

EIR

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EIR

From the Editor

Since this is our last issue before the holidays, the editors of *EIR* would like to take this opportunity to thank those of our subscribers whose large contributions, during 1986, have made it possible to put the weekly publication and many copies of our Special Reports, in the hands of policy makers around the world.

Thanks to contributions in the range of \$5,000 to \$25,000 we have been able to furnish scientists, doctors, and public health officials in many African nations with copies of *EIR*'s Special Report, "An emergency war plan to fight AIDS and other pandemics," published in February at \$250 per copy. We have received many letters of thanks from the recipients of these gifts, telling us that they consider the information in the Special Report and *EIR* vital to the survival of their populations.

This is only one example. Other readers' contributions have gotten *EIR* into the offices of Congress—along with copies of the *Quarterly Economic Report*, the only source of information on what has gone wrong with our economy and how to fix it. *EIR*'s unique economic authority will have to become the manual of our lawmakers in the coming months (see pp. 68-69), as they belatedly recognize the disaster of the "post-industrial society," but lack the knowledge to turn it around.

Last spring, such contributions put copies of *EIR* Special Reports like the explosive "Ariel Sharon and the Israeli Mafia," which contained the in-depth portrayal of the networks now being exposed in "Irangate," in the hands of key intelligence and Pentagon officials.

Increasingly of late, we hear some of the words and even the conceptions that used to be read only in *EIR*, being echoed by certain Washington officials who are now in the process of cleaning out the mess that Henry Kissinger left behind. Several instances can be monitored in this week's Economics, International, and National reports.

Our contributors, by making certain that *EIR*'s publications reached the right places at the right times, have already helped us to change the course of history. In the coming weeks, we hope that many more of you will join that exciting process.

Nora Hamerman

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NSIPS/Stanley Errol

Swedish Prime Minister Olof Palme speaking in Washington in 1982. This week's feature looks at why the Soviets decided to kill him.

34 Why did Moscow assassinate Sweden's Premier Olof Palme?

Sensational revelations in the European press about Palme's love affair with Emma Rothschild provide the key to unraveling the mystery. Little wonder, then, that NBC-TV and the U.S. Justice Department have launched a new disinformation attempt, reviving the discredited line of a "LaRouche angle" in the murder. Our *Feature* presents the findings of a team of researchers in Europe and the United States.

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66 LaRouche Democrat sets mayoral program

Mrs. Sheila Jones, a leading LaRouche collaborator in the Midwest, has accepted a mandate from the "forgotten majority" to run for mayor of Chicago in the primary in February 1987.

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The Democratic Leadership Council, meeting in Williamsburg, grappled with the fact that the country is undergoing one of the greatest economic and military crises in its history. Some of the results are quite surprising.

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Correction: As most readers no doubt determined for themselves, in the article "EIR's record: how we called the shots," in last week's issue (page 38), the first date should have read, Jan. 8-14, 1980, not 1986.

EIR Economics

The economic agenda for 1988 surfaces

by David Goldman

It might be that the myth of the "Reagan recovery" will disappear, forgotten and unmourned, along with its principal architect, White House Chief of Staff Donald Regan. The same concern for national security that prompted the ongoing purge of Regan and related elements in the White House and the departments of government, has emerged in a new, widespread recognition that the United States has entered a period of economic disaster, and that nothing short of a supreme national effort will save the nation.

Appropriately, the battle inside General Motors has become symbolic of the reaction against the petty-accounting attitude of the White House and U.S. corporate leaders, which has viewed capital-intensive manufacturing as "cost-ineffective." General Motors officially inaugurated the next ratchet-collapse in manufacturing two days after the Republicans' defeat in the November elections, announcing the largest number of permanent layoffs ever planned by a U.S. corporation. With GM's car and truck production down 16% relative to last year's, and the overall U.S. auto industry's output down 8%, GM's scramble to cut production and inventories, clumsily timed to maintain the fiction of economic health through election day, destroyed the last shreds of credibility of the recovery myth.

In fact, as the Joint Economic Committee of Congress showed in a report issued Dec. 10, the appearance of recovery might have persuaded Reagan boosters principally concerned with their stock portfolios, but not the public at large. The JEC showed that total employment grew by more than 8 million between 1979 and 1984, but that all of the net growth occurred in jobs paying less than \$14,000 a year, and nearly 60% of the net growth took place in jobs that paid less than \$7,000 a year.

Barry Bluestone of the University of Massachusetts and Bennett Harrison of Massachusetts Institute of Technology drew the obvious conclusion: "The continued decline in high wage manufacturing, combined with the expansion in the

low-wage retail trade and service sectors, have led to the popular perception that America may be on the verge of losing its middle class."

Since 1981, construction and manufacturing jobs dropped by 500,000, while private sector service employment accounted for all the net growth of civilian jobs. Since 1979, nearly 97% of the net employment gains for white males were in the low-wage category, that is, below \$7,000 a year measured in 1984 dollars.

A study by *EIR*, to be published in our end-of-year *Quarterly Economic Report*, shows that the expansion of low-wage jobs, and contraction of manufacturing employment, has led to a situation where 32% of all working-age Americans and their families fit the profile for recipients of occasional food-basket donations, as noted by private charities across the nation. The predicament of working Americans echoes President Franklin D. Roosevelt's second-term inaugural warning that "one-third of a nation" had become destitute.

No one but the country-club set (minus real estate operators, savings bankers, oil men, and so forth) imagined that the recovery ever was, which explains the Republicans' electoral disaster in November.

Enter: H. Ross Perot

That is the background to H. Ross Perot's celebrated blast against General Motors management.

Perot warned in a speech at the Detroit Economic Club on Dec. 8, that America's industrial base has moved "off-shore." The market share of U.S. manufacturers is eroding, Perot said, because the U.S. economy is becoming too service-oriented. The United States must maintain a strong manufacturing base. You can't have an economy depending on the service sector, he said.

Perot's speech was attended by a record 7,000 people, largely because of his recent highly publicized criticism of

the management of General Motors, the world's largest industrial corporation, which just paid Perot \$700 million to buy out his share of the company.

Interviewed for ABC-TV's "Business World," program on Dec. 7, Perot explained, "I just don't want to be part of an organization that's closing plants, laying people off. I want to be part of an organization that's growing, dynamic, creating jobs.

"If you go to war, you feed the troops before you feed the officers," he said. "You can't look the troops in the eye and say, 'It's been a bad year; we can't do anything for you,' but then say, 'By the way, we're going to pay ourselves a \$1 million bonus.'"

Perot, the founder of Electronic Data Systems, is the product *par excellence* of the service industry; but he reflects a view broadly shared in the defense sector, namely, that the collapse of the U.S. industrial base, let alone the disintegration of the industrial workforce, will rapidly make America indefensible.

There are indications that a sort of economic activism has emerged in the Pentagon itself, starting with Defense Secretary Weinberger.

Military sources report that the January release of the Defense Department's *Soviet Military Power* book, will represent an intervention into U.S. economic policy. The object will be to clearly demonstrate to everyone including the President that our current economic policy has created a strategic danger to the United States. Two articles in this month's *Air Force* magazine cite examples.

The first article, a review of a speech by DIA official Dennis Clift, stresses that the Soviets have completed their strategic military modernization program in tandem with nearing completion of their Radar-ABM system. A second article reviews the collapse of the airline industry. The impact of this, according to the article, is a destruction of our ability to produce and deploy fighter planes.

Meanwhile, Weinberger wants to rebuild the prostrate U.S. machine-tool industry, according to the Dec. 8 edition of *Aerospace Daily*. Weinberger is expected to sign an "action plan" in December to revitalize the industry. Weinberger will also decide whether DOD will put up \$15 million in matching funds to set up a manufacturing sciences research center.

Another important signal came from former Deputy CIA Director Adm. Bobby Inman, in an address to the Forum Club of Houston Dec. 4. Inman said, "There will be new products and new industries developed in the future that will come from our new technology, *but the most dramatic impact will come from their impact on the existing industries* [emphasis added]. It will help our potential for becoming successful on the global marketplace."

Admiral Inman said high-technology developments in computers, biotechnology, aerospace, and communication must be put to use in the mining and agricultural industries.

"In this changing world, we will need people who can be quickly adapted to working in manufacturing, research, and automated offices or service institutions," he said, predicting that workers may have to be retrained five or six times during their careers, because technology will change the jobs.

Perhaps by no coincidence, Inman recently took a seat on the regional board of the Dallas Federal Reserve Bank.

The oil price issue

For the first time, there appears to be serious political pressure building in favor of a cure for the worst "free-market" disaster brought about by the Donald Regan economic policy, namely, the collapse of oil prices. This publication's founder, Lyndon H. LaRouche, Jr., joined earlier this year with several oil-state governors in demanding a variable tariff to set a minimum price for oil sold in the United States. Oil at the current level of \$14-\$15 per barrel implies a national security disaster, through the elimination of perhaps one-third of all domestic oil output; and the massive overstocking of oil inventories in the industrial world suggests that a much lower price is in the works.

On Dec. 11, the Interstate Oil Compact Commission, representing 29 oil and natural gas producing states, approved a resolution Wednesday seeking a variable import tariff on foreign oil. The resolution calls on President Reagan and Congress to declare a *national security emergency* because of U.S. reliance on foreign oil.

Gov. Mark White of Texas told the 350 delegates to the group's convention, that congressional approval is unnecessary. "A tariff is the only viable alternative and the President has the power to do it" by executive order, White said. "It won't create any burdensome bureaucracy—we already have a token tariff on imported oil. All we have to do is move the decimal point."

The White House, preoccupied as it is, has offered no new response. Nonetheless, even the Adam Smith-cultists of the *Wall Street Journal* have warned that the world's stockpiling capacity for crude oil is overflowing. The International Energy Agency's latest projections issued Dec. 10 must have provoked panic in the relevant departments of government. The IEA projected first-half 1987 oil-consumption growth at only 1.6%, against a previous figure of 2%. This translates into 35.2 million barrels per day of oil demand, against 34.65 in the first half of 1986; IEA projects total demand at 34.8 million barrels per day for all of 1986, versus 34.0 in 1985. The report said that companies had built up stocks by an average of 600,000 barrels per day for the first nine months of 1986, against a *drawdown* of 700,000 during the first nine months of 1985.

Falling demand and rising stockpiles translate into a further oil price-collapse, with devastating implications for the U.S. banking system. The administration's capacity to absorb reality on this count will be an early indication of the extent to which we are rid of Donald Regan.

Thatcher leads European prime ministers in 'war on AIDS'

Meeting in London on Dec. 5 and 6, the prime ministers of the 12-nation European Community decided for the first time to coordinate efforts to combat AIDS. With Britain concluding its presidency over the EC, British Prime Minister Margaret Thatcher spoke for the nations of Europe, declaring AIDS to be the "new scourge," similar to the 14th-century Black Death.

Britain's Independent Radio Network announced on Dec. 6 that Thatcher was "declaring war on AIDS," and had defined the 100% fatal epidemic as "the single most important challenge facing Europe." According to IRN, her concern is to launch "combined European efforts to combat the AIDS menace," particularly by upgrading cooperation on research.

The European Council of prime ministers identified links between the problems of AIDS, drugs, and terrorism. The final communiqué states: "The European Council expressed its concern about the rising incidence of AIDS . . . they noted the link that existed with the drug problem." Britain pressed for the establishment of "the first international data bank" to deal with AIDS, along the lines of that already being established to deal with terrorism. This would chart the growth of AIDS, and keep track of research efforts to combat it.

The communiqué also underlined "the importance of coordinating the diverse national campaigns, with the aim of increasing public preoccupation, and preventing propagation" of the disease. The European leaders also wished to assure "an effective exchange of information, prevention, and treatment, together with upgraded cooperation in the field of investigation."

Impact of *EIR* report

Throughout Western Europe, serious discussion about the AIDS threat is being shaped by *EIR*'s 140-page Special Report, "An Emergency War Plan to Fight AIDS and Other Pandemics," issued last February. The book has been widely circulated to public health authorities, scientific laboratories, and elected officials, in many cases purchased for them by *EIR* subscribers who understood how important it was to get this report out. Last summer, *EIR*'s AIDS report was also published in a full Italian-language edition.

Back in February, *EIR* and its scientific collaborators were virtually alone in describing AIDS as a potential "pan-

demic" and warning that the slow-acting virus could not be confined to so-called risk groups, which were only the "fast track" of transmission of the disease. The report mapped out the economic co-factors which help spread AIDS; described the scientific research frontiers which must be opened in a "crash" research program to treat and prevent the disease; and warned that only the immediate application of the "classical" public health measures, used for other highly infectious diseases, could keep AIDS from wiping out the human race before a cure is found.

Over the past month, the actions taken in Europe on AIDS reflect a belated acknowledgement that *EIR* was absolutely correct and that those who opposed it, including the World Health Organization, were perilously wrong—as WHO director Halfdan Mahler admitted on Nov. 19, when he said that AIDS could infect 100 million people within five years.

Great Britain

Following the EC summit, British Secretary of State for Social Services Norman Fowler went on a "fact-finding mission" to West Germany and the Netherlands. According to the Dec. 10 *Times* of London, this trip is bringing to Fowler's attention "the grim realities of the AIDS epidemic among Britain's European neighbors."

Within Britain, the debate on how to combat AIDS is expanding as the disease spreads. While some ministers and self-professed health experts are advising measures like free syringes to addicts and distribution of condoms, others are looking into scientifically and politically competent means of dealing with AIDS. The *Sunday Times* of London reported on Dec. 7 that the U.K. Ministry of Defense will soon announce measures to combat the disease in the armed forces. Service chiefs were meeting the week after the EC prime ministers, and will be sending their views on the AIDS threat to the U.K. Cabinet Committee on AIDS, chaired by Lord Whitelaw, "which is known to be particularly concerned about the potential threat to Britain's security."

France

The European Labor Party in France (ELP) has released the draft of a law which would force the French government and health authorities to take decisive action against the spread

of AIDS. The bill was presented to the press in Paris Dec. 9 by ELP secretary-general Jacques Cheminade and Dr. John Seale, of the British Royal College of Physicians, one of the most prominent British backers of a "war on AIDS." Dr. Seale stated, "No press has reported the truth about AIDS. . . . AIDS is a virological nightmare, a lentivirus of the retrovirus family which destroys not only the immune system but the brain, intestines, and lungs. . . ." Rather than being simply a sexually transmitted disease, he said, "AIDS is characteristically a blood-transmitted infection."

The proposed law uses the guidelines of the *EIR* Special Report, and would extend existing French health regulations to the specific threat posed by AIDS. The bill is modeled on laws that already apply to tuberculosis, hepatitis, polio, and syphilis. It would provide for every resident of France to be screened (for free) every six months, and every non-resident crossing the border into France to show an AIDS-negative test certificate dating from less than six months before, or be tested, before he can be admitted into France.

Among other measures, the ELP-proposed law would also set up an AIDS research and treatment center in every hospital; create a National Research Institute on AIDS; carry out mass vaccination as soon as a vaccine is available; and take measures of relative isolation for full-blown AIDS cases until an effective vaccine and cure are found.

The draft law called for annual expenditures of about \$1.5 billion (100 million French francs), not including vaccination.

Less far-reaching measures were called for at a press conference on Dec. 1 at the National Assembly, by National Front parliamentarian Dr. Bachelot, in the name of his parliamentary delegation. "France is not at all prepared to face this infection. . . . If nothing is done to fight the contagion, there will be no more people on the planet in the year 2025. . . . AIDS is not just a medical problem, but a problem of political responsibility." He added that AIDS is potentially "worse than nuclear war," and that it might be transmitted by mosquitos. Dr. Bachelot proposed an "AIDS-atorium" to isolate AIDS-sick individuals as well as a systematic screening of the high-risk population. He proposed organizing a "popular referendum" concerning measures which "would be transitional" in the waiting period for the discovery of a vaccine. He also proposed, to finance this plan, launching a state loan of 15 to 20 billion francs.

Italy

The panic over AIDS has arrived in Italy, but the measures announced by Health Minister Carlo Donat Cattin and publicized with great fanfare as a "War on AIDS," are inadequate to the point of absurdity. The Italian government's anti-AIDS plan allocates a mere 50 billion liras (about \$50 million), "less than the top prizes in the popular national betting game, Totocalcio," points out Fiorella Operto, pres-

ident of the Schiller Institute in Italy. The Institute is using the *EIR* report to mobilize the population for emergency measures to stop the spread of AIDS.

Schiller Institute spokesman Marco Fanini noted during a televised roundtable on AIDS over the major northeastern Italian regional channel "Tele Alto Veneto" on Dec. 10, that it costs 300-400 billion liras to build *one* new hospital alone—several times the figure allocated by the Health Ministry for the entire program.

Italy's "experts" are coming closer by the day to the scientific standpoint of the *EIR* Special Report on AIDS, which has saturated the relevant circles in the Italian-language edition. Only last May, at a conference on AIDS in Milan, the same experts were rabidly attacking the Schiller Institute's "extreme" views. Now, from one end of the peninsula to the other, medical professionals are joining Schiller spokesman in town meetings and television panels, to inform the public on the reality that AIDS is a far greater threat than previously stated.

In the cited television roundtable, Fanini was joined by Prof. Dante Bassetti, infectious diseases specialist at the University of Verona, who stated that besides blood and semen, saliva is almost certainly a vehicle for the virus, and perhaps in certain situations, mosquitos. Bassetti also noted that in Verona he is treating more than 260 AIDS patients with only 25 hospital beds available. When one day these 260 cases must be hospitalized, where will they be put? Bassetti said he hoped new hospitals will be built for AIDS patients—like the new very modern one in Houston, Texas—or at least new wings devoted to AIDS.

The Schiller Institute and *EIR*'s growing acceptance as "the" authority on AIDS in Italy, was reaffirmed when the health commissioner of Lombardy, Italy's most populous region, Dr. Isacchini, appeared at a press conference on AIDS in Brescia on Dec. 19, hosted by the Schiller Institute.

At the southern end of Italy, in the town of Alcamo in Sicily, the editor of the Italian edition of the *EIR* Special Report on AIDS, Claudio Rossi, was guest of honor on Nov. 29 at a conference organized by the local Lions Club, "AIDS: The Greatest Threat to Human Survival," attended by 110 citizens. Alcamo Lions Club head Dr. Francesco Filippi opened the conference with a brief treatment of the medical aspects of the disease based on the *EIR* study. He clarified that the transmission of the disease is not solely among "risk groups," where contagion follows a fast track, but that the entire population is at risk. Claudio Rossi, speaking for the Schiller Institute, presented *EIR*'s new computerized epidemiological model for AIDS.

On Nov. 28, in Salerno, an important city south of Naples, the local Red Cross invited the Schiller Institute's Galiano Speri to address a conference on AIDS. The more than 100 citizens who attended included the entire civic leadership of Salerno and representatives of the local military district.

Soviet Economy

NEP, environmentalism, and military industry: a contradiction?

by Luba George

On Oct. 28 the Soviet party newspaper *Pravda* published an article marking the 65th anniversary of Lenin's October 1921 speech "On the New Economic Policy." This is only one of a number of recent Soviet articles that have referred to the New Economic Policy, or NEP.

In the past few months, Mikhail Gorbachov has spoken openly about the relevance of the NEP experience for the U.S.S.R. today. In his speech in the Soviet Far East city of Khabarovsk at the end of July, he called for "bold new policies" to solve the Soviet Union's problems and spoke approvingly of NEP.

The Western press, all aglow with these new signs of NEP as alleged signs of a "new period of de-Stalinization," described Gorbachov as a "reform-minded advocate," who has brought about Soviet "political pragmatism" and "economic liberalization."

Raisa's role

The campaign to popularize the NEP goes hand in hand with the recent creation of a Soviet "Culture Foundation," promoted by Mikhail's wife Raisa Gorbachov, who is on the 10-member executive board of the Foundation. The NEP resurrection has been spearheaded by the "Culture Foundation's" literary friends of Raisa Gorbachov. Soviet writer Sergei Zalygin, whom Alexander Solzhenitsyn placed second on his list of "true Russian writers," was the first to set the tone when he wrote: "NEP is not a tactic but a strategy of socialism." Over the past 10 years, Zalygin has written and, with some difficulty, published his novel about the advantages of NEP—*Posle buri* (After the Storm).

Zalygin, a leading founding member of the Soviet Culture Foundation—to which the old American magnate and Kremlin friend Armand Hammer generously contributes—is a top Soviet propagandist for the New Economic Policy (NEP), under Raisa's benevolent protection and guidance. His role as a leading Soviet expert on NEP, and the content of his writings, have been monitored by Radio Liberty. Raisa herself is not only the wife of Mikhail Gorbachov, and the

real power behind the Culture Foundation, she is the daughter of the oldest surviving high-ranking official of the New Economic Policy (NEP) under Lenin, Maxim Titorenko.

Zalygin is often referred to by the younger Soviet writers as the father of *novoe myshlenie* (the new thinking) or the "New Age," pioneered by the "village prose" movement of the 1970s, which glorified the Russian countryside as the repository of raw spiritual values. Out of this "village prose" movement, came the U.S.S.R.'s present-day "ecology" movement including authors of the Raisa Gorbachov salon—like Valentin Rasputin, Sergei Zalygin, Chinghiz Aitmatov, Grigori Baklanov, et al.—responsible, among other things, for the "Save Lake Baikal" campaign and other demands that Mother Russia be protected from the ravages of pollution and mining. The huge "Project of the Century"—the River Diversion Project, which would have channeled the water of the main Siberian rivers into arid Muslim Soviet Central Asia—was sacrificed, thanks to this campaign.

The monthly party theoretical journal *Voprosy filosofii* (No. 4 1986) writes: Zalygin "threatened to shatter preconceptions, to destroy the stereotypes of cliché, ignorant judgments about the most complex period (NEP) in our history, which has perhaps been least illuminated by science and art. Zalygin is the first . . . Soviet writer to devote attention to the NEP period . . . seriously, as an interested scholar, historian, sociologist, and artist."

Zalygin was recently appointed the new chief editor of *Novy Mir* (New World)—with half a million circulation—which has, since his appointment on Aug. 10 this year, been spearheading Gorbachov's "glasnost" (openness) drive—on such themes as the growing drug problem in the U.S.S.R., environmental issues and the NEP theme. In reporting the appointment Aug. 10, the Yugoslav news agency Tanjug drew attention to the fact that Zalygin is probably the only chief editor of a Soviet journal who is not a member of the Communist Party of the Soviet Union.

The first part of Zalygin's 300-page novel *Posle buri*, was completed while Brezhnev was still General Secretary,

but it got the green light only in May 1982 (in the journal *Druzhba narodov*) when the former KGB head Yuri Andropov was effectively already in power. Following its publication, in March 1983, *Literaturnaya Gazeta* proclaimed that Zalygin was singing the praises of the "energy of NEP. . . . The novel provides a splendid reply: NEP is not simply a tactic but a strategy of socialism."

The second part of the novel was published in the issue of *Druzhba narodov* for July, August, and September 1985, only after Gorbachov was already in power, and after Gorbachov's protégé, Alexander Yakovlev, had been appointed head of the Central Committee's Propaganda Department. *Pravda* gave the official evaluation of the novel on May 30, 1986: "Sergei Zalygin has taken it upon himself to explore on a fundamentally new artistic level a phenomenon, the essence of which, let us not forget, was conceived as a program by Lenin. NEP . . . was not simply an economic measure. The experience of NEP also provided special conditions for the social and spiritual transformation of man. . . . That's what Zalygin's novel is about: about man, about his fate at a critical time. . . . About how 'a new energy in thinking' must be discovered in man, without which rational life and the improvement of life is impossible. The latter, in turn, is the only means to save the world and oneself."

Zalygin, together with Grigori Baklanov, the editor of *Znamia*, is a member of an eight-man special commission created by the Soviet Writers' Union which is responsible for stepping up the publication of works along the Gorbachov-Yakovlev "new thinking" line.

The military-industrial angle

How does this movement representing the "new thinking," so often referred to by Gorbachov in his speeches, fit in with Soviet Marshal Ogarkov's and the "Russian Party" of the Soviet leadership's drive for world hegemony? The NEP and the "democracy" that goes with it, as well as the "ecological" side of its campaign, in no way hinder the Soviet military from doing what it has to in the period ahead to attempt to achieve absolute military superiority.

Russian Party "environmentalism" is in no way comparable to the Green radical-environmentalist Jacobinist plague sweeping the West. Raisa Gorbachov's NEP "ecologists" are not opposed to nuclear power, and *never* express any opposition to programs of either the Soviet military or the Russian military-industrial complex. Furthermore, their campaigns in the literary world, such as attacking certain big projects, are fully in tandem with the massive tilt in Soviet investment policy under Gorbachov. Under the Gorbachov priorities of modernizing Soviet industry, there has been a vast increase in investments to modernize existing industry, making it both more efficient and less polluting; to accelerate the construction of non-polluting nuclear power plants; increase railway electrification; and so on down the line.

There is another facet to this investment tilt under Gor-

bachov. One must bear in mind that about two-thirds of the Soviet Union's industrial output comes from the Russian Republic (as recently stressed at the session of the Russian Republic's soviet, or parliament). Thus, the bulk of investments going to modernize existing industry means that investment policy is focused on the Russian Republic. Similarly, the bulk of the abandoned new big projects—typified by the Siberian rivers water diversion to non-Russian, Muslim Central Asia—hit the subject populations of the Russian empire. The demands of the military high command and the industrial modernizers, lead to the same results as those of the Russian Party environmentalists.

The same is true concerning the resurrection of the NEP. The NEP of Gorbachov envisages employing productively—in a private sector—strata of the population such as pensioners, housewives, or students, who are not engaged in any labor for the state. Why not set up a mechanism whereby these groups of the population can help solve critical bottlenecks in the horribly inept service, repair, and handicraft-manufacturing sectors of the Soviet economy?

From the first days after the Bolshevik Revolution, Soviet military and defense doctrine has been guided by the "Frunze principle" (named after one of the leading Soviet military theoreticians, Mikhail Frunze, whose writings still influence Soviet commanders like Marshal Nikolai Ogarkov and Soviet defense policy) that the economy, particularly industry and its technological base, takes precedence over even the building up of the arms arsenal; in this way, the horse leads the cart. Frunze was noted for having called on industry to be more responsive to the requirements of the military for R&D and for faster technological change in all sectors, not just the arms sector. Thus when defense options are considered, all Soviet political *and* military leaders support the continuing growth of the economy and raising the level of technological capacities as first priority.

This dual-strategy—prioritizing the development of the U.S.S.R.'s technological base, while resurrecting NEP—could be seen at the VI Congress of Writers of the R.S.F.S.R. (Russian Federation of the U.S.S.R.), where in his keynote address the president of the union, Sergei Mikhalkov asked: "Is man morally prepared for the headlong acceleration of technical progress by leaps and bounds, and is the writer himself up to date with the current state of the scientific-technological revolution and its future?"

The U.S.S.R.'s "poet laureate" and one-time "angry young poet" of the 1950s, Yevgeni Yevtushenko, in his speech de-coded some of the NEP's hidden Russian chauvinist elements: "Spiritual progress," said Yevtushenko, means having the courage of Lenin, "to attack the new Soviet bureaucracy and communist arrogance . . . [to] fearlessly put the country onto the footing of the New Economic Policy." But it also would mean for "the people . . . to analyze its own errors and tragedies, "so as to become 'spiritually invincible' . . . For us, mankind begins with the Motherland."

From New Delhi

Indo-Soviet trade: rubles and rupees

by Susan Maitra

The celebrated 1953 Rupee Trade Agreement between Moscow and New Delhi is undergoing stress and strain. Though the agreement on economic and technical cooperation signed on the occasion of Mikhail Gorbachov's state visit to New Delhi Nov. 25-28, 1986 was billed by some as opening a "new chapter" in Indo-Soviet economic cooperation, it might be more accurate to say that the Soviet 1.2 billion ruble credit covering four large projects was sufficiently dramatic to prevent the book from being closed.

The announcement a week later that the Soviet Union had decided to increase crude oil exports to India in 1987 from 3.5 to 4 million tons, and had a proposal for another .5 million ton boost under consideration, is more revealing of the actual state of Indo-Soviet economic relations, which for the last six years or so have been a battleground. At issue is a large trade imbalance in India's favor, which reflects the divergent requirements of the two nations' economies.

In 1979, with an accumulation of Soviet ruble balances resulting largely from defense supplies, Indian exports to the Soviet Union began to soar. The Soviet demand for agricultural raw materials such as cashews and mangoes and for consumer goods—from soap and detergent to textiles and shoes—appears insatiable, and whole industries sprang up on the strength of the Soviet market. An Indian trade surplus with the Soviet Union of nearly \$200 million grew to about \$550 million by 1983. While total trade turnover doubled from 1981-84, by 1986 India's surplus stood at \$700 million.

Though in real terms, the Indian surplus represents a kind of surplus to the Soviet economy, Indian officials have been in no special hurry to restore balance. In 1983, India began accepting "technical credit" to cover the imbalances—credits that jumped from \$35 million in 1980 to some \$1 billion in 1983. At the same time, India continued to press for increased imports of Soviet crude oil, fertilizer, and several other items that would otherwise cost India precious foreign exchange on the international market.

For their part, the Soviets' anxiety to redress the trade imbalance has been coupled with a determined reluctance to

part with the crude oil and other products that are dollar productive for themselves. They have continued to periodically flex their considerable muscle in the form of arbitrary denial of orders to Indian producers almost entirely dependent on the Soviet market. The warning shots came in 1983, when orders for cashew nuts, textiles, and other staples of the trade plunged. Even today, in spite of a promise to raise textile imports from India to 500 million meters per year, the 1987 annual trade plan projects imports of just 100 million meters, down from 220 million meters last year.

Nonetheless, Rajiv Gandhi and Mikhail Gorbachov have announced a commitment to raise trade turnover by 2.5 times by the year 1992. A special committee set up on the Indian side to carry through on this commitment has produced a list identifying more than \$1 billion worth of Soviet products appropriate for export to India. At the top of the list is crude oil, steel, diesel locomotives, and chemicals. Also identified by the Indian side are some 70 areas that offer good potential for production cooperation, including the automotive and textile industries. So far, according to first reports, India's efforts to enter joint-venture projects with the Soviet Union have been hamstrung by the Soviet demand for a 51% participation in the equity capital of the ventures, implying Soviet control of the ventures which India cannot accept.

The trade pattern

The backdrop to the difficulties is actually the development of India's economy. In the mid-1950s, when India's economic relationship with the Soviet Union began, the cooperation focused on the development of basic industry, and the bulk of India's imports from the Soviet Union consisted of equipment and machinery. Since India's economy has developed a fairly broad industrial base, the requirements for machinery imports have fallen considerably, and India's main preoccupation in the Rupee Trade Agreement is to increase the import of those items which would otherwise cost hard currency.

In this sense, the large new Soviet project credit announced during the Gorbachov visit shifts attention from the real difficulties in the trade relationship, and recalls the best of the Soviet economic relationship to India. It was, after all, in the 1950s, when Indian requests for assistance in building up a steel industry were rejected by the United States, that the Soviet Union stepped into the breach. Since then, out of 220 public-sector enterprises in India, mostly in heavy industry, 83 have been built either wholly or partly with Soviet assistance. Projects constructed with Soviet aid account for 40% of India's iron and steel production, 80% of its metallurgical equipment, about 40% of mining equipment, about 55% of power-generating equipment, and some 10% of electric power generating capacity, besides a significant share in the oil and oil products sector.

The latest credits have been extended for the construction on a turnkey basis of four projects: one, a large, 2,400 me-

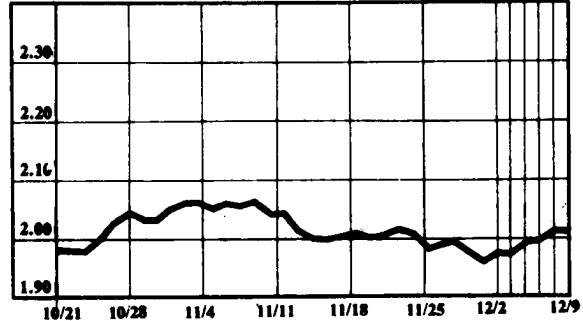
gawatt hydropower project in the Tehri region, the modernization of the Bokaro steel plant, the setting up of four underground mines to raise annual coke and coal production capacities by about 8 million tons, and, finally, on-shore oil exploration in West Bengal. The Soviet credits carry an interest rate of 2.5%, repayable in 17 years in equal installments, due three years after the date of utilization. The Soviet credits also include the provision for financing of local expenses of the Tehri power project.

Large as it is, the Soviet credit has been criticized in some quarters for being a lot of "show." The critics point out that, based on past experience, Soviet credits take years to materialize, and the economic effect is not as dramatic as it might seem. On past experience, the credits are actually used only for the purchase of equipment, something that tends to be the last phase of the project, and delays have been frequent. The critics also point out that, for this very reason, there is already a large amount of Soviet credits that are as yet unused. They also point out that the turnkey provision of the assistance leaves relevant Indian industrial capacity out in the cold. In response, the government has argued that, since its own ability to proceed with these projects is limited by a lack of financial resources, the Indian capacity would not in any case be used, and therefore it is better to take advantage of the Soviet credits to get these projects going.

Currency Rates

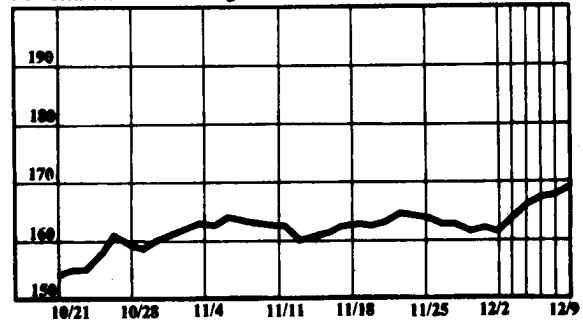
The dollar in deutschemarks

New York late afternoon fixing



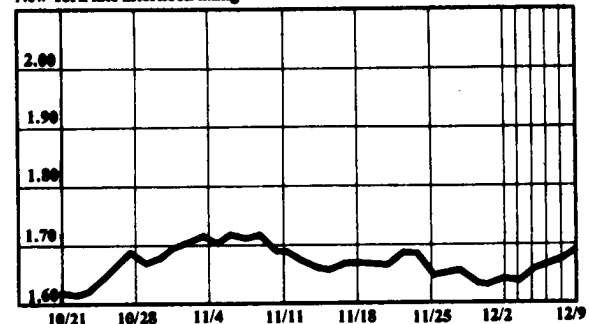
The dollar in yen

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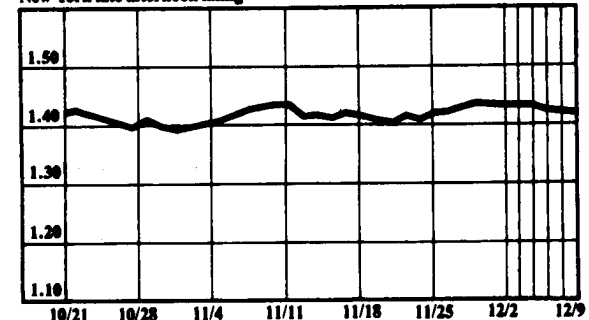
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

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West German Economic Survey

Behind the 'stagnant recovery,' a deep economic recession threatens

by William Engdahl

For almost two years, the West German Bundesbank, major economic institutes, and the Bonn coalition government of Christian Democrat Helmut Kohl, each for their own reasons, have proclaimed an "economic recovery." Continued adherence to this illusion could have devastating results for West European economic growth prospects over the coming decade. We take a detailed review of the actual production sector of the Federal Republic of Germany, which represents, with the possible exception of Japan, the most important industrial-technological base in the world today.

