

# EIR

Executive Intelligence Review

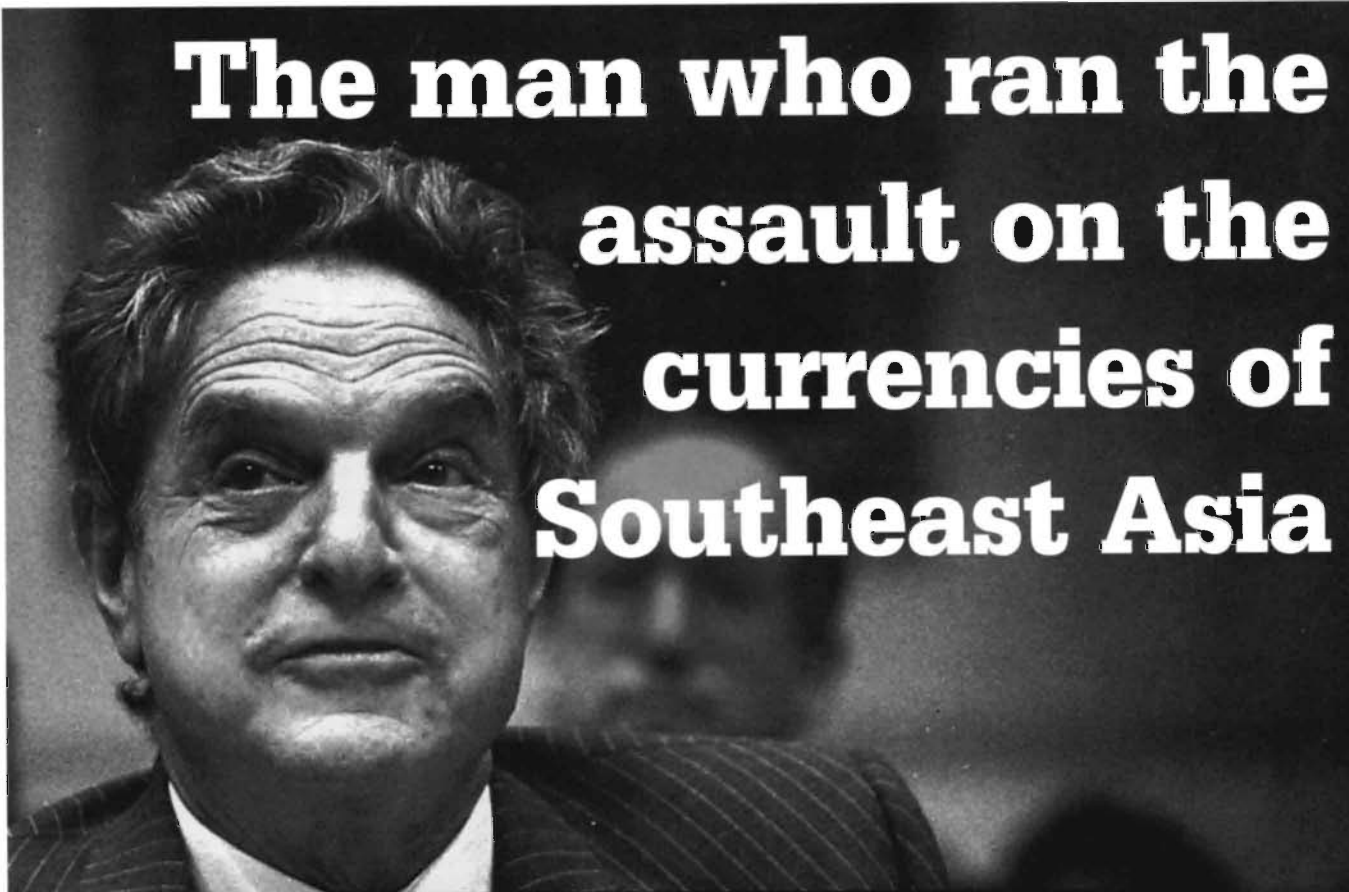
April 17, 1998 Vol. 25 No. 16

\$10.00

The principles of long-range forecasting  
Mexico pumps in billions to save the banks  
LaRouches issue a challenge to Italy's leaders

## Global support grows for a New Bretton Woods





# The man who ran the assault on the currencies of Southeast Asia

An EIR special report

## 'The true story of SOROS THE GOLEM A profile of megaspeculator George Soros.'

- Lyndon LaRouche on Soros: "the gravedigger of international finance."
- Malaysia's Dr. Mahathir on Soros: "He's no Robin Hood. He takes from the poor and fills his own pockets."
- *Wall Street Journal* on LaRouche: "Mr. LaRouche has long been at odds with the U.S. political mainstream. . . . But his theories receive a warmer reception in Malaysia, where the 60-page *EIR* report on Soros has been passed among Malaysian editors, intellectuals and politicians."

**\$100**

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## From the Associate Editor

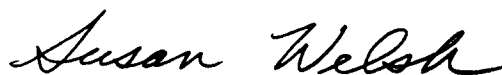
**I**n this issue, we feature breaking news developments in the fight for a New Bretton Woods financial reorganization, and a major theoretical piece by Lyndon H. LaRouche, Jr., analyzing the principles of long-range economic forecasting that are required for such a reorganization to succeed.

LaRouche and his wife recently concluded a visit to Rome, where they addressed political and diplomatic leaders (see *International*). They had been there exactly one year ago, and what changes have occurred worldwide, in that intervening period! Here is how LaRouche characterized the financial and strategic crisis, and the need for a New Bretton Woods reform, during his 1997 visit: “Most intelligent governments know there are alternatives to what is happening. Most people in senior positions of experience know there are alternatives in practice, to what is going on now. But they will say, ‘It’s politically impossible to bring this about. The governments will never do it.’ Which means the captain will never let the passengers off the *Titanic*. That’s the problem I face: how to get a solution.”

Today, the problem is essentially the same one of political will. But, the potential for a positive shift, toward LaRouche’s policies, is much more apparent. As the LaRouches were speaking, Italian Prime Minister Prodi was in Argentina, making statements in favor of a New Bretton Woods. The onset of the so-called “Asian crisis” last year, and its spread to other continents, awakened many policymakers to the truth of what LaRouche has been saying.

In his *Feature* in this issue, LaRouche elaborates the scientific issues of policy which must now be grasped by those policymakers, and other citizens. “Up to this time,” he writes, “no government of the recent quarter-century, or other relevant leading institution of the same period, has yet become sufficiently competent to define adequately the policies needed, in the aftermath of the adoption of a New Bretton Woods monetary order.

“Earlier, I have identified and summarized the essential features of that matter, of long-range forecasting. We continue that discussion here, extending it to its bearing on both the design and management of a physical-economic recovery program.”



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**Photo and graphics credits:**  
Cover, courtesy of the Mount Washington Hotel and Resort. Page 6, Wayne Barwick. Pages 23, 24, 29-35, 39, EIRNS/John Sigerson.

**Corrections:** In the April 10 *EIR* interview with LaRouche Democrat Ron Wiczorek, there were a few minor errors: The average corn price at the Mt. Vernon elevator is \$2.05 (not \$2.50). South Dakota is in the top six states for millionaires per capita (not billionaires). A hospital in Mitchell (not Sioux Falls) is the new area law enforcement center. The city of Pierre (not Chamberlain) had eight teenage suicides in the last two and a half years.

On April 8, Wiczorek was certified by the South Dakota Secretary of State as a candidate for the Democratic Party nomination for Congress in the June 2 primary.

## Economics



U.S. Secretary of the Treasury Henry Morgenthau opens a session at the Bretton Woods International Monetary Conference in Bretton Woods, New Hampshire, in 1944. The flags of the 44 nations which attended surround the dias.

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“To forecast,” writes Lyndon H. LaRouche, Jr., “one must concentrate on both the physical-economic aspect, with its immediate connections to matters of principles of physical science, but also the generationally oriented social-cultural processes. We have a significant, but secondary interest in the relatively more transient opinions as such, but a great deal of interest in what the London Tavistock Institute would prefer to identify as cultural ‘mind-set,’ or ‘cultural paradigm shifts:’ the axiomatic hypotheses which tend to predetermine what opinions will be engendered, by the unfolding of a certain direction in combined, interacting, cultural and physical-economic developments over, usually, the span of a generation or two.”

## International

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## Calls for New Bretton Woods mount, as crisis worsens

by Marcia Merry Baker and Gail Billington

As we go to press, finance officials from around the world are about to gather in Washington, D.C. for meetings of the Group of Seven (the pre-meeting to the May heads of state summit in England) and the interim session of the International Monetary Fund, which this year are anything but “routine.” This is shown by U.S. Treasury Secretary Robert Rubin’s convening of the Willard Group (also called the Group of 22), a conference of finance ministers from 22 nations on April 16, which has been specially charged to take up the world financial crisis. The existing IMF-era institutions and arrangements are failures.

As of the eve of the Willard meeting, the intensity of international discussion, debate, and warfare over what to do with the bankrupt world financial system has reached new levels, including more calls for a whole new system. Some are calling it a “New” Bretton Woods, or a Bretton Woods “II.” Others propose unspecified new agencies to supersede those of the dying IMF system.

The immediate impetus to this policy fight, apart from forewarnings by Lyndon LaRouche and collaborators, who launched a “New Bretton Woods” mobilization in February 1997, is that the process of financial breakdown—unpayable debts, insolvencies, chain-reaction defaults—is growing worse by the hour.

### ‘Bailout III’ in Indonesia

The policy stand-off on how to deal with this crisis is most dramatic in the nation of Indonesia, where the IMF announced on April 8 that it has concluded new terms for its “Bailout III” package. Although details are yet to be made available, sticking to the IMF approach means the latest package is as foredoomed as was the first one, in October 1997, and the second one, in January 1998.

In Mexico, hailed by some as a model for solving the

Asian debt crises, the autumn 1997 bailout-bank privatization program has turned into a spring 1998 blow-out (see article this issue).

Then, there is Japan, the second-largest economy in the world, where an accounting-leniency decree saved the day for major banks and corporations as of the March 31 end of Japan’s fiscal year, but as of April 1, the financial crisis flared up all the worse. There are huge undeclared loan losses waiting to show up in May and June. Japan’s physical economy is contracting at a rate that will mean a Gross Domestic Product drop of 0.3% in 1998—the first year of economic decline in 24 years, according to the April 8 economic outlook report of the Paris-based Organization for Economic Cooperation and Development. Bankruptcies in Japan in 1997 were up 30% over the year before, and hit a record high of 17,300, totalling \$100 billion in losses. The rate is worse now.

In South Korea, undergoing economic shrinkage and record unemployment, there is a debt management-liquidity requirement of \$80 billion, of which about \$43 billion is short-term obligations, payable over the next 12 months. There is no line-up of creditors to supply this kind of money. South Korea’s recent \$3 billion government debt-bond issue bombed. On April 8, the South Korean government officially asked the United States for some \$5 billion in backup funds.

These developments are co-factors (along with the Federal Reserve and European central banks “printing” money) in the rush of funds zooming out of Asia, and driving up Wall Street and European stock exchanges. The Dow Jones Industrial Average broke 9,000 in April; trends in Europe are epitomized by Spain’s exchange, whose share valuation index is up 50% since January.

Summing up the nature of this crisis, the German business daily *Handelsblatt* warned in its lead editorial, “Japan Should

Make Bull Investors Anxious,” on April 6, that there is a “crash risk, which should not be underestimated.” Chief editor Klaus C. Engelen notes that the contrast between the ongoing euphoria in New York and Frankfurt, on the one hand, and the “overall weather pattern in Asia,” on the other, could hardly be more extreme. The banking crisis in the second-biggest economy of the world has reached a new dimension. And this comes exactly at a point when the “over-debted tiger states Thailand, South Korea, and Indonesia are urgently requiring considerable credit assistance by the Japanese banks to stabilize their precarious economic and currency situation.”

Engelen emphasizes the “never-ending series of bad news from Japan,” leading now to comparisons between Prime Minister Ryutaro Hashimoto and U.S. President Herbert Hoover before the eruption of the 1930s world depression. “The threat of a Japanese collapse is now receiving utmost priority on the agenda of global crisis managers,” says Engelen.

### **Calls for Bretton Woods**

Among the latest calls for a whole new system, are those from government leaders of Italy. Prime Minister Romano Prodi said on April 7, “We must move toward a new Bretton Woods.” Speaking to reporters after a heads of state meeting in Buenos Aires, Argentina, he replied to an *EIR* correspondent’s question about the prospects for the Willard Group (of which Argentina and Italy are part):

“The meeting on the 16th does not have such a far-reaching ambition as to be a New Bretton Woods. Nonetheless, it will serve to analyze the urgent and strong measures that must be taken to confront the Asian crisis. I personally believe that we must move toward a new Bretton Woods. And this has to be analyzed very carefully, because the risk level in the international monetary system has greatly increased in the recent period. But it is an issue that can be touched upon at this meeting. It has to be the object of a very serious analysis; it is not something that is going to be done at this moment.”

Italian Foreign Minister Lamberto Dini is likewise speaking out. A former IMF and central bank director, Dini said in a statement published on April 6 in the *La Repubblica* economic supplement, that he is against the idea of a general IMF bailout of the Asian crisis; he suggested setting up a new institution, in order to settle debts on the principles of an orderly bankruptcy reorganization. Under the headline “The West Will Pay Dearly for the Asia Crisis — Dini: Careful with Bailouts,” the Italian Foreign Minister said that the IMF intervention slowed down the Asia crisis, but that “we cannot hide it: There is something wrong.” Dini continued:

“You cannot give investors the impression that, if the investment fails, a supranational body will come in, with taxpayers’ money. A moral hazard has been created, and we must temper it by introducing a sort of international bankruptcy court, to establish the principle that creditors pay for failures, and that an investment has a risk factor. As with private firms: When one goes bankrupt, you list the creditors, you may reach

an agreement, but no one recovers every last penny.” Dini said that the Asia crisis will cost the West at least one-half percent of Gross Domestic Product. And, he added, “There is no guarantee that it might not be worse.”

Another call for a new global institution to deal with the crisis has come from the UN’s Economic and Social Commission for Asia and the Pacific (ESCAP). At an April 8 press conference in Bangkok, to release its annual survey of the region’s economy, ESCAP called for creation of a global agency to regulate private capital flows, curb speculation, and promote the use of regional currencies to finance intra-regional trade. UN Undersecretary and ESCAP Executive Secretary Adrianus Mooy said, “The establishment of a system of global governance of private financial flows needs to be seriously considered.” Under current arrangements, he said, only the borrower is disciplined. “Some form of symmetrical treatment to both lenders and borrowers should apply.” Mooy said the issue will be discussed in detail at a high-level meeting of the Asian Development Bank, UN, World Bank, and IMF, in June.

The director of ESCAP’s Development Research and Policy Analysis Division, Azizul Islam, added, “I would like to stress that our emphasis is not on regulation,” but ESCAP’s aim is to reduce the “speculative component of international capital inflows,” and to increase long-term flows at the expense of short-term flows. “The objective is to change the maturity composition of inflows. It is quite possible to have a global rule with respect to such provisions,” he said, adding the critical point that, “with the political will, it is not impossible to come up with such a system, such as a tax on short-term flows.”

Mooy further suggested that Asian countries reduce dependence on dollars by using regional currencies for intra-regional trade and consider an Asian Fund to supplement the IMF. He pointed out that the IMF is running out of money, as a rejoinder to objections to a regional fund.

### **ASEM II**

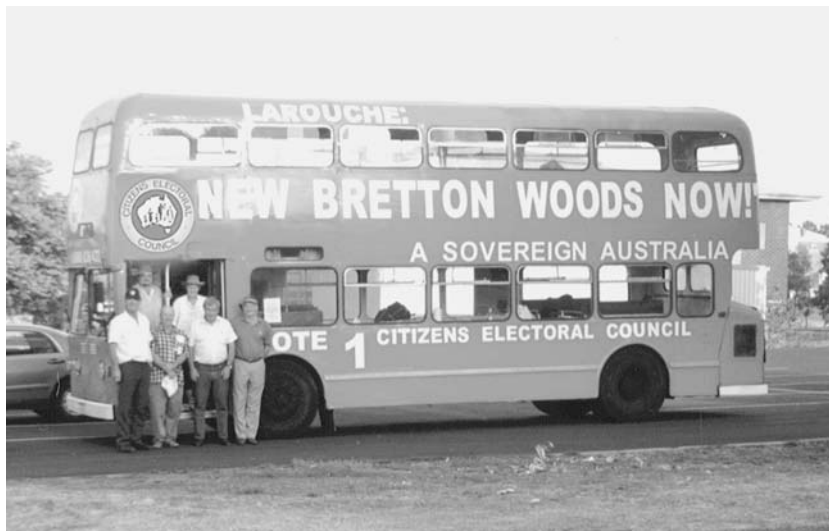
Controlling global speculation was also forced through as a priority international policy issue, by Malaysia’s Prime Minister Dr. Mahathir bin Mohamad, at the second annual conference of the Asia-Europe Meeting (ASEM II), on April 2-4 in London. There, heads of state from 10 Asian and 15 European nations met. On April 3, Mahathir forced a last-minute inclusion into the conference’s final statement on the Asian financial crisis, focussing on protecting nations from potential shocks, “including speculation-induced instability.”

The overall import of the ASEM meeting, however, hosted by British Prime Minister Tony Blair, was nil. Italy’s Foreign Minister Dini described it, “Don’t you see? We did nothing but repeat the usual formulas.” Nevertheless, the proceedings of ASEM II signal that business-as-usual is out the window, and that no such international event will dare avoid discussing in some way, the *systemic* nature of the ongoing

## Australians for LaRouche

The Citizens Electoral Council (CEC), friends of Lyndon LaRouche in Australia, launched a series of campaign bus tours in the two states of Queensland and Western Australia in March, organizing for a New Bretton Woods conference and the exoneration of LaRouche. Thirty-two CEC candidates are currently running for office. Shown here is senatorial candidate Tony Drake (left), touring Western Australia in his mobile campaign office, a bright red double-decker bus, complete with bunk beds, microwave, and refrigerator.

Drake is joined by (left to right) Craig Isherwood, National Secretary of the CEC; John Watson, candidate for the House of Representatives; Trudy Campbell of the CEC in Melbourne; House of Representatives candidate Brian McCarthy; and House of Representatives candidate Stuart Smith. The campaign tours yielded 506 signatures for the exoneration of LaRouche—double the number previously collected. The exoneration petitions will be presented to the Federal



Parliament and the U.S. Embassy in Canberra.

Organizers conducted door-to-door campaign tours in 11 rural communities. They report that people from all walks of life expressed frustration with the dominant political parties, and widespread fear that we are heading for a new Great Depression. In the central Queensland mining towns of Blackwater, Emerald, and Moranbah, for example, they encountered a quiet hysteria about the layoffs that are already occurring, as a result of the Asian financial crisis.

Interest in the New Bretton Woods proposal is very keen in Australia, especially since the Asian financial blowout of last fall, which hit Australia hard. Indonesia, for example, is Australia's nearest neighbor, with which it signed a security and defense treaty in 1995. As *EIR* reported last week, the Melbourne daily *The Age* on March 30 ran a commentary asking, "For how much longer will the world economy continue to limp along before the political will is created for another Bretton Woods and measures to tame financial markets?"

meltdown of the IMF-dominated world economy.

The intervention of Thailand, Malaysia, and Indonesia in the ASEM II sessions graphically forced onto the table the devastating economic, political, and human penalties paid by these countries during the last nine months, severely contradicting the air of "feel-good, getting to know you" consensus that Blair's "Cool Britannia" theme tried to maintain.

In advance of the meeting, Thai Prime Minister Chuan Leekpai chaired a gathering of the Asian participants, with the intent to insist that the ASEM II meeting issue a separate statement on the importance of the Asian crisis, with special emphasis on the role of currency speculation as a leading cause of the crisis. The Asian group also urged that the meeting as a whole support tangible measures to provide emergency bank and credit facilities and debt relief for those countries most hurt by the crisis, and to refrain from a resort to measures to block trade.

Shortly before departing for London, Prime Minister

Chuan said, in an exclusive interview with *Agence France Presse*, that while Thailand is fully committed to meeting the terms of the IMF restructuring package imposed last year, "at the same time, we realized that we are not fully ready for full globalization and liberalization, and, therefore, we have to take measures to protect our people from its full impact."

### Saving nations, not banks

The theme of "saving the nations, not the banks" emerged as the focal point of the most important debate during the ASEM II meeting, which, in some respects, reflected a pitting of Asian "debtors" against the views of their European "creditors." As the Thai delegation, led by Prime Minister Chuan and Deputy Prime Minister Supachai Panichpakdi, repeatedly stated at the conference, European financial institutions have the largest loan exposure in Asia—at \$350 billion, greater than Japan and the United States combined. In his interview and later remarks, Prime Minister Chuan stressed that debt



rollover and restructuring by these creditor institutions would be among the most important "support" needed.

The conflict over international finance was most clearly evoked at a pre-meeting of businessmen representing the member Asian and European nations. Thai Deputy Prime Minister Supachai called on Europe to get more involved in devising effective means of financial surveillance and developing "early warning" systems to detect crises, along the lines of the so-called "Manila Framework" adopted at the Asia-Pacific Economic Conference summit last November. He specifically charged that "overlending" has been a major cause of the "Asian contagion," and that creditors had invented all kinds of financial instruments to further indebt Asia when the creditors' existing surveillance should have warned them of the dangers. Trade financing, he stated, is most urgently needed now, "to keep economies in East Asia alive." And, as to all the press hype about the Asian "miracle" of the 1980s, Supachai stole a line from Winston Churchill, "We know as Asians how much blood, sweat, and tears we have put in."

British Trade and Industry Minister Margaret Beckett responded to Supachai's remarks by calling for more of what the Asians objected to, more "commitment to market liberalization."

At the heads of state level, this debate was taken up in a one-two presentation by Malaysia's Prime Minister Mahathir and Prime Minister Chuan. Dr. Mahathir detailed the cost of the financial collapse in Southeast Asia, and Chuan situated that crisis in the global context. Dr. Mahathir reported that Malaysia, which was *not* the nation worst affected, suffered a 60% currency devaluation and lost \$200 billion. "If you consider the number of Asian countries experiencing currency devaluation, you may be able to appreciate how much wealth and purchasing power has been destroyed," he said.

This intervention, supported by the Indonesian delegation, succeeded in inserting into the final statement a specific attack on currency speculation as a major triggering cause of the Asian crisis, which was reportedly supported by French, Belgian, and Italian participants, and evinced a split among European leaders. French President Jacques Chirac declared, "We see that the more open the international monetary system becomes, the more its fragility becomes a problem. It is not a question of regulating the international monetary system, but of strengthening it, to increase its stability and reduce the erratic behavior of markets. . . . We must not delude ourselves. If Asia suffers today, then Europe will suffer tomorrow."

At a press conference following the ASEM II meeting, German Chancellor Helmut Kohl declared, "There is no magic cure. . . . International capital flows will not obey legislation or political orders." Dr. Mahathir countered bluntly, that if the political will to do so exists, "everything is feasible."

### **Indonesia facing 'IMF III'**

A continuing critical test of the credibility of the IMF system is what is now called Indonesia's IMF III, the third

"restructuring" program since Halloween 1997. After three weeks of intensive negotiations with IMF officials in Jakarta, Indonesia's Coordinating Minister for Economics, Ginandjar Kartasasmita, held a press conference in Jakarta on April 8 to announce that a new accord had been reached. However, 24 hours later, when the details were to be released, the government put off the announcement until April 13.

At his press conference, Minister Ginandjar said that "IMF III" differs from the previous programs in three ways: First, a strict compliance regime will be imposed; second, the plan was subjected to full cabinet discussion, which was not true in January; and, third, the subject of \$74 billion of private sector foreign debt has been incorporated into the package, under IMF supervision. As reported so far, the new package includes 117 specific points, each with a precise timetable for compliance. Based on previous packages, 46 of those elements have been met. The major concession, though the IMF will not admit this, has been in the area of government subsidies for essential commodities. The government will retain subsidies for rice, and fuel and energy price increases, due to take effect on April 1, will be imposed gradually according to a timetable to be worked out. All other subsidies will be phased out by October 1998.

It is far too early to evaluate the new plan, but it is already clear that the IMF will play hard ball with Indonesia. First Deputy Managing Director Stanley Fischer told a Tokyo press conference on April 8, "We will simply have to see if the system as a whole is capable of implementing the reforms. . . . It is impossible for us to go ahead 'no matter what.' . . . We have measures in place, and if they are not implemented, the program won't go ahead."

For his part, Minister Ginandjar stated clearly that no one should doubt Indonesia's determination to reform its economy, and that will occur, he stressed, "with or without" outside intervention. The touchstone of the success or failure of "IMF III" will most likely rest in the outcome of talks with the 13-member foreign financial institutions which are owed \$74 billion, of which \$35 billion that is owed by Indonesian firms and held in commercial papers is of immediate concern. Ginandjar described the current state of affairs on this debt as "not a moratorium. But it's often called a stand-still." The IMF and Indonesia have stated clearly there will be no government assumption of the private sector debt. Ginandjar added that creditors must give a "sufficient" grace period, especially on principal payments. A shakeup of the creditors' committee in early April strongly suggests that the Clinton administration has developed a heightened appreciation of the strategic importance of Indonesia and its economic health. The British head of the creditors' committee, David Brougham, executive director of Standard and Chartered, has been replaced by a three-member co-chairmanship, representing Japanese, German, and American banks. The next committee meeting will take place in New York on April 15. Whatever comes out of those talks, any agreement will now have to be approved by the IMF.

# Russian spotlight on LaRouche's policies

by Rachel Douglas

Lyndon LaRouche's economic analysis and policy perspective are the subject of continuing debate in the Russian press, particularly as the effects of the so-called "Asian crisis" make themselves felt in Russia.

Prof. Taras Muranivsky wrote in the Moscow weekly *Ekonomicheskaya Gazeta* the week of April 2, about the Willard Group of 22 nations, scheduled to meet in Washington on April 16. (His headline was "The Meeting of the 22—22 Sick Men?") Even former Federal Reserve Chairman Paul Volcker admits that market deregulation—the post-1971, post-Bretton Woods order—has become a driver of the financial crisis in Asia, Muranivsky writes. U.S. Secretary of the Treasury Robert Rubin says that matters have reached the level of a threat to American national security. "The minister believes that the problems in the financial sector in developing countries are the reason for the crisis. He proposes to improve the situation in that sector by means of IMF credits. But, why are those credits gobbled up, while the crisis becomes deeper and deeper?"

The answer, according to the Russian professor, is that "the obvious problems in the financial sector are an effect, not a cause. The devaluation of the currencies of developing countries, and other financial and economic problems that have lowered the population's living standard and purchasing power, were provoked by currency speculation and other techniques of looting, which the existing world monetary and economic system perpetuates."

He cites the draft resolution of the National Farmers' Union in the United States, which called for a New Bretton Woods, then turns to "the major report by Lyndon LaRouche," which was the centerpiece of *EIR*'s March 18 seminar in Washington, attended by 20-some embassies, as well as government officials, to discuss the agenda for the Willard conference (see *EIR*, March 27). Muranivsky summarizes the recommendations of the seminar, for monetary regulation for stable exchange rates, protectionist measures in trade, and outlawing currency speculation.

## The Eurasian Land-Bridge

The March 11 issue of the Moscow daily *Nezavisimaya Gazeta* carried a one-and-a-half page article by Sergei Rogov, titled "The Contours of a New Russian Strategy; The Country Can Only Be Saved by Its Central Position on the Geoeconomic Map of Eurasia." The article is illustrated by a map of the Eurasian Land-Bridge, credited to *EIR* News Service and

captioned as "map from the 'Transeurasian Bridge' report, published by the Lyndon LaRouche Institute, Washington, 1997."

Professor Rogov is the director of the Institute of the U.S.A. and Canada, of the Russian Academy of Sciences. In previous public statements, he has expressed anxiety about the Chinese "Silk Route" rail development corridor's potential diversion of traffic from Russia's Trans-Siberian Railroad. He expresses that nervousness again in *Nezavisimaya*, writing that "the revival of the Great Silk Road could become an alternative to the transcontinental route across the Russian Federation." He accentuates the specter of a "geopolitical" threat to Russia, by discussing the insane *Foreign Affairs* article by Zbigniew Brzezinski, "A Geostrategy for Eurasia" (see *EIR*, Dec. 5, 1997, for Lyndon LaRouche's "Tweedledum Goofs Again" diagnostic of Brzezinski's ravings).

What Rogov's new article chiefly expresses, though, is something different: that the *only* hope for survival, for the Russian economy and the nation, is engagement in the Land-Bridge. The use of the *EIR* map sets the stage for the concluding section of Rogov's article, titled "A Strategy for Survival and Development." Rogov writes:

"Russia's geopolitical situation is defined by its unique location on two continents. It belongs both to Europe and to Asia, having vital interests in both regions. Unlike the Soviet Union, the Russian Federation cannot pretend to have the role of a superpower. But by the size of its territory, population, economic, scientific and technological, and military capacities, it may, as a great Eurasian power, become one of the leading participants in a multi-polar world. . . . Therefore, we need a coherent Eurasian strategy, which should integrate Russia's economic, technological, industrial, transport, information, and foreign policy, for at least a generation to come. . . . The survival and strengthening of Russia is only possible, if our neighbors both to the West (the European Community) and the East (the Asia-Pacific region) deem that cooperation with Moscow is in their interest. . . .

"In my view, it is transportation and communications that should become, along with the power industry, the bulwarks of Russia's economic rebirth, and ensure for us the most advantageous positions in the world economy."

Rogov then examines Russian transportation technologies, and existing and new infrastructure projects, including joint ones with China.

He writes that, "naturally, the implementation of the Eurasian strategy is only possible, if it becomes the basis for the entire budget, tax, and credit policy of the federal government." Expressing some skepticism about the possibility of this, he holds out hope that "the private sector will play the main role in its implementation."

Rogov hopes that if Ukraine and Belarus become " 'gates' to the transcontinental 'Eurasian bridge,' " this will make it possible for the Commonwealth of Independent States to work as a genuine unit of cooperation.

# Roosevelt's appeal to Congress to pass the Bretton Woods agreement

by Richard Freeman

On Feb. 12, 1945, U.S. President Franklin Delano Roosevelt transmitted his "Message to Congress Urging Adoption of the Bretton Woods Agreements." We present excerpts of his message below.

When he wrote his message, Roosevelt had been engaged in a four-year fight with the British on the shape of the postwar monetary and economic system, which would determine the lives of people around the world. The British had been demanding the establishment of a monetary system that would secure their imperial interests: continuation of their "imperial preference system" trading bloc with their colonies and other Dominion nations, an international reserve currency role for the British pound sterling (which was otherwise bankrupt), and a dominant role for London as the world financial center.

Roosevelt's began from a totally different starting point—the republican worldview. There were two great objectives Roosevelt was trying to accomplish: 1) to free more than half the world's population from the British, French, Dutch, Belgian, and Portuguese empires, and 2) to unleash global economic reconstruction and development, that is, to "reconstruct" shattered Europe's and Japan's economies and to "develop" the former colonial sector, eliminating enforced underdevelopment (this is where the World Bank's name came from). Roosevelt proceeded from the American System of economics, of anti-usury, pro-energy-intensive, pro-capital-intensive, republican-based development, tracing itself back to the 1437-39 Council of Florence.

Do not be confused, in reading FDR's discussion of the International Monetary Fund and International Bank for Reconstruction and Development (World Bank), by what those institutions represent today: agencies for speculation, globalization, and genocide. See them, instead, through FDR's eyes: as institutions which he was creating in order to achieve American System purposes.

As for the United Nations, two notes are needed: First, during the Second World War, United Nations was the term that the Allies used to describe themselves. Second, Roosevelt had sought to have Russia and China on the Security Council of a newly created UN, to fight alongside other nations against the British imperial bloc. However, there were other factions

involved in the UN's founding, such as the evil Bertrand Russell and H.G. Wells combine, a discussion that goes beyond the scope of this short introduction.

Had Roosevelt lived, and had he had hands-on control of U.S. economic policy in his fourth term, and helped shape the postwar world economy, the world would be a far different and better place today.

Recall the stark similarities of the period of 1945 and today: While, today, the world is not emerging from a world war, nonetheless, devastation, breakdown, and enforced underdevelopment exist everywhere, just as they did 50 years ago. The warfare today is economic, run by the British financier oligarchy. Our weapon against them is bankruptcy reorganization, and the infrastructure-building New Bretton Woods system proposed by Lyndon LaRouche.

FDR's courage to lead in the rebuilding a suffering world is fit instruction for today. Excerpts of his message follow:

## **'This generation has a rendezvous with destiny'**

In my Budget Message of January 9, I called attention to the need for immediate action on the Bretton Woods proposals for an International Monetary Fund and an International Bank for Reconstruction and Development. It is my purpose in this message to indicate the importance of these international organizations in our plans for a peaceful and prosperous world.

As we dedicate our total efforts to the task of winning this war, we must never lose sight of the fact that victory is not only an end in itself, but, in a large sense, victory offers us the means of achieving the goal of lasting peace and a better way of life. Victory does not insure the achievement of these larger goals; it merely offers us the opportunity—the chance—to seek their attainment. Whether we will have the courage and vision to avail ourselves of this tremendous opportunity—purchased at so great a cost—is yet to be determined. On our shoulders rests the heavy responsibility for our making this momentous decision. I have said before, and I repeat again: This generation has a rendezvous with destiny.

If we are to measure up to the task of peace with the same

stature as we have measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations. International political relations will be friendly and constructive, however, only if solutions are found to the difficult economic problems we face today. The cornerstone for international economic cooperation is the Bretton Woods proposal for an International Monetary Fund and an International Bank for Reconstruction and Development.

These proposals for an International Fund and International Bank are concrete evidence that the economic objectives of the United States agree with those of the United Nations. They illustrate our unity of purpose and interest in the economic field. What we need and what they need correspond—expanded production, employment, exchange, and consumption—in other words, more goods produced, more jobs, more trade, and a higher standard of living for us all. To the people of the United States this means real peacetime employment for those who will be returning from the war, and for those at home whose wartime work has ended. It also means orders and profits to our industries, and fair prices to our farmers. We shall need prosperous markets in the world to insure our prosperity, and we shall need the goods the world can sell us. For all these purposes, as well as for a peace that will endure, we need the partnership of the United Nations.

The first problem in time which we must cope with is that of saving life, and getting resources and people back into production. In many of the liberated countries, economic life has all but stopped. Transportation systems are in ruins, and therefore coal and raw materials cannot be brought to factories. Many factories are shattered, power plants smashed, transportation systems broken, bridges blown up or bombed, ports clogged with sunken wrecks, and great rich areas of farmland inundated by the sea. People are tired and sick and hungry. But they are eager to go to work again, and to create again with their own hands and under their own leaders the necessary physical basis of their lives.

Emergency relief is under way behind the armies under the authority of the local governments, backed up first by the Allied military command, and after that by the United Nations Relief and Rehabilitation Administration. Our participation in the UNRRA has been approved by Congress. But neither UNRRA nor the armies are designed for the construction or reconstruction of large-scale public works or factories or power plants or transportation systems. That job must be done otherwise, and must be started soon.

The main job of restoration is not one of relief. It is one of reconstruction which must largely be done by local people and their governments. They will provide the labor, the local money, and most of the materials. The same is true for all the many plans for the improvement of transportation, agricul-

ture, industry, and housing, that are essential to the development of the economically backward areas of the world. But some of the things required for all these projects, both of reconstruction and development, will have to come from overseas. It is at this point that our highly developed economy can play a role important to the rest of the world, and very profitable to the United States. Inquiries for numerous materials, and for all kinds of equipment and machinery in connection with such projects, are already being directed to our industries, and many more will come. This business will be welcome just as soon as the more urgent production for the war itself ends.

The main problem will be for these countries to obtain the means of payment. In the long run, we can be paid for what we sell abroad chiefly in goods and services. But at the moment, many of the countries who want to be our customers are prostrate. Other countries have devoted their economies so completely to the war, that they have not the resources for reconstruction and development. Unless a means of financing is found, such countries will be unable to restore their economies. . . .

The United States should act promptly upon the plan for the International Bank, which will make or guarantee sound loans for the foreign-currency requirements of important reconstruction and development projects in member countries. One of its most important functions, will be to facilitate and make secure wide private participation in such loans. The Articles of Agreement constituting the charter of the Bank have been worked out with great care by an international conference of experts, and give adequate protection to all interests. I recommend to the Congress that we accept the plan, subscribe the capital allotted to us, and participate wholeheartedly in the Bank's work.

This measure, with others I shall later suggest, should go far to take care of our part of the lending requirements of the postwar years. They should help the countries concerned to get production started, to get over the first crisis of disorganization and fear, to begin the work of reconstruction and development; and they should help our farmers and our industries to get over the problem of reconversion, by making a large volume of export business possible in the postwar years. As confidence returns, private investors will participate more and more in foreign lending and investment, without any government assistance. But to get over the first crisis, in the situation that confronts us, loans and guarantees by agencies of government will be essential.

We all know, however, that a prosperous world economy must be built on more than foreign investment. Exchange rates must be stabilized, and the channels of trade opened up throughout the world. . . .

Almost no one in the modern world produces what he eats and wears and lives in. It is only by the division of labor among people and among geographic areas with all their varied resources, and by the increased all-around production

which specialization makes possible, that any modern country can sustain its present population. It is through exchange and trade that efficient production in large units becomes possible. To expand the trading circle, to make it richer, more competitive, more varied, is a fundamental contribution to everybody's wealth and welfare.

It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. We propose to do this, not by setting up a supergovernment, but by international negotiation and agreement. . . .

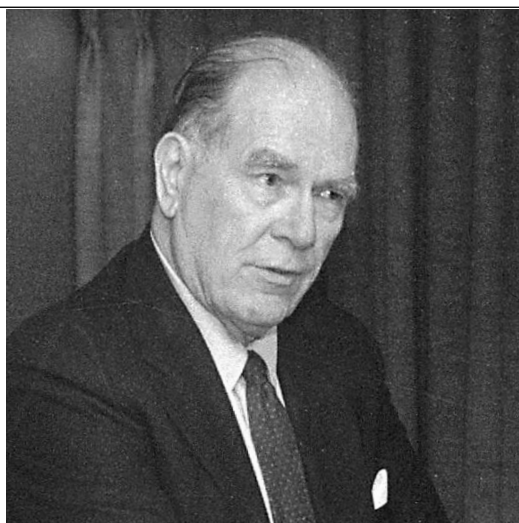
A good start has been made. The United Nations Monetary Conference at Bretton Woods has taken a long step forward on a matter of great practical importance to us all. The conference submitted a plan to create an International Monetary Fund which will put an end to monetary chaos. The Fund is a financial institution to preserve stability and order in the exchange rates between different moneys. It does not create a single money for the world, neither we nor anyone else is ready to do that. There will still be a different money in each country, but with the Fund in operation, the value of each currency in international trade will remain comparatively stable. . . .

