

# The System Is Finished: Build Infrastructure!

by Nancy Spannaus

As of this writing, the cat is out of the bag. The world has entered a full-blown banking crisis, and the overwhelmed central bankers are pouring out hundreds of billions of dollars in the vain hope of stanching the bleeding. Even more worrying, the U.S. President, the Congress, and a host of other influentials are showing utter incompetence, and in some cases are proceeding to accelerate the catastrophe through proposed currency warfare against China, and other nonsense.

It's time to get serious. For decades, Lyndon LaRouche has been forecasting *precisely* this result, should the world financial authorities continue to pursue the logic of their anti-Roosevelt policies, begun at the moment of FDR's death. And he has been right. More immediately, it was less than one month ago, at his international webcast, on July 25, that LaRouche told the world that the process of world financial breakdown was already, unstopably, under way. The speed of that disintegration, as documented below, has been breathtaking. Can any sane person now doubt he was right?

The financial blowout under way is now an undeniable reality, and there is only one plan on the table for dealing with it. That plan, devised and updated by LaRouche over the decades, calls for carrying out the necessary bankruptcy reorganization, and launching an FDR-style program of directing credit toward massive infrastructure-building. The bankers, as shown by their frenetic attempt to save the system, have apparently learned nothing since the time of Andrew Mellon and the other pro-Hitler bankers who brought us the 1930s Great Depression. But LaRouche, in the tradition of FDR, is prepared to provide the leadership, and outline what must be done.

Before Labor Day, LaRouche will be presenting a draft platform on which the Democratic Party should run in the 2008 elections, a document that will define the principled approach which must be adopted to create a new world monetary-financial system. In the meantime, however, he has com-

mitted the following package of emergency measures, as a focus for mass mobilization during the month ahead. With these measures, taken from the top down, there is no need for panic. Let the speculators pay the price for their crimes: Our business is to establish the new credit mechanisms required to rebuild the economy, and a future for mankind.

But let us first review the immediate precursors of today's dramatic events.

## From LaRouche's Webcast Address

First, recall LaRouche's July 25 statement:

"First of all, this occurs at a time when the world monetary financial system is actually now currently in the process of disintegrating. There's nothing mysterious about this; I've talked about it for some time, it's been in progress, it's not abating. What's listed as stock values and market values in the financial markets internationally is bunk! These are purely fictitious beliefs. There's no truth to it; the fakery is enormous. There *is* no possibility of a non-collapse of the present financial system—none! It's finished, *now!* The present financial system can not continue to exist *under any circumstances, under any Presidency, under any leadership, or any leadership of nations.* Only a fundamental and *sudden change* in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse. At what speed we don't know, but it will go on, and it will be *unstoppable!* And the longer it goes on before coming to an end, the worse things will get.

"And there is no one in the present institutions of government who is competent to deal with this. The Congress—the Senate, the House of Representatives—is not currently competent to deal with this. And if the Congress goes on recess, *and leaves Cheney free*, then you might be kissing the United States and much more good-bye, by September."



EIRNS/Stuart Lewis

Lyndon LaRouche, shown here at a youth cadre school on July 28, has an impeccable record of long-range economic forecasting—and the present banking blowout has only underscored that fact.

## Pointing to Disaster

Within days of LaRouche's webcast, there was ample evidence that leading bankers were well aware that the collapse was under way. Note the following report from the website of the LaRouche Political Action Committee (LPAC) on Aug. 1:

"The entire capital structure from equity all the way to AAA can go to nothing," Steve Eisman, a portfolio manager at FrontPoint Partners, told a July 19 conference call on the subprime mortgage debacle, according to the Aug. 1 edition of the *New York Times*.

LaRouche responded that Eisman's statement was basically correct. Because the claims outstanding far exceed any means of payment, and the bulwarks which have enabled people to hide this growing discrepancy, are crumbling. And what happened, is that the overwhelming pressure out of the real-estate market, which had been in place since Cheney came into office, collapsed. This is the one that hit the banks the hardest. And when you hit the banks, which were being used as the slaves for this operation—the banks did not deliver the indicated, requested support for this last wave of speculation. And they didn't do it, because they didn't have it.

It's like the tale of the horse, LaRouche added. For the lack of a nail, the horseshoe was lost. For lack of a shoe, the horse was lost. For lack of the horse, the rider was lost—and for lack of the rider, the kingdom was lost. It's that sort of situation. It was inevitable.

## The July 28-30 Watershed

On July 30, three significant events came to light: the election loss for the Japanese government, which has clung to the

yen carry trade; the dramatic failure of the German Industriekreditbank (IKB), which sent it begging for a huge bailout from the Kreditanstalt für Wiederaufbau; and the reports from financial press that the issuance of high-quality, investment-grade bonds had almost collapsed.

LaRouche responded with a calm assessment. "The system has already come down," he said, and the question to be dealt with is what to do. At this point, he announced his intention to draft the election platform for the Democratic Party to address what has to be done.

LaRouche located the significance of the collapse of the yen carry trade, as a cutoff of the flow of funds into the system, which had fueled the speculative explosion of hedge funds, private equity funds, etc. Once this inflow was cut off, and someone at the other end of the process tried to collect on the unpayable debt, the pretense of solvency of the system was over.

He then turned his attention to the Congress, which was still in session, but caught up in busywork, of no relevance to reality. They cannot leave town for the scheduled recess, or else Cheney and his British masters will unleash a war that will wipe out 40-80% of mankind before the dust settles, LaRouche emphasized. The rate of collapse of the entire global financial system is going to accelerate now. It is full steam ahead.

There's no need for desperation, LaRouche added, such as was demonstrated by Sen. Chuck Schumer (D-N.Y.), in trying to bail out bankrupt financial institutions in order to keep them in New York City. We will save the banks required to keep the country functioning, LaRouche said, but not the other trash.

## July 31

As of July 31, the rush of reports about the jamming-up or collapse of the banking system began to hit fast and furious.

- Bloomberg was reporting a three-fold increase in the cost of credit-default swaps, and the resulting pileup of unsold bonds and loans.

- American Home Mortgage, the 20th largest mortgage lender specializing in "Alt-A" mortgages, was exposed as on the brink of bankruptcy, after its stock lost more than 90% of its value, and trading was suspended on the New York Stock Exchange.

- Bear Stearns announced that it had halted redemptions from a third hedge fund, after investors demanded their money back. The first two funds blew out in mid-June.

- Mortgage Guaranty Corporation, the nation's largest insurer of home loans, was reported by the *New York Times*,



FDR Library

Franklin Delano Roosevelt's launching of huge government-funded infrastructure projects played a major role in getting the U.S. out of the 1930s depression. Here, FDR, with cane, inspects the Hoover Dam, in 1935.

to have announced that its underwriting business may be worthless.

- Sowood Capital Management LP, a hedge fund with more than \$3 billion in assets, told its investors that its Alpha funds lost more than half their value over July, and that it planned to sell its portfolio, and pay investors what might be left over.

- And, to underscore the fact that it's the *international* system that's blowing, not just the U.S., the French press revealed that Oddo Asset Management, a 23 billion euro firm with involvement in the U.S. subprime market, was liquidating three of its funds.

## August 1

What the failing financial system means for physical existence struck home this day, when the Minneapolis I-35W bridge over the Mississippi River collapsed, taking a still-unknown number of people to their deaths. Political shockwaves from this development were immediately felt in Washington, D.C., where a number of Congressmen and Senators went into action.

LaRouche, for his part, issued the foreword to his upcoming Democratic Party Platform, for immediate circula-

tion. It read, in part:

“As a result of that stubborn clinging by current political authorities to misguided policies, especially the now-failed monetary, economic policies, and warfare policies of the recent three decades, the world's present monetary-financial system has thus begun its death-agony. A new system could survive; the presently existing one could not. What dreamers and false prophets said could never happen, has now happened. Whereas the world's *physical economy* could be rescued from the presently inevitable bankruptcy of the failed present monetary system, yet *the presently dominant world monetary-financial system, is now as doomed as the legendary Dodo.*

“That system was already threatened with a future crisis in the shifts in policies adopted under President Harry Truman, during the immediate period following the end of what is generally referred to as World War II. However, it was only two decades later, with the U.S. entry into a long war in Indo-China, that the dangers became clear. Today, without a return to the anti-monetarist, American System of political-economy, a return to those principles which informed President Franklin Roosevelt's recovery from the 1930s world depression, the worst outcome imaginable were about to happen to the world at large.”

## August 3-4

Over these days, the attempt to paper over, or downplay, the significance of the previous week's events as indicating the bankruptcy of the system as a whole, began to fail.

- Jochen Sanio, head of the German financial market watchdog agency BaFin, declared that the IKB crisis reflected the worst banking crisis in Germany since 1931.

