by the River Master, an Interior Department official who is mandated by the 1954 Supreme Court decree settling water disputes among the Delaware Valley states to sustain water flow in the river. The River Master demanded that New York City supply the water, because the Army Corps of Engineers' longstanding plan to develop the basin's water resources had not been implemented.

Since 1960, the Corps plan has been undercut by the commission and by environmentalists. The commission itself was set up in 1961 by a \$113,000 grant from the Ford Foundation and Laurence Rockefeller's Resources for the Future organization.

In 1978, Mayor Koch played an especially dirty role by slashing the New York City Board of Water Supply budget 40 percent and throwing the Department of Water Supply into the city's Environmental Protection Agency. Koch then agreed with the commission to reduce the city's intake of basin water from the Supreme Court-mandated 800 million gallons per day.

Kissinger dismissed as Roving Ambassador

Henry Kissinger, who has represented himself in innumerable official capacities over the years, has finally been dismissed as Roving ambassador. The obscure principality of Roving announced last week that it would not renew Kissinger's appointment, for which Henry received \$200,000 a year and all the cheese he could eat, because of "severe economic difficulties afflicting the realm."

European diplomatic sources report that the Roving decision was as much political as economic, although Henry's salary and skyrocketing cheese prices were important considerations.

They emphasized that the real rea-

sons for Kissinger's dismissal stem from a series of strange and disturbing incidents in Roving which resulted from diplomatic maneuvers Henry made for his various governments: knocking down the lines for the cablecar to the Roving casino, which occurred during an abortive attempt by British NATO troops, bearing a treaty signed by Kissinger, to set up a Roving Euromissile site; canceling Roving's daily barrel of oil from Saudi Arabia, negotiated by Kissinger as payment for having his socks washed in Riyadh; and the disappearance of all of the towels and engraved silverware from the Hotel Emperor, some of which later turned up at a pool-side cocktail party given by Kissinger in Rome.

Challenges to UAW antinuclear stand

An impromptu demonstration by pro-nuclear members of the International Brotherhood of Electrical Workers marred attempts by social democrat William Winpisinger, president of the International Association of Machinists (IAM), and United Auto Worker (UAW) environmentalists to railroad a group of antinuclear resolutions through a trade-union conference on energy held this month in Pittsburgh.

According to the UAW's newsletter, on the opening night of the National Labor Conference for Safe Energy and Employment, sponsored by nine major trade unions, some 100 electricians from a nearby local of the IBEW broke into the hall and noisily denounced the conference. Their placards proclaimed: "Anti-Nukes are Kooks" and "Electricians Support Nuclear Power."

The boisterous intervention caused much confusion and embarrassment in the meeting and forced its sponsors to tone down several resolutions attacking nuclear energy up for adoption by the conference. Contrary to the express intent of the environmentalists present, a resolution was adopted which demanded that no worker lose his job because of a threat to the nuclear industry.

Briefly

● **JOHN CONYERS** of Michigan, chairman of the House Judiciary Committee's subcommittee on crime, and Anti-Defamation League Factfinder Division head Irwin Suall have launched a provocative set of national hearings on an alleged "conspiracy against minorities." The two advocate Justice Department takeover of local law-enforcement powers.

● **MARGARET THATCHER** will visit the U.S. in February to convince President Reagan to implement major austerity programs.

● **RONALD REAGAN** states in an interview in the Jan. 19 *U.S. News and World Report* that "There is reason to believe that government mandates have had something to do with troubles in the auto industry. If so, government has two responsibilities; the first is to bail out, or help bail out, a company that's suffered because of that. The second is to do away with the mandates and the regulations that caused the trouble in the first place."

● **THE PRESIDENT'S** Commission for a National Agenda for the '80s will propose to place congressmen under tight centralized control by the official leaderships of the political parties, as in the British parliamentary system. The intent is to reduce constituency accountability. Says a commission staff member, "Interest groups won't compromise for the good of the order. Institutions like Congress are fragmented and incapable of the hard choices that have to be made if the economic pie is smaller."