The International Fund and Bank together represent one of the most sound and useful proposal for international collab-

oration now before us. On the other hand, I do not want to leave with you the impression that these proposals for the Fund and Bank are perfect in every detail. It may well be that the experience of future years will show us how they can be improved. I do wish to make it clear, however, that these Articles of Agreement are the product of the best minds that forty-four nations could muster. . . . It would be a tragedy if differences of opinion on minor details should lead us to sacrifice the basic agreement achieved on the major problems. . . .

In this message I have recommended for your consideration the immediate adoption of the Bretton Woods Agreements, and suggested other measures which will have to be dealt with in the near future. They are all parts of a consistent whole. That whole is our hope for a secure and fruitful world, a world in which plain people in all countries can work at tasks which they do well, exchange in peace the products of their labor, and work out their several destinies in security and peace; . . .

The point in history at which we stand is full of promise and of danger. . . . We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine as far as it is in our power, the kind of lives our grandchildren will live in.



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# China's 'New Deal' for railroads, energy

Since the conclusion of the first session of the Ninth National People's Congress in Beijing last month, Chinese publications have been featuring the nation's ambitious "New Deal" policy for infrastructure development—modelled on that of President Franklin Delano Roosevelt—under conditions of financial crisis throughout the rest of Asia.

"Funds Sought for 'New Deal'" was a headline in the *China Daily's* business weekly of March 29. The article discusses the proposals being made by Chinese economists to ensure that the national program of investing the equivalent of \$1 trillion in infrastructure and high-technology industry, can be realized. The *China Daily* quotes one economist saying that "China has to maintain 15% growth in fixed asset investment in order to secure the planned 8% GDP growth."

Then, the proposals of another economist, Qin Chijiang, on how to finance this investment, are reviewed. He states that money is not a problem, but there are many obstacles hampering investment, and the old system must be reformed. Investment in infrastructure will not yield immediate profits, he said, but promises huge long-term returns, while avoiding steep ups and downs in the economy. Among his proposals are:

- Long-term government bonds guaranteed by the Ministry of Finance should be issued for the purpose of infrastructure construction. These bonds would not be included in the national deficit.
- A share-holding system should be adopted in some projects, to pool regional resources.
- Banks should increase the proportion of long- and medium-term loans. China should also open wider to foreign investment, he said.

In *China Daily* of March 30, a prominent economist wrote that China must "learn lessons from the Asian crisis," including by expanding the physical economy. Among the problems on which China must focus, he wrote, are the following:

- The government should avoid being too closely and frequently involved in business activities; market-based relations must be established between banks and enterprises; and, the government should not be too closely involved in creating or supporting huge industrial conglomerates;
- The government should help the state-owned commercial banks cut their bad assets as soon as possible;
- "The country should focus on promoting material

economy, technological renovation, consummation of industrial makeup, and enhancement of labor productivity";

- Foreign investment must be focussed on longer-term, foreign direct investment;
- China must strengthen regulation over the financial sector, especially "trading in derivatives and new banking services like offshore finances to fight its ability to fight foreign speculative activities."

The article also emphasized the importance of the population's confidence in its government's policies: "Even if a financial crisis breaks out, the non-existence of public pessimism will prevent the situation from further worsening."

## Specific projects

China is considering doubling the level of investment in railroad construction over the next three years, to deal with rising unemployment, the growing economic gap between rich and poor areas, and also to absorb the "overcapacity" in China's steel production, which is the largest in the world, the *China Daily's* business weekly reported on March 29. The Ninth Five-Year Plan had already allocated \$21.6 billion for rail construction, but this amount could be doubled.

But, in the current situation, there is a shortage of \$30 billion in capital for this investment. Also, with the reform of the state-owned commercial banks, they will not be able to extend so much credit. The State Planning Commission has proposed that the State Development Bank expand its lending for rail construction in the central and western regions of China. Railway investors in these regions should get land-use rights free of charge along rail lines, and beneficial tax exemption policies, the *China Daily* noted. Also, freight costs should be raised to increase funds, even at the risk of some inflation, and bond issues and stock listings should continue to be used to expand the transport network. Foreign investment is also now allowed in the main rail trunk lines, but the Chinese side will continue to hold majority stakes in construction, the article reported.

The same newspaper reported that nuclear companies from the United States, France, Japan, and, to a much lesser degree, Russia and Canada, are all vying to get into the Chinese nuclear energy market. Since the United States lifted its ban on exporting nuclear technology to China, all the Western producers want to sell technology to China. However, China has let it be known that it will give top priority to "localization," including training local engineers, and will require foreign partners to transfer "mature, safe, and advanced technology" to China.

Howard Bruschi, vice president of Westinghouse's science and technology department, has promised to help China grow into an exporter of nuclear power.

China is expected to announce one or two new nuclear power projects this year.

# Mexico tries to save the banks with a hyperinflationary bailout

by Carlos Cota Meza

The Mexican banking system came within a hair's breadth — again — of collapsing into generalized insolvency over the last four to six months. Official reports issued in early April matter of factly noted that the government had pumped \$16 billion in *new* emergency funds into the banking system between October 1997 and February 1998.

This latest hyperinflationary bailout was executed through the government's Banking Fund for the Protection of Savings (Fobaproa). According to the Finance Ministry's spokesman, Marco Provencio, Fobaproa "grew by more than 45%, in nominal terms, between October 1997 and February of this year," purportedly to help out the country's "small depositors." This "nominal" amount converts to \$16.3 billion, which Fobaproa, over a five-month period, forked over to the country's private banks, and their associated brokerage houses, so that they wouldn't go bankrupt during the period in which the misnamed "Asian crisis" made itself felt in Mexico.

These new monies come on top of the more than \$48 billion which Fobaproa had previously sunk into purchases of bad commercial bank debt, stemming from the bank blow-outs caused by the December 1994 explosion of the debt bomb in Mexico. Of the \$100 billion or so in banking system assets which existed at that time, it now emerges that about 75% became non-performing: The bulk was taken over by Fobaproa, and the remainder was reorganized through the government's "UDI" and other bailout schemes.

So, once again, Mexico has become insolvent, and is facing the same problems which the Salinas de Gortari government faced, and which led to the great crisis of December 1994. Mexicans are now demanding to know: Who executed these latest bailout operations, with whom, and to what end? Somebody has to answer for Fobaproa's monstrous \$65 billion debt, which amounts to 14.5% of the country's GNP.

## Current account deficit

Let's start with the latest round of budget cuts. Depending on how you add them up, but using an exchange rate of 8.5 pesos to the dollar, what was cut out of the national economy over the last 90 days is something between \$3.11 billion and \$3.705 billion in spending. The size of this figure is no great

mystery: The country's foreign debt service for the first quarter of 1998 was \$4 billion, and Mexico had no way of paying it, after the country's oil income dropped by 35% over the same period.

What *is* a great mystery to the government of Ernesto Zedillo, is how it is going to cover the foreign debt service for the rest of the year, which is an additional \$12 billion. Contrary to what most people assume, it is not the falling price of oil which is causing the insolvency of the Mexican economy. The drop in oil income is only revealing the debt-recycling operations which are at the root of the problem.

The government has admitted that the current account deficit for 1998 will be about \$15 billion. But, judging by last year's trade balance, it is highly likely that the current account deficit for 1998 will end up closer to \$22.5 billion, given the overall drop in exports (not only of oil) and the growing imports required by the border *maquiladora* (sweat-shop labor) plants.

Opening the dictionary of economic terms to the relevant page, we find: a current account deficit, broadly speaking, is made up of the sum of the trade deficit (imports greater than exports), plus the payment of interest on the foreign debt. The way in which a current account deficit is maintained, is by an equivalent flow of foreign capital which enters the country.

To address this problem, the Mexican government suddenly proposed a "financial package" in March, consisting of three pieces of draft legislation: 1) the Recovery of Assets law; 2) the Deposit Guarantee Fund law; and 3) legislation which grants the Banco de México, the country's central bank, greater autonomy.

The cornerstone of the package is the first item, the "Recovery of Assets" law, which is the equivalent of the desperate issuance of "Tesobonos" (dollar-denominated Mexican treasury notes) which the Salinas de Gortari government launched in March 1994, and which culminated in that year's debt explosion in December.

The "Recovery of Assets" consists of: a) the conversion of the obligations contracted by Fobaproa in the course of bailing out the insolvent banks, into domestic public debt—i.e., direct government obligations; and b) allowing foreign banks to purchase up to 100% of domestic banks.

According to the draft legislation, the “consolidation” of Fobaproa’s liabilities will add up to “532.3 billion pesos, as of Feb. 28, 1998.” The same legislation specifies that (converting the official peso amounts into dollars at the exchange rate of 8.5 pesos per dollar) \$42 billion of this is Fobaproa’s, and \$23 billion is due to the activities of the Stock Market Support Fund (Fameral). While Fobaproa was busy bailing out the banks, Fameral was bailing out the brokerage houses owned by the same banks. The combined total is \$65 billion.

Wherein lies the similarity with the infamous “Tesobonos”? Fobaproa was created in 1990 as a trust fund administered by the Banco de México, whose mission was to grant “preventive support” to the banks, whose re-privatization was to be completed by July 1992.

This means that Fobaproa has always been a government entity. According to its own operational mechanisms (“purchase of loan portfolios,” “capitalization program,” etc.), through the 1995 bank bailout, the federal government became the main creditor of the Mexican banks. This is what was meant by the various comments that Fobaproa had “renationalized” the banking system.

So why take a trust fund, which from the outset was a government agency, and convert it into domestic public debt? How explain the fact that the federal government, by law, was converted from universal creditor to sole debtor? And indebted to whom? Whom is the federal government going to pay?

### Who is being bailed out here?

According to various published accounts, allowing foreign capital to purchase up to 100% of Mexico’s commercial banks, could bring in \$10 billion, tops, to help cover the current account deficit. In order to attract that foreign capital, they are being handed the country on a silver platter.

The “Asset Recovery Commission” is being created so that it, in representation of the federal government as sole debtor, can carry out an auction of that domestic public debt, which, at a hypothetical interest rate of 20% per year, would lead to budgetary outlays on interest payments of 110.46 billion pesos (\$13 billion). If the interest rate rises, so will the outlays. Foreign capital which purchases Mexican banks, or which already owns them, will be able to purchase that government paper, which, seemingly out of nowhere, has already been outfitted with an initial fund for the payment of interest, totalling more than \$12 billion.

For 1998, the interest generated by this new domestic public debt (at a projected interest rate of 18-20%, which may well turn out to be much higher) amounts to four times this year’s government budget cuts which were triggered by the drop in the international price of oil. So they cut the budget because they don’t have money, but at the same time they have created a speculative bubble which is *n* times larger.

### Hyperinflation!

There is a further aspect of the scandal, which *EIR* has under investigation. According to various Mexican press accounts, \$26 of Fobaproa’s \$65 billion in debt came from buying up the non-performing loans of only 550 individual accounts (either individuals, or companies). If \$26 billion was spent on 550 accounts, then the average amount of each of those accounts was . . . \$50 million! Everything points to the fact that, it is not the “small depositor” who is being bailed out here, but rather the Mexican banks, the foreign creditors of those same banks, and the *nouveaux riche of the Salinas de Gortari era*, who have highly questionable reputations, to say the least, and who were the beneficiaries of loans (and illegal “self-loans”) from Mexican banks.

### Discovering the addict

In February 1995, when the December 1994 financial meltdown was supposedly under control, President Ernesto Zedillo announced a program of privatizing petrochemical plants, ports, airports, and railroads, which supposedly was going to generate \$12 billion in revenue. At the same time, Zedillo asserted that the Salinas government had not only underestimated the current account deficit, but that it had mistakenly financed that deficit with “short-term financial instruments.”

Zedillo announced that his administration, on the contrary, would “prudently manage” the current account, promote an “increase in domestic savings to finance the economy,” and facilitate the entry of longer-term “foreign direct investment” into Mexico.

Leaving aside the question of what has actually been accomplished by that failed privatization program of 1995, the big question is: Where did today’s current account deficit come from? To talk about a current account deficit of about \$15 billion, is to be back at the levels of 1993. If that deficit grows to \$22.5 billion in 1998, we’re back in the ballpark of the \$28 billion deficit Mexico had in 1994.

If the current account deficit of the Salinas de Gortari government was financed with highly speculative capital inflows coming from a short-term capital market which was investing in short-term instruments in an “emerging market,” how, when, and by whom did this addiction reappear?

The addict is Fobaproa. To bail out the commercial banks, this agency took in short-term capital, at high interest rates, and of questionable origins. And the person who ran Fobaproa was none other than Miguel Mancera Aguayo, who resigned as governor of the Banco de México on Dec. 31, 1997.

When the federal government, by virtue of the “Asset Recovery Law,” declared itself the sole debtor, it was simply recognizing that it will pay the bill for an operation similar to that of the Tesobonos of 1994. This is the legacy which Miguel Mancera Aguayo has left his prize pupil, Ernesto Zedillo.



# Peru's banking system faces imminent crash

by Manuel Hidalgo

Peru is poised on the verge of a generalized bankruptcy of its national banking system, the result of incompetent hyperinflationary policies which were adopted following the Asian eruption of the global financial crisis last fall.

During the first quarter of 1998, one could observe "the gestation of a crisis in the financial system," due to huge short-term private foreign debt and the recession, just as occurred in Chile in 1982, explained the Lima magazine *Sí* of March 30. Economists interviewed by *Sí* warned that the short-term foreign debt of Peru's private banks had reached \$3.2 billion as of Feb. 22, or 150% of the capital of the domestic banking system. The short-term debt of one bank, *Sí* says—implying that it could be Wiese Bank, the country's second largest—is 300-400% of its total capital! *Sí* warns that the bank in question reported fourth-quarter 1997 losses, and reduced its profits last year by 23%, compared to 1996.

This is a formula for insolvency, because a major devaluation of the sol, the Peruvian currency, is highly likely during the second quarter. This means that the banks—which have indebted themselves in short-term dollars, while lending out long-term sols—will not be able to meet their foreign obligations. This payments "scissors" is precisely what happened to Mexico's banks in December 1994, which led to the bankruptcy of approximately 75% of that national banking system.

The case of Wiese Bank is not an isolated one, since, according to *Sí*, there is a significant number of banks which "have either suffered losses, or have substantially reduced their profits at the close of 1997, and this tendency has apparently increased in the first 45 days of this year," a period in which the delinquency (non-payment on loans) index rose by 29%. Delinquency, not counting hidden non-performance, is approximately 6%, and it is expected that it will rise another three points, or \$400 million.

One sign of the times is the practice of buying up non-performing loan portfolios, a form of "grave-robbing." Economist Juan José Marthans explained that certain banks "are negotiating problem portfolios; some of them are selling problem portfolios to their subsidiaries, as a way of underestimating the delinquency problems they actually have. Others still have the luxury of buying up problem portfolios from other commercial banks. . . . This strikes me as horrible."

On March 25, the bankers met with Peru's Bank and Secu-

rities Superintendent (SBS), to ask—in vain—for a suspension of new higher reserve requirements for bad debts and publication of risk classification. On March 31, the new requirements went into effect and, according to *Sí*, one-third of Peru's 25 domestic banks will face serious difficulties as a result.

## More foreign takeovers

According to *Sí*, the crisis means that "a large part of the system" is going to collapse, and will be "concentrated in a few hands, which will not exactly be Peruvian." In late March, the press announced that four local banks—including Wiese—are seeking a buyer, that is, a majority, or "strategic," partner. Among the most talked-about buyers are Banco Santander (which could become the country's number-one bank, if it buys out Wiese), Sudameris, and HSBC-Banco Central Hispano. The managing director of the Spanish Banco Bilbao Vizcaya in Peru announced that the process of "natural selection" would last less than three years.

The combination of the banking crisis, deterioration in the current-accounts deficit, and devaluation could melt down the system. This year, Peru is expecting the largest current-account deficit in its history, according to the Association of Exporters, and the largest in proportion to GNP in the region. Former central bank president Julio Velarde estimates that the current account deficit will run 8% of GNP, more than Mexico's 7% in 1994. This is due in large part to the collapse in price of Peru's leading mineral exports (copper fell 28.1%, zinc 27.5%, lead 16.9%), and to reduced export production and reduced domestic consumption in fish, agriculture, and industry, because of the destruction wrought by El Niño.

In January, the trade deficit grew 61.6%, and in the first two months of the year, exports plummeted 28%. The collapse of minerals prices has forced the postponement or cancellation of various "mining megaprojects," which were to have provided a flow of capital, and later of foreign exchange, to balance the current-account deficit.

Although Peru has not suffered devaluations like those of Chile (which has already devalued up to 12%) and Ecuador (which recently devalued 7.5%, because of the fall in oil prices), the sol has experienced a 7% devaluation since the "Asian crisis" began, and faced a critical moment in late February when a run on the sol by certain banks threatened to unleash further devaluation. The danger was halted only after the central bank backed the sol with tens of millions of dollars, while drastically cutting liquidity in sols, at the cost of accentuating the recession. The banks made futures contracts on the dollar, to the tune of \$400 million in March alone, compared with an average of \$180-280 million per month during 1997. A devaluation would be a death warrant for many banks, since the banking system has 75% of its holdings in dollars, and a large part of its borrowers have their income in sols. The "exchange risk" has thus become a "banking risk."

# Opposition grows against privatizing Banco de la Nación in Argentina

by Gerardo Terán Canal and Gonzalo Huertas

Over the past three years, the International Monetary Fund has been demanding that the Argentine government privatize the state-owned Banco de la Nación Argentina (BNA). While the Menem government has so far gone along with the IMF demand, opposition to the plan is growing.

With 12% of total assets of the national banking system, BNA is the largest bank in the country. Its privatization, probably by a group of foreign financiers, would add to the 53% of national banking assets already owned by foreign banks at the end of 1997, putting 65% of Argentina's financial community under foreign control. Heading the list of foreign banks lying in wait for BNA is the London-based Hongkong & Shanghai Banking Corp., the flagship bank of Dope, Inc.

Thus, the privatization of BNA would mark a point of no return for the hand-over of Argentina to British financial interests. It would be like shutting down the circulatory system of an already ill person.

The significance of such a sell-off, however, cannot be reduced to a matter of numbers and percentages. BNA was founded on Dec. 1, 1891, on the initiative of President Carlos Pellegrini and his Finance Minister, Prof. Vicente Fidel López. According to its founder, BNA was created to protect the nation's agricultural and industrial sectors. The threat, Pellegrini said in 1876, in a speech before the National Chamber of Deputies, is free trade. "Free trade kills nascent industry; every country should develop its national industry," he said.

As Estebán Takacs, the director of the Studies Institute of the Argentine Rural Society, recently told the Buenos Aires newspaper *La Nación*, BNA "has long accompanied the expansion of the agricultural frontier. This expansion continues today, and our country is one of the few in the world which still has vast areas of land suitable for agriculture, with significant potential for the development of new irrigation projects.

"In this growth process with major regional impact, the bank — with all its successes and failures — has played a relevant role. The eventual privatization of the Banco de la Nación raises the first major question: how to replace a function that continues in effect?

"Unlike other privatized agencies, the Banco de la Nación doesn't show losses in its balance. It is nearly certain that a modernization and restructuring program for the bank could improve its results, but privatization does not appear as an indispensable alternative at the present time. Still less so,

taking into account that one doesn't hear any consistent proposals offering guarantees that its primary functions, as established in its constitution, can be carried out by some other mechanism."

## Government and pirates agree

To date, Argentina President Carlos Menem and his government have been quite disposed to carrying out the IMF's demand. On Nov. 7, 1997, through a press release issued by Economics Minister Roque Fernández, an official decision was announced regarding BNA's privatization, for which the government hopes to collect \$3.5 billion.

As Rene Bonetto, president of the Argentine Agrarian Federation, told *La Nación*, "for the economic team, the national credit institute is one of grandmother's last jewels, which will enable it to continue meeting its accounts for a while longer."

The minister's press release called on "prestigious investment banks to present proposals and strategies for the privatization of the Banco de la Nación Argentina." Financial sharks, including Merrill Lynch, First Boston, Lehman Brothers, Goldman Sachs, and Deutsche Morgan Grenfell, offered to advise the government, and the Argentine Banking Association issued a statement backing the government's privatization proposal.

The Argentine Businessmen's Council also called on Menem on Jan. 14 to carry out BNA's privatization this year, to "show the international and national community, and the world financial sector, that Argentina continues to move ahead by deepening the model." Among these businessmen was Santiago Soldati, the friend and partner of Marc Rich, a fugitive under indictment in the United States and a dealer in the world's precious metals markets; former Economics Minister José Martínez de Hoz; and George Soros's representative in Argentina, Eduardo Elsztein.

Days later, according to *La Nación*, Minister Fernández used these businessmen's argument to pressure Menem to "accelerate the privatization of Banco de la Nación." On Fernández's orders, the BNA's directors met with agricultural producers' associations to examine the state of affairs of that sector's debt arrears, which on June 30, 1997 represented 40-50% of the bank's portfolio.

The announcement of the privatization has created an op-

position that, since the Convertibility Plan was launched in 1991, is without precedent. Even sectors which had unconditionally supported the Menem government in its denationalization programs, have made public their vehement opposition to the privatization of BNA.

On Nov. 7 of last year, Enrique Crotto, president of the Argentine Rural Society, which represents the country's 10,000 most powerful agricultural producers, declared that "there is no need" for the privatization. "I may be liberal, but I'm not stupid. . . . The first reflex would be a several-point rise in the interest rate." Crotto said that "the countryside would be without aid," because "there does not exist another structure in the entire country that contributes to the regional and demographic balance, as does BNA."

Another unconditional backer of Convertibility, the General Economic Confederation of the Argentine Republic, also issued a communiqué last Nov. 12, in "opposition to the initiative to privatize the Banco de la Nación, since its role is to encourage productive activities and to support the business class in various regions of the country."

At the same time, the Banking Association (which represents all employees of the Argentine financial system) has begun a national campaign to gather 1 million signatures in opposition to BNA's privatization.

In the first week of April of this year, a group of Congressmen from the Justicialist Party presented the National Congress with a resolution calling on the Executive branch "to abstain from any procedure tending to privatize the Banco de la Nación."

### **The point of no return**

Should the Banco de la Nación be privatized, the very next day would see the passage into foreign hands of 11,573,956 hectares of highly productive land which had been mortgaged by BNA and whose debts were overdue. As an internal report of the BNA confirms, this represents 6.56% of the total land suitable for agricultural production. It does not include all the small and medium-sized businesses which are indebted to BNA throughout the country.

In an article for the March edition of the magazine *Coyuntura y Desarrollo*, of the Foundation for Development Studies, Horacio Delguy accurately described this process, when he wrote that agricultural Argentina is "submerged in a process of bankruptcies, rural exodus, hyper-unemployment, vast foreign and internal indebtedness in foreign currencies, and, above all, [is] a victim of the denationalization of the public and private patrimony of all Argentines."

He said, "This means a violent transfer of assets that places us on a still more difficult path than the one already travelled. Not only because of material losses suffered, but because of distorted . . . ethical and moral values throughout society . . . [which] have enabled a minority of Argentines to apply the current economic model with social and political impunity."

## **Argentina's BNA: a symbol of hope**

by Cynthia R. Rush

If the great patriot Carlos Pellegrini were alive in today's Argentina, he would, in his characteristically polemical style, have a thing or two to say to President Carlos Menem about the latter's plans to privatize the Banco de la Nación Argentina (BNA, the Bank of the Argentine Nation), not to mention what Menem has already handed over to British-controlled financial interests, in pursuit of the alleged benefits of globalization.

As President (1890-92), economic nationalist Pellegrini founded BNA as a *national* bank, to finance internal development and guarantee issuance of cheap credit to productive enterprises of all types and sizes. He did so with the knowledge that precisely this type of institution, as conceived by Alexander Hamilton in the United States, had been central to U.S. industrial development. As he proudly told one of his collaborators, "Today we have founded a bank with Argentine capital!"

The BNA opened its doors in December 1891, during a period of intense anti-British ferment in Argentina, encouraged by Pellegrini's decision to defend national sovereignty and put an end to British control of the country's finances and internal politics which dated back to before Argentina's independence from Spain. Pellegrini's actions during his Presidency caused such apoplexy in London, that the British considered military intervention to protect their usurious activities.

At the bank's inaugural ceremony, Pellegrini told its new directors: "This bank was founded solely to serve industry and trade, and you well know their needs and are capable of meeting them. If there were any recommendation I would make to you, it would be to favor a group which to date hasn't received much attention from banking establishments but is nonetheless, worthy of greater interest. I'm speaking of the small industrialists. The real industry of a new country is what is born within it, grows and develops through intelligence and perseverance, adapts to the environment in which it lives, and each day acquires new experiences which invigorate it."

Who was Carlos Pellegrini? Where did he come from? What allowed him to challenge the iron grip which Britain had had on every aspect of Argentina's economy? With only a few exceptions, almost all historians who have studied

this period of Argentine history insist that there never was “a protectionist school” in Argentina, which conspired to apply the same policies which had allowed the United States to become a great industrial power.

### **Not simple nationalism**

Not true. Pellegrini functioned as part of a group organized and led by Vicente Fidel López, the historian and economist who served as his Finance Minister during 1890-91, but whose career dates back to the early 1850s when he was Foreign Minister of the Argentine Confederation led by the anti-British Juan Manuel de Rosas. During the 1860s, López taught economics, first in exile in Montevideo and later in Buenos Aires, to students who would become prominent advocates of American System economics. His group was steeped in the writings of Abraham Lincoln’s economic adviser Henry C. Carey, the German-American Friedrich List, and France’s Jean Baptiste Colbert. Its members saw the United States as the model Argentina must follow to attain national economic independence and guarantee the well-being of its people.

One of López’s students, Aditardo Heredia, later wrote his doctoral thesis on “The Protectionist System of Political Economy” (1878). In his work *Carlos Pellegrini, Industrialist*, former President of Argentina (1958-62) the late Dr. Arturo Frondizi described Heredia’s thesis as “one of the most detailed studies on the economic development of the United States.” Heredia concluded that “the only way to create the capital a country needs to attain a high level of economic development is through protection of national industry.”

The López group was particularly active in the mid-1870s, coinciding with the efforts of the Carey-led nationalists in the United States and their allies internationally to consolidate the institution of the sovereign nation-state *across the globe*, through industrial and infrastructural, especially railroad development (see *EIR*, May 2, 1997).

In August 1876, López and his students, among them 27-year-old Congressmen Carlos Pellegrini, Miguel Cané, Figueroa Alcorta, and others of the group, led the fight in Argentina’s Congress on behalf of a customs law to protect national production. In the Aug. 21 session, López said: “I know of no doctrine more hateful and merciless than free trade, applied in new countries which, like ours, are agricultural and possessed of only rudimentary labor. [Free trade] is merciless and hateful, and its own distinguished defenders arrive at terrible, if not wicked, conclusions against those nations at a lower level of production relative to European ones, which have been strengthened by centuries of protection for their labor and industry.”

In the same sessions, Pellegrini argued:

“Where is the country in the world which has become great and powerful, being only agricultural? I think it would be very difficult to find. . . . Today, America is nothing but

England’s farm; England is the factory of the world. . . . Studying the Republic of Argentina’s economic situation, and concerned for its future, I sincerely believe it is mandatory that we change our customs system and try to protect our industry.”

During his Presidency, which was a time of great financial turbulence in which Argentina’s biggest creditor, Barings Bank, went under, Pellegrini vigorously protected national production. He encouraged the development of regional industries, and by the end of 1891, had reduced British imports by 48%. He restricted luxury imports, but lowered tariffs on machinery and capital goods required for the incipient industrialization process. He had frequent run-ins with Britain’s Foreign Secretary, Lord Salisbury, over his policy of taxing British banks, utilities, and insurance companies, and his refusal to grant new concessions to British railroad companies. Popular hatred of British usury was such that rowdy demonstrations in front of British banks and companies were commonplace.

### **An international conspiracy**

Ongoing research by *EIR* suggests that the López-Pellegrini group was part of the international republican effort to smash the bestial system of British free trade once and for all—although by the time of Pellegrini’s Presidency, and definitely by the turn of the century, these forces had been greatly weakened. What remains to be discovered is how pro-American-System groupings which existed during this period in Brazil, Chile, Colombia, Peru, Mexico, and elsewhere, coordinated or corresponded with each other, and with Carey and his followers directly.

That they did correspond is seen in Pellegrini’s defense of his “old friend” José Manuel Balmaceda, President of Chile (1886-91), who was overthrown in the 1891 British-orchestrated “civil war” because he defied London’s control of the economy, and proposed nation-building instead. While U.S. Secretary of State James G. Blaine backed Balmaceda, Pellegrini provided weapons and supplies to the beleaguered Chilean President’s troops. There is also evidence which suggests that Pellegrini considered a U.S.-Argentine alliance, not only to defend Balmaceda, but to lead Ibero-America into an era of industrial prosperity under a republican system.

In the years after 1892, Pellegrini’s understanding of the American System of political economy matured. In a 1904 trip to the United States, he marvelled at the “healthy, vigorous and robust” state of U.S. industry, especially the railroads. In his “Letters from North America,” he wrote that industry, “like everything that is born and grows, is born weak and helpless unable to defend itself against powerful competitors. But then comes protection, and under its saving shield, new industries develop, and in a favorable environment, they acquire that colossal importance which is today the power and pride of the United States.”

## Citicorp-Travelers merger is illegal

*The banks are acting as if they are above the law, and regulators like the Fed's Alan Greenspan agree.*

**O**n April 6, Citicorp Chairman John Reed and Travelers Group Chairman Sanford Weill held a press conference in New York, to announce their intent to violate Federal law by merging their two institutions into a new company, to be known as Citigroup.

Citicorp is the nation's second-largest commercial bank, with assets of \$311 billion, while Travelers has assets of \$387 billion. In addition to its insurance business, Travelers owns Salomon Smith Barney, the giant investment bank and securities firm (Travelers bought Salomon, the parent of Salomon Brothers, in 1997). The combined firm would be the largest financial firm in the world, with assets of nearly \$700 billion.

Under the Banking Act of 1933 (commonly known as Glass-Steagall) and the Bank Holding Company Act of 1956, it is illegal for a single institution to operate a commercial bank, a securities firm, and an insurance company. The new Citigroup would unquestionably violate both the spirit and the letter of these laws, and the announcement of the intent to violate these laws would, by itself, qualify as a criminal conspiracy under Federal conspiracy laws.

Even the *New York Times*, which favors the merger, was forced to admit that Glass-Steagall and the Bank Holding Company Act "were put in place precisely to prevent the creation of the type of company Travelers and Citicorp now aim to put together."

But don't hold your breath waiting for the law to be enforced. The regulators are not interested in enforcing the

law — in fact, they are actively helping the banks break it.

Take Federal Reserve Chairman Alan Greenspan, for example. Greenspan has been telling anyone who would listen over the recent period, that the Glass-Steagall and related restrictions on banking are "outmoded," and should be replaced. In a recent letter to House Banking Committee Chairman Jim Leach (R-Iowa), Greenspan endorsed the repeal of what he termed "the increasingly antiquated laws that constrain the development and competitiveness of our financial system."

Greenspan and the Fed have been doing more than just talking; over the last decade, the Fed, which regulates bank holding companies, has been systematically undercutting Glass-Steagall, by allowing banks to deal in ever-increasing amounts of securities. The Fed claims that "loopholes" in the law enable them to do this legally, but it is clear that the real "loophole," in the view of the Fed, is that the Fed and the banks it regulates are above the law, and that the rules are whatever the Fed and the banks say they are.

The attitude is much the same in Congress, where the current leaders of the House and Senate banking committees fall all over themselves to give the financiers what they want, whether prohibited by law or not.

Responding to the Travelers-Citicorp announcement, Senate Banking Committee Chairman Alfonse D'Amato (R-N.Y.) said that "financial regulation reform" is "absolutely essential. This merger demonstrates that

the marketplace will do what it has to."

"This merger underscores the need for prompt Congressional action on financial services legislation to assure that America's competitive position abroad is enhanced," said the House Banking Committee's Leach.

The Congress has repeatedly attempted to repeal the laws prohibiting mergers between commercial banks, securities firms, and insurers, but all the attempts have failed due to turf wars—meaning who gets to eat whom—among the three sectors. The latest attempt, Leach's H.R. 10, was pulled from the House floor on March 31, due to heavy opposition by the American Bankers Association, which felt that the bill didn't provide the commercial banks with sufficient advantage over the insurance companies.

None of this has anything to do with "financial modernization" or "easing regulatory burdens," or any of the other arguments most often advanced for letting the banks do whatever they want to do. The big banks, which are the ones pushing hardest for deregulation, haven't been banks for a long time; they are gamblers, who are demanding that governments capitulate to the demands of the giant global casino, putting the welfare of the gamblers ahead of the welfare of the nations and their people.

The complete capitulation of the regulators to the Travelers-Citicorp merger, is a warning shot across the bow of U.S. national sovereignty. The issue is not over whether the laws of the 1930s should still apply—that fight was lost long ago—but whether nations should rule the markets, or the markets should dictate to nations, and whether the welfare of the population is more important than the welfare of the financial oligarchy. Banks are a necessary part of an economy, but only when they serve the interests of the nation.

# Business Briefs

## Policy

### IMF's new 'openness' doesn't extend to EIR

The International Monetary Fund's (IMF) concern for "democracy" and "openness," which it uses as weapons against developing nations to force compliance with its disastrous conditionalities policies, apparently doesn't extend to *EIR*.

In a speech at the National Press Club in Washington on April 2, IMF Managing Director Michel Camdessus said that the IMF is going to become less secretive and more "transparent," at a time when it is demanding greater "transparency" from the nations subject to its "monitoring." However, when asked by *EIR*'s William Jones if the new "openness" would mean that the IMF would no longer ban *EIR* from covering its meetings, he said, "Such matters belong in the domain of the IMF Information Director."

IMF Information Director Graham Newman had told Jones three years ago, when he threw Jones out of an IMF meeting after Jones had been duly registered, that the IMF and the World Bank had taken a decision that no publications associated with Lyndon LaRouche would be allowed to cover their annual meetings.

## Nuclear Energy

### Overwhelming majority of Germans reject shutdown

The majority of Germans believe that shutting down nuclear power plants would lead to higher energy prices, increased electricity imports, and bottlenecks in energy supply, and 81% agree that existing nuclear plants should continue in operation or be expanded with new reactors. In 1991, the comparable number was 64%.

The results were from an annual poll by the Allensbach agency commissioned by the Information Nuclear Energy Circle, and reported in the German engineering weekly *VDI-Nachrichten*. According to the poll, only 5% of the population expect that Ger-

many would entirely abandon its nuclear capacities and shut down all nuclear power plants. The percentage of the population who strictly oppose the use of nuclear technology has dropped toward 22%, the lowest figure since 1990.

Asked whether the existing nuclear reactors should be replaced by modern nuclear power plants, 36% agreed. On nuclear waste disposal, 68% favor reprocessing and disposal of nuclear waste from German reactors inside Germany, instead of exporting nuclear waste. Only 17% want other nations to deal with German nuclear waste.

## Economic Policy

### Blair's Britain is no model for Germany

The German daily *Süddeutsche Zeitung* warned Social Democratic Chancellor candidate Gerhard Schroeder that Britain, whose people are being plunged into poverty, should not be a model for Germany. In a commentary on March 28, titled "Learning from New Labour?" the daily says that Prime Minister Tony Blair's policies, including "implementation of flexible labor markets, consequent privatization, from water supply to pensions, [and] making the unions completely powerless," are, "in the end, producing a new army of working poor, albeit with low levels of unemployment."

The daily gives an overview of the "success" of British privatization. As "the newly created quasi-monopolies" are showing their "greed for profit," basic infrastructure is collapsing. For example, "The privatization of railway lines has caused rail chaos. . . . Rail lines, as well as signals, are in a condition that is worrisome."

Similarly, tens of thousands of people have written complaints about the natural gas supply. Many households are still cut off from the electrical power grid, following damage during the winter, while power companies have fired thousands of workers in order "to become more efficient." Private water supply companies have lowered the water pressure such that firemen can no longer fight fires in taller buildings, but the pressure can't be increased, because the water mains

are so corroded that daily water losses would surpass the legal limit — 30% of the water of the private British companies is lost to leaks in the water mains. The government had allowed the firms to double water prices, which they have done, in order to modernize infrastructure, which they have not.

Also, the daily pointed out, Britain has the lowest public pensions in all Europe, but Blair wants to cut them even more. He wants to force more than 12 million people into private pension schemes. And, the destruction of trade union power has led to "looting and arbitrary acts," and has cut wages such that, today, 14 million British people live in poverty.

## Ibero-America

### Brittan tours Mercosur for political goals

Leon Brittan, first vice president of the European Union (EU), was scheduled (as we went to press) to tour Argentina, Uruguay, and Brazil, three of the four member countries of Mercosur, the Southern Cone Common Market, on April 13-16. The British political and trade offensive complements major takeovers throughout the region, in which they have replaced the United States as the largest investor in Ibero-America.

The British have made big moves to establish a "special relationship" with the Mercosur countries, especially Brazil, and boast that Britain can serve as their "bridge to the EU." But, fostering economic development is not the British intent. The Brits' Brittan, for example, was the EU representative who led the charge to sabotage the Eurasian Land-Bridge, at a conference in Beijing (see *EIR*, June 14, 1996).

The tour coincided with the Summit of the Americas in Santiago, where the major agenda item was to be the timetable for creation of the Free Trade Area of the Americas (FTAA). (Some countries, notably Brazil, disagree with the United States about the timetable for putting the FTAA into effect, arguing that they would prefer to consolidate Mercosur first.) Joel Fessaguet, the EU official who announced the tour, praised the FTAA initiative, saying that it would lead to

greater trade liberalization. The EU interest in the region, he said, "goes beyond the merely commercial, extending also to political objectives," in areas of technological exchange, the environment, culture, and science.

## Middle East

### Jordanians mobilize vs. IMF privatization

The Finance and Economics Committee in the Jordanian Parliament has presented a proposal to the government to develop a nationalization strategy, and is seeking to stop International Monetary Fund-dictated privatizations, at least in sectors which it considers strategic. These include industrial and mineral firms, specifically, the Jordan Phosphate Mines Co., and the Arab Potash Co., equity in which, the committee says, should not be sold to foreign groups. It is demanding that the government reconsider how much of the Jordan Telecommunications Co. it will sell, and wants education, health, and the energy sector to be excluded from privatization. One deputy, Mohammad Bani Hani, urged the government to declare the Jordan Cement Factories Co. and the Jordan Petroleum Refinery Co., "off limits" to foreign buyers.

The grounds given for the move to halt or limit privatizations are many: In addition to security considerations, there are concerns that Israeli businesses could move in under third-party covers; that service-sector privatizations would lead to price rises for services, further aggravating the economic crisis; that unemployment and poverty would increase; and that foreign interests would own land and estates.