First, as in the United States and most Western OECD economies, national accounting is based on a built-in fallacy: "GNP accounting." By this method, the monetary index of all economic activity—productive as well as non-productive, it does not differentiate—is totaled. So long as the aggregate number is growing, one should assume all is well. By GNP standards, the West German economy grew in 1985, the year of the rapid dollar rise and, beginning in September, fell just as dramatically. Gross National Product totaled 1.847 trillion D-marks. In 1984, it was DM 1.763 trillion. By conventional economic wisdom this is a husky 4.8% annual increase in GNP. This year, though the size of the number has been slipping each quarter, predictions still call for a respectable 3% growth range in German GNP. In a recent series of articles in the largest German paper, *Bild Zeitung*, former Economics Minister Otto Lambsdorff exulted, "The turnaround celebrates its fourth birthday." Calling it Germany's "Second Economic Miracle" of the postwar period, Lambsdorff cited such signals of "strength" as the fact the D-mark has "not been so strong in 10 years."

Few are as euphoric as Count Lambsdorff, but every leading economic institute and major party in the parliament agrees that the Kohl government is benefiting from good economic news in the lead-in to the Jan. 25 federal elections. The real indicators of what will develop in the finely tuned

German economy in the next 6-18 months are buried slightly below the surface of the GNP numbers, and they are far more troubling.

Trouble on the horizon

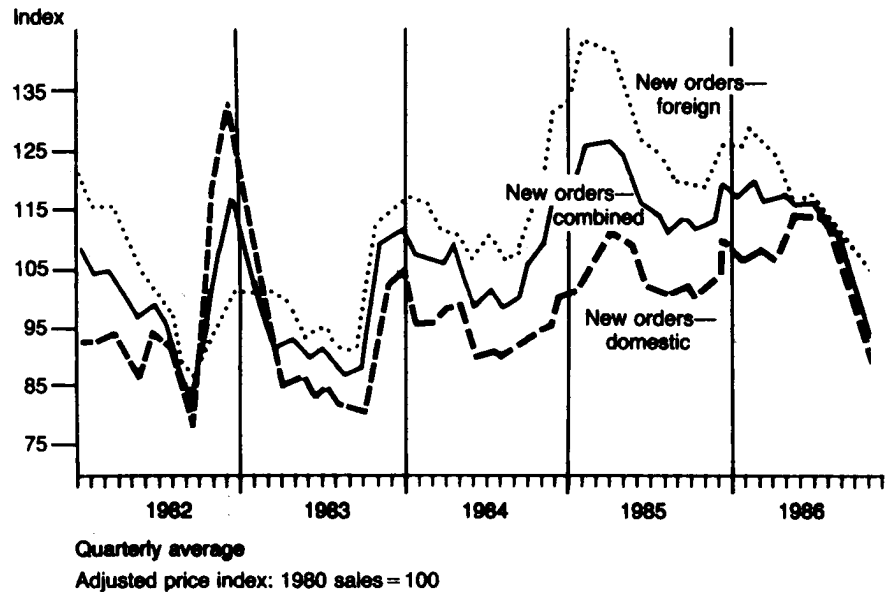
The 12-nation group known as the European Community (EC), has a population of 322 million and Gross Domestic Product of \$2.4 trillion in 1985, which make it second only to the United States as an economic power, and in some areas, more important. In terms of total world trade, the EC, with France and West Germany as its weightiest members, is even more significant than the United States, with a 15% share of the market, versus the United States' 11% last year.

The West German economy is the most productive core of the European Community. It is sustained by three major industrial areas—automobile production (Europe's largest), chemicals (Europe's largest), and engineering goods (Europe's largest). The strategic center and traditional strength of the West German economy is its engineering sector, which produces machines, plant and equipment, and generates the technologies which give other branches of German industry, such as automobiles and chemicals, their competitive edge.

The German recession of 1981-82 was largely induced by the combined impact of the 1979 U.S. interest rate policy and the Iranian "oil price shock," as well as the collapse of developing-sector export markets such as Brazil, Mexico, and Argentina. Unlike most of American industry, German engineering industries responded to the collapse of export-market share by an intensive effort at technological modernization. The result has been a rapid and impressive improvement in the quality and sophistication of West German numerically controlled machine tools, industrial robots, and other products which have made the German auto producers such as Daimler-Benz, VW, and BMW the world standard.

The West German machine tool sector is especially stra-

FIGURE 1
Engineering new orders



tegitic, because of its world export importance and its relation to producing other industrial machines. Without machine tools, a modern industrial economy soon vanishes. Although Japanese output of specific types of machine tools has greatly increased in the last decade, following its reworking process from 1983 to 1985, today the German industry remains unexcelled in quality and diversity by any other national sector in the world. Beginning in the recession year of 1982-83, this position began to be reflected in the steady increase in new orders. New orders for machine tools can be taken as one of the most sensitive indicators of real industrial growth prospects, indicating what the economy will do 12 to 18 months from now.

In monetary terms, the value of new orders for the machine tool industry rose from just over DM 8 billion in 1983 to DM 14.4 billion by 1985. The dollar rise against the D-mark from 1984 through most of 1985 meant that the high-quality German tools were able to make a serious impact on the U.S. market. By 1984, the United States had become the largest importer of German machine tools. West Germany is today the world's single largest exporter of machine tools, exporting 26% of the machine tools exported by Western industrial countries. Fully 62% of the industry output in 1985 went to export markets: principally to France, Italy, U.K., and other European Community trading partners, as well as to the United States.

According to the head of one of Germany's leading machine tool makers, L.G. Lundkvist of Friedrich Deckel AG, Munich, the industry is at a relative stasis point. The problem is a relative lack of skilled labor, combined with trade union

work-week limits on existing personnel. "The 38.5-hour week and the lack of qualified labor power," Lundkvist stresses, "have caused us to lose orders to foreign producers." He estimates this to be as high as 15% per year. The result has been a deluge of Japanese and, to a lesser extent, Swiss and Italian machine tools into West Germany, as the German industry is already running at 94% capacity. Hardly proof of an impending recession. But let's look closer.

According to the German Machine Tool Association, VDW, new orders continued to drop for the first nine months of 1986. The largest drop is in the vital export sector, where new orders collapsed in nominal terms by 18% through August.

The current economic wisdom is that the German "recovery" is being carried by expansion in *domestic* industry, rather than *export*. This is being pushed among other things to resist the wild and erratic pressures from Washington, especially from the Treasury and Federal Reserve, for the Federal Republic to "stimulate" its domestic economy by further lowering interest rates. While one can sympathize with resisting wrong economic policies, whatever the argument, this "domestic-led recovery" is a dangerous fraud.

It is true that domestic machine tool orders have risen 12% for the nine months through September. But given the fact that it is an export-directed industry, despite the domestic increase, there has been an overall order *drop* of 5% in the first three quarters this year, compared to 1985.

A look at the engineering sector as a whole reveals a more worrisome crisis brewing. Superficially, the sector appears healthy: Gross sales for the January-September period were

DM 103 billion, a gain of 2% from 1985. Overall industry capacity utilization, is 88.4%—a veritable “boom” by current U.S. engineering industry standards. Employment in the branch is running 5% higher than last year, at 1,080,000. Even exports in nominal terms are running up by 6% over 1985, at DM 63 billion through September. This sector includes, besides machine tools, agricultural equipment, turbines, motors, construction machines, printing equipment, and textile machines—in short, every significant tool of an industrial economy.

But behind the positive monetary signs, storm clouds are gathering for the German engineering industry. If we take a “stop-action” time photograph of the entire industry as of last April, it appears to conform to the Bundesbank and Bonn Economics Ministry predictions of a domestic “upswing” in the face of export decline. Then, in April-May, domestic new orders begin a reversal and start to track exports in a steep fall (Figure 1). This steep decline in new orders continues through November, according to industry sources. We can date the onset of the *second industrial recession* since 1980 for Germany from this April-May downturn in new orders for engineering goods. The results in the chemicals sector which follow, will further underscore the down-pull under way, even though it has yet to severely hit daily production levels.

The current president of the Association of German Engineering Industry, VDMA, Prof.-Dr. Otto H. Schiele, described the recent increase of domestic investment in new plant and equipment as a long-delayed retooling, which had been postponed by the uncertain markets since the economic shocks of the late 1970s, and was finally set into motion in anticipation of export to the long-awaited international economic “recovery,” especially of the United States.

But, as Dr. Schiele notes with concern, “for an accumulation of reasons, our export business is weakening.” Schiele cites four interconnected reasons why new orders in German machinery and equipment exports collapsed 13% in real terms for the period January-September 1986:

- The collapse of the dollar—35% against the D-mark since October 1985—which set off a staggering reversal in competitiveness for German exports not only to United States but to third markets trading in dollars.
- The drop in oil and gas prices, which has collapsed industrial exports, especially to OPEC states, and severely damaged the large petroleum equipment export possibilities.
- The lack of import growth in the traditional developing markets such as those of Mexico, Brazil, Argentina, Egypt, and Nigeria.
- The lack of any real increase of demand from the Soviet market despite the new Soviet Five Year Plan, due to hard-currency shortages as well the Chernobyl problem.

The traditional export share of West Germany’s engineering sector, is even larger than for machine tools. It is currently fully 65% of total production. Again, it is clear that German industry internally cannot sustain any long rise in

the industry production levels, despite reassuring statements from Herr Bangemann’s Economics Ministry in Bonn or the economic institutes.

The United States export market is extremely important for West Germany in all regards, despite politically motivated denials by Bundesbank chairman Karl-Otto Poehl in New York recently. Schiele points out that this market has almost doubled for the engineering sector since 1983, from DM 6.3 billion to more than DM 10 billion in 1985. “The U.S. has become the most important market for our industry branch,” he stressed at the end of October. Because of the wild fluctuations in relative currency prices over the past months, the West German VDMA head anticipates that export results by 1987 to this crucial market, at present trends, could be *negative*. Already, the rate of decline in this market is being immediately felt in the sharp drop of new orders being placed for machinery and engineering goods. No major West German producer in such uncertain conditions is rushing to make a big new investment in capacity expansion.

But it is not only one sector, albeit a major one, of industry which is being hit by a sharp fall in new orders. According to the November report of the West German Association of Savings and Farm Banks, BVR, the largest regional banking network, overall new orders for the entire manufacturing sector, which is far larger than engineering, are down. This downward trend begins slightly later than for engineering, as might be expected. But it begins by the end of July, only two months after the engineering downturn. Domestic new orders stagnate at 0.0% in August and actually begin a decline of 2% by September over the preceding month. Foreign new orders are currently falling more sharply, at a rate for the nine months to the end of September of almost -4%.

Second Davignon Plan ahead for steel

West Germany today, as traditionally, concentrates Western Europe’s most important steel-producing industry. Current “wisdom” in Europe, though less advanced in this direction than in the United States, is that steel is a declining industry. For five years, West European national sectors have savagely destroyed capacities, adjusting to financial community demands to permanently shrink output. The steel crisis is in reality no steel production crisis. Rather, it is an induced crisis in response to the 1974 and subsequent 1979 oil-price-rise shocks together with the post-1979 interest rate policy of the OECD central banks. To destroy capacity for future production is to ensure a shrinkage of future industrial base and walk away from an active export-oriented solution to economic growth stagnation. The Davignon Plan was and is a bank “rationalization” scheme designed to protect certain book-values of present debt at the expense of future national capacity to produce. To its credit, the West German steel industry has been one of the more cautious about destroying such capacities. British steel is at the other extreme, where blast furnaces were blown up under the infamous “Lazard’s Plan” of investment bankers. The best index of utilization of

steel is ton-per-capita consumption. By this index, since the initial 1980 Davignon five-year European steel reduction (euphemistically termed "rationalization"), German consumption has declined by some 5% per capita.

This said, the West German steel industry today is a reflection of the overall problems of collapsing international trade. In 1974, termed by the industry the "beginning of the crisis of the steel industry," some 250,000 workers were employed in producing steel in the Federal Republic of Germany. When the Davignon Plan started in 1980, the number had already dropped to 190,000. By 1986, following the five-year term of Davignon reductions, it stands at 150,000. Today, according to the West German steel producers association, Wirtschaftsvereinigung Eisen-und-Stahlindustrie, this is still not sufficient to control falling prices. They propose to cut some 20,000 more jobs from German steel beginning sometime shortly after the January federal elections.

Recent industry assessments have underscored that, despite two years of trend reversal by the highly modern and efficient West German industry, by all accounts the world's quality standard in steel production, the industry is still in great difficulties. Domestic production for 1986 will run less than 38 million tons. This is a big drop from the rising output for 1984-85. By 1985, German steel produced 40.5 million tons of raw steel. According to industry sources, the main problem immediately is an indirect effect of the drastic dollar fall against the D-mark. Import steel is able to be shipped in from halfway across the world at competitive prices to the domestic German market.

In the five years of restructuring, the West German steel industry has put itself through a major forced change. Raw steel capacity has been cut by 20 million tons, and rolled capacity by another 10 million tons. To retain competitiveness with especially new Japanese mills, the German steel industry has invested in the most efficient advanced technologies to the point that today, more than 80% of production is continuously cast steel. Specialized high-quality mills have been developed. Computerization has been extensive. Some DM 10 billion have been invested in the process since 1980.

This is the situation as the EC is contemplating removal of Davignon-term protective barriers which have guarded German and other European steel producers from a flood of cheap imports. As early as March 1987, the EC in Brussels could remove the Davignon protective restraints. In such a regime, German industry sources predict a bloody and unpredictable trade war which could devastate the remaining industry. The biggest demand market for the German steel industry is the metal-working, engineering, and motor-car industries. A major drop in production there, of course, will aggravate the pressures already mentioned. Already 40% of German steel consumption is imported. Only 25% of this is from other EC nations. Exports are under major constraint. The EC-U.S. steel trade agreement became fully operational this year and puts a ceiling on Germany's most important export market for the next four years. By the formula, Ger-

TABLE 1
The EC and world fleet 1975-85

1st July	EC		World		EC as % of world (dwt)
	No.	mn dwt*	No.	mn dwt	
1975	9,636	154.9	34,934	544.2	28.5
1976	9,621	165.5	35,666	598.4	27.7
1977	9,443	168.5	36,208	637.2	26.4
1978	9,684	177.6	36,880	658.7	27.0
1979	9,539	177.2	37,668	669.0	26.5
1980	9,467	178.2	38,401	677.3	26.3
1981	8,975	179.6	37,959	683.2	26.3
1982	8,508	169.7	38,416	687.2	24.7
1983	7,971	155.5	38,419	678.6	22.9
1984	7,502	141.1	38,103	666.8	21.2
1985	7,265	138.9	38,048	665.8	20.9

Note: refers to trading ships only and does not include ships registered in overseas dependencies of some member states.
*million dead-weight tons

TABLE 2
Composition of EC and world fleet at 1st January 1985

	Total EC		World		EC as % of world (dwt)
	No.	mn dwt	No.	mn dwt	
General cargo	3,942	19.8	21,123	108.9	18.2
Cellular container	245	6.0	956	18.1	33.2
Ore/bulk carrier	1,048	39.5	5,052	188.2	21.0
Combination carrier	81	10.2	437	46.6	21.9
Passenger and ferry	386	0.8	1,301	2.4	33.3
Other dry cargo	76	0.5	756	5.6	8.9
Total dry cargo	5,778	76.8	29,625	369.8	20.8
Oil tanker	1,143	58.8	6,620	279.2	21.1
Chemical tanker	145	0.9	880	6.1	14.8
Liquidified gas carrier	163	2.2	776	10.3	21.4
Other tanker	36	0.2	147	0.4	50.0
Total tanker	1,487	62.1	8,423	296.0	21.0
Total all ships	7,265	138.9	38,048	665.8	20.9

man steel exports to the United States fall proportionately as domestic U.S. demand further weakens, as the present recession collapse portends there.

But the secondary effect of the universal U.S. import ceiling on steel means that other steel exporters must compete for a shrinking market. Price wars and dumping are expected to escalate in coming weeks, while the high D-mark is already hurting German export capabilities. Rupert Vondran, managing director of Wirtschaftsvereinigung Eisen-und-Stahlindustrie in Düsseldorf states, "It is important not to confuse a healthy appearance with well-being." Moreover, "environmental" levies on German steel of DM 100/ton must soon be imposed, further cutting profit margins. This is on average four times the rest of EC levies.

The end of Europe's last major shipbuilder

For some years, West Germany has concentrated the largest and most advanced shipbuilding capacity in the European Community, with the largest annual tonnage of ships built in the European Community. In terms of tons of steel consumed, however, the precipitous decline of this sector is shocking. Although by no means as drastic as the case of Sweden—which 10 years ago was the world's second largest shipbuilder behind Japan, and today is virtually out of the business—German shipyards are today in the worst crisis in history and getting worse.

The EC is the world's single largest trading area. Some 95% of its trade with non-EC countries is seaborne as is 30% of the trade among the EC countries. Fully 45% of world seaborne trade is carried by the EC as a group. A cardinal rule for national and regional economic self-defense for a

trading nation, historically, has been to exercise control over transportation costs. This dictates a serious alarm over the EC shipyards, especially the West German yards (See Tables 1-6).

Despite the clear national and EC interest in maintaining such strategic resources, since the first oil shock hit world trade in 1975, EC shipyards have cut employment 46%. This will fall 25% more by summer 1987. The backdrop for this collapse is not mysterious. Total world trade tonnage has fallen since the second oil shock and interest rate shock of 1979, from 19 billion ton-miles down 26% to 14 billion ton-miles (see Figure 2). But select Far East shipyards have increased output at cut prices, especially Japan and South Korea, and the Soviet fleet has increased by more than 42%, according to industry estimates since 1975.

For the case of the German shipbuilding industry, annual steel supplied to shipyards plummeted from a high of 772,000 tons in 1975 to 238,000 in 1984. Deliveries (Brut Registered Tons) went from 2.3 million BRT in 1975 to less than 0.44 by 1985. But this year the dam broke, as backlogs of old orders have been worked up and the soaring D-mark has made export orders disappear. In July Harmstorf Yards, Germany's fourth largest yards, declared bankruptcy. According to a report in the Oct. 1, 1986 *Financial Times* of London, the worst drop in new orders for shipbuilding has hit the German yards. For the first six months of 1986, German yards had 68 new ship orders, in contrast to the same period in 1985, when the figure was 395. The labor-force has plunged 25% from 1980, from 57,000 to under 45,000 at the beginning of 1985.

Germany's chemical industry: crown jewel tarnished

Since the technological revolution sparked late in the last century by circles around the father of modern industrial chemistry, Justus von Liebig, Germany has been in the forefront of the world chemical industry. Names such as Bayer, Hoechst, BASF are known worldwide. Combining associated mining and products industries, the total West German chemical sector in 1985 was responsible for DM 1,304 billion

TABLE 3
Average age of EC and world fleet
1st July 1984 age distribution

Range (years)	EC			World		
	Oil tankers	Bulk carriers	Others	Oil tankers	Bulk carriers	Others
0- 4	7.12	17.26	19.34	11.27	26.55	17.44
5- 9	39.08	24.94	28.54	41.07	25.71	24.45
10-14	31.39	31.90	23.34	31.71	23.75	26.20
15-19	14.80	19.15	13.22	8.92	17.09	15.06
20-24	4.70	5.57	7.68	3.95	4.67	8.28
25-29	2.25	1.07	4.42	1.88	0.83	4.24
30+	0.66	0.11	3.46	1.20	1.39	4.32
	100	100	100	100	100	100
Average Age (yrs)	11.51	11.22	11.92	10.68	10.28	12.62

Average age of total fleets: EC: 11.55 World: 11.19.
Note: Calculation based on girt, includes non-trading ships.

TABLE 4
Tonnage on order by type at 1st January 1985

For registration in	Tankers		Bulk carriers		Others		Total	
	No.	mn dwt*	No.	mn dwt	No.	mn dwt	No.	mn dwt
EC	62	2.3	74	3.4	196	1.6	332	7.3
World	311	10.8	531	24.9	735	9.9	1,577	45.6

*million dead-weight tons

of the German industrial product. The direct chemical industry was responsible for DM 149 billion.

Next to the automobile and engineering industries, the German chemical industry is the most heavily export-dependent branch of German industry. According to the report of the German Chemical Industry Association, in 1985, West Germany exported fully 52% of its product. This is the second most important export sector of the export-oriented German industry. Fertilizers, pesticides, pharmaceuticals, plastics, and industrial chemicals—all are major export items for the world industry.

The statistics seem to show that this industry is prospering. Despite setbacks in oil prices and foreign exchange, company profits continue to be positive. On Nov. 7, Dr. Hans Albers, president of the German Chemical Industry Association, noted that the "domestic" results for 1986 were "good." But, he cautioned, the overall results for this year of gross sales for the entire industry will be "some 6% lower." The reason? The "collapse of the U.S. dollar and the fall of the price for crude oil," says Albers.

Does this presage a deeper decline in coming months?

To give a comparison, the "recovery" of the total chemical industry in 1985 was coincident with the extraordinary competitive shift in export terms of trade between the D-mark and the dollar, which lasted until the last quarter of 1985. The industry began its downward slide along with the fall of the dollar at that time. But, if we look historically, even the good year of 1985 only achieved a production level 4% above 1980. And the previous four years before 1985 have all been *below* the production level of 1980. It was in 1980, of course, that the combined impact of the second "oil shock" and Paul Volcker's high interest rate policy began to devastate long-term trade and industry worldwide.

So far in 1986, according to industry sources, production is down in the major sectors of agricultural chemicals (fertilizers, pesticides etc.), industrial chemicals, and pharmaceuticals.

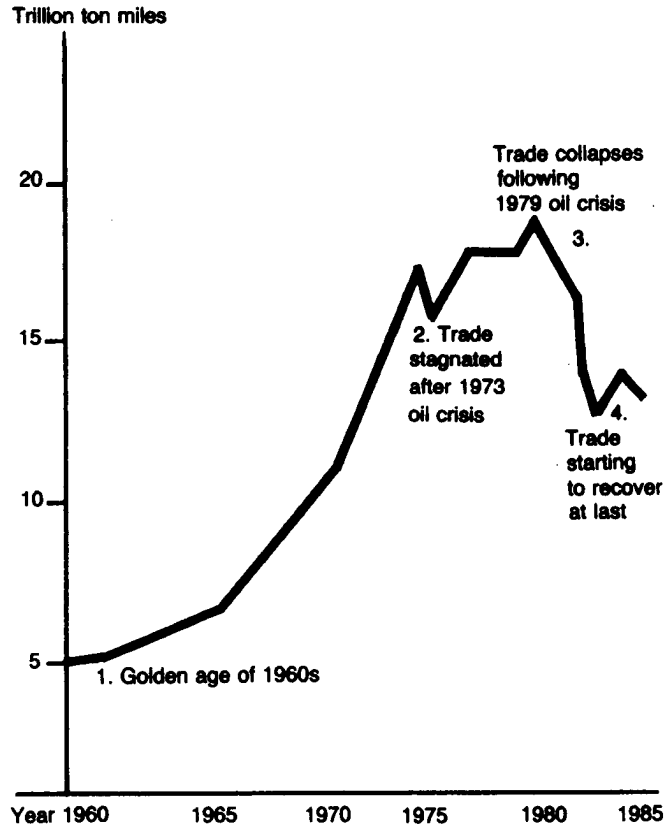
Automobiles: the only thing left?

The only major branch of West German industry to record a rise in actual production levels this year is the automobile

TABLE 5
Tonnage on order for registration in the EC as at 1st January 1985

On order in	No.	mn dwt
EC yards	208	2.9
Non-EC yards	124	4.4
Total	332	7.3

FIGURE 2
Why there is a shipbuilding crisis: seaborne trade 1960-85



Source: Fearnleys and U.N.O.

and vehicle branch. For the 10 months through October, the combined vehicle (cars, truck, special vehicles) production of West Germany reached 3.83 million units, according to

TABLE 6
EC trade by sea

		Total '10' (mn tons)	World (mn tons)	EC as %
Loadings	1980	311	3,650	8.5
	1982	352	3,249	10.9
	1983	396	3,090	12.8
Unloadings	1980	996	3,650	27.3
	1982	879	3,249	27.1
	1983	875	3,090	28.3

the German Automobile Industry Association. This is a respectable 3% above one year earlier, also a strong year. Since the low year of 1981, each year's output has climbed, interrupted only by an extraordinary strike in 1984. European industry sources regard the German auto industry as the premier European, and the technological leader for high-profit margin luxury autos such as Mercedes, BMW, and Audi. "Germans today are one or two steps ahead of the Japanese in introducing new technology," one London industry analyst notes. One reason is the intensive technological upgrading of the productive plant over the past decade. Introduction of assembly robots and computer production technologies in West Germany is the most advanced of any West European industry. The largest West German manufacturer of industrial robots is VW, also Europe's largest car producer. But VW consumes virtually its entire production in-house, according to industry sources.

Beginning in October, even this "bright spot" of the German economy began to show disquieting signs. According to the industry association, the rise in vehicle production stopped flat in October compared with the previous year. Exports also stopped flat. More troubling is the fact that despite the 3% production rise through October, the ten-month export volume in real unit terms of vehicles was down. The result for auto exports "is overshadowed by the low level of heavy-truck exports," a spokesman for the industry emphasized.

Best index of the economy: employment

This dark picture is underscored by the stark fact of enormously high unemployment. Even discounting the political manipulations of statistics on the "officially" jobless, West German unemployment remains extraordinarily high. According to a Nov. 13 report of the West German Labor Ministry, while 1986 is the "first year since 1979-80 when the absolute number of unemployed on average will be lower," it will still show 2.23 million unemployed compared with 2.30 million in 1985. However much the "improvement" represents political gimmickery before the national elections in January, it is clear that there is no actual "recovery."

According to Ulrich Cramer of the German Institute for Labor Market Research, "persons who are for a short period unemployed often do not appear in official unemployment statistics." But another indicator of the depth of the problem is the official statement in November that the government is extending the length of unemployment benefits by six more months. The Labor Minister stated on this occasion, "There is no royal road back to full employment." Indeed, this year, a record number, 100,000, has been forced off unemployment rolls into government public works programs. In 1982, the number was 30,000. This comes suspiciously close to the difference between official unemployment levels for 1985 and 1986, suggesting the means by which the Bonn government has "reduced unemployment for the first time since 1979."

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Shipping

U.S. Lines parent company files Ch. 11

In late November, the giant American shipping company, McLean Industries, Inc., filed for Chapter 11 protection under the federal bankruptcy code in Manhattan, New York. Cash flow problems, particularly with the operations of the U.S. Lines division, one of the world's largest and best container shipping companies, forced the action.

McLean announced the suspension of U.S. Lines' round-the-world and trans-Atlantic services. A spokesman said that 1,200 employees were laid off—about half the workforce. The company will lay up all the ships and lay off all personnel. According to a *Wall Street Journal* report, the spokesman said that the 12 U.S. Lines superfreighters would deliver their cargo and sail to U.S. ports; then "the banks will come after them, and they'll do what they want with them."

McLean's trans-Pacific and South American services will go on as scheduled. U.S. Lines will continue to operate its inland U.S. operations, including double-stack train service from coast to coast.

In 1983, major banks financed the completion of the U.S. Lines fleet of 12 jumbo container vessels. The company maintained weekly sailings around the world. However, the profitability was undermined by depressed world shipping conditions, and the aversive cut-throat freight rates, aided and abetted by policies of the State Department and collaborating foreign cartel carriers, run principally from London, Moscow, and Switzerland.

Company founder, Malcolm P. McLean, has named Charles I. Hiltzheimer as president and chief executive officer, to succeed McLean in these positions, to work on putting the operations back in place.

Malcolm P. McLean is the pioneer of containerization, the greatest revolution in transportation since the invention of the steam engine. At 73, McLean is a living symbol of the pioneers of American industry such as Andrew Carnegie and Thomas Edison. He was born in North Carolina, where he left school after third grade, pumped gas, and then went on to create his own, giant international trucking and shipping fleet. He founded McLean Trucking and Sea-Land Service, a division of CSX—the former Chesapeake and Ohio (C&O) and Baltimore and Ohio (B&O) railways.

In the last 250 years, the U.S. flag shipping industry has historically ascended following a major war, but, very quickly, has been overtaken by foreign interests, working through policy channels in Washington. However, Malcolm McLean

went against the tide, and in the 1960s, created an entirely new transport system, which, for example, improved the U.S. flag carrying position from 21% of tonnage carried to 55% by the early 1970s, for example, on the strategic North Atlantic routes.

This did not last long. In 1973, Kissinger's grain deal with Moscow included a sweetheart arrangement which proceeded to destroy rates on world routes. Soviet vessels could enter any U.S. port and charge any rate.

The American industry, led by McLean, fought back with improved technology and cost structures, and by the early 1980s, had developed the lowest-cost container ships in the world. U.S. Lines, with its development of mammoth container ships, and routes circling the globe, was capable of providing, on a unit cost basis, transportation at lower cost than foreign flag lines, and with American seamen.

However, outside the control and commitment of McLean and other patriotic shipping industrialists, are the actions of the cartel commodity companies, who use and run their own foreign fleets. In addition, the anti-growth policies of the International Monetary Fund/World Bank have drastically depressed all Western trade flows. All the "free market" jargon in Washington is just a smokescreen for the way in which cartel monopoly shippers avoid McLean and the few other U.S.-based, efficient services. Instead, they use flag preferences of national flag lines, and cargo routings controlled by the commodity cartels on a worldwide basis.

The physical volume of world shipping tonnage has collapsed by an estimated 26% since about 1979. World shipping volume now is running at an annual level of 14 billion ton-miles.

Under Chapter 11, McLean Industries, Inc. has 120 days to make a reorganization plan, during which time, creditors cannot foreclose on its assets. McLean had losses of \$92 million in the third quarter of 1986, on revenue of \$258 million; losses of \$77 million in the second quarter on revenue of \$306 million; and losses of \$71 million in the first quarter on revenue of \$291 million.

The 12-ship building program was done by Daewoo Shipbuilding and Heavy Machinery, Ltd. of South Korea. The latest ship expansion cost \$570 million.

Each ship is 4,200 TEUs (Trailer Equivalent Unit). Each carries 4,200 trailers. Multiplying 4,200 by 20 feet, the average trailer length, gives 84,000 feet—more than 16 miles. Imagine a continuous 16-mile line of trailer trucks. If you've ever sat at a railroad crossing, the average train in the old days was about 80 cars—only one-half mile long. So, one ship's worth would be 35 times bigger than one railroad train in the old days. That is the efficiency.

For Sea-Land, McLean built the famous 33 knot container ships—the SL 7 fleet, put in service in 1970, which set trans-Atlantic speed records. At the time, they were the only Free World cargo ships that could outrun Soviet nuclear submarines.

Argentine Church backs labor's demand

by Benjamin Castro

On Dec. 3, the president of the Pastoral Commission on Social Works of the Argentine Catholic Church, Monsignor Italo Di Stefano, visited the offices of Argentina's powerful labor federation, the CGT, to offer the Church's public support to the federation's mobilization in defense of Argentine economic sovereignty.

During a two-hour meeting with CGT secretary-general Saúl Ubaldini, Monsignor Di Stefano declared, "Anything that helps to satisfy social necessities has our greatest support." Referring specifically to the CGT's economic program, which includes a call for moratorium on the nation's \$42 billion foreign debt, Di Stefano said, "We second, endorse, and support these demands, which in turn echo what the leaders are hearing from their base." Di Stefano also criticized the Alfonsín government for its failure to "apply social justice according to humanist and Christian principles."

The Argentine labor movement, which has been one of the most aggressive on the continent in denouncing the subordination of national interests to the blackmail of the International Monetary Fund and the international creditor banks, is viewed as a model for nationalist sentiment across Ibero-America.

During Di Stefano's visit to the CGT offices, he extended an invitation to Ubaldini to attend a "working meeting" with Pope John Paul II when he visits the country next April. The pontifical visit to Argentina will take place just after the release of a special papal document addressing the crisis of the Third World foreign debt, a document which has already raised tremendous expectation among debtors and creditors alike.

'Black October' triggers revolt

During early November, not only Argentine labor, but also industrialists and agricultural producers were shocked by official figures released on the economy for the preceding month. "Black October," as it was immediately dubbed, not only gave testimony to the deep recession in which the country finds itself, but exposed the intent of the Radical government of Raúl Alfonsín to thoroughly eradicate what remains of Argentine national sovereignty.

For example, the retail-wholesale sector, through its as-

sociation CAME, announced that general demand for its products had fallen a full 30% in the month of October, and that 70% of its installed capacity was idle. Hiring in all sectors of the economy fell for the fifth consecutive month, and was to fall another 13.3% more in November. The collapse in hiring, especially noticeable in construction, industry, services, and among professionals and technicians, reflects the degree of paralysis of the productive portions of the economy under the financial strangulation of the central bank "mafia."

The majority of business organizations in the country have declared themselves in varying degrees of rebellion against government policy. The most striking case is that of the agricultural producer associations, which, in mid-November, broke relations with the government and stalked out of an emergency council convoked by President Alfonsín to hear their demands.

The Alfonsín government has not limited itself to destroying the private sector. On Nov. 28, Alfonsín announced his decision to launch a "reform" of the state apparatus, including state sector companies. He proposed at the same time to begin to eliminate 26,000 state employees' jobs through a system of "voluntary retirement." Those who refuse to accept such an offer of retirement will be placed for one year in a "national labor exchange" from which the "slimmed-down" state apparatus will allegedly pick and choose new employees. Those not chosen, presumably the majority, will be tossed onto the unemployment scrapheap.

Alfonsín has also named as director of his State Company Directorate one Enrique Olivera, a graduate of Harvard Business School who cut his teeth working under the direction of Gianni Agnelli in the 1977 "restructuring" of the FIAT company in Italy.

Olivera's immediate objective—in addition to "reprivatizing" the remaining state companies—is to create the conditions for handing over to foreign investors the 13 companies which constitute the most important foundation of Argentine economic sovereignty—oil, railroads, communications, electricity, etc. Olivera will apply "business administration criteria" to reduce costs through eliminating jobs and ceding operations and projects to private investment. Olivera has already declared his intention to eliminate from state control any company "related to the market sector" and to generate a wage system for public employees which is "self-financing."

As has already been made public in Argentina, the main demand of the international creditors of Argentina, headed by Citibank, is for 100% "capitalization" of the country's foreign debt. That is, what the bankers want is that each dollar of the foreign debt—be it public or private sector debt—be transformed into a dollar's worth of stocks in the debtor company. Should this plan succeed, the interest payments alone that the country shells out each year, to the tune of \$5 billion, will enable the banks to buy up the Argentine nation piecemeal.

