

# EIR

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LaRouche charges Reno with political corruption

**Financial tumult: LaRouche  
called it right, again**





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## From the Associate Editor

The people on the cover of this magazine, like you, are scared about losing their money. They are shown watching a chart of falling stock prices on Oct. 20, 1987, the day after Wall Street's Davey-Jones Index collapsed 22.6%, its largest drop in history. Had they listened to Lyndon LaRouche, who warned of such a crash in April and May of that year, they would not have found themselves in such a predicament. Had world governments heeded LaRouche's warning at that time, they could have put in place new policies that would have restored the international financial system to healthy functioning.

Ten years later, the situation is even clearer, and much more dangerous. Stock markets have suffered their worst losses since October 1987; British newspapers warn about {the \$55 trillion horror story! on the derivatives markets; two big Japanese banks, with billions in bad loans, announce sweeping restructuring plans.

The alternative policy is perfectly clear, and has been elaborated by LaRouche and *EIR* time and again: We must convene a New Bretton Woods Conference, to put the international monetary system through bankruptcy proceedings and reorganize it for productive development. The cornerstone of the development program is the Eurasian Land-Bridge, on which Mary Burdman gives a substantial report in this week's issue (see *International*).

The British monarchy and its retainers are hell-bent to block this alternative policy, the LaRouche program. That is the significance of the current assault against China, and against the China policy of the Clinton administration (see *Strategic Studies*). Make no mistake: There will be *no* New Bretton Woods without China. If the Land-Bridge is sabotaged, and U.S.-Chinese relations put on a collision course, then the poverty, ethnic strife, and terrorism that we see now in Eurasia, will look mild by comparison.

In our *Feature*, Gabriele Liebig presents a lesson from history which is most relevant: how the job-creation program of certain leaders in the German trade union movement of the early 1930s, had it been adopted, could have prevented Hitler's takeover.

Today, it is LaRouche's policies that must prevail. See *National*, p. 70, for important new developments in the drive to achieve his full exoneration.

*Susan Welsh*

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## Financial tumult: LaRouche called it right, again

by Marcia Merry Baker

After the late-March/early-April turmoil erupted on world financial markets, only lunatics and kindergarten drop-outs still question “LaRouche’s credibility.” In terms of economic/financial forecasts, his record of the last 40 years, and on the latest breaking events, shows that LaRouche called it right, again. Even so, the issue is not vindication. The question before governments and citizens, is, what policies will come to prevail during and after “the crash.” By this criterion, LaRouche’s record of forecasting and analysis, gives him unique credibility as policymaker at this time of global crisis.

In our *Economics* section this week, we review four of LaRouche’s principal forecasts, from the 1959-60 period to the present time, and we provide chronologies of what actually came to pass, exactly as LaRouche had forewarned.

Begin by looking at the financial turmoil of the past few weeks.

In late March and early April, the evidence started to become obvious of what LaRouche had earlier in March indicated as likely: the onset of a “radical phase-shift” in financial and political systems. On the surface level, stock markets registered drops in both indices and averages all around the globe. Below the surface level, even greater, seismic convulsions are in the works.

Over the two trading days (March 27 and 31) before and after Easter, the New York Stock Exchange saw a combined drop of 4.3% in the Dow Jones Industrial Average; over three weeks prior to April 1, the “Down Jones” fell some 500 points overall. When European stock exchanges reopened April 1, after the Easter holiday break, markets went down between 3% and 5%—down 3.9% in Germany, 3% in France, 2% in Great Britain, over 4% in Holland, and 4.7% in Germany. In Mexico, “Black Monday” hit the stock exchange on March 31, which fell 2.46%, at which point the central bank was forced to intervene, by law, and offered \$200 million at auc-

tion, and then, later, another \$100 million, to cover flight capital. There were similar contingencies around the globe.

In Japan, on March 31, the last day of the Japanese fiscal year, the Nikkei index ended barely above 18,000—which is considered the threshold for trouble in the Japanese banking sector—and crisis management at two major banks got under way.

Technically, the Dow Jones drop over the month of March through April 1, is the largest collapse in the stock market since the October 1987 crash. The significance of that should not be exaggerated. It was to be expected as part of the market pattern in the new period of hyperinstability now governing the financial system.

LaRouche indicated the likelihood of such a late-March/early-April stock market collapse, in response to the March 9 article in the London *Sunday Telegraph*, on “The \$55 Trillion Horror Story,” by Neil Bennett, which was a signal piece on impending financial crisis resulting from a derivatives meltdown. This view of LaRouche was a follow-on to a series of diagnosis forecasts which he had been making since June 1994, when he issued his article on “The Coming Disintegration of Financial Markets,” in which LaRouche made his Ninth Forecast, namely that: “The presently existing global financial and monetary system will disintegrate in the near term. . . . That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization” (see “The Coming Disintegration of Financial Markets,” *EIR*, June, 24 1994).

Figure 1 (p. 7) shows the schematic, called the “Triple Curve Collapse Function,” which LaRouche devised for non-economists (first published in *EIR*, Jan. 1, 1996), to show what processes generate the inevitability of a financial blowout

collapse. On March 13, 1997, he stressed that the disparities shown on the “triple curve” between the rising financial and monetary aggregates, and the falling physical economic valuations, have attained a condition of hyperbolic acceleration and steepness, to the point that the world system has, as he said, “reached the ‘asymptotic limit’ of its possible continuation. In short, ‘Bang!’ ”

Weeks after his March 13 statement, there is widespread de facto recognition that “LaRouche was right,” coming from key financial insiders, and especially, the European press. On April 1, a Luxembourg bank official told us, “If this is not ‘the big one’ which you have been warning about in *EIR*, it is at the very least, the start of a very, very negative market. We, as a bank, have issued a client advisory to all our clients to position themselves for a significant fall in all major markets. We are telling people to go short. Greenspan’s Fed is trying to create a climate in which the Dow would fall between 7-15% or so over a period of weeks, without triggering panic sell-off. If corporate earnings reports in the next days come in far lower than expected, however, even without a new Fed rate increase, that alone could turn the sell-off into panic.”

“Babylon Is Tumbling,” was the headline of the April 2 lead editorial of Germany’s economic daily, *Handelsblatt*, referring to the recent “mini-crashes” on Wall Street and in the German financial center, Frankfurt. The author, Jens Eckhardt, a New York-based economist and investment adviser, wrote, “The mighty financial tower of Babylon, which had been built up in the last three years, is tumbling.”

## Beneath the surface

What’s keeping the stock markets up? Firstly, they are not, “up.” And secondly, they are not stable.

The Dow Jones “Industrial” Average, is well-known to be hokum. It consists of only 30 companies, deliberately chosen (and replaced as desired), for the purpose of boosting the index. Standard & Poor’s “500” index is similar. It consists of the Dow 30, plus another 470 stocks, to add up to 500, and lend an aura of breadth; but the performance of the S&P 500 is concentrated in just 25 of the largest stocks, which account for one-third the value of the index. In 1996, for example, the select 25 rose 37%, and the other 475 stocks in the index lost value; so, in terms of how the index is weighted and calculated, the overall S&P index registered a “gain” of 23%.

In fact, whatever the contrived Dow or S&P 500 indices may claim to show, based on a select number of about 50 stocks, prices are falling for the rest of the approximately 7-8,000 stocks in the United States. On the NASDAQ, the largest U.S. exchange (with 4,708 companies, not traded on the New York or American Stock Exchange), nearly one-third of all stocks are trading at 40% or more below their one-year high. This is a notable meltdown.

The chief stock strategist for a large Wall Street bank told *EIR* on April 3, “I’ve looked back at the last 25 years. The only times when you had a few large stocks going up and the

rest of the market going down were March 1973, July 1987, and May 1990. You remember July 1987? That was not a good time. This has reached its limit. Such a divergent market can’t continue. Either most of the smaller stocks go up in price, or the big stocks are going to come down in price.”

The money flows into the stock markets from mutual funds have significantly dropped. The monthly volume in January was over \$21 billion; February dropped to \$18 billion; March is expected to be still lower. As of the last week in March, mutual fund inflows were down to \$2.5 billion weekly, from a previous rate of \$5 billion a week.

These are just a few aspects of the hyperinstability in the financial markets. All talk of stock exchange “corrections, adjustments, or re-groupment” is thus lunacy, not to mention the quivering mass of \$55-80 trillions of derivatives outstanding worldwide (notional value, depending on estimates), and other features of the bubble, such as unpayable national debt burdens, and bank insolvency. The banking crisis in Japan is a result, and a symptom, of what is happening globally. On April 1, both Nippon Credit Bank (assets \$160 billion) and Hokkaido Takushoku Bank (assets of about \$110 billion), announced sweeping restructuring plans, to deal with billions in bad loans. Finance Minister Hiroshi Mitsuzuka, speaking at the April 1 Tokyo press conference along with NCB President Hiroshi Kubota, said that the move was “important for the stability of financial systems both at home and abroad.”

## The ‘Hamlet problem’ in government policy

What the record of LaRouche’s “Four Forecasts” over the last 40 years shows, is not only accuracy, but commitment to provide direction for policies which, if followed, would minimize the chaos and suffering. Already, the mobilization started by LaRouche in February, for international support for the United States to convene a “New Bretton Woods” conference to institute financial stability measures in the service of the nation-state, has won the backing of dozens of national leaders around the globe. That’s where LaRouche’s credibility comes into play. Still, some want to stick to “re-forming” the doomed system, not changing it.

LaRouche referred to this latter stance as a “Hamlet problem.” In an April 1 radio interview with “EIR Talks,” he explained: “What we have is, among governments, behavior by heads of state and others which reminds us—or should remind us—of *Hamlet*, especially from the famous soliloquies at the end of Act II, and the beginning of Act III, of a man who was faced with two realities: One, with which he was familiar, which assured him doom; a second reality was the option of getting out of the old sinking ship and getting into a new ship.” LaRouche asked, “When are the governments going to come out of this Hamlet-like behavior; take the bull by the horns; and realize we must get out of the sinking ship and get onto a new ship, otherwise we go down with the *Titanic*? That’s the reality.”

# LaRouche was right

### Forecast, 1959-60

In the fall of 1959, Lyndon LaRouche projected that if the existing economic and monetary policies were continued, they would lead to the eruption of a series of major monetary disturbances during the second half of the 1960s. These crises would lead toward a collapse of the Bretton Woods monetary agreements, and probably lead to a drift into austerity policies, echoing those of the early 1930s Germany, and the Hitler regime's looting of neighbor countries.

**What happened:** A series of monetary crises erupted, beginning October-November 1967. In November 1967, there was a run on the British pound; in 1968, a run on the U.S. dollar, and a run on the French franc—which was devalued in April—and other currency turbulence. In March 1968, President Lyndon Johnson devalued the dollar. The continuing crises in major currencies led up to Aug. 15, 1971, when President Richard Nixon decoupled the dollar from gold; this and related actions constituted the repeal of the existing Bretton Woods currency agreements, and marked the period of introduction of austerity measures echoing those of the 1930-32 Brüning regime and the Nazi looting policies of 1933-45. In the United States, President Nixon introduced austerity measures, known as “Phase I, II, and III,” under the rubric of wage and prices controls. In particular, as of the 1969-72 period, investment flows into U.S. infrastructure development dropped below the net maintenance level, and the resource base of the entire economy entered a process of deterioration.

### Forecast, October 1979

In October 1979, LaRouche forecast a devastating recession, beginning in early 1980, as a result of Federal Reserve Chairman Paul Volcker's credit-strangulation policies.

On Oct. 6, 1979, Volcker (who had been sworn in on Aug. 6) convened an extraordinary session of the Federal Open Market Committee, which adopted his high-interest rate policy. On Oct. 10, President Jimmy Carter stated: “The number-one threat to our national economy is inflation. Whatever it takes to control inflation, that's what I will do.”

LaRouche commissioned a computer-based analysis from his staff, of the near-term consequences of Volcker's measures. LaRouche released the results in his statement of Oct. 16, 1979, saying of the computer study, “Those results,

coinciding with the estimates of other analysts reporting independently, indicate that the measures already enacted by Volcker will cause a 15% recession in the U.S. economy, probably putting the United States into a recession twice as severe as that of 1974.”

On Oct. 29, LaRouche sent an open letter to Congress, titled “Emergency Credit Action Required to Save the Economy.”

Excerpts from LaRouche's Oct. 16, 1979 statement follow:

“Herewith submit a demand for the prompt impeachment of recently appointed Federal Reserve Chairman Paul Volcker.

“Yesterday, appearing before a committee of the United States Senate, Volcker either lied or manifested gross incompetence in the course of a reply to Senator Paul Sarbanes, Democrat of Maryland. He stated, falsely, in his response, that the Federal Reserve System could not channel the flow of constricted liquidity in such a way as to ensure adequate credit for maintaining the operating capital of business employers.

“In fact, the Federal Reserve System has the capability, with the consent of the Executive branch and Congress, to conduct precisely the sort of anti-depression measures which Senator Sarbanes proposed.

“Mr. Volcker either knows this, in which case he committed perjury in sworn testimony before the Senate, or he does not know this, in which case he is impeachable for incompetence.

“In earlier public statements, Mr. Volcker has stated himself to be a supporter of a doctrine of ‘controlled disintegration’ for both the United States and the world economy. Now, under the semantic pretext of ‘anti-inflation’ ‘fiscal austerity,’ Volcker has abused his powers as Federal Reserve chairman to implement measures which constitute an efficient effort to plunge the U.S. economy into misery, chaos, and confusion of the sort ultimately worse than the conditions experienced during the Great Depression of the 1930s. In light of the evidence of a conscious intent behind Mr. Volcker's attempts to ruin the U.S. economy, his conduct in office must be regarded as no better than treasonous in character, if not formally treason by the strict language of the U.S. Constitution. . . .

“There are two immediate measures which would ameliorate the present crisis. First, the U.S. gold reserves must be valued at an adjusted current world market value, a value to be negotiated with both the European Monetary System member-nations and the OPEC ‘petrodollar’ holders. This would stabilize the value of the dollar, and take the worst pressures off dollar liquidity. Second, the Federal Reserve must immediately implement the kind of selective credit-flow controls which Senator Sarbanes proposed. This would not solve our nation's problems, but would give us breathing-



room for developing a comprehensive, long-term set of monetary and investment-incentive measures.

“A depression is not necessary. Any official who adopts a policy of ‘controlled disintegration’ of the United States economy is engaged in a treasonous undermining of our nation’s overall security at this juncture. . . .”

**What happened:** In February 1980, recession hit the United States: Declines wracked agricultural and industrial production, the housing industry, and other sectors. For example, annual U.S. steel output per capita fell, in spring 1980, to 0.4910 tons, the first time it had been below one-half ton per capita since the Great Depression. Within two years, it fell to 0.3207 tons per capita, and over the 1980s and 1990s, output per capita never again hit the half-ton mark. In 1981, new housing starts were 1.084 million units, the first time since 1946 that fewer than 1.1 million units were begun.

In January 1981, when Volcker’s interest rate for prime lending hit the level of 21.5% (the highest since the Civil War), an all-time high of 363,847 U.S. firms and individuals declared bankruptcy. Chrysler Motors (Jan. 14, 1981) averted bankruptcy only by federal bailout. The farm sector was devastated. By the mid-1980s, there were record rates of farm bankruptcies and foreclosures across the farm belt.

### Forecast, May 1987

During April-July 1987, LaRouche made repeated forecasts of a collapse of the New York stock market, to erupt about the first week of October. This was LaRouche’s first and only stock-market forecast.

Here are excerpts from a statement issued by LaRouche on May 27, 1987 (published in *EIR*, June 5, 1987):

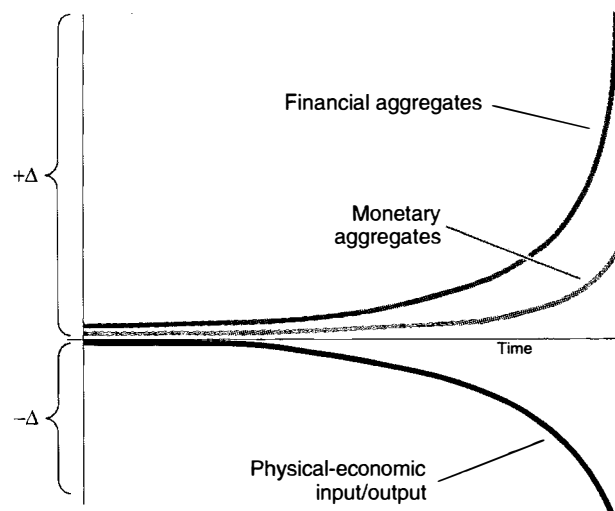
“Leading European financial officials have warned my associates, that we should expect to see the beginning of the world’s biggest financial crash by October of this year. My comment on that forecast: It might not occur in just that way, but, if the Reagan administration continues its present policies, it is certain that the world’s economic situation will become much worse than it is today over the summer months. . . .

“Whether the great financial crash of 1987 erupts by October, or later, will depend upon what leading governments do at the international monetary ‘summit’ held in Venice on June 12. Those bankers who are expecting a crash by October, make that forecast on the basis of assuming that the U.S. government’s role at Venice will be a continuation of the foolish international monetary policy which the Reagan administration has followed over the past five years. In that case, a crash in October would not be absolutely certain, but it would be, at least, a very good guess.

“This forecast is based on the observation, that even now, President Reagan is clinging stubbornly to belief in a

FIGURE 1

### A typical collapse function



‘Reagan economic recovery’ which never actually occurred. . . .

“Technically, on any day that the U.S. government came to its senses, this crisis could be brought under control. The crash of 1987 is not inevitable. However, unless the governments come to their senses, it is inevitable. During the Venice monetary ‘summit,’ and during the weeks following that, we shall see whether the crash occurs as leading European bankers now suspect it will.”

**What happened:** The financial blowout forecast by LaRouche began on Oct. 6, when the New York Stock Exchange’s Dow-Jones Industrial Average index (or, as LaRouche called it, “the Davey-Jones Index”) dropped by more than 91 points. The crisis culminated in Wall Street’s 508 point crash on “Black Monday,” Oct. 19, which represented a fall of 22.6%, the largest loss in its history, and twice the size of the 1929 collapse. Some \$1.5-2 trillion worth of equity in U.S. markets was wiped out from Aug. 25 to Oct. 19, 1997.

### Forecast, December 1995-February 1997

**Forecast:** In December 1995, at an international conference in Germany, and over the subsequent months through February 1997, LaRouche repeatedly made diagnosis forecasts of a series of seismic events to be expected in financial and monetary collapses, each and all generated by the convergence of the “triple curve” collapse function (**Figure 1**), upon its relatively steepest region of the hyperbolic relations among the three determining factors—rising financial and monetary valuations, and falling economic aggregates.

On March 9, 1997, LaRouche's initial response to the "signal" article in the London *Sunday Telegraph* by Neil Bennett ("\$55 Trillion Horror Story" on prospects of a derivatives blow-out), indicated the likelihood of a late-March/early-April crisis in financial markets.

Here are excerpts from some of the relevant statements by LaRouche:

In a Dec. 2, 1995 speech, he explained: "For reasons I'll indicate to you, generally speaking and overall, *there has been no economic growth on this planet, since the end of the 1960s*. None; if you measure in the right magnitudes.

"If you measure in magnitudes per capita of labor force, per household, per square kilometer of used land area: If you measure in those terms, the physical product which is consumed either by households, consumed by productive industry, or consumed in the form of maintaining infrastructure or improving it, those components, and you measure them in these per-capita, per-household, per-square-kilometer terms, you then find . . . [t]here has been a secular tendency toward a 2 to 3% annual contraction in economy around the world, with some variations in that, over the past quarter-century. The system is collapsing. . . .

"We have here [Figure 1] . . . a summary of three curves which are characteristic of the process of monetary and financial disintegration of the world economy. . . .

"The bottom of the three lines represents the decline in productivity, in physical terms: that is, physical product. It also includes things which are essential, as services, to physical productivity. . . .

"Now the second of the three curves, although the per-capita output, physical output, and consumption around the world have declined over . . . *especially* the past 25 years, there has been an *increase* in per-capita monetary turnover, monetary emission. The money supply has been growing while the physical output and consumption per capita in all the categories—production, infrastructure, and households—have been declining.

"At the same time, a new process has entered in, which is the growth of financial turnover relative to monetary turnover. . . .

But, the worst part is the financial one (the top-most of the three curves). If we include the best estimates on the off-balance-sheet portion of financial turnover, the financial turnover of this planet per day, now, is probably around \$3 *trillion a day*. . . .

"As I shall indicate, whenever a process such as this, this three-phase process, goes into a hyperbolic ascent, which is what's happening on the financial side now, in any kind of process, what you would have to say is, we are entering a *phase shift*. We are entering a *discontinuity*. The very fact that these ratios are changing the way they are, individually, and with respect to one another, indicates that the whole system has now reached the edge of the cliff. It is

going to *end*. That does not mean that it's going to fall off the cliff. It *could* fall off the cliff, if we don't do the right thing. . . ."

Responding to the Neil Bennett column, in a radio interview with "EIR Talks" on March 11, LaRouche said: "It is suspected, that something has either already happened, or is expected to be *about to happen*, which will be a very, very big disaster on the London market, with possible international ramifications, and, of course, in the area of derivatives.

"We already have notice of derivatives catastrophes, recently, in the order of magnitude of a reported \$100 million, and that is referenced here simply as typifying what *might* happen. . . . But, we could be looking at anywhere up to a couple of billion dollars, or more, in something which is going to blow things out."

**What happened:** Financial crises, including in banking, derivatives, debt payments, etc., break out all over the world: Chemical Bank (1989), Orange County, California (1994), Mexico (1994), Barings (1995), Sumitomo (1995), Crédit Lyonnais, France (in its third bailout as of 1996), Japan (1996-97), Thailand (1996-97), Korea (1996-97), NatWest Markets (1997), Belgian government (1997), Germany (1996-97).

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# Britain's premier drug bank muscles in on Brazil, Mexico

by Silvia Palacios and Dennis Small

Like a deadly parasite invading a vulnerable host, the flagship bank of the global drug-trafficking enterprise properly known as "Dope, Inc.," the century-old Hongkong and Shanghai Bank Corporation (HSBC), has just bought controlling interest in two major banks in the failing Brazilian and Mexican banking systems.

HSBC, or HongShang, as it is widely known, is the fifth largest bank in the world. With headquarters in London, and branches around the world, HongShang is the crown jewel of the British oligarchy. Founded in the middle of the last century to serve as the backbone of the financial network of the East India Companies, it financed the Opium Wars against China, in which the modern narcotics trade actually began. Since that time, it has served as a kind of red-counting facility for laundering dirty money from the drug, gold, and diamonds trade. HSBC has kept up this tradition to the present, as *EIR* has documented in its bestseller book, *Dope, Inc.*

As for the nations which HongShang is targeting, Brazil, the largest country in Ibero-America, has increasingly become a center for cocaine laboratories, drug transshipment, and money-laundering. And Mexico, under the Presidency of Bush partner Carlos Salinas de Gortari, became the preferred route for 60-70% of the cocaine shipped from South America to the United States; today, its banking system launders tens of billions of dollars every year.

HSBC already owns banks in other Ibero-American countries, including Banco Roberts in Argentina, Banco Santiago in Chile, and a recently acquired bank in Peru. But the Brazilian and Mexican purchases signal an entirely new dimension of HongShang activity in this hemisphere—and of British colonial assault overall. As Michel Geoghegan, recently named as president of HongShang in Brazil, says, the HSBC's Brazilian acquisition "will be the centerpiece for the development of our business in the region." "We want to be the Banco del Mercosur," he asserted, referring to the regional trade pact of Brazil, Argentina, Chile, and Uruguay. As for Brazil itself, "We don't reject the possibility of acquiring other financial institutions." He added omi-

nously, "We have been in several countries for more than 100 years, and it won't be any different here."

The fact is, the HongShang move into Ibero-America involves more than just drugs. It also has to do with a global resource grab by London-centered financial interests, and their related political offensive—which is designed to shatter the nation-state concept, and specific nation-states, and finally, to carve up particularly Third World regions for plunder. As *EIR* founder Lyndon LaRouche told a radio audience on April 1, "It's simply part of the raw-material assets grab process of the HongShang Bank. . . . They plan to do to Brazil, what you see being done by the British Commonwealth in Africa. Carve the base up, condemn most of the place to *terra incognita*, into so-called primitive indigenous peoples' areas, and grab off the assets, the iron, the greatest iron mine in the world, essentially, things of that sort—carve them up among the speculators. And the HongShang is moving in to carve up that turkey. It's a sign of the times, and it stinks."

"The greatest iron mine in the world" to which LaRouche referred, is the giant Carajas project in Brazil's Amazon region, which is currently owned and operated by the state-sector company Companhia Vale do Rio Doce. The Vale is to be auctioned off by the government for a pittance—that is, "privatized"—later in April.

## Highway robbery

In early March, HSBC bought a controlling 20% share in Mexico's Banca Serfín. Serfín, the third largest bank in Mexico, was about to go under, as a result of the fact that it was holding huge amounts of non-performing debt in its portfolio (as is the case more broadly, with the entire Mexican banking system). In fact, despite \$29 billion in government bailouts, nearly 50% of what Mexican banks have on their books—still—are non-performing debts, a state of affairs brought about by the insane economic and financial policies imposed on Mexico by the International Monetary Fund (see article p. 14).

In the case of Serfín, the Mexican government (that is, Mexican taxpayers) once again came to the rescue, purchasing about \$1.3 billion in bad loans that Serfín was holding. After eating all the garbage, the government turned around and handed over to HSBC control the juicy remainder of the bank, for the measly investment sum of \$300 million.

A nearly identical operation was carried out in Brazil during the last week in March. The Central Bank took advantage of the banking holiday declared during Holy Week to announce, surprisingly, the government intervention into Bamerindus, the fourth largest bank in the country, and its sale to HSBC, in a secretive financial operation entirely favorable to the foreign bank. In the end, Bamerindus was sold for a billion dollars, while the government—through a program grandly called "Stimulus to Restructuring and Strengthening of the National Financial System"

(PROER)—disbursed \$5.7 billion to cover Bamerindus's rotten portfolio.

This radical intervention by HSBC into the Brazilian banking system bothered even the former owner of Bamerindus, Jose Eduardo Andrade Vieira, who commented with surprise that he did not understand why the Central Bank had proceeded in this manner, selling to a foreign bank, when two Brazilian banks had proffered good bids for Bamerindus.

But there is no great mystery behind the bank handover. Very simply, President Fernando Henrique Cardoso is complying with the extensive political and financial commitments he has undertaken toward Great Britain—and, as one intelligence source told *EIR*, “You don't play around with the British Empire.”

In fact, Banco Bamerindus's delivery to HongShang was achieved through the personal intervention of President Cardoso, by means of a decree published in a special edition of the *Official Daily*. That decree asserts that up to 100% foreign participation by HSBC Holding and its subsidiaries in Bamerindus is deemed to be “in the interest of the Brazilian government,” despite the fact that the transaction violates the Constitution, which prohibits the entrance of foreign banks into Brazil without reciprocity. Cardoso had already used the same formulation last year, when he authorized the Swiss bank Union Bancaire Privée (UBP)—also notorious as a dirty money laundry, one owned by a family of the Aleppo Mafia—to participate with its Brazilian partner Banco Excel, in the purchase of Banco Economico.

According to Presidential spokesman Sergio Amaral, the government is going to authorize investments in the financial system any time those investments are in “the national interest,” confirming that other banks are in trouble, and also hinting at the possible fate of the various state banks that are waiting their turn to go to the slaughterhouse.

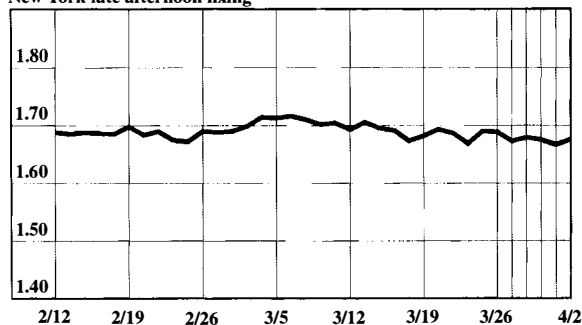
Instead of “national interest,” read the government's desperate need to maintain a constant inflow of speculative capital into the country, for reasons documented elsewhere (see article p. 11). This urgency has increased due to the recent hike in U.S. interest rates. Thus, the Brazilian government has opened the door to all kinds of funds from abroad, no questions asked, even if this means playing host to narcotics.

In offering shelter to these financial interests, Brazil is converting itself into one of the world's largest drug-money laundries. The general coordinator of the Analysis and Investigation Division of Brazil's federal tax authority, Deomar Vasconcelos de Moraes, said as much when he opened a recent international seminar on money-laundering, held in Brasilia. In Brazil, he said, monetary stability, deregulation of the economy, and local rules on bank secrecy have turned into a “sufficiently attractive combination” for drug money. And, he added, the speculative capital that has entered Ibero-America's emerging economies is nothing but legalized “narcodollars.”

## Currency Rates

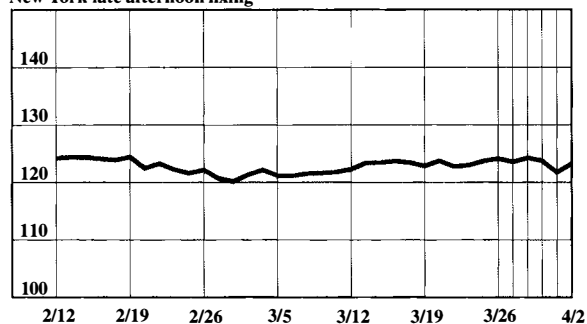
### The dollar in deutschemarks

New York late afternoon fixing



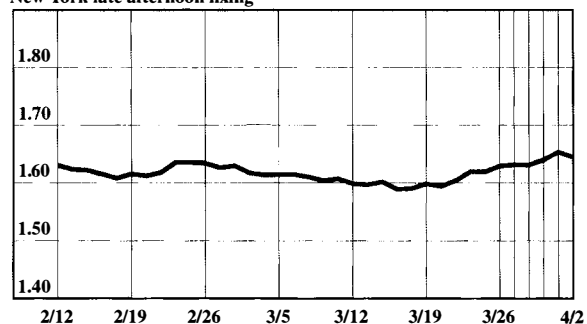
### The dollar in yen

New York late afternoon fixing



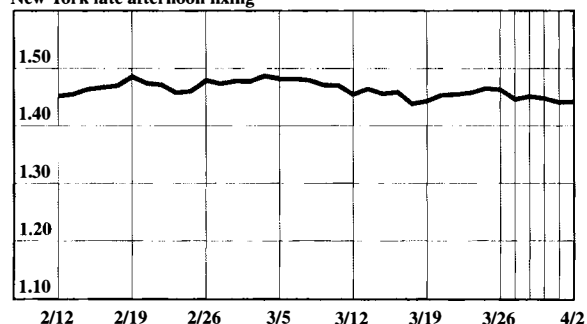
### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing





# The 'Real Plan' accelerates the destruction of Brazil

by Lorenzo Carrasco

No one can deny that the government of Brazilian President Fernando Henrique Cardoso, assisted by the major media, has successfully manipulated the Brazilian people into believing in the alleged “virtues of monetary stability,” to mask what is undoubtedly the worst economic destruction Brazil has ever known. The cause of this destruction is the Real Plan, the austerity program devised by Cardoso when he was finance minister, and imposed in June 1994. The government makes much of the fact that the plan lowered inflation, which it did, but at the expense of the physical economy.

I was able to confirm this firsthand, during a recent seminar sponsored by the Roraima State Business Federation, to which I had been invited by its president, Antonio Airton Dias. I addressed a group of the state’s top-ranking businessmen, politicians, and government officials on the Real Plan, from the standpoint of the international financial crisis. Most revealing was that every speaker, after first formally defending the federal government’s monetary program, then went on to document the economic devastation affecting each sector, proving the reality of Brazil’s generalized national bankruptcy.

## Narco-liberalism

As *EIR* has repeatedly documented, the Real Plan’s basic premises consist of making the entire economy dependent on “motel capital”—funds which come in at night and leave in the morning and, clearly, have no reproductive purpose. This is how the government protects the capital flows needed to plug the enormous deficits created by its fantasy-ridden policies of “industrial modernization” and globalization.

Aside from prostituting the agencies of government, whose responsibility ordinarily would be to safeguard the economy, these practices have turned Brazil into a giant laundromat for dirty money. Part of these funds, once laundered, find their way to the Central Bank where they are added to the country’s foreign reserves. President Cardoso, Finance Minister Pedro Malán, and Gustavo Franco, Central Bank director of foreign affairs (whom Sen. Delfim Netto refers to as an advocate of “theology of speculation”), all point to the size of these reserves as one of the greatest triumphs of the government’s economic program.

This dependence on hot money was recently denounced at the International Seminar on Money Laundering, jointly sponsored by Brazil’s Office of Revenue Collection and the

U.S. Internal Revenue Service (IRS). As reported by *Tribuna da Imprensa* on March 18, in opening the conference, Deomar Vasconcelos de Moraes, general coordinator of investigations of the Brazilian tax agency, announced that Brazil is among the ten largest dirty-money-laundering countries in the world, particularly of drug money. Vasconcelos de Moraes stated that the combination of Brazil’s monetary stability policies, deregulation of the economy, and bank secrecy laws make Brazil “quite attractive” for drug-traffickers who, in 1996 alone, are estimated to have laundered more than \$5 billion.

The Central Bank, in its obsession with demonstrating the Real Plan’s “successes,” has become the greatest protector of the dirty money which enters the country in the form of short-term capital; at the same time, it opposes any investigation of the rotting banking system, for fear the stench would reveal the horrid reality of Brazil’s economic bankruptcy.

## Plan for national destruction

Aside from this “triumph,” packaged in the slogan “Investors Have Confidence in the Real Plan,” the physical economy is in a state of accelerating collapse. The deregulation of the exchange rate and trade liberalization, which made these capital flows possible in the first place, have already produced growing trade deficits. **Figure 1** shows the fall in the balance of trade, which accelerated dramatically in 1994 when the Real Plan was implemented, and at a time when there was a trade surplus of more than \$10 billion. At the end of 1996, Brazil had a trade deficit of \$5.5 billion, and if the \$2 billion deficit accumulated in the first two months of this year is any guide, the 1997 trade deficit will be over \$10 billion.

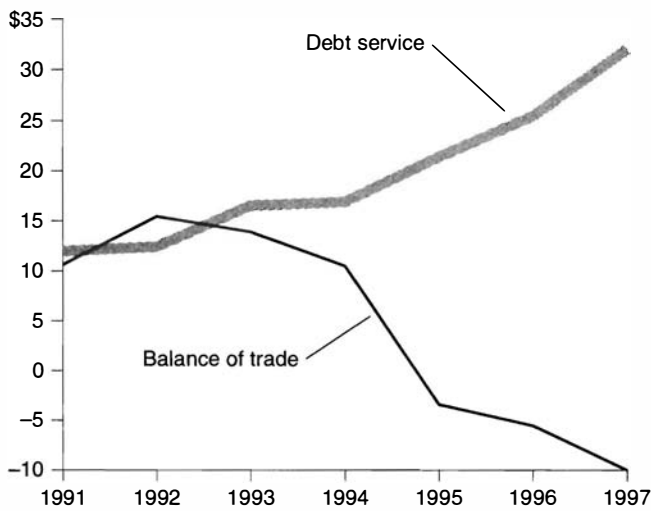
Moreover, payments for servicing both public and private debt (interest and amortization) are growing exponentially. Last year, payments in this category were a little more than \$25 billion. For 1997, as even the Central Bank admits, the amount will jump to \$32 billion. Therefore, to cover these foreign obligations, in the range of \$40 to \$50 billion, following its perverse logic, the Brazilian government will have to make it even easier for hot money to enter the country. The growth in the official foreign debt is shown in **Figure 2**.

The trade deficit and larger foreign payments are also reflected in the growing current-account deficit (see **Figure 3**). In 1996, contrary to all official and bank estimates, the balance of payments deficit exceeded \$24 billion, confirming

FIGURE 1

**Brazil: balance of trade versus debt service**

(billions \$)



EIR's estimate that it would be more than \$20 billion. For 1997, it will exceed \$32 billion, the same level Mexico reached in 1994 when its economy crashed.

**Denationalization and deindustrialization**

As seen in the bottom half of Figure 3, the capital flows mentioned above are covering this deficit. According to Central Bank statistics, the total amount of foreign capital entering the country in 1996 was \$35 billion, of which \$9.6 billion was declared by the government to be direct investment. This is a huge lie, because it counts \$2.3 billion from privatizations, among them, Rio de Janeiro's state-run utility company Light, and over \$6 billion which came in to buy up Brazilian firms. This cannot be considered direct investment, because it came in to purchase public and private physical assets, and not to broaden the economy's physical base. The truth is that businessmen who are selling their companies are then putting their funds into domestic and foreign speculative markets.

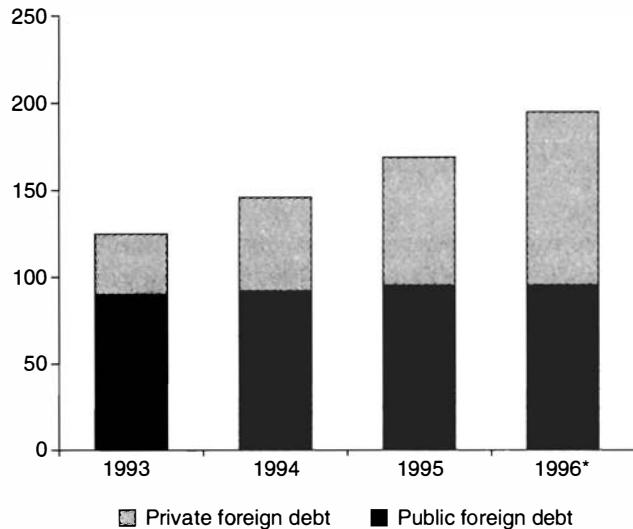
It's important to develop this point further, because under the rubric of "foreign direct investment," the most shameful denationalization of both public and private industry is taking place. Energy, food processing, beverages, and auto parts are only some of the sectors affected.

This is the means by which the government hopes to receive an estimated \$18 billion in 1997. Of this, \$6 billion is expected from the privatization of the giant minerals complex, Companhia Vale do Rio Doce (CVRD), and other amounts are expected from privatizations in the infrastructure, including electrical energy, telephone, ports, and transportation sectors. The continued auctioning off of private-sector industry will yield additional amounts.

FIGURE 2

**Brazil: official foreign debt**

(billions \$)



\* EIR projection.

In addition to the denationalization of private industry, the Real Plan is also deindustrializing Brazil, under the guise of promoting increased "productivity" and "modernization." This does not just refer to the capital goods sector, the only one in Ibero-America; but also to the destruction of the industrial labor force, replacing it with less-skilled manpower. In 1995 and 1996, São Paulo industry alone laid off 350,000 workers.

These figures are only outdone by the 1990-92 government of Fernando Collor de Mello which, in 1991-92, caused the layoffs of 550,000 of São Paulo's industrial workers. So, since 1990, when the deindustrialization plan really began, São Paulo industry fired 900,000 workers, or almost one-third of the industrial workforce in the most industrialized Brazilian state. Today, less than 2 million workers are involved in São Paulo's industrial activities. During the same time period, 500,000 workers were fired from São Paulo's construction sector, reducing it to half of what it had been in the previous decade.

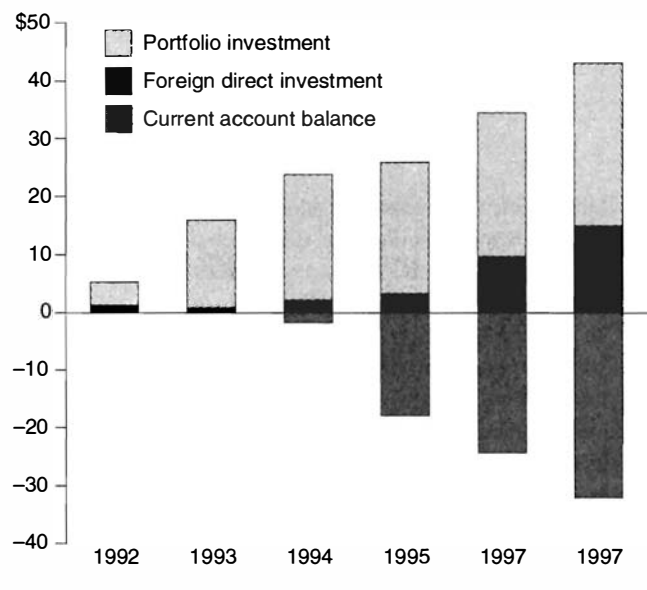
**Bond scandal: the Federation disintegrates**

If the situation with Brazil's foreign accounts is disastrous, the domestic crisis is even worse. On the national, state, and municipal levels, the public debt is growing at a dizzying rate. In June 1994, when the Real Plan began, public debt was \$80 billion; by December 1996, it had tripled to \$230 billion. Judging from the growing dollarization of National Treasury Notes (NTN-D), which pay interest rates on the variation in the exchange rate, the federal government is having increasing difficulties in renegotiating its debt paper. According to the Association of Open Market Institutions, in January of

FIGURE 3

**Brazil: foreign investment versus current account**

(billions \$)



this year there were \$22.4 billion worth of NTN-D circulating in the market.

The public debt problem is equally serious at the state and municipal levels. Global liquid debt for these categories (bonds and bank and contractual debt) exceeds \$120 billion, of which \$50 billion is in bonds.

This is at the heart of the scandal currently under investigation by the Brazilian Senate, regarding *precatórios*, the Portuguese name for documents which recognize official debt, and indicate the need to allocate budgetary resources to pay it. Aside from the criminal aspects of this case, i.e., those who committed fraud, the problem was caused by the government's own monetary stabilization policy, which is strangling the states financially. The first step imposed controls on state banks, reflected in the destruction at the federal level of the giant Banco do Brasil. Next came the suspension of authorizations for issuing public bonds for the financing of state and municipal economic projects.