In full vindication of the campaign by jailed Islamist opposition leader Laith Shubeilat against IMF policies, a recent report by the Minister of Social Development documents the devastation the IMF has wrought. The figures show that 1 million (of a population of 4.2 million) Jordanians are living in absolute poverty, i.e., they have to struggle for their daily bread. There has been a 50% increase in the number of people facing poverty since 1992, when the IMF's structural adjustment program was imposed.

Jordan has 25% unemployment.

Illiteracy and malnutrition are also on the rise. Only 20,000 handicapped (of 130,000) receive care, and only 42,320 orphans (of 80,000) receive money. The *Jordanian Times* has noted that if the government cannot provide subsidies and care, people in need go increasingly to religious charity organizations, such as those organized by Hamas.

## Russia

### Bankruptcy shows lack of 'national security'

The Scientific Research Institute of Radio Instrument Making, which for 40 years developed anti-ballistic missile technology defense systems, is no more, according to an article in the March 5-11 issue of the Moscow newspaper *Obshchaya Gazeta*. Entitled "A Blow to the Head: How a Principal Institute, the Creator of Russia's World-Famous Anti-Ballistic Missile System, Collapsed," the article by Anna Politkovskaya provides grim details on the effect that this has had on the scientists and engineers who had worked there.

Trouble started in November 1993, when Yegor Gaidar signed State Decree No. 1356, which turned the institute into a joint stock company. Although the workers balked, "calling the decision on privatization of ABM [technology] an historical mistake," the decree was implemented. The institute tried to find private orders, she relates, "but everything was in vain."

Although the Supreme Court of Arbitration of Russia agreed with the workers, the worsening lack of funding led to suits against the institute by workers whose wages were falling further and further behind. Through various schemes, fraud, and other machinations, the pro-privatizers left the institute essentially bankrupt. In the draft of the 1998 state budget, the institute is not even listed as a "line item." As Politkovskaya stated, "As soon as the budget is approved, the institute will lose everything. . . . Super-secret work is controlled in Russia by private capital. It is on a par with macaroni factories, cardboard manufacture, stores, and *kolkhoz* markets."

**INDIAN** Prime Minister Atal Bihari Vajpayee told the first assembly of the Global Environment Facility, that the lack of drinking water and poor sanitary conditions should be treated on a par with more highlighted ecological problems, such as global warming, the *Pioneer* reported on April 1. "Abject poverty and all that goes with it, is the worst blight on our planet's environment," he said.

**A HIGHWAY** that will link the Croatian cities of Dubrovnik and Zagreb, was contracted by Bechtel on April 3, the second anniversary of the death of U.S. Commerce Secretary Ron Brown and 34 business leaders who perished when their plane crashed into the St. John Mountain while trying to land at the Dubrovnik airport.

**RIOT TINTO**, the British oligarchy-run world's largest mining company, said in its latest annual report that it will focus on acquisitions, rather than new projects, the March 28-29 *Australian Financial Review* reported. Analysts estimate the firm has \$10 billion to spend.

**A NATIONAL SURVEY** of 500 general practitioners in Australia found that 53% knew of situations where patients have died or become disabled, because of dropping standards in the public health system.

**FRENCH** direct investment in Africa was more than 3.8 billion francs (about \$760 million) in 1996, compared to FF 1.3 billion in 1995, the Paris daily *Le Monde* reported on April 1. Most is in English-speaking countries, particularly South Africa.

**THE HEAVY EQUIPMENT** industry in the United States is being hit hard by the Asian crisis and cancellation of construction projects, the April 6 *Business Week* reported. The "gray market," in which barely used equipment is sold as low as 50% off list price, is expected, for example, to capture half of the excavator market in 1998.

## The principles of long-range forecasting

by Lyndon H. LaRouche, Jr.

April 1, 1998

During recent years, I have repeatedly defined a “New Bretton Woods” reform of international financial and monetary institutions. In a presentation to a March 18, 1998 seminar, held in Washington, D.C., I summarized that package of proposals once again, situating the package in the setting of the current series of global, financial, and monetary crises.<sup>1</sup> In this present report, the presentation of the hitherto almost unknown principles of long-range forecasting, is preceded by situating that topic, and its importance, within the relevant features of the presently ongoing, systemic breakdown of the world’s financial and monetary institutions.

During the 1992-1994 interval, the downward-bent, currently ongoing economic process, which has been engendered by nearly thirty years of increasingly bad policy-shaping, had entered its terminal boundary layer.<sup>2</sup> Since this 1992-1994

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1. A transcript of the March 18 address is published as Lyndon H. LaRouche, Jr., “Toward A New Bretton Woods,” *Executive Intelligence Review*, March 27, 1998. A “ninety-minute” video edition of the actual March 18 address has been published.

2. See, the author’s 1992 Democratic Presidential campaign address on the subject of “The Great Mudslide,” broadcast under the title, “The Man George Bush Fears the Most,” on the ABC-TV network, on Feb. 1, 1992. (Reported in Brian Lantz, “LaRouche on TV: Voters Listened to the Wrong People!” *Executive Intelligence Review*, Feb. 14, 1992.) The quality of “boundary layer,” is typified by its characteristic, geometrically increasing turbulence, producing periodic shocks, all leading into a region of discontinuity. There are significant similarities to what Bernhard Riemann defines as the entry of a continuously accelerated projectile, within a tube of indefinite length, into the transsonic region [Bernhard Riemann, *Über die Fortpflanzung ebener Luftwellen von endlicher Schwingungsweite*, “On The Propagation of Plane Air Waves of Finite Magnitude,” *Bernhard Riemanns gesammelte mathematische Werke*, H. Weber, ed. (New York: Dover Publications reprint, 1953)]. At that latter point, efforts to continue the system beyond that discontinuity, result in either a hyperinflationary, or hyperdeflationary chain-reaction mode of disintegration of the entire system. The 1921-1923, hyperinflationary efforts of Germany to meet the Versailles conditionalities, are an example of such a boundary layer.



FIGURE 1

**A typical collapse function**

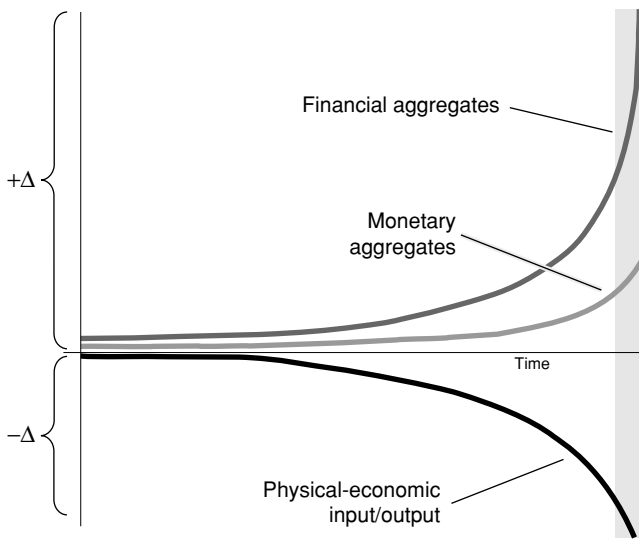
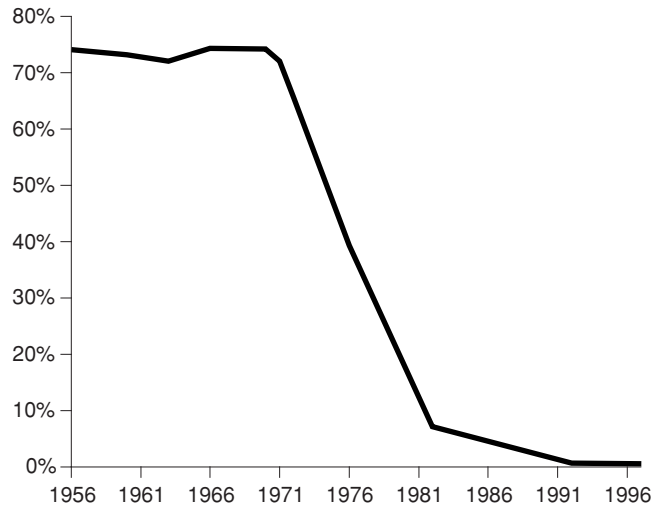


FIGURE 2

**U.S. import-export trade as percentile of foreign exchange turnover**



phase-shift in that process, the plunge toward the already impending death of the present system, has been neither reversed, nor moderated, but, rather, significantly worsened, by every effort of governments and international financial authorities, to deny, or to avert the onrushing, general financial catastrophe.

**The ‘Triple Curve,’ again**

The author’s familiar triple curve (Figure 1) identifies that 1966-1997 process which has led into the planet-wide, systemic financial and monetary crisis of October 1997-January 1998. The relevant features of that Figure are summarily described as follows.

A reversal of the direction of post-World War II policy-shaping, which began during 1964-1968, underlay the British sterling crisis of Autumn 1967, and the immediately ensuing U.S. dollar crises of the first quarter of 1968. In the U.S. case, policies motivated by “post-industrial utopian” ideologies, were initially introduced into actual U.S. government economic practice during 1966-1967, with an immediate, resulting decrease in the net rate of physical-economic growth in the U.S.A. By 1970-1971, the net growth of the U.S. economy, as measured in physical-economic terms, reached a net-zero balance, between increase of output and acceleration of attritional effects. With the introduction of the “floating-exchange-rate” monetary system, in 1971-1972, the U.S. econ-

omy, as measured in physical-economic terms,<sup>3</sup> has enjoyed a rate of annual contraction of more than 2% each year, to the present date.

Coinciding with that zero-balance which the U.S. economy reached in 1970-1971, the world’s financial and monetary system underwent a fundamental phase-change in its functional characteristics. This change is reflected most simply in the decline of the percentile of total foreign-exchange turnover attributable to combined imports and exports. In the U.S., for example (Figure 2), in the 1970s through 1990s to date, this disastrous change, to a “floating-exchange-rate monetary system,” was reflected in the new trend, worldwide, toward moving financial investment out of infrastructure, production, and trade, into pure financial and monetary speculation. In the new, post-August 1971, global regime, the greatest portion of financial investment moved into domains ever more remote from the real economy: Petrodollars, junk bonds, and derivatives.

Taking the 1966-1971 and 1972-1997 intervals as one, we have the “Triple Curve” presented in Figure 1. Beginning 1966, expansion of both monetary growth (e.g., M3) and financial aggregates, moves upward, in terms of physical-economic measurements, relative to a decline in total investment (infrastructure, capital, labor, etc.) in real production and physical distribution of goods.<sup>4</sup> It becomes increasingly clear,

The present impact of both IMF and “Maastricht” conditionalities, is of the same species of folly as the 1921-1923 Germany hyperinflation.

3. E.g., Lyndon H. LaRouche, Jr., *So, You Wish to Learn All About Economics?* 2nd ed. (Washington, D.C.: Executive Intelligence Review, 1996).

4. I.e., as measured in physical-economic terms. See LaRouche, op. cit. The Triple Curve is constructed as follows. First, the combined (household,

from 1967-1968 onwards, that continued net nominal (financial) growth, is obtained chiefly through expanding monetary aggregate, at the expense of looting of the total historical investment in the productive sectors. The increase of financial aggregates becomes increasingly dependent on nominal (fictitious) financial capital gains, the which, in turn, reflect, not production, but the increasingly complex relations between compounded appreciations which are based on nominal price-earnings ratios, and increase of monetary aggregates. Thus, the changes in curvature among the three depicted curves, are not statistical, but functional in nature. The function thus portrayed, is the “medical” chart showing that the patient is a dying, self-doomed system.

The combination of “bail-out” and increasingly savage, anti-human, austerity measures, imposed by governments and financial institutions, has had the net effect of being financially inflationary, in the sense of the similar 1921-1923 developments in Weimar Germany (Figure 3). The result of these putatively stop-gap efforts, has been to increase, rather than moderate, the intensity of the forces which underlie, and determine the outbreaks of successive storms of crisis on the surface. These measures have wasted large masses of the pre-existing, real capital assets, which were better expended in the economic-recovery efforts of a new system, to replace the presently doomed one.

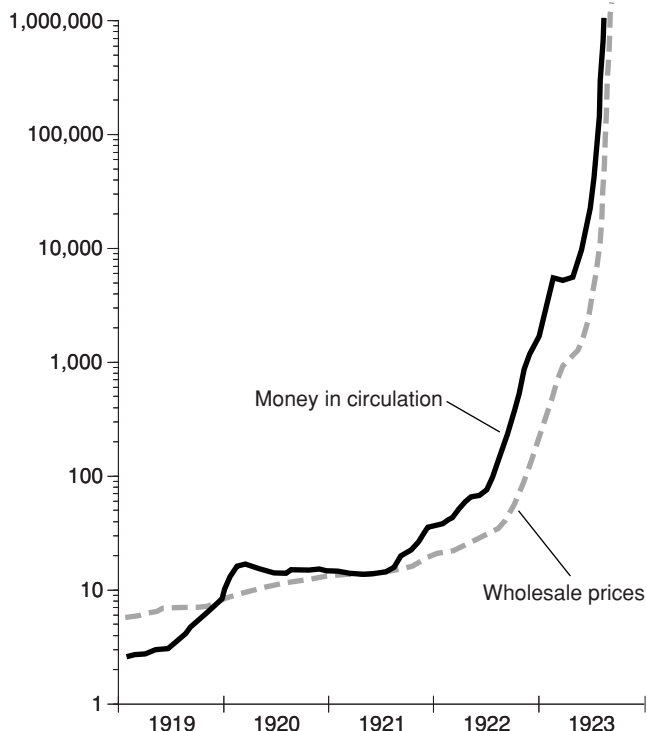
Typical are the net results of what were presumed to be those stop-gap measures adopted during the 1995 Halifax monetary conference. Those measures were intended to delay the plunge into what was, in fact, the then-already looming, financial-derivatives-driven end-phase of the system. The intent was to delay what was in fact the inevitable, to a time beyond the relevant 1996 elections.<sup>5</sup> These measures post-

poned the onset of the next round of crisis on the surface; but, they also made the later crises, striking us during late 1997 and 1998, more rapid, and far more severe than would have been the case, had the necessary radical changes not been postponed, by the misguided decisions of the Halifax conference.

production, infrastructure) market-basket, per capita of total available labor-force, of combined physical, education, science, and health costs, of present and prior intervals, are compared in physical, not monetary terms. The relative upward, or downward direction of per-capita changes in net physical output, is measured, first, in physical market-basket terms, not money-prices. The result of that comparison is plotted (i.e., the lowest among the three curves in the figure). In order to compare current physical output with monetary developments, the physical output is equated to current money prices of the per-capita market-basket constituents. Thus, the relationship between the lowest of the three curves and the scale of monetary turnover (e.g., M3) is measured. Finally, the price of the current volume of total financial aggregates outstanding is added: the top-most of the three curves.

5. From the period of the Halifax conference, see William Jones, “Clinton Puts Financial Reform on International Agenda,” *Executive Intelligence Review*, June 23, 1995. Jones wrote that the “reform” mechanisms specified in the Halifax communiqué “are useless to manage the global financial disintegration now under way—an impossible task.” Among recent discussions of the Halifax decisions, see U.S. Treasury Secretary Robert Rubin’s press briefing of Feb. 19, 1998, where he discussed a “new financial architecture”: “Even as we address today’s financial instability in Asia, the G-7 will also focus on efforts to reform the international financial architecture to better prevent crises in the future and to better manage them when they occur. We in the United States have been focussed on this for quite some time. As you may remember, the President took the leadership with respect to what became known as the Halifax initiatives. And more recently, over quite some number

FIGURE 3  
Germany and hyperinflation, 1921-23  
(index 1913 = 1)



Source: Knut Borchardt, “Wachstum und Wechsellagen 1914-1970,” in Hermann Aubin and Wolfgang Zorn (eds.), *Handbuch der deutschen Wirtschafts- und Sozialgeschichte*, Stuttgart: Klett, 1976, vol. 2, p. 699.

poned the onset of the next round of crisis on the surface; but, they also made the later crises, striking us during late 1997 and 1998, more rapid, and far more severe than would have been the case, had the necessary radical changes not been postponed, by the misguided decisions of the Halifax conference.

There is a relevant, most urgent political lesson to be learned from such heretofore typical, recent decades’ failures of leadership among the G-7 and other governments. That failure of the Halifax meeting, while typical of the intellectual mediocrity pervasive among the recent crop of heads of government and leading political parties, must also remind historians of the folly of Germany’s “young Moltke,” who, in 1914, fled from the risk of obtaining an early and pre-assured military victory, by dissipating the concentration of resources essential to victory, into a fool’s errand, dispersing that con-

of months now, the Federal Reserve Board and Treasury have been working together on this question of architecture.” The issue is discussed in Michael Liebig, “Biggest Bailout in History Still Won’t Save World Economy,” *Executive Intelligence Review*, Jan. 23, 1998.

centration to levels below the critical level needed for the right-flank assault, for the silly purpose of seeking to minimize, needlessly, a wide assortment of relatively irrelevant varieties of risks.<sup>6</sup> Such behavior in the political command of today's nations, should remind us, fondly, of "Organizer of Victory" Lazare Carnot's successful replacement of such defective kinds of general officers by, in some notable instances, selected, more effective sergeants.<sup>7</sup>

The performance by the consensus among leaders at Halifax, would be described most charitably, by comparing it to a group of unemployed actors engaged in theatrical try-outs, competing for the role of Shakespeare's self-doomed Hamlet. Such is the shilly-shallying pragmatism of fearful political leaders, controlled by their desperate attempts to deny the fact, that the present world economy, like that of the U.S.A. and western Europe, in particular, has already collapsed far below the quality of thirty years ago, with doom not far ahead.

In fairness to the individual leaders who participated in that wretched consensus, in their capacity as individual personalities: that pathetic behavior of the group as a whole, reflects the qualities of performance sought in the selection of today's leaders. That defective mode of performance, is what selected leaders are strongly advised to adopt. See the image of Rembrandt's "Belshazzar's Feast"—such behavior of societies and their leaders, is characteristic of the self-doomed, presently existing political system of today's nations, and of the institutions of today's "global community." Such folly as exhibited at Halifax, is not the result of any randomly determined coincidence of bad leadership by particular officials. The folly represents nothing less than what is demanded of today's national leaders by the self-doomed, present political system at large. In any case, such cowardly zeal to deny the fearful evidence, is today's potentially fatal, tragic flaw, the leading source of danger to global civilization.<sup>8</sup>

6. On "young Moltke's" folly, see Andreas Ranke, "Schlieffen, Carnot, and the Theory of the Flank," *Executive Intelligence Review*, Feb. 6, 1998.

7. In 1792, Carnot was elected to the Legislative Assembly; after the Reign of Terror began in 1793, he was named to the Committee of Public Safety. He took all military operations under his control, for France's war against Austria, Prussia, and Britain. In 1793-1794, he formed a new, mass-based army; organized the military forces for total war; and concentrated his military efforts on attacking the English. See Dino de Paoli, "Lazare Carnot's Grand Strategy for Political Victory," *Executive Intelligence Review*, Sept. 20, 1996.

8. This type of denial is not an accidental, but, rather, a characteristic pathology of the "Baby Boomer" generation's heritage of university campus-based, mid-1960s youth counterculture. This pathology, concentrated within the influential university-student strata of the generations born after August 1939, has produced a radical form of cultural relativism, typified by the "Rainbow Coalition" phenomena, known as "politically correct" language and related codes of behavior. The essential characteristic of this cultural relativism, has infected the "New Age" strata within two succeeding generations. Notably, today's "political correctness" is copied, intact, from Nazi Propaganda Minister Josef Goebbels' *Gleichschaltung*, and also from the Communist parties of the U.S.A., and elsewhere, during the 1920s through

My definitions of the "Triple Curve" function, show the relevant internal dynamics of the present financial-monetary system: From this boundary layer, now, and already then, in 1995, the present global financial and monetary system, as it has evolved since 1967-1971, could never emerge alive from the passing of this century.<sup>9</sup>

With the onset of the forecasted, October 1997 outbreak, of a new phase of this systemic crisis of the international financial system as a whole, global financial conditions had become wildly turbulent. This evidence of qualitatively increased density, and global scope of turbulence, should be recognized as a reflection of the financial process's extreme nearness to the outer limits for continued existence of the entire, global system.<sup>10</sup>

### Beyond the 'Ides of March'

At the time my referenced March 18, 1998 Washington, D.C. address was delivered, the inevitable Ides of March had just been reached. The international system had just experienced the first burps of yet a new round of crises for the second quarter of 1998, a crisis far more turbulent, more intense, with wider, chain-reaction impact, globally, than that which had erupted during late October 1997.

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1960s. Spawned within such "Orwellian" regimes, this perversion now marches under the banner of the U.S. National Endowment for Democracy and kindred trade-styles. It is also characteristic of the code of "political correctness" specific to the neo-conservative yahoos of Speaker Newt Gingrich's following, and to the kindred neo-fascist currents, within the labor movement and elsewhere, of the present-day Lovestoneite tradition of the Communist International's so-called Right Opposition. Another, related, leading source of this type of "political correctness" in speech and related codes, has been the so-called "Frankfurt School," established for the explicitly adopted purpose of carrying out nihilist and Freudian-Marxist Georg Lukacs' corrosive program for destroying western European civilization from within. The essential characteristic of all varieties of political correctness, the programmatic outlook of the Rainbow Coalition included, is compulsively exegetical modes of sophistry, or, in short, lying with a fraudulent explanation. By this ruse, a calamitous, thirty-year decline in the U.S. real standard of living, is called progress; the exegetical fraud behind this outright lie (that the economy is fundamentally sound), is the sophistry, that, since the downward changes in real standard of living are correlatives of progress toward the paradise of "post-industrial society," we must judge today's conditions by "post-industrial," not real-life standards of performance. Such pathological behavior, in the service of "political correctness," should be recognized as an outgrowth of that dogma of cultural relativism, which denies the existence of those universal truths, upon which the U.S. Declaration of Independence and Federal Constitution were absolutely premised.

9. This schematic was introduced in the author's address to a conference of the International Caucus of Labor Committees and Schiller Institute in Eltville, Germany, on Dec. 2, 1995, and was published in *Executive Intelligence Review*, Jan. 1, 1996. See also the Presidential-candidate's address on Martin Luther King Day, published in *Executive Intelligence Review*, Feb. 2, 1996. For a more recent discussion of the elements of the figure and their interaction, see the author's speech to the ICLC-Schiller Institute conference in Arlington, Virginia, on Jan. 17, published in *Executive Intelligence Review*, Jan. 30, 1998.

10. Lyndon H. LaRouche, Jr., "What Economics Must Measure," *Executive Intelligence Review*, Nov. 28, 1997.

It is more than merely conceivable, that this new round of turbulence could detonate that chain-reaction collapse of the derivatives bubble, which would not only disintegrate virtually every central banking system of the planet, but produce that effect within as brief an interval as several panic-stricken days. A more cautious estimate would be, that this will be the penultimate shock, prior to the next round, when refusal to adopt the author's policies, would make virtually certain, that the world's economic system would plunge, like Mozart's guilty Don Giovanni, into the impatiently waiting abyss.

Acknowledge this to be the situation. Then, suppose, that the majority of today's shapers of economic policy, otherwise recognized as the political establishments' "free trade" and "globalization" fanatics, aided by the "young Moltkes" of 1998, were to succeed in preventing the early adoption of the kind of "New Bretton Woods" agenda which this writer has specified. In that case, the presently erupting, new, April-June resurgence of this crisis, will accelerate the present, terminal phase of the world's systemic, financial and monetary turbulence, thus bringing the world to, if not over the edge of a waiting abyss. That abyss is the imminent threat of a collapse of civilization into a "New Dark Age," similar to the Fourteenth Century "New Dark Age," but, this time, on a planetary scale.

Thus, during the second quarter of 1998, the world is, once again, experiencing an attempt, led by wild-eyed monetarists of the Mont Pelerin Society type, to meet yet another round of global financial-monetary crisis. Their Pavlovian response to each crisis, continues to be a combination of sundry hyperinflationary financial-monetary measures, with predatory extremes of austerity, and other tactics for "bailing-out" private financial institutions. A likely, new repetition of such habituated, morbid lunacy, if it were not prevented, would appear in the form of a maddened horde of political flagellants' stubborn repetition of the disastrously failed tactics, employed in response to the earlier, year-end "Asia crisis." The fabled, failed, doomed King Canute could not have been more pathetically tragic.

For a brief time, if only in the opinion of very gullible persons, such wildly desperate, blind-ideology-driven measures, like the doomed, hyperinflationary stock-exchange bubbles of February-March 1998, might succeed, like the eye of a hurricane, in moderating the surface turbulence of the present, April-June round of the crisis. Then, during that brief interval of relative calm, the world's great fools would agree to say, as they had done repeatedly earlier: "Let us pretend that the storm has passed. Let us pretend, that our system as a whole is 'basically sound.'"

In reality, contrary to such childish hysterical huddling of leaders in their mental fox-holes, this time, their actions themselves would push the global system to, or even over the edge of a virtually "thermonuclear" form of debacle, either as a Weimar Germany-type of hyperinflationary disintegra-

tion of the system, or reversed financial-leverage implosion of the world's \$140 trillions-plus financial bubble. Without the measures of reform I have proposed, the implosion of that bubble would plunge the world into a Fourteenth-Century-style "New Dark Age," this time on a planetary scale.

To repeat the crucial point presented in the March 18 address: If the world is to avoid such an impending, general collapse into a "New Dark Age," a leading group of sovereign nation-states, which might be otherwise known as "We, the Survivors," must act to initiate a sudden, and radical turn, even over the objections of any number among other nations: to adopt arrangements, best compared for similarities with the Bretton Woods rules of the 1950s period of post-war economic reconstruction. Without the virtually immediate adoption of those changes, in rules of monetary exchange, international finance, and trade, which I have therefore identified as the needed, "New Bretton Woods" measures, it is assured that the world would be plunged, very soon, into a planetary "New Dark Age."

As emphasized in that address: The sudden and radical, proposed measures of financial and monetary reform, are indispensable, but not sufficient by themselves.

The world requires a design for a new, stable, global financial and monetary order. The purpose of this, is to create the pre-conditions under which an immediate trend of physical-economic recovery is possible. Without such radical changes in the financial and monetary system, no physical recovery of the world's economy could be expected earlier than the middle of the Twenty-First Century.

That mid-Twenty-First-Century recovery, if it were to occur, would be preceded by an intervening period of, perhaps, two generations, a terrible period of deep demographic collapse through factors of famine and disease. The monstrous developments in Russia, since the end of 1991, including a stunningly precipitous demographic collapse, are a foretaste of the horrible fate which will grip all nations of this planet, should the indicated "New Bretton Woods" not be installed during the weeks and months immediately ahead. The rapid collapse of our planet's population, to the levels of no more than several hundred millions, is a plausible scenario under such conditions.<sup>11</sup>

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11. The case to study, for comparison, is what is termed Europe's collapse into a "New Dark Age" of the mid-Fourteenth Century. This was the result of approximately a hundred years of devolution of European civilization, following the death of the Holy Roman Empire's Frederick II, a degeneration of Europe, under Guelph League hegemony, which culminated in the inevitable collapse of the Europe-wide Lombard banking system of the mid-Fourteenth Century. During this period, approximately half the pre-existing parishes of Europe were wiped from the political map; during the terminal phase of this century-long moral, political, and economic degeneration of Europe, the population collapsed by no less than one-third. The repetition of such a terminal collapse of the present world financial and monetary system, would quickly reduce the "carrying capacity" of this planet, from over five billions, at present levels of practiced technology, to no better than a world population

To prevent this catastrophe, the indicated changes in financial and monetary rules are indispensable.

Although those specifications for new financial and monetary rules are indispensable, I do not suggest that such necessary changes, by themselves, will cure our problem. Like the great reconstruction of the 1946-1966 period, under old Bretton Woods rules, a good financial and monetary system itself, could not create a recovery spontaneously. Such a system does little more than create the pre-conditions under which it is possible to launch a sustainable form of economic recovery. The Bretton Woods conditions of the 1950s, did not cause the post-war economic recovery in Europe. The Bretton Woods rules of Harry Dexter White, et al., helped by the marginally crucial role played by the modest flow of Marshall Plan funds, contributed the conditions without which the economic-recovery programs of sovereign governments could not have succeeded as they did.<sup>12</sup>

So, the new rules, which my associates and I have presented for immediate adoption, are designed specifically to

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of several hundred millions, and that within a period of not more than approximately two generations. The world is not threatened by an "Armageddon," but, rather, something between the import of "Belshazzar's Feast" and the doom of Biblical Sodom and Gomorrah: the end of a culture which had willfully abandoned its moral fitness to survive.

12. Predominantly, the reform adopted at the war-time conference, held in Bretton Woods, New Hampshire's Mount Washington Hotel, was the product of the influence, reflected in President Franklin Roosevelt, of a group of U.S. historians and economists reflecting the tradition of Benjamin Franklin, Alexander Hamilton, Mathew Carey, Friedrich List, and Henry C. Carey. (See *Political Economy* feature, in *Executive Intelligence Review*, March 20, 1998.) While President Roosevelt lived, the new, post-war, international monetary system was intended to function as an integral part of Roosevelt's patriotic determination to eliminate all colonialism, and also the dominant influence of British economic liberalism, at the close of the war. With the death of Roosevelt, and the role of Stimson and others in inducing Harry Truman to order the effectively worse-than-useless nuclear bombing of Hiroshima and Nagasaki, the British and their co-thinkers were able to prevent Roosevelt's post-war "American Century" reforms, from being carried through as intended. The role of Harry Dexter White, as contrasted with the contrary influences of John Maynard Keynes, should be noted; these differences dominated the often contradictory tendencies within the post-Roosevelt functioning, 1946-1971, of that monetary system. Although Germany received a much smaller ration of Marshall Plan aid, per capita, than Britain or France, Germany's performance was vastly superior to either of those neighbors. The reason for Germany's superior financial performance over its neighbors, is centered in the U.S. government's acceptance of banker Hermann Abs' proposal for establishing a Franklin-Roosevelt-style institution, Germany's *Kreditanstalt für Wiederaufbau*. Additionally, however, it should be noted that the superiority of Germany's economy, over those of Britain and France, since 1876-77, is Germany's use of its world-leadership in science, then, as a driver for its copy of that 1861-1876 model of the American System of machine-tool-design-driven agro-industrial progress which had been launched, under U.S. President Abraham Lincoln, by the world's then leading economist, Henry C. Carey. As a result of the combination of this American model and the measures associated with the *Kreditanstalt für Wiederaufbau*, Germany did not tolerate the kind of waste of its Marshall Plan funds, which caused the inferior performance of Britain and France.

create the preconditions favorable for what is fairly described as a global, Franklin Roosevelt-style economic recovery.<sup>13</sup> The object of the design, is the fostering of large-scale, productive capital formation, permitting the successful use of new sources of credit, mobilized for this purpose by sovereign governments.

The world requires accelerating rates of new, real capital formation in agriculture and industry, with emphasis upon high rates of technological progress. However, such economic renewal would not be possible without the inclusion of a massive infrastructure-building program, planet-wide. Without that latter program, global economic recovery of per-capita physical output would not be sustainable, and, in many regions of the world, could not even begin. Nor would such an infrastructure-building program be possible, without the proposed "New Bretton Woods" financial and monetary reform, reversing supranational authorities' hitherto persisting nullification of those preconditions for freedom and democracy, which can be sustained only under the rule of technologically progressive, perfectly sovereign nation-state republics.

The world must be transformed immediately into a system of partnership among sovereign nation-states, as American System advocate Friedrich List laid the foundations for the modern European national economy, or, as President Charles de Gaulle envisaged such partnership among the perfectly sovereign nation-states, "from the Atlantic to the Urals."<sup>14</sup> Without that change, the needed high rates of physical-capital formation, could not be achieved and sustained. Without the proposed monetary reforms, re-establishing the sovereignty of nation-state republics, a viable economic recovery could not be organized.

### The lesson of Versailles

So, in its leading features, the presently needed "New Bretton Woods" must be viewed as a set of rules designed not

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13. The emphasis here, is Roosevelt's intended post-war measures: to end, immediately, all colonial systems; to terminate the domination of the world market by the British "Eighteenth-Century methods" of "liberal economics;" and, to make available to the liberated former colonies, as to the nations of Central and South America, the opportunity to participate in the economic methods and technologies of progress enjoyed by the United States itself. In short, what we supporters of the Non-Aligned Nations' effort, were pleased to identify as a "just new world economic order."

14. The "Europe from the Atlantic to the Urals," envisaged by President de Gaulle, has no congruence with the return to the political institutions of Europe's Middle Ages and the 1818-1848 "Thirty Years War:" the Maastricht agreements imposed upon continental Europe by such foaming-at-the-mouth, rabid German-haters as Britain's Prime Minister Margaret Thatcher and de Gaulle-hating French Socialist President François Mitterrand. These were the same pair which launched the post-1991 Balkans War, which like the Entente Cordiale's launching of the pre-World War I Balkan Wars, had the purpose of drawing Russia, Austria, and Germany into a war of mutual destruction, by aid of which Britain, assisted by its French poodles, might exert virtual supremacy over continental Europe.

to provide, but to foster a kind of general economic reconstruction. This is an economic reconstruction similar to that which lifted Europe and other parts of the world out of the ruinous conditions imposed upon national economies by the Versailles Treaty, and by the ensuing depression and World War II.

It should be stressed that the processes, including the rise of Adolf Hitler in Germany, leading into World War II, would not have been possible without the persistence of a global environment created by those same “Economic Consequences of the Peace” which were the principal, forecasted results of Versailles.<sup>15</sup> We must look back to the lessons to be learned from studying both of the conditions which the Versailles system generated: the systemic crisis of 1920s Germany, and the cyclical depression of the 1930s. With the effects of that depression, and its ensuing war, in view, we must focus upon the initial period of reconstruction in progress throughout the 1946-1957 interval. We must apply those successful precedents, not as patented, or otherwise perfect models;<sup>16</sup> the crises of the 1920s and 1930s were predominantly expressions of a global cyclical crisis, whereas the present crisis is a global systemic one.<sup>17</sup> With that crucial distinction in mind, we must study the 1946-1957 period of post-war reconstruction, as a source of insight into some of the similar, if more challenging, features of the present case.

Then, at the close of World War II, the task of financial and monetary reform, was undoing the evils of Versailles. The “new Versailles,” today, is those prevailing policy-shaping

15. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920). The circumstances for Adolf Hitler's Autumn 1923 rise from obscurity, and later, London and Harriman family-backed rise to power, in 1933, were, like the moral degeneracy of 1918-1943 France, made possible by the conditions imposed upon Europe by Versailles. However, that does not mean that Versailles made Hitler's rise to power inevitable. What made Hitler, and World War II “inevitable,” was the repeatedly successful intervention of, chiefly, London and New York bankers, to crush all those forces, like the German patriot, Dr. Wilhelm Lautenbach, whose anti-Versailles programs of economic reconstruction, could have made Hitler's London-backed rise to power impossible. Just so today; if the cabal of powerful lunatics, centered around London's financier oligarchy and Robert Bartley's *Wall Street Journal*, succeeds in defeating those who work to overturn the present globalist system, then the worst result is inevitable. Who were then to blame for the result? The incurably evil financier-oligarchs and their lackeys—or the cowardly, corrupted ordinary citizen, who declines to support those, upon whom the future life of the citizens' children, grand-children, and great-grandchildren may depend absolutely?

16. E.g., the folly of the Eisenhower administration, from 1954 on, in following the advice of Arthur Burns, thus setting into motion the financial bubble expressed as that deep, 1957-1960 recession, which erupted in February 1957.

17. On the distinction between the past cyclical (e.g., “business cycle”) crises, and the present, planet-wide, systemic crisis, see Lyndon H. LaRouche, Jr., “What Economics Must Measure,” op. cit., and, also, the concluding section, subtitled “The Business Cycle,” of Lyndon H. LaRouche, Jr., “Russia Is Eurasia's Keystone Economy,” *Executive Intelligence Review*, March 27, 1998, pp. 51-52.

trends of the recent thirty-odd years, which have now plunged us into this presently ongoing, global, systemic, economic-breakdown crisis. The Bretton Woods rules of the 1950s, provide us many applicable precedents for those radical reforms essential for lifting the world's economy out of the different quality of systemic nightmare, created by that “new Versailles,” the which is the recent thirty years' trends in policy-shaping.<sup>18</sup>

### The ‘New Bretton Woods’

To this effect: compare the results of two monetary systems: a) the old Bretton Woods agreements, up to the point of the U.S. manned landing on the Moon; and, b) the results of changes in policy-shaping, hegemonic since 1971-1972. Compare these systems in terms of directions and rates of change in physical-economic output, as measured per-capita and per-square-kilometer of relevant surface-area of our planet (**Figure 4**). There is no doubt that, by comparison of performance, the outcome of the post-1972 period of a “floating-exchange-rate” system, has been worse than a great error; it is a disaster. As we have stressed, once again, here, there

18. The 1950s of Italy's Alcide de Gaspari, Germany's Konrad Adenauer, and, at the close, Charles de Gaulle, represents the “take-off” period of European post-war reconstruction. These were the years of relatively tight exchange controls, and related protectionist measures by sovereign nation-states, restrictions which were essential to establishing the foundations for the achievements of the pre-1971 1960s. Thus, the way in which the Bretton Woods system functioned during the 1950s period of relatively tight, dirigistic forms of financial and monetary restrictions, is the phase of the old Bretton Woods system most usefully referenced in addressing the increasing disorderly, tumultuous present circumstances and their inevitable near-term aftermath.

## The failure of post-1971 economic policymaking

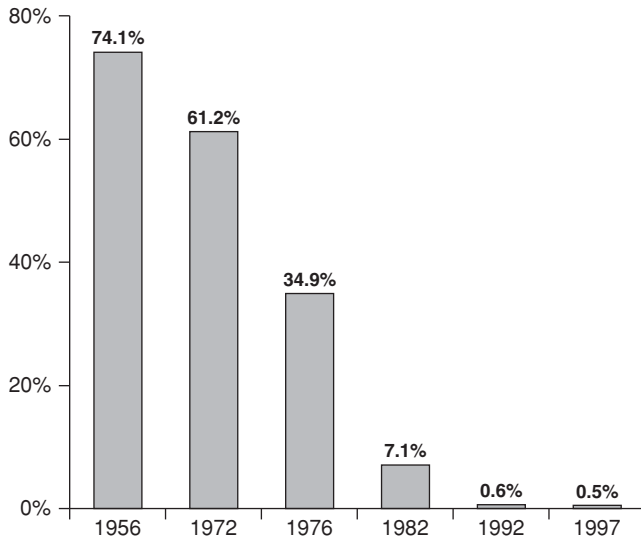
The charts in **Figure 4** show three series, for comparison.