Report from Rio by Lorenzo Carrasco

Brazil 'integrates' Argentina

Ford and Volkswagen merge regional operations—for cutting costs, not for genuine development.

The Argentine government of Raúl Alfonsín and the Brazilian one of José Sarney have signed an "integration" agreement, and Uruguay's Julio María Sanguinetti has tagged along. The integration protocols, signed by the three countries and ratified Dec. 10 while Alfonsín visited Brazil, permitted the auto giants to integrate their regional operations.

The deal continues to win applause from the automotive multinationals and to arouse false hopes among genuine industrialists in the three countries, for whom the accord seems to promise relief from International Monetary Fund (IMF) austerity policies. But such economic integration in the framework of the rotten international financial system is nothing less than a cooperative effort to swim together in a swamp filled with crocodiles.

The most recent event is the merger of Volkswagen of Argentina with Ford Motor Company of Brazil and Argentina. The new company, baptized Autolatina, will be the world's eleventh largest assembler, and the largest by far in Ibero-America, with the capacity to produce 900,000 vehicles per year in its 15 plants. It could achieve annual sales of \$4 billion, through exports and its 1,500 dealers in both countries. Ford and VW now hold 60% of the Brazilian auto market and 55% of Argentine truck sales.

Without investing a cent in new physical capacity, the companies expect large profits by using the "comparative advantages" of both countries, especially the miserable wages

paid to Brazilian workers—the secret of that country's "export miracle." The Brazilian scale is used to pressure Argentine workers to reduce their wage demands.

This is how both countries expect to recover the \$164 million in losses they sustained during the past year. Ford and VW created such "losses" by manipulating their international accounts to mock tax collectors, while remitting hundreds of millions of dollars out of the region. The "integration" pact will facilitate such fraudulent practices, broadening the exclusive fiscal paradise they now hold.

Autolatina will be chaired by Wolfgang Sauer, the current president of VW Brazil, and managed by Wayne Booker, the Ford Brazil president. Sauer's credentials leave much to be desired. Last year, he was involved in financial scandals for issuing mountains of commercial paper with no backing, which led to the bankruptcy of Brasilinvest investment bank, owned by the shady Mario Garnero, an intimate of David Rockefeller. Along with Sauer on the Brasilinvest board were George Shultz, and former U.S. Treasury Secretary William Simon, and several Ford executives such as Mauro Salles and Newton Chaparini.

Before the discovery of the Brasilinvest fraud, all those involved in the Autolatina group had made illicit fortunes with Brazil's "Proalcol" program promoted by Mario Garnero. Brazil's alcohol program is profiting thanks to the relative advantages of using the slave labor of millions of

Brazilians who die of hunger in the sugar-cane fields, and the estimated \$10 billion in government subsidies to promote inefficient alcohol-powered automobiles.

But the collapse of Brasilinvest last year hardly touched them, and now they intend to bring several Brasilinvest directors into Autolatina. Autolatina's leaders do not hide that the objective of the operation is to reduce production costs by using "comparative advantages," which means reducing wage levels, especially of Argentine workers.

As Sauer put it, "I don't think we will reduce production in Brazil. . . . Autolatina will not be a negative factor on the labor force."

But the Argentine situation is different. Sauer indicated, "Certain measures will be needed there to rationalize work. This rationalization is a daily task of industry, because its number-one obligation is to cut costs. . . . In Argentina, we will coordinate and rationalize . . . to avoid the negative effects of diminishing the number of employees." In other words, a good part of VW's nearly 10,000 Argentine autoworkers will be fired.

Those responsible for this false integration are government officials, the direct heirs of the "developmentism" hoax which neutralized efforts for full-fledged integration based on protecting the development of a capital-goods industry. That's what Juan Domingo Perón sought in Argentina and Getulio Vargas in Brazil. Once they were overthrown, their successors, Juscelino Kubitschek and Arturo Frondizi built industry around "import substitution," promoting auto transport and consumer-goods industries. They fostered the auto giants which today, again, are encouraged by the "developmentist" inventors of phony integration.

Domestic Credit by David Goldman

'Consensus forecast' on the Titanic

The nation's business economists predict growth, but they themselves face unemployment.

UPI, Dec. 8: "The consensus forecast among 4,000 of the nation's leading business economists is for slightly faster economic growth in 1987, followed in the next year or two by recession, according to a survey released Monday. A quarterly poll of members of the National Association of Business Economists produced a consensus forecast of 2.5% growth in the gross national product this year and 2.8% expansion next year."

The following day, the *Washington Post* reported that business economists were usually the first victims of "staff reductions" among firms facing urgent "restructuring." Not until the majority of the members of the National Association of Business Economists are unemployed, it appears, will the association project anything else.

Manufactured goods orders in October were down 3.6%, the worst fall since May 1980, i.e., the worst of the 1980-81 ratchet-collapse. Much of the decline was in defense capital goods, which were down 42%. Otherwise, orders fell 1.8%, the biggest drop since last March. Durable manufactured goods were down 5.1%. In heavy manufacturing, transport equipment was down 9.8%, mostly due to a decline in defense aircraft and parts orders.

The list of firms undertaking major restructuring, i.e., shutdowns, has meanwhile expanded, with a special vengeance in basic-industry sectors:

On Dec. 4, GM announced another 4,500 layoffs to cut inventories. This includes knocking out one work shift

at the 16-month-old Detroit-Hamtramck luxury-car plant, starting Feb. 2, cutting output by 50%. Starting Jan. 5, hourly production will be down almost 12% at two other plants at Orion Township, Michigan, and Wentzville, Missouri. Sales of some of the cars at these three plants are down as much as 60% from 1985. The models affected are among GM's most profitable cars. The news follows the announcement of 1,900 layoffs last week. Overall, GM has a 100-day supply of cars; a 60-day supply is considered normal. GM said its policy is to cut production rather than resort to incentives. The pared-down Detroit-Hamtramck facility is one of GM's newest and most expensive.

On Dec. 4, MCI announced layoffs of 2,500 workers, or about 15% of its total workforce of 16,000. MCI, hailed as the rising star of the high-tech service sector, is suffering badly in the long-distance marketplace, where rates have dropped 20% since the 1984 breakup of AT&T.

In the long-suffering steel sector, the projected resolution of the USX strike, the longest in U.S. history, will apparently bring no relief to the industry. On the contrary, the USX strike managed to take sufficient steel off the market to postpone a collapse of steel prices, which had otherwise begun last June.

LTV Steel's bankruptcy will, according to analysts, reduce the firm's pre-tax cost by \$85 per ton of crude steel, bringing its pre-tax costs to more than \$50 per ton below those of its next-most-efficient competitor. That

sets the stage for an escalation in the industry price war, and a contest among steel firms to achieve bankruptcy-reorganization or other forms of restructuring, on relatively more favorable terms.

Major steelmakers' incoming orders for the week ended Oct. 25 were equivalent to 60% of capacity, near the 62% average order rate during the preceding five weeks. Analysts attribute the continued weak order level to the slow liquidation of large inventories.

That translates into an output level corresponding, again, to the worst of the 1980 downturn.

In summary, the most basic of basic industries, namely steel, has ratcheted down to a level 25% below last year's. That is explained by the fact that commercial construction, particularly following the passage of the tax reform bill, is down by roughly 30% over the previous year's level, and by the auto industry's miserable situation. GM's current wave of layoffs, which amount to 36,000 announced during the past four weeks, occurs at a time when American carmakers' output is already down by 8% below the 1985 level. However, the elimination of incentives for auto sales is likely to turn this into a margin of decline by at least as much between 1986 and 1987.

The one positive factor for the economy, perversely, is the continued expansion of the trade deficit. Despite the administration's predictions of improvement, the deficit (on a balance-of-payments basis) rose to \$37.67 billion during the third quarter, up from \$35.67 billion. Net imports provide a subsidy for U.S. output; when the weak dollar finally forces their decline, because they will rise steeply in price, matters will turn much worse very quickly.

Agriculture by Marcia Merry

Food disputes in a world of hunger

Trade "experts" like to refer to a decline in "demand growth," meaning that nations cannot afford to produce or import food.

One week before the scheduled, annual trade talks between the United States and the European Community, the U.S. Agriculture Department released world food statistics at its 63rd annual "Outlook" conference in Washington, D.C. The rhetoric was upbeat, but the figures were grim. Said Richard Goldberg, deputy undersecretary for international affairs and commodity programs, on Dec. 3, "Agriculture export trade is not going to be conducted in a world of scarcity, but in a world of surpluses." He's lying.

World per capita availability of cereals, meats, and necessities is decreasing markedly, while the most productive agricultural sectors of the world—North America and Western Europe—are engaged in vicious trade war, and attempts to decrease their farm output. Whatever the outcome of the combination of ongoing GATT (General Agreement on Tariffs and Trade) meetings, and North Atlantic food trade talks, the reality of world food shortages and mass starvation must be the measuring rod for farm and food policies in 1987.

The following is a summary of the statistics made available at the Outlook conference.

As of year-end, the figures for 1986 world grain production showed a slight upward trend, from 1.64407 billion metric tons in 1984, up to an estimated 1.64697 billion metric tons for 1986. Measured against the nutrition needs of today's 5 billion people in the world, this amounts to about half of what is actually required—3 billion tons for direct consumption of cereals and for

provisioning the livestock needed to supply animal protein to the diet. In addition, another billion tons of cereals—for a total of 4 billion worldwide—should be produced for carryover stocks, and to make up for losses in storage, shipping, and processing.

A person requires an estimated 24 bushels of grain each year for direct and indirect consumption. Multiply the world's 5 billion people times 24 bushels (at about 50 pounds of grain a bushel), and the minimum world grain output objective of 3 billion tons is calculated.

Total world cereals production in 1986, relative to population, works out to a little over 14 bushels per person. In addition, according to best estimates, only 1.61394 billion tons, not the full harvest, will go for consumption. This brings down the bushels per person to well under 14. World grainstocks are piling up, unused and deteriorating, because of the decline in world food trade. So-called world ending stocks this year will be .38675 billion metric tons, up from .25585 billion metric tons, in the face of starvation.

The trade "experts" like to refer to this process as a decline in "demand growth." What they mean is that whole nations cannot afford either to produce their food, or to import it—under the monetary conditions of the International Monetary Fund and related banks and food cartel companies.

According to these "experts," there is nothing much to be done about the starvation, and the response to the situation should be to drastically reduce

existing levels of food output below "effective demand"—the imposed inability of peoples to obtain food. Over the 1986 period, incredible measures were enacted to reduce food production in the world's most highly developed farm products exporting nations—the United States and the European Community.

The European Community has enacted a milk output quota—with penalties for violation, and a tax on "excess" grain output, called a "producer co-responsibility" levy.

The United States has implemented the Dairy Herd Termination program, in which whole herds are eliminated permanently. Farmers are also coerced into idling record amounts of land to gain cashflow from government programs.

In addition to these measures to directly decrease production, unprecedented measures have been introduced to give over to food cartel control huge quantities of valuable foodstocks, at the expense of the general public and farmers. For example, in the United States, the new program called the Payment-in-Kind generic crop certificate plan, allows cartels to get what they want, when they want, from government stocks at cheap prices.

In Europe, a similar swindle, under a different name, has allowed cartel brokers to send huge quantities of meat and other foodstuffs to the Soviet Union, at the cost of the lives of millions of people in Africa, to whom that food would have been exported under a rational international policy.

As of year-end, the line-up of proposed "alternatives" to this mess, to be introduced into the 100th Congress and EC deliberations in 1987, is designed to make things worse. It is all based on the assumption that nothing can or should be done about the IMF system.

Medicine by John Grauerholz, M.D.

New technology for cancer detection

The new NMR technique seems to be on the way to becoming a reliable test to detect the presence of cancers.

Medical scientists have long sought a blood test to detect the presence of cancer. During this time, a number of different chemicals have been found to be associated with particular tumors and have been utilized primarily to evaluate the treatment and management of already diagnosed cancers.

In the Nov. 27, 1986 *New England Journal of Medicine*, scientists at the Charles A. Dana Research Institute, Beth Israel Hospital, and the Harvard Medical School, report on the detection of malignant tumors of various types by use of a technique called water-suppressed proton nuclear magnetic resonance (NMR) spectroscopy of plasma.

Unlike other blood tests, such as carcinoembryonic antigen, beta-human chorionic gonadotropin, and alpha-fetoprotein which measure the presence of chemicals produced by specific tumors, this technique appears to measure the body's response to the presence of cancer of any type and to clearly discriminate between cancer-bearing and non-cancer-bearing patients.

Proton NMR is a technique for determining the degree of order of cells or molecules. This is done by polarizing hydrogen atoms (protons) in a strong magnetic field and then measuring the amount of time required for them to resume their normal positions. This "relaxation time" is correlated to the degree of organization of the molecules in question. Highly organized molecules, and healthy cells, rapidly return to their resting state, whereas less ordered molecules, and

diseased cells such as cancer, relax much more slowly.

The use of NMR to detect cancer was first proposed in 1971 by Dr. R. Damadian, who pioneered the development of large NMR scanners capable of scanning an entire body and detecting cancers in a manner analogous to CAT scanners, but with much better resolution. This work has been expanded by other workers, such as Dr. James Frazer in Texas, who have used variations on this technique to not only detect, but also treat some cancers.

The high cost, and limited availability of NMR scanners, have so far precluded the use of NMR as a screening test. However the technique developed at Harvard uses a smaller instrument to analyze a sample of blood plasma, rather than a whole patient.

Researchers had noticed increased relaxation times in the serum and uninvolved organs of animals with malignant tumors, as well as small but statistically significant increases in the serum of patients with malignant tumors. These differences were small and did not distinguish between benign and malignant tumors. They were useless for diagnosis or prognosis.

Since the relaxation time of plasma is a composite of the protons of water and various other molecules in the plasma, the researchers decided to examine NMR spectra of protons other than water in the plasma of patients with cancer and in the plasma of control groups. They did this by utilizing the capability of modern NMR spectrometers to suppress the resonance of water protons. This leaves mainly the

spectrum of plasma lipoproteins (combinations of fat and protein) as well as a number of small molecules which are present in high concentrations.

Sorting through these different spectra, they settled on the methyl and methylene groups of the lipids of the plasma lipoproteins as the variable of interest. They looked at these spectra in 331 patients. These consisted of patients with untreated cancers, currently or previously undergoing treatment for cancer, with benign tumors, pregnant women, and two control groups.

The results showed that this technique reliably distinguished patients with malignant cancers from normal controls and patients with non-cancerous disease, as well as patients with benign tumors. However, pregnant patients and patients with benign prostatic hyperplasia had readings consistent with the presence of malignant tumors. The prostatic hyperplasia cases may indeed have had undetected cancers, not that uncommon in such patients and often detected at autopsy after the patient has died from some other cause.

The reactions in the pregnant women are interesting. They indicate that what is being detected is a reaction on the part of the host to the growth and not a tumor product.

These preliminary results indicate that water-suppressed proton NMR spectroscopy of plasma may indeed provide us with a highly accurate test to detect many different cancers. What is more significant are the potential breakthroughs in our understanding of the general phenomena of cancer as a disease process. It is in the area of the spectral analysis of living systems and not in the linear reductionist approach of molecular biology that we will make the fundamental breakthroughs necessary to conquer cancer, AIDS, and aging.

Banking by David Goldman

The first cracks in securitization

The \$17 billion floating-rate note market could light the fuse for \$3 trillion in off-balance-sheet liabilities.

Trading was suspended on almost \$17 billion of floating-rate notes (FRNs) in London on Dec. 4. One among many forms of "creative securities" which have proliferated during the past several years, the affected area involves so-called "Perpetual FRNs," a device through which the major banks have increased their capital.

Faced with a trillion dollars of bad Third World debt, and hundreds of billions of dollars of bad oil, commodity, shipping, real estate, and related loans, the major banks issued capital notes whose interest rate changes with the market, but whose capital will never be repaid—hence, "perpetual" notes.

The run against this offshore bank paper known as FRNs has not yet affected the banks' deposits. However, big international money, reportedly led by the Japanese banks, has unloaded paper issued by some of the world's top international institutions, fearing that "it may never be paid back," the London *Financial Times* warned Dec. 4.

London sources call the market collapse the worst-ever crisis of confidence in the 20-year-old Eurobond market, the \$200-billion-a-year offshore pool which turns international hot money into "legitimate" investments. Bankers warn that the suspension of trading of bankers' capital notes could damage the liquidity of major British-based banks.

"Perpetual FRNs are a bit of a confidence game," a financial insider said. "They are an evasion of Bank of Eng-

land rules" that allows banks to use the instruments as primary capital. "The first hint you can't sell, and people rush to get out." The present collapse of confidence, according to reports, was triggered by selling from nervous Japanese banks.

The collapse of the FRN market represents a crack in a \$3 trillion dam. It may seem astounding that banks raised billions of dollars in new capital, by issuing notes which pay a fraction less than the daily quoted rate for offshore deposits in London.

Since the banks themselves are the major buyers of such paper, the banking system appears to have dealt with a threat to its solvency by taking in its own laundry.

However, the FRN "confidence game," as insiders call it, constitutes a mere fraction of a \$3 trillion international bubble created by the major banks. The commercial banks issued \$3 billion worth of guarantees for all kinds of securities, agreeing to bear the risk of default, interest-rate changes, or currency shifts. Virtually all the issuance of securities in the past three years has depended upon such guarantees.

International lending collapsed between 1982 and 1985, from over \$100 billion per year to barely \$10 billion last year. It collapsed because the banks' existing international loans, to Third World borrowers and others, became worthless.

The banks could not earn sufficient income to pay interest on their existing deposits, much less show a

profit, because a large proportion of their existing loan-portfolios died.

What they could not earn in interest from dead loans, the banks took in by issuing loan guarantees and similar commitments, in return for up-front fees. The volume of loan guarantees in the United States has grown from almost nothing, to \$500 billion in 1985, as a result.

In effect, the banks expanded their liabilities in return for one-shot current income, which is the most dangerous and irresponsible thing banks can do. For a bank, a loan guarantee is no less a liability than a loan; if the borrower fails, the bank will have to pay off the loan.

One particularly nasty feature of the "off-balance-sheet operations" is that they have permitted banks to sell off their best-performing loans in the form of securities, raising money in the short-term, while leaving a higher proportion of bad loans in their portfolios.

In particular, the New York banks have sold off their most dependable loans. According to London financial community sources, there is growing alarm over the process of "securitization" and growth of "off-balance-sheet" lending through which, increasingly since the outbreak of the debt crisis in 1982, major money-center banks have technically improved book profits to conceal loan losses.

The banks, hurting badly for current income, accepted an up-front fee, in exchange for such guarantees.

At the same time, they loaded up their portfolios with securities issued on the strength of guarantees provided by other commercial banks, like the "perpetual FRNs" whose market sank into the ground.

The banks' own portfolios are now vulnerable to a collapse of the paper pyramid they built themselves.

Business Briefs

Economic Aid

Reagan, cabinet meet with Mobutu

President Mobutu Sese Sekou of Zaire made an urgent trip to Washington in early December to seek economic relief. He met with President Reagan and most leaders of Reagan's cabinet.

President Mobutu's main target was the IMF and World Bank, whose austerity policies are destroying his country. The IMF, which has been "supervising" the Zaire economy for the last four years, is now extracting 54% of the nation's entire budget for the payment of foreign debt.

Mobutu comes with a mandate from his Central Committee, which earlier this year recommended that Zaire adopt the "Peruvian solution"—limiting debt payments to a fixed percentage of export income.

U.S. senior officials told Mobutu that under Gramm-Rudman constraints, the United States has no new foreign assistance to offer Zaire.

War on Drugs

'Operation Condor' begins in Peru

Augustin Mantilla, Peru's vice minister of the interior, announced on Dec. 9 the beginning of "Operation Condor 5," the latest phase in Peru's war on drugs that began in 1985.

In the first 24 hours of assault on the cocaine paste producing center of Uchiza, 730 kilos of basic paste were seized and three enormous decanting pits were destroyed. Mantilla said, "The operation began Monday [Dec. 8] in the midst of the jungle, especially in Uchiza, and it is expected it will end in the third week of December. I am confident this new attack on narcotics traffic will be successful."

He said that 130 kilos were found on a plane shot down and its two crew members killed. In another raid, 300 kilos of refined cocaine were seized.

On Dec. 4, Mantilla had announced that, in 1987, Peru will run joint operations with its neighbors to eradicate drug trafficking along their common borders. "We have begun a historic battle process along with Colombia and Ecuador, a country which has no experience but is getting prepared. We hope that next year could bring unity with Brazil and Colombia for joint actions, because we already have preliminary agreements."

Mantilla said the U.S. government continues to give economic support for the struggle against drugs and the England is committed to repairing one plane and donating another. During the first quarter, aircraft and valuable logistical equipment will arrive from Canada and Germany.

Austerity

Zambian President cancels price increase

Zambian President Kenneth Kaunda canceled on Dec. 11 the increases in prices for high-grade corn meal, following four days of riots in the northern copperbelt in which at least 11 people died.

According to the London *Times*, "The . . . price rises were dictated, in effect, not by the Zambian government, but by the International Monetary Fund as a condition for extending further loans."

In a televised speech, Kaunda said the price would revert to its previous level immediately, and declared corn milling a strategic industry in which only the government and cooperatives can participate.

He said that the reintroduction of government subsidies on corn meal—the staple diet of Zambia's population—would divert money that Zambia should spend on development of public services. "It means the economy will remain static."

According to the London *Financial Times* on Dec. 12, Kaunda's reversal "calls into question the future of the country's relations with the International Monetary Fund, which has been backing an economic austerity program."

President Kaunda said that the extent of

the riot damage is not yet known, but one company, the National Imports and Exports Corp., lost two employees, 21 shops, and property worth \$6.5 million. He appealed to law-abiding Zambians to assist security forces as they track down looters and rioters.

Development

Peru's García appeals to industrialists

President Alan García announced on Dec. 3 a plan for coordinating industrial investments to maximize development in his country.

"We have begun a harmonizing process with business so that profits made with the reactivation of 1986 are invested in the areas of interest to national development. For example, food, textiles and in the provinces."

García has held weekly meetings with industrial leaders to work out investment policies. Next year, those of each sector will decide where increased capacity is needed. Income invested in those areas will be tax-free, if some fresh capital equal to 30% of the project is also invested.

Earlier, on Nov. 16, García had told a business convention, "An industrialist is not a speculator. . . . An industrialist is someone who takes risks for himself and for Peru."

Agriculture

'Free Europe' needs free farmers'

Two hundred farmers and leaders of farmers' association from Europe, the United States, and Ibero-America gathered in Obernburg, West Germany, for a Schiller Institute Agricultural Commission meeting on Dec. 6 and 7.

The title of the conference, "Free Europe Needs Free Farmers," suggested the direction of the solution: to return to the tradition of independent farmers, and stop the process leading to medieval conditions

whereby farmers become serfs of banks or cartels.

Uwe Friesecke and Rosa Tennenbaum of the Schiller Institute in Germany showed that the situation of the German farmer is as bad as his American counterpart's. They concentrated on demonstrating that the world agricultural crisis is a crisis of underproduction.

Fortunato Tirelli, general secretary of the Italian Cattle Breeders Association in Rome, showed that the EC, by forcing farmers to destroy products or kill cattle if they exceed "quotas," has created malnutrition in Italy.

From France, Marc Gaulandau, brother of the president of the French Agricultural Association, addressed the conference on how Moscow profits from the bankruptcies that EC quotas have caused in France, thanks also to "red billionaire" Doumeng, a friend of Gorbachov and the French Communists, and France's biggest meat distributor, who sells the Soviets butter and meat at dumping prices.

Juan Rebaza, chairman of Peru's state fishing company Pesca Peru and a founder of the Schiller Institute Trade-Union Commission, told of his country's fight against terrorism and drugs.

Debt

Egyptian President puts nation before debt

"The political stability of Egypt is more important than the pretensions of the IMF," Egyptian President Hosni Mubarak declared in an interview with the French daily newspaper *Le Monde* in mid-December.

"What do they want?" he asked. "To provoke riots? Their policy was implemented in Morocco; it provoked riots. The same in Tunisia."

Mubarak also blasted the United States, first on economic policy: "I get furious at those who are aggravating the conditions of my people. If you give me \$800 million of economic aid and take from me \$600 million to pay the interest on the military debt, what does that really mean?"

The Egyptian President stressed that in the last 12 months, the most important disagreement had been "the confrontation between Egypt and the United States over the *Achille Lauro* affair." On Iran: "I could not believe it when I heard it. This initiative has destroyed the credibility of the U.S., if not worldwide, at least in the Arab world. I have sent messages to Washington to express my views, but obviously in Washington, they have other problems."

European Economy

Economist sees great depression coming

"We are facing the second big crisis. Today in Europe an average unemployment exists similar to that in '29. The European average is 11%. In the '50s and '60s in these same countries, the unemployment average was 2%. In Italy it was 5%," according to economist Franco Modigliani of MIT, speaking at a conference in La Sapienza University of Rome in mid-December. Modigliani enjoys the dubious distinction of having won the Nobel Prize for economics in 1985.

He pointed out the serious consequences that such rates of unemployment have on a nation: "We must consider how much income is jeopardized. An unemployment rate of 10% causes in a country an annual loss of 15-20% of the national income. And it decreases the tax-revenues creating damage to the State. . . . Now in Italy the situation is disastrous: One-third of the people under 25 are unemployed. . . . If the economic growth-rate remains 2.5-3% . . . till 1990 Europe will have to live with 11% unemployment. Only for a short period is such a percentage tolerable."

Modigliani blamed the situation on the United States: "The big fault is that of President Reagan who pushed up the U.S. deficit." Modigliani proposed a moderation of economic requests from workers and employees, concluding with a jab at the trade unions: "To ask, as the Italian trade unions are doing, a 7% wage increase, is not acceptable, and is unjust toward those who have no work."

Briefly

● **WEST GERMANY** will resolve outstanding debt problems with Peru in February, its ambassador in Lima stated on Dec. 7. He said the debt "is not critical and we are trying to achieve some remedy for this situation; I am proud that this is the spirit in which the case is being handled." The ambassador said, "We seek to give all possible help in fighting terrorism and drugs."

● **BOLIVIA** appealed for \$300 million from the World Bank to persuade some 70,000 families growing 123,500 acres of coca-leaf to switch to cocoa and coffee, its planning minister Gonzalo Sanchez Lozada told a news conference in Paris on Dec. 4. He estimated Bolivian income from cocaine exports at \$1.8 to \$2.5 billion annually.

● **MEXICO** has 50 to 100 times the perviously reported number of AIDS cases, Health Minister Guillermo Soberon admitted on Dec. 4. Until the press conference, he had insisted that there are only 249 cases of AIDS in Mexico. Now he admits that for every one of those 249 reported cases there are "between 50 and 100 other people infected."

● **NIGERIAN** oil minister Rilwanu Lukman, OPEC's president, told OPEC's ongoing meeting that "some individuals jubilating at the prospects of prolonged low oil prices and of the collapse of OPEC, are suddenly supporting the idea of an oil import fee to protect the United States oil industry, conveniently ignoring the fact that such a development would be against free trade and the free market which America champions."

● **CHASE MANHATTAN** and Merrill Lynch are both having financial troubles. Chase Manhattan, the bank of the Trilateral Commission's David Rockefeller and Henry Kissinger, is undergoing a "world-wide restructuring and cost reduction effort," according to the *Wall St. Journal-Europe* of Dec. 10. Chase has closed 50 New York City branches.

EIR Science & Technology

Aerospace production: a shadow of the 1960s

As one industry source told EIR's Marsha Freeman and Robert Gallagher, if current trends prevail, the industry has "five years to go before it's through."

It will come as a surprise to most readers, that even aerospace and defense industries have not fared well during the Reagan administration "economic recovery." The American aircraft industry has undergone a collapse over the past decade that seriously weakens our ability to provide for an adequate defense, and undermines much of the infrastructure and research-and-development capability relevant to a program for the colonization of the Moon and Mars.

The condition of aircraft production is a general barometer for the state of the nation's aerospace-defense industry. Aerospace-defense has been the science driver for the American economy since World War II. Every sector of the domestic economy has been improved by research and development carried out by the industry and sponsored by the National Aeronautics and Space Administration (NASA) and the military services.

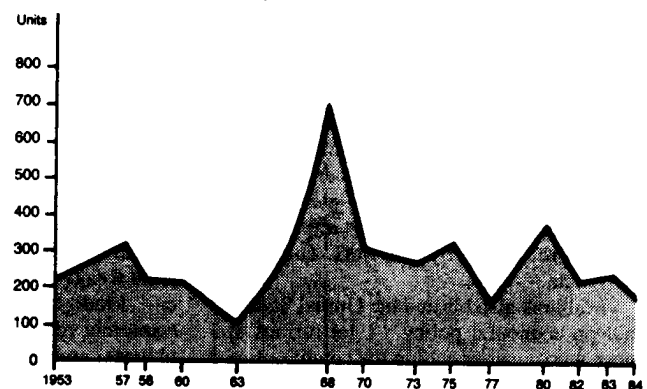
The capability to carry out the Strategic Defense Initiative, build an aerospace plane, orbit a space station, return to the Moon, and colonize Mars, rests entirely with aerospace-defense. For example, Rockwell International has used the same facility in California to assemble both Space Shuttle orbiters and B-1B bombers.

Since 1968 the production of civilian transports used by commercial airlines, has fallen 60% from 702 in that year to 278 in 1985 (see Figure 1). The production of military aircraft is down 48% since 1975, from 1,779 aircraft in that year, to 930 in 1984 (see Figure 2). Since 1980, production of helicopters for nonmilitary uses has fallen 72%, from 1,366 to 376 in 1984. Worker productivity has stagnated in some areas of production, and collapsed in others, in the

same period.

The state of the production of civilian transports, military aircraft, and helicopters indicates the preparedness of the aerospace industry to meet a national emergency or mobilize for an ambitious space program. Civilian transport production represents the nation's military airlift capability in reserve, as the merchant marine before World War II represented our sealift capability at that time. Today, however, there are only two companies left in civilian transport production, Boeing and McDonnell Douglas.

FIGURE 1
Civilian transport production



Production of civilian air transports for use by airliners has collapsed about 60% since 1968. The fleet of civilian transports is the basis of our military airlift capability in reserve.



A technician at United Technologies' Hamilton Standard division inspects work on a propeller component. United Technologies has announced plans to lay off 11,000 of its 188,000 workforce by the end of 1987, as part of a "corporate restructuring program."

Civilian helicopters are produced largely by the same companies that produce the military helicopters key to the defense of Europe: Bell, Hughes, and Sikorsky.

A conservative estimate based on a comparison of U.S. and Soviet military forces shows that America has a deficit in military aircraft of at least 5,500 craft. Although Russia has only about 1,900 more aircraft than the United States, 62% of their fleet has been built since 1975, whereas for the United States only 27% is that new (see **Table 1** and **Table**

2). To rejuvenate America's military aircraft fleet to at least the level of Russia requires 5,500 new craft.

Overall, since 1975, total U.S. aircraft production has collapsed 77% from 17,030 aircraft to 3,929 in 1984 (see **Figure 3**). Much of this fall-off was due to the collapse of production of general aviation aircraft, small recreational and executive airplanes, such as the Piper Cub or Cessna. The plant and equipment used in production of these craft, is not relevant to our mobilization capability.

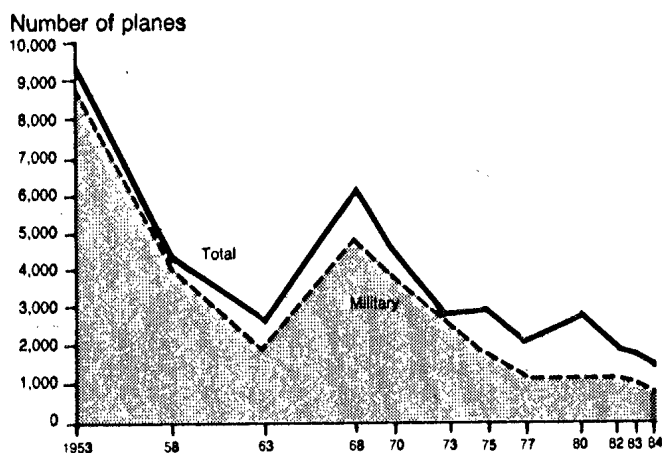
The deployment of military aircraft is especially required by the Strategic Defense Initiative. One arm of the SDI program known now as the Aerospace Defense Initiative, involves the development of high-altitude aircraft armed with directed-energy weapons or relay optics, to attack lower-altitude enemy bombers, fighters, helicopters, cruise missiles, and short-range ballistic missiles in their boost phase. Other SDI aircraft will be equipped with laser radar and other sensing equipment.

From 1958 to 1968, aircraft industry productivity measured in aircraft per production worker per year, generally rose at an exponential rate (see **Figure 4**). Since then productivity in civil transport production has fluctuated between about 30 and 55 planes per 10,000 employees (see **Figure 5a-b**).

Productivity in civilian and military helicopter production has collapsed 60% from 57 per 1,000 employees in 1975 to 20 in 1984 (see **Figure 6**). In the same decade, military production fell faster than civilian: 60% versus 56%.

Overall, industry productivity fell 78% over that same period, from 63 aircraft produced per thousand production workers in 1975 to 14 in 1984 (see **Figure 4**). Most of this

FIGURE 2
U.S. production of militarily significant aircraft



The production of militarily significant aircraft has fallen by one-half since 1975. These aircraft include military aircraft proper, civilian air transports, and helicopters for civilian uses.

