

# EIR

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The Fraud of Bush's 'Pro-Nuclear' Policy  
MSIA: Anatomy of a Fascist Intelligence Operation  
Lebanon's Hariri Killed To Make a 'Clean Break'

**George Shultz: Godfather  
Of Bush and Schwarzenegger**



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Winter 2004

## *The Follies of the Economic Hitmen: Re-Animating the World's Economy*

Lyndon H. LaRouche, Jr.

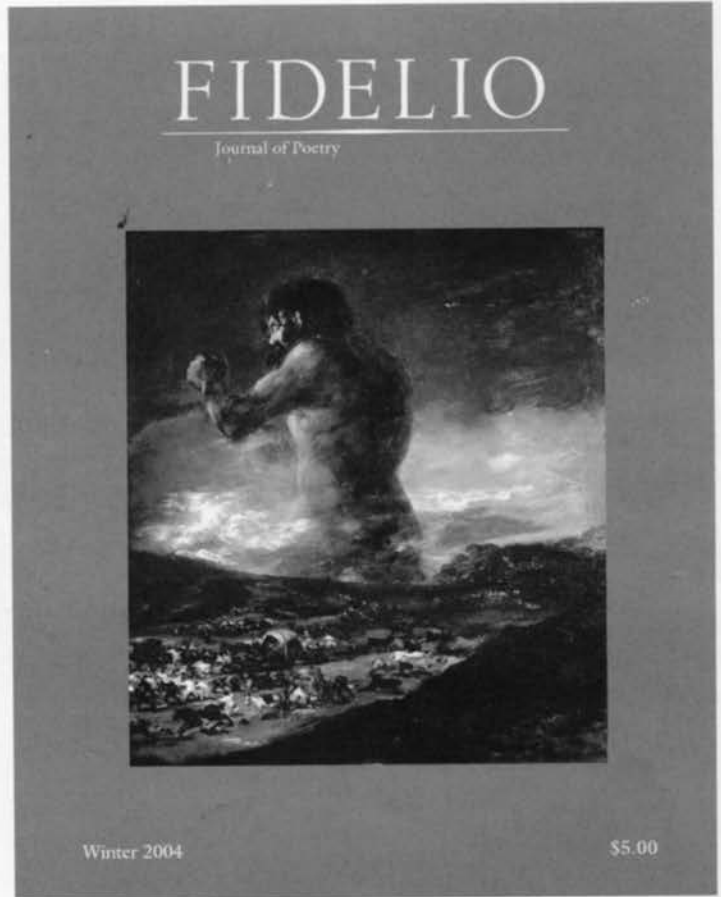
We must think of the abiotic, Biosphere, and Noösphere as physical capital, which we must build up, in the order of those relative priorities, to create the expanded preconditions for not only growing populations, but a higher standard of living, of higher productivity per capita and per square kilometer, of general development, and longevity of those populations. We must qualify ourselves, increasingly, to manage this Riemannian universe, as we were God's gardener.

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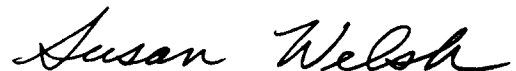
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## From the Associate Editor

George Shultz was not exactly being subtle, when he chose the star of *The Terminator* as his poster-boy for the drive to loot Social Security on behalf of Wall Street. California Governor Arnold Schwarzenegger's iron fist is now bared, as he fires his own political appointees who dare to speak out against his wrecking of teachers' pensions; denounces Democrats in the state legislature as "evil"; and generally proceeds with knee-capping any and all opponents. Our *Feature* gives a comprehensive picture of the philosophy and institutions behind this fascist policy, of which Social Security privatization is the most significant example. We include an analysis of how "respectable banker" Hjalmar Schacht's economics paved the way for Hitler, and a report on how Wall Street is poised to benefit from the hoped-for dismantling of the legacy of Franklin D. Roosevelt's New Deal.

We go to press as the Schiller Institute and International Caucus of Labor Committees are assembling in Northern Virginia for their annual Presidents' Day conference. A memorandum by Lyndon H. LaRouche, Jr., titled "The Global Option for This Emergency: Beyond Westphalia Now," establishes the framework for the conference deliberations (see [www.larouchepub.com](http://www.larouchepub.com)). Outlining the parameters for a new global economic system, through a "Westphalian" community of sovereign nation-states, he concludes: "It can be done, but it could be done only under the pressures of a global crisis as immediately menacing as the situation now. Necessity will be the forceful mother of the needed invention. Nations will swim in the waters of a new economic system, not because of a zeal for swimming, but because they perceive that it is necessary to swim, if one is to survive."

A crucial component of the conference discussion will be LaRouche's stress on "the Vernadsky principle"—using human creativity to overcome seeming obstacles to the development of the planet's biosphere, including seeming scarcity of raw materials. In this week's issue, the contributions by LaRouche, Marcia Merry Baker, and Dennis Small on Brazil's agriculture, and the paper by Moscow's Dr. Yuri Gromyko on Eurasian development, are of greatest relevance to this overarching theme. More to come.



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## George Shultz: Godfather of Bush And Schwarzenegger

*The following is the introduction to a LaRouche PAC pamphlet, "Bush's Social Security Fraud—Stop George Shultz's Drive Toward Fascism!" The article is entitled, "Behind the Social Security Heist Stands George Shultz: The Fascist 'Godfather' of Bush and Schwarzenegger."*

George Shultz, the political Godfather of President George W. Bush and California Governor Arnold Schwarzenegger, is, like his role model Hjalmar Schacht, the kind of fascist who, one would imagine, arrogantly believes he will get off scot-free at the next Nuremberg war crimes tribunals. Hjalmar Schacht, the architect of the Hitler genocide, from his posts as Minister of Economics and German Central Bank chief of the Nazi regime, was tried and acquitted at the original Nuremberg trials, despite the fact that it was his radical austerity policies that led, lawfully, to the Holocaust, in which millions died—Jews, Gypsies, Slavs—the elderly, the young, the sick, and the feeble (the "useless eaters") exterminated in the gas chambers, while the able-bodied were worked to death.

The ugly truth that most people today do not want to face about 20th-Century Nazism and Fascism is that, before there were the populist demagogues, the Hitlers and the Mussolinis, there were the "liberal" bankers, who demanded, under financial collapse conditions, that the bankrupt banks be saved at all costs. The Storm Troopers and the concentration camp kapos came later. They were the enforcers of the fascist policies, dictated, top-down, from such institutions as the Bank for International Settlements, through the actions of three-piece-suited bankers. Hjalmar Schacht was one leading example. So was Count Volpi di Misurata, who served as the Finance Minister and the Svengali behind Mussolini, on behalf of an Anglo-Venetian financier oligarchy. Bank of England Governor Montagu Norman, New York Federal Reserve chairman Benjamin Strong, Wall Street bankers Averell Harriman and Prescott Bush, Sr., along with the Directors of J.P. Morgan, were all among the central bankers and private financiers who contributed their cash and their political muscle to impose Nazism and Fascism on Europe, and drive the world back to war and chaos, for the second time in the century.

So, today, George Shultz, the wanna-be Hjalmar Schacht of the late 20th and early 21st Centuries, peddles the identical fascist austerity policies, under even



INTRODUCTION

## Behind the Social Security Heist: George Shultz, Fascist 'Godfather' Of Bush and Schwarzenegger

**G**eorge Shultz, the political Godfather of President George W. Bush and California Governor Arnold Schwarzenegger, is, like his role model Hjalmar Schacht, the kind of fascist who, one would imagine, arrogantly believes he will get off scot-free at the next Nuremberg war crimes tribunals. Hjalmar Schacht, the architect of the Hitler genocide, from his posts as Economics Minister and German Central Bank chief of the Nazi regime, was tried and

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The ugly truth that most people today do not want to



*George Shultz's prize demagogue is California's Governor, Arnold Schwarzenegger, who used to speak enthusiastically of Adolf Hitler as another Austrian who took over a great country. Here, Schwarzenegger is seen promoting his 2006 fascist austerity budget for California.*

COVER: AP Photo/Steve Yeater/Pool. Among the arch-plotters against Social Security, left to right: George Shultz, California Governor Arnold Schwarzenegger, and Shultz's fellow 'Chicago Boy' Milton Friedman, in an October 2004 gathering of the Governor's Council of Economic Advisors, which Shultz chairs.

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*The LaRouche's PAC's new pamphlet features on the cover (left to right) George Shultz, California Gov. Arnold Schwarzenegger, and Milton Friedman, in an October 2004 gathering of the Governor's Council of Economic Advisors, which Shultz chairs. Shultz personifies the financier oligarchs who, in times of financial collapse, back populist demagogues—like Hitler and Mussolini in the 20th Century—in an effort to save the bankrupt banks at all costs.*

more severe conditions of imminent collapse of the present, hopelessly bankrupt world financial system—the post-Bretton Woods floating-exchange-rate system that Shultz, personally, helped create.

And Shultz, like Germany's Schacht and Italy's Volpi, has chosen his populist demagogues, to sell fascism to a desperate and increasingly irrational population. It is no secret that Shultz was the behind-the-scenes architect of the George W. Bush Presidency, hand-picking his core team of campaign advisors, the so-called “Vulcans,” and placing trusted long-time collaborators, like Dick Cheney and Donald Rumsfeld, and loyal protégés like Condoleezza Rice, Paul Wolfowitz, and Elliott Abrams, in key White House and Administration posts. But even Shultz knows that G.W. is, at best, a transitional figure, whose Presidency was “made” by the events of Sept. 11, 2001.

Shultz's hand-picked future Führer, with real-live Nazi blood flowing through his veins, is California's Governor Arnold Schwarzenegger. While Bush flubs his lines and increasingly loses his composure, even in front of pre-screened adoring audiences of fundis and rightwing Republican shells, as he peddles the looting of the Social Security Trust Fund, Hollywood action-hero and former steroid-popping Austrian bodybuilder Schwarzenegger is just the kind of demagogue that Shultz and company are looking to in the near future. California is the test case for the real thing, and George Shultz has inserted himself as the chief of Governor “Arnie's” economic hit team, just as banker Schacht stepped back into the government, once Hitler was installed in power.

### They All Hate FDR

Like the Schachts, the Normans, the Harrimans, and the Volpis of the 1923-45 period of depression, fascism and world

war, today's Schachtians, led by the likes of George Shultz and Alan Greenspan, despise everything that American President Franklin Delano Roosevelt ever stood for. FDR saved the world from fascism, by returning the United States to its founding principles, leading an unprecedented economic recovery, and mobilizing America's industrial might and its most precious asset, the American people, for the fight to defeat Hitler.

At home, FDR launched a series of great projects, financed by government-directed credits, to put a broken and demoralized American people back to productive work. Projects like the Tennessee Valley Authority, rural electrification, and the creation, from the ground floor, of an airplane-manufacturing industry, a petro-chemical industry, and other new industries, transformed the United States. Programs like Social Security for the first time brought full meaning to the Constitutional mandate that government provide for the General Welfare of all Americans of the current and future generations. For the first time, America's elderly, ill, and orphaned were no longer trapped in a life of degrading poverty. For 70 years, FDR's Social Security program has protected Americans from want.

On the international stage, FDR's crowning achievement, beyond the defeat of fascism, was the Bretton Woods system, which created a stable, international financial system, without which the postwar recovery would have been impossible. FDR, at Bretton Woods, organized the 44 Allied governments, to establish a fixed-exchange-rate system, pegged to a monetized value of gold. The Depression era and World War II debt, over a period of years, was written off, to ensure that there would be no replay of the Versailles System constructed at the close of World War I, which created, through rapacious war reparations, the bitter resentment that ultimately led to

fascism and catastrophe.

It was Roosevelt's intention, as recounted by his son Elliott, to rid the postwar world of all vestiges of European colonialism and imperialism. Sadly, FDR died before he could see that final mission through to completion. Winston Churchill breathed a deep sigh of relief, when FDR was replaced in the White House, upon his death, by Vice President Harry Truman, a little man who was wholly unprepared for the job, and who surrounded himself with what FDR had earlier denounced as "American Tories," the internal proponents of empire and free trade.

## Shultz as Schacht

Just a few short years after the death of Franklin D. Roosevelt, George Shultz first appeared on the political stage, already dedicated to undoing everything that FDR had created.

To a certain extent, Shultz was "born into the job." His father, Birl Earl Shultz, was a seminal, albeit behind-the-scenes, figure in the early-20th-Century Anglo-American financial oligarchy, serving for years as the personnel director of the American International Corporation, of 120 Broadway, New York City. AIC was an investment conglomerate for the major Wall Street financial houses, deeply involved in dirty financial operations inside the Soviet Union, shortly after the Bolshevik Revolution. State Department documents from the World War I era identified AIC as a hub of what historians called the "Anglo-American Trust." From 120 Broadway, the elder Shultz moved directly onto Wall Street, establishing the New York Stock Exchange Institute, the training school for future brokers.

After getting his B.A. from Princeton in 1942, George Shultz served in the Marine Corps for three years, before entering graduate school in economics at MIT. At MIT, according to several accounts, Shultz teamed up with the German social engineer Kurt Lewin, until Lewin's death in 1947. Lewin, along with MIT professors John Von Neumann and Norbert Wiener, was a major player in the "Cybernetics Group," which pioneered the "information age" of post-industrial society. Lewin developed techniques for small group behavior modification, which were widely applied, during the 1950s, in the corporate sector, paving the way for the paradigm shift to deindustrialization, cost-accounting and, eventually, radical environmentalism.

Shultz got his PhD in economics, specializing in Lewinite labor-management relations, later joining the MIT faculty. During the Eisenhower Administration, Shultz was brought to Washington, to work for Arthur Burns at the Council of Economic Advisors (Burns's other leading protégé was Milton Friedman). Shultz next moved to the University of Chicago Economics Department, joining Friedman. Shultz became the dean of the University of Chicago Graduate School of Business in 1962. The Chicago School was the American command post for the financier oligarchy's Mont Pelerin Society, the most radical anti-government, free-trade



*Former Nazi Economics Minister Hjalmar Schacht, in 1962. He was let off scot-free at the Nuremberg war crimes tribunals, because his economic policies, which paved the way for the gas chambers, were (and are) shared by many "liberal" financial circles outside Germany.*

cult of speculative monetarism.

It is not surprising that the University of Chicago of the Shultz era provided cohabitation for the neo-liberal Mont Pelerinites and Leo Strauss (who was deprived of his Nazi party card, only because of his Jewish birth), and the Straussian promoters of Nazi ideologues Martin Heidegger and Carl Schmitt. In his subsequent political postings in the Nixon and Reagan Administrations, and in his shaping of the George W. Bush Administration, Shultz would function as the perfect bridge between the neo-liberal Schachtians and the neo-conservative imperialists.

When Richard Nixon was elected President in November 1968, he tapped Shultz to be his Secretary of Labor. But as the leading Chicago School figure in the Nixon Administration, Shultz would play a far more profound role than that. Shultz executed the final collapse of the Bretton Woods System, in concert with two other Nixon Administration figures, Paul Volcker and Henry A. Kissinger.

The Bretton Woods system had been under systematic attack from the City of London from no later than the mid-1950s, when the British reopened the London gold exchange to speculative trading to undermine the dollar peg. Contrary to urban legends that the British, through John Maynard Keynes, had created the Bretton Woods system, the British government had, in fact, voted against the FDR-created Bretton Woods arrangements at the 1945 ratification conference in Savannah, Ga. It was the only opposing vote.

On Nov. 29, 1967, the British devalued the pound sterling by 14%, triggering an overall currency crisis, and forcing the U.S. government to spend 20% of its entire gold reserve to



protect the \$35 gold price against London speculators. On March 16, 1968, the central bank heads of the seven leading industrial nations reached a rotten compromise. They agreed to create a two-tier gold pricing system, retaining the official peg of \$35 an ounce, but allowing speculators to trade freely on gold and allowing the “market” to set the price—the sky was the limit. This led to an inevitable dollar crisis—which set the stage for Shultz et al. to take down the hated FDR Bretton Woods system altogether.

In the early months of the Nixon Administration, the President signed National Security Study Memorandum 7 (NSSM-7), which put Paul Volcker, Undersecretary of Treasury for International Monetary Affairs, in charge of a task force assigned to study new international monetary policy options and report to the National Security Council, headed by Kissinger. In May 1971, the Volcker team at Treasury prepared a contingency study, which, among other options, proposed “suspension of gold convertibility”—i.e., the bust-up of Bretton Woods.

By this time, George Shultz had moved from Secretary of Labor to the newly created post of head of the White House Office of Management and Budget (OMB). According to John Connally, who would soon be replaced by Shultz as Secretary of the Treasury, the order to end the Bretton Woods system came directly from Shultz, in a face-to-face meeting. Shultz was accompanied by Kissinger and Volcker, but it was Shultz who did all the talking, literally dictating to Connally that the dollar peg to gold would be ended. Just days before the Aug. 15, 1971 announcement by President Nixon, breaking the dollar peg to gold, the British Ambassador had turned up at the Treasury Department, demanding that \$3 billion in British dollar holdings be converted, on the spot, to gold, an impossible demand that was rejected. But the threat had been delivered.

On Dec. 13-14, 1971, President Nixon met with French President Georges Pompidou in the Azores. The French President tried to convince Nixon to salvage the Bretton Woods system of fixed exchange rates, through some adjustments in currency rates, but Nixon, under Shultz’s sway, refused. In June 1972, Shultz replaced Connally as Treasury Secretary, and he devoted the next several years to quashing all efforts to reconstitute a fixed-exchange-rate system. The death knell for Bretton Woods was formally sounded at the November 1975 Rambouillet summit, which Shultz attended, as part of the Ford Administration delegation. Shultz, in his book *Economic Policy Beyond the Headlines*, crowed that “markets rather than governments were explicitly in charge.”

By this time, Shultz had left government, and had been named CEO of the Bechtel Corporation, one of the world’s largest construction companies. Author John Perkins, in his groundbreaking book, *Confessions of an Economic Hit Man*, named Shultz as the head of an IMF-linked international network of cartels, dedicated to looting and destroying targeted Third World nations, by saddling them with impossible debts.

The break-up of the Bretton Woods system was part of a larger Schachtian policy paradigm-shift, orchestrated by Shultz, Kissinger, and the British. In 1974, Kissinger promulgated a new national security doctrine for the United States, through National Security Study Memorandum 200 (NSSM-200), which explicitly claimed American extra-territorial sovereignty over the strategic-raw-materials wealth of much of the developing sector, under the cloak of American responsibilities to defend the “free world” against the Soviet menace. The Kissinger document defined economic development in the Third World as a threat to U.S. national security and set out radical population reduction goals for several dozen Third World countries, including India, Turkey, Brazil, Indonesia, Nigeria, Egypt, and several states in the oil-rich Persian Gulf. This Malthusian declaration of war against the darker-skinned races of the planet placed both Kissinger and his “Chicago School” ally Shultz in the same camp as Lord Bertrand Russell, who, in his infamous 1951 book, *The Impact of Science on Society*, had called for scientists to develop a means of unleashing a Black Plague once every generation, to ensure that population growth did not get out of control.

### **The Pinochet Model**

Kissinger and Shultz put their NSSM-200 schema into practice in 1973, with the U.S.-backed military coup in Chile that ousted and brutally murdered President Salvador Allende. Over the next decade, Chile would be turned into the laboratory of the “Chicago Boys.” As the earlier Hitler and Mussolini cases demonstrated, the imposition of Schachtian austerity can only be achieved at the point of a gun. Under the dictatorship of Gen. Augusto Pinochet, at least 30,000 Chileans were “disappeared”—kidnapped and executed by Chile’s secret police, the DINA, and by allied rightwing regimes in South America. Under “Operation Condor,” a joint death squad program involving a half-dozen South American rightwing dictatorships of the 1970s, Chilean opponents of the Pinochet regime, and members of the deposed Allende government, were assassinated in South America, Western Europe, and the United States.

In Chile, under Pinochet, the labor movement was crushed, wages were driven down by 70%, and, by the end of the 1970s, the country was bankrupt. To deal with the crisis, Pinochet’s Minister of Labor and Social Security, José Piñera, devised a plan to “privatize” the government pension system. Under privatization, pension funds were diverted to private accounts, managed by banks and brokerage houses that pilfered outrageous management fees, and left most workers with a pittance on their retirement. Today, the Chilean Congress is scrambling to “reform” the privatized account system, which has been looted, nearly to the point of extinction.

George Shultz, however, has a different view of the “Chilean model.” In a PBS-TV interview on Oct. 2, 2000, Shultz described the Chile events: “The armed forces took over and no doubt did some unnecessarily brutal things in the process,

but nevertheless they took over. . . . There were in Chile some people who came to be called ‘Chicago Boys.’ They had studied economics at the University of Chicago. . . . And so a Chicago School-like economy gradually evolved in Chile. It worked.”

So enamored of the “Pinochet model” of Social Security privatization/looting was Shultz, that in early 1981, he travelled to Santiago, ostensibly on behalf of the Ronald Reagan Presidential transition team. There he met with José Piñera, who was now Pinochet’s Minister of Mines, and asked Piñera to prepare him a short memorandum on Chile’s supposedly successful pension privatization scheme. As early as 1973, according to former George W. Bush Treasury Secretary Paul O’Neill, Shultz was already peddling Social Security privatization. In 1978, Shultz apparently sold the idea to a young Texan running for a U.S. Congressional seat. George W. Bush, running in his first election campaign in West Texas, pushed Social Security privatization, on the fabricated grounds that the system would be bankrupt by 1988. He was defeated by a landslide. Some people never learn.

As Ronald Reagan’s Secretary of State, George Shultz was the first American official to call for the United States to adopt the imperial policy of preventive war. Addressing a Jewish congregation in New York City in 1984, Shultz warned that America could be forced to take preemptive action against a terrorist threat—before it had the full and accurate intelligence picture. Six years later, Shultz ally, Dick Cheney, then the Secretary of Defense in the George H.W. Bush Administration, attempted to promote the Shultz doctrine as part of a Defense Guidance. It was trashed by President Bush, his National Security Advisor Gen. Brent Scowcroft, and his Secretary of State, James Baker III. It would take Shultz’s hand-picked “Bush 43” Administration to impose this Hitlerian doctrine. Today, Shultz is promoting preemptive war against Iran, Syria, North Korea, and, eventually, China, from his latest perch, as the co-chairman of the Committee on the Present Danger.

## George and Arnie

But George Shultz’s real passion, at this moment, is to pave the way for Arnold Schwarzenegger’s ascent to the Presidency—even though this will require a Constitutional amendment, to allow a naturalized American to seek the highest office in the land. Schwarzenegger is the kind of fascist demagogue who can play the Hitler to Shultz’s Schacht. Today, even as President Bush peddles Social Security privatization to an increasingly wary Congress and American public, California’s “Governator” is moving to steal California’s state pension fund system, through executive caveat, outright theft, and the threat to bypass the “punks” in the state legislature, through a referendum. Schwarzenegger is pursuing a Jacobin confrontation, modelled on the Venezuelan admirer of Carl Schmitt, President Hugo Chavez.

Shultz’s pet Arnie is a dyed-in-the wool Nazi. His father was a member of the Nazi Party in Austria, who served in the

SA, the notoriously brutal Brownshirts. In an interview with George Butler in 1977, Schwarzenegger voiced his own views on the Nazi dictator: “I admired Hitler because he came from being a little man with almost no formal education, up to power. And I admire him for being such a good public speaker and for his way of getting to the people and so on.” Arnie juxtaposed Hitler’s discipline to the softness of America. “America . . . There is one thing I don’t like here and that [is] people go on their own little trips too much,” he told Butler. “The unity isn’t there anymore. And I don’t think it’s too much the people’s fault. I think it’s because we don’t have a strong leader here.”

Schwarzenegger got teary-eyed in describing the Nazi Party’s annual Nuremberg rallies, which he attempted to replicate in his own demagogic gubernatorial campaign: “To speak to maybe 50,000 people at one time and have them cheer, or like Hitler in the Nuremberg Stadium, and have all those people scream at you, and just being in total agreement with whatever you say.”

## The Imminent Dollar Crash

While George Shultz personifies that faction of the Anglo-American financial oligarchy that has been obsessed with tearing down the FDR legacy for decades, it must be emphasized that the drive now to loot the Social Security Trust Fund goes way beyond ideology. The urgency is driven by the growing recognition that the entire post-Bretton Woods floating-exchange-rate system is about to crash.

At the recent Davos World Economic Forum and the Group of Seven meeting of central bankers and finance ministers in London, a series of leading “Establishment” figures admitted that the net inflows into the U.S. equity and bond markets, which have prevented a precipitous crash of the dollar up until this point, are about to dry up. C. Fred Bergsten told the Davos attendees that the U.S. economy now depends on a net inflow of nearly \$5 billion per day, to cover the mushrooming U.S. Federal government deficits and current accounts deficits. Fan Gang, a leading Chinese economist, openly stated at Davos that China could no longer justify pouring good money after bad to defend the dollar.

On Feb. 4, on the eve of the G-7 meeting, former U.S. Treasury Secretary Robert Rubin, in a debate with Federal Reserve chairman Alan Greenspan, warned that the U.S. deficits were unsustainable and that a systemic crisis was being fuelled by the Fed and the Bush Administration’s refusal to deal with the debt bubble.

For Shultz and his ilk, the answer to the prospect of a drying up of foreign cash flows into the U.S. is simple: Steal the biggest untapped income stream left in the bankrupt domestic U.S. economy—the Social Security taxes. Forget about “saving Social Security.” Forget about Bush Administration concerns about the retirement funds for young workers. This is a Schachtian grab pure and simple.

—by Jeffrey Steinberg, Richard Freeman, and Harley Schlanger

# Schwarzenegger Threatens Democrats, Escalates Attack on Californians

by Harley Schlanger

In a series of outbursts that one wag called a “steroidal storm,” the Governor of California went on a wild rampage the week of Feb. 7, attacking Democrats who are opposing him as “evil,” and firing his own appointees to the state teachers’ pension board. These latest tantrums are part of a pattern of escalation, as the media-friendly nice guy persona of the Governor is being upstaged by a smirking, angry one. The brutal intention of his regime is emerging, despite his best efforts to deflect that reality with his sculpted smile and his scripted, goof-ball mugging in photo ops at shopping malls.

In his verbal assaults against Democratic elected officials, he made it clear that he will do the dirty work for his controller, George Shultz, who is testing the former Austrian body-builder, to see if he has what it takes to become the American Hitler.

At the Republican state convention in Sacramento on the Feb. 12-13 weekend, Arnold played the bully, describing his confrontation with Democratic state legislators as a “great battle” against “evil.” He accused Democrats who have rejected his agenda of being on “sleeping pills . . . or medication.”

With the swagger of Italian Fascist dictator Benito Mussolini performing before crowds on a balcony, he threatened that the Democrats “can go ahead and do whatever they want. . . . The train has left the station and there [are] three things they can do. One is they can join and then jump on the train. Number two, they can go and stand behind and just wave and be left behind. Or number three, they get in front of the train—and you know what happens then,” i.e., they are crushed.

## Arnie’s ‘Four Reforms’

Schwarzenegger intends to back up his threats to run over uncooperative Democratic opponents, by using referendums to bypass the legislative process. Boasting that he will raise at least \$100 million to finance the referendums, he has set up a special fundraising committee to circumvent existing campaign finance rules. Money is pouring in, primarily from those who would benefit from his policies, which include lower taxes on corporations, union-busting, privatization of pensions, and a renewed effort at energy deregulation.

Among those interests, which gave Arnie almost \$27 million in his first year in office, are individuals and corporations involved in financial speculation, banking, real estate, insurance, construction, energy, electronics, entertainment, and

pharmaceuticals. In Arnie’s world, contributors from these sectors—many of whom have already forked over amounts ranging from \$21,200 to more than \$1 million, and have benefitted enormously from his efforts on their behalf—are not “special interests.”

The “special interests” against which Schwarzenegger raves are nurses, who grew angry with him after he reneged on his pledge to reduce the patient-to-nurse-ratio from 6 to 1, to 5 to 1. When nurses demonstrated against him at a recent event, he showed a bit of the old Conan the Barbarian, telling the audience to ignore them, because “they are the special interests. Special interests don’t like me in Sacramento because I kick their butt.” Another way he intends to “kick their butt” is to abolish the Board of Registered Nursing, which will give the hospital industry full control over licensing standards and testing, as well as over investigations of complaints—against the hospitals!

He has also targeted teachers and other educators, who are insisting that he abide by his 2004 pledge to add more than \$2 billion to education spending this year, on condition that they agree to accept no funding increase last year. He reneged on this promise, outrageously insisting that cutting the \$2 billion out of this year’s budget does not constitute a cut in expenditures.

The “four reforms” he intends to place on the ballot in November are the scam to privatize state employee pensions, which will benefit the financial interests funding him, by eventually dismantling the two largest public employee pension funds in the nation, CalPERS and CalSTRS, diverting retirement funds instead into individual 401(k) accounts; slashing education spending by using the gimmick of “merit pay”; redrawing election districts “Tom DeLay-style” to elect more Shultz flunkies to the legislature; and imposing mandatory spending cuts when budgetary expenditures exceed income.

## Revolt Brewing

Thanks to his first referendum, which passed in 2004, he added \$15 billion to the state debt, which was borrowed to pay off old debt. The budget submitted by Schwarzenegger for 2005-06 is running a projected deficit of almost \$9 billion. If the referendum he favors for a mandatory spending cap passes, it would necessitate enormous, automatic cuts, leaving legislators no recourse to protect citizens from the effects

of the budget-slashing.

As for his Shultzian plan to steal the state pension funds, the venality of his proposal is generating opposition even from his own appointees. When four of his hand-picked trustees joined with the majority in opposition to his plan to transform CalSTRS, the teachers' retirement fund, into individual 401(k)-style accounts, he fired them. One of those fired, Jim Battey, a financial executive, called Schwarzenegger's plan "a highly flawed piece of legislation—bad for the state, bad for the system, bad for the teachers."

Also fired was Republican Jim Gray, whose comments indicate that there is opposition developing even among Republicans. Gray told the *Sacramento Bee* that he was fired for refusing to accept "marching orders. . . . If you have to be in lock step [with Schwarzenegger], I guess I shouldn't be one of his employees."

### Shultz's Fascists

It should come as no surprise to readers of *EIR* that Schwarzenegger would demand absolute loyalty from his appointees, nor that that one, such as Jim Gray, would refer to the pressure on him to conform, so as to be in "lock step" with Arnie. Schwarzenegger was selected by Shultz to be Governor, based on his expectation that the former body builder and action hero would convey an image of strength, to impose discipline on those Republicans who might shrink back from following through on the anti-human, fascist policies favored by Shultz. *EIR* has provided detailed evidence of Shultz's fascist proclivities, and of the hereditary inclination of Schwarzenegger toward fascism.

There are two characteristics which have been shared by those vetted and promoted to high political offices by that old Nazi, George Shultz.

First, they have been either ardent supporters of Shultz's brand of Schachtian fascist economic policies, in which the poor, the elderly, and the disabled are squeezed by vicious austerity to provide an additional margin of loot to Wall Street; or they have proven to be at least willing to follow his orders to implement such policies. Second, they have used the technique of the "big lie"—as did Hitler, under Goebbels' direction—to push through the "structural reforms" which have driven the global financial system to the brink of a catastrophic collapse.

Among those whom Shultz served as a would-be Hjalmar Schacht (the London-Wall Street-backed banker who designed Hitler's economic policies) have been Richard Nixon, who took Shultz's orders to dismantle FDR's successful post-war Bretton Woods world monetary system; Gen. Augusto Pinochet, who offered his dictatorship in Chile as a laboratory for Shultz's "Chicago Boys," allowing bankers to steal that nation's pension funds, under the watchful eye of Pinochet's



*Governor Schwarzenegger at his budget press conference in Sacramento on Jan. 10. He has now gone on a rampage against any and all opponents of his brutal austerity policies.*

stormtroopers; and the pathetic George W. Bush, selected by Shultz to be a President who would willingly take the nation to war based on lies, and steal Social Security, again based on lies, in order to prop up the post-Bretton Woods system, which has been bankrupted by Shultz's lunatic axioms of free trade, post-industrial policies.

The fourth among these Shultz protégés may turn out to be the most dangerous. Arnold Schwarzenegger, who was propelled into the office of governor in a coup—the recall election against former Gov. Gray Davis—gives Shultz a front-man with two additional unique qualifications to play Hitler to his Schacht.

First, unlike Bush, who has trouble getting through his lines, Schwarzenegger has used his limited acting skills and his celebrity status to develop a persona that has gained popular support for his efforts to wreck California.

Second, and most important, he is demonstrating that he "has the stomach," to use the words of a top Republican political operative, to trample on the hopes and dreams of millions of Californians, ripping up the social safety net, dismantling health care, human services, and education, and tearing down infrastructure, all the while mugging for the cameras, imitating the fictional action figures he played as a second-rate actor.

Schwarzenegger's recent belligerent antics demonstrate his willingness to be Shultz's Hitler—who was, by his own admission, a hero to Arnold, when he was still seeking fame, fortune, and power. A teacher in the Sacramento school system had the guts to tell the *Sacramento Bee* what a growing number of Californians is beginning to think of their Governor: "I think it's fascism," said Donna Baca, referring to Schwarzenegger's firing of pension trustees who opposed him.

It will take many more displays of such courage to stop Shultz's "new Hitler."

## Shultzies Want Iranian Group Off Terror List

by William Jones

With the drumbeat building for a U.S. destabilization of Iran, but with invasion of Iran deemed a highly risky venture, the Washington friends of George Shultz are pushing to drop an anti-Tehran terrorist organization, the Mujahedin e-Khalq (MEK), from the State Department's list of foreign terrorist organizations, in order to utilize them to overthrow the Iranian regime. On Feb. 10, representatives from a gaggle of neo-conservative organizations announced the formation of the Iran Policy Committee (IPC). The committee encompasses people from Shultz's newly revived Committee on the Present Danger, Frank Gaffney's Center for Security Policy, the International Republican Institute, and the Nuclear Control Institute, most of whom have served as officials at the Pentagon, State Department, or intelligence agencies.

Their purpose seems to be to build political support for a more forceful policy toward Iran, including possible military operations. But their "best-case scenario" is to promote regime change by popular revolt. If this sounds like Richard Perle's "Iraq cakewalk" all over again, it's because it is. As a matter of fact, Perle was a speaker at one of the events organized by an MEK front group on Jan. 24 at the Washington Convention Center. When it was exposed in the *Washington Post* that the organizers of the event, allegedly a fundraiser for the survivors of the Bam earthquake, were connected to the MEK, Perle claimed ignorance. The event was not shut down by U.S. authorities, although this option was considered, and FBI and Treasury agents did attend in order to keep an eye on it.

### The MEK, Terrorism, and the Neo-Cons

The MEK has had quite a long history of involvement in terrorism. Founded in the 1960s in Iran as a Marxist-Leninist organization, it was expelled with the fall of the Shah in 1979. In the early 1980s, it was involved in bombings and assassinations against Iranian officials, including President Mohammed-Ali Rajaei, Prime Minister Mohammad-Javad Bahonar, and Justice Ayatollah Mohammad Beheshti. During the Iran-Iraq War, the MEK was operating out of Iraq as a tool of Saddam Hussein against Iran, and assisted him in suppressing the Kurdish and Shi'ite uprisings in 1991. In 1992, the group conducted attacks against Iranian embassies in 13 countries. In April 1999, it targetted military officials and assassinated

the deputy chief of the Armed Forces General Staff.

The MEK has been on the State Department's terrorist list since 1997, although a key appendage of the group, the National Council of Resistance in Iran (NCRI), had been operating quite openly in Washington for years, and has made a name for itself in "exposing" hidden Iranian nuclear facilities. Finally, in August 2003, the State Department added the NCRI to the terrorist list.

And yet, after George W. Bush decided to move into Iraq, there was some ambiguity with regard to the MEK cells active there. Bush ordered that their camps in Iraq be disbanded and their people arrested, but over time, and with a growing interest in military planning for operations against Iran, there has developed a symbiosis between the MEK and U.S. special forces in Iraq, operating on the Iranian border. The idea is to use the MEK as a "fifth column" in the destabilization of Iran, which seems to be in hot competition with Syria as the next target of Washington's neo-conservatives.

There has also been a steady stream of rumors in the region that U.S. special forces are preparing contingency plans for operations against Iran, and are grooming and probably training MEK operatives in Iraq for that purpose. There are credible stories surfacing that MEK is already being used in cross-border and reconnaissance operations, of the type reported by Seymour Hersh recently in *New Yorker* magazine. One of the members of the Iran Policy Committee, Maj. Gen. Paul Vallely, who is also chairman of the Military Committee of Frank Gaffney's Center for Security Policy, indirectly corroborated what Hersh had been saying, by noting in regard to a possible air strike on an Iranian nuclear facility or facilities, that "the targetting has already been done."