- American Home Mortgage declared it intended to shut down.

- Investment banks were reported to be stuck with \$500 billion in unsellable junk bonds.

On the political side, Vice President Dick Cheney had a tyrannical rage fit, and got President Bush to demand that Congress cancel its recess until it delivered a change in the Foreign Intelligence Surveillance Act (FISA) that grants police-state powers to the White House. In the same vein, Bush himself threatened to veto the Water Resources Development Act of 2007, which had passed the House by a vote of 381 to 40.

“This callousness is abominable—the President doesn't give a damn!” LaRouche commented. “This shows how much of a Cheneyac Bush is. He's insane. I wonder how the President would have reacted if he had a mind of his own.”

## August 5

Speaking to a cadre school of the LaRouche Youth Movement in California, Lyndon LaRouche reflected on the recent developments, in light of his long-range forecasting method:

“Well, I can say that I've had quite a bit of success as a long-range forecaster. Every forecast I've made in the past



*The massive infrastructure program which is required to build our way out of the economic and financial breakdown crisis will depend heavily on a crash program of building nuclear power plants. Here, a nuclear plant on the Susquehanna River, in Luzerne County, Pa., with its huge cooling towers.*

years—and it goes back to the middle of the 1960s, actually, and some forecasts earlier—have been correct, have been confirmed: As I presented it.

“Now, there’s some people who’ve tried to put some spin on what I said—and I didn’t say that!—because they like a prediction of the dates that something’s going to happen. You know, sometimes you can get into that, when you see that a definite date is going to be the probable event, because of certain circumstances which indicate how people are going to react to certain developments and that will give you a date. But generally, you don’t know exactly when something is going to happen, because you’re dealing with a human factor. People can decide to do different things, and that can shift the date. For example, many times in the past period, we’ve had a collapse situation waiting for us, and that has been postponed, been postponed by a decision, by people of influence in the markets. But what that decision has done, by postponing it—they’ve made it worse.

“So, when you make a forecast, you have to forecast that, you have to say that, *if you’re not going to make it worse, this is going to happen.* And if you do prevent it from happening, it’s going to become worse. And you can indicate where you stand in the general perspective, then, and that’s about as accurate a forecast as you can make.

“Now, the gut of a forecast, which I’ve always been successful at, is that you forecast the conditions which underlie

your forecast. That is, the conditions—you identify the conditions, and you identify the kind of behavior associated with those conditions. And what you’re doing, is giving people on the receiving end of your forecast, the way in which they can think about what you’re saying, and can, on their own, read the signs, so to speak, and themselves, see where we stand.

“Generally, the purpose of a forecast, is to tell people what to do. It’s to say, ‘this is the time to do this, this is the time to do that.’ And on that, I’ve always been right. And I’ve made that forecast again, recently, in updating it.

“Now, we just had, in the past period, we had breaking out in Germany, of all places, the clearest indication of a general collapse in progress in the world financial and related markets, and in the economies. It was not really an accident. And the significance, of course, is that Germany, because it’s the remnant of an industrial economy in Western and Central Continental Europe, that is, west of Russia and Belarus, therefore, it’s pivotal for the whole world economy. If Germany goes, that can pull down a chain-reaction which can sink the world economy, and we

had something very close to that, this past week. And we didn’t escape from the effect of that collapse: rather, we went into a new phase, where the potential for collapse is more dangerous and more likely, than it was before that happened.”

### **August 7-9**

As the new week began, it became increasingly obvious that the crisis in the banking system was not under control, in the United States or internationally. There were reports that the banks had tightened up mortgage lending—like locking the barn door after the horses escaped. Storms were evident in the municipal bond market. Bear Stearns fired its co-president, but that did not stop the plummeting of its stock. Banks were begging for a loosening of liquidity.

At the FOMC (Federal Open Market Committee) meeting on Aug. 7, the Fed declined to lower interest rates, as if to say, let the bankrupt banks go under. However, the clamor of the hedge funds and investment companies and banks demanding credit kept growing greater. By Aug. 9, according to insider reports, there was a freeze-up of interbank lending in Europe for a period of hours, leading to a new stage of panic—and then the opening of the floodgates of liquidity by the European Central Bank and the Federal Reserve, at levels that surpassed the amount of credit issued right after 9/11.

But, that won’t solve the problem, as LaRouche’s long-term forecasts have made clear.

# A Table of Organization For U.S. Economic Recovery

A top-down approach is required to provide credit on the scale needed to repair the decayed U.S. infrastructure, and to create the expansion of the physical economic base in the process. There are current and recent bills before Congress that contain many relevant programs for dealing with both emergency projects—typified by the rebuilding needed on the Mississippi River and Gulf Coast, plus for ongoing or new projects, such as high-speed rail. But the question remains: Where will the *trillions* of dollars and *physical capacity* come from to accomplish these tasks?

In June 2006, a draft bill, the “Economic Recovery Act of 2006,” was issued by the LaRouche Political Action Committee (LPAC), outlining the urgent intervention needed from the Federal government, to save the industrial capacity embodied in the U.S. auto/machine-tool sector, being taken down by globalization. On Jan. 23, 2007, it was presented to a hearing on the “State of the Economy,” held by the House of Representatives Ways and Means Committee. But no Federal action was taken, and over a 72-month period, almost the entire U.S. auto industrial sector has been dismembered.

Given the scale of the collapse of infrastructure, as shown by the Twin Cities bridge, on top of the Katrina wreckage, the question is now more urgent than ever: How can the means be found for the mission of rebuilding?

The following is presented as a summary Table of Organization, for how to proceed. Following that is a newly revamped “Economic Recovery Act of 2007,” which LPAC is circulating to Congress now.

## I. National Infrastructure Bank

At the top of the entire effort must be a Federal credit mechanism, shown on the schematic here as the National Infrastructure Bank. This facility can be established under the powers of Congress, authorizing it to create debt for the sole purpose of funding approved infrastructure projects—the direct costs, the inputs, and all functions related to accomplishing the job. Thus it operates as a capital source, outside the demands and constraints of the Federal operating budget. Loans can be made at the rate of 1-2% interest, and the appropriate long-term conditions will apply.

There are many precedents for this kind of long-term,

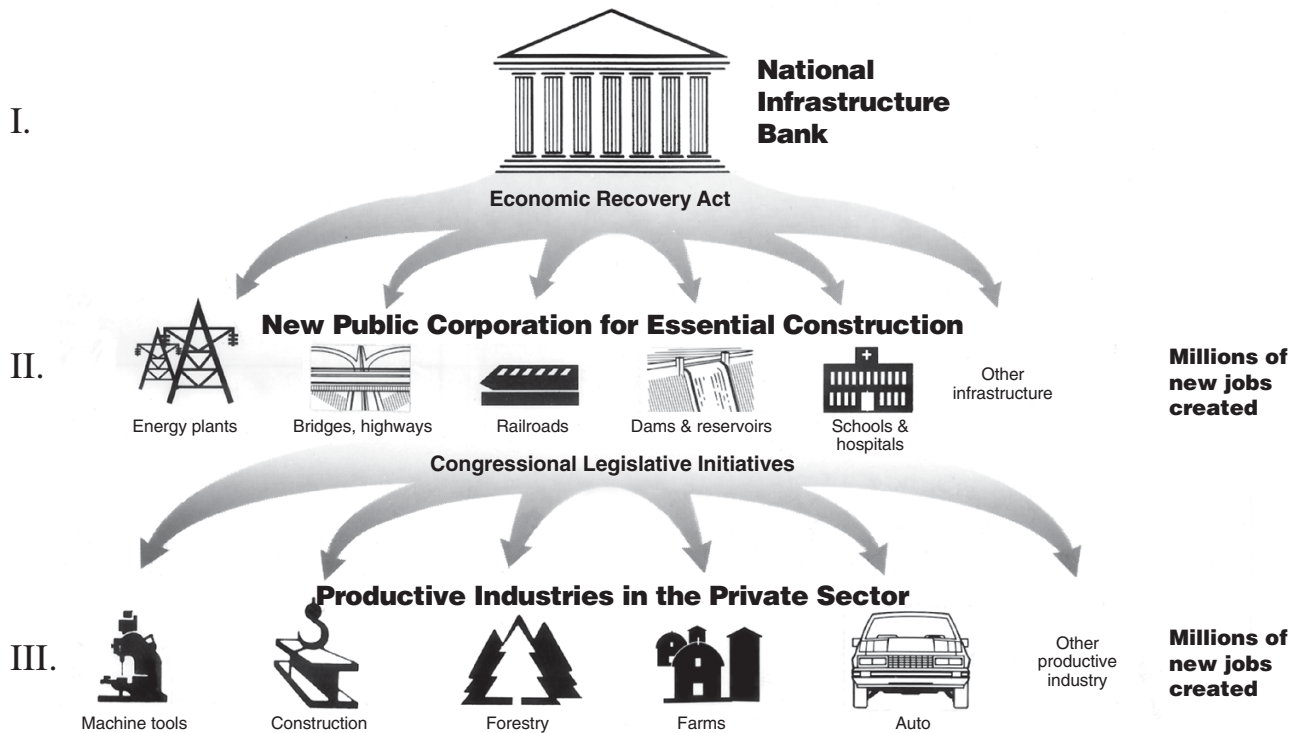
low-interest credit function, on the part of the Federal government. In the early decades of the United States, there were the canal projects and other infrastructure development. During the FDR years, a massive amount of hard infrastructure—bridges, schools, water systems, and the like—was built this way, many of which facilities we still use today.