TABLE 1
Soviet and U.S. military aircraft newer than 10 years old, deployed 1975-84

	U.S.S.R.	U.S.	U.S.S.R./U.S.
Heavy and medium bombers	148	0	148
Interceptors	575	36	539
Strategic surveillance	5	0	25
Total land-based tactical	5,070	2,041	3,029
Fighter/attack	3,955	1,362	2,593
Theater bombers	0	0	0
Reconnaissance/surveillance	285	37	248
Helicopter gunships	830	642	188
Total Naval	455	390	65
ASW	200	99	101
Carrier-based	(50)	(99)	
Shore-based	(150)	(0)	
Other carrier-based	60	291	-231
Other shore-based	195	0	195
Military airlift			
Strategic	240	259	-19
Tactical	140	80	60
Helicopters	2,300	572	1,728
Total	8,933	3,408	5,525
Percent total aircraft	62	27	

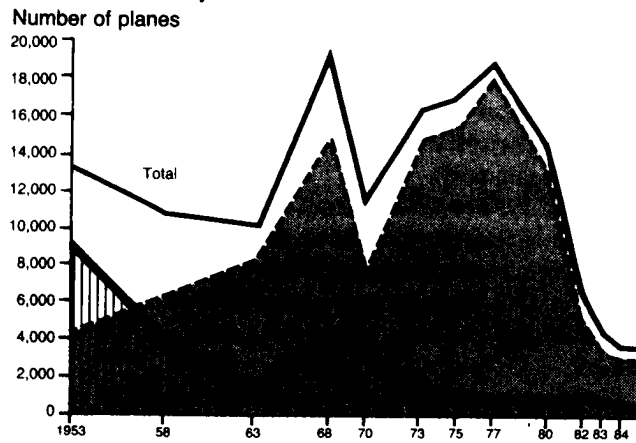
Source: John M. Collins, *U.S.-Soviet Military Balance 1980-1985*, Pergamon Brassey's, Washington, 1985

TABLE 2
Total U.S. and Soviet military aircraft forces, 1984

	U.S.S.R.	U.S.	U.S.S.R./U.S.
Heavy and medium bombers	303	297	6
Interceptors	1,210	282	928
Strategic surveillance	14	45	-31
Total land-based tactical	7,418	4,787	2,631
Fighter/attack	5,460	2,900	2,560
Theater bombers	423	198	225
Reconnaissance/surveillance	585	292	293
Helicopter gunships	950	1,397	-447
Total naval aircraft	1,085	1,295	-210
ASW	480	508	-208
Carrier-based	170	296	-126
Shore-based	310	212	98
Other carrier-based	60	787	-727
Other shore-based	545	0	545
Military airlift			
Strategic	305	329	-24
Tactical	525	520	5
Helicopters	3,650	5,098	-1,448
Total aircraft	14,510	12,653	1,857

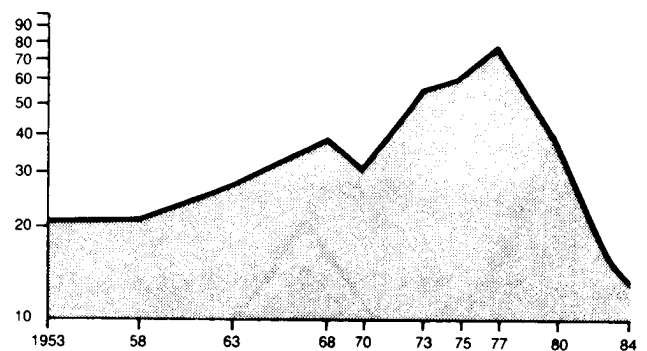
Source: John M. Collins, *U.S.-Soviet Military Balance 1980-1985*, Pergamon Brassey's, Washington, 1985

FIGURE 3
Total aircraft production



Production of aircraft of all kinds has fallen about 80% since 1975. Most of this decline is in the production of small aircraft used for recreational or other personal reasons. The production of general aviation aircraft does not represent defense mobilization capability, although the manpower used in its production includes aerospace machinists.

FIGURE 4
Total aircraft per 1,000 production workers



Aircraft produced per production worker increased at an exponential rate as shown in this logarithmic graph from 1958 until 1968. Following that, an instability was introduced into the aircraft industry by McNamara's policy of mutually assured destruction. Aircraft production shifted in proportion to aircraft for consumer or personal uses, and away from military uses or relevant civilian uses, such as the production of civilian air transports.

fall in units of aircraft produced per production worker, expresses the complete collapse in production of general aviation craft from 17,000 in 1979 to 2,400 in 1984. Figure 7 shows the decline in aircraft industry employment over the past 30 years.

One industry source told *EIR* that if existing trends prevail, aerospace-defense has "five years to go before it's through."

Figure 3 shows that there has been a regressive structural change imposed on the aircraft industry since 1968. In the late sixties, the U.S. physical economy began to collapse, machine-tool production reached its peak in 1967, the Apollo program peak funding and employment passed in 1968, and the United States began its pullout from Vietnam. The ensuing collapse in aircraft production into 1970, produced a shift into consumer-oriented production of propellor-driven general aviation aircraft. By contrast, the total production of militarily significant aircraft—transports, helicopters, and military craft per se—has fallen continuously since 1968 (see Table 1).

This shift in the market served by aircraft manufacturers comes in the midst of an across-the-board "shake-out" in the industry. Between 1960 and 1976, in production of each type of significant aircraft, one-half of the companies involved, pulled out. For example, in 1960, five firms built airliners; by 1976, only three were left in that important area, and today only two.

The death knell for the industry had actually begun to sound in 1963, when Robert McNamara, with increased power following the assassination of President Kennedy, began to cancel programs right and left, and drove up costs throughout the industry in his campaign for "cost-effectiveness." The Air Force, for example, was barred from developing new long-range bombers. But McNamara's expansion of the Vietnam War, kept demand for military aircraft high relative to the 1970s. The 1960s consumer boom drove commercial airliner production to its peak.

Several events occurred between 1968 and 1970 to collapse the industry.

1) With the winding down of the Vietnam War, a large deficit in modern military aircraft existed due to the war-imposed policy of marginally extending the life of a craft beyond normal military practice. But the war had temporarily destroyed support for military production, and the new national security adviser, Henry Kissinger, used the opportunity to implement his policy that a weaker United States meant a safer world. Military spending as a percentage of the national budget, declined dramatically in the Kissinger years of 1969-77.

2) A wave of monetary crises hit the Western economies in the 1968-71 period, culminating in President Nixon's removal of the dollar from the gold standard. The consumer boom temporarily collapsed.

The fall in production of military aircraft, civilian trans-

FIGURE 5A
Civil transports per 10,000 employees
(year + 1 year)

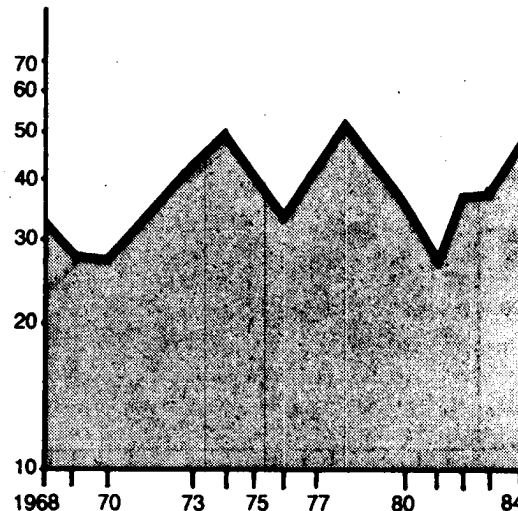
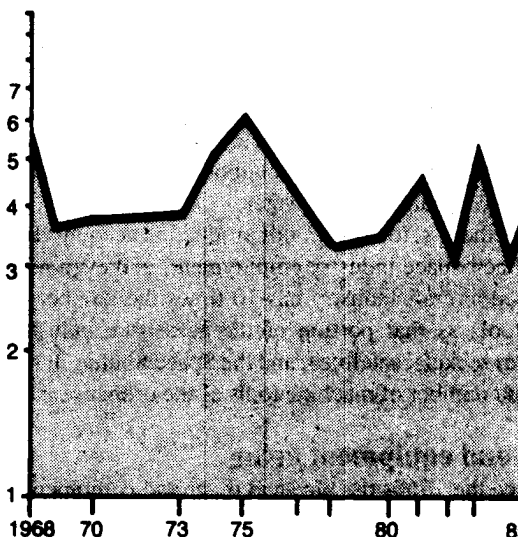
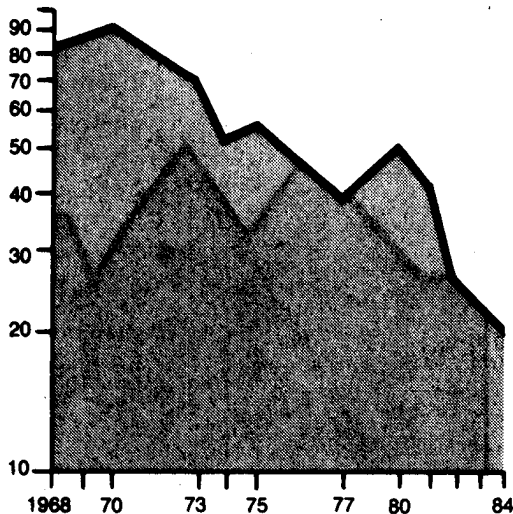


FIGURE 5B
Civil transports per 10,000 employees
(year/year)



Worker productivity in the production of civilian transports has fluctuated between about 30 and 50 transports produced per 10,000 employees per year since 1968. Up until that time, productivity in the industry was increasing exponentially. This stagnation in productivity is shown in two different calculations. On the average, it takes 18 months to produce a civil air transport. On this basis, it seems reasonable to calculate productivity using a lag of at least one year between the shipment of the aircraft and the employment used to calculate the productivity in its production. So in Figure 5a, we show productivity measured in terms of the shipment of the number of civil transports divided by the number of employees in the industry of the previous year. In Figure 5b, we show the productivity in civilian transport production calculated without a lag. By either calculation, productivity has stagnated since 1968.

FIGURE 6
Helicopters per 1,000 employees



Productivity in helicopter production has fallen 80% since 1970. The number of helicopters, either military or civilian, produced per 1,000 employees is the measure used in Figure 6.

ports, and civilian helicopters has restricted funding for research and development and tool modernization in the major aerospace companies. According to an industry source, defense contracting is unprofitable today; as a result, the source reports, only the profits from commercial business are keeping these companies above water.

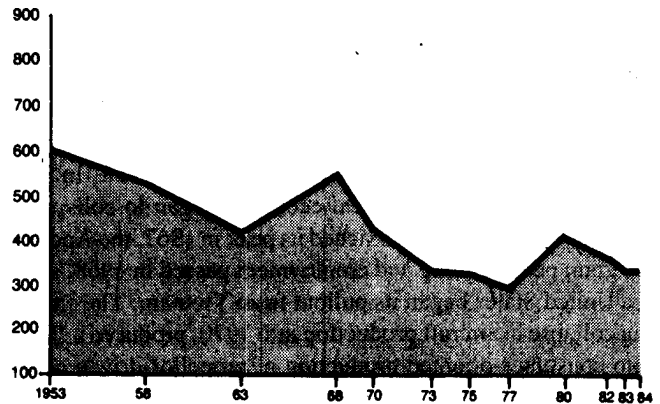
Nonetheless, today, aircraft production accounts for 55% of total aerospace industry employment, and even now, the collapsed aircraft industry has 10 times the number of machine tools as that portion of the aerospace industry that produces rockets, satellites, and the Space Shuttle. It has four times the number of machine tools as the ordnance industry.

Plant and equipment aging

Since the 1960s the physical plant and equipment in the aircraft industry has shrunk in total size, and efforts to modernize the stock of equipment have slowed. According to the *American Machinist Inventories of Metal Working Equipment*, the industry had 30% fewer machine tools in 1983 than in 1977, a drop from 139,200 metal-cutting and metal-forming machine tools to 97,708 (see Figure 7). Fully 65% of the 1983 inventory of tools, are considered "obsolete" by the standards of the machine-tool industry which regards equipment that is 10 years old, beyond its useful life. Prior to 1977, the percentage of aircraft-industry machine tools that were numerically controlled, that is, automated in some fashion, was growing exponentially. This modernization has since leveled off.

The number of machine tools per production worker in a

FIGURE 7
Aircraft production workers
(Thousands)



The number of production workers in the aircraft industry has fallen steadily since World War II. Industry employment of production workers is now about half what it was in 1953.

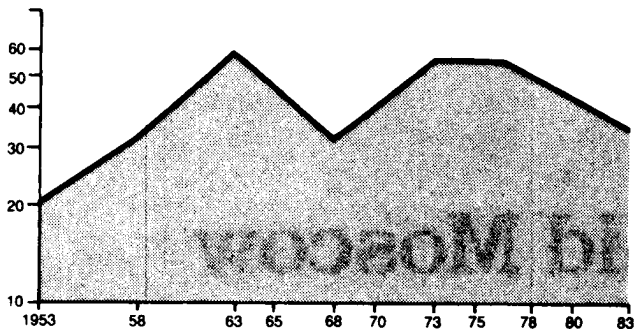
metal-working industry gives a rough indication of its capital-intensity, that is, the ability of the production worker to transform nature. This ratio increased exponentially from the early 1950s until Defense Secretary Robert McNamara introduced the doctrine of Mutually Assured Destruction (MAD) in 1963 (see Figure 8). (The exponential growth appears in the logarithmic plot of Figure 8 as a straight line.) As James Schlesinger argued in his *Political Economy of National Security*, a MAD policy based on a sufficiently large fleet of ICBMs would make basic capital-goods industries unnecessary for national defense. Since the adoption of MAD, the number of aircraft industry machine tools per production worker has dropped 42%.

Some might argue that this drop is not important, citing the fact that newer numerical control machine tools can do the work of more than one of yesterday's tools. Actually, more modern tools have not been introduced in a significant way. This is recorded in the continual increase in age of aircraft industry machine tools since World War II. Even the rate of introduction of numerical control tools has slowed in recent years.

The argument that more modern tools mean that fewer total tools are required, is based on false, zero-growth premises. In a robust economy, the opposite is true: Capital-intensity will always increase, and in fact, will increase faster as man's increasing mastery over nature requires more advanced forms of technology.

The number of numerically controlled (NC) machine tools per production worker in metal-working industries, gives a rough indication of the potential average energy flux density available to increase productivity.

FIGURE 8

Capital intensity: machine tools per 100 production workers

The number of machine tools per production worker measures the capital intensity of a metal-working industry, such as aircraft. Figure 8 shows that this capital-intensity increased at an exponential rate as shown in the logarithmic graph from 1953 until 1963, when Robert McNamara introduced the policy of mutually assured destruction. Since 1963, the number of tools per production worker, shown here as the number of tools per 100 production workers, has stagnated.

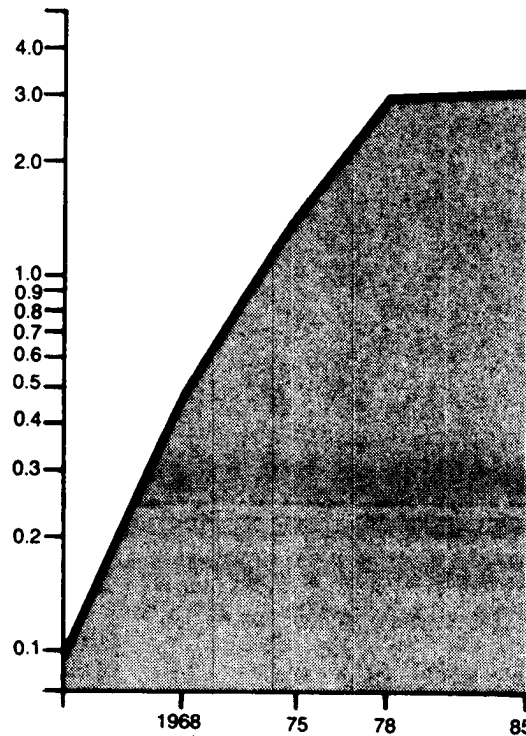
In metal-working industries, energy flux density measures the concentration and rate of flow of energy through a surface being worked with, for example, a cutting tool. The instantaneous energy flux density of a tool, at its cutting edge, is very high. However, without numerical control, a machine is cutting only a small percentage of available machine time due to time wasted in setting up the piece of metal to be worked, in changing tool bits, and in a series of other time-consuming steps. As a result, the average energy flux density is low. The instantaneous energy flux determines what you can do; the average measures how often, in fact, you do it.

Numerical control automates some of the time-consuming manual work, preparatory to actual tool use. NC machine tools are capable of a much greater throughput than non-automated equipment; with numerical control, a cutting tool is spending more time cutting than otherwise, increasing the average effective energy flux density. The number of NC machine tools per production worker grew exponentially from 1963 to 1977 and then leveled off (see Figure 9).

There has been a steady decline in the percentage of aircraft industry machine tools less than 10 years old since World War II. At the end of the war, fully 98% of the industry-tool inventory was less than 10 years old. Until 1958, at least half of all tools fell into this category. By 1977, however, 77% of industry tools met the machine-tool industry definition of obsolete. The decline in this percentage since then, is only the result of the massive retirement of older equipment that occurred as the production of general aviation aircraft collapsed.

This pattern of increasing obsolescence has also occurred in the ordnance industry and in that portion of the aerospace

FIGURE 9

Capital intensity: numerical-control machine tools per 100 production workers

The number of numerically controlled, that is, automated machine tools per 100 production workers has leveled off in growth since 1977. Numerically controlled machine tools enable the production worker to organize a higher throughput of work in the aircraft industry shop. Numerical control saves time that is unfortunately wasted in the use of manually controlled machine tools: Time to set up the metal that the machine is to cut or otherwise work on, time to change tool bits, and other operations. As a result, the number of numerically controlled machine tools per production worker gives you an indication of the relative energy flux density available to the individual worker. A higher proportion of numerically controlled machine tools means that the cutting tool is in use a larger percentage of time, and therefore, the average energy flux density is higher.

industry devoted to the production of rockets and space vehicles. In fact, in the latter, fully 84% of all machine tools are over 10 years old. Although the sudden occurrence of six launch failures in the West since August 1985—two Titan 34Ds, two Arianes, the Space Shuttle Challenger, and the Delta—strongly suggest sabotage, the increasing obsolescence in the industry's equipment leaves open the possibility of another cause for the failures. Supporting the view that industry rocket-production equipment is obsolete, is congressional testimony by Martin Marietta and General Dynamics officials, that investment in new tools will be required to gear up Titan and Atlas rocket production.

EIR Feature

Why did Moscow assassinate Premier Olof Palme?

by the Editors

NBC-TV's recent fabrication of a report of new developments in the investigation of the assassination of Swedish Prime Minister Olof Palme, has placed the network under the strongest suspicion of collusion with the Soviet intelligence services. Also implicated are officials of the U.S. Justice Department and the Anti-Defamation League of B'nai B'rith (ADL).

On Dec. 4, NBC alleged that Swedish police were investigating links between the Feb. 28 assassination of Palme and U.S. Democratic presidential candidate Lyndon LaRouche. The broadcast reported that U.S. government authorities had turned over to Swedish police notebooks belonging to associates of LaRouche, which had been seized during the Oct. 6 raid of LaRouche-associated companies. The notebooks allegedly contained references to the Palme assassination.

The National Democratic Policy Committee, a political action committee which supports LaRouche's programs, issued a statement on Dec. 5, denouncing the role of federal officials in fueling NBC's defamatory campaign. "It is obvious that federal authorities are deliberately leaking false and misleading information to the press," the statement said, "for the purpose of creating a prejudicial and inflammatory climate around their ongoing investigations of associates of Lyndon LaRouche. Yesterday's leaks in fact continue an 18-year pattern of Cointelpro-type dirty tricks by the FBI and Justice Department against LaRouche and his friends.

"NBC News has been a principal recipient of these illegal leaks. In return, NBC reporters are known to be feeding information to federal prosecutors. At this point, NBC and the FBI are virtually indistinguishable.

"The leaking of grand jury material—in violation of federal laws governing grand jury secrecy—has been ongoing and systematic. . . . The only conclusion that can be drawn is that the policy of leaking has the approval of, and is sanctioned by, high-level officials in the Department of Justice itself. . . ."

Working with NBC and the FBI on the case is Irwin Suall, director of the Fact-Finding Division of the ADL, who played a prominent role in the weeks immediately following the Palme assassination, in attempting to pin the murder on La-



Moscow's Georgii Arbatov (right) gave the signal for an international disinformation campaign, which sought to blame the Palme assassination on associates of Lyndon LaRouche. The Swedish daily Aftonbladet purported to show suspect Viktor Gunnarsson demonstrating against Palme; in fact, the man pictured at the lower right, his face covered with black square, was a Social Democrat attempting to tear down a poster critical of Palme—as the paper admitted in a tiny note the day after!

Rouche associates. Suall recently told reporters that he has attempted to help Swedish authorities locate two former members of the European Labor Party (ELP), LaRouche's co-thinkers in Sweden.

Swedish police emphasize that they are not pursuing any "LaRouche angle" in the Palme investigation.

The effort to link LaRouche to the Palme assassination, was originally launched as a concerted disinformation operation at the highest levels of Soviet intelligence, immediately after the assassination. The details of this extraordinary effort are the subject of a new 102-page *EIR Special Report*, "A Classical KGB Disinformation Campaign: Who Killed Olof Palme?" from which we have drawn much of this *Feature* presentation.

A key role in the disinformation operation is played by Georgii Arbatov, the Central Committee official who heads Moscow's U.S.A.-Canada Institute. Just hours after Palme's death, Arbatov had the line ready to throw investigators off the track: "I do not know who killed Palme, but I know all too well who hated him . . . fascist hooligans . . . reaction."

What was close Soviet friend Olof Palme doing, which would cause Moscow to order his murder? The complex issues are analyzed in depth in our *Special Report*. Here we can just point to a startling "signal" piece which appeared in January 1986 in the Soviet journal *International Affairs*. Author Yuri Denisov decried the uproar in Sweden over incursion by Soviet submarines in Sweden's territorial waters, adding the following clear message: "Troubles in Soviet-Swedish relations also made themselves felt after the Palme government came into office in 1982. . . . Although the gov-

ernment's program statement did refer to its intention to improve relations with the Soviet Union, it failed to take consistent and decisive practical steps in this direction." Denisov demanded that Sweden "reaffirm its policy of neutrality (despite the fact that in that country itself and across the Atlantic there are some forces that would push it off that track)."

The key to unraveling the mystery of the Palme assassination is Emma Rothschild, Palme's alleged mistress, the daughter of Britain's Lord Victor Rothschild. Just as NBC was seeking to re-open the "LaRouche angle" on the Palme murder, Europe was being rocked by press revelations of the Rothschild-Palme link—and by accusations that Lord Rothschild himself was the "fifth man" in the Soviet spy-ring of Kim Philby et al.

Emma Rothschild is a member of the governing board of a Soviet intelligence front, the Stockholm International Peace Research Institute (SIPRI). She is also an official of the Palme Commission on disarmament and security issues, rubbing elbows with Georgii Arbatov.

Arbatov's assistant Vitali Zhurkin, deputy director of the U.S.A.-Canada Institute and a member of the scientific council of SIPRI, has glowing praise for Emma Rothschild: "She is a wonderful woman. Her work is respected not only in the Soviet Union, but all over the world."

Swedish authorities do not suspect Emma of plotting Palme's assassination. But what she knows, especially confidences between her and Palme which might have been of great interest to Soviet eavesdroppers, is of the greatest importance for the investigation.

Bizarre twists in the Palme investigation

by William Engdahl

Since the assassination of Swedish Prime Minister Olof Palme on Feb. 28, 1986, the official police investigation has become the target for worldwide ridicule. Stockholm Police Chief Hans Holmér has come under growing attack for the incompetence of his investigation, his obsessive effort to "prove" that the European Labor Party—friends of Lyndon H. LaRouche, Jr. in Sweden—was somehow behind the murder of the prime minister. In recent weeks, demands for Holmér's resignation increased from across Sweden's political spectrum. Twelve Stockholm law enforcement officers have reportedly resigned, in disgust at the police chief's handling of the investigation.

Then on Dec. 10, the lid was suddenly slammed down again. Following a meeting with Prime Minister Ingvar Carlsson, the leaders of all parliamentary parties issued a joint statement declaring "confidence" that the investigation of the Palme assassination was in good hands. The exact circumstances surrounding this spectacular shift are not yet known.

Plainly, the stakes on Holmér's cover-up are very high. Despite the repeated discrediting of "the LaRouche angle," an effort to resurrect it was launched by NBC-TV, in a sensational broadcast on Dec. 4. NBC said that it had obtained information that FBI officials had shipped to Swedish investigators the contents of notebooks seized in an Oct. 6 raid of LaRouche-associated companies in Leesburg, Virginia. Those notebooks, NBC claimed, showed links between LaRouche and Viktor Gunnarsson, a 33-year-old Swede interrogated on March 17 and released for lack of evidence linking him to the Palme murder.

The Stockholm tabloid *Aftonbladet*, owned by the trade union organization of Palme's Social Democracy, lost no time in going with the NBC story. On Dec. 5, in an "Extra" with a front-page banner headline, "Raid on Right-Wing Group: USA Police Find Palme Document," *Aftonbladet* ran a three-page story based on the NBC account, noting that

"according to NBC, Swedish authorities renewed their interest in the 33-year-old who earlier was suspected in the Palme investigation. . . . The 33-year old was a member of LaRouche's organization in Sweden." (This, despite the fact that only two months before, on Sept. 7, the same newspaper had run a tiny correction to its own previous defamatory coverage, under the title "No Member of the ELP." Gunnarsson is quoted, "I have not been a member and I do not sympathize with them, although there are certain things about which they are right.")

Swedish police emphatically denied the NBC story (see box).

The Rothschild connection

Behind Holmér's bungling of the investigation lies a cover-up of strategic significance, reaching far beyond the confines of the Stockholm police headquarters. On Dec. 5, the Malmö daily *Kvällsposten* cryptically noted that in Great Britain, journalists seem preoccupied, not with Gunnarsson and the ELP, but with the love affair between Palme and Emma Rothschild, daughter of Victor Lord Rothschild, former crony of KGB spy Kim Philby.

Although this was the first the Swedish public had heard of the Rothschild connection, it was nothing new to angry police investigators aware of Holmér's cover-up role. On Dec. 3, one day before the NBC story, 12 top detectives involved in the Palme case resigned in protest. The resignations were prompted, according to the London *Daily Mail* of Dec. 4, "because they have been thwarted by political pressure from conducting a proper criminal inquiry into Palme's murder. . . . The Swedish government, they claim, is terrified of the international consequences should the officers pin down the murderer and then reveal the forces behind him. Other officers in Stockholm CID [criminal police—ed.] claim they have uncovered sensational details of the Prime Minister's sensational love life. But they too on government orders had to close their files."

The German daily *Bild Zeitung* on Dec. 5 revealed that the mistress in question was indeed Emma Rothschild, and attributed the resignation of the 12 detectives to Holmér's blockage of this line of investigation.

Mounting pressure

Since March, Holmér has come under increasing attack. By Dec. 9, Stockholm's largest morning daily, *Dagens Nyheter*, ran a page-one headline, "Hans Holmér Should Be Removed." A leading member of Parliament and chairman of the Judiciary Committee, Karin Ahrlund, issued a public call for Holmér to resign; this was followed a few days later by similar statements by National Justice Chancellor Bengt Hamdal and National Prosecutor Magnus Sjöberg.

The battered Holmér went on television to try to repair his reputation. Comparing his position to that of Homer's

Odysseus, guiding his ship, "alone, under pressure," Holmér cited one of his favorite maxims from Voltaire, "There is nothing so uncomfortable as being hanged in silence." *Dagens Nyheter* quipped on Dec. 10, "Holmér does not have to worry. If he is hanged, it certainly won't be in silence."

The same day, Claes Zeime, chief government prosecutor in the Palme case, was asked by a reporter whether repeated statements by Holmér that he is "on the verge" of naming the murderer, the motive, or something, could be called "disinformation." Zeime replied that his office was aware of no major new element in Holmér's investigation, and that "the police statements indicating differently, were 'disinformation' if you want to call it that."

Now, the number-two man in the Swedish foreign ministry appears to have jumped into the fray in Holmér's defense, Cabinet Secretary Pierre Schori, an intimate of Henry Kissinger. Kissinger made an unpublicized 12-hour trip to Stockholm from London on Dec. 1. Schori was in Washington meeting with the U.S. State Department's John Whitehead, among others, during the week of Dec. 5, when the NBC piece ran.

Impact of *EIR*'s report

There are several elements which make the situation inside Sweden far different in December, when NBC tried to set off a new witchhunt against LaRouche, than in March, when Holmér led a campaign, with full international press play, to try to pin the Palme murder on the ELP.

One major difference is the circulation internationally of a 102-page *EIR Special Report*, "A Classical KGB Disinformation Campaign: Who Killed Olof Palme?" The report was released at press conferences in London, Washington, Oslo, Copenhagen, and other capitals. It outlines the most detailed documentation of Soviet intelligence operations in a Western country ever presented in the non-classified domain. The report has become the most discussed back-room item in Sweden, according to Swedish journalists and businessmen. It is known to be circulating in "bootleg" xerox copy through the Parliament, military, and business circles.

The Malmö-based *Sydsvenska Dagbladet* on Dec. 6 ran an article on *EIR*'s Palme dossier, under the title, "Right-Wing Extremist Document: KGB Orders Murder of Palme." While the tone of the article is obligatory Swedish media sarcasm, several important items leak out, perhaps as signals in an escalating factional warfare inside Sweden. According to the paper, "The report charges that Palme was murdered on orders from the Soviet spy organization, KGB, in collaboration with international big banks, the so-called Trust and international Jewish organizations. . . . The biggest Swedish villain in this scenario is Pierre Schori, cabinet secretary in the Foreign Ministry. . . . The document is, however, notable in other and more serious ways. It cannot have been compiled and published without help of a well built-up net-

A LaRouche angle? 'Oh no, not again!'

The following wire was issued by UPI from Stockholm on Dec. 5:

Police said today a man cited in a news report as the possible link between Lyndon LaRouche's political group and the murder of Prime Minister Olof Palme is no longer a suspect.

Police spokesman Leif Hallberg refused to confirm or deny an NBC news report Thursday that Swedish police investigating the Feb. 28 assassination of Palme were given notebooks seized in October from LaRouche's headquarters in Leesburg, Va. But he said the LaRouche loyalist was dropped as a suspect in March.

"There is a disproportionately great interest among journalists in the United States in one of the leads we have followed up during the investigation," Hallberg said.

"Every time NBC or some other agency from the United States calls us about this [LaRouche angle] we look at each other at police headquarters and say, 'Oh no, not again,'" he said.

work of informers and lots of money."

Other events too have changed the correlation of forces from that of March. One is the widening criminal investigations by the U.S. government into the "insider trading" abuses of Wall Street's Ivan Boesky. One very prominent Swedish financier group is "up to their eyeballs" in the Boesky affair, according to an informed European source. The group was detailed in the *EIR* dossier, two months before the Boesky scandal broke.

The "Irangate" developments in Washington are another new element. Was Pierre Schori meeting with Kissinger and Whitehead to find out how far the Iran purges might go?

And potentially most explosive, are the revelations in Britain around charges that the father of Palme's alleged mistress, Lord Rothschild, is a Soviet agent. According to Swedish sources, Emma, who reportedly had a townhouse paid for by Palme near his Stockholm house, came to Stockholm during the first week in December, accompanied by six bodyguards, one of whom destroyed the camera of a British television journalist, when asked about her father's intelligence connections. She is reported in hiding at present.

The Rothschild factor and the role of SIPRI

by Mark Burdman

Observers in Europe had a sense of *déjà vu*, when a reporter for Britain's Independent Television was assaulted, his camera smashed, by bodyguards accompanying Emma Rothschild, daughter of Lord Victor Rothschild, as she was leaving her home in Stockholm over the Dec. 6-7 weekend. Just a few days earlier, on Nov. 27, outside the offices of N.M. Rothschilds in London, a reporter for the *Daily Mail* chain had been assaulted by goons, when he tried to ask questions of Lord Rothschild as he was leaving the family's merchant bank.

Why such raw nerves among the Rothschild clan these days?

Lord Rothschild had the political scare of his life, when suspicions began to be raised—evolving out of the current British government legal effort in an Australian court, to suppress publication of a new book by Peter Wright, a former counterespionage agent for Britain's foreign intelligence service MI-5—that Lord Rothschild, was the "Fifth Man," a Soviet spy who had infiltrated British intelligence. On Dec. 4, Prime Minister Margaret Thatcher refused to exonerate him from such suspicions, in statements made in the House of Commons. One day later, Mrs. Thatcher made a half-hearted turnabout, saying there was "no evidence" that Rothschild was a Soviet agent, but failing to add the usual homilies about his service to the nation.

As the cloud of suspicion hung over Lord Rothschild's head, a new problem of Soviet connections erupted for him via his daughter Emma. Beginning on Dec. 4, revelations began to be published in the press of Scandinavia (although not, initially, in Sweden), West Germany, and Great Britain, that Emma had been in a love affair with the late Swedish Prime Minister Olof Palme, up to the point of Palme's Feb. 28, 1986 assassination.

The stories revealed that the Swedish police team running the investigation of the Palme assassination, headed by police chief Hans Holmér, had refused to even question Emma after Palme was killed, despite the report that she was regularly aware of Palme's movements about town, and that a tap on her phone would have allowed Palme's assassins to know his whereabouts on the night of the assassination.

Looking at the "Emma angle" would force investigators to examine the Soviet factor in the Palme assassination. Even if one could agree that Lord Rothschild is *not* a Soviet agent, with 38-year-old daughter Emma, it's a different story. Her entire career is hard-wired into Soviet agent-of-influence circles.

SIPRI and the Trust

Up until 1980, Emma Rothschild was a figure of some secondary importance among radical-liberal networks. In 1973, she wrote a book which gave her some fame within the zero-growth-oriented left wing; it was titled *Paradise Lost: The Decline of the Auto-Industrial Age*, and was published by Random House.

But as the Swedish family magazine *Aret Runt* pointed out in a 1985 article on the Palme-Emma relationship written months before the assassination of the prime minister, she was a relative unknown until 1980, when, with the sponsorship of Palme, her career skyrocketed.

Having been well-traveled in the Cambridge, Massachusetts, Chicago, and Oxford, England affiliates of Lord Bertrand Russell's East-West "Pugwash Conference" throughout her academic career, she was introduced into Palme's circle, ca. 1980, and was brought by Palme into a research-secretarial position on the Independent Commission on Disarmament and Security Issues ("Palme Commission"). This brought her into contact with Soviet officials, notably Commission members Gen. Mikhail Milshtein and Georgii Arbatov, head of the Moscow U.S.A.-Canada Institute. The Palme Commission also incorporates leading Western appeasers, including former U.S. Secretary of State Cyrus Vance, British Social Democratic Party leader David Owen, and West German Social Democratic Party ideologue Egon Bahr, a friend of Henry Kissinger.

Sometime between 1980 and 1984, Emma was brought onto the staff of the Stockholm International Peace Research Institute (SIPRI), and was, in 1984, at the age of 36, made the representative of Great Britain on SIPRI's exclusive governing board.

Here, the Soviet intelligence connections would blossom.

SIPRI is an important front for the East-West back-channel grouping best characterized as "the Trust." Operating under the cover of a neutral-academic "peace research" group, it was set up in 1966, at the initiative of Palme's predecessor, Swedish Social Democratic leader Tage Erlander. It soon became a pet project of the "Trust's" husband-and-wife team Alva and Gunnar Myrdal.

Its 28-member Scientific Council has been a prime center of Trust operations. From 1966-79, Britain's Lord Mountbatten was a member of the Council, and it was on the occasion of accepting an award on behalf of SIPRI, in 1979, three months before his assassination in August, that Mountbatten made a famous speech on behalf of the European "peace

movement." From 1966-69, Henry Kissinger, formerly an insider on the Pugwash circuit, served on SIPRI's Scientific Council, and went from there to his post as U.S. national security adviser in 1969. Contacts between SIPRI and Kissinger are reportedly close to the present day. As of most recent available listings, the SIPRI Scientific Council includes two Soviets, Academician Fokin of the U.S.S.R. Academy of Sciences and Vitaly Zhurkin, Arbatov's deputy director at the U.S.A.-Canada Institute. There are also a number of Western "Trust" agents, including former Austrian Chancellor Bruno Kreisky.