### Goal Is 'Regime Change'

Such operations would have the same chance of success of upsetting the Iranian regime as did Ahmed Chalabi's Iraqi National Congress of overthrowing Saddam Hussein—unless the U.S. military is thrown into the picture. Although an invasion of Iran is not the preferred Iran Policy Committee alternative, there are a variety of economic and political measures, as well as covert and special operations, including a blockade of Iranian ships through the Gulf of Hormuz, which might be implemented, in concert with political instability, which the IPC hopes would bring down the Iranian regime.

While the IPC, like the Bush Administration, focusses on the alleged "nuclear threat" posed by Iran, the real purpose of the operation is "regime change." Paul Leventhal, the president of the Nuclear Control Institute and one of the spokesmen for the new committee, admitted this, when *EIR* pointed out that nuclear energy, including development of the full fuel cycle, is supported by the overwhelming majority of the population, even those who are opposed to the mullahs. If it were a "democratic Iran" that had nuclear weapons, Leventhal replied, it would not necessarily be such a threat, but in the hands of the mullahs, this was unacceptable.

# Adolf Hitler's 'Respectable' Banker

by Nancy Spannaus

When one thinks of the great Nazi criminals these days, one does not generally think of bankers. Yet, in the Nuremberg Tribunals which were held after Nazi Germany's defeat in 1945, the U.S. prosecution argued forcefully for the idea that the Nazi crimes were the result of a *criminal conspiracy*, led by bankers and industrialists, who set in motion, and collaborated with the military, the ideologues, and the thugs, to carry out aggressive wars, and crimes against humanity. Justice Robert Jackson said in his opening statement to the Tribunal:

"The case as presented by the United States will be concerned with the brains and authority in back of all the crimes. These defendants were men of a station and rank which does not soil its own hands with blood. They were men who knew how to use lesser folks as tools. We want to reach the planners and designers, the inciters and leaders with whose evil architecture the world would not have been for so long scourged with the violence and lawlessness, and wracked with the agonies and convulsions of this terrible war. . . ."

One of those key "men of rank" whom the United States insisted upon prosecuting, against the objections of the British, was a high-level banker indeed. His name was Hjalmar Horace Greeley Schacht, a banker who had consorted with the international banking elite in London and the United States from the early 1900s on, and had served on the board of the Bank for International Settlements, an institution of which he claimed to be the intellectual author. Within Germany, this same Schacht served as chairman of the Reichsbank during 1923-29, and 1933-39. Between 1934 and 1937 Schacht held the position of Economics Minister in Hitler's government as well, and remained even after leaving the Reichsbank, as Minister without Portfolio until 1943.

Justice Jackson and the planners of the Nuremberg Tribunal were convinced that Schacht was a crucial player in creating and implementing the conspiracy that led to the hideous crimes of Hitler's Third Reich, a conspiracy that actually began as early as Schacht's role in the pre-Hitler period. In his summation of the case against the Major War Criminals, he singled out Schacht as "the most dangerous and reprehensible type of all opportunists," someone who would use a Hitler for his own ends, and then claim, after Hitler was defeated, to have been against him all the time. He was part of a movement "that he knew was wrong" because he saw it "winning." Jack-

son ridiculed Schacht's claim to be an "honorable man," stating that it was he, while claiming to despise Hitler, who "armed Hitler to blackmail a continent."

Schacht, said Jackson, "boasts that he would have shot Hitler if he had the opportunity, but German newsreel shows that, even after the fall of France, he stepped out of line to grasp the hand of the man he now claims to loathe and hung on the words of the man he now says he thought unworthy of belief." If Schacht did not believe in the Nazis, it made his working for them in his position of minister that much worse, because, in Jackson's words, he gave "credibility," especially in international circles, to the Hitler regime. His alleged distaste for the Nazis and Hitler, said Jackson, was that of a "Brahmin among the untouchables—he could not bear to mingle with the Nazis socially," but still worked for them as a member of a criminal regime. His opposition to the Nazis and Hitler, which Schacht spoke of with the skill of a sophist during the trial, was "over tactics, not principles. . . . While he may have disagreed with his Nazi confederates about what was expedient in reaching their goal, he never dissented from the goal itself." Not to convict this man would be a travesty of justice, Jackson argued.

But a ruling by the Tribunal to limit the scope of the conspiracy to 1937-45, and to restrict the charge to the "planning of concrete crimes" for which evidence could be presented, in effect, prevented prosecutions for crimes committed before Hitler launched war in 1939, and saved defendants such as Schacht and von Papen from harsh punishment. The fact that Schacht had set in motion the economic policies which led to the Nazi war crimes, was not able to be used effectively, and Schacht was acquitted by the Tribunal, against the votes of the Russians and the Americans.

## Schacht's Actual Role

To those with any knowledge, of course, it was clear that Adolf Hitler would probably never have come to power without Hjalmar Schacht. When Schacht left the Reichsbank in 1929, soon after the adoption of the Young Plan and the new round of murderous reparations being demanded of the German government, he devoted himself assiduously to bringing the Nazis, and specifically Hitler, to power.

In promoting Hitler, Schacht knew precisely what he was doing. He had read *Mein Kampf* with enthusiasm in the early 1930s, and wrote in his Memoirs: "What struck me was how persuaded the man was that his views were right, and how very determined he was to put those views into actual practice." Schacht worked closely to mobilize among the industrialists, with the determination that, when Hitler was brought to power, he, Schacht, could take over economic policy for Germany.

Hitler became Chancellor on Jan. 30, 1933. By March 17, Schacht had once again been made chairman of the Reichsbank. In 1934, after the populist Sturmabteilung (SA) had been purged, Schacht became Hitler's Minister of Eco-



*Hjalmar Schacht with Hitler in 1934, at the laying of the foundation stone for the new Reichsbank building.*

nomics. Equally important for Hitler was the fact that Schacht, as part of the international Synarchist bankers' club, brought him a patina of international "respectability," or at least tolerance.

The first phase of Schacht's program for Hitler consisted of public works slave-labor, an alleged response to the massive unemployment which had ravaged the German population, and made them desperate for a "strong man" to take control. Key to this program's success was the fact that it was implemented in tandem with a brutal suppression of labor unions and political associations, enforced by the Nazi state.

At the same time, Schacht moved rapidly to create the "credit" for restarting industry, specifically the armaments industry. He created a corporate front group comprised of the Reichsbank, the Ministry of Defense, and the four major armaments producers, which issued MEFO bills that were backed by the government. At the same time, Schacht used his international financial connections to bargain for raw materials, even as he cut back on debt payments to foreign creditors.

### **The Crux of the System: Primitive Accumulation**

The key to Schacht's economic system (as to that of his followers today) was the policy of "primitive accumulation" against the living standards of the population, and the productive apparatus of the nation. In other words, in order to fund war production, in particular, Schacht was determined to pay less than the amount necessary to sustain the labor force, and

the productive power of industry. He was able to get away with this policy because the Nazi state had the police power to enforce a genocidal policy, which would otherwise have led to popular revolt.

Thus, he was one of those whom Justice Jackson described as refusing to soil their own hands with blood, even disdaining the "barbarians" whom they employed to carry out their dirty work, but who had moral and political responsibility for what they did.

Schacht's accomplishment in looting labor in Germany was impressive. Yes, there was full employment: In fact, eventually a worker was not allowed to leave his job. But under the government's diktat, the recompense for employment went down, and down, and down.

For example, wage rates were fixed by Schacht through the state-appointed Trustees of Labor at the depression level of 1933, a level that was one-half of the weekly earning of 1928. On top of that, there were a slew of deductions taken out of the workers' pay. These included "old age insurance" dues to the Labor Front, "Strength through Joy," and other "voluntary" contributions such as those to the Nazi Party. Then there was the outright swindle of the "Volkswagen" contribution, by which every worker was to pay to get his own car, although not a single car was delivered during the Nazi years (a precursor of Bush's "ownership society"?). In the mid-'30s, it was estimated that taxes and contributions took from 15 to 35% of a worker's gross wage.

Nor were the cuts in living standards simply reflected in wage payments. Schacht's policies also called for cutbacks in investment in education, in hospitals, and in quality consumer goods. The fact that these cutbacks began with certain categories of the population whom the Nazis had demonized—the Jews, the gypsies, the communists, and foreigners—did not really bother Schacht, although he claimed to oppose Hitler's racist views.

Some useful infrastructure was built by Schacht's programs, of course. The Autobahn and dams were built, swamps were drained, and other structures were built, especially those that would be useful for the war economy. The policy was known as *Primitivarbeit*, a concept which called for low-technology labor, even hand-labor, so as not to "waste" scarce machinery and other resources required for the armaments industry. However, this "productive" industry amounted to only about 20% of the Nazi economy, while the other 80% went into the military.

What Schacht was famous for, was not only "solving unemployment," but "fighting inflation." The method for this was simple: To pay for the monetary inflation, Schacht simply gouged that amount out of the flesh and bone of the productive economy. That's the very same policy which his modern-day followers, Milton Friedman, George Shultz, and others, carried out in Pinochet's Chile, and wish to carry out in the United States today.

Schacht's policies of looting German labor and plant and

equipment had limits, of course, and he was fully aware of them. It was clear that Germany was going to have to acquire resources from other nations. The fact that Hitler determined to take these resources by force, to conscript the workforces of Eastern Europe into German factories, to seize the factories and raw materials, and to set up work camps that would work prisoners to death and cannibalize their bodies for “useful” parts, may not have been Schacht’s idea, but it was the lawful result of his economic system.

Hitler himself explained the relationship in an Oct. 15, 1941 remark to his Berchtesgarden cronies: “Even to Schacht, I had to begin by explaining this elementary truth: that the essential cause of the stability of our currency was to be sought for in our concentration camps.”

### Schachtianism Was Never Defeated

It is not surprising that Schacht was not convicted of the *criminal conspiracy* of which he was accused at Nuremberg; his economic policy was shared by a very powerful pool of international bankers, starting with Montagu Norman, governor of the Bank of England, and including even powerful American financiers such as the Morgans, the Mellons, and the Harrimans. As Will Wertz pointed out in a recent article on the Nazi cartels (*EIR*, Jan. 21, 2005), these bankers not only played a crucial role in bringing Hitler to power, but were committed to a global fascist system. To have been complete, the Nuremberg Tribunal would have had to deal not only with Schacht, but the international bankers’ cabal of which he was part.

Worse yet, the economic theories of Schacht have been preserved wholesale within the economics profession, and business schools, of Western society, although allegedly divorced from their “jackboot” enforcement methods. This point was dramatized during the early 1970s, when so-called liberal, anti-war economists such as Queens College’s Abba Lerner came out defending the brutal Schachtian austerity programs being imposed by the International Monetary Fund around the world. In a famous debate in late 1971, Lyndon LaRouche provoked Lerner to the point that the professor endorsed Schacht’s policies *during the Hitler period as well as now*. Lerner claimed that if the Germans had followed Schacht’s policies, Hitler “would not have been necessary.”

Today, even that liberal cover has been ripped aside, as the full Schachtian assault on labor and living standards is under way. The question remains: Will the modern-day Schachts be stopped?

*Further documentation for this precis can be found in The Hitler Book, edited by Helga Zepp-LaRouche, and published by the Schiller Institute in 1984, and The Ugly Truth About Milton Friedman, by Lyndon LaRouche and David P. Goldman (New York: New Benjamin Franklin House, 1980).*

# Wall Street’s Eyes On Social Security Loot

by Richard Freeman

In the Bush Administration’s hell-bent-for-leather drive for Social Security privatization, one unrelenting reality stands out: If Bush forces privatization through, hundreds of billions, and soon trillions, of dollars will flow into the coffers and accounts of the largest Wall Street, Boston, City of London, and related banks, in the biggest financial bonanza since the 1840s Gold Rush.

These wealthy financial institutions, and the oligarchical families that own them, have, in their own name and through cut-outs like the Mont Pelerin Society’s Cato Institute, single-mindedly driven privatization: They have opened up their deep wallets to finance the multi-hundred-million-dollar-a-year campaign for privatization. They have directly crafted and specified the key financial features of the reports and the proposed legislation on privatization.

The overseer of this drive has been George Shultz, the modern-day Hjalmar Schacht. The world financial system, overhung with \$300 trillion in derivatives, racked by crises at Fannie Mae and Freddie Mac, the U.S. Federal and current-account deficits, and the like, is bankrupt. Shultz’s group and allied super-wealthy circles desperately need to get Social Security’s funds into the markets—to get their hands on the world’s largest cash flow.

In carrying out this gambit, the financiers believe that charity begins at home: They will siphon off hundreds of billions of dollars in a variety of fees that will be applied to the newly created private accounts: administrative fees, management commissions, advisory fees, custodial fees, etc. This is what was done in Gen. Augusto Pinochet’s Chilean model of social security privatization, imposed by Shultz’s “Chicago Boys” economists. There, fees gouged 15-30% of the workers’ private accounts. Indeed, a recent study puts the cumulative amount of fees to be collected in U.S. privatization at a rate only slightly lower than that in Chile.

Nineteen financial firms are identified as either actively organizing to impose privatization upon the United States, and/or preferring services best suited to privatization. Not accidentally, they feature the most powerful banks and insurance companies in the United States. They have the most to gain from privatization, and the most to lose from a global financial breakdown. These are: Alliance Capital (Axa Insurance); American Express; American International Group insurance; Barclays, PLC; Citicorp/Salomon Smith Barney; Deutsche Bank; Fidelity Investments; Goldman Sachs; Ed-



ward Jones; Mellon Financial; Merrill Lynch; JP Morgan Chase; Morgan Stanley; Northern Trust; T. Rowe Price; Prudential Financial Management; Charles Schwab; State Street Corp.; and Vanguard Group. Together, these 19 firms have more than \$7.5 trillion in banking assets, an additional several trillion dollars “under management,” and more than 70 million individual customers in the United States. To that financial muscle is added their ability to meet regularly with key Cabinet officers like Treasury Secretary John Snow, and occasionally President Bush; to capture and draft the recommendations of the President’s official Social Security Commission; and to generate a pro-privatization media barrage through intermediaries.

These 19 financial institutions are constantly at work, although frequently one will not recognize them unless one knows the front group or groups through which they operate. We will briefly show the work of one of Wall Street’s main command centers, the Cato Institute. Second, we will explain how privatization works, and what Wall Street intends to gain from it. Third, we will look at the organizing and extended influence the 19 financial groups have achieved, by examining four case studies.

### **Cato and the Chile Model**

The Cato Institute is the most important institution organizing for privatization. Between 1921 and 1945, certain wealthy oligarchical families built the world Synarchist fascist movement until it was defeated by the World War II coalition led by President Franklin Roosevelt. In 1947, they relaunched that same fascist movement by creating the Mont Pelerin Society in Vevey, Switzerland. In 1977, the Mont Pelerin Society created as an offshoot, the Cato Institute.

Cato has been funded by seven of the 19 principal financial institutions named above: American Express; American International Group; Citicorp/Salomon Brothers; Fidelity Investments; JP Morgan Chase; Prudential Securities; and Charles Schwab.

In 1995, Wall Street set up at Cato a command center to coordinate privatization in America: the Cato Project for Social Security Privatization. It appointed José Piñera as one of the Project’s two co-chairmen. Under the direction of George Shultz, Piñera, as a minister in the Chilean fascist dictatorship of Gen. Augusto Pinochet, privatized Chile’s social security system in 1981. The Chile model is a catastrophic failure: The bank managers of the privatized accounts charged fees as high as 33% of the value of the accounts, while more than half of Chile’s 6.6-million-strong workforce will retire on benefits so small they will be plunged into poverty. Cato’s stated objective is to pattern U.S. Social Security privatization after the “Chile model.”

Through Cato, Wall Street took control of President Bush’s misnamed Commission to Strengthen Social Security (CSSS), which was formed in 2001, and had 16 members. Three members of the Cato Institute or its Project were made

members of the CSSS Commission (Sam Beard, Tim Penny, and Leanne Abdnor); another two members were people who are ideologically and personally very close to Cato, and frequently work on joint ventures with it. Finally, Robert Pozen, the vice chairman of Fidelity Investments, was made a CSSS member. The banks had 40% of the seats on the Commission, and dominated the proceedings. Andrew Biggs, the chief researcher for the CSSS, was Cato’s lead Social Security analyst. By this process, Wall Street wrote the parameters and the specific recommendations of the CSSS’s final report, published in December 2001, which President Bush adopted with minor changes in his Feb. 2, 2005 State of the Union address.

Small wonder Wall Street likes the plan. Wall Street wrote it.

### **Wall Street’s Gain from Privatization**

The general direction and parameters of the Bush plan are known, although not all of the details. But the initial Bush plan could serve as a “foot in the door” for even more extreme versions, were he able to ram the first version through Congress.

Under current law, the worker pays a payroll tax equal to 6.2% of his income toward Social Security. The employer pays a matching 6.2% tax, so that a combined total of 12.4% of the worker’s income goes to Social Security each year. Under privatization, four percentage points of the worker’s 6.2% would be diverted out of traditional Social Security, and into a Private Account (PA), managed by a Wall Street firm. So, roughly one-third of the combined worker and employer 12.4% tax would be shunted into the markets. Cato Institute recommends a more extreme 6.2% diversion, or one-half of the combined worker and employer tax.

The Bush plan also provides that, at first, a cap would be imposed, so that the maximum amount a worker could shift into a Private Account would be \$1,000 a year. However, the cap would be phased out. An Administration official speaking Feb. 8, indicated that the cap may be phased out by \$1,000 per year, so that the first year, the cap on what could be invested in a PA would be \$1,000, the next year the cap would be \$2,000, and so on.

With this as a basis, the system has two tiers; Bush presented only the first tier in his Feb. 2 address. Some would say this can be attributed to Bush’s difficulty with the English language, and his distress in explaining anything not very simple, but an ulterior motive appears to have been involved.

**Tier I:** Tier I and Tier II would both be administered by the U.S. government, and contracted out to financial firms. This first tier would be similar to the Federal employees’ retirement plan, the Thrift Savings Plan (TSP). The worker enrolled in a PA would be enrolled in “pooled stock or bond index-fund accounts.” What this means, is that a worker would be allowed to invest in any mix he chose of five basic “index-fund” accounts. *An index fund is a passive account: It mirrors the performance of a pre-selected group of stocks and*

bonds. The worker doesn't choose the stocks or bonds, and the fund manager doesn't add to or subtract from the fund any new stocks or bonds. The five index funds would be: broad-based equity (like the Standard & Poor 500 index); U.S. government bonds; commercial (corporate) bonds; international stocks; and small-capitalization stocks. For example, the worker starting with \$1,000, could invest \$200 into each of the five funds, \$1,000 into a single fund, etc.

These and other restrictions—a worker could change into or out of his fund account only once a year—are intended to reduce transactions, and keep fees down. The yearly fee is expected to be a relatively low 30 basis points (0.3%). The government would bear a good deal of the administrative cost for Wall Street, and a large company like Barclays or State Street could make a profit based on volume.

**Tier II:** Tier II involves, potentially, a lot of risk, and is the tier that Bush doesn't want to focus on (except when claiming big profits). A worker would be eligible to enter Tier II when his account balance reached a minimum level, most likely \$5,000. At Tier II, his account could be *actively managed*. Investment managers could offer the worker a selection of mutual funds, individual stock accounts, etc. All these products, and the active management, would mean a variety of fees. For an average mutual fund account, over the course of a year, the fee structure comes to 1% (of the value of the assets in the account). That may seem a benign, even negligible, amount to a newcomer. The key is to remember that fees *accumulate over the years*. For example, assume that a worker starts a Tier II account with \$5,000, and then adds to that amount each year. Assume that the worker will keep that \$5,000 floor in the account for 40 years. If fees are 1%, he will pay a 1% fee each year, for 40 years. That's 40%, or \$2,000 of his original investment. If the account does well, the worker may be willing to forget the fee. But if the account bombs, then the fee will be one of the elements draining it. This is exactly what has happened in Chile since 1981, with disastrous consequences.

According to a 2004 study by University of Chicago Business School Professor Austan Goolsbee, financial firms that manage the workers' PAs which would be set up by Bush's privatization, could rip off management and other fees equal to 10-25% of the value of the accounts, an immense windfall. At Tier II, most of the firms that did not come in during Tier I would enter the picture, ranging from Charles Schwab and Edward Jones, to Merrill Lynch and T. Rowe Price.

## New Loot

However, from the upper levels of the oligarchy's strategic picture, of much greater significance than fees is the need to grab Social Security's funds to prevent financial meltdown—from anticipated or unfolding eruptions in the housing bubble, the cancerous derivatives markets, or the yawning current account deficit.

They must strive to get their hands on as much as possible, as quickly as possible. Even were privatization rammed

through, it is not certain how many workers would join—or be coerced to join—the privatized accounts. The Shultz forces might try to replicate what was done in Chile, where workers were bribed with toasters and gifts, and then stampeded into private accounts with threats that the country's traditional social security was going broke.

One well-placed Wall Street source told *EIR* Feb. 14 his firm projects that \$75 billion will flow into financial markets during privatization's first year. This could build to \$250 billion and then above that. How significant is \$250 billion of actual cash? Consider that since 1996, the average inflow into U.S. mutual funds is \$200 billion a year. This \$250 billion flow would be larger than that. It would also be equal to nearly half of the annual \$600 billion inflow of foreign capital into the United States that covers America's current account deficit. That could be strategically necessary, as the leading European and Asian nations, shaken by the U.S. dollar's plunge, consider cutting back that capital flow.

The Social Security Administration's actuarial projection is that workers and employers combined will pay payroll tax contributions to Social Security of \$582 billion in 2005, rising to \$898 billion in 2013. The political and financial stakes are high.

## Case Studies: Power To Make Policy

The 19 principal financial institutions have been pouring money out to push the privatization, and have developed extended organizing networks to push privatization through. They have also displayed business activity so corrupt that their ability to be trusted anywhere near a worker's hard-earned Social Security money is in doubt.

**Charles Schwab and Co.:** The top initiators of this social engineering campaign are the leading Synarchist financiers like George Shultz, the controller of Arnold Schwarzenegger. Shultz, for example, has directed the Charles Schwab brokerage firm into becoming a major player in Social Security privatization. In 1997, Shultz joined the board of the San Francisco-based world's largest "discount broker," and brought in Condoleezza Rice, his protégé, as well. Schwab has become one of the largest brokerage firms, in number of accounts, in the world. It manages client assets of more than \$1 trillion, and now also owns the 150-year-old New York-based U.S. Trust, which is a manager for "uncommon families with more than \$100 million."

Under Shultz's guidance, the Charles Schwab firm played a major role in Bush's 2002 Waco "economic summit," and an even more prominent role in steering Bush's Dec. 16-17, 2004 "economic summit" in Washington, which was a propaganda barrage for Social Security privatization. Following Shultz's lead, Charles Schwab is personally working out plans with the Bush Cabinet, meeting frequently with Treasury Secretary John Snow, who is coordinating with Wall Street on plans to loot Social Security. Schwab funds the Cato Institute's Project on Social Security Privatization, financially backs Republicans who will push Social Security priva-

tization, and is likely to be a prime beneficiary thereof. Said a source at another Wall Street firm in the middle of the privatization campaign, "Schwab has a mutual funds supermarket. . . . They are well-positioned. They've been lowering their fees, and would gain access to a lot of smaller retail brokerage accounts." The AFL-CIO has been picketing Schwab offices to expose the firm's gross conflict of interest in promoting dismantling of Social Security in order to enrich itself by managing the resulting private accounts.

On Jan. 26, 2005, the AFL-CIO held picket lines outside of Schwab's San Francisco and Boston offices. A statement by AFL-CIO president John Sweeney declared, "It's unconscionable for Schwab and other financial firms to promote a plan that will cut Social Security benefits for working families." Sweeney said Schwab was lining its pockets, and mired in a conflict of interest. The AFL-CIO pointed to the fact that Charles Schwab Corp. is a member of the Alliance for Worker Retirement Security (AWRS), an outfit set up by the Mont Pelerin Society's Cato Institute to promote Social Security privatization. It's funded by the National Association of Manufacturers and Schwab, among others.

**JP Morgan Chase:** JP Morgan Chase is America's third-largest bank, with \$1.1 trillion in assets, and the world's largest holder of the highly speculative and risky instruments called derivatives, with \$43 trillion in derivatives. George Shultz heads its International Advisory Board.

JP Morgan Chase is a long-standing funder of the Cato Institute's Project on Social Security Privatization. William Harrison, Jr., JP Morgan Chase's chairman and CEO, is a director of the Financial Services Forum (FSF), a bank and brokerage business group. The FSF just helped to form a new umbrella group, the Coalition for Modernization and Protection of America's Social Security (Compass), which has announced it will spend millions on a media campaign for privatization. Other CEOs from FSF who have joined in the new Compass group are those of Citigroup, Fidelity Investments, Goldman Sachs, and Morgan Stanley, all among the 19 financial institutions running privatization.

In early January, Treasury Secretary Snow said he would consult with JP Morgan Chase about privatization's funding costs. The fitness of JP Morgan Chase to legitimately represent private accounts is certainly in question. In July 2003, the bank had to pay \$135 million in fines for helping Enron disguise \$8.3 billion in debt, which should have been on Enron's balance sheet.

**State Street Bank Corp.:** Representing the nastiest Boston Brahmin families, State Street Bank has been involved in retirement income and accounts since 1792. State Street has \$1.4 trillion in assets under management, one of the three largest such institutions in the United States. State Street reports that it is "the #1 investment manager of U.S. pension fund assets," and the "eighth-largest investment manager worldwide."

Because of its enormous size and data-keeping capability, State Street is frequently mentioned, along with Barclays

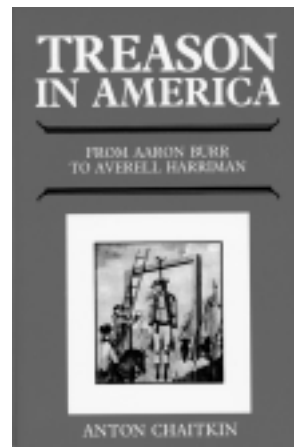
Bank, as one of the two or three dominant institutions that would manage Tier #1 Private Accounts, if privatization were adopted. State Street is pursuing that.

In 1996, Marshall Carter, chairman and CEO, and William Shipman, who was a principal of State Street Global Advisors (the bank's major investment arm), jointly wrote a book-length diatribe, *Promises To Keep: Saving Social Security's Dream*. It propagated the rhetoric of a "Social Security crisis," and asserted that "Social Security is irredeemably flawed in design." State Street Bank took the highly unusual step of copyrighting the book under the name of State Street Bank itself, rather than under the names of the two authors. The book was published by the right-wing Regnery Press.

In 1995, Shipman helped usher into existence the Cato Institute's Project on Social Security Privatization, taking over as one of its two co-chairmen, a post he still holds. The other co-chairman is José Piñera, an architect of the destruction of social security in Chile under Pinochet. State Street funds the Cato Project. On Feb. 8 of this year, Shipman was a featured speaker at Cato's two-day conference on privatization, speaking on the panel "The Tough Choices: Transition, Risk, Administration." Shipman told of a "creative" study that he and his associates had conducted to "prove" that administrative fees for Social Security privatization would be very low. Afterwards, Shipman told *EIR* he is "holding discussions" with people in the Executive branch on the "workings of Social Security reform."

## Treason in America

From Aaron Burr To Averell Harriman



By Anton Chaitkin

A lynch mob of the 'New Confederacy' is rampaging through the U.S. Congress. Its roots are in the Old Confederacy—the enemies of Abraham Lincoln and the American Republic. Learn the true history of this nation to prepare yourself for the battles ahead.

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## Dollar Crisis Evokes Panic Among World Financial Elite

by EIR Staff

A series of international conferences, starting with the Davos World Economic Forum, and extending into the United States, has led to the open airing of panic within the international financial elite. Top on the agenda is concern over the U.S. dollar, which declined about 30% between early 2002 and early 2004, but, equally importantly, the debt-drowned condition of the U.S. economy, which an increasing number of bankers believe cannot be sustained.

While none of these bankers has been willing to openly embrace the viewpoint of economist Lyndon LaRouche, who has declared the current bankrupt system unfixable, and proposed a New Bretton Woods in the tradition of Franklin Delano Roosevelt's 1944 measures, there are stirrings in the direction of recognizing the need for a new financial system.

The dollar's problems took center stage at the Davos conference, which was held over the first weekend in February in Switzerland. Raising the alarm were former U.S. Treasury official and head of the Institute for International Economics, C. Fred Bergsten, and Morgan Stanley's chief economist Stephen Roach, both of whom warned of an imminent popping of one of the huge credit bubbles holding up the U.S. economy, not to mention the increasing U.S. budget deficit.

Most alarmist was Bergsten, who addressed the danger facing the United States in the form of its huge trade and current account deficit. "The U.S. must now import \$5 billion in foreign capital a day merely to finance the current accounts deficit," Bergsten said. In the face of this, according to the London *Financial Times*, he forecast a sharp sell-off of the dollar coming "within weeks," and a full-blown dollar crisis: a combination of dollar selling by the foreign-exchange markets, coupled with a forced abandonment of the policy, up to now, of central banks' increasing their dollar holdings.

Ten days later, Bergsten reiterated his warnings in dra-

matic terms at a meeting at the Council on Foreign Relations in New York, complete with prescriptions for draconian austerity programs crafted to "solve" the problem. (We excerpt from his remarks below.)

### The Dimensions of the Crisis

Bergsten's statements about the current account deficit are much more dramatic than they might appear. The fact is that, up until a few months back, financial experts estimated that the United States needed to bring in approximately \$2-2.5 billion a day to keep U.S. accounts in balance. If Bergsten's figures are correct, that figure has *doubled!*

The reasons are not hard to find.

They start with the U.S. trade deficit, which reached new highs at the end of 2004. The annual deficit went up to \$617.7 billion last year, up a whopping 24.4% from the previous record set in 2003. Imports of food products hit a record, resulting in a deficit for the third straight year; while imports of foreign autos, industrial supplies, and consumer goods all set records, according to the Commerce Department. As all rational people know, the U.S. physical economy is shutting down.

Federal Reserve Chairman Alan Greenspan had said he expected the gap to fall, in large part due to the cheap dollar's effect on the pricing of exports. It didn't happen.

Then there's the extraordinary debt load which the U.S. economy is carrying, which includes the Federal government deficit, the corporate bond bubble, and the real estate bubble. These are, as Bergsten said, unsustainable. The corporate debt crisis is shown in its starkest form by the fact that General Motors, once the nation's premier manufacturing firm, now has its bonds rated at near-junk levels.

Also contributing to the growing gap is the decline in

purchases of U.S. assets by some of the leading holders of dollars internationally, specifically the Chinese. Net inflows of capital into U.S. assets fell from \$89 billion in November, to \$61 billion in December. While that is still enough to finance the current account deficit, the direction is negative. Treasury securities purchases were only \$8.3 billion in December, a 16-month low, with only \$7 billion net from Asia. This is from Japan, while other Asian central banks are now sitting on the sidelines.

A full-page feature in the Feb. 16 *Financial Times* expanded upon another dimension of risk, that posed by derivatives and hedge funds. These are the “crack cocaine of global finance,” author John Plender wrote, and proceeded to describe how the concentration of the banking sector into fewer and fewer institutions, the “phenomenal growth” in the number and size of hedge funds since 1998, and the “dramatic growth of derivatives markets and, especially, over-the-counter derivatives,” are leading to the exacerbation of “systemic risk.” Plender refers back to the LTCM crisis of 1998 (which nearly brought the global financial system to a standstill), and asks: “Has a newly resilient international banking system acquired near-immunity to crises? Or could a financial bolt from the blue still expose global finance to a devastating systemic shock?”

## Sharp Warnings

For the most part, the press excludes the statements of those who recognize the breakdown crisis in process. In printing the following statements, we are giving you a glimpse of some of the discussions “behind closed doors.”

**Robert Rubin:** President Clinton’s Treasury Secretary was one of the commentators on the speech of Fed Chairman Greenspan at the Feb. 4 Advancing Enterprise 2005 conference convened by British Chancellor of the Exchequer Gordon Brown in London. After Greenspan expressed hope that the U.S. situation was about to improve, Rubin said: “The U.S. imbalances can have bond market effects and raise complex questions about our currency. . . . There is a fairly good chance the dollar could decline.” It “will not be fixed by tinkering around the edges. The U.S. is at a critical juncture.”

**Paul Volcker:** “Below the favorable surface [of the economy], there are as dangerous and intractable circumstances as I can remember. . . . Nothing in our experience is comparable,” warned the former Federal Reserve chairman in a Feb. 11 speech at the Stanford University Center for Economic Research conference. Volcker was referring primarily to “wild fluctuations in currency values,” which he said, however, were overwhelmingly dangerous to “small and emerging economies” in the Third World.

**C. Fred Bergsten:** The following excerpt comes from Bergsten’s remarks at a Council on Foreign Relations briefing on “America and the World Economy,” in New York City on Feb. 10.

“But we focus [in our book] also on a series of immediate

problems, to which we would attach a great degree of urgency, of which two are at the forefront—one which you mentioned, the current account deficit, and a possible sharp fall of the dollar; and the other of the new sharp rise in energy prices. We think energy prices can easily go back up to \$60 or \$70 a barrel. If that combines with the sharp fall of the dollar, you could have a vicious scenario of a sharp spike in inflation, a rapid rise in interest rates, and a sharp turndown in the economy. It was a combination of those two things—and you will remember it well—higher oil prices and a falling dollar—that led to the term ‘stagflation’ in the 1970s, and in the late 1970s produced the worst period for the American economy since the 1930s—double-digit inflation, 20% interest rates, sharpest recession since the Great Depression. I hasten to say I don’t think things will get that bad this time, but the combination of those two immediate risks implies moving in that direction, which we saw not so long ago, and clearly do not want to repeat.

“The most urgent of the problems, I think, is the one you address, the risk of a sharp fall in the dollar. The latest numbers suggest the U.S. current account deficit has now risen to about 7% of our GDP, well over \$700 billion a year at an annual rate. . . . The previous peak, which led to a decline of the dollar by 50% in two years in the middle ’80s, was just under 4% of GDP. Now we’re at 7%. And, even more importantly than the level, rising by about \$100 billion a year. We are on a trajectory that is not only unsustainable and unprecedented territory now, but is rising even more into terra incognita. Catherine Mann in our institute—who has been very accurate on this, and she wrote the book on it five years ago—has recently updated her projections, and suggests another \$100 billion per year into the foreseeable future. In short, when Chairman Greenspan tried to paint a rosier picture on this last Friday—I understand why he did it—do not believe it. The outlook is not for a turnaround or even a leveling off; it’s for getting worse.

“As a result of that huge external deficit, the United States has to borrow \$5 billion every working day from the rest of the world. That’s to finance the current account deficit and our own foreign investments. And if we don’t get that \$5 billion inflow every working day happily invested by foreigners here at existing interest rates, exchange rates and other prices, then something has to adjust. And the main thing that adjusts is of course the exchange rate of the dollar goes down.

“When the dollar hit its peak three years ago, we at the institute calculated, it would have to come down by at least 30% on a trade-weighted average in order to restore at least a semblance of sustainability of the U.S. external position—not meaning elimination of the current account deficit—that would be implausible and impossible—but cutting it in half, cutting it from the current level to maybe 3% of GDP. That would take something like a 30% fall of the dollar from its peak three years ago. Over that period, the dollar has come down about 15%. So it’s gone about halfway.”

# Brazil's Agricultural 'Success' In the Cerrado Is a Disaster

by Marcia Merry Baker and Dennis Small

By all standard financial accounting measures of the globalist institutions—the International Monetary Fund, World Trade Organization, World Bank, the City of London, and Wall Street itself—Brazil is today's outstanding success in its positive balance of trade, with agriculture's net trade surplus expected to hit \$30 billion for 2004, approaching nearly four times what it was in 2000. **Figure 1**, giving Brazil's balance of trade for the last 19 years, shows how the nation's agriculture trade surplus doubled, from \$8.5 billion in 2000, to \$17.3 billion in 2003.

These booming foreign exchange earnings are being used to keep up with payments on Brazil's huge foreign debt—at \$500 billion, the highest in the world. Without them, the country's debt bubble would likely have exploded over the last couple of years. As the IMF's infamous First Deputy Managing Director, Anne Krueger, reported in praise in a

speech on Feb. 11, Brazil “has made efforts to reduce the burden of its debts” by adopting the “prudent fiscal policies” and other “structural adjustments” recommended by the IMF.