In Series 1 (Figures 4.1.1-4.1.6) you see the cancerous growth-rate of financial turnover in the United States, in the period 1971-1973 to the present. Indicative sub-categories of turnover are shown, of money flows into mergers and acquisitions, money flows into futures speculation on interest rates, on currencies and equity indices, and so forth. Overall in the United States, valuations of stocks, debts, and especially, since the mid-1980s, derivatives, have grown at hyperbolic rates. Worldwide speculation in derivatives shows the same cancerous growth rate.

Series 2 (Figures 4.2.1-4.2.5) shows the decline in money flows into investments into basic production sec-

FIGURE 4.1.1

**U.S. merchandise trade as percent of global dollar currency trading**



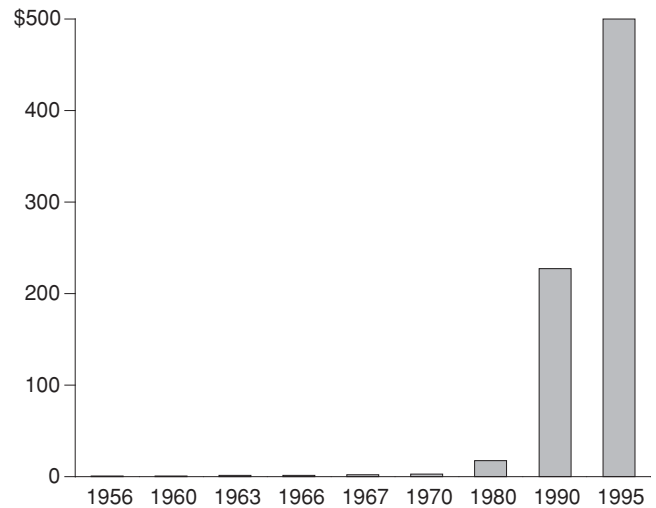
are significant qualities of difference between the conditions of the 1950s and today; nonetheless, there are but a few important differences of detail, between the old Bretton Woods, and the form in which its useful moral and juridical precedents should be revived now.<sup>19</sup> Otherwise, the principles of success-

19. The principal difference required, is the replacement of the past role of central banking systems, by "Hamiltonian" national banking. Given the ratio

FIGURE 4.1.2

**Annual U.S. financial turnover**

(trillions \$)



of current obligations to current GDP, virtually all of the world's central banking systems are already hopelessly bankrupt. While we can ensure the continued functioning of all the socially necessary private banks through government-supervised bankruptcy-reorganization, the central banking systems themselves are no longer capable of generating adequate supplies of credit. They could not even maintain the present levels of employment, production, and trade. New credit must be generated by the power of sovereign governments, a measure balanced by writing off in excess of \$140 trillions equivalent, globally, of derivatives and other largely fictitious financial assets, and by rewriting much short-term and medium-term legitimate debt,

tors of all kinds in the U.S. economy, over the same time period that, in contrast, financial speculative turnover ballooned. Also shown, is the related decline in proportion of the U.S. workforce engaged in essential activity in these sectors. The percentage of workers (as a share of all operatives), and the percentage of investment (as a percent of the Gross Domestic Product) have declined over the period from 1971-1973 to the present, for manufacturing, agriculture, basic physical infrastructure (water, power, transportation, etc.), construction, and related categories of activity. This does not reflect increased productivity; just the opposite. The declining productive investment and employment show up as declining rates of production and consumption levels per household in recent decades. The final graph of this series, illustrates one aspect of this devolution of the economy, in terms of the deteriorating condition of an average household. In the 1960s, the pay-check of the principal wage-earner, would cover the four basics

shown (home, car, food, health care), with money remaining for other essentials; at the same time, households were productively engaged in the economy. Today, households can no longer exist on the pay-check of the principal wage-earner—typified by the recourse of family members to hold, among them, several jobs per household. At the same time, the numbers of jobs in non-productive activities in the economy have proliferated—typified by casino employment, part-time fast-food jobs, and all kinds of non-essential services.

In Series 3 (Figures 4.3.1-4.3.4), you see the deteriorating composition of U.S. national product, in terms of even such a crude measure as Gross Domestic Product. It is obvious how the value is dropping in the period 1971-1973 to the present, of the component of GDP related to manufacturing and goods production, relative to the rise in value of financial, insurance, real estate, and related non-productive services.—*Marcia Merry Baker*

FIGURE 4.1.3

### Hyperbolic growth of the U.S. financial aggregate

(trillions \$)

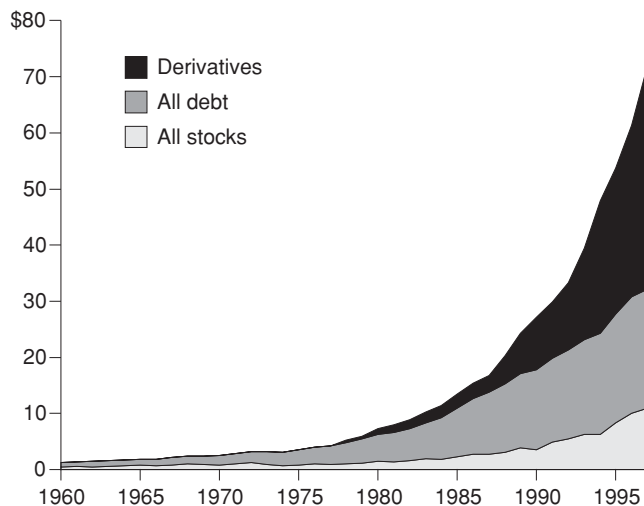
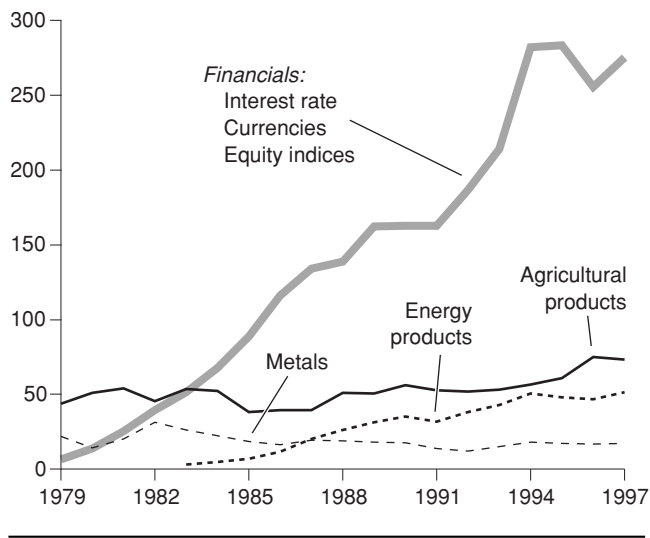


FIGURE 4.1.4

### Financials dominate futures markets

(millions of contracts traded)



ful reconstruction itself remain, if only broadly, the same as those which led into the fabled “economic miracle” achieved under Germany’s Chancellor Konrad Adenauer.

All these considerations, when combined, require a radical change, not only in financial and monetary policies, but also a profound change, away from the recent decades’ thinking about economics, the which latter has become hegemonic among virtually all among the world’s governments and financial institutions.

To that end, it is the included purpose of the present report, to show, that had the latter institutions employed a competent notion of long-range economic forecasting, at any time during those changes of the recent thirty-odd years which have ruined us, rational governments would not have tolerated those policies, which have now brought this world to its present brink of a planetary “New Dark Age” abyss. We would not have tolerated the kind of thinking which became hegemonic during the recent thirty-odd years.

From the vantage-point defined within this report, there is no mysterious cause for the world’s present dismay. The bad policies which have ruined the world’s economy, were choices made under the influence of that generally accepted, but increasingly defective, so-called “mainstream” opinion, which has dominated, increasingly, the selective shaping of policies of government and relevant private institutions, during most of the recent thirty-odd years. Had rational governments foreseen the outcome of such “mainstream opinion,” they would have acted to resist such opinion, and also uproot

as long-term debt at yields in the order of 1% to 2% annually.

it by aid of the most vigorous re-education of an economics-illiterate, duped general public.

For related reasons, without the added adoption of that needed standard of long-range forecasting now, as a guide to, and integral feature of future policy-shaping, the possibility of successfully managing the needed recovery would be jeopardized.

Never again, must we allow governments to do as the failed, neo-liberal architects of the floating exchange-rate system did. Never again, must we allow the kind of ranting, romantic ideologue’s compelling emotional impulses, mere prejudices, to override discretion in choosing a route of travel in economic development. Never again, must we permit ranting ideologues, like the flagellant hordes of the Fourteenth Century, or today’s wild-eyed Heritage Foundation fanatics, to menace the public welfare, or permit our economies to be directed by deranged ideologues, to an H.G. Wells’, or related style of proposed sociological utopia.

Instead of demanding “politically correct” conformity with today’s prevalent madness, with prevailing blind faith in popularized ideological fads and their virtual-reality agendas, check the actual route of travel implied, beforehand. Hereafter, nations must check carefully, in advance, the character of terrain through which the proposed route of travel actually leads.

This brings us directly to the core subject-matter of this report.

Up to this time, no government of the recent quarter-century, or other relevant leading institution of the same period, has yet become sufficiently competent to define adequately the policies needed, in the aftermath of the adoption of a New



FIGURE 4.1.5

### Mergers and acquisitions versus manufacturing new plant and equipment

(billions \$)

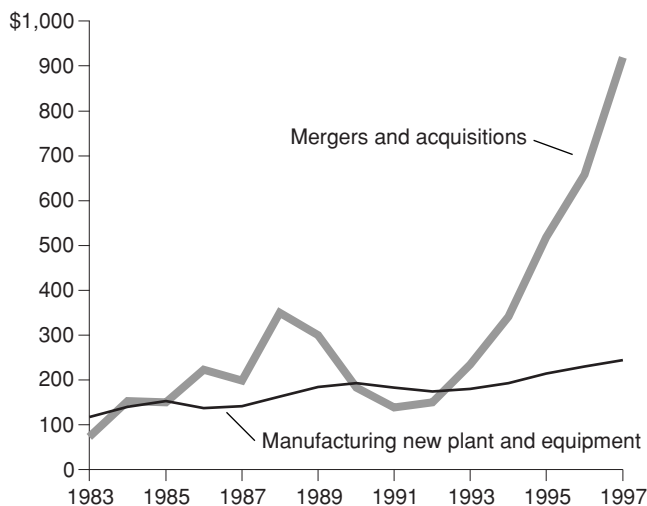
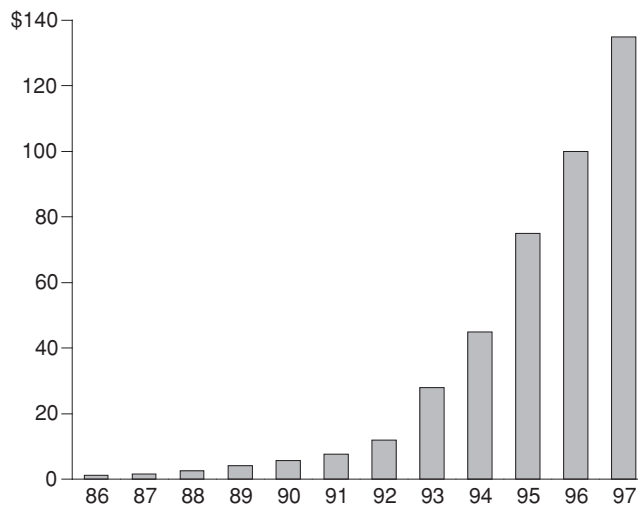


FIGURE 4.1.6

### World derivatives growth: the cancer takes over

(trillions \$)



Bretton Woods monetary order. Although the appropriate methods of long-range forecasting remained chiefly in obscurity, even among otherwise competent economists of an earlier, happier period, even those qualified competencies have chiefly vanished from leading “mainstream” policy-shaping opinion today. Three decades of impact of a declining culture, globally,<sup>20</sup> have produced the state of affairs, in which, with few exceptions, even among the relatively best relevant professionals, most lack competence, in the specific degree the present circumstances of crisis require competence.

In these matters, a relative few among professionals contribute useful suggestions; worse, so far, even those profes-

20. Franklin Roosevelt had the advantage of counsel provided by a patriotic tradition among historians and economists. This “American System” tradition of Franklin, Hamilton, the Careys, John Quincy Adams, Henry Clay, Friedrich List, and Abraham Lincoln, persisted, even after the unfortunate U.S. Presidencies of Teddy Roosevelt, Ku Klux Klanner Woodrow Wilson, and Calvin Coolidge, as a strong, if minority current in U.S. academic and related life, until the unfortunate developments, which followed the historically most untimely death of Franklin Roosevelt. It was systematically purged from the textbooks and the universities, by the burgeoning influence of the neo-Jacobin rabble of epistemologically cretinous Frankfurt-Schoolers and intellectually kindred leftists and neo-conservatives, during the middle to late 1960s, and beyond. Hence, few professionals of the “Sixty-Eighter generation of university graduates, have any competence at all in matters of political-economy and actual history. President Clinton, who suffers conspicuous short-comings of this sort, is otherwise a relatively superior intellect, among the representatives of his own and the succeeding generations of professionals. On more general implications of the cultural decline of European civilization during the Twentieth Century: that is a sub-topic is better treated in the relevant location of this report, below.

sionals are not likely to discover adequately appropriate answers, until they have, first, corrected their habitual thinking, in the degree wanted for identifying the relevant questions. Earlier, I have identified and summarized the essential features of that matter, of long-range forecasting. We continue that discussion here, extending it to its bearing on both the design and management of a physical-economic recovery program.<sup>21</sup>

### The task of forecasting defined

In any rational use of that term in today’s economics practice, “long-range forecasting” signifies the selection of choices of any present day’s policies, according to the foreseeable consequence of one’s choice not less than seven or more years ahead, usually one to two generations ahead. Usually, as in respect to the 1964-1972 roots of the presently worsening global economic disaster, it has been changes in axiomatic features of cultural outlook, from one generation to the next, which are of the relatively greatest significance, in directing the effects of policy-shaping along either an upward, or a downward track in effects.<sup>22</sup>

21. See the discussion of this matter, under the sub-heading of “Marx’s blunder on technology,” in Lyndon H. LaRouche, Jr., “Russia Is Eurasia’s Keystone Economy,” *Executive Intelligence Review*, March 27, 1998, pp. 47-51. Since this involves conceptions and principles unknown to most professional economists, and relevant others, it is necessary to include here a restatement of the argument made earlier, in those pages.

22. In general, it is during childhood and adolescence, that the axiomatic assumptions of the coming new adult generation are instilled. Most crucial, is the portion of each generation which is destined to dominate, through

Within the relatively narrow framework of the relative best among those doctrines of recent decades' industrial and agricultural practice, the which are to be found under the rubric "economics," three interacting factors of cost, determine the minimum duration ("horizon") such forecasts must span. These three are: 1) Capital-intensity, and correlated energy-density, of investments in infrastructure, agriculture, and industry; 2) Simple physical depletion, through wear-and-tear, of capital improvements; 3) Relevant rates of technological attrition. The following, unavoidable costs of profitability, are thus derived: 1) What are the rates at which maintenance of existing capital stocks must be provided?; 2) What are the minimally required rates of replacement?; and, 3) What is the required, combined rate of technological progress and energy-density, per-capita of labor-force? Otherwise, in general, what, in broader terms, do these specified requirements also imply?

To lay the basis for the answer to those questions, I must proceed now, first, by repeating, in summary, several points which have been characteristic of my work in, and teaching of economics<sup>23</sup> during the recent forty-five years, since the outcome of a study conducted during the 1948-1952 interval.<sup>24</sup> During all of that time, from 1951-1952 to the present,

promotion, the policy-shaping strata of leading private and governmental institutions, a generation to a generation-and-a-half later. It is not necessarily the case, for all time, that the capacity for original, axiomatic discoveries should tend to evaporate beginning about twenty-five years of age [Cf. Lawrence S. Kubie, "The Fostering of Scientific Creativity," *Daedalus*, Spring 1962]; nor, need the exceptions be limited to the relatively tiny, and still shrinking number of true thinkers among today's matured professionals. However, whatever the brighter prospect for the future, the tendency for creative sterility among matured professionals has been the dominant trait of modern populations until this point.

23. This included the teaching of a one-term introductory course on the subject of Marxist economics, at several campuses, during each term of the 1966-1973 interval. The burden of that course, was to point out the needed principal correction in Karl Marx's four-volume *Capital*: the blunders derived from his admitted, if sometimes ambiguous exclusion of "the technological composition of capitals," and those respecting the notions of "value," and of what constitutes "productive" labor, in various, mutually contradictory locations within those volumes. This was the same difference I enjoyed, on the subject of economics, in my sundry dealings with professedly Marxist organizations and academics during the 1950-1973 interval. Marx's blunder was rooted in two axiomatic features of his adult life's work. First, as in both his pre-1848 attacks on Friedrich List, and his later attacks upon Henry C. Carey, both of which he conducted at the insistence of Frederick Engels, Marx was obsessively addicted to the neo-Frondist defense of the landed aristocracy of Dr. François Quesnay, and, in defense of the financier oligarchy, to both the Venetian ideologue J. Sismondi, and to the "only scientific" secretions of such lackeys of the drug-pushing British East India Company, as Adam Smith and David Ricardo. Second, Marx was most strongly addicted to a variety of "materialism," which combines the tradition of the ancient Greek reductionists, and Paolo Sarpi's neo-Ockhamite empiricism. On both accounts, Marx was incapable of recognizing the determining role of individual cognition in economic and other social processes.

24. As reported in sundry published locations, this study, elaborated during the 1948-1952 interval, was initially prompted by reaction against the plainly fraudulent aspects of Professor Norbert Wiener's attempt to impose

FIGURE 4.2.1  
**Manufacturing investment and employment**

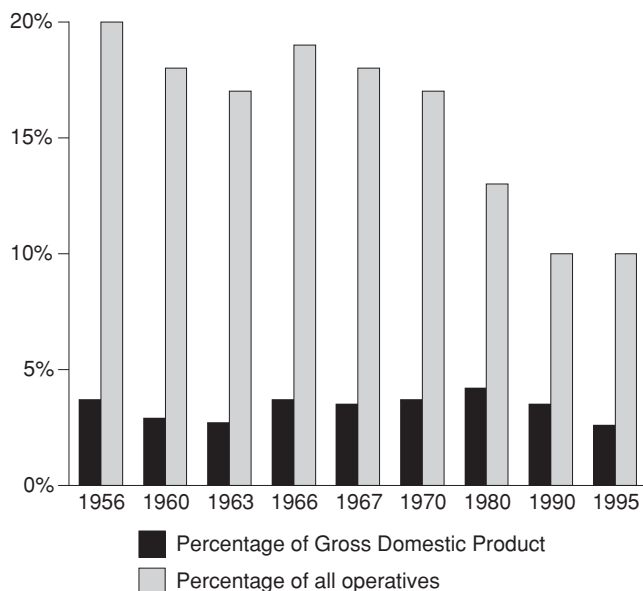
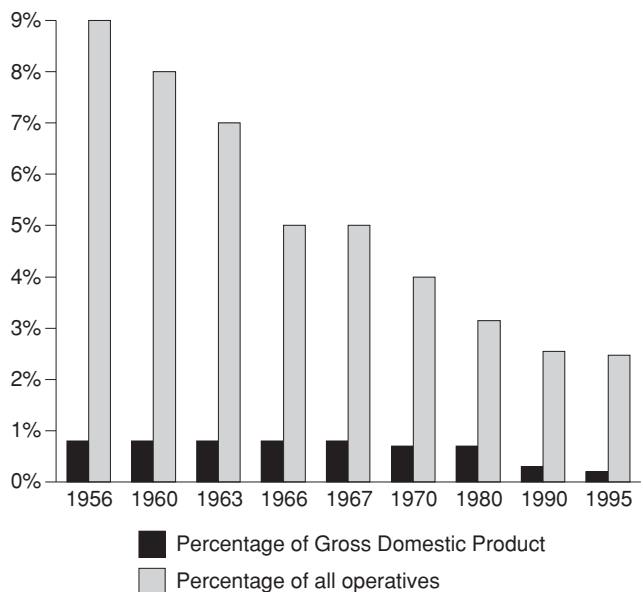


FIGURE 4.2.2  
**Agriculture investment and employment**



his radically positivist, mechanistic "information theory," upon the content of human communications. At the beginning of the 1950s, the present writer had recognized the "ivory tower" follies of John von Neumann's "systems analysis," as genetically (axiomatically) the same thing as Wie-

FIGURE 4.2.3

**Construction investment and employment**

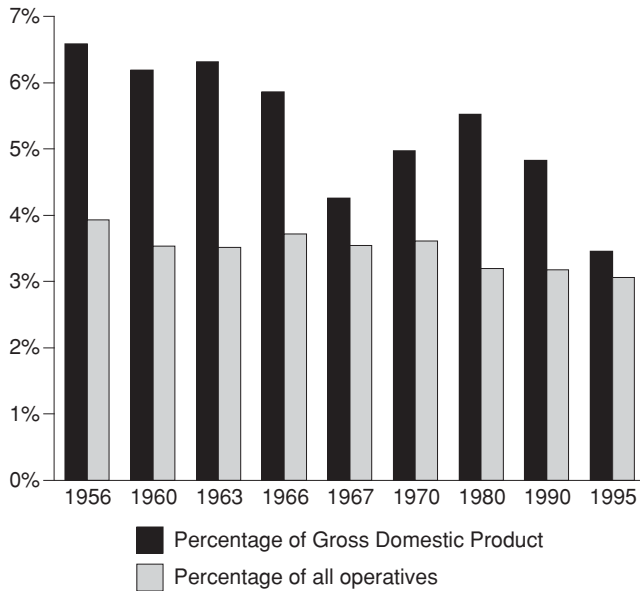


FIGURE 4.2.5

**Combined home, car, food, and health insurance payments as percent of average paycheck**

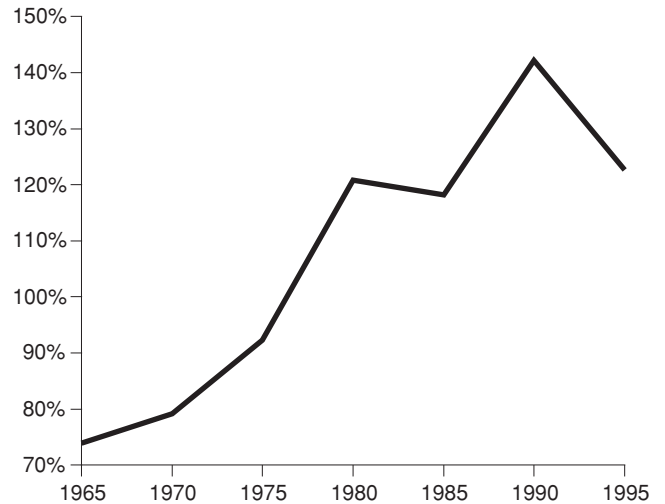
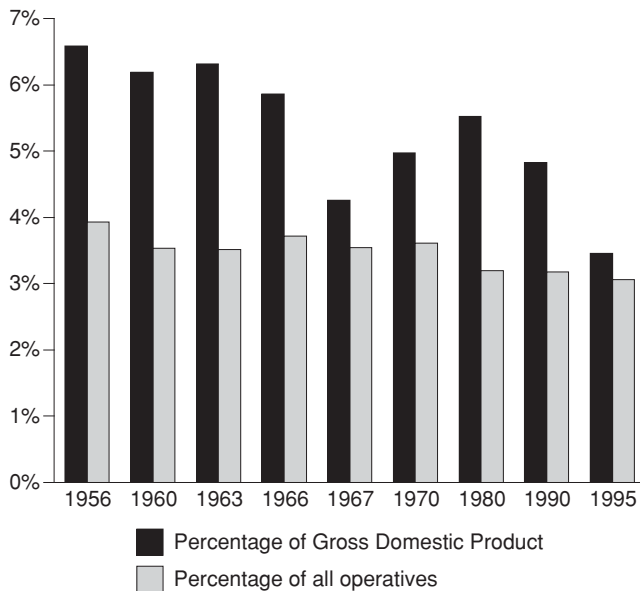


FIGURE 4.2.4

**Basic physical infrastructure investment and employment**



my treatments of economics and long-range economic forecasting, have been consistently premised upon the following axiomatic specifications:

1. The sole source of increase of the human species' potential relative population-density, per capita and per square kilometer of the Earth's surface, is "anti-entropic" changes in the physical characteristics of the outcome of human social behavior, changes which depend upon continued scientific and technological progress. Not only is such progress the sole source of increase of the productive powers of labor; without such progress, human cultures inevitably degenerate, "entropically."

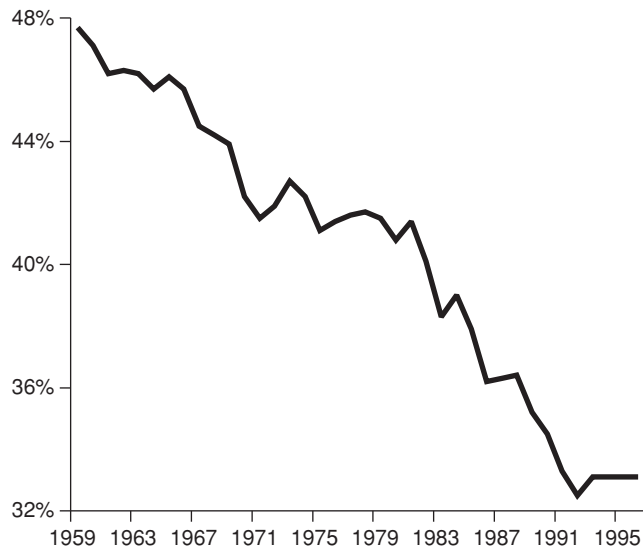
2. Those discoveries of principle of artistic composition, which are prompted by the defining function of metaphor in Classical modes in poetry, tragedy, music, and plastic art-forms, have an even higher degree of significance than discoveries of physical principle. Indeed, it is only when we view physical science as a branch of Classical art-forms in general, that we may comprehend adequately both physical science as such, and also recognize the mode in which both the princi-

ner's bungling. The initial standpoint of the present writer was his earlier work in defense of Gottfried Leibniz's monadology, against the attacks on Leibniz central to Immanuel Kant's *Critique of Pure Reason*. In fact, as the present writer discovered later, Kant's argument was based upon Leonhard

Euler's folly of *petitio principii*, in his own mechanistic attack upon Leibniz on the issue of the *Monadology*. The same axiomatic fallacy, in its guise as "linearization in the very small," is the most common of the crucial incompetencies inhering in all widely accepted doctrines of political economy today, those of Adam Smith, David Ricardo, Karl Marx, and von Neumann, et al., included.

FIGURE 4.3.1

**Goods-production portion of GDP as percent of total GDP**



ples of Classical artistic composition and science combine, in an indispensable way, to affect man's social mastery of nature, and to effect the variously upward, downward, or stagnating modes in culture generally and political-economy in particular. Indeed, all proper practice of statecraft is governed implicitly by application of the principles of the greatest compositions in Classical art, to the definition of history, as history is to be viewed from this standpoint.

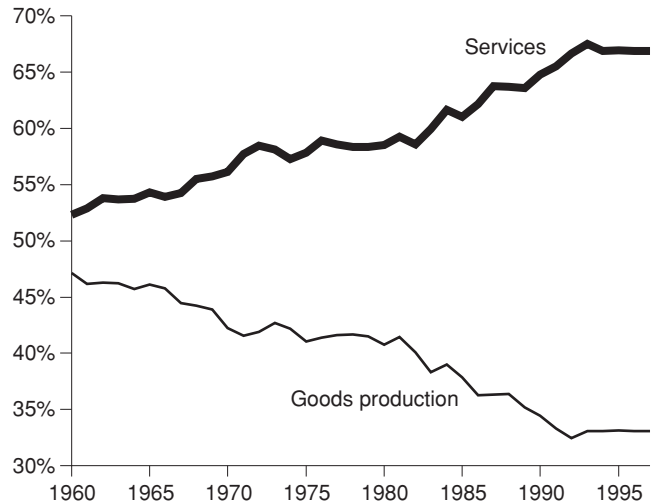
Let us now presume a readership which is at least moderately literate in the view of science from the Classical standpoint, as this standpoint is typified by the distinguishing, axiomatically common features of the work of Nicholas of Cusa, Leonardo da Vinci, Johannes Kepler, Gottfried Leibniz, Lazare Carnot, Gaspard Monge, Carl Gauss, Bernhard Riemann, et al. It is a readership also literate, even if not immoderately so, in the metaphor-based fundamentals of composition, specific to Classical forms of poetry, tragedy, music, and perhaps also some among the Classical forms of plastic arts. This is a reader able to think of history, as essentially the history of development and practice of ideas, that from the same standpoint as the Classical approach to physical science and art.<sup>25</sup>

25. The author uses the term "ideas," only in a sense entirely consistent with Plato's definition. *Ideas* are discoveries of either validated, universal physical principles, or validatable resolutions of Classical forms of metaphor in art and political history. The latter resolutions of metaphor have the same form as validated discoveries of universal physical principles. Notions sustained merely by sense-certainty, by deduction, or by symbolic argument, are not "ideas."

FIGURE 4.3.2

**Gross Domestic Product, by component: goods production versus services**

(percent of total GDP)



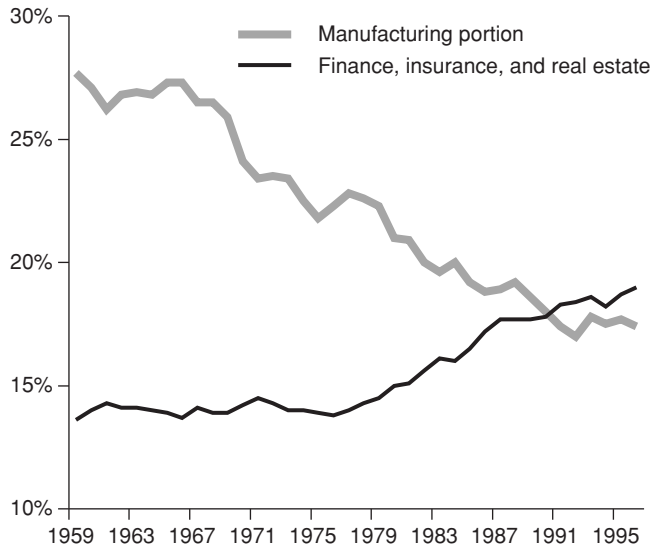
For purposes of optimizing clarity for such an audience, here, a certain pedagogy is indicated.

That presumed, begin where I began, back during the 1948-1951 portion of my 1948-1952 study. From the outset, my adopted task was to show that Wiener's application of his mechanistic "information theory," both to living processes, and to human cognition, is, in both immediately implied cases, biology and cognition, absurd in fact, and wicked in its consequences for physical science, as also for general social practice.<sup>26</sup> The starting-point chosen for this undertaking was the subject of cognition, as we define the term "cognition" here, immediately below. The strategy for this initial phase,

26. For reasons of the epistemological illiteracy predominant in European culture since the late-Eighteenth-Century hegemony of the axiomatically reductionist, Anglo-Dutch and French "Enlightenment," there has been a persisting difficulty in reckoning with the empirical fact, that living processes are determined by an entirely different ordering-principle, than the implicitly entropic destiny of all processes which appear to be representable in terms of algebraic functions (i.e., functions which assume Leonhard Euler's anti-Leibniz, fraudulent, *petitio principii* defense of the reductionist presumption that linearity prevails in the very small). From Luca Pacioli, Leonardo da Vinci, and Johannes Kepler, onward, the distinction between the types of ordering which appear as the qualitative, empirical distinctions between living and non-living processes, had been a subject of fully rational inquiry. The political triumph of reductionist lunacy, during the course of the Eighteenth Century, banned rational thinking about such distinctions. Thus, the empirical fact of distinction in ordering (e.g., *mathematical [e.g., hypergeometric] cardinality*) between living and non-living processes, became a playground for spinning irrationally mystical, obscurantist sophistries. "Vitalism," is an example of the irrationalities engendered by attempting to define this empirical distinction from the reductionist's "politically correct," algebraic standpoint. Thus, after the political hegemony of the fraudulent, reductionist notion of universal entropy, introduced, during the middle of the Nineteenth

FIGURE 4.3.3

**GDP, by component: manufacturing vs. finance, insurance, and real estate**



asserted the empirical effects of cognition between two seemingly parallel, but actually coinciding expressions of validatable, original discovery of principle: discoveries, or re-discoveries<sup>27</sup> of validatable new physical principles, and ideas generated as validatable resolutions of Classical metaphor.

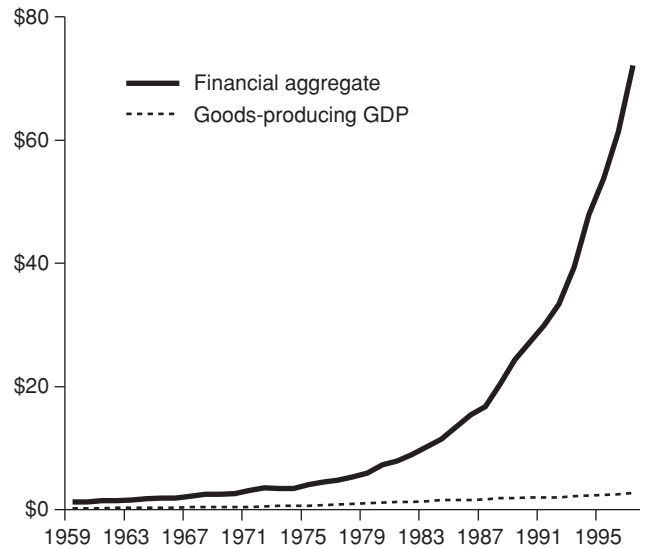
Century, by Clausius, Grassmann, Kelvin, et al., the problem of differences in ordering between living and non-living processes was broadly recognized by referring to the ordering of living processes as anti-entropic. Especially after the work of Ludwig Boltzmann, which refined the mechanistic notion of entropy in terms of gas theory, the general expression for the distinguishing characteristics of ordering, between living and non-living processes, became “negative entropy.” Sorcerer Bertrand Russell’s apprentices, Norbert Wiener, for “information theory,” and John von Neumann, for economics and “brain theory,” insisted that “negative entropy” must be derived exclusively from within the reductionist’s statistical models premised axiomatically upon the Euler-Lagrange-Laplace-Cauchy, politically correct, but fraudulent presumption of linearity in the extremely small (and, also, the extremely, astrophysically large). Thus, the contemporary radical empiricists (e.g., logical positivists such as Wiener and von Neumann) presume life to be determined within the bounds of reductionist dogma. Therefore, this is overtly, or implicitly their choice of basis for viewing life as a kind of secretion (“epiphenomenon”) of processes which may be defined statistically. They extend this same fraud to phenomena which are peculiarly characteristic of certain living species: e.g., man. So, they define “brain function” (e.g., the doctrine of “artificial intelligence”), and, therefore, also “information.”

27. E.g., as by students in a Classical-humanist mode of education, in which students are not permitted merely to *learn* physical and artistic principles, as from textbooks and classroom lecture-notes, but are obliged to *know* them instead. To *know* a principle means to re-enact the original discoverer’s mental experience of generating that conception. In the case of the student trained in the latter mode, that person does not rely upon eidetic memory of a learned formulation and procedure; instead, that person’s mind regenerates the conception, rather than calling it up from “memory banks.”

FIGURE 4.3.4

**Financial aggregate’s growth versus growth of goods-production GDP**

(trillions \$)



During the work on this project during the 1948-1951 interval, the two tracks were developed in parallel, and then brought together. Later, in 1952, the work of Bernhard Riemann was taken into account, as providing the needed strategy for introducing notions of measurement, into the discoveries which had been developed up to that point.

The role of physical science in physical economy, as the latter is axiomatically distinct from empiricist schools of political-economy, was the original bench-mark chosen for these studies. The actual experience of the modern industrial process, was the context for the initial attack upon the issues implied. In other words, the “machine-tool principle,” as implied by the work of Leibniz, and as introduced to generalized practice, during 1792-1794, by France’s Lazare Carnot. The pivot of this phase of the study, was the fact soon known to any reasonably intelligent university undergraduate: that a well-designed apparatus, which provides proof-of-principle demonstrations for a newly discovered physical principle, is the pivot by means of which validated discoveries of physical principle, are translated into those new designs of products and processes, by means of which, in turn, the per-capita and per-square-kilometer productive powers of labor are advanced.

The flow-chart presented here as **Figure 5**, illustrates the nature of the connection between validated discoveries of new physical principles, and the technological progress, in the form of man’s increased power over nature, per capita and per square kilometer of the Earth’s surface, into which these discoveries lead. I now summarize the immediately relevant

features of my argument on this subject, as given on numerous earlier occasions.

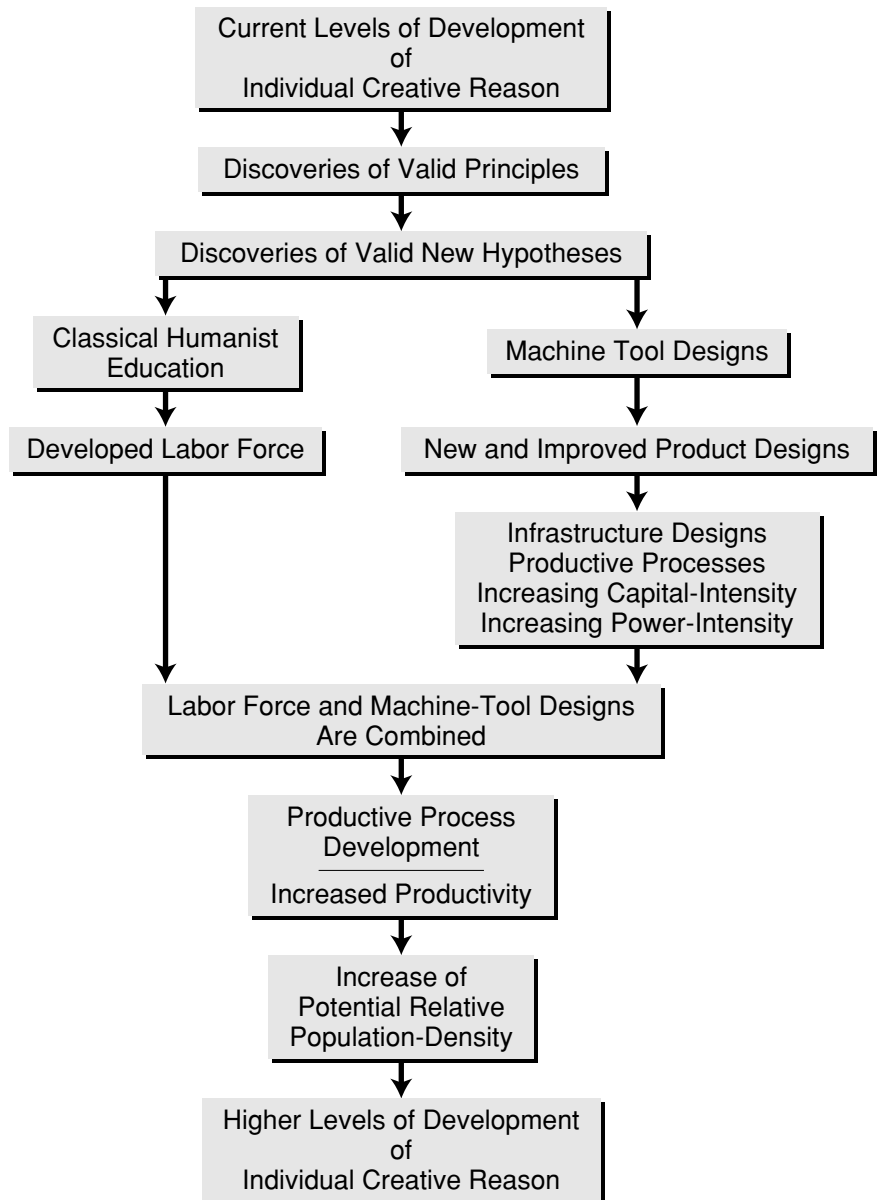
If one attempts to describe the effect of repeated such insertions of new technologies, into the physical-economic process of the society/economy taken as an indivisible whole process of the human species' self-reproduction, the following result appears immediately.