Thus, it was through the artifice of issuing bonds for the payment of this official debt, that some governors hoped to get around the brutal austerity imposed by the government; they used the funds from bond issuances to pay other things, such as wages or investments. In 1996, state bonds for the payment of *precatórios* were issued in the amount of \$1.4 billion. Also in 1996, the total value of bonds issued for *precatórios* reached \$10 billion. The depth of the crisis for states and municipalities is seen in the fact that, in 1996, their fiscal deficit was 1.89% of Gross Domestic Product (\$14 billion),

or half of the country's *total* fiscal deficit.

Worse, in response to International Monetary Fund and World Bank demands, the federal government intends to squeeze states and municipalities further by eliminating any ability to issue credit, a key prerogative of Brazil's political constitution as a federation. This measure is intended to first concentrate monetary power in the Central Bank, so as to ultimately make it completely independent from the federal government.

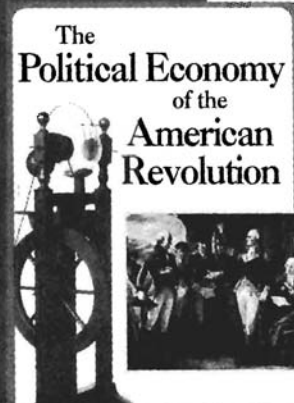
As journalist Newton Rodrigues observed in his column in the March 9 *Gazeta Mercantil*, what is at stake with the current policy of monetary stabilization is Brazil's structure as a federated republic. "Republican federalism didn't just fall from the sky," Rodrigues said, "but was the necessary instrument of a general desire for decentralization, at the end of the imperial system, in which all power emanates from the center and is exercised in its name." Rodrigues's remarks are an accurate portrayal of the imperial Napoleonic regime of Fernando Henrique Cardoso.

In fact, in its slavish desire to court the power centers of the international financial oligarchy, the Cardoso administration is headed toward breaking up the Brazilian system of a federated republic. As one senator commented to this author, this is the first government of the Republic not to build great works. Yes, it is a government without works, but with a blind faith in the financial system behind its plan for national destruction.

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- that the Founding Fathers promoted partnership between private industry and central government?

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# Mexico's foreign debt bubble: growing, growing . . . gone

by Carlos Cota Meza and Dennis Small

When the international financial community and the government of the United States decided to try to salvage the speculative bubble which had exploded in Mexico in December 1994, it became evident that the political will did not exist, globally, to fundamentally change the financial system which was falling apart at the seams. By the same token, it became clear what the immediate fate of the Mexican economy would continue to be.

Under the government of Carlos Salinas de Gortari (1988-94), a gang of hoodlums, headed by U.S. President George Bush and run by the international banks, imposed the so-called Brady Plan to restructure the foreign debt, and the infamous North American Free Trade Agreement (NAFTA). The underlying idea of these plans was to try to breathe a few more years of life into the moribund world financial system, which had come close to collapse with the 1982 debt crisis. In exchange for cosmetic "debt relief," countries such as Mexico were forced to further contract their physical economies, and

to tightly link their financial and banking systems to Wall Street. In this way, the idea was to impose on the increasingly bankrupt Mexican economy a new load of leveraged, short-term, dollar-linked debt.

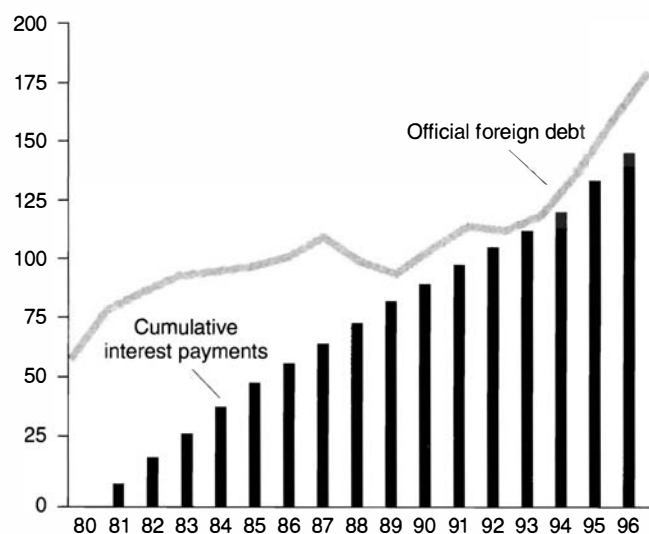
In **Figure 1**, this process can be observed. After a brief hiatus in the late 1980s, from 1990 onwards the official foreign debt grew, to \$180 billion in 1996, as compared to \$57 billion in 1980. Over this 15-year period, Mexico has paid a staggering \$150 billion in cumulative interest, almost three times the amount of the original debt in 1980. This is what has become known as "bankers' arithmetic":  $57-150=180$ .

## Another debt bomb in the making

It is highly revealing to look at this process in some detail over the last four years, as we do in **Table 1**. This table shows a calculation of what we define as Mexico's "real foreign debt," which is made up of the official foreign debt, but also includes a category of "de facto foreign debt"—such as foreign holdings in the stock market, and foreign-held internal government bonds. *EIR* first identified these new speculative

FIGURE 1  
Foreign debt and interest payments

(billions of \$)



Sources: World Bank, SHCP.

TABLE 1  
Real foreign debt

(billions of \$)

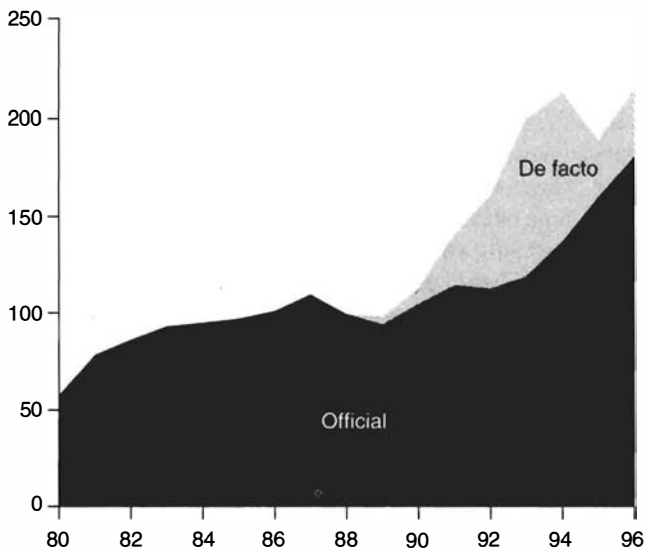
	1993	1994	1995	1996
1) Public foreign debt	84	89	118	112
2) Private foreign debt	35	47	41	68
—owed by banks	20	25	21	?
—owed by companies	15	22	20	?
<b>Official foreign debt (1+2)</b>	<b>119</b>	<b>136</b>	<b>159</b>	<b>180</b>
3) 'Internationalized' internal debt*	26	32	5	3
—foreign-held Cetes, etc.	25	4	3	3
—Tesobonos	1	28	1	0
4) Foreign holdings in the stock market	55	44*	25	31
<b>De facto foreign debt (3+4)</b>	<b>81</b>	<b>76</b>	<b>29</b>	<b>34</b>
<b>Total (1+2+3+4)</b>	<b>200</b>	<b>212</b>	<b>188</b>	<b>214</b>

\*as of Dec. 15, 1995

Sources: World Bank, United Nations Economic Commission for Latin America and the Caribbean (ECLAC); Bank of Mexico (BdM); Ministry of Finance (SHCP); Ministry of Commerce and Industrial Development (Secofi).



FIGURE 2  
**Real foreign debt**  
 (billions of \$)



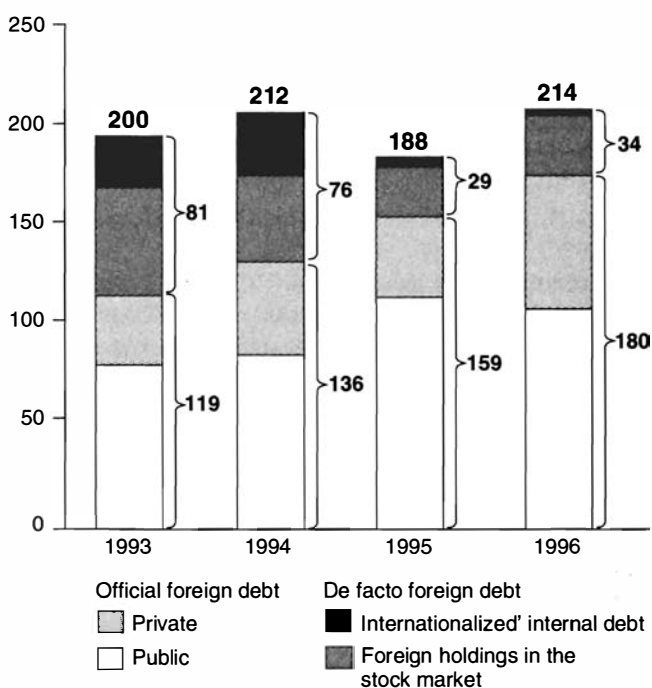
Sources: World Bank, ECLAC, BdM, SHCP, Secofi.

obligations back in November 1993 as de facto foreign debt, and warned that they were the most explosive component of Mexico's entire debt picture. Sure enough, that is the part that blew apart one year later.

Although the official foreign debt grew from \$119 billion in 1993 to \$136 billion in 1994, the de facto component added another \$81 billion on top of that in 1993, and \$76 billion in 1994—for a grand total real foreign debt of \$200 billion and \$212 billion, respectively. (These figures differ somewhat from earlier ones published by *EIR*, because more accurate data have recently become available.) After the debt bomb exploded in Mexico on Dec. 19-20, 1994, over the next year about \$19 billion in foreign money fled the stock market (holdings dropped from \$44 billion to \$25 billion), and another \$27 billion in the notorious Tesobonos and other foreign-held government bonds were cashed in (thus the drop in “Internationalized” Internal Debt,” from \$32 billion to \$5 billion).

The government of Ernesto Zedillo, which came into office on Dec. 1, 1994, decided from the outset to submit to the policy demands of the international financial oligarchy. It assumed all of the costs of the financial debacle, and committed itself to reestablish the speculative bubble that had been generated by the described leveraging procedures. And where did the Zedillo government get the money to pay off these de facto foreign obligations? By borrowing it, of course—from the International Monetary Fund (IMF) and the U.S. government, principally—in the now-famous “Clinton package.” This meant that the Mexican government's official foreign debt leapt \$29 billion in one year, from \$89 billion to \$118 billion—a 33% increase!

FIGURE 3  
**Real foreign debt**  
 (billions of \$)



Sources: World Bank, ECLAC, BdM, SHCP, Secofi.

Some cite as a mitigating factor, the fact that the new obligations are at least somewhat longer term than the 90-day average of the Tesobonos. This might indeed be helpful, *if* the Mexican economy were now recovering, and *if* the game of speculative bubble-building were over. But, the opposite is the case, on both counts.

The net result of the 1995 measures was that the Mexican debt bubble was deflated over the course of the year, from \$212 billion to \$188 billion; but in so doing, it was also salvaged so that, like a cancer, it could turn around and start all over again in 1996. This is precisely what happened, as can be seen in **Figures 2 and 3**.

Although public foreign debt has dropped to \$112 billion in 1996 through sizable amortization payments, Mexico's private sector turned with increased frenzy to international borrowing, and its total obligations grew by 66% in one year, from \$41 billion to \$68 billion.

It is not yet known how much of these new obligations were taken on by the Mexican banking sector, and how much by companies with access to foreign borrowing, although it is likely that the lion's share has been taken up by the companies. Most of the borrowing is being carried out by a relatively small number of Mexican companies that are completely insolvent, and are unable to borrow in Mexico because of the IMF-imposed credit contraction. They have instead been

forced to borrow abroad, even for operating capital. It is a speculative spiral that cannot last very long.

As for the Mexican banking system, it is thoroughly bankrupt and in the process of being bought out by foreign banks—and is therefore probably not taking on large amounts of new foreign debt. The levels of non-performing debt in the banking system have reached 49%, according to the U.S. firm Security Auction Capital, despite the fact that the Mexican government over the past two years has bailed out the banks to the tune of about \$29 billion, which amounts to about 8.4% of the country's entire Gross National Product in 1996.

Regarding the de facto portion, it's "off to the races again" there, too. Although foreign purchases of Mexican government bonds are at a low level, because the interest rates offered are deemed "insufficiently high" to attract foreign investment, foreign holdings in the Mexican stock market have resumed a "Salinas-style" trend, closing out 1996 with about \$31 billion in holdings (about a 25% growth rate).

In sum, Mexico's real foreign debt as of Dec. 31, 1996 (two years after the debt bomb exploded) was \$214 billion, an amount not seen even in the worst moments of speculative lunacy under the Salinas administration. And, the bankers' forecast for 1997 is for even more speculative insanity. Why? The answer can be given in a single word:

## Oil exports

What has ensured Mexico's "debt servicing capacity" to date, is the impressive contraction of the government budget and the disappearance of entire sectors of the country's physical economy, as we have documented, along with the billions of dollars the country makes through oil exports.

Since January 1995, Mexico has been treated simply as if it were a financially troubled private corporation with a given source, "X" (the oil), of income, whose creditors are providing it with emergency loans backstopped by the cash flow expected from income source "X" (the oil). These emergency loans, or swaps, have in turn acquired speculative market valuations much higher than what the source "X" of income can in reality support.

At the point when the whole mountain of speculative paper comes crashing down, it is that income source "X" (Mexico's oil) which will have to answer for the totality of the nominal debts.

According to the official financial program for 1997, the government expects to pay about \$15 billion in interest payments, and also intends to amortize \$9 billion in principal coming due. In detailing the "sources of financing" to cover these 1997 amortization payments, the report asserts that about \$5 billion will be lent to Mexico by the Inter-American Development Bank and the World Bank, while the remaining \$4 billion will be covered by floating new bonds on the international markets.

But that is not all. The government report asserts that the

\$9 billion amortization figure does not include the refinancing, or rolling over, of short-term obligations, nor pre-payments on Mexico's foreign debt—in other words, the government plans to pay even more. These pre-payments and the refinancing of short-term debt will also be covered by new bond issues (mainly the so-called Global Bonds).

If we assume that Mexico's creditors are rational bankers, one has to ask: Why are they interested in all of these financial shenanigans, which clearly point toward a sudden and complete default, sooner rather than later?

It turns out that the Mexican government pays its bondholders not only a handsome spread over the interest rate paid by U.S. Treasury bonds, but also has built in the following bonus. If the international price of oil rises, the Mexican government is committed to increase the return on the bonds by an amount not to exceed 30% of the additional income coming from oil exports. This is why one often hears that Mexico's foreign oil sales are already 29% pre-committed to the country's creditors.

The base price of oil that is used to calculate this increase is not yet publicly known, but the government budget for 1996 gives some interesting leads. That budget's calculations were based on an expected international price for oil of \$13.25 per barrel, but the actual average for the year turned out to be \$18.05 per barrel. Thus, there was a \$4.80 per barrel increase relative to the forecast price.

If we apply a 29% "oil bonus" to this difference, and multiply by 1.2 million barrels per day of oil exports, we find that Mexican bondholders are being handed a bonus of \$1.7 million daily, on top of all their other returns. That explains what government officials really mean when they assert that "the international markets are eager to buy Mexican paper," and that foreign investors "are betting on Mexico."

But only a fool or an imbecile, of which there are both in the Mexican government, would think that, just because they have gone on for the last two years, these operations can be prolonged indefinitely, or that the bankers don't have an ulterior motive. Some government sources assert that in 1998, about \$15 billion will be amortized using these same methods, and that the amount will rise to \$17 billion in 1999—and that the only real problem Mexico faces is how to pay the annual interest due on the skyrocketing debt!

True enough: The only real problem with this entire scheme is how to maintain the real cash flow on which the leveraging is premised. Contrary to those Mexican government officials who believe that the country is already a new Arcadia, the creditors have made it clear that they want Mexico to hand over the source itself of income flow "X," i.e., the state oil company Pemex.

Great Britain's Chancellor of the Exchequer Kenneth Clarke was emphatic on this point during an early January 1997 visit to Mexico. "The Mexican government must take on the privatization of state-sector companies as a lifestyle," he said.

## The monetarist banks are the enemy

*A remoralized labor movement is beginning to pose a serious challenge to free trade looting policies.*

**M**anagers of Deutsche Bank, Hide Quickly Inside Your Safe!" was one of the prominent slogans of steelworkers during their March 25 protest rally in front of the bank's headquarters (see last week's *EIR*, p. 4). Another slogan read, "Bankers of Frankfurt, We're Coming!"

The slogans show that the German labor movement has finally begun to discover that the monetarist banks are its main enemy. The attempt by Deutsche Bank's Morgan Grenfell in London, to stage a hostile takeover of the Thyssen industrial group, has provoked an open labor revolt against the policy of the banks.

Labor had been heading for a big conflict with the banks in 1980-81, when the high-interest-rate policy was introduced in West Germany and the first disastrous effects on investment and industrial employment were felt. But that struggle was fought out behind closed doors, between union leaders and members of the central bank. The labor movement lost that struggle, because it did not carry out a broad mobilization, and the protest was bought off by the government of Social Democrat Helmut Schmidt, which gave numerous extra social benefits to those Germans who lost their jobs. And, the labor union bureaucrats discovered ecologism and service sector politics as a purported "front" against the government.

This approach paralyzed labor, which lost most of the battles with the bankers, budget-cutters, and downsizers during the 1980s and early 1990s, because the labor movement was never prepared to deal with the chal-

lenges posed by the monetarists. The more the unions pushed ecologism and service sector economics, the more jobs were destroyed in industry. Only in the context of the recent, deeper budget cuts, and of the dramatic increases in mass unemployment in late 1996, has the labor movement woken up and rediscovered its muscle.

The four big nationwide strike waves between September 1996 and April 1997—including the October autoworkers strike, the parallel protests and road blockades by the mining and construction workers in the second week of March, and the steelworker protests in the third week of March—have remoralized the labor union movement, and have made it much more political.

The strike waves originated on the local level in the plants and the mines, and broke out of the ecologist strait-jacket of the union bureaucracy, a dynamic typical of a political mass strike movement. The union bureaucracy only jumped on the bandwagon when it was already rolling. But the dynamic, which has stirred up the labor 'crats in general, has helped that minority of labor leaders who want to confront the government on fundamental economic issues rather than ecological ones, to gain influence.

Ursula Engelen-Kefer, the national vice chairwoman of the German labor federation (DGB) is one of those who have begun to address the monetarist issues in a political, and more internationalist way.

For example, in an interview with the Italian daily *La Repubblica* during

the peak of the mineworkers' protests on March 12, Engelen-Kefer explained that the strike wave is a revolt against the European Union's Maastricht Treaty criteria. It is, she said, a revolt against a government that is misusing the issues of European integration and monetary union as pretexts to impose budget cuts.

The Maastricht agreements, which so far have exclusively favored monetarist concerns about balanced budgets, need to be renegotiated, to include an employment policy program, she said.

Engelen-Kefer addressed the problem again, at the peak of the steelworkers' protests and their march to the Frankfurt banking center, in an interview with the March 26 *International Herald Tribune*. In the interview, she said that, unlike Finance Minister Theo Waigel, she thought "we could have Maastricht without pushing more people into unemployment and poverty." Waigel "should stop misusing a harsh interpretation of the Maastricht criteria as an excuse to cut social benefits," she said. In an interview with the *Sächsische Zeitung* on the same day, she called the monetarist orientation of the German government a "self-imposed trap," which would lead to an official jobless rate of over 5 million. She urged that an entirely new criterion be renegotiated in the Maastricht Treaty: the seriousness of a government's commitment to fight mass unemployment.

What Engelen-Kefer called for, however, is not compatible with the interests of the budget-cutting and debt-paying monetarists, because it would require extra state funds for creation of jobs. But, because the labor movements of France, Italy, and Belgium are engaged in similar political conflicts with Maastricht, there is a good chance to make the role of the banks a European issue.

# Business Briefs

## Africa

### IMF threatens Kenya over power plants

In an escalating pattern of pressure against Kenya, the International Monetary Fund told the Kenyan government on March 23 that if it proceeds with construction of two planned power plants, it will jeopardize its deal with the IMF, the March 25 London *Financial Times* reported. IberAfrica of Spain and Indonesia's Sabah Shipyard have the awards for the plants, one of which will be mounted on a barge.

The IMF is also concerned "about the pace of the privatization program in the country," and the appointment of Nicholas Biwott as a minister to President Daniel Arap Moi, the paper said. Biwott angered the IMF and donor countries when he tried to build a dam in Kenya, in his capacity as finance minister in the 1980s.

Kenya is also under pressure for its resistance to the Ugandan-Rwandan murder of East Africa. Kenya is not permitting Laurent Kabila's rebel forces into the country. Truck convoys from Kabila's operation (targeting the mineral-rich areas in Zaire), attempting to get to the port of Mombasa to pick up supplies, have been turned back by Kenyan authorities, the *Kampala Monitor* reported.

## Australia

### Mont Pelerin exposed in privatization program

Melbourne's *The Age* newspaper, until recently the Hollinger Corp.'s mouthpiece in Australia, has repeated, with uncharacteristic accuracy, the essential details of the Mont Pelerin Society's Australian think-tanks' orchestration of the privatization and economic reform agenda of Victorian Premier Jeff Kennett. The report bears uncanny similarity to the Citizen Electoral Council's *New Citizen* newspaper of May 1996, which first exposed the story. The CEC is an organization of the co-thinkers of Lyndon LaRouche in Australia.

Without mentioning the Mont Pelerin Society by name, *The Age's* political editor,

Shane Green, reported that Kennett's entire privatization program was planned before his victory in the 1992 election, by two think-tanks: the Tasman Institute and the Institute of Public Affairs, which jointly produced a series of reports known as "Project Victoria," for a business lobby group of the same name. These reports looked at each area of government activity in the state (energy, health, education, taxation, public transport, and so on), and proposed privatization, deregulation, and deep budget cuts across the board.

This is the first time an establishment publication has admitted to the behind-the-scenes role of the Mont Pelerin Society think-tanks in Australian policymaking, and reflects the *New Citizen's* constant hammering at Mont Pelerin since May 1996 for union-busting, drug legalization, and privatization looting policies, and New Zealand's disastrous economic "revolution."

## Ibero-America

### London, creditor banks nervous over 'risk'

Bankers at the annual meeting of the Inter-American Development Bank, held in Barcelona, Spain, were all warning against too much "enthusiasm" over Latin America's free-market "reforms," the March 19 London *Financial Times* reported. They will allow for guarded "optimism," they say, but a lot more structural reform is going to have to occur before the looting grounds will be secured.

In particular, bankers worry that, to be competitive, creditor banks are overextending themselves in Ibero-America, offering huge loans at unprofitable fees and interest rates. David Mulford of Crédit Suisse First Boston is quoted, "For a while it may work, but when the markets back up, it becomes a very uncomfortable situation." William Rhodes of Citibank said, "I've never seen such liquidity as I've seen today and I've been around a long time. We have to be careful in this environment that credit standards are maintained."

The *Financial Times* editorialized: "Some [enthusiasm] is warranted, but they

should take care. Intense competition means that margins have been cut to the bone. Some banking business in the region cannot be profitable, and an excess of generosity at this stage would neither be good for the lenders themselves, nor for the borrowing countries. This is not to say a disaster is in view," but there could still be "unexpected political or external shocks. . . . Reform is still needed on several fronts, including tax systems, labor markets, improving conditions for savings and investments, and reforming corrupt and bankrupt state institutions. The list is long. . . . Optimism, then, is in order; great enthusiasm is not."

## Trade

### Iran expands economic activities in Africa

During the recent visit of Iranian Foreign Minister Ali Akbar Velayati to Sudan and Uganda, the theme of Iranian economic cooperation with many African nations was featured in the Iranian press. Among the highlights reported by the March 10-16 newspaper *Ettala'at* are the following:

The Namibian prime minister will visit Teheran soon, the Iranian ambassador in Windhoek, Ahmad Almolhoda, said in an interview with the *Teheran Times*. He cited Namibia's request for Iranian help in fighting drugs, as well as the planned establishment of a Teheran-Windhoek air link, as indicative of improving ties. Almolhoda also said Iran wanted to cooperate with Angola in the oil, gas, machinery, and mineral industries.

Iran's President Ali Akbar Hashemi Rafsanjani, on receiving the Guinean minister of roads and telecommunications on March 11 in Teheran, underlined Iran's eagerness to expand cooperation in Africa, citing an Iranian-Guinean bauxite mine project as an example.

In meetings on March 12 with Speaker of the Sudanese National Assembly Dr. Hassan al-Turabi, and with Sudanese President Gen. Omar al-Bashir, Velayati stressed ties among Islamic countries, and pointed to the upcoming Organization of Islamic Cooperation summit, scheduled for December in Te-



heran, as an important occasion on which cooperation can be enhanced.

The Iranian ambassador to Libreville, Gabon, Ahmad Sobhani, told the *Teheran Times* that Iran, which already imports manganese and wood from Gabon, might cooperate with Gabon in oil exploitation. Sobhani criticized the Western press for the false image it projects of Africa, and said the mass media could do a lot to educate people about Africa.

### **Economic Policy**

## **Pope John Paul attacks free-market economy**

"It is false that after the collapse of collectivism there is only the free market," Pope John Paul II told 4,000 young people gathered for the "Univ '97" Congress in Rome on March 25. "The thesis according to which, after the collapse of the myth of collectivism, there would be nothing to do but follow the free market . . . in reality, shows ever more its limits, because it opens the door to a 'savage' economy, which brings with it marginalization, unemployment, even when unaccompanied by intolerance and racism."

Instead of resigning oneself to the free market, "it is necessary to undertake new roads, inspired by solid moral premises," the pope said. These premises include the "dignity of the individual person," and "the culture of solidarity." "The social doctrine of the church," he said, "teaches that we must always lay the foundation of political praxis, of juridical thought, of economic programs, of social theories, upon the dignity of the individual person."

The pope said that "human beings live and develop in interaction with others," and because of this, "the patrimony which is due to [an individual] from his membership in a group, on the basis of birth, of culture, of language, must become a factor for encounter, not for exclusion. . . . The Church contests the pretenses of capitalism, proclaiming the principle of the priority of labor with respect to capital."

The pope's speech was attacked by free marketer Giorgio La Malfa, who said, "We had hoped that the Catholic Church might

have renounced its anathemas against free enterprise. We see instead with displeasure, that John Paul II has expressed judgments in a way that is, frankly, unacceptable."

The secretary of the biggest Italian trade union confederation, CGIL, Sergio Cofferati, on the other hand, said that the pope had expressed "a legitimate preoccupation, which confirms the pope's great sensibility on the themes of the economy and labor. One cannot but be in agreement. It is fundamental that the market . . . must have definite rules."

### **Petroleum**

## **Russia in big oil deals with Iraq**

Russian Fuel and Energy Minister Pyotr Rodionov was in Baghdad, Iraq in March, pursuing Foreign Minister Yevgeni Primakov's policy for the active development of relations with Eurasian partners such as China, India, Iran, and Iraq. Among the agreements reached by Rodionov, at a session of the Russian-Iraqi Commission on Economic Cooperation, were Russia's purchase of Iraqi oil, for which purpose Iraq granted Russia most favored nation trade status, in exchange for selling wheat, sugar, and spare parts for power plants, and a 23-year deal to develop 7-8 billion barrels of oil reserves in the west Qurana field, in southern Iraq.

In the Qurana deal, the Russian firm LUKoil has a 52% share, the Iraqi government 25%, and two other Russian firms the rest. LUKoil chairman Vagit Alekperov stressed on March 25 that all the deals are allowed under UN sanctions. In Moscow, Rodionov said that Russia had "missed our chances in the Caspian" offshore oil deals with Azerbaijan, but is "ready to look at any projects in Iraq that are commercially viable and open."

In late March, Andrei Vdovin, of the Russian Foreign Ministry's Middle East department, headed for Kuwait and other Persian Gulf nations. British news outlets are playing up Kuwaiti disgruntlement with the Russia-Iraq deals, but Moscow is aiming, with vigorous diplomacy, to keep relations going with the Persian Gulf states, too; the latter have become significant customers for Russian arms.

## **Briefly**

**RUSSIAN** writer Aleksandr Solzhenitsyn attacked "the idiotic diktat of the International Monetary Fund," in a Russian TV interview, the March 26 London *Financial Times* reported. Russia's education system, science, and culture are all being destroyed, he said. "They are falling apart in front of our eyes. In a few more years, we will have turned into a second-rate African power."

**THAILAND'S** unions have threatened strikes unless the planned privatization of the Electricity Generating Authority of Thailand is dropped by April 18, the March 18 *Asia Times* reported. The IMF-imposed plans would raise electricity prices by up to 45%, and lead to layoffs of nearly half of its 33,900 workforce.

**AUSTRALIAN** Prime Minister John Howard led a delegation of 18 businessmen to China in March. All are members of the Mont Pelerin Society, or its fronts, including: Charles Goode, chairman of the ANZ Banking Group; Maurice Newman, of the Australian Stock Exchange; Hugh Morgan of Western Mining, and Lachlan Murdoch of News Ltd.

**ESTONIA'S** Foreign Minister Toomas Hendrik Ilves championed privatization, in Washington on March 28. "We are well advanced in the process of privatization," he said. "We are in the process of selling a large part of our energy system."

**ITALY'S** government's policies were the target of a protest by 300,000 people in Rome on March 22, organized by the trade unions. Union leaders called for effective measures against unemployment.

**HUNGARIAN** farmers are stepping up protests against tax increases, to draw attention to their "untenable position," Hungarian media reported on March 23. The farmers' union, Metesz, has attacked the government's agricultural program as "a ruthlessly exploitative economic policy pursued by the anti-national liberal-Bolshevik government."

## How the German trade unions could have stopped Hitler

by Gabriele Liebig

*This article first appeared in the weekly Neue Solidarität. It has been translated from the German by John Sigerson.*

Today's economic crisis has two faces: first, the imminent collapse of the world financial system, which will be triggered when one or more banks, or entire countries, having turned themselves into gambling casinos in their quest to become "emerging financial markets," experience a serious payments crisis. The other face, is the withering of the real, physical economy, setting new records almost every day in mass unemployment, bankruptcies, and government budget shortfalls caused by dwindling tax revenues.

The phenomenon is a worldwide one. The cause, and the chief distinguishing characteristic of the crisis, is rampant financial speculation: An ever-growing mountain of unsecured financial paper is ruining the productive economy. Less than 1% of all financial transactions worldwide still have anything to do with the actual exchange of physical goods; the rest is pure speculation. This, in turn, has favored the formation of a parasitical swamp which, to an ever greater extent, is sucking capital out of the real economy in order to prop up the speculative economy.

The process is occurring in many guises: For example, when speculative funds lure investors with promises of over 20% annual gains, who is going to keep investing in new industrial workplaces, which could never generate such returns? Or, take the multibillion-dollar bailout packages for bankrupt banks, where taxpayers' money is being used to plug up the holes in bank balance-sheets caused by high-risk speculation gone bad? And here we should also mention the government economic austerity programs which, in order to compensate for the rising preponderance of such financial services in government budgets, are making deep cuts at the expense of citizens' living standards and of public investment into material (transportation, energy, water, etc.) and social (health, education, scientific research) infrastructure.



*Nazi financier Hjalmar Schacht (center) at the Nuremberg Tribunal. Historians' failure to examine the economic debates of 1930-32, is responsible for the fact that so many people labor under the absurd belief, that Schacht and Hitler were the inventors of work-creation as an economic policy. In fact, a broad alliance of social forces, centered around the trade unions, had put forward work-creation measures that would have prevented Hitler's rise to power.*

There's a method to this madness: the policies being enforced by international financial institutions, namely, *reflation* on the speculative side (cheap central bank money for liquidity-strapped banks, tax breaks, etc.), which in turn must be balanced out by *deflation* on the real economic side (budget cuts, reductions in welfare programs, wages, and salaries). Similar "adjustment programs," which, for many years now, the International Monetary Fund (IMF) has been inflicting upon many developing countries, and which often expressly forbid any large-scale investment into the real economy, have led to a sharp decline in exports into these countries. In Germany, for example, 700,000 export-dependent jobs have been lost since 1991.

German unemployment figures have been skyrocketing since 1991; with each new year, another 100,000 more people become unemployed. It is impossible not to compare this with developments in the 1930s (although here we won't go into the far more refined statistical tricks being used today to conceal the true extent of unemployment). This parallel to the 1930s is shockingly clear; and yet, nothing is being done to stanch the flood of newly unemployed, not to mention taking effective measures to create new jobs. And it's not hard to see why: The unemployed are an integral part of the "globalizers'" strategy: Using mass unemployment as their cudgel, the globalizers want to do away with the nation-state, and push through massive reductions in living standards. Their argument is the same as the one used in the 1930s: In order for us to be competitive on the world market, we must

produce more cheaply, and therefore we are going to have to drastically cut wages and social services.

Just as it was back then, so, today, it is clear that in a democracy, cutting social services and wages down to the level of the Philippines, or even of Portugal, is not feasible, so long as labor remains at least partially organized into trade unions. Therefore, once again, from the camp of the "Conservative Revolution" we hear a growing din in favor of using the "big club," doing away with the nation-state, and with trade unions and democracy as well. "I'm not saying that we must move directly from a social state into a police state," but "*welfarism* is an idea whose time has passed. . . . For many of 'our people,' life in the late twentieth and early twenty-first century will be repulsive, brutal, and short as well," wrote Peregrine Worsthorne in the London *Sunday Telegraph*.<sup>1</sup>

1. Peregrine Worsthorne, "A Police State Beats a Welfare State," *Sunday Telegraph*, July 23, 1995.

Writing in the same newspaper on May 21, 1995, under the title "The Right-Wing Path to Oppression," Worsthorne declared: "Furthermore, the degree of belt-tightening required of this country [Great Britain] before it could hope to compete with Asia is going to be incomparably greater than anything demanded in the 1930s. William Rees-Mogg talks blithely of reducing public expenditure to not more than 25% of national income. . . . More capitalist stick, less welfare-state carrot—that is the pattern for the future. To govern under such conditions . . . will require a different class of ruler to anything available today."

And on Feb. 4, 1996, he wrote under the headline, "The Big Stick May Be the Next Big Idea": "It is not easy to write about the politics of fear. . . . But since to a large extent politicians are paid to do the dirty work we do not want

## Key names and dates

**March 28, 1930:** Heinrich Brüning becomes chancellor, but lacks a parliamentary majority. Governs by emergency decree.

**1930:** Wladimir Woytinsky publishes “The Flood of Economic Insanity,” an article denouncing the austerity policies of Chancellor Brüning.

**Jan. 26, 1932:** Woytinsky-Tarnow-Baade (WTB) job-creation plan is released to the public.

**May 30, 1932:** Brüning government falls; Franz von Papen becomes chancellor. He represents the landed gentry of east Prussia, but has no base of support otherwise, and has no majority in parliament.

**July 1932:** Parliamentary elections. Nazis win 37% of the vote—far short of a majority, but they are still by far the biggest party in the Reichstag.

**November 1932:** Parliamentary elections. Nazis lose 2 million votes compared to July, but remain the largest party in the Reichstag.

**Dec. 2, 1932:** Von Papen government collapses. Von Papen had asked for emergency powers. Kurt von Schleicher becomes chancellor, heading Germany’s third minority government in a row. Repeals von Papen’s emergency decrees.

**Jan. 4, 1933:** Von Papen and Hitler meet secretly to plot the downfall of the Schleicher government.

**Jan. 23, 1933:** Schleicher tells President Hindenburg that he doesn’t have a majority in the Reichstag, and asks for emergency powers to rule by decree. Hindenburg refuses.

**Jan. 28, 1933:** Schleicher resigns. Von Papen is entrusted by Hindenburg with forming a government involving Hitler.

**Jan. 30, 1933:** Hitler is named chancellor of Germany, with von Papen as deputy chancellor.

Basing himself on similar sentiments, Hjalmar Schacht, beginning in 1930 or even earlier, set his sights on establishing a totalitarian dictatorship under Adolf Hitler. One of the people who helped him bring Hitler to power, was Montagu Norman, head of the Bank of England. Peregrine Worsthorne is Norman’s stepson, and is a great admirer of his stepfather.

Schacht and Hitler calculated that social chaos and worldwide economic crises would increasingly discredit the bourgeois political parties, while the great masses of the popula-

tion would become increasingly radicalized, thus paving the way for a totalitarian regime in Germany. Today, we are threatened with the same thing, but on a global scale: Increasingly unpopular austerity measures are not only dismantling the state’s social safety-net, but are threatening the very existence of the nation-state. The elimination of jobs through globalization goes hand-in-hand with an unparalleled assault on the nation-state, which they would like either to split (e.g., Italy), privatize (e.g., the former colonial states of Africa<sup>2</sup>), or else force its leaders to renounce their sovereignty in favor of supranational, dictatorial authorities who are not answerable to any democratic constituency.

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## There is an alternative

This must be prevented; and it *can* be prevented, provided that some of today’s most influential governments take the initiative, and—if possible, before the great financial crash which is bearing down upon us—take steps to reorganize the bankrupt world financial system. Such emergency measures, which have long been proposed by Lyndon LaRouche, can be thought of as a worldwide bankruptcy procedure, regulated by national governments.<sup>3</sup> This reorganization will function if, and only if, it goes hand-in-hand with the implementation of *great infrastructure projects involving many nations*, which will create many millions of new, productive jobs, and which will revive the goods-producing economy. The foreign-policy context for such projects is the development strategy of the “New Silk Road,” or the “Eurasian Land-Bridge,” as we have discussed in more detail elsewhere.<sup>4</sup> The most tried-and-true method of start-up financing for such large-scale, job-creating projects, is *national bank credit*, flanked by financing applied according to the method practiced by the Kreditanstalt für Wiederaufbau (which played a key role in rebuilding Germany after World War II), whereby the state subsidizes the difference between standard loan in-

2. Robert Whelan, of the London Institute of Economic Affairs, proposed in a recent issue of the institute’s journal *Economic Affairs*, that the countries of Africa ought to lease themselves out to multinational corporations, on the model of the East India Company. In such a colonial “lease agreement,” the lessees would lease all future state revenues for a period of 21 years, at a fixed-ceiling rate of interest.

3. See “Dringlichkeitsgesetz zur Wiederbelegung der Volkswirtschaft” (“Emergency Legislation to Revive the National Economy”) and “LaRouches wirtschaftlicher Fünf-Punkte-Notplan” (“LaRouche’s Five-Point Emergency Economic Program”) in the *EIR* German-language study, “Maastricht ruiniert Europa” (“Maastricht Is Ruining Europe”), Wiesbaden: “Executive Intelligence Review”-Nachrichtenagentur, May 1996. For English-language sources on LaRouche’s recovery program, see Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee, *The LaRouche Program to Save the Nation: Reversing 30 Years of Post-Industrial Suicide* (Leesburg, Virginia: October 1995), and “Five Emergency Measures,” *EIR*, April 26, 1996, p. 72.

4. *The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive for Economic Development* (Washington, D.C.: Executive Intelligence Review, January 1997).

terest rates and the special, low interest rates attached to long-term development credits.

Such an alternative was available back in the 1930s, too: A broad alliance of social forces, centered around the General German Trade Union Alliance (Allgemeine Deutsche Gewerkschaftsbund—ADGB), put forward a plan to reorganize the world financial system and to create jobs through public work-creation measures, all of which was to be financed by credits created by the Reichsbank. With this policy, the “Reformers,” as they were called, wanted to defend the Weimar Republic against the extremism of the National Socialists and of the Communists, both of whom were sowing the fertile soil of the misery of Germany’s working people.

The story of how the Reformers tried, and failed, to foil Hitler’s rise to power, is one of the most moving chapters in the history of this century. But it is also a story which, up to now, has been largely concealed behind a veil of silence. Indeed, our refusal to examine the economic debates that were going on during 1930-32, has been responsible for the fact that so many people today labor under the absurd belief, that Schacht and Hiltner were the inventors of work-creation as an economic policy.

But, known or unknown, the fact remains that the Reformers attempted to avert the Nazi catastrophe, and, under three successive governments—Heinrich Brüning, Franz von Papen, and Kurt von Schleicher—put forward a quite reasonable concept for reviving Germany’s prostrate economy. According to their plan, a comprehensive job-creation program would function as the “starter” to set the motor of Germany’s economy running again. The Reformers included economists in the tradition of Friedrich List, trade unionists and industrialists, highly placed government officials, and even bank directors; but it was the trade union umbrella organization ADGB that played the most crucial role. With its 8 million members, the ADGB was the largest mass organization in Germany, representing 80% of all organized workers. But the ADGB’s importance was not limited to publicizing and supporting the Reformers’ work-creation policy; it was mostly the ADGB which shaped the program in the first place.

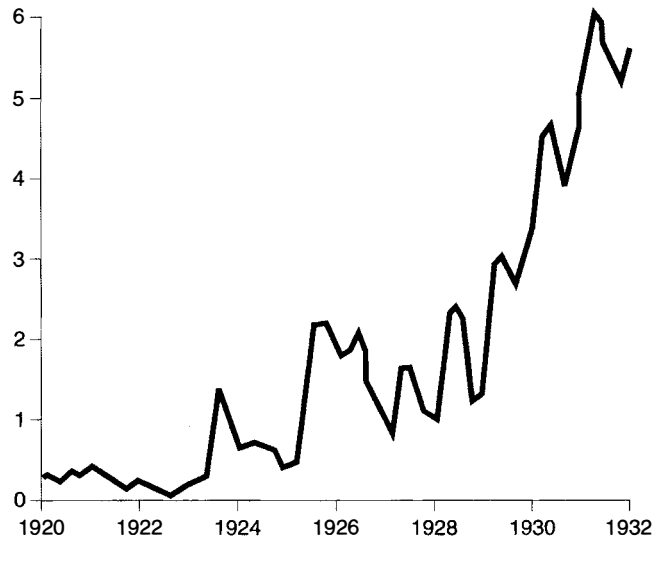
The Reformers’ intellectual leader was Wladimir Woytinsky, head of the ADGB’s statistical department. Woytinsky had come to Germany in 1922 from Russia, seeking asylum from the Communist regime. The son of a Jewish professor of mathematics in St. Petersburg, he had actively participated in the anti-tsarist revolution of 1905, but in 1917 had joined the resistance against Lenin’s seizure of power. He took over as head of the ADGB’s statistical department in 1929.