However, by all true measures of physical economy—in terms of Brazil's resource base, national public good, and benefit to neighboring nations and internationally—the process depicted in its trade balance statistics shows an epic disaster. What is under way is the forced imposition on Brazil's economy—and also on those of neighboring Argentina, Uruguay, and Paraguay—of operations by cartels of multinational food and agriculture trade companies, to transform this part of the world into a commodities-source area for their intended vast control of global food exports and supplies.

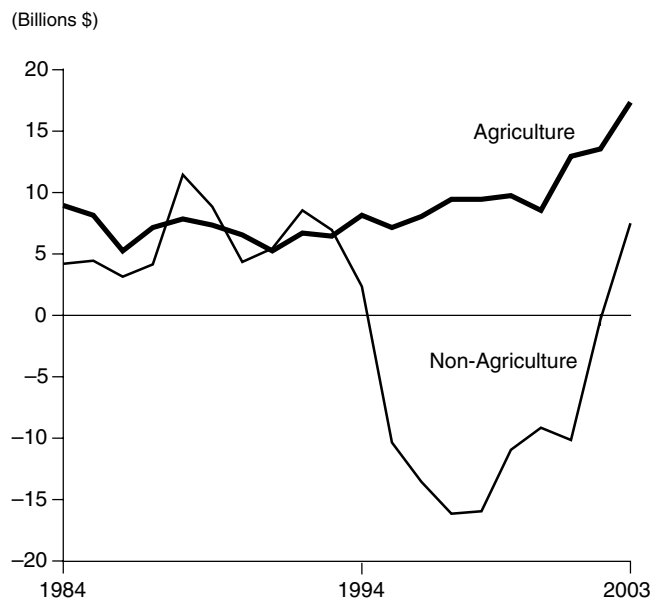
The most dramatic marker for this control process, is the vast degradation of a world-class natural resource in Brazil, the Cerrado—the huge grassland accounting for 24% of Brazil's total area. Every week, soy monoculture dominates larger and larger parts of the Cerrado, whose soy crops go either directly for export (as beans or derivative products—oil and meal), or indirectly as livestock feed for meat exports. Less than half of the crop goes for Brazilian domestic consumption, and this share is dropping every crop year.

In other words, despite Brazilian President Luiz Inacio Lula da Silva's laudable pronouncements that solving the problem of domestic hunger is the number-one policy commitment of his administration—his “Zero Hunger” program—the lion's share of the country's increased agriculture and other production is not going for domestic consumption, but is being exported abroad, for foreign exchange with which to pay the debt.

Thus, there are two opposite approaches to the issue of Brazil's Cerrado region—which reflect a broader policy fight occurring internationally. One is that of the multinational cartels, and the global financial institutions they are teamed up with. In this approach, existing raw material and other resources are grabbed and exploited, to keep the global speculative bubble afloat.

The contrary approach is that of Lyndon LaRouche, who was invited to participate in an October 2001 international conference held in the Brazilian Congress on the subject of “Brazil and the Free Trade Agreement of the Americas.” Although LaRouche could not attend, he submitted a written

FIGURE 1  
**Brazil's Balance of Trade**



Source: FAO, IBGE (Brazil).

report on what he called “The Cerrado Syndrome,” which we excerpt below. In it, LaRouche laid out an approach pivoted on Vladimir Vernadsky’s concept of the Noösphere, which emphasized the central role of science and human creativity in both defining and developing new raw materials for the benefit of the nation-state.

Exemplary of these battle lines is the attempt by the multinational agro-cartels to patent and control seed hybrids, and the very science which led to their development, in order to deny them to developing sector nations such as Brazil. There has been strong opposition in Brazil to this neo-colonial approach, a resistance which has also been reflected in the country’s battle against the large global pharmaceutical companies, to produce and distribute cheap drugs for the treatment and control of AIDS. Brazil has in fact played a pioneering role in this regard. But will it be extended to the Cerrado, as well?

### Agro Giant

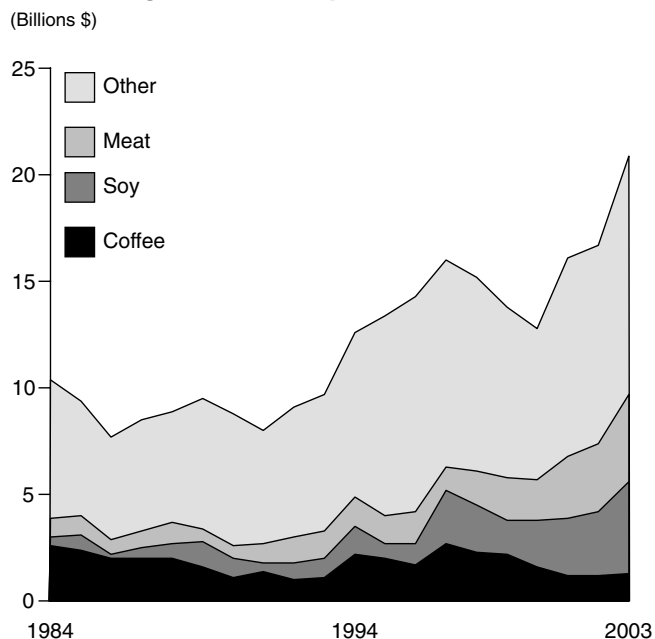
For the 2005 calendar year, it is estimated that Brazil’s revenue for soy complex exports (beans, meal, oil) will hit \$8-10 billion, even though prices are dropping. The sheer tonnage of cartel exports is gigantic. As of 2005, Brazil is the world’s *number-one nation in terms of exports of the following commodities*: beef, chickens, sugar, orange juice, coffee and tobacco, and—combined with Argentina—soybeans and soy products. It has the world’s largest cattle herd, with some 175 million head. **Figure 2** shows the sharp rise in value of meat and soy exports, in particular, from 2000-03.

The principal commodities cartel companies dictating terms of production and trade to Brazil, include: Cargill, Bunge, Archer Daniels Midland (ADM), Smithfield, and others. The financial houses likewise involved include Spain’s ubiquitous Banco Santander and BBVA, First Boston and Citibank of the United States, Britain’s Hongkong and Shanghai Banking Corporation, and others. This interlock dictates what is produced, where, and by whom; how commodities are processed, transported, and sold. The cartel owns and dictates even what seedstocks will be allowed. The resulting soy monoculture, and livestock concentrations, are exceptionally vulnerable to disease.

The same cartel companies (many of which trace back centuries), exerted as much domination as they could get away with over the entire post-World War II period, especially using the United States, Canada, Australia, New Zealand, and Argentina as export commodities-source regions (meat, grains, dairy) for international trade and food control. These same cartels suppressed the agriculture sectors of the newly emerging nations from the 1950s onward. But now, a whole phase of globalization is under way. The cartel interests are concentrating on Brazil and the region, and moving farming “off-shore” from the United States and Canada, just as manufacturing has been outsourced under free trade.

The following are some key parameters, beginning with

FIGURE 2  
**Brazil's Agricultural Exports**



Source: FAO, IBGE (Brazil).

the physical geography and potential of the Cerrado, and proceeding to the activities and politics of how the commodity cartels are operating.

### A Great Natural Treasure

The Cerrado of south central Brazil is a vast tropical savannah. (See Figure 1 on p. 25.) It is a well-watered grassland of 205 million hectares, or 24% of Brazil’s total land area of 846 million ha., which in turn is 9% bigger than the continental United States. The extent of just one of the leading states in the Cerrado, Mato Grosso in western Brazil, comprises an area larger than Ohio, Indiana, Illinois, and Michigan combined.

Three main river systems drain the region: The Araguaía/Tocantíns (into the Amazon basin); the Paraná (southward to the Río de la Plata basin); and the San Francisco (to the Atlantic Ocean). Scrub trees interspersed by sparse grasses are the natural vegetative cover of the Cerrado. The soils, in their native condition, are geologically very old, and poor. But with the right fertilizer and lime applications, the agro-climatic potential is vast. The temperature regime for much of the Cerrado will permit two, and sometimes three crops a year.

Thus this huge physiographic region—less well-known than the Amazon rainforest—is a world-class opportunity, given its “man-made natural” resource potentials, for population settlement, agriculture and industry. It is a priority development area of the hemisphere, which requires first-rate infra-

structure (waterways, rail, urban, health and sanitation, etc.).

Instead, what has happened so far is a parody of pioneering, complete with everything from land grabs, corruption, even slavery, alongside high-tech mechanized farming, in the rush to get a piece of the action. The cartel companies moved in on Brazil and Argentina—taking advantage of their vulnerability due to their unpayable and illegitimate foreign debt—as the cheap source for export commodities.

There is a land rush for soy fields proceeding in the Cerrado. Scrub trees and brush are cleared, the land plowed and fertilized, and soy sown. Soybean production in this region went up from 0.3 million metric tons in 1975, to 11.3 million in 1995, and keeps rising. Nationwide, Brazil planted 13 million hectares to soybeans in 1997, and now plants 23 million. In Argentina likewise, about 6.8 million ha. were planted in 1997; today soybean crop area exceeds 13.6 million ha.

Thus, while the United States was the world's single largest source of soybeans for cartel export for decades, with about 29 million ha. cultivated to soy in 2004, the 37 million soy ha combined in Brazil and Argentina exceeds the U.S.A. by far. Many U.S. farmers have joined the Brazilian land rush, farming six months each year in Mato Grosso, and six months at home in the American Midwest. An acre of soybean land in Iowa might cost \$2,000, whereas in Uruguay—also part of the land rush—an acre could go for under \$50 in 2004. Soy land speculators are operating all over the region.

China, besides being a major importer of Brazilian soy, may soon farm on location directly and sell to itself. This was indicated in November 2004, by President Hu Jintao on a state visit to Brazil.

In Argentina, soy is displacing huge areas of cattle ranches and grain fields on the famed Pampas, and even in the Chaco region of the north. Since the mid-1990s, there has been a consistent fall in rice, corn, wheat and sunflower production, while soy output in Argentina increased by 75% from 1997-2002. Animal protein production and consumption likewise has declined drastically, in this nation famed for beef. Between 1996 and 2000, the number of dairy farms in the country fell by 27%.

## Cartel Operations

The cartel companies are not only carrying out sweeping relocation of their soy, and certain livestock processing facilities from North America to the Brazil/Argentina region, but also integrating output from Brazil/Argentina/Uruguay and Paraguay with other cartel operations internationally. For example, Brazilian-produced soymeal goes to America to feed the mega-poultry and hog factory-farm concentrations in the South. The Brazilian feed is imported significantly more cheaply than the same feed produced domestically. An entirely new port was built to handle Brazilian feed imports at Wilmington, North Carolina, to serve a consortium of nine livestock companies headed by Smithfield

Foods, Inc., the world's biggest pork processor, and owner of over 700,000 sows (at all locations). Some 600,000 tons of bulk feed a year flows through Wilmington, mostly from South America.

Cargill is directly expanding its meatpacking operations in Brazil. In 2004, it bought out Seara Alimentos SA, the Brazilian meat firm, furthering Cargill's use of Brazil as an export source for pork and chicken. Brazil is now the world's largest meat exporter, as noted above. But one impediment is the presence of foot-and-mouth disease in the country. This was addressed in January, when the Brazilian government announced a \$25 million plan for universal hog vaccination, intended to completely eradicate the disease by 2007. The impetus for the action, of course of benefit to Brazil's herds, is, however, the insistence by the global meat companies that it must be done, to counter import bans of nations like Russia.

Ports, highways, river channeling, and other infrastructure have been constructed, and/or privatized (by tolls, restricted use, etc.), to serve the demands of the export-oriented commodity and financial houses. In their own right, these structures are of benefit to the nations. But the siting, routing, and related key aspects of the transportation grid arise from the demands of Cargill, Bunge, ADM et al, and not from public needs. At issue right now, for example, is Cargill's demand for paving of 1,071 kilometers of Federal highway BR 163, to connect Cargill's new soy terminal at the port of Santarém, on the Amazon River, with the soy producing hinterland in Mato Grosso to the southwest. More than half of the highway is unpaved, mostly in the state of Pará, and can be unpassable at times during the rainy season from November to June.

Serving exporter demands is a modern re-play of the infamous policy of the European colonial cartel mining companies in Africa and Ibero-America, which established a series of railroads and river channels going only from the "mine to the mouth." No rail grids, not even north-south, nor east-west single rail lines were ever built. And those lines that were, more often than not had different gauges, to ensure that direct connections and trade among sovereign nations was physically impossible.

## Globalization, Monoculture Menace

The combined result of these agri-cartel actions is summarized in **Figure 3**, which shows the principal soy producing regions in the Western Hemisphere, as of 2004. These regions account for 80% of all the world's output of soy today, and 90% of soy exports. But the soybean is not "native" or especially adapted to the cropland areas shown. In the Cerrado, the old soybean varieties failed entirely, until new strains were achieved that could thrive. These regions have become soy hyper-regions as a result of cartel decree—"market forces"—not by natural endowment or national sovereign decision.



FIGURE 3

**Western Hemisphere Soybean Crop: 80% World Production, 90% World Exports**



The soybean’s origin is considered to be Manchuria, some 3,000 years ago. Introduced into the United States in the 1890s, it wasn’t until the 1930s, that commercial soybean operations came into being, for food and livestock. But by 1960, some 10.1 million hectares were planted to soy; by 1970, it was 17.5 million. In 2004, a record 30.4 million ha went to soy in the United States, with a harvest of 84 million metric tons, the largest ever. As production shifts to Brazil, this may mark the peak in U.S. soy output, concentrated in Iowa, Illinois, and southern Minnesota.

In Brazil, the 1970 soy crop was only 1.509 million metric tons; but by 1980, it had grown to 15.156 million; 19.898 million in 1990; and 52.6 million today. Vast fields have been carved out of the Cerrado and the Amazon ecosystems.

In Argentina, the 1970 soy crop was 27,000 metric tons, reaching 3.5 million in 1980; today, it is in the range of 34 million. In recent years, farmers have been displaced out of wheat, cattle, dairy, etc.—with a drop in production of needed foodstuffs to the point of hunger and starvation in a former

agricultural powerhouse.

The company histories of the cartels forcing this process are legendary, including ADM, Cargill, CentralSoya, Bunge, Mitsubishi, and others. Archer Daniels Midland, based in Illinois and headed for 70 years by the Andreas family, is the world’s largest soy processor, calling itself, “Supermarket to the World.” Its history is notorious for government swindling and thuggery. Michael Andreas, son of founder Dwayne Andreas, did jail time in the 1990s for price-fixing.

But the soy monoculture alone is a menace. Single-crop, and single livestock practices make the food chain very susceptible to being wiped out from pathogens. The invasion of soybean rust makes the point. The soy fungus, *Phakopsora pachyrhizi*, arrived in South America in 2001, and reached Argentina in 2003. In Brazil, it is now widespread, manifest in more than 400 districts in 13 states. In Mato Grosso, the nation’s top soy-producing state, the rust is present in all 29 soy-growing districts. Soy rust can be controlled with four or five applications of fungicide, at a large expense of about \$20 per acre per application. In November 2004, the fungus—also called Asian rust, from its endemic source area—was confirmed in Louisiana. The winds of the 2004 severe hurricane season were thought to have brought the pest to the United States. It has since spread throughout more than a dozen states.

The additional vulnerability of monoculture comes from cartel control over seedstocks themselves. So not merely a single crop, but even single strains are being imposed. During the 1990s, Monsanto won a sweeping patent, not merely for a new soybean strain, but for the bio-technology procedure itself of genetic modification of soy! Patent laws had been successively changed since the 1970s, to permit this heretofore unthinkable granting of a patent to a private party, for something in the category of the means to life. The principal Monsanto soy is called, “Round-Up Ready,” referring to a bean that has the trait of being impervious to the Roundup brand herbicide patented by Monsanto.

Most of the U.S. soybean crop is now Roundup Ready. In Brazil, even without Federal approval, an estimated 40% of the crop in Rio Grande do Sul—the leading farm state, is Roundup Ready. Right next door in Paraguay, in October 2004, the Agriculture Ministry approved four soybean varieties containing Monsanto’s Roundup Ready trait.

Cargill and Monsanto operate through many joint venture arrangements, in which Cargill processing—as well as its seedstock division—only accepts crops grown from Monsanto patented strains. In Fall 2004, Cargill and Monsanto announced a new partnership to get U.S. farmers to switch to their new patented “low-fat” soybean strain (which requires less hydrogenation in the final product, for example, for margarine, 80% of which comes from soy). The companies intend to make a killing on the miracle bean in the future, and intend to coerce farmers to comply with growing it.

# LaRouche on Vernadsky and 'The Future of Brazil's Agriculture'

by Lyndon H. LaRouche, Jr.

*This is excerpted from EIR, Oct. 26, 2001. It is reproduced here in the context of EIR's feature last week on the "Vernadsky Principle." The complete paper was prepared for an international conference in Brazil on the subject of "Brazil and the Free Trade Agreement of the Americas," at the end of October 2001.*

## The ABCs of Brazil's Noösphere

I must now summarize, very briefly, the underlying principles of my speciality, the science of physical economy. I reduce all economic functions to the terms of mankind's physical relations to nature. I describe all economic processes in the way implicit in a strictly anti-Euclidean form of Riemannian physical geometry. I define all essential such relations in terms of interaction among three distinct phase-spaces: 1.) Non-living processes, the so-called abiotic; 2.) The long wave of domination of abiotic by living processes, or what Vernadsky defined as the biosphere; and, 3.) Those functions of human cognition through which mankind exerts its rightful superior authority over the biosphere.

Despite the many points of agreement between my definition of these relations and Vernadsky's, there are two most crucial points of difference. First, where Vernadsky defines man's power over the biosphere in terms of individual discoveries of experimentally validated universal physical principles, I insist that it is the individual's use of such discoveries to transform the culture through which society acts on the biosphere, which is the primary expression of man's power over nature. Second, I have adapted Riemann's principles of physical geometry, as the way in which to conceptualize the functional relations among the three primary phase-spaces of abiotic, life, and cognition.

What I have done, through my own original scientific discoveries in this realm, has been to supply a much needed clarification of the reasons for the historically proven, absolute superiority, over the British free-trade system, of the American System of political-economy, as this is typified by Alexander Hamilton, Mathew Carey, Friedrich List, and Henry C. Carey. Notably, it was the U.S.A.'s turn away from that American System, as the American System is

typified by Presidents Lincoln and Franklin Roosevelt, which made possible the global monetary, financial, and economic disaster which has been building up during the recent thirty-odd years.

My present summation of what I have called "the Cerrado syndrome," is an expression of the legacy of that American System which brought the U.S.'s rapid rise to the position of the world's leading economic power among nation-states, during the 1861-1876 period of the leadership of President Abraham Lincoln and economist Henry C. Carey. The most authoritative definition of that American System, is supplied by U.S. Treasury Secretary Hamilton's most famous reports to the U.S. Congress, on the subjects of public credit, a national bank, and manufactures.

Three principles dominate that American System: 1.) The absolute sovereignty of the nation-state republic, including its sovereign monopoly over the creation and management of its public credit and banking; 2.) The primary responsibility of the national and state governments for the development and regulation of basic economic infrastructure; 3.) The use of the means of sovereign control over public credit, banking, and basic economic infrastructure, to promote private entrepreneurship in agriculture, manufacturing, and related domains.

The importance of my work has been chiefly to clarify previously ambiguous features of such an American System. I apply these combined considerations now, to define "the Cerrado syndrome."

I measure the performance of national and world economy by a rule-of-thumb standard which I have described as potential relative population-density. This means the comparison of physical inputs and physical outputs as measured per capita and per square kilometer of surface area. These measurements should be measured in terms of functional cycles of not less than one to two generations, as I have illustrated that by the statistics referenced here.

In this long-term view of one or more generations, I assess short- and medium-term, and local changes in functional features of economies, in terms of their impact upon previously foreseen long-term cyclical patterns.

It is extremely important to emphasize, at this point, that the attempt to measure performance of national economies chiefly in terms of either financial accounting, or, worse, in terms of the sum-totals of individual firms and localities, is foolish, and even disastrous over longer terms. Hence, the standard national-income and national-product accounting employed in today's national and international assessments, are inherently misleading, and have been disastrously misleading over much of the recent three decades.

We must also proceed from long-term cycles, as functional units of accounting for entire economies, both national and international.

The simplest way to demonstrate that point, is to note that the relative net physical productivity of an individual enterprise depends upon such external factors as the relative state of development of basic economic infrastructure, such as transportation, power, and water management. Similarly, the quality and level of education, and prevailing physical and cultural standard of living of households, is a principal external determinant of the internal productive potential of the individual enterprise.

We see such effects repeatedly in study of the problem of underdevelopment in national economies. The introduction of advanced industries into national economies, is beneficial on principle; but, if the level of general development of the infrastructure and population is relatively poor, the performance of even advanced individual enterprises will be crippled by the poor development of the national economy as a whole.

This brings us to the matter of national credit, especially the use of such credit for mobilizing an economic recovery from a disastrous world depression, such as that of the early 1930s, or the worse collapse in progress today.

## Credit Expansion

It is urgent that every government today look back to the crucial similarities between the recovery measures taken by President Franklin Roosevelt, and the recently famous proposals delivered to a secret 1931 Berlin meeting of the Friedrich List Gesellschaft by Dr. Wilhelm Lautenbach.

Given a situation, in which the physical economy of a nation has fallen to levels far below those required for long-term break-even, which is the state of every nation of the Americas and of Europe today. Given, the added difficulty, that a collapse of nominal financial capital, in the order of tens of trillions of U.S. dollars equivalent, has recently occurred, and that the bottom has by no means been reached, as today.

The obvious objective of governments and private enterprises, should be to increase employment in physical output, to levels above long-term break-even, and do that rapidly. Given the existence of idled labor-force and growing mass unemployment, where does one find the long-term credit,

FIGURE 1  
Brazil's Cerrado Region



at between 1-2% annual simple-interest charges, needed to "prime the pump" of the economy?

Admittedly, in the case of Hitler Germany, from March 1933 on, until the outbreak of war, the British and New York financier interests which had just recently put Hitler into power, allowed British agent Hjalmar Schacht to draw upon credit for the war mobilization which was then intended to lead to Germany's destruction by the Anglo-French allies at the point Germany was trapped in an intended Napoleonic invasion of the Soviet Union. Without such curious backing as of the type provided by Hitler's London and New York financial backers, where does a national economy go to find the credit needed to launch a general physical-economy recovery?

In such a conjuncture, the only possibility of gaining the needed long-term forms of credit, is the power of the sovereign nation-state, to put the existing financial system into bankruptcy-reorganization, and to issue long-term, low-price public credit for large-scale investments in development of basic economic infrastructure. The supply of income to the newly employed, the credits for purchase of needed supplies, and the stimulation of the market of vendors and the consumer market, provides the initial impetus for the needed avalanche of economic recovery.

Virtually every economy in the world, especially those of Europe and the Americas, is presently in such a desperate

TABLE 1

**Potential Use of Brazil's Cerrado**

	Area (million ha.)	Yield (tons/ha.)	Production (million tons)
Cereals (rain fed)	55	3.2	176
Cereals (irrigated)	10	6.0	60
Meat	55	0.2	11
Fruit	7	15.0	105
Total	127		
Area in use	61		
Area available	66		

situation, actually a situation much worse in its underlying features than that of the early 1930s. Brazil is by no means alone in this predicament.

Brazil should now view such matters in the following, two-fold way: domestically, and in its relationship with the neighboring states of the Americas. The infrastructural development of the Amazon riparian region, and of the Cerrado, typify the larger package of measures needed for a successful use of public credit.

These measures should be viewed from the vantage-point of the noösphere as I have summarily described it.

South America is a continent of vast, largely untapped natural resources. The principal obstacle to the physical development of those resources is the lack of basic economic infrastructure in categories of transportation, power, and large-scale water-management. The objective must be to define the continent as a unified noösphere, which its inhabitants must manage.

The objective of management is not to maintain the biosphere in its present state, but to raise it to a relatively elevated state of health, which only mankind can do. It must be viewed as a vast farm, which, like a wilderness, must be improved and maintained so that the riches flow while the source of such riches is increased in a healthy way. We must not think, foolishly, of man as a parasite hunting-and-gathering in a biosphere; we must think of man as transforming the biosphere, to raise it to higher levels of fruitfulness and good health than it could ever achieve without man's willful intervention.

That is, in fact, Brazil's only chance for long-term survival as a nation. It is the only chance for that presently imperilled continent as a whole.

The realization of the potential of the Cerrado typifies the kind of adopted sense of mission which is presently required for not only Brazil, but the continent as a whole. That is what I signify by "the Cerrado syndrome."

This brings us to consider the fourth, and most crucial element of basic economic infrastructure: education conceived and directed as a science-driver force for the economy

TABLE 2

**Cereals Production in Brazil's Cerrado**

(Millions tons)

	1975	1980	1985	1990	1995
Soy	0.3	1.8	6.0	6.3	11.3
Maize	2.8	3.7	4.1	4.4	8.7
Rice	2.3	3.6	2.6	1.5	2.4
Beans	0.3	0.2	0.3	0.4	0.5
Wheat	0	0.1	0.2	0.1	0

as a whole.

The fundamental principle of a science of physical economy, is the principled notion of the distinction which sets man and woman apart from and above all other living creatures, the quality of non-deductive reasoning called cognition. In physical science, this signifies that life can not be derived from non-living processes, and cognition can not be derived from living processes in general. Each of these three are respectively distinct phase-spaces. To use precise scientific language, in Riemannian physical geometry, we speak of these as multiply-connected phase-spaces of an unfolding differential form of physical geometry. This was demonstrated experimentally by Vernadsky et al. in one way, by me in another.

In laymen's words, these three sets of principles always coexisted and interacted in the physical universe as a whole; their appearance in the modern forms of abiotic, living, and cognitive processes, is to be acknowledged as an expression of such ancient roots.

This function of cognition, is expressed by mankind in the typical form of an original discovery of an experimentally validated universal physical principle. It is through the sharing of the act of discovery, as through a Classical humanist mode of general education, that humanity builds up a repertoire of interconnected cognitive capabilities for imposing successful transformations in both human behavior, and in the universe on which man acts.

The possibility of increasing the rate of progress of mankind, in physical-economic and other terms, depends upon the degree to which this accumulation of cognitive knowledge of principles is maintained and accelerated to the advantage of the population in general. On this account, a system of education, so tasked with this mission, becomes the highest ranking of all public investment in maintaining and improving the basic economic infrastructure of the nation as a whole.

Projects conforming to "the Cerrado syndrome," would bring Brazil safely out of the present crisis. The mission of developing educational systems as the fountains of scientific, technological, and general cultural progress, will bring Brazil and the continent to a brilliant future.

# Private Pension Funds Also Failed in Colombia

by Maximiliano Londoño Penilla

*The author is the president of the Lyndon LaRouche Association in Colombia.*

Colombia and ten other countries in Ibero-America have privatized their social security systems along the lines of the Pinochet model of private pension funds, in compliance with orders from the International Monetary Fund and creditor banks. In every instance, it has been an abject failure. This is the model that George Bush now hopes to impose on the United States.

In Colombia, there are actually two social security systems existing side by side: 1) the familiar U.S.-style pay-as-you-go system, known in Spanish as “*el régimen pensional solidario*,” and 2) the private pension fund system. The first system is administered by the Social Security Institute (ISS) and by a handful of smaller public entities, the latter managing the pensions of members prior to April 1, 1994. As of December 2004, the public system registered a total of 5,734,600 members (both paying and non-paying) and 793,170 retirees, with resources equivalent to \$635 million.

The private pension funds have 5,603,900 active contributing members and 15,570 retirees, but their resources amount to \$9.298 billion, all of which is managed by six fund administrators, only one of which is Colombian-owned.

In other words, the ISS was left with the retirees, and the private funds with the money and with the majority of active contributors still in their “savings phase,” most of whom will be taking their retirement in about 15 years.

But the reality is that even with the third pension reform moving through the approval process under the current government of President Alvaro Uribe, the private pension system is neither viable nor sustainable. Rather, the idea of the bankers is to continue raising the age at which one can receive a pension, while at the same time increasing the social security tax on wages, and reducing the benefits to retirees. Under such conditions, the few that will be able to meet the requirements for drawing a pension under the privatized system, will be “receiving” those benefits after they are in their graves. The private funds meanwhile will use the savings of their contributors to try to prop up the collapsed international financial and monetary system, creating a speculative bubble that can pump a little more air into the moribund speculative

markets in Wall Street and the Street in London.

It was recently made public that, at least for the moment, the Uribe government has decided not to completely eliminate the ISS-administered public pension system. But in the annual assembly of the National Association of Financial Institutes (ANIF), held in Bogota on March 31, 2004, ANIF board president and head of the Aval business group, Luis Carlos Sarmiento Angulo, demanded that President Uribe eliminate the public pension system which has been coexisting with the private system. Sarmiento proposed that the pension portion of the Social Security Institute be converted into a private pension fund of individual savings.

In that meeting, President Uribe greeted banker Sarmiento’s initiative with a great deal of enthusiasm, which led to a great national debate, not only because the proposal would seriously affect the general welfare of the lower income strata of the Colombian population, but also because some of those who were “philosophically” in agreement with Sarmiento’s proposal, nonetheless found it politically inconvenient at the moment, as it might put at risk a package of IMF-dictated legislative proposals before the Congress. According to Juan Carlos Echeverri, Dean of the University of the Andes economics department, and Finance Minister Alberto Carrasquilla, it were preferable to have a more “modest” approach, to insure its success. And so, for the moment, the pension reform goals of the government have been pared down to: eliminating “special regimes”; imposing taxes on the “highest” pensions; raising the age at which one may draw a pension; putting a limit on the size of pensions, and so forth.

## Dismantling Public Health

Ever since Rudolf Hommes, Finance Minister under President César Gaviria, got his 1993 Law 100 approved, the process of converting public health into a matter of financial speculation has been gaining ground. Health management organizations, known in Spanish as “Entidades Promotoras de Salud (EPS)” appeared. Under the pretext of expanding coverage, great amounts of state funds were allocated to public health, but these somehow managed to remain in the hands of the intermediaries, or financial octopuses. Colombia’s public hospital network, health professionals, and public health in general took a beating.

It was in that same period that the private pension funds were created, under which pensions would be paid depending on the financial yields of the fund investments. The economic think-tanks, Fedesarrollo and ANIF, following the guidelines of the IMF and World Bank, prepared various reports to “prove” that ISS was insolvent, or on the brink of bankruptcy, and that therefore it should be dismantled gradually, as has in fact been occurring. A powerful campaign to strip the ISS of active contributors was undertaken, and the entity itself was subjected to every kind of administrative “reform” designed to ultimately liquidate it. For example, it was prohibited from

accepting paying members. At the same time, ISS retirees have been denied all kinds of medical treatments and medications, in a bald attempt to force them to turn to the private EPS (HMOs).

All of these well-financed campaigns have had their effect. In March of 1998, ISS had 4,645,000 paying members; in June of 2000, it had 1 million fewer; today, ISS has fewer than 2 million paying members, and yet must respond to the needs of more than 600,000 retirees. And so, the ISS, according to Minister Carrasquilla, has run out of its reserves, and the government will have to disburse 16 trillion pesos in 2005 to meet pension payouts. For this reason, banker Sarmiento Angulo insists, the “inefficient and onerous” public system should be buried as quickly as possible.

As part of this slow strangling of the ISS, the three aspects of the system (health, pensions, and compensation) have all been the targets of every conceivable nasty operation. With regard to ISS’s health-care division, the government has separated out and transformed the public hospitals and clinics into Social Companies of the State (ESE), which have been given legal status for a three-year probationary period, to see if “they survive on the resources they themselves generate.” That is, they have been condemned to death, as more than 30 public hospitals have already shut their doors. The government’s plan, imposed by the IMF, is to be able to auction off the hospitals and clinics of the public health grid at bargain-basement prices, which would then be picked up as so much “junk” by the private EPS.

The immediate goal of the bankers is to seize control of the entirety of ISS resources, and to have the freedom to invest them in whatever they choose. Given that Rudolf Hommes, despite the fact that he holds no official position in the government, continues as the economic “Rasputin” of President Uribe, and that Uribe himself is known for his neo-liberal inclinations, the bankers are hoping that under this government, the pension and health system will be totally privatized. Only the person who can pay for his pension and can manage his medical costs will survive, and we are speaking in the best of cases of 20% of the population. The other 80% is condemned to die to satisfy the usurious banks.

As U.S. statesman and former Democratic Presidential pre-candidate Lyndon H. LaRouche has scientifically demonstrated, the usury and the moribund international financial and monetary system must be abandoned. Great new infrastructure projects required by humanity to initiate a genuine world economic recovery, along the lines of what Franklin Delano Roosevelt did before and during World War II in the United States, must be undertaken. In Colombia, a Financial Corporation for Reconstruction (CFR) can be created, which by virtue of being a public entity, would not require state funds to operate, as it would be permitted to finance itself through the bonds and other financial paper it would issue. The entirety of the CFR’s capital would be allocated to financing the great development and infrastruc-

ture corridors that Colombia needs to join itself to the rest of the world.

With productive, stable, and well-paying jobs derived from such a genuine economic recovery, workers’ payments into social security would be guaranteed, as opposed to the current situation where many citizens are not able to pay into the fund because they are either without work, or without regular work. But the private pension funds must be immediately eliminated, and adjustments made to the public system to guarantee its viability and sustainability. A New Social Security Institute (NISS), with all the country’s workers contributing, would have no problem meeting pension payouts, including to those unable to make the necessary contributions to guarantee a minimum-wage pension.

Under these conditions, the fiduciary fund of the NISS would be able to buy CFR bonds, thereby guaranteeing the profitability of the investment, as the CFR would only be allowed to finance infrastructure projects, and not to serve as a “petty cash” account of consecutive governments who cover their budgetary deficits by contracting new debt, for example, through treasury bonds. If the solvency of Colombia’s pension system is to be guaranteed, the Congress should immediately establish new legislation eliminating the private pension funds, and restructuring the current ISS into an NISS, which would operate according to the criteria we’ve described here.

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# Business Briefs

## Argentina

### Italian Congressman Hits Berlusconi, Italy's Banks

Speaking in Buenos Aires on Feb. 16, Italian parliamentarian Giorgio Benvenuto charged that "Italy should help Argentina get out of its difficult situation, given the [Italian] banks' wrong behavior. . . . Given the long-time ties between Argentina and Italy, it is crucial that there not be a 'default' between the two nations."

An opponent of the Berlusconi government, Benvenuto, one of three legislators who went to Buenos Aires to get a first-hand look at the country's economic and social situation, was a prominent supporter of the 2002 New Bretton Woods resolution in the Italian Parliament, inspired by Lyndon LaRouche's programmatic initiatives.

Benvenuto emphasized that tensions between the two governments are "political." Why, he asked, did Berlusconi delegate the delicate task of negotiating with Argentina on its debt restructuring, to banker (and vulture fund kingpin) Nicola Stock, who isn't a member of the government? "I am very struck by the fact that there are no direct relations with the Italian government," Benvenuto said, referring to Argentina. The Italian government has a responsibility, but Berlusconi simply acted "like Pontius Pilate"—he washed his hands of the whole affair.

In a Feb. 15 meeting with Argentine Foreign Minister Rafael Bielsa, he recalled how an Italian bank had repeatedly called his mother in an attempt to convince her to purchase the so-called "tango bonds," as an example of how the banks swindled 450,000 small Italian investors out of their money, in order to get rid of the high-risk bonds based on Argentine debt. Benvenuto said that he finally got so angry at the bank's harassment of his mother, that he told her to "tell them I'm going to send the Carabinieri" (Italy's national police) if they didn't stop calling her.

Meanwhile, the Italian Banking Association, which has worked closely with vulture fund kingpin Nicola Stock against Argentina, issued a panicked statement Feb. 15, proclaiming its innocence, claiming that by the first half of 2001, Italian banks had

stopped selling the tango bonds and citizens had stopped buying.

## Labor

### U.S. Union Membership And Wages Are Falling

Trade union membership in the United States fell by 300,000 workers from 2003-04, from 15.78 million to 15.47 million (12% of the workforce), according to a report in the *Kansas City Star* on Feb 15. It is down 830,000 since George W. Bush took office in 2001.

In the private sector, where the average union wage is \$739 a week and the non-union wage is \$604, membership fell by 44,000 in the past year, to 8.21 million, or only 7.9% of the workforce. Among public employees, where the union wage is \$832 compared to a non-union average of \$683 a week, union membership fell by 5,000, to 7.27 million, although that is where the AFL-CIO has placed its focus since 2000.

## Social Security

### O'Neill Goes Nuts Looking for More Loot

Former Bush Administration Treasury Secretary Paul O'Neill, since 2000, has frequently proposed radical privatization schemes which would take all workers under 35, or under 40 in other variants, out of Social Security entirely and into Wall Street investment accounts. He has attributed the origin of these schemes to his discussions with U.S. Federal Reserve Chairman Sir Alan Greenspan, and has said they discussed funding them with "a trillion dollars or two from the Treasury."