● **EIGHT GOVERNORS** from the Midwest denounced high interest rates at a meeting called by Michigan's Governor Milliken. The governors also called for tax and depreciation allowances to stimulate research and development. The proposals will be presented to the states' congressional delegations for action.

Yellow alert on U.S. terrorism

The Socialist International and its allies have chosen the targets.

The recent firebombing of U.S. National Guard planes in Puerto Rico can be traced directly to previous actions by Carter Attorney General Benjamin Civiletti, who, in a 1979 deal with Fidel Castro, released four unrepentant Puerto Rican terrorists. This set off an immediate wave of assassinations of U.S. military personnel on the island; the same terrorists who carried out these "hits" now claim responsibility for the aircraft bombings.

During 1980, waves of clearly organized murders hit U.S. cities: Miami, Atlanta, Buffalo, and KKK-communist shootouts in Greensboro, N.C. In every case the Justice Department's Community Relations Service was on the scene in advance.

Behind the scenes in the United States there is a "yellow alert" Oa-gainst a suspected wider outbreak of terrorism in the weeks ahead. The list of targets of Communist Workers Party and Yippie violence include one well-known state official, and former Democratic presidential candidate Lyndon H. LaRouche, Jr.

But security agencies are getting information from undercover sources indicating something much bigger and nastier is afoot. The gutter groups' control has been traced to the European cabal of socialists and "black nobility" feudalists who have terrorized Italy

The Eurosocalists' and feudalists' "assets" in America include the very highly placed assassination ring known as "Permindex." Per-

mindex killed John F. Kennedy, tried to kill Charles de Gaulle, and commanded coverup capabilities from the Warren Commission on down. When New Orleans D.A. Jim Garrison went after Permindex in the JFK assassination, he was crushed with the help of Johnson's radical leftist attorney general, Ramsey Clark.

While not speculating openly about Ronald Reagan's security, specialists are taking precautions. The Paris socialist-terrorist newspaper *Libération* recently published a picture of Reagan with a target-mark on his head. This is, after all, the way some international factions contest American elections—and try to change the results afterwards.

Investigative Leads, the counter-terror division of *EIR*, has just released an alert and dossier on the new "Permindex" threat. The dossier's principle is that the way to neutralize a possible assassination attack on a highly protected President is "to place a public finger directly on the only organized capability adequate to conduct such a high-level political assassination."

In the continuing investigation into the JFK killing by current assassination target, Lyndon LaRouche, his associates have secured original private records of a now-defunct Permindex branch in Rome, the Centro Mondiale Commerciale. These documents tie Permindex head Major Louis Bloomfield, attorney to the Bronfman family, directly into the Italian

"black nobility" centered in Genoa and Venice. The documents also corroborate key features of Garrison's 1963 probe, including his suspicions of elements of J. Edgar Hoover's FBI.

Prominent in Permindex since its 1957 beginnings is Roy Marcus Cohn, attorney for the late Carlo Gambino and Studio 54, who has been linked to incitement to kill LaRouche in the New York news-sheet *Our Town*, another Cohn client. Cohn was Rasputin to Sen. Joe McCarthy in the early 1950s, and a darling of J. Edgar Hoover. By similar channels today, Permindex and its socialist backers have infiltrated conservative think tanks tendering advice to Ronald Reagan.

The Eurosocalists, the feudalists and London Special Operations Executive, and their KGB agents-of-influence in Moscow around British triple agent General Kim Philby took a humiliating moral defeat with the Reagan landslide. The danger is that desperate to isolate and paralyze the President with urban riots and terrorism in his "first 100 days"—with an assassination contingency plan if that fails.

Right now, intelligence and security circles internationally are advising priority surveillance of two groups' operations in the United States: Cuban intelligence service (DGI) connections to socialist renegade "CIA agent" Philip Agee; and the Armenian Secret Army (ASA) connection to the KGB.

The bigger problems are Permindex; the "Heritage Foundation syndrome" around Reagan; and the Community Relations Service of the Carter-Civiletti Justice Department.