At least twice to *EIR*'s knowledge, SIPRI has been under suspicion of being an espionage front. In August 1981, the office of a British-born SIPRI "peace researcher," Owen Wilkes, was sealed by the Swedish security police SÄPO, when he was found to possess sensitive documents on Swedish air defenses and on U.S. army installations, including nuclear bases, in Europe; earlier that year, Wilkes had been given a suspended sentence by a Norwegian court, after having been convicted of publishing details of U.S. military-electronic communications equipment on Norwegian soil. Then, on Sept. 8, 1981, the Swedish liberal daily *Dagens Nyheter* published reports of close connections between a Czech-emigré SIPRI consultant, Theodor Nemeč, and the Soviet military attaché in Stockholm, Stanislav Makarov, who had been earlier expelled from Denmark and Norway, on suspicion of spying, and who, according to *Dagens Nyheter*, was rumored to be a military-intelligence (GRU) agent. The paper reported that, in the spring of 1981, Nemeč had caused the purge from SIPRI of a researcher who had tried to study Soviet military installations in the Baltic.

Will the cover-up last?

The outlines of the Emma-SIPRI-Soviet connection are beginning to make their way into the press. The British Sunday tabloid *The People* published an article on Dec. 7, "Why Spy-Catchers Checked Emma Rothschild: KGB Links Feared," reporting, "Swedish security chiefs feared that a peace organization in which she was a leading figure could have been infiltrated by Russia."

Contacted during the week of Dec. 8, a SIPRI spokesman arrogantly told a caller: "The Swedish police will never let the Emma Rothschild story out."

But the clampdown on the Rothschild story is becoming a central factor in Swedish detectives' and politicians' anger at the way Holmér's team is conducting the investigation. And that anger extends outside Sweden. As one British source told this correspondent Dec. 10: "Our people here are astonished by the lack of progress in the investigation over there. Our people feel that their opposite numbers in Sweden have a good idea who was responsible, but political interference is holding things back. The Swedes are terrified of finding the evidence of Russian involvement in the killing of Palme, which everyone knows exists."

A classic Soviet disinformation job

A few hours after Olof Palme was assassinated, *EIR* identified the initial elements of what was soon to develop into one of the most massive deployments of a Soviet disinformation campaign ever seen. Our daily monitoring of Soviet statements identified an unusual rashness in the Soviet propaganda response to the murder.

Just hours after the assassination, on March 1, Georgii Arbatov, the chief of the U.S.A.-Canada Institute, a Central Committee member, and co-founder of the Palme Commission on disarmament issues, proclaimed: "I do not know who killed Palme, but I know all too well who hated him. . . . I saw demonstrations against him by fascist hooligans, inflammatory articles, and provocations. Reaction loathed Palme."

In the weeks that followed, Arbatov's formulation was picked up by Soviet-linked media and political conduits internationally, becoming, by March 18, a world-wide barrage of slanders and lies aimed at blaming the assassination on the Swedish European Labor Party (ELP) and Lyndon LaRouche.

As the Stockholm police investigation unfolded, and the surge of press coverage in the Swedish and international media began to take shape, *EIR* analyzed the activities of known Soviet disinformation specialists. These were coordinated with Western networks previously identified as working for, or manipulated by, the KGB. The names of two high-level Soviet officials surfaced increasingly: Ambassador to Sweden Boris Pankin and Sergei Losev, director general of the Soviet news agency TASS.

KGB dirty tricks: Pankin's network

According to Soviet intelligence defectors, the KGB's Department D (Disinformation) was restructured in January 1959 by then KGB chief Aleksandr Shelepin, to coordinate with the Central Committee of the Communist Party, the Committee of Information of GRU military intelligence, and the KGB's departments responsible for intelligence and counterintelligence.

In 1968, one year after taking over control of the KGB, Yuri Andropov revamped Department D, renaming it Department A, and soon thereafter upgraded its status within the KGB organizational structure. Along with a newly reconstituted Department V (responsible for assassinations, sabotage, and dirty tricks), it was placed directly under the KGB's First Chief Directorate.

Sitting atop the KGB's disinformation apparatus is KGB Lt.-Gen. Boris Pankin, who headed Department A before arriving in Stockholm as ambassador in October 1982. Pankin coordinates a group of KGB and GRU officers who could be best described as the "LaRouche watchers" within Soviet intelligence.

One of Pankin's closest collaborators is TASS director Losev, who, according to Soviet sources, has been "centralizing all the information around the Palme investigation from his office in Moscow." Around the axis of Pankin and Losev, a group of Soviet journalists and authors rotates, all of whom are high-ranking figures in the KGB or GRU. Attacks against LaRouche and the CIA originate with this group. It includes "journalist" Vitalii Petrusenko, a nest of operatives at the KGB "cultural" organ *Literaturnaya Gazeta*—Fyodor Burlatskii, Julian Semyonov, Iona Andronov, and Aleksandr Sabov—as well as leading lights of the Soviet Culture Fund and the dean of Soviet "anti-fascist" researchers, Ernst Henry.

Consider just one example of how this group's disinformation has operated against LaRouche. After Pope John Paul II was shot in May 1981, the KGB assigned Iona Andronov to counteract Western exposés of the Bulgarian and Russian intelligence services' involvement in the assassination attempt—exposés in which *EIR* had particular competence and credibility. In a July 6, 1983 article in *Literaturnaya Gazeta*, Andronov wrote:

Wiesbaden. Dotzheimer Strasse No. 164. The West German branch of an American subversive institution under the mask *Neue Solidarität* [the weekly founded by Helga Zepp-LaRouche—ed.]. The specialty of the Wiesbaden center is to infiltrate the ranks of the peace movement supporters and left-leaning youth organizations, shadowing them and disorganizing them from inside. The basic method of their diversionist intrigues is an intensive anti-Soviet propaganda.

Here, Andronov was using a standard KGB disinformation tactic. First, he portrayed LaRouche and affiliated organizations as a "subversive" CIA operation—printing *EIR*'s address in Wiesbaden for the benefit of leftist terrorists. Second, he falsified a statement of an *EIR* correspondent, allegedly attacking the CIA as responsible for the assassination attempt against the Pope. This was intended to convince Western specialists that *EIR* was working with the KGB in trying to blame the CIA for the attempted murder.

In order to trace the roots of the Soviet disinformation campaign against LaRouche and the Swedish ELP, which reached its peak in the aftermath of the murder of Palme, one has to go back to the mid-1970s. Vitalii Petrusenko, a close collaborator of TASS director Sergei Losev, wrote a book in 1976, *A Dangerous Game: CIA and the Mass Media*. He devoted six pages to attacks on LaRouche, the newspaper *New Solidarity*, and the philosophical associations which

LaRouche initiated, the National Caucus of Labor Committees (NCLC) and the European Labor Committees (ELC). Petrusenko wrote:

In the autumn of 1975, public attention was drawn to a statement by Per Fagerström, press secretary of the prime minister of Sweden, in which he said that the NCLC representatives "are energetically compiling everything they can find out about leading Social Democrats. . . ."

The Swedish newspaper *Aftonbladet* wrote that the "ELC is operating as a pro-Communist group [sic], but in reality is a North American anti-Communist organization which in Sweden and other countries is suspected of having committed various acts of espionage and sabotage."

A number of papers, including the West German *Die Tat*, reported that former CIA Director William Colby and former CIA Deputy Director Ray Cline had admitted that the CIA annually provided *New Solidarity* with \$90,000 and that about 80 percent of its staff were CIA and FBI people.

From such lies, it was a small step to the disinformation line against LaRouche which Arbatov, Losev, and Pankin put out following the Palme assassination.

How to obtain EIR's dossier on Palme's murder

The 102-page *Special Report* upon which this *Feature* was based, "A Classical KGB Disinformation Campaign: Who Killed Olof Palme?" was released in October 1986 and was written by William Engdahl, Göran Haglund, William Jones, and Paolo Serri.



It is available for \$100 from EIR News Service; P.O. Box 17390; Washington, D.C. 20041-0390 (or in Europe: EIR Nachrichtenagentur GmbH; Dotzheimer Str. 166; D-6200 Wiesbaden, Federal Republic of Germany).

A worldwide media 'big lie' campaign

The following are highlights of the Soviet-orchestrated disinformation campaign against the European Labor Party (ELP) and Lyndon LaRouche, which began immediately after the Feb. 28, 1986 assassination of Olof Palme.

March 1: Soviet Central Committee member **Georgii Arbatov** attributes the assassination to "fascist hooligans . . . reaction."

March 2: The Soviet newspaper *Pravda* blames "right-wing circles."

March 3: The Danish paper *Ekstra Bladet* claims that "sources in the police leadership reveal they are looking intensely at right-wing extremist groups, such as the Swedish neo-nazis and the so-called 'European Labor Party,' which also has a branch in Denmark." *Tageszeitung*, the West Berlin pro-terrorist paper, runs the same line.

March 6: *Literaturnaya Gazeta*, the Soviet KGB's "cultural" journal, runs an article by foreign ministry spokesman **Vladimir Lomeiko**, asserting that Palme's support for "a nuclear-free civilization," disarmament, etc., made him "a target of the ideological adherents of violence. . . . At this moment we do not know the names of his assassins, but we know the handwriting of political assassination."

March 14: The Danish paper *Berlingske Tidende* reports that a man was detained on March 12 by Swedish police, who "has been a sympathizer of the EUP [sic] and has worked on a freelance basis for the party, among other things by authoring articles for party journals." In fact, suspect **Viktor Gunnarsson** never worked for the ELP, never wrote for ELP publications, and never attended any ELP event. He signed up for membership in 1984, and was removed from membership in 1985.

March 16: *The Observer* of London runs an article by **Christopher Mosey**, saying that police are investigating "a possible link between the killing and an extreme right-wing political group known as the European Workers Party." The paper claims that Gunnarsson "is understood to have been a supporter of the party and to have held political meetings with up to 30 people crowded into his one-room flat in a suburb south of Stockholm."

March 18: The storm breaks loose: A wave of slanders appears throughout the Swedish and international press. *Aftonbladet*, newspaper of Sweden's Social Democratic trade unions, runs 10 pages on the ELP's alleged role in the Palme murder. Half of the front page is a picture of the Social Democrats' 1976 election rally, showing an anti-Palme plac-

ard held by two men, one of whom is alleged to be suspect Gunnarsson. In reality, the man in the picture is a Social Democrat attempting to tear down the ELP's poster (as the paper admitted in a small correction published six months later, on Sept. 6). The *Aftonbladet* story and picture are picked up widely around the world, including by the **Reuter** wire service. NBC-TV broadcasts a "Nightly News" item by **Brian Ross**, alleging a connection of suspect Gunnarsson to LaRouche, who is identified as the head of a neo-Nazi cult. The **Anti-Defamation League's Fact-Finding Division** head **Irwin Suall** is interviewed, saying it is conceivable that a person affiliated with LaRouche could commit an assassination.

March 19: *Radio Moscow* plays back Western media reports that the suspect was a member of "the fascist European Labor Party." *Krasnaya Zvezda*, the daily of the Soviet armed forces, runs a TASS release citing the Swedish paper *Svenska Dagbladet*, that the suspect is linked to the ELP, "a 'political sect' with strict discipline, which carries out persecutions of its political opponents. Some years ago the party started a 'Save Sweden' campaign. Such a 'rescue' would be carried out by Sweden's entry into NATO." *Aftonbladet* runs four pages on the ELP, including a two-page spread featuring pictures of West German neo-Nazi **Karl-Heinz Hoffmann**, with paramilitary uniformed troops, dogs, and skull-and-cross-bones symbols. The headline reads, "The Neo-Nazi Training Camp—Here Six Swedes Were Trained." The article claims that Swedish ELP members received weapons training at Hoffmann's training ground. The Norwegian daily *Dagbladet* runs a large picture of a hooded **Ku Klux Klansman**, claiming that it is Lyndon LaRouche. *L'Unità*, the newspaper of the Italian Communist Party, runs the headline, "Is Palme's Killer a Hard-Core Neo-Fascist? He Was an ELP Activist." The *Washington Post* runs a story in its first edition, "Suspect in Palme Case Had LaRouche Party Tie," which is pulled from later editions.

March 20: After suspect Gunnarsson's sudden release on the afternoon of March 19, for lack of evidence against him, much of the media campaign grinds to a halt.

March 21: The Soviet television program *Vremya* airs an attack on the ELP, regretting that Gunnarsson was being released for lack of evidence and insisting on his connection to the ELP, "an international pro-fascist organization . . . in favor of Sweden joining NATO and of arming the Swedish Army with neutron weapons. The party headquarters is in the United States. It is headed by a U.S. millionaire, LaRouche."

March 23: The Soviet government daily *Izvestia* laments the police "blunder" which led to the release of the suspect.

Sept. 9: *Radio Moscow* reports that the Swedish police are still looking into "the American reactionary organization, New Solidarity. Their hatred for him was characteristic of the organization's Swedish branch, the Swedish Workers' Party."

Police furious at Holmér's cover-up

The following documentation of discontent among the Stockholm police at Police Chief Hans Holmér's conduct of the Palme investigation, is excerpted from an article published in Expressen on May 9.

"The investigation into the Palme murder is not run the way a murder investigation ought to be run. Holmér has organized the investigative task force into cells where everything converges upon him and the leadership group," one police source said.

Several of the most seasoned police officials accuse Holmér of directing the work like a dictator, saying that he is paralyzing initiatives because of his manner of leading the work and that he is more of a liability than an asset to the investigation. "With some officials in the Security Police (SÄPO), there is a complete communications breakdown. They think that it is no longer possible to have a reasonable conversation with Holmér," one source said.

One SÄPO official stated: "I cannot cooperate with an amateur. Therefore, there is no longer any reason for me to talk to the police chief." Some of the silent criticism concerns

the previously arrested 33-year-old man [suspect Viktor Gunnarsson, released on March 19 for lack of evidence—ed.].

Among the police officers participating in that part of the investigation dealing with the 33-year-old, an increasing number have abandoned their previous view of the man's involvement in the murder and now regard him as a sidetrack in the investigation.

"The more we dig into the case of the 33-year-old, the more our suspicions seem unfounded," one investigator said.

"But Holmér clings to the 33-year-old like a shipwrecked man to a life raft," another police source said. . . .

In the evening of March 12, when Chief Prosecutor K.G. Svensson took charge of the investigation regarding the 33-year-old, he detained him for complicity in the Palme murder. Later the prosecutor went to court and pressed charges against him for murder. But one day before the court hearing, Chief Prosecutor K.G. Svensson surprisingly withdrew his charges.

Hans Holmér was furious with the Chief Prosecutor.

"K.G. Svensson is one of Sweden's most experienced prosecutors. But Holmér has refused to accept his view," one source said.

What was it that made K.G. Svensson take the drastic measure of opposing the police leadership and the prevalent notion that the arrested man was the murderer?

"Svensson had simply examined the evidence which Holmér claimed tied the 33-year-old to the crime," one well-informed source said.

Chief Prosecutor K.G. Svensson found the evidence concerning the 33-year-old's involvement to be . . . weak. . . .

The track Holmér refused to take

Among several possible instruments for carrying out the murder of Olof Palme, the international terrorist organization of the Kurdish Workers' Party (PKK) represents a main track in any serious investigation. The PKK had a stated motive for killing Palme and had already carried out political assassinations in Sweden and elsewhere; it operates out of secret headquarters in Damascus, Syria, a center of Soviet-run irregular warfare against the West.

Although Swedish Security Police (SÄPO) pointed to the PKK right away as possible suspects for the murder, Police Chief Hans Holmér took no interest in the lead. When a group was finally formed to investigate the PKK,

it was drawn from police forces other than SÄPO, disregarding the experience accumulated during years of SÄPO surveillance of the PKK.

One day after the Palme murder, the Swedish daily *Expressen* received a phone call from a man who said, "Long Live PKK! Long Live Kurdistan! We have murdered Palme! Long Live Kurdistan!" Among the material seized during police raids of PKK homes and offices after the murder, a note was found mentioning a "wedding" and Palme's name. "Wedding" is considered a code word for "murder."

The PKK has been subject to SÄPO surveillance since at least the early 1980s, when the group was planning to set up its headquarters in Sweden. In a secret memorandum to the government in September 1984, the SÄPO warned of planned "reprisals against Sweden and first of all against Prime Minister Olof Palme. In PKK circles, Sweden is considered to be on a fascist leash, and therefore is an enemy of the organization."

Moscow's favorite Swedish bankers

Lyndon H. LaRouche, Jr. in a March 4, 1986 research memorandum on the Palme assassination titled "Operation Edgar Allan Poe," described the "bankers' faction" in the West as "an integral part of the present-day equivalent of the 1920s Soviet 'Trust' organization," the organization within which Palme's political activities have been situated. "The killing of Palme by such circles, or by aid of such circles, would be, therefore, an 'inside job,'" LaRouche wrote.

What motive could this group have had for killing one of their own? Was it to use Palme's "martyrdom" to reestablish Socialist International control over Sweden? Was it a Moscow-ordered assassination, in the same way that Moscow left the destabilization of the Philippines to the Western "bankers' faction"? We cannot say for sure. But certainly the Trust must be included among the list of general suspects.

The Wallenberg-Gyllenhammar group

The investigation into the Palme assassination leads to a mysterious nest of banking and corporate interests, dating back to World War I, notably the Wallenberg-Gyllenhammar group in Sweden. During the war and into the 1920s, one of the most influential private banking families in Scandinavia was that of the brothers Knut and Marcus Wallenberg. They dominated financing of the most important mining and electrical industries in Sweden and Norway at the turn of the century, aided by ties with the London Hambros Bank.

The Wallenberg family bank, Stockholm's Enskilda Bank, was deeply involved in financial support for the Bolshevik coup d'état. The bank made huge profits from covertly breaking the Western economic blockade of the Bolshevik regime after 1917. Then, in the 1920s, the Wallenbergs redeployed to support Nazi leader Hjalmar Schacht (later Hitler's economics minister) and the creation of the Third Reich; in the 1930s, they became involved in the secret rearmament of Nazi Germany through their control of Swedish iron ore, armaments, and ball bearing manufacture. The flow of strategic materials to the Nazi economy continued from Sweden without interruption until the last days of World War II.

With their rich experience in financing both Bolshevik Russia and Nazi Germany, it is not surprising, that following the death of Stalin in 1953, when Moscow reopened negoti-

ations with Western financial elites, the Wallenbergs and a select network of Swedish businessmen were in the middle of these operations.

Western intelligence sources have charged, that incidents of technology espionage and smuggling to the Soviet Union by several Wallenberg companies in the late 1970s, were no aberration of lower-level employees, as charged. The allegation being investigated is that the Wallenberg group functions on behalf of the modern-day version of the Trust as one of the most important Western bases of industrial espionage. Further, the families behind this corporate empire, since at least the 1966 creation of the Stockholm International Peace Research Institute (SIPRI) as a key East-West channel, have been committed to the project for a "New Yalta" agreement with the Soviet Union.

One of those most active in the East-West back-channel negotiations is Volvo head Pehr Gyllenhammar, a partner of Kissinger Associates, Inc., a board member of the Aspen Institute for Humanistic Studies, as well as a fellow of the Wallenberg group. Beginning in 1972, Gyllenhammar has had ongoing personal contact with top Soviet KGB operative Dzhermen Gvishiani, a co-founder of the Club of Rome and the International Institute of Applied Systems Analysis (IIASA), and an interlocutor of Henry Kissinger and McGeorge Bundy.

The group's international ties

The international financial network which interlocks with the Gyllenhammar-Wallenberg group is one of the most significant in modern finance. Through their major holding in the highly secretive Swiss-Belgian financial holding company Pargesa Holding SA, Geneva, the Gyllenhammar group links directly with the U.S. "junk bond" financial mafia of the New York brokerage firm Drexel, Burnham, Lambert. Drexel, Burnham has gained notoriety recently for its role in a vast illegal international "insider trading" conspiracy, involving senior Drexel, Burnham executive David Levine and indicted takeover artist Ivan Boesky.

Gyllenhammar partner Anders Wall sits on the board of Pargesa as well as on the board of Drexel, Burnham, Lambert. In 1985, Drexel, Burnham reported doing \$47 billion worth of business, primarily derived by financing an insider group of financial operators reported to be the old Meyer Lansky business empire, notably such names as Steven Wynn of Las Vegas' Golden Nugget Casino; Carl Lindner, the chairman of Dope, Inc.'s United Brands; Carl Icahn, who last year took over TWA airlines, and has more recently endeavored to take over USX, the shell of the U.S. Steel Company; Vic Posner, the mooted successor of the mob's Lansky; and Wall Street's Ivan Boesky.

Pargesa is the holding company which runs the secretive empire connected with Belgium's Albert Frère and Gérard Eskenazi, and Baron Léon Lambert of the Groupe Bruxelles Lambert—to name just a few of the international financial connections which are elaborated in *EIR's Special Report*.

EIR International

Shultz a disgrace at NATO foreign ministers' meeting

by Criton Zoakos

The Dec. 10 NATO foreign ministers' meeting in Brussels was a disgrace, and the cause for it was U.S. Secretary of State George Shultz. It could have been worse—a fully treasonous affair if Shultz's European fellow decouplers, such as Germany's Hans Dietrich Genscher and Italy's Giulio Andreotti, had their way.

As it turned out, the final communiqué which was issued after two days, was described by the ministers as "not an official policy statement," but, merely, a listing of the participants' different views on the subject of the infamous—and now largely inoperative—"Reykjavik proposals." These proposals, it will be recalled, were pushed on President Reagan by three persons, George Shultz, John Poindexter, and Donald Regan, and amounted to a straightforward decoupling of the defenses of Europe and the United States. Essentially, the proposals boiled down to two elements: first, elimination of all strategic nuclear weapons in ten years; second, elimination of all intermediate-range U.S. nuclear missiles stationed in Europe. The resulting logic of the proposals, as they were meant to be understood by the Soviet command, was: When all Euromissiles are removed from Europe, there will be nothing to defend Western Europe from the combined threat of overwhelming Soviet superiority in both conventional and short-range nuclear weapons—because the United States, having eliminated its long-range strategic nuclear arsenal, would have no "nuclear umbrella" to extend over Europe.

This treachery was pointed out, immediately after Reykjavik, first by NATO Generals Bernard Rogers and Hans Joachim Mack and by U.S. Defense Secretary Caspar Weinberger, and later by all the NATO Defense Ministers together. Shultz, at the time, took the lead in the effort to deflect

these very valid criticisms. His approach against what the alliance's entire military establishment has to say, was presented in a key speech at the University of Chicago, on Nov. 17. The final communiqué which issued out of the early December foreign ministers' meeting is an exact replica of Shultz's basic argument of Nov. 17 in Chicago. That argument was: 1) Reykjavik was a turning point in history, 2) Euromissiles must be eliminated, 3) a residue of strategic nuclear weapons, "for insurance," can be kept after the overall agreement to eliminate them—so as to deflect the defense concerns of the Europeans.

Shultz, specifically, argued: "In years to come, we may look back at their [Reykjavik] discussions as a turning point in our strategy for deterring war and preserving peace. . . . For INF nuclear missiles, we reached the basis for agreement on even more drastic reductions, down from a current Soviet total of over 1,400 warheads to only 100 on longer range INF missiles worldwide for each side. . . ." And finally, the most controversial element, designed simply to lull the critics who charged that the underlying intent of the Reykjavik proposals was to decouple Europe from the U.S.: "Even as we eliminate all ballistic missiles, we will need insurance policies to hedge against cheating or other contingencies. We don't know what form this will take. An agreed upon retention of a small nuclear ballistic missile force could be part of that insurance. . . ."

The NATO foreign ministers' final communiqué endorsed fully the proposal for the removal of all United States intermediate-range nuclear missiles in Europe, the essential ingredient of the decoupling strategy. Western Europe's leading decoupler, Bonn's Foreign Minister Hans Dietrich Genscher, said, after the meeting, "This means that the alli-

ance has now clearly made its point on the zero option, and nobody should call it into question from now on. It's part of our credibility."

However, the final communiqué also included Shultz's "insurance policy," in the form of endorsing only a 50% reduction in strategic missiles (on U.S. soil). The "complete elimination," proposed at Reykjavik, would not have permitted the foreign ministers to credibly pretend that they are not selling out to Moscow, after they had voted for the "zero option" on Euromissiles.

Further similar ambiguities from the defense ministers meeting were designed to permit diplomatic "ways out" in their anticipated confrontations with the alliance's military establishment. George Shultz himself, made two points on this matter. First, he characterized the final communiqué as not a policy but rather an itemization of various positions held by various participants. "People have different views about it. Some people are intrigued, some people are enthusiastic, some are reserved, some don't think it's a good idea and that's the fact of the matter," he said.

He also told the press that the idea of retaining for "insurance policy" a certain part of the ballistic missile force, was his own and not the U.S. government's. Before a puzzled and intrigued press conference in Brussels, Shultz said, "It's not a government idea. It is my idea. I talked it over with the President and he had no objection to my mentioning it in my speech," referring to his University of Chicago speech.

The disclaimer was factually true—but only half-true. The speech was made Nov. 17, while Shultz was in Chicago and Prime Minister Thatcher was at Camp David with President Reagan. On the following day, the White House issued a statement which, reflecting the British Prime Minister's concerns, distanced the United States from the Reykjavik proposals, and defined U.S. policy to be against the decoupling implications of those proposals. On that day also, both the defense department and the White House in separate statements renounced Shultz's Chicago speech, especially its duplicitous "insurance policy" clause. In fact, the Joint Chiefs of Staff, took the opportunity to criticize the grammar, as well as the substance, of the offensive passage.

Subsequently, the Dec. 4 NATO defense ministers' meeting took and announced a series of decisions which removed the alliance from the dangerous path of Reykjavik, and reiterated U.S. government policies as were clarified by Defense Secretary Weinberger at the Gleneagles, Scotland Nuclear Planning Group meeting of NATO, and by the White House after Margaret Thatcher's visit to Washington.

A state of insurrection

In short, not only is the NATO foreign ministers' and Shultz's policy "not a government idea. It is my idea," but it is also contrary to both U.S. government and to NATO policy.

Both NATO and the United States find themselves in the embarrassing and dangerous position of having a foreign

ministers' revolt on their hands. This matter of a foreign ministers' state of insurrection is much more serious than appears to the general public. It is one which must be remedied in short order, and no better remedial course can be recommended than the dismissal of George Shultz from his present job.

The seriousness of the matter lies in the following: As all of NATO's military commanders know, and as Caspar Weinberger has frequently emphasized, the Soviet Union's current principal objective, both diplomatic and military, is to decouple Europe from the U.S.A. What these military leaders are not at liberty to say, is that this current Soviet objective is also the cornerstone of Marshal Ogarkov's warplan for a war between the U.S.A. and the U.S.S.R. Ogarkov has argued and enforced in the Soviet leadership the idea that the only strategic war that Moscow should ever contemplate fighting is one in which Moscow's adversary should be the continental United States alone, without any allies and without any overseas military assets. As far as Ogarkov is concerned, if Shultz's and the other NATO foreign ministers' proposals were to be implemented, then the Soviet Union would be placed in a position "to shoot."

A U.S. decoupling from Europe, as implied in Shultz's Chicago speech—and in the foreign ministers' communiqué—would not only transform all of Europe into a captive of Soviet arms, and thus a mere Soviet satrapy, it would also enormously increase the Soviet Union's military blackmail power over the U.S.A. Under those conditions, few constraints would be there to prevent Ogarkov from launching war, should the United States refuse to give in to that blackmail.

Defense Secretary Weinberger, since the Dec. 4 defense ministers' meeting, has made numerous public statements warning clearly about the Soviet leadership's present intentions and policies. These official warnings do not square with the policies of the Secretary of State, nor with the assumptions underlying the NATO foreign ministers' policies. Neither the Western Alliance, nor the United States, can afford to meet the Soviet challenge while the councils of state are contaminated by the treacherous policies of the foreign ministries.

The clean-up in the Western Alliance must begin with a general change of guard in the foreign ministries. The place to begin is the State Department, and George Shultz in particular. Alone among his NATO colleagues, George Shultz is not an elected official; his appointment in office is not associated with electoral deals and constituency representation, as is, for instance, the case with Hans Dietrich Genscher. His only constituency is the President of the United States, at whose pleasure he serves. If the Secretary of State goes around saying that his policies "are not a government idea," and if he does so to the detriment of the vital national security interests of the United States, then he must go. With him gone, his fellow traitors in the European capitals will not be long to follow.

Documentation

'No pull-out, no zero option, no SALT'

In clear and unambiguous statements on Dec. 6, U.S. Defense Secretary Caspar Weinberger and NATO Supreme Commander-Europe Gen. Bernard Rogers declared that there will be no "decoupling" of the United States from Europe, through a nuclear missile "zero option" or American troop pull-out. Europe is a matter of vital U.S. security interest. No sooner was this said than U.S. ambassador to Germany Richard Burt contradicted their statements to the effect that a "zero option" was still the goal of arms control. We excerpt first Defense Secretary Weinberger's Dec. 11 remarks before the American Legislative Exchange Council in Washington, in which he proclaimed the SALT II treaty absolutely dead.

Weinberger: SALT is dead

From the Defense Secretary's remarks before the American Legislative Exchange Council Dec. 11.

Every time I read in the newspaper that the United States has "violated the unratified SALT II treaty," a very unusual word keeps coming to mind. It is one of those words you expect to get in a *Trivial Pursuit* game or wish you could get in a *scrabble* match. That word is "oxymoron." It means a figure of speech that is a self-contradiction, like "Soviet journalist"

To characterize the President's decision to end observance of SALT II as "violating" a treaty is really Orwellian. The treaty was *never* ratified. If it had been ratified, it would have expired in December 1985. And, the Soviets have *repeatedly* and flagrantly failed to uphold the major provisions of the treaty. Under international law, actions of the type undertaken by the Kremlin are more than sufficient to release the United States from any obligation to observe the treaty—even if it *had* been ratified.

America cannot allow a double standard of compliance to develop. The President's decision concerning SALT II is intended to get this vital message across to the Soviets. This is especially important in light of the agreements involving very substantial reductions we are attempting to negotiate at this time.

Yet, this decision has been subjected to truly bizarre criticism. We frequently hear that we must accept Soviet violations because they have "open production" lines, and that SALT II is the only thing standing between us and a

"massive" Soviet build-up. While it is touching to hear such concern expressed about the Soviet build-up from many of those who regularly sneer at our warnings of *existing* Soviet military power, this concern does not seem to hold sway at budget time, when these same critics seek to slash our needed defense spending, and to close *our* production lines.

In any event, this "production-line" argument is completely fallacious. It ignores the fact that the number of Soviet warheads on strategic weapons has nearly *doubled* since the SALT II treaty was signed in 1979. Indeed, Soviet strategic forces will be almost completely modernized over the next decade—with or without SALT constraints. And when Moscow found that the SALT II agreement *did* curb its force modernization, it simply ignored the treaty and cheated.

Nevertheless, the House of Representatives attempted to mandate U.S. compliance with the so-called "MIRVed sub-limits" of the SALT II treaty, "as long as the Soviet Union did not violate them." For the first time in history, a legislative body of a democracy attempted to mandate compliance with an unratified treaty that was never honored by the other party to that agreement. . . .

The military threat posed by the Soviet SALT violations has been aggravated by its violation of the 1972 Anti-Ballistic Missile Treaty, and the increasing concern generated by Soviet ABM-related activities. The Soviets have clearly violated that treaty by the construction of a large phased-array missile tracking radar deep in the interior of their nation. This radar is part of a network of radars that could support a missile defense system. Moreover, our concern over Moscow's adherence to this treaty is intensified by the recent discovery of three new Soviet large phased-array radars of this type—a 50 percent increase in the number of such radars. These radars are essential components of any large ABM deployment. One of these radars, the one located near Krasnoyarsk, is a clear violation of the ABM treaty. But the deployment of such a large number of radars, and the pattern of their deployment, together with other Soviet ABM-related activities, suggest that the Soviet Union may be preparing a nationwide ABM defense in violation of the ABM treaty. Such a development would have the gravest implications on the U.S.-Soviet strategic balance. Nothing could be more dangerous to the security of the West and global stability than a unilateral Soviet deployment of a nationwide anti-ballistic missile system combined with its massive offensive missile capabilities, while we stand by observing the ABM treaty, but imperiling our future.

President Reagan has given the Soviet Union every opportunity to correct its violations. Compliance issues have been discussed for years in the proper forums and through senior diplomatic channels. On two occasions, the President personally raised these issues with General Secretary Gorbachov. As early as June 1985, President Reagan warned the Soviets that their noncompliance must cease or the U.S.

would take appropriate action. At that time President Reagan indicated that while Soviet violations were a grave concern, he would go the extra mile to give the Soviet Union more time to halt its cheating. In the following year, the Soviets leaders did not stop cheating, but rather continued and indeed increased it.

Every time I read in the newspaper that the United States has "violated the unratified SALT II treaty," a very unusual word keeps coming to mind. That word is "oxymoron." It means a figure of speech that is a self-contradiction, like "Soviet journalist."

Therefore, the President's SALT II decision is neither new nor unexpected and despite the alarms raised by some of the President's critics and by the Soviet Union, it has not harmed the cause of arms control.

Since the President announced his decision last May, all arms control negotiations have continued. . . . With regard to the ongoing negotiations to reduce strategic offensive arms, it was *after* the President's decision that the Soviets suggested significant reductions.

In Iceland, the Soviets tried to condition all agreements on arms reduction on our effectively killing the Strategic Defense Initiative. Of course, do not forget that the Soviets have been working on defensive technology for 25 years. In fact, it has the world's only operational anti-ballistic missile system. It circles Moscow, and is continually updated.

. . . Clearly, those who have argued that the Soviets would never accept the concept of deep reductions have been proven wrong. Those who have argued that we had to accept or rationalize Soviet SALT violations to improve the climate for arms control have also been proven wrong.

The United States intends to press for the realization of our serious and deep arms reduction proposals. We cannot promise that this will be a speedy or easy process. Things of real value are not obtained easily. But we will never accept a bad agreement or Soviet noncompliance. . . .

Weinberger: No pull-out

The following is taken from the Defense Secretary's Dec. 6 interview with Die Welt of Germany.

We are resolved never to withdraw American troops or lessen our engagement in Europe. Naturally, we can't speak for another administration, but this President will never lessen our presence in Europe.

Concerning Soviet demands that the United States abandon the SDI.

President Reagan is not prepared to do that. That's solid.

Concerning the "zero-option" President Reagan apparently was prepared to agree to at Reykjavik.

The proposals made by President Reagan . . . occurred under the consideration of nuclear deterrence remaining in place.

Rogers: U.S. troops will stay

From the general's Dec. 6 interview in Germany's Rheinischer Merkur, under the headline, "Nuclear Weapons Remain Our Trump Card."

As long as the United States keeps 350,000 soldiers in Europe, they will have to protect them. . . . Avoid anything that could incite the U.S. to pull out these troops. . . .