However, belatedly realizing that the days of Federal budget "surpluses" are long gone, O'Neill is now proposing (in a Feb. 15 *Los Angeles Times* op-ed) that the government simply establish a savings account for every child born, putting into it \$2000/year

until the 18th birthday, and investing that on Wall Street. It will make every youngster a sixty-five thousandaire, and every retiree a millionaire, O'Neill says, and will cost only \$145 billion or so a year when fully implemented.

This utopian scheme would be, in reality, direct Federal government intervention, on that considerable scale, in the stock-market bubble (in the name of children!). Sometimes called "forced savings," and sometimes just "socialism," it shows how desperate are the circles around Alan Greenspan to get big new flows of cash into the markets. That it would be intended to replace Social Security goes without saying, although O'Neill only briefly implies it in this column.

## Raw Materials

### Huge Uranium Reserves Bought by Swiss Company

The Swiss-based mining company Xstrata has been cleared to buy one-third of the world's uranium reserves in Australia. Australian Treasurer Peter Costello during the week of Feb. 7 cleared Xstrata, 40% owned by Zug-based Glencore, to buy Australia's WMC Ltd., the owners of the Olympic Dam mine in South Australia, which contains 38% of the world's known uranium reserves, according to a Feb. 11 ABC News (Australia) report.

Before 1983, Glencore was owned by financial operative Marc Rich, and current Glencore management are understood to be Rich protégés; Glencore markets most of Xstrata's copper, coal, and mineral production, and is an aggressive user of financial derivatives. Xstrata's bid for WMC required clearance by Costello, under Australia's foreign investment review rules. It is a controversial decision, as leading members of the Australian establishment had called for the Australian government to nationalize WMC, in order to stop it from falling into Xstrata's hands. Costello's decision only gives Xstrata permission to buy; a bidding war is now expected between it and Anglo-American giants like Rio Tinto and BHP-Billiton.

## Lebanon's Hariri Killed To Make a 'Clean Break'

by Muriel Mirak-Weissbach

The assassination of former Lebanese Prime Minister Rafiq Hariri, in Beirut on Feb. 14, was a carefully planned and executed act, geared to trigger a chain reaction of events in the region, that would conform with the long-standing policy of the neo-conservative junta running Washington.

To understand the why of the assassination—although the material perpetrator, the who, remains unclear—one must look back at the 1996 policy paper prepared under the supervision of now-Vice President Dick Cheney, and his neo-con task force of Richard Perle, Doug Feith, David and Meyrav Wurmser, et al. Entitled “Clean Break: A New Strategy for Securing the Realm,” this paper outlined a scenario whereby the 1993 Oslo Accords between Israel and the Palestinian Authority would be torn to shreds, and, first Iraq, then Syria, Lebanon, Hezbollah, and Iran, would be targeted for military assault and political destabilization.

The document flatly stated that Israel should engage “Hisbollah, Syria, and Iran, as the principal agents of aggression in Lebanon, including by . . . establishing the precedent that Syrian territory is not immune to attacks emanating from Lebanon by Israeli proxy forces [and] striking Syrian military targets in Lebanon, and should that prove insufficient, *striking at select targets in Syria proper.*” Furthermore, it said, Israel should divert “Syria’s attention by using Lebanese opposition elements to destabilize Syrian control of Lebanon.” The paper also called for focussing on “removing Saddam Hussein from power in Iraq. . . .”

The outcome of the regional convulsions provoked by the “Clean Break” doctrine, was to be a new Middle East, with Israel hegemonic in the region, presiding over a series of newly balkanized states, run by puppet regimes. The Bush Administration has recently restated its intention to pick off these governments, dubbed “outposts of tyranny,” one by one. The order in which they were to be hit was assumed to start with Iran. Instead, Syria was moved into first place.

The reason for this, one regional expert told *EIR*, is that if Iran were attacked militarily by the United States or Israel, the Islamic Republic would respond asymmetrically, unleashing allied and sympathetic Shi’ite forces in the Persian Gulf and in Lebanon: Hezbollah’s capabilities to target Israel could be effectively deployed. Thus, the source said, the need to eliminate the Lebanese-based Shi’ite Hezbollah as a factor, and at the same time neutralize Syria, before moving against Tehran.

The stage for the immediate destabilization was set diplomatically by UN Resolution 1559, presented by the U.S. and France together, and at the forefront of recent discussions between Secretary of State Condoleezza Rice and French President Jacques Chirac. UN Resolution 1559, adopted last September, demands the termination of the Syrian presence in Lebanon (estimated to be 15,000 troops) and the disarming of the Hezbollah. Instead of mounting an Israeli assault directly on Syria—which would have provoked an international outcry—a flanking operation was launched, with a terrorist act that would trigger mass forces on the ground to move against the Syrian presence.

Thus, the assassination of Hariri.

### Hariri: ‘Mr. Lebanon’

Rafiq Hariri, a building magnate, was Lebanese Prime Minister from 1992-1998 and again from 2000-2004, when he resigned, in protest over the re-election of President Lahoud, who was backed by Syria. He was known for his key international connections, both with the Saudi Royal Family (he became their personal contractor after building a palace for a member of the Saudi Royal Family in Taef, Saudi Arabia in 1977), and with French President Jacques Chirac. Hariri invested massively in rebuilding Beirut after the civil war, and made an estimated \$3.8 billion. Thus he was considered “Mr. Lebanon,” and enjoyed broad popular



support. After he resigned in protest against Syria, he became a symbol for the opposition. Any harm done to Hariri would automatically unleash factional strife and anti-Syria protests.

As soon as the news of the brutal car bomb explosion broke, crowds of Lebanese opposition forces, who saw Hariri as one of their own, took to the streets. At his funeral on Feb. 16, hundreds of thousands demonstrated, demanding the expulsion of the Syrians. At the same time, before any investigation had yielded any leads, a well-rehearsed chorus pinned the blame on Syria. Exiled Lebanese political figure Michel Aoun, for example, stated categorically from Paris: "They [the Syrians] are responsible. It's they who control the security and intelligence services" in Beirut. Druze leader Walid Jumblatt, now with the opposition, echoed Aoun's words, as did Israeli Foreign Minister Silvan Shalom.

After lodging an official diplomatic note of protest with the Syrian government, U.S. Secretary of State Rice ordered the withdrawal of U.S. Ambassador Margaret Scobey from Damascus. "The proximate cause was Lebanon," Rice told the U.S. Senate Foreign Relations Committee, "but unfortunately we have an increasing list of problems with Syria." U.S. Assistant Secretary of State William Burns, who attended the funeral, said that Hariri's death "should give renewed impetus to achieving a free, independent, and sovereign Lebanon. What that means is the complete and immediate withdrawal by Syria."

In a press conference on Feb. 17, President Bush went further, saying, "[W]e've talked clearly to Syria about . . . making sure that their territory is not used by former Iraqi Baathists to spread havoc and kill innocent lives. We expect them [Syria] to find and turn over former regime—Saddam regime supporters, send them back to Iraq. . . ."

But why would Syria, already politically targeted, kill Hariri, when it would obviously be the first place at which accusing fingers would be pointed? "What exactly would the Syrians gain from this?" asked Rime Allaf, Middle East analyst at the Royal Institute for International Affairs in London. "It doesn't make any sense. The first people who will be hurt by this is Syria. Given the chaos in Lebanon and the rising anger between the factions, analytically Syria loses a lot by this," Allaf told Aljazeera.net.

A Syrian analyst at the Middle East Institute in Washington, told Aljazeera, "The Syrians are not crazy and they are not going to be assassinating Lebanese officials." He pointed to the fact that the Syrians had been engaging in dialogue with the opposition. Others noted that Hezbollah, another prime suspect, had been lying low in the recent period, on the recommendation of Syria and Iran, both eager to avoid confrontation.

## Chaos and Civil War

The easiest way for the "Clean Break" scenario to be implemented now, would be through a new civil war in Lebanon, which would lead to the balkanization of the country into

ethnic/religious/sectarian entities. Tensions among factions in the country had been heating up prior to the Hariri assassination. Walid Jumblatt, for example, speaking to Christian Maronites at St. Joseph University, accused "elements" of the Syrian Baath Party of killing his father in 1975. The Baath party then demanded that Jumblatt be prosecuted in Lebanon for slander.

Meanwhile, members of the Lebanese government accused opposition figures of being tools of the United States and Israel. The Mufti of Lebanon, Mohammad Khabani, added fuel to the fire, when he stated that the Sunnis in Lebanon believed that they were being targeted through the murder of Hariri, who was a Sunni. As journalist Robert Fisk, who was on site when the bombing occurred, stressed in the British paper the *Independent*: "Anyone setting out to murder Hariri would know how this could reopen all the fissures of the civil war from 1975 to 1990."

## Iran and Syria Close Ranks

In response to the propaganda barrage aimed against Syria, the government strengthened its strategic alliance with Iran, another neo-con target. Syrian Prime Minister Mohammad Naji al-Otari visited Tehran, and after talks with Iranian First Vice President Mohammad Reza Aref, stated: "This meeting, which takes place at this sensitive time, is important, especially because Syria and Iran face several challenges and it is necessary to build a common front." The two discussed increasing cooperation in transportation, oil, irrigation, energy, and trade, as part of their "common front," and Aref pledged Iran's support.

More significant, strategically, is the support which Moscow has lent to both Syria and Iran. Flying in the face of Israeli and U.S. protests, Russian President Vladimir Putin sent a letter to Israeli Prime Minister Sharon, one day after Hariri's assassination, saying that Russia would fulfill its pledge to sell Syria vehicle-mounted anti-aircraft missiles. The next day, Feb. 16, Colonel-General Leonid Ivashov, former senior member of the Russian Defense Ministry, and currently president of the Academy of Geopolitical Problems, warned: "Should an aggression be launched against Iran, the war will come to Russian borders." Hassan Rowhani, head of the Iranian Supreme National Security Council (and a negotiator on nuclear issues), visited Moscow for talks with Defense Minister Sergei Ivanov. And on Feb. 26, the head of the Russian Federation Atomic Energy Agency, Alexander Rumyantsev, is expected in Iran, to sign the final agreements on the Bushehr nuclear reactor. According to regional sources, Russia has de facto established guarantees for Iran's security, and is beefing up its southern border, from the Black Sea into Central Asia, a signal that Moscow is taking the threats against Iran and Syria very seriously.

One Iranian official summed up his view of the situation by saying, "The Third World War has already begun." Unless the political opposition inside the U.S. takes over policy-making soon, that indeed is the danger.

# Schröder Drops 'A Munich Bombshell'

by Rainer Apel

A meeting of 400 top officials and defense experts of predominantly NATO countries on Feb. 11-13 in Germany revealed that the Bush Administration's new "charm offensive" has been a dud. German Chancellor Gerhard Schröder made that clear, in his speech to the 41st Munich Conference on Security Policy (known as the "Wehrkunde Meeting"), in which he laid out a quite different perspective for transatlantic relations, than that upheld by the U.S. representatives there. The "new Rumsfeld," a role performed by an over-jovial U.S. Secretary of Defense in Munich, failed to smooth over the deep transatlantic differences, and neither did U.S. Secretary of State Condoleezza Rice's blitz tour of Europe the week before.

The fact that the same old Bush Administration policy remains in place, behind this public relations maneuver of the second Bush Administration, was not missed by the European attendees at the Munich conference. The "in your face" formulation which Rumsfeld used repeatedly in Munich, that "the mission determines the coalition, and not the other way around" (meaning that the Bush Administration will cooperate with NATO only if it serves its own designs), revealed that nothing has changed with the re-elected Bush. The Munich debates on the Iran issue showed how deep the transatlantic frictions are: The Europeans want diplomacy, to end Iran's isolation, whereas the Bush team wants to increase the isolation—not only with diplomacy but also with military threats. The Bush Administration has not given any indication of active support for the Europe-Iran diplomacy; rather, the impression in Europe is that the American side prefers to wait for a deadlock or failure of the talks, in order to forge ahead with their own approach.

In his keynote address to the conference, Chancellor Schröder (whose speech was read by German Defense Minister Peter Struck, because Schröder was ill) uncharacteristically and bluntly addressed the Bush Administration's views on Iran in unmistakable language: "I want the U.S. Administration to actively support the Europeans' diplomatic efforts. We must overcome Iran's massive isolation. For Iran will only abandon its nuclear ambitions for good, if its economic as well as its legitimate security interests, are safeguarded." The Iran issue must be discussed also in "a dialogue with the region to develop sustainable security structures for the Gulf

region," Schröder urged.

German Foreign Minister Joschka Fischer, in his speech Feb. 13, also frankly told the Bush Administration to "engage positively . . . to substantially strengthen the European drive." And he added, in apparent congruence with Iran's views on the matter, "if the whole process collapsed, then we would have to go to the [United Nations] Security Council." Sanctions against Iran would be counterproductive, Fischer warned, as they could "strengthen hardline elements in the Iranian government. . . . Iran is not Saddam Hussein. There, we have a contradictory mixture of very dark elements and democratic elements."

Fischer and Struck emphasized that a diplomatic deal with Tehran would only work if Iran's legitimate security concerns were properly taken into consideration. But U.S. Sen. John McCain's (R-Ariz.) open endorsement of "Ukrainian-style regime change in Tehran," which did not draw any criticism from among the American delegation in Munich, showed that the aim of diplomacy (if there is any at all) on the U.S. side apparently is to interfere in Iran's sovereign affairs. Rumsfeld's references to Iraq and Afghanistan as being the alleged beacons of "new democracy," as opposed to Iran, underlined the prevailing U.S. approach, which the Europeans are concerned about.

For those who wanted to listen, the speech given in Munich by Iranian Deputy Foreign Minister Gholamali Khoshroo on Feb. 12, provided additional evidence that neither Iraq nor Afghanistan is in reality what McCain or Rumsfeld pretend they are: Khoshroo said that unlike the pre-war Iraq of Saddam Hussein, today's Iraq is a vast breeding ground for domestic and international terrorism, and Afghanistan, since the U.S. military attack, has turned into the world's largest farming area of opium-producing poppy.

## Schröder Demands a New Approach by NATO

But the Iran controversy was overshadowed by the big impact made by the remarks of Chancellor Schröder on the issue of "NATO reform." He began his speech with a reference to the unprecedented, worldwide solidarity for the victims of the tsunami catastrophe in the Indian Ocean region, saying that it implied a mandate for a new approach to the challenge of economic development. "Poverty and underdevelopment pose no less a threat" than the "proliferation of weapons of mass destruction and instability caused by failing states," Schröder said, urging that the "modernization crisis in many parts of the world" must be overcome, because this has direct implications also for the ongoing debate about a reform of the transatlantic alliance.

"The maxim continues to apply: Close transatlantic ties are in the interests of Germany, Europe, and America," the Chancellor said. "However, we cannot look to the past when it comes to translating this maxim into policies, as is so often the case when transatlantic loyalty oaths are made. Rather, we must adapt to the new circumstances. . . . In fact, the strategic



*German Chancellor Gerhard Schröder shocked the Munich Conference on Security Policy by stating that “poverty and underdevelopment pose no less a threat” than the “proliferation of weapons of mass destruction and instability caused by failing states.” Secretary of Defense Donald Rumsfeld, shown here addressing the conference, had no comment.*

challenges lie today beyond the North Atlantic Alliance’s former zone of mutual assistance, and they do not primarily require military responses. In Asia, China and India are emerging as new world powers whose weight will have an impact not just on the region but on global politics as well. And, the enemies we are facing today are no longer functioning states with a defined territory, but the new global risks.”

Bearing a greater role for international stability and order, Germany also sees that this brings with it the “right to be involved in decision-making,” Schröder said. “Our wish to see Germany become a permanent member of the UN Security Council derives from this need to base responsibility on legitimacy. I believe that the transatlantic partnership must take such changes into consideration, and to be honest, it does so insufficiently at present. This becomes clear when we look at the institutions which are supposed to serve this partnership. The admission of new members is proof that NATO continues to be attractive. And NATO’s presence in Afghanistan has highlighted how helpful its military organization can be even in distant crises. However, it is no longer the primary venue where transatlantic partners discuss and coordinate strategies.”

Questions related to this, Schröder added, would and should be on the agenda of talks with President Bush during the latter’s visit to Europe and Germany, Feb. 22-23. Schröder proposed that the reform of the Western alliance, as outlined by him, should also be discussed by a “high-ranking panel of independent figures from both sides of the Atlantic.”

These bold assertions are being described by conference participants as “Schröder’s Munich bombshell.” The “new” Rumsfeld was apparently taken by total surprise, indicated by his refusal, when asked during the discussion period, to comment on Schröder’s remarks; Rumsfeld said that he first had “to read the text.” The majority of even the German media ran alarmist reports indicating that Schröder intended to “undermine or abandon NATO.” Schröder, for his part, made it

clear after the Munich conference, that he would address the other leaders of NATO at their meeting in Brussels with President Bush on Feb. 22, on more details of his thoughts.

The German Chancellor, who began receiving more support from prominent figures on the European side of NATO and from the European Union after the first two or three days of initial shock after his Munich speech, reiterated his views in an interview Feb. 16, with the leading German business daily *Handelsblatt*. Schröder said that despite the heavy criticism which his proposal had drawn, which he thought was unfounded, he sticks to his idea; namely, to “first have strategic discussions, before political decisions in NATO are taken.” He welcomed the offer made by Secretary of State Rice during her recent visit to Germany, whereby a “new chapter of transatlantic relations” should be opened between Germany and the United States. But Schröder added that he saw the Bush visit to Mainz, on Feb. 23, as an opportunity to reaffirm that transatlantic commitment by entering a new dialogue—*on the level of true partnership*.

As far as Iran was concerned, Schröder reiterated that the policy of his government and of the EU was very clear: Iran must renounce possession of nuclear weapons, but negotiations can only be successful between the EU and Iran, if the “linkage is made with economic and security cooperation.” The ideal solution would be if both the United States and Europe would guarantee such an agreement, Schröder noted, adding that he opposed “automatically” implementing punitive measures against Iran. “I am against military intervention, but in any case, let’s not speculate,” he said, also refusing to answer a question about whether he thought the Iraq experiment would be repeated by the United States in Iran.

The upshot of the Munich conference: The transatlantic row since the Iraq War has grown deeper. The other message from Munich is that some Europeans are ready for a new kind of cooperation on economic development to eradicate poverty in the developing sector, a necessary precondition for peace.

# Afghan Drugs Spiral Out of Control

by Ramtanu Maitra

In early February, the Kabul government declared that opium output in 2005 will be significantly less than last year's. The likely drop in production follows three years of production boom. Habibullah Qaderi, head of the newly established counter-narcotics ministry under President Hamid Karzai, estimated a 30-50% reduction in cultivation this year. "I want to see it with my own eyes," said Antonio Maria Costa, executive director of the Vienna-based UN Office on Drugs and Crime, prior to his departure for Afghanistan.

If the news turns out to be true, no one will be happier than the law-enforcing authorities in Europe, and Europeans in general. The flow of hundreds of tons of heroin through Central Asia, Russia, and eastern Europe into the farthest corner of western Europe has created a massive security problem. Europeans will be watching this year's crop particularly, since the Karzai government has categorically rejected the U.S. State Department's approval to spray the poppy fields from the air. The spraying has not begun yet, but unless Kabul succeeds in cutting down opium production significantly, the spraying will begin, with attendant harmful health effects on the population.

The entire Eurasian continent has been affected by the proliferation of Afghan opiates, which are reaching almost all European countries by road, rail, and sea. Afghan opiates have penetrated thoroughly as far into Europe as Portugal and also the sparsely populated far eastern reaches of Russia. Western Europe is the main market for heroin transported via the southern Balkan route, but it is also the countries bordering Afghanistan—Russia, Central Asia and the Caucasus, Iran, Pakistan—and eastern Europe, which are acting as conduits bringing Afghanistan's main produce into Europe.

With almost \$600 billion in drug money laundered annually through financial markets and international banks, there is no doubt that some U.S. and European banks routinely profit from laundering the proceeds from the Afghan drug-generated cash. The former editor of the *Geopolitical Drug Dispatch*, Alain Labrousse, has estimated that 80% of the profits from drug trafficking ends up in the banks of the wealthy countries or their branches in the underdeveloped countries, where legal control is weaker.

But what angers the Europeans is the United States' "benign neglect" toward the bumper opium and heroin production in Afghanistan during the last three years, since the United States has had control over that country. This Bush

Administration attitude has encouraged hostile anti-U.S. remarks in Europe. Some British newspapers even suggested that the U.S. benign neglect is due to the fact that the Afghan heroin gets consumed in Russia and western Europe, and does not reach the shores of the United States.

## The Journey of Mules

In the Spring of 2002, the British newspaper the *Guardian* reported a warning issued by the British police and intelligence agencies, which had said Britain was facing a potentially huge increase in heroin trafficking because of massive and unchecked replanting of the opium crop in Afghanistan.

The *Guardian* pointed out that the heroin assault on Britain was generated by the Afghan drug traffickers with the help of Pakistan's Inter-Services Intelligence (ISI) agency, ostensibly one of Washington's favorite allies. In reality, this link-up got developed in the 1980s when the Afghan mujahideen, backed by the U.S. and Pakistani intelligence agencies, were battling the Soviet army.

Broadly speaking, there are three routes through which the Afghan opiates travel to Europe. These are: the "Northern" route passing through Central Asia and Russia; the "Southern" one through the Balkans; and the third one is through Iran via Pakistan.

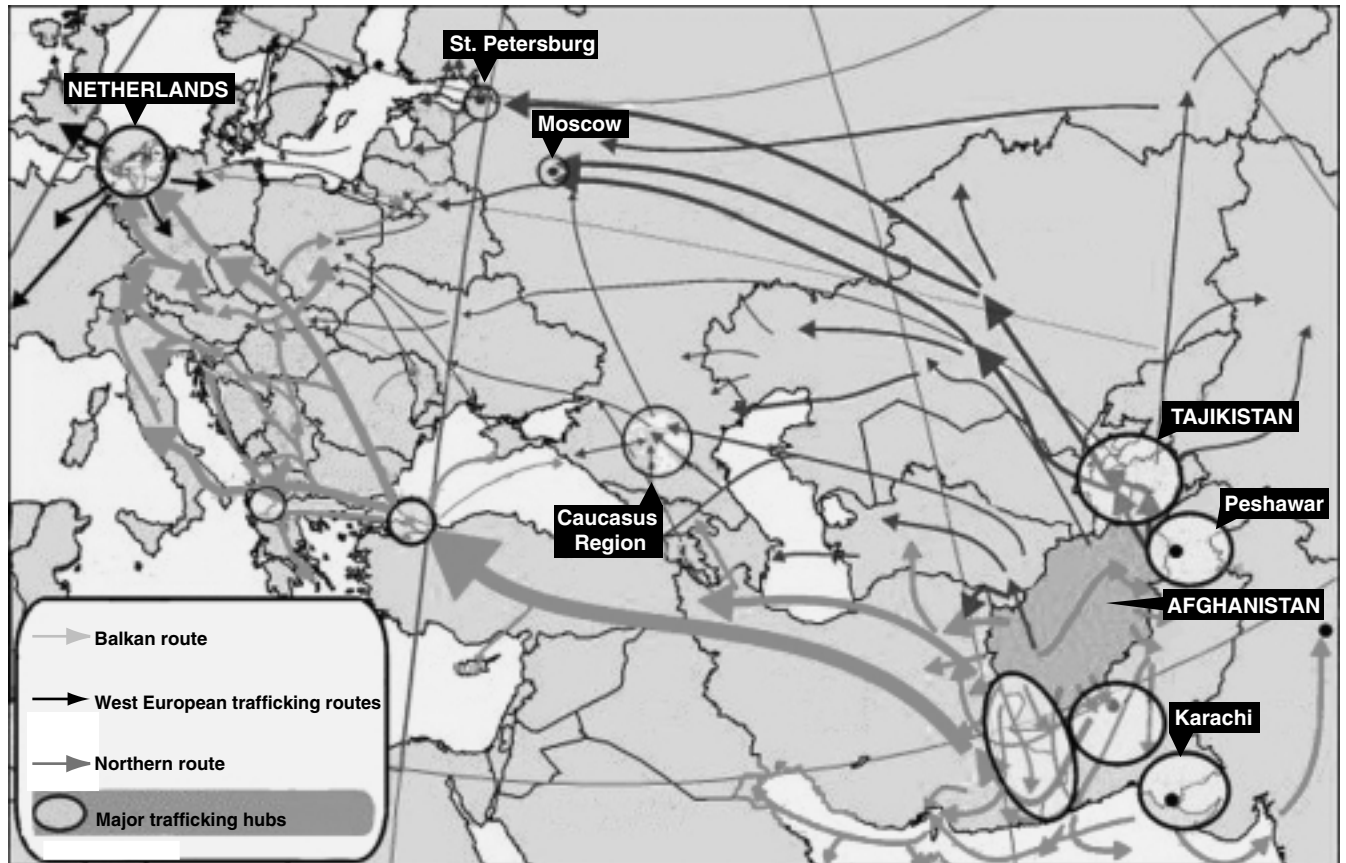
According to the UN estimates, 65% of Afghan opiates pass through Central Asia, and there is no question that this route is growing in importance every year. But before the Afghan opiate heads westward, it gets converted into heroin. The precursor chemicals required for this process, such as acetic anhydride, are often diverted illegally from factories in Uzbekistan or Turkmenistan. From these states, the lethal consignments—hidden in truckloads of raisins or walnuts, disguised as bags of flour, or transported in rusting Soviet-era railway cars—travel to western Europe. The route follows the old Silk Road into Russia, the Baltic states, Poland, Ukraine, and the Czech Republic. From there, it runs through Scandinavia, Germany, and points farther west.

## Old Silk Road/New Drug Route

Suddenly the old silk routes were revived, to let the Afghan opium and heroin move up north. Rashid Alimov, Tajikistan's UN representative, said his country was a victim of an "opium tsunami" and "narcotic aggression." Tajikistan claimed to have experienced a 250% increase in drug trafficking between 1998 and 1999 alone. His Uzbek counterpart, Kamol Dusmetov, reported a 600% increase during the same period, while in Kyrgyzstan the Interior Minister reported a 1,600% increase in illicit drugs seizures between 1999 and 2000, including an 800% increase in heroin alone.

The area north of the Pyandze River separating Tajikistan from Afghanistan, has become the main corridor for Afghan opiates traveling to the emerging Russian market and the traditional European markets. Travelling from Ishkoshim to Nijni Pandj, drug traffickers have turned Khorog into a main

## Drug-Trafficking Routes Out of Afghanistan



Source: UNODC.

transit town, from where the main road from Badakhshoni Kuhi province in Tajikistan led, via the Tajik capital, Dushanbe, to Osh in Kyrgyzstan, and to the Ferghana Valley. Afghan opiates are then carried westward to the Caspian Sea, Azerbaijan, and Georgia, or northward, through Kazakstan to Russia. A poorly manned border in Turkmenistan has invited a massive influx of Afghan opiates in recent years. Many major seizures have been reported in Kushka, the main border post between Afghanistan and Turkmenistan.

Russian and Kazak authorities mention the leading role of Tajik drug traffickers: One-third of traffickers arrested on the Dushanbe-Saratov train are Tajik, and Russian police forces in Irkutsk have declared that they seized heroin in trucks driven by traffickers suspected of being Tajik special services personnel. In Kazakstan, in January 2000, a Tajik police officer was caught preparing to deliver 7 kilograms of heroin to a senior Tajik official, while in May of the same year, 62 kg of heroin was seized from the car of the Tajik Ambassador to Kazakstan. According to the Russian Interior Ministry, in 2000, half the heroin penetrating Russia came through Kazakstan.

### The Balkan Route

As new routes were established to link the Balkan nations with eastern Europe, police reports show that almost the entire gamut of criminal activity was taken over by ethnic-Albanian syndicates as drug-smugglers. These syndicates, whose origins are likely in Albania, Kosovo, Macedonia, or in the long-established Albanian communities of southern Italy, have apparently made peace with Serbian gangsters. They share with them the proceeds from drug and gun running, as well as the trafficking in prostitutes from Ukraine, Romania, and Moldova. According to Europol, ethnic Albanian drug-running families are almost impossible to penetrate because of the closeness of the family-structure and clan-structure, and the difficulty of the language.

In Prague, Albanians are fighting turf wars to oust Ukrainians who still control the heroin trade there, while in London, Jamaican drug dealers complain of Albanian violence toward the east European prostitutes they control. When police in Oslo made Norway's largest-ever heroin seizure in 2002, they discovered that former fighters from the Kosovo Liberation Army (KLA) controlled the drug-distribution chain in Nor-

way. Heroin-dealing in Switzerland is dominated by Albanians. It is also said that much of the money made through drug trafficking was used to buy arms for the rebels fighting in Macedonia and in a strip of southern Serbia.

In western Europe, less than an hour's drive from Vienna, where the UN bureaucrats monitor the Afghan opiates' movements, the town of Graz serves as a sort of nodal point for connections to the Balkans. Again, reports indicate that the heroin dealers who operate in Graz are from northern Albania, plying their trade in western Europe.

The southern, or Balkan, route goes through Turkmenistan, across the Caspian Sea, into the Caucasus, then into Turkey, from where the heroin is shipped to Albania and Italy. Other consignments cross Bulgaria and Macedonia in container trucks, finding their way to Serbia, Hungary, and Austria. A second route goes through Albania, then across the Adriatic in speed-boats on nocturnal dashes to beaches on the eastern coast of Puglia, and then by motorway into Austria. A third route involves container vessels sailing from Constantza, on the Black Sea, to Turkey and on to Italy.

Several other ex-Soviet republics, including Ukraine, Belarus, and Lithuania, with good road and rail routes, have been described in U.S. Drug Enforcement Agency (DEA) reports as having become increasingly important conduits for heroin from Afghanistan. Meanwhile, the German authorities have been struggling to stem the flow of drugs coming through Poland. In 1999, for example, 80% of all heroin stopped on Germany's borders was seized at the Polish frontier. European authorities are particularly concerned by the arrival on the international market of a strain of high-grade narcotic known as Heroin No. 4, or white heroin, which is estimated to be at least 80% pure. Recent seizures in Germany, Turkey, Finland, and Poland have all proved to be white heroin transhipped via Central Asia from Pakistan and Afghanistan.

### The Third Route

The third route runs through Pakistan, Iran, and Turkey, and was once arguably the main route for Afghan opiates to get into Europe. In 1998 in Khorasan, opiate seizures by Iranian authorities accounted for about 40% of all such seizures worldwide, with the country as a whole accounting for 85% of worldwide opiate seizures. Iran shares borders with Afghanistan and Pakistan, and was a convenient outlet for Afghan opiates on their way to the main consumer market, Europe.

A 2,440-km-long coastline also makes Iran highly attractive to maritime drug traffickers. In Iran, as well as in Pakistan, anti-drug-trafficking operations are characterized by their extreme violence: Drug traffickers are typically armed with weapons such as rocket-propelled grenade launchers, and large-scale battles are regularly waged with Iranian law enforcement authorities. During 20 years of anti-drug operations, Iran has lost close to 3,000 men on active duty. Iran's anti-drug-trafficking effort is subsidized by Switzerland, Britain, and Germany.

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## Grigori Bondarevsky

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# Remembering a Great Scientist of History

by Mary Burdman

The legendary Russian Professor Grigori Lvovich Bondarevsky (1920-2003), Academician of the Academy of Social Sciences, was honored at a memorial meeting at the Institute of Oriental Studies of the Russian Academy of Sciences in Moscow on Feb. 9, to mark his 85th birthday anniversary.

For more than 60 years, Bondarevsky was the great pioneer of Russian oriental studies, bringing an ever-growing knowledge of history, and a commitment to truth, to his work. This work included advising Soviet and Russian governments on Indian, South Asian, Islamic, and Central Asian affairs during six decades; training and advising some 100 candidates for advanced academic degrees; ceaseless activity in building relations between his nation and his beloved India, Kuwait, Iran, Cambodia, Great Britain, and other nations; writing 27 books and more than 300 articles; and amassing his great pride: his 7,000-volume library and archive of articles and reports going back half a century. The Professor was murdered on Aug. 8, 2003, while he was at work on a report on the situation in Chechenya for the Russian government.

The Professor was a dear friend, consultant, and teacher for my husband Mark Burdman, who himself died a year later, on July 8, 2004. He was also a great friend and collaborator of Lyndon and Helga LaRouche.

The distinguished participants and speakers at the memorial in Moscow included Prof. Rostislav Rybakov, Director of the Institute of Oriental Studies; Prof. Anatoly Khazanov, head of the Institute's Department of International Relations, which was founded by Bondarevsky; Academician V.S. Myasnikov, Deputy Director of the Institute of Far Eastern Studies; Prof. Tatiana Shaumian, Director of the Center for Indian Studies; Prof. Leonid Medvedko of the Orient Institute; Professors Mikhail Savin and Nicolay Merzlikin of the Institute of Social-Political Studies of the Russian Academy of Sciences; and his daughter, Dr. Lyubov Bondarevsky.

The theme that ran through all the speakers' words, was the Professor's great commitment to truth. For him, history was a *science*, and its reality could only be established by looking at the real historic records. He spent many years of intensive work in the vast archives of Russia, India, Great Britain, the United States, and other nations, establishing what actually happened in important events in history. He

also, every day, gathered information on what was happening in the world, from the news media and from his great number of friends and contacts in many countries. For him, there were no “current events”; there was always current history.

## A Living Legend

I can only highlight the proceedings of the Moscow meeting, which was done in the Russian manner, in a series of tributes. Director Rybakov expressed his appreciation that so many—some 40 people attended—had come during a busy day, to commemorate this man. Every time he heard Bondarevsky speak, the Director said, he would be amazed at his fundamental approach to every issue, and the breadth of his knowledge; it always seemed impossible that someone could be so well educated, and so serious about so many issues. Always, Bondarevsky had a remarkable ability to look ahead, not only in his own work, but for that of his many collaborators. He was also a true citizen of Russia. He had many reasons to be disappointed in his life, but never allowed this to stop his work. He was not just the contemporary of his colleagues, but a contemporary of those who will come after us.

Professor Khazanov, who chaired the meeting, called Bondarevsky a brilliant and original thinker. The importance of his work, especially the colonial and post-colonial history of the nations of West, South, and Central Asia, was comparable to that of Heinrich Schliemann in Troy. Khazanov then quoted Helga Zepp-LaRouche’s commemoration of Bondarevsky in the Sept. 26, 2003 issue of *EIR*: “In an extraordinary way, his loss makes clear that human individuals are unique and irreplaceable; and even though this saying is always true, so much more huge is the gap in the ranks of his contemporaries, which he leaves behind. The Professor was a completely extraordinary personality, an intellectual of genius . . . and the lack of him makes Russia and the world a bit poorer.”

The full scope of Bondarevsky’s personality, said Khazanov, is not yet properly evaluated; it may well be that he will be understood only by the next generation. He was a living legend. Khazanov then described Bondarevsky’s remarkable career and work. The Professor built his academic work on *evidence*, not myths, as the many stories he himself told demonstrate. He was always working, no matter what hit him. His life proved how talent, and a love for truth and science, can bring a man to great heights.

Professor Khazanov, and every other speaker, also paid tribute to Alexandra Arkadievna, the Professor’s beloved wife of 62 years, and his best friend, collaborator, and helper in all his work. She herself had degrees in medicine and history, but dedicated her life to his work.

Khazanov’s words, that only in the future will the full scope of Bondarevsky’s personality be understood, were echoed by every other speaker. It was proposed that Bondarevsky’s key writings be re-published. The Professor’s first



*Grigory L. Bondarevsky, a brilliant and original thinker, pioneered in the Soviet and Russian study of history, especially the colonial and post-colonial history of Asia.*

doctoral thesis, written on the Berlin-to-Baghdad railroad in 1949, remains the classic work on the subject in Russia today, as does his famous, 2,000-page second thesis, later published in 1968 as *Russia and the Persian Gulf*. All of modern Russian Oriental studies are based on Bondarevsky’s work on the Baghdad railroad, Khazanov said.

## Rings in the Water

Professor Medvedko said that to judge about someone who has passed away, you must think of his life as a stone thrown into water: You can only truly understand it, when you see the rings which spread out, farther and farther. The ripples from Bondarevsky’s life are spreading ever wider. In Russia today, there is much controversy over heritage, including that of the state. There is material heritage, but there is another heritage, that of the soul. This is something much greater, and can live much longer. Bondarevsky’s heritage, said Medvedko, is clear: the group of scholars to whom he passed his knowledge. His heritage also includes his great library, now carrying his work further among his friends and collaborators.