1. The potential increase of the potential relative population-density of a society,<sup>28</sup> is bounded by the number of valid, implicit, discovered physical principles known, and thus available to be expressed in the form of applicable new technologies of individual and social practice.

2. However, the realization of the benefits of discovery and proliferation of scientific and technological progress, is conditional upon the way in which social relations define the communication of validated products of cognition, and in which social relations themselves are ordered to this ultimate effect.

The deepest challenge to comprehension posed by these historical facts, is concern for knowing the *ontological* nature of individual human cognition itself. That task is a fully comprehensible one, at least respecting all its axiomatic measures, if one approaches the matter as I did, throughout the 1948-1952 interval. I approached this task from the standpoint of refuting Immanuel Kant's devotion of his life's work, especially of his last decades', to defaming Gottfried Leibniz.<sup>29</sup> Leibniz's view of these mat-

FIGURE 5  
The machine-tool-design principle



28. This is not limited to the simple number of persons in a population which is self-sustained through technological progress. The increase in potential, per capita and per square kilometer of the Earth's surface, is conditional upon related improvements in the demographic characteristics internal to households, in addition to the demographic characteristics of population more simply defined. This multiply-connected function is also conditional upon the improvements of land-area, as through development of basic economic infrastructure. The function so implied, is conditional upon maintaining the rate of growth of potential relative population-density so defined.

29. During the 1948-1951 interval, for the purposes of that project itself, the author's references to Kant's work were almost entirely focussed upon the *Critique of Pure Reason* and a few collateral writings. The writer's view was

informed by his adolescent commitment to defense of Leibniz's principle of *monadology* against Kant's attack, there, on this and closely related features of Leibniz's work. (Also, Leibniz's related principle of the universality of non-constant curvature in the extremely small interval of action.) Originally, Kant had been Prussia's leading disciple of Britain's David Hume, and a rabid adversary of Leibniz from that standpoint. As Kant indicates in a report featured within his *Prolegomena*, he turned away from Hume, when Hume, later, adopted a more radically empiricist view in respect to "moral philosophy." Kant did not drop his enmity toward Leibniz at that point, but, rather, resorted to a pure-and-simple Aristotelean standpoint, rather than Hume's more radically Okhamite standpoint. The Classical attack upon Kant's later work, notably on the issues of morals and aesthetics, is that of Friedrich Schiller.

ters, which I defended, and employed for the both the initial, 1948-51 study, and for its 1952 sequel, is a modern affirmation of the notion of the *idea* also specific to the Socratic dialectical method of Plato. For the purposes of our topic here, the crucial significance of this point is as follows.<sup>30</sup>

Usually, the original, or pedagogically replicated discovery of a validated, universal physical principle, is prompted by a perplexing paradox of the following, ontological type. For this purpose, assume the history of the internal development of European science, from Egypt, through Classical Greece,<sup>31</sup> through the succession of leading intellects of the Platonic Academy of Athens, and related cases, such as Archimedes, into the founding of modern experimental physical science through the influence of such writings as Nicholas of Cusa's *De docta ignorantia*.

Given, a notion of geometry as exemplified by the practice of Plato's Academy.<sup>32</sup> Also, given, Cusa's emphasis upon a notion of a science susceptible of representation in terms of measurement, and in the form of a geometrically-based mathematical description of measurable results. Given, such a case, in which the previously established physical science of reference, was already premised upon experimental proof-of-principle measurements. Now, take note of the increasingly frequent case in the history of modern European science, in which nature presents an empirical case, which all then-extant, accepted science appears to have been ordained to have been impossible.<sup>33</sup> For pedagogical purposes, take the case

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30. Here follows a recapitulation of the same argument supplied on pages 47-51 of the referenced earlier report.

31. Although Greek civilization had depended chiefly upon Egypt for the foundations of its own progress, Classical Greece added a crucial element, an element not visible in specialists' reports of their studies of ancient Egypt. The simplest indication of that distinction, is the comparison of Greek Classical sculpture (e.g., Scopas, Praxiteles) with its Archaic Egyptian and Greek predecessors. The difference between the Archaic and the Classical, is the conscious employment of the principle of the *idea*, as Plato best represents conscious use of that principle. Certainly, *ideas*, so defined, existed in all those changes which increased, directly or indirectly, all the human species' progress in increased potential relative population-density; the distinction of Classical Greek culture, is both the appearance of consciousness of the principle of the *idea* as such, and, decisively, the role of such consciousness in enabling mankind to secure conscious, willful control over the process of fostering and employing such *ideas*.

With respect to Asia, the case is less clear. There is intimation of the notion of an *idea*, in Panini's treatment of the Vedic-Sanskrit, an intimation which correlates with the long-cycle features of early Vedic (e.g., 6,000-4,000 B.C.) solar-astronomical calendars. In contrast, early Mesopotamian lunar astronomy is defective, relative to Greek, Egyptian, and Vedic-Sanskrit cultures. Recent developments in China, create the circumstances in which the study of early Chinese culture's roots, from this standpoint, should be placed on the agenda; the general impression of what might be found, is positive.

32. For this purpose, the contemporary and correspondent of Archimedes, the Platonic Academy's Eratosthenes, provides a bench-mark.

33. For model cases, two are implicitly referenced illustrations in the structure of this argument. The first is the empiricist Leonhard Euler's *petitio principii* hoax, attacking Leibniz's *Monadology*: Euler's fraudulent denial of Leibniz's demonstration of the implicit universality of non-constant curvature in

in which none of the array of specific, universal physical principles previously adopted is invalidated, except in the respect that the assembly of those principles, taken as a whole, appears to exclude the possibility of the troubling empirical evidence.

If the empirical evidence supporting, respectively, the "old physics" and the reality of the contrary phenomena, are equally valid, empirically, then no deductive or statistical-mathematical solution for the contradiction exists. The conflict is thus defined as an *ontological paradox*, in the sense illustrated by Plato's *Parmenides* dialogue. As Plato emphasizes, in that and other locations, the failure of the Eleatic reductionist school of Parmenides (like the school of Plato's adversary, Aristotle, later) is located in the axiomatic inability of deductive-reductionist modes of thinking, their intrinsic inability to comprehend the process of change, which bridges the genetic change separating a relatively superior, from a relatively inferior species of scientific or other thought.<sup>34</sup> That factor of change takes us out from the bounds of deductive method; no deductive method can master such a challenge.

Nonetheless, the problem is not an insuperable one: all fundamental scientific and Classical forms of artistic progress, alike, attest to the existence of that faculty of the individual person's cognition, the which, adequately developed, can infallibly solve any ontological paradox, rooted in a validated

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the infinitesimally small. Euler's fraud was effectively overturned by the development of principles of hypergeometry, successively, by Carl Gauss and Bernhard Riemann. Note Gauss's precedence in his discovery of the orbit of the asteroid Ceres, and Riemann's 1854 habilitation dissertation, *Über die Hypothesen, welche der Geometrie zu Grunde liegen*, Bernhard Riemanns gesammelte mathematische Werke, H. Weber, ed. (New York: Dover Publications reprint, 1953). The second is the work of a collaborator of both Gauss and Riemann, Wilhelm Weber, in his proof-of-principle demonstration of the absurdity of J. Clerk Maxwell's politically-motivated exclusion of the Ampère "longitudinal force" from Maxwell's account of electro-dynamics. On the latter see Laurence Hecht et al., "The Significance of the 1845 Gauss-Weber Correspondence," *21st Century Science & Technology*, Fall 1996. The latter case will be expanded by ongoing attention to the related implications of the work of Ampère's collaborator, Fresnel, respecting the principles of electromagnetic propagation, including so-called "gravitational waves."

34. "Genetic" is employed here in the sense of the meaning Plato supplies for use of the term *hypothesis*. Use the geometry of Euclid as the background against which to define "hypothesis." In such a geometry, the ultimate test of whether an empirically plausible proposition may be adopted as a theorem of the geometry, is its lack of inconsistency with any among the set of definitions, axioms, and postulates, consistently underlying that geometry at each and every possible location within the geometry as a whole. Such a set of definitions, axioms, and postulates, or any substitute for such a set, defines an hypothesis. Each case, in which a new discovery of principle obliges us to change one or more among the set of definitions, axioms, and postulates of a pre-established hypothesis, generates a new hypothesis, which has no deductive consistency with its predecessor. Such orderable successions of hypotheses, imply a parallel to the evolutionary development of mutually distinct, successive species of living creatures. In both cases, the measurable impact of success, is of the form of true "anti-entropy," not the silly definition of "negentropy" employed by Wiener et al. for so-called "information theory."

conflict of empirical evidence. This faculty is the characteristic, implicitly “anti-entropic” principle of action, the which is expressed by a well-developed capacity of the individual’s cognitive powers.

The difficulty is, that while we enjoy well-established notions of experimental proof-of-principle, by means of which we can test the validity of a proposed solution to such a paradox, there exist no possible means, by which the sense-perceptual apparatus of an observer could comprehend the mental processes, by means of which that validated principle itself was generated. Nonetheless, there are other means available to experimental physical science, through aid of which those processes can be known directly by another mind. If two minds generate a common, experimentally validated solution for such an ontological paradox, the common validation, provides one of those minds certain knowledge that the relevant mental process experienced in his, or her mind, was the same type of mental process which occurred in the other mind.

Thus, we have the picture displayed by the flow-chart presented here as **Figure 5**. In modern agro-industrial society, the most important medium for transforming validated discoveries of physical principle into man’s increased power over nature, per capita and per square kilometer, is the role of the machine-tool-design principle, as outlined by this flow-chart.

Focus upon the function which education must fulfill, in order that the continuation of such progress can be predetermined. Conversely, what we have to say, on this account, here, may be rightly taken as also pointing to the moral and intellectual bankruptcy of popularized recent changes in policy of public and higher education. The view of education expressed here, while admittedly viewed as an egregious one by current “mainstream opinion,” is key for comprehending how the mind works, and for understanding the principles upon which competent long-range forecasting depends, that absolutely.

### Classical humanist education

The essential empirical distinction of the human species from all lower beasts, including, presumably, that professed great ape known as the Duke of Edinburgh,<sup>35</sup> is the relevant archeological and other evidence of human existence, dating from, implicitly, more than a million years ago.<sup>36</sup> The princi-

35. Prince Philip’s claim, that the natural father of his children was a great ape, pertains not to the suggestive form of Prince Charles’ ears, but to the nature of Prince Philip’s co-sponsorship, with ex-Nazi Prince Bernhard of the Netherlands, of both the 1961 founding of the pro-bestial World Wildlife Fund (WWF), and of the revival of Edward VII’s “Club of the Isles,” as the “1001 Club,” the organization created for propagating and funding the spread of the WWF’s effort to de-nature the human species. See Mark Burdman, “‘Jury’ Votes Equal Rights to Apes,” *Executive Intelligence Review*, Jan. 26, 1996.

36. The evidence of a perfected design of throwing-spear, dated to an ancient site deep within a mine in Germany, is typical of the evidence pointing to the implied existence of the specifically human genotype, as early as between

pal evidence of this distinction, is the combination of artifacts which meet the experimental-scientific standard of technologies necessarily born of valid discovery of physical principle, or, which are works conforming to Classical standards for artistic composition.<sup>37</sup> Like the comparison of two observed trajectories of a celestial entity, the congruence of a suspected paleontological specimen of humanity with actual humanity, requires credible agreement in respect of form, but, also, evidence of the relevant, specific, non-linear characteristic of practice. Not accidentally, this is also the principle of competent, long-range economic forecasting.

In respect to physical science, this historical view of the human species’ cultural self-development, is marked by a series of known, or necessarily implied particular, validated discoveries of principle. Among the earliest truly interesting expressions of this, are ancient solar-astronomical calendars, containing reasonably accurate long cycles of a thousand years or much more. The pre-Vedic and Vedic such calendars, internally dated to earlier than 4,000 B.C., as addressed by Bal Gangadhar Tilak, are exemplary.<sup>38</sup>

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one and two millions years ago. As in long-range economic forecasting, so in paleontology, it is not sufficient to consider the genetically determined form of hominid-like types; one must seek evidence which could not have been produced except by those kinds of cognitive processes, which set the human species absolutely apart from, and above the higher apes. Compare this with the method identified in Lyndon H. LaRouche, Jr., “Any Enemy of LaRouche Is an Enemy of Clinton,” *Executive Intelligence Review*, April 3, 1998. See the section subtitled, “Look to the stars,” pp. 28-29. A chimpanzee is able to learn, and to transmit to offspring, the use of a stick for gathering termites, etc.; the chimpanzee could not discover a physical principle of the type underlying a family of synthesizable technologies. Hence, the design of an ancient throwing spear may serve, as in the cited instance, as dating the existence of a mind of the modern human type.

37. My use of “Classical” always conforms to the standard of Classical Greece, and, most emphatically, to the principle of the *idea* as defined by Plato’s method of Socratic dialectic. In respect to art, this always signifies, that the method of characteristic feature of action expressed by the composition of the artistic work, is Classical metaphor, that of the type banned by empiricist Thomas Hobbes, et al. The contrast of Greek Classical art, on this account, to preceding Archaic forms of Egyptian and Greek plastic art-forms, is exemplary.

38. *Orion, or Researches into the Antiquity of the Vedas* (1893), and, its sequel, *The Arctic Home in the Vedas* (1903). Tilak employed studies of Vedic astronomy supplied from German astrophysicists, chiefly from the circles of Carl Gauss. Johannes Kepler was among the first to recognize the astrophysical significance of very long cycles in Vedic solar-astronomical calendars. In contrast to the Vedic-Sanskrit and Egyptian astronomy, that of Mesopotamia is relatively degenerate; like its wicked theology, ancient Mesopotamia leaned more to the lunatic side of precise accounting practices, than the epistemological spirit of scientific inquiry. Curiously tangled, are the facts, that the rudiments of civilization were introduced to the savages of ancient Mesopotamia by the Dravidian colonists from “Harrapa” culture, who established Sumer. Thus, the satanic form of religious belief—the cult of Ishtar—specific to Akkadian culture, is, like the kindred religions of ancient Sheba, Ethiopia, and Canaan, and the Hellenistic cult of Isis-Osiris, a reflection of the Shakti-Siva cult, as Herodotus accurately pin-points the Dravidian origins of the pagan religions of Mesopotamia, Sheba, and Canaan. On this and related accounts, the fusion of the Vedic culture from Central Asia, with the technologically advanced Dravidian, maritime culture of Harrapa, etc., contains some riddles of significance for understanding the state of humanity



In respect to developed notions of physical science as such, we have the legacy of European Classical-humanist modes of education, such as those practiced by the Brothers of the Common Life, or the Schiller-Humboldt program employed for Nineteenth-Century, and later, German Classical secondary education. That education traced the origins of modern European physical science, from its Classical Greek roots, using a notion of mathematics centered upon the reflections of the work of the school of Pythagoras, of Thales, and of Plato, in the Thirteen Books of Euclid. It employed that same method in search of the relationship between Classical Greek developments, and those of relevant non-Greek predecessors. Out of this approach, modern European civilization developed a rather precise insight, into the notions of which validated discoveries of physical principle must be viewed as successors of some others, and forerunners of still others.<sup>39</sup>

In principle, the potential for a similar sense of ordering of discovery of Classical-artistic principles exists, but is far less developed than is the case for the mathematical-physics domain.<sup>40</sup> Nonetheless, in the Classical educational pro-

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in the Indian Ocean littoral, during the long period, during and immediately following the last great cycle of glaciation. Happily, the conclusions we employ here are not encumbered by such fascinating riddles.

39. One might say, a notion of the *cardinality*, in the sense of the Sieve of Eratosthenes, associated with such ordering of discovered principles.

40. Paradigmatic, is the case of the sequence for Classical music: J.S. Bach, Josef Haydn, Wolfgang Mozart, Josef Haydn after approximately 1786, Beethoven, Schubert, F. Mendelssohn, R. Schumann, and J. Brahms. Once the significance of implicit intervallic inversions was more adequately appreciated, the development of a rigorous polyphony attuned to the natural mode (e.g., Florentine *bel canto*) of the human voice, required the development of polyphonic-voice-determined well-tempered scales set at C=256, rather than the merely equal-tempered values which might be thought to meet the requirements of keyboard instruments. This development of well-tempered polyphony by Bach, already produced the germ of later Classical motivic thorough-composition in Bach's compositions, most notably in such scientific-artistic breakthroughs as Bach's *A Musical Offering*, and the principles of mastery of the role of inversions in well-tempered polyphony, in his *The Art of the Fugue*. Indirectly, as Maestro Norbert Brainin discovered, this led Haydn to the first formal use of this new method of composition in his Opus 33 "Russian" string quartets. Haydn's Opus 33 prompted Mozart to recognize a more advanced version of this approach to motivic thorough-composition, as already realized in essence by J.S. Bach's *A Musical Offering*. Haydn, in turn, then adopted his former student's, Mozart's, discovery in his later works. Beethoven, a student of J.S. Bach's work, adopted Mozart and Haydn, successively, as his chosen teachers. He perfected Mozart's original discovery, establishing this derivative of Bach's work and influence as the foundation for all Classical motivic thorough-composition, through the concluding composition by Johannes Brahms, and beyond. None would have been possible, without the work of his relevant predecessors. The same applies to Classical tragedy, in the succession: Aeschylus, Shakespeare, and Schiller, each of whom rested explicitly on the work of the relevant predecessors. In poetry, without the Classical Greek models, as opposed to the predominantly more trivial Latin models, Classical European poetry would not have come into existence. In plastic art-forms, without the revolution exemplified by the transmissions of the revolutionary principle, away from the Archaic, provided by the work of Scopas and Praxiteles, a Leonardo da Vinci, Raphael, or Rembrandt, would not have been conceivable. Rather than "four-square" tombstone designs, or pathetically symbolic "primitives" with no coherent principle, the Classical plastic art-forms express a degree of metaphorical

gram's artistic curriculum, the principle of education was the same. The student must not *learn* the description of the principle, or the mere use of procedures associated with it; the student must, in his, or her own mind, re-enact the personal, private mental experience of the original discoverer, the strife of resolving ontological paradoxes, that strife which is the form of mental activity from which every valid discovery of principle—in science, or art—is derived.

As in science, so in the domain of great Classical artistic compositions, the student whose talent is developed by Classical-humanist, rather than "drill and grill" modes, *usually* knows the name of the person, whether from the present century, or even several millennia past, who is identified as the original discoverer of reference. That student *always* knows the ontological paradox whose solution is the discovered principle: otherwise, the student could not have experienced the relevant mental act of discovery; otherwise, the student does not *know* the principle, but, at best, has merely tucked it into his "memory banks," has merely *learned* it as mere "information," not knowledge. The graduate of such education also knows which principles of science, or art, or both, he, or she, must have known, prior to undertaking the solution for the relevant paradox. In all such cases, the name for ontological paradox in Classical art-forms, is *metaphor*.

Thus, there are three qualities included in a former student's knowledge of any validated principle of science or art. First, the identity, perhaps even the actual name of the original discoverer of the principle. Second, the paradox, or metaphor, which prompts the regeneration of the principle. Third, the prerequisites for undertaking the attempted solution of that paradox, or metaphor: the notions of *ordering* and *cardinality* common to both physical science and Classical art.

These considerations, integral outgrowths of the 1948-1951 phase of my work on the project, led to 1952 studies of the work of Georg Cantor,<sup>41</sup> and, then, the rereading of Riemann's 1854 habilitation dissertation<sup>42</sup> as an alternative to Cantor's approach to the notion of the "transfinite."

The problem posed by the outcome of the 1948-1951 interval, was: how to express the progress flowing from scientific and artistic progress, in functional terms which might be correlated with relevant measurements. The fact, that both scientific and Classical-artistic principles, represented an implicitly orderable sequence of expanding, multiply-connected manifolds, was key to the solution. Riemann's recasting of both Leibniz's and Gauss's preceding work, on the overcoming of the fallacies inhering in an aprioristic form of geometry, provided the key for solving the problem. Most notable was Riemann's explicit freeing of physics from the shackles of

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imbalance, which forces the mind to adduce motion—change—rather than a naive, static imagery.

41. Georg Cantor, *Beiträge zur Begründung der transfiniten Mengenlehre*, in Ernst Zermelo, ed., *Georg Cantors gesammelte Abhandlungen* (Hildesheim: Georg Olms Verlag, 1962).

42. op. cit.

formalist mathematics: the notion of the unique, experimentally determined relationship between an n-fold physical manifold, and some measurable characteristic of action within the physical domain actually corresponding to such a manifold. In other words, with each discovery of principle, we must create a new mathematics, to replace the old, and must determine the characteristic of action within that new manifold experimentally, as Wilhelm Weber, for example, did for microphysics, in the instance of his experimental proof-of-principle for Ampère's "longitudinal force."<sup>43</sup>

In this connection, I added two new features to the Riemannian form of representation of a physical-economic hyper-manifold, determined by scientific and technological progress. The less revolutionary of these two additions, was the use of my own definition of physical-economic anti-entropy, in terms of a form of systems of simultaneous inequalities, whose result may be represented in linear terms, but which is not linked functionally to any linear system.<sup>44</sup> The second, which is, formally, far more radical, of course, was to superimpose an m-fold manifold, of discoveries of Classical-artistic principles, including principles of history in the large, upon any given n-fold manifold of validated physical principles. Thus, I redefined experimental science, as the experimental testing of the validity of principles of Classical art and history, in terms of the human species' required, anti-entropic form of increase of its per-capita, per-square-kilometer power over the universe.

With the combining of those two elements, in that fashion, I shifted the question from the experimental testing of a presented candidate to become a scientific principle, to a testing of the validity of those cognitive habits, by means of which both successful discoveries of principle, and the experimental validation of those discoveries, are generated by the individual human mind. In other words, the primary subject-matter became that which can be known, but can not be represented in terms of sense-perception.

This brings Classical education back into focus, once again.

In the process of Classical education, the student re-experiences original discoveries of physical principle, Classical art-forms, and history itself, as if the student had been the relevant original discoverer. The scope of this education reaches, implicitly, toward the contributions to knowledge of principle gained by all previous human existence. Although the number of principles known in this way, may be limited, they are representative of the net outcome of the history of knowledge to the present time. The student becomes, thus, in that degree, a living embodiment of all prior human existence: *an actual world-historical individual*.

That has a directly relevant connotation for the matter

43. op. cit.

44. *So, You Wish to Learn All About Economics?* op. cit.

immediately at hand. In the given case, the student is doing something far more profound, than merely coming to *know* (rather than merely having learned) a collection of validated principles. The student has repeated the act of successful cognitive solution for paradoxes (e.g., metaphors). In this way, the student has relived the relevant movements, from within the mind of the relevant original discoverer. The graduate of such an education must be cautious in his, or her selection of a future mate, lest he or she come to find, that one knows the most intimate facets of moments from the minds of many original discoverers, far better than one knows who is really behind the face of one's marriage-partner. The relevant student has repeated many times the greatest experiment of all, to prove the validity, the reliability of that agency which is the cognitive creative powers of the individual human mind, the powers better understood, only when one has perfected them considerably through many, many honings of their cutting edge.

This role of Classically-educated cognition, comes into focus in science and society, once we attempt to locate the "in-betweenness," which connects two, successively developed, formally inconsistent manifolds. How does something higher, develop out of something lesser? How does something totally irreconcilable, deductively, with its starting-point, develop out of that starting-point? Obviously, no manifold produces such successors. The transformation occurs from outside that original manifold, a transformation which is caused by, and which conforms to those creative cognitive processes which correspond to no sense-perceptual representation. It is the development of those innate potentials for successful creative cognition, which is the only valid purpose of a good education. The student so benefitted, comes to the state of familiarity with, and experimentally grounded confidence in those specific, sovereign cognitive powers of the developed individual mind, in which he, or she is able to call those powers into play, once again, at will.<sup>45</sup>

Restate this crucial point. What is the ordering-principle, which governs the successful generation of a validated new manifold, out of the prompting of this discovery, by the ontological paradoxes of the superseded manifold? What is the agency which performs this action? It is the developed cognitive powers of the individual human mind, cognitive powers which absolutely defy simply sense-perceptual, or algebraic forms of representation. *This transformation is the source of anti-entropy, contributed to the physical-economic and related social processes by individual cognitive creativity.*

45. A couple decades past, Dr. Stephen Pepper chanced to meet the Dr. Lawrence S. Kubie on whose work I had bestowed much praise: qualified praise, but, despite his association with Freudian psychoanalysis, well-deserved praise. In the course of the brief exchange between Pepper and Kubie, Kubie insisted, quite rightly, that creativity is a good in and of itself. If we may read that observation as consistent with what I have just stated here, the late Dr. Kubie was certainly correct in that opinion.

There is a further implication in that. The peculiarity of man's relationship to the universe at large, is expressed most succinctly, by the fact that whenever the human cognitive processes generate a validatable discovery of principle, the universe is so designed that it is self-obliged to submit more fully to mankind's will on that specific account. It is this anti-entropic quality characteristic of the individual cognitive processes, which is the source of the power compelling such obedience from nature. *Such is the nature of the fundamental ordering principles of the universe.*

### **The morality of Classical education**

Until the Jacobin atrocities launched in France, beginning July 14, 1789, the most moral citizens of Europe were inspired by the example of the U.S. Declaration of Independence, the ensuing struggle for liberty against the evil tyranny of the British monarchy, and the U.S. Federal Constitution. To any literate German—the members of the pro-U.S.A. *Leser-gesellschaften*, for example—the Declaration of Independence and Preamble of the Federal Constitution, were reflections of the anti-Locke philosophy of Gottfried Leibniz. At the outbreak of the French Revolution, these republican strata of Europe hoped that the result would be the rapid spread of the U.S. example into Europe. With the increasingly menacing atrocities led by such Anglophile revolutionaries as Maximilien Robespierre and the Duke of Orléans, Philippe Egalité, and then, the escalation of the Terror under outright British agents Danton and Marat, a terrible depression settled upon Europe over the years 1789-1794, preceding the July 1794 toppling of the terrorist regime of Robespierre and Saint-Just.

To translate somewhat freely Friedrich Schiller's famous remark on these developments in France: "A great moment has found a little people." The want of a moral development in the French population, had turned opportunity into catastrophe. On this account, Schiller led in pointing to the importance of a Classical education of the population, education based upon not only science, but also the role of great examples of Classical art-forms, in effecting the moral education of the mental faculties. Unfortunately, especially since the cultural downshift of 1964-1972, the which has been accompanied by a virtual extinction of popular participation in Classical art-forms, a state of widespread moral illiteracy, has become "mainstream thinking" in both Europe and the Americas. Once again, a great moment of crisis, a great opportunity for long-needed change, finds among the leaders and population of these nations, a "little people," akin to the perilous moral condition of the 1789-1794 population of France.

Under such conditions, only the most exceptional type of leadership, can successfully guide a self-imperilled nation, or nations, to an historical place of safety. In such a circumstance, such qualities of leadership are distinguished for the egregiousness with which their proposed, indispensable remedies, are regarded, and resisted by both leading institutions, and much of the population in general.

These kinds of problems were already evident in the U.S. population and institutions during the pre-World War II decades. The influence of pragmatism upon public and higher education, was part of the morally corrosive influence, responsible for undermining the popular moral faculties. More broadly, there was the spread of populism, which placed ignorant, and usually false, commonplace opinions and tastes, above relevant cultivated knowledge. The most widespread fear was the fear of becoming "unpopular," of expressing "unpopular opinions," exhibiting "unpopular" tastes. The adolescent girl or boy, usually prized becoming "the most popular" of their gender, and usually feared—sometimes to the extreme degree of social-theorist Emile Durkheim's notion of *anomie*—a lack of such status. The desire of most such young folk, of my own and the succeeding generation, to be something worthwhile, was superseded by a pitiable, romantic fascination with looking like, or smelling like, some movie-idol. The essential moral quality, the strength to stand alone for truth and justice, against wrongful popular opinion, was undermined, and, after developments of 1964-1972, virtually, lost somewhere in a vast stinking swamp of "political correctness."

These matters belong to what I have identified here, as earlier, as the m-fold set of artistic postulates, which shape the way in which the mind guides both the cognitive act of validatable discovery, and the way in which social relations react to such discoveries. Look at the internal dynamics of Classical artistry from this point of reference. After a relatively brief treatment of that sub-aspect of our topic here, we shall return, prepared, to examine the nature of the interactions between the m-fold and n-fold manifolds.

Take the case of performance of Classical musical compositions. Look at the moral root-difference between a Classical performance of Bach, Mozart, Beethoven, Schubert, Chopin, Schumann, or Brahms, and an attempt to read such a composition in the Romantic mode, as if it had been composed by Franz Liszt or Richard Wagner. The essence of the difference in approach, is between an *agapic* passion, like that associated with the joy of effecting a valid scientific, or related discovery of truth, or realization of justice denied—as against the alternative, *erotic* passion of mere sensual effects.

To this end, consider the case of the Classical composition: The performer's or performers' attack upon the opening tone and first interval of the composition is decisive. The beginning of the composition defines a musical statement, which serves as the take-off point for the process of development of the composition in its polyphonic entirety. The performer must not only seize the audience's attention at the outset, but must grip that attention in a way consistent with the process of development which, in the end, becomes the idea of the composition as a unified, indivisible entirety. The late Wilhelm Furtwängler was a master of this.

This problem confronts the Classical performer in one way, and the Romantic in another; despite the differences,

the attack upon the opening, is more or less decisive for the audience's apprehended artistic impact of the composition as whole. In the first instance, the Classical evocation of *agapē*,<sup>46</sup> is associated with the characteristic feature of great Classical compositions, since the relevant work of J.S. Bach: motivic, polyphonic thorough-composition. This reflects, thus, the quality of anti-entropy. In contrast, the anarchic sensualism of Romantic, Modern, and post-Modern art, appeals only to a linear emotion, that of lust and rage.

At first reading of my argument here so far, it might be suggested that art is only another expression of the same quality of discovery, met in validated discoveries of physical principle. That would be a superficial interpretation of the actual connections between science and Classical art. By physical science, we mean the relationship between the individual cognitive processes, and the individual's ability to act efficiently upon the physical universe. In art, we employ the same cognitive faculties, to the same included effect, but with crucial social dimensions added.

From the standpoint of validated original discoveries of physical principle, the first social problem encountered by a valid discovery, is the challenge of replicating that cognitive act in the mind of another person. I.e., Classical modes of education. The leading consideration is, that the cognitive processes of cognitive discovery by one person, can not be perceived, nor represented within the bounds of sense-perception. The only way those cognitive processes can be defined as a mental object of knowledge, is to replicate the validated process of discovery by another, in one's own cognitive processes. It is this deeper aspect of human social relations, rather than the form of relations located within the more superficial domain of sense-perception, which is the essential character of social relations overall.

Thus, in art, we apply the quality of cognitive passion associated with validatable discoveries of physical principle, to social relations as such. The general theme of this interplay, is the conflict between the agapic passion of creative cognitive processes, and erotic impulses associated with mere sensuality, with sense-perception as such. The characteristic problem, so posed, is the struggle to maintain the agapic mood's efficient subordination of erotic impulses to agapic purposes.<sup>47</sup>

In Classical art-forms, this social relationship is expressed always as a metaphor. This is the "To be [*agapē*], or not to be [*eros*]," of the Third Act soliloquy by Shakespeare's Hamlet. Or, in Schiller's counsel, the audience departing the theater after the performance of a Classical tragedy, must leave the

theater better people than they had entered it. These desiderata are the key to all great Classical artistic compositions. It is the reading of history from this Classical-artistic vantage-point, which is the truth of history. It is the same, differently located, in Classical musical composition, as best exemplified by the greatest Classical polyphony.

Thus, so informed by Classical art, we approach the practical matters of life with our passions made literate. The motive so supplied, is to realize truth and justice in society. The notion of truth and justice is located in an (agapically) impassioned prescience of the necessity for that anti-entropic progress of mankind, which is the characteristic of the agapic, otherwise known as creative-cognitive mood.

### Art and hypothesis

The scientific approach to physical economy, is motivated by concern to foster forms of progress which improve the potential relative population-density of mankind. This improvement depends upon what we call investment in scientific and technological progress, which means, in the relatively longer term, revolutionary transformations from an initial science-manifold of  $n$  principles, to successive new manifolds, of, successively,  $n+1$ ,  $n+2$ , . . . , principles. There are two leading problems posed by this consideration.

The first of these two problems, is the science-driver principle itself. Each transition, from an  $n$ -fold, to an  $n+1$ -fold manifold, requires cognitive action. In other words, the specifically anti-entropic intervention, by cognition, which is the unique origin of upward ordering of successive, anti-entropic transformations of scientific hypothesis. Without a high degree of agapic development among scientists and related strata, this ordering will not appear as desired.

The second of these two problems, is the society's attitude toward such scientific and technological progress. The questions include: How is this to be fostered? How are the benefits to be applied? What is the moral purpose toward which this effort is directed? What is the nature of the individual member of the human species, such that we are obliged to steer society's development and related practice in one certain direction, rather than another? In short, the set of implicit moral values distributed among members and strata of the population, will act, and with passion, to shape the direction of policy-decisions, according to the social values placed on alternative proposed answers to those questions.

In the case of the outstanding progress of western European civilization, from the Fifteenth-Century Golden Renaissance into much of the troubled Twentieth Century, the driving passion was that specific to western European Christianity: the emphasis upon struggling against the legacies of Babylon and of the evil Roman and Byzantine empires, and also against feudalism, to establish a form of society cohering with the notion that all persons, without racial or ethnic distinction permitted, are equally made in the image of God, that evidenced by the creative powers of cognition, awaiting

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46. *Agapē* as defined by Plato, the passion which compels one to accept nothing less than truth and justice, is the same quality of *agapē* referenced by the Apostle Paul's *I Corinthians* 13. It is, therefore, the passion for truth, which supplies the needed energy for the quality of concentration required to transform an ontological paradox, or Classical metaphor, into a validatable discovery of principle.

47. If you will, you make take this as a reading of Paul's *I Corinthians* 13.

development in each new-born personality.

The notion of society's obligation to develop those powers, and to rely upon them as the source of solutions for great problems, is the driving passion which engendered that European form of modern sovereign nation-state republic, best expressed by the Declaration of Independence and Preamble of the Federal Constitution of the young United States, a U.S. whose peculiar advantages were, that it was an embodiment of the best ideas produced in Europe, such as those of Leibniz, in particular, but ideas expressed at a strategically less insecure position, relative to the long arms of those feudal relics known as the European landed aristocracy and financier oligarchy.

Thus, to forecast, one must concentrate on both the physical-economic aspect, with its immediate connections to matters of principles of physical science, but also the generationally oriented social-cultural processes. We have a significant, but secondary interest in the relatively more transient opinions as such, but a great deal of interest in what the London Tavistock Institute would prefer to identify as cultural "mind-set," or "cultural paradigm shifts:" the axiomatic hypotheses which tend to predetermine what opinions will be engendered, by the unfolding of a certain direction in combined, interacting, cultural and physical-economic developments over, usually, the span of a generation or two.

One can not master forecasting of this sort from an "ivory tower." In the absence of the existence of determinable, precise magnitudes of passion, associated with the set of any cultural paradigm, forecasting demands a high degree of intellectual participation in the process of studying patterns of shifts within populations, a study which must be grounded, inclusively, in an intense study of history from this vantage-point.

As a forecaster, my advantages have included, prominently, my critical view of the cultural quality of various strata among the populations of, most notably, North America and western Europe. This engagement, grounded in Classical philosophy, made it possible to foresee how institutions and populations would react to the very developments their own cultural impulses would prompt. A strong trend in culture will usually drive to some limit, at which it imposes a crisis upon itself; how it will respond to the crisis its choice of cultural impulse itself has thus caused, has been the usual record of history.

The first thing in successful long-range forecasting, is to recognize that the problem of forecasting as I have outlined it here, exists. Thus, to put aside the simplistic, usually reductionist, fallacy of composition, which has usually passed for economic forecasting methods in modern professional education and government.

## LAROCHE ON THE NEW BRETTON WOODS

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## LaRouches mobilize in Italy for a New Bretton Woods

by Liliana Celani

On April 2, Lyndon and Helga LaRouche addressed a meeting on a New Bretton Woods financial reorganization, held at the Hotel Nazionale in Rome, a few steps from the Italian Parliament. The briefing was attended by Members of Parliament (both the Chamber of Deputies and the Senate), economists, journalists, and diplomats. Introducing the speakers, Paolo Raimondi, president of the Italian Solidarity Movement, reminded the audience that one year ago, the LaRouches had warned, at another conference in Rome, of the upcoming financial crisis, and had presented the alternative to it, the Eurasian Land-Bridge perspective. As Mr. LaRouche himself explained, in his introductory remarks, "Some years ago, I presented to various places, including the government of the United States, a proposal for a plan of action in response to a crisis of the type we experienced first since last October, and now we will experience with much greater force during the second quarter of 1998."

"I propose," LaRouche continued, "that we base our actions on a historical precedent, that we take the 1950s as a period in which the postwar reconstruction efforts had demonstrated that they were going to be successful, which is under the Bretton Woods arrangement." The difference between now and the 1950s, he explained, is that in the last 30 years, the Baby Boomer mentality of hedonism and anti-industrialism has caused devastating blunders in economic policy, destroying the industrial base of most countries, and particularly their key sector, the machine-tool sector, which in Europe would be the key contribution to important infrastructural projects such as the Eurasian Land-Bridge.

"The development of the machine-tool-design concept, which began, essentially, with Leibniz, but was actually developed in its modern form by France's Lazare Carnot, was a

product of Central Europe, France, Germany, Italy, especially, and the United States," LaRouche said. "It was the United States, that was the first successful machine-tool-design-based economy, between 1861 and 1876. This was the model which was copied in Italy, as well as in Germany and France, and, to some degree, Russia and Japan.