The decisive factor in our deterrence is the nuclear one, and here, specifically, the option of a first-use of nuclear weapons. Maybe the Soviets doubt that we would ever use these weapons first, but they can't be sure about that. . . .

I don't trust the Russians—history proves my skepticism. Never forget this. . . . The only thing the Russians do respect is strength.

The following is taken from Ambassador Richard Burt's essay in Die Welt Dec. 6, "Building on the Results of Reykjavik."

At Reykjavik, the United States and the Soviet Union moved principally toward agreement on a decisive reduction of nuclear weapons. In 1981, President Reagan, in the name of the alliance and on the basis of European proposals, first put forward the "zero solution" for middle-range rockets and proposed the total elimination of this whole weapon category.

In 1982, President Reagan also proposed a decisive reduction of strategic weapons. Both proposals were originally rejected by the Soviets in principle as well as in particular. These proposals also encountered criticism in the West from some of the leading institutions that form public opinion; they were categorized as being too ambitious. In Reykjavik, General Secretary Gorbachov, however, agreed with President Reagan that decisive reduction of strategic as well as mid-range missiles is desirable, as is ultimately the removal of all SS-20, Pershing, and land-based cruise missiles in Europe. That was an important step forward.

Busting up Kissinger's special U.S.-Israel relationship

by Paul Goldstein

In the spring of 1982, Admiral Bobby Ray Inman, then deputy director of the Central Intelligence Agency, resigned from office, ostensibly for personal reasons. However, at that time, *EIR* pinpointed the actual reason: Inman opposed the special relationship with Israel defined by Henry Kissinger and his British allies. The significance of this event is that it represents one of the underlying intelligence warfare battles which has been ongoing inside U.S. intelligence since the Johnson administration. It is, in fact, the real story of Iran-gate.

EIR's assertion is that one of the main targets for clean-up is the National Security Council's Israel connection, a clean-up which, under the direction of ex-CIA deputy director Frank Carlucci, will occur almost immediately. Our analysis is based upon not only highly authoritative sources, but on an understanding of the strategic setting in which this "special relationship" was forged.

It is also our aim, by exposing this relationship, to recast U.S.-Israeli intelligence cooperation from the strategic standpoint of establishing a "Mideast Marshall Plan" in which Israel can become an economic superpower for development of the region. This implies a complete break with British intelligence's Bernard Lewis Plan.

The NSC connection

According to highly placed U.S. intelligence sources, the process of transforming U.S.-Israeli intelligence cooperation began in the latter years of the Johnson administration. Before that time, the CIA's counterintelligence chief, James Angelton, had forged a unique but nonetheless authorized intelligence exchange and cooperation. The problem began when the powerful financial interests associated with the "friends of Israel," including the gangster Meyer Lansky, sought to replace the regular intelligence cooperation with a new operation. This new operation would include a "New Yalta" deal with the Russia and would enhance the power of those Eastern Liberal Establishment financial interests of Boston and New York, and their European allies in London, Geneva, and Hamburg, at the expense of U.S. national interests. The cartelization of world finance, featuring corporate

takeover scams like those of Ivan Boesky, were part of the scheme.

However, the bankers' coup d'état would not have been as successful without one key player, Henry Kissinger.

Kissinger's gameplan, from the moment he became Nixon's National Security Adviser, was to reduce U.S. strategic power to that of a third-rate power in a Soviet-dominated world—the "New Yalta." In this connection, he negotiated a series of deals with Soviet Russia, each damaging to the position of the United States and its allies. Traditional allies and friends were to be thrown to the wolves, and so-called new friends such as China were to come to the fore.

In this "Metternichian" system, the state of Israel would be transformed into a "new Venice." Its economy would be based on arms-sales and dirty-money laundering. Its intelligence services would no longer serve Israeli national interests, but would become the "indispensable ally" to whom the weakened United States would have to turn, because the intelligence capabilities of Israel would supercede what the United States could muster.

The National Security Council took over the function of covert operations, emasculating the CIA. With the Vietnam War tying up many of the capabilities of the Agency, Kissinger's Israelis filled the gap in the Middle East, North Africa, and the Persian Gulf. With the onset of Watergate and the internal and complex warfare that led to Nixon's ouster, nearly 1,000 covert operatives of the CIA were purged by Kissinger's ally, James Schlesinger, with aid of the Church and Pike Committees' subsequent revelations concerning CIA covert operations.

Kissinger's method was to promote the bureaucratic careers of opportunistic intelligence and military officials whose loyalties would thereby be to him. These officials were put in touch with Israeli intelligence, furthering Israeli penetration of U.S. intelligence.

Key was the removal of James Jesus Angelton, the CIA counterintelligence chief who ran both the Israel and Vatican desks. Angelton's view of the United States' proper Israeli connection was shaped by his experience in World War II in Italy, when members of the Hagannah worked with him. He

knew that certain forces inside Israel and Britain, such as Lord Victor Rothschild—now the subject of an intense factional warfare in Britain—were members of the Soviet-run “Trust.” As a few insiders of the intelligence community knew, Angelton had a file on Kissinger’s role as a “Trust” agent.

Unauthorized private financing

Kissinger’s NSC operation was financed independently of officially authorized budgetary requirements by the “Banker’s Faction of CIA.” According to one source, the private financing reached into the \$600-800 billion range, underwritten by banks, multinational oil corporations, and the international drug trade.

Kissinger’s allies inside the intelligence community included CIA directors William Colby and Adm. Stansfield Turner. Colby’s apparatus included a network of covert warriors, including Theodore G. Shackley, and his close associate, Gen. Richard Secord, who became one of Kissinger’s most loyal paid operatives.

Secord, who is front and center in the entire Iranian and Contra affair, received his brigadier-general’s star directly from Kissinger. Secord’s relationship to Israeli intelligence operations in the Persian Gulf stems from the period he headed the U.S. military assistance program in Iran under the Shah during the 1975-78 period. It was during this period that the Israeli connection inside U.S. policy-making and intelligence operations was consolidated. What began as a game of influence for Israel, became a deadly game for total control. With the advent of the Carter administration, through into the Reagan administration, the Mossad tentacles came to reach into the highest power centers of the U.S. government.

Mossad-U.S.A.

During the Carter administration, an additional 800 covert operatives were summarily dumped from the CIA’s payroll. According to high intelligence officials, the infamous Turner-Mondale-Brzezinski purge of 1977-78 was carried out by Ted Shackley, who targeted those U.S. intelligence elements involved in Vietnam and known to be opposed to Israeli interference in U.S. affairs.

The operation was consolidated in the secret Camp David accords. The Israelis were given near total access to U.S. military equipment. Moreover, Israeli intelligence was given five major U.S. port facilities: Galveston, Texas; Newark, New Jersey; Miami, Florida; Los Angeles, California; and Baltimore, Maryland. When the Carter administration and Congress imposed an embargo on U.S. arms exports to Ibero-America on the pretext of “human rights violations,” the National Security Council provided the Israelis the opening they needed into that region to sell U.S. and Israeli equipment.

Under this arrangement, Israeli intelligence expanded its

operational base in the U.S. intelligence community, recruiting former CIA officials whose loyalty was no greater than the paycheck they drew. Protection not only involved the NSC, but the Justice Department, to the point that the DOJ and certain forces within the FBI cooperated with Israeli intelligence to destroy some deep-cover CIA operations not under NSC or Israeli intelligence control.

This is the real significance of the blowing of the Wilson-Terpil affair and the subsequent arrest of ex-CIA operative Edwin Wilson.

The NSC deployed Michael Ledeen to work with a Justice Department prosecutor, Lawrence Barcella, instructing him how to set up Wilson while protecting other players in Wilson’s apparatus, such as General Secord. According to these sources, Ledeen worked with Assistant U.S. Attorney Ted Greenberg of the Eastern District of Virginia in Alexandria, whom these sources consider a Mossad asset. Ledeen himself is one of the top operatives in the Iran-Contra arms shipments, along with the former number-two man at the Mossad, David Kimche, who was instrumental in setting up the secret Camp David accords.

The Iran/Islamic card

The political base for these covert operations is provided by the “neo-conservative,” Washington-based think tanks, the Heritage Foundation, the American Enterprise Institute, Georgetown’s Center for Strategic and International Studies, and the Unification Church—the Moonies. Many of the strongest proponents of a Venetian version of Israel are politically defined as right-wing social democrats tied to the “Our Crowd,” New York investment banks and their London cousins, centered around the Rothschilds.

This apparatus became one of the dominant forces inside the Reagan administration. The NSC apparatus not only remained intact, but extended its operational capabilities into the State Department when Richard Allen and Alexander Haig were National Security Adviser and Secretary of State, respectively.

The 1982 Reagan Mideast Peace Plan and King Fahd’s complementary Fez Plan were sabotaged by this network, which resulted in the President, and his new National Security Advisers Clark and McFarlane, adopting the Iran/Islamic Card policy. With the Israeli invasion of Lebanon after Haig’s green light to Ariel Sharon, the United States became locked into a no-win Middle East situation. It was simply the policy of 1969, run by the Kissinger apparatus of 1969.

Irangate provides the opportunity for patriotic forces in the United States, forces that desire U.S. survival as a superpower and a Marshall Plan for the Middle East, to destroy this policy-making capability and to retake covert U.S. intelligence capabilities from the hands of the “Trust.” The only question remaining will be whether forces inside Israel, who no longer desire to play Kissinger’s game, have the moral courage and political will to change.

Kissinger Watch by M.T. Upharsin

Scandal shuttle on the northern route

In early December, Henry Kissinger has been well traveled on what might be called the "northern scandal route." Sometime around the night of Dec. 1 or the morning of Dec. 2, Henry left Great Britain, where he was being sponsored by Mirror newspaper chain magnate Robert Maxwell, and made a mysterious 12-hour trip to Sweden. Then, he returned to Britain, and was monitored by the high-society set, speaking at a dinner in his honor at the exclusive Claridge's, given by the American Robert O. Anderson, head of the Atlantic Richfield (ARCO) oil multinational.

As usual, it was quite an incestuous affair. Anderson is one of the four founding directors of the Kissinger Associates consulting firm, with Henry himself, Swedish magnate Pehr Gyllenhammer, and NATO General-Secretary Lord Carrington.

It was an interesting time to shuttle back and forth between Britain and Sweden. On the one side, Kissinger's old collaborator, Lord Victor Rothschild, was hit by charges of being a Soviet spy, and only exonerated by Prime Minister Thatcher on Dec. 5; Kissinger and Lord Victor would have been in a tight relationship during the 1971-74 period, when Kissinger was building his parallel government in the U.S. National Security Council, and Rothschild was made the chief coordinator of a new, U.S. NSC-modeled Cabinet Office Policy Review think tank, established by Kissinger intimate Edward Heath, prime minister at the time.

In Sweden, Victor's daughter Emma was in the spotlight for her role in the circumstances leading to Olof Palme's Feb. 28 assassination.

Kissinger's Dec. 1-3 "scandal

shuttle" came just before NBC-TV's concocted story on Dec. 4, trying to implicate Kissinger's chief nemesis, Lyndon LaRouche, in the Palme case. Kissinger's Swedish alter ego, Pierre Schori of the Swedish Foreign Ministry, was just returning from a trip to the United States.

Robert O. Anderson's longest-standing business and political partner is Thornton Bradshaw, chairman of the board of RCA, NBC-TV's holding company.

Lonrho, Libya, Dr. K, Rothschild

Anderson sold the British weekly, the *Observer*, in the early 1980s, to "Tiny" Rowland, of the Lonrho (London-Rhodesia Ltd.) multinational. Seated in the dinner-audience at the Claridge's affair were three top directors of Lonrho, including Lonrho Chairman, Edward duCann, a Tory member of the British Parliament. There are unconfirmed reports that Rowland himself made an appearance.

A recent feature article in the British magazine *Business* documented that Rowland was "hard-wired" into business deals with Libya's Colonel Qaddafi, through the mediation of Said Qaddafadam, a cousin of Qaddafi. Rowland, so *Business* and other reports indicate, has been in Libya in past weeks, and is negotiating to take over the operations of the American oil companies which left Libya after President Reagan declared a boycott last spring.

The deeper story, now emerging, is that Rowland was already moving into the inside in Libya, in 1971. Qaddafi was then anathema in Britain, because of his funding for the terrorist Irish Republican Army. Yet, Row-

land arranged for \$38 million in deals between his business concerns and Qaddafi, essentially providing the amount that was being demanded by Qaddafi from Britain.

Rumor has it that the Heath government in Britain approved that deal. As Heath's chief "NSC-like" adviser, Lord Victor Rothschild would likely have had some role in the affair, especially given his history of insider operations as an intelligence coordinator at Shell-UK and Royal Dutch Shell in the 1960s.

The full story of Henry Kissinger and Muammar Qaddafi has never been told, although many relevant leaks have come out. The Rowland tale will make it easier to pull together.

Rowland is a "Palace" production, and his Libya projects, today, may reflect Buckingham Palace's anger at Maggie Thatcher's support for the April 1986 U.S. raid on Libya, an issue that surfaced in the summer "Palacegate" scandal. Rowland was a nobody until he was picked up in the early 1960s by then Lonrho chieftain, Angus Ogilvy, who has since become a member of the Royal Family via his marriage to Princess Alexandra. Ogilvy turned Lonrho, then not a powerhouse company, over to Rowland, who made it a multi-billionaire conglomerate, with vast operations in Africa.

Ogilvy told *Business* that the British politician he admires most, is former Foreign Minister David Owen. Owen, a member of the Trilateral Commission and the Soviet-linked "Palme Commission," has held private meetings with Prince Charles, to exchange strategies on "constitutional reform" in Britain. In private, he is also praised by Soviet journalists in London, who bill him as the U.K. politician of the future.

Of course, both Owen and Heath were at the bash thrown for Kissinger at Claridge's by Robert O. Anderson.

Vatican by Augustinus

Economic justice theme of Asia trip

The Pope "costs more than the Queen," for good reason—and the rulers in the Kremlin are in a quandary.

On Nov. 18, John Paul II undertook the longest of his pastoral trips, taking him to six countries: Bangladesh, Singapore, Fiji Islands, New Zealand, Australia, and Seychelles. In his first important engagement after the Oct. 27 peace encounter in Assisi, and consistent with the ecumenical purpose of that event, the Pope went to countries with non-Catholic majorities.

At Dacca, capital of Bangladesh, he stressed once again the injunction of Genesis and its consequences for economic policy: "Man's task on this Earth therefore, is to make his own life more human and to subdue the entire earth to this end. In this sense man is the master of all material reality" and "priest of the cosmos." For this "dignity not to be ruined by poverty, hunger, and disease, by the lack of dignified conditions of life and the chance of getting an education and finding a job, the conscience of the world must be put on alert to defend the image of God in man."

On Nov. 20 in Singapore, the city-state at the southern tip of the Malay peninsula, the Pope stressed: "Where there is not justice there cannot be peace. Peace is possible only where a just order guarantees everyone's rights. World peace is possible only when the international order is just."

In Australia, John Paul II spoke to cultural leaders on the mission of science: "By its very nature, science is theocentric in the last analysis and as such renders a great service to humanity.

"Science, together with the truth it brings in itself, does not abandon the persons who suffer from scorn for human life, and from violence. The great nobility of the human mind is based above all on the capacity to know God and to probe ever more deeply into the mystery of God's life and to discover man there, too."

He also went to the island south of Australia, Tasmania, which was settled by European convicts, and met with unemployed in the old capital city of Hobart. He told them: "The Church is confronting the problem of unemployment as a human problem, a problem which influences the life and dignity of man, a problem with a decisively ethical and moral character.

"Man's eternal destiny is tightly linked to all the elements that influence human freedom, human rights, and human progress. Work—or lack of work—is one of these elements, a very important element.

"Unemployment is the privation of all the values that work represents because it contributes to the support of individuals, families, and society.

"When one speaks of moral obligation of work, it is understood that everyone has the right to contribute in a real way to the great task of 'humanizing' the universe, that is, to make the world a more hospitable place and a better instrument of personal and social development."

In the plane returning to Rome, the Pope was questioned by journalists who asked if his trips did not cost too much. John Paul II replied: "I think

the expenses should not be counted, when we were paid for at an inestimable price" (referring to Christian redemption, at the cost of the Christ's crucifixion). When someone raised the trip by Queen Elizabeth II to Australia, which had cost much less, he said, "I cost more than the Queen, thank God. Yes, because the message I carry has its value, a transcendent value."

It has become usual for the Pope to use these exchanges with journalists during his travels to bypass the filter imposed by the Vatican Secretariat of State on information about the Holy See's policy. This is how the Pope's statements released on the plane to Bangladesh, about a possible trip to Moscow, should be read. John Paul clarified the issue with a simple reply: "I am not talking of a trip to Moscow; for me a trip to Lithuania would be in the line of my duty." He said this to respond to the journalists' insistence, who quoted the Metropolitan Filaret of Kiev. The Pope ruled out a spiritual voyage because there are no Catholics in Moscow, only Orthodox, and ruled out a political trip, thus sweeping aside the Secretariat of State's dreams of a papal mediation between the U.S.A. and the U.S.S.R.

Two years ago, Moscow refused to let the Pope visit the Lithuanian Catholics for the Fifth Centenary of St. Casimir. Also, the Pope has a critical attitude toward the Yalta accords. It is not accidental that in the pontifical yearbook, Lithuania is listed as an autonomous state, together with the republics of Lettonia and Estonia.

Sources attribute the indefinite postponement of Soviet leader Gorbachov's trip to Italy, to Pope Wojtyla's statements. Faced with the Pope's explicit request to visit Lithuania or the Ukraine, not Moscow, the Kremlin leaders have not yet found an answer.

Report from Bonn by Rainer Apel

An adviser who came in from the East

A profile of Wolfgang Seiffert begins to answer the question: Who is behind the pro-Soviet conservatives in West Germany?

An aspect of the West German political landscape which is coming to the fore is the existence of a "Moscow Faction" among the Christian Democrats of Chancellor Helmut Kohl. These are politicians who foresee a military disengagement of the United States from Germany, and propose a "historic deal" between Bonn and Moscow. Meeting the Soviet need for Western high-technology, they claim, would allow a settlement on mutual security between Moscow and Bonn at a "lower level of armaments."

These arguments originate mainly in the community of ex-advisers of the East German regime, who moved to West Germany in the past 10 years. The most prominent of these "advisers who came in from the East" is Prof. Wolfgang Seiffert, an economics expert working with Kohl's Christian Democrats. Seiffert was one of the chief economic experts in East Germany for some 20 years between 1958 and 1978. Specializing in Warsaw Pact economic affairs, he also prepared numerous "joint ventures" between the two Germanys, allowing a transfer of high-technology from the West.

In February 1978, Seiffert moved west to settle as a professor of international law at the University of Kiel. Since then, he has published detailed plans for broadened economic cooperation between East and West in numerous essays and books—proposals which have been discussed a lot among conservatives in West Germany.

In his latest book, *The Whole Germany*, published in November, Seif-

fert writes that Gorbachov's planned reform of the Soviet economy will run into bottlenecks under conditions of a new arms race with the United States. If Gorbachov can't stop—as Reykjavik showed—Reagan's SDI project, he will have to make sure that the powerful West German economy does not work for America's strategic defense, writes Seiffert.

Gorbachov would have to make an "irresistible offer" to Bonn to drive a wedge into the German-American alliance. This offer would be the reunification of Germany. The price to the West Germans would have to be intense cooperation between the reunified German economy and Gorbachov's "new economic policy." Such an arrangement would also please Bonn's security interests under conditions of U.S. disengagement from Europe, insinuates Seiffert, adding that such a deal could promote a "profound historic friendship between the German and the Soviet peoples."

This sounds like Gorbachov's talk about "our common home, Europe," which he claims defines common political, economic and cultural interests of "all Europeans from the Atlantic to the Urals." No doubt: Wolfgang Seiffert is a co-thinker of Gorbachov's "new economic policy" team.

A look into the political career of Wolfgang Seiffert tells the story. Recruited to the German Army in 1944, he was taken prisoner of war by the Soviets in early 1945, and underwent re-education in the Red Army's POW camps. From the exclusive camp at

Gorky, where he got to know many who played a leading role in the East German regime later, Seiffert returned to Germany as an "anti-fascist," assigned to help build a Germany under Soviet control. Seiffert's special task from 1949 on was to recruit youth in the western parts of Germany for the FDJ (Freie Deutsche Jugend), a communist-run youth front then headed by Erich Honecker—today's ruler of the German Democratic Republic (GDR). The manifesto of the FDJ stated: "The real fatherland of the German youth is the G.D.R."

In 1950, Seiffert was editor-in-chief of *Junges Deutschland*, the official magazine of the FDJ published in Frankfurt, West Germany.

Since the FDJ was, on orders from the East, inciting riots against West Germany's rearmament and its integration into NATO, the youth group was banned as anti-constitutional in 1952. A year later, Seiffert was arrested by West German police, tried, and sentenced to four years in jail in 1955. In early 1956, Seiffert escaped and made his way to the G.D.R., where his prior contact with Erich Honecker helped him to make a career in the pro-Soviet regime. In 1956 also, the West German Communist Party (KPD) was banned by the Bonn government.

When in 1968, the KPD was re-founded under the new name DKP, Seiffert worked for his own legalization, to "return to the West." The 1955-56 arrest warrant against Seiffert was dropped by West German President Gustav Heinemann (a Social Democrat) in September 1969. But it took another five years for Seiffert to move west—a period he used to build his image as an "East German dissident." It is this image which many in West Germany doubt: It is rather believed that he was sent west on another "special assignment," as in 1949.

Report from Paris by Yves Messer

Student demos used against Chirac

Trilaterals, Trotskyists, and Socialists all have their hands in the movement being manipulated against the government.

On Dec. 4, more than a half million students, 1 million according to the organizers, demonstrated in France against a bill on the universities, known as the Devaquet bill.

The demonstration grew out of an ongoing mobilization that started two weeks before. By Nov. 27 some 400,000 demonstrated all over France against the Devaquet bill, on the day it was to be debated in the National Assembly. As a result, Universities Minister Devaquet was forced to step down, and his bill was withdrawn. Another result is that politicians are ganging up on the RPR government, from "left" to "extreme right," including Raymond Barre of the Union of French Democracy, Chirac's main political rival in the government majority coalition.

This was the first time since May 1968 that a mass student movement has been created in France. Then, it was aimed against President Charles de Gaulle and led to his fall; today it opposes the Gaullist government of the RPR's Jacques Chirac. The movement is controlled by the Socialists through a tactical alliance with the Trotskyists of the PCI (International Communist Party).

The purpose of organizing that kind of mass movement is 1) to prepare the ground for the Socialist Party in the 1988, or maybe earlier, presidential elections, 2) to block the anti-drug, anti-AIDS, and anti-terrorist policy initiated by Chirac's government since last spring—a policy the Socialists call the "new moral order."

More broadly, the aim is to keep

Chirac so busy with internal affairs that he will be distracted from the international scene. In this regard, it is the continuation of the De Borchgrave affair which tried to sabotage Chirac's foreign policy a few weeks ago, when *Washington Times* editor Arnaud de Borchgrave leaked quotes from an off-the-record interview on Mideast policy with the French premier.

The student uproar started Nov. 17 with a strike at Villetaneuse University and then on Nov. 22 at the Sorbonne, well-known in France and elsewhere as a counterculture haven. The student union UNEF-ID, controlled by PCI Trotskyists who tactically merged with the Socialists in April this year, called for spreading the strike to all the universities.

The next day, 200,000 rallied in the Paris streets, organized by the teachers' union, the Federation of National Education, controlled by the Socialists and Trotskyists, a powerful network of interests within the national education system, with millions of members and billions of French francs. The movement peaked at the Dec. 4 demonstration, when provocateurs from both "extreme-left" and "right" ran riots against the police with molotov cocktails, steel bars, and paving stones. One provocateur was even seen aiming a pistol, a method reminiscent of the Red Army Faction-Greenies in West Germany.

Hundreds were hurt, and one was killed. The Socialist Party then appealed unofficially through its media to change the orientation of the movement from anti-Devaquet to anti-Pas-

qua (the interior minister) and anti-Chirac. On Dec. 10, a demonstration was organized to protest the "repressive methods" of the government's police forces.

So, the movement was consciously degraded to enrage the students and shift them toward a Green-like or "rainbow coalition-like" movement, since the overtly anti-technology, anti-nuclear, or pacifist movements as such, don't get much positive response from French youth.

The Devaquet bill, which suggested a narrower selection of students (a practice which already exists), had awakened the fear of the future, of not having a job. The general themes of mobilization were "equality" and "fraternity," as people are fed up with the sterile partisan left-right debate. Hence, unlike May 1968 this is a movement based on so-called moral values such as "justice and equality." The Trotskyists are trying to shift it toward a movement radically opposed to the anti-terrorism, anti-AIDS, anti-drugs, allegedly authoritarian moral order of the Gaullists.

This manipulation of student opinion started earlier, when the theme of "fraternity" mobilized thousands of people of North African origin born in France. Their movement, SOS-Racism, is also controlled by Trotskyists. Not surprisingly, the people organizing the student movement are members or sympathizers of this SOS-Racism.

Two figures are emerging out of this social upheaval: President François Mitterrand, the "monarch," "above the melée," defending the "oppressed minorities" and giving points to the government as an arbiter; and Trilateral member Raymond Barre, who has played the role, since he began running for President, of the man "outside the parties," "neither left nor right." Indeed: "Trilateral."

Andean Report by Mark Sonnenblick

AIDS conferences held in Lima

Peru's battle against the IMF gives it moral authority to propose solutions for AIDS in the tropics.

Peruvian doctors responded with alacrity to learning of the links between poverty and the spread of AIDS into non-homosexual populations. At a medical conference in Lima, Dec. 9, it was conclusively shown that the conditions of misery caused by the International Monetary Fund, make the tropics into the best possible culture for AIDS.

The conference, "AIDS, the Black Death of the 21st Century," was co-sponsored by the Schiller Institute and the Peruvian Medical Federation. The evidence was systematically presented by Dr. Debra Freeman, a Baltimore-based public health adviser to the National Democratic Policy Committee, and by Dr. Bertha Farfán, a Mexican physician whose organizing has just forced the Mexican Health Ministry to classify AIDS as a contagious disease which must be centrally reported.

Interviews with Drs. Freeman and Farfán published in the press and on the radio shortly before the conference brought many of the 300 attendees. The coverage focused on the suppressed evidence of mosquito transmission of AIDS and on the interaction between poverty and disease. *El Popular* of Dec. 9, for example, quoted Debra Freeman: "The austerity imposed by the International Monetary Fund on debtor countries has created the unhealthy, filthy, and impoverished conditions in which AIDS propagates with greatest virulence. . . . In Africa, 50% of those infected are children. Political leaders have tried to keep this silent so as not to reverse the

genocidal economic policy imposed on the Third World."

This thrust brought a consensus of Peru's medical and military leaders that they should lead an international offensive against AIDS.

The president of the Peruvian Medical Federation, Dr. Hugo Díaz Lozano, told the conference, "Peru has the moral stature to claim leadership in a campaign of this type, because its own President is the main bulwark of defense of his population by having retained funds which previously served to pay debt and [using them] to improve living conditions to counteract the possibilities for the spread of this disease." He concluded, "In Latin America, the medical federations met a few months ago and we have formed the Medical Confederation of Latin America and the Caribbean. I have promised the Schiller Institute to bring whatever is proposed here to the next meeting of that body. Let us hope that we can make this movement [against AIDS] that of America and the Caribbean."

Dr. Díaz observed, "the Medical Federation would not have been able to carry out this event without the decisive participation of the Schiller Institute."

Medics from Peru's army, navy, air force, and police hospitals comprised one-third of the audience. One medic reported that the Peruvian army already has AIDS on its list of deadly contagious diseases. During this public seminar and another the next day at the military hospital, attended by 150 officers from all services, ques-

tioners kept honing in on potential mosquito transmission of AIDS and how IMF loan conditions cause vital social services such as health and sanitation to be written out of national budgets.

One officer confided that the military considers AIDS a national security matter, because two-thirds of the country's area is jungle, where everyone is bitten by mosquitos and other insects many times daily.

Peru's leading AIDS specialist, Dr. Raúl Patrucco, Immunology Chief of the Alexander von Humboldt Institute of Tropical and High Altitude Medicine at Cayetano Heredia University, noted that in every country, officials are shocked when AIDS first appears, but "the epidemiological chain of infection and transmission" soon makes it irrelevant how it first got into the country.

Before organizing began for this conference, AIDS was not taken seriously by the Peruvian Health Ministry, which took its cues from the World Health Organization. As Peruvian medical professionals became briefed on the generally suppressed findings that mosquitos and other blood-sucking insects are likely vectors for AIDS under conditions of intense poverty, things got hot. At first the health ministry ordered doctors at key AIDS treatment centers to shut up. But after Drs. Diaz and Patrucco had a fire-fight in the press with Health Minister David Tejada, things changed.

Patrucco told the conference that Tejada had promised to take AIDS seriously. One of the piquant moments during the question period at the end of the conference came when public health bureaucrats, protesting that they couldn't do anything about it, were severely reprimanded by one of the physicians in the audience and told to start testing blood donors and mapping the disease nationally.

Mother Russia by Luba George

The KGB and the Dzerzhinsky method

Moscow is now going beyond the ritual praise of the Cheka, the predecessor to the KGB.

'He Was a Chekist" was the headline of the Dec. 3 Soviet military daily, *Krasnaya Zvezda*, honoring the 100th anniversary of the birth of Yakob Kh. Peters, co-founder with Felix E. Dzerzhinsky of the Bolshevik intelligence agency, the Cheka. The Cheka, forerunner of the KGB, is the acronym for the All-Russian Extraordinary Commission for Combating Counterrevolution and Sabotage, founded on Dec. 20, 1917. The article praised the work of Peters and Dzerzhinsky in their "merciless" fight against "counterrevolutionary elements." The same week a similar article in praise of Peters and the Cheka appeared in the official daily *Izvestia*.

The Cheka, together with Lenin's Foreign Ministry, was at the center of arranging economic, political, and strategic dealings with pro-Soviet Western oligarchic circles, which were given the appellation, the Trust. Peters, a Latvian Bolshevik, was instrumental with Lenin's first foreign minister, Georgi Chicherin, in emphasizing collaboration with the Swedish component of the Western "Trust" networks. Resurrecting the memory of Peters is thus a Soviet signal in the aftermath of the Palme murder to Scandinavia to work out a new "Trust" arrangement.

Dzerzhinsky's counterpart in diplomacy, Georgi Chicherin, too, is now getting big praise in the Soviet press.

Gorbachov's predecessor, Yuri Andropov, for 16 years the KGB chief, often cited and modeled his work and

thinking on two leading Bolsheviks: Maxim Gorky, the cultist-satanist founder of the "Capri School" of National Bolshevism, and Cheka's first head, Felix Edmundovich Dzerzhinsky. According to well-informed sources, Andropov was the key figure in the KGB to vigorously campaign to revive the image and methods of "Iron Felix" Dzerzhinsky. On one wall of Andropov's office, in the Dzerzhinsky Square complex which headquartered the KGB, hung Dzerzhinsky's portrait.

Shortly after being appointed KGB chairman, Andropov in an address to staff members (Dec. 20, 1967) paid extravagant tribute to Dzerzhinsky, recalling that V.I. Lenin had instructed the Cheka to exercise "merciless and immediate repression." On Sept. 9, 1977 Andropov, in a commemorative address for the 100th anniversary of Dzerzhinsky, eulogized "Old Felix" to near-sanctification. In the speech entitled "Communist Sense of Conviction Is a Great Force of the Builders of the New World," Andropov recalled that Dzerzhinsky had acted within the framework of "socialist legality" and "in accordance with revolutionary law" in conducting mass murders and planting political disinformation and assassination forces. Despite many changes since then, Andropov concluded, the "basic function and method" of today's KGB "remains unchanged."

Felix Dzerzhinsky, an ascetic, aristocratic-born Pole, speaking to the press in June 1918, minced no words

to describe the "method": "We stand for organized terror. . . . Terror is an absolute necessity during times like these. . . . The Cheka is obliged to defend the revolution and conquer the enemy even if its sword does by chance sometimes fall upon the heads of the innocent." Later he wrote: "My thinking compels me to be merciless, and I have the firm determination to follow my thinking to the ultimate. . . . We show no mercy. We terrorize the enemies of the Soviet government in order to stop crime at its inception." By 1921, by conservative estimate, more than 50,000 businessmen, intellectuals, prosperous farmers and peasants, officers, had been randomly exterminated.

One of the Western Trust's leading figures in this century, the late W. Averell Harriman, U.S. ambassador to Moscow during World War II, said in a *New York Times* commentary titled "Let's Negotiate with Andropov" (Jan. 2, 1983) that the new leadership in the U.S.S.R. was "pragmatic as well as determined." Similar labels are being applied today to Andropov's heir, Mikhail Gorbachov.

Andropov's role in reorganizing the KGB by Dzerzhinsky's "merciless method" is key to understanding the Gorbachov era. The Gorbachov-Ligachov leadership today was groomed under the tutelage of Andropov.

Gorbachov's propaganda chief and the Soviets' leading U.S.-Canada expert, Alexander Yakovlev, is one of the prime architects of the Kremlin's "new thinking," which embodies ideas articulated by a group of KGB-trained intellectuals brought to the fore by the "reform-minded" Andropov, and further promoted by Gorbachov. Yakovlev was deployed to the United States in the late 1950s, where he made his first contact with Henry Kissinger and Zbigniew Brzezinski.

Middle East Report by Thierry Lalevée

Will Moscow really gain in Irangate?

The Soviets have their own dirty secrets in the Gulf war, and a crisis looming with their closest ally in the region, Syria.

At first, Moscow and especially its Middle East troubleshooters were overwhelmed by the revelations coming out of Irangate. After a few days, the Russian propaganda machine was set into motion to demagogically blast Washington's "double-talk." On second thought, Moscow became more cautious, not only because President Reagan had shown some ability to deal with the scandal, but because a scandal in the West can affect the East, too.

A mid-November article in the *Sunday Times* detailing how Moscow had been doing exactly the same as Washington, received much publicity in the Middle East. The article only scratched the surface of Soviet dubious dealing in the Gulf war. No one has yet really looked into the Soviet-Vietnamese connection to the American-Iranian deal. It is a mere matter of time.

Pending the December arrival in New York of a Soviet delegation from the IMEMO think-tank, which will meet with the Council of Foreign Relations to analyze the consequences of Irangate, Moscow has decided to crank up its propaganda and diplomatic activities in the region.

The first signs were given on Nov. 26 by a long political analysis of the Gulf war in the weekly *Literaturnaya Gazeta* by Mideast expert Igor P. Belyayev, a long-time crony of IMEMO director Yevgeny Primakov. Titled the "Iranian gambit," the analysis attacked American-Iranian dealings, and warned that Washington wanted to reintegrate Teheran into an Ankara-

Islamabad axis.

There was vague mention that Washington's game-plan is the "dismantling of Iraq," but the focus of the article was its conclusion: "America is asking for trouble." This probably means the Soviets have decided to reactivate their "right to intervene" into Iran, in accord with the 1923 treaty.