Academician Myasnikov praised Bondarevsky’s energy, and his love for Russia. His work for the Russian government was of great importance, especially his understanding of the history and causes of critical conflict areas, including Afghanistan. Bondarevsky had a great gift of foreseeing events in the international arena, and at the same time proposing many steps to prevent or lessen conflicts. Professors Savin and Merzlikin of the Institute for Socio-Political Research emphasized that Bondarevsky was a scientist at the highest level, who managed to reflect all the processes of our time.

The speakers at the memorial included Prof. Raila Mukimjanova of the Oriental Institute, who had been Bondarevsky’s student decades ago in Tashkent; Prof. Vitaly Sheremet

of the Orient Institute; Dmitry Kasatkin of the journal *Issues of Asia and Africa Today*; Prof. Mikhail Burian of the Center of Oriental Studies of the University of Lugansk in Ukraine; and myself. Dr. Lyubov Bondarevsky, herself a historian of the railroads of Persia and Iran, and who has done so much since her father's death to catalogue and distribute his books and papers, said she had, through this process, truly learned to know him.

I spoke, representing the Schiller Institute, to bring the greetings of Lyndon and Helga LaRouche to the memorial meeting. I described the impact of Bondarevsky's great vision of Eurasian cooperation on the work of the Schiller Institute. In many ways, the thinking of Bondarevsky cohered with that of Lyndon LaRouche, particularly in their conception of "current events" as, in reality, current history. The Professor was also committed to using his profound knowledge of history, to change its course, as demonstrated by his proposal to Helga LaRouche in 1991, to set up the Committee to Save the Children of Iraq.

The *Geistesmassen*, the "thought objects," created by Bondarevsky's wonderful mind, certainly live on after his death. When LaRouche recently proposed the cooperation of nations to ensure the vital supplies of raw materials, we knew that this was something that the Professor would agree was "of greatest importance."

## His Life

Grigori Bondarevsky, who was born in Odessa, was admitted to Moscow State University in 1939, a remarkable achievement for a Jew in those times. Already then, he got his first precious permission to go into Russian Archives; he preserved his Archives pass to the end of his life. After the German invasion of the Soviet Union, Bondarevsky served in the Soviet special forces, and was among the elite troops deployed to protect Joseph Stalin during the Tehran Conference with Franklin D. Roosevelt and Winston Churchill, in late 1943. In 1945, because of his great knowledge of Central Asia, he was sent to Tashkent, where he became Deputy Prime Minister of Uzbekistan and also founded the Chair of Oriental Studies at the University of Central Asia.

He returned to Moscow in 1956, where he carried on his work at the Institute of Oriental Studies, founding its Department of International Relations in 1956, and creating a brilliant team of scholars. From the 1960s, his great project was studying the colonial policies of Western powers, especially Great Britain, in the East. After 1976, Bondarevsky moved to the Institute for Socio-Political Research of the Russian Academy of Sciences, and was elected Academician of the Russian Academy of Social Sciences in 1995.

His remarkable work in the national archives of India, selecting and copying some 74,000 pages of historic documents, enabled him to bring this material to the Oriental Institute in 1978, where they form an invaluable resource today. Many of these documents were duplicates of originals held

in the London Public Records Office, the world's greatest archive, in the Professor's view.

In 1968, he was the first Soviet scholar to visit Cambodia; in 1969, he led a delegation of Soviet scholars to Iran; in 1971, he was first Soviet scholar to meet the Dalai Lama in India. He was also awarded honorary degrees in Great Britain.

India was his greatest love. In Tashkent, Bondarevsky had received Indian Prime Minister Jawaharlal Nehru during his 1955 visit to the Soviet Union. Bondarevsky committed himself to ensuring that Nehru's book, *Glimpses of World History*, would be published in the Soviet Union. He edited the Russian translation and saw through the remarkable achievement of its eventual publication in 1981. Later, Bondarevsky had numerous meetings with Prime Ministers Indira Gandhi and Rajiv Gandhi, and many other Indian leaders and scholars. He was a recipient of the International Jawaharlal Nehru Award, and in 2000, President Raman Narayanan received him at his official residence to award one of India's highest honors, the *Padma Shri* medal. These honors will go on display at the Historical Museum of Russia next month.

The Professor also became an expert on the history of Kuwait, which knowledge became of great value in August 1990. He demonstrated how dubious it was, that the Iraqi invasion of Kuwait had "surprised" the United States, and that the Iraqi-Kuwaiti border had been established in the previous century.

## Russian Patriot

Professor Bondarevsky summed up much of his own life work, in a 1998 interview with Kuwaiti television. Asked why he dedicated his life to history, the Professor said: "We have to understand the importance of history for the contemporary world. Look at the great political mistakes which have been made. When Napoleon invaded Russia, he had the arrogant illusion that the Russian peasants would support him. Napoleon put out leaflets, claiming he would free the serfs. But instead, the peasants went into the woods, and became partisans, fighting and defeating Napoleon. This was the reality: This was the real beginning of the Russian nation. Others should have understood this history."

He described Russia's unique role as a Eurasian nation, and how this contributed to his own work. Russia lived for 250 years under the Tartars, and as a result is much nearer to Asia than Western Europeans are, politically and culturally.

He also stated his profound love for his country. He was asked what he thought about so many Russian scientists now going to the United States or Europe to live and work. Bondarevsky himself had been invited to move to Britain, to take up a chair at one of its leading universities, but he had refused. "You have only one motherland in your life," the Professor said. "It may not be easy, it is not always easy to be a scholar in Russia, but it is *your* country. You have to defend it with your brains." Certainly Grigori Bondarevsky's great brain, was, and remains, a national treasure of Russia.



# A Scientific Strategy for Eurasian Development

by Dr. Yuri Gromyko

*Dr. Gromyko is a member of the Moscow Academy of Culture and Educational Development. On Jan. 12-13, he was among the 40 or so participants in an EIR seminar in Berlin based on Lyndon LaRouche's two breakthrough documents, "A Dialogue of Eurasian Civilizations: Earth's Next Fifty Years" (EIR, Jan. 7, 2005) and "Toward a Second Treaty of Westphalia: The Coming Eurasian World" (EIR, Nov. 29, 2004). Continuing our coverage, which began with our Jan. 28 issue, we publish here the text of Dr. Gromyko's presentation, which he titled "A Scientific Strategy for Eurasian Development Could Save Russia from the Approaching World Financial Tsunami, and Social Tsushima at Home." Footnotes are the author's, unless indicated otherwise.*

## The Geopolitical Fault Line From Beslan, to the Transfer of Ukraine's 'Orange Revolution' Into Russia

After Beslan<sup>1</sup> and the alleged "orange revolution" in Ukraine, Russia is very close to the brink of geopolitical catastrophe—geopolitical disintegration. We do not have stable border areas, around the entire perimeter of the Russian Federation. We have the Caucasus, which has exploded, and turmoil between Georgia and North Ossetia, between Georgia and the self-proclaimed independent state of Abkhazia, and—on Russian territory—the smoldering conflicts in Chechnya, and instability in Ingushetia and Dagestan. The instability and conflicts in Dagestan, a country of many ethnic groups and many languages, are the key factor for smashing and breaking up all of Russia as a multi-ethnic and multi-confessional entity.

We have instability near our eastern borders, where there are a huge number of territorial claims from Japan and China. It was decided to concede some of these claims, without even any coverage in the mass media. And right now, for example, in the Amur Region and Sakhalin Island, and in the Primorye Region, we have continuous protests by public groups against Russian foreign policy.

Russian foreign policy today is organized as a two-faced

Janus: very redoubtable and stern, with a patriotic flavor, for domestic consumption; and very shy, modest, and humble towards the outside audience. The only problem is not to allow somebody to perceive these two sides of the face simultaneously, and be shocked by the two disparate facial expressions. It is noteworthy that exactly in the period when the reins of government are in hands of the so-called Petersburg group, we are very close to the total annihilation of the achievements (geopolitical exploits) of former generations, including Peter the Great. And in Ukraine, very soon, if there is a conflict between the inhabitants of the eastern regions of Donbass, Dnipropetrovsk, and Crimea (who supported Yanukovich<sup>2</sup>) and the inhabitants of the western regions (backing Yushchenko<sup>3</sup>), it may be decided by the EU leadership and the NATO Council that the government of Ukraine is unreliable and that it is necessary to deploy NATO troops in these territories. So, this would be a NATO invasion of Russian geopolitical areas. It is exactly what Karl XII [of Sweden] tried to execute in the period before the Battle of Poltava.<sup>4</sup>

Of course this first, complete inner ring (no longer merely an arc) of instability around Russia's perimeter is coordinated with an outer surrounding zone of smoldering and burning conflicts in Afghanistan, Iraq, the Palestinian territories, and Kosovo. We are currently facing terrific possibilities of the exacerbation of continuous war without end in Iraq, and its transfer to Syria, with Israeli participation, or even a new war in the Eastern Province of Saudi Arabia. As Lyndon LaRouche constantly stresses, because the whole world is approaching very near to a financial tsunami, petroleum reserves are very important for delaying an inevitable disaster for some period of time.

We in Russia live under the pressure of preparation for the next terrorist attack after Beslan, which is a key element of the war declared against Russia, as Vladimir Putin has emphasized. If the Beslan terror attack is compared with the atrocities committed in a Russian theater during the *Nord-Ost* show,<sup>5</sup> we can see that the message of this attack has changed addressees. The attack in the theater was directed against Muscovites, and the content of message was the following: "You won't have safe shelter and peace in Moscow, which strives to be a European capital, until Putin withdraws troops from Chechnya."

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2. Prime Minister Victor Yanukovich claimed victory in the October-November 2004 Presidential election in Ukraine, but the results were overturned after mass protests. (Editor's note.)

3. Victor Yushchenko won the re-vote of the Ukrainian Presidential election and is now President of Ukraine. (Editor's note.)

4. The Battle of Poltava, on July 8, 1709, was a turning point in the Great North War (1700-21), when Peter the Great's Russian forces repelled the Swedish invasion of the Russian Empire. (Editor's note.)

5. An armed band of Chechen separatists took the cast and audience hostage during a Moscow performance of the musical *Nord-Ost*, in October 2002. Russia special forces broke a stand-off in a raid during which all the hostage-takers and officially 129 hostages died. (Editor's note.)

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1. Beslan is the town in North Ossetia, in the Russian North Caucasus, where an armed band seized a public school on Sept. 1, 2004, taking more than 1,000 people hostage in a siege that ended with hundreds dead. (Editor's note.)

The message of Beslan had a very different content. It was simultaneously addressed partly to a Western audience and partly to the Russian population. The meaning of this message was the following: “The Russian government is a group of cruel, terrible persons, who can’t change their policy in the North Caucasus even for the sake of children’s lives, for the life of a future generation.” And so, the next attack could involve the capture of a nuclear power plant or a recycling plant for nuclear waste or hazardous chemicals. And the message of this attack would be addressed only to the Western audience, with the following content: “The Russian government and Russian Presidents are not reliable authorities, so it is necessary to deploy Western troops (gendarmierie) to defend a civilized social order.” This terror attack, which is right now in preparation, would be directed against Vladimir Putin personally.

### A Social Tsushima?

When recalling memorable dates in 2005, it’s good to mention that this year is the centennial of the huge defeat of Russian troops in the Russo-Japanese War in 1905, for example in the naval battle between the Russian and Japanese fleets near Tsushima. And also we have the 60th anniversary of victory over Hitler in the Second World War. Such anniversaries certainly have an effect on the national sense of identity. So, it is very important to steer the ship of state by the beacon of the victory in the Second World War, rather than to run aground upon the rocks of Tsushima. The Russo-Japanese War was not a local war, as is assumed according to the so-called conception of “overture” wars. The British-Boer War, the Spanish-American War, and the Russo-Japanese War, according to this theory, were preludes to the real show, the First World War, beginning in 1914.

The Russo-Japanese War was the first episode of world war in the 20th Century, with the participation, for example, of English and American banks in support of the Japanese side, and Russia, in turn, being backed by the French intelligence community.<sup>6</sup> Study of the Russo-Japanese War makes it clear that the background of this war was shaped by financial oligarchical British-Dutch groups, associated with some American banks and with the Japanese military elite, which had a strong interest in stopping Russia’s advance in China. This advance was based on Sergei Yu. Witte’s approach. Witte’s approach was a continuation of Dmitri Mendeleev’s legacy, and was connected with the development of railroad transport corridors. So it is possible to assume that the Japanese-Russian clash was deliberately orchestrated, to stop the

6. See a forthcoming book *The Russo-Japanese War in Global Perspective: World War Zero*: Edited by John W. Steinberg, Bruce W. Menning, David Schimmelpenninck van der Oye, David Wolff, and Shinji Yokote (Leiden: The Netherlands) now in preparation for publication; for example Chapter 14 “Intelligence Intermediaries: the Competition for Chinese Spies,” by David Wolff, who has kindly allowed the use of the pre-publication proofs of this material.



*Dr. Yuri Gromyko, who addressed the “approaching world financial tsunami and social tsushima at home,” presented a plan that includes “an international university named after Lyndon LaRouche and Pobisk Kuznetsov, to prepare young people from all over the world to organize Eurasian development, in opposition to the financial collapse.”*

industrial development of Eurasia in that period.

The defeat of the Russian Navy near Tsushima, together with the treacherous surrender of Port Arthur by its commandant, Stessel, were very specific events that demonstrated the weakness and the total wreckage of the Tsar’s administration, and served as a stimulus for the first Russian Revolution, in 1905. “Tsushima” entered the language as a common noun, designating a social catastrophe.<sup>7</sup> And we are very near, at the moment, to a social tsushima in Russia.

The underlying reason for this has to do with the timing of certain social reforms, elaborated by the [Prime Minister Mikhail] Fradkov government. The Russian people today, most of all, detest the very word “reform,” because it was under the aegis of His Majesty Reform, that the Russian population was raped and robbed two or three times over. Those devastating reforms destroyed the industry and scientific re-

7. For example, we could call the Yeltsin-Grachov war in Chechnya a real new tsushima.

search institutions of the Soviet Union, forcing Russians to yield their leadership in these areas. Now, however, we are coming nearer and nearer to the end point of this liberal experiment with our national identity. In our Russian national tradition of hard drinking, we have a saying: “Drink, old boy, drink, but don’t squander your own mind on drink.” Because after this squandering, you totally destroy yourself. And, indeed, we are now on the brink of ruining our very identity, and simply renouncing the possibility of teaching future generations, undertaking new research for the acquisition of new knowledge, or producing new spacecraft that astonish people in other countries. If science, industry, and education are ruined, we won’t be able to do anything in Russia.

Today, as if someone deliberately concocted this, we have simultaneous, drastic anti-social changes in public health, education, science policy, and social and municipal services. Contrary to all the good declarations and intentions, with which the road to Hell is paved, the main idea of all these reforms is austerity: not to produce, but only to try and make ends meet. It is proposed to cut federal expenditures and shift them onto regional governments. For example, in education these reforms will deprive many universities in different regions of their federal status. Under the concept of health reform, many hospitals will disappear, because they won’t have federal status, so they won’t get federal money. At the same time, people will have to pay more for electricity, central heating and other municipal services. And so all of these measures are directed to destroy social security. The reason for these so-called reforms is not clear to our population, because we have a budget surplus, with a huge amount of money earned last year from oil. Why don’t the government financial specialists want to invest the “oil money” in the productive economy, instead of using it to support foreign financial institutions?

But the smoldering discontent of the Russian population is connected less with the reforms as such, than it is with Putin himself, because after the Duma and Presidential elections [of 2003 and 2004], he really has complete power and thus bears all the responsibility for the intended changes. United Russia—the party of Parliamentary majority—personifies Vladimir Putin and acts on his behalf. People remember very well that it was United Russia that voted up the so-called monetization of benefits, which is the direct cause of the current social turmoil.

Why do we have such a situation? What exactly is the landscape in which we are situated?

First of all, because people in government are totally incompetent, they don’t understand the investment process or the way a productive national economy functions. They are against physical economy, which has to do with the increase of material and technological goods, and they are in favor of the financial alchemy of Mr. George Soros. They are skillful players in a game of short transactions, organized like a poker game. Nobody wants to invest money in long-



*Russian President Putin mourns the victims of the Beslan terrorist massacre, on Sept. 7, 2004. Gromyko writes, “We in Russia live under the pressure of preparation for the next terrorist attack after Beslan, which is a key element of the war declared against Russia, as Vladimir Putin has emphasized.”*

term projects. But those are precisely the type of projects that could provide a possibility to increase jobs and also to reinvigorate our science and innovative industry. So the Mayor of Moscow, Yuri Luzhkov, was correct when he said that the Russian federal government had not, in the entire period of Putin’s Presidential tenure, proposed one single nationwide project. It means that the Russian people don’t have mission for their lives.

Our dangerous sharp turn towards a social tsushima is connected not only with incompetent government, but also with the absence of a sound political party system. So far, we have no opposition party that could represent the interests of those in the population who disagree with the reforms. The lack of such a party is connected with moral and political corruption. The so-called opposition party Rodina (Motherland) was, from the very beginning, a design of Mr. Vladislav Surkov, who works in the Kremlin administration. Surkov

intended to have a manageable and controllable opposition. There are a great number of talented and clever people in Motherland, but this party can't function effectively as a political force, as became clear most recently after an "anti-Semitism" scandal around a letter written by some members of this party to the newspaper *Rus Pravoslavnaya*.

We are approaching an understanding that there is an urgent need to cancel Putin-Bush personal deals as the basis of Russian-U.S.A. relations. It is not known precisely, if this habit of deals began with the *Kursk* submarine disaster, during the Clinton Administration, when, after a collision of Russian and American submarines, the leaders didn't want to destroy the fragile sympathy between the peoples of Russia and the U.S.A. But in the situation with Afghanistan and Iraq after the events of September 11th, it became clear that relations between V. Putin and G. Bush were regulated by a special "mutual understanding." This personal deal consists in non-interference by Russia in Afghanistan and Iraq, as payment for American non-interference in Chechnya, the North Caucasus, and other territories of the former Soviet Union. We don't mention the result of such an international policy: We allow the Bush Administration to recast the world order, in exchange for Bush's promise not to interfere in our internal affairs. But after the participation of American private foundations (George Soros) and some official persons in organizing the liquidation of the Shevardnadze and Kuchma regimes in Georgia and Ukraine, and after suspicions that some people close to Cheney advised the terrorists on how to organize the operation in Beslan, it became clear that the Bush Administration had been continuing to interfere, and to act according to its own geopolitical interests.

### **What To Do When Breezes From the Oncoming Financial Tsunami Touch Your Face**

Here it is important to say what is at stake, in a situation of the possible disintegration of Russia. What is at stake, is nothing less than the planetary development of the entirety of Eurasia and the whole world, which is connected with a Russian policy for Eurasian development, not yet declared by Russian officials. This policy of Eurasian development is even more important in a period of huge financial crisis that the world financial elite is trying to hide. From this point of view,



*A demonstration in support of Ukrainian Presidential candidate (now President) Victor Yushchenko, October 2004.*

we must return to the brilliant Ivashov-Primakov<sup>8</sup> geopolitical plan that consists in the organization of close cooperation among Russia, India, China, and Iran in Asia, and with Germany and France as the pivotal geopolitical axes in Europe. This cooperation must be organized not against the U.S.A., but together with patriotic intellectual groups in the U.S.A., to develop Eurasia. Russian leadership in the world is necessarily connected with Eurasian development. And this leadership is greatly needed for planetary development.

The key elements of this Eurasian Russian policy are knowledge management and resource management. But first we must, as the great Chinese thinker Confucius said, "*cheng ming*"—to correct names, and to correct concepts.

So-called resource management is not a form of the "innovation economy" that is currently a trendy word in the lexicon of [Minister of Economic Development and Trade German] Gref and other members of the Russian government. This trendy buzzword means simply the commercialization of scientific discoveries that were made earlier, in the period of outstanding Soviet science, by the older generation of scientists. And now it is proposed that Russian scientists should stimulate the interest of private corporate bosses in paying for the new use of these old fundamental discoveries. Such a science policy means the suffocation of Russian breakthrough fundamental science. Very often the protagonists of this view

8. Yevgeni Primakov is a former Foreign Minister and Prime Minister of Russia, who today heads the Russian Chamber of Commerce and Industry. Gen. Leonid Ivashov formerly headed the International Department of the Russian Ministry of Defense and is now a geopolitics analyst. (Editor's note.)

speak about venture funds as a special financial instrument for giving Russian scientists incentives to propose technological solutions that could be interesting for private companies. But the problem is, how to organize new breakthrough scientific research programs, to create technologies to work with new types of energy, new transportation systems and vehicles, or new machine tools.

In the context of Eurasian development, knowledge management must be connected with two core elements: the organization of cooperation around the most important breakthrough scientific research programs in different spheres, and the promotion of technology transfer.

In China's northern provinces, it has been declared that there will be re-industrialization, and special resolutions have been prepared to allow the investment of money in the development of industry. The question is, what kind of participation there might be from the Russian side. Are we ready to take part in new economic development, together with our neighbors?

Our large firms are interested in acquiring assets in China. But this interest very often is connected with rather primitive business schemes, based on access to cheaper labor than is available in Russia. Much more interesting business plans involve decisions to organize the transfer of new technologies from one industrial system to another, to upgrade the whole industrial platform. In the steel industry, for example, the so-called cast-strip technology is now being developed. It makes it possible to cast steel, not first in the form of slabs and then to roll out the slabs into sheet, but rather from the very beginning to cast the steel in sheets. Through this technology it is possible to reconstruct all the old-fashioned steel plants in China, India, and Kazakstan, which represent the results of Soviet industrialization. With such types of technologies, it is possible to have not exactly industry, but a meta-industry dealing with old-fashioned technological systems that need to be modernized.

According to the meta-industry approach, the goals of meta-institutional decisions cannot be reduced simply to outsourcing, to destruction of the Ford industrial system, and the total de-industrialization of regional economies, but rather they have to do with the organization of advanced manufacturing systems. It is possible to do this in every sector of industry, with every technological platform. To manage technological development on the scale of Eurasian development, we must have a list of such possible breakthrough technological products, as well as itineraries for the transfer of advanced technologies from technological centers to their use points.

When we speak about resource management, it doesn't mean simply taking advantage of speculative oil and gas prices for the sake of monetary profit. Rather, it has to do, first and foremost, with the estimation of what amount of resources and energy we have in Eurasia that could be used to organize high standards of living in different areas. Resource management means, above all, energy resource management, but the demand for energy must be satisfied by building new nuclear

power stations to produce cheap energy. Also very important is energy production on the basis of renewable resources, above all water. But of course it is very important to manage all renewable resources: for example, bio-resources (fish, timber, and so forth). But Russian hydroelectric power is simultaneously connected with energy management, water management, and industrial development. Russia's riches for the 21st Century are not only gas and oil, but also the fresh water in our rivers. But members of our government don't understand that hydroelectric power could be the locomotive of economic development in Russia. So, for example, they don't understand why it is necessary to invest money in rebuilding the hydroelectric power sector, building new turbines (and thereby upgrading the national machine-making industry), reproducing engineers, and reinforcing the banks of rivers, water reservoirs, and water storage pools.

We must have a satellite system for the whole of Asia, to manage the raw materials resources. Russian satellite engineers are working in Indonesia to monitor forest fires, but it is possible to organize prospecting for resources for the entirety of Eurasia. It is also necessary to elaborate new geological models of raw materials resources, because in the northern and eastern provinces of Russia (for example, in Norilsk) we are still using models of geological processes that were elaborated in the 19th Century. So resource management and knowledge management are interconnected, of course, as they were interconnected in the works of the outstanding [18th-Century] Russian scientist M.V. Lomonosov.

It is very important to continue to populate Eurasia and simultaneously to increase the standard of living. It is very important, that Russian people have experience in organizing life in cities above the Arctic Circle, where there is permafrost. We currently have an exodus of the population from such cities in Russia, because it is impossible to live there after the liberal reforms. It is necessary to artificially construct life-support systems for living under permafrost conditions. In building them, we introduce indispensable standards for human life, which must not be distorted, because the result of distorting them has genocidal effects. This work prepares us to populate not only regions of permafrost and desert, but also the floor of the world ocean and extraterrestrial space. As the great Russian scientist Pobisk Kuznetsov stressed, it is very important to construct life-support systems on a scientific basis, to extend the phenomenon of life into new spheres.

## **Not Benchmarking, But a Real Workbench of Eurasian Development**

How is it possible to achieve the implementation of Eurasian development? We must develop a general vision of Eurasian development as a system of technology and knowledge transfer corridors, and simultaneously elaborate concrete scenarios in correspondence with this global vision for different macro-regions. From this point of view, the global development of Eurasia must be understood as interconnected

macro-regional scenarios, in the implementation of which representatives of different sovereign nation-states participate. For example, we currently have a group of scientists at Vladivostok University and at some other institutions in the region, who together with Chinese, Korean, Japanese, and American scientists are elaborating different scenarios for the development of the northeast macro-region. Such scenarios must be proposed for the different parts of Eurasia. From this point of view, we have macro-regionalization, as opposed to globalization. But who will implement these scenarios?

For this we need an international university named after Lyndon LaRouche and Pobisk Kuznetsov, to prepare young people from all over the world to organize Eurasian development, in opposition to the financial collapse. The main idea of such a university must be connected with a scientific revolution in different scientific disciplines and spheres of activity, on the basis of Vernadsky's program. For Russia such a university could be a real tool for organizing contact between the older generation of scientists, and young people of the whole world, who are interested in organizing global Eurasian development. Young people educated at this university must be able to understand just what are the frontiers of the next technological breakthrough and how it is possible to organize this new scientific-technological-humanitarian revolution in accord with how they define the mission of their generation. These young people could go back and forth around the whole Eurasian continent, to master and assimilate the cultural, historical resources of different countries, in order to elaborate new projects and specific plans, and then to implement such scenarios in contact with different scientific groups in different countries.

How can we organize intercultural, intercivilizational dialogue between different nations of Eurasia, so that they will have deep trust in each other? Unless we discuss the global dominance of the Anglo-Dutch liberal financial model, all dialogue between cultures and civilizations will be reduced to trivialities. So we must understand, as Lyndon LaRouche emphasizes, and demonstrate to our politicians and people, that this financial architecture is doomed and it is necessary to exit from this financial institutional order. We can come to understand and discuss the real essentials of Eurasian anthropological and cultural development, which are closely guarded and not always apparent to the outside observer, only on the basis of a shared resolve to restructure the existing financial order and get rid of the Anglo-Dutch financial dominance. Because first we must acquire mutual confidence and trust, in order to organize cultural exchange and gain access to the real cultural treasures and patterns that are basis of different spiritual traditions. This access is very important. At the moment, we don't know many things about cultural genesis—the origin of thought and language. Because to understand such things, we must have knowledge about the thought and cultural development of different nations, and we also must understand the spiritual endeavors of all the people

of Eurasia. As in the case of resource management, we must elaborate a global vision—multifaceted, but at the same time integrated—of the thought, language, and societal development of all the nations of Eurasia.

I would like to give just two examples about this very intriguing subject. Alexander Kudakin, who is Extraordinary and Plenipotentiary Ambassador of the Russian Federation in India, writes: "Not long ago I had a conversation with a Brigadier General of the Indian Army who several years back had been posted to Moscow as Assistant Military Attaché; off-duty he is a keen student of history. The gentleman told me that he was much amazed when during his official trips to the Khanty-Mansy Region, he discovered that the indigenous peoples of the Russian North, living in Siberia in the Ob River basin, have much in common with the inhabitants of ancient and modern India in terms of mythology, religion, and worship. Once retired, he half-jokingly suggested to devote himself to studying this phenomenal historic and cultural connection between the two great Eurasian civilizations. These field observations are to some extent corroborated by the findings of professional historians, both Indian and Russian. It was in 1903, that Bal Gangadhar Tilak published his work *The Arctic Home in the Vedas*, where, having analyzed the *Rigveda* and other sacred Hindu texts, he asserted that the Aryans originated from the Arctic region, much farther North than historians had previously reckoned. In our country this paradigm is upheld by a well-known Indologist Dr. N.R. Guseva."<sup>9</sup>

The work of our group with educational leaders of the Khanty and Mansy peoples proves this vision, because the development of categorical thinking and religion among these peoples is very close to that of the Vedic people of India. From other side, the very interesting Chinese philosopher Xiong Shi Li demonstrates in his books that Chinese thought is a kind of reflection on the interconnection between the geometry of processes that was developed in the *I Ching—The Book of Transformations*—and Chinese hieroglyphical language. But the same could be said about the genesis of thought in ancient Greece. In the works of Plato, the Pythagorean numerical structure of thought (the one or the many) collides with the categorical representation of thought processes. And only through the deliberate comparison of such endeavors, made in different cultures by outstanding thinkers and spiritual leaders, to reveal the interconnections between the schematical-visual representation of thought processes and the metaphorical-conceptual reproduction of thought in communication, can we approach the enigma of the genesis of thought and language.

These ideas are presented in detail in my book *A Panoply of Scenarios: A New Agenda for the President*, Moscow, 2004.

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9. See <http://www.bmatch.ru/showart.php3?nomerst=1465&lang=russian%D0%A0%D0%8E%D0%B2%D0%82%D1%99>

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# International Intelligence

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## ***Sharon Consolidates Grip On Military, Security***

An Israeli intelligence source told *EIR* that the termination of Israeli Chief of Staff Moshe Ya'alon is aimed at consolidating full control of the Israeli security/military establishment by those loyal to Prime Minister Ariel Sharon and Defense Minister Shaul Mofaz. These loyalists are hardliners who share Sharon's and Mofaz's views on Syria and Iran.

Ze'ev Schiff, military correspondent for the daily *Ha'aretz*, wrote similarly on Feb. 17 that the charge that Sharon and Mofaz are putting out, that Ya'alon opposed the planned disengagement from Gaza, is "groundless."

Elsewhere it is reported that also involved in the decision was Sharon's personal advisor, Dov Weisglass, who is also Sharon's principal emissary to the Bush White House, particularly to Vice President Dick Cheney. While the top prospect for Chief of Staff is Ya'alon's deputy and Sharon favorite Dan Halutz, another Sharon man is expected to move up the command ladder: Gen. Moshe Kaplinski, who just finished a tour of duty as commander of the Central Command. Prior to that he was Sharon's personal military secretary, in which capacity he often travelled to Washington to meet Bush Administration officials. He could become Deputy Chief of Staff. Gen. Benny Gantz, former Northern Commander, is expected to be made head of military intelligence.

The Knesset member representing the Yahed Party, Yossi Sarid, told *EIR* that it was irresponsible for Sharon to be "shaking the boat" just at the time that his disengagement plan is supposed to be implemented.

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## ***Mahathir Warns, U.S. Proxy May Bomb Iran***

Former Malaysian Prime Minister Tun Dr. Mahathir bin Mohamad predicted to the *Malaysia Star* of Feb. 17 that the United States may use Israel as a proxy to launch an attack against Iran's nuclear facilities.

"The United States seems to want other people to fight for them," he said on Feb. 16, in response to a question on the development of the Iranian and North Korean nuclear issues.

The United States, he said, would attack Iran because it thought that the latter had no weapons of mass destruction, although such an allegation had been made against Tehran. "They attacked Iraq because they knew Iraq had no weapons of mass destruction," he added.

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## ***Protests Continue in Russia Against 'Reforms'***

Political tension is running high around the devastating entitlements reforms, imposed in Russia since the start of the year. The protest demonstrations of the weekend of Feb. 12-13 involved several hundred thousand people, with particularly large turnouts in the central and Volga River basin regions.

At the Feb. 14 Cabinet meeting, Prime Minister Mikhail Fradkov chastized the Minister of Health and Social Development for poor implementation of the reform. In a session with State Duma (parliament) leaders the next day, President Vladimir Putin continued to stress that the problem was with "glitches" in implementing the measures, rather than with the conception of the policy—which is based on the classic Mont Pelerin Society dictum that people should have cash with the "freedom to choose" how to spend it, rather than a guarantee of social security in the form of in-kind benefits. State television on Feb. 17 showed Putin in intense conversation with Gov. Nikolai Vinogradov of the Vladimir Region, who was giving a detailed report on the availability of medications there.

Moscow Mayor Yuri Luzhkov announced on Feb. 16 that he would ask the Constitutional Court to review the cash-for-entitlements policy, saying that the law "grossly infringes the rights of the constituent territories of the Russian Federation" (i.e., the regions, which are forced to pay some of the cash compensation to people) and is incomprehensible

in some sections. Luzhkov is a member of the United Russia bloc, whose leader, Speaker of the Duma Boris Gryzlov, somewhat lamely rejoined that the Mayor has a right to his opinion and will not be subjected to "party discipline"!

Novgorod Governor Mikhail Prusak told Itar-TASS he would support Luzhkov's initiative. He said that Novgorod Region is implementing the reforms gradually, only as funds are available to make the cash payments, and he criticized the implementation of this policy, which hits senior citizens hard, in the year of the 60th anniversary of victory in World War II.

In Chita Region, the local government has filed a complaint with the Prosecutor General's office against a pharmaceuticals company called Rosta, which won the tender for the right to supply medicines in Siberia and the Far East under the new system, for failing to provide the drugs they are required to.

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## ***10 Million African AIDS Deaths Preventable***

A study published in January shows that a combination of wide access to AIDS treatment and national prevention activities could avert 10 million deaths in Africa by 2020.

In the first modeling done of the long-term effects of treatment and prevention on the HIV epidemic in Africa, the Harvard School of Public Health, in collaboration with UNAIDS, UNICEF, the Futures Group, and the Global Fund to Fight AIDS, analyzed the potential impact on the rate of new infections and mortality, if large-scale treatment is used, either alone, or combined with scaled-up prevention efforts.

With no change in current levels of prevention and care, new HIV infections and deaths from AIDS in Africa are expected to continue to rise. The authors of the study estimate that a combination of treatment and prevention could reduce projected new infections by 74%, and projected annual mortality by half, which would mean about 29 million new infections prevented, as well as 10 million deaths averted in total.

## Democrats Take Leadership To Expose Administration Crimes

by Carl Osgood

Congressional Democrats are keeping their promise to provide oversight of the Bush Administration when the GOP-controlled Congressional committees refuse to do so. The Senate Democratic Policy Committee held its second hearing of the year on Feb. 14, the first having been held on Jan. 28 on the Bush Administration's plans for privatizing Social Security. The second hearing, chaired by Senate Democratic Policy Committee chairman Byron Dorgan (D-N.D.) focused on contracting abuses in Iraq, and follows up two earlier hearings held last year, on other aspects of the same subject. Dorgan described the Coalition Provisional Authority, which, for over a year after the U.S. invasion, ruled Iraq, as directly answerable to the Bush Administration. Yet, "judging from a number of scandals involving mismanagement of funds, U.S. taxpayers and the people of Iraq were often not well served."

Throughout the hearing, the leading Democrats concentrated on the issues of State—not partisan jibes—which should be of concern to all patriots, Republicans definitely included.

Senate Minority Leader Harry Reid (D-Nev.), in his opening statement, noted that "when the unemployment rate for young Iraqis still stands at over 50%, when Iraqis have to stand in line for hours for a single gallon of gasoline, when water and electricity are only sporadically available, you begin to have conditions that allow insurgencies to thrive. Many ordinary Iraqis, the 'fence sitters' as some call them, are prone to either join those fighting U.S. forces or at least give aid and support to the insurgents as the quality of their own life degrades." He added that "when we talk about an absence of contracting controls, badly qualified contractors, poor management by inexperienced officials, over-billing and profiteering, corruption, failure to deliver basic services to Iraqis, not only is this wrong and in some cases possibly criminal, but it also contributes to the poor security conditions we found

ourselves in today. . . ." Later, during the hearing, the point was made that the cost of this criminal activity is not just in millions of dollars lost, but also lives, as the insurgency responds to the resultant collapse in basic conditions of life that Reid referred to.

Rep. Henry Waxman (D-Calif.), during his opening statement, noted that while there's been a lot of attention on possible fraud in the UN-administered Oil for Food Program, "we should also be investigating our own administration's conduct." He noted that not one hearing has been held on the successor to the Oil for Food program, the U.S.-administered Development Fund for Iraq "to examine the evidence of mismanagement, overpricing, and lack of transparency. . . ." Waxman also noted reports by the Special Inspector General for Iraq Reconstruction, on the billions of dollars dispensed with almost no accounting at all. Sen. Carl Levin (D-Mich.), taking up the same issue during a hearing of the Senate Permanent Subcommittee on Investigations on Feb. 16, quoted from the report of Paul Volcker, on the UN's management of the oil for food program, which stated that there were abuses in the program, but that it is not known whether *any* of the money got to Saddam, as opposed to "middlemen and corrupt individual Iraqi officials." In fact, Levin noted, most of the money that Saddam got from oil sales came from sales arranged by the U.S. *outside* the sanctions, and therefore outside the framework of the Oil for Food program. And while neither Waxman nor Levin touched further on the program itself, testimony from UN officials and humanitarian organizations throughout the 90's, and almost up until time of the U.S. invasion, shows that, however uneven and burdened with corruption the Oil for Food program might have been, food was purchased with proceeds from Iraqi oil sales and distributed to the population through the government's distribution system.