## II. Economic Recovery Act

On the next tier, comes the function of directing the effort and funding for restoring the industrial and infrastructure-building capacity of the nation. As originally laid out, the Economic Recovery Act of 2006 focussed on stopping the take-down of the auto/machine-tool sector, by creating a Federal public corporation to assume control of, and operate—directly, or by contract—the discarded and unused plant-and-equipment capacity of the automobile/auto-supply sector. The entity was called the Federal Infrastructure Plants Corporation, and would also utilize unused facilities in other sectors such as military bases, shipyards, fabricating plants, and so on. In turn, this capacity could be retooled to produce, along with remaining corporate manufacturing, the array of components necessary to refurbish decaying infrastructure: bridge trusses, flood gates, lock valves, and all the rest, simple or complicated. Among the precedents, is the famous period of World War II, when auto plants were converted to tank, truck, and aircraft assembly lines.

Now today, the task of rescuing and regrouping what remains of the pillaged auto sector is vastly harder than it would have been just two years ago. But the principle still stands and can work today as it did in the Second World War. At that time, the Defense Plants Corporation, created under the Reconstruction Finance Corporation in 1940, leased and commissioned industrial capacity with spectacular success.

The heart of making it succeed, is the re-enlistment of the dispersed labor force of the former industrial belt. From western New York State, through to St. Louis, there are the skilled machine-tool and shop-floor workers, design experts, engineers, and others, whose expertise is invaluable. They can confer on the specifics of how to gear up to re-industrialize—what can be made where, how, and by what machines, etc. Over the past five years, these families have been dislocated,



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either underemployed in their home towns, or forced out of state to seek a livelihood. A stream of people from Ohio, Michigan, Indiana, Pennsylvania, and other industrial states, have relocated into suburban Washington, D.C., because their home counties have all but closed down.

They need to be able to “go home,” and rebuild the nation.

The second tier of the Economic Recovery diagram illustrates that if the programs for upgrading energy transmission and generation, especially nuclear power, bridges, highways, and railroads were built, along with waterworks, and so-called soft infrastructure, including schools and hospitals, there would be both a pattern of restored activity in the counties where the projects were under way, plus there would be a massive demand in the newly revived manufacturing counties.

A pattern of “re-population” would be evident, as the outflow would stop from hundreds of rural counties, as well as depressed urban areas.

### III. Legislative Initiatives

The third tier of this recovery picture involves carrying out the various Federal, state, and local projects qualified as part of the recovery effort. The schematic illustrates the combined effect this infrastructure drive will have on reviving various productive sectors, from machine tools, to agriculture, to manufacturing capacity.

There are several bills and measures before Congress,

which meet the requirement. There are also thousands of “ready-to-go” projects at the state and municipal level.

The following are indicative.

**Rebuilding America’s Infrastructure Act of 2007, H.R. 3400.** Introduced on Aug. 3, 2007, by Ohio Reps. Dennis Kucinich (D) and Steven LaTourette (R). Introduced into the past three sessions of Congress, this bill would create a low-cost Federal financing mechanism to administer zero-interest loans to localities and states. The bill is to “improve critical infrastructure in Ohio and nationwide,” such as bridges, dams, levees, water treatment, and other vital facilities.

**The United States National Health Insurance Act, or the Expanded and Improved Medicare for All Act, H.R. 676,** sponsored by Rep. John Conyers (D-Mich.), was introduced on Jan. 24, 2007, and now has 76 co-sponsors. It mandates health care for all. It calls for a “Capital Expenditures Budget,” to construct or renovate health facilities, and for major equipment acquisition. Under a National Board of Universal Quality and Access, state directors will provide to the Board a health-care needs assessment, including oversight and placement of facilities, new hospitals and new health-care equipment.

**The National Infrastructure Corps Act of 2006, H.R. 6181** of the 109th Congress, Second Session. Sponsored by Reps.



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*A new span of Washington, D.C.'s Woodrow Wilson Bridge opened to traffic last year, after extensive construction work. There are many bills before Congress to repair the nation's decrepit infrastructure, as well as thousands of "ready-to-go" projects at the state and municipal level. What's needed is a top-down approach to provide funding, and the political will to push the programs through.*

William Lacy Clay (D-Mo.) and Major R. Owens (D-N.Y.), the measure expands such existing programs as the National Civilian Youth Corps and the Urban Youth Corps, on the model of the 1930s Civilian Conservation Corps (CCC), to provide employment for the jobless "to repair and replace obsolescent and broken-down infrastructure." Millions of jobs can be created on the thousands of needed projects, in the same way that Harry Hopkins, in the FDR Administration, created 4 million jobs in nearly 30 days for the Civil Works Administration.

**Water Resources Development Act of 2007 (WRDA)**, H.R. 1495, was passed in the House of Representatives on Aug. 2 by a resounding vote of 381 to 40, the first such measure since 2000. This bill authorizes \$21 billion for over 800 water resources projects or studies, to be undertaken by the Army Corps of Engineers. Among them, is the refurbishing of long-outmoded locks and dams on the Upper Mississippi-Illinois Rivers.

**Passenger Rail Investment and Improvement Act of 2007**, S. 294. Its lead sponsors are Sens. Frank Lautenberg (D-N.J.) and Trent Lott (R-Miss.), and in May 2007, the bill, after unanimous passage in committee, went to debate in the full Senate. The measure would start to rebuild Amtrak passenger rail service. The bill provides \$12 billion in dedicated Federal support, over six years, for Amtrak's operations (\$3.3 billion), capital investments (\$6.3 billion), and for its debt and interest payments (\$2.4 billion). Another key provision

provides \$7.8 billion in capital grants to states for development of rail corridors over six years.

**Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, Technical Corrections Act of 2007**, H.R. 3248, concerns surface transportation projects across the United States. Passed on Aug. 3, 2007 by 422-1 in the House, it modifies a 2005 law—SAFETEA-LU—of the same purpose, and contains among its provisions, Federal support for magnetically levitated rail development. The maglev portion of \$90 million is a bare life-support level. Fifty percent of the funds goes to a demonstration project in Nevada. The remainder will go to one other project, either in Pennsylvania, or Baltimore/Washington, D.C., or Georgia/Tennessee; and a preliminary study of a Philadelphia/New Jersey/New York City corridor. But scaled up, this program could launch maglev routes serving priority development corridors across the continent.

**The "Independent Budget for Veterans Affairs"**, which is prepared yearly by a coalition of four veterans groups, including AMVETS, Disabled Veterans of America, Paralyzed Veterans of America, and Veterans of the Foreign Wars, calls for \$1.602 billion in funding for major construction for the 2008 fiscal year, and another \$541 million for minor construction projects. The IB also identified another \$1.6 billion of needed expenditures on Non-Recurring Maintenance (NRM), such as repairs to roofs, replacement of windows, and upgrades to mechanical or

electrical systems to make up for the lack of funding for NRM in previous years.

A separate review of the Veterans Affairs system for handling disability claims, which presented initial findings at a March 13, 2007 hearing before the House Committee on Veterans Affairs, Subcommittee on Disability Assistance and Memorial Affairs, found a system on the verge of breakdown with a backlog of 600,000 disability claims.

**The Pandemic and All-Hazards Preparedness Act, S. 2678**, was signed into law on Dec. 19, 2006. It mandates and assigns 2007 funding to several programs which could spur development of human and physical resources for medical emergency purposes, and which could be scaled up as required, including: providing \$22 million to fund the development of the Medical Reserve Corps of volunteers, both health-care professionals and others, who would serve in the event of a large-scale medical emergency; expansion of the Epidemic Intelligence Service Program, adding 20 more officer positions in 2007 for underserved areas for graduates of the Career Epidemiology Field Officer Program; funding to establish Centers for Public Health Preparedness at qualifying public health schools (\$51 million); development of strategies and mechanisms for surge capacity for hospitals and other facilities (\$474 million); establishment of a Biodefense Medical Countermeasure Development Fund (\$1.07 billion) to facilitate development of new medicines and vaccines, and including the the ability to establish new research centers to develop vaccines and other countermeasures.