It was an *international program to halt the world economic crisis*, that Woytinsky and the ADGB inserted into the public economic debate in the spring of 1931.

### Fight against the ‘cutback mania’

The program of Woytinsky and the other Reformers, proceeded from their recognition that the deflation policy of the

FIGURE 1  
**Unemployment in Germany, 1920-32**  
(millions)



Brüning government would inevitably only worsen the crisis. The deflationary withering of the world economy was already looming on the horizon in 1930, when ADGB head Theodor Leipart urged Woytinsky to take on the unemployment problem in depth. Soon thereafter, an article by Woytinsky on “The Flood of Economic Insanity” appeared in a number of trade union journals, in which he drew the battle lines against the policies of price- and wage-gouging being pursued by Chancellor Brüning and his orthodox economic advisers.<sup>5</sup>

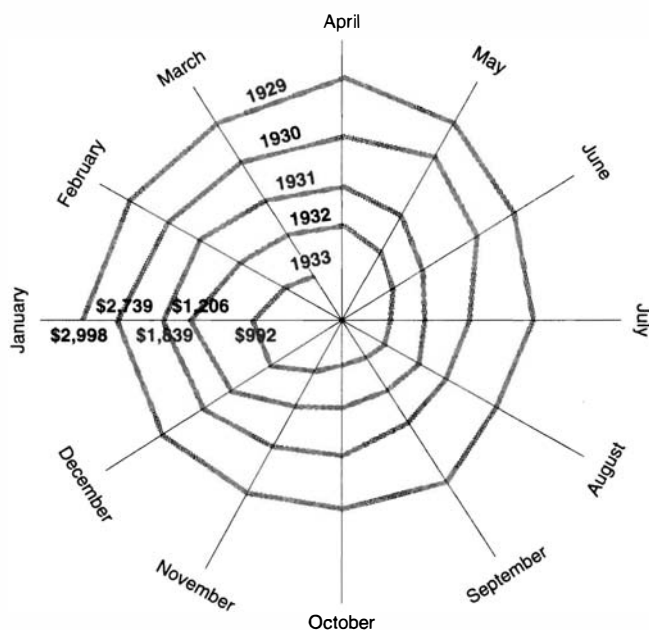
In a series of articles, and in a book published in 1931,<sup>6</sup> Woytinsky explained the fundamentally different character of this world economic crisis, in contrast to earlier conjunctural crises. In this crisis, he said, the “automatic capitalist mechanisms” do not work, and the situation cannot be rectified by cutting prices. Moreover, protectionist measures will only further exacerbate the process of economic decay. This downward deflationary spiral (see **Figures 1 and 2**) can only be reversed by taking *anti-deflationary* measures—specifically, by creating additional purchasing power, in coordination with the world’s leading nations. This additional purchasing power would have to be applied productively, toward the creation of new jobs in public projects.

Woytinsky advised the trade unions to make this policy proposal into the centerpiece of their demands: End the “cut-

5. The article appeared in *Volkswirtschaftliche Beilage des Betriebsrates*, Hanover, No. 12, 1930; and in *Betriebsräte-Zeitschrift*, Stuttgart, No. 1, 1931.

6. Woytinsky, *Internationale Hebung der Preise als Ausweg aus der Krise*, Veröffentlichungen der Frankfurter Gesellschaft für Konjunkturforschung (Leipzig: Hans Buske Verlag), 1931.

FIGURE 2  
**World trade,\* January 1929 to March 1933**  
 (millions \$)



\* Monthly imports of 75 selected countries.

back mania” in wages and social services, and implement a job-creation program, financed through additional credit creation! On March 9, 1931, the ADGB’s leadership held a meeting on this subject, where both the chairman of the woodworkers’ union, Fritz Tarnow, and William Eggert, the ADGB’s job-creation expert, spoke out in favor of an international program to halt the worldwide economic crisis. There, Woytinsky was given the green light for his keynote article in the ADGB’s theoretical journal, *Die Arbeit*, which kicked off the public debate over the ADGB’s “active world economic policy.” With this, Woytinsky had furnished the basis for a new policy for the trade unions, and for the Social Democratic Party (SPD), although, as we shall see, the latter did not take kindly to it. One passage from his 27-page article reads:

“Labor organizations that rely on the self-healing forces of the capitalist economic order, run the risk of slowly bleeding to death. For some years now, Germany’s working people have been waging a difficult, defensive struggle, and the worse the crisis becomes, the more unfavorable the conditions will become under which that fight is waged. Our labor organizations have lost their freedom to maneuver; no longer can they choose either the time or the objective of their conflict with the adversary. They are forced, each time, to fight whenever and wherever it best suits the other side.

“Ultimately, the trade unions and the Social Democracy

will have no tactic left, save that of choosing the *lesser evil*. . . . The tactic of the lesser evil will gradually devolve into the tactic of merely postponing the date of our own execution.

“Up to now, the party and the trade unions have succeeded in keeping their apparatus intact. But what do they—and, with them, the entire German working class, the entire German people—expect, if they have to continue, year-in, year-out, in the same direction they have been moving for the past 12 months, in the absence of any immediate prospect for an improvement of economic conditions? Targetted, far-reaching measures to revive the economy have never been more necessary than they are right now. The labor movement needs an *economic-policy action program*, which can show workers and other layers of the population, that the Social Democracy and the trade unions see a way out of the economic abyss. But at present, we have no economic-policy action program; all that we have, is a list of social demands, which we try our best to get adopted. We have definite positions on assorted individual economic policy questions. But a *program*, this we don’t have!”

Such a program would require, first and foremost, an “activist attitude toward conjunctural problems of our economy.” Woytinsky distinguishes between the passive, “meteorological” point of view, and the “physician’s” attitude:

“In modern economic research, especially in Germany, a passive, meteorological attitude is the norm. Economic ups and downs are observed somewhat the way the weather service looks at meteorological processes. Bulletins are published, which make it possible for people to adjust to the expected, coming shift—in the weather, or in the economy.

“But we can conceive of an altogether different attitude regarding conjunctural problems, comparable to that of the physician toward the human organism. The physician dedicates himself to curing illnesses, ameliorating the suffering that accompanies illness, and preventing its spread. Why couldn’t economic research be guided by similar goals? . . .

“The activist attitude toward crisis phenomena, is in harmony with our view, that we are currently living in a transitional period, one characterized by a transformation of the anarchistic capitalist economy, into a more highly organized form of economy.”

So, how can the “devastating effects of the crisis,” and especially the dramatic drop in industrial production, be reversed? “First, we must examine whether the forces currently paralyzing our economic activity, might not be eliminated, and whether it might not be possible to inject new factors which would spur every enterprise to expand its economic activity. In accordance with this, we must investigate the possibility of complementing the insufficient economic initiative of private enterprises, with public job creation.”

Woytinsky describes the ruinous effects of price deflation, and then lays out a detailed plan for solving the worldwide crisis. He had already presented this concept earlier, in his book *Internationale Hebung der Preise als Ausweg aus der*



*Krise (Raising Prices Worldwide, as a Way Out of the Crisis)*. His basic idea was an agreement among nations, to increase purchasing power by means of an internationally coordinated lowering of the gold reserve requirements for national currencies. Woytinsky shows that in the past, the discovery of new gold mines had always been followed by an economic upswing, and argues that lowering the generally accepted minimum gold reserve would produce the same effect. This same idea had also been presented in a memorandum issued by the Gold Committee of the League of Nations. Such a lowering of the minimum reserve would mean, in practice, the creation of a corresponding quantity of new money, and would have somewhat the same economically stimulating effect as “an interest-free foreign currency loan . . . which the Americans would hand over to the Reichsbank as a token of good will, but which would be tied to the condition that the money be used for productive activity, and not for reducing the budget deficit!”

He energetically opposed the argument that reducing the gold reserve requirement, as recommended by the Gold Committee in Geneva, would lead to inflation—a view held by SPD economists Rudolf Hilferding and Fritz Naphtali. Woytinsky writes: “In a certain sense, all credit creation, all assumption of foreign loans, is inflationary. . . . In common usage, ‘inflation’ is understood to mean a certain condition (or malcondition) of the currency system, in which paper money becomes unmoored from its gold-value; the domestic currency unit loses any fixed relation to other nations’ currency units, and the printing press comes to replace all normal financial administration. Our own generation knows from its own experience, what this all means: A country which has already lived through inflation on a grand scale once before, will shy away from a monetary policy which might end in yet another bout of inflation.

“But it doesn’t require very many words to show that the currency and credit policy recommended by the Geneva experts, does not have the slightest thing in common with the inflationary insanity of the first postwar years. Here, namely, we are talking about a thoroughly thought-out, internationally agreed-upon, carefully regulated manipulation with an additional monetary aggregate. . . . Now, some will counter their idea, by citing the unhealthy experience of the inflation era. But, on similar grounds, in the treatment of a serious, life-threatening illness, one would rule out the administration of a medicine, solely because it is a *poison*. The physician, however, does not hesitate to use various poisons as medicines. . . . If the physician had to renounce all use of poisonous substances as medicines, he would be condemned to the same impotence as that of an economic policy which, out of fear of inflation, rejects all anti-deflationary measures out of hand.”

His article in the June 1931 journal *Die Arbeit* ends with a draft of an “Action Program for Reviving the Economy”:

“The monetary policy measures must be the cornerstone

of the action, not only for the labor organizations themselves, but also for every party and government that is thinking seriously about re-starting the economy. But the labor movement’s economic-policy action program should not end there. . . .

“1. The labor movement must commit itself to an *activist conjunctural policy*, and must throw its entire influence into the balance, in order to force the state and all public institutions to implement measures to revive the economy. . . .

“2. The economic revival policy must deal primarily with the *worldwide economic crisis*; it must be a *global* economic policy. All nations are suffering because the world economy is sick, and therefore they must all concentrate their forces upon joint action to overcome the worldwide crisis.

“3. No country is . . . harder-hit by the worldwide crisis, than Germany is; and within Germany, working people are the class that suffers most from the economic depression. In keeping with this, it is Germany which must take the initiative in forceful international policy to combat the world crisis, and the German working class (trade unions and Social Democracy) must claim and assume the role of conveyor of the idea of an activist world economic policy.

“4. The first, the most urgent task of world economic policy, is to *stabilize world market prices, something that can be achieved only in the monetary domain, through planned money-creation and injection of additional purchasing power*. . . .

“5. The international monetary policy agreement must not remain isolated from other international economic policy measures. Rather, it must lend added weight to the old demands for tariff reductions and European economic unification, as well as to the ideas of internationalization of wage policy and social policy.

“6. The funds freed up by international money-creation policies, must be applied toward job creation, and for the realization of a grand plan for European reconstruction. . . .

“7. This international economic policy shall support working people in their fight for a true wage, and for shortening the work week [to 40 hours], for workers’ social rights, for regulating the cartels, expansion of state monopolies, etc. At the same time, the party’s and trade unions’ agricultural policy must be adjusted in accordance with the task of relieving the labor market, overcoming the current depression, and preventing new crises. A stronger emphasis than before, must be placed on the necessity to reorient our agriculture toward intensive post-processing, and we must develop a public works program in keeping with that goal. . . .

“The working class, with this policy as its instrument, will be able to shift away from being forced to fight defensive battles, and into a universal, creative offensive, moving along the historical road to overcoming the mistakes and sins of capitalist economic leadership.

“And this is what the trade unions and the party, in their quest to reunite the working population, can use to counter

National Socialism on the one side, and Communism on the other”<sup>7</sup> (emphasis in the original).

### The ‘Reform’ debate in 1931

The first, groundbreaking discussions among the various Reformers over the solution to the economic crisis, took place in 1931; by 1932, on the other hand, after the official number of unemployed had risen to above 6 million, you could find job-creation programs on every park bench. Proposals ranged from the demand to bar all foreigners from working in Germany, all the way to the German Communist Party’s glorious demand that job-creation measures be financed by eliminating all expenditures on national defense and local law enforcement.

But in 1931, the debate was still restricted to a relatively small circle. Woytinsky had kicked off the debate in July, with his above-cited article. In September 1931, the List Soci-

ety held a secret conference on reviving the economy, attended by 30 high-ranking economic experts of various persuasions, including Reichsbank President Hans Luther and SPD economist Rudolf Hilferding. Before this assemblage, Wilhelm Lautenbach, government director in the Economics Ministry under Chancellor Brüning, presented his memorandum on “Opportunities to Revive the Economy through Investment and Credit Expansion.”<sup>8</sup> At the meeting, this illustrious group rejected Lautenbach’s 1.5 billion reichsmark job-creation program, which was to be financed by notes which the Reichsbank would re-discount; but, many of the participants would change their minds about it later on.

In his memorandum, Lautenbach first described the nega-

8. Memorandum by Wilhelm Lautenbach, “Möglichkeiten einer Konjunkturbelebung durch Investition und Kreditausweitung,” in Knut Borchert, Otto Schötz (eds.), *Wirtschaftspolitik in der Krise: Die Geheimkonferenz der Friedrich-List-Gesellschaft vom September 1931*, Baden-Baden: 1991, pp. 307-325.

7. *Die Arbeit*, No. 6, 1931, pp. 413-440.

## Wladimir Woytinsky, revolutionary

It is not an easy task to describe in a few words the fast-changing life of Wladimir Saweljewitsch Woytinsky (Nov. 12, 1885–June 11, 1960). His father was a professor of mathematics in St. Petersburg, Russia, and his family of Jewish origin.



As a 17-year-old high-school student, he wrote his first book on economics, which was decidedly non-Marxist in orientation, and which dealt more with the determination of market prices. Without mentioning his age, the young author sent his manuscript off to a highly regarded professor of economics, who liked it so much that he wrote his own preface and had the book printed.

While a student in 1905, Woytinsky joined the socialist movement, and actively participated in the first Russian revolution against the degenerate tsarist feudal regime. He became chairman of the student council, and, later,

president of the St. Petersburg Council of Unemployed People. It was during this time, that Count Sergei Witte, an enthusiastic advocate of the ideas of Friedrich List, and a major force behind Russia’s industrial and infrastructural development, succeeded in pushing through the adoption of the “October Manifesto”—a constitution of sorts, which held out the prospect of a constitutional monarchy, more rights for the parliament, etc. In his autobiography, *Stormy Passage*, Woytinsky admits that he was extremely skeptical about this manifesto, and considered Witte to be an opponent who had sided with the existing regime. But he also reports that as president of the unemployed council, he succeeded in negotiating an arrangement with Witte’s people, for putting a great number of unemployed people back to work on public infrastructure projects (e.g., bridge building) at a satisfactory wage. All that, however, ended with the crushing of the revolution and Witte’s dismissal.

In 1908, Woytinsky was arrested and condemned to four years of hard labor and lifelong exile in Siberia, because of his membership in the Social Democratic Labor Party. In 1912 he was released from prison, and, together with a friend, undertook a voyage of discovery through sparsely settled Siberia. It was during this period of exile, that he met his future wife, Emma, whom he married in 1917. The October Revolution ended his exile, and the young married couple returned to St. Petersburg.

Woytinsky supported the toppling of the feudal regime, but wanted to see it replaced by a democratic, parliamentary system, as the Menshevik Tseretelli was demanding. And so, in 1917, things came not only to a break with Lenin, but Woytinsky organized part of the Army to put

tive effects of the deflationary policy currently being followed by the government of which he himself was a part:

“The tightening of credit causes huge new capital losses for firms in trade and industry, renders them impotent and uncreditworthy, forces them into further cuts in production and layoffs on the most drastic scale, and, at the same time, results in a worsening of the banks’ position.”

And besides, in a capitalist economy, the most natural way to overcome crises is “not cutbacks, but rather increased output.” In contrast to other states of emergency following destruction by war or earthquake, which pose “concrete production problems” to solve in the process of reconstruction, in today’s market crisis, there is “no such thing as a positive directive, and so no industrialist has any idea what he ought to be producing.

“For, at this very moment, we have the paradoxical situation, that, despite the fact that we have made extraordinary cuts in production, demand is still continually lagging behind supply. And thus, we have chronic production surpluses,

which we don’t know what to do with. The task of finding some way to turn these surpluses into things of value, is the real, and most urgent problem for our economic policy to solve; and, in principle, it is relatively simple to do that: Surpluses of physical goods, unutilized productive plant, and unutilized labor power can be applied toward meeting a new economic need—a need which, from an economic standpoint, represents a capital investment. We can conceive of such tasks, as . . . public works, or works carried out with public backing, which for the economy would mean an increase in our national wealth, and which would have to be done anyway, once normal conditions returned (road construction, desirable improvements and expansion of the railway system, and the like).”

Since “long-term capital is not available either on the foreign or the domestic capital market,” the only remaining option, is to finance such works through the issuance of notes that are discountable by the Reichsbank. Lautenbach proposes a 1.5 billion reichsmark job-creation program: RM 1.2

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up armed resistance against Lenin’s Bolshevik coup. After his defeat, he was once again thrown into prison, but after a few months was able to escape, and ended up in Georgia, where he supported the short-lived democratic Georgian government, first as editor of the newspaper *Borba*, then as economic adviser to the Georgian legation in Italy (1919-20), and then as member of the Georgian legation in Paris (1920-21).

The Woytinskys arrived in Berlin in 1922. Wladimir wrote articles for many newspapers on economic subjects. Emma was his scientific partner, and dedicated herself solely to this mission, since she was childless. In 1923, work began on the great statistical almanac *Die Welt der Zahlen* (*The World of Figures*), which established Woytinsky’s reputation as an economist to be taken seriously. In 1929, he became head of the statistical department of the General German Trade Union Alliance (ADGB), and thereafter served as a member of the ADGB’s executive board. “Woytinsky remained at his post to the very last day on which the German trade union movement was alive,” wrote Alfred Braunthal (Federation of Free Trade Unions) in 1960. “When the Executive Board of the ADGB decided to accede to the Nazis’ demand that the trade unions participate in the May Day parade [May 1, 1933], Woytinsky was the only member to cast his vote against this decision. The freedom fighter who had been imprisoned by the tsarist regime, who had been imprisoned by the bolshevist regime for the same reasons, who had left his native country because he could not live in servitude, could not accept compromise with Fascism either. On the day he cast his vote against any compromise with the Nazis, he resigned

his office and sought refuge in democratic Switzerland.”<sup>1</sup>

After stopovers in Zurich, Paris, and Geneva, where he worked for the International Labor Office (1933-35), he and his wife emigrated to the United States in 1935, where he became a U.S. citizen in 1941.

He had arrived in the America of President Franklin Delano Roosevelt, and was inspired by Roosevelt’s personality, and by the determined, if pragmatic, way the President attacked and solved the problems of the world economic crisis. In his autobiography, the things Woytinsky chooses to report and emphasize concerning FDR, says much about his own attitude.<sup>2</sup> He quotes the closing words of Roosevelt’s first inaugural address: “The only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed effort to convert retreat into advance.” Woytinsky associates this with the following passage from the speech Roosevelt was working on the day he died: “We must go on to do all in our power to conquer the doubt and the fears. . . . The only limit to our realization of tomorrow will be our doubts of today.”

Woytinsky relates an amusing story around the visit of the British royal couple to the United States. The newspapers reported that the President had told the king: “Call me

*Continued on page 28*

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1. Alfred Braunthal, “Adviser of the European Labor Unions,” in Emma S. Woytinsky, *So Much Alive: The Life and Work of W.S. Woytinsky* (New York: Vanguard Press, 1961), pp. 85f.

2. Wladimir Woytinsky, *Stormy Passage: A Personal History Through Two Russian Revolutions to Democracy and Freedom: 1905-1960* (New York: Vanguard Press, 1961), pp. 499ff.

billion for railroad construction, and RM 300 million for road construction. "Rationally and economically," it is "completely unobjectionable" to realize the value of previously unutilized surpluses, "by making them available, along the credit pathway, for the performance of economically reasonable and necessary tasks."

"With such an investment and credit policy, the imbalance between supply and demand on the domestic market will be remedied, and all production will once again be given a direction and a goal. If, however, we fail to institute such a policy, we are headed for inevitable, continued further collapse, and the complete gutting of our national economy, moving into a situation that will force us, in order to avert a domestic catastrophe, into taking on short-term public debt purely for purposes of consumption; whereas today, it is still within our power, to pre-empt this credit for productive purposes, and thereby to bring both our economy and our public finances back into balance."

The actual stimulus-effect would kick in, "at the point

when industries that are put into a particularly favorable situation through their delivery of materials for these public works, would be able to drastically draw down their stockpiles, and would therefore be obliged to produce more than they had been producing before."

The resulting debate also inspired the head of the (partly ADGB-financed) Berlin Institute for Cultural Research, Ernst Wagemann—one of the people whom Woytinsky had had in mind when he described the "meteorological point of view." Up to the autumn of 1931, Wagemann had been at a loss concerning how to change the economic situation, but after this, he began to make proposals similar to those of Woytinsky and Lautenbach, such as the well-known "Wagemann Plan."

Likewise, in the autumn of 1931, the Society for the Study of the Economics of Money and Credit was founded around the industrialists Heinrich Dräger and Wilhelm Grotkopp, the latter of whom can be credited with rescuing the work of the "Reformers" from obscurity, in his 1954 book, *Die große Krise (The Great Crisis)*. The society's ideas found an outlet

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*Continued from page 27*

Franklin; I shall call you George." And that became a very popular saying at the time.

Naturally, Woytinsky also favorably compares Roosevelt's economic policy with the deflationary catastrophe of the Weimar Republic: "Was not FDR building his nation as effectively as Brüning had been destroying the Weimar Republic? Simple people whom we met in all parts of the country called Roosevelt *their* President."

Woytinsky's first job in the United States, was with the Central Statistical Board (1935), followed by positions in various social-policy committees, and then, for many years (1942-47) with the Social Security Board, where he helped build the very system of pension and unemployment insurance that the "Conservative Revolution" wants to take down today. After that, he worked on various scientific projects sponsored by the Rockefeller Foundation, Johns Hopkins University, and the Twentieth Century Fund. Two extended lecture tours took him through the Far East and Ibero-America. He died in Washington, D.C., on June 11, 1960.

### **Woytinsky's economic ideas**

Today, Woytinsky is often lumped in with the "Keynesian" camp. Aside from the fact that this label irritated him personally, it is also simply not true. For one thing, Woytinsky had his own original ideas, and had developed his concept of "active economic policy" years before Keynes's *The General Theory of Employment, Interest, and Money* was published in 1936. Secondly, Keynes's *deficit spending* (increasing the national debt) was funda-

mentally different from Woytinsky's concept of creating additional purchasing power through state credit creation for productive purposes. And thirdly, Woytinsky had never proposed that people should completely unproductively "dig big holes in the ground, and then fill them up again," in order to protect their purchasing power. On the contrary, Woytinsky proposed great infrastructure projects for "the reconstruction of Europe."

Although his educational background included physics, Woytinsky's *métier* was not really the science of physical economy, as Lyndon LaRouche developed it beginning in the 1950s, which investigates the connection between scientific discoveries, their technical application, and increases in living standards and population potential. Nevertheless, in a certain sense, Woytinsky does represent the social side of physical economy, which is vitally interested in furthering the technological development of industry and agriculture, and which considers this to be the indispensable means of achieving better living conditions for the population at large.

On the other hand, Woytinsky probably would not have wanted to be remembered as a "Listian," either, even though he was a member of the Friedrich List Society and, just as List before him, he had pressed for a combination of free entrepreneurial initiative and important supervisory functions being performed by the state on economic policy. Woytinsky also repeatedly emphasized the importance of education and culture for a state's economic health.

Woytinsky was, first and foremost, a "statistician," not the least on the authority of his great seven-volume opus *Die Welt der Zahlen*, which assembled economic and polit-

in Robert Friedländer-Prechtl's journal *Wirtschaftswende* (*Economic Revolution*), which was chiefly funded by Dräger. The journal's philosophy took as its point of departure, strict adherence to requirements of the real economy: "An economy, therefore, never produces money, but always exclusively commodities."<sup>9</sup> Especially during 1932, numerous variants of Woytinsky's and Lautenbach's proposals were discussed in the pages of *Wirtschaftswende*.

### The Woytinsky-Tarnow-Baade plan

The trade-union wing of the Reformers group was led by Woytinsky, Fritz Tarnow, and SPD member of the Reichstag (parliament) Fritz Baade. But Woytinsky was also a member of the List Society, and was later invited to appear as guest speaker before Dräger's study society.

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9. Robert Friedländer-Prechtl, "Gereke-Plan," *Wirtschaftswende*, February 1933 supplement (as it went to print, Schleicher was still in the government), p. 12.

Baade was the agricultural policy spokesman for the SPD's parliamentary group. His attitude toward the real economy can be summed up by the fact that he considered it absurd, that "people should starve in front of over-filled granaries."<sup>10</sup> For him, that spoke for the necessity to adopt an "active economic policy."

Fritz Tarnow, who headed the Woodworkers Union, had already independently laid out his own theory of purchasing power in his 1928 book, *Warum arm sein? (Why Be Poor?)*. Tarnow was convinced (in complete agreement with Gottfried Wilhelm Leibniz and Friedrich List) that excessively low wages hurt all of society, whereas realistic wages ensure adequate purchasing power and sales opportunities on the domestic market. Members of the "red trade union opposition" held up Tarnow as an object of ridicule, because he

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10. Fritz Baade, "Fighting Depression in Germany," in Emma S. Woytinsky, ed., *So Much Alive: The Life and Work of W.S. Woytinsky* (New York: Vanguard Press, 1961), p. 64.

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ical data, explanatory texts, and brief analyses about the most important countries around the globe. In order to assemble it, the two-person team of Wladimir and Emma did the work of an entire army of experts who are usually required to put together such a comprehensive work.

In an article he wrote on "Limits of Mathematics in Statistics,"<sup>3</sup> Woytinsky reveals the true secret of successful statistical forecasting: One must start from the correct hypothesis. "Actually, in order to use the consumption function or any other crystal ball in economic forecasting, you must have an opinion on the trend of events. If your opinion is sound, there is a fair chance that you will pick the formula which later will be vindicated; if your judgment is poor, you will gamble on the wrong formula."

Woytinsky's disdain for the "magic of mathematics" goes further still. He believed that it was impossible to find an adequate mathematical representation of anything pertaining to the content of the statistics, the economic world and the world of human relations, because these involve living processes: "Every time we try to measure the phenomena of this world, we discover that, like all living things, they defy precise measurement . . . and yet without quantitative analysis we cannot understand and appraise them. Mathematical devices are necessary in this work, but the mathematical laws which control the Euclidean Universe cannot be extended to human relations. Their quantitative analysis requires more than mathematical skill and familiarity with the field from which the data

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3. Wladimir Woytinsky, "Limits of Mathematics in Statistics," *The American Statistician*, Washington, D.C., February 1954.

come. It requires imagination and intuition. Such an analysis is an art more than a science."

Like LaRouche, Woytinsky also never propitiated "authoritative" expert opinions. The experts had all predicted that after the war's conclusion, shutting down the war economy would bring mass unemployment, flagging demand, and declining living standards. Woytinsky was the only one who, long before the war had ended, had forecast an extended postwar economic upswing, because he had seen what economic forces had been set free by Roosevelt's war mobilization and the structural changes associated with his New Deal.

Just think of it: Woytinsky loved his new homeland, and he cherished his fellow Americans for their freedom-loving culture, their vitality, their mental agility, and their willingness to change—the qualities that made it possible for the United States to emerge as the world's leading economic power in the 1950s and 1960s.

It is easy to see that Woytinsky cannot possibly fit in with today's ruling financial elite's agenda of "globalization" and "budget-cutting mania." Both the German government, and the Social Democratic opposition in Bonn, should well heed Woytinsky's warning: "A society that fails to provide normal opportunities for employment for a large proportion of its members has forfeited its right to exist, and even if it still retained that right, it would not have the power to defend itself against disruptive forces within and without."<sup>4</sup>—*Gabriele Liebig*

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4. Wladimir Woytinsky, *Three Sources of Unemployment* (Geneva: International Labour Office, 1935).



## What is productive credit creation?

According to Gabler's economic lexicon, credit creation is "the creation of money through the issuance of credit," since most of the world's money originates through the issuance of some form of credit. Banks and central banks can create credit and/or money. If a bank purchases an asset (a bill of exchange, bond, stock, etc.) from a non-bank, the bank pays for it with a claim on itself, by issuing a note to the buyer. If the possessor of this note then withdraws it from the bank, the amount of money in circulation is increased by the amount on that note. Strict limits are placed on such credit or money creation by banks, either through limiting the banks' liquidity directly, or through restricting the amount of credit they can obtain from the central bank. The central bank is therefore the ultimate source of all credit and money.

Productive credit creation differs from other sorts of credit, in that certain restrictions are also placed on its use—namely, its purpose must be to activate labor power and productive plant, which would otherwise go unutilized. For example: Whereas in mortgage credit, the real value of the mortgage, and the issuing institution's collateral, is the value of the actual house or land, in productive credit creation, the real value lies in the goods which are produced as a result of the issuance of the credit, thereby creating an added value which, in the optimal case, will be greater than the combined interest and amortization on the original credit.

Central bank credit creation, for example, occurs

through the issuance of relatively low-interest credit to banks, the purchasing of securities, or the discounting of bills of exchange. With productive credit creation, the central bank must take pains to ensure that the additional monetary aggregates put into circulation, correspond, at the very minimum, to a correspondingly growing aggregate of produced, economically useful goods. If, according to this method, a portion of the money remains unaccounted for, this means inflation, or the debasement of the national currency. Banking institutions are therefore well advised to avoid all forms of unproductive (and usually secretive) credit creation, which is what occurs, for example, when a central bank uses cheap credit to prop up bankrupt banks (as recently occurred in Japan), or to plug holes in the national budget by cranking up the banknote printing presses (as in Russia today, or in Germany in 1922-23).

Productive credit creation, on the other hand—for example, if Germany's central bank issued credit to finance the creation of new jobs on urgently needed infrastructure projects—is not only unobjectionable from the monetary policy standpoint, since it acts to stimulate the economy, but it would actually have a *deflationary* effect, since, by employing a great number of previously unemployed people, far more physical value (e.g., railways, housing, the necessary parts and materials) would be created, than the aggregate of goods which had been implicitly put up as collateral for the original central bank credit. (And this does not even take into account the savings in government unemployment and welfare expenditures as a result of these people becoming employed again, or the additional public revenues coming in from these workers, who can now pay taxes and contribute to the social security fund.)—*Gabriele Liebig*

had brought this belief in the beneficent entrepreneur, who voluntarily pays higher wages, back from his tour of America in 1925. And it is indeed true that Tarnow was promoting the principles upheld by Henry Ford, who paid his workers decent wages, so that they could afford to purchase his automobiles.

Although Woytinsky was not personally present at the abovementioned conference of the List Society, soon thereafter he signed on to the proposal for a job-creation program oriented toward the German economy alone, and for financing via the Reichsbank. He did so in close consultation with Tarnow and Baade. Whereas in a Dec. 9, 1931 memorandum, Woytinsky was still talking exclusively about international job creation through gold bonds issued by the Bank for International Settlements (BIS), only two weeks later, on Dec. 23, Baade, Tarnow, and Woytinsky presented their "Theses on Combatting the Economic Crisis" to the ADGB's executive board. In this document, the idea of international job-creation

through "the undertaking of public works on a grand scale," is complemented by a section on "combatting the crisis within the framework of Germany's own economy":

"We fear that irrationality in the world economy and in world policymaking, has already assumed such proportions, that effective anti-crisis measures on the international level will not come about as speedily as is necessary for Germany to survive. For this reason, the German Social Democracy must develop, alongside its demand for an international understanding for purposes of international job creation, a very concrete program for combatting the crisis within the framework of the German economy alone. This national salvation program must not be confined to general demands, but it must very concretely lay out the measures that the public sector of the economy must take, and also how these measures are to be financed.

"The central feature of these planned economic anti-crisis

measures, must be the employment of 1 million unemployed, in public works projects. . . . The creation of jobs will spark a revival of the consumer goods industry, thereby sucking a further, considerable number of unemployed back into employment.

“A sum of approximately 2 billion reichsmarks would be required to finance these public works projects. Whatever portion of this amount cannot be raised by any other means, must be made available via a cash loan from the Reichsbank.

“Such a one-time cash loan of a fixed amount, linked to a stipulation that it be used for labor, poses no danger of a repeat of the runaway inflation of 1922-23. The guarantee against such inflationary effects, lies not in its fixed amount and restrictions on its use, but rather primarily in the fact, that today, we have a huge amount of unutilized capacity in our productive apparatus. Consequently, increases in production can, without difficulty, follow along in the wake of planned increases in purchasing power.”<sup>11</sup>

These theses were incorporated into the final “WTB Plan,” the job-creation plan of Jan. 26, 1932, issued under Fritz Tarnow’s signature:

“The plan should ensure the rapid reabsorption of approximately 1 million unemployed back into the production process. In order to achieve this goal, the Reichsbahn, Reichspost, and municipal and other bodies, must issue contracts on a scale sufficient to create employment, directly or indirectly, for 1 million unemployed persons. . . . The contractees will receive an equivalent long-term loan at a low rate of interest and amortization, against promissory notes which are paid out by Reichskredit AG (or other suitable institutes) and are rediscountable at the Reichsbank.”<sup>12</sup>

## The year of decision

January 1932: The army of unemployed has swelled to 6 million. In his diary,<sup>13</sup> Julius Leber writes that the Nazis and Communists are rejoicing: “For, their mother is misery, and the desperation of an entire people, who sees no other way out of the turmoils of a present that no longer makes any sense.” But the SPD leadership must have seen it the same way, since otherwise, it is impossible to fathom why the SPD’s top men—parliamentary faction leader Rudolf Breitscheid, party boss Otto Wels, and economic experts Hilferding, Naphtali, and Bauer—acted to sabotage the WTB Plan!

The SPD leadership’s main argument was that the

ADGB’s plan was “inflationary.” Hilferding’s attitude could possibly be explained by the fact that he had been Germany’s economics minister in the 1920s during the hyperinflation. It was at his urging, that the German cabinet had decided in 1923 to introduce the rentenmark. And yet, he was now arguing, to his Marxist audience, that anyone who wants to assist the capitalist system when it is in trouble, is no Marxist. The Communists had the same argument: The working class is not here to play “doctor at capitalism’s sick-bed.” Otto Wels took offense at the ADGB’s sudden desire to set the tone of the party’s policies. But the SPD bosses’ most stubborn resistance was against the idea of financing via the Reichsbank’s creation of additional purchasing power; and in this, they joined ranks with Reichsbank President Luther and his predecessor Hjalmar Schacht, who at that very moment was pushing full-steam ahead with his “Hitler project.”

Breitscheid and Hilferding’s ideological proximity to Schacht can be partly explained on the basis of their shared past history. In earlier years, Breitscheid had worked alongside Schacht in the Trade Treaty Association and had given Schacht propagandistic support from the left-liberal side. Schacht, for his part, cleverly built up the legend that he, and not Hilferding, was the celebrated “creator of the rentenmark” in 1923. Such details can certainly make the situation more understandable; but by no means can it excuse the SPD’s obdurately pig-headed behavior.

The conflict between the SPD and the trade union leadership came to a head at a federal committee meeting on Feb. 15-16, 1932. The SPD did not oppose the job-creation program as such, but it demanded that it be financed via a so-called “people’s bond.” It was, however, completely unrealistic to think that such a bond could ever be successfully placed on the capital market. The session ended with a compromise: The ADGB adopted the demand for a “people’s job-creation bond,” but with the proviso that those portions of the bond that could not be floated, should temporarily function “for the banks as interim financing, discountable at the Reichsbank,” for purposes of job-creation. The SPD, for its part, agreed to hold an extraordinary “ADGB Crisis Conference,” which was to be exclusively devoted to discussing job creation.

The opening shot had been fired for a broad-based campaign in favor of job creation. The Crisis Conference took place on April 13, 1932, and was a great success. Brüning did not personally attend, but he did send his labor minister, Stegerwald. ADGB chairman Leipart directly attacked the government’s deflation policy: By destroying the masses’ purchasing power, the country’s industry, trade, and retail sales were being driven into evermore dire straits, and “unemployment has grown with each successive assault on wages.” With each new emergency measure, the number of unemployed took an additional leap, and the political radicalization along with it. As for Brüning’s argument that large-scale job creation was not possible because it conflicted with Germany’s national foreign-policy interests, Leipart retorted: “It is my view, that this

11. “Thesen zum Kampf gegen die Wirtschaftskrise, vorgelegt von Dr. Baade-Tarnow-Woytinsky,” Berlin, Dec. 23, 1931, manuscript in the DGB archives at the Friedrich-Ebert-Stiftung, published in Michael Schneider, *Das Arbeitsbeschaffungsprogramm des ADGB* (Bonn-Bad Godesberg: Verlag Neue Gesellschaft, 1975), pp. 225ff.

12. “Der Arbeitsbeschaffungsplan (Baade-Tarnow-Woytinsky),” Berlin, Jan. 26, 1932, manuscript in the DGB archives at the Friedrich-Ebert-Stiftung, published in Michael Schneider, *op. cit.*, pp. 231ff.

13. Julius Leber (and Gustav Dahrendorf, ed.), *Ein Mann geht seinen Weg* (Berlin-Frankfurt: Mosaik Verlag, 1952).

overexaggerated concern about our foreign-policy interests, which is preached to us ceaselessly, has gone too far.”<sup>14</sup>

Wilhelm Eggert then presented the job-creation program. In keeping with the WTB Plan, it foresaw 2 billion reichsmarks, which would serve as the “sparkplug” for reintegrating 1 million unemployed back into the production process. The projects he named were maintenance and improvements on the road network, river levees, home construction and home repair, housing projects, and agricultural improvements, as well as contracted jobs for the national postal service and

14. Michael Schneider, *op. cit.*, p. 93.

railway. The program was to be financed through funds which would otherwise have been spent on unemployment checks; through tax revenues and unemployment insurance payments by those who had been re-employed; through additional sales tax revenues; and through the SPD’s “people’s bond,” whereby any unsold portions of the bond would be made discountable at the Reichsbank, and would serve as a basis for interim financing.

Following Eggert’s presentation, a resolution was passed to adopt the WTB Plan as part of the ADGB’s official program. It contained only one flaw: its vagueness regarding the means of financing. In *Die Arbeit* (Vol. 3, 1932), Woytin-

## ‘Again and again: create jobs!’

*Extracts from an article by Wladimir Woytinsky appearing in Gewerkschaftszeitung No. 11, March 1932. (All emphasis is in the original.)*

The past few weeks’ public discussion has cleared the air on the problem of work creation, in more than one respect. No longer do we need to poke around in the dark for the right direction: The road ahead of us is open, we know where it leads, and we know the dangers that have to be avoided. The *necessity* for work creation is no longer seriously disputed by anyone. The dispute now, is over *whether it is possible*, with the means available to the state, to carry out the action on a scale appropriate to the seriousness of the situation, and in accord with the trade unions’ wishes. In its resolution, the national committee did not give any definite figures, and did not recommend any definite plan for work creation. Up to then, the discussion had revolved around proposals made in the trade union press by individuals acting on their own responsibility.

As things stand now, the starting-point for the action must be the following, doubly depressing picture: On the one hand, huge, bottomless misery which cannot be eliminated at a single stroke, and which one can only hope to ease somewhat; and, on the other, empty government coffers, and no free energy for bold, effective measures. Therefore, we make the double demand: *Create work for the greatest possible number of people, with the least possible expenditure of money!* . . .

The magnitude [of the credit] is important, and the ADGB can take responsibility for it:

*Employ 1 million workers with a total expenditure of 2 billion reichsmarks.*

The choice of the object of this labor, must take into account the requirement that *the largest possible number of workers* be employed *productively*, without exceeding the indicated cost ceiling.

The central feature of the technical side of the work-creation plan, must be *road building*, namely, the maintenance, and, over and above this, the modernization of our national road network. No one doubts the need for these projects and their economic profitability; the plans have long been ready on the drafting-boards, and the wage component of the total cost is relatively high. . . .

In 1931, the road construction work envisioned by the relevant authorities, remained undone. We must now demand that in the upcoming construction season, we make up for lost time:

*One billion reichsmarks for road construction!*

Next to road construction, one of the most important elements of the work-creation program is *housing construction*—namely, the construction of small homes which can be easily rented out, and which are therefore a safe capital investment. The shortcoming of housing construction within the framework of the work-creation program, is that the investment cost per worker employed, is rather high. But the great advantage of this sort of work creation, is that here, in the form of a home, a *commodity* has been created, which has a commercial value; and that makes it considerably easier to finance the action. In order to rebuild or expand RM 100 million of roadway, the government must spend RM 100 million; whereas with housing construction, the state will be able to set a total of RM 100 million into motion, by making only about half that amount available to construction firms on affordable terms.