## Like the Wild West

The evidence presented at the hearing suggested that a lawless atmosphere prevailed in Iraq during the entire lifetime of the Coalition Provisional Authority (CPA). Frank Willis, who spent several months in Iraq in 2003 as the CPA's Senior Aviation Official, described a situation of utter chaos brought about largely by CPA head Ambassador Paul Bremer's own decisions. "As a consequence of our decision to disband the Iraqi army," he said, "security was simply a black hole filled, in part, by private security forces at scandalous cost, or by our armed forces. . . . Lack of security, restricted meetings, difficulty of communication, made every task longer and slower, in short, severely inhibited our ability to do our job." He also noted that Bremer's de-Ba'athification decision stripped Iraqi government ministries of their entire top and many-mid level officials, leaving low-level officials who had no experience in positions of significant responsibility. "This chaos," Willis said, "I have referred to as a 'Wild West.'"

Willis then went through in some detail, the case history of one of the firms that filled the security vacuum, a Virginia-based private mercenary firm called Custer Battles, which he used to illustrate that the inefficiencies characteristic of the CPA were avoidable, despite the circumstances on the ground. In a very short time, Custer Battles went from a firm of uncertain existence and experience to having in hand over \$100 million in U.S. government contracts, including a \$15 million contract to provide security for civilian airline flights into and out of Baghdad's airport. Of course, there never were any civilian airline flights into or out of Baghdad during the life of the CPA. Willis described how, despite working 15 hour days virtually every day, he and his colleagues found it impossible to supervise Custer Battles, to actually see if they were complying with the terms of their contracts. "I believe the 500 or so [people] at CPA headquarters should have been 5,000," he said. This would have made possible effective oversight of not only Custer Battles, but of all contracts let by the CPA in Iraq.

## Evidence of Criminal Intent

The Custer Battles case is, in fact, the subject of a civil suit filed under the Federal False Claims Act in February 2004 by William D. Baldwin, a former employee of Custer Battles, and Robert J. Isakson, a former subcontractor, alleging war profiteering "resulting in tens of millions of dollars of fraudulent damage to the United States. . . ." William Grayson, the attorney for the two men, described some of the more famous scams run by Custer Battles. Besides the Baghdad airport security contract, Custer battles also charged the CPA \$157,000 for constructing a helicopter pad that actually cost \$95,000, and there was also a case in which they appropriated and repainted three forklifts formerly owned by Iraqi Airways, and charged the CPA as if they owned them. They were also paid \$4 million in brand new

\$100 bills for a contract to transport the new Iraqi dinars around the country, cash money that was handed to them directly by Willis from the vault in the basement of the CPA's headquarters.

Grayson made reference to an internal Custer Battles memo, dated Feb 28, 2004 and posted on the website of the Taxpayers Against Fraud Educational Foundation, by the company's "Corporate Integrity officer," a man named Peter Miskovich. Miskovich was in charge of reviewing the documentation regarding Custer Battles execution of the money exchange contract to distribute Iraqi dinars around the country for the purpose of closing it out. However, he found so much fraud, in the form of deliberate over-billing and fraudulent signatures that he could not do that. Invoices were submitted for work not performed, or for amounts substantially more than the actual cost of work that was performed. "Indicated in this report are enormous areas of discrepancies and irregularities that lend themselves to elements of criminal fraud," Miskovich wrote. The documents he had in his position "are prima facie evidence of a course of conduct consistent with criminal activity and intent," he added. Some of the documents in Miskovich's report were provided by Baldwin, who Custer Battles now describes as a "disgruntled former employee."

Grayson said that he and his clients estimate losses of the government to Custer Battles' fraud to be in the tens of millions of dollars. "Yet for more than a year, the Bush Administration has done nothing to recover these ill-gotten gains from Custer Battles, much less bring the wrongdoers to justice." He reported that the Bush Administration has declined to participate in the case, the reason being that the Bush Administration has decided "that cheating the Coalition Provisional Authority was not the same as cheating the United States." There might be another reason, however. "In an interview with two federal agents," Grayson reported, "Scott Custer suggested a different answer: 'Battles is very active in the Republican Party and speaks to individuals he knows at the White House almost daily.'" After all this, Waxman noted that with the Bush Administration not interested in oversight of the money it spends in Iraq, and its attempts to block the lawsuit filed by Grayson's clients, "what you're really talking about is a 'no fraud' zone in Iraq and a 'no fraud' zone wherever the Bush Administration is involved."

Grayson concluded that the fraud alleged by his clients was perpetrated by a company that the U.S. Military hired to provide security services in a war zone. "If that company never has to answer these serious allegations, then perhaps the next fraud will provide the military with bombs that explode before they are dropped, flak jackets made of cheap polyester, empty fire extinguishers, or parachutes that don't open. The False Claims Act was enacted in 1863 because, among other things, contractors back then were selling defective rifles to the Union Army. If Custer Battles can evade this law so simply, it can happen again."

# Rumsfeld Reorganizes Pentagon for Fascism

by Carl Osgood

On May 10, 2003, then-Democratic Presidential pre-candidate Lyndon LaRouche warned that legislation that had just been sent up to Capitol Hill by Secretary of Defense Donald Rumsfeld's Pentagon to allow the Defense Department to rewrite the rules governing its civilian workforce "would be a grave material breach" of the U.S. Constitution, "a leak in the dike which opens the way for the kinds of dictatorial powers assumed by the Adolf Hitler regime on Feb. 28, 1933, powers from which all the principal crimes of the Hitler regime ensued." Almost two years later, on Feb. 14, 2005, that "material breach" bore its first fruit, with the publication in the *Federal Register* of the proposed rules for the National Security Personnel System.

The proposed rules constitute a complete rewrite of the laws that have governed the Civil Service system for the past half-century, and are intended to be a model for the rest of the Federal government. This was long suspected by Federal employee unions and opponents of the legislation in the Congress, but was confirmed by acting Director of the Office of Personnel Management (OPM), Dan Blair, who told reporters on Feb. 10 that the new system "gives us much needed momentum to our efforts to transform and modernize the entire Civil Service." He pointed out that with the DoD's new rules, plus the new rules for the Department of Homeland Security and other agencies to which Congress has granted "flexibilities," "more Federal workers will be covered by reformed and modernized systems than the current general schedule."

Blair and Navy Secretary Gordon England, who together oversaw the writing of the new rules, both argued that the so-called reform is needed so that the Pentagon can hire and retain "the best people," people who expect to be paid and promoted based on their performance, such as is common in the private sector. As such, it replaces the general schedule system with a pay-for-performance system, speeds up the hiring and firing process, and places strict limits on collective bargaining and other union rights. On the union rights, Blair said that the aim of the new system is to "change the paradigm from an adversarial relationship to one that is much more cooperative." Ron Sanders, OPM's Associate Director for Policy, further explained that collective bargaining has been retained at the level of local workplaces only. Under the new rules, any department-wide personnel or policy changes that

effect personnel, no longer have to be subject to collective bargaining. Sanders claimed that this is needed because the present law doesn't allow the department to make changes such as introducing new technologies into the workplace, or to prepare for emergencies.

The American Federation of Government Employees (AFGE), along with four other unions, announced that they would be filing a lawsuit in Federal court to challenge the new work rules. "To call this a 'National Security' system is a joke," said AFGE President John Gage. "If anything, the Rumsfeld plan makes the nation less secure." The unions charge that the DoD did not consult with them, as required by the legislation creating the new system. "Instead of working with the longstanding representatives of the military's loyal civilian employees, the Pentagon apparently would rather duke this out in Federal court," said Gage.

## The Army Gets Hit, Too

Meanwhile, Rumsfeld's transformation of the Army has been proceeding on a parallel track. The Army has borne the brunt of Rumsfeld's military transformation under the pressure of the war in Iraq, as is shown by the Fiscal 2006 budget, released on Feb. 7. Much of the cost of reorganizing the Army into Rumsfeld's vision of a "lighter, faster, more lethal force" is still being funded largely through supplemental budget requests. This includes reorganizing the Army's 33 combat brigades into 43 "modular" brigades and temporarily increasing the size of the Army by 30,000 personnel, to 512,400.

A senior Army budget official, briefing reporters at the Pentagon on Feb. 4, left no doubt that it is the Cheney-Rumsfeld perpetual war doctrine that is behind this reorganization. He explained that the supplemental budget request, which was released on Feb. 14, would cover the military costs of the extra 30,000 soldiers, which the Army describes as giving it the "head room" it needs for its reorganization. The budget official explained that "the investment we would conceivably make in a supplemental would be for a force that's deploying in the battlefield and one that comes back that we would reset, and that means, we fix the equipment, overhaul the equipment, and then prepare them to go back again. . . ." The official admitted that without the war, this kind of reorganization of the Army would not be possible. This reorganization is anything but a temporary expedient however. It's intended to be ongoing, just like the war, itself.

In spite of the supplemental spending, the strain on the Army imposed by the Iraq War is nonetheless affecting its baseline. This is acknowledged by Pentagon plans to add \$35 billion to the Army's baseline budget over the next six years, which will be paid for by shifting money from the Navy and Air Force. This, the Army budget official said, is "acknowledgment and support from the Office of the Secretary of Defense to increasing the capability of the Army, to enhance its capability based on the strategic environment that we're in."

# Bush's Medicare 'Reform' Is Back To Haunt Him

by Mary Jane Freeman

The truth is out: President Bush lied to get his 2003 Medicare Modernization Act (MMA) through Congress. Instead of the much-touted "prescription drug benefit for seniors" costing \$400 billion over 10 years, the administration has revealed it will cost three times that much. The Feb. 8 "news" fueled a furor on Capitol Hill where both Democrats and Republicans reacted with incredulity.

Bush's promise to protect and aid our senior citizens with the Act was empty, as *EIR* exposed at the time; now the hidden costs prove that the MMA was nothing but a boondoggle to fill the coffers of pharmaceutical companies and private insurance companies. Or, as Bush recently put it, "the Medicare reform bill really began to change Medicare as we knew it. . . . It introduced market forces for the first time."

The bill was rammed through a reluctant Congress only after Reps. Dennis Hastert (R-Ill.) and Tom "The Hammer"

DeLay (R-Tex.), seeing they didn't have the votes, held the vote open for an extraordinary three hours (until 6:00 a.m.), so that DeLay could strong-arm Republicans who'd voted against it to switch their votes. What makes the news even more galling, is that Bush, to get the plan passed, assured the nation in his 2003 State of the Union speech—falsely—that it would cost just \$400 billion. The fact that the costs were much greater was known to the White House, as evidenced by its threat to fire the chief Medicare actuary, Richard Foster, who had briefed the White House on that fact five months earlier. To ensure passage of the MMA, he was silenced, since at least 13 conservative Republicans opposed the bill if it were to cost more than \$400 billion. Bush signed it into law on Dec. 8, 2003. Once passage was secured, the White House admitted the cost would be at least \$534 billion.

Most egregious was DeLay's effort to bribe Rep. Nick Smith (R-Mich.), a matter which later came before the House Ethics Committee. DeLay said he would support Smith's son who was running for Congress to replace his father, if Smith would vote for the MMA. "I will personally endorse your son. That's my final offer," Smith reported DeLay telling him. There were also unconfirmed offers of a \$100,000 campaign contribution. Smith didn't support the bill and his son lost the Republican nomination.

The same clique of neo-conservatives leading the charge to dismantle our Social Security system and transform our

## MMA 'Clawback' Wounds States' Finances

For years, the states have asked the Federal government to help pay for the medical costs of their indigent elderly population, especially those in need of long-term or nursing home care. Instead, the Bush Administration sucker-punched the states with its "Medicare Prescription Drug, Improvement and Modernization Act of 2003," (MMA). Not only does the law give billions of dollars away to private for-profit HMOs, insurers, and employers; it forces states to subsidize all this "into perpetuity"!

Most people, including state elected officials, don't understand how this financing scheme will work, nor how much it will cost the states.

The law increases each patient's Medicare Part B premiums (which cover physician care) by 17.42%, from \$66.60 a month in 2004, to \$78.20 a month in 2005. For those elderly individuals who are indigent and covered by their states' Medicaid program, Medicaid pays that premium. These individuals are called "dual eligibles" because they qualify for both Medicare and Medicaid.

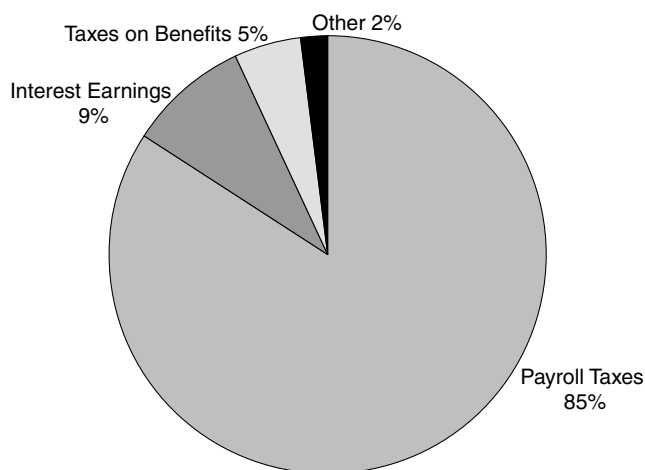
States will be required to pay a "maintenance of effort"

fee, to cover the costs of the Federal government's providing prescription drug benefits for dual-eligible beneficiaries who enroll in the MMA's plan when it goes into effect in January 2006. That is, these indigent elderly and disabled will no longer receive Medicaid coverage for medications. States will no longer provide prescription drug benefits; *but* they will be required to pay 90% of the estimated prescription drug expenditures for dual-eligible people that their Medicaid coverage had paid, before the new law. Thus, states will be financing a large chunk of the Medicare drug benefit with monthly payments to the Federal government. This is considered a "maintenance" fee for Washington assuming medication coverage for these people.

By 2015, the amount states pay will go down to 75% of the total costs for this population. They will have to pay this 75% "into perpetuity" as the National Conference of State Legislators told *EIR*. This is the infamous "Clawback" provision or, the Phased-Down State Contribution—the costs of which are yet undetermined; no details have been released from the Federal government. If a state fails to pay the "clawback," the MMA requires that the Federal government simply deduct that amount, plus interest, from the amount it owes the state in Federal Medicaid payments.

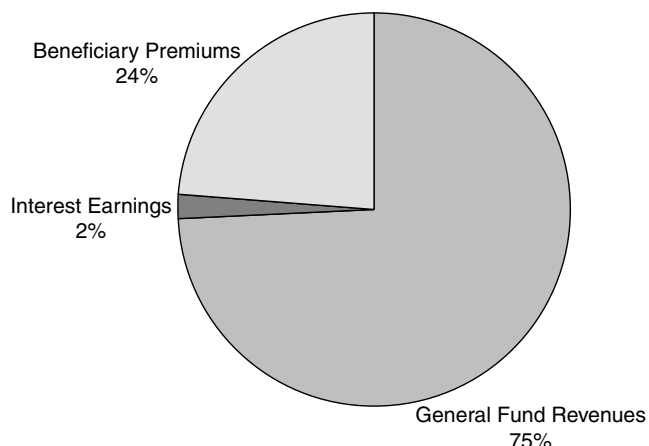
—Linda Everett and Mary Jane Freeman

FIGURE 1  
**Medicare Part A: Income Sources as of 2003**



Sources: *EIR*; Trustees' 2004 Annual Social Security and Medicare Trust Fund Report.

FIGURE 2  
**Medicare Part B: Income Sources as of 2003**



Sources: *EIR*; Trustees' 2004 Annual Social Security and Medicare Trust Fund Report.

military, are the ideologues who drafted and promoted the MMA. Three key moving forces of the Act were Newt Gingrich, Vice President Dick Cheney, and the Heritage Foundation. Gingrich, then head of the Institute for Public Policy at the American Enterprise Institute (AEI), worked on Medicare and health policy reform, pressing for private healthcare schemes. AEI aided in drafting the Medicare bill. Cheney, the *Wall Street Journal* revealed the day after Bush signed the bill, worked with Gingrich behind the scenes, to “goad members of the House and Senate to come together” on passing the bill. Heritage, then as now, played the role of propagandist for scare tactic warnings that Medicare was soon to be bankrupt and therefore needed reform; i.e., to be privatized.

### Medicare Before and After MMA

Medicare was established in 1965 as an adjunct to the Social Security Act, providing medical insurance for America’s elderly citizens. Today, the program provides health insurance to 40 million-plus senior citizens to aid in paying for doctor and hospital bills. This New Deal-styled legislation has added to the longevity of our elders, a fact disliked by conservative revolutionaries such as Gingrich who has advocated a 20% reduction in medicine use by Medicare enrollees in their last years of life to cut costs. This is because they “consume 50% of [Medicare’s] expenses,” he told an AEI conference in August 2003.

Before the passage of the MMA, Medicare had two principal divisions and two funding mechanisms. Part A pays for hospital services, skilled nursing facilities, home health care, and is a trust fund. It is financed primarily (85%) by a payroll

tax on covered earnings. Employees and their employers each pay 1.45% of earnings, and self-employed workers pay 2.9% of net income. Interest income from securities held in the trust fund is also included. A small percentage of the income derives from taxes on benefits. (See **Figure 1**.)

From Medicare Part B, payments are made to physicians and for other health professional services, as well as to managed care plans, and for the administration of Medicare. Part B’s main source of income (75%) is Federal general revenues, while most of the remainder (24%) comes from premiums paid by Medicare beneficiaries. (See **Figure 2**.)

With the passage of MMA, a new division was added, Part D. It was euphemistically labelled the “Prescription Drug Benefit” plan because it adds Medicare coverage for some drugs—something Medicare did not do. Funding for Part D expenditures, starting in 2006, will come mostly out of general revenues and beneficiary premiums and co-pays, as Part B does. One provision, however, will require the states to kick in funds. (See box.) Coverage for prescriptions for seniors could be a very important aid. But the MMA, as Florida’s *Palm Beach Post* put it, “is . . . this century’s most overhyped and deceptive legislation.” It is a “reform” bill that would not offend special interests that donate to the GOP,” the paper surmised.

Indeed, the MMA provides subsidies to private insurers and HMOs; it has a slush fund to pay businesses to retain coverage of retirees; and most incredibly, drug companies got a gift from its express prohibition of bulk purchase bargaining for drugs. So, not only will seniors have to pay full retail prices for medications, but the MMA also requires co-pays and deductible payments such that, of the first \$5,000 cost, a

## 'They Haven't Thought Of 2006 at All'

*EIR* spoke with Mississippi State Rep. Credell Calhoun (D-68th District) on Feb. 2 during the legislative battle in the state to re-instate about 50,000 people who, except for a court order, would have been thrown off Medicaid last year by Gov. Haley Barbour. These individuals in the Poverty Level Aged, and Disabled group (PLAD) have renal failure, five chronic medical conditions, cancer, heart disease; their income is just over the Federal poverty level. They account for 54% of prescription drug costs in the Medicaid budget, but the aged among them are "dual eligible" for Medicare as well (see box on "Clawback"). Next Jan. 1, under the Medicare Reform Bill, Mississippi will have to pay, to the Federal government, their increased Medicare prescriptions premiums as well. Now, as Mississippi legislators debate their future again, the disabled people and their families have been protesting in Jackson and calling their representatives.

Asked what is at stake for those in the PLAD program, Calhoun said, "A lot of these people are on dialysis, or in

nursing homes, and things of that nature. They will be kicked out, without doubt. If Medicaid won't be paying, relatives won't be able to get care for them. It'll be difficult for their whole family. We hope we can solve it. Its very difficult to cover the costs of dialysis and certain amenities that go with the Medicaid program, like transportation. Yet, everything's on the table [for cuts]." Without Medicaid for the PLAD group, "People are going to die," Calhoun warned.

*EIR* asked if legislators are seeing this battle as something larger than Medicaid, involving the entire national economy. "No, they don't know that," he replied. "Some of them are just following Haley Barbour. And some of them don't care yet. It's going to hit them, and it's going to hit [President] Bush, when that Medicare prescription drug law takes effect next year. I don't think a lot of people are going to be getting care when that law takes effect. Medicaid won't be able to pay for the increased premiums. We don't really know what the costs to the state will be. The legislators have been struggling so hard to find a way out of this crisis, that they haven't considered 2006 at all."

"We know there will be fallout, but they don't care; some Republicans don't seem to give a damn," said Calhoun. But I hear everyday now, that they are not going to support Barbour again."—*Linda Everett*

beneficiary will pay 75% out-of-pocket before full coverage kicks in.

As of 2002, the Medicare Trust Fund was projected to be solvent with a surplus until at least the year 2030, even with a large portion of the Baby Boomers hitting retirement age by then. But with the appointment of Thomas R. Saving as a Trustee to the Social Security and Medicare Trust Funds—he was described by CATO Institute's Social Security Privatization Project executive director Michael Tanner, as "the real hero of the [privatization] revolution"—with skyrocketing costs of health care and prescription drugs, and with the added costs of implementing Bush's prescription drug swindle, that solvency is now projected to vanish by 2019. Saving rants, "the financial problem of Medicare is five times as great" as the alleged Social Security "crisis."

In a message included with the 2004 Annual Report of the Social Security and Medicare Boards of Trustees, it is reported, "the projected financial status of Medicare has taken a major turn for the worse since last year's reports." The trustees assert that the increase in the deficit in the Part A (Hospital Insurance) trust fund is "mainly due to higher actual and projected hospital expenditures, as well as lower actual and projected taxable payroll, and *new Medicare legislation*" (emphasis added). So, clearly, the Feb. 8 revelation was no surprise to the trustees. It's just that Bush didn't want to tell

Congress and the American people.

There is a long-term solvency problem, but it cannot be solved in a "budget" context. Rather, we must step out of the box and think big, as President Kennedy did when he mobilized the nation to get to the Moon. Health care in a productive, growing economy is integral to the functioning of such an economy. Under such conditions, public health becomes a priority. For example, adequate immunization programs will lead to fewer hospitalizations and thus lower these costs. In a productive and scientifically advancing economic environment, new medical technologies will not be limited by HMO gate-keepers. A case in point was the development of MRI scanners, in the late 1970s, which were to be an aid to doctors in *preventive* care, because early detection of a disease can lead to considerable cost reductions.

### Will Congress Repeal MMA, or Gouge Medicare?

Reacting to the Bush Administration's latest cost revelations, both Democrats and Republicans raised their voices. Sen. Diane Feinstein and Rep. Nancy Pelosi (both D-Calif.) each called for re-opening the 2003 MMA, due to the huge cost increase. Feinstein said, "the Senate Finance Committee should investigate the process used to estimate the cost of the bill." Pelosi demanded, "Congress must have oversight

hearings on the Republican Medicare prescription drug law, and reopen it to hold down costs,” adding that “an ethical cloud has hung over” the law since it was “passed in the dark of night.” Sen. John Kerry (D-Mass.) greeted the news by saying, “If the numbers don’t add up for Medicare, how can we be sure they will add up for Social Security?” House Minority Whip Steny Hoyer (D-Md.) said, “The President’s credibility is in tatters when it comes to cost estimates.”

Democratic Senator Mark Dayton (Minn.) has introduced a bill, “Meeting Our Responsibility to Medicare Beneficiaries,” (S.18.IS), which would phase out the nearly \$4,000 out-of-pocket “gap” put into Bush’s bill, which is to be paid by the senior beneficiaries who are covered. Senator Kent Conrad (D-N.D.), along with 11 other Democrats, introduced a bill to rescind the \$10 billion fund which the MMA created to “entice” private insurers, i.e., HMOs, into offering coverage to Medicare seniors.

As for Republicans’ reaction to the ballooned costs “news”—many of them did not initially support the bill, but succumbed to DeLay’s heavy-handed tactics—they too are rethinking the bill. Sen. Judd Gregg (R-N.H.) demanded that Congress revisit the MMA prescription drug plan, to limit its decade-long costs to the \$400 billion price tag Bush put on it to get it passed. Senator Trent Lott (R-Miss.) spoke of revising the bill so as to cut “middle- and upper-income” seniors from getting the drug benefits. One must take caution with the “cut costs” initiatives as they will translate into benefit caps and/or cuts, to the detriment of the very senior citizens Bush declaims he’s out to protect.

In the House, Rep. Gil Gutknecht (R-Minn.) said he will seek the repeal of the drug benefit provision. He, like many Democrats, objects to the provision that forbids Medicare officials’ negotiating with drug companies for bulk discounts on drugs. “We have got to deal with the cost of drugs. We have got to force the drug companies to play by some set of rules that is fair to everybody,” Gutknecht said.

The President, in turn, reacted to all this: “I signed Medicare reform proudly, and any attempt to limit choices of our seniors and to take away their prescription drug coverage under Medicare will meet my veto.” But Bush’s bluster met reality in a Feb. 11 statement issued by Senate Democratic Leader Harry Reid of Nevada. “Make no mistake, the President’s blanket veto threat is designed to protect only special interests—the big drug companies and HMOs his flawed bill gave billions to in the new law.”

It seems the strong-arming used to get the MMA passed is now coming back to bite Bush.

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## Book Review

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# Gold and Treason

by Anton Chaitkin

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### **Rebel Gold: One Man’s Quest to Crack the Code Behind the Secret Treasure of the Confederacy**

(Previously published as *Shadow of the Sentinel*)

by Warren Getler and Bob Brewer

New York: Simon and Schuster, 2004

304 pages, paperback, \$12.00

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Today’s reading public is understandably receptive to a highly entertaining book about elite-managed terrorism and giant looting schemes. Getler and Brewer’s *Rebel Gold*, a treasure-hunting non-fiction mystery tale, carries a haunting historical metaphor for the current deadly struggle over mankind’s fate. The book shows the American Republic as the target of an imperial assassination initiative called the Knights of the Golden Circle, the core of the Southern slaveowners’ Confederacy, before, during, and after the American Civil War.

Brewer, a technically-sharp Navy veteran returning home to Arkansas’s Ouachita Mountains, investigates childhood suggestions from elderly family members about buried treasure. There are puzzling signs inscribed on rocks and trees in the area. He does find some valuable stashes, worth thousands of dollars. It begins to appear that his own family were guardians of the buried loot of the Knights of the Golden Circle (KGC), passing this role of secret sentinels through the generations into the 20th Century.

Brewer and journalist Getler relate Brewer’s search across the U.S.A. for the identity of the buriers, and for the ultimate big stashes. Readers meanwhile go on a well-researched tour of criminal intrigue and treason.

### **The Knights of the Golden Circle**

The Knights of the Golden Circle are generally known as a paramilitary movement beginning about 1853, which aimed at breaking up the Union and creating a feudalist, slave empire extending across Central America and the Caribbean. President Lincoln countered the KGC as saboteurs within the Union, and as terrorists based in the then-British colony of Canada.

Getler and Brewer present the Knights as a conspiracy,



Reviewer Anton Chaitkin, at the microphone, demonstrates against the Albert Pike Statue in Washington's Judiciary Square, in 1992. Foreground: civil rights leader Hosea Williams.

first, around 1830, centered in the South Carolina nullifiers' secession threats; evolving through the 1840s Young America movement, "allied with European radical movements led by Giuseppe Mazzini"; through the secessionism built up under Presidents Franklin Pierce and James Buchanan; to the murder of Lincoln; to digging and guarding in hundreds of underground depositories, the financial resources for a renewed war against the U.S.A. upon some future opportunity (as in, "The South Will Rise Again").

We see the partnership of two arch-conspirators from Massachusetts, Caleb Cushing and Albert Pike, and the use of Scottish Rite Freemasonry as a vehicle for covert action and for the mumbo-jumbo of the treasure secrets. The authors have taken (and acknowledged) some of their cues, as for Cushing and Pike, from this reviewer's work, including the 1985 book, *Treason in America: From Aaron Burr to Averell Harriman*.

In *Rebel Gold*, Scottish Rite chief Pike is the architect of the Knights, along with their later front group, the Klu Klux Klan. Pike is the Confederate army and KGC master manipulator of Indian tribes who fought against the Union, and likely an instigator of the Indian wars of the 1880s.

Some action revolves around Pike's own Arkansas residence, not far from Brewer's home. Researchers may wish to look further into certain leads which overlap the work of

Stanley Ezrol on the later Nashville Agrarians (*EIR*, Aug. 3, 2001), who prefigured fascism and our present Straussians/Cheneyacs/neo-conservatives.

*Rebel Gold* stirs the reader's historical imagination by giving many likely sources for the supposed hidden treasure:

- Confederate Secretary of State Judah P. Benjamin sent gold to England during the Civil War. He later fled to England, concerted there with Chief Baron of the Exchequer Frederick Pollack, and prepared to smuggle finances back to America.
- The Confederate Congress (Feb. 15, 1864) appropriated \$5 million for the use of Confederate terror managers such as George Sanders and Thomas Hines, stationed alongside the British military in Canada.
- This Canada gang raided banks in the Northeastern United States.
- Bandit leader Jesse James, portrayed as a post-Civil War KGC field commander, robbed banks, trains, and stage coaches, with aid from Wall Street accomplices. The James mystery gives the authors many strands to weave together elements of the book, across two centuries.
- The Hapsburg Maximilian, imposed as ruler of Mexico by invading European imperialists during the American Civil War, is reported to have paid a substantial sum to Jesse James.
- The book quotes from an earlier study of Jesse James: "this secret organization [in the U.S. West] was financed mostly by a foreign government to make regular espionage reports on the United States outpost forts, from 1865 to 1892. . . ."

We are gripped by even the most technical passages, on deciphering the messages and maps, right up to the climax in Arizona's Superstition Mountains.

There is an Epilogue, an unsuccessful attempt to link the Knights to Rosicrucianism and complex European mystical legends. Since it lauds these Masonic antecedents as liberal and freethinking, it could be seen as the authors' polite gesture to the anti-human oligarchy—whom they have just smartly slapped in the body of the book.

The story has popular appeal at this historic moment. We are threatened by bankrupt financiers, using their hired, often Southern, politicians to loot pensions and other potential revenue streams. They project unending military adventures, terror and counter-terror, and plunder.

To avert financial collapse, they would tear up the Constitution and the sovereign republic. They rage against the legacy of Lincoln and Franklin Roosevelt, who blocked financiers' power, built high-wage industry, and inspired the world with America's advanced living conditions.

These are the European and Anglo-American lordly banditti who have fought against the *project* of the American republic over many centuries, continuing an exercise of power and venom against Promethean ideals from ancient times to the modern era.

*Rebel Gold* gives the reader a little glimpse of that universal history,

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## The Fraud of Bush's 'Pro-Nuclear' Policy

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*The contrast between the Chinese program to build the next generation of nuclear plants, and Bush's energy plan, shows the "pro-nuclear" label to be a fraud. Nancy Spannaus reports.*

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Speaking at the Detroit Economic Club on Feb. 8, President George W. Bush took a brief side-trip from his continuous litany about Social Security privatization, and talked about the need for a national energy plan. He said: "And that plan must modernize the electricity grid, and it must encourage conservation, and it must encourage increases in domestic production. And we can do so in an environmentally friendly way. We're spending money—and important money and good money—on new technologies such as clean coal technologies, and ethanol, and hybrid and fuel cell vehicles. I believe that we ought to expand the use of safe and clean nuclear power. And I think we ought to allow for exploration in environmentally responsible ways in the Arctic National Wildlife Refuge."

Some advocates of nuclear energy have desperately grabbed onto this statement to reinforce their hope that the Bush Administration will finally ditch the anti-nuclear hysteria of the past decades, and embark on what they call a "nuclear renaissance."

What a delusion! What a fraud!

The fraud was writ large by a front-page article that appeared the same day as Bush's speech in London's *Financial Times*, under the headline "China Claims Nuclear Power First As It Selects Site for Pebble Bed Reactor." That article, backed up by an extended feature about China's nuclear program, accurately described China's drive to develop the world's first commercially operated version of a revolutionary nuclear design which would be "meltdown-proof," and

provide the basis for cheap, safe, and massively expandable nuclear power generation worldwide.

The contrast between the Chinese commitment to the frontiers of nuclear technology, and the U.S. program couldn't be greater.

### The Bush 'Energy Program'

The very mention of the Bush energy program brings three subjects to mind: first, the Enron scandal; second, the Energy Taskforce run by Bush's svengali, Vice President Dick Cheney; and third, the Iraq War. The smell is overwhelming: What is being produced is not energy, but corruption.

In this case, that smell is a fairly accurate guide. The major focus of the Bush energy policy has been to permit the leading oil and gas companies, and so-called energy companies like Enron—most of which were major political contributors to his political campaigns—to make more money. The primary thrust has been deregulation, whose implementation had the well-known results of 2001, with the massive running up of electricity prices in California and the other West Coast states, the ripping off of small investors in companies such as Enron, and the subsequent exposé of the financial frauds and looting by these companies. The fact that Enron's bubble burst, and its management is now on trial, has not changed that fundamental thrust.

Even as the Enron scandal blew up in 2001, the Bush Administration and former Halliburton CEO Dick Cheney



continued to push for an energy bill whose main feature was deregulation. Despite all the muscle that House Majority Leader Tom DeLay (R-Tex.) and Cheney himself were able to deploy in Congress over the next few years, the Bush energy bill has not been passed.

But, thanks to Freedom of Information suits going after the secretive Cheney Energy Taskforce, more information about the Administration's energy plan has been revealed. Documents obtained in July 2003 from a lawsuit filed by Judicial Watch against the Energy Taskforce featured maps, dated March 2001, of Iraqi oilfields, pipelines, refineries, and terminals, as well as "exploration blocks." The documents also contain a listing of "Foreign Suitors for Iraqi Oilfield Contracts"—none of which at that point were U.S. companies. The documents included similar maps and charts for Saudi Arabia and the United Arab Emirates. Not surprisingly, the publication of these maps (including in this magazine) raised the question of whether the war in Iraq was not an integral part of the Administration's "energy plan."

### The Question of Nuclear Energy

As reflected in President Bush's Detroit speech, the nominal position of the Administration is to expand the use of nuclear power, the most efficient source of power for a modern, advancing economy, but one that has been blacklisted by the malthusian mafia within the industrialized world for the past 20-30 years. This goal, of course, comes within a laundry list of other programs, including boondoggles for the grain cartels such as ethanol.

While the overall Bush energy bill has not passed, its objectives are known, and they do not include anything like the 20-plus-year perspective of the Chinese government, for large expansion of nuclear power, or even ambitiously accelerated development of the next generations of nuclear reactors, on which much work has been done.

There have been changes in nuclear policy carried out through the budgets adopted in the last few years. But the primary development in the nuclear industry was that accomplished by deregulation: the buy-up of a dominant portion of the existing 103 nuclear plants in the United States by three energy giants: Exelon, Entergy, and Dominion Resources. Exelon, a company formed by the merger of the holding companies for Commonwealth Edison and the Philadelphia-area utilities, is the nation's largest owner and operator of nuclear plants, and is planning to purchase at least 3 more, bringing its total to 20 out of the 103. These companies have been successively relicensing the aging nuclear stock, which is generally operating safely and well.

Such a concentration of ownership of this vital resource could well represent a danger to the energy supply of the nation, should these companies—at least one of which, Entergy, is known to be politically close to Bush—decide to go for the quick buck. Exelon, as of 2001, was a 12.5% partner in the Pebble Bed Modular Reactor project in South Africa,

but pulled out in April 2002. Clearly, the Enron example should be a warning to all.

But, so far, the big companies have continued with electricity production, and have put their major efforts into lobbying the Department of Energy for more streamlined licensing procedures for building new plants in the future, and for Federal government funds in order to build at least one nuclear plant by the year 2010.

In February 2002, the DOE announced a Nuclear Power 2010 Initiative, with the goal of building that one plant, by either the end of this decade, or the beginning of the next. The point is to demonstrate that a new nuclear plant can be built in the United States on time and on budget, and for that reason, the Congress has appropriated monies toward paying for half the cost of siting and licensing. Three nuclear consortia are preparing proposals for the Nuclear Regulatory Commission, in the hopes of getting the contract to produce this plant.

What a contrast! Here the Chinese are putting major resources into building a whole new generation of advanced reactors, on top of purchasing regular light-water reactors off the shelf, and developing their own conventional reactors, and the big pro-nuclear policy of the Bush Administration is to build *one*.