**The Commerce, Justice, and Science Appropriations Bill for 2008**, H.R. 3093, passed on July 26, raises NASA's FY08 budget to \$17.6 billion, a level that is \$1.3 billion above the 2007 appropriation, and \$290 million more than the President's FY08 request. A strong bipartisan effort garnered the approval, on July 4, of the Senate Commerce, Justice, Science Appropriations Subcommittee for a comparable \$17.5 billion FY08 funding level for NASA.

Despite the Administration's public commitment to the space program, in the form of the 2004 Vision for Space Exploration initiative, which sets goals of returning men to the Moon, establishing a base there, and later mounting manned missions to Mars, the White House has refused to adequately fund it. The five-year projection of the budget needed annually by NASA to meet the program's major milestones, proposed by the Administration and passed by Congress in 2005, has been underfunded by more than \$1 billion per year.

With a clear understanding that the science-driver effect of the space program increases productivity throughout the entire physical economy, especially in technologies and designs of infrastructure, and creates future generations of scientists and engineers, the increase in this budget can play a major role in spurring economic recovery.

# The Economic Recovery Act of 2007

*This draft legislation is being circulated to Congress by the LaRouche Political Action Committee (LPAC).*

## 1. TITLE: THE ECONOMIC RECOVERY ACT OF 2007

## 2. FINDINGS

Congress finds the following:

A. America's vital economic infrastructure, once unparalleled after the work of President Franklin Roosevelt's administrations and war mobilization, has been neglected for decades and deprived of significant investment. U.S. infrastructure is undergoing a manifest breakdown, with loss of economic productivity and increasing danger to life and limb of citizens.

This is occurring at the same time that the credit markets are in a crisis threatening general collapse, as a result of years of unbridled speculation in consumer and corporate debt bubbles. The United States requires, immediately, massive investments—on the order of *hundreds of billions of dollars annually*—in a new, high-technology national economic infrastructure.

B. There exists no prospect for private capital investment in infrastructure on any significant scale. This private capital liquidity itself, increasingly, does not exist; it was based upon speculation in debt bubbles. And when it did exist, until recently, in apparently huge volumes for investment, the rates of return demanded by this global ocean of speculative capital did not allow its investment in economic infrastructure.

"Public-Private Partnerships" have not built any infrastructure; they have merely purchased infrastructure that the people of the United States and the several states had built—and looted it for its cash streams.

Modern infrastructure requires investments through the emission of Federal credit at 1-2%, no more, with a long-term maturity, though not as long as the economic life of the infrastructure it is building.

C. Government may thereby reactivate, under private contracts, the private sector's potentials to contribute to infrastructure building—not via Wall Street; the City of London; Greenwich, Connecticut; and the Cayman Islands—but in the auto industry's endangered machine-tool capabilities, those of the aerospace sector, the power and steel industries, the construction industry and its workforce, and so forth.

That is the included purpose and intention of this Act.



D. The United States suffers a worsening crisis in its public infrastructure. This breakdown is clear: in the failure of water control, transportation infrastructure, and power infrastructure in the Gulf states during Hurricanes Katrina and Rita; in the long heat-blackouts of hundreds of thousands in major cities in Summer 2006 due to failure of obsolescent power distribution networks and inadequate power capacity; in the lack of refinery capacity and dependence on oil imports; in the spread of freshwater crises throughout the Western half of the country in the past decade.

The United States lacks railroad and mass transportation infrastructure, with shrinking air travel grids; its electric power infrastructure is falling behind under deregulation; it has lost fossil water and freshwater supplies for irrigation, and has inadequate drinking water supply in rural regions; its water control—especially upstream dams—and river navigation infrastructure are obsolescent; it has insufficient port and landside port-rail infrastructure; and insufficient hospital infrastructure for any serious public health crisis. This is given only a minimal estimate in the American Society of Civil Engineers' "infrastructure report card" which estimates the need for \$1.7 trillion in investments merely to repair and replace obsolescent and broken-down infrastructure.

1. Each \$1 billion of Federal funding invested in new, modern infrastructure creates approximately 50,000 jobs and \$6 billion in economic activity.

2. States, cities, transit authorities, airport authorities, and other entities have thousands of ready-to-go infrastructure projects, which will create long-term capital assets for the United States and which can help stimulate the nation's economy.

E. Under the impact of "globalization," there is a massive and ongoing loss in the machine-tool capabilities of the U.S. economy. This danger is centered in the accelerating "outsourcing" and shut-downs of plants in America's most important and versatile machine-tool industry, the auto industry. Eighty million square feet of auto capacity are being closed and machinery auctioned off over the 2006-08 interval, more capacity lost than in the last 30 years combined. Sixty million square feet of aerospace/defense capacity are closed and machinery auctioned off since 1990. U.S. consumption of machine tools is only 60% of the 1980 level; of that consumption, 60-70% are imported machine tools; much of this stock, in turn, is being destroyed or sold off overseas as plants are closed; machining vital to national security, including defense and aerospace production, has been and is being outsourced.

F. The machine-tool sector is the core of an industrial economy where scientific and technological ideas are turned into new economic reality. If the U.S. auto-manufacturing industry is destroyed, the U.S.A. becomes a virtual "Third World" nation overnight. The nation's machine-tool design capability, most of which is tied up in the U.S. auto-

manufacturing and supply firms, is lost. The loss of the tool-making and closely related capabilities of that sector of industry would cause incalculable, chain-reaction consequences, within our nation, and also the world at large.

The loss of auto and auto-parts plants means an economic disaster, approaching ghost-town proportions, for entire towns, counties, and cities, even states of the union, which are already highly vulnerable.

The loss of employment of that machine-tool design segment of that part of the labor-force, means many times that number of skilled and unskilled employees out of jobs.

G. We must replace that work immediately with a switch to other categories of technologically very high-grade products which the auto industry's machine-tool capacity is uniquely qualified to design and produce. The alternative mission for this purpose is chiefly in the category of needed, new economic infrastructure.

### 3. PURPOSES

Congress adopts the following purposes:

- A. To create a National Infrastructure Bank, with a long-term capital credit capacity of up to \$5 trillion.
- B. To reverse by Federal investments the neglect, decay, and deregulation of critical economic infrastructure of the United States; and to foster the building of projects of a new national infrastructure using 21st-Century technologies of transport, power, navigation, water purification, and others.
- C. To prevent the wholesale loss of the U.S. machine-tool sector, particularly the auto industrial-machine tool sector and its skilled workforce; since it is rapidly being lost, Congress must act with speed and force.
- D. To preserve a national strategic machine-tool design and production capability and associated skilled workforce, from among auto industry plants otherwise being idled and discarded and their production outsourced by the automakers.
- E. To save skilled and industrial jobs, and to create new such jobs, by retooling these idle plants and capacity, to machine and produce the bill of materials for infrastructure projects in power, rail, transport, water management, and energy; to create many tens of thousands of semi-skilled and unskilled construction jobs indirectly, through the construction projects involved in the building of new infrastructure.
- F. Congress adopts for these purposes, the model of functioning of the Reconstruction Finance Corporation (RFC). and its amendment, the Defense Plant Corporation (DPC) Act of 1940.

### 4. TITLES:

**Title 1. A National Bank for Infrastructure** is created, under the Constitutional authority of the Congress and the De-

partment of the Treasury to emit credit and currency for purposes of promoting the General Welfare of the citizenry.

**Title 2: Infrastructure.** The National Bank for Infrastructure shall fund and carry out, and may aid other public agencies or corporations and state or local government agencies in carrying out, projects of new, modern economic infrastructure including a) passenger and freight rail transportation, including regional and national high-speed rail corridors, magnetic-levitation trains on priority routes, and light-rail and mass transit systems; b) electric power production, including third- and fourth-generation nuclear power plants, and electric power distribution systems; c) freshwater purification and desalination infrastructure, d) modern water-control and water-management systems; e) ocean ports and inland navigation freight-transport systems; f) hospitals and public health infrastructure.

**Title 3: Funding of the National Bank for Infrastructure.** The Bank shall be provided a capital-budget stock by issuance of 2%-interest, long-term special-purpose bonds by the Treasury to the Bank, for discounting at Federal Reserve banks. The corporation shall be under the authority of the Secretary of the Treasury.

A. The authorization of issuance of credit from the Treasury, through issue of special-purpose bonds to this Corporation, is up to a limit of \$200 billion in each of Fiscal Years 2008 through Fiscal 2011; and \$300 billion in each of Fiscal Years 2012 through 2016.