"This has, then, the following implications. This purpose of facilitating a relationship between rapid development of the machine-tool-design sector in Europe, Japan, and the United States, as a trading-partner relationship with the large populations of Asia, becomes the real core of any international monetary reform.

"In other words, the new monetary system is not simply a set of rules to play football by, but actually has to be a mission-oriented system, which has an implicit purpose. The purpose is to bring a system of justice to this planet, especially economic and social justice, through the mobilization of the machine-tool-capable nations, to assist in the development, the internal development of the nations of Asia and Africa."

LaRouche's proposal to Italy, which is among the 22 countries invited to the April 16 Willard Group conference in Washington, was to revive the traditional cooperation with the United States which goes back historically to Alcide De Gasperi and Franklin Delano Roosevelt, in order to make sure that President Clinton adopt such a New Bretton Woods perspective.

Helga Zepp-LaRouche, chairman of the Schiller Institute, addressing the meeting after her husband, explained that 500 Members of Parliament, three former Presidents, and thousands of civil rights leaders have endorsed, in the last year, a call to President Clinton to convoke a New Bretton Woods conference, launched by Mrs. LaRouche and Ukrainian par-

liamentarian and economist Dr. Natalya Vitrenko. Many of these endorsements came from Europe, including many members of the Italian Parliament. The increasing support in Europe for LaRouche's proposals is due to the fact that the "Asian crisis" is seen, since last November, not as an "Asian," but as a global financial crisis, and its effects, in terms of decreased exports and increased unemployment, have led to social unrest in most European countries. This is leading to "new political realignments," including in Italy.

### **What about the European Union?**

The first question to Mr. LaRouche came from a member of the Senate, who said he fully agreed with Mr. LaRouche's analysis of the financial disintegration, and recognized that his warnings about it were "prophetic and accurate," but he could not understand why the speaker had denounced the European Monetary Union and the Maastricht Treaty, and why he thinks the EMU contributes to the crisis rather than helping to solve it, as most Italian and other European media claim. Mr. and Mrs. LaRouche answered by emphasizing the two major flaws of the EMU: first of all, the destruction of national sovereignty in economic policymaking, which is the opposite of the New Bretton Woods idea; and second, the fact that in "creating currency blocs, a Euro bloc against the dollar and yen bloc, it prevents the kind of international cooperation on monetary reform required for a program of global reconstruction" as Mrs. LaRouche said. "The day the Euro is created, it will collapse, because there will be capital flight into the dollar, the yen, and the Swiss franc," was Mr. LaRouche's answer. Even more important, the next round of financial crisis will hit the world, Europe included, long before the Euro is born, between now and June.

The LaRouches' visit in Rome concluded with two more meetings, one on Africa, with priests and students from the Great Lakes region of Africa (including Burundi, Rwanda, and Congo), and another one on scientific method, with ten Italian scientists who work on cold fusion.

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## **Speech of Lyndon LaRouche**

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*Due to technical difficulties, the beginning of Mr. LaRouche's speech was not tape-recorded. He began by discussing the current world crisis, as it confronts Italian political leaders. He then described the countercultural pleasure-seeking of the Baby Boomer generation, the generation which now makes political, strategic, and economic policy throughout the world.*

... So, as a result of the influence of these ideas on culture, on politics, inch by inch, decisions were made which turned society away from the successful reconstruction in the post-war period, into a form of economy which was self-destructive. The decisions which were made in the 1970s, between

1971 and 1975-76, monetary decisions, the abandonment of the Bretton Woods agreements, the establishment of the floating-exchange-rate monetary system, which is what sank the Italian economy in 1975, and brought about the IMF conditionalities on Italy in 1976.

So, what we have done is, over 30 years, step by step, by a corrosive process, we have destroyed the institutions of policy-making which we had, which guided us to make (whatever conflicts were involved), upward progress into the end of the 1960s, in terms of economy.

Today, you have a system where you have some people who are very wealthy, especially the new rich, who didn't earn any of it: the gamblers of the bourses. And, they are sitting at a great feast, celebrating their power and wealth. The wealth of the state, the monetary power of the state, is poured into this sea of speculation, this cesspool of speculation. The poor are looted; the social welfare system is looted; the pensions are looted, to feed this orgy of speculation. It's a kind of orgy which is worse than those of the John Law bubbles of the early Eighteenth Century.

We now live in a time where the dominant forces of government and finance, the majority, are worse than clinically insane. Liberal economics, free trade, globalization, end of the nation-state, supranationalism: These are not rational ideas. This is a form of pagan religious insanity. But the majority in power are committed with great passion, like the *Flagellanti* of the Fourteenth Century. "These are the new ideas. We must defend these new ideas. We must vote for these new ideas."

And, the answer is to turn to Rembrandt, the famous painting of "Belshazzar's Feast." That's where we're at. We're having people celebrating power: "Oh, the stock market is growing higher! Oh, these values are growing higher! Oh, this is the future! The 'euro' will save us all. We must join Conte Ugolino in Paradise." This is the cry of the times.

### **Plan of action in a time of crisis**

Well, how do you get out of this mess? Only a great shock will bring a population to its senses. But a shock does not necessarily succeed by itself. We've seen the rise of fascist regimes in Europe, after 1931, after Versailles, as a result of the failure of leadership, of positive leadership, to provide the necessary alternatives. People do not respond with good ideas to shock. People respond to shock with an openness to alternatives. And if a good alternative is provided by a responsible leadership, they will seize upon that opportunity. But, if an effective alternative is *not* provided by recognized leadership, then the people will board the vehicle to Hell. Thus history works, that societies which can not provide leadership in time of crisis, condemn themselves to self-destruction.

So, that brings us back to the point from which I started my remarks here, that we have—some years ago, I presented to various places, including the government of the United

States, a proposal for a plan of action in response to a crisis of the type we experienced first since last October, and now we will experience with much greater force during the second quarter of 1998.

I propose that we base our actions on a historical precedent, that we take the 1950s as a period in which the postwar reconstruction efforts had demonstrated that they were going to be successful, which is under the Bretton Woods arrangement. It wasn't the Bretton Woods formula that did it alone; it was that the Bretton Woods formula was adapted, to provide a climate favorable to plans for successful physical reconstruction of war-torn and other economies.

My point was, that as the crisis becomes worse, it is impossible for sane people to deny that the system we had under Bretton Woods, in the 1950s and later, worked; that the limited convertibilities, the exchange controls, the fixed parities, and so forth, that we had in the 1950s Bretton Woods, allowed us to enter the 1960s with a degree of building of economy which continued that—which we need today, precisely the same thing. But, when we say New Bretton Woods, and we refer to the 1950s, we are saying to people, "Look at what happened in the 1950s and 1960s, and look what has happened in the 1970s, 1980s, and 1990s."

Take the system of the 1950s, and the system of the 1970s and 1980s. If these were automobiles, which would you buy?

Now, when the crisis hit at the end of 1997, as we expected, by approximately early November, but certainly by December, around the world, there began to be a political shift within the populations and institutions. For example, look at Southeast Asia. Look at the figure of the Prime Minister of Malaysia, Mahathir bin Mohamad, and realize that what happened to these countries, which had the most egoistical delusions about the so-called "Asian Tigers," obvious delusions, they suddenly realized that this *had* been a delusion. The vulnerability to Soros and others, showed them that they had been living in a world of delusion.

Around people like Mahathir, and then later, in his own way, Suharto, the President of Indonesia, and his now-Vice President Habibie, there began a movement in Southeast Asia *against* what this system represents. You see a political shift within the population and institutions of Germany now. Most of you here are part of a similar kind of impulse, which is occurring in Italy, an impulse toward re-establishing a responsible political party system, a regrouping and reassortment of forces to try to create a responsible political system.

## The financial Moloch

In the United States, we also see it very clearly.

You can see, from a distance in Italy, that in the United States, there are two kinds of insanity loose. One is typified by the ultra-right Republicans, such as Newt Gingrich, the Speaker of the House of Representatives, or the domination

of U.S. politics by wild-eyed, Pentecostalist idiots, right-wing idiots. And, you see also the continuation of the insanity which is the wild-eyed environmentalists.

But, in fact, two-thirds of the U.S. population rejects the environmentalist agenda in the popular vote. *Over half the population refuses to vote.* Most people who consider themselves Republicans or Democrats, are in revolt, in disgust, against the leadership of their own parties. There's a process of organic ferment inside the population. You see it, when you're an old hand in political organizing. You begin to see the population is beginning to move into a political organizing mode.

So, the next crisis, which is coming now in this quarter—it's here already. We say April First is the Day of the Fools. We saw that on April First around the world, in the financial system. It's over! But, it's not over.

What you will have, is, at present, since the people who represent the ideas which are discredited, represent presently, still, the majority influences in finance and in other institutions—the tendency will be, as we saw at the end of the year, to sacrifice everything, including babies, to try to save this financial system. Moloch: Take your first child and throw it in the furnace, to worship the God of Finance. Well, that is not going to work. But, if it does go that way, by June, the entire system will be visibly bankrupt. It will have no more resources for an additional bail-out beyond this quarter.

Now, I hope this does not happen. I'll just come, in my concluding point, to that.

But you would say, as the push for the Euro shows, the push for the Euro now is one of the leading edges, in Europe, of this insanity. The philosophy of the Euro, as designed by Mitterrand, the great Socialist, was to create a system in which governments had no power. The bureaucrats would decide everything, and the bureaucrats would administer a financial system whose fundamental purpose was to support the international bankers: to liquidate the social welfare system, to provide more funds to go into the coffers of the bankers, to bail them out; to liquidate industry also; agriculture. Everything is going into the furnace of Moloch to support these financial powers, which is a form of this. This leads to exactly—

It's a 1931. This is what Tony Blair represents in England today: a Ramsay Macdonald, a new Ramsay Macdonald, whose purpose is this. The British don't intend to join the Euro. The Euro is a furnace in which they're putting other people, not themselves. *Your* babies, not the babies of the British.

So, you see from the example of this role of the Euro, which has destroyed every social welfare system in Europe. You see what's been done to the former Soviet Union, and the former Comecon. The babies have already been thrown into the furnace. The same system, the same conception. And they will try to do it again, just one more time, as the Euro push shows.



As I said, I shall conclude by indicating how we intend to try to stop it. But, if they succeed, if these madmen, these Flagellants of this time, succeed, in pushing through the kinds of programs that the crazy Japanese government pushed through, an hyperinflationary program, which has already failed—then the next phase will be the worst financial crisis in all history.

The system is essentially bankrupt. The international financial system is bankrupt. There is only the prosperity of fools in the system. We have in the world presently, dominated by so-called derivatives, about \$140 trillion equivalent of short-term gambling debts. In the recent years, especially since 1982, and most emphatically since 1987, the growth of derivatives has taken over and eaten up the banking system itself. The kind of radical monetarism which has taken over governments and financial institutions, has converted the assets of the banking system and its auxiliaries in the economy, into nothing but a vehicle for pumping up a vast financial bubble.

Remember that the \$140 trillion in short-term obligations of this type, is several times the total GDP of all the world's nations combined. What happens when the nations no longer have the resources, after the second quarter, to continue to pump large amounts of liquidity into these financial markets? The result is predictable. We've experienced it before, but never on this scale. When you have a financial bubble, like the Pyramid Club of 1949-1950 in the U.S., of a chain-letter bubble—and what these derivatives markets are, is a chain-letter bubble.

This is like the John Law Bubble in France, or the similar bubble, the South Sea Island Bubble in England. Remember what happened in France: Almost the entire middle class of France, and upper classes as well, lost their fortunes gambling in something which was *less* insane than derivatives.

What happens in a chain-letter system, when there is no longer a new infusion of money into it? What sets in is called "reverse financial leverage." The present system, if this international financial bubble reaches the point that it becomes subject to reverse financial leverage: The entire financial system of this planet, with the exception of China possibly, will be wiped out within as short a period of time as three days. This will be worse than what happened to the Lombard banks during the middle of the Fourteenth Century. It will have the same effects as the Great Dark Age of the middle Fourteenth Century, but on a global, planetary scale.

So, that's the danger. There's no alternative. And that's reality. Everything else is delusion. You don't try to burn nitrogen in a confined area. Not a very smart idea.

## **U.S. role is crucial**

Now, how do we bring about this change? In order to do this, you must have, as we had in the Bretton Woods System, you must have a concert of some nations, sovereign govern-

ments, which agree to set up a new system. Despite the fact that the United States is not as powerful as it was 20 years ago, or 30 years ago, the United States government, the Presidency of the United States, is the only institution which is capable of bringing together at least a significant group of nations, to make such decisions.

My main concern is to get the United States government to commit itself to play that role. And I am pleased, with qualifications, to see that the Treasury Secretary of the United States, Robert Rubin, has attempted to introduce that role for the United States in this crisis. And, through the influence of certain parts of the U.S. government, as well as my own and my associates' influence, the idea of New Bretton Woods has become a popular idea in many parts of the world's establishment.

And in the middle of April, this month, there will be three meetings: a meeting of the IMF, a meeting of the G-7 group. There will also be a meeting, called by Secretary Rubin, where 22 nations will participate in discussing a possible agenda for a reform of the international monetary system. This meeting is called the Willard Group meeting officially by the U.S. government, and it is a subject matter which has caused the spread of the words "New Bretton Woods System" throughout much of the press of the world.

Now, obviously, as in London and elsewhere, you will have terrible resistance to any such idea. But, therefore, what we're dealing with, is the need to have a concert of nations which is sufficiently powerful to overcome all objections.

The first consideration in power today, is the fact that the center of gravity of the world's politics and economy, has shifted from the Atlantic Ocean to the Pacific. The relationship between the President of the United States and the President of China, is, potentially, the pivot of world politics. India implicitly, especially if it enters into cooperation with China, as is indicated from India, as well as China—means that the population of East and South and Southeast Asia, becomes the center of world economy, despite the crisis, financial crisis, now ongoing, which means a new world economic and social order, as well as a new financial order.

If you have nations which represent the majority of the world's population, participating, as partners, in shaping the policies of a world monetary system, you now are going to have a more just world economic order. And, His Holiness Pope John Paul II may find that the Jubilee can be realized.

Now, the problem in China is this—and China, like India, has this problem, as all Asia does. China (as Helga can detail more; she's been there a few times), China is committed to move its development from the coastal area of China to the internal area, populated area of China and beyond, to the wasteland areas. To meet the requirements—those social requirements for a Chinese population and economy under present conditions—requires a very large infusion of capital, into

new forms of employment in these areas, and infrastructure development.

If you just make a simple arithmetic calculation, you can see that this kind of investment involves tremendous capital costs, social capital costs. You cannot implement such a program without high rates of technological progress. That is, you cannot increase the ratio of capital intensity so rapidly in any society, without high rates of technological progress. Technological progress requires — what? It requires a *mediator*: scientific progress first, but it requires a mediator. It requires the machine-tool-design sector.

Mainland Asia, and Southeast Asia, do not have any *significant* amount of machine-tool-design capability. Therefore, the success of the development of China, and also of India, and other parts of Asia, depends upon acquiring trading agreements, and long-term agreements, under which other parts of the world, which have either a machine-tool capability, or can resurrect one — can supply scientific and technological progress infusions to make the development of Asia successful.

The development of the machine-tool-design concept, which began, essentially, with Leibniz, but was actually developed in its modern form by France's Lazare Carnot, was a product of Central Europe, France, Germany, Italy, especially, and the United States. It was the United States, that was the first successful machine-tool-design-based economy, between 1861 and 1876. This was the model which was copied in Italy, as well as in Germany and France, and, to some degree, Russia and Japan.

This has, then, the following implications. This purpose of facilitating a relationship between rapid development of the machine-tool-design sector in Europe, Japan, and the United States, as a trading-partner relationship with the large populations of Asia, becomes the real core of any international monetary reform.

### **Mission for a system of justice**

In other words, the new monetary system is not simply a set of rules to play football by, but actually has to be a *mission-oriented system*, which has an implicit purpose. The purpose is to bring a system of justice to this planet, especially economic and social justice, through the mobilization of the machine-tool-capable nations, to assist in the development, the internal development of the nations of Asia and Africa.

This means that the policy of the government of the United States, and the responsible governments of Europe and Japan, to the governments of China, India, and other affected nations, must be: We are in a global partnership between those who *need* the machine-tool-design import capability, and those who are going to commit themselves to supply it.

The unifier of this kind of pact, the practical unifier, is a system of transportation development corridors across Eurasia, to the Pacific and to the Indian Ocean from Europe.

And, the commitment of both Asia and Europe, as well as the United States, to the development, just development of Africa, especially sub-Saharan Africa, primarily through the contribution to Africa of the main rail power, etc., infrastructure lines, corridors, which are needed to transform the agricultural potential of Africa as a food-growing area, a food-growing supplier to the needs of Asia, a growing Asia, as the basis for giving Africa the ability to leap up, and develop its own modern forms of economy.

And you know, from the past experience of Italy, in its export of its capabilities, what the role of Italy is naturally under favorable conditions, in such global development in Asia, the Middle East, and Africa. Because the position of Italy, in respect to the Mediterranean region, is a historically established, well-known one. This was always the line of success of Italy's economic development. So, the obvious implications of partnership are there.

Now, finally, we have a President who is not a bad President in the United States. But, he has problems. Many people who can play a great role in history, have limitations — personal limitations. For example, sometimes, when you elect a President of a republic, you know his limitations, and therefore you must make arrangements to make sure that he is protected from his own limitations, in his government.

The limitation of President Clinton is that he is a member of the '68 generation. Members of that generation do not make hard, difficult decisions with great pungency and force. They're pragmatists. And thus, the President, as advised by his Secretary of Treasury, will probably be inclined to go in the direction I've indicated. But, as I've said publicly in the United States, this President has more the qualities of Germany's young Moltke who *lost* World War I, than the qualities of the great von Schlieffen, whose plan would have *won* World War I.

So that, if you have a von Schlieffen Plan for conquest of this crisis, you had better be aware that you have a young von Moltke in the key position of command. Great leadership requires maximizing rational risk, as Hannibal did at Cannae. He maximized risk. An inferior force defeated a larger force, by maximizing risk, with a flanking operation. . . .

In such a condition, the people themselves, or the constituency, have to strengthen their leader. Therefore, the role of influential circles in Italy, as in other countries, in respect to discussing with their channels in other countries, especially the United States, their inclination to move in the direction I've indicated, is something that is needed, by the President, and by people around the President, to persuade him to act with pungency and force, in an action where the nations of the world require the United States President, once again, to play that kind of special leadership role, of bringing a group of nations together, to make a great, historic decision which will save humanity from the risk of plunging into a New Dark Age.

Thank you.

# Conspiracy of silence on Diana's murder

by Jeffrey Steinberg

For the past two months, the British and French media, under heavy pressure from the British monarchy and the French Socialist government, have been engaged in a near-total blackout of the murders of Princess Diana, Dodi Fayed, and Henri Paul. The shift from a campaign of continuous disinformation, aimed at boosting the official French police claim that the deaths were the result of drunk driving by Henri Paul, to the sudden blackout, was triggered by a series of revelations that threatened to blow apart the entire cover-up effort.

The most significant of the revelations was the interview by Mohamed Al Fayed, which appeared in mid-February in the London *Mirror*. Al Fayed stated that he was "99.9% certain" that the deaths of Princess Diana, his son Dodi, and Henri Paul, in the Aug. 31, 1997 Paris car crash in the Place de l'Alma tunnel, were the result of a conspiracy.

As a civil party to the case, he is privy to the entire investigative file of Magistrate Hervé Stephan, the French official in charge of the ongoing probe. According to sources close to the investigation, many of the details contained in the thousands of pages of raw police investigative reports strongly point to vehicular homicide. Magistrate Stephan himself stated, in a rare public comment on the case, that he will not consider the investigation closed until police have located the missing Fiat Uno that collided with the Mercedes carrying Princess Diana and Dodi Fayed, and then sped out of the tunnel and vanished.

In March, the *Mirror* ran another exclusive interview, this time with Trevor Rees-Jones, the bodyguard of Dodi Fayed, who was the sole survivor of the crash. Rees-Jones was severely injured in the crash, and has only recently begun to recover his memory of the events. In his interview with the *Mirror*, Rees-Jones confirmed that Princess Diana was still alive, and conscious, after the crash. He also recounted that the Mercedes was being chased from the moment it left the rear of the Ritz Hotel, by at least two cars and a motorcycle. This conforms to the testimony of a dozen eyewitnesses, who told police and reporters that the Mercedes was being chased by a number of vehicles as it entered the Place de l'Alma tunnel.

Rees-Jones's interview also revived another controversy surrounding the fatal crash. French emergency rescue units

took nearly two hours to get the Princess to a hospital, although timely emergency surgery could likely have saved her life. Doctors at the scene in the tunnel had correctly diagnosed that the Princess was bleeding internally. The only life-saving course of action would have been to rush to surgery, where the damaged veins or arteries could have been repaired. Instead, the rescue team spent one hour getting her into the ambulance, and took 43 minutes to drive her four miles to the Pitié Salpêtrière Hospital.

The inexplicable failure of the emergency medical team was a prominent feature of a third important exposé of the crash, the book *Death of a Princess*, by *Time* magazine bureau chief Thomas Sancton and Middle East correspondent Scott McLeod. The book, which was released in early February, generated a brief flurry of media attention on the failures of the French doctors, and focussed an international spotlight on several of the other unanswered questions about the deaths. However, as this writer reported in a review of the book (*EIR*, March 13), the authors sidestepped the fundamental question: Were Diana and Dodi the targets of an assassination plot? In a documentary report published on Nov. 21, 1997, *EIR* had already come out with compelling evidence that the couple had been assassinated.

## 'Bloodsport' against Al Fayed

Sources close to the official investigation have confirmed *EIR*'s own assessment: that the disinformation campaign by French authorities and the British monarchy, run through all-too-willing media in both countries, was being successfully undermined by the Al Fayed interview and the other revelations. In early March, Mohamed Al Fayed held a several-hour private meeting with Magistrate Stephan. Afterwards, Al Fayed described the conference as "magnificent." Contrary to media smears that attempted to portray the meeting as a confrontation between the two men, with the magistrate denouncing Al Fayed's public statements about a "murder conspiracy," sources close to the French probe say that the two men discussed many of the inconsistencies in the case, and several possibly fruitful areas of further investigation.

It was in this context that Rupert Murdoch's *New York Post*, in early March, announced that the "British establishment" had declared all-out war against Mohamed Al Fayed, aimed at driving him out of England and France altogether. What Murdoch's gloating pronouncement about the monarchy's "bloodsport" against Al Fayed failed to note, however, was the fact that the vast majority of Britons and Frenchmen are still convinced that Diana was murdered. The latest effort to use a media blackout to bury the evidence that the Aug. 31 crash was a premeditated vehicular assassination shows, if anything, just how vulnerable the British monarchy and their French Socialist allies are, in the face of the unanswered questions, and the ongoing probe by Magistrate Stephan.

### A ship pre-programmed to sink

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*The European Monetary Union, scheduled to go into effect in January 1999, will not survive the global crisis.*

On April 2, the Constitutional Court ruled against five plaintiffs who had tried to block the European Monetary Union (EMU) project on grounds that it would violate the German Constitution, including Article 14 (guarantee of property) and Article 38 (national sovereignty).

After only 30 minutes of deliberation, the court threw out the sovereignty issue, arguing that concerns about the constitutionality of the agreements were unfounded, because the government and Parliament had approved, in compliance with international law, a "limited" transfer of sovereignty to the EMU and the new European Central Bank (ECB). The Parliament being the legal representative of the citizen, the individual citizen had no case, because everything was done "according to the law," the court said.

The court further ruled that there is no constitutional right of the citizen to the protection of his or her individual monetary property, so that the case of the five plaintiffs against the EMU and ECB could not be accepted by the court.

This pro-monetarist ruling has cleared the way for the diplomatic schedule of events finalizing the EMU: On April 23-24, both houses of the German Parliament will vote, and on May 2-3, the German government and its 14 EU partners will sign the final EMU documents, to go into effect in January 1999.

The five plaintiffs are Professors Rupp, Noelling, Hankel, Schachtschneider, and Starbatty — the last four

having joined for a combined legal action at the court. On behalf of the four plaintiffs, Schachtschneider said in interviews immediately after the court ruling, that the judges are fleeing from the responsibility to uphold the law and the Constitution, and that it was a "black day for German law." He and others addressed the fact that there had been massive political coercion, not only against the plaintiffs, but also of the court, to turn the case down.

Legal efforts to stop the EMU having failed, the question now, is whether the EMU will work. Here, a perspective is opening up, which is as chaotic as it is promising.

It is generally expected among experts that the monetarist EMU simply must come into open conflict with the fact that most of the 15 EU member-states define social security as a fundamental right of their citizens. Moreover, as the constitutional rights of the citizens have been eroded, while at the same time being usurped by the parties and leading institutions of the political establishment, the identification of the citizens with their state, which largely runs through the functioning of the social welfare system, has weakened. Once the social welfare structures are threatened, the formerly peaceful citizens will begin to protest.

Most EU governments have experienced such rebellions, including strikes and protest marches, over the last two years of increased budget-cutting. In Germany, there is the absurd but revealing situation in which the government passed a law abolishing sick pay for workers, but has not been

able to make it stick. After some strikes in autumn 1996, labor unions and management have simply resolved to ignore the law and reaffirm the sick pay regulations for 15 million workers and employees in the private sector.

This gives a foretaste of what might happen, as soon as the ECB takes monetarist decisions that do not, by statute, pay attention to specific national or regional traditions in social and labor relations. The EMU and ECB will look fine on paper, but the political reality will be turbulent and chaotic. This is what many experts expect to happen.

For example, in a discussion with this author on Jan. 13, the day after the four plaintiffs had presented their case against the EMU at the Constitutional Court, a senior analyst of the Frankfurt office of Goldman Sachs said that, in his view, the 15 EU governments were much too obsessed with the EMU project to even consider a review, let alone a freeze of the project (as the plaintiffs were recommending). The project would not work the way its authors had designed it.

On the one hand, he remarked, a protracted Asian crisis would affect the physical economies of the EU members, which means that all Maastricht criteria would have to be reviewed, and, likely, modified. In the course of a likely deepening depression in 1998, nobody would be able to explain to a rioting public, why new state borrowing had to be 3% or less, as the Maastricht Treaty prescribes. The rioters would demand state intervention to create jobs, in open defiance of the EMU budgeting rules. The Maastricht framework might be kept, but it was pre-programmed for a flood of emergency crisis corrections and ice pick amendments.

In other words, the EMU is like the *Titanic*, except that its leaks are already built in.

## Time to expand relations with China

*The Vajpayee government should quickly avail itself of the opportunity to strengthen ties with Beijing.*

One of the major weaknesses of the "good-neighbors policy," otherwise known as the Gujral Doctrine, adopted by New Delhi in recent years in order to strengthen ties with its South Asian neighbors, is that it does not encompass the broadening of India's policy toward either China or Russia.

It is now an opportune time to rectify this weakness. The newly installed coalition government in India is led by Prime Minister Atal Behari Vajpayee, who actually was the first to exercise the good-neighbors policy. Vajpayee's policy met with some success when he was the Foreign Minister for about two years (1977-79), in the Janata Dal government. During his term, he was the first Foreign Minister to visit China since the 1962 Sino-Indian border clash.

Virtually isolated from the world community for many years, China began to come into its own in 1979, when the late Deng Xiaoping started integrating the country's economy with that of the rest of the world. In less than two decades, it has become a mighty economic power, if not the leader of Asia. India has also come up during the interim, but slowly.

What is most important, however, is that India and China have improved their relations, brought peace and tranquility to their borders, and joined hands on various bilateral and international issues. This is the foundation on which Prime Minister Vajpayee's government must act, and act quickly.

Since his election in March, Prime Minister Vajpayee, who is the leader of the Bharatiya Janata Party (BJP),

the dominant partner in the coalition government, has, wittingly or unwittingly, sent conflicting signals with respect to China.

On the one hand, he has made government appointments which should help him in the future to push the expansion of relations with China. His appointment of Brajesh Misra as Principal Secretary to the Prime Minister, in addition to continuing with the Foreign Secretary K. Raghunath in this key position, will enable the Prime Minister to benefit from the assistance of two senior China hands.

More important, perhaps, is the fact that in President K.R. Narayanan, who was once India's ambassador in Beijing, Prime Minister Vajpayee has found an able and willing friend of China. It was President Narayanan's speech at the joint session of Parliament on March 25 that gave a very important clue on the matter. He said on that occasion that his government "will strive for Asian solidarity and enhanced regional cooperation." President Narayanan reiterated what the Bharatiya Janata Party had put that policy orientation into its agenda in the last parliamentary election.

On the other hand, Prime Minister Vajpayee has appointed George Fernandes as Defense Minister. Fernandes is a member of the Socialist International, and an avowed critic of China's Tibet policy. Fernandes is also a close friend of the Myanmar dissidents who actively oppose the Yangon regime, and promote what they call Western-style democracy. His stance on these issues is fully in opposition to the government's stated policy in

these matters. Whether Defense Minister Fernandes will be given a long leash by Prime Minister Vajpayee remains to be seen.

Fernandes is quite capable of muddying the waters and bringing fresh problems into Sino-Indian relations. A senior official of the party which the Defense Minister represents was seen among the Tibetans who are now on a hunger strike in Delhi. This has not escaped Beijing's notice. India's Foreign Office, which is under Prime Minister Vajpayee, however, has denied any change in India's stated policy toward Tibet.

The media reaction in India over the test-firing by Pakistan of its medium-range (1,500 km) Ghauri missile on April 6 points to yet another pitfall that the Vajpayee government must carefully avoid. While Indian intelligence officials are certain that the Pakistani government in Islamabad paid \$516 million to Beijing for the transfer of missile technology, New Delhi must open a channel to Beijing on security matters such as this. There is too much at stake not to develop a closer Sino-Indian relationship, and every effort must be made to avoid interference by any third party.

Sino-India relations must be looked at on a broader canvas. Early in March, India and China signed a Memorandum of Understanding which provides the framework for joint exploration, development, production, transportation, distribution, and marketing of oil and gas in Central Asia. According to analysts, both India and China would reap rich commercial and strategic benefits from this arrangement. The agreement assumes further importance in light of China's intention to tap huge reserves of Central Asian oil and gas, and transfer the oil and gas across the arid lands of Xinjiang, in western China, by a 2,000-km-long pipeline.

## British intelligence asset on trial

*A leader of the International Socialist Organization has been charged with assault against a LaRouche associate.*

On April 30-May 1, Nigel Peacock, a student leader at LaTrobe University in Melbourne, Victoria and a leading member of the Melbourne-based International Socialist Organization (ISO), will go on trial in Heidelberg Magistrates Court for assault against Ross Russell, a member of the Citizens Electoral Council, the Australian associates of Lyndon LaRouche. The police of the state of Victoria have charged Peacock with the following crimes: robbery, theft, assault causing injury, criminal damage, assault in company, assault by kicking, recklessly causing injury, and unlawful assault.

The charges stem from an incident on April 22, 1997, when Russell was organizing at LaTrobe University. Peacock, then head of the Students Representative Council, incited and led a three-person attack on Russell, during which Russell was severely beaten, and almost choked to death. According to intelligence sources, Peacock's two associates are known ISO thugs, whom he brought on campus especially to help carry out the assault.

The affair has ramifications far beyond LaTrobe: The ISO, most of whose members are British-born or British nationals, is a subsidiary of the Socialist Workers Party (SWP) of Britain, and an asset of British intelligence. It has served for over a decade as the left-wing "guard dog" for Melbourne's Anglophile establishment, in carrying out violent demonstrations, infiltrating Australia's trade union movement, and determining who is allowed to organize on Melbourne-area

campuses. The career of Peacock is exemplary: At the time of the assault against CEC organizer Russell, Peacock had been a "student" at the university for 13 years! The CEC had just started organizing at LaTrobe one week before the attack.

The ISO has started plastering the streets of Melbourne with posters headlined "Don't Ignore the Right! Fight the Fascists, Close them Down." The posters call for a mass demonstration to support Peacock, and attempt to link the neo-Nazi National Action party to the CEC. The irony is, that, if anyone is linked to National Action, it is the ISO itself, through ISO featured speaker David Greason, a founder of National Action. It is a story which sheds light on ISO's British intelligence pedigree.

The ISO, like its British mother, the SWP (no relation to the U.S. group of the same name), is part of British intelligence's international "anti-fascist" operations centered around *Searchlight* magazine in London, for which Greason works as an "international correspondent," and whose editor, former British Communist Party member Gerry Gable, is an "intelligence adviser" to the "Anti-Nazi League" founded by the SWP. *Searchlight*'s links to Britain's MI5 and to other intelligence agencies, including Israel's, have been the subject of frequent commentary in the British press. Gable was particularly close to the East German Stasi, through the Stasi's West German front, Victims of the Nazi Regime (VVN) organization, and his main U.S. collaborator is the Atlanta-based Center for Democratic

Renewal, a joint asset of the Anti-Defamation League and old networks of the Communist Party USA.

Though directed by MI5, *Searchlight*'s funding sheds light on who really controls it, and its international "anti-fascist" activities, of which the Australian ISO's "Campaign Against the Nazis," of Peacock, Greason, et al. and chaired by British national and ISO leader David Glanz, is a key component. According to records at the Foundation House in London, two of *Searchlight*'s generous benefactors are the Rowntree Trust and the Barrow and Geraldine S. Cadbury Trust, two of dozens of such trusts controlled by the Cadbury family of chocolate bar fame, whose senior member is Sir George Adrian Hayhurst Cadbury, a director of the Bank of England for 25 years, chairman of Cadbury Schweppes, a director of IBM, and so on. The Cadburys and related Quaker and "nonconformist" families have managed the "left" for the British Empire since the mid-19th century.

*Searchlight* has often bragged of its "infiltration" of the extreme right in Britain; some informed sources there have charged that, under the guise of "infiltrating" the neo-Nazis, *Searchlight* orchestrates "right-wing" violence, together with its friends in MI5, much as the FBI/ADL often run "KKK" violence in the United States. Little surprise, then, that *Searchlight* correspondent Greason helped to found both National Action and the National Front (the latter a spin-off of the British National Front) in Australia, before allegedly repenting and becoming a star speaker at ISO events.

Peacock has hired Rob Stary, senior partner of Stary and George, to represent him. Stary, a top criminal lawyer, is reportedly "quite expensive"; he formerly worked for the elite Slater and Gordon law firm, which specializes in "indigenous" causes.

## Wanted for treason: Samuel Ruiz

*The MSIA poster accusing Ruiz of treason and of inviting foreign invasion has mobilized Mexico's patriots.*

**T**he Ibero-American Solidarity Movement's (MSIA) poster against "Commander" Samuel Ruiz, which over the past month has appeared on walls in the major cities throughout ten Mexican states, has caused a national uproar. Both the written and electronic media have given it substantial coverage. Together with the Mexican government's firm negotiating stance, and statements critical of Ruiz from within the Catholic Church, the MSIA's campaign has helped to put the bishop of San Cristóbal de las Casas, in the southeastern state of Chiapas, on the defensive for the first time in years.

In a March 19 press conference in Mexico City, attended by representatives of 25 media, MSIA president Marivilia Carrasco charged that "Samuel Ruiz is part of a foreign occupation army which seeks to separate Chiapas off from Mexico, and seize the rich strategic resources, including oil, in that part of the country." Ruiz is such a good friend of the oil multinationals, Carrasco said, that he is already known as "Royal Dutch Samuel." She added that he has also founded a new religious order, "the Seven Sisters."

Mexico's most widely watched news program, Televisa's "24 Hours," ran video clips of the poster, and showed Carrasco holding up the new MSIA pamphlet, entitled "Mexicans, To Arms! Stop the Foreign Invasion of Chiapas!" National dailies, including *La Prensa*, *El Nacional*, *Unomasuno*, and *El Día*, reported on Carrasco's statements, as did regional

media in Monterrey, Nuevo León. The latter included TV channels 2 and 12, and the newspapers *ABC*, *Metrópoli*, and *El Porvenir*. The last one reported that as a result of conferences on the subject given by Carrasco in Monterrey, citizens will demand "Samuel Ruiz's exclusion from talks in Chiapas."

In Mexico City, *Diario de México* reported on statements by MSIA leader Hugo López Ochoa, demanding an investigation of Ruiz's "ties to well-known drug legalization advocate, George Soros." López Ochoa, the daily said, "accused the prelate, the PRD [Party of the Democratic Revolution], and the EZLN [the Zapatista National Liberation Army] of forming a front on behalf of British intervention in Chiapas," which seeks to "reform Article 27 of the Constitution" and seize the region's "oil and uranium." The paper also reported on López's charge that these forces are involved in weapons trafficking across the southern border with Guatemala and Belize.

Commander Ruiz and his Zapatista hordes have also been under significant pressure in recent weeks from the Mexican government. President Ernesto Zedillo and his Interior Minister, Francisco Labastida Ochoa, have rejected the EZLN's demand that a tendentious law for "Indian autonomy" be submitted to Congress, on the grounds that it represents a threat to national security and national sovereignty. Labastida proposed several amendments which would eliminate the Zapatista proposal to grant

Indians the "use and benefit" of natural resources in the subsoil, which, as the Constitution mandates, belong to the nation, and not to the owner of the land in which they are found.

Labastida has also warned that the government may expel the Conai, the National Mediation Commission set up and run by Ruiz, from any negotiations with the EZLN, if Conai continues to openly side with the narco-terrorists. Ruiz has an "obvious sympathy" for the EZLN, and in particular for "Mr. Sebastián Guillén," or sub-commander "Marcos," Labastida said. He therefore has "ceased to be impartial, as has the National Mediation Commission. They have permanent contact [with the EZLN] and this causes them to be biased."

The minister underscored that the EZLN "receives a significant quantity of resources from abroad to maintain its level of weaponry and its sympathizers." Labastida reported that there are no more than 300-500 armed EZLN cadre, the group closest to "Marcos," and 60,000 sympathizers. This makes it "impossible" for the Zapatistas to win a military victory, he added, but rather, "they depend on political movements" around the world.

As for the Catholic Church, the March 7 edition of the Guadalajara-based *Público* reported that Cardinal Juan Sandoval Íñiguez, Archbishop of Guadalajara, "recommended the removal of Bishop Samuel Ruiz García from peace negotiations in Chiapas." Although they have defended Ruiz "as a priest," several other bishops have either openly or more diplomatically attacked Ruiz's partiality toward the EZLN. The Papal Nuncio, Justo Mullor, issued a letter on March 24, in which he urged "people or institutions close to" Ruiz to stop "putting up barriers to dialogue," and to keep "equidistant from the parties involved."

# International Intelligence

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## ***Pakistan mobilizes against terrorism***

Pakistan's Prime Minister Nawaz Sharif vowed to crush sectarian terrorism, in a meeting with a delegation of 18 clerics on April 2, *The News* reported from Karachi on April 3. Sharif said, according to the newspaper, that "sectarian terrorism was meant to spread lawlessness and instability, at the cost of the country's development, and would not be allowed."