The DOE has put research monies into advanced systems research, as well, including a variety of high-temperature reactor designs, breeders, and multipurpose reactors. There is also a program called the Nuclear Hydrogen Initiative, which aims to demonstrate the commercial-scale production of hydrogen using nuclear energy. But, as you can see from the story of the Fast Flux Test Facility (FFTF) included below, even the commitment in this direction is half-hearted, at best.

### A New Dark Age

Most telling about the Bush Administration nuclear program, however, is its policy toward nations such as China, South Africa, Brazil, and Iran, which are in the process of committing major resources to develop the full fuel cycle for nuclear energy. The policy is firm: No country that is not already a nuclear-weapons state should be allowed to have access to nuclear technology, period. They should not have the science, they should not have the scientists, they should not have the capability, to develop the most efficient, clean, powerful energy source man has yet produced.

Back in the 1970s, the LaRouche-sponsored Fusion Energy Foundation did a study estimating that millions of Africans had already died due to the lack of economic growth caused by the denial of nuclear energy to that continent. Today, that denial policy continues with a vengeance, including threats of obliteration, as the Iraq example shows without a doubt.

The world does need a nuclear renaissance, in the spirit which the Chinese have adopted. But a close look at the Bush Administration shows that it is an obstacle, not a stimulus, to that urgent mission.

# China's 21st-Century Nuclear Energy Plan

by Marsha Freeman

The People's Republic of China is implementing an energy program which will bring online as many as to 30 new nuclear power plants over the next 15 years, and which has put China in the forefront of world research and development in nuclear science and engineering. This effort stands in stark contrast to the situation in the United States, where the Bush Administration's "pro-nuclear" energy plan is to try get *one* new commercial power plant built over the next decade, and to delay development of advanced reactor systems—some of which the U.S. tested decades ago—into the indefinite future.

The Chinese economy has been growing at an average rate of 8% per year, with electricity demand growing twice that fast. The Ministry of Electric Power has estimated that 15-20% of China's present energy demand cannot be met, and that 100 million Chinese have no access to electricity. Last year, China's State Electricity Regulatory Commission warned that the situation was worsening, as the country faced, in the Summer of 2004, a shortfall twice as large as that of the year before. To keep up with its rate of economic growth, China estimates that it will have to double its electric-generating capacity every decade. At 385,000 MW (megawatts) of current online capacity, China has an electric grid system second only to the United States.

Simply expanding the use of coal to meet this growing demand is not an option. Already 40% of China's railroad capacity is dedicated to hauling more than 1 billion tons of

coal per year (two-thirds of China's energy is produced from burning coal). Although China is the world's sixth-largest producer of petroleum, it now imports one-third of its oil. As far back as the late 1970s, China knew it had to go nuclear; now it is systematically carrying out the multifaceted program that will make it a world leader in nuclear energy technology.

## China Goes Nuclear

China's multi-pronged nuclear strategy follows the same strategy as its program in space exploration. First, rather than reinventing the wheel, China has imported commercial power plants from Russia, France, and Canada, to have the immediate benefit of nuclear energy, and to train its own cadre of engineers and operators. Today, China has nine reactors operating and two under construction, with nuclear energy accounting for about 2% of its total electricity output.

In the late 1990s, as the large-scale construction of nuclear plants was under way, Chinese officials were already planning for the 21st Century. China plans to choose one reactor design (and supplier) for its next group of nuclear plants, to enable it to standardize its nuclear operations, rather than continue with the widely varying designs now in place, from different suppliers. The goal is to have an increase of nearly sixfold in nuclear capacity, up to 40,000 MW by 2020, from 8,700 MW today. Due to the size of China's electric system, even this aggressive effort will bring nuclear's share up to only 6% of installed electric-generating capacity. This program requires that at least two new reactors come online each year, over the next 16 years. By 2050, China plans to have 150,000 MW of nuclear capacity, equivalent to 150 large power plants. There are about 440 nuclear reactors today, worldwide, and 103 in the United States.

Critics of all political persuasions have insisted that such "breakneck" speed in nuclear power plant construction cannot be achieved. John Moens, an analyst at the U.S. Department of Energy, begged to differ. On Jan. 15, he told the *New*



*China's high-temperature gas-cooled pebble bed reactor (HTR-10) in Beijing. Right: Scientists at Tsinghua University power up the reactor for testing in December 2000. The reactor design is considered "inherently safe."*



*York Times*: “In 1970 we had a net capability of 7 million kilowatt hours [of nuclear generating capacity in the U.S.], and by 1981 we had reached 56 million kilowatt hours. So the rate of growth [the Chinese] propose is not only conceivable, it has been done before.”

According to officials from the China National Nuclear Corporation (CNNC), the decision has not yet been made as to how many reactors in the next group of imported plants will incorporate the newer, recently licensed next- or third-generation technology, and how many will use the current-generation designs, with “some improvements.” CNNC estimates that for quick expansion, the most efficient approach is to add more plants at existing sites, using the same reactor design as the operating units. More advanced, next-generation reactors will likely be chosen for new power plant sites. This program is of such national priority that, according to *China Business Weekly*, delegations which included Chinese President Hu Jintao have been visiting existing and potential sites for nuclear plants, along China’s coastal areas.

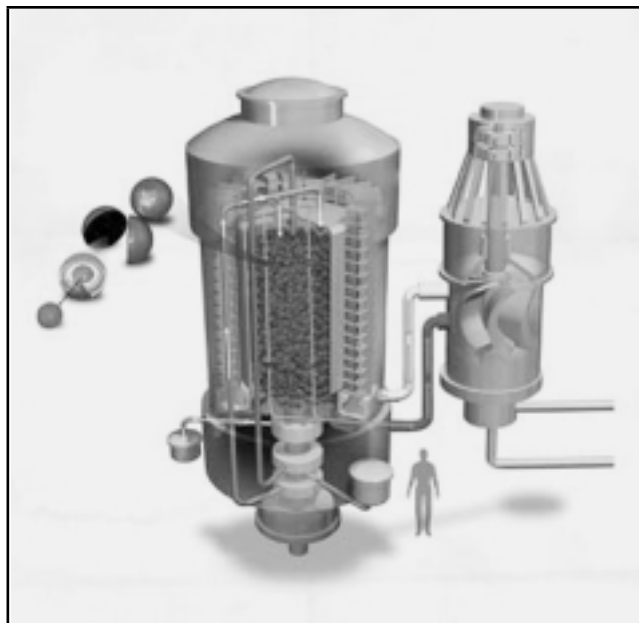
In July, the government approved the construction of four nuclear plants, and in September, CNNC director Yu Jianfeng said during an interview at the World Energy Congress in Sydney that China will soon award an \$8 billion contract for the four nuclear reactors, with work to begin 2007. Each set of two reactors will be located in Guangdong and Zhejiang provinces, which have been suffering from power shortages, and are expected to come online in about 2012. Yu said that about 70% of the equipment for the reactors will be Chinese-made.

China has invited Westinghouse, French-based Areva, and Russia’s AtomStroyExport to bid on the first four plants. In September 2004, the government also approved construction of another four reactors.

As a second aspect of its overall effort, at the same time that China has been importing commercial-scale nuclear plants to add to its electricity grid, domestic programs have been under way to develop indigenous conventional nuclear power plant designs, in order to give China an independent production capability for domestic use, and also for export. The 300-MW reactor at Qinshan, designed in China and built with 70% of its components produced domestically, began operation in 1991, and helped create a Chinese nuclear industry. In Phase II of its domestic R&D program, two 600-MW indigenously developed reactors were installed at Qinshan, and became operational in April 2002 and May 2004.

In July 2004, Ye Qizhen, chief designer of the second phase of the Qinshan nuclear project, and a member of the Chinese Academy of Engineering, said that Chinese engineers could “easily develop” a 1,000-MW-class reactor, based on the 600-MW design, if they introduced foreign-developed design software. *China Business Weekly* reported in February that China plans to build its 1,000-MW reactor before the first foreign third-generation nuclear reactors are built, around 2012.

China’s program to develop its own nuclear power plant



Sources: Andrew Kadak, MIT; Institute of Nuclear and New Energy Technology, Tsinghua University; World Nuclear Association.

*A schematic of the pebble bed reactor. Thousands of billiard ball-sized fuel pebbles power the reactor, each coated with impermeable silicon carbide and packed with 15,000 tiny uranium dioxide flecks, each of which is encased in its own silicon carbide shell. The pebbles flow through the reactor vessel, heating helium gas, which in turn flows into the water-cooled conversion unit and pushes a turbine (right), generating electricity. The gas then cycles back to the reactor vessel to be reheated.*

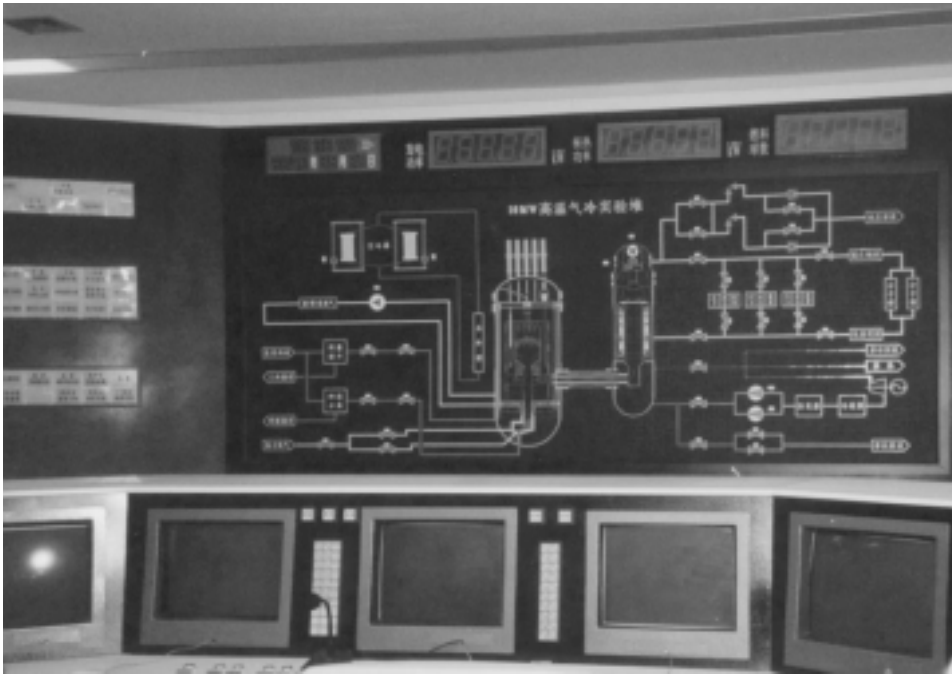
production infrastructure is aimed at export, as well as domestic deployment. In 1999, the Chashma-1 nuclear reactor became operational, 167 miles south of Islamabad, in Pakistan. The 300-MW reactor had been completed with help from China. In 2004, China’s First Heavy Industries Company won a public bid to supply the Chashma-2 reactor’s pressure vessel, which will be built in Dalian and completed in 38 months.

The international nuclear non-proliferation mafia has tried to bully China into reneging on the latest Pakistan nuclear plant project, but since that reactor will be under the inspection regime of the International Atomic Energy Agency, and the U.S. is eager to procure at least part of China’s \$8 billion construction program, no threats have yet been made.

### **Versatile High-Temperature Reactors**

A third facet of the program, occurring at the same time that the Chinese are importing commercial nuclear plants, and developing their own capacity to build and export them, is the research and development program in which China is engaged, intended to push forward on the next-generation nuclear technologies.

Energy produced from the fission of nuclei is typically



*The HTR-10 control room in at Tsinghua University. The HTR is the leading edge of China's long-term nuclear program, which includes also the import of conventional fission plants, and the development of indigenous production capability for domestic use.*

captured as heat and used to boil water for turbine-generator sets to produce electricity in a power plant. This is the least efficient use of the energy from nuclear fission: Two-thirds of it is wasted in the thermal-to-electricity conversion process.

If the temperature that can be extracted from a nuclear reactor is higher, in the 800-1,000°F range—perhaps three times that of a conventional reactor—that higher-quality heat can be used to produce hydrogen from water to be used for fuel, direct electrical production, and desalination.

China started a high-temperature gas-cooled reactor research and development program in the 1990s at Tsinghua University in Beijing, often described as China's MIT. Tsinghua also has a very active space engineering program, and has designed satellites and space experiments.

A \$30 million, 10-MW high-temperature gas-cooled pebble bed reactor (HTR-10) began construction in 1995, and started thermal testing in December 2000. In 2003, the reactor was incorporated into the power grid. In the Fall of 2004, Chinese scientists proudly displayed their HTR-10 to an international group of nuclear experts, and carried out a demonstration, showing that it is "passively safe." In other tests, the coolant for the reactor has been switched off, and it cooled down by itself.

The "pebbles" in the reactor are the 27,000 graphite billiard-sized balls that enclose the fissionable uranium, insulating each particle and dispersing the fuel. Instead of circulating water, with its miles of pipes, the reactor is cooled by the circulation of helium gas, which can withstand higher temperatures. The reactor does not have to be shut down for refueling, since the spent fuel balls can be automatically removed, and new ones inserted.

China is not the first country to build or test this advanced-

design high-temperature reactor. Rudolf Schulten designed a pebble bed high-temperature gas-cooled reactor prototype that was built in what was then West Germany, in 1985. The United States also had a high-temperature test reactor in that period, in Colorado. But anti-nuclear hysteria and the decline in energy growth, due to growing depression economic conditions in the past 30 years, left those, and other, experimental reactors, shuttered or dismantled.

In the mid-1990s, the government national utility company of South Africa licensed the German pebble bed reactor design and has been developing a prototype modular small reactor. China chose Tsinghua University to be its center for the development of the technology.

China plans to have a full-scale 195-MW version of its HTR-10 on line by the end of this decade, at an estimated cost of \$300 million. Half of the financial stake in the joint venture building the plant has been taken by one of China's largest electricity generators, Huaneng. Concrete will be poured in the Spring of 2007.

China's nuclear industry plans to sell these 200-MW-sized reactors to utilities and in rural areas as modules which can be mass-produced and assembled quickly, with additional modules grouped together as electricity demand grows. Wang Yingsu, an official of Huaneng, told the *Financial Times* during a recent tour of the HTR-10: "If it succeeds, we can then spread this technology both at home and to the whole world."

Some policymakers are concerned that China may make progress in its space program fast enough to send their citizens to the Moon before George Bush's go-slow Moon-Mars mission gets the United States back there. In the nuclear field, China has already pulled ahead.

# Save the Fast Flux Test Facility! The United States Must Go Nuclear

by Marjorie Mazel Hecht

One day in the next three months—unless we stop it—engineers will drill a 1-inch-diameter hole in the reactor vessel of the premier U.S. advanced nuclear research reactor, the Fast Flux Test Facility (FFTF) in Hanford, Washington. The sodium coolant will be drained out through the hole, and the reactor will be permanently disabled.

This deliberate sabotage of the U.S. nuclear research capability exposes President Bush's alleged pro-nuclear policy as a sham. The FFTF is a world-class nuclear research reactor, necessary for testing fuel and components for advanced nuclear breeder and fusion reactors, producing medical isotopes, and expanding our knowledge of neutrons.

The FFTF was conceived in the 1960s and built in the 1970s, to serve what was then assumed to be a nation whose future energy supply would be provided by advanced nuclear technologies. Its signature capability—production of fast neutrons—makes it crucial for understanding nuclear processes and creating more efficient future fission and fusion reactors. Although the FFTF performed flawlessly for ten years, it was put on death row in 1990, when the Department of Energy (DOE) ruled that it should be shut down, because there was no “long-term” mission to justify its operating costs (about \$100 million per year).

The FFTF is America's energy future. Nuclear is the only alternative to oil-dependence. Without it, we cannot sustain the United States or the world population. Neutrons have always been key to nuclear development. Understanding them will allow us to design more efficient reactors, to breed more nuclear fuel in nuclear and hybrid fusion-fission reactors, and to develop the materials that can withstand the higher temperatures of fusion energy.

The FFTF is a national treasure. Without it, the United States is headed for a new Dark Age. There is not much time left—but the DOE decision still can be reversed. A group of FFTF supporters has been battling for years to save the FFTF, and to counter the fear-mongering of the anti-nukes as well as the cupidity of some local citizens who would prefer to get \$2 billion in clean-up contracts from the DOE than to fight to save a key national research facility.

## The FFTF Achievements

The Fast Flux Test Reactor is a type of reactor known as a breeder, a reactor that generates power from its uranium and

plutonium fuel, and produces more nuclear fuel in the process than it consumes. It is the answer to energy shortages for years to come. If hooked up to a steam turbine, the 400-megawatt reactor could power a city of 30,000. The FFTF's purpose, however, is not power production, but the production of neutrons, at all velocities and density of flux.

The FFTF was completed in 1978, and began full-power operation in 1982, under the management of Westinghouse Hanford. For ten years it tested materials and fuel components for fast breeder and fusion reactors under actual operating conditions, so that their performance could be known before being built into new reactors. The FFTF was also used to transmute high-level nuclear waste, to test space nuclear fuel systems, and to produce 60 special isotopes for life-saving medical use and for industry.

This isotope production is essential for supplying both frontier cancer-treatments and routine diagnostic testing (in the United States there are 36,000 diagnostic tests with radio-isotopes per day). Right now, the United States has to import 90% of its medical isotopes from Canada and Europe, and many are hard or impossible to get.

The FFTF was working on an advanced fuel design using new alloys, that would have an operating lifetime three to four times longer than previous fuel systems. This would bring the cost of future breeder reactors near to that of conventional reactors. The new fuel system, using new materials that are resistant to radiation damage, would stay in the reactor core three to five years (instead of one year). At the time, Westinghouse estimated that the fuel cost would decrease from about 13.5 mills per kilowatt/hour to less than 7 mills. Also being tested were new safety features, such as passive systems that ensure reactor shutdown and core cooling without operator intervention and without electrical power, if a problem arises.

But, the DOE axe fell in 1990, ordering the FFTF to shut down, and stopping—without advance notice—a Japanese project to test components for its fast breeder reactor that was in progress under a paid contract. Local residents mobilized to save the FFTF, and through legal actions and political pressure have kept the FFTF alive, although it is still on death row. FFTF supporters have searched for private contracts to keep the facility in operation, and came up with a potential buyer, an isotope production company. But despite a Bush Administration that promotes “privatization,” and despite the



*The Fast Flux Test Facility at Hanford, near Richland, Washington. The white dome is the containment building for the 400-megawatt multipurpose test reactor.*

millions of dollars proffered by this company to buy the FFTF as “government surplus,” the DOE said “no” to the offer in 2004. The DOE is standing by its decision to kill the FFTF.

At the same time, the anti-nuclear groups targetted the FFTF-shutdown as a “trophy kill,” understanding that if the United States were to have an advanced nuclear capability, it would need the FFTF. The anti-nukes understand that the shutdown would greatly damage U.S. nuclear capability, and would disperse a specialized workforce of scientists, engineers, and technicians—which dispersal is desirable from the anti-nuclear point of view. These well-funded Luddite groups assailed the public and elected officials with the usual propaganda and lies, playing on fear of anything nuclear.

This FFTF battle has raged now for 15 years.

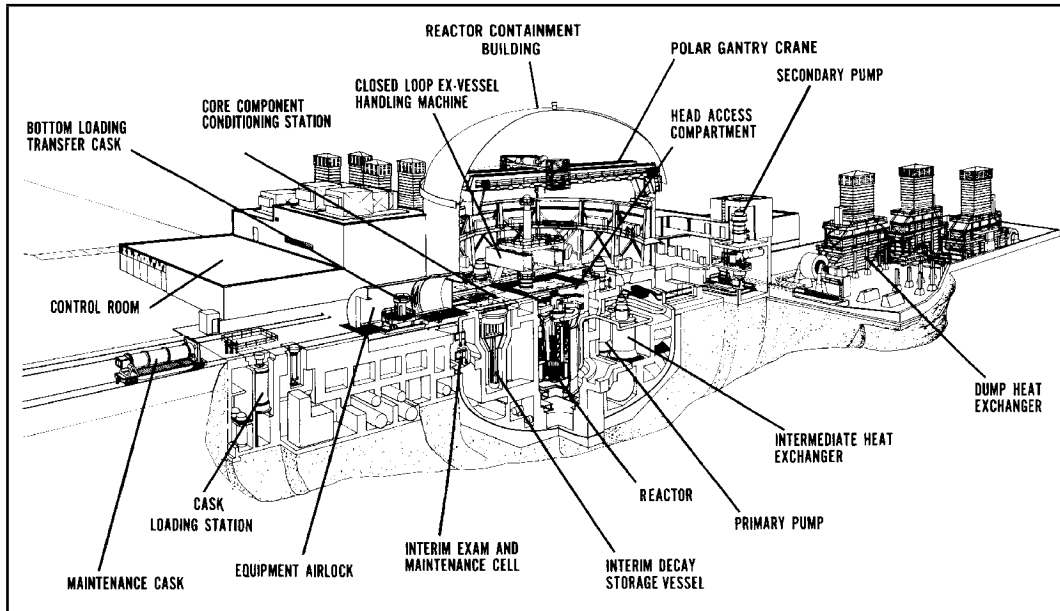
## **The Revolution of Breeder Reactors**

Breeder reactors, also called fast reactors (because of their fast neutrons) produce power at the same time that they create new nuclear fuel. For a country without oil or uranium (like Japan), the breeder offers a way to become self-sufficient in supplying energy for an industrial economy. And as Enrico Fermi said in 1945, “The country that first develops a breeder reactor will have a competitive advantage in atomic energy.” In 1951, the United States was the first to demonstrate the technical feasibility of breeding fuel in the experimental breeder reactor, EBR-I, in Arco, Idaho. This reactor was also the first reactor to produce electric power from nuclear fission. Thirty years later, the United States made a decision to drop that competitive edge and ditch the breeder concept.

A nuclear reactor is an efficient way of generating heat to boil water and make steam, which turns turbines that turn generators to produce electricity. In conventional power plants, the heat comes from burning coal, oil, or natural gas, using up these resources and spewing by-products into the atmosphere. One tiny pellet of uranium fuel (1.6 grams) can generate as much electricity as 6.15 tons of coal. The heat of a nuclear plant comes from nuclear fission, the splitting up of the uranium nucleus by slow-moving neutrons. Each time a uranium nucleus splits, it generates heat in the form of fast-moving particles made up of lighter elements. Each fission also produces several additional neutrons. If these can be slowed down, they will cause another fission, and another, and another—a chain reaction.

In a conventional reactor, a moderator, such as water or heavy water, slows down the fast neutrons produced by the fission reaction to a rate that is optimal for maintaining a chain reaction. If the neutrons are too fast, they go right through the fissile material (uranium-235 or plutonium-239), without causing fission. The neutrons have to stay around long enough to hit a fissionable atom, which splits it into two fission products and several neutrons. These neutrons go on to hit other fissionable atoms, or to form plutonium-239.

In a breeder reactor, these neutrons are not moderated, or slowed down, but are caught in a “blanket” of uranium or thorium surrounding the reactor core. There, the neutrons produce new fissile material, such as plutonium-239. At the same time, the heat produced by the fissioning is used to generate electricity.



*The FFTF is a liquid-sodium-cooled reactor with a fuel of mixed uranium oxide and plutonium oxide. Fast flux refers to the speed of neutrons produced in the reactor core during the fission process. The reactor vessel is located in the dome-shaped containment building.*

The FFTF has the temperature and fuel characteristics of a fast breeder, but it does not breed fission fuel. Its purpose is to test components and fuel for the breeder and fusion reactors, and to give us a better understanding of neutrons.

### Life on Standby

In 1993, the FFTF, a billion-dollar facility, was again sentenced to death by the DOE. Since then, the FFTF has been on “standby,” not yet irretrievably dismantled, as the DOE has pursued various steps for the shutdown execution and environmental impact statements. From 1994 through 1997, the nuclear fuel was removed from the reactor and stored in above-ground dry storage casks. Some of its systems were shut down, but the DOE then wanted the facility to remain on standby, in case it could be used to produce tritium for the weapons program. (The FFTF had not previously been involved with tritium production.) In 1998, it was decided that this would not be done, and, pending environmental impact studies, that the shutdown should proceed. There were other brief halts, as the DOE was legally challenged or as it considered other possible missions, but the “deactivation” has been proceeding.

In a breeder reactor, liquid sodium is used to carry the heat from the reactor core, where the fission takes place, to where it is wanted. Sodium is used as the coolant because it does not slow down the fast neutrons, and it efficiently moves the heat generated in the fission process.

In the last two years, the liquid metal sodium in the FFTF has been drained from both the primary and secondary cooling systems, but thousands of gallons of sodium still remain in the reactor vessel itself. The last 16,000 gallons of sodium have to be drained by a June 30, 2005 DOE deadline. The most efficient way to keep the last amount of sodium hot until

it could be drained, was to keep it at 385°F. in the reactor vessel, where there are immersion heaters. (Sodium melts at 208°F.)

Once the last 16,000 gallons is drained out, the FFTF cannot be restarted. Draining requires drilling a 1-inch-diameter hole in the 3-inch plate of steel at the bottom of the vessel. That hole, and the metal shavings it leaves, will disturb the flow pattern of sodium around the vessel. In addition, the shavings are dangerous to have in the system, and could potentially mess up pumps or clog portions of the flow in fuel assembly, which would cause the fuel to overheat.

At any point before the drilling of that hole, the reactor could be restarted, and the sodium could be put back into the cooling system. But the longer the pipes sit, exposed to the atmosphere, the more chance there is for corrosion.

### Bad Faith of the DOE

Local citizens who have been fighting since the 1990 death sentence to keep the FFTF alive, recently discovered through Freedom of Information Act inquiries, a July 15, 2002 memo from Kyle E. McSlarrow, DOE Chief of Staff, which states: “On December 19, 2001, Secretary Abraham directed that actions be taken to proceed immediately with the deactivation, decontamination, and decommissioning of the fast flux test reactor.” However, there was no such order by Secretary Spencer Abraham. Instead, as FOIA requests showed, the Secretary ordered only “deactivation.” The difference is important: Deactivation is not necessarily permanent; it would not kill the FFTF, but would permit the possibility of its coming back into operation in the future.

A spokesman for the Department of Energy’s Press Office assured this writer that McSlarrow would never have written such a thing unless it were true, but when pressed for more

## Why the FFTF Is Unique

The FFTF is unique because it produces a lot of neutrons, fast: at peak,  $7.5 \times 10^{15}$  neutrons per square centimeter per second. That's 750 times as much as other research reactors, which have a neutron flux of  $1 \times 10^{13}$  neutrons per square centimeter per second. This means, that if you want to test how a particular material would stand up in a commercial power reactor, you could subject it to neutrons in the FFTF, and in a few days or longer (depending on the material and its use) simulate the long-term effects of neutrons on that material.

The fast flux of neutrons, its large target volume, and the high energy of its neutrons make the FFTF ideal for producing medical and industrial isotopes in quantity. Because of the high flux, there are higher reaction rates, so more of the targetted material can be converted to the desired isotope. The FFTF can also produce multiple neutron capture reactions to produce more exotic isotopes, and it can produce isotopes that are created only with very energetic neutrons. Some isotopes can also be produced in an accelerator or cyclotron, but not all of them, because the the neutron flux is not high enough.

To take one example: One of the most widely used medical isotopes is technetium-99m; there are 7 million diagnoses per year in Europe and 8 million per year in the United States using technetium-99m, which has a half-life of *six hours*. Right now, the United States imports almost all of this isotope—which created a serious problem after 9/11, when the supply was disrupted.

### Life-Saving Isotopes

Technetium-99 can be produced in a cyclotron, but to do so requires a starting material that is a rare and costly form of molybdenum. However, production of technetium-99m in a fission reactor begins with the less expensive enriched uranium (U-235), which then produces molybdenum-99. The technetium-99m is supplied to hospitals and other institutions in an insulated container of this molybdenum-99, which has a half-life of 66 hours, and which decays to technetium-99m. So, delivery of the molybdenum-99 to medical sites can be weekly, with institutions extracting from it the technetium-99m that they need.

The FFTF will lower the cost of supply of molybdenum-99 even further, because production would be through a "capture" process, without requiring enriched uranium targets.—*Marjorie Mazel Hecht*

specifics, has not called back.

FFTF supporters also uncovered the fact that former DOE Secretary Abraham made a trip to France in August 2004 in search of a source in the advanced French breeder reactor for testing advanced fuels and materials—the very services that the doomed FFTF could provide! As a press release Aug. 24, 2004 states: "Secretary of Energy Spencer Abraham today signed an agreement with France's Atomic Energy Commission Chairman Alain Bugat [which] . . . specifically provides DOE access to the Phenix fast spectrum test reactor, which has a capability that no longer exists in the U.S." The release goes on to say, "The cooperation has provided access to French R&D that has saved the U.S. tens of millions of dollars."

But, has it? The real cost of this technology outsourcing is the nation's future as an advanced industrial economy—a fact that eludes this Administration, even as it mouths pro-nuclear statements.

Another outsourcing fiasco in the works is that the DOE is looking for facilities abroad to test new types of nuclear fuel for the one new reactor that is planned for the future. This is a job that the FFTF was designed to handle, and as one of the scientists in charge of testing new fuel components wrote about the difficulties of outsourcing: "It will inevitably prove

to be more difficult and constraining than we imagine early on. . . . [W]e are finding that experiment to be more time consuming and cumbersome than originally envisioned, and the benefit will be considerably more limited than a similar test that we would have performed in EBR-II [now shut down] or FFTF. . . ."

Even a cursory look at the DOE's record on the FFTF indicates its bias. One scientist familiar with the project since its inception stated flatly that the staff throughout the middle levels of the DOE is anti-nuclear, and has been since the Carter days. Now, no one at the top wants to admit that the decision to shut down the FFTF was wrong, he said, because then they would be responsible for the lives lost because of the lack of isotopes for medical treatment that could have been provided by the FFTF.

The DOE is riddled with anti-nuclear staffers, and has been since the days after Dixy Lee Ray left the Atomic Energy Commission in 1975. But equally to blame is the monumental stupidity of a government bureaucracy that uses a cost-benefit analysis measured in instant gratification. For example, the DOE Assistant Secretary for Nuclear Energy, William H. Young, stated at Congressional hearings on the FFTF, March 7, 1990: "Production of medical and industrial isotopes at FFTF cannot be economically justified, and even together





*The FFTF fuel assembly grid (below) with reactor operating equipment (above). Pelletized fuel of mixed uranium-plutonium oxide is stacked in a 3-foot column inside stainless steel tubes to form fuel pins, which are arranged in 217-pin assemblies for insertion into the core. Samples of nuclear fuel and other breeder reactor materials are placed in the core for testing.*

with other options, cannot significantly offset FFTF operating costs. . . . In view of the substantial cost savings resulting from a shutdown of the FFTF, and particularly in view of the intense competition for limited budget resources, the Department cannot justify FFTF's continued operation, and regrettable its shutdown is our only prudent course of action."

Meanwhile, the DOE's own studies, such as the "Expert Panel" convened in March 1999, forecast a coming crisis in isotope availability, and lamented the brake put on medical advancement because of the lack of a reliable isotope supply. The 1999 report produced by the Expert Panel spelled out the tremendous savings in lives and dollars that would come from new technologies using isotopes:

"It has been demonstrated that the use of myocardial perfusion imaging in emergency department chest pain centers can reduce duration of stay (12 hours vs. 1.9 days) and reduce charges (\$1,832 per patient) compared to conventional evaluation (*J. Nucl. Med.*, 1997 Vol. 38, p. 131). F-FDG PET has been studied for detecting and staging recurrent ovarian cancer. Potential savings were estimated at \$8,500 per patient with PET (*J. Nucl. Med.*, 1998, Vol. 39, p. 249). Non-Small-

Cell-Lung Cancer (NSCLS) can be staged with whole body FDG PET 'resulting in fewer invasive procedures and a savings-to-cost ratio of more than 2:1' (*J. Nucl. Med.*, 1998, Vol. 39, p. 80).

"These examples illustrate that a lack of knowledge is very expensive. Nuclear medicine can offer improved patient care at reduced cost over conventional treatments. Though the cost of providing a reliable and diverse supply of isotopes for medical use may seem expensive, it will surely pay for itself in reduced patient care costs, improved treatment, and improved quality of life for the millions of patients that will take advantage of this technology."

The DOE's bias and illogic jump out in everything the Department writes about the FFTF. For example, the *Federal Register* Aug. 13, 2004, giving notice of DOE's intent to prepare an environmental impact statement for the decommissioning of the Fast Flux Test Facility at the Hanford site, states in part: "Other reasonable alternatives that may arise during public scoping and preparation of the draft EIS [Environmental Impact Statement] would also be considered. Because DOE has made a programmatic decision to permanently shut down and deactivate FFTF, and is currently performing deactivation activities consistent with this decision, restart of the FFTF is not considered a reasonable decommissioning alternative. . . ."

## **Greed and Fear**

The DOE's nuclear program in the United States is now centered on billions of dollars of "clean-up" money to clean up the nuclear sites from the Manhattan Project and the Cold War years. These are unscientific programs, emotionally driven, involving an army of staff, operating on the perception that no level of radiation whatsoever can be tolerated. The Hanford Nuclear Reservation is one of the main clean-up sites.

Given this situation, one of the more disgusting aspects of the FFTF issue is the capitulation of some local citizens to greed. Instead of fighting to keep the FFTF alive, they are fighting for a piece of the burial contract. The issue is whether the huge decommissioning and clean-up contract for the FFTF should be awarded to a local or an "outside" firm. About \$2 billion is involved, and reportedly political figures in the state have responded to the greed-mongers by agreeing to oppose the FFTF. How deep this opposition is remains to be seen.

Having made this clean-up boondoggle their fight, these locals are now saddled with the enormous baggage of lies about the "clean-up" of the Hanford Nuclear Reservation, on which the FFTF is situated. It means suspending one's reason and entering the fear-land of the nuclear radiation bugaboo, where any radiation is seen as dangerous. Such fear-land inhabitants don't understand that human beings can't live without radiation, that zero-radiation is not possible, and that there

are scientific ways to determine whether something is actually dangerous.<sup>1</sup>

## A Paradigm Shift

Let's look back at the time when the FFTF was conceived and built. In the 1960s and early 1970s, the spirit of the Atoms for Peace program still prevailed. Nuclear energy and its advanced applications were envisioned as ways to provide a better living standard for growing populations worldwide. We had already put a man on the Moon, and there were plans to explore and colonize space. In the United States, more advanced nuclear reactors were planned, to provide a safe and reliable source of electricity, and many applications of nuclear technology—space propulsion, food irradiation, nuclear medicine, desalination, agriculture, to name a few—were under development. It was assumed that advances in fundamental science—understanding the complex behavior of neutrons and their interactions with nuclei—would lead to all sorts of future advances, including more efficient ways to generate nuclear power.

Fusion energy was seen as the next-generation nuclear technology to be developed by 1990. Children's books were written about rocket science and the world of the atom, because that was the world children wanted to be part of when they grew up.

The FFTF came on line in 1980, and it performed all its tasks well until 1992, including the production of specialty isotopes used in innovative and successful cancer treatments. But since its conception and authorization in the 1960s—in a time of scientific optimism and progress—and its coming on line in 1980, the political situation had drastically changed. Instead of the Atoms for Peace idea, where the United States would complete the nuclear fuel cycle, reprocessing spent fuel and breeding new fuel in breeder reactors, the United States was being pushed into a “post-industrial” mode.

The U.S. breeder program was stopped in midstream, by the overtly anti-nuclear Carter Administration, which launched a fear campaign against nuclear “proliferation.” The breeder reactor was labelled by its very nature as “bad.” (In fact, when the FFTF, the nation's first industrial-size breeder reactor, achieved criticality—the start-up of the chain reaction—on Feb. 9, 1980, the anti-nuclear DOE didn't even take notice.)

The Reagan Administration continued Carter's anti-breeder policy, by “privatizing” the breeder to death. Without some form of government support, and in an increasingly hostile environment, no individual company was willing to invest in developing a demonstration breeder reactor, especially given the well-funded and growing anti-nuclear envi-

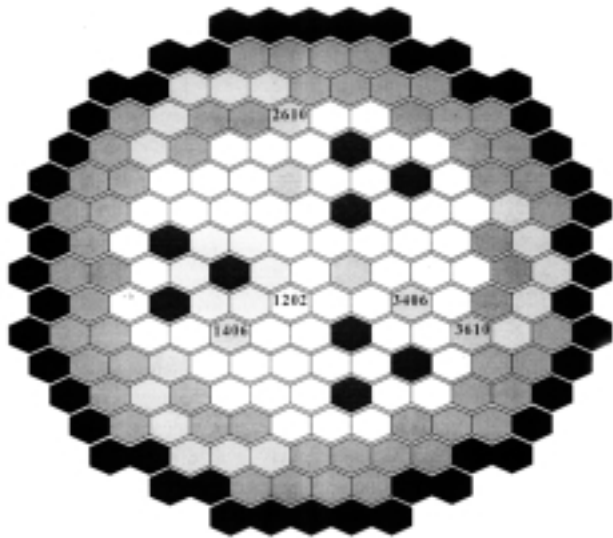


*FFTF technicians working on a fuel assembly. Each fuel pin is less than a quarter-inch in diameter and about 8 feet long. The fuel pins are gathered into 217-pin assemblies, like the one shown here, which are housed in hexagonally shaped ducts in the reactor core.*

ronmentalist movement. The Clinch River Breeder Reactor in Tennessee was mothballed in 1983.