**Title 4: Board.** The National Bank for Infrastructure's Board of Directors shall include the President; the Secretary of the Treasury; the Deputy Secretary of the Army for Civil Affairs; and the Secretaries of Transportation, Agriculture, Energy, Education, Labor, Housing and Urban Development, and Health and Human Services.

**Title 5: Federal Infrastructure Plants Corporation.** A Federal public corporation is created, the Federal Infrastructure Plants Corporation, to assume control of, and operate—directly or by contract—the discarded and unused plant-and-equipment capacity of the automobile/auto supply sector; and other unused industrial facilities, military bases, or shipyard facilities.

A. The Corporation is authorized 1) to produce, acquire, and carry strategic machine tools and other industrial machinery needed to produce the bill of materials for infrastructure projects; 2) to purchase and lease land, to purchase, lease, build, and expand plants, and to purchase, and produce equipment, supplies, and machinery for the manufacture of bills of materials for new eco-



EIRNS/Andrew Spannaus

*An abandoned steel plant in Bethlehem, Pa., 1999. Such wasted potential exists all around the country, and needs to be restored and modernized to meet the needs of a massive infrastructure buildup.*

- 3) to lease such plants to private corporations to engage in such manufacture; and 4) to engage in such manufacture itself.
- B. The Corporation may make loans to, or purchase the capital stock of any corporation for the purposes of Title 3A.
- C. The Corporation is further authorized to contract with state or local agencies wishing to use idled auto plants and machinery for infrastructure projects, subject to Title 5D; or to contract with firms wishing to lease auto plants and machinery for such contracts, subject to Title 5D; or to purchase auto product lines and auto-supply product lines where necessary to prevent loss of industrial employment to foreign producers.
- D. Contracting and Employment: The state, local agencies, or contractors are required 1) to maintain all plant facilities open and in repair, and at least maintain work levels, 2) to provide for preferential hiring of members of the pre-existing workforce who want to continue to work at the plant facilities, 3) to be subject to Davis-Bacon rules for Federal contracting, 4) to spend 90-95% of issued funds within two years of commencement of the project.

**Title 6: Engineering Survey of Plants and Facilities.** An engineering survey of these plants and other facilities shall be carried out by the U.S. Army Corps of Engineers (USACE) within six months of enactment of this Act, to determine and plan for their potential employment in producing the bills of materials for modern infrastructure projects.

# The Scope of the U.S. Infrastructure Deficit

by the *EIR* Economics Staff

The Aug. 1 collapse of the I-35W bridge over the Mississippi River in Minneapolis, is the most dramatic and recent event of a process of decades-long deterioration of U.S. infrastructure. To provide an overview of the rebuilding tasks, we present here a snapshot of the dimensions of the decay and danger of bridges, dams, and a selection of other categories of infrastructure, with references.

The American Society of Civil Engineers has estimated that \$1.7 trillion is required merely to stabilize the condition of core infrastructure. If the all the needs are factored in—including new water supplies, a modernized continental rail system, a nuclear power-based electricity supply, and so on—the costs then add up to \$8-9 trillion.

## Bridges, Highways, and Roads

There are a total of 592,473 road bridges in the United States, of which 26%, or 155,144 are deemed “structurally deficient and/or functionally obsolete,” according to the latest Bureau of Transportation statistical data. The office of Minnesota Congressman James Oberstar (D), chairman of the Transportation and Infrastructure Committee of the House, reports that up to 30% of the nation’s bridges that receive Federal funds have been deemed structurally deficient to some degree. Oberstar has scheduled a hearing Sept. 5 on the crisis, and has posted charts for review on the status of bridges, 1990-2006. His Committee website provides data on the classification of bridges by state, with a map for each Congressional District, as of 2003 (<http://transportation.house.gov/bridgемaps.shtml>).

The map of outmoded bridges (**Figure 1**) shows that 40 states have at least one in five bridges in the category of “structurally deficient and/or functionally obsolete” as of 2006. Of these, 11 states have more than 30% in this condition. And 4 states—Pennsylvania, Massachusetts, Hawaii, and Rhode Island—

plus the District of Columbia, have more than 40% of their bridges classified as decrepit.

In the absolute number of deficient bridges, Pennsylvania ranks highest in the nation. Of its total of 25,000 state-owned bridges, 6,250 need rehabilitation or replacement. In contrast, the state of Minnesota, where the Mississippi River bridge collapsed Aug. 1, ranks in the relatively “good” category, with only 12.2% (1,586) of its bridges considered in need of refurbishing or replacement. (Data on bridges are kept by the Bureau of Transportation Statistics at <http://www.bts.gov>.)

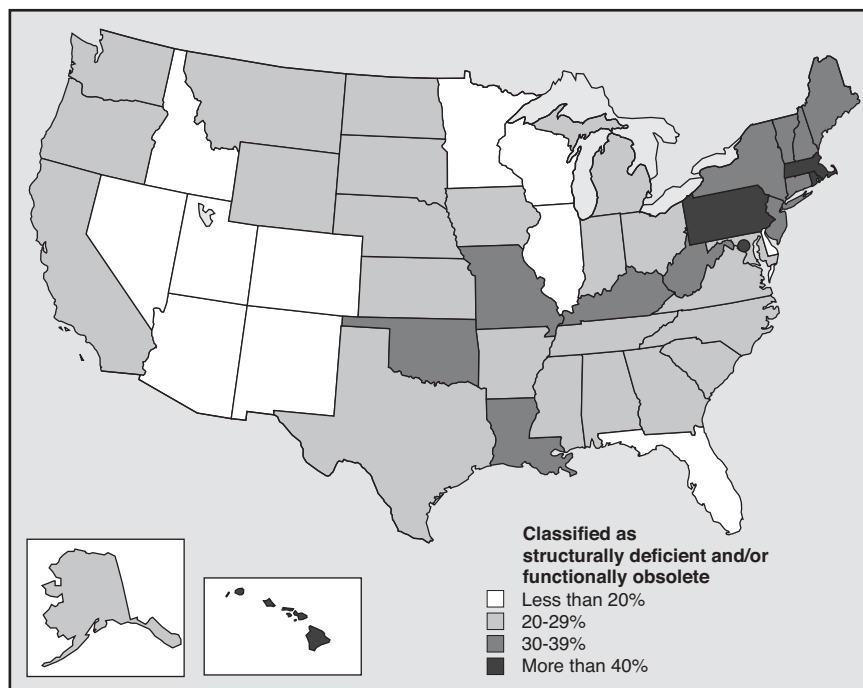
There are 756 other bridges in the country of the same vintage and design as the 40-year old I-35W bridge that collapsed in Minneapolis.

The U.S. Department of Transportation currently estimates that there is a \$461 billion backlog of needed road, highway, and bridge repair and improvements. The American Society of Civil Engineers, and the American Association of State Highway and Transportation Officials keep estimates on the loss to the economy from poor road conditions. For example, U.S. motorists spend at least \$54 billion a year in repairs and operating costs because of poor road conditions.

## Railways

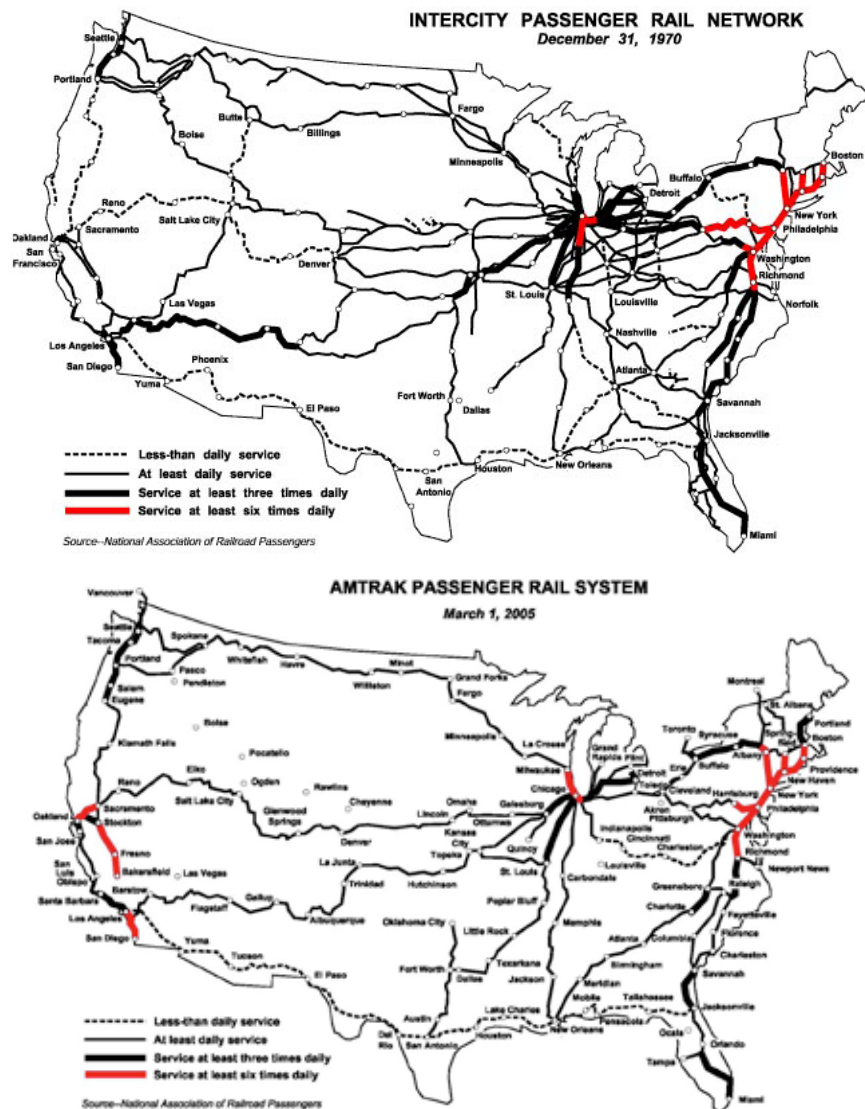
The U.S. rail system is a bare skeleton of its past operations, where route density peaked in the 1920s. Just taking