Sharif termed terrorism in the name of religion "a conspiracy against the country," and said that "under the garb of religious differences, there were those who did not want to see improvement in the standard of living of the population, and also to hinder foreign investment." Sharif told the religious leaders that they must work together against this conspiracy. Sharif's comments follow a leak by Pakistani government officials to the Iranian newspaper *Keyhan*, that British MI6-run Islamic terrorist groups are responsible for sectarian violence in Pakistan.

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## ***Roger Winter castigated for supporting Kabila***

Kalala Kalao, a much-heralded Congo journalist who was jailed and tortured for his exposés against former President Mobutu, wrote a commentary in the *Washington Post* on April 1, attacking U.S. operative Roger Winter for his past and continued support for Congo leader Laurent Kabila.

"Roger Winter, director of the U.S. Committee for Refugees, suggests that there was a rush to 'demonize' Laurent Kabila when his new government took power as the Democratic Republic of the Congo," Kalao writes. "In fact, many of us had high hopes for Kabila and strove to give him the benefit of every doubt, in part because we trusted Winter's repeated and enthusiastic endorsements of him during the rebellion. . . . For Congolese, the stakes were so great that it has been only with tremendous reluctance that most of us have concluded that Kabila

is little or no improvement on the tyrant Mobutu. . . . Although Winter suggests that Kabila's human rights failings are the result of his government's inexperience and the country's lack of infrastructure, a careful review of Kabila's career reveals a consistent disdain for fundamental norms of international law."

Winter had written a commentary on Feb. 22 in the *Washington Post* that had attacked international human rights agencies for their criticisms of the regimes of Kabila and Paul Kagame in Rwanda. Winter said that such governments cannot be expected not to violate human rights, and that the criteria being imposed upon them are too rigid.

*EIR*, virtually alone among the international press, exposed the genocidal actions by Kabila's forces against the Hutus in Zaire-Congo during his march to power, and warned that he was being controlled by Ugandan dictator Yoweri Museveni and the British.

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## ***Foreign mercenaries join Kosova terrorist group***

The ranks of the terrorist Kosova Liberation Army (KLA) are being strengthened by foreign mercenaries, funds, and weapons, Balkan sources tell *EIR*. The KLA is even growing in the Drenica area, which has been sealed off and is controlled by Serbian dictator Slobodan Milosevic's so-called "anti-terrorist" forces. The profile of the mercenaries corresponds to the British agents who have been deployed previously in Bosnia, among other countries.

As *EIR* reported last week, Milosevic's forces have infiltrated the KLA, in order to perpetrate terrorist atrocities which, in turn, provide a pretext for a bloody Serbian crackdown in Kosova.

Even the *New York Times* noted on April 6 that KLA groups "that a few weeks ago numbered four or five guerrillas have quadrupled in size, swelled in part by an infusion of new troops and weapons smuggled over the border from Albania. There are also indications that the guerrillas have been joined by foreign mercenaries. The rapid and star-

ting growth of the armed insurgency has prompted fears that the unrest in the province could explode into the next Balkan war. . . . Many interviews with rebels over the last week suggest that the guerrillas have been joined by foreign mercenaries whose heavily accented Albanian, as well as their appearance and martial demeanor, suggests experience in other war zones. . . . Many ethnic Albanians roaming the hills said they quit their menial jobs in Germany or Switzerland."

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## ***China, Ukraine discuss national defense policies***

Chinese Defense Minister Chi Haotian met with his Ukrainian counterpart Alexander Kuzmuk, and told him that China's Armed Forces are willing "to advance friendly relations" with Ukraine, Xinhua reported on April 7. Chi briefed the Ukrainian minister on China's national defense policy, saying that the central task is to modernize and become more efficient, a process which will include cutting 500,000 out of the 3.2 million-strong Army over the next three years, in line with President Jiang Zemin's decision to focus on improving technological inputs.

Xinhua quoted Chi as saying, "Further development of relations between the two countries will serve the fundamental interests of both and benefit peace, stability, and development in Asia, Europe, and the world at large."

AFP notes that, prior to the collapse of the Soviet Union in 1991, Ukraine provided fully 30% of China's armaments, including missiles, tanks, fighter planes, and warships.

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## ***Israeli government wants Pollard back***

Following renewed demands by Israeli spy Jonathan Pollard, who is serving a life sentence in prison in the United States, that the Israeli government help get him out, Israel has come up with a new formula, the *Jerusalem Post* reported on April 2. This formula,



put together by Shimon Stein, who is a legal adviser to the Office of the Prime Minister, "would declare that convicted spy Jonathan Pollard was conscripted by people acting on behalf of Israel, although without the government's official blessing," according to the newspaper. The formula has reportedly been approved by the Israeli defense establishment.

Communications Minister Limor Livnat and Immigration and Absorption Minister Yuli Edelstein spoke out in favor of recognizing Pollard as an agent, in a meeting on April 1 of the committee charged with securing his release.

Cabinet Secretary Dan Naveh, who coordinates the work of the committee, is supposed to go to Washington to "build up a lobby for Pollard on Capitol Hill." He is expected to take a letter co-signed by Prime Minister Benjamin Netanyahu and Labor Party Chairman Ehud Barak, calling on Jewish organizations to work on Pollard's behalf. Naveh will reportedly ask U.S. Vice President Al Gore to bring Pollard to Israel at the end of April, for the 50th anniversary of Israel's statehood.

Pollard himself has rejected the Israeli formula, insisting that he be recognized as a bonafide agent.

## *Egypt seeks to end Sudanese insurgency*

The Egyptian government, in cooperation with the Sudanese government, will host a meeting of the Sudanese opposition in Cairo on May 13, to attempt to find a resolution to the Sudanese civil war, the London-based publication *Al Quds al Arabi* reported on April 2.

The Cairo meeting will be attended by northern opposition leader Muhammad Uthman al-Mirghani, former Prime Minister al-Sadiq al-Mahdi, and Col. John Garang, the commander of the southern-based Sudanese People's Liberation Army. This is the first time that Egypt has allowed the Sudanese opposition to hold a meeting at this level in Cairo.

The newspaper adds that the Egyptian

initiative is meant to seize control of mediation efforts from IGAD—the British-run Intergovernmental Authority on Drought. IGAD, which is comprised of the Horn of Africa states, plus Uganda and Kenya, has served as the primary cover for overseeing Ugandan, Ethiopian, and Eritrean military intervention into Sudan.

Last November, Egypt held a similar Somali unification conference in Cairo, which brought together all the main Somali clans, and preempted another planned conference under IGAD sponsorship, of the same parties. IGAD bitterly condemned the Egyptian initiative.

## *New Indian government wants to boost U.S. ties*

As the new Indian coalition government led by A.B. Vajpayee of the Bharatiya Janata Party has begun to find its footing, a number of important foreign policy decisions are being discussed, especially the issue of broadening relations with the United States.

Washington has already indicated that it expects a significant improvement of its relations with India. Later in April, U.S. Ambassador to the UN Bill Richardson will be in New Delhi, along with Assistant Secretary of State for South Asia Karl Inderfurth and Deputy Director of the National Security Council Bruce Reidal. The U.S. Army Chief of Staff, Gen. Dennis J. Reimar, will visit India around mid-April, a week or two before the Richardson team comes. The visit is clearly related to President Clinton's planned visit to India sometime in September, and is the first of many high-level visits that are slated to take place.

According to sources, there is a sense of urgency behind the visits, related to beginning the "strategic dialogue" with India which the Clinton administration had planned earlier with the previous Gujral administration. Beside the military side of it, it is expected that Washington will intervene diplomatically to shape India's soon-to-be formed National Security Council and to develop a closer security relation with India at that level.

**THE IRANIAN** ambassador to the United Nations, who was allowed to travel outside New York City by a new disposition of the Clinton administration, was welcomed by a large group of Iranians at a speech in Los Angeles at the beginning of April. He stressed the importance of Iranians living in the United States travelling to Iran, to see the positive developments that have occurred there over recent years, and to contribute to dialogue between the United States and Iran.

**BULGARIAN** Foreign Minister Nadezhda Mihailova said in Belgrade on March 28 that Kosova cannot be considered a purely internal affair of Yugoslavia, as the Belgrade authorities maintain. She said that Yugoslavia's neighbors fear that events in Kosova could lead to problems in their own countries, and that consequently, "Kosova could become an internal affair of the neighboring countries."

**THE BRITISH** oligarchy's "unprotected peoples" held an alternative reception to the ASEM meeting in London, reported *The Nation* on April 3. Nobel Peace Prize laureate José Ramos-Horta of East Timor put in a personal appearance, while Tibet's Dalai Lama and Aung San Suu Kyi of Myanmar sent video greetings.

**SUDAN'S** State Minister at the External Relations Ministry, Bishop Gabriel Rorech, said that he hoped the African tour by President Clinton would contribute to developing relations with African nations, including Sudan.

**U.S. NATIONAL** Security Adviser on Africa Joseph Wilson visited Angola at the end of March, to pledge support for the peace process ongoing there between the Dos Santos government and Jonas Savimbi's Unita. With Wilson was Gen. James Jamerson, deputy commander of the General Staff of the U.S. Command in Europe, who has been instrumental in organizing the African Crisis Response Initiative.

## Will the treason faction wreck the Republican Party?

by Jeffrey Steinberg

On April 9, Albert R. Hunt wrote one of the more insightful of the many recent political obituaries for the Republican Party, on the opinion page of the *Wall Street Journal*. Hunt observed, "More than at any time since taking control of Congress in 1994, the GOP is wracked by internal schisms, on the defensive and devoid of any unifying agenda or leader. The Republican disarray is most in evidence in the epicenter of its self-styled revolution, the House of Representatives." After cataloguing a recent string of policy blunders by the Republican leadership in the House, Hunt noted, "The upshot: For the first time this century, it's conceivable that the party holding the White House will gain House seats in the sixth year of its executive reign. Democrats need a pickup of fewer than a dozen seats to win control."

Beyond the prospects of a Republican mid-term loss of the House majority, there are other, even more ominous signs of a far-reaching GOP splintering. On March 25, Ellen Craswell, who was the Republican Party's 1996 candidate for Governor of Washington (she lost to Democrat Gary Locke), led a rally of 300 supporters on the steps of the State Capitol, where she announced that she was quitting the Republican Party, to head up the state branch of Howard Phillips's U.S. Taxpayers Party. A leading "social conservative," Craswell described the American Heritage Party, which is the name of the Washington affiliate of the Phillips group, as the "party of God," and proclaimed that the banner of the GOP splinter group will be "life, liberty, and property," an unfortunate choice of words, straight out of the preamble to the Confederate States of America's constitution. (In the Middle East, of course, the term "party of God," or "Hezbollah," is associated with car bombings and other acts of terrorism.)

In a recent special election in California, Democrat Lois Capp defeated a Republican candidate who had won the ballot spot by defeating the favored candidate of the state Republican Party leadership. Tom Bordonaro had won the GOP primary, on the basis of heavy out-of-state support from Gary Bauer, Jerry Falwell, James Dobson, and other leading figures on the "Christian Right." Bordonaro focussed much of his campaign on the single-issue of late-term abortion. His near-landslide defeat by Capp was seen by some political observers, as a sign that the era of single-issue politics is coming to an end.

After his defeat, a number of Republican Party moderates told the *Wall Street Journal* that they feared that Bauer and company were running a "jihad" inside the GOP, which threatened to split the party down the middle.

A few days after the California events, a slate of far-right "social conservatives" swept the Republican Party nominations for U.S. Senate and several key state posts in Illinois, prompting forecasts of a Democratic Party sweep in November. The victorious Illinois slate was also backed by the Bauer-Falwell-Robertson apparatus, and the results of those primaries also prompted howls from moderate Republicans.

James Dobson, who heads up the Colorado-based Focus on the Family, and has a radio show that reaches millions of social conservatives each week, has threatened to bolt from the Republican Party if his agenda is not embraced by the Gingrich-Lott Congressional leadership. In March, Dobson had a heated exchange with Republican Congressional leaders; he followed up his face-to-face confrontation with a March 24 letter to a select group of Republican lawmakers, containing further threats of a public break with the GOP. The next day, Craswell announced her departure from the GOP.

## Fault lines on Clintongate

While it is no secret that the vast majority of Republicans would view the demise of the Clinton Presidency as a windfall for the party, there are also important fault lines emerging on this front. The Falwell-Robertson crowd is in an insurrectionary alliance with British and Israeli Likud foreign agencies, to destroy the institution of the Presidency. Independent Counsel Kenneth Starr, as *EIR* has documented, is an asset of this effort, as is British intelligence-linked money-bags Richard Mellon Scaife. A growing majority of Americans are increasingly accepting the notion, publicly aired by First Lady Hillary Rodham Clinton, that there is a "vast right-wing conspiracy" out to destroy the Clinton Presidency at all costs.

A quiet resistance to this insurrection is growing among Republican Party ranks. Congressional Republican "pragmatists," including Senate Majority Leader Trent Lott (R-Miss.) and even some people around Speaker of the House Newt Gingrich (R-Ga.), fear that the backlash triggered by the attacks against President Clinton, will wipe out the Republican majority in the House and severely damage the GOP's prospects for capturing the White House in 2000. Other senior Republican moderates see the assault on the Presidency as a broader threat to the U.S. Constitution (although hardly anyone is willing to incur the party leadership's wrath by saying so in public), and some even see the weakening of the Presidency as a danger, in light of the global financial and monetary breakdown crisis, which demands Executive branch action.

On March 8, in a television interview, Sen. Arlen Specter (R-Pa.) voiced his concern over the consequences of an impeachment brawl in Congress: "I don't think there ought to be an impeachment proceeding brought unless there is an open-and-shut case. America cannot stand the trauma of an impeachment matter unless it is cut and dried. And I have always felt that if it was cut and dried, that President Clinton would resign. But when you consider tying up the House of Representatives with articles of impeachment, and the entire Senate has to sit, and many people don't focus on the fact that the Chief Justice presides, there goes the Supreme Court. Our government is tied in a knot."

In stark contrast to Specter's warnings, two leading Congressional Jacobins, House Majority Whip Tom DeLay (R-Tex.) and House Majority Leader Dick Armey (R-Tex.), have issued vile personal attacks against President Clinton, in a transparent effort to curry favor with the Dobson-Falwell-Robertson apparatus. The Clintongate issue is certain to intensify the fissuring of the GOP.

## A break with Reaganism and Thatcherism

Not all of the fissuring of the Republican Party is centered around treachery and ideological foolishness. As the global financial crisis deepens, and occupies more and more attention among policymakers, there are signs of some Republicans breaking from the past 30 years' paradigm of free trade and post-industrial policies.

In a commentary in the March 25 *New York Post*, syndicated columnist and possible GOP Presidential candidate Patrick Buchanan made a public break with Reaganomics and Thatcherism. He posed the question: "Did Success Ruin the Right?" The column cited a recently published book by British author John Gray, a former Thatcherite, entitled *False Dawn: The Delusions of Global Capitalism*. Buchanan argued that the "common deep tax cuts, the slashing of safety nets and welfare benefits, and global free trade," associated with the economic policies of former President Ronald Reagan and former British Prime Minister Margaret Thatcher, had devastated the very conservative working class families that had made up the backbone of the "Reagan Democrat" voters who swept Reagan into the White House in 1980.

"Reaganism and its twin sister, Thatcherism, create fortunes among the highly educated, but in the middle and working classes, they generate anxiety, insecurity and disparities in income. Since these classes seek stability, security and order from their political systems, above all else, Thatcherism and Reaganism thus undermine the very social structure on which they were built," Buchanan wrote.

Buchanan, echoing ideas that have been associated with Lyndon LaRouche for decades, observed that, with unbridled free market capitalism, "factories and businesses open and close with startling speed, in that 'creative destruction' so beloved of think-tank scholars. As companies merge, downsize and disappear, the labor forces must always be ready to pick up and move on. . . . The cost is paid in social upheaval and family breakdown, as even women with toddlers enter the labor force to keep up the family's standard of living. Deserted factories mean gutted neighborhoods, ghost towns, ravaged communities and regions that go from boom to bust to boom again, like the Rust Belt."

Buchanan said, "Unbridled capitalism is an awesome destructive force. It makes men and women obsolete as rapidly as it does the products they produce and the plants that employ them. And the people made obsolete and insecure are workers, employees, 'Reagan Democrats,' rooted people, conservative people who want to live their lives and raise their families in the same neighborhoods they grew up in. Unbridled capitalism tells them they cannot."

"Conservatism," Buchanan warned, "is thus at a crossroads. If social conservatism is at war with unfettered capitalism, whose side are we on? A reluctance to choose lies behind the conservative crackup."

What remains to be seen, in the run-up to the November 1998 mid-term elections, is whether the Democratic Party is up to the task of capitalizing on the Republican fissuring. If the traditional, mainstream Democrats are unable to establish the means of reconstituting an alliance with traditional Republicans, the country may be headed for a crisis of political institutions, unparalleled since the 1856-60 period of political realignment that produced the original Republican Party of Abraham Lincoln.

# DOJ puts Starr on the spot in payola scandal

by Edward Spannaus

The entire edifice of the Whitewater operation being run by independent counsel Kenneth Starr is now being seriously undermined, to the point where it may totally collapse before long. Starr has been put on the spot by the U.S. Justice Department itself, around the witness-tampering allegations concerning Starr's key witness: former Little Rock municipal judge and businessman David Hale. Those charges directly implicate Starr's close confidant, Theodore Olson, and also Starr's benefactor, the "Daddy Warbucks" of the Get-Clinton crusade, Richard Mellon Scaife.

Readers with long memories may recall that Starr's ever-expanding investigation into Filegate, Travelgate, the Vincent Foster suicide, Sexgate, etc., actually began with a bogus probe of a 1980s real estate deal known as Whitewater. Starr boasts that he has obtained 13 convictions, but the only convictions obtained by Starr in his \$40 million junket so far which relate at all to Whitewater, are those of Susan McDougal, her late ex-husband James McDougal, and former Arkansas Gov. Jim Guy Tucker.

Those convictions were obtained primarily though the perjured testimony of David Hale—a man who changed his story and lied to protect his own skin. Now, with Hale's credibility going down the drain, and Starr's credibility close behind, the whole assault on the Presidency could be stopped cold.

## The Justice Department letter

On April 9, the U.S. Justice Department advised Starr that he should investigate the allegations concerning Hale—but that first, Starr must determine if he has a conflict of interest because the payments to Hale came from Scaife.

On that day, Deputy Attorney General Eric Holder sent a letter to Starr which states that Hale "may have received cash and other gratuities from individuals seeking to discredit the President during a period when Hale was actively cooperating with your investigation." It says that, "in addition to this being possible witness-tampering," under Federal criminal statutes, Starr may also have an obligation to disclose such information to those he is prosecuting or investigating.

The real "zinger" in the letter is the following. Holder says that under the independent counsel statute, Starr's office has jurisdiction over these allegations. But, the letter concludes by saying: "There are suggestions that your office would have a conflict of interest, or the appearance of a con-

flict, in looking into this matter, because of the importance of Hale to your investigation and because the payments allegedly came from funds provided by Richard Scaife." Holder therefore advises Starr: "Should you believe that this matter would be better investigated by the Department of Justice, we would be prepared to accept a referral from you."

Now, the dilemma for Starr is: Does he deny any conflict of interest, which will get him in even deeper trouble, or, does he acknowledge the conflict, which potentially taints his entire investigation, including those convictions obtained so far?

On the same day that the Holder letter was sent to Starr, Susan McDougal's attorney, Mark Geragos, said that he will file a writ of *habeas corpus* to overturn McDougal's convictions on four felony counts, which were obtained by means of Hale's testimony. Geragos said he is now seeking FBI documents which will show that Starr knew that Hale was receiving secret payments from enemies of President Clinton. Geragos said that he has information that Hale received more than \$100,000—a far larger figure than has been revealed so far.

## Hale's deal

The background is this: Hale had come under scrutiny by Federal authorities already in the 1980s for questionable transactions involving the Small Business Administration; indeed, he later testified about almost a dozen illegal loans to himself or companies he secretly controlled during 1985-86.

On July 20, 1993, Hale's office in Little Rock was raided by the FBI. Immediately after the raid, Hale had his lawyer contact the U.S. Attorney in Little Rock, and claim that Hale could provide damaging information about the "political elite" in Arkansas. The Federal prosecutor was not interested in bargaining, so Hale then went to one of Clinton's long-standing adversaries in Arkansas, "Justice Jim" Johnson, an ardent segregationist who appears on the "Clinton Chronicles" videotape promoted by televangelist Jerry Falwell. Johnson, in turn, put Hale in touch with Floyd Brown of Citizens United—the producer of the "Slick Willie" tract in the 1992 Presidential election campaign, who maintains a massive database utilized by private and Congressional anti-Clinton writers and investigators. David Bossie, Brown's investigator who now works for the House Governmental Affairs and Oversight Committee chaired by Rep. Dan Burton (R-Ind.), had a long telephone conversation with Hale; shortly thereafter, Bossie put Hale in touch with NBC. The tale Hale was peddling, was that Bill Clinton and Jim Guy Tucker had pressured him to obtain a \$300,000 loan to the McDougals through the Small Business Administration (SBA).

Meanwhile, "Justice" Johnson also put Hale in touch with Cliff Jackson, another Clinton enemy, who by this time was already involved in something else: coordinating the publicity and money-making schemes of a number of state troopers

who had been part of Clinton's personal security detail when Clinton was Governor. Jackson was in contact with Peter W. Smith, a wealthy Chicago investment banker and a key funder of House Speaker Newt Gingrich's GOPAC; Smith put about \$80,000 into efforts to dig up dirt against Clinton, including cash payments of \$6,700 each to two of the troopers. Some of these troopers were also recipients of monies originating from Richard Mellon Scaife.

Despite Hale's efforts to arrive at a plea-bargain, he was indicted in September 1993 on charges of conspiracy and three counts of making false statements to the SBA. But Hale was more successful peddling his story to the "Get Clinton" journalist gang than to Federal prosecutors. His story, which eventually made its way into the *New York Times* and the *Washington Post*, was instrumental in the appointment of the first Whitewater independent counsel, in January 1994. Hale was able to strike a deal with the first independent counsel, Robert Fiske, agreeing to cooperate, and to plead guilty to two felonies—but not to be sentenced until later. (Later, Hale admitted that he had lied under oath to the judge in that case during his guilty plea.) Fiske was then replaced as the Whitewater independent counsel in August 1994 by Kenneth Starr.

It was during 1994 that Hale became a federally protected witness, and he was then hidden away for two years by Starr,

while Starr and his deputies built their case against the McDougals, Tucker, and Clinton. This was all based upon Hale's story that Clinton and Tucker had pressured him to make the loan to the McDougals for Whitewater—even though, in a 1989 FBI interview concerning the loan, Hale had never mentioned Clinton or Tucker!

As a protectee of the Federal Witness Protection Program, Hale never went anywhere without an FBI escort. After the indictments of the McDougals and Tucker, their attorneys were unable to locate or interview Hale—as any defense lawyer is entitled to do.

Yet, during 1994-96, Hale would regularly go from meeting with Starr's prosecutors in Little Rock, to the Hot Springs, Arkansas bait shop run by Clinton-hater Parker Dozier, and to meetings with other operatives of the "Arkansas Project"—a "Get Clinton" dirt-digging operation into which Richard Mellon Scaife sank over \$2 million.

The "Arkansas Project" money originated from "charitable" foundations controlled by Scaife; they were given to the American Spectator Educational Foundation, Inc. (ASEF), which then passed the monies to Virginia attorney Stephen Boynton, calling them "legal fees" on its tax returns. Boynton handed the money out to various private investigators and others in Arkansas. Boynton has told reporters that he became friends with Hale in 1993; he is also close to Richard Larry,

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president of the Sarah (Mellon) Scaife Foundation. Both Boynton and Larry are also close friends of David Henderson, a vice-president of ASEF, who is a longtime associate of Scaife as well.

The attorney for the American Spectator Education Foundation, and also a member of its Board of Directors, is Starr's former law partner and close personal friend, Theodore Olson. Olson is now conducting an "internal" investigation for ASEF on the use of the funds. In 1995, Hale hired Olson as his Washington lawyer.

And, as *EIR* reported in our March 13, 1998 issue, Olson and his wife Barbara (who also works for Representative Burton's investigating committee), host a regular gathering of friends at their Great Falls, Virginia home, which includes judges and lawyers, editors of the *Wall Street Journal* and the *American Spectator*—and Kenneth Starr himself.

### Hale re-emerges

Now, back to Arkansas. David Hale, the federally protected witness in Starr's custody, would spend days on end at Parker Dozhier's cabin in Hot Springs, being debriefed by Dozhier and other Scaife operatives; Dozhier would type up his notes and pass them on to the *American Spectator*. According to some accounts, Dozhier received at least \$35,000 in Scaife monies, some of which he passed on as cash payments

to Hale. Dozhier also gave Hale the use of a cabin and a car.

In the spring of 1986, the new, reburbished David Hale was put on public display, when Starr's prosecutors put the McDougals and Jim Guy Tucker on trial. Hale was put on the stand, often contradicting his own previous testimony; his credibility was so low that even Starr's deputies were forced to argue that, although Hale had once been a "crook and a liar," he was now telling the truth. But for the fact that the psychologically unstable Jim McDougal insisted on taking the witness stand in his own defense, all three defendants probably would have been acquitted.

Right before the trial, Hale was given the rather lenient sentence of two years and four months—of which he only served 20 months, and part of that in a half-way house. Last Feb. 6, at the explicit request of Starr, Hale was released from prison. Starr's top deputy, W. Hickman Ewing, told the court that Hale had given prosecutors "the big picture." In a press conference after the hearing, Starr repeated that Hale had provided "substantial assistance" and that he is continuing to do so. Besides releasing Hale, the judge waived a \$10,000 fine, and said he may also withdraw a \$2 million restitution order.

But now, all bets are off, as Hale, Starr, Scaife, and, perhaps, Olson as well, come under investigation, as part of a \$2 million "payola" scheme.

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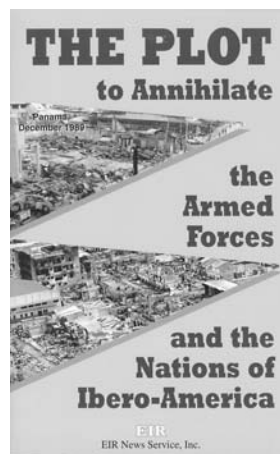
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—James Zackrisson, *Defense Force Quarterly*

# Conference takes up threat of biological and chemical warfare

by Jeffrey Steinberg

In recent years, the threat of a biological or chemical weapons attack against the United States, by terrorist organizations and/or foreign governments, has become a matter of serious national security concern and debate. The 1995 Aum sect attacks against the Japanese subway system, although they fell short of their stated objective of causing thousands of deaths, set off alarm bells in capitals around the world. The 1993 World Trade Center bombing, and the Oklahoma City bombing, coming just weeks after the Aum attacks in Japan, further underscored the “post-Cold War” danger of irregular warfare, using biological and chemical weaponry, as well as the more conventional terrorist arms.

In two recent instances, the FBI and other federal, state, and local agencies responded with a serious show of force, when threats of a biological weapons attack were made. Last year, a several-square-block section of Washington, D.C.’s central business district was sealed off, when a package, purported to contain a biological agent, was found in the mail room at the national headquarters of the B’nai B’rith. In mid-January 1998, in the midst of the Iraq crisis, two men were arrested near Las Vegas, Nevada by a team of FBI agents, when they told an associate that they were in possession of lethal doses of anthrax. Although both incidents proved to be hoaxes, they nevertheless underscored the seriousness with which government agencies are treating the danger of such “poor man’s nuclear weapons.”

## The strategic setting

*EIR* has added a dimension to the strategic debate over the threat of irregular warfare, by detailing, in numerous articles, the role of British intelligence, Israeli intelligence, and certain allied “Bush league” intelligence circles in the United States, in harboring and supporting the vast majority of terrorist organizations operating around the globe today. In particular, in a series of cover-stories, published beginning Oct. 13, 1995, *EIR* provided dossiers on several dozen organizations that had all been spawned out of the 1979-89 Afghanistan War, or were part of an Ibero-America-centered narco-terrorist international.

In his introduction to the Oct. 13, 1995 report, “The New International Terrorism,” Lyndon LaRouche warned: “A new wave of international terrorism is stalking the world. It is led by a horde of mujahideen mercenaries: human flotsam, like

the 1920s ‘rootless’ veterans of World War I, cast upon the world in the wake of the 1980s Afghan war. . . . Once the Soviet forces had retreated from Afghanistan, the Anglo-American-sponsored mujahideen, together with their massive drug- and arms-trafficking apparatus were dumped on the world, a legion of ‘special forces’-trained mercenaries for hire. Today, that legion of mercenaries is a keystone-element within a new international terrorism, which reaches westward across Eurasia, from Japan, coordinated through a nest of terrorist-group command centers in London, into the Americas, from Canada down to the tip of South America.”

Two years after LaRouche wrote these words, the U.S. State Department issued a list of 30 terrorist organizations, banned from any activity inside the United States. The majority of the groups named were spawn of the 1980s Afghansi mujahideen. Twenty-six of the groups currently maintain either international headquarters or substantial financial and other support centers in London. In the wake of the Nov. 17, 1997 massacre of European and Japanese tourists in Luxor, Egypt, by one of the groups named in October 1997 by the State Department, the government of Egypt, along with the governments of other moderate Islamic states, began publicly spotlighting Britain’s role in harboring world terrorism.

Among the U.S. media, only *EIR* has, to date, published reports of the diplomatic attacks against Britain. Yet, some U.S. government agencies are clearly getting the message that London has emerged as the headquarters of the new international terrorism.

In January 1998, the U.S. Central Intelligence Agency’s Counter-Terror Center issued a public report, in response to a query by Sen. John Kyl (R-Ariz.), which highlighted London’s role as the base of operations for several nominally Islamic terrorist groups, threatening to take terrorist reprisals against the United States. Osama Bin-Laden, the London- and Afghanistan-based mujahideen financier, who was directly implicated in the World Trade Center bombing, was singled out in the CIA document, and has been a target of State Department warnings as well.

## Biological and chemical WMD

It is in the context of this road map of the current global terrorist threat, that the issue of biological and chemical weapons of mass destruction (WMD) must be situated. The danger,

otherwise, is that the actual threat of such WMD attacks can be easily mislocated, and U.S. agencies blind-sided as to the actual point of origin of such attacks.

Thus, for example, in March 1998, the British government issued an alert for Iraqi intelligence operatives attempting to enter Britain, smuggling components of biological weapons. Israeli Likud propagandist Yosef Bodansky, who works in Washington as a research director of a Republican Party Congressional Task Force, had earlier published similar disinformation. The British report was a transparent effort to once again provoke a Persian Gulf crisis. It did not succeed in provoking the Clinton administration into a new showdown with Saddam Hussein. Nevertheless, the incident underscores that there is a significant amount of disinformation on the biological and chemical weapons threat in circulation, at precisely the moment that defense against such attacks is being given serious attention in Washington, particularly at the Pentagon. Biological weapons pose a particularly thorny challenge to national security planners, at every level; and, therefore, competent intelligence is of vital importance.

A window on the debate over how to deal with the threat of biological and chemical WMD, was opened in December 1997, at a three-day conference in Baltimore. The conference was a by-invitation-only affair, but it was not a classified event. Dr. John Grauerholz, a contributor to both *EIR* and *21st Century Science & Technology*, attended the conference, and filed a summary report. *EIR* has received permission to publish Dr. Grauerholz's report, along with excerpts from the keynote address delivered by Don Latham, a member of the Defense Science Board, which recently prepared an in-depth study of the danger of biological and chemical warfare for Secretary of Defense William Cohen.

## U.S. biowarfare defense doesn't measure up

by John Grauerholz, M.D.

From Dec. 1-4, 1997, approximately 100 experts in strategy, policy, and operations related to chemical and biological warfare engaged in discussions covering the gamut, from strategic overview to on-the-street responses to deployment of chemical and biological agents by various domestic and foreign enemies. The conference on Urban Protection Against Bioterrorism Threats was jointly sponsored by the Department of Defense, the Army War College Strategic Studies Institute, the FBI Scientific Laboratory, the American Registry of Pathology, the Air Force Academy Institute for National Strategic Studies, and the National Consortium for Genomic Resources Management and Services (GenCon).

The conference provided a unique forum where people from diverse agencies and organizational levels could begin the dialogue necessary to form a policy consensus on effective response to use of biological and chemical weapons of mass destruction by criminals and terrorists. Scientific input to policy and operational determinations is crucial to formulating effective responses to this threat. Interaction of the street-level first-responders with policymakers and strategists is essential to avoid policies and strategies disconnected from operational reality.

The following points emerged from the discussion:

1. Biological warfare is fundamentally different from chemical warfare, especially in deployment against civilian and non-human targets.
2. Current response and procurement programs are inadequate to cope with a large-scale attack with biological agents.
3. Centralized command and coordination are essential to mobilize and utilize our existing and future capabilities, to minimize casualties among victims and first-responders.
4. Potential deployment of chemical and, especially, biological weapons against domestic targets requires fundamental reevaluation of our defense priorities in research and procurement.

### **Biological and chemical warfare**

*1. Biological warfare is fundamentally different from chemical warfare, especially in deployment against civilian and non-human targets.*

Chemical attacks are relatively unambiguous, though the perpetrators may be obscure. There is usually a device and a scene. People are the primary targets, though some agents can render buildings or dwellings temporarily unusable. A chemical device is relatively restricted in time and space and more susceptible than biological agents to containment by Hazmat (Hazardous Materials) and CBIRF (Chemical and Biological Incident Response Force) teams. Most current response scenarios postulate a defined "incident," and most training deals with response to such an "incident." The first-responders in such a scenario are police, fire and rescue personnel, and, to a lesser extent, emergency physicians. They respond to a specific place, which is a crime/disaster scene, because releasing a toxic chemical and killing and injuring people is a crime. The primary demand on medical infrastructure is acute treatment of survivors.

A biological warfare attack, on the other hand, can be subtle to the point that it is unrecognizable. There may be no device or scene in the classical sense. Animals, plants, and buildings can be targetted as well as people. Microbes can persist in an area in ways that most chemicals cannot. Whereas chemical casualties occur shortly after exposure to an agent, most infectious diseases have incubation periods of days to weeks, and occasionally years, in the case of HIV. There may be no "first-responders" in the classical sense alluded to above. Human victims will more likely present to private



physicians and outpatient clinics than to emergency rooms.

Detection of biological agents must primarily take the form of increasingly sensitive and specific diagnostic tests in hospitals and medical offices, rather than the type of sensor technology appropriate for screening an area for a chemical agent. This relates to the difference between analyzing the area of an "incident" and diagnosing a sick individual, animal, or plant. In cases where a biological "incident" area can be found, field diagnostics can confirm the presence of an agent.

The most terrifying aspect of biological agents is their transmissibility. Sarin gas may be a lethal agent, but you don't "catch" Sarin from an asymptomatic carrier or sick person the way you can catch smallpox, for example. You can vaccinate against smallpox, assuming you make the diagnosis, whereas you can't vaccinate against Sarin. Biological agents are ideally suited to create panic and despair in a population if an epidemic gets going and cannot be contained, due to lack of vaccines or treatment or inability to enforce quarantine. Conversely, adequate vaccination can render an otherwise devastating agent relatively useless as a weapon.

Among the first victims of secondary infections will be the physicians and medical facilities to which those initially infected go to seek treatment. Absent an incident scene, there is no way to prevent infected and infectious individuals from utilizing health-care facilities if it isn't even known that an event has occurred. Thus, an epidemic can attack a society's medical defense system the way the AIDS virus attacks an individual person's immune defense system.

Biological agents are also more complex in that they can attack and spread epidemic disease among plants and animals, disrupting our food supply or closing domestic and foreign markets to our agricultural production. In that regard, it is useful to point out that much of the expertise in diagnosing and dealing with potential biological agents, including human pathogens, resides in the veterinary community.

## Response programs

*2. Current response and procurement programs are inadequate to cope with a large-scale attack with biological agents.*

Currently we are reasonably prepared for small to moderate-scale chemical incidents in certain localities. Development of area sampling detectors will enhance our ability to rapidly detect an agent at a scene and institute measures including appropriate antidotes, if available. Area sampling detectors for biological agents, while useful, are constrained by the fact that there may not be a clear-cut scene.

Protective suits for first-responders will be more useful in chemical incidents than in biological ones, for the reasons stated above, namely, a relatively clear-cut scene. There is no current or proposed program to deal with containment of hundreds, or thousands, of infected and infectious individuals and corpses. There are less than a hundred isolation beds in the entire country and no plans to build or acquire any more.

In his lecture on Epidemiological Perspectives, D.A. Henderson, M.D., referenced an outbreak of smallpox in Yugoslavia which caused approximately 20 deaths and 175 cases of smallpox, and required the quarantining of 10,000 people in apartment buildings. In Germany, a single case confined to the first floor of a hospital infected 11 people on three different floors by aerosol transmission through the ventilating system, and these people went on to infect many others, some of whom died, before a vaccination campaign finally halted the epidemic. Since we stopped vaccinating approximately 20 years ago, and since those vaccinated over 20 years ago have little residual immunity, almost our entire population is susceptible. We have enough vaccine to immunize 1 million people and no more is being produced. Nonetheless, vaccine development is the one current area of research and procurement that is actually relevant to a large-scale biological attack.

One problem is that actual deaths from AIDS and breast cancer are much more compelling than theoretical deaths from vaccine-preventable diseases, whether of man-made or natural origin. When pertussis (whooping cough) caused 260,000 illnesses and 9-10,000 deaths a year in the 1930s, it was relatively easy to persuade people to take a vaccine which might have lethal side effects in 10-12 people a year. In a population with little experience of epidemic infectious disease, developing and using such vaccines is a harder sell, especially current vaccines against smallpox, plague, and anthrax. An adequate vaccination program must address three issues:

- Are adequate supplies of vaccine available?
- Have those vaccines been tested to ensure safety and effectiveness?
- Is there provision for efficient regional distribution of these vaccines, when needed?

For antibiotic-sensitive diseases, such as plague and anthrax, an epidemic would require much larger stores than we have or currently plan to acquire.

The advantages of vaccination and treatment increase with timely knowledge of what disease one is dealing with. Timely knowledge is a product of diagnosis, reporting, and epidemiologic surveillance. The proposals from the Office of Science and Technology Policy (OSTP) and the World Health Organization (WHO) for a global infectious disease surveillance network are relevant here. An investment in improving epidemiologic surveillance capabilities could produce incalculable benefits in the timely identification of biological agents that would enable us to most effectively marshal our limited resources. It could make the difference between dealing with tens and hundreds of cases in a relatively small area, and dealing with thousands of cases over a much larger area.