The article fit several purposes. It portrayed Moscow as the old friend of the "anti-imperialist" Arabs—Iraq and its allies; and it helped fuel Iran's internal faction fight in favor of the arch-fundamentalists around Montazeri, who could now argue that the deals with Washington were exposing Iran to a most serious threat at its borders.

Meanwhile, Moscow gave a green light for upgrading Soviet-Iranian economic ties. On Dec. 9, Konstantin Katushev, chairman of the Soviet State Commission for Foreign Economic Relations, arrived in Teheran to chair the Soviet-Iran grand economic commission, the first such meeting in six years. Deputy Foreign Minister Yuli Vorontsov started a round of meetings with the Iranian ambassador in Moscow, Naser Nobari, on Nov. 19, and exchanged letters with Foreign Minister Ali Akbar Valayati, who will go to Moscow in early January.

The Soviets have been making similar gestures to Iraq. In mid-November, they delivered new Badger long-range bombers which were crucial to the Iraqi bombardment of Larak Island. On Dec. 9, Foreign Minister Shevardnadze talked of upgrading military and diplomatic ties with the Iraqi ambassador, Saad al-Faisal.

Also meant for Baghdad to appreciate was the arrival in Jordan on Dec. 2 of General Chesnokov, the Commander in Chief of the Soviet Air Defense Forces, whose visit will lead to comprehensive military deals for the kind of weapons that Washington has been refusing to the kingdom. A stronger Jordan is a major help to Iraq. The same goes for Egypt, which just received Victor Dementsev of the Soviet State Bank to renegotiate some \$3 billion in debt from Nasser's era. Rumors abound that Moscow may grant Cairo a debt moratorium.

However, Moscow's real dilemma in the region concerns its closest ally, Syria. On Dec. 7, a *Pravda* editorial accused the United States of planning a "Grenada-type" military action against Damascus. It ended by warning that Moscow would stand by Syria. The real meaning of the editorial is elsewhere. Moscow knows that Syria is expected to face a serious crisis by the end of the year, and preemptively wants to blame it on Washington.

Damascus faces three problems. Though limited, the sanctions imposed by Britain and the European Community against Syria for running terrorism have a grave economic and psychological impact. Syria is facing its worst economic crisis ever. This was admitted on Dec. 2 during a special meeting of the People's Assembly, which reviewed the food shortages and the paralysis of industrial production. Syria's isolation has sparked a new round of faction fights in the top ranks of the leadership. Defense Minister Mustafa Tlas has seized the opportunity to urge the removal of Hafez al-Assad's confidant, Gen. Mohammed al-Khouli. Moscow has to ponder what it can do to save Assad's neck without creating a crisis which will simply help President Reagan to divert attention from Irangate.

Dateline Mexico by Josefina Menéndez

Mexican 'Big MAC' suggested to Japan

Felix Rohatyn, the wizard who "saved" New York City, has a plan for Mexico—and the narcobankers love it.

A rarely-seen fusion between government and national private enterprise, not seen for many years," was observed by Mexican commentators during President Miguel de la Madrid's Nov. 29-Dec. 3 visit to Japan. Felix Rohatyn, director of New York's Municipal Assistance Corporation (MAC) and partner in the Lazard Frères investment bank, took the occasion to propose preventing "the virtual destruction of the Mexican economy and the resulting political crisis," using, of course, Japanese capital to do so.

The article Rohatyn placed in the *Wall Street Journal* is not far from the truth. He says that Mexico's political and social cohesion is at stake, that political disintegration has already begun, that the ruling PRI party is becoming totally factionalized, and that the result could be a civil war which could provide opportunities for the Soviet Union. All this flows from the deep economic crisis overwhelming Mexico.

Very far from the truth are the responses he suggests to avoid such a disaster. Rohatyn proposes a "Big MAC" like the one he set up to "rescue" New York. The bottom line is that private businessmen would take the nation's finances in hand and force the state to support them. In the Mexican version, the proposal calls for private U.S. and Mexican interests to form a "temporary" development authority, which would buy up to \$20 billion of Mexican debt paper from U.S. banks, issuing bonds in return. In a second phase, it would reorganize

and finance industrial operations in Mexico, mostly the export-oriented sweat shops called *maquiladoras*.

Rohatyn suggests that to finance these projects, the World Bank should form a 50-50 partnership with Japan. Japan would be strong-armed into putting up some \$50 billion of its "surplus dollars," on the argument that the U.S. provided Japan with security for the past 40 years, so "Japan should be willing to make such an investment."

The proposals made by the businessmen in de la Madrid's entourage seem inspired by the MAC concept, while reflecting the monetarist sectors' grip on the Mexican government. Claudio X. González, president of the Business Coordination Council, defended the economic policies the de la Madrid administration has held onto doggedly against wind and tide. He praised the opening to foreign trade, cutting down of the public sector, auditing of finances, the progressive abandonment of subsidy systems and internal price controls, and the elimination of the overvaluation of the peso.

It was shocking that the chief of the Business Coordination Council—and not, for example, the minister of industry and trade—was the one who announced that the public sector is rapidly being trimmed. He said it is getting rid of state sector companies which have no reason for existence. There are only 744 left; but the projection is to reduce them to 502 before the end of 1988. González announced that Mexico would eliminate its holdings in secondary petrochemicals, chemicals, pharmaceuticals, machin-

ery and tools, textiles, and cellulose and derivatives. The public sector would also partially withdraw from areas such as steel, metalworking, automotive vehicles, and sugar. It is also reclassifying 36 petrochemical products from primary (which will continue in the hands of Pemex) to secondary, which can be privatized.

The 70 Mexican businessmen on the trip who were so exhilarated by González's speech came largely from the states just south of the U.S. border, which are the cradle of the National Action Party (PAN) insurrection. Many of them were the "narcobankers" whose banks were expropriated by ex-President José López Portillo in 1982, because they were killing the nation with dirty-money laundering and flight capital.

They have been financing the PAN electoral campaigns in the north of Mexico to create a political base for cross-border *maquiladoras* and dope traffic—easy money to pay the debt. De la Madrid has adopted their "economic liberalization program." That explains why the monetarist business clique used the Japan trip to proclaim their new-found adherence to the regime.

To attract the Japanese into Rohatyn's "save Mexico" trap, de la Madrid announced the great flexibility of the foreign investment law which would open up opportunities for the Japanese. For the first time, foreign investors will be able to own 100% of the shares in "medium and small" businesses.

What remains to be seen is whether Japanese investors, who traditionally prefer truly productive investments, especially great development projects, will accept participation in an investment scheme which, in the end, will only help to save the Wall Street bankers.

International Intelligence

Hayden says Pacific needs United States

Australia's Foreign Minister Bill Hayden said today that Australia places prime importance on its security relationship with the United States, and New Zealand cannot expect Australia to be a substitute security partner.

Hayden, in New Zealand for a four-day official visit, told journalists on his arrival that Australia completely disagrees with New Zealand's ban on port and air access for nuclear-capable weapon systems and appealed to New Zealand to restore normal access. Hayden is scheduled to meet Prime Minister David Lange and will discuss the bilateral Closer Economic Relations (CER) agreement and mutual strategic interests in the South Pacific.

Hayden said New Zealand had benefited from the CER agreement through increased exports and a larger market. However, he said a significant number of Australian manufacturers was hostile to the 1983 agreement and the relationship needed to be handled with care.

Greece rejects secret EC terror protocol

European Community interior ministers meeting in London adopted a secret paper Dec. 10 identifying and analyzing the threat posed to the EC by terrorism, but Greece refused to associate itself with the document.

British Home Secretary Douglas Hurd said the document marked a new departure for the EC in that it named the main areas from which the terrorist threat originated and the central organizations involved. "It's a big move forward from exchanging bits of intelligence to an analysis of the main sources of terrorist threats to Europe," he told a news conference. "It is a very specific and hard-headed document."

In November, Greece had refused to join EC actions against Syria, and refused again

in April respecting measures against Libya. The communiqué said the EC 11 would present the document to foreign ministers so they could take "more informed, effective, and concerted action at the political level to stop terrorist activities."

Hurd said the paper would also be given to the United States as part of better coordinating efforts.

Chinese marry foreigners, leave

More than 22,000 foreigners have married Chinese since 1984, a sharp increase over previous years, the New China News Agency said Dec. 10. It gave no detailed figures, but attributed the rise to the "open-door policy" which began in 1979 and "the increase of communications between China and the rest of the world."

A government survey this year showed that many Chinese women married foreigners to get out of the country, and they admitted that love was often a secondary factor.

The survey said more than 95% of Chinese marrying foreigners were women and up to 99% left to live abroad. One Chinese, a writer, said he married an American student in a remote city in northeast China, where officials were less strict in inspecting the necessary documents than in Peking.

Washington Post, CFR deny Russian threat

The Soviet Union is poor and backward and no military threat at all, claims an Eastern Establishment spokesman linked to the *Washington Post* and the New York Council on Foreign Relations.

"Gorbachov has given us a new opportunity to redraw our image of the East-West confrontation," says Robert Kaiser, assistant managing editor of the *Washington Post*. "As he implicitly acknowledges, we are not dealing with two equivalent giants." Kaiser was writing in the New York CFR's journal,

Foreign Affairs, under the title, "The Soviet Pretense."

"Even if Gorbachov's domestic initiatives succeed far beyond any present expectations, the Soviet Union will remain poor and backward. The Soviet Union is not competitive with the advanced Western economies, and shows no signs of becoming competitive in this century or beyond."

He continues: "By speaking with some candor about the facts of Soviet society, Gorbachov may help all of us see how we ought to revise our image of his country." The problem with Gorbachov's candor, Kaiser says, is that it may "dispirit the Soviet public, reinforcing the cynicism that is already strong in Soviet life."

Philippines' Ver comes under U.S. probe

The U.S. Marshals Service said Dec. 10 it is investigating the whereabouts of Gen. Fabian Ver, after a judge issued an arrest warrant for the Philippines Army chief of staff under the deposed Ferdinand Marcos.

The warrant was apparently issued after Ver failed to appear in early December before a grand jury in Alexandria, Virginia, probing possible corruption in U.S. arms deals with the Philippines. William Dempsey, a Marshals Service spokesman, said Ver was cited for contempt of court. Others who have been subpoenaed include the youngest daughter and son-in-law of Marcos; Imelda Marcos's brother; a wealthy Marcos business associate; and a former Philippine ambassador to the United States.

General Ver allegedly took part in a plan to keep U.S. officials from learning that U.S. weapons being sent to the Philippines by Israel were then being transhipped to Iran, according to the *San Francisco Examiner*. The paper quoted a Justice Department source saying Ver signed false "end user certificates" in late 1985 and early 1986 indicating that the arms were being delivered to the Philippines. The false certificates were presented by Israeli officials to the departments of State and Defense to hide the true destination of the weapons.

The plan was known only to a few senior White House officials and was devised to keep Secretary of State George Shultz and Secretary of Defense Caspar Weinberger from knowing about the shipments.

Pope's peace message stresses economic issue

In his 1987 peace message, released Dec. 11, Pope John Paul II attacked development programs which he said forced recipients to accept contraception programs and abortion as the price of economic growth. The 20-page message will be delivered to heads of state around the world.

In it, the Pope also said that powerful divisions had appeared between the "technological haves and have-nots." He called for greater sharing of technological advances and a refusal to make Third World countries "the testing area for doubtful experiments or dumping ground for questionable products." He also said, "Disarmament and development are vital for peace."

The Pope begged terrorists to give up violence, even if their cause was just, saying that terrorism "undermined the very fabric of society."

Kremlin olive branches to Yugoslavia, Albania

Mikhail Gorbachov, in what are described as conciliatory remarks to Yugoslavia's Communist Party chief Milanko Renovica in Moscow Dec. 10, said that the Soviet Union observed Yugoslavia's development without prejudice and believed that all communist parties must respect each other's experience, the Soviet party paper *Pravda* said Dec. 11.

Gorbachov quoted Lenin predicting that the world would see many different attempts to build new societies on Marxist lines and a definition of socialism should include all of them.

"It is hard to overestimate the fundamental political importance of this thought of Lenin's for the process of establishing

and developing the world socialist system. It follows from the recognition of the diversity of the revolutionary process that no party has a certificate to the absolute truth."

Renovica was the first Yugoslav party leader to visit Moscow since the late Josip Broz Tito in 1979. Renovica used his dinner speech to speak of the need to observe "the inalienable right of every party to determine policy independently."

In the Nov. 29 issue of *Pravda* an olive branch was extended to another alienated communist nation, Albania. "The Soviet Union now resolutely advocates respect for the autonomy of parties and the independence and equality of states. It is against the practice of extending ideological differences to the sphere of interstate relations. . . . The Soviet Union resolutely advocates the elimination of obstacles hindering the normalization of relations and a joint quest to restore relations."

Hashemi links Montazeri to arms running, murder

Mehdi Hashemi, a relative of Khomeini's hand-picked successor, supposedly confessed on Dec. 9 to murder, hoarding weapons, and collaborating with the Shah's secret police, according to official Teheran radio. Hashemi said the base for his activities was the office of Hussein Ali Montazeri, the Ayatollah Khomeini's probably successor.

The interview with Hashemi, aired by Radio Teheran Dec. 9, quoted him as saying he is guilty of "gross deviations," including "standing up against the Iman of the Islamic nation."

Hashemi, described as former head of Iran's Global Islamic Movement, responsible for exporting the Islamic revolution, was arrested in late October and charged with murder, kidnapping, illegal possession of firearms and explosives, forgery, and engaging in unspecified "underground operations." The Information Ministry says all charges against Hashemi have been proven.

The Ayatollah Montazeri said Dec. 10 that Hashemi "was in no way involved in my office."

Briefly

● **SEN. EDWARD KENNEDY** will not be permitted to visit Poland as planned, said Polish government spokesman Jerzy Urban. "The senator's visit to Poland, no matter what his intentions are, is not possible because of the overloaded schedule of previously planned political events," Urban told reporters.

● **IGOR LATYSHEV**, a senior member of the Soviet Academy of Sciences, said on Dec. 2 that the 1960 revision of the Japan-U.S. Security Treaty invalidated a 1956 Soviet promise to return the Hobomai and Shikotan Islands to Japan Dec. 2. The Soviet promise, part of the Joint Declaration restoring diplomatic relations between Japan and the U.S.S.R., after World War II, was abrogated when Japan renewed its security treaty with the United States in 1960.

● **JAPANESE PREMIER Yasuhiro Nakasone** has been invited to visit Yugoslavia. Nenad Bucin, head of the Socialist Alliance of Working People of Yugoslavia, visiting in Tokyo, delivered the invitation.

● **WALLIS SIMPSON**, the late Dutchess of Windsor, left Britain in fear of her life, writes Nancy Dugdale, whose husband Thomas was Prime Minister Baldwin's private secretary during the abdication crisis of 1936. One entry, from Dec. 3, 1936, reads: "Mrs. Simpson left the country today by car, because she had become really frightened for her own skin. She had been informed that the police could no longer guarantee her personal safety if she stayed in this country." No further details given.

● **LEV RYABEV** was appointed Soviet minister of medium machine-building, Moscow's "warhead" ministry, by the Supreme Soviet Presidium Nov. 22. Ryabev has served as deputy chief engineer, deputy director, and director of the Scientific Research Institute of the Ministry of Medium Machine-Building. From 1978 until 1984, he was head of the Communist Party Central Committee science-engineering "R-Sector."

EIR Investigation

Fidel Castro's friend Vesco aids the Contras

by Gretchen Small

"If [Nicaraguan chief] Daniel Ortega had no Contras, he would have to invent them," Costa Rican President Oscar Arias told Washington reporters on Dec. 5, during a two-day visit to the U.S. capital. Arias urged the Reagan administration to take more interest in the countries of Central America, particularly their economic problems, if the region is to be protected. Not only have the Contras not weakened the Nicaraguan threat, but they have provided the Sandinistas "a very good excuse to make Nicaragua a more dictatorial regime," he argued.

Investigations into the Contras' logistical support apparatus exposed in the ongoing Iran-Contras scandal, prove, however, that Daniel Ortega's international friends *did* invent the Contras. In fact, with the identification of the Swiss-based "financial consulting" outfit, **Compagnie de Services Fiduciaires, S.A.**, as a center of Contra supply networks, it is proven that the financial empire of one of the Sandinistas' top financiers and benefactors, narcotics finance king **Robert Vesco**, sits at the center of Contra operations.

The implications of the Iran-Contras scandal go much deeper than a case of "ripping off the ayatollah" to finance Nicaraguan "freedom fighters," further even than violations of the law banning U.S. officials from arming the Contras during 1983-85. What *EIR* has reported since 1981, when U.S. intelligence first set-up the Contras, has been confirmed in spades: The Contra operation was cooked up, not by President Reagan, but by the friends and assets of Moscow in the West, centered around the international narcotics trade.

A Trilateral Commission policy

From the beginning, the Contras policy was designed to provide a "conservative" cover for the sell-out of Central

America to Soviet-run narco-terrorists struck with the Soviet Union by Jimmy Carter's Trilateral Commission government. Carter administration officials spoke of perpetual warfare in Central America, and argued that the United States could not allow any faction—"left" or "right"—to *win*. Central America's militaries were cut off from U.S. assistance, and control handed over to Israeli arms- and drug-running networks under the Carter administration—*policies continued under the Reagan presidency by means of the Contras policy*.

Even the most ardent Contra supporters do not argue that the Contra irregulars are a military threat to a Sandinista regime kept well armed by Moscow. Neither is the argument that the Contras will force the Sandinistas to the negotiating table credible. As Costa Rican President Arias emphasized, the Contras only provide the Nicaraguan regime with the "foreign threat" they need to quiet rebellion against their uneasy rule. What is its purpose, then?

The Contras policy is designed to keep the United States from adopting a strategy that could stabilize Central America permanently, plain and simple. The basic principles of such a policy require that the United States:

- 1) Build up the countries in the region, both militarily and economically. Here, debt relief and construction of infrastructure are the required pillars of an economic strategy designed to defeat the narcoterrorists.

- 2) Lead a military assault on the narcotics trade which provides the infrastructure for all terrorist insurgencies in the region. Here, the United States can provide the militaries of allied countries in Central America the logistical, technological, and intelligence support necessary to crush the drug networks.

- 3) Let the Contadora countries, supported by the reacti-

vated Central American Regional Defense Council (Condeca), provide the larger regional framework required for long-term economic and political development.

This is the policy against which Assistant Secretary of State **Elliot Abrams** has been the most outspoken. Abrams argues against a policy of containing Nicaragua "through a combination of economic, political, and military support for its neighbors, and a diplomatic and economic quarantine of Nicaragua itself," the *Baltimore Sun* reported on Dec. 5, because, he says, the United States does not have the "staying power" to win.

In June, Abrams stated outright that his policy is to *limit* the military capabilities of Ibero-American nations, even under the current conditions of escalating narcoterrorist warfare across the continent, a message he delivered in a speech to the Inter-American Defense Board. The "enlargement of military forces" in Ibero-America "threatens civilian institutions," he stated, a doctrine straight out the heyday of Carterdom and quite to Daniel Ortega's liking.

Under *EIR's* strategy, the United States wins allies in the process of kicking the Russians and the mob out of the region. Under the Carter-Trilateral-Contras policy, the crisis worsens, until the point that the United States must send its own troops in, in battle against populations which view our nation as a leading cause of their misery.

The creators of the perpetual-war strategy now speak of "reforming" the Contras, to save the policy behind it. The Contras must now be prepared for "long-term guerrilla warfare. The model is El Salvador's leftist guerrillas," the *Christian Science Monitor* reported Dec. 10, as the consensus developing among the administration's Central American "analysts"!

The unraveling of the truth of who runs the Contras as Irangate proceeds, provides the United States an opportunity to dump the liberals' policy of bleeding Central America on behalf of a strategic deal with the Soviet Union, whose ultimate aim was to see U.S. troops leave Europe to fight perpetual, no-win wars in Central America.

Vesco's mob and the Contras

Accusations that the Contras traffic in narcotics have been raised periodically. On Nov. 27, Honduran police caught the main army of the Contras, the Nicaraguan Democratic Forces (known as the FDN), red-handed in the business. When police raided a marijuana farm set up near an FDN camp at Capire, three Nicaraguan Contras were found and arrested for running the farm, along with two Hondurans. One of those arrested, Pastor Rivera, confessed that he was a military intelligence operative of the FDN, the largest Contra military group, which, until this, had claimed any drug connections were limited to other factions in the Contras, centered in Costa Rica.

Each time the narcotics accusations have come up, U.S. officials associated with the Contras have stated that, *if* any drug connections exist, the problem is limited to a few bad

apples in the Contra barrel. Robert Vesco, the fugitive American financier running Carlos Lehder's cocaine trade today from the comfort of Havana, Cuba, has laughed at that one—all the way to the bank.

Take the case of the Compagnie de Services Fiduciaires, S.A. (CFS), a Swiss "consulting firm" on fiscal and financial matters. Located at No. 3 Thury in Geneva, CFS shows up repeatedly in the Iran-Contras scandal. Identified as the shell company used to transfer the profits from sales of U.S. arms to Iran to bank accounts used by the Contras, CFS was then identified as the company running financing for several covert operations of the "208 Committee." The plane used by former National Security Adviser Robert McFarlane in his secret goodwill visit to Iran, was owned by New York Republic Corporation Transport Services, S.A., a company itself owned jointly by CFS and Edmund Safra's Republic National Bank in New York (where CFS maintains some accounts).

A CFS subsidiary, CFS Investments in Bermuda, purchased planes for the Contras. Located at the same address as CFS in Geneva, is an office of **Stanford Technologies International Trading Group**, a company run by Iranian-American arms dealer **Albert Hakim** and retired U.S. Air Force Maj.-Gen. **Richard Secord**. Stanford Technologies handled many of the Contras international operations, with Secord identified as Lt.-Col. Oliver North's "executive agent" on Contra resupply operations from El Salvador (the route exposed when the Sandinistas downed a plane carrying weapons to the Contras on Oct. 5, and captured Eugene Hasenfus), which was run by a team from Stanford Technologies, including retired Air Force Col. Robert Dutton.

The Zucker connection

Who runs CFS? Swiss lawyer Jean de Senarclens is president, with the company's general director, **Willard Zucker**, playing a leading role (including directing CFS' subsidiary in Bermuda). It is Zucker who leads the operation straight back to Robert Vesco.

In the late 1960s, Zucker joined Bernie Cornfeld's Investors Overseas Services, running the legal department of IOS and, for a time, serving as an IOS director. Zucker came from the New York law firm, Willkie, Farr & Gallagher, where he had been a partner, and soon proved to be part of an advance team for Robert Vesco's 1971 takeover of IOS. Willkie, Farr & Gallagher, in fact, ran Vesco's raid, and subsequent looting of IOS, under the direction of the firm's leading partner, **Kenneth Bialkin**. As *EIR* documents in its bestseller, *Dope, Inc.*, Bialkin and Wilkie, Farr & Gallagher introduced Vesco to top Israeli mobster **Meshulam Riklis**, who provided Vesco the stock he used to take over IOS, from which, in turn, Vesco made the initial capital off which he built his Caribbean narcotics and dirty money empire.

Zucker left Investors Overseas Services to found CFS, shortly before Vesco's looting collapsed its global financial pyramid. Some say CFS is in fact the continuation of IOS's

operations, under new cover.

CFS is only one track of the Vesco-Bialkin mob control over the Contras. Gen. **John Singlaub**, the Contra's leading private fundraiser, works closely with Bialkin's **Anti-Defamation League**. Bialkin chaired the ADL for years, until he stepped aside earlier this year when the publicity around his dope-connections threatened to sink the ADL entirely. According to his own account, Singlaub brought in the ADL to "clean out" the **World Anti-Communist League** when he took over as chairman. Singlaub turned over WACL membership lists to the life-time socialist who heads the ADL's Fact-Finding Division, **Irwin Suall**, for Suall to decide which groups to purge from WACL!

Vesco and the ADL, in turn, are part of the mafia that includes Israeli cabinet minister **Ariel Sharon**, another principal in the formation of the Contras. *EIR's* March 1, 1986 *Special Report*, "Moscow's Secret Weapon: Ariel Sharon and the Israeli Mafia," details the Soviet ties of this extensive international dope and arms network. (In that report, *EIR* reports the connections of Elliot Abrams, assistant secretary of state for Inter-American affairs, to this Israeli mob. Abrams, who likes to brag that *he* runs the Contras, is a member of the so-called covert operations "208 Committee," and chairs the Interagency Group on Central America, of which Lt.-Col. Oliver North was also a part. So much for Abrams's talk of "reforming" the Contras.)

As is now public knowledge, as secretary of state, **Alexander Haig** gave principal responsibility for the arming, training, and financing of the Contras to Sharon's Israeli mob, an arrangement sealed in a secret accord signed by Haig and Sharon in 1981, when Sharon was defense minister of Israel. Under those agreements, Israeli arms traffickers began shipping weapons and supplies to the Contras, through corrupted elements of the Honduran armed forces. In his December 1982 visit to Honduras, Sharon established direct relations with the chief Honduran running this network, then Defense Minister Gen. Gustavo Alvarez. Alvarez was later dumped from the Honduran military, on charges of corruption which included his association with Honduras's military attaché in Chile, Gen. José Bueso-Rojas, who had been implicated in a cocaine-trafficking ring! Today, both Alvarez and Bueso-Rojas are "private" advisers to the Honduran-based Contras.

Soviet connection to be investigated

Soviet assistance to the Contras was first revealed last summer when the Danish ship, the *Pia Vesta*, carrying 250 tons of Soviet-made weapons, was stopped in Panama's waters. The weapons had been sold by the East German state trading company, and loaded in Rostock, East Germany at the end of April 1986. The *Pia Vesta* carried two manifests aboard, one showing the weapons' destination as the Peruvian Navy, the other, El Salvador's military. Speculation began that the weapons were destined for the Contras, shipped "through" El Salvador's military, as Israeli weapons passed

"through" the Honduran military.

The *Pia Vesta* anchored off Peru's shore in June, but never contacted port, before heading back to the Panama Canal. Spokesmen for the Danish company handling the shipment, the Copenhagen Shipping Co., APS, stated that El Salvador was the final destination. Soon thereafter, from Miami, a reputed CIA-linked arms dealer, David Duncan, announced that he had bought the weapons from the East German state trading company. Panamanian investigators then confirmed that the weapons were to be shipped from El Salvador to the Contras, using the route later exposed as that run by Secord's Stanford Technologies.

Perhaps most telling was that 250 tons of Soviet weapons had been found in the Western Hemisphere, and the U.S. press and intelligence kept silent! A July 18 *Wall Street Journal* article on Oliver North's work with the Contras hinted at the reason why. "North's work had risks. It is full of secrets which are very dangerous to reveal; for example, the identity of the people who are providing East bloc arms to the Contras," the *Journal* wrote.

Maybe North argued here, too, that he was dealing with "moderates" within East Germany. As for East Germany, government officials admitted the money for the arms came from Switzerland, but dismissed the matter as "a commercial transaction." (U.S. officials told AFP that "not much worry existed over a shipment of arms which went from one banana republic to another.")

New files opened by the CFS and related investigations demonstrate that Soviet bloc involvement in the Contra operation was not limited to the *Pia Vesta* case. Secord and Hakim themselves come out of a Soviet-contaminated network within U.S. intelligence. Hakim and Secord were long-term associates of **Edwin Wilson**, as were several other agents directing field operations of the Contras. When Wilson was tried and convicted of selling weapons to Libya in 1983, Secord testified on Wilson's behalf at the trial. Wilson, with his now-fugitive partner, **Frank Terpil**, were reportedly both employees of Stanford Technologies at one time.

In the early 1970s, Albert Hakim had been implicated in smuggling computer technology to Warsaw Pact countries, when both he and another associate, **David Shortt**, were, respectively, the Iranian and Austrian representatives of Hewlett Packard. Following U.S. government investigation for illegally shipping HP computer systems to Czechoslovakia, Shortt formed an Iranian-based firm with Albert Hakim, dedicated to selling advanced technology to Russia.

The Dec. 3 issue of *Tribune de Genève* revealed another track to be followed. The CFS-connected New York Republican Corporation Transport Service, cited above, bought its planes from another Geneva-based company, named **Aero-leasing**, which includes Swiss industrialist **Peter Notz** as a top director. Notz is a close associate of Syrian intelligence, and works with the Nazi terrorist controller François Genoud, whose controlling role in protecting Soviet-directed Arab terrorism has been documented by *EIR*.

AIDS outbreak in Nicaragua, Contras

The Sandinista government faces a terrible outbreak of AIDS in Nicaragua, informed sources in Washington, D.C. reported in early November. According to the reports, recently published in *New Solidarity* newspaper, Sandinista officials are attempting to determine how far the killer disease has spread through their ranks, without letting the news leak to the general public.

Promiscuous sexual practices were inculcated in Sandinista ranks as proof of commitment to "revolutionary freedom," even before the guerrilla group seized power in 1979 with the help of the Carter administration.

"Intellectual" controllers of the Sandinistas, such as Jesuit Father Fernando Cardenal, promoted "eroticism" as a central part of Sandinista ideological training, while Cardenal's brother, the Trappist monk Ernesto, is famous for having organized orgies at the Sandinista training center on the Isle of Solentine in the 1970s.

Once in power, the Sandinistas have relished their new role as the little brown darlings of the "radical chic" international jet-set. Bianca Jagger, ex-wife of Rolling Stones star Mick, cavorts with the Sandinista leadership and with the wife of Nicaraguan President Daniel Ortega. Ortega made quite a scene during his visit to New York last fall, attending a party of the Peter, Paul, and Mary "folk-singing" group, and spending \$3,000 on designer glasses!

The Sandinista Armed Forces magazine plays up the sexual life of the troops, reporting the adventures of their soldiers as following in the footsteps of their founder, Augusto Sandino, a member of the theosophy cult who vaunted his sexual exploits.

Sandinista promiscuity, combined with economic devastation in Nicaragua, created ideal conditions for transmission of the AIDS virus. News of the epidemic could spark a revolt among Nicaraguans, already angry at Sandinista attacks on Pope John Paul II and the Catholic Church in the name of "theology of liberation." Simmering anger at the dictatorship has been limited by fear of the "Contras," seen as foreign-controlled guerrilla bandits differing little from the Sandinista rulers.

U.S. soldiers infected?

Worrying Washington, however, is the danger that the ranks of the U.S.-sponsored Contra fighters may be decimat-

ed by a similar AIDS outbreak. Washington officials are said to be examining the possibility that Cuban exiles advising the Contras brought in the disease.

The major Contra base of operations is located in Honduras, like Nicaragua an extremely impoverished country. Thousands of U.S. soldiers have been rotated through Honduras in the past three years, building up military operations to back the Contras. Honduran papers have repeatedly complained of widespread promiscuity among American soldiers.

Leading the foreign mercenaries brought in to advise Contra military operations are Cuban exiles, many from the old Brigade 2506 made famous in the CIA's attempted Bay of Pigs invasion in 1960. While Brigade 2506 includes Cuban patriots, others in it were recruited from the drug-running gangsters who ran Batista's Cuba and were disgruntled at losing the franchise over the "pleasure haven" that was Cuba under Batista. This wing of the Cuban exile movement, which used its proclaimed "anti-communism" as a cover to infiltrate U.S. security operations, is so penetrated and counter-penetrated by Castro's Cuban intelligence, the DGI, that it is an open question where their loyalties lie.

Castro's DGI and the old Batista crew meet in the South American-U.S. drug trade, where the "Cuban mafia" has held a longtime franchise. DGI penetration of this Cuban exile mafia was upgraded in 1981, when some 120,000 Cuban "exiles" were dumped into the United States by Fidel Castro, through the Mariel boatlift. Thousands of criminals, homosexuals, drug-users, and social misfits entered the United States at that time, as Castro emptied Cuba's prisons onto U.S. shores, under the cover of letting "dissidents" leave.

U.S. law enforcement agencies have recognized the Mariel operation as a cover for infiltrating into the United States hundreds of Cuban intelligence agents specializing in espionage and sabotage activities. Once in the United States, many of the DGI agents took up command posts in the South American-U.S. narcotics trade, joining some of the Cuban exiles now involved in drug-trafficking.

Unnoticed before was the danger of AIDS, which was then only beginning to come to public attention, as the slow-incubation virus struck down its first victims. Since then, medical investigators have established that the thousands of Cuban homosexuals sent in the Mariel boatlift—including homosexual Cuban soldiers discharged from service in Angola, where the epidemic is raging—brought the killer disease with them to the United States.

The concentrations of the AIDS virus developing around the Nicaragua crisis, could create a holocaust of the scope of that now sweeping Africa. Immunological resistance in the area is already low. Other epidemics are spreading from camps of refugees and displaced persons throughout Central America. Central American health and nutritional levels, historically low, have plummeted to danger levels in the past decade, as the combination of civil war and International Monetary Fund austerity has collapsed food supplies.

EIR National

'Irangate' sparks policy shifts, NSC clean-up

by Jeffrey Steinberg

While the congressional "Irangate" hearings were grabbing headlines, informed sources in Washington, D.C. ascribed far greater import to the quiet housecleaning begun by President Reagan's new national security adviser, Frank Carlucci. An experienced administrator with close ties to the CIA and Defense Secretary Caspar Weinberger, Carlucci lost no time in making personnel changes at the Old Executive Office Building, bringing in a three-star general who had served as the senior military assistant to Secretary Weinberger, and announcing the likely appointment of another top Pentagon aide, Grant Green, to a post in his new office.

Press reports say that Carlucci will thoroughly clean up the NSC, replacing acting national security adviser Alton Keel, longtime Kissinger asset Peter Rodman, congressional liaison Ronald Sable, and Howard Teicher, the immediate boss of Lt.-Col. Oliver North and the author of the disastrous Jan. 17, 1986 "intelligence finding" that argued for the existence of a "moderate" faction within the Khomeini regime. Teicher is widely viewed as part of an informal Mossad circle, linked to a faction of the Israeli intelligence service—a circle which has been misguiding strategic estimates and policy deliberations at the White House, State Department, Defense Department, and Department of Justice for years.

Carlucci's new chief deputy is Lt. Gen. Colin L. Powell, the commander of the U.S. Army 5th Corp., headquartered in Frankfurt, West Germany. One of the highest ranking black officers in the U.S. armed forces, Powell is an Army Ranger, paratrooper, and a highly decorated veteran of the Vietnam war.