FIGURE 1  
**In 40 States, 20% or More of Bridges Need Repair or Replacement**



Source: U.S. Bureau of Transportation Statistics

FIGURE 2  
National Passenger Rail System Halved, 1970-2005



Source: National Association of Railroad Passengers; Amtrak.

In 1970, when Amtrak came into being, relieving freight railroads of their unwanted passenger rail services, the system's passenger route-miles had already been reduced from 88,717 miles in 1962 to the 44,020 pictured here. The Federal government and certain Wall Street "reform" advocates kept Amtrak on a starvation diet, resulting in a further takedown of the system as well as cannibalization of rolling stock and rail infrastructure, leaving a sparse passenger rail system. The 2005 map shows the remaining 21,807 route-miles left, a cut by half since 1970. Whole regions of the country are no longer served by rail despite increased demand for rail service.

the 20-year period from 1980 to 2000, here are the dimensions of contraction:

- A decline in Class I track mileage from 164,822 in 1980 (already far below its length of 229,530 route-miles in 1922), to 99,250 in 2000.
- A decline in the railroad workforce from 458,000 in 1980, to 168,000 in 2000—a drop of 63%.

- A 29% drop in the number of locomotives, from 28,094 in operation in 1980, to 20,028 in 2000.
- A 52% drop in freight cars in use, from 1,168,114 down to 560,154.

Figures 2a and 2b show the contraction in Amtrak passenger rail routes.

In addition to the shrinkage of the rail system, the condition of what remains is also inadequate, as the accident rate shows. In 2006, of 2,903 rail wrecks, 1,043 were caused by track defects.

The buildup that is required should be the occasion to shift to high-speed rail corridors, including magnetically levitated rail on priority lines.

## Dams

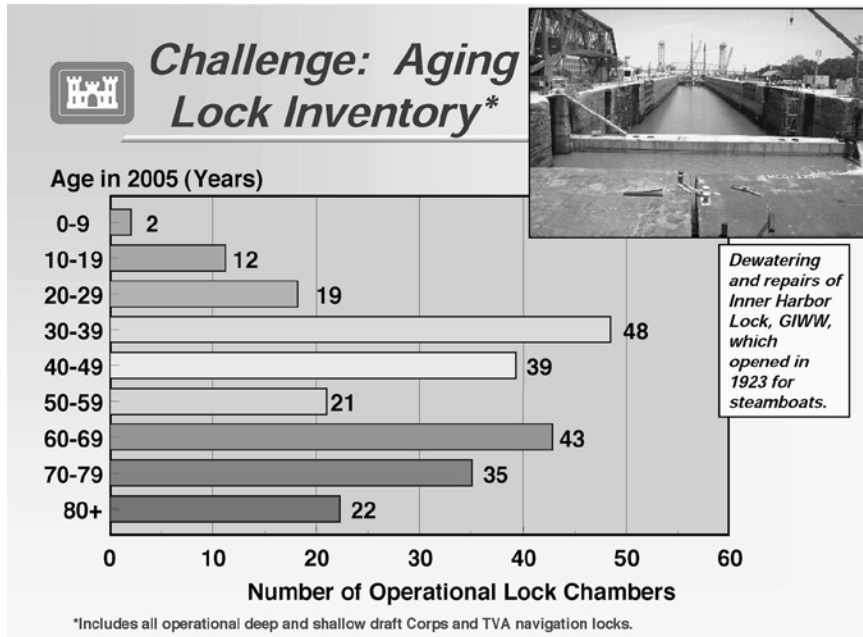
The nation has 82,642 dams recorded in the National Dam Inventory, serving purposes of flood control, navigation, hydroelectric power, irrigation, recreation, water supply, wildlife habitation, fire control, and other uses. The average age of these dams is 49 years, with tens of thousands of dams over 60 years old. Nearly 30% of dams are classified as hazardous—either high hazard (11,881) or significant hazard (13,549). The remainder, 57,194, are designated low hazard. The degree of hazard refers to the danger, especially threat of loss of life, to what is downstream. (A high-hazard dam can be one in decent condition, but at a site where there are many people residing downstream).

Of the 30,000 dams considered to be in some category of hazard, 3,000 are considered as actually unsafe. The "Report Card" of the American Society of Civil Engineers gives dam safety overall a "D," partially because of the lack of funding available to deal with these unsafe structures. In 2002, an estimate of \$10 billion was given by the Association of Dam Safety Officials for what it would have taken then to rehabilitate the most

critical high-hazard dams.

More than 70,000 dams are regulated by the dam safety officers of the 50 states. Various authorities have responsibility for the dams: Federal (3,382), state (4,189), local government (16,497), public utility (1,703), private (53,166), and some others. The Agriculture Department has 10,000 upper watershed dams. The U.S. Army Corps of Engineers' Nation-

FIGURE 3



way design, debris blockage of spillways, or settlement of the dam crest.

- 30% fail because of foundation defects.
- 20% fail because of piping (internal erosion caused by seepage). Seepage often occurs around hydraulic structures, from animal burrows, vegetation, cracks, and so on. See [www.damsafety.org](http://www.damsafety.org).

### Navigable Waterways

The need to upgrade the aging installations of locks and dams on the U.S. waterways, is indicated in **Figure 3** showing the aging of the lock inventory. **Figure 4** shows the map of the 12,000-mile system maintained by the Army Corps of Engineers. There are lock chambers in use that are over 80 years old. The backlog of Army Corps waterways work is well over \$3 billion.

Source: U.S. Army Corps of Engineers.

### Water Supply, Sewage Treatment

The United States has 54,000 community water supply systems and 16,000 publicly owned sewage treatment operations. All these systems are aging, and there is a huge repair and replacement deficit. In New York City, for example, there are water mains that are more than 150 years old, and they rupture with regularity.

There is also a need to provide new systems because of the 30 years of sprawl associated with real estate speculation, where housing has been located in areas with no central sewage infrastructure. In the former cornfields of suburban Washington, D.C., fecal bacteria counts in streams and run-off has reached the stage of a public health threat.

Replacing aging urban systems is going at a snail's pace. On July 16, 2007, the United States Conference of Mayors released the results of a study conducted by the Mayors' Water Council that showed that 48% of American cities are on a water and sewer pipe replacement

FIGURE 4



Source: U.S. Army Corps of Engineers.

al Inventory of Dams is available at: [www.tec.army.mil/NIDpublic](http://www.tec.army.mil/NIDpublic)

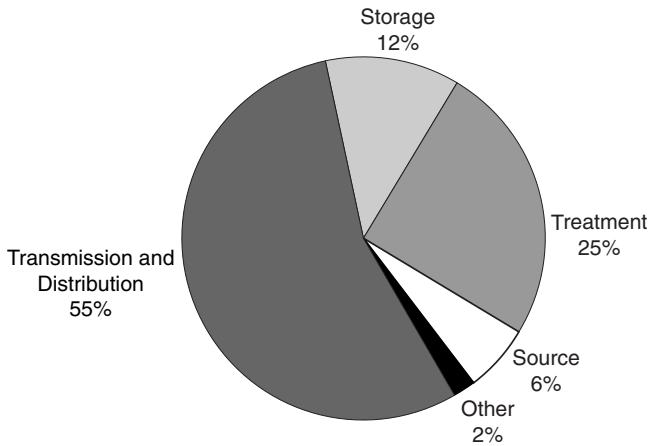
Of the dams tracked by the Association of State Dam Safety Officials, there are many causes of failure:

- 34% fail because of overtopping, from inadequate spill-

schedule of 20 to 100 years, and between 18% and 23% of cities are on a replacement schedule that will exceed 100 years. The estimated cost of overcoming the crisis, by making the repairs in the next 20 years, is in the range of minimally \$300 to \$500 billion.