*Water-control projects* have the advantage of having the highest wage component of the total investment; but they cannot employ all that many people. With *irrigation works*, most careful attention must be paid to the selection of the projects to be undertaken, since here the danger that the investment will fail, is greater than with any other kind of project. We therefore conclude:



sky had detailed the way in which the unsold portions of the bond were to “serve the banks as the basis for interim financing”: “Those public bodies legally considered to be initiators of the public works, shall issue notes to those corporations that are entrusted with carrying out those works.” These notes could then be purchased by the banks, which could then turn around and “rediscount them at the Reichsbank.” The resolution of April 13, 1932, however, did not contain the crucial reference to discountability at the Reichsbank. Instead, it only said that, “Insofar as portions of the bond are not completely sold on the capital market, they shall serve the banks as the basis for interim financing

of job creation.”<sup>15</sup>

Tarnow, in particular, was adamantly opposed to compromising on the matter of the bond. And Woytinsky had repeatedly emphasized that “combatting the crisis, means creating jobs. And anyone who has pronounced the words ‘job creation,’ has already started talking about credit creation.”<sup>16</sup>

15. “Wiederaufbau durch Arbeitsbeschaffung, Beschluss des Ausserordentlichen Gewerkschaftskongresses vom 13. April zu Berlin.” *Gewerkschaftszeitung*, No. 17, April 23, 1932, cited in Schneider, *op. cit.*, pp. 235f.

16. Wladimir Woytinsky, “Wann kommt die aktive Wirtschaftspolitik?” *Die Arbeit*, No. 1, 1932, p. 24.

*One billion reichsmarks for housing construction, water-control projects, economically justified irrigation works, and contracts for the national railway and postal service!*

### The financing

If we go with such a work-creation program, we must also be clear on how the required funds are to be raised. How will it be possible, given the present tight state of our public finances, to free up 2 billion reichsmarks? We must counter with the utmost vigor, any suspicion that we want to create the money out of thin air, or that we are somehow toying with the idea of inflation. The crucial question here, is *simply organization, in accordance with Reason*.

A considerable portion of the costs of work creation can be covered by government funds which would otherwise have gone for unemployment checks, as well as by taxes and revenues which will be paid by those employed in the public works.

For every person currently receiving public support, the unemployment insurance fund, the crisis support fund, and the welfare offices pay out more than RM 60 each month (including social security payments). They must be obligated to pay RM 2 per completed workday for every person employed in public works (i.e., one-third of the amount they are currently putting into emergency projects). With 1 million people so employed, and with preferential hiring of the most needy, who are currently putting the greatest burden on the unemployment insurance fund, *approximately RM 800 million in public support can be saved, and RM 200 million can remain freed up to be put toward relieving the stress on the relevant public institutions. RM 600 million is to be used for covering the costs of job creation.* To that end, tax revenues must be used, which will be drawn from those employed in the public works—taxes which, as unemployed people, they are currently unable to pay: income tax, citizens’ tax, housing rental tax, totalling about RM 200 million. The same also applies to the 6.5% deduction from gross wages for unem-

ployment insurance. By these means, *a further RM 300 million can be freed up for job creation.*

Thus, almost one-half of the expenditures required for job creation, can be made available without putting the slightest burden on the government budget, and without resorting to credits. We must go further still, emphasizing that these actions hold out the prospect of a *perceptible easing* of the load on public finances. We already spoke earlier about the easing of the load (to the tune of RM 200 million) on the agencies which must pay unemployment benefits. On top of that, they will save about the same amount because of improved employment in the consumer goods industries (secondary effects of public job creation). At the same time, new revenues from consumer taxes, sales tax, transportation tax, as well as from additional employment in the consumer goods industries, will flow into the state’s coffers. With all due caution, we can estimate the actual additional state revenues at about RM 300 million.

These considerations permit us to more precisely define the problem of financing work creation, as follows: RM 1,100 million is to be freed up, in order to employ 1 million people for one year, after which period the unemployment funds will have saved about RM 400 million, while the government will have received about RM 300 million more revenues, and about RM 2 billion in new value will have been created for the economy.

That is the deal we propose, and that is what the opponents of this action are branding as dangerous *inflation*.

To pre-empt that objection, let it be said, that the trade unions are firmly resolved to protect Germany’s currency against the danger of inflation, as we all experienced this during the postwar years. The trade unions will only agree to a definite plan for work creation, when they are rock-solid certain that it involves no danger of inflation. On the other hand, work creation *on a grand scale* is impossible without expansion of credit. The problem, therefore, can only be put as follows: *work creation based on the required expansion of credit, but avoiding any danger of inflation!*

## Brüning's dilemma

Woytinsky thought that the SPD was making a serious mistake by refusing to act jointly with the trade unions to force Brüning to face the problem with his deflation policy. In his autobiography *Stormy Passage*, which was published long after he had emigrated to the United States, Woytinsky wrote, "It seems to me that I saw—physically, with my eyes—how Brüning was leading Germany to a tragic end. At a time when evaporation of purchasing power and decline in prices were the main evils, he treated the country to ever more deflation, and with each step he took, unemployment increased, the Nazi-Communist tide mounted, and the country came closer to the abyss. Yet Brüning was a man of high intelligence and irreproachable integrity. His suicidal policy stemmed from his general philosophy. He feared the phantom of a runaway inflation; he did not like the idea of pampering the unemployed by creating jobs; and he thought that a public works program was a luxury Germany could not afford.

"Brüning, however, must not be blamed too severely for his errors. He shared his false ideas with many of his advisers in his own and the Social Democratic Party. Had the latter not supported his policy, he might have abandoned it."<sup>17</sup>

Here, Woytinsky clearly grasps the Classical-tragic nature of the situation, and he is aware of the *punctum saliens* or "jumping point," as the poet and playwright Friedrich Schiller put it: the point at which decisive actions had to be taken if catastrophe was to be avoided. In this particular historic drama, there were essentially two such "jumping points." The first one came while Brüning was still chancellor; the second, as we shall see, involves General von Schleicher's last-minute attempt to avert the Nazi catastrophe.

In the early summer of 1932, Brüning was in fact on the verge of junking his own deflation policy in favor of a job-creation policy, as Government Director Lautenbach had been urging him to do. Nevertheless, his overriding priority remained to first free Germany, by diplomatic means, from the intolerable burden of war-reparations payments. In June 1931, the "Hoover moratorium" had postponed all German reparations payments for the period of one year. An international conference was to be held early in 1932, in order to finalize a complete write-off of the debt. As soon as that was out of the way, Brüning wanted to deal with the unemployment problem in earnest. But the international conference kept getting postponed, and shortly before it finally convened in Lausanne, Switzerland in June, Brüning's government was toppled—"only 100 meters from the finish-line," as he bitterly observed later on—on May 30, 1932. The specific incident which toppled him, was absurd: The large landowners' parliamentary group—the social base of von Papen, who succeeded Brüning as chancellor—accused Brüning of "agro-

17. Wladimir Woytinsky, *Stormy Passage. A Personal History Through Two Russian Revolutions to Democracy and Freedom: 1905-1960* (New York: Vanguard Press, 1961), pp. 466f.

bolshevism" because his agricultural reform had been too light-handed.

But what was the real reason why Brüning's government collapsed? It certainly wasn't his deflation policy, since one of von Papen's very first acts was to enact still more ruthless emergency cuts in social services and wages. No, Brüning was toppled just before the reparations problem was about to be finally settled, thereby clearing the way for the long-prepared turnaround in economic policy.

Already in early 1932, Woytinsky was writing in *Die Arbeit* about the possibility of such a policy-shift. The emergency decree of Dec. 8, 1931 had just lowered wages to either the level of 1927, or a maximum wage reduction of 10%; standard prices and rents for pre-war housing were likewise cut by 10%, and a 6% ceiling was imposed on interest rates. In his January 1932 article, Woytinsky admonished the SPD to finally take a decisive stand against this "cutback mania." He pointed out a very revealing ancillary feature of Brüning's latest emergency decree: "After the announcement of the Dec. 8, 1931 emergency decree, the government called in the representatives of the press, to clarify the rationale behind the momentous decisions that had just been made. The finance minister explained that this emergency decree marked *the end of the era of deflationary policy in Germany*. What the German people were currently being asked to do, he explained, had pushed them to the very limit of their tolerance and willingness to sacrifice. Wages and salaries could not be reduced any further than what the new emergency decree had done, because otherwise they may face the specter of serious threats to the state and to society at large."

The chancellor expressed his own view in similar terms: "The emergency decree is an absolutely integrated whole, from which no individual part can be subtracted. As of this moment, we are *marking an end of the deflationary policy that has been forced upon us*."<sup>18</sup>

Woytinsky called upon the SPD to fight more energetically against the deflationary content of the emergency decree. But at the same time, the decree demonstrated the possibilities available to the state, to intervene into the economy: "In this regard, the fourth emergency decree was an impressive test case: Now that it has been proven that the government possesses the power to alter, in a single stroke, and in accordance with a definite plan, not only wage rates, but also interest rates on current contracts, the demand for a forceful 'pump-priming action' no longer seems so far-fetched and utopian."

But before Brüning could complete his policy-shift with "credit expansion," he and his cabinet were dismissed, right in the midst of their preparations.<sup>19</sup>

18. Woytinsky, in *Die Arbeit*, No. 1, 1932, quoting from the *Berliner Tageblatt* of Dec. 9, 1931.

19. See Gustav Stolper, *Deutsche Wirtschaft seit 1870* (Tübingen: Mohr [Siebeck], 1964), p. 138.

## Exposing Germany's 'hidden unemployment'

*Below is an excerpt from a speech which Wladimir Woytinsky delivered in November 1932 at a seminar organized by Dr. Gereke, the head of the Congress of Rural Municipalities (Landgemeindetag). It was printed in Friedländer-Prechtl's Wirtschaftswende, in a special issue on job creation. Unemployment had already peaked in early 1932, and by the time the article appeared in February 1933, official figures had slightly decreased to about 5.5 million, or 26.9%. But if the hidden unemployment in 1932 is included, it was 7.6 million, or 37.2%.*

The problem of our time is mass unemployment. On the basis of the unemployment offices' data, the number of unemployed in Germany is usually estimated as 5-5.5 million. This calculation is misleading: The unemployment offices don't count all the workers who have been pushed out of the regular labor process. There are about 21 million working-age people in Germany; not including sick people and young mothers, there remain 20.4 million people, who are able to work and depend under normal circumstances on selling their ability to work. Out of these, according to official health insurance statistics, about 12.8 million are regularly employed. The number of people without a regular job is therefore 7.6 million! Five to 5.5 million of them are registered at the unemployment offices; more than 2 million are not seen by them.

This "invisible unemployment" has come into existence gradually; since 1929, it has grown continuously.

Because of added restrictions on the right to unemployment support, and the vanishing perspectives for finding a job via the unemployment office, the number of unemployed staying away from the unemployment offices is increasing, because they don't expect any help from there.

At the same time, yet another form of "hidden unemployment" is becoming increasingly significant: short work. According to reports from the trade unions, 40% of the employed are currently on short work.

Thus, only one-half of the power of labor, the only source of common wealth, is currently being utilized! Such a situation can no longer be tolerated.

These stated facts cannot be countered by pointing to the circumstance that some of the unemployed—most likely the same number as make up our hidden unemployed—sometimes find some kind of employment, somewhere. It is obvious that, if 7.5 million people are pushed out of regular employment, and several million more work only part of the week in the companies, a kind of invisible economy must emerge. Off-the-books employment of all sorts, occasional services to neighbors, miserable subsistence economy in small gardens, door-to-door and street sales, and similar activities are expressions of the disorganization of the regular labor market.

Neither this miserable self-help nor the support for the unemployed in their family household can remedy their misery. Misery drives people into desperation, turning them into victims of demagoguery, and shakes the foundations of the state. The political and constitutional crisis of our time is but the shadow which mass unemployment is casting over the life of our state. The active fight against unemployment must be the pivot of government policy. In the face of the urgency of this task, all other problems have to step into the background for the time being.

### From the WTB Plan to the trade-union axis

The labor movement could not, and would not have any truck with the von Papen regime. Franz von Papen imposed still harsher cuts in wages and social services, wanted to bring Hitler into his cabinet as vice-chancellor—an offer that Hitler refused—lifted the ban on the National Socialist paramilitary organizations, the SA and the SS, which had been outlawed under Brüning, dismissed the government of Prussia, and was able to govern only so long as Hitler tolerated him.

Nevertheless, the work creation program of the ADGB and of the other Reformers did set the tone of the general public discussion about a serious economic counter-program. Creation of jobs through state credit creation became the central focus of a broad-based community of interest among a plethora of private groups and social organizations, each of which advocated one of the many variants of the WTB Plan.

These included, in addition to the mass organizations—the ADGB, the Free Trade Unions (Adolf Reichwein), and the Christian Trade Unions (Adam Stegerwald)—the abovementioned Society for the Study of the Economics of Money and Credit (Heinrich Dräger, Wilhelm Grotkopp), the Institute for Conjunctural Research (Ernst Wagemann), the Congress of Rural Municipalities (Günter Gereke), the German Congress of Cities (Oskar Mulert), the SPD-allied Reichsbanner, and many more.

A few examples will illustrate the liveliness of the debate which broke out in the wake of the ADGB's spring congress: In the publication *Gewerkschaftszeitung*, Woytinsky commented on the attitudes expressed in other press outlets on the WTB Plan. One of these which he singled out, was the *Frankfurter Zeitung* (predecessor of today's *Frankfurter Allgemeine Zeitung*), which "claims the dubious distinction

of leading the chorus of opposition to work creation.” The newspaper had warned that the reaction to adopting a work-creation program would pose the “psychological threat of a run on the market, and a general rush into physical assets.” Woytinsky angrily retorted, “The paper evidently doesn’t care to recognize the threat of chronic unemployment, which drives people to despair and undermines the very foundations of social and political life. It doesn’t note the existence of such ‘psychological threats’ as the sense of insecurity that is overtaking ever greater parts of the population, the rise of political radicalism, the specter of civil war haunting our land. It apparently knows nothing about the connection between *these* dangers, and mass unemployment.”<sup>20</sup>

On the industrialists’ side of the Reformers’ camp, Heinrich Dräger, in the second special supplement to *Wirtschaftswende*, called for “productive credit creation” for the purpose of work creation, on the order of RM 2 billion initially, and, if the program succeeded, another RM 5 billion later. He pointed out that not even the completely unproductive creation of RM 1 billion in 1931 “on behalf of the banks and savings institutions,” had led to the slightest price rises or inflation. It was therefore “irresponsible, to simply declare that this course [of credit creation] can only be taken if it serves as a support action for the big banks, while *branding it as a heinous crime*, when the idea is to make the plentifully available *labor opportunities* in Germany *useful* for a portion of all those who are hungering for work”<sup>21</sup> (emphases added).

This debate over work creation, combined with the visible emergence of a broad-based coalition of social forces on this issue—the so-called “trade-union axis”—culminated in a marked shift in popular attitudes in late 1932, which showed up in the fact that in the November parliamentary elections, the National Socialists received 2 million fewer votes than they had back in July. Julius Leber described the mood during the campaigning in October: “The same people who, only six weeks ago, were enthusiastically braying ‘Heil Hitler,’ are today going to great lengths to ensure that no one ever again touch this sore spot in their past. For, no longer is Hitler a good guy, no longer is he simply the best; virtually overnight, he has become passé.”<sup>22</sup>

The WTB Plan had taken the wind out of the Nazis’ sails on the unemployment issue, through the mere fact that the *trade unions* had called for the creation of 1 million socially useful workplaces. It is admittedly true, that already back before the July elections, Gregor Strasser, Adolf Hitler’s rival, had been able to push the Nazi Party, the NSDAP, into adopting and massively pushing an “emergency program” which echoed the WTB Plan on many points; but Hitler, presumably at the behest of Schacht and his powerful friends, had already

beaten it down by September, and on Oct. 22, it was explicitly withdrawn by the party’s propaganda department.<sup>23</sup> The Nazi Party remained deeply split, however, and the Nov. 6 election losses shook it to the core, driving Goebbels to contemplate suicide. The situation was ripe, to knock the Nazis completely from the field.

And so, the Reformers had intervened into history, and had enjoyed visible success in changing political reality. And the most clear-headed thinker in the Reformers’ group, was Woytinsky—on that, we can certainly agree with Fritz Baade,<sup>24</sup> so that it can be fairly said, that without Woytinsky, there would have been no WTB Plan; without the WTB Plan, there would have been no active trade-union program; and without the latter, no “trade-union axis” to supply the basis for an entirely new political option for getting rid of the Nazis. It was this opportunity, that former Reichswehr (armed forces) Minister Kurt von Schleicher now seized.

### The ‘social general’

During the second half of 1932, General von Schleicher held exploratory talks with most of the representatives of the “trade-union axis,” to see whether they could support a government, led by him, whose centerpiece would be work creation, and which would split the Nazis and then force them out. All the talks proceeded on a promising note; but Rudolf Breitscheid, head of the SPD parliamentary faction, refused to cooperate. Wilhelm Högner, a Social Democratic old-timer, wrote later: “But the attempt to split the National Socialist Party into a Hitler wing and a Strasser wing, and to have the Social Democracy, or even the trade unions, wield influence over the mental attitude of the Reichswehr, shouldn’t have been rejected out of hand.”<sup>25</sup>

Why so? Schleicher himself could not have been the cause of this recalcitrance on the SPD’s part. After all, in 1918 he had defended the Weimar Republic against being stormed by the Communists, and in 1923 he had defended the republic against Hitler’s putsch in Munich. Moreover, Schleicher had a reputation as a “social general”—some, less charitably, dubbed him “the red general”—and this was well before his famous July 26, 1932 speech (he was still Reichswehr minister at the time), in which he declared that the Reichswehr was neither “the military arm of a single party” nor “the protector of any one class or interest,” nor did it wish “to protect outmoded economic forms or untenable property relations.” And he considered it his highest duty, “to relieve misery, precisely in those layers of the population that are the poorest.”

Kurt von Schleicher was a longtime associate of those circles within the German electrical and chemical industry, which were interested in expanding trade with Russia, and

20. Wladimir Woytinsky, “Für und wider Arbeitsbeschaffung,” *Gewerkschaftszeitung*, No. 18, 1932, p. 277.

21. Heinrich Dräger, “Produktive Kreditschöpfung,” *Wirtschaftswende*, February 1933 special supplement, p. 34.

22. Julius Leber, *op. cit.*, p. 89.

23. See Avraham Barkai, *Das Wirtschaftssystem des Nationalsozialismus* (Frankfurt: Fischer, 1988), pp. 44f.

24. See Fritz Baade, *op. cit.*, pp. 65, 68.

25. Wilhelm Högner, *Der schwierige Aussenseiter* (Munich: Isar-Verlag, 1959), p. 74.

who, for that reason, had supported Walter Rathenau's Rappallo policy. Among these powerful figures in the German economy, was Otto Wolff, who had strongly advocated increased trade with China, and who advised Schleicher on economic matters. This faction of industrialists stood in stark opposition to the interests of Schacht and his benefactors in the Anglo-American financial world, and also to parts of Germany's heavy industry and arms industry, who supported Hitler, and who gravitated around the "Keppler Circle."<sup>26</sup>

Later on, Hitler ordered the liquidation of Otto Wolff's trading firm—an order which was only partially carried out. Schleicher's closest confidants in the Reichswehr were Maj. Gen. Ferdinand von Bredow and Gen. Kurt von Hammerstein-Equord. Bredow, together with Schleicher, were murdered in 1934 by the SS, on Hitler's orders. Hammerstein issued a call for the Reichswehr to stage an armed protest against the murders, but he was not successful. From the beginning to the very end, he was one of the forces within the Wehrmacht who remained bitterly opposed to the Hitler regime.

This background gives at least some indication of the historically unique combination of forces assembled here, which could have succeeded in seizing the rudder at the last minute, thereby preventing Hitler's seizure of power.

Schleicher's plan was eminently feasible. First, he wanted to create jobs; and, second, backed by the Reichswehr, the trade unions, and a broad-based popular movement, he would de-fang the Nazi movement by splitting its party and destroying its paramilitary organizations. This would have required him to declare a temporary state of national emergency; but the SPD rejected this, and demanded that the head of the ADGB toe the same line. Leipart continued to negotiate with Schleicher, but he could not muster the internal strength to proceed on his own, without the party's backing. In his memoirs, Social Democrat Gustav Noske bitterly accuses the SPD leadership: "With an obstinacy unparalleled in the history of all parties, people who imagined themselves to be leaders, threw away their last opportunity to save themselves and their institutions from extinction."<sup>27</sup>

As for Schleicher, after he was appointed on Dec. 2 by Hindenburg as chancellor, he kept every promise he had made to the trade unions. Combatting unemployment was declared to be the new administration's first priority. Günther Gereke was appointed as national head of the work-creation program, and he drew heavily upon the Reformers' plans. The social and wage-policy features of the von Papen emergency decrees were repealed, just as Leipart had demanded. On Dec. 15,

Schleicher delivered a policy address on radio, to explain the measures he had just taken. "Working people's incomes have been pushed way down, and any further reduction is socially intolerable, and economically pointless." But his most striking statement was this: "I am heretical enough to admit that I am neither a follower of capitalism, nor of communism. We shouldn't bash our heads in, just for the sake of some mere dogma."<sup>28</sup>

Unfortunately, the attempt to split the NSDAP ended in failure: Hitler forced a resolution of the internal party power struggle in his own favor, and on Dec. 8, 1932, Gregor Strasser had to resign all his party posts. Schacht now put everything into motion, to bring Hitler to power. But if Schleicher had had the support of the trade unions, which still possessed the weapon of the general strike, and of the Reichswehr, he could have held on long enough to show the first fruits of his work-creation program.

After a long back and forth, Reichsbank President Luther finally granted a RM 500 million Reichsbank credit for the project's first tranche (the WTB Plan had called for an initial RM 2 billion). The program was put into effect by the decree of Jan. 28, 1933. But on that very same day, the Schleicher government was toppled—once again, by von Papen, who, after the war, was to sit in the dock alongside Schacht at the Nuremberg Nazi war crimes trials. And along with Schacht, von Papen was pronounced not guilty and released, since the crimes being tried at Nuremberg unfortunately did not include the crime of having brought Hitler to power.

Robert Friedländer-Precht, the editor of *Wirtschaftswende*, commented bitterly, that the Schleicher government "had been toppled through the combined efforts of the big landowners, big industrialists, and big bank directors, who were worried that this government would not have enough respect for the nation's most sacred institutions, but rather would implement the social and economic reforms which had long been recognized to be in the best interests of the land." The real *punctum saliens* of this tragedy, however, hinged on the issues of work creation, and of the productive credit creation without which it would not have been possible. No one recognized this earlier, or more clearly, than the grouping around Wladimir Woytinsky. Fritz Baade wrote in 1960:

"The 'Reformers' recognized the latent force of the 6 million unemployed for what it was, many years before Hitler took over the country: capital in a dynamic sense, and the most important reserve for maneuvering in fighting the depression. By abdicating its power to use this capital, the Weimar Republic delivered it into the hands of the National Socialists, who mobilized it—first for the building of the highways (*Autobahnen*) and plants for the production of synthetic raw materials, and later more and more for armament and war preparations."<sup>29</sup>

28. Quoted in Friedrich Stampfer, *Die ersten 14 Jahre der deutschen Republik* (Offenbach: Bollwerk Verlag, 1947), p. 669.

29. Fritz Baade, *op. cit.*, p. 65.

26. In addition to Schacht, Thyssen, and the banker von Schröder, Hitler's group of economic advisers included Vögler (Rhenish-Westphalian Coal Syndicate), Rosterg (Wintershall AG), Reinhart (Commerzbank), Helfferich (HAPAG), and Steinbrinck (Friedrich Flick KG). See Hannes Heer, *Burgfrieden oder Klassenkampf*, Neuwied-Berlin: Luchterhand, 1971, p. 54.

27. Gustav Noske, *Erlebtes aus Aufstieg und Niedergang einer Demokratie*, (Offenbach-Main: Bollwerk-Verlag Drott, 1947), p. 311.

These are mistakes which the democratic industrialized states must not repeat today, in the midst of the current world economic crisis.

### The Nazi perversion of the Reformers' concept

In January 1933, the Nazis took over not only the organs of state, but also the work-creation program that had been drafted and adopted under Schleicher. This was much worse than plagiarism. When someone steals someone else's discovery, that is a bad enough crime per se; but it is far more catastrophic, when the thief then proceeds to falsify that discovery, twisting its aim into its evil opposite.

Two equally erroneous conclusions have been drawn from the disappearance of unemployment under the Hitler dictatorship: Either people use this as an argument in favor of a new round of fascism, which, they claim, is really quite attractive, if only one leaves the Holocaust out of the picture; or, people use it as a means of demonizing the slightest deviation from neo-liberal, monetarist dogma, as "fascistic" (or socialistic).<sup>30</sup> Today we find both arguments mixed together with neo-liberal battle-cries against the "welfare state" and democracy, while at the same time, we see, to our horror, ever more elements of the Nazis' actual policies—from the rationing of health care, to the legalization of euthanasia, to the looting of convicts' labor in privatized prisons—being introduced into public discussion, or even becoming part of day-to-day policymaking.

Once and for all, therefore, we must obliterate this Janus-headed, Nazi argument about job and credit creation.

Let us recall: As late as 1932, Schacht was still opposing all proposals for work creation, and was stubbornly preaching his gospel of wage cuts and economic austerity. To "forgo, save, and work, for a generation," was the motto he pronounced in 1931 at a conference of the Harzburg Front.<sup>31</sup> He would not listen to any talk of credit creation. "All projects which aim at printing additional money in any form, are to be rejected out of hand."<sup>32</sup>

But with the Nazi seizure of power in January 1933, the Schleicher government's work-creation program was taken over as the "Gereke Plan." From the very outset, Hitler tried to pervert it into the direction of national "self-defense" (*Wehrhaftmachung*). A few months later, Gereke, after having refused to join the NSDAP, was hit with a criminal suit over alleged misuse of huge sums of money, the real aim being to get rid of him as quickly as possible. The following

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30. Lord William Rees-Mogg, propagandist of the "Conservative Revolution," puts forth both arguments in the same article in the London *Times*, Oct. 17, 1996, titled "Europe's Fascist Spectre." Rees-Mogg accuses Franklin Delano Roosevelt and John F. Kennedy of promoting fascist policies, while at the same time pondering over what has always made fascism so "appealing"—neo-Darwinism, for example. He points out that Hitler, too, believed in the "survival of the fittest."

31. See Heinz Pentzlin, *Hjalmar Schacht* (Berlin: Ullstein, 1980), p. 158.

32. See Avraham Barkai, *op. cit.*, p. 43 (footnote).

year, Germany's military budget was increased tenfold. A total of RM 5.5 billion went for civilian work-creation projects, while over RM 40 billion was spent on such projects in the armaments sector.

And now, let us deal with the question of productive credit creation, which today's monetarists and neo-liberals frequently like to equate with Schacht's infamous Mefo bills. Such a comparison is grotesque. For one thing, the Mefo bills were not productive, but rather were highly "unproductive credit creation," since the end-product only benefitted the arms industry, and, unlike civilian projects such as railways or dams, contributed nothing to the economy's overall productivity.

Furthermore, the Mefo bills were a deliberate swindle. "Mefo" comes from "Metallurgische Forschungsgesellschaft" ("Society for Metallurgical Research"), which was a front-company for a number of large armaments firms, and whose own capital amounted to the ridiculously small sum of RM 1 million. With the support of Schacht (who had once again become head of the Reichsbank), the Metallurgische Forschungsgesellschaft issued notes whose total face-value was 12,000 times greater than its own capital: RM 12 billion. All the Reformers had been in agreement, that Reichsbank credits (or, notes which were discountable at the Reichsbank) must only be issued for a specific, well-defined task, with the precise amount determined beforehand, on the basis of thorough discussion. But under Schacht, Mefo bills were circulated secretly, without the approval of any government institution, and with no controls on their quantity, so that this mega-swindle could be used to conceal German rearmament and war preparations. (Today, central banks are engaging in unproductive credit creation with equal abandon, in order to delay the inevitable collapse of the world financial system.)

It was, in short, an utter perversion of the Reformers' concept of work creation. The Reformers' idea had been to revive the economy, whereas Schacht never believed in any such effect. Instead, he was intent on eliminating the trade unions, and achieving further cuts in wage-rates,<sup>33</sup> looting labor power through obligatory labor service, and cost cutting, even at the expense of human lives. This policy was later continued in the exploitation of foreign impressed laborers, the prison labor in the concentration camps, the elimination of lives ostensibly "not worth living" (euthanasia), and the like. This is the fascist economic policy—Nazi policy—which we must never again tolerate.

### Summing up

After witnessing a Classical tragedy performed on the stage, the theater-goer does not leave the theater in a state of demoralization, but, on the contrary, leaves with renewed

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33. After Hitler seized power, gross and net wage rates continued to decline, although the average weekly wage rose slightly, because of an increase in overtime. See Barkai, *op. cit.*, p. 236.

inner strength. For, he has recognized something, or has at least begun to recognize what actions the hero or heroine could have taken at the decisive moment, in order to find a positive way out of a tangled situation. Therefore, the tragic outcome of the drama of the 1930s, need not plunge us into paralyzed pessimism. For, today we enjoy the great advantage, that we can learn from it, and thereby avoid repeating past mistakes.

Better still, today we don't merely have a small group of Reformers, but rather, we have a growing international movement which is intervening in many countries around the globe with workable proposals to overcome the worldwide economic crisis—a movement in which the Schiller Institute, the German Civil Rights Movement-Solidarity, (Bürgerrechtsbewegung-Solidarität) and especially the physical economist Lyndon LaRouche, play a leading role. Over several decades, this movement has acquired a highly developed insight into strategic matters, and, thanks to LaRouche, possesses the world's most advanced knowledge of the physical-economic principles involved. Long before the outbreak of the current economic and financial crisis, it had already presented coherent international programs for mastering the crisis through economic development.

All are free to draw their own conclusions from this historical drama. But here is our own synopsis:

Today's trade union movement—in Germany as well as in other countries where independent trade unions are permitted—must not exhaust itself by fighting only defensive battles, but must also promote “active economic policymaking” in Woytinsky's sense: a clear programmatic alternative to their respective governments' deflationary austerity policy.

The chief elements of such a program are:

1. Shielding national economies from the effects of a global financial collapse: discouraging financial speculation through taxation; ensuring that national governments are well-prepared to act decisively, in the event of a financial collapse; taking internationally agreed-upon measures to reorganize the bankrupt financial system.

2. Stopping the “budget-cutting mania.” Getting rid of the largely self-imposed deflationary mechanisms, such as the ruinous Maastricht criteria, which are only making the economic and budget crisis worse, and which, if adhered to for much longer, will inevitably lead to a fascist austerity policy that will cut costs at the expense of human lives.

3. Job creation through public infrastructure projects: In Germany, for example, the Civil Rights Movement-Solidarity has proposed a program for the creation of 1 million jobs in public construction projects, which would require DM 80 billion in start-up financing. This sum would be almost entirely balanced by the resulting savings in unemployment benefits, and by the additional tax revenues from those who have been re-employed.<sup>34</sup>

34. Lothar Komp's work-creation plan: “Die Alternative zu Maastricht,” in the *EIR* German-language study, “Maastricht ruiniert Europa,” pp. 23ff.



*Dachau concentration camp: “Work makes you free.” The Nazi labor camp policy was a hideous perversion of the Reformers' concept of work creation.*

4. Financing such programs through productive credit creation (in Germany, for example, through the Kreditanstalt für Wiederaufbau, or, if the capital markets have failed in the wake of a financial collapse, through credit provided directly by the Bundesbank [central bank] in carefully specified amounts). There is no danger of inflation, so long as the relevant financial instruments a) create new, productive jobs, b) serve to revive the domestic goods-producing economy, and, c) effect a marked overall increase in the economy's productivity and output capacity.

5. The global strategic framework for such projects today, is concentrated in the “Eurasian Land-Bridge” or “New Silk Road” policy.<sup>35</sup> Here we have the modern corollary to Woytinsky's 1931 call for “work creation through the realization of a grand plan” for “the reconstruction of Europe.”

*The author extends special thanks to Robert Becker, Edmund Steinschulte, and the Archives of the Friedrich-Ebert-Stiftung, for their invaluable assistance in assembling the materials for this article.*

35. See note 4.

## The Eurasian Land-Bridge is on the international agenda

by Mary Burdman

Even as the present world financial system lurches toward its much-deserved end, the world's greatest project, the Eurasian Land-Bridge, is continuing to take shape. The construction of this vast network of rail, water, road, and communications links, is going on. Building the Land-Bridge is a cornerstone of China's national and foreign policy. Iran, on a smaller scale, is following the same agenda. And, the other nations of Eurasia—including Russia, and the nations of the Indian subcontinent, Central Asia, Southeast Asia, and eastern Europe—are not just watching. The Land-Bridge is "on the agenda," and part of the national policy debate in all these countries.

The issue of the "New Silk Road" has been raised in anticipation of the April summit between Chinese President Jiang Zemin and Russian President Boris Yeltsin. The question posed to Russian Deputy Foreign Minister Grigori Karasin, in an interview with the Moscow trade union newspaper *Trud* on March 11: "Will the issue of the Silk Road and the Baikal-Amur Railway come up at the Jiang Zemin-Boris Yeltsin summit?" indicates what hangs in the balance at this time. For Russia, Kazakhstan, and other Commonwealth of Independent States (CIS) member nations, the contrast is most extreme: Either they continue to feed the voracious demands of the International Monetary Fund (IMF) and their own hordes of native bandit-capitalists, or they rebuild their wrecked industrial economies with the Land-Bridge project. For India, Pakistan, Turkey, and the nations of Southeast Asia and the Middle East, the Land-Bridge project is the only means by which they can build their way out of the physical isolation created by the failure, throughout the 20th century, to build the modern rail and other transport and communications net-

works necessary to unite Eurasia.

Since the turn of the year, the Schiller Institute and *EIR* have expanded their political drive to make the Eurasian Land-Bridge "the agenda" for governments around the world.

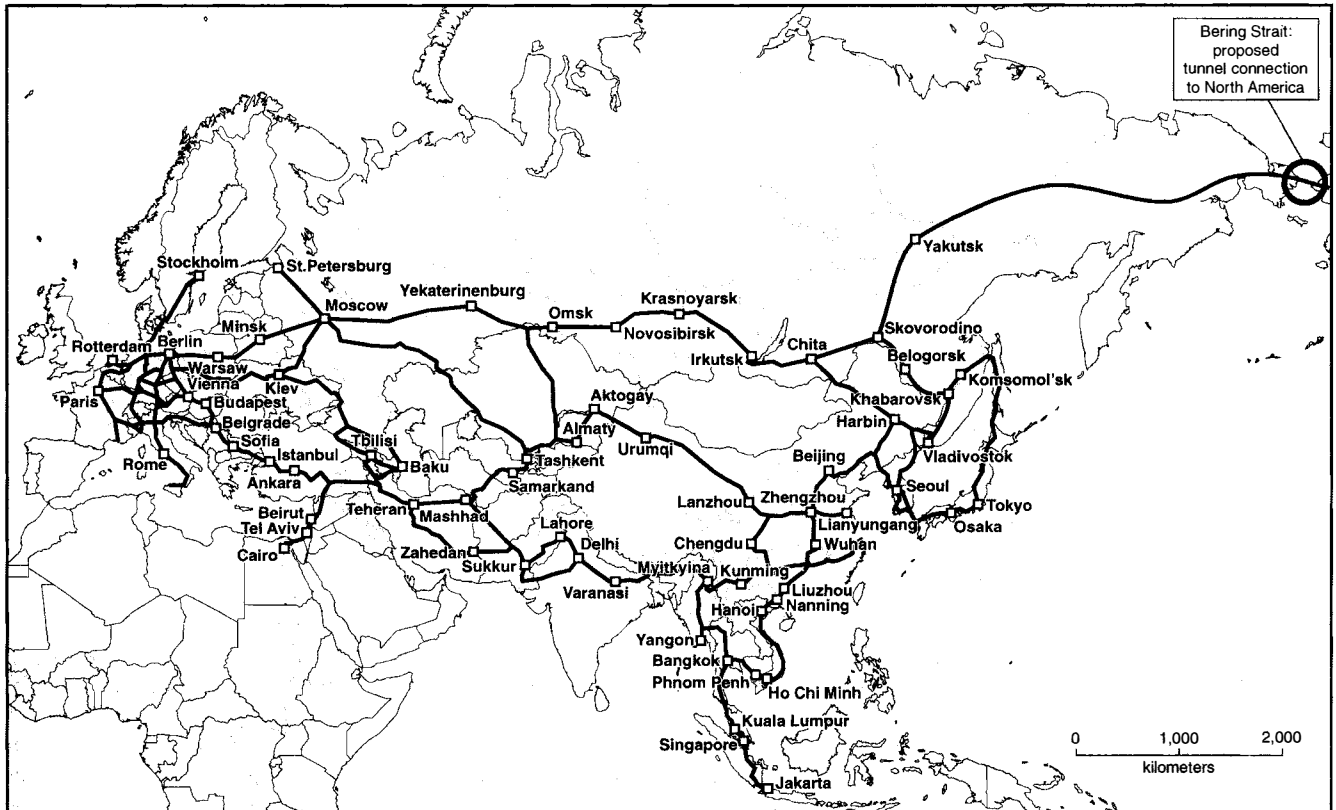
*EIR's Special Report*, "The Eurasian Land-Bridge: The 'New Silk Road'—Locomotive for Worldwide Economic Development," was first published in German, in November 1996, and in English, in February 1997. This is the only comprehensive report on both the current status of the Land-Bridge, and on what economic, scientific, and political measures must be taken to realize this project in the 21st century.

Since Schiller Institute founder Helga Zepp LaRouche presented the English edition of the report at a conference in Washington, D.C. on Feb. 5, *EIR* conferences have also been held at UN world headquarters in New York City; in Vienna, Austria; in Stuttgart and Düsseldorf, Germany; in Stockholm, Sweden; in Copenhagen, Denmark; and in Mexico City. More are to come. These conferences have all drawn attendance from international diplomats, government officials, private industry, political organizations, and the press.

On March 5, the London-based Arabic daily *Al Hayat* published a feature on the Eurasian Land-Bridge, based on *EIR's* report. *Al Hayat* is the largest-circulation international Arabic daily. The article, titled "The Fate of the World Is Determined by Infrastructural Corridors Linking Europe and Asia," states that China and the other land-bridge nations have already invested billions in the projects, which are "a strategic, political aspect of Chinese foreign policy," and challenge the United States to change its adverse policies toward nations whose role is vital to building the Land-Bridge, including Iran.



## Eurasia: future main routes of the Eurasian Land-Bridge



On March 3, the Mexico City daily *Excelsior* reported that “the New Silk Road offers help to mankind,” and contrasted the impact of the Land-Bridge to the destruction of national economies being wrought by the IMF. The article references *EIR*’s Land-Bridge report, and states that what is crucial about China’s plans, is that they will force other nations to define their own policies on this great project. What is unique about China, *Excelsior* wrote, is that the IMF is not involved there, which is why China is the only nation in the world whose real economy is on an upward trend.

### Building economic corridors

On March 26, China’s official Xinhua news agency put out a release entitled “Northwest China to Revitalize ‘Silk Road.’” It states:

“Northwest China is stepping up efforts to build an economic corridor along the second Eurasian Continental Bridge, opened for traffic in 1992, to revitalize the ancient Silk Road. The railway, which links Lianyungang in east China with Rotterdam, the Netherlands, runs 10,800 kilometers with more than 4,100 kilometers passing through China, mainly in northwest Xinjiang Uighur Autonomous Region, Ningxia

Hui Autonomous Region, and Shaanxi, Gansu, and Qinghai provinces.

“Serving as the bridgehead, the Alataw Port in Xinjiang bordering Kazakhstan, has become China’s second largest railway port, with an annual transport capacity of 3.5 million tons. The gold passage, as the railway is called, supported by highways, airlines, and fiber optic lines, offers good opportunities to provinces and regions along the tracks, especially to northwest China, which benefits from markets in east China, Central Asia, and Europe. The area spares no efforts to prepare for the westward shift of China’s economic development. An electric railway, which runs from Shaanxi’s Baoji city through Gansu to Zhongwei in Ningxia, was open to traffic in 1995, and has become another passageway to China’s coastal areas.

“The incipient Southern Xinjiang Railway will further promote the role of the continental bridge. Gansu province plans to electrify the tracks in its boundary and build a double track between its capital of Lanzhou to Baoji at the beginning of the next century.

“The railway takes the lead in attracting investments into the central and western parts of China. Provisional statistics

show that more than 18,000 cooperative projects and 22.5 billion yuan [\$2.7 billion] worth of goods supply have been agreed among the areas along the line. Centered around the railway, large-scale key projects, pillar industries, trade centers, and high-tech zones are booming in the northwest, while cities and towns are linked with each other to form a city belt or an economic corridor."

Since the beginning of 1997, China has opened up an international information center, using the latest telecommunications technology, in the port of Lianyungang, the Chinese "bridgehead" city, "to collect, exchange, and process information on policies, urban construction, and transportation in all areas along the continental bridge which links Asia with western Europe," Xinhua reported. Already, container traffic in the port has increased 47-fold since the Land-Bridge's inception.

### **Time for 'investment cooperation'**

In his interview with *Trud*, Russian Deputy Foreign Minister Karasin was also asked: "Will the subject of investment in the development of the Baikal-Amur Railroad [see *EIR*, Feb. 14, p. 9] as a potentially new Silk Road from Asia to Europe be raised during P.R.C. President Jiang Zemin's visit to Moscow during the discussion of economic problems?" Karasin responded:

"First, I would like to point out that raising economic cooperation to a considerably higher level is a top priority for Russia and China. It is both sides' general opinion that sound long-term projects and lasting ties between major companies and enterprises should form the backbone of that cooperation.

"However, the time is evidently coming to move on to investment cooperation. There are major companies in the P.R.C. and in our country capable of implementing this kind of cooperation, possibly with the involvement of third countries as well. The sides may determine specific objects of cooperation, including the Baikal-Amur Railroad, during mutual consultations within the framework of existing intergovernmental organs (the subcommissions for trade and economic cooperation and transport). The legal base for this is already in place: An agreement on the promotion and mutual protection of investments was signed in 1990."