The same mentality that shut down the Clinch River Breeder, squeezed nuclear plant construction to death with high interest rates and environmental interventions that had nothing to do with the environment, and stopped the spread of Atoms for Peace to the developing sector, is clearly not going to worry about advancing cures for cancer. If the nation valued its citizens, it would be pursuing the best options for understanding cancer by carrying out fundamental research,

1. For details on the Hanford cleanup, see Michael Fox, Ph.D., “Why Hanford's Nuclear Waste Cleanup Wastes Your Money,” *21st Century Science & Technology*, Summer 2004.



*This schematic of the FFTF core with multiple missions shows the hexagonally shaped ducts, in which multiple experiments can be conducted. Some ducts contain the fuel rods and control rods. Others are for isotope production, fuel tests, and so on.*

and treating it with the best means we have, such as the new cell-targeted therapies. Marlene Oliver, a biologist and member of the Nuclear Medicine Research Council and National Association of Cancer Patients, and one of the FFTF supporters, estimated that thousands of lives are lost in this country yearly because we are not developing the radioisotope technologies now being developed and used in Europe. The savings in lives, and in money now wasted on more costly and less effective technologies, would be in the billions, she has calculated—enough to pay for many FFTFs.

### A Nuclear Renaissance

We need a nuclear renaissance now! It can't be done without the FFTF for materials testing, and new, even more advanced facilities, like the FFTF. It can't be done without a training facility for future nuclear scientists and engineers. Dr. Alan E. Waltar, former president of the American Nuclear Society, stated the case eloquently in 1990 at Congressional hearings on the FFTF:

"This reactor has no equal in the United States as an educational facility. Our nation stands at a critical turning point in education. Projections of an engineer shortage of approximately one half-million by the year 2010 and declining enrollments in 'hard' sciences in our colleges and universities are causing justifiable alarm in the halls of technology and academia. At the same time, engineering departments, especially nuclear engineering departments, are being deprived of their training reactors, crucial laboratory facilities, and qualified faculty by hard-pressed administrators faced with increasingly harsh budgetary constraints. Thus begins the vi-

rious cycle. Student numbers reduce even further as programs disappear; the size of the scientific community diminishes; advanced technology with its attendant human benefits and comforts becomes no longer available to a declining economy.

"As the most advanced multipurpose operating reactor in the United States, the FFTF *must* remain available and operating if the men and women who are to design and run the progressive reactors of tomorrow are to be fairly served."

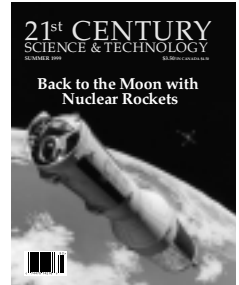
The nuclear renaissance is not just on Earth. To move out into space and return to an aggressive policy for space exploration and colonization will require more plutonium-238 for space nuclear generators and heat sources—something the FFTF can produce and test.

Information technology and outsourced labor are not going to bring about a renaissance. We need to train new generations of nuclear scientists and engineers to build the required nuclear reactors here and around the world. The United States now does not even have the industrial capability for building a large pressure vessel for a reactor, much less an infrastructure for mass producing fourth-generation nuclear plants or fusion plants.

The FFTF is a symbol of what this nation once dreamed about with Atoms for Peace. If we don't make the FFTF a reality now, we are on our way to the nightmare of Third World status and a New Dark Age.

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THE IBERO-AMERICAN SOLIDARITY MOVEMENT (MSIA)

## Anatomy of a Fascist Intelligence Operation

by William F. Wertz, Jr.

During the period 1983-89, while Lyndon LaRouche and his leading U.S. associates were under heavy attack from the U.S. and Soviet opponents of LaRouche's role in the original design of President Reagan's Strategic Defense Initiative proposal (SDI), certain far right-wing opponents of the SDI from within the Nazi and related links to Chile's dictator Augusto Pinochet, covertly recruited certain Judases from within a secret network linked to U.S. death-squad figure Nestor Sanchez, et al.

In September of 1990, with LaRouche in prison, some of these Judases, including one Fernando Quijano, dropped their masks, and presented their Nazi-linked, anti-semitic credentials openly. LaRouche's erstwhile associate Quijano gave a speech in Northern Virginia in which he defended the expulsion of the Jews from Spain in 1492 for "military reasons of state security"; he defended the Spanish Inquisition; and he attacked the American Revolution, by representing the Venetian-manipulated Battle of Lepanto in 1571 as "the greatest moment that history, that Christianity, would ever have, past, present, and future." With that address, Quijano's earlier betrayal of his organization, LaRouche's International Caucus of Labor Committees, to a fascist network, shifted from covert to overt commitments.

Quijano used LaRouche's imprisonment as the opportunity to attempt to seize control of the U.S. organization. LaRouche's release from prison in 1994 caught him and his fellow Pope-hating far-right Judases by surprise. During much of this period, some former LaRouche friends had concealed their covert association with Quijano in the pro-Nazi network of death-squad specialist Sanchez. LaRouche's full freedom to act, from 2000 on, resulted in his public exposure and formal expulsion of this anti-Semitic nest. That expelled

circle of associates of third-generation Nazi networks in Mexico and other parts of Ibero-America, is the subject of the following condensed report on that group of scoundrels, now operating in collusion with Nazi "rat-line" networks associated with the Pinochet regime and related elements within the Americas today.

### A Trojan Horse

During 1990-2000, when LaRouche was imprisoned or under strict probationary control, Quijano and his circle of accomplices came out openly as a fascist network of John Paul II opponents. From that time on, Quijano, and later the siblings Marivilia and Lorzenzo Carrasco, exposed themselves as a—nominally Catholic—controlled intelligence operation. Although Quijano and the Carrascos were forced to resign from their pretended association with LaRouche, their fascist movement, the Ibero-American Solidarity Movement (MSIA), continues to operate against LaRouche in Ibero-America to this day. The Quijano/Carrasco MSIA represents a Trojan horse enemy operation, rallied around haters of the very existence of the U.S.A., and hysterical adversaries of LaRouche and his movement. Their networks throughout Ibero-America today, pose a similar threat to both the U.S.A. and to any government which commits itself to the General Welfare of its people, in opposition to the International Monetary Fund and George Shultz's free trade privatizers, like Pinochet's Minister of Labor José Piñera (1978-80).

This report is issued as a warning to patriots of the republics of the Americas, against association with these now-exposed fascist scoundrels.

An investigation already ongoing, beginning 1985-87, of Quijano and the Carrascos has revealed that years before he



Former LaRouche associates Fernando Quijano and Marivilia Carrasco, who were captured by an enemy operation run by far-right, anti-John Paul II Catholics. The two officially left LaRouche's association in 2000 and 2003, respectively, and have continued to coordinate operations against him in Ibero-America. Quijano is shown here at the 1992 Tlaxcala conference that founded the MSIa; Carrasco is shown at a Washington press conference in 1986, releasing a book exposing Mexico's National Action Party (PAN) as the party of treason. She is now in league with that very party, her former avowed enemy.

came out openly as a fascist fanatic, in 1990, Quijano had already come under the control of the CIA's Nestor Sanchez. Already, during that period, Quijano and the Carrascos were oriented increasingly toward outright Nazi networks especially in Mexico and Argentina, but also throughout Ibero-America—including in Chile under the military dictatorship of Pinochet. Their organizing within fascist right-wing Catholic circles in Ibero-America was facilitated by an alliance they established with Spanish fascist Blas Piñar, who had organized a European-based fascist international in the 1970s. This entire fascist international was and is supported by the circles of William F. Buckley, Jr., whose father had supported the Cristero Rebellion in Mexico and who was expelled from Mexico for "counterrevolutionary conspiracy" in November 1921 by President Álvaro Obregón.<sup>1</sup>

Under Gen. Francisco Franco, Spain and the Spanish Falange were used by the Nazis to penetrate Ibero-America during World War II. After the war, Spain became a refuge for escaping Nazi war-criminals. Madrid itself became the center of two organizations founded by Hitler's Commando Otto Skorzeny—Die Spinne and Odessa—which, with the aid of the pro-British Allen Dulles faction of U.S. intelligence, helped thousands of Nazi war criminals escape to South America through Argentina.

Beginning as early as 1985, under the influence of Jesuit-trained Colombian author Jaime Sanín, Quijano began to defend Mexican synarchists such as José Vasconcelos, whose pro-Nazi magazine *Timon* was shut down by the Mexican government in 1940. Vasconcelos was a member of the "Base" which controlled the Mexican National Synarchist

Union, of which he was also a sub-chief. Quijano also began to attack such republican humanists as Friedrich Schiller and Erasmus of Rotterdam, and to defend the Hapsburgs, while denouncing Spain's pro-American King Carlos III.<sup>2</sup>

Sanín, who recently reported that he has hated the United States all his life and that he rejects Pan-Americanism, had written a novel entitled, *Austra-America*, in which a male Mexican general and a female Argentine colonel meet in Panama at the funeral of Omar Torrijos. Inspired by a poet, they proceed to unite all of Hispanic America from Argentina to Mexico under one military command. The novel ends with their marriage.

In 1985, Quijano sent an associate of his, Ricardo Olvera, to Spain for eight months. Olvera's parents had participated in the Nazi-instigated Mexican National Synarchist Union (UNS) colony in Baja California near the Bay of Magdalena during the 1940s. Upon Olvera's return from Spain, Quijano began to promote Spain's fascist dictator Francisco Franco and to denounce such Mexican republicans as President Benito Juárez. Olvera now works for the newspaper of the U.S. Catholic Diocese in Sacramento, California, *El Heraldillo Católico*. In the October 2004 issue, he penned an article in defense of the Cristero "martyrs."

### Nestor Sanchez Steps In

By 1985-87, Quijano began to work with the CIA's death-squad liaison, Nestor Sanchez, a resident of Leesburg, Virginia. As early as 1963, Sanchez had been involved in a CIA plot known as Operation Mongoose, to assassinate Cuba's Fidel Castro. In 1965-67, he was the CIA station chief in

1. See William F. Wertz, Jr. "The Nazi-Instigated National Synarchist Union of Mexico: What It Means for Today," *EIR*, July 9 and July 16, 2004.

2. William F. Wertz, Jr. "Spain's Carlos III and the American System," *Fidelio*, Spring/Summer 2004.



*CIA death-squad specialist Nestor Sanchez began to control Fernando Quijano as early as 1985-87. He is a veteran of such plots as Operation Mongoose, the 1963 failed attempt to assassinate Fidel Castro. Later, he became CIA Latin American Division Chief, Directorate of Operations, and then Deputy Assistant Secretary of Defense for Inter-American Affairs.*

Guatemala, where he worked with the death squads. During the 1970s when Chilean dictator Pinochet came to power and launched Operation Condor, a mass slaughter throughout the Southern Cone of South America. Sanchez became Latin American Division Chief, Directorate of Operations for the CIA; and then in the 1980s during the Iran-Contra affair, he became Deputy Assistant Secretary of Defense for Inter-American Affairs, assigned to the staff of the National Security Council.

Sanchez worked closely with Vernon Walters, who was deputy director of the CIA from 1972-76 and who served both on the Board of Directors and the Advisory Board of the Buckley connected pro-Franco Christendom College in Front Royal, Virginia, since its founding in 1977.

In the Spring of 1985, a delegation of military officers from Guatemala came to the United States in connection with their collaboration with Lyndon LaRouche in the production of a documentary film, entitled "Soviet Irregular Warfare in Latin America." The Guatemalan military had carried out a successful anti-drug operation in the jungles of Guatemala as proposed by LaRouche, called Operation Guatusa.

The military delegation, accompanied by LaRouche associates, visited the Pentagon for meetings with U.S. military representatives to discuss the success of this operation. When

Nestor Sanchez, who had organized death squads in Guatemala beginning 1967-68, and who was coordinating death squads in El Salvador and the resupply of the Contras in Nicaragua, ran into this delegation, he went berserk and did everything possible to subvert the LaRouche-Guatemalan collaboration. Soon thereafter, Quijano became his agent.

## **The Argentine Connection**

In 1988, after organizing the Amphictyonic Congress in Panama, Quijano came in contact with a group of Argentine fascists, including Mario Caponnetto and Rafael Breide Obeid, both of whom would attend the founding conference of the MSIa in Tlaxcala, Mexico in May 1992. Breide had written his doctoral thesis on Guillermo Russell, who with the help of Allen Dulles's Nazi "rat-lines," had escaped from France after World War II, where he had been condemned to death for collaboration with the Nazis. Mario Caponnetto is married to the daughter of Jordán Bruno Genta, one of the key synarchist ideologues responsible for Argentina's fascist "Dirty War" (1976-83), which occurred while Argentina participated in Operation Condor.

Alejandro Peña of Venezuela, another former associate of LaRouche, who resigned in May 1998, was sent by Quijano to Argentina in 1990 to establish an organization there. By 1991, Peña began to defend the reactionary organization Tradition, Family, and Property, which opposes Pope John Paul II, and to promote the writings of the Argentine anti-Semitic priest Julio Meinvielle and the founder of the Spanish Falange, José Antonio Primo de Rivera.

One of the key contacts of the Quijano crowd in Argentina from the beginning was Patricio Videla, the son of a general by that name, who participated in the coup against Juan Domingo Perón in 1955, a coup which Quijano, who had earlier portrayed himself as pro-Peron, now supported on the grounds that Perón had attacked the Catholic Church. Patricio Videla was an admirer of Adolf Hitler. Alejandro Peña has maintained contact with him to this day.

## **Enter, Blas Piñar**

In this same time period, Marivilia Carrasco travelled to Spain, where she met Spanish fascist Blas Piñar for the first time. Blas Piñar had been the protégé of Franco's right-hand man, Adm. Luis Carrero Blanco, and from 1957 to 1962 had been the head of Franco's Instituto de Cultural Hispanica, which in 1955 had been involved in the overthrow of Perón in Argentina. In 1966, Blas Piñar founded the fascist Fuerza Nueva party, for the purpose of "keeping alive the ideals of July 18, 1936," when Franco began his drive to carry out a coup d'état in Spain, with military aid from the Hitler and Mussolini. In the same year, the World Anti-Communist League (WACL), with which Blas Piñar would collaborate, was formed with the assistance of William F. Buckley, Jr. Between 1975 and 1978, Buckley would create the American-Chilean Council (ACC) to influence the U.S. media and Congress on behalf of Pinochet's dictatorship.

In October 1976, after Franco's death in 1975, Piñar participated in the formation of the Fascist International in Rome. The attendees included representatives of Orlando Bosch's anti-Castro Cuban exile group CORU; former Nazi SS agents; French Secret Army Organization (OAS) terrorists; the Argentine AAA; Italian fascists, including the Ordine Nuovo, led by Salvatore Francia and Pierluigi Concutelli; Spain's Guerillas of Christ the King (founded by Blas Piñar); Asociación Anticomunista Iberica and Alianza Anticomunista Apostólica; the Paladín group, which had been headed by Hitler's Commando Otto Skorzeny, until his death in 1975; and Piñar's own Fuerza Nueva.

A leading European fascist who worked closely with Blas Piñar was Leon Degrelle, the founder of the pro-Nazi Belgian Rexism movement. Degrelle was a business partner of Otto Skorzeny and his daughter married Servando Balaguer, who was for some time the head of Blas Piñar's Fuerza Nueva. Piñar also worked with Horia Sima, a member of the Romanian Iron Guard, who was in charge of the Romanian Legion that had fought for Hitler against the Soviet Union. In 1979, Fuerza Nueva Editorial published his book, *El hombre cristiano y la acción política*, with an introduction by Blas Piñar. Fernando Quijano gave copies of the book to Marivilia Carrasco and other members of the MSIa for their edification.

In April 1978, the political parties behind the Fascist International formed an electoral alliance called the Euro-Right. Charter members included Giorgio Almirante's Italian fascist MSI, Blas Piñar's Fuerza Nueva, France's Forces Nouvelles (PFN), Belgium's Front National, and Greece's Rassemblement General.

This organizing of a Fascist International by Blas Piñar intersected the international death squads that were created by Pinochet in November 1975, under Operation Condor.

Just days prior to the conference founding Operation Condor on Nov. 25, 1975 in Santiago, Chile, General Pinochet, Lt. Col. Juan Manuel Contreras Sepúlveda, and at least 50 DINA secret service members had attended the funeral of Francisco Franco in Madrid. There they met with Stefano Delle Chiaie of the fascist Avanguardia Nazionale in Italy, Croatian terrorists, and other fascists from Europe. In May 1974, Delle Chiaie's mentor, the fascist Prince Valerio Borghese, had travelled to Chile to offer his help to Pinochet. Borghese, who had been condemned to death for war crimes by the Italian Resistance, had been rescued in 1945 by James Jesus Angleton, who was then the head of British-American counterintelligence in Italy and would in 1947 become the Assistant Director for Special Operations at the CIA. In 1969, Borghese was involved in an attempted coup d'état in Italy.<sup>3</sup>

The DINA assassination squads are known also to have included members of the Cuban Nationalist Movement, which later in 1976 merged with Orlando Bosch's CORU. DINA agent Michael Vernon Townley is also known to have

made contact with the Corsican Brotherhood, with Albert Spaggiardi of the OAS, and with two unidentified German Nazi organizations.

In addition to this second-generation fascist international, Operation Condor was advised by at least two leading first-generation Nazi war criminals, Walter Rauff in Chile and Klaus Barbie in Bolivia, both of whom had been helped to escape after World War II to South America by the Allen Dulles/James Angleton Nazi rat-line. Rauff became a security advisor to Pinochet after the 1973 coup. He was wanted in Europe for having invented the mobile gas units used to murder as many as 250,000 Jews. Barbie, who was head of the Gestapo in Lyon, France, where he tortured and murdered 26,000 French Resistance members, became the head of internal security for the government of Bolivia after the 1980 "Cocaine Coup."

On Feb. 23, 1981, Blas Piñar's son, Blas Piñar Gutiérrez, then a captain in the Spanish Army, had participated in an unsuccessful coup attempt in Spain, for which he served a two-month jail sentence. (On Jan. 16, 2004 he was promoted to brigadier general, and named sub-director of the Spanish Army's Training and Doctrine Command.)

## Mexico: The Tecos

Both Caponnetto and Breide have long-standing connections to the anti-Pope (*Sede Vacante*) Tecos synarchist faction of El Yunque (the Anvil), centered at the Autonomous University of Guadalajara (UAG), Mexico, which they frequently visit. They also visit the UAG-affiliated Escuela Preparatoria Vasconcelos in Tijuana every year. Through them, Marivilia Carrasco was introduced to Salvador Abascal, chief of the Nazi-founded National Synarchist Union of Mexico from 1940-41, and to his colleague, the overtly pro-Nazi Salvador Borrego. Abascal's son Carlos Abascal Carranza, now the Labor Minister in Mexican President Vicente Fox's National Action Party (PAN) government, is currently engaged in a fascist assault on Mexican labor in an effort to eliminate the minimum wage, collective bargaining, and the right to strike.

As a result of these connections to Abascal and Borrego, Marivilia Carrasco became an avid defender of the 1926-29 Cristero Rebellion, which had been backed by the ultramontane faction of the Catholic Church in Mexico and by foreign oil interests associated with William F. Buckley, Sr. She also became a defender of the Mexican National Synarchist Union. The UNS and the PAN were both secret sections of the Church-controlled "Base" in Mexico, which, as Franco consolidated power in Spain, became known as the Falange-Church Council. (In 1955, it became known as El Yunque. After Vatican II, two factions emerged, El Yunque and Los Tecos, which during the 1970s engaged in fatal clashes.)

The National Synarchist Union had been founded in León, Guanajuato, Mexico in 1937 by Oscar Helmuth Schreiter, a card-carrying member of the Nazi Party in Germany, on orders from Hitler's Ibero-American Institute in Berlin, which was headed by Gen. Wilhelm von Faupel. As documented in

3. On Borghese, see Allen Douglas, "Italy's Black Prince: Terror War Against the Nation-State," *EIR*, Feb. 4, 2005.

*EIR*,<sup>4</sup> von Faupel's strategy in Ibero-America was to thwart President Franklin D. Roosevelt's Pan-American Good Neighbor policy by forming an anti-U.S. bloc based on the racist pseudo-ideology of *Hispanidad*. Operating under the cover of the Falange of Franco's Spain and the Council of Hispanidad, which was founded on June 8, 1941, the Nazi strategy was to use the National Synarchist Union in Mexico to carry out a military attack on the United States, along its southern border. This strategy, which was coordinated with the imperial Japanese, would have gone into effect, had the war not turned against the Axis powers after the Japanese defeat at the Battle of Midway in June 1942 and the Nazi defeat in the Battle of Stalingrad in February 1943.

Von Faupel, who before World War II had held positions in the Argentine, Brazilian, and Peruvian militaries, worked closely with Martin Bormann, Hitler's personal secretary, to transfer Nazi gold via Franco's Spain to Argentina toward the end of the war, in order to finance Nazi activity in Ibero-America after the war. This Nazi loot, smuggled to Argentina by von Faupel, financed the escape of thousands of Nazi war criminals.

Increasingly after the founding of the MSIa in 1992, Marivilia Carrasco oriented her organizing toward this pro-Nazi/Falange faction of the Catholic Church in Mexico, which was centered in Guadalajara and the Bajío, where the Cristero Rebellion and the National Synarchist Union had been most active. Besides Salvador Abascal and Salvador Borrego, Carrasco developed close relations with other UNS leaders who subscribed to the MSIa's publication. These included Celerino Salmerón, who wrote two books, one attacking President Benito Juárez (1861-65 and 1867-72) for treason, and the other defending the Emperor Iturbide; Ignacio González Gollaz, who was the Presidential candidate in 1982 of the Mexican Democratic Party (PDM) which was formed in 1971 by the Manuel Torres Bueno faction of the UNS; and Leonardo Andraca Hernández, who was chief of this same faction of the UNS in 1996.

In Guadalajara, she promoted the work of Anacleto Gonzales Flores, who was head of the Popular Union during the Cristero Rebellion. After Vatican II, Anacleto Gonzales Flores's son headed the Tecos faction of El Yunque in Guadalajara. She also oriented toward the theocratic Mexican Catholic Party, which was founded in the state of Jalisco in August 1999 by Gabriel Aguilar Padilla, who was a member of the MSIa at the time. One of Marivilia Carrasco's contacts in Guadalajara was Jiménez de Lara. He was a member of El Yunque and of the Mexican Catholic Party, as well as the trainer of a paramilitary group called Pentatlon; he is known to have circulated copies of Hitler's *Mein Kampf*.

Marivilia Carrasco's recruitment to the ultramontane right-wing faction of the Catholic Church in Mexico was un-

doubtedly also facilitated by her participation in a number of "retreats" in Guadalajara and elsewhere within the state of Jalisco. She attended a retreat called Primavera in Guadalajara which was run by the Legionaires of Christ, as well as another retreat called Betania, which is also in Guadalajara and is run by Franciscan nuns. She also attended the Centro Naturista Daniel Arreola in the town of El Grullo, which is in a nature reserve in Jalisco formerly owned by the late British billionaire Jimmy Goldsmith.

Another significant influence on Quijano and the Carrascos in Mexico was the late Fernando Gutiérrez Barrios, who was the Secretary of the Interior of Mexico in the 1980s. In the late 1970s, Gutiérrez Barrios had steered Quijano and Marivilia Carrasco in the direction of Castro's Cuba and the Sandinistas in Nicaragua. He was known to be a friend and protector of Blas Piñar. Later he and his protégé, Manlio Fabio Beltrones, played a role in orienting them toward the Tecos. Beltrones was Gutiérrez Barrios's right-hand man in the Interior Ministry. When he became the governor of Sonora, he controlled the Micos, a violent youth group linked to the Tecos faction of El Yunque in Guadalajara. Today, Manlio Fabio Beltrones, who used to send Marivilia Carrasco flowers on her birthday, is president of the Mexican Chamber of Deputies. In the year 2000, Marivilia Carrasco worked closely in Guadalajara with the former head of the Micos in Sonora, Gabriel "el Cabezón" Ibarra. Marivilia Carrasco also had an especially close relationship with Simón Vargas Aguilar, who worked in Gutiérrez Barrios's Interior Ministry.

When confronted in August 2003 with the Nazi pedigree of the National Synarchist Union and her connections in Guadalajara, Marivilia Carrasco and her brother Lorenzo resigned from further association with LaRouche, protesting that it was all lies, while refusing to refute the evidence.

### **In Virginia: St. Catherine of Siena**

In the United States, in addition to the influence of Nestor Sanchez, control over the MSIa is exercised through fascist intelligence networks which operate at the Christendom College-related St. Catherine of Siena Roman Catholic Church in Great Falls, Virginia. This church, which has counted Supreme Court Justice Antonin Scalia and ex-FBI Director Louis Freeh among its leading parishioners, continues to be attended by Fernando Quijano and other MSIa activists. Both Opus Dei and the Legionaires of Christ are active at this church. Opus Dei is an order which was founded in 1928 in Spain and began to grow under the fascist regime of Francisco Franco. The Legionaires of Christ are a pro-Cristero Mexican order founded in 1941 by Marcial Maciel, whose mother was the sister of the Cristero army's last commander-in-chief, Jesús Degollado Guízar. Mexican President Vicente Fox's wife, Marta, who was a financial supporter and contact of Marivilia Carrasco, was the treasurer of the Legionaires of Christ in Mexico and received her education at a Legionaires of Christ school in Switzerland.

4. William F. Wertz, Jr. "The Cristero War on Mexico: Synarchism Then and Now," *EIR*, July 25, 2003; and "The Nazi-Instigated National Synarchist Union of Mexico," op. cit.



Quijano's associates in Northern Virginia also sent their children to a network of private Carlist "Catholic" schools, including Annunciation Academy and St. John Bosco High School.<sup>5</sup> These schools were founded with the help of Anne Carroll, the wife of Christendom College founder Warren Carroll.

Quijano himself also boasted of his contact with the anti-Vatican II former Jesuit priest Malachi Martin.

### Nazi Killers: Operation Condor

In 1993, Quijano and those whom he had recruited to his anti-LaRouche operation also made direct contact with Chile's former DINA head Manuel Contreras and other representatives of the Pinochet regime. Alejandro Peña, who brought the brother of Hugo Chávez to the Tlaxcala conference of the MSIa in 1992, now heads Venezuela's anti-Hugo Chávez Democratic Bloc. In 1993, following a military meeting in Lima, Peru, he travelled at Quijano's behest to Chile to resurrect Operation Condor. Peña was introduced to Contreras by Eduardo Casarramona Obiols, the personal representative of Blas Piñar in Ibero-America, with whom representatives of the MSIa in Mexico came in contact after the Tlaxcala conference. Casarramona's relationship to the Pinochet regime was mediated not only through Blas Piñar, but also through Casarramona's wife, who was Pinochet's personal secretary.

At this point, Pinochet had resigned as President, but still controlled the military. A new Constitution had been adopted in the transition to civilian rule. Contreras knew that he might be indicted for his involvement in the assassination of Orlando Letelier. On instructions from Quijano, Peña told Contreras that there was an operation in Chile to create a leftist subversive movement to take over the country. He warned Contreras that the United States would not help them. Peña said that Contreras was confident that no one would touch them; but Peña warned that the new Constitution would be used against them.

Quijano wanted to get Contreras and his boss, General Pinochet, to overthrow the new Constitution and take power once again. Through Peña, he told Contreras that if they did not do so, they would end up in jail. When Contreras was finally indicted in 1995, Peña said: "I told him. I warned him."

Quijano's general so-called thesis, which Peña embraced, was that all of Ibero-America was in a pre-Spanish Civil War-type situation, requiring the military to take power against the leftists, as Franco had done in Spain. This was precisely the thesis which Pinochet had put forward in a now-declassified discussion with Henry Kissinger in 1976.

Peña was forced to resign from association with LaRouche in 1998. Quijano officially resigned in October 2000. Other MSIa leaders, including Marivila and Lorenzo

5. William F. Wertz, Jr. "Schools' Plot: Who's Snuffing Your Neighbor's Kittens?" *EIR*, April 19, 2002. (Both schools shut down after the publication of the article.)

Carrasco, "stayed behind" until they were also forced to resign in August 2003.

### Today: The Third Generation

It was during this period that the networks of Blas Piñar, with which the MSIa anti-LaRouche fascist traitors worked, began to consolidate into a third-generation Nazi International by taking steps identical to those which resulted in the creation of the Fascist International and Euro-Right in the 1976-78 period, described above.

In November 2001, the magazine *Maritornes: Notebooks of Hispanidad* was launched in Argentina. Its editorial board includes Blas Piñar; Antonio Caponnetto, brother of Mario; Rafael Breide; and Alexandra Wilhelmsen, daughter and political heir of Frederick Wilhelmsen, who was the co-founder, along with William F. Buckley's brother-in-law, L. Brent Bozel and Warren Carroll, of Northern Virginia's Christendom College. Frederick Wilhelmsen's involvement in supporting fascist coups dates back to at least 1966, when he was invited to Argentina to speak in defense of the coup carried out by the Argentine Franco, Juan Carlos Onganía, against Argentine President Dr. Arturo Illia. One of the regular contributors to *Maritornes* is the Mexican Nazi Salvador Borrego.

On Nov. 16-17, 2002, the Falange Española and Blas Piñar's Fuerza Nueva held a meeting in Madrid, attended by Roberto Fiore of Forza Nuova in Italy, former Argentine Army Capt. Gustavo Breide Obeid of the Popular Party for Reconstruction (PPR), the National Front of France, and others. On Jan. 26, 2003, Blas Piñar's Fuerza Nueva and the Spanish Falange held a follow-up meeting in Madrid. Forza Nuova and the National Front were again there. The PPR sent a message of support, as did Alejandro Peña of Venezuela's Democratic Bloc. In April 2003, Piñar founded the Alternativa Nacional party in Spain. Piñar's Alternativa Nacional and Roberto Fiore's Forza Nuova work closely with the Liberta d'Azione of Alessandra Mussolini, the granddaughter of Il Duce.

As the world financial system collapses and George W. Bush attempts to prop up the financial bubble by privatizing Social Security, George Shultz, like Hjalmar Schacht before him in Germany in the 1930s, will attempt to assemble a fascist movement to break all political resistance (see *Feature* in this issue). Today, the MSIa is a pawn of the same international financier faction that put Hitler in power in 1933. By exposing Quijano and the Carrascos now, we intend to deprive Shultz and his friends of the fascist "jackals"<sup>6</sup> they need to impose their genocidal policies today.

6. The term is from John Perkins' *Confessions of an Economic Hit Man: How the U.S. Uses Globalization To Cheat Poor Countries Out of Trillions* (San Francisco: Berrett-Koehler, 2004). If the economic hit men don't succeed in getting a country to capitulate to their demands, they deploy the "jackals"—assassins—and if even that fails, the armed forces complete the job.

# *Stop the New Thirty Years' War*

The spectacular broad-daylight assassination of former Lebanese Prime Minister Rafik Hariri in Beirut on Feb. 14, has accelerated an ongoing "Thirty Years' War" dynamic in Southwest Asia, which threatens to spread around the globe. As a result of the car-bomb killing of the Saudi-linked billionaire, the Bush-Cheney Administration's targetting of Syria for "regime change" has been put on the front burner.

One Washington politico said he is convinced that, regardless of who was behind the Hariri murder, Cheney and the Administration neo-cons will exploit the situation, to advance their longstanding agenda of destroying Syria's Ba'athist regime. The leading advocate—back to his co-authorship of the mid-1990s "Clean Break" blueprint for crushing the Mideast peace process—is David Wurmser, a senior Mideast policy aide to Cheney.

The dynamic in the region, one source elaborated, has been transformed by the U.S. invasion and occupation of Iraq. An alliance between secular Arab nationalists and all stripes of Islamists, once thought an impossibility, has now coalesced—in opposition to the perceived U.S. imperial oil grab in the Persian Gulf. Those feelings have been fuelled by the recent statements by Dick Cheney and Condoleezza Rice, assailing Iran and Syria. Numerous intelligence sources have confirmed that, with U.S. support, Israeli commandos are operating in the Kurdish region of northern Iraq. They are working with Kurdish Peshmerga militias, and with terrorists from the Mujahideen el-Khalq, an Iranian exile group on the U.S. State Department's list of foreign terrorist groups, planning cross-border sabotage incursions into Iran. The *Washington Post* revealed that the U.S. has been flying unmanned aerial vehicles over Iranian territory, mapping anti-aircraft radar positions, and probing for bombing targets.

Even the recent Iraqi elections, first hailed as a "victory for democracy" and for the legitimacy of the American occupation, have turned against Washington. The coalition of Shi'ite parties endorsed by Grand Ayatollah al-Sistani, won 48% of the vote; secular Shi'ite acting Prime Minister Iyad Allawi's party got only 18%. Many experts believe that, unless the United States announces

a set timetable for withdrawal of all foreign occupation forces from Iraq, the Shi'ites will join the insurgency, with backing from Tehran.

The threats to bomb Iran, supply motive for the Iranian hardliners to unleash Shi'ite uprisings throughout the Persian Gulf. Reports are that Kuwait is a powder-keg set to explode, and Bahrain is vulnerable to Shi'ite insurgencies, as is the oil-dense Eastern Province of Saudi Arabia.

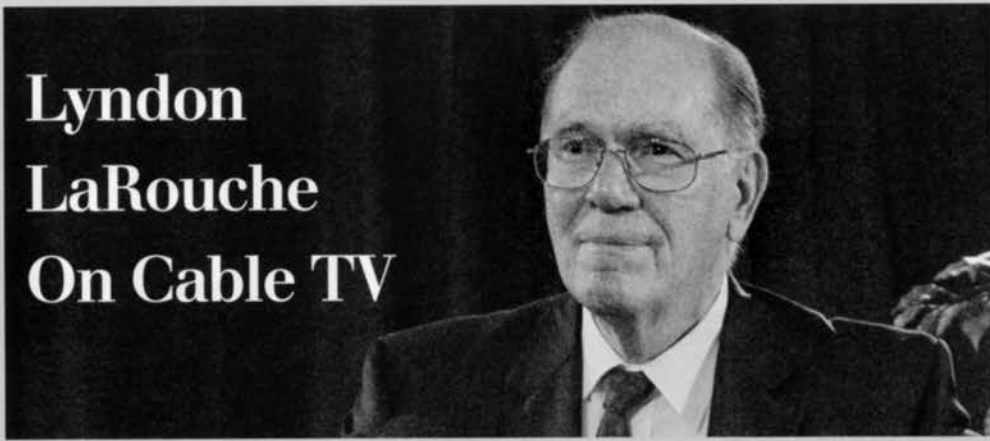
Add to the Thirty Years' War dynamic the fact that the Israeli settlers, at the instigation of Cabinet Minister Natan Sharansky and various religious fanatics from the camp that organized the killing of Prime Minister Yitzhak Rabin, are going berserk, staging anti-government demonstrations, and threatening to assassinate Israeli Prime Minister Ariel Sharon—for decades hailed as the champion of the very settlers who are now threatening to kill him, if he proceeds with his planned withdrawal from Gaza later this year.

As at the time of the Thirty Years' War (1618-48), violence is fuelled by religious fundamentalist extremism and conflicting territorial claims.

Lyndon LaRouche, commenting on the Hariri assassination, warned that Southwest Asia is already gripped by religious and sectarian conflicts now being fuelled, in particular, by the Cheney faction inside the U.S. government. In his keynote remarks at a Jan. 12-13 *EIR* seminar in Berlin, LaRouche had called for a "New Treaty of Westphalia," to deal with the grave threats to the political and economic stability of Eurasia. The original Treaty of Westphalia (1648) ended 30 years of religious and sectarian warfare that had wiped out a third of the population of Central Europe. France's Cardinal Mazarin organized the Treaty, on the basis of the principle of "the advantage of the other." Today, that principle must be implemented quite concretely, not as a configuration of political sentiments, but through the creation of long-term agreements under a new system of fixed currency exchange rates, which will produce long-term international credit for investments in basic physical economic infrastructure.

We shall have more to say about implementing such a system in the weeks ahead.

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