FIGURE 5

## Pipes and Mains Are Biggest Area of 20-Year Restoration Projects for U.S. Drinking Water Systems



Source: Environmental Protection Agency Drinking Water Infrastructure Needs Survey, 1999.

The breakdown of those waterworks components in need of repair is shown in **Figure 5**. A 2003 study by the Congressional Budget Office concluded that over a 20-year period, it would require between \$178 billion and \$331 billion in pipe replacement costs alone.

The situation is urgent. The nation's capital is typical. The Washington Suburban Sanitary Commission, which maintains freshwater and sewer pipes for two counties outside the District of Columbia—Montgomery and Prince George counties in Maryland—reported that during February 2007, there were a stunning 477 water main breaks—16 per day. Sixty percent of the system's 5,300 miles of pipe is 30 years or older; another 25% is 50 years or older. With its current meager funding, the Washington Suburban Sanitary Commission will get around to replacing each mile of pipe only once in every 200 years!

### Schools

A survey completed in 2006 by the American Federation of Teachers (AFT) concluded that tens of thousands of public schools urgently need repairs, renovation, modernization, or new construction because of health problems and overcrowding. Nearly 20 years ago, the AFT

called for a Marshall Plan to upgrade public schools, because as Federal funds were dwindling, schools were deteriorating. This didn't happen.

A Government Accountability Office report in 1995 concluded that at that time 25,000 public schools needed extensive repair and replacement, and that it would take \$112 billion to bring existing buildings into conformity with the minimum building standards. The same report concluded that the air was unfit to breathe in nearly 15,000 public schools. As of 2004, 8.5% of schools had exceeded their physical space capacities, according to a report that year from the National Center for Education Statistics of the Department of Education.

In its 35th Annual "Maintenance and Operations Cost Study," American School and University found that in 2006 the median school district spent 7.58% of its total expenditures on maintenance and operations, well below the 9.59% spent ten years earlier.

In 2005, the American Society of Civil Engineers gave a "D" grade to American schools on its "infrastructure report card." The Society noted that in 2000, \$268 billion was the expenditure necessary to bring schools into conformity with standards, according to the National Education Association estimates at that time. A 2006 AFT survey of what is needed for schools, "Building Minds, Minding Buildings," is available at [www.aft.org](http://www.aft.org).

### Hospitals and Medical Equipment

The decline in the number of hospitals and the decrease in the ratio of hospital beds per 1,000 persons has reached the stage of crisis in many inner-city and rural areas. **Figure 6** shows that in 1980, 22 states were above or at the

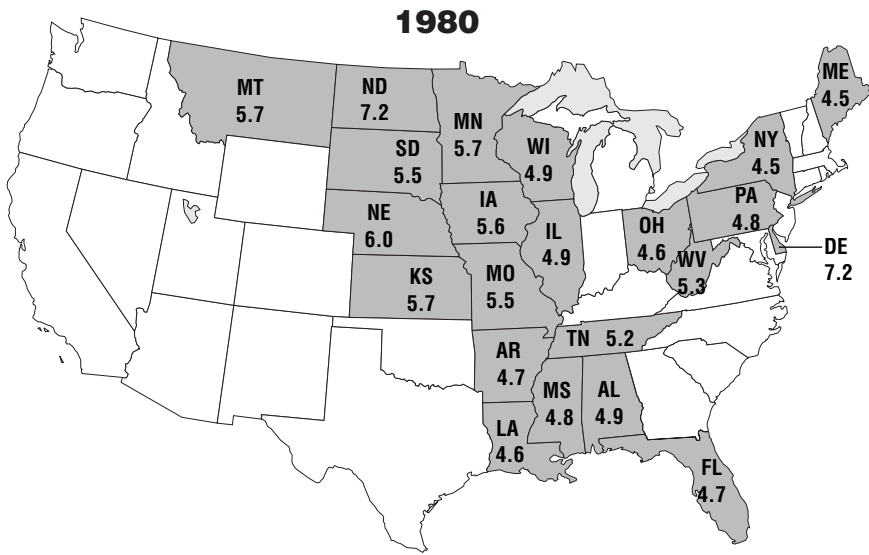


West Virginia Rural Water Association

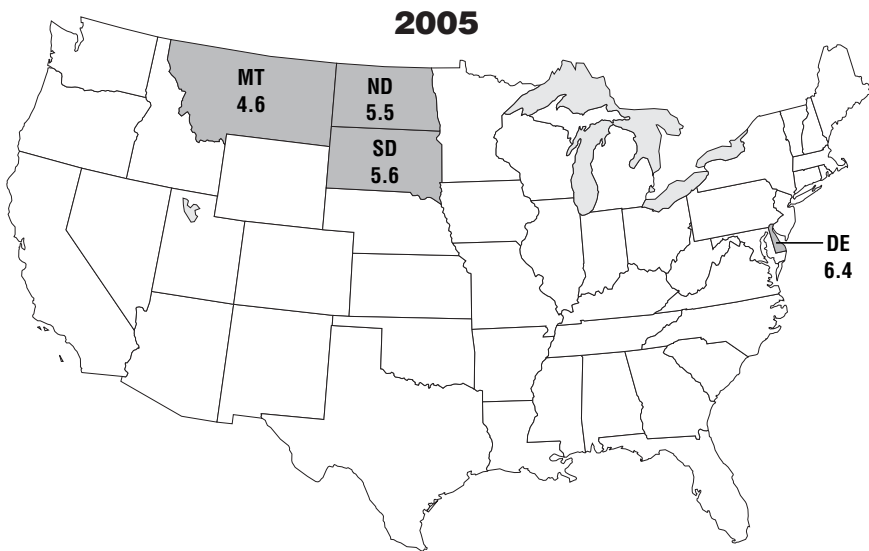
*A flood in West Virginia in 2002 opened up this enormous sinkhole in a road. The U.S. Department of Transportation estimates that there is currently a \$461 billion backlog of needed repairs and improvements of roads and bridges; the poor condition of infrastructure costs motorists billions per year.*

FIGURE 6

## Hospital Bed Ratios Decline, 1980 to 2005



Sources: U.S. Statistical Abstracts; EIR.



Sources: U.S. Statistical Abstracts; EIR.

*The 1946 Hill-Burton Act mandated the construction of and staffing of hospitals based on a county-by-county survey of the population's health-care needs. It set a ratio of 4.5 to 5.5 beds per 1,000 inhabitants as a baseline. In 1980, 22 states met this standard; but by 2005, the number had declined to only four!*

desired level of the ratio of 4.5 hospital beds per 1,000 persons. This is the “Hill Burton” standard, named after the 1946 law, “Hospital Survey and Construction Act”—co-sponsored by Rep. Lister Hill (D-Ala.) and Harold Burton (R-Ohio). Under this law, the U.S. hospital system was built up over the 1950s and 1960s, through Federal, state, and local funding, to have public hospitals in nearly all the

nation's 3,000 counties, and have a beds-per-1,000 persons ratio of 4.5 in urban areas, and 5.5 in rural areas.

Figure 6 shows that in 1980, most states were near this level. From 1958 to 1980, there was an increase of 583 community or general acute care hospitals, and 378,000 staffed community hospital beds. However, since 1980, there has been a dramatic reduction, to the point where only four states are at the “Hill Burton” standard. Hundreds of counties have lost their public hospital altogether, or their hospitals have been downgraded to a “critical access” operation, where they receive patients and ship them elsewhere for treatment.

Likewise, the availability of diagnostic and treatment equipment have declined for much of the population. Beginning in January 2007, Bush Administration cutbacks in Medicaid reimbursement payments for imaging technologies began to reduce the availability of lifesaving diagnoses of all kinds—MRI, CT, PET, DXA, and ultrasound scanning. This came on top of losses already under way. From 2001 to 2004, the number of mammography facilities nationwide decreased 6%, from 9,306 to 8,786. Forty states lost facilities during this period, and as of October 2004, 865 counties—one-fourth of the counties in the country, containing 3.4% of the U.S. population—had no mammogram machines.