Russia is, of course, the nation in which the first Eurasian Continental Bridge, the Trans-Siberian Railway, was built in the beginning of this century. Now, Russia's policy elites are discussing reviving, and completing, the "Far North" branch of the Land-Bridge. Plans for a trans-Russian railroad in the far north have existed since the 1930s. Rail lines already connect St. Petersburg via Archangel to Vorkuta, and then to Labytmangi, east of the Urals. Final completion of the Baikal-Amur Mainline (BAM) is also being considered. As Russian policymakers stress, the most important reason for reviving the BAM, is that in huge, empty, northeast Russia, exist reserves of oil, gas, and minerals so vast that they dwarf even those of Central Asia.

But the problems are great. Container traffic on the Trans-Siberian has *fallen sevenfold* in the last few years. To attempt to deal with the problem, the International Coordinating Council of the Trans-Siberian Railway, including Russia, Germany, Poland, Belarus, Hungary, Finland, South Korea, and Japan, has become a permanent working group, after a meeting in the South Korean capital Seoul on March 2. Sweden has observer status in the group, and China announced its wish to become a permanent member, the Russian railway minister announced.

Russia's southwestern rail network, which connects Central Asia, via Charjo, directly to eastern and northeastern Europe, also exists; economic revival is essential to make this connection "work."

During March 24-27, Chinese Vice Premier and Foreign Minister Qian Qichen visited Moscow, to prepare the upcoming China-Russia summit. On March 27, Russian Foreign Ministry spokesman Gennadi Tarasov announced that, at the summit, "For the first time in Russian-Chinese relations, the declaration will give a joint assessment of the transition to a multi-polar world," Moscow Interfax reported. "The document will set forth the principles of Russian-Chinese partnership."

In the wake of this summit, Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan will sign a five-party treaty to scale down military forces in their border regions. This treaty will upgrade the military confidence-building measures for their borders (the longest borders in the world) signed by the five nations a year ago in Shanghai, during Yeltsin's visit to China. The new treaty will put troop deployments within a 100-kilometer zone along the borders under its purview, and ensure military transparency, for the first time, to decrease the possibility of accidental military conflicts. Minister Karasin called the treaty "a unique contractual document which sets an important precedent for the guarantee of stability in the Asia and Pacific region. Its significance can hardly be overestimated."

Qian Qichen held discussions with Yeltsin and with Yevgeni Primakov, his Russian counterpart. In the interests of preventing any "Cold War" interpretation being put upon the Sino-Russian strategic partnership, Qian Qichen said at his meeting with Yeltsin that these relations, which have worldwide impact, are not an alliance directed against other countries (clearly referring to the United States), Xinhua reported on March 25.

Primakov followed suit at a joint press conference, saying that the strategic partnership with China has not been created against a third country. "We intend to stabilize the international situation and to make the relationship of the countries equal," he said.

### **Political progress in the southern tier**

At the same time, Indian Prime Minister H.D. Deve Gowda was also in Moscow, to discuss reviving Russian-In-



Since the turn of the year, the Schiller Institute and EIR have expanded their political drive to make the Eurasian Land-Bridge "the agenda" for governments around the world. Here, Schiller Institute founder Helga Zepp LaRouche briefs an audience in New York City on the Land-Bridge proposal, on Feb. 27. The Chinese banner reads, "We warmly welcome the Silk Road Lady."

dian economic and trade cooperation. On the visit, Russian Foreign Ministry spokesman Tarasov said that "the sides took the decision to bring Russian-Indian multilateral cooperation to the level of strategic partnership," and that "an agreement on Russian-Indian annual summit meetings has been reached."

What role the subsequent political impasse inside India—the result of the Congress Party President Sitaram Kesri unilaterally pulling out of the United Front government coalition—will have, remains to be seen. During Deve Gowda's short term in office, several vital steps were taken to improve India's relations with Eurasian nations, especially China, Russia, and Bangladesh. The visit of Jiang Zemin to India, Pakistan, Bangladesh, and Nepal in November-December 1996, was a breakthrough. India's ties to Bangladesh, essential for a "southeast connection," were put on the best level they have been in years. In addition, there is the potential, with the Nawaz Sharif government in Pakistan, for an improvement of relations between India and Pakistan. A setback in any of these improving ties at this critical point, could have long-term effects, by limiting the potential for the southern tier of the Land-Bridge.

Russian-Chinese diplomacy will expand. Russian Prime Minister Viktor Chernomyrdin plans to make "an Asian tour" in late May and early June, during which Moscow and Beijing may sign up to seven documents on major economic projects,

according to "well-informed sources in the Russian government," Itar-Tass reported on March 27. Chernomyrdin is expected to visit China, Mongolia, and Southeast Asia, most likely Vietnam. Among projects to be discussed are laying a gas pipeline from Siberia through Mongolia and China to South Korea and, possibly, Japan. Cooperation to build nuclear and hydroelectric projects are under discussion, and China and Russia are also to finalize the project to throw a bridge across the Amur River, according to Itar-Tass.

Russian Foreign Minister Primakov has also been invited to visit China, likely in the second half of the year.

Other projects have already been finished. The new Hongchun-Kraskino railway was linked up on March 17. This railway, part of the overall Tumen River Free Economic Area development zone, connects China's Jilin province to the Hasans District of the far eastern Primorye province. In addition, the first Chinese-Russian fiber optical cable began operation on Jan. 28, after joint inauguration ceremonies were held in Harbin, Heilongjiang province, and Khabarovsk in Russia, ultimately connecting Beijing and Moscow through the domestic telecommunications systems of each country. China-Japan and China-Republic of Korea fiber optical cable projects are already in operation. "China will also complete a number of large international optical cable projects, including the China-Southeast Asia land optical cable project, the universal optical cable project, the Asia-Europe optical cable project, and the China-North America submarine optical cable project," *Renmin Ribao* reported.

### China's ties to Kazakhstan

Kazakhstan's President Nursultan Nazarbayev spent ten days in China on Feb. 12-22, beginning with a vacation at the invitation of the Chinese leadership, and ending with a two-day official visit, his third to China since 1993. Chinese Premier Li Peng and President Jiang Zemin have visited Kazakhstan, in 1994 and 1996, respectively.

The link between China and Kazakhstan is essential to the Land-Bridge. Until 1990, there were *no* rail links between the Central Asian nations and China, or to Iran or the Indian Subcontinent. When the rail line first opened in 1992, border problems kept freight transport traffic to a minimum, but it has expanded rapidly since. But much must be done to realize even the full capacity of the current railroad technology and stations of the railroad pass from Druzhba, Kazakhstan to Alashankou, China, which can handle up to 12 million tons of freight in both directions. This was one of the primary issues discussed between Nazarbayev and Jiang Zemin.

Before his departure from Beijing airport on Feb. 22, President Nazarbayev noted that Jiang Zemin had made an exception to meet with him, while mourning the death of China's national leader Deng Xiaoping, the newspaper *Kazakhstanskaya Pravda*, published in Kazakhstan's capital of Almaty, reported on Feb. 25.

"In 1995 the railways transported 1.2 million tons of

freight through the border station, and 2.5 million tons last year," Nazarbayev said. "This to a great extent follows from the fact that last year trade turnover between Kazakhstan and China reached \$500 million. This year the freight turnover might increase by a further 1 million tons." He also said that Kazakhstan needs new air corridors across China, to the other nations of Asia.

To achieve full use of the rail link, Nazarbayev said, construction of a second railway from China should be speeded up. Kazakhstan is currently developing the Druzhba railroad station and building additional terminals there with the help of a \$75 million loan from the Ex-Im Bank of Japan.

Jiang Zemin supported the importance of increasing freight transport, and announced that he had instructed the Chinese government to accelerate the construction on the Chinese side, of a second line of this railroad, which will go directly to Almaty.

Nazarbayev also proposed that Chinese oil companies take part in tenders for the privatization of Kazakh oil and gas facilities, and told Jiang that the two countries might cooperate in the joint construction of oil and gas pipelines starting in southern Kazakhstan, to western and central China.

The two nations' joint economic commission, now headed by ministers, will be upgraded. In the future, it will be led by the respective deputy prime ministers, and is scheduled to hold regular meetings.

Nazarbayev did not mention the more fundamental issues Kazakhstan faces. His nation, like Russia, is being looted wholesale—with the collaboration of Russian and Kazakh financiers. At this point, according to the Russian journal *Ekspert* of Dec. 16, 1996, some 90% of the country's industry has been sold off to foreign investors, many of them "off-shore" companies. Some firms have even been given away to cover their debts. The total realized from this "fire sale" has been in the range of \$3 billion. Now, Kazakhstan effectively does not control its own natural resources; since the industries are foreign-owned, it can barely collect taxes.

## No support for British-run separatists

But on the vital question of security, in the wake of recent disturbances, wildly bruited about in the international press, among some of the Uighur-speaking population of Xinjiang Autonomous Region, Nazarbayev was clear. He said that the issue of Kazakhs living in China is always touched on in his discussions with China's leaders. While he has an interest in their welfare, "Kazakhstan in no way supports any kind of separatism," he stated.

China is a huge multi-ethnic country, and while aspirations for self-determination among "so-called minorities" are "understandable," said Nazarbayev, "we can in no way welcome the idea of separation. There are 6,000 peoples and ethnic groups in the world. If all of them were to decide to declare sovereignty one day, then numerous helpless, dwarfish countries would emerge on the planet along with the

existing powerful countries that are striving for development and prosperity, and this would mean chaos, permanent wars, and endless conflicts," *Kazakhstanskaya Pravda* reported. "Stability in China, with its population of almost 1.5 billion, meets the interests of not only that country itself, but of the whole world."

## Shanghai to Paris

Uzbekistan is also looking to the Eurasian Land-Bridge for its national future. At his year-end press conference on Dec. 27, 1996 in Tashkent, President Islam Karimov spoke of building a "Shanghai-to-Paris railroad."

In answer to a question from a Russian journalist, Karimov said: "You ask how realistic is the grandiose route that would link us with the port of Shanghai [via the city of Kashi in far western China]. I want to tell you: We are in the process of negotiations with China and Kyrgyzstan regarding this project. The P.R.C.'s Five-Year Plan envisages construction of a rail link to Kashi within three years. This project has been designated as a priority in China. The task of the two countries—Kyrgyzstan and Uzbekistan—is to build a rail link to Kashi from our side. We are currently conducting negotiations and mapping the route.

"This project could be very significant. It can link Shanghai and Paris. The rail line will traverse 12 countries. It has already been completed everywhere else—all that remains is to build this segment.

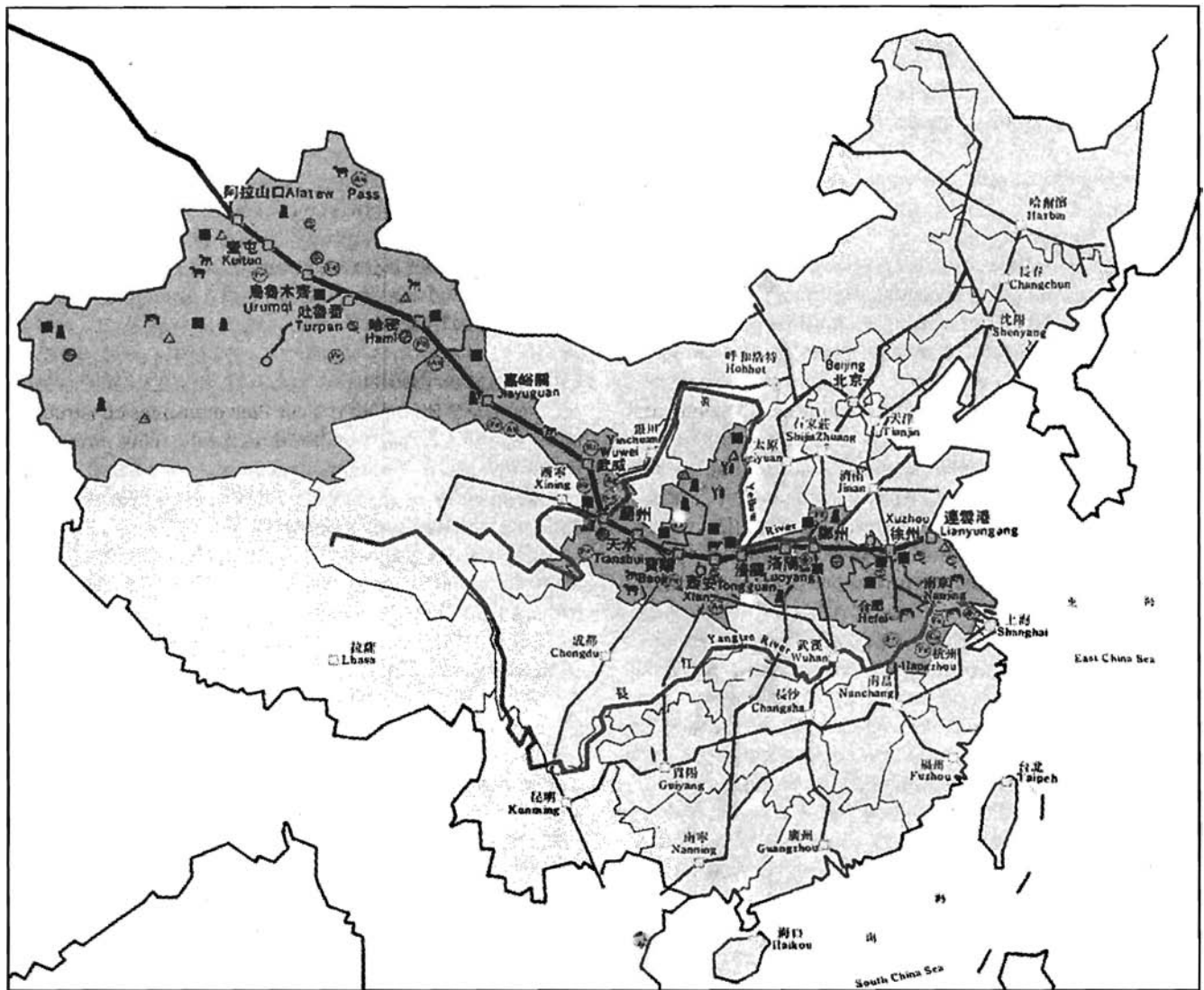
"What sources of financing will be brought in? We have some ideas, which are too early to discuss right now. I can only tell you with absolute certainty that international corporations and well-known companies are showing great interest in this project. The most important point is that this is not fantasy—this is a real project that can be realistically implemented within five years."

On internal Uzbek rail building, Karimov said: "The rail link under construction will run from Zarafshan to Nukus. . . . The second project—building a Guzar-Baysun-Kumkurgan rail link—also is a very large and complex project, because it involves a mountain crossing. . . .

"The project of building a highway from Angren through the Kamchik mountain crossing is currently in the implementation stage. This motor transport route also is very complex because it will require two tunnels. We should be finishing it in 1997. This highway will enable us to link Tashkent with the Fergana Valley, bypassing the territory of Tajikistan's Leninabad Oblast. We have no problems with financing these projects. . . . The highway project can be completed within 1.5 years."

Tajikistan is also expanding ties to China. President Emomali Rakhmanov announced that he had signed a decision on establishing border trade and speeding up development of a road project from Tajikistan to China through the Kulma Pass, Tajik radio reported on Feb. 18. The decision envisages the opening of a border trading zone along with China in the

## Chinese provinces along the new Eurasian Continental Bridge, and main connections



A map produced by a Chinese government agency. Reprinted with permission of the Organizing Committee of the International Symposium on the Economic Development of the Regions Along the New Euro-Asian Continental Bridge.

territory of Murgab District (about 300 kilometers northeast of Khorog, the center of Gorno-Badakhshan), in the Gorno-Badakhshan Autonomous Region. The Security Ministry of Tajikistan, the Customs Committee, and the leadership of Gorno-Badakhshan Autonomous Region are charged with negotiating with the Chinese side on issues of opening a crossing point with simplified procedures, a place for border trading, on procedures of crossing the border, and other issues.

### The southern tier of the Land-Bridge

Work is also going on along the "southern tier" of the Eurasian Land-Bridge. In March 1996, China's National Peo-

ple's Congress approved a long-range development plan, to accelerate development in China's central and western areas so as to realize "common prosperity for the entire country in the next century," Xinhua reported. As a result, in the first half of 1996, growth in investment in infrastructure and technological renovations in these areas exceeded that in coastal areas for the first time in many years.

One of the most important projects to be realized in this plan, was the completion on March 10 of rail-laying for the Nanning-Kunming railway in south-central China. This is vital not only for developing this region, but also to expand rail links between China and South and Southeast Asia. The

"Nankun," as it is known, is the most expensive railway the nation has built, but, begun in December 1990, it was finished three months ahead of schedule. The 898.7-kilometer Nankun starts in Nanning, capital of Guangxi province, and ends at Kunming, capital of Yunnan province. One section of the line runs north to Hongguo, in Guizhou province. The single-track electrified Nankun railroad has a short-term carrying capacity of 10 million tons, and a long-term one of 30 million tons annually.

Building the railroad was very expensive, because of the rough, mountainous terrain, which reaches 2,000 meters in elevation. The project included 477 bridges and 258 tunnels, including the 183-meter-high Qingshuihe Bridge, China's tallest railway bridge, in Guizhou. The Nankun connects up with the Changsha-Nanning and Nanning-Fangcheng railway lines in the east and the Chengdu-Kunming and Guiyang-Kunming railways in the west, and will connect southwest China with the southern ports of Fangcheng, Qinzhou, and Beihai.

The railroad will enhance economic cooperation between China and Southeast Asia, Chinese officials stated. It is also regarded as China's largest poverty-relief project of the 1990s. One-quarter of China's poorest, 15 million people, live along the rail line. The railroad should be in operation by the end of this year.

A Chinese-Myanmar joint expert group has completed a study on a land and water transport route from Yunnan Province in south China, via the Irrawaddy River Valley in Myanmar (Burma), Beijing's *Zhongguo Xinwen She* reported in early March. The report concludes that it is feasible to open an outlet into the Indian Ocean, via Yangon (Rangoon), the Myanmar capital, which is an ocean port. Currently, both the Chinese and Myanmar ministries of communications, and the Yunnan provincial government, are working on a draft accord on coordinated land and water transport.

The group carried out the study on land transport routes linking up Dehong Dai-Jingpo Autonomous Prefecture in Yunnan and the Myanmar ports of Bhamo and Myitkyina, and other water transport routes connecting with Yangon. A highway linking the Dehong Prefecture in Yunnan province and Bhamo in Myanmar can be readily converted to a high-grade road, and the river section between Bhamo and Yangon can, in some areas, accommodate vessels of over 3,000 tonnage. It is expected that construction of a terminal in Yangon with nine berths for vessels of over 10,000 tonnage will be completed this year, and it can provide an all-weather shelter for vessels of up to 15,000 tonnage. The proposed transport network can cut short the journey time by about one week compared with the route of 3-5,000 kilometers along coastal areas in southeastern China, the study group reported.

The Thai and Laotian transport and communications ministers met to discuss rail and other transport improvements on Feb. 3, the *Bangkok Post* reported. Thai Transport

and Communications Minister Suwat Liptapallop met his Laotian counterpart, Phao Bounnaphone, to discuss improved use of the "friendship bridge" across the Mekong River, linking Nong Khai with the Laotian capital, Vientiane. The bridge was opened in 1993, but use has declined sharply. To promote rail transport of goods and passengers from Thailand to Laos via the bridge, construction of railway tracks on the Thai side from a new Nong Khai railway station to the middle of the bridge will be completed in July. Laos has contracted Pacific Transportation, a joint venture between the Laotian government and Sahaviriya Co., a Thai firm, to construct the railway from that point to Vientiane in two years at an estimated cost of \$40 million. Laos also plans to extend the rail line to other provinces up to its border with China.

### Openings to India

Another "Cold War" barrier between nations, this time between India and China, could also fall. Jiang Zemin and Deve Gowda and their foreign ministers held talks on increasing mutual confidence on their joint border, closed since the 1962 war, during Jiang's visit to New Delhi.

Indian press reported in March that India is to withdraw the Army brigade guarding the center section of its Himalayan frontier with China, which includes the Niti Pass linking India and Tibet. This section of the border includes the disputed Bara-Hoti plain, a pasture at 13,000-foot elevation. During the 1962 border war, opposing Indian and Chinese forces had massed along the edge of this plain, and, for years following, troops had faced each other across the plain. However, in the past several years, the area is now only patrolled by the Indo-Tibetan border police, and herdsman have again begun to graze herds in the pasture.

The pasture is near the 16,000-foot Niti Pass, one of the "easiest" passes linking India and Tibet. Since 1962, motorable roads have been built on either side—the Xinjiang-Lhasa highway in China, and an extension of the Delhi-Rishikesh national highway on the Indian side. If linked, the roads would open up border trade, because Indian manufacturing centers in Punjab, Haryana, and Uttar Pradesh are only 600 kilometers (a day's truck trip) away.

In addition, on the Chinese side, a project to build a major highway on the Tibet-Qinghai plateau was begun on March 5, Xinhua reported. China's central government is spending over 400 million yuan (\$48 million) on the project, to upgrade a 400-kilometer section of the highway connecting Lhasa with Nyingchi Prefecture in eastern Tibet.

India is also expanding ties to the west. On Feb. 22, the foreign ministers of Iran, Turkmenistan, and India signed an agreement in Teheran, to increase transit among the three nations. An agreement on customs procedures will facilitate passage of cargo through the Iran-Turkmenistan border rail station at Sarakhs, opened in 1994. Improvements at the station are expected to increase its capacity five- to eightfold.

Because of the impasse in Indian-Pakistani relations, and the lack of any rail connection from Pakistan to western Iran, India has been expanding its transport ties to Iran as a gateway to Central Asia.

Among the many projects agreed upon are the creation of a joint shipyard on the Caspian Sea at the Iran-Turkmenistan border, and the construction of a jointly run petrochemical complex in Iran. The three leaders also discussed plans to lay a natural gas pipeline from Turkmenistan to Iran, to provide India with fuel. Current plans provide for shipping the fuel to India by sea, but there has been discussion of laying a pipeline to India across Pakistan.

The same week, Kazakh Transport Minister Yuri Lavrenko discussed increasing trade with Iran's President Ali Akbar Hashemi Rafsanjani. Kazakhstan is expected to join the tripartite agreement in the near future. Other states are projected to join later.

### Expanding ties with Europe

Nations of eastern Europe, while under enormous pressure from the disastrous "shock therapy" policies of the IMF which have prevailed there since the beginning of the 1990s, also are looking at the potential of trade and economic ties with the East.

The government of Belarus is putting great emphasis on its relations with China and Turkey, as well as Russia, according to Belarus's President Alexandr Lukashenko in his concluding speech at the expanded session of the Belarus Council of Ministers on Feb. 11. Lukashenko said that "Belarus can and should play a more active role in achieving mutual understanding among CIS states." He added, "Among our relations with other states, I would like to single out those with China and Turkey. Our relations with the P.R.C.—a global power and a member of the UN Security Council—are assuming a character of political partnership. This must be valued. But our economic cooperation, despite all agreements and potential possibilities, is running in place. . . . We can already see a prospect for cooperation of Belarus, Russia, and China. It may be very efficient cooperation.

"The same situation holds with Turkey—full understanding at the Presidential level is not supported by appropriate work of the government, ministries, and other state administration bodies. . . . For the time being, the potential of agreements at the higher level, particularly with Russia, is obviously not used to its full capacity. This should be improved."

The Moscow newspaper *Rossiskaya Gazeta*, in an article titled "Eurasia, Belarussian-Style" on Feb. 15, stated, "Belarus is actively seeking new markets, and its leaders are visiting countries in Asia probably as frequently as they are Moscow. In the past two years, the republic has created a fairly extensive diplomatic and marketing network in virtually all the Asian countries and on transport routes to them. In the time since the referendum alone, Belarussian delegations have visited China, Singapore, Malaysia, and Turkey. Their

immediate plans include India and South Korea. The results of the 'Asian campaign' are telling in the republic's favor."

The article described a Belarus tractor manufacturers' agreement to supply Pakistan, a joint venture with China for automobile production, and the setting up of a "free economic zone in Brest with China's active participation."

"Belarus has established the closest of contacts with the P.R.C.," the article stated. "Virtually the cream of the Belarussian industrial elite took part in the latest China trip: automobile and instrument manufacturers, electronics experts, chemists, and manufacturers of agricultural equipment, potassium fertilizers, and medical preparations.

"In addition to specific programs, a serious bid has been made to implement a project for a transcontinental transport route between Asia and Europe. The Chinese side is extremely interested in the economic development of a 'cross-roads' en route to Europe and the Baltic, which is what Belarus is."

Kazakhstan's President Nazarbayev has also announced that he wants to expand economic relations with Lithuania. Nazarbayev said that he regards Lithuania's Klaipeda seaport as of "exceptional importance" for Kazakhstan, at a joint press conference in Almaty on March 7 with visiting Lithuanian President Algirdas Brazauskas. Nazarbayev said that Kazakhstan is prepared to invest in the construction of a new terminal with a throughput of up to 8 million tons at Klaipeda, to facilitate exports of crude oil, which Kazakhstan would pump through existing pipelines across Russia to the Baltic Sea, and onward to Europe. Nazarbayev said that oil could also be shipped across Russia by rail.

Brazauskas said that Lithuania also wants to gain access to Chinese and Southeast Asian markets via Kazakhstan, through the Druzhba-Alashankou (Euro-Asian Continental Bridge) rail connection. Nazarbayev said that this was a question of "mutually beneficial cooperation," and stressed the importance of signed economic and trade accords and an agreement on freight and other services related to shipping Kazakh goods via Klaipeda. Nazarbayev and Brazauskas said bilateral relations, especially economic ones, had increased, Moscow Interfax reported.

To the south, Ukrainian Prime Minister Pavlo Lazarenko and Georgian Minister of State Niko Lekishvili discussed cooperation at a meeting in Kiev on Feb. 14, Interfax reported. Lazarenko stated that "the main issue for Ukraine and Georgia to decide in the current year is to start Poti-Odessa rail-ferry service," and "reaffirmed Ukraine's preparedness to participate in the supply of pipes and pumping equipment for the oil pipeline" from Azerbaijan across Georgia. Cooperation in power plant construction, power engineering, and food supplies for Georgia was also discussed. Ukrainian First Deputy Communications Minister Oleksandr Hneletskyy said that construction had begun of the fiber-optical communications line to link Ukraine and Georgia, part of the China-Germany fiber-optical line.

# Call is issued for investigation of extermination of Hutus in Zaire

by Linda de Hoyos

United Nations human rights investigator Roberto Garreton announced from Geneva on April 2, upon his return from a three-day tour of eastern Zaire, that the United Nations must carry out a full probe into the campaign to eliminate the 1 million Rwandan Hutu refugees that had been sheltered in eastern Zaire. Up to the period of the Ugandan and Rwandan invasion of eastern Zaire at the end of October 1996, there had been 1.2 million Rwandan Hutu refugees in the area, nominally under the protection of the United Nations High Commission on Refugees (UNHCR).

Garreton told the press in Geneva, "There were massacres by rebels [forces operating under the cover of Laurent Kabila]. That's for sure. There's an enormous list of allegations of massacres, but it is impossible to give numbers." Garreton also pointed to Ugandan and Rwandan troops' involvement in the area: "I can't say that the Rwandan and Ugandan armies are there with their generals and colonels. But the local people view the rebel forces as an occupation army. It is clear that these rebels are not Zaireans."

Garreton's charge of mass murder taking place in eastern Zaire is confirmation of charges put forward in an eyewitness account by a Belgian living in eastern Zaire, which was submitted to the United Nations and also publicized by the Paris daily *Le Monde* on Feb. 26. The charges of the Belgian eyewitness are further confirmed by two reports by the British intelligence outlet Amnesty International, "Zaire: Hidden from Scrutiny: Human Rights Abuses in Eastern Zaire," issued in December 1996; and "Rwanda—Human Rights Overlooked in Mass Repatriation," issued in January 1997.

The Amnesty reports and the Belgian account have been completely blacked out of the United States media.

The combined reports confirm the warnings issued by American statesman Lyndon LaRouche in November 1996, that unless the United States established a bilateral military deployment with the Zairean government to protect the refugees against the Rwandan-Ugandan invasion, it would mean the death of hundreds of thousands of defenseless people, 70% of whom are women and children.

## Extermination campaign

The plan for the forced repatriation and "disappearance" of more than 1 million Rwandan Hutu refugees was apparent by September 1996—one month before the Rwandan-Ugan-

dan invasion of eastern Zaire. At that point, the United Nations Security Council voted to lift the arms embargo against Rwanda, while maintaining that against any Rwandans living outside Rwanda, giving the green light for the invasion one month later. Simultaneously, the United Nations High Commission on Refugees began clamoring to rescind the designation of "refugees" in respect to the Rwandan refugees, claiming that they were guaranteed a safe return to Rwanda. This UNHCR claim was highly publicized, thus preparing the international community's blanket of silence when the refugee camps were militarily bombarded by the Rwandan and Ugandan forces operating under the political cover of Zairean mercenary Laurent Kabila.

As the Amnesty International report on Rwanda states: "The return of an estimated 500,000 Rwandese refugees from Zaire [in November] in just a few days was not voluntary. It was a question of survival. Refugees who had just crossed over the border into Gisenyi, northwestern Rwanda, in mid-November 1996 told AI that their camps had been attacked by armed groups. . . . Many refugees and local Zaireans died in the fighting, some caught in crossfire, others deliberately targeted. . . . One refugee from Mugunga camp [cited in the Brussels report] said he had seen around 50 bodies of men, women, and children, most of them with gunshot wounds. Other refugees, as well as displaced Zaireans, died of hunger, exhaustion and disease. Whatever the causes of death, those who attacked the camps and took advantage of their military clashes to kill and disperse refugees were responsible for significant loss of life and for terrorizing hundreds of thousands of refugees."

## 'No one could escape'

Even beyond the military bombardment of the camps, in violation of international law, the Amnesty report relates in detail one premeditated massacre of the inhabitants of a camp by Rwandan forces. The eyewitness account came from one young man, Tharcisse Barutwanayao, who had fled a camp in Uvira that was attacked, making his way to Bukavu, and then to Chimanga. He testified:

"At 5 p.m., the Banyamulenge entered the camp. They told us to gather in a particular place in the camp for a meeting, during which they would tell us how we could return. In total there were 700 people in the camp. Around 100 agreed to go



to the meeting place. We did not, as we were afraid of being killed. Then they surrounded the camp so that no one could escape. At 5:45 p.m., they shelled the area where they had told people to gather. They also shot at those people with their guns. Meanwhile, the ones who had surrounded the camp also opened fire on those of us who had not gone to the meeting place. Many died. Next to my tent there were around 20 dead, and two more from among our little group. Of the 700 people who had been in the camp, fewer than 100 arrived at the transit camp.”

This is but one of “enormous list of allegations of massacres” cited by Garreton, and detailed in the Belgian and Amnesty accounts.

The picture that thus emerges is that approximately 500,000 refugees returned to Rwanda in November 1996, under threat of death by the Ugandan and Rwandan Tutsi forces comprising the “rebel forces.” As Garreton indicated, it is impossible to tell how many refugees were actually killed in this first onslaught.

The multilateral UN force, comprised of U.S., Canadian, and other forces, which had been prepared to go into Zaire to assist the refugees, who had taken flight, was hastily called off—despite the fact that at least 600,000 refugees remained in Zaire without any aid whatsoever. The motivation for this reversal, as put forward by Roger Winter, of the U.S. Committee for Refugees, was the lie that there are no refugees remaining in Zaire, and as Winter put it: “Those who have gone further west are either family [of the Hutu militias] or other very bad people. If they are in a bad position, so be it.”

### Death marches

In Rwanda itself, there was no relief or security, according to the Amnesty report. The very return took on the character of a death march—a tried and true method of eliminating large numbers of persons rapidly. Amnesty reports, “Humanitarian NGOs [non-governmental organizations] were told that aid could be distributed only after the returnees had formally registered with local authorities in their home areas, a process which would take at least several days. . . . Many of the refugees returning to Rwanda were already in poor physical condition after walking for weeks in Zaire to escape the fighting. Once they crossed the border, they were not allowed to rest. The Rwandese authorities made them carry on walking.” Since NGOs and other assistance organizations were not permitted to follow the refugees past the transit zones, there is no telling how many actually lived to reach their former homes.

Secondly, Amnesty reports: “There was no attempt to register the hundreds of thousands of refugees as they crossed the border into Rwanda. . . . The absence of registration until returnees reach their homes means that there is scope for ‘disappearances.’ ”

Those refugees remaining in Zaire have been forced into a succession of similar death marches, as they flee the invading forces. The greatest concentration of refugees was at Tingi-Tingi camp, where 200,000 huddled without adequate aid in

conditions described as “appalling” and with hundreds dying daily. This group was forced to move west, out of Kabila’s grip, but many have been surrounded. Now, it appears that Kabila is marching them from one site to another. As described by one outlet: “Emaciated refugees, some almost skeletal, were attempting to walk toward aid at Kisangani, but those too weak to start the trek lay dead and dying within the abandoned Ubilo camp. . . . The refugees huddling along a railway line are dying of malaria, dysentery, fatigue and malnutrition, a Zairean Red Cross nurse said. In addition, refugees were uprooted from another camp at Lula and forced to move south, but their condition is so weak that many are simply dying along the roadside.”

According to many accounts, the forests of eastern Zaire are likewise littered with the dead bodies of exhausted, starved, and diseased refugees.

### UNHCR must be called to account

The United Nations High Commission for Refugees, in complete violation of its mandate and charter, has acted to cover for *and supervise* the elimination of Hutu refugees, and should become an immediate object of investigation by the United Nations secretary general.

Amnesty wrote in its January report on Rwanda:

“AI has serious concerns about the role played by the international community in particular UNHCR, in condoning the massive refoulement [forcing back] of refugees to Rwanda by neighboring countries. . . . UNHCR’s statute entrusts it with the role of protecting refugees and assisting governments with voluntary repatriation. In numerous other documents, including UN General Assembly resolutions and UNHCR Executive Committee conclusions, the importance of ensuring that repatriation is genuinely voluntary is stressed. . . .

“Central to the policy of UNHCR and other inter-governmental organizations has been an assessment of the human rights situation in Rwanda which does not take into account all the available information. AI believes that UNHCR, while acknowledging the occurrence of human rights violations in Rwanda, has continued to declare that it is generally safe for refugees to return and has played down the level of risks which some returnees may face. . . . This failure to acknowledge the real level of human rights violations has had dramatic consequences for refugees in neighboring countries, resulting ultimately in their mass expulsion.”

The AI report notes the collusion with the Rwandan government in forcing exhausted, sick, and hungry refugees to continue walking once they had crossed into Rwanda without being allowed to receive any aid. AI reports that an UNHCR “spokesman in Gisenyi [on the Rwandan border] on 18 November stated ‘there is no indication that the government is deliberately keeping people walking.’ When asked by journalists why UNHCR had not protested at the forcible closure of the medical center, he replied that it was not the role of UNHCR to do so.”

# The last valve of the global oligarchy

by Roman Bessonov

*Editor's note: The return of former privatization chief Anatoli Chubais to the Russian government in March, as first deputy premier, occasioned a show of enthusiasm from the International Monetary Fund (IMF). Gushing about the prospects for "completion of your reforms," IMF Managing Director Michel Camdessus on April 2 announced a resumption of lending to Russia. Financial commentators in Britain and the United States, as well as foreign advisers to the Russian government such as London School of Economics Prof. Richard Layard, crow that the new Russian government will move on the IMF's maximum program: break up the "natural monopolies" (nation-wide transportation and energy companies), slash housing and utilities subsidies, and improve conditions for foreign financiers to repatriate profits from their Russian operations.*

*On March 27, millions of Russians took part in demonstrations and work actions, to protest the non-payment of wages for months on end, and the ever-deeper immiseration of the population. From St. Petersburg, Roman Bessonov looks at the turmoil in Russia.*

For a week preceding the March 27 all-Russia trade union action, the mass media threatened citizens with possible bloody incidents, reporting the mobilization of military forces quartered around Moscow. Prominent "anti-fascist" Galina Starovoitova voiced anxiety that some "radical nationalist" forces would organize a bloodbath on this day. The daily *Segodnya* reported that rumors about preparations for a 1993-like coup—the abolition and violent suppression of the elected Parliament—were circulating in the State Duma, as Parliament is now called.

On the evening of March 27, however, the tone of the liberal propaganda changed: With audible contempt, ORT television (Channel 1, owned by Security Council deputy secretary Boris Berezovsky) speculated that "there were no signs of an organized will among the demonstrators."

The majority of the participants in the public rallies in Moscow and St. Petersburg really did not look like rebels. Thousands of older people, walking silently along the dirty spring pavements to the site of the rally, rather resembled a column of POWs, trailing along to a concentration camp. Unlike the politically organized minority, which comprised not more than one-fifth of the 100,000 demonstrators in St. Petersburg, they carried no slogans or posters. Most of these desperate people were just trying to remind the authorities of their existence.

The cynical official propaganda pursued two goals in its coverage of the trade union action day. All measures were taken to demoralize the participants, but, on the other hand, it was also regarded as a certain "opening of a valve" to vent disappointment and despair. The same was the case with the previous day of action, which was timed for early November 1996 in order to exhaust people's energies, reducing the number who would turn out several days later for the Communist rallies on Nov. 7, the anniversary of the 1917 Bolshevik Revolution.

The supreme authorities in Russia did have a certain use for some level of public protest, as an argument in their shameful bargaining with the IMF. The same goes for the Moscow city authorities, since the capital has been affected by budget cuts for the first time; Mayor Yuri Luzhkov got no money for his annual public circus, organized on the Day of the City. There is no doubt that the trade union leadership, with its close unofficial ties with the mayor, was aware of his interest in some show of protest in Moscow. But neither the federal nor the Moscow authorities wanted serious disorders in the big cities, which could negatively influence even the current limited influx of foreign investment.

Although the March 27 action was manipulated, due to such interests, one could notice a new political quality in the protests. It was reflected in such newspaper headlines as, "Trade Unions Rally Against the IMF." The new appointments for Anatoli Chubais's team in the government, as well as mass media leaks on the proposed cuts in pensions and increase of utilities fees, are already associated in the public mind with the dictates of international financial agencies.

## Anti-American surge

At the same time, even the Russian business press, not to mention the opposition media, is becoming more and more explicitly anti-American.

A story that the appointment of Chubais was actually dictated by the United States, as well as detailed descriptions of the so-called Harvard project in which he was considered a key figure, appeared simultaneously in state-supported and opposition newspapers. No wonder: The stepped-up tax-collection measures, expected from Chubais, directly affect national companies; the latter, therefore, find a common interest with the Communist Party of the Russian Federation (CPRF)-dominated Duma, which is still resisting adoption of a set of laws to create more opportunities for foreign (especially raw materials extraction) firms. The same holds, to a large extent,

for the natural gas company, Gazprom, regarded by the IMF as one of the monopolies that should be eliminated with Chubais's assistance.

But the fact that Chubais started his career with help from London is totally blacked out, as is the issue of British influence in U.S. foreign policy.

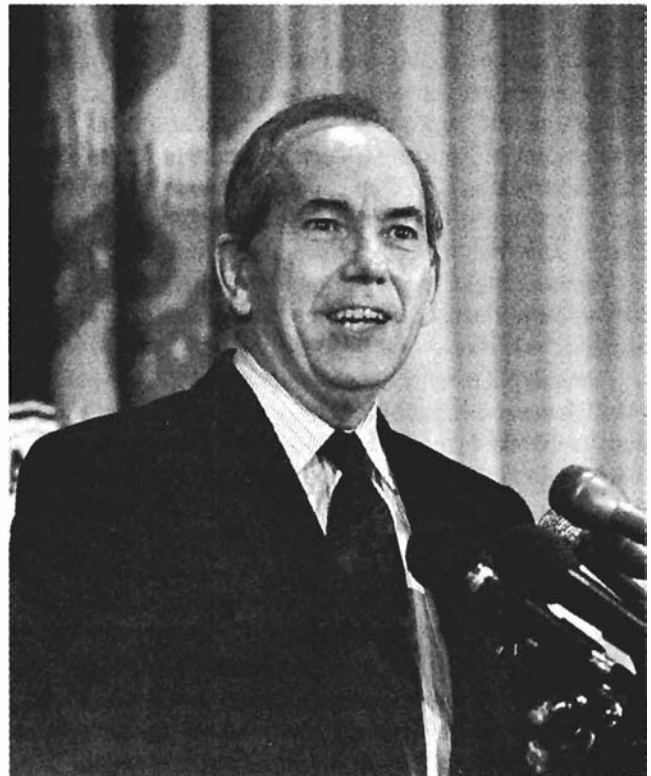
I couldn't find a single report in the Russian mass media about Bill Clinton's invoking F.D. Roosevelt's vision of American foreign policy, before his late-March meeting with Boris Yeltsin in Helsinki. In contrast, gossip versions about Indonesian and Chinese financing of Clinton's campaign, as well as details of Whitewatergate, are eagerly published. On March 30, NTV (TV Channel 2) decided to discuss legitimacy of the 130-year-old sale of Alaska by the Russian Empire to the United States. Its correspondent even interviewed an Eskimo, who said that there are over 400 Russian words in his language.

Before his departure for Helsinki, President Yeltsin, trying to demonstrate an excellent state of health, said: "We speak about NATO all the time, but everybody knows that NATO is the United States." This association of the military threat with the United States is also becoming more and more common for both official and opposition propaganda.

The 1992-93 practice of holding high-level Russian-British meetings, right before Russian-U.S. talks, was revived again: British Defense Minister Michael Portillo came to Moscow just days before the Helsinki summit. The issues of military cooperation, discussed between him and his counterpart, Igor Rodionov, were not made public, except that the program for British instructors to train retired Russian officers in "business" will be prolonged. Portillo was featured in the Russian media as an opponent of NATO expansion.