While the personnel shakeup is significant, the purging of the Kissinger and Mossad-contaminated elements is only the surface reading on an expected deeper change, in both the structure and substantive policy orientation of the Reagan

administration. This "deeper" housecleaning was the subject of a nationally syndicated column by Richard Reeves, published in the *Houston Post* on Dec. 8. Reeves traced the origins of the NSC's rogue elephant role to the tenure of Henry A. Kissinger as national security adviser, stating:

"... the Congress has to get tough and demolish or rebuild the little secret house of the NSC. It really isn't a Reagan house. The principal architect was Richard Nixon's national security adviser Henry Kissinger. What Kissinger did was to construct a hidden back door to the White House. Colonels no one ever heard of, beginning with Alexander Haig, slipped through that door to appear suddenly in the corridors of civilian power. Agents of all sorts slipped out on secret missions that may have been known only to the colonels. A secret cell within the government often playing the White House off against the State Department and Department of Defense. Henry Kissinger's backdoor led to Lt.-Col. Oliver North's rat hole. Agents, weapons, and money began slipping through chinks to Tel Aviv, Beirut, Teheran, Tegucigalpa, Managua, and who knows where else. . . . What does all this have to do with the American System on the 200th anniversary of our Constitution?"

While the Kissinger-instigated emergence of the NSC as a power center has been associated with the idea of an "Imperial Presidency," exactly the opposite was true. Cut off from more competent policy input and more experienced clandestine capabilities at the Pentagon and the CIA, a succession of Presidents has become increasingly enslaved to an NSC staffed by Kissinger and Zbigniew Brzezinski clones and wedded to policies that would have the U.S. concede Eurasian hegemony to Moscow's New Yalta "détente" and foster the spread of an inherently anti-Western Islamic fundamentalism. Through this process as well, the

NSC became a prime point of influence of the Kissinger-linked Israeli circles of Ariel Sharon.

Carlucci will now, according to a range of Washington, D.C. sources interviewed in the preparation of this article, preside over the downgrading of the NSC to its originally conceived role of facilitating broader policy input from executive departments charged with national security responsibilities. In this long overdue reform—complemented by the Joint Chiefs of Staff's comeback as a strategic planning body, particularly with respect to low intensity-unconventional warfare—some of the deepest pockets of Mossad penetration of our national security establishment are expected to be revealed.

Anticipating the deeper implications of the NSC shakeup and the appointment of Carlucci, syndicated columnists Evans and Novak wrote on Dec. 5 that Carlucci's first big test will center around breaking the policy-estimates impasse on the recently discovered massive Soviet radar installation on the Polish border. With the discovery of the newly operational installation on Nov. 10, it is clear that Moscow is on the verge of deploying a nationwide three-tiered missile defense system—its own SDI. State Department and Arms Control and Disarmament Agency analysts have tried to downplay this discovery, a flagrant violation of the 1972 ABM treaty, while DoD and CIA have argued that this poses a major threat of a Soviet thermonuclear-war breakout.

Less than a week after the Evans and Novak column appeared, Secretary Weinberger, speaking before the American Legislative Exchange Council in Washington, D.C. blasted Soviet violations of SALT II and ABM, breaking the administration's public silence on the Soviet radar break-out.

Other trees are falling

Two other elements of the unfolding exposures have stood out in recent days.

The first is the continuing, now clearly bipartisan movement to dump White House chief of staff Donald T. Regan. During his open testimony before the House Foreign Affairs Committee on Dec. 8, Robert C. McFarlane, former national security adviser, pointed a finger at Regan as the "higher authority" at the White House who approved the diversion of Iran arms profits to the Contras while keeping the President uninformed.

However, the Don Regan issue has moved far beyond "Irangate" to a broad attack on the former Merrill Lynch CEO's management of the presidential office. Such terms as "incompetent," "egomaniac," and "vindictive" were tagged onto Regan. A parade of visitors descended upon the presidential living quarters at the White House to urge Mr. Reagan to fire his chief of staff. Among the callers were Senators Paul Laxalt (R-Nev.) and Howard Baker (R-Tenn.), former Secretary of State William P. Rogers, and ex-Democratic National Committee chairman Robert S. Strauss. Strauss has recently joined the board of the Austin, Texas based West-

mark Corp., a new defense corporation chaired by Admiral Bobby Ray Inman, and including Donald Rumsfeld and Drew Lewis on its board.

Special relationship finished

The second element emerging is the termination of the perverse "special relationship" between Washington and Tel Aviv, which is fundamental to the more profound policy changes than even the Regan question. Architected by Henry A. Kissinger and certified with the secret clauses of the 1979 Camp David agreements, this "special relationship," instead of drawing on the best of the common, technology-proud and progress-oriented heritage of the United States and Israel, is based on a geopolitical notion of Israel as a "New Venice" conducting its diplomacy via arms smuggling, and within a "New NATO" featuring a nuclear-armed Israel led by a dangerous lunatic, Ariel Sharon. It is no coincidence that this "New NATO" plan was hatched by the same Kissinger-Brzezinski faction that began the Islamic fundamentalist "arc of crisis" game by installing Ruhollah Khomeini in power in Iran in 1978. This "special relationship" has begun coming apart at the seams as the result of a series of high-profile media exposures in the United States. Many key features of those revelations were the subject of an *EIR* news briefing in Washington, D.C. in early December.

- On Thursday night, Dec. 11, ABC-TV's 20/20 news magazine aired exclusive interviews by Barbara Walters with Saudi businessman Adnan Khashoggi and Iranian arms merchant and "Irangate" middleman Manucher Ghorbanifar. Both men provided damning evidence against Israeli intelligence and known U.S. Mossad assets for pushing the false notion that a pro-Western "moderate" faction of the Khomeini regime was prepared to deal with Washington. Both confirmed that the Reagan administration relied predominantly on Israeli arms merchants Al Schwimmer and Jacob Nimrodi to provide the "bona fides" on Ghorbanifar, and that an American with known, deep ties to the Sharon faction of the Mossad, Michael Ledeen, had been the initial "U.S. government official" detailed to Tel Aviv to get Israel's approval of the Iranian shyster.

- The very next day, the *Washington Post* devoted front-page coverage to the fact that the Israelis had been the primary sources drawn upon by CIA director William Casey in certifying a CIA intelligence estimate prepared by Middle East specialist Graham Fuller in early 1985. Apparently, Fuller's early report suggesting the "moderate mullahs" gambit was based on contact between Khashoggi, Ghorbanifar, and a former top CIA official, Theodore G. Shackley in Hamburg, West Germany in late 1984 and early 1985. Shackley's meetings were reportedly known to Michael Ledeen before the former aide to Alexander Haig traveled to Tel Aviv to see Schwimmer, Nimrodi, and David Kimche; Kimche is a former European station chief of the Mossad and director general of the Israeli Foreign Ministry.

Chicago

LaRouche Democrat sets mayoral program

Every Illinois voter who witnessed "the shot heard around the world" caused by the March 18 Democratic primary victory of LaRouche Democrats Janice Hart for secretary of state, and Mark Fairchild for lieutenant governor, knows that the "Irregular Democratic Party" got caught with its pants down. This includes former senator Adlai Stevenson, Alderman Ed Vrdolyak, Mayor Harold Washington, and the *Chicago Sun-Times* and *Chicago Tribune*.

Now, Lyndon LaRouche's Midwest collaborator, Mrs. Sheila Jones, has accepted a mandate from the "forgotten majority" to run for mayor of Chicago in the primary in February 1987. Mrs. Jones, a life-long Democrat, ran for mayor here in 1983, and was subjected to the most unprecedented violations of civil and human rights by the "Irregular Democratic Party," the Chicago media, and the League of Women Voters. Political observers in Chicago admit that had she been allowed her rights in that election, Chicago might have had its first black woman mayor then.

A well-known civil rights leader, a former trade-union organizer for the Milwaukee Teacher's Association in Wisconsin, and a former educator, Mrs. Jones was the political strategist for the Hart-Fairchild campaign, and over 100 other Illinois candidates. Through that campaign, the controls put on Illinois Democratic voters were shattered. Whether the "Irregular Democrats" can suppress her campaign this time—under growing national crisis conditions—is a very big question.

Creating productive jobs

The main agenda of the Jones for Mayor campaign is to create productive jobs. Mrs. Jones stated:

"We are a city of tremendous potential wealth. This is not the wealth of real estate speculators, who are forever building office buildings, and condominiums, which the average citizen can't even afford, since he is out of work, due to the shutdown of U.S. Steel, vital crucible steel factories, machine tool shops, brick kilns, and construction firms."

She added, "We have extremely talented, skilled and

semi-skilled workers standing in long soup lines . . . because they are being killed by the mayor's greater concern for Wall Street bankers and Gold Coast liberals who are more concerned about 'gay rights' than moral families."

In her 1983 bid for mayor, Mrs. Jones and her science adviser, Dr. Robert Moon, professor emeritus from the University of Chicago and a physicist who worked on the Manhattan Project in the 1940s, wrote a proposal to reindustrialize the City of Chicago. This plan, which she hand-delivered to the Chicago City Council, included:

1) *Reopening Navy Pier as an industrial site*, for the purpose of encouraging trade deals with other nations around the world in need of basic infrastructural goods, that Chicago had become so famous for producing, from the time of Franklin Delano Roosevelt's war mobilization;

2) *Extension of the 63rd 'El' train Delano Roosevelt's war mobilization*;

2) *Extension of the 63rd 'El' train line* to Stony Island, to 95th Street, on the South Side, while simultaneously converting this to a high-speed, magnetic-levitation train, to facilitate the movement of people and goods;

3) *Reopening and reinvestment in the remaining crucible steel plants* around Chicago, for such enterprises as above, as well as the emergency crash program to build the Cross-town Expressway, which would open the entire state up to over-the-road trucking and trade throughout the area;

4) *Urgent completion of the 'Deep Tunnel' project*, a clean water system for the City of Chicago, which would involve thousands of re-employed skilled and semi-skilled workers, taking into account the related infrastructural goods needed for such an enterprise;

5) *Re-establishment of apprenticeship programs* for high school students throughout the city in basic industry, machine tools, electrical engineering, construction, mechanical engineering, etc., to give fruitful and useful employment to our "dying" youth;

6) *Establishment of a pro-scientific task force to review the city hospitals*, to deal with the re-emergence of a tuberculosis epidemic, to reopen hospitals which have been closed down to offer maintenance care and containment of such diseases, as well as establishing highly skilled and equipped research centers in such hospitals;

7) *A war on drugs*, including the confiscation of 100% of all property and profits of drug money launderers and politicians and law-enforcement agents who cover up, and are involved in, the proliferation of drugs in the city.

How to fund it

Mrs. Jones is running on that platform, and has added several new planks for the 1987 mayoral race:

- Instead of taxing Illinois's hard-working families and the poor, a tax on the Chicago Board of Trade; for every transaction, there would be levied a tax of 0.2%. This would bring a minimum of \$6 billion a year into Chicago for rein-

vesting in neighborhoods and wards.

- Emergency housing for the homeless—not flophouses—to be funded by confiscating drug profits and the Board of Trade tax.

- A "Protocol for Life," to establish research centers for AIDS, to be set up with the assistance of pro-life, pro-science medical professionals being contacted nationally by Mrs. Jones. She sharply criticizes Mayor Harold Washington's policy of allowing AIDS-infected children to attend public school and propagating the delusion that "condoms and clean needles" are sufficient to avoid contagion.

- Implementation of the anti-austerity policy of Peru's President Alan García, of a *debt moratorium* for the City of Chicago.

A Zaire-Chicago industrial connection

In a statement released on Nov. 27, Sheila Jones announced her support for Zairean President Mobutu's declaration Oct. 30, that Zaire will no longer abide by International Monetary Fund (IMF) conditionalities. She pledged to do all in her power to build support for Zaire, a country in the African AIDS belt, which has joined Peru in deciding to allocate only 10% of its export earnings to debt payment.

Mrs. Jones commented that not only are President Mobutu and the central committee of Zaire correct that the IMF is trying to recolonize Zaire economically, but that this is the IMF's plan for the world, as can be seen in the Davignon Plan for radically reducing steel production capacity in Western Europe and the United States. One of the clearest examples is the once-great industrialized center, the City of Chicago.

Mrs. Jones has proposed that Chicago and Kinshasa, Zaire become sister cities, and exchange representatives to discuss proposed projects, for trade and infrastructural transfer deals, dialogue and negotiations between the City of Chicago and Zaire.

Following the lead of Peru and Zaire, Mrs. Jones promised that her first act as mayor will be to declare a debt moratorium for the City of Chicago, in order to begin the replacement and build-up of vital industry, which will be placed at the disposal of Zaire.

Then, Jones would establish a City Development Bank, modeled on the one proposed by Abraham Lincoln in his Program of Internal Improvements, for the purpose of underwriting loans, to give credit to Third World nations, starting with Zaire, for the infrastructural projects they need. The Chicago City Development Bank would also underwrite loans for Illinois agriculture, to facilitate food trade between Illinois farmers and Zaire.

Great projects are essential

Since Chicago has lost 75% of its steel, 90% of its rail car production, 75% of its machine tool production, and 20% of its auto production, Sheila Jones seeks to set up a Hamil-

tonian, two-tier system of taxing, which will encourage re-investment into machine tools, the steel manufacturing, and manufacture of vitally needed capital goods for trade with Zaire.

As mayor, Jones would offer to purchase Zaire's copper products at parity price. The copper is needed, among other things, for Chicago's electricity grid. Mrs. Jones would organize the Chicago City Council to encourage franchises for Chicago entrepreneurs to develop a hydrogen-based economy, to run cars and heat homes and factories. One of Chicago's greatest resources is its access to fresh water. This technology would be made available to Zaire as well.

The building of a new harbor at Chicago's Navy Pier, which was already part of the Jones mayoral platform in 1983, will be critical to facilitate trade shipments from the Midwest to Zaire. This is planned to be a deep water port facility, to be used for ocean-going vessels.

Jones says she aims to make Chicago the public transportation showcase of the world, by building 300 miles of underground, magnetically levitated train systems. This technology could serve as a model for Zaire, while revitalizing Chicago's devastated building industry. She has pledged to make available to Zaire the breakthroughs achieved by the medical research team she is assembling under the rubric of "Protocols for Life."

Need for economic justice

In her statement of solidarity to Zaire's President Mobutu, Sheila Jones praised Reverend Dibaba Mpolesha, a Zairean minister who has taken a leading role with the Schiller Institute in fighting for a New International Economic Order. "St. Augustine condemned the spirit of exploitation of man which motivates the merchants of false witness. Therefore, I concur with Reverend Mpolesha in asserting that there must be justice in competition and economic exchange with developed and industrialized nations, toward human development and the betterment of relations between persons and societies. Instead of exploitation, we must think in terms of sharing, because man is a traveler on this Earth, and must put whatever he has to the benefit to others, who are likewise created in the image of God."

Mrs. Jones continued, "I, too, would like to see the underdeveloped countries fix the price of their products themselves, and freely do business with the clients of their choice, without intermediaries or constraints, and above all, receive the full share of the revenues to which they are entitled, for their internal development, which give so much to all inhabitants of this dear planet of ours. The themes of equity, sovereign equality, interdependence, and common interest must be the basis of North-South economic cooperation."

Mrs. Jones, addressing President Mobutu of Zaire, asks him to "accept the heartfelt intent of my offer, as the next mayor of the City of Chicago, the future Workshop of the World!"

Economic, military crisis scares Dems

by Leo Scanlon

The Dec. 11-12 gathering of the Democratic Leadership Council (DLC), held in Williamsburg, the reconstructed capital city of the colony of Virginia, offered the first chance for the "moderate" Democrats to float the issues and strategies they will take into the 1988 election. The two days of discussions and panel presentations revealed that this group of Democratic elected officials is beginning to react to something the LaRouche Democrats brought to the fore in the 1986 elections: This country is facing the greatest economic and military crisis in living memory, and any political movement which doesn't recognize this will have no access to the American electorate.

Organized and chaired by Charles Robb, ex-governor of Virginia, the DLC is the think tank backing a group of presidential hopefuls including Richard Gephardt, Sam Nunn, and Joe Biden. It characterizes itself as the moderate wing of the Democratic Party. Unfortunately for the Democrats, the principal military strategy document presented to the conference, authored by Senators Sam Nunn (Ga.), Albert Gore (Tenn.), and Les Aspin (Wisc.), is a prescription for capitulation to Soviet superiority.

"Defending America, Building a New Foundation for National Strength" is the ambitious title of the document which re-hashes the worst features of the Packard Commission reforms, and echoes the structural proposals, most associated with Gary Hart, which would make the U.S. military incapable of representing a threat to the Soviet forces arrayed against our European allies.

Sam Nunn argued that the problem with U.S. negotiating policy at the MBFR talks, is that the discussion has ignored the threat posed by the Soviet main battle tank, which Nunn asserts is just as deadly as an ICBM. So, Nunn proposed that we insist that the Soviets reduce their tank forces to a level at which they no longer pose a threat of invasion in Western Europe! Unaffected by reality, Nunn went on to assert that he has discovered that the Europeans are advocates of nuclear weapons, as shown by their reluctance to undertake a buildup of conventional forces to offset the Soviets.

"We have problems of cooperation with the Europeans," he raved. "For example, we negotiated an arrangement where we would build a number of aircraft which would be stationed in Europe, and the allies were to build the shelters. Well, we built and deployed the planes, and two years later there has

not been one shelter built. Furthermore, we maintain a 60-day supply of ammunition in Europe, and the allies only have two weeks. So if a battle starts, we will be left holding the bag while the flanks collapse at the end of two weeks, and in the meantime we bear the expense of maintaining all that extra ammunition. . . ." His so-called solution: Simply reduce the rate of production of military goods, and "pray for an arms control breakthrough."

Senator Gore, whose wife heads the Soviet-sponsored "Peace Links" organization, recommended that the nation reconsider SDI if the Soviets stop violating the ABM and SALT treaties, and agree to reductions in offensive systems.

Neither Gore nor Aspin had anything other than a shocked silence when asked to comment on the explosive revelations of Soviet ABM break-out made by Defense Secretary Caspar Weinberger just hours before their panel in Williamsburg. But other Democrats present stressed that defense is a top priority with the voters. Governor Hunt of North Carolina noted that he had always thought that "jobs was the issue we would rise or fall on, until the last election, when I saw the effect that a 30% difference between us and the Republicans on defense had . . . it killed us." To these desperate elected officials, Sam Nunn appears, for the moment, to be "pro-defense."

Wright: back to colonial America?

Texas Congressman Jim Wright, the new Speaker of the House of Representatives, offered a legislative agenda which is motivated by his recognition of the industrial calamity which is the U.S. economy. His proposal centers on a call for a bipartisan mobilization to rebuild the nation's industrial capacity. "It is my great hope that the current shock of falling so suddenly and steeply behind in world markets will do for all of us what Sputnik did in the 1950s and Pearl Harbor did in the 1940s, and we will use our inherent strengths of mind and will to respond to the challenge."

"We are losing our industrial base," he warned. "The American factory system and our system of renewing our productive capacity through machine tools has been declining. American agriculture . . . is declining . . . for the first time since we were an infant nation stretched along the Eastern seaboard, we are beginning to export raw products into other countries who make them into finished goods and sell them back to us. That's not our destiny, that's the destiny of a declining nation. I'm not ready to consign us to an ash-heap of has-beens!

"We now owe \$200 billion of debt to other countries. More important, we are selling raw products to be processed and refined and manufactured into finished goods and returned and sold on our markets. That's the classic definition of an undeveloped country, the definition of a colonial possession, and we certainly do not need to come to Williamsburg to allow ourselves to be accepted as a colonial possession!"

Documentation

'We are losing our industrial base'

Excerpts from a speech by Rep. Jim Wright (D-Tex.), Speaker of the House, at the Democratic Leadership Conference in Williamsburg, Va., on Dec. 11-12.

The first imperative in the 100th Congress will be to come to grips with our American trade deficit and the steady decline in American competitiveness. This may be the dominant economic issue for the remaining years of the 20th century.

The trade deficit—an estimated \$170 billion in 1986—is the prime symptom of that failure, a failure which has transformed this nation in four short years from the world's largest creditor nation to the world's largest debtor. We now are \$200 billion in debt to other countries. And it certainly is no accident that the rise in our trade deficit has coincided with our poor performance in economic growth.

It has something to do, most certainly, with the decline in real wages. It is linked indirectly to the fact that the average 30 year old couple has a harder time today buying a home—or even an automobile—than their parents had.

Failure to deal with this crisis—to idle away precious time expecting it to correct itself—could doom future generations of Americans to a steadily declining standard of living and eventual status as poor inhabitants of a once rich land.

We are losing our industrial base, the American factory system and our system of renewing our productive capacity through machine tools has been declining. American agriculture . . . is declining. . . . For the first time since we were an infant nation stretched along the eastern seaboard, we are beginning to export raw products into other countries who make them into finished goods and sell them back to us. That's not our destiny, that's the destiny of a declining nation. . . .

. . . I for one am not prepared to participate in the industrial and economic decline of this nation, nor to concede that our legacy must be confined to that of a service economy which produces little. . . .

I am prepared to recognize . . . that our nation is in trouble, and am prepared to participate in actions necessary to confront this issue and solve it. . . .

We will welcome the participation of the administration

and Secretary Baker in this effort. All of us—the Congress, the administration, and the forces you represent—must join together if we are to be effective. . . .

To this end, some of us already have had earnest conversations with key officials in the Reagan administration, urging them to take a close look at the gruesome statistics and to reconsider their formerly intractable opposition to any and all trade legislation. . . .

Our intent, our goal, is to make America competitive in a world no longer composed of independent national economies. The flow of capital is international and uncontrolled today—perhaps even uncontrollable. . . .

. . . We need to ease export controls, invest in an educational renaissance in which math, science and foreign language instruction flourishes at all levels. . . . Only some 54,000 young [students] graduated from American colleges and universities with degrees in scientific, mathematics, and engineering disciplines. Japan, with half our population, was graduating 77,000, half again more. Russia was graduating 300,000 people it calls engineers; while the nomenclature is not anywhere near comparable, the fact is that they graduated 300,000 young Soviet citizens with some degree of technological competence. We were graduating 54,000, and a great many of those were exchange students from other countries, they were not American students.

Another example might be the fact that Japan has in the United States today, and I don't see where this is a problem—I'm somewhat envious of them in this respect I suppose—Japan has in the United States today some 10,000 business representatives of Japanese firms, selling Japanese goods. All of them speak excellent English, while by contrast the United States has in Japan only some 500 representatives of American business firms, and only a tiny handful can speak any Japanese at all. What does that tell us? It tells us that we ignore education at our peril, and we're foolish in the extreme if, ignoring education, we then wonder why we are falling behind in world trade. . . .

As you no doubt have observed, I believe that the federal government has a vital role to play in the battle to restore America's productive capacity and America's competitive advantage. But please do not assume that I think government must play the only role or even the dominant role. Government's function is to create a climate conducive to success. . . .

The status quo is unsustainable. Time is much too precious to waste. Should we go into a recession, God forbid, the pressures on the Third World and the major debtor nations could be immensely and perhaps even irreparably destructive.

It is my great hope that the current shock of falling so suddenly and steeply behind in world markets will do for all of us what Sputnik did in the 1950s and Pearl Harbor did in the '40s, and we will use our inherent strengths of mind and will to respond to the challenge. . . .

National News

Robertson won't take any position on AIDS

After warning that AIDS could infect 46 million Americans, presidential hopeful Pat Robertson refused to commit himself to any specific steps to curb the disease's spread—except for endorsing Surgeon-General C. Everett Koop's recent report, and making vague noises about protecting the U.S. blood supply.

Robertson indicated that, basically, he didn't want to be caught taking a position that might cause some to vote against him.

Questioned by *EIR* about his position on AIDS, Robertson delivered a a tough-sounding speech in which he declared that the AIDS virus "doesn't have civil rights." But then, he lamented that "the public" isn't yet ready to take the steps needed to stop AIDS.

When *EIR* pressed him on what precise steps he proposes, Robertson answered: "Well, I'd rather not say, because then I'd be labeled as someone who was advocating them."

'Experts' say AIDS cases will 'explode'

An "explosion" in the number of AIDS cases is expected by 1991, says the Dec. 8 *Los Angeles Times* in a front-page lead article entitled "AIDS Shock Wave on U.S. Horizon." The article quotes experts saying that "within five years, as the number of AIDS cases explodes, many Americans who have been insulated from the burgeoning epidemic somehow will be touched by the disease."

It predicts that by 1991, AIDS could become the seventh leading cause of death. It quotes numerous opponents of Proposition 64 public health measures, who now admit—after the defeat of the referendum in the November election—that this means the death rate will soar.

Rep. Henry Waxman, a Proposition 64 opponent, said that AIDS will "deeply

change America in the next few years, creating dislocation unlike any event other than war." It also quotes Dr. Mervyn Silverman, who engaged in diatribes against Proposition 64 and its most celebrated backer, Lyndon LaRouche. He said that heterosexual transmission is now "a fact of life," contrary to his position prior to the Prop. 64 vote.

Meanwhile, the Roman Catholic Archdiocese of Los Angeles, another outspoken opponent of containment of AIDS through testing and quarantine of AIDS victims, was forced to withdraw its support for an AIDS education program, after it was disclosed that the program espoused the use of condoms. The archdiocese—which is headed by Archbishop Mahony, one of the ringleaders of the anti-Prop. 64 crusade—issued a statement asserting that, "Contrary to recent reports . . . the Roman Catholic church does not approve the use of condoms."

U.S. v. LaRouche trial date set

A trial date of April 6 has been set in the case of *U.S. v. The LaRouche Campaign et al.* At a hearing in Boston on Dec. 9, Federal Judge Robert Keeton also set a Jan. 15 date for defense motions to be filed, which will include motions to suppress evidence, and dismiss the indictments on behalf of various of 10 indicted individuals and 5 organizations.

The case stems from a giant Oct. 6-7 raid by 400 armed federal, state, and local police on the offices of associates of LaRouche in Leesburg. It was the largest police raid in American history.

Judge Keeton set June 1 as a "back-up" date for the trial to begin, in the event that both sides cannot be ready by April 6.

Defense attorney Odin Anderson said that he believed that a June trial date was more realistic, considering that the government seized well over 400 cartons of material in the raid, and considering the fact that the government has indicated that additional indictments are expected to be handed down on Monday, Dec. 15. Anderson also said

that the court should reconsider the detention of three of the accused who are still in custody.

Defense attorney William Moffitt also brought to the court's attention the issue of ongoing leaks to the press from the government, contending that this was effecting the ability of his clients to get a fair trial. Judge Keeton responded that it was not his practice to "jawbone," but rather to enter orders and enforce them, and that he would not say more on this issue without a formal motion and a hearing.

Speaking for the government, Assistant U.S. Attorney John Markham said that the prosecution's case would take between six weeks and two months to put in. "We've got witnesses coming from overseas," Markham added. Observers expect the entire trial to last at least three or four months.

Mayors demand drug, AIDS policy changes

A 28-point proposal was drafted by the U.S. mayors attending the League of Cities conference in San Antonio, Texas.

The proposals calls for a new national urban policy, use of the military to halt illegal drug-smuggling, and more federal money for research into the cause, treatment, and prevention of AIDS.

The mayors urged Congress to renew funding for highways, public transportation, clean water, and housing. It also asked federal help for cities in dealing with drug-abuse, homelessness, joblessness, and hunger.

Reagan welfare cuts increase poverty

The decline of government programs is apparently responsible for a significant increase in poverty among families with children and does little to ease poverty, says a report released by the Center on Budget and Policy Priorities in early December.

The report found that in 1979, nearly one of every five families with children who would otherwise have been poor was able to escape poverty with benefits from Social Security, unemployment insurance, or public assistance. However, in 1985, only one of every nine families with children was lifted out of poverty by those programs.

"Based on hard data from recent Census reports, the analysis demonstrates that the failure of most states to keep benefits up with inflation and the budget reductions made during the Reagan administration have been a major factor in the increase in poverty since 1979," Center Director Robert Greenstein said on Dec. 7.

According to Greenstein, approximately 458,000 fewer families would have been poor in 1985, had support continued. In 1979, the poverty rate was 11.7% and 26.1 million people were poor. In 1985, the poverty rate was 14% and 33.1 million people were in poverty.

The report stated: "The decline in the anti-poverty impact of government benefits programs is even sharper when non-cash programs are included, primarily because the non-cash programs were among the programs that were cut significantly."

National Academy report angers the President

The National Academy of Sciences, in a report published Dec. 10, called for increased access to contraception as the "surest strategy" for reducing the country's high level of teen pregnancies. After a two-year study by a blue ribbon panel organized by the Academy's National Research Council, headed by Harvard Medical School's Prof. Daniel Federman, the panel recommended the contraceptive pill for women as the "safest and most effective means of birth control for sexually active teens." It also proposed widespread distribution of condoms "in places where teenagers congregate" (e.g., youth centers, gyms, and video arcades).

The report called school-based clinics that provide contraceptive services "a promising intervention" against unwanted and

early pregnancies. It also said that teens should not require parental consent before receiving an abortion. Sex information programs should "include information on methods of contraception, how to use them, and how to obtain them."

The entire set of recommendations made the White House angry. President Reagan "strongly disapproves of giving contraceptives to teenagers," White House spokesman Larry Speakes said.

Secretary of Education William Bennett severely criticized the panel's encouragement of school-based birth control clinics, saying: "This is not the first time a prestigious-sounding group has advocated a dumb policy—school-based birth control clinics that will damage our schools and our children."

The director of the National Forum Foundation in Washington, D.C., James Denton, said he was troubled by "the whole valueless treatment of teenage promiscuity and abortion."

Nunn readies remake of Armed Services

Senator Sam Nunn (D-Ga.), the Trilateral Commission's pick to be next President of the United States, is preparing to overhaul the Senate Armed Services Committee when he becomes chairman in January.

Chief among the changes Nunn is planning is the creation of a tactical warfare subcommittee, to deal with conventional warfare issues. Sen. Carl Levin (D-Mich.), who consistently toes the KGB line on defense issues, especially the SDI, is in line to become the new subcommittee's chairman.

Nunn is also expected to give the sea-power subcommittee to Sen. Ted Kennedy (D-Mass.), in apparent tribute to Kennedy's navigational talents.

The orientation of the powerful Armed Services Committee is expected to be further influenced in Moscow's direction by new member Sen. Albert Gore (D-Tenn.), whose father sits on the board of Armand Hammer's Occidental Petroleum.

Briefly

● **REP. STEPHEN SOLARZ** has been caught lying. Four Manhattan properties that Solarz insisted belong to former Philippines President Ferdinand Marcos—indicating that Marcos had "looted" the Philippines—appear instead to be the property of Saudi munitions dealer Adnan Khashoggi, according to documents introduced in court proceedings begun by the Aquino government.

● **JESSE JACKSON**, lashing out at Japan for "insensitivity toward minorities," threatened Dec. 9 to call for boycotts against Japanese companies in the United States, unless they move to withdraw from South Africa. He warned Japan to end its "de facto involvement" with the South African government. Jackson spoke in Tokyo, at the invitation of a Japanese minority group, the Burakumin, an "untouchable" caste in the feudal era.

● **DR. MATHILDE KRIM**, who opposed California's Proposition 64 public health initiative on AIDS, has called for distributing clean needles to drug addicts.

● **CORRECTION:** Author Anton Chaitkin believes that *Washington Post* publisher Philip Graham was murdered, and that his widow Katharine benefited from the murder, but has not charged Mrs. Graham with the murder, as erroneously reported in this column last week.

● **PAUL GALLAGHER**, executive director of the Fusion Energy Foundation (FEF), announced Dec. 4 that New York Attorney-General Robert Abrams has dropped all claims that the tax-exempt status of the Fusion Energy Foundation is now or had been revoked. Abrams thereby "amended" his complaint against the FEF, a complaint that is part of his legal witchhunt against organizations associated with Democratic presidential candidate Lyndon LaRouche. The allegation first surfaced in a Sept. 12 Associated Press wire story by Abrams's co-conspirator William Welch.

Editorial

Time to dump AIFLD

On Dec. 12, the Colombian Supreme Court annulled the treaty of extradition of drug traffickers to the United States, the centerpiece of Colombia's war on drugs. The court ruled unanimously that the law authorizing the treaty was unconstitutional, on the technicality that it had been signed by the acting President while the President was out of the country.

Did the government of the United States itself give the go-ahead for this catastrophic setback to the joint U.S.-Colombian war on drugs?

It is a fact that the U.S. Embassy in Bogota, and the American Institute for Free Labor Development (AIFLD), an institution officially funded by the U.S. State Department, are the ones who bankroll the activities of Colombia's pro-drug trade unionists, who have been working to wreck that treaty.

These are the very same U.S. circles which are under scrutiny in the "Irangate" scandal, for trafficking arms to the Iranian terrorists and using the money to finance the Contras.

Since 1984, when the body of murdered Colombian Justice Minister Rodrigo Lara Bonilla was not yet cold in its grave, these pro-drug trade unionists, led by such individuals as Tulio Cuevas, Victor Acosta, and Alfonso Vargas, put out a proclamation against the treaty. From that moment on, they have not missed a chance to condemn it. These same pro-drug trade unionists have traveled to various countries to intercede on behalf of imprisoned Colombian drug traffickers, as when Alfonso Vargas, Tulio Cuevas, and Manuel Felipe Hurtado went to Spain to beg for mercy for the gangster Gilberto Rodríguez Orejuela. These same pro-drug unionists became involved in sordid banking deals backed by the AIFLD, such as that of the Workers Bank of Colombia, to help "launder" money from narcotics trafficking.

Throughout these activities, these characters have enjoyed the financial backing of the U.S. embassy in Bogota and AIFLD. It goes even further: Only a few days before the Supreme Court of Colombia took its decision on the extradition treaty, the U.S. embassy and AIFLD generously underwrote the "convention"

of what remains of the Colombian Workers Union (UTC)—now that a new, anti-mafia mass labor organization has been formed in its place.

At this "convention," Victor Acosta ended up as president of the UTC, and Mario Valderrama as vice president. Valderrama had gone to Miami to defend the jailed drug trafficker Hernán Botero, who hid many of his illicit activities behind the facade of a soccer promoter. Valderrama himself was until a short time ago the second-in-command of the Medellín Independent football team, which Justice Minister Rodrigo Lara Bonilla, shortly before he was assassinated by the mafia, mentioned among the sporting enterprises linked to drugs. Now, after the violent death of the team's president, Valderrama has taken his place. In many political circles it is rumored that Valderrama is the link between Victor Acosta and the drug trafficker Pablo Escobar.

Solidaridad Iberoamericana, a newspaper which has consistently exposed these facts, has been receiving telephone threats. Its editor, Maximiliano Londoño Penilla, who is also vice-president of the National Anti-Drug Coalition of Colombia, has earned the hatred of the mafia, which is defended by the pro-drug unionists. The U.S. embassy and AIFLD are so happy to fund. It is obvious that if anything untoward happens to the editors of *Solidaridad Iberoamericana*, it will be the responsibility of the people who are thus spending U.S. taxpayers' money.

What will President Ronald Reagan do? Clearly one part of his government—the same implicated in the "Irangate" scandal—financed the activities of individuals who defend the drug mafia and fight against the collaboration of the nations of the Americas against drug trafficking.

Will Ronald Reagan make good on his pledges of a war on drugs? Or will he look the other way, as he did in the case of the mobster Ramón Mata Ballesteros, who, although he is considered the mastermind of the murder of U.S. Drug Enforcement Administration agent Enrique Camarena, today walks around free in Honduras, with the protection of elements of that country's government?

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