During the conference, presentations on training, response, and facilities focussed on chemical agents, and presenters repeatedly demurred on the issue of biological agents. A constant refrain was that we are "picking the low-lying fruit" by concentrating on the more manageable situation of

a chemical incident. While we may tailor our response to our capabilities, any serious terrorist will target his or her attack against our vulnerabilities.

One reason to think that biological agents are likely to be used, either by strategically minded terrorists or disturbed individuals, is that many agents are relatively inexpensive and easy to manufacture by someone with a bachelor's degree in microbiology. One participant, with the background to know, stated that an effective mass casualty biological weapon could be manufactured for about \$500, by someone who could obtain the agent, using supplies available in grocery and hardware stores.

### **Centralized command and coordination**

*3. Centralized command and coordination are essential to mobilize and utilize our existing and future capabilities to minimize casualties among victims and first-responders.*

Response to a sizable chemical or biological incident is beyond the capacity of any local jurisdiction and requires a coordinated Federal, state, and local response. The concept of a WMD Coordinator, as envisioned in the Nunn-Lugar-Domenici legislation is germane, because inter-agency cooperation has not, and will not, spontaneously emerge when an incident occurs. The heat of a major event, with large numbers of dead and dying people and the attendant media circus, is not a climate in which rational deliberation is possible. Large-scale man-made disasters present complicating factors not present in natural disasters, not the least of which is the fact that when a scene is present, it is a crime scene as well as a disaster scene. Preserving lives as well as evidence requires coordination of multiple agencies and responders in a situation in which scene responders risk becoming victims themselves. This possibility is heightened in a "two-tap" scenario in which terrorists initiate an incident in order to target the responders.

The problems in a biological attack without a "scene" are equally daunting, if one considers the implications of simultaneous cases of a lethal, highly communicable disease appearing in many locations. Such a scenario is the predictable result of releasing an aerosol of smallpox, plague, or anthrax in an airport or train station.

Congress needs to build on the solid foundation created by the Nunn-Lugar-Domenici legislation to devise a comprehensive Strategic Civil Defense plan for urban bioterrorism. This plan should cover the wide spectrum of potential bioterrorism possibilities seen by U.S. military and intelligence strategic analysts, and identify appropriate defensive measures for them. It should prepare for the large-scale attack involving thousands of casualties, as well as the score of casualties or less that current facilities and programs provide for. It must recognize that the first-responders here will not be rescue, fire, police, or military CBIRF teams, but physicians, medical examiners, and morticians. Any effective policy will strongly emphasize training of these individuals and groups

to ensure that they are part of the solution, and not part of the problem.

Since nuclear retaliation cannot effectively deter many terrorist groups, the strategic plan must deal in depth with the challenges of building a long-term deterrent. The plan should include special emphasis on food and agricultural targets, economically inspired terrorism, and terrorism directed at national infrastructure.

The Strategic Civil Defense Plan should be run by the WMD Coordinator envisioned in Nunn-Lugar-Domenici. The coordinator will require adequate staff to interface with the multiple agencies which will be involved in responding to a terrorist attack with a biological and/or chemical weapon before, during, and after an event. He or she must have special authority, as authorized by the President, to mobilize the necessary supplies and personnel to respond to an incident. The plan should provide for program development as well as for rapid and effective response to a major WMD emergency, including funding, disbursement, and provision of legal protection of responders from litigation arising from the exercise of their responsibilities. This would include authority to temporarily utilize veterinary treatment and diagnostic facilities in ways that are proscribed by current regulations.

Because government medical and scientific expertise will still have to meet its regular commitments, mechanisms must be established to utilize the substantial pool of such expertise in academia and industry, in both formulation and execution of plans, policies, training, and research.

### **Defense priorities**

*4. Potential deployment of chemical and, especially, biological weapons against domestic targets requires fundamental reevaluation of our defense priorities in research and procurement.*

Secretary of Defense Cohen and the National Defense Panel recently called for the entire national security establishment—including intelligence agencies and the National Security Council—to adjust and adapt to a 21st-century world which will present vastly different security challenges than today. For example, after decades of gearing U.S. defense planning to the threat of large-scale warfare in Europe, Korea, and the Persian Gulf, the Pentagon needs to focus more on the risk of smaller, unconventional attacks on American soil. This "defense of the homeland" will become an increasingly important mission for the military, as more nations hostile to U.S. interests acquire weapons of mass destruction and the means to deliver them.

This theme was echoed in Donald Latham's report to the conference on the 1997 Defense Science Board Summer Study on DOD's capabilities and response to transnational threats (see *Documentation*). This study focussed on capabilities and responses in force and civil protection and interfaces with other agencies such as FEMA, Justice, and FBI. There was a civil integration and response panel that included first-

responders who worked the Oklahoma City and World Trade Center bombings.

Latham stressed that the very overseas operations which currently engage the military increase the likelihood of terrorist responses against U.S. domestic targets. He used the example of the U.S. bombing of Libya in 1986, in response to the bombing of a disco in Berlin. Three days later, Libya purchased a U.S. hostage and executed him. In September 1987, less than a year later, Pan Am 73 was hijacked by a group working through Libya, and several Americans were killed. In April 1988, a group working for Libya bombed a USO in Naples. Then several people were arrested with pipe bombs in New Jersey, followed by the bombing of Pan Am 103 in December 1988 and a French airliner over Chad in 1989. Then we interdicted a Chicago street gang which had been approached to use shoulder-fired missiles to shoot down an airliner at O'Hare Airport. These were not isolated incidents, but a campaign.

Presently this is not seen as a DOD mission, and agencies such as the Defense Advanced Research Projects Agency (DARPA), which should be in the forefront of developing such a defense, still see their mission as protection of U.S. forces in foreign offensive combat. One way to begin the necessary process of change would be for Congress to ask the Secretary of Defense to direct the National Defense University to conduct a study of the strategic, operational, and technical issues, in conjunction with relevant governmental agencies, academia, and industry.

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## Documentation

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# The recommendations of the Defense Science Board

*The following are excerpts from the keynote speech to the conference by Donald Latham, a member of the Defense Science Board.*

What I'd like to do this evening, is to give you a very short summary of the Defense Science Board's summer study that was just completed. It's called the 1997 Summer Study. The Defense Science Board is a board of 30 people that reports to the Secretary of Defense and the chairman of the Joint Chiefs. From academia, Josh Lederberg is on the Board. Some are from industry, like myself, and there are a few retired military officers. We do usually one major study a year, called the Summer Study. It starts in February and ends up in September.

The study report is on DOD's capabilities and response to so-called transnational threats. There was a very heavy

emphasis in the study on what to do about chemical, biological, and nuclear threats and their potential use against civil infrastructure, as well as military infrastructure. The report on this, the first volume, will be out, all unclassified, believe it or not, in about two weeks, and the second volume has to do with force protection, both CONUS [continental United States] and OCONUS [outside the continental U.S.], and then there's Volume 3, appendices that have detailed panel reports. . . .

I chaired a panel called DOD Capabilities and Response, which was the guts of the study and what we can do as heads of departments. We addressed both force and civil protection and the interfaces. We did not try to do a government-wide study. Obviously, this effort involves everybody that's anybody: FEMA, Justice, FBI, all had people on this study. In fact, we had a civil integration and response panel that included so-called first-responders. We had people that worked the World Trade Center bombing, people that worked the Oklahoma City bombing, etc., so we got a very good interface with the civil community, which brought up a lot of problems and issues and how to handle them.

## U.S. is no longer a sanctuary

Let me show you a little bit about what we called the so-called transnational threat. If you look at the Congressional bill that was put out in 1997, there's a formal definition of transnational threats. We're trying to make the point that these people are motivated very differently, and that with the technology that's available today, a very few people can cause an awful lot of trouble. How to deter them and control them is very difficult; some of them don't have any borders, they're all over the place. How do you respond to these people? It's very difficult in many cases, and the result is that the consequences of attacks, from these transnational people, could be as devastating as a major military conflict. . . .

The product of our times is proliferation of technologies and knowledge, with a lot of world actors. These people are getting fed huge amounts of money through narco-trafficking and global crime. They're not going to attack us directly; it's going to be an asymmetrical attack. We're becoming very vulnerable to these things. We've found a consolidation of terrorist infrastructure, a very strong correlation between U.S. involvement in international operations, and these threats against the U.S. It's not a sanctuary here anymore, as I'll show you in a second, and clearly, mass destruction and casualties are a goal [of the terrorists].

Now let me walk through three examples. We had strong input from the FBI on this.

When the Libyans hired the people to go bomb that disco in Berlin, the U.S. response was to retaliate and bomb Libya. A big deal. We sent in F-117s, so on, if you recall. Everybody thought that put them in their place, nothing more is going to happen. Three days later, they bought a U.S. hostage and killed him. In September '87, hardly a year later, the Pan

Am 73 was hijacked by a group working through Libya and several Americans were killed. In April '88, again, a group working for Libya bombed a USO in Naples. We arrested some people in New Jersey with a number of pipe bombs that were targetted on New York City, and then the infamous Pan Am 103 in December '88, and by September '89, the French airliner was destroyed over Chad by the same people. Fortunately, we interdicted a Chicago street gang who they were trying to hire and equip with shoulder-fired missile systems to shoot down commercial aircraft at O'Hare Airport.

This was a campaign, not an isolated incident. This was a series of incidents called, in our terminology, a campaign. The next one was the World Trade Center.

First, they assassinated a rabbi [Meir Kahane] in New York City: The guy who did it was caught running out of the hotel where he assassinated the rabbi, immediately, and put into custody by the Feds. He ran right into the arms of a New York postal officer.

It was treated as a homicide, not a national security issue. They went to this guy's house, and they found all kind of documentation that was not translated. People visited this guy in jail; the people who visited him in jail over the period from 1990 to February '93 are the guys who bombed the World Trade Center. There was never a connection made.

So, these people bombed the World Trade Center, and they had a July 4 follow-up plan that was interdicted because the law enforcement and the national security people finally got involved and figured it out.

You see, the actuals were six killed and 5,000 injured, and the guy that masterminded this, when they arrested him overseas a couple of years later, admitted that his goal wasn't what we've shown here; it was more like 250,000 people he wanted to kill. He admitted this, and it came out in testimony in his trial two or three weeks ago. This, again, was a campaign.

They miscalculated where to put the truck bomb; they thought the bomb would be more efficient. They considered putting radioactive material or chemical materials in this bomb, but they didn't have money to do it, and probably didn't have the knowledge, but this was a very dangerous bunch of people.

You turn to Aum Shinrikyo, which is an organization that has not died. At the time they were taken down, they had an estimated 30,000 members in five different countries; their assets were better than a billion dollars, in fact. In Secretary Cohen's report that was issued last week on proliferation and counterproliferation, there's a little vignette about these people, a special page-and-a-half discussion of them. They estimate in there \$2 billion in assets, but, put it at whatever number you want. They were very skilled at Sarin and anthrax and so on. They did a little exercise in June of '94, then the big release in the Tokyo subway. Actuals were 12 killed and 5,000-plus injured; planned was tens of thousands. Again, this was a series of things; it wasn't an isolated incident.

Every one of these three had some serious political motivation behind it: us being the Great Satan, break down the government of Japan, what-have-you. So, there are motives and ideals pushed by these people that are very serious.

### **The mission of the DOD**

So, why should we be engaged? It's really DOD's core business, because of force protection issues, overseas and in the United States. You look at the assets that DOD can bring to bear on a problem like this, especially: You need WMD experience, extensive capabilities in building complex systems, etc., and, of course, if you look at the laws that have been put into place, we've been told to do it. So, there's no way for DOD not to be involved in this kind of problem. It transcends the Department of Defense, and reaches into many other departments, so this is a government-wide issue, and it's also a major state and local government issue.

We said there are six elements to a DOD response strategy, and these are the six elements in the briefing that we gave the Secretary, and it goes on for well over an hour. We went down through each one of these in detail. In the final report, we addressed all of these six with a lot of backup data. The appendices have a lot more supporting technical material and other things that go into why we said this and how we would execute it.

The first thing is that it's treated as a major DOD mission. We keep the current security structure, and don't try to create a czar, and so on.

We were asked to evaluate DOD's capabilities today. In '96, we stood up the Marine Corps Chem Bio Response Force, about 350 people, down in North Carolina. The Army's technical escort unit has been out 200 days a year this year. We've had some ACTD [advanced concept technology demonstrations], and more planned; DARPA has a BW defense R&D initiative and is currently spending about \$50 to \$60 million a year. That will grow as soon as they can find places that make sense to put more effort into a whole variety of BW defenses and technologies.

As you know, perhaps, Secretary Cohen, during the current quadrennial defense review, proposed adding a billion dollars over the next five years, or \$200 million a year, let's say, to BW defense.

Even so, what's happening is the Army, in terms of their broad reduction of force structure, is being hit in places where it really hurts. We've had changes in the tech-escort unit, for example, with more civilians rather than military. They're stretched thin, and there are pressures on our expertise in the CW base, with people being taken out of the force by downsizing. For example, in the active Army, with R&D and medical reductions . . . there are only six physicians still up there working this problem. In the bio-area, big problem. Fragile base. We can't keep taking it down like everything else is taken down. The good news is, this has now been understood inside the building [Pentagon]. There is a direct

mandate to the Army to go back and look at all of this and see what can be done to reverse it. . . .

### Response to the biowarfare threat

Let me just talk about the BW threat. We're saying two things here. There is a huge, extensive biotechnology expertise out there, and I'm talking to the crowd here tonight in industry and universities. Why don't we tap into that? We have a small effort in DOD and DOE reaching out to this community today, not very big dollars. It could be a lot more. We've got these biotechnology people that are doing all these great things, and could maybe help us with BW defense, but the commercial sector would need to know from the Department, what in the heck is it you really want and how do you motivate? So, instead of having dear Vice President Gore today spend all day long talking about pornography on the Internet, why don't we have Vice President Gore talk to the biotechnology industry in the universities, and so on, and say, "Let's get involved," and get them to do that. This thing is a serious national problem, more than pornography on the Internet.

If you read Cohen's report from last week, he says, on the very first page, that in a BW or CW attack, we'll see major consequences in this country or some place. It's not *if*, it's just *when*, and I really believe that. The second thing he said is, the Russians have a huge program. Estimate 40,000 people, roughly 9,000 scientists, and huge facilities, monstrous facilities. There is one facility that we visited, which is over a hundred buildings, world-class labs, really extensive. But they've kept a lot of it under cloak and dagger. There are three small pilot projects that have been under way. We said, "Extend those." The goal is to get the Russian scientists, like we've done with Nunn-Lugar and the nuclear materials and nuclear weapons effort, to do the same thing in BW. So, what we're recommending here is to extend Nunn-Lugar to the nuclear and BW. Costs are minimal to get this going; details are in the report on what we proposed in the nuclear area; there are a number of initiatives that DOE needs to do with DOD. They need to get this thing up to a higher level of awareness.

Number six is, what do you do about integration and leverage of force protection and civil protection? If you look at something that happens, some sort of an event, these are the people—law enforcement, fire, rescue, and so on—who are the so-called first-responders. . . . We had about a dozen people, MDs, fire, rescue, what-have-you. These people have actually had hands-on experience. Interestingly enough, not one of these people could participate in the study when we first asked them to, because none of them had ever had a DOD secret clearance, even the guys who had worked the Atlanta Olympics. We had to get every one of these people interim secret clearance, which took a few days, and so on, to get them to be able to participate at a DOD secret level, because a lot of these briefings and material were secret.

One of the things that's got to get broken down in this interface to the civil responder community, is this issue of

sharing of information and clearances. Not one single person—the number-two guy from New York, the number-one guy from Miami, who has all of Dade County, and so on—none of them had clearance. There is this infamous thing called Nunn-Lugar-Domenici, which was passed in fiscal '97. It gave DOD about \$90 million and said, go do a whole bunch of things. It said, start with doing planning and coordination and continuously exercise; it said, get ready for crisis, crisis management, and consequence management. These are the things it said for DOD to go and do. Establish hotlines, web pages, exercises, training, loans of equipment. There are 120 cities that are being systematically walked through in a training from the Army chemical-biological command, and some contractors helping them. This is at the initial stage; it has not anywhere near been completed yet; even at the end of '98 it will not be completed. The bill was written to cover '97 and '98 only, and gave the President the option, in October '99, to give the program to some other agency, As some people have said, let's give it to FEMA; so, it's not clear what's going to happen.

Our recommendation is to institutionalize Nunn-Lugar-Domenici in the Department of Defense. Do not give it to FEMA. Task the Army to put more money into it. Expand the training, use distance learning, and use this money to fund development of that global information network. . . .

**“Long before Paula Jones,  
long before Monica Lewinsky,  
there was a conscious decision, made in  
London, that there would be a full-scale  
campaign to destroy Bill Clinton,  
and to destroy, once and for all,  
the credibility of the office of the  
Presidency of the United States.”**

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## **T**ransportation bill is approved in House

On April 1, the House passed a \$217 billion surface transportation bill by an overwhelming vote of 337-80. The bill re-authorizes the 1991 Intermodal Surface Transportation Efficiency Act (ISTEA), and mandates that revenues that come into the transportation trust funds over the life of the bill be spent on transportation needs. Attempts by budget-cutting ideologues, led by Budget Committee Chairman John Kasich (R-Ohio), to stop the bill with a highway program privatization proposal, were steamrolled. Kasich's amendment was defeated by a vote of 318-98.

However, President Clinton indicated a couple of days after the vote that he thought the bill was too big. While acknowledging the importance of highway spending, he said, "Such spending must be within the balanced budget and should not crowd out critical investments in education, child care, health care, or threaten our budget discipline."

The bill provides \$181 billion for highway construction and safety programs, and \$36 billion for mass transit. It reforms allocation formulas so that states receive at least 95% of what they contribute in Federal gas taxes. It strengthens safety programs that target high-risk roads, hazard mitigation, and road-rail crossings; increases funding for the National Highway Traffic Safety Administration; and dedicates \$570 million for border infrastructure related to increased North American Free Trade Agreement-related trade.

Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa.) argued for a national transportation policy. "There is a greater need to tie our country together," he said, "to make sure that the national interest is

protected, as well as state and local interest." He gave several examples, such as the seaport of Seattle-Tacoma, Washington, and the crossing of Interstates 35 and 40 in Oklahoma City, to demonstrate that transportation bottlenecks in such areas have ramifications all across the country because of the nature of interstate trade.

## **P**lan to pass IMF funds without a vote exposed

On March 31, Reps. Ron Klink (D-Pa.), Bernie Sanders (I-Vt.), Dennis Kucinich (D-Ohio), and Cliff Stearns (R-Fla.) held a press conference to expose a scheme they said would secure approval of the International Monetary Fund supplemental appropriations bill in the House without floor debate. Klink said, "I am fearful that the House may approve only the defense and disaster supplemental, and not vote on a separate IMF funding bill, only to have a conference report come back to the House with IMF funding already in it." The IMF supplemental funding is included in the Senate version of the bill, but not in the House bill. An amendment by Klink to ensure a separate vote in the House on the IMF funding was rejected by the House Rules Committee on March 30.

Klink said that some had accused him of being "paranoid about the possibility of IMF funding coming back from the Senate without any input from the House. I would reply that if we are going to do campaign finance reform bills in 40 minutes, with no amendments and two-third votes required for passage, if we are going to vote on financial services legislation that is written behind closed doors and hasn't seen the light of day until today, if we are going to pay for disaster relief

by cutting housing for the poorest of the poor, well, then, our fears about the IMF funding vote don't sound so funny any more." The conference committee members will be appointed after Congress returns from its Easter recess on April 20.

When asked by *EIR* whether there were support in the House for language in the Senate bill calling for a New Bretton Woods Conference, Klink said that that was the kind of thing which should be debated, if debate were permitted. He said he thought there was "quiet support" in the House for such a proposal.

## **B**udget plan is passed by Senate

On April 2, the Senate passed a budget resolution by a vote of 57-41, which is based on a Republican budget plan, and largely ignores the proposed budget submitted by President Clinton. The debate was dominated by arguments over how to use the projected budget surpluses and any income from the tobacco settlement, should any legislation be passed, as well as Democratic complaints that the plan shortchanges education and health care.

The resolution sets forth that any budget surpluses be used to reform Social Security, and that tobacco-derived monies should go to Medicare. Democrats, such as Byron Dorgan (N.D.), argued that tobacco money should go to anti-smoking programs. "It doesn't make any sense at all," he said, "to write handcuffs into this budget resolution that stop us from using the proceeds of the tobacco settlement to do the very things that we are having the tobacco settlement for in the first place."

On education, Democrats have

been calling for programs for hiring 100,000 new teachers and for more school construction. Edward Kennedy (D-Mass.) complained that the resolution cut education by \$1.6 billion below the President's request, and "to make matters worse, the Republican budget prohibits funding for new education programs."

Judd Gregg (R-N.H.) countered that "the Federal government does not have a responsibility" for education funding, and that this has always been and should continue to be the province of state and local communities.

After the vote, President Clinton criticized the budget resolution, warning, "The budget now being drafted . . . simply does not meet these urgent national priorities."

## House passes supplemental appropriations bill

On March 31, the House passed its version of the emergency supplemental appropriations bill by a vote of 212-208. The narrowness of the vote reflects major differences between the House Republicans on one side, and the White House and the Senate on the other. While the bill provides most of the funding requested by the Clinton administration, the \$2.9 billion in emergency funding is offset by cuts in domestic programs, including over \$2 billion in public housing programs and \$366 million in contract authority for the Federal Aviation Administration's Grants in Aid for airports.

Democrats were angry about the offsets, and about the rule of debate under which the bill was considered. Only one amendment was allowed, even though 32 were submitted to the Rules Committee. Tony Hall (D-Ohio) said that with so few amend-

ments allowed, "Members will not be able to fully represent their constituents during the floor amending process."

Minority Leader Richard Gephardt (D-Mo.) said that under existing law, emergency appropriations did not require offsets, and warned of the effects of the offsets that Republicans had chosen. Steny Hoyer (D-Md.) said that the cuts in public housing could leave 800,000 people homeless. David Obey (D-Wisc.) said that the amount of funding for disaster relief in the bill was far less than what the President had requested.

Appropriations Committee Chairman Bob Livingston (R-La.) downplayed the effects of the offsets. "All we are saying on the supplementals, is that, sure, we can continue to spend, but it has to be within the budget," he said. He added that the offsets come from "unobligated funds," that is, money not needed this year, and it can be addressed later if it should be needed. Livingston said that additional disaster relief funds will be provided for in a later bill. The House received an additional \$1.6 billion request from the administration the day after the bill was reported out of committee.

## Campaign finance reform killed amid maneuvering

House Speaker Newt Gingrich (R-Ga.) made good on a December promise on March 30, to allow a House vote on campaign finance reform, despite the fact that the McCain-Feingold bill is already dead in the Senate. However, the way he did it ensured that any comprehensive reform legislation brought to the floor would be defeated.

The McCain-Feingold bill seeks to

limit "soft money" spent on political campaigns, and to restrict issue advocacy by independent groups during an election campaign. Most Republicans oppose the bill.

Four bills were brought to the House floor under suspension of the rules, a procedure normally reserved for noncontroversial bills, which limits debate, doesn't allow amendments, and requires a two-thirds vote for passage. Only one of these dealt with campaign financing, and it increased contribution limits (by a factor of 3 in some categories), the opposite of what reformers have been demanding. It garnered only 74 votes, with 337 opposed.

Sam Gejdenson (D-Conn.) called the procedure "campaign finance reform destruction," and said that while the amount of money spent on election campaigns has skyrocketed, voter participation has declined. He added that the process under which the bill was brought to the floor was "horrific," and one "the Politburo under Joseph Stalin would have been proud of." Minority Leader Richard Gephardt (D-Mo.) called the bill "phony" and decried the fact that it was brought to the floor in such a way as to preclude amendments and alternatives being debated, including from reform-minded Republicans.

One reform-minded Republican, Chris Shays (Conn.), told the *New York Times* before the vote, "The bottom line is McCain-Feingold would pass the House because there would be enough Republicans to join Democrats." He denounced the process used as unfair, and said that the House "is not the Senate, thank goodness, and it should not take a supermajority to pass meaningful campaign finance reform." Shays, usually an ally of Gingrich, is leading a discharge petition to force out of committee the House version of the McCain-Feingold bill.

# National News

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## Gingrich eager for Starr report on Clinton

Although House Speaker Newt Gingrich (R-Ga.) has been cautious about the possibility that the House of Representatives will receive an impeachment referral from independent counsel Kenneth Starr, in private, Gingrich is telling his GOP colleagues that impeachment proceedings will help this year's Republican election campaigns, according to the *Washington Post* on April 4.

"Does anyone doubt we're going to have this material in two months?" Gingrich is reported to have asked his colleagues in a closed-door meeting on March 31. According to the *Post's* sources, Gingrich indicated that he would welcome such a report from Starr.

Gingrich has been promoting the idea of creating a special, select committee to handle an impeachment inquiry, but in a letter released on April 3, sixteen Republican members of the House Judiciary Committee asked Gingrich to reject the idea of a select committee and leave it to the Judiciary Committee, arguing that to break with precedent by creating a select committee "could easily be misinterpreted as partisan maneuvering."

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## Coretta King meets with Reno to find assassin

Coretta Scott King, along with members of her family and others, met with Attorney General Janet Reno for two hours on April 8, to present new evidence of a conspiracy in the April 4, 1968 assassination of her husband, Dr. Martin Luther King, Jr. "New witnesses have come forward who have never been investigated," Mrs. King said after the meeting. She said Reno listened "very sympathetically," and promised to get back to her around her request for the creation of a Truth and Reconciliation Commission, modelled on that of South Africa.

Mrs. King was accompanied by former UN Ambassador Andrew Young, and for-

mer D.C. Delegate Walter Fauntroy. Fauntroy, as the District of Columbia delegate to the House of Representatives, helped to lead a Congressional investigation of the King assassination, and came to believe in the innocence of James Earl Ray.

Lyndon LaRouche told the international radio broadcast "EIR Talks" on April 9, that "there's no question that the story which Ray told, has great verisimilitude.

"Now, it's also known that the Reverend Martin Luther King was targeted by J. Edgar Hoover. Now, that means more than most people would think. J. Edgar Hoover, of course, was this tyrant who was sitting on top of the FBI for many years, since the 1920s. He was a very nasty character. He was also a racist. He was a key member of the Kappa Alpha Society, which is . . . the academic running-dog of the Ku Klux Klan. . . . There are many people in the Justice Department, particularly in the Criminal Division of the Justice Department, who still, to this day, are racists. The key man behind Kenneth Starr, for example, Hickman Ewing, is a known racist, with an untarnished record, shall we say, as a racist.

"And Martin Luther King was targeted by Hoover. He was killed. If you look at the circumstances of the operation, the proposition that Ray was the shooter of King, is absurd."

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## Reno mum on action vs. Oregon euthanasia law

During her April 2 press briefing, Attorney General Janet Reno responded to a question about whether the Justice Department would take action against Oregon's legalization of "physician-assisted suicide." Reno told reporters: "What we've tried to do is to make sure that everybody has an opportunity to be heard. I am now anticipating some decision-memos giving the different perspectives of the Department so that I can take final action. I have reviewed the memos. I have considered the arguments. And now I'm waiting for specific recommendations."

The Oregon law permits doctors to prescribe drugs in lethal dosages for patients

who are alleged to be terminally ill, in order to commit suicide. "Compassion in Dying," the organization that wrote the law and led the campaign for its passage, provides the recipe, usually an overdose of barbiturates, for successful "suicides."

But, because of the Drug Enforcement Administration classification for barbiturates, under Federal law, any physician who prescribes barbiturates is under scrutiny from the DEA, which allows access to controlled substances only for legitimate medical purposes. When Oregon voters passed the suicide initiative in November, the DEA concluded that barbiturates for suicides was a misuse of Federally controlled drugs, and it would review the matter.

Anti-euthanasia advocates hope that a Federal intervention would be as effective against the suicide law in Oregon, as it had been against the phony "medical marijuana" initiative in California. Nonetheless, at least two people have died under Oregon's euthanasia law.

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## Professor elaborates on legal lawlessness in Va.

Washington and Lee University law professor William Geimer gave a statement to the LaRouche movement's weekly newspaper *New Federalist* on April 4, elaborating on his charges, reported on March 27 in the *Richmond Times Dispatch*, that the Virginia Attorney General's office runs a "death squad" in its death row operations. Geimer was asked to elaborate on what he meant by a "death squad."

"As I also said—and it wasn't published—whether you oppose the death penalty in all cases or not, the only difference between a murder and a lawful execution is the law. So, if the law breaks down, and the law about who is supposed to be sentenced to death and who isn't, under the law, and the limitations are ignored in the name of politics, then an execution is on the same plane as a street-killing.

"It's not just the Attorney General's pathetic little group of people there, who use every technicality and who misstate the facts



**A MARYLAND BILL** to impose sanctions against Nigeria was defeated in the Senate on April 7. Opposition was mobilized by Nigerian businessman Lawrence Fejokwu, and associates of Lyndon LaRouche. Lawrence Freeman, a Baltimore-based correspondent with *EIR* who has visited Nigeria several times, submitted testimony against the bill.

**THE 'CHRISTIAN Alliance for Israel'** is planning a 50th anniversary celebration of Israel's statehood, by holding a mass rally of up to 18,000 evangelicals, to be addressed by Israeli Prime Minister Benjamin Netanyahu over April 29-May 3, in Orlando, Florida.

**OLIVER NORTH** ranted against President Clinton's trip to Africa, in the April 1 *Washington Times*, saying that Clinton "implicitly blames the Reagan administration for the Cold War battles fought on African soil. Does he think no one here remembers that Fidel Castro's legions were the mercenaries of the Soviet Empire in Guinea-Bissau, Angola and Mozambique?" (At the time, North's Bush-directed operations were buying East German weapons to arm "anti-communist" and "Islamic fundamentalist" mercenaries.)

**THE UNHUMAN RIGHTS Commission** issued a report on April 3, calling for a moratorium on further executions in the United States, and stating that some U.S. states carry out executions in an "arbitrary and discriminatory manner," in violation of the 1966 International Covenant on Civil and Political Rights. The report opposes the execution of juveniles, the retarded, and the mentally ill.

**RICHARD MELLON SCAIFE'S** "ties to ultraconservative factions of the American and British intelligence communities," were exposed in the *Seattle Post Intelligencer* on April 1. Few publications other than *EIR* have noted that connection; only *EIR* has reported Scaife's role in funding both the "Get LaRouche" and "Get Clinton" operations.

and distort the records to try to get people executed. It's also that the court system has broken down in Virginia, so that the rule of law, the limitations on the death penalty which were so important to being able to have a death penalty at all reinstated in '76, are just ignored in Virginia.

"This little arm of the AG's office, they took offense to the term 'death squad,' but I don't know what else you could call them. They use every technicality, and they distort, and they speak in very nasty, uncivil, unlawful-like terms in the pleadings and briefs and things that they write.

"So I have no regret about the use of that term. It's just that they're not alone. They're just a part of the breakdown of the law in Virginia."

## Wisconsin ends welfare, but there are no jobs

In an interview with NBC's "Today" show on March 31, Wisconsin Gov. Tommy Thompson (R), whose Wisconsin Works pioneered the slashing of welfare in America, declared the end of welfare in his state. Beginning April 1, every adult judged able to work will be cut off, and those who aren't ready to work (including mothers of children six months or older) must perform some kind of job training or community service to earn their checks. A similar inflection point will soon be reached in all 50 states, as the 1996 Federal welfare reform legislation works its way around the country's state-run programs.

Thompson lied that the average job in Wisconsin for welfare recipients pays \$6.30 (minimum wage is \$5.15); at 25% above poverty level, he said, there's no problem for a mother to support three children on that \$13,000-a-year gross income.

However, a recent study by the University of Wisconsin, reported in the London press, which has tracked 25,000 single parents who had been on welfare, found that in a 15-month period, 18,000 of them had worked at least once, holding 42,000 separate jobs. But only 7% had earnings equivalent to \$20,000 a year, and only 39% were earning

\$10,000 a year or more—the minimum wage. A third had no recorded earnings at all.

A *Washington Post* study released on March 23, showed that tens of thousands of families are being forced off welfare as punishment for not complying with tough new rules, many of these because they are too illiterate or sick to understand the regulations. The study found that, in Indiana, more than half of the 14,248 cases closed in a three-month period last year were a result of sanctions. In Florida, 27% of the 148,000 cases closed in the second half of 1997 were because of sanctions. In a Utah pilot program, half the sanctions ordered were imposed in error, often when a caseworker didn't detect that a recipient suffered from mental illness or some other problem.

## Book assails destruction of Classical education

A new book, *Who Killed Homer? The Demise of Classical Education and the Recovery of Greek Wisdom*, makes a powerful correlation between the collapse of Classical training among American students, and the destruction of the educational system itself. The book, by Victor David Hanson and John Heath, points out that, in 1994, only 600 university graduates were awarded degrees in the Classics, out of 1 million total undergraduate degrees.

The *Washington Post* review on March 29 called the book "a blistering indictment not just of administrators, who must meet the bottom line, but of Classicists themselves, who ignored the developing crisis over the past 30 years" by withdrawing into what the authors term "obscurantist" scholarship, saturated with French post-structuralism and post-modernism. Hanson and Heath assail the degradation of Western culture by politically correct campus "trend, cant, and fad." "Our own Founding Fathers," Hanson and Heath remind us, "helped establish an American 'cult of antiquity.' . . . To walk through Washington, D.C. is to experience Graeco-Roman institutions, architecture, sculpture, and city-planning at first hand."

## Editorial

### *It's just the stock market—not reality*

When the Dow Jones index leaped over 9,000 on April 6, reaching its second 1,000-point mark in eight months, the media went wild. The *Washington Post* ran a full-page spread, picking apart the demographic characteristics of the poor schmoe who are missing out. “The millions of American investors who climbed aboard the Starship Dow before its takeoff in the 1990s have watched their net worth soar to dizzying heights,” according to the *Post*. “But many more have missed the ride. While Americans are piling into the market in record numbers, the most recent data suggest that six of every 10 households still do not own stocks—and thus have reaped no direct benefit from the current boom in share prices.” Charts and graphs underline the point that while 41% of all families own stocks, only 14% of black families do. The *Post*'s message: Get with it, guys!

Once again, the American people are being fed a bunch of baloney. There is an enormous “reality gap” between what all too many Americans believe, and what the rest of the world knows.

Take a sampling of international commentary the week of April 6:

- Italian Prime Minister Romano Prodi tells journalists in Buenos Aires: “I personally believe that we must move towards a New Bretton Woods. And this has to be analyzed very carefully, because the risk level in the international monetary system has greatly increased in the recent period.”

- Italian Foreign Minister Lamerto Dini, discussing the impact of the Asian financial crisis on the West, calls for “a sort of international bankruptcy court, to establish the principle that creditors pay for failures, and that an investment has a risk factor. As with private firms: When one goes bankrupt, you list the creditors; you may reach an agreement, but no one recovers every last penny.”

- German President Roman Herzog, in an interview with the weekly *Der Spiegel*, warns of the consequences of the enormous speculative capital flows. “We should think about the question, whether there shouldn't be institutions that can bring these vagabond masses of capital under control. This is getting out of all national controls—a situation not without the potential to explode.

Apparently, we need to have regulation here.”

- Taiwan's Prime Minister Vincent Siew makes the unprecedented proposal that Beijing and Taipei jointly host a meeting of Southeast Asian countries to discuss the financial crisis in the region.

- London investment strategist David Roche, in an interview with Italy's *Corriere della Sera*, forecasts that “1998 will see a market crash sweeping away 30-40% of stock values. . . . Both the American Fed and the Bank of Japan are printing money as if there were no tomorrow. And the Bundesbank is conducting the most expansive monetary policy in European history. The markets will go up as long as the printing presses work. But this policy contains the seeds of its own dissolution.”

- The German economic daily *Handelsblatt*, in its lead editorial, “Japan Should Make Bull Investors Anxious,” warns of the dangerous disparity between the euphoria on the stock exchanges, and “the weak flank of the world financial system, which is Japan.” Editor Klaus Engeln writes that “the threat of a Japanese collapse is now receiving utmost priority on the agenda of global crisis managers.”

These international commentators are beginning to face up to what Lyndon LaRouche and *EIR* have told our readers for a long time. LaRouche's “triple curve” schematic diagram of a typical collapse function (see back cover of this magazine) shows exactly what is going on right now: Financial and monetary aggregates are rocketing into the stratosphere, sucking investment capital out of the physical economy. Speculators who can double their money in derivatives trading or on the stock market, have no interest in building bridges or nuclear plants, which take decades to realize a profit. As the “triple curve” graph shows, the hyperbolic growth curve of speculative paper leads inexorably to a total collapse of physical, productive economic activity. At that point, the bubble pops, and the financial and monetary aggregates vaporize.

It is in this context, that worldwide momentum is growing behind LaRouche's call for a New Bretton Woods system. That is where reality lies—as far as possible from the virtual reality of the Dow Jones.

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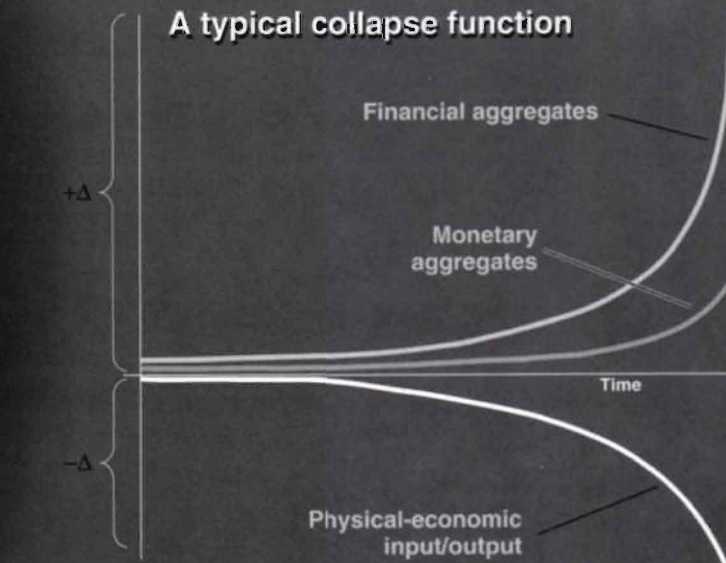
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# LaRouche And EIR Have Been Right,



Lyndon H. LaRouche, Jr. and LaRouche's "triple curve" schematic



A recent trading day at the New York Stock Exchange.

## While Others Have Ignored Reality



*The politicians who continue the present posture of stubbornly ignoring the reality of the onrushing financial and economic crisis, will soon be crushed, and swept aside politically, by the reality they ignore. Then, the present writer's objective authority as a policy-shaper, is unique, not only inside the United States, but world-wide. To parody James Carville's delicious book, "They have been wrong, and EIR has been right."*

—Lyndon LaRouche, Nov. 1, 1996

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