Russian mass media, meanwhile, are packed with historical features (at least three publications in major papers in the last two weeks) on the mutually favorable Anglo-Russian political and economic relations, dating back to Tsar Ivan the Terrible's near marriage to Queen Elizabeth Tudor in the 16th century. At the Museum of Moscow History, pupils at specialized English-language schools stage performances, depicting the reception of the British ambassadors by Ivan. The latter, incidentally, is painted in more and more positive colors. *Segodnya*, for example, justifies the necessity of funds for another bankrupt museum, by citing the importance for Russian people to see the throne of Ivan the Terrible. Nothing is said about the incredible cruelty of the paranoid Ivan during the second period of his reign, when he was psychologically dependent on the British, nor about the devastation of the country and its integrity in that time.

Probably in order to prove that everything associated with Britain is nice, the liberal mass media very sympathetically characterize Platon Obukhov, the Russian diplomat's son who was arrested last year as a British spy. Now he is regarded as an innocent victim of legal and psychiatric repressions. Russians are being convinced that the very combination of the words "British" and "spy" is somewhat impolite, while



*International Monetary Fund Managing Director Michel Camdessus is enthusiastic about the new Russian deputy premier, Anatoli Chubais.*

best conditions are created for cultivating whole regiments of British agents.

### **Propaganda for monarchy**

The month before, Helsinki also witnessed a zealous campaign for the reestablishment of monarchy in Russia. Nikolai Svanidze, the new head of the Russian Radio and TV Company (VGTRK), featured the royal plump-cheeked teenage resident of Madrid, Georgi Romanov, who appeared to be unable even to talk without being prompted by his grandmother—partly because his Russian is even poorer than that of his father.

A rival pretender to the throne, an odd-looking older fellow calling himself Nicholas III, "real grandson" of Nicholas II, promoted by a well-financed organization going under the name of "Sovereign Order of John of Jerusalem," received publicity in *Ogonyok* and other media favored by the Russian *nouveaux riches*. "Nicholas III," teaming up with a group within the Orthodox Church elite of Ukraine that is also promoting a monarchical restoration in Bulgaria and a newly established Panslavonic Union, was crowned (!) in a Moscow suburb in late December, simultaneously proclaiming "dissolution" of the "pro-Communist" Russian Orthodox Church. The parallel church of this grouping is now energetically establishing itself in the breakaway region of Chechnya, with assistance from British-backed Orthodox dissident Gleb Yakunin.

Both the ostensibly legitimate and the undoubtedly phony pretenders appeal to one and the same authority for recognition and support, namely London. And, as if the proliferation of Romanovs were not enough, the Saxe-Coburg-Gotha clan showed up in person: Prince Philip Mountbatten, consort of Queen Elizabeth, toured the Russian Far East in late March, securing promises from the governors of Yakutia (Sakha Republic) and Khabarovsk Territory to lock up large tracts of land in their resource-rich provinces, as nature preserves.

The morbid monarchist obsession of Russia's top leadership, whatever designs on reclaimable former royal property may be involved, is chiefly based on a feeling of insecurity that has seized the political elite, which is growing in proportion to the scale of the social-economic disaster. In parallel, there is more and more outspoken propaganda for political dictatorship.

### Conflict with Ukraine fueled

Since the restoration of the monarchy is no more supported by the population than is the idea of reclaiming Alaska, the irrational game with the two pretenders and the two churches, failing in its purpose of distracting people from their real problems, primarily serves to fuel contradictions between Moscow and Kiev, reviving the whole history of the rivalry of the two centers of ancient Rus.

Ideologists of the Arc of Crisis likely celebrated a victory, when Azerbaijan's President Heidar Aliyev, a longtime London favorite, received the order of Yaroslav the Wise, the legendary knight with whose name the historical priority of Kiev is most strongly associated, during his March visit to the Ukrainian capital. The "Entente Oléale" among the Azerbaijani, Georgian, and Ukrainian leaderships, the deal for oil pipelines bypassing Russian territory, poses a threat not just to Moscow, but to the prospects for peace in the Black Sea, which has a potential to become a cradle for a Third World War. The (economically justified, on Kiev's part) show of business diplomacy coincided with the arrival of NATO ships to Odessa, on Ukraine's Black Sea coast. The sounds of the Sevastopol Waltz, with which the naval expedition was greeted in Odessa, sounded like a funeral bell, tolling for Russian-Ukrainian relations. Those in the West who welcomed such events as a sign of the obvious contradictions within the Commonwealth of Independent States (CIS), hardly realize what kind of a Pandora's box has been opened.

The conflict of the Russian and Ukrainian elites already has some first results, in carving up weapons markets. Russian and Ukrainian firms are selling to traditional adversaries in various parts of Eurasia. A scandal around Russia's unofficial shipments of arms to Armenia, was immediately followed by reports on Ukraine's similar supplying of Azerbaijan. Soon after the March visit to Moscow by Indian Prime Minister H.D. Deve Gowda, with military issues on the agenda, *Nezavisimaya Gazeta* wrote about Ukrainian tanks in the hands

of the Pakistani military. It does not require huge historical knowledge, to realize that this kind of "division of strategies" meshes with the old British divide-and-conquer scenarios, in the relevant areas.

Under IMF conditionalities, arms sales become one of the quickest ways to fill the empty budgets of both Russia and Ukraine. Actually, the British and the IMF are playing one game with two hands, setting peoples and countries against each other. The present character of this game reveals the intent to set up a situation in which the United States and Russia, not London, would be regarded responsible for a global disaster.

In Russia, the mass media, now significantly controlled by private interests, are returning to the propaganda patterns of the Cold War, channelling the anger of Russians against the United States, in particular. For ordinary Russians, for an older person who studied Soviet history textbooks, or a youngster whose poor historical knowledge comes from George Soros-financed tomes, for a businessman or a pensioner, for a liberal or a Communist, the developing conflict that threatens to involve himself and his relative in Kiev or Odessa, is viewed primarily as a result of some American-made designs.

This widespread view flies in the face of the historical and contemporary truth, regarding London's seminal role in the current crisis, but it implicitly suggests something that *is* true: that the outcome of the crisis will depend on the policy of the United States toward Russia and the CIS countries.

Can U.S. policy escape the trap of traditional British game-mastering, which may have good short-term prospects for the international arms speculators, but fatal consequences for the whole world, including the United States? The dangers are ever greater, in the face of the IMF-imposed social crisis, which may suggest to the Kremlin followers of Ivan the Terrible that a "historically justified" war could be the most efficient way of turning the population's anger from themselves—against Ukraine, the United States, or President Clinton personally.

Recently, the Federation of Independent Trade Unions leadership declared that it is not planning more actions for this spring. So, the next expression of public protest would be scheduled for the autumn, which is marked by the 80th anniversary of the 1917 revolution. That date may occasion much more interest, both inside and outside Russia, in civil conflict of various sorts. There is plenty of fuel for simultaneous wars between Russians and Ukrainians, Armenians and Azerbaijanis, Chechens and Cossacks, Georgians and Abkhazians, Romanians and Ukrainians, Greeks and Turks, Albanians and Serbs, and also Russians against each other. The global oligarchy is immoral enough, and desperate in its systemic financial and social crisis, to reproduce the design of 1914 along the whole line of the Bernard Lewis-Samuel Huntington Arc of Crisis. The question is, whether nations agree to be used as cannon fodder for such mean interests.

# No-Gutnick attacks Mideast peace

by Robert Barwick and Allen Douglas

In the wake of the assassination of Israeli Prime Minister Yitzhak Rabin on Nov. 4, 1995, Joseph Gutnick, a Melbourne, Australia mining magnate and leader of the Chabad Lubavitcher cult, poured over \$1 million of his personal funds into the Likud election campaign of Benjamin Netanyahu. Many in Israel saw Gutnick's money, which also helped finance a 5,000-person "get out the vote" effort by the messianic, cabalistic Chabad cult, as having provided Netanyahu's razor-thin margin of victory over Labor Party leader Shimon Peres.

Since then, Gutnick has poured additional millions into building Jewish settlement in Hebron, and, reportedly, has invested in the new Har Homa (Jebel Abu Ghneim) settlement in Arab East Jerusalem as well, whose construction threatens to blow up the Oslo Accords. As former Prime Minister Peres told students at Israel's Bar-Ilan University earlier this year: "Gutnick—he comes to pass out funds in order to argue, to spread evil and hatred."

Netanyahu is not the only prime minister indebted to Gutnick, who prides himself on being one of the few businessmen in Australia's tightly knit Jewish community to have donated heavily to Australian Prime Minister John Howard's election campaign in March 1996. Gutnick brags that all doors are open to him as a result, including an invitation to meet President Bill Clinton during his visit to Australia last November. So, although Australia's representative to the United Nations, Richard Butler, denounced Israel's plans to build Har Homa in a speech to the General Assembly on March 13, Prime Minister Howard has declared, regarding Gutnick's funding of settlements, that "a private citizen can do whatever he likes with his money."

That contention is absurd, as the Palestine Liberation Organization representative in Australia, Ali Kazak, has pointed out: Australia has passed laws against its citizens engaging in pedophile activity while overseas, for instance, even though they are presumably "using their own money" for the purpose.

## Where'd you get the dough, Joe?

In the mid-1980s, Gutnick was a small-time stock speculator based in the "rag trade" in Melbourne, who was almost wiped out by the 1987 stock market crash. The usual Horatio Alger "rags-to-riches" story about how he soon thereafter amassed a personal wealth of Aus \$500 million (\$350 million) in mining interests, is that the late Lubavitcher "messiah," the Brooklyn-based Rabbi Menachem Schneerson, pre-

dicted that Gutnick would find diamonds in Western Australia. Believing his rabbi, Gutnick went into partnership with the British-owned diamond giant, DeBeers. Though unsuccessful in discovering diamonds, Gutnick amassed a fortune in gold. But, as the DeBeers partnership hints, Gutnick is merely a cat's paw for the highest levels of Australia's financial establishment, which, in turn, is directed from London.

As of 1989, all of Gutnick's companies were worth Aus \$17 million; as of June 1996, his eight companies were worth Aus \$3.3 billion. It is a very curious empire: Only two of his companies, Centaur Mining and Great Central, make money, while the other six are money-losing operations. The net assets of his companies, as opposed to their stock valuation, is only Aus \$397 million. As the *Australian Financial Review* of Nov. 6, 1996 noted, regarding Gutnick's capitalization of some 8.5 times book value: "While many miners [mining companies] are valued at two to three times book, the Gutnick group's market-to-book multiple would clearly earn a place in the record book."

Gutnick's astronomical rise began in the early 1990s, when the cream of Australia's financial institutions, such as the huge Australian Mutual Provident (AMP) insurance company, began investing heavily in his companies, which, until then, no "respectable" institution would touch. Their control is now such, that Gutnick told the *Herald Sun* of Nov. 21, 1996, "I do what the institutions want."

But, along with AMP, "the institutions" which hold the heaviest concentration of his stock are a group of "nominee" companies, which are privately held, about which, therefore, no information is available: Chase Manhattan Nominees, National Nominees, Westpac Custodian Nominees, and ANZ Nominees. An *EIR* investigation determined, however, that these "nominees," together with AMP, jointly control Australia's "big four" banks!

The most important of these is ANZ Nominees, tied to the Australian and New Zealand Banking Corp. (ANZ Bank). Originally London-based, ANZ has long been the bastion of the British establishment in Australia; a director for many years, for example, was former NATO Secretary General Lord Peter Carrington. ANZ has made its name in other ways as well. A former senior Australian counter-terrorism expert told *EIR*, "Wherever we've been doing investigations, you'll find ANZ Nominees in there somewhere."

Notwithstanding the private power behind Gutnick, the Australian government has repeatedly stated, as Australian Deputy Prime Minister Tim Fischer told Netanyahu and Arafat in meetings in Jerusalem and Gaza on March 13, that peace in the Middle East "is a high-priority issue" for Australia. Fischer was there, in part, to dedicate the new, Australian-financed courthouse for the Palestinian Authority in Gaza, and to support the Australian legal team helping to "build the legal system" of the PA. Given all this, his government's refusal to rein in Gutnick is particularly cynical.

# International Intelligence

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## ***Deported Uganda dissident seized by Museveni thugs***

Hajji Yusuf Wamboga, an opponent of Ugandan President Yoweri Museveni, was arrested in Uganda by plainclothes police on March 10, reported the March 13 Kampala daily, the *Monitor*. He was arrested in Mbale, a suburb of Kampala. When his family went to the Mbale police to inquire of his whereabouts, they said he had been handed over to the Military Police Barracks. But the family was subsequently told by the military to check at the Central Police Station. The *Monitor* also made inquiries, but the officer in charge retorted, "He is not with us, better try the military barracks."

In early March, Wamboga was denied asylum in Sweden and was deported to Uganda, despite warnings that he faced arrest and death at the hands of Museveni's criminals. The *Monitor* first reported on Wamboga's deportation, citing a press release from the Schiller Institute, described as "an organization which has been consistently critical of Yoweri Museveni's government." The *Monitor* said that the Schiller Institute release "wondered whether Sweden is facilitating the elimination of opposition figures in Uganda."

As of March 28, Wamboga had reportedly been released.

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## ***Polish unionists protest economic, social collapse***

In accordance with the decision of the National Committee of the Solidarity trade union, protest actions against the closure of the Gdansk Shipyard were organized throughout Poland, on March 25. After a rally at the shipyard, over 1,000 employees picketed the Gdansk Provincial Administrative Office. Thirty people went inside for talks with Provincial Gov. Henryk Wojciechowski, demanding that he put in writing what would be done to reverse the situation.

Demonstrations and picket lines were thrown up at the Provincial Administrative Offices in Zielona Gora, Lodz, Lublin, Leszno, Szczecin, Czestochowa, Krosno, and Su-

walki to protest the shipyard shutdown. The trade unionists in Lublin presented the provincial governor with a set of demands relating to the deteriorating industrial situation in their region and demanded that the governor pass a letter from them on to Prime Minister Wlodzimierz Cimoszewicz.

In Warsaw, the demonstration ended at the headquarters of the Social Democracy of the Polish Republic, the former communist party. Molotov cocktails, red paint, and fire crackers were thrown at the building. In Gorzow Wielkopolski, protesters occupied the governor's office for several hours.

On the same day, 50,000 Poles demonstrated in Krakow to protest the increase of violent crime in the city. The demonstration was organized by student organizations, after one student was killed by two teenagers.

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## ***Brazilian daily features New Bretton Woods call***

The Brazilian daily *Jornal do Comercio*, published in Porto Alegre, printed an editorial commentary on the international call for U.S. President Clinton to convene a New Bretton Woods conference. The commentary, by Ibero-American Solidarity Movement (MSIA) directors Victor Grunewaldt and Geraldo Lino, conceded that, now, many people are warning of an impending international financial and monetary collapse, but few are offering serious alternatives.

"One who stands out," they write, "is the American economist Lyndon LaRouche, who says that it is not possible to save the system as presently constituted. To avoid a catastrophe, he proposes an international program based on three fundamental points: 1) That the governments of the main industrialized powers, particularly the United States, convene a New Bretton Woods conference, reviving the positive aspects of the original accords, namely fixed exchange rates. 2) Give priority to the development of great infrastructure programs, such as the Eurasian Land-Bridge, led by China, which would function as an engine for the world's economic recovery. 3) Provide a vigorous program of incentives to the development of

machine tools in many countries, given their crucial role in stimulating the dissemination of scientific and technological innovations in the economy."

Their article expands on these points, stressing LaRouche's plan for orderly bankruptcy reorganization of the economy, which has been introduced in legislative form in the national congresses of Argentina and Mexico.

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## ***LaRouche friends attacked in Mexico and Ukraine***

The offices of the Ibero-American Solidarity Movement (MSIA) in Obregón, Mexico, were broken into overnight on March 25. The unknown burglars went into the office of Alberto Vizcarra Osuna, the MSIA's leader in Sonora, and wrecked his files and overturned the contents of his desk drawers. The manner in which the office was entered, suggests a highly professional job, since neither the door locks nor any windows were broken, nor were there any holes bored anywhere to facilitate entry. Not a single valuable object was taken.

Vizcarra denounced the effort to intimidate the MSIA, "given . . . its repeated denunciations against narco-terrorism, particularly against the political machine of former President Carlos Salinas de Gortari, a protégé of George Bush." Vizcarra noted that at the end of last year, the MSIA held several well-attended conferences on "Bush: the Godfather of Salinas and of Narco-Terrorism."

Similarly, Ukrainian member of parliament Volodymyr Marchenko, who shared the podium with LaRouche at a Washington policy forum in February, was threatened in Kiev. A statement from the Progressive Socialist Party of Ukraine (PSPU) said that Marchenko's auto, parked outside his residence, was doused with gasoline and burned some time during the night of March 24-25. According to the statement, the party had been very active in anti-austerity demonstrations on March 18, and Marchenko himself had "openly exposed the bloc between Ukrainian Prime Minister P. Lazarenko and Chairman of the Supreme Rada [parliament]

**NEW SOUTH WALES** Commissioner for Equal Opportunities has called for an ongoing authority with royal commission powers to investigate pedophilia in that Australian state, following the closure of the Wood Royal Commission into police corruption and pedophilia, which he says uncovered "only the tip of the iceberg."

**IRAN'S PRESIDENTIAL** succession is not yet carved in stone, according to Navid Kermani, Orientalist at the University of Bonn. Kermani, writing in the daily *Frankfurter Allgemeine Zeitung* on March 27 about the upcoming elections to replace President Ali Akbar Hashemi Rafsanjani, says that Culture Minister Mohammad Khatami has offered a challenge to front-runner Nateq Nouri.

**'CANTO E DIAPASON,'** the new, Italian translation of the Schiller Institute's *Music Manual*, was presented at a seminar at the Bologna Music Conservatory on March 25. Speakers included the institute's Liliana Celani, and Raina Kabaiwanska, the famous Bulgarian-Italian soprano who had just been celebrated in Bologna for her performance at the Teatro Comunale.

**JEAN MARIE LE PEN'S** racist policies were the target of protests in Strasbourg by 35,000 people, during the conference of Le Pen's National Front party on March 29. The demonstration was joined by former Presidential candidate Lionel Jospin. A separate group from the protesters went on a violent rampage, in precisely the type of provocation which fuels Le Pen's movement.

**JACQUES FOCCART,** the man who handled French policy toward French-speaking Africa since the time of President de Gaulle, died in late March, and speculation is rife over who will replace him. One possible candidate is Michel Fichet, whom *La Tribune* describes as having "a rather crude anti-Americanism coupled with an ill-concealed allergy to the World Bank's programs."

A. Moroz," on national radio on March 19. Such incidents, the PSPU statement, "are taking place in a country whose leadership has announced that it is building a law-based state."

The party's chairman is Natalya Vitrenko, co-initiator, with Helga Zepp LaRouche, of the "Urgent Appeal to President Clinton to Convene a New Bretton Woods Conference."

## North Korea may agree to four-power talks

North Korea has told the United States and South Korea that it will join proposed four-nation peace talks—North and South Korea, China, and the United States—if the other powers will grant substantial food aid, according to a late-March report by Seoul officials, corroborated by *EIR* sources. At press time, there has been no official word from North Korea. U.S. Vice President Al Gore arrived in South Korea on March 28 for talks focused on President Clinton's proposal for the four-nation peace talks. Officials travelling with Gore said he had discussed the four-way talks in Beijing with President Jiang Zemin and Prime Minister Li Peng, and added, "We are hopeful things are moving in the right direction."

North Korea made its first formal response on the peace talks at a New York meeting March 26 among working-level officials from the two Koreas and the United States, South Korean Foreign Ministry spokesman Lee Kyu-hyung told the press March 27. "North Korea asked the United States and South Korea to guarantee food aid in advance," Lee said. "You could say it was a conditional acceptance of the proposal." Five U.S. senators, led by Ted Stevens (R-Alaska), the chairman of the Senate Appropriations Committee, met South Korean President Kim on March 27 and were due to fly to North Korea the next day.

The UN World Food Program says North Korea faces a food shortage of 2.3 million tons this year, and there have been widespread reports of North Koreans foraging for edible grasses, roots, and tree bark to survive.

## Prince Philip descends on Russia's Far East

As millions of Russians prepared to demonstrate against the austerity crushing them and shredding Russia's social fabric, Britain's Prince Philip, the honorary president of the World Wide Fund for Nature, visited Khabarovsk in mid-March, to complain about the "degradation" of Russia's nature preserves. President Mikhail Nikolaev of Yakutia (also known as Sakha) promised to set aside 20% of the republic's territory, and Khabarovsk Krai Gov. Viktor Ishaev said he would set aside 10% of the krai's land for a nature preserve. Kamchatka Gov. Vladimir Biryukov promised to create three new national parks by the year 2000. The WWF has spent about \$1 million a year ostensibly to save the Amur tiger, which lives primarily in Primorskii Krai.

Part of the context for the WWF deal, is the drive to lock up the region's vast mineral deposits. Yakutia has huge deposits, in particular, of diamonds, gold, and oil. The Hague-based Unrepresented Nations and Peoples Organization, which works closely with the WWF, recognizes Yakutia, whose people are Turkic, as an independent state.

## Australian money goes to support Tamil Tigers

The Sri Lankan foreign minister has again asked the Australian government to put a stop to the hundreds of thousands of dollars of support which flow from Australian-based ethnic Tamil communities to the terrorist operations of the Liberation Tigers of Tamil Eelam (LTTE), according to *The Age* of March 25. Lakshman Kadirgamar, himself a Tamil, told *The Age's* correspondent in Colombo, that the money was going to "recruit children as young as ten and train young women as suicide bombers."

Kadirgamar said that the most important overseas backers of the Tamil Tigers are the Tamil communities in Australia, Britain, and Canada (all of whose head of state is Queen Elizabeth): "They are very widespread and quite articulate and active."

## The Thatcher gang is out to wreck Clinton China policy

by Jeffrey Steinberg

A still-ongoing *EIR* investigation in Europe and the United States has uncovered evidence that the Thatcher gang in Britain, along with some of its leading U.S.-based assets, is working overtime to foster a strategic crisis between the United States and China. This represents an escalation of an already-active effort on the part of this British faction to destroy the second Clinton administration, sabotage the prospects of the Eurasian Land-Bridge, and impose a new, post-Cold War geopolitical doctrine, known as the “Clash of Civilizations,” which advocates a Western “jihad” against China and the Islamic world.

The battle to implement the Eurasian Land-Bridge has emerged in the past year, as the pivot-issue in the ongoing global political struggle between those forces committed to the defense of the nation-state, and those driving to forge a one-world dictatorship under the control of a private financial oligarchy, centered in the British “Club of the Isles.”

The international mobilization of the past year, led by Lyndon and Helga Zepp LaRouche, and the Schiller Institute, to secure the full support of the Clinton administration and other leading governments around the world for the Eurasian Land-Bridge, has provoked howls of hysteria from some London circles. Twice before in this century, this British faction has brought the world to war in order to block the Land-Bridge “idea” from being realized.

### London sources

Among the sources for the initial, crucial leads now under investigation by *EIR* researchers, are several high-ranking British Establishment figures, who consider the Thatcher policy initiatives to be dangerous and counterproductive. Al-

though their identities must be protected, their information has already been significantly corroborated by the independent *EIR* probe.

Some among these sources cite Sir Percy Craddock, former head of the British Joint Intelligence Committee during Margaret Thatcher’s prime ministership, as a spokesman for a more “realistic” approach toward China, based on “constructive engagement,” instead of the kind of provocative actions pushed by the Thatcher crowd. They insist that the British institutional rift between Thatcher and Craddock, is real.

The crux of their report is as follows. In recent months, a number of “Conservative Revolution” Republican members of the U.S. Congress, including Phil Crane (R-Ill.), have “swamped” officials in Hongkong, seeking to devise a strategy to force the Clinton administration to adopt “a more belligerent stance toward China,” over the upcoming July 1 British turnover of Hongkong back to Beijing.

The same networks are also behind the recent effort to bring down the Clinton Presidency, on the basis of absurd charges that the White House was penetrated and “bought” by Chinese government-dispatched bag-men and spies, during the 1996 election campaign. This effort to destroy the Presidency reportedly has been abetted by officials of the FBI and Justice Department, who have been working, criminally, against President Clinton, since 1993. *Washington Post* reporter Bob Woodward has been the preferred recipient of a flood of FBI and Justice Department illegal leaks on the “China bought Clinton’s re-election” hype, since late 1996.

The overall effort to blow up U.S.-China relations, however, is being directed from London—not Washington—via the Thatcher Foundation, and Lady Thatcher herself, with the





*Margaret Thatcher and George Bush, in March 1991. The current drive to blow up U.S.-China relations is being directed by the Thatcher Foundation, and by Lady Margaret Thatcher herself.*

assistance of three prominent American collaborators, one London source insists. The three Americans, according to the source, are:

- William Kristol, editor-in-chief of the *Weekly Standard*, a recently established neo-conservative weekly magazine, which was initially bankrolled by Australian press baron and Lord Beaverbrook protégé Rupert Murdoch. As the founder of the “Dark Age Weekend,” an annual year-end bash for ultra-conservatives, established as a counter to the Renaissance Weekends regularly attended by President Clinton, Kristol has become a magnet for a broad network of Clinton-haters in the business world, government, the intelligence community, and the media. This network, the source indicates, has been drawn into the present China-bashing drive.

- John O’Sullivan, a British national who is the editor-in-chief of the *National Review*, the Mont Pelerin Society-linked magazine founded by William F. Buckley, Jr.

- Rep. Chris Smith (R-N.J.), a board member of Baroness Caroline Cox’s Christian Solidarity International (CSI), a British intelligence front responsible for helping to foster mass-genocide throughout the Horn of Africa, particularly against Sudan. Smith and CSI, as *EIR* reported in the March 28 *EIR*, have been in the forefront of the recent drive to wreck U.S. China policy, by fueling a new “yellow peril” scare, centered around charges that China is carrying out a brutal

suppression of Christians, and is in a massive war buildup, targeted against its Asian neighbors. Another London source emphasized to *EIR* that Thatcher enjoys an especially close relationship with Baroness Cox, and that their personal ties wed the Thatcher Foundation and CSI as a single “dirty tricks” capability.

One London source described O’Sullivan as the person who “pulls the strands of the operation together,” while Kristol, who is described as abrasive and a “poor diplomat,” serves as the “idea man.” O’Sullivan, one British source reported, is currently organizing a conference, to be held in Arizona in May 1997, called the “Prague Initiative.” This is a follow-up event to a May 10-12, 1996 conference in Prague, Czech Republic, under the joint sponsorship of the Thatcher and the Heritage foundations. Thatcher keyed the event. The upcoming Arizona conference is intended to further plan the drive to wreck Clinton’s China policy initiatives, the sources insist.

One manifestation of the recent escalation in attacks against President Clinton’s China policy, emphasized by the London sources, was the near-simultaneous publication of articles in the *Weekly Standard*, the *New Republic*, and *National Review*, all assailing the Clinton openings to Beijing, and arguing that China is America’s last remaining strategic military adversary—not a potential crucial partner in foster-

ing Eurasian peace and prosperity. As *EIR* reported on March 28, this theme, of the “Coming Conflict With China,” has been trumpeted by New York Council on Foreign Relations scribblers Ross Munro and Richard Bernstein, in a 1997 book, and in a string of radio and television appearances since the beginning of the year. Munro and Bernstein contributed an abbreviated version of their war scenario to the Feb. 24, 1997 “China: The Issue” special edition of the *Weekly Standard*, and had earlier written the same scare-story disinformation in the CFR’s *Foreign Affairs*.

### The story checks out

In the course of 72 hours of cross-checking of sources, interviews, and data searches, the story, as presented by the London sources, has been substantially corroborated.

It is indeed the case that Lady Thatcher has been engaged in a worldwide crusade against the Clinton administration’s China policy for months. As early as January 1996, in a tour of Asia, which involved lecture stops in Taiwan and the Philippines, Thatcher delivered a geopolitical diatribe, proposing that the United States, as the last remaining superpower, had a military obligation to maintain the “balance of power” in Asia, by being the “military power of last resort against China.” She all but endorsed Taiwan’s independence from the mainland, and delivered a vicious attack against China for having “no legitimate political institutions and no rule of law.” In the same breath, Thatcher assailed President Clinton over his light-water reactor deal with North Korea, accusing him of “appeasing” Pyongyang’s drive to obtain nuclear weapons, and delivering a “signal to other regimes with potential nuclear ambitions, that breaking the NPT [Nuclear Non-Proliferation Treaty] is a profitable activity—in other words, that crime pays.”

Next, Thatcher dispatched her “fat poodle,” Sir Leon Brittan, vice president of the European Commission and a former Thatcher cabinet secretary, to a May 7-9, 1996 conference in Beijing on the Eurasian Land-Bridge. The conference was also addressed by Schiller Institute founder Helga Zepp LaRouche, which drove Brittan’s blood pressure way up, according to eyewitnesses. Sir Leon broke the rules of diplomacy in his zeal to break up the conference, threatening the Chinese with harsh retaliation if they dared to operate outside the global financial markets and the policy parameters of the international agencies, including the International Monetary Fund, the World Bank, and the World Trade Organization. For two years, Brittan had succeeded in blocking the conference from even taking place. From Beijing, he traveled to Singapore and other British Commonwealth entities, where he reportedly set into motion a series of actions to further sabotage the “New Silk Road” policy.

On Nov. 15, 1996, Thatcher traveled to Beijing, and spoke at an international economic conference co-sponsored by the *International Herald Tribune* and China’s State Commission for Restructuring the Economic System. Her remarks at the

two-day conference consisted of a scandalous string of invectives against Chinese “human rights” violations, threats of destabilization, and highly provocative references to Taiwan as an independent state.

She also publicly corroborated her personal involvement in the Hongkong gambit, reported recently to *EIR* by the London sources. Thatcher announced that she will be in Hongkong in July, to personally observe the handover. “Next year’s transition,” she said, “will take place amid unprecedented international interest and unprecedented media attention.” In an interview with the *International Herald Tribune*, before leaving Beijing to visit Hongkong’s colonial governor, Chris Patten, Thatcher babbled that China had already violated the 1984 Anglo-Chinese treaty on Hongkong, and threatened that she would seek to mobilize forces in Europe and America to pressure China. As you will read below, this is precisely what is now occurring—courtesy of Baroness Cox’s assets in the U.S. Congress.

She also took the opportunity to assail President Clinton, who, she charged, “has given China a bewildering series of signals rather than a consistent policy.” One senior Chinese economic official, Wu Jie, was unimpressed by the Iron Lady’s attack, which he described as “not very clear-headed.” He offered, in response: “Britain has plenty of its own problems, and next time we meet for a conference, perhaps we can debate those instead.”

### The first escalation

On April 3, 1996, U.S. Commerce Secretary Ron Brown and 34 leading American business executives and government officials were killed when their plane, returning from Tuzla, Bosnia, crashed before landing at Dubrovnik, Croatia. Brown’s death, in a plane crash which, to this day, according to Pentagon sources, remains very suspicious, represented a tremendous loss for President Clinton, and American interests worldwide.

As commerce secretary, Brown had overseen a profound shift in U.S. foreign economic policy. Brown sought, particularly in the case of China, to supersede the purely private-sector business ties, dominated by geopolitical scoundrels like Henry Kissinger, George and Prescott Bush, and Maurice Greenberg, with government-to-government collaboration, aimed at building up China’s internal infrastructure and high-wage, high-technology industrial sectors. He envisioned a U.S.-China economic partnership, that would also generate billions of dollars in U.S. industrial exports. Brown’s death, at precisely the moment when momentum was building—from Beijing, from the Schiller Institute, and other quarters—for the realization of the Eurasian Land-Bridge, represented an incalculable loss.

It also triggered a dramatic escalation in the British drive to wreck the Clinton administration, and to sabotage any prospects of the President fulfilling Brown’s vision of U.S.-Chinese economic partnership, in particular.



*Birds of a feather: former Secretary of State Henry Kissinger and William F. Buckley (right), founder of the National Review. Both are involved in British-sponsored dirty tricks against China.*

### **The Justice Department-FBI role**

From interviews and a review of the chronology of “media food chain” “China-gate” attacks against President Clinton, the following preliminary picture emerges. In late 1995, the Department of Justice and the FBI launched a low-priority probe of “possible Chinese plans to influence the Legislative branch,” according to a March 17 Justice Department press release. According to sources inside the federal government, the charges of Chinese “influence-buying,” to this day remain dubious, at best.

Nevertheless, beginning in late May 1996—shortly after the death of Brown, and the British escalation of the assault against President Clinton’s China policy—the FBI unearthed “new evidence” of the China bribery allegations, and launched a far-reaching foreign counterintelligence investigation. *The existence of that investigation was consciously kept from the President*, despite the fact that all FBI actions on such national security matters are governed by Executive Orders of the President!

On June 3, 1996, two senior intelligence officers on the staff of the National Security Council were given a closed-door briefing by officials of the National Security Division of the FBI; but, according to contemporaneous notes by one of the two NSC officials, they were ordered *not* to inform anyone else at the White House about the probe, of alleged Chinese attempts to buy influence with Democratic Party and Clinton campaign officials.

By June, a 25-person FBI foreign counterintelligence task force had been fielded to run the secret probe, under Justice Department supervision—behind the President’s back. At least six members of Congress had been secretly approached and delivered vague “warnings” about Chinese efforts to buy them off.

According to sources intimately involved in the effort, when President Clinton was re-elected in November 1996, FBI and Department of Justice (DOJ) operatives involved in the China probe began “leaking like crazy,” in a conscious effort to sink the President over his alleged “China ties.” Reportedly, it was during this period, that the *Washington Post*’s Bob Woodward received detailed information on the now-six-month-old secret FBI-DOJ probe.

On Jan. 15, 1997, on the eve of President Clinton’s second inauguration, Peter Schweizer, co-author of Caspar Weinberger’s recent geopolitical tract, *The Next War*, in an editorial page commentary in the *Wall Street Journal*, labeled the Lippo Group funding scandal, involving contributions to the Democratic Party by the Indonesian corporate giant, “a national security matter.” British news outlets had been already trumpeting the “China spy angle” on Democratic Party links to the Lippo Group in October 1996.

On Jan. 21, Tim Hames reported in the London *Times* that “a broad coalition of Republicans and Democrats, along with a supportive press, will ensure that China’s behavior toward Hongkong’s 6 million residents is scrutinized. . . . Over the

past six months, legislators have become increasingly unconvinced that engagement is producing any change in China's actions on human rights, compliance with international trade law, or behavior toward its neighbors. Influential conservative publications such as the *Weekly Standard* are campaigning for an alternative strategy based on containment of China." The London press, in short, was fully aware of the pending ambush of Clinton's China policy, a month before the first shots were fired!

In fact, London *Times* former editor-in-chief Lord William Rees-Mogg had boasted in October 1996, that President Clinton would win re-election, but would be brought down shortly thereafter—just like Richard Nixon.

### **Katie Graham joins the feeding frenzy**

On Feb. 13, Woodward broke the so-called "China-gate" story, under the headline, "Chinese Embassy Role in Fund-Raising Probed." By the time this story was published, the entire British-run "media food chain" was in full mobilization:

- Ambrose Evans-Pritchard, the London *Sunday Telegraph's* ace Clinton-basher, went to press on Feb. 16, declaring, "China finally replaced the old Soviet Union as the number-one enemy last week in the eyes of the U.S. political establishment. If one could date the beginning of the new Cold War, it would be Thursday, Feb. 13, 1997, the day that the *Washington Post* reported that U.S. counterintelligence had caught the Chinese embassy plotting to subvert the U.S. political system. . . . It looks as if the avalanche has now begun."

- On Feb. 24, the *Weekly Standard* devoted an entire issue to the Clinton China-gate scandal, including Munro and Bernstein's scare stories about the imminent "hot war" with Beijing, and signed articles by Sen. Jesse Helms (R-N.C.) and Baroness Cox's pet, Rep. Chris Smith (R-N.J.). The special edition required months of advance preparation—i.e., the folks at Rupert Murdoch's neo-con weekly were in on the plot before the Woodward story hit the newsstands.

- The March edition of the *American Spectator* featured a special report, titled "Is John Huang a Chinese Spy?" by Kenneth Timmerman, accusing the former Commerce Department and Democratic National Committee official of being an agent of Beijing, inside the Clinton camp.

- On March 10, the *New Republic* also devoted its entire edition to the Clinton China-gate tale, under the headline "Dancing with the Dragon."

- On March 14, the *National Review* weighed in with a cover story, featuring a racist cartoon of Bill and Hillary Clinton, dressed as rickshaw drivers, headlined "China Syndrome."

Other members of the Conservative Revolution caucus in Congress joined Helms and Smith in the China-bashing drive. On Feb. 13, the day that the Woodward article appeared, a group of Republicans on the House Foreign Affairs Commit-

tee, led by Rep. Doug Bereuter (R-Neb.), introduced H.R. 750, placing additional, draconian requirements upon the President and the Chinese government over the integration of Hongkong into China—requirements aimed at further wrecking Washington-Beijing cooperation. Bereuter is the House of Representatives' member of the Anglo-American Parliamentarians Group.

By mid-March, new evidence surfaced of FBI collusion in the anti-China, anti-Clinton drive.

On March 25, David Johnson reported in the *New York Times* that on Feb. 18, White House General Counsel Charles Ruff had written to Deputy Attorney General Jamie Gorelick, requesting a status report on the FBI probe of the China influence-buying allegations, in preparation for Secretary of State Madeleine Albright's visit to Beijing. Her trip was to finalize details of Vice President Al Gore's late-March visit to China. Ruff submitted a series of questions that were routinely answered by FBI officials, screened by the Justice Department, and approved for referral back to Ruff. At the last moment, however, FBI Director Louis Freeh blocked the release of the answers to the White House.

The day that the Johnson story was published, White House spokesman Mike McCurry was barraged with questions during the daily press briefing about Freeh's decision to withhold the information. McCurry answered: "We made a request to the Justice Department to provide information necessary for the President's conduct of foreign policy in his role as President and Commander-in-Chief. We would be discomfited if there was anything withheld from the President that was necessary for him to have in order to fulfill his policy. . . . The President's obligations under the Constitution to manage the affairs of the nation and to help conduct this nation's foreign policy, are the highest priority, because he's acting, in that case, in the interests of all Americans."

The next day, Attorney General Janet Reno backed up FBI Director Freeh's decision to treat the President of the United States as if he were the target of a criminal probe, and not the Chief Executive of the United States.

### **Maggie's back in town**

In the midst of this offensive against the Presidency and, especially, President Clinton's authority to conduct U.S. foreign policy, Thatcher showed up in Palm Beach, Florida, where she met, behind closed doors, with Speaker of the House Newt Gingrich, and, presumably, other leading Republicans who were gathered with the GOP's top money-bags. Officials at the Thatcher Foundation's Washington, D.C. office adamantly refused to release any information about Thatcher's schedule, simply stating that she was on a U.S. tour to raise funds for the foundation. If the London sources referenced at the beginning of this report are correct, some of that fundraising effort was directed at the now-scheduled May 18-19 "Prague Initiative II" conference in Arizona.

# Clinton, Brown state-to-state deals with China threatened Kissinger

by Kathy Wolfe

One year ago, on April 3, 1996, U.S. Secretary of Commerce Ron Brown was killed in a mysterious plane crash in Bosnia. (Brown is being remembered in Washington this week.) Earlier, in August 1994, before he led a delegation of 24 U.S. corporate leaders on a tour of China, Brown had announced an initiative to foster \$25 billion worth of U.S. investments there, to improve the quality of Chinese products. Brown proposed industrial, nuclear-power electricity plants, and other projects meant specifically to raise living standards and wages in China. The idea was to re-employ millions of Americans at high wages, producing these heavy industrial goods, and fund it with \$10 billion in U.S. Export-Import Bank credits. His policy of state-to-state cooperation on infrastructure development was in the tradition of former American President Franklin D. Roosevelt. The deals were largely killed by Congress when Newt Gingrich's "neo-cons" took over in November 1994.

## Kissinger is no friend of China

Ron Brown's policy was certainly unwelcome to Sir Henry Kissinger, the self-professed "friend" of China, who has made millions of dollars for himself and his British and Anglophile cronies in private sector business deals with China over the past 15 years. Kissinger, who, on May 10, 1982, in a speech at Chatham House, proudly proclaimed himself a life-long agent of the British Crown, has always seen China as a geopolitical pawn, to be manipulated and courted, but *never* allowed to develop as a modern industrial giant. In this regard, Kissinger's policies are identical to those of fanatical China-hater Margaret Thatcher. Kissinger is just too greedy to allow his mouth to run off in a direction that might jeopardize the flow of consulting fees into his pockets.

This profile of Kissinger was recently corroborated by one of Kissinger's fans, who, until recently, was at the Heritage Foundation, the Washington, D.C.-based Thatcherite British intelligence outpost, and who was interviewed by a journalist on April 1.

The Heritage analyst, himself British, offered that Kissinger stood to lose power from the Clinton-Brown initiative for direct state-to-state industrial development and infrastructure programs in China. Kissinger's view is that he has convinced China that only he can secure the major food and

banking deals which Beijing urgently needs, the analyst said.

"Ron Brown was trying to do something else, which had very little to do with free enterprise," the source said. "He was trying to negotiate these state-to-state mega-deals. . . . Brown basically was like Clinton, for big government." Kissinger, on the other hand, he said, "believes . . . that government connections exist to serve the private sector. . . . Had a Democratic U.S. government gotten very involved in state-to-state direct deals with China, circumventing the private sector," then neither China nor American business interests would have had much further use for the likes of Henry Kissinger. Kissinger, he said, was "more or less relieved," when Brown was no longer on the scene.

## 'Music to Kissinger's ears'

Now, Kissinger is profiting from the barrage of press attacks on him—part of the drive for a new "Cold War" against China, being run in the United States. The press attacks from the right-wing help his media image, the Heritage source observed. The Chinese believe that "Kissinger is the big man with the power connections in New York and Europe, who can bring in the large deals," he said. Kissinger convinces China to use him, "by maintaining himself as a media superstar. That is very important. That's why all these attacks right now from the Christian Right must be music to his ears."

Kissinger and the Thatcherite China-bashers have the *identical policy*, the analyst said. "Remember, Kissinger gets along with the Chinese, because both he and they believe in geopolitics," he claimed. "That's what he was doing there [in China] in 1971; he believes in balance of power: If there is no balance, then there will be war."

"This is all very amusing; it's great theater," the source said, speaking of the chapter attacking Kissinger in *The Coming Conflict with China*, a book promoted by the New York Council on Foreign Relations (CFR), which is run by the London Royal Institute for International Affairs.<sup>1</sup>

Yet, the bashers, "[Richard] Bernstein, [Ross] Munro, maybe [Zbigniew] Brzezinski is in there—are basically saying the same thing: China will soon have one-and-a-half bil-

1. *The Coming Conflict with China*, Richard Bernstein and Ross H. Munro (New York: Alfred A. Knopf, 1997).

lion people, and the U.S. will never match that, so we can't let China's military, which means China's economy, get too strong. Bernstein and Munro said it in *Foreign Affairs*: We believe in balance of power."

After the February publication of *The Coming Conflict*, Kissinger miraculously regained the headlines. He has been attacked in front-page articles and columns by the *Washington Times* (run by Bush intimates such as Count Arnaud de Borchgrave and Rev. Sun Myung Moon); former Bush employee Oliver North; former Republican candidate Pat Buchanan; and other CFR pawns, posing as right-wing populists. Munro, co-author with Bernstein of *The Coming Conflict*, even staged a rift with his employer, Philadelphia's Foreign Policy Research Institute (FPRI), because of the book's attack upon Kissinger's associate, Gen. Alexander Haig, who sits on the FPRI board. Yet, *The Coming Conflict* was written and funded while Munro was firmly ensconced at Haig's FPRI. FPRI President Harvey Sicherman was special assistant to Secretary of State Haig during 1981-82.

"It sells books and TV spots," the Brit laughed. "By attacking Kissinger, Munro is helping him to stay a celebrity. . . . Kissinger can't come out and say that we can't let China get too uppity. . . . He'll lose his 'in' with Beijing, where he makes his fortune. Now the Chinese will be more eager than ever to cultivate Kissinger."

### How was China-gate set-up?

It is not to be excluded that Kissinger and his far-flung "pro-China" GOP business networks in Asia, set up President Bill Clinton for the current China-gate scandal. Crippling Clinton's ability to promote projects in China, has certainly strengthened the hand of Kissinger's private business empire in the Middle Kingdom.

It was Sir George Bush, former ambassador to Beijing and second only to Kissinger in the "China Lobby," who created the near-war crisis between the United States and China over the 1996 visit of Taiwanese President Lee Teng-hui to America. As *EIR* reported at that time, Bush, James Baker III, and Bush's China Ambassador James Lilley attended a meeting of the U.S.-Republic of China Economic Council in Taipei in November 1994, where Bush gave the keynote on building up Taiwan as the "alternative to Hong-kong" after 1997.

"This was not just a photo op," a British analyst had told *EIR* in 1995, "but meant to give legitimacy" to the separation of Taiwan from China. Bush invited Lee to the United States. Having set the play in motion, when Lee visited in May 1996, causing Beijing to withdraw its ambassador from Washington and a major furor, Bush made a fuss of defending Beijing and the "One China" policy.

Recall, too, that China-basher Thatcher, in her memoirs, boasts that Sir George Bush has always been her personal tool.

Of course, Kissinger and Bush's Asian business connections, which go back to the 1960s, are massive, in sheer dollar



*The policy of the late Secretary of Commerce Ron Brown and President Clinton envisioned state-to-state deals with China for industrial and infrastructure development, which threatened the geopolitics of Henry Kissinger.*

volume. Kissinger's crowd has numerous Asian assets who might try to channel money to the Clinton Democrats, or just plant rumors about it—enough to raise a media hue and cry.

Kissinger is an adviser to the Lippo Group of Indonesia, and was in Jakarta in November 1994, at Lippo's expense, for a conference of the Asian Bankers Association, the *Washington Times* reported on March 24. Yet, the Lippo Group was the first Asian company accused of unseemly contributions—to Clinton circles. China "lobbyist" Haig is on the payroll of China Ocean Shipping Co. (Cosco), the state-owned Beijing merchant fleet. Yet, it is President Clinton who is now accused, without proof, of accepting bribes from Cosco's president, for arranging a port lease in California.

Kissinger Associates, Sir Henry's multimillion-dollar Park Avenue consulting firm, is paid a \$300,000 or more annual retainer by each of the largest U.S. multinationals in China, to garner political favors from Chinese leaders. Such clients include Continental Grain, Coca-Cola, Chase Manhattan Bank, American Express, American International Group insurance, Atlantic Richfield, Fluor, Union Carbide, and dozens more.

Add to this the far-flung Asian business empires of George Bush, his brother Prescott Bush, who does investment banking (including with the underworld) in Japan, Korea, and China, and James Baker III. The number of possible dirty-trick channels becomes endless.

# Lady Cox gears up a Hongkong crisis in U.S. Congress

by Kathy Wolfe

Two weeks after colleagues of Britain's Baroness Caroline Cox of Queensbury called for a "grassroots" movement to be launched inside the U.S. Congress against China, it has miraculously sprung up. Following Vice President Al Gore's trip to China, Lady Cox's Christian Solidarity International (CSI) will build a "bipartisan coalition in Congress" to paralyze President Clinton's China policy, CSI-U.S.A. President James Jacobson threatened on March 25. "Gore and Clinton are treating China like an ally and it's got to stop," he said.

A full-page advertisement in the March 30 *Washington Times*, sponsored by Gary Bauer's Family Research Council and signed by prominent single-issue groups, criticized President Clinton and Vice President Gore for condoning maltreatment of Christians in China. On the talk show circuit, Christian Coalition Director Ralph Reed, whose newsletters reach millions of Americans, announced the new Congressional campaign on "Fox News Sunday" on March 30. Most Favored Nation trade status for China must be revoked when it comes up in June, Reed stated. "If you look at the record of China in the area of human rights, if you look at the persecution of the Christian church . . . [it is] probably some of the most brutal oppression of religion anywhere in the world."

CSI, a pawn of the British House of Lords, in particular plans an "escalating drumbeat" to make an issue out of Hongkong's reversion to China, an aide to Rep. Chris Smith (R-N.J.) said on April 2. This is timed to explode into a "sharp confrontation" at the July 1 reversion date, he said. Smith is on the board of Cox's CSI.

Between now and July 1, Smith's aide said, there will be at least three bills introduced into the U.S. Congress by congressmen close to London's CSI:

- A bill revoking China's Most Favored Nation (MFN) trade status;
- The Hongkong Reversion Act, which imposes U.S. conditionalities on China over the issue of Hongkong;
- A bill to impose U.S. conditionalities on China's membership in the World Trade Organization.

## Bipartisans for Britain

"MFN is going to be a very big debate," said Smith's aide. "Every year we've tried to stop it, but this year will be our first chance for the votes to override President Clinton. Previously,

the 'free-trade' Republicans, like Speaker Newt Gingrich, have voted in favor of MFN. But this year, with the scandal of Chinese influence-buying, and the grassroots rebellion over Chinese maltreatment of Christians, we can do it."

President Clinton is expected to certify China for MFN the last week in May (the deadline is June 4), and Congress then has 60 days to override him. According to Smith's aide, the "bipartisan effort" to override will be led by Smith, and include Reps. Frank Wolf (R-Va.), Nancy Pelosi (D-Calif.), Chris Cox (R-Calif.), Richard Gephardt (D-Mo.), and Benjamin Gilman (R-N.Y.). Jesse Helms (R-N.C.) will "lead the charge" in the Senate, he said.

"The Congressional delegation which just went to China led by Newt Gingrich, took official letters from us," the aide said, "one from Rep. [Frank] Wolf demanding more religious liberty in China, and one from Representative Smith demanding China give up its 'one child' population policy. As soon as the delegation returns, we will demand to know the Chinese response to our letters. Then we go into action," he said.

The text of H.R. 750, the Hongkong Reversion Act, submitted on Feb. 13 by Rep. Doug Bereuter (R-Neb.) on behalf of Rep. John Porter (R-Ill.), passed the House on March 11, and is now before the Senate. It would have the U.S. demand conditions of China over the July 1 Hongkong reversion, which aid British plans for Sino-American confrontation. The bill states that its objective is to "outline circumstances under which the President of the United States could modify the application of United States laws with respect to Hongkong if . . . China fails to honor its commitment to give Hongkong a high degree of autonomy."

The bill complains at length about Beijing's decision to dissolve Britain's puppet legislature in Hongkong, and presents a list of ostensible Beijing threats to civil liberties. It also amends Section 202(a) and Section 301 of the existing 1992 United States-Hongkong Policy Act, under which the President of the United States is required to present findings to Congress related to Hongkong. It demands that the President document each year that a laundry list of U.S. demands is being met by China, including "whether the Hongkong government remains autonomous and free of corruption and whether the rule of law is respected in Hongkong"; whether there are any "efforts to annul or curtail the application of the Bill of Rights of Hongkong; efforts to prosecute for treason," and so on.

If the President cannot document China's "compliance" with all of these demands, then the United States is to suspend trade and other privileges for China, which could impact on all areas of U.S.-China relations.

CSI-U.S. head Jacobson said that the CSI will also be holding conferences in Hongkong, beginning on May 15, to disrupt the changeover. CSI will stir up the "Christian community in Hongkong," which is "terrified" that Beijing will halt religious freedom, as a sacrificial lamb to create victims to parade in Congress, he said.



# Sir Leon Brittan: Thatcher's 'fat poodle'

by Scott Thompson

He has been described by fellow European Commission officials as "Margaret Thatcher's fat poodle." More appropriately, he could be called Thatcher's "pit bull," particularly following his rude diatribe at a May 1996 Beijing conference on the Eurasian Land-Bridge.

Sir Leon Brittan, the first vice president of the European Commission, has been an ardent follower of former Prime Minister Margaret Thatcher (now Lady Thatcher), and served in three different cabinet positions during her first three terms in office, until he was forced to resign because of a scandal. Thatcher then appointed him to be the British Empire's chief operative inside the European Union, where he has rammed through free market, deregulation, and privatization policies that have sparked the worst economic crisis in postwar European history.

From this position, Brittan has carried the free-trade disease far and wide. One of the nastiest examples of this, was his behavior at the International Symposium on Economic Development of the Regions Along the Euro-Asian Continental Bridge, a state-sponsored conference of 34 nations held in Beijing, China, on May 7-9, 1996. The conference was called to discuss the creation of a new "continental bridge era" for humanity, to create new economic regions, using the most advanced technologies, in the Earth's underdeveloped regions. Nations must cooperate to achieve this based on the principle of "common development."

Brittan was opposed. Unilaterally, he demanded that China and the Continental Bridge nations comply with the demands of "the market" and "international obligations," or, he threatened, "the market" will see to it that the project will fail. The outrageous Sir Leon asserted that infrastructure must be *privately* funded, not by governments. Unless what he called "independent economic structures" were enabled to do what they want, free of government intervention, the Land-Bridge would never get the investment it needs. Then, Brittan, a guest of the Chinese government, threatened China that it must join the World Trade Organization (on *his* free-trade terms, of course) to make the Land-Bridge "attractive."

Brittan has made such demands of China before; China has not complied.

Immediately after the Beijing conference, Brittan attended a financial conference in Singapore, where he met Australian Deputy Prime Minister Tim Fischer. One month later, after Brittan had again met Fischer, in Australia on June 3, the



*Vice President of the European Union Commission and British agent Sir Leon Brittan threatened China that financing for Land-Bridge projects must be left in private hands—i.e., vulnerable to British strangulation. Here, Brittan in Beijing for the conference on the New Euro-Asia Continental Bridge, on May 7-9, 1996.*

latter launched a wild attack against Lyndon LaRouche, a leading international proponent of the Eurasian Land-Bridge policy, and against LaRouche's associates in Australia.

## Who is Sir Leon Brittan?

Sir Leon Brittan is part of a "Conservative Cambridge Mafia" that worked together closely during Lady Thatcher's rise to power. As a lawyer, he became a Queen's Council in 1978. More important, in 1981, after he had run successfully for several terms for Parliament from various districts, he was named a Privy Councillor. This lifetime position, in a body that stands secretly above Parliament, requires the inductee to swear an oath of allegiance to uphold the actions of the sovereign in all that the monarchy does.

When Thatcher was elected prime minister in 1979, she chose Brittan to serve, successively, as: Minister of State, Home Office (1979-81); Chief Secretary to the Treasury (1981-83); Home Secretary (1983-85); and, Secretary of State for Trade and Industry (1985-86).

He was forced to resign from the latter position in a dispute over helicopter production, known as the Westland scandal, with the up-and-coming Michael Heseltine, when the Solicitor General's letter on the case was leaked to the media. Far from disgraced, Thatcher was effusive in her praise of Brittan, who would be knighted on her recommendation in 1989. The Iron Lady promised him a quick return to the cabinet. Instead, however, Thatcher proposed that he become her puppet inside the European Commission.

## Peddling free-trade poison

Brittan's initial portfolio at the European Commission had to do with review of merger proposals, opening markets, de-



regulation, and financial matters. Like the Thatcherite free marketeer that he is, he outraged many Europeans by deregulating life insurance, telecommunications, the postal service, and energy. He knocked down barriers to the import of Japanese cars. And, as he dismantled protectionist tariffs and barriers, he forced several major European automobile companies to return government subsidies they needed to remain competitive.

Ironically, the one merger he blocked, which angered many in France and Italy, was those countries' joint bid to take over Haviland aerospace in the British Empire colony of Canada, on the grounds that it would create a monopoly.

Brittan was also part of enforcing the "self-containment" of Germany. According to Detlef Junker, in an article in the *Frankfurter Allgemeine Zeitung* on March 13, when Prime Minister Thatcher was ultimately compelled to accept the reunification of Germany, Chancellor Helmut Kohl had to agree to give up much of reunified Germany's national sovereignty through the Maastricht process, including the German currency, the deutschemark.

Although Brittan ostensibly never opposed the reunification of Germany, his portfolio put him in a position to stop dirigistic development of eastern Germany, including ruling on each West German takeover of an East German firm that had been "privatized." Brittan told the London *Financial Times* in this period: "Our [the European Commission's] involvement in East Germany raises a much broader political point. It is one of the most important factors in reassuring people who are anxious about German reunification that the Commission is there as a guardian of the interests of the community."

Today, there are mass strikes throughout Germany in protest against the economic devastation that the British free market approach has brought about.

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## A Chronology

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# The British war against the U.S. and China

by Jeffrey Steinberg

*The Editors have chosen to begin this timeline with the tragic death of U.S. Commerce Secretary Ron Brown, because that event marked a dramatic escalation in London's already ongoing drive to wreck the Clinton Presidency, and, especially, to subvert U.S.-China relations. The timeline does not note every single instance of a British-directed assault upon the*

*U.S. Clinton administration, China, or the Eurasian Land-Bridge policy, now widely associated with Lyndon and Helga Zepp LaRouche and the Schiller Institute. Its purpose, rather, is to give the reader a sense of the intensity of the British-led offensive, since the spring of 1996, and to suggest fruitful areas of further investigation on this singularly vital strategic battle-front.*

**April 3, 1996:** An airplane carrying Secretary of Commerce Ron Brown and 34 American business leaders and government officials mysteriously crashed near the Bosnia-Croatia border. The death of Secretary Brown was a significant setback to President Clinton's efforts to build strong government-to-government economic cooperation with leading American trading partners, especially China.

**May 5-6, 1996:** London International Institute of Strategic Studies (IISS) official Gerald Segal chaired a conference in Canberra, Australia, devoted to building a new Asian-Pacific "balance of powers" alliance to contain China. The conference was co-sponsored by the Taiwan-based Chinese Council for Advanced Policy Studies.

**May 7-9, 1996:** Helga Zepp LaRouche led a Schiller Institute delegation to a conference on the Eurasian Land-Bridge in Beijing, China. Also in attendance was Sir Leon Brittan, vice president of the European Commission, who delivered a stern warning against China pursuing the New Silk Road policy. Brittan was former British Home Secretary under Margaret Thatcher.

**May 9, 1996:** Fresh from disrupting the Beijing Land-Bridge conference, Brittan met with Australian Foreign Minister Tim Fischer in Singapore, while both were attending an Asian finance conference.

**May 10-12, 1996:** The American Enterprise Institute, the Bohemiae Foundation, the Center for the New Europe, and the National Review Institute jointly sponsored a conference in Prague, Czech Republic. Henry Kissinger and Margaret Thatcher delivered keynote speeches, and were identified as the co-directors of the project. Other attendees included Zbigniew Brzezinski, Richard Burt, Lane Kirkland, Donald Rumsfeld, Vaclav Havel, Vaclav Klaus, Lord Alan Chalfont, Mont Pelerinite Antonio Martino, and Leszek Balcerowicz. Conference documents subsequently posted on the Internet confirmed that John O'Sullivan was the founder and co-chairman of the Prague Initiative, otherwise known as the "New Atlantic Initiative."

**May 22, 1996:** The Department of Justice handed down 14 indictments, including against officials of Poly Technologies, a Chinese government firm, for illegal sales of 2,000 AK-47 guns to West Coast youth gangs. The case was the result of a U.S. Customs Service sting operation, dubbed "Dragon Fire." The Chinese government formally disavowed any involvement in the illegal arms sales.

**June 3, 1996:** Sir Leon Brittan again met with Australian Foreign Minister Fischer, while attending an event in Australia.

lia, sponsored by the *Australian Financial Review*, at the time a Hollinger Corp. publication.

**June 3, 1996:** Senior officials from the FBI National Security Division briefed two senior staff members of the U.S. National Security Council (NSC), including one FBI agent, on the fact that the FBI was conducting a foreign counterintelligence probe of possible Chinese government efforts to make illegal campaign contributions to the Democratic Party, and to the President's re-election campaign. The NSC officials were instructed not to inform anyone else at the White House about the probe.

**June 6, 1996:** Australian Foreign Minister Tim Fischer visited Washington to meet with Clinton administration officials. At a press conference at the National Press Club, he launched into a tirade against Lyndon LaRouche and the Schiller Institute, declaring: "I simply say there is no place in Australia for the type of agenda being pursued by the LaRouche organization."

**Sept. 24, 1996:** U.S. Rep. Frank Wolf (R-Va.), a board member of Baroness Caroline Cox's Christian Solidarity International, got the House of Representatives to unanimously pass House Resolution 515, denouncing China, Sudan, and Islamic nations in general, for persecuting Christians.

**Oct. 7, 1996:** The Hollinger Corporation's *Sunday Telegraph*, the London *Independent*, and the London *Guardian* all ran prominent news stories, out of the blue, accusing the Chinese government of committing new "atrocities" in Xinjiang and Tibet.

**Oct. 7, 1996:** *New York Times* columnist William Safire wrote about President Clinton's "cronyism" with James Riady, of the Lippo Group, reviving a story that had been first published in the *American Spectator* in September 1995.

**Oct. 10, 1996:** The *New York Times*, the *Los Angeles Times*, and the *Wall Street Journal* all ran prominent stories "exposing" President Clinton's ties to the Indonesia-based Lippo Group, headed by Mochtar and James Riady. Lippo was accused of having facilitated the late Secretary of Commerce Ron Brown's 1994 visit to China, and arranging a \$1 billion power plant project in China, that involved a former partner in the Rose Law Firm.

**Oct. 11, 1996:** Sen. John McCain (R-Ariz.) wrote to Attorney General Janet Reno, demanding the appointment of a special prosecutor to probe allegations of foreign campaign contributions to the Democratic Party.

**Oct. 23, 1996:** Federal District Court Judge Royce Lamberth, of the District of Columbia, granted a request for subpoenas to be issued to the widow of Ron Brown and three former Commerce Department officials, including John Huang, in a civil lawsuit brought by Judicial Watch, a neo-conservative Washington, D.C. outfit, bankrolled by Richard Mellon-Scaife.

**Oct. 28, 1996:** Rep. Benjamin A. Gilman (R-N.Y.) wrote to White House Chief of Staff Leon Panetta, demanding all "telegraphic or electronic mail messages" or written docu-

ments relating to the Lippo Group, in preparation for hearings of the House Committee on International Relations. Gilman charged in the letter that "American policy toward Indonesia, China, and Vietnam may have been affected by the influence of highly questionable, if not illegal contributions made to political campaigns by or at the behest of the owners of the Lippo Group."

**Oct. 30, 1996:** Five Republican Congressional committee chairmen wrote to Attorney General Reno demanding the appointment of an independent counsel to probe "suspected illegal activities" of the Clinton campaign and the Democratic National Committee—all relating to the "Lippo-gate" affair.

**Nov. 12, 1996:** Justice Department official Mark Richard, on behalf of Reno, wrote to Senator McCain that the threshold had not yet been reached for appointment of a special prosecutor.

**Nov. 15-16, 1996:** Former British Prime Minister Lady Margaret Thatcher visited Beijing to deliver a diatribe against the Chinese government and President Clinton. She announced a campaign to scrutinize China's takeover of Hongkong, vowing to be present for the July 1, 1997 ceremony, and to mobilize European and American parliamentarians to pressure China.

**Nov. 22, 1996:** *Executive Intelligence Review* published a cover-story by Lyndon LaRouche, exposing Britain's "Ring around China" destabilization plan, utilizing separatist and other ethnic assets to break up China, along the lines spelled out by IISS's Gerald Segal in the May/June 1994 issue of *Foreign Affairs*, in an article titled "China's Changing Shape."

**Jan. 15, 1997:** The *Wall Street Journal* published a commentary by Peter Schweizer, "Lippo's Chinese Connections," raising "national security" dimensions of the Clinton fundraising scandal. Schweizer was co-author, with Sir Caspar Weinberger, of a recent book, *The Next War*.

**Jan. 21, 1997:** Tim Hames wrote in the London *Times*, "Clinton Policy on Beijing Under Congress Spotlight," asserting that "a broad coalition of Republicans and Democrats, along with a supportive press, will ensure that China's behavior toward Hongkong's six million residents is scrutinized. . . . Over the past six months, legislators have become increasingly unconvinced that engagement is producing any change in China's actions on human rights, compliance with international trade law or behavior toward its neighbors. Influential conservative publications such as the *Weekly Standard* are campaigning for an alternative strategy based on containment of China." The article referenced Rep. John Porter (R-Ill.) as leading a campaign to rewrite and toughen the U.S.-Hongkong Act of 1992.

**Feb. 5, 1997:** Helga Zepp LaRouche gave a detailed briefing in Washington, D.C., at an FDR-PAC event, where the just-published *EIR* Land-Bridge Special Report was released.

**Feb. 13, 1997:** A *Washington Post* front-page story, by

Brian Duffy and Bob Woodward, "Chinese Embassy Role in Fund-Raising Probed," appeared, based on leaks from a Department of Justice investigation that uncovered evidence that representatives of the People's Republic of China "sought to direct contributions from foreign sources" to the Democratic National Committee before the 1996 Presidential campaign. The article reported that electronic eavesdropping of the Chinese embassy in Washington had revealed the plot, and, as the result, "a foreign counterintelligence component" had been added to the ongoing Justice Department probe of Clinton campaign fundraising. As a result, the FBI task force was increased to 25 fulltime investigators, including several with foreign counterintelligence expertise, under the direction of Justice Department attorney Laura Ingersoll. The article focused on John Huang and the Lippo Group, especially Lippo's sale of a 50% stake in its Hong Kong-Chinese Bank to a corporation owned by the Chinese government.

**Feb. 13, 1997:** Rep. Frank Wolf called a press conference, to demand that Attorney General Reno appoint an independent counsel to probe the Clinton "China funding scandal."

**Feb. 13, 1997:** Rep. Doug Bereuter (R-Neb.), with bipartisan backing, introduced H.R. 750, a bill to toughen the measures to be taken against China, should it fail to comply with a laundry list of demands concerning the return of Hongkong.

**Feb. 16, 1997:** Ambrose Evans-Pritchard wrote "Clinton's Chinese Takeaway," in the London *Sunday Telegraph*, which began, "China finally replaced the old Soviet Union as the number one enemy last week in the eyes of the U.S. political establishment. If one could date the beginning of the new Cold War, it would be Thursday, Feb. 13, 1997, the day that the *Washington Post* reported that U.S. counterintelligence had caught the Chinese embassy plotting to subvert the U.S. political system. . . . It looks as if the avalanche has now begun. A two-month investigation by the cable TV network NET alleges that the Chinese government laundered large donations to the Democratic Party by passing the money through the Lippo Group." Evans-Pritchard concluded the article, noting: "Now President Clinton will have to reassure America that he is not on the Chinese payroll."

**Feb. 18, 1997:** White House General Counsel Charles Ruff wrote to Deputy Attorney General Jamie Gorelick, requesting answers from the FBI and the Department of Justice to a series of questions regarding the probe of Chinese efforts to influence U.S. elections. The request was made in preparation for Secretary of State Madeleine Albright's visit to Beijing. According to a *New York Times* account by David Johnson, published March 25, 1997, the FBI complied with the request, and obtained approval from the DOJ to pass the information to the White House General Counsel. However, FBI Director Louis Freeh blocked its release.

**Feb. 19, 1997:** The London *Telegraph* published "Chi-



*Rupert Murdoch's media empire began cooking the "China-gate" scandal months in advance.*

nese Spy Inquiry Uncovers Mystery Visit," by Hugh Davies.

**Feb. 21, 1997:** Margaret Thatcher, on a tour of the United States to fundraise for the Thatcher Foundation, met with Speaker of the House Newt Gingrich in Florida.

**Feb. 22, 1997:** The London *Telegraph* published "China Spy Scandal Threatens Clinton as Four Stay Silent," by Hugo Gurdon.

**Feb. 23, 1997:** The London *Sunday Times* published an article by James Adams, "FBI Checks Clinton's Chinese Connection," targeting John Huang as a Chinese government spy and bagman. Adams wrote: "After a meeting in the Justice Department a month ago, FBI agents went back over tapes of bugged conversations that took place in the Chinese embassy and the Chinese ambassador's residence in Washington. The result was a series of conversations between Huang and Chinese diplomats, including the ambassador, about how China could use money and propaganda to ensure another Clinton victory in the Presidential election. The National Security Agency is now going back over messages intercepted between Peking and Washington to see if information passed on by Huang from the 37 classified intelligence briefings he received may have compromised national security. . . . While corners were cut, laws broken and national security compromised, it is likely that the President himself will remain largely untouched by the scandal. Several indictments are certain and an immensely damaging Congressional investigation will

take at least three years.”

**Feb. 24, 1997:** The *Weekly Standard* published “China: The Issue,” a special edition devoted to bashing U.S.-China relations, featuring articles by Sen. Jesse Helms (R-N.C.), Rep. Chris Smith (R-N.J.), Gary Bauer, Martin Lee, Richard Bernstein/Ross Munro, Michael Ledeen, and others.

**Feb. 28, 1997:** *Strategic Weekly Briefings*, of Lord William Rees-Mogg, published a front-page “Due Diligence” column by Craig S. Karpel, linking Whitewater special prosecutor Kenneth Starr to China International Trust and Investment Corp., a Chinese government company that bought Citi-Steel USA, Inc. While at the law firm of Kirkland and Ellis, in late 1993, Starr was the attorney representing CitiSteel before the National Labor Relations Board. CITIC’s chairman is Wang Jun, also chairman of Poly Group Corp. Karpel argued that, based on this conflict of interest, Starr cannot continue as chief Whitewater special prosecutor, now that Clinton is being probed for ties to China.

**March 1997:** The New York Council on Foreign Relations journal, *Foreign Affairs*, published an article by Ross Munro and Richard Bernstein, titled “The China Threat.”

**March 1997:** The *American Spectator* published a “special report,” titled “Is John Huang a Chinese Spy?” by Kenneth Timmerman.

**March 6-7, 1997:** The London IISS held a behind-closed-doors seminar in San Francisco, chaired by Gerald Segal, under the title, “Sino-Russian Accommodation and Asia’s Evolving Balance of Power,” calling for decisive Western action to block a Russia-China axis from dominating the Asia-Pacific region in the 21st century.

**March 9, 1997:** The *Washington Post* published a front-page story by Duffy and Woodward, “FBI Warned 6 on Hill About China Money.” The story referenced Sen. Diane Feinstein (D-Calif.) as one of six members of Congress who were warned last year that they were “targeted by China to receive illegal campaign contributions funneled through foreign corporations, according to U.S. government officials.” The story reported that, based on “specific and credible” intelligence information, the members of Congress were given “classified individual briefings,” a highly unusual move. Senator Feinstein told the *Post* that she had been briefed by the FBI on June 14, 1996. Duffy and Woodward claimed that in the spring of 1995, U.S. intelligence agencies first discovered the effort by China to influence Congressional races. This was on the eve of an important vote on Most Favored Nation trade status for China. They reported, from government sources, that \$2 million was earmarked by the Chinese government for the effort to buy influence with the Congress and the Clinton administration.

**March 10, 1997:** The FBI issued a press release, confirming that on June 3, 1996, officials of the FBI’s National Security Division had briefed two senior staff people at the National Security Council, including one FBI special agent posted to the White House. The FBI release claimed that there

had been “no restrictions” placed on the dissemination of the briefing.

**March 10, 1997:** The *New Republic* published a special edition, “Dancing with the Dragon,” targeting Clinton China policy, featuring an editorial, “Destructive Engagement: Our Failed China Policy.”

**March 11, 1997:** The *Washington Post* reported that Rep. Nancy Pelosi (D-Calif.) had announced that she, too, had been briefed by the FBI in June 1996. But, Pelosi added that she had been earlier given the same warning—in 1991. She said that, during subcommittee hearings sometime in 1992, she had queried then-Attorney General William Barr about the China investigation. Barr had refused to comment. The *Washington Post* also reported that the White House General Counsel, Charles Ruff, had personally debriefed the National Security Council staffers briefed by the FBI in June, and one of the two men was “adamant” that they had been urged by the FBI briefers “not to disseminate the information outside the briefing room.” At a White House briefing, spokesman Mike McCurry said that President Clinton was “mystified” by the contradictory accounts of the meeting, and the failure of the staff to brief him.

**March 12, 1997:** Henry Kissinger delivered a speech in Manila, Philippines, “defending” U.S.-Chinese cooperation.

**March 13, 1997:** Mona Charin wrote in the *Washington Times*, about the Clinton administration “Accepting Blood Money from China,” which detailed the planned mobilization of Christian Solidarity International, Freedom House, and other neo-conservative groups against China’s “persecution” of Christians.

**March 14, 1997:** The *National Review* published an article by Rich Lowry, “China Syndrome,” repeating all the themes from the Woodward stories, accusing President Clinton of “selling out.”

**March 14, 1997:** A town hall meeting in Long Beach, California almost erupted into a riot, as the result of protests over the planned leasing of a moth-balled port facility to Chinese Overseas Shipping Company (COSCO). The incident signaled the activation of the “grassroots” mobilization of groups like Baroness Cox’s Christian Solidarity International and the Unification Church, which had been propagandizing against the contract with the Chinese government-owned shipping line.

**March 16, 1997:** Ambrose Evans-Pritchard wrote again in the *Sunday Telegraph* about the looming confrontation between Washington and Beijing. “Washington is in the early stages of a ‘yellow peril’ fever provoked by growing alarm about the strategic and military threat of a resurgent China,” he lied. Pritchard gloated over the growing predicament created for the Clinton administration: “For the Clinton administration it is a difficult time to formulate a new strategic policy in the Far East. The U.S. Congress is currently investigating allegations that the Chinese government conspired to re-elect President Clinton in 1996 by funnelling millions of dollars of

laundered funds through front groups tied to the Democratic Party. So Vice President Al Gore will be walking through a minefield when he goes to Beijing next week, the highest-ranking U.S. official to visit China for eight years. Any sign of cordiality will be pounced upon by the Republicans as evidence that the Clinton White House is subject to subtle Chinese blackmail.”

**March 17, 1997:** A Department of Justice statement claimed that in 1995, the FBI learned of “possible Chinese plans to influence the Legislative branch.” At the time, the information was treated as a “routine” matter, and internal cables were routed to the CIA and the State Department, but not to the White House, the DOJ or the Congressional intelligence oversight panels. Only in May 1996, after additional information was acquired by the government, were other agencies briefed.

**March 18, 1997:** *Human Events* sponsored a Washington forum to declare “war” against the Clinton administration over its China policy. Speakers included Rep. Gerald Solomon (R-N.Y.), former GOP Presidential candidate Pat Buchanan, and Gary Bauer of the Family Research Council. Representative Solomon railed at the administration’s recent lease arrangement with the Chinese firm COSCO, declaring, “We must act at this point to begin the process of preparation that might lead to impeachment” of Clinton and Gore.

**March 25, 1997:** White House spokesman Mike McCurry, in response to questions generated by a *New York Times* David Johnson article, on Freeh’s refusal to pass information on the FBI’s China probe to the White House, stated: “We made a request to the Justice Department to provide information necessary for the President’s conduct of foreign policy in his role as President and Commander-in-Chief. We would be discomforted if there was anything withheld from the President that was necessary for him to have in order to fulfill his constitutional obligations to conduct this nation’s foreign policy. As to whether or not that information was withheld from the President, you’d have to ask the Justice Department. We’re not in a position to know. . . . The President’s obligations under the Constitution to manage the affairs of the nation and to help conduct this nation’s foreign policy, are the highest priority, because he’s acting, in that case, in the interests of all Americans.”

**March 26, 1997:** The *Wall Street Journal* published an exposé of Sen. Diane Feinstein’s husband, Richard Blum, “Feinstein’s Husband Is Linked to Cosco,” by Craig Smith.

**March 26, 1997:** The *Wall Street Journal* published a commentary by Michael Ledeen, “A Scandalous Policy,” targeting the Clinton administration’s China policy, and identifying China as the only 21st-century military threat to the United States.

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## LaRouche charges Reno with political corruption

by Debra Hanania Freeman

Congressional concern is mounting, as new evidence in the continuing investigation of a pattern of rampant corruption within the permanent apparatus of the U.S. Department of Justice, continues to emerge. And, as the pieces are put together, it is becoming more and more evident, that Attorney General Janet Reno, once considered an "outsider" by her department's career bureaucrats, has played a key and persistent role in covering up for both her predecessors and her subordinates (including such members of the permanent bureaucracy as John Keeney and Mark Richard, whose names continue to come up in almost all the cited cases) in wide-scale judicial abuse.

Lyndon LaRouche served five years in federal prison as a result of a politically motivated prosecution—a prosecution that former Attorney General Ramsey Clark said "represented a broader range of deliberate cunning and systematic misconduct, over a longer period of time, utilizing the power of the federal government, than any other prosecution by the U.S. government, in my time, or to my knowledge." On April 2, LaRouche charged that the new revelations "not only corroborate my own experience with the Department of Justice's Criminal Division, but also my experience with the Attorney General. My attorneys, Odin Anderson and Ramsey Clark, went to Janet Reno with evidence of a clear pattern of political corruption in her department, and asked her to conduct the internal review; instead, she conducted a cover-up."

President Clinton's growing dissatisfaction with his Attorney General's performance in this area is no secret. At the time that President Clinton came into office, the clean-up of the pattern of judicial abuse in the Bush-Reagan Justice Department, was considered one of his highest priorities. However, after the Waco debacle, Janet Reno, along with her FBI Director, Louis Freeh, became key players in covering up for the abuse.

### The truth about 'Lost Trust'

Now, as the Justice Department scrambles to defend itself against stinging charges of gross prosecutorial misconduct, contained in an 86-page decision handed down on Feb. 28 by U.S. Federal District Judge Falcon Hawkins, dismissing the notorious "Operation Lost Trust" frame-up cases in South Carolina, a story has been leaked to Associated Press, containing allegations that Hawkins's landmark decision may have been motivated by his close friendship to U.S. Sen. Ernest Hollings (D-S.C.).

The controversy centered on a phone call which Hollings made to Reno on Oct. 28, 1994. Hollings, who at the time was chairman of the Commerce, Justice, State and Judiciary Appropriations Subcommittee, was extremely concerned about the department's handling of charges that federal prosecutors had seriously violated the law in order to win a series of cases in Lost Trust, and asked the Attorney General to personally review the matter.

Earlier, in February 1994, when the DOJ had been ordered to investigate allegations that federal prosecutors had broken the law in order to obtain the Lost Trust convictions, the investigation was referred to the department's Office of Professional Responsibility. On Oct. 18, 1994, the OPR filed a report, completely clearing former U.S. Attorney Barr Daniel, who was the lead prosecutor, despite strong evidence against him.

Hollings called Reno after a meeting with Charleston lawyer Lionel Lofton, himself a former Assistant U.S. Attorney, who represented B.J. Gordon, one of the former members of the South Carolina Legislative Black Caucus who had been entrapped in the illegal sting operation. Lofton, and defense attorney Joel Collins, who represented the late former Rep. Luther Taylor (Luther Taylor, 47, died of pancreatic cancer in late March, just a month after finally clearing his name),

were extremely dissatisfied with the OPR's findings, and were desperate to talk to someone at Justice who could be trusted to get to the truth, and who had the authority to do so. They asked Hollings for help. Hollings called the Attorney General to set up a meeting.

A total of 28 South Carolina lawmakers, lobbyists, and other officials, most of them African-American, were caught up in the FBI sting during 1989-90. The majority of the Lost Trust defendants were either pressured into guilty pleas or were convicted; only one was acquitted after trial.

The widely publicized case represented the largest single attack by George Bush's Justice Department on black elected officials and their white allies; it decimated the black leadership of the South Carolina legislature, and, although he was not among those indicted, the scandal sabotaged the 1990 gubernatorial campaign of Democratic nominee Sen. Theo Walker Mitchell, sending Republican Carroll Campbell to the State House. Later, defense attorneys successfully used court filings to advance long-held suspicions among Democrats that not only was the sting operation politically and racially motivated, but that federal prosecutors had, at the same time, refused to pursue widespread allegations of corruption among some of the state's most powerful politicians, including then-Gov. Carroll Campbell.

Yet, despite the fact that this was one of the highest profile federal cases of the 1990s, as well as the fact that the court had ordered her department to review the case, Reno claimed not to know anything about Lost Trust. She did, however, promise Hollings that she would look into the matter, and "do the right thing."

### **Wolves guarding the henhouse**

Reno's idea of doing "the right thing," consisted of referring the case back to the Office of Professional Responsibility—the very outfit that had covered up the wrong-doing in the first place—in effect asking them to investigate themselves! Ten days later, on Nov. 4, 1994, Lofton and Collins found themselves meeting, not with Reno, as they had hoped, but with the OPR officials whom they knew were corrupt. They asked OPR to reopen the investigation, but, not surprisingly, the OPR stuck to its findings, and refused.

On Feb. 28, 1997, U.S. District Judge Falcon Hawkins, in an order dismissing the indictments against five of the Lost Trust defendants, including former lawmakers B.J. Gordon and Luther Taylor, said that he was doing so because local federal prosecutors, specifically Barr Daniel (whom OPR had cleared) and their Justice Department superiors, had knowingly used false testimony from their star witness, acted in bad faith, withheld exculpatory evidence, worked to prejudice the political atmosphere for the trial, and ignored federal regulations, in their pursuit of a guilty verdict.

The Hawkins opinion specifically singled out the OPR, saying that it had failed to disclose exculpatory evidence "from the beginning of these cases until just several months

ago [a period of seven years], amounting to a pattern of conduct." Further, the misconduct was not only serious, but "repetitious, flagrant, and long-standing."

The Justice Department has responded to this ruling by filing notice that they intend to appeal Hawkins's ruling, and by leaking the story of the Hollings phone call to Reno in a blatant attempt to create the image that Hollings attempted to improperly interfere or influence the scope of the department's investigation, despite the fact that experts agree that Hollings actions were neither illegal or improper.

### **Reno 'kept the whitewash'**

Hollings has responded angrily. "Lionel Lofton came to me and said he needed to talk with someone high up in Justice about the truth, about the OPR whitewash. And, it *was* a whitewash," he said. Hollings said his call to Reno was made not only in the name of constituent service, but in compliance with his oversight responsibilities. "Unfortunately," Hollings said, "it didn't work. She kept the whitewash."

Some Republicans have charged that since Falcon Hawkins is a close friend of Hollings, his former law partner and whom he proposed for appointment to the federal bench, Hawkins's order was intended as a boost to Hollings, a blow to Daniel, and a potential electoral challenge to Hollings by Campbell in 1998.

Hollings responded that such charges did more harm to Campbell than to anyone else. "Why would anyone think this would get Campbell? I think they'd better watch what they're talking about." Hollings pointed out that the Lost Trust ruling could only hurt Campbell if he had been, somehow, involved in setting up the illegal sting to affect the gubernatorial election. Campbell declined to comment.

The senator was staunch in his defense of Hawkins. "I'm very proud of Falcon Hawkins, and of his record. When I nominated him for the federal bench, it was because I knew that he not only knew the law, but that he would uphold the law, no matter what." He indicated that that was more than he could say about the Attorney General.

Reno's actions in attempting to coverup for blatant corruption in both the Lost Trust and LaRouche cases, are just two instances in a repeating pattern. In 1994, when the U.S. Sixth Circuit Court of Appeals ruled that the Justice Department had knowingly committed a massive "fraud upon the court" in setting up Cleveland autoworker John Demjanjuk for trial in Israel, Reno moved quickly to appeal, and has kept that case tied up for three years. Her role in covering up for abuses in both the Ruby Ridge and Waco cases remain largely unaddressed. And, the full implications of the recent exposé of FBI evidence tampering at the FBI's crime lab in Quantico, Virginia, have yet to be revealed. When examined together, it is hard to imagine how the repertoire of practices employed by Reno can be viewed as anything but her own complicity in "political corruption," as LaRouche has charged.

# LaRouche associates attack Va. convictions

Virginia officials, working with the federal government, the Anti-Defamation League, the news media, and others, broke the law, to incarcerate associates of Lyndon H. LaRouche, Jr., according to legal papers filed with the Virginia Supreme Court on March 31. The 185-page petitions, accompanied by five volumes of evidence, document a persistent pattern of government misconduct, including: presenting false evidence, witness tampering, brainwashing of witnesses, black-bag jobs, illegal wiretaps, withholding exculpatory evidence, making false representations in court, and conducting a nationwide campaign of defamation to cover for these illegalities.

The government misconduct in the “LaRouche cases” has been characterized by former U.S. Attorney General Ramsey Clark, as “representing a broader range of deliberate cunning and systematic misconduct over a longer period of time, utilizing the power of the federal government than any other prosecution by the U.S. government in my time or to my knowledge.”

The petitions for a writ of *habeas corpus* were filed on behalf of Anita Gallagher, Paul Gallagher, and Laurence Hecht, three of the five LaRouche associates serving long sentences in Virginia’s prisons, despite their innocence. Don Phau, another LaRouche associate, filed papers in his case the week before. Michael Billington, who is serving the longest sentence, 77 years, is currently challenging his conviction in the U.S. Court of Appeals for the Fourth Circuit.

Virginia’s “LaRouche 5,” as they have come to be known, were all targeted by the national security task force formed in late 1982 at the urging of former Secretary of State Sir Henry Kissinger, and headed up by then-Vice President Sir George Bush. Both men were subsequently knighted by Queen Elizabeth II, for their service to the British monarchy. The task force, which took its authority from Executive Order 12333 and National Security Decision Directive 3, had one purpose: to eliminate LaRouche as a political force in the world, by assassination or imprisonment. The course of action taken, was to launch an international defamation campaign to make LaRouche a pariah, coupled with abusive investigations and bogus prosecutions, in numerous federal and state jurisdictions. In this regard, over 40 political associates of LaRouche were targeted for prosecution, and thousands of LaRouche’s political and financial supporters were terrorized and intimidated by federal and state law enforcement authorities.

The Virginia cases now in court, were a spin-off of this federally coordinated task force. Former Virginia Attorney General Mary Sue Terry, who headed up the LaRouche prosecution for the state of Virginia, publicly boasted of her federal ties. There is tremendous hatred of LaRouche among Virginia’s ruling pro-British hunt-country elite, based in Loudoun County, where LaRouche lives. Even FBI documents characterized Terry as “politically motivated,” in the LaRouche prosecutions.

## Bogus ‘securities’ charges

Virginia authorities charged the “LaRouche 5” and 12 others with violating the state’s regulations of financial securities. At issue were loans, made by political supporters of LaRouche, to companies which published political and scientific newspapers and magazines. For the first time ever, the state of Virginia sought to consider political loans to be “securities.” It wasn’t until after Billington, Hecht, Phau, and the Gallaghers were indicted, that the State Corporation Commission decided that such political loans were securities. Before making their ruling, the SCC admitted that this was a case of “first impression.” Yet, the “LaRouche 5” are serving sentences of 25 to 77 years, for “knowingly and willfully” violating the state’s securities laws.

The petitions document the illegal actions of former Assistant Attorney General John Russell, former Virginia State Police agent C.D. Bryant, former Loudoun County Sheriff’s Lt. Donald Moore, and others involved in the prosecution. All three have since left the state’s employ. Russell is in private practice in Richmond; Bryant, a former IRS special agent, is retired; and Moore, a former tent-mate of Oliver North, spent time in prison on federal kidnapping charges. Yet, Virginia’s current governor, George Allen, and Attorney General Jim Gilmore, both Conservative Revolution Republicans, continue to defend, and thus have adopted, the misconduct of their predecessors.

The petition charges, that these individuals and others, were “working in combination with the United States and private parties, to disrupt the financial basis of the political movement for which the loans at issue in this case were solicited and to create dissatisfaction and a false perception among lenders of having been defrauded.” Additionally, the Virginia officials covered up their illegal activities, and withheld evidence of their own wrongdoing, so as to prevent the defendants from showing the jury that it was the prosecutors who should be prosecuted, not the innocent defendants.

There is growing pressure on the U.S. Congress to conduct oversight hearings into this type of misconduct by law enforcement authorities, which has manifested itself, to a lesser degree, in cases other than the LaRouche cases. Congressional oversight is necessary, because this abuse of power is being carried out by a permanent bureaucracy within the U.S. Department of Justice, which, to date, Attorney General Janet Reno continues to protect.



# Who is Richard Mellon Scaife?

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*Part 3 of our exposé on the moneybags behind the media assault against President Clinton and Lyndon LaRouche. Edward Spannaus reports.*

A certain irony exists, in the fact of Richard Mellon Scaife's bankrolling of a network of anti-capitalist Mont Pelerin Society think-tanks in the U.S. The Mont Pelerin Society—the modern-day embodiment of the feudal, aristocratic “Austrian School” of monetarist economics—bitterly hates industrial capitalism and any form of centralized, dirigist measures through which a nation-state can build up its own industrial-technological base, while restricting access to predatory international financial looters.

The fact of the matter is that the Pittsburgh Scaife family was a pioneering U.S. *industrial* family, especially in the 19th century. At one time, the family was wont to boast that the Scaife Company (formerly William B. Scaife & Sons) was “the oldest manufacturing company west of the Alleghenies.” It was undoubtedly a beneficiary of the “American System” of economics—national banking, protective tariffs, and internal improvements—as was practiced off-and-on through the 19th century.

The company grew out of a tin-plating enterprise begun in 1802; it produced ordnance for the War of 1812 against the British, and also during the Civil War against the British-sponsored Southern secession. Throughout the 19th century and the first half of the 20th century, the Scaife metal-working company continually invented new products; it built boilers for steamboats and for railroad steam engines; it invented “range boilers”—the forerunners of today's hot-water heaters for households—and high-pressure vessels, and provided corrugated iron roofing and structural iron for factories and warehouses.

But Dickie's father Alan Scaife preferred the financier-oligarchy milieu of the Mellon family to his own family's industrial tradition. He joined the Mellons for boozing, steeple-chasing, and fox-hunting, and married into the Mellon family in 1927. In 1940, he joined the Mellons' Gulf Oil, and within two years he had been brought into the “Oh So Social” Office of Strategic Services (OSS) which shipped him off to London. After the war, he served as the Mellon family representative on Gulf's executive committee, and was made a Vice President of T. Mellon & Sons—the newly created non-profit family forum and trust, which was explicitly based upon a British model. Despite all this, Alan Scaife was never

treated as a full-fledged Mellon. Dickie would later describe his father as “sucking hind tit” to the Mellons.

As he grew older, young Dickie became resentful of the treatment that his father had gotten at the hands of the Mellons, and he often made his animosity known, particularly toward his uncle, Richard King Mellon. Dickie became known as a “bull in a china shop.” Some attributed his impetuosity to his being thrown by a horse at age 9; his skull was partially crushed, and was repaired with an aluminum plate and much plastic surgery.

As soon as his father died in 1952, Dickie sold off the Scaife Company for one dollar.

Politically, Dickie became a Goldwaterite, when the Mellons were mainstream Republicans. In the 1960s, the Pennsylvania GOP split between the Rockefeller and Goldwater wings; Dickie bankrolled many of the right-wingers.

Nevertheless, by 1973, he was tamed and house-broken. The method by which this was accomplished is illustrative, and became the model which Dickie would go on to use against his targeted adversaries and enemies—including Lyndon H. LaRouche and, now, President Clinton. This may also, by the way, shed some light on Scaife's obsession with the death of White House deputy counsel Vincent Foster, and his fanatical backing of the effort to “prove” that Foster did not really commit suicide.

## **The taming of Dickie**

In the 1950s, Scaife began to hang around his sister Cordelia's boyfriend Robert Duggan, who took young Dickie under his wing. In 1963, Dickie helped Duggan get elected as district attorney of Allegheny County, Pennsylvania, on the GOP ticket. But Duggan was an Irish Catholic from the wrong side of the tracks, and Dickie's besotted mother, Sarah Mellon Scaife, would never let Cordelia's boyfriend into her house. Duggan's ambitions grew large, and Dickie wanted to make him governor of Pennsylvania, something which the Republican establishment, controlled by the Mellons, George Bush's cousin Elsie Hillman, and U.S. Sen. Hugh Scott, were not going to tolerate.

After Richard Nixon was elected President in 1968—with the help of Scaife money—Duggan tried to block the appoint-

ment of Rockefeller man Dick Thornburgh as U.S. Attorney in Pennsylvania; Duggan lost the fight. The victorious Thornburgh came into office with an agenda for what many regarded as “a political vendetta.” Thornburgh changed the priorities of the federal prosecutor’s office to focus on “political corruption” and “white-collar crime,” and before long, rumors began circulating about DA Duggan’s alleged ties to the mob. The Internal Revenue Service got in on the case, and Scaife and Duggan attempted to use their contacts in the Nixon Justice Department to squelch the investigation—after all, Dickie had chaired the finance committee for Nixon-Agnew in 1968, and would go on to give over \$1 million (broken up into 334 separate checks to avoid gift taxes) to Nixon’s Committee to Re-Elect the President (CREEP) in 1971.

But Thornburgh persisted, subpoenaing four detectives from Duggan’s district attorney’s office, giving them immunity, and forcing them to give evidence against their boss. In the fall of 1971, Dickie was “turned”: He crawled to Thornburgh’s office to join in the destruction of his erstwhile political mentor and his sister’s boyfriend. Dickie began to target Duggan in the newspaper he had purchased, the *Greensburg Tribune-Review*. As a book about the Mellon family puts it: “Shorn of Scaife’s influence, Duggan became easy pickings.”

Thornburgh was preparing a tax-evasion case against Duggan, and made preparations to interview Cordelia Scaife, to squeeze her for information about Duggan. She and Duggan quickly got married, meaning that she could not be compelled to provide evidence against her husband. Dickie, according to one account, “was intensely upset. He went into orbit.” Shortly after that, Dickie and Cordelia stopped speaking with each other; by all accounts, they have not spoken since.

On March 5, 1974, Thornburgh got a federal grand jury to hand down a six-count indictment for tax fraud against Duggan. But, a few hours before the indictment came down, Duggan was found dead, apparently of a blast from a shotgun which was found nearby without any fingerprints on it. Duggan’s death was officially ruled a suicide—although, according to a number of sources, Cordelia has always believed Duggan was murdered, as has Duggan’s family.

By 1975, Dickie Scaife had publicly reconciled with the mainstream Republicans in Pennsylvania, declaring himself a “middle-of-the-roader,” and proclaiming: “I’m now enthusiastic about Rockefeller.” But by 1974, as we described in Part 1 (see *EIR*, March 21, 1997), Dickie had been inducted into the old OSS intelligence circles of the Anglo-American bankers, and from that point on, all of his “philanthropy” went in whatever direction they dictated. Dickie had learned to follow orders: His betrayal of Robert Duggan was his rite of passage.

Scaife became notorious for using the *Tribune-Review* to target opponents. Two cases in the 1970s were particularly flagrant: that of Dr. Murdoch Head, and that of Dr. William Mansour. (These two cases were described in detail in an

April 1981 *Pittsburgh Post-Gazette* series on Scaife, which was recently confirmed to the author to have been very accurate, by a knowledgeable source.)

### **The Murdoch Head case**

Dr. Murdoch Head ran the Airlie Foundation near Warrenton, Virginia, which included a conference center and a film-making operation. Scaife was introduced to Airlie officials by executives of the Smith-Richardson Foundation (a CIA- and Bush-linked operation which, to this day, works in tandem with Scaife’s foundations). Also involved was then-U.S. Rep. Jack Marsh, who progressed from being a board member of Airlie, to a Scaife staff member, and then secretary of the Army in the Reagan-Bush administration.

Beginning in 1968, money from the Scaife foundations, at that time jointly run by Dickie and sister Cordelia, financed many Airlie conferences and films. By 1972, Dickie Scaife and the Airlie crowd were at odds, with Scaife pushing a heavy anti-Communist theme for Airlie films, which Dr. Head’s associates resisted. (During this time, his estranged sister Cordelia continued to maintain close relations with Dr. Head and Airlie.)

Airlie found itself subjected to IRS audits in 1974 and again in 1976, for which it blamed Scaife. In 1978, Airlie tax documents and records were leaked to the Warrenton-based local weekly, *Fauquier Democrat*, and were also sent to the Virginia State Corporation Counsel and Attorney General. In 1979, Head was indicted by the U.S. Attorney in Alexandria, Virginia, on charges of tax evasion, conspiracy, and attempting to bribe Pennsylvania Congressman Daniel Flood and others. Head was not convicted on the substantive tax or bribery charges, but was convicted of conspiracy to defraud the IRS. (The parallels to the LaRouche case, which likewise involved the Alexandria U.S. Attorney’s Office, the Virginia Attorney General, leaks to the *Loudoun Times-Mirror*—a sister paper of the *Fauquier Democrat* in Northern Virginia’s oligarchical Hunt Country—and a tax-conspiracy case, are striking.)

Meanwhile, back in Pennsylvania, Scaife’s *Tribune-Review* was devoting so much coverage to the Airlie case and Dr. Head’s trial in Alexandria, that reporters, in both states, were dumbfounded.

### **The William Mansour case**

In reporting on the case of Dr. William Mansour in 1981, the *Pittsburgh Post-Gazette* wrote that “some people believe that once you run afoul of the forces of Scaife, you also run afoul of the forces of the federal government, that he is, in some way, able to get federal agencies like the Justice Department to look closely at those he does not like.”

Mansour was a local physician in Westmoreland County, Pa., who owned a local hospital, as well as a competing newspaper to Scaife’s *Greensburg Tribune-Review*. He also held liberal political views, hence doubly drawing Scaife’s intense

dislike. Scaife went after Mansour in 1973, and, using the local U.S. Attorney's Office under Dick Thornburgh and the FBI, was able to instigate an FBI investigation. In fact, Scaife was able to arrange to have an FBI agent visit one of Mansour's former sisters-in-law at her Detroit home in September 1973 to interrogate her about Mansour's alleged ties to the Middle East, and whether he had given \$500,000 to the Palestine Liberation Organization, which Mansour denied.

Scaife himself had long-standing connections into the FBI, and has been described as "a friend from an early age of J. Edgar Hoover." (Perhaps not so coincidentally, the FBI agent who was deployed in Detroit at Scaife's request was a 22-year veteran of the bureau, Phil Mercado, who, during 1974, became the case agent and handler for informant Vernon Higgins. Higgins had been infiltrated the National Caucus of Labor Committees, the philosophical association founded by Lyndon LaRouche, and its 1970s political wing, the U.S. Labor Party. Higgins provided a pretext for armed FBI agents to raid the Detroit offices of the NCLC and USLP in June 1974. When Mercado's deposition was taken by NCLC and USLP's lawyers in 1975, the authorization for his testimony, and the restrictions upon it, was signed by then-Assistant U.S. Attorney General Dick Thornburgh.)

In 1977, the Justice Department officially opened an investigation of Mansour. Scaife's lawyer Clyde Sleaze (whom

we met in last week's installment) was kept abreast of the grand jury investigation, which resulted in Mansour's indictment in 1980. As with the Airlie/Head case, Scaife's *Tribune-Review* devoted an inordinate amount of coverage to Mansour—all of it negative—which resulted in a drop in business for Mansour's medical practice. Justifiably, Mansour publicly accused Scaife of being behind his problems with the Justice Department.

### 'Get LaRouche!'

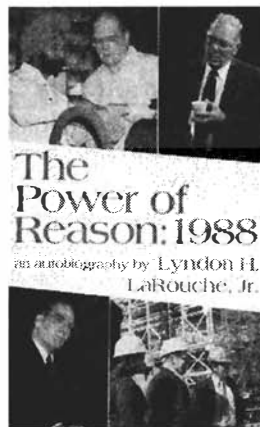
One of the earliest and most persistent of the "LaRouche-watchers" was Roy Godson—who, as we noted in Part 2 last week, went to Pittsburgh in 1968 to teach at the Carnegie-Mellon Institute, and was executive director of the Scaife-financed and -run Pittsburgh World Affairs Council; later, Godson's position at the National Strategy Information Center and his creation of the Consortium for the Study of Intelligence (CSI) was also bankrolled by Scaife.

As early as 1967-68 at Columbia University, in New York City, Godson was already known to be watching the new political movement founded by Lyndon LaRouche, whose activities there were targeted by the FBI. Bureau documents further show that, in January 1976, Godson, accompanied by Tom Kahn of the AFL-CIO, went to FBI headquarters and briefed the head of the FBI's Internal Security Section on his

## Books by Lyndon H. LaRouche, Jr.

The LaRouche case "represented a broader range of deliberate cunning and systematic misconduct over a longer period of time utilizing the power of the federal government than any other prosecution by the U.S. Government in my time or to my knowledge."

—Former U.S. Attorney General  
Ramsey Clark

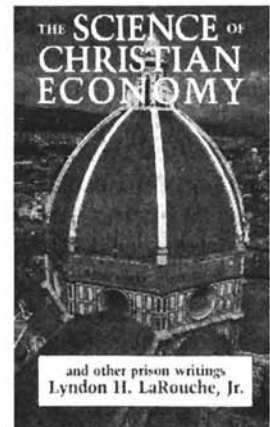


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pet theories about LaRouche and the NCLC. Godson was particularly fixated on speculating about the source of funds for the NCLC: According an FBI memorandum, he suggested that the NCLC was getting money from Iraq and from the Soviets, and he offered his intelligence reading on relations between LaRouche and various European communist parties. About two weeks after this, Godson called the FBI to offer his observations about alleged Greek communist influence on the NCLC during 1968-69.

In the course of one of the Godson-organized CSI seminars in the early 1980s, described in our last installment, *EIR* was explicitly attacked as being a vehicle for Soviet disinformation by former CIA counterintelligence official Donald Jamieson, and by Herbert Romerstein, a consultant to the U.S. Information Agency.

In the Reagan administration, Godson was one of the most vocal against LaRouche: During the early part of the Reagan administration, LaRouche and his associates often met with officials of the NSC and other federal agencies, particularly during the 1982-83 tenure of William Clark as national security adviser. Clark's executive assistant, Richard Morris, a witness for the defense at LaRouche's federal trial in 1988 and in a Virginia state trial of an associate of LaRouche in 1990, testified about a grouping within the NSC staff who were sharply opposed to LaRouche; Morris testified that the most vocal opponents of LaRouche were Kenneth deGraffenreid, Walter Raymond, and Roy Godson. Morris reported that Godson characterized Lyndon LaRouche as "as a socialist, as a communist, as a member of the KGB, as a fascist, and always he was an extremist," adding that Godson insisted that Morris stop meeting with LaRouche and his representatives.

In January 1983, the demand for an investigation of LaRouche was brought into the President's Foreign Intelligence Advisory Board (PFIAB) by the circle associated with Scaife and Godson—the latter being a consultant to PFIAB at the time. According to an FBI document, a complaint by Henry Kissinger was raised at a PFIAB meeting of Jan. 12, 1983, by fellow PFIAB member David Abshire of Georgetown University's Center for Strategic and International Studies (CSIS)—a Scaife-funded think-tank. The vice chairman of PFIAB at the time was Leo Cherne, the founder of Freedom House, also a Scaife-funded institution. The PFIAB discussion did succeed in triggering an FBI investigation of LaRouche; the FBI responded with a memorandum repeating the Godson-Jamieson line, that activities of the NCLC and *EIR* "dovetail nicely with Soviet propaganda and disinformation objectives."

However, the FBI stated that, officially, it did not have an investigation of the NCLC going at that time under either domestic security or foreign counterintelligence guidelines. In order to remedy this, a campaign of news media defamation of LaRouche was organized, starting in early 1983 by the Bush-Scaife-Godson crowd. This was a joint public-private effort growing out of the "Public Diplomacy" operation,

which we detailed in our October 1996 *EIR Special Report* on "George Bush and the 12333 Serial Murder Ring."

Public Diplomacy was headed at the NSC by Walter Raymond, a long-time CIA propaganda specialist who worked with Cord Meyer, and who intersected the London-centered Forum World Features operation headed by Dickie Scaife in the 1970s. In mid-1982, Raymond was posted to the NSC at the recommendation of Vice President George Bush's national security adviser Don Gregg. DeGraffenreid became a deputy to Raymond. On Jan. 25, 1983—less than two weeks after the PFIAB meeting where the demand to get LaRouche was raised—Raymond drafted a memorandum proposing the creation of a private-donor group to fund Public Diplomacy propaganda programs supporting administration policies in areas such as Afghanistan, Central America, and Western Europe. "We can not, forever, rely on one or two good souls, such as Smith-Richardson or Mellon-Scaife," Raymond wrote. (The Smith-Richardson Foundation, along with the John M. Olin Foundation and Scaife's foundations, comprise a cluster of intelligence-connected foundations which fund almost all the same institutions and programs as those we listed in *Documentation* last week, on p. 67.)

In March, Raymond sent another memo to National Security Adviser Clark, describing efforts to pull together the private-donors group: "The group was largely pulled together by Frank Barnett, Dan McMichael (Dick Scaife's man), Mike Joyce (Olin Foundation), Les Lenkowsky (Smith-Richardson Foundation) plus Leonard Sussman and Leo Cherne of Freedom House. A number of others including Roy Godson have also participated." Frank Barnett was from the NSIC—funded by Scaife as well as the other cited foundations.

In the spring of 1983, the same group convened a meeting at the New York apartment of Wall Street financier John Train—known as "the last of the OSS 'old boys' on Wall Street." Dickie Scaife personally attended that meeting, as did about two dozen news media representatives. There were at least two followup meetings in 1983-84. Mira Lansky Bolland, a graduate of Tufts University's Fletcher School of Diplomacy, and the Washington, D.C. Fact-Finding Director for the Anti-Defamation League (ADL), later testified that she attended a meeting at Train's residence in 1984, at which Roy Godson was also present.

The Train meetings were devoted to the coordination of planted articles and features hostile to LaRouche in the news media, and they directly resulted in attacks on LaRouche during the 1984-86 period on NBC-TV, in the *Wall Street Journal*, the *New Republic*, *Reader's Digest*, and thousands of others. It also ultimately resulted in a book-length attack on LaRouche published in 1989 with funding from the Smith-Richardson Foundation.

The campaign of news-media defamation of LaRouche was a precondition for the judicial frame-up of LaRouche and his associates. The first indictment against LaRouche was brought in Boston—where the Weld and Mellon families'

First Boston Corp. wielded enormous power. When the Boston federal case against LaRouche flopped, a second indictment was brought in Alexandria, Virginia—the intelligence agencies' favorite U.S. court district—under the overall direction of U.S. Attorney General Dick Thornburgh.

### 'Get Clinton!'

As should be clear to the reader by now, Dickie Scaife's current financing and coordination of the news-media attack on President Clinton, is exactly of the same form as what Scaife has been deployed to do since the early 1970s, when he was assigned to take over Forum World Features/Kern House by the Anglophile bankers' intelligence network. Forum World Feature's specific purpose was to finance and circulate selected features and articles for the news media internationally. The "Public Diplomacy" operation in the 1980s which Scaife financed did exactly the same thing as FWF, including orchestrating news media attacks on targeted adversaries.

The *Columbia Journalism Review* put it slightly more politely in a 1981 profile of Scaife: It said that he "has made the formation of public opinion both his business and his avocation. . . . Scaife could claim to have done more than any other individual in the past five or six years to influence the way in which Americans think about their country and the world."

Today, almost on a weekly basis, one can pick up a newspaper and find full-page ads on the Vincent Foster death, reprinting articles written by Christopher Ruddy for Scaife's Greensburg (now "Pittsburgh") *Tribune-Review*. The ads are paid for by Scaife, with funds laundered through the Western Journalism Center (WJC). WJC also occasionally reprints articles by the British Intelligence stringer and London *Sunday Telegraph* Washington correspondent Ambrose Evans-Pritchard—who also writes directly for the *Tribune Review*.

Other ads promoting theories about the alleged coverup of the Vincent Foster death can also be found, produced by Accuracy in Media (AIM), another group bankrolled by Scaife since the 1970s, and long known for its defense of the CIA against any attacks, not to mention its protection of George Bush's drug-running Contras in the 1980s. Currently, Scaife's foundations are AIM's largest contributors, having given them \$630,000 from 1989-93.

The WJC and AIM also produce features on the Foster case for newspapers and television programs. AIM's Reed Irvine has a weekly broadcast on National Empowerment Television (NET), a cable channel founded by Paul Weyrich's Free Congress Foundation, to which Scaife gives about \$1 million a year.

At the end of 1993, the Whitewater scandals against President Clinton, which had been dormant since the 1992 primaries, were revved up again with the publication of the "Troopergate" story in the British-linked *American Spectator*. Already in the 1970s, Scaife had given over \$1 million to the *American Spectator*'s publishers, and this has continued

to the present day; between 1989 and 1993, Scaife gave \$1.3 million to the American Spectator Educational Fund for "research" and other purposes.

Another top purveyor of Vincent Foster conspiracy theories is *Strategic Investment* newsletter, run by former *Times* of London editor Lord William Rees-Mogg, and James Dale Davidson, chairman of the National Taxpayers Union, also Scaife-funded. Davidson has produced a video jointly with the Western Journalism Center called "Unanswered: The Death of Vincent Foster."

What does Scaife himself say about all this? Very little publicly, but, in a rare interview he gave to the *New York Times* in 1995, he proclaimed, "The death of Vincent Foster: I think it's the Rosetta Stone to the whole Clinton administration," adding that Foster's death had the potential to become the political story of the century.

The other major means by which Scaife finances attacks on the President—apart from his funding of House Speaker Newt Gingrich's GOPAC and right-wing think-tanks such as the Heritage Foundation—is through the cluster of right-wing legal foundations and litigation centers. Prominent among these (see *Documentation*, p. 67 in our previous issue's installment) is the Landmark Legal Foundation, which has offered advice and assistance to Paula Jones in her sexual-harassment claim against Clinton, and which has ensconced itself in other Whitewater-related matters.

Another, similar Scaife-financed organization is the Washington Legal Foundation, previously known as the Capital Legal Foundation. On its Legal Policy Advisory Board are Whitewater independent counsel Kenneth Starr, John Norton Moore of the University of Virginia Law School, and Massachusetts governor and former LaRouche prosecutor William Weld. On its National Board of Advisers are Senators Fred Thompson (Tenn.) and Orrin Hatch (Utah)—both involved in Senate investigations of the Clintons—and Jesse Helms, who played a role in the dumping of the first Whitewater independent counsel and his replacement with Kenneth Starr.

The work of Scaife's network of conservative legal foundations is overseen by the Washington-based National Legal Center for the Public Interest (NLCPI), which he, of course, also funds. One of the directors of NLCPI is David Davenport, president of Pepperdine University; Scaife is on Pepperdine's board of trustees. Davenport and Scaife also sit together on the advisory board of the Hoover Institution for War, Revolution and Peace in Palo Alto, California.

It is David Davenport who has offered Bush-leaguer Kenneth Starr a cushy position at Pepperdine University, financed in large part by Scaife, when Starr wraps up his investigation and legal assault on President Clinton as the Whitewater independent counsel. Starr may be "independent" of the administration, but he is certainly not independent of Dickie Scaife.

*Research assistance for this series was provided by Steven Komm, Scott Thompson, and Charles Tuttle.*

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# National News

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## Most private-sector workers get no pension

Only 43% of U.S. employees in the private sector retire with a pension from their lifelong work, according to a 1993 report, entitled "Pension & Health Benefits of American Workers," published by the Pension and Welfare Benefits Administration of the Department of Labor. As a result, many older workers are forced to take jobs, often working well into their 70s, just to survive.

The private sector employs 85% of the U.S. workforce. In private firms employing 24 or fewer workers, only 18% are covered by a pension plan. Social Security payments, even for a couple when both receive benefits, average only \$15,072 per year. With no private pension, many elderly persons cannot make ends meet. Of the current population of Americans who are 65 or older, 3.7 million, or 12.3%, report that they are still working.

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## NASA looking toward manned Mars mission

The National Aeronautics and Space Administration announced on March 5 that, for the first time since the 1960s Apollo program, the agency's human exploration program is working with planetary scientists on unmanned space missions. Dr. Wesley Huntress, NASA associate administrator for space science, said that the "joint effort is a sign that NASA is acquiring the information that will be needed for a national decision, perhaps in a decade or so, on whether or not to send humans to Mars."

Two NASA spacecraft will be launched to Mars during the flight opportunity in the year 2001. One will be a small orbiter, to be launched that March; and the second a small lander, which will lift off the following month. Two unmanned spacecraft, launched for Mars in 1996, will arrive this July and September; and a 1998 mission will send a lander to the Martian south pole. Japan is

also scheduled to send a spacecraft to orbit the red planet in 1998.

The Mars Surveyor 2001 lander will deliver a small, advanced rover to the surface, which will be able to collect rock and soil samples up to 50 miles from the lander, to be returned to Earth by a future robotic mission. It will also test equipment to extract carbon dioxide gas from the Martian atmosphere that can be used in rocket fuel during later manned missions.

The Mars Surveyor 2001 orbiter will use the atmosphere of Mars in an aerocapture maneuver, to slow itself down enough to be captured into orbit around Mars. It will take remote measurements of the planet, and also provide radio relay to Earth from the lander on the surface.

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## Sweeney launches drive for right to organize

AFL-CIO President John Sweeney has called for organized labor to go out and organize more workers into unions, particularly those in the lowest-paying jobs. Speaking at the first of 13 planned regional AFL-CIO organizing conferences, in Seattle on March 26, Sweeney declared, "We must tell the stories of these workers and thousands like them, and make the right to organize the civil rights issue of the last few years of this century."

Sweeney reminded the gathering of more than 700 union activists from throughout the Northwest, that just a few thousand more votes in November 1996 would have defeated Newt Gingrich and many of his followers; he declared that the new organizing drive would help ensure their defeat in 1998. He also announced the formation of a "new solidarity and rapid response team called 'Street Heat,'" to quickly mobilize thousands of workers to win contract campaigns and counteract the activities of union busters.

"The truth is that in this most advanced and supposedly civilized of industrial democracies, you lose all your rights when you try to join or form a union," Sweeney said, noting that 10,000 workers lose their jobs every year simply for trying to organize a

union. He called upon the activists to "roll out the heavy artillery" by shifting funds and resources into organizing. "If the labor movement is to be a strong and effective voice for workers and their families, the shouting starts here . . . right here in Seattle."

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## McCaffrey: Drugs won't be legalized, 'period'

Gen. Barry McCaffrey, director of the White House Office of National Drug Policy, told a meeting of the World Affairs Council in Washington on March 26, that "the American people aren't going to legalize drugs, period. I mean, you can watch the Gallup polls. You can talk to people that go to churches and work hard, and police officers. It's just not going to happen. The poll numbers are up to 85% or higher. We're not going to add another repertoire of psychoactive substances to America. We're not going to accept more dazed, drugged, stoned behavior."

McCaffrey made his remarks in response to a question from *EIR*, about speculator George Soros's funding of the California and Arizona referenda to legalize marijuana for "medical" use. "Now, having said that," McCaffrey continued, "a lot of Americans have been exposed to illegal drugs. Who knows what the number is! Fifty to 72 million have used marijuana, cocaine, whatever, and have walked away from it. It scared them. . . . Remember, this stuff killed 100,000 people in the '90s, cost us \$300 billion. And so we ended up with, by and large, a country that rejects drug abuse."

"Now, there's a lowered threshold. The baby boomers—you know, if you're white and you're 36 to 45, I think the chances are well over 60% you've used an illegal drug sometime in your life. So, that being the case, that age group is grappling with, 'What do we do about it? What do we tell our kids? What do we think about it?' And there's been a lot of confusion. I think the drug legalization forces have focussed on that confusion."

"Now, I think also there's been a way to lower the threshold by saying, 'Is smoked pot desperately needed by America's ophthalmologists and oncologists?' . . . Well,

this one's intellectually one of the few easy things in the drug problem. . . . We have a reasonably bright lad, Dr. Harold Varmus, who's the NIH director—Nobel prize laureate—he apparently knows what he's doing. Why don't we let him look at the alleged claims of medical benefits for smoked pot? And if they are found to stand clinical trials, to be subject to peer group review, if the Food and Drug Administration deduces it as a legitimate and effective drug, make it available to the American medical establishment. . . .

"It's a free country. Let's debate it. Do you want marijuana—or in the case of Arizona, Proposition 200, heroin, methamphetamines, and LSD—do you want them widely available in your neighborhood, in your school system, for your workforce? If you do, you ought to form the argument and see if you can persuade the American people. Most of us are adamantly opposed to that. . . . And I think we're going to remain opposed to the legalization of marijuana."

## Noriega details how Bush framed him

Gen. Manuel Noriega, the former Panamanian leader still held as a prisoner of war in the United States, aired his own charges against ex-President George Bush during a March 19 interview on CBS-TV's worldwide Spanish-language cable network, CBS Telenoticias. The U.S. invasion of Panama, Noriega said, and his being taken as a prisoner of war by the United States, was the result of a conspiracy mounted by George Bush, "because I was no longer the 'yes man' " the United States wanted in Panama.

"It was no longer convenient for them for me to continue leading the Republic of Panama, because I was not useful to their plans. We are talking about the United States, about the U.S. 'establishment' of George Herbert Walker Bush. We are talking about that system, about Iran-Contra," Noriega declared, according to a transcript published on March 22 by *Noticias* of Argentina.

Noriega also cited the Pittsburgh *Post Gazette's* investigative report "about the

false witnesses, the paid witnesses, the witnesses in the protection program. There were witnesses serving three life sentences, who were let free solely because they testified against General Noriega."

## Weather Service links deaths to cutbacks

The *Seattle Times* claimed on March 25 that ongoing cuts in the budget of the National Weather Service may have played a role in the Feb. 12 deaths of three Coast Guardsmen. On that day, the Coast Guard launched a rescue boat from La Push, Oregon, to attempt to rescue a distressed boat during a storm. The 44-foot Coast Guard lifeboat capsized repeatedly, and three Coast Guardsmen drowned. A weather buoy, 300 miles off Astoria, Oregon, which normally provides hourly information needed to warn of advancing storms, was out of service.

Due to the Contract on America's budget-cutting lunacies, the National Weather Service was prevented from making needed repairs on the weather buoy. As a result, before it departed, the crew of the Coast Guard rescue lifeboat was given a faulty forecast, about the ocean storm conditions it would be entering.

On Jan. 18-19, a frost caused \$300 million of crop damage in Florida. Farmers did not learn of the approaching frost, because Florida's agricultural weather forecasting service had been shut down—one of the casualties of a \$3 million cut in National Weather Service forecasting services. On Feb. 19, four top officials of the National Weather Service released an internal memo, obtained by the *Los Angeles Times*, which states, "We believe strongly that these decisions are ill-advised and will increase the risk of unnecessary deaths, injuries and damage. As career civil servants with many years of commitment to public safety . . . we cannot in good conscience be silent about this."

The National Weather Service recently announced further personnel cuts, in order to reduce its fiscal year 1997 budget by another 8% to \$321.8 million, a cut of \$27.5 million from its fiscal year 1996 level.

**SAM NUNN**, the former U.S. senator, announced during a March 30 interview on ABC-TV, that he will be taking the place of the late Paul Tsongas as head of the Concord Coalition—to continue its drive to destroy the government at all costs. Nunn praised Ross Perot for having the "courage" to tell the American people that they have to accept austerity.

**CORPORATE NEWSPEAK** continues to eliminate "firings" and "lay-offs" from the English language. Recent examples, cited in the March issue of the United Auto Workers *Solidarity*, include GM of Canada's "lean concept of synchronous organizational structures," Procter & Gamble's "strengthening global effectiveness," Bell Labs' reporting employees "involuntarily separated from the payroll," and Stouffer Foods' offering "schedule adjustments" to work zero hours for no money.

**DEXTER KING**, youngest son of Dr. Martin Luther King, does not believe that James Earl Ray killed his father. When Ray denied the crime during a recent meeting, Dexter King reportedly said, "Well, as awkward as this may seem, I want you to know that I believe you, and my family believes you, and we are going to do everything in our power to try and make sure that justice will prevail."

**ANTONIN SCALIA**, the Robespierre of the Supreme Court who puts "popular opinion" above the U.S. Constitution, has "a small boomlet" behind him, to become the next Republican Presidential nominee, according to Conservative Revolution propagandist Thomas Sowell.

**HILLARY CLINTON** addressed the Parliament of Uganda on March 28, at the final stop of her six-nation tour of Africa. She said that her husband had asked her to make clear his commitment "that he will come to Africa during his second term as President."



### *Treat the patient, not the disease!*

The past week's breaking developments on world financial markets have produced a situation, in which no competent leading figure in economics or government could deny that *EIR*'s forecasts have been consistently correct, and that all among *EIR*'s leading critics, from every part of the world, have been consistently wrong. What is rightly described as the biggest crash on the world's financial markets since October 1987, is only the first big tremor. It is not a "correction"; it is the first of a series of major shocks, which begins the disintegration of the presently ruling international monetary and financial system.

No one could predict exactly when the present world financial system might simply vaporize; it has become so unstable, that relatively slight tremors would be sufficient to set off global financial and monetary chain-reactions. Unless certain, narrowly defined types of very radical corrective actions are taken by leading governments, the total collapse of the world's present financial system will come all too soon. When? Who knows? The only reasonable estimate is: "Soon."

There is an available alternative; the question is, "Do leading, existing governments have the courage to adopt and act on that alternative?"

At the present moment, the answer to that question is: "No."

Like the tragic Hamlet of the famous Act III soliloquy, all of the big governments of the world today, would rather cling to attempted reforms of a familiar system which is beyond reform, than survive.

The argument, by leading governments and powerful private economic institutions, is expressed in words to the effect: "We must find a way to reform the existing system; we can not make a radical change in the system at this time." Those words fairly describe the prevailing, almost unanimous general view, presently among the best informed circles of government and economic institutions around the world.

As *EIR*'s now-familiar "Triple Curve" identifies

the process leading up to the present debacle: It is changes in economic, monetary, and financial policies, which were first instituted during a period between thirty and twenty-five years ago, which, like a slow-acting, fatal disease, have taken over the patient's vital functions, bringing the patient to the point, that major surgery, or death, are the only remaining alternatives. The disease is the present international monetary and financial system.

Unfortunately, the physicians in charge are worrying about how to bring the disease back to a state of health, even if that means killing the patient.

As recently retired Senator Sam Nunn accurately described the attitude of those "physicians," the prevailing opinion among a leading, bi-partisan collection of government and private influentials, is to throw everything into the effort to rescue the present financial system, even at the risk of destroying not only the world's economy, but also the United States as a nation.

We have a choice. We may choose to save the economy and the nation, or we may choose to throw everything into trying to save the present international monetary and financial system. It is one or the other; there is no middle ground. The two can no longer live on the same planet.

For rational people, the choice ought to be obvious. What *EIR* has proposed, is to return to the principles of economy upon which the U.S. Federal Republic was founded, the "American System" of Treasury Secretary Alexander Hamilton, which always made the U.S. strong, whenever we returned to them. We have proposed to use the most successful model of economy which ever existed, that American System, as the model for international agreements among states, used to mobilize a general economic recovery. The United States has done it before, several times; we can, and must do it again.

We need your political voice in this effort to save the nation.

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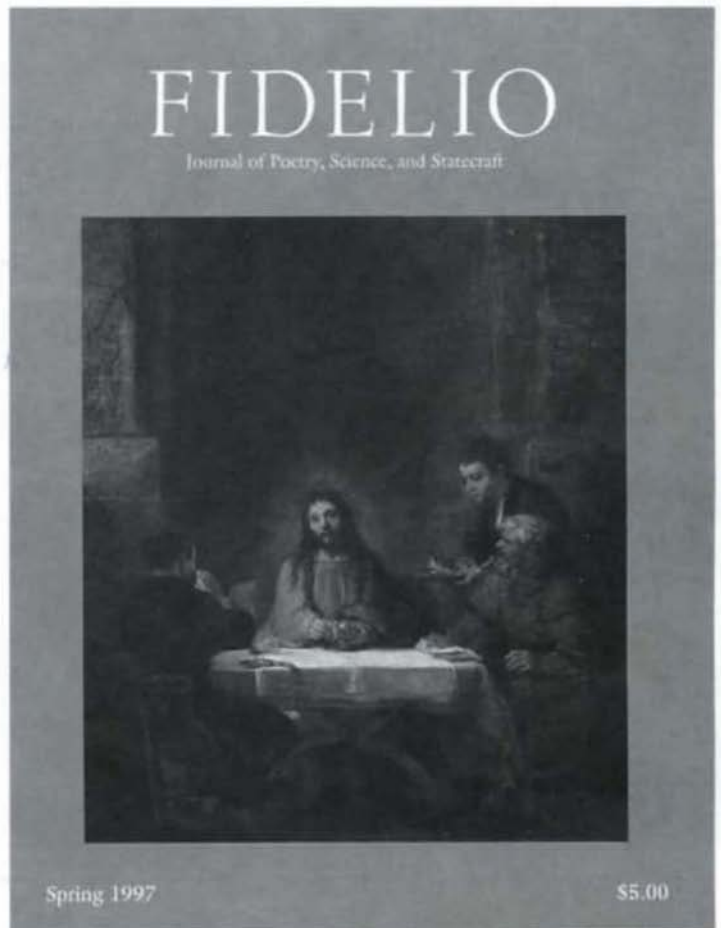
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