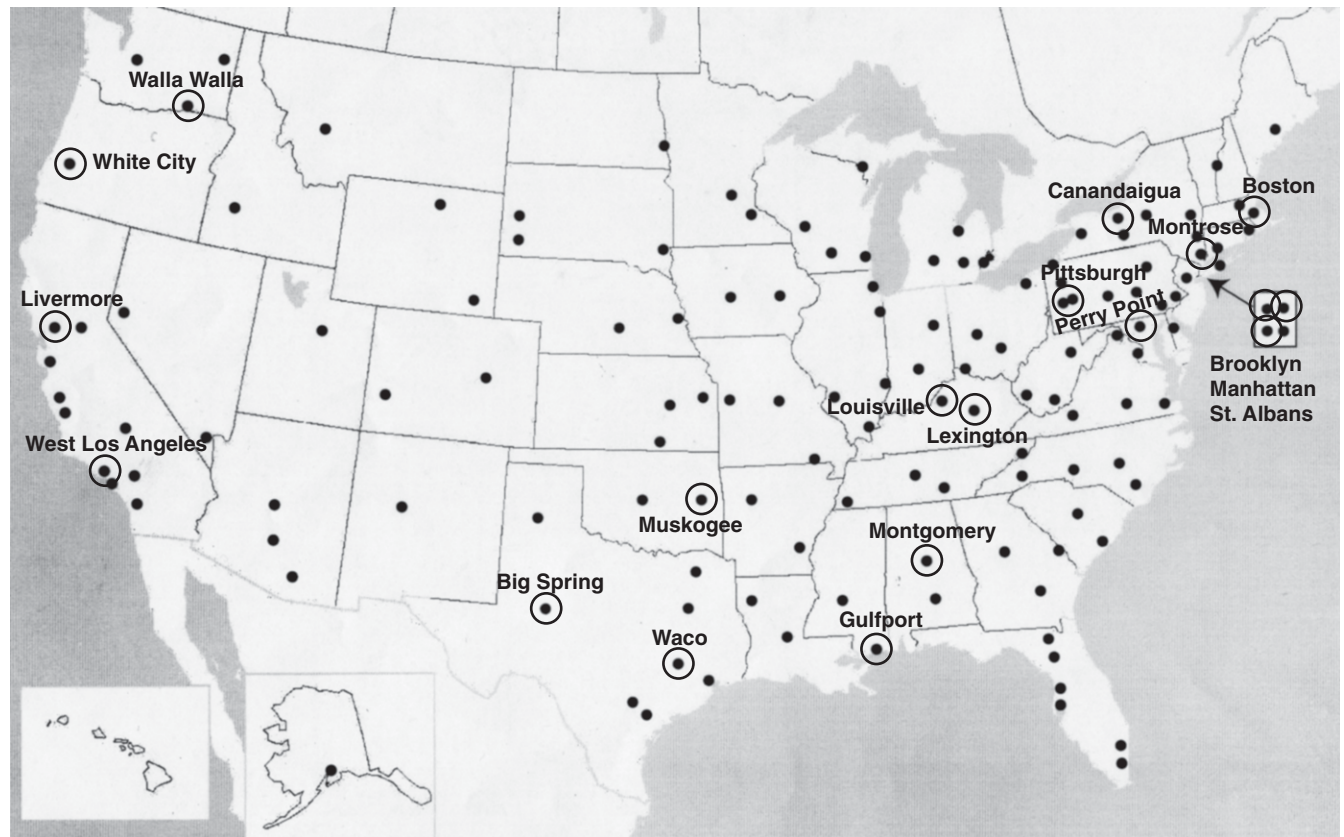
### Disaster Response, Medical Emergency Services

In 2006, the Institute of Medicine of the National Academy of Sciences released a three-volume report which concluded that the United States emergency and trauma care system is “at the breaking point.” A 2003 report by the Centers for Disease Control and Prevention found that emergency rooms in hospitals

diverted more than 1,300 patients a day, 365 days per year. The number of emergency departments in operation nationally decreased by 38% between 1995 and 2005. At the same time, the use of emergency rooms over this period increased by 20%, as much of the population came to be impoverished and without health insurance. The American College of Emergency Room Physicians warns that there is next to no

FIGURE 7

## The Bush Administration's Plan To Close 19 Veterans Hospitals



Source: Department of Veterans Affairs, CARES Decision, May 2004, Office of the Secretary; www.va.gov.

*The dots show most of the nation's 160 major Veterans Affairs Medical Centers. In February 2006, the 19 sites circled were placed on the Bush-Cheney Administration's short list for closure, relocation, or downsizing. The Iraq War has created increasing demand for health care for veterans, even as the availability of that care is being slashed.*

capacity to deal with surge demands of bioterrorism, or natural threats, like the next influenza pandemic.

### Veterans' Medical Care

The Veterans Health Administration is the largest direct provider of medical care in the nation, and it needs to be expanded, both for its unique mission, and as part of the overall medical base of the nation for emergency surge capacity, as in the Katrina disaster. The VA is now receiving a growing number of wounded returnees from service in Iraq and Afghanistan; also there are thousands of other veterans flocking to the VA because private insurance options have been withdrawn or have become unaffordable. Parts of the system are overwhelmed. As of March 2007, there was a backlog of 600,000 disability claims that had not yet been processed. **Figure 7** is a national map of 160 VA hospital sites, 19 of which were targeted for shutdown. A de facto construction moratorium was begun in 2001 under the Capital Asset Re-

alignment for Enhanced Services (CARES) process, which has had a terrible effect. The recent national scandal of the poor conditions at the venerable Walter Reed Hospital in Washington, D.C., makes the point. The number of VA hospitals and specialty centers should be increased, not decreased, and the whole system must be upgraded. In July 2004, then VA Secretary Antony Principi testified to a House Committee hearing that approximately \$1 billion a year for the next five years was needed to modernize the VA medical infrastructure.

The Veterans Coalition "Independent Budget" estimate for FY 2008 calls for \$1.602 billion in funding for major construction projects, and another \$541 million for minor construction projects. On top of this, another \$1.6 billion is needed for nonrecurring maintenance, such as upgrades of electrical systems, roof repairs, and so on, to make up for the lack of funding for such maintenance in previous years.



# Build Rail, Maglev for Fast, Safe Transport

by Richard Freeman

“The investigators into the Minneapolis bridge collapse still haven’t looked at a major primary cause,” declared Hal Cooper, a rail and transportation consultant, Aug. 6. “That cause is that bridges and highways are handling traffic volumes and loads far beyond what they were originally erected to handle; the principal problem comes from the increasing load of heavy trucks, which damage roads and bridges. If you drive, you see that east of the Mississippi, the trucks are everywhere.”

The unpostponable response to the Aug. 1 collapse of the I-35W Minneapolis bridge must be a crash mobilization to construct tens of thousands of miles of electrified rail in the United States, initially high-speed rail, but moving as quickly as possible to magnetically levitated (maglev) trains. For certain, the nation’s bridge system must be repaired and upgraded to scrupulously observed high standards. But our national highway system, as a mode of transport, is inefficient and backward relative to modern rail. Tens of billions of tons of freight must be taken off the roads, and put onto rails.

The move away from railroads began at the end of World War II, when the financier oligarchs, in alliance with the oil cartel, the highway lobby, and real estate interests, enforced a policy of suppressing high-speed rail and maglev development, in favor of insanely high levels of petroleum-powered truck and car traffic.

A 2002 *EIR* investigative study showed the genesis of the crisis: In 2000, there were 8.74 million heavy trucks bearing freight on the U.S. roads. Further, between 1990 and 2000, the number of miles that each truck logged increased by 48%.

The damage that trucks inflict on roads and bridges is beyond most people’s imagination. The American Association of State Highway Officials (AASHTO), has developed a function for the relation of axle weight (or truck weight) to pavement damage. According to the AASHTO, a five-axle tractor-semi trailer truck, fully loaded and weighing 80,000 pounds, does the same amount of damage to a roadway’s pavement as 10,500 cars, with each car weighing 3,000 pounds. Thus, even though the cars weighed 31.5 million pounds, the single 80,000 pound truck did as much damage. The AASHTO study showed that as the weight of a truck would increase arithmetically, the damage to the pavement would increase by a power function; e.g., increasing the weight of the 80,000 pound truck by one-fourth, increases the damage by 200% (threefold). It is

the concentration of the weight at each axle, that transmits the damage.

Even though current Federal law prohibits trucks carrying loads of more than 80,000 pounds on U.S. Interstate highways, 20 states have drawn up exemptions, through the use of “grandfather” clauses, which permit trucks to carry 90,000 to 135,000 pounds on Interstate highways. This does immense damage, ripping up the top layer of roadways, including those on bridges, creating and widening fissures, while putting excessive stress on their foundations. Impose this truck-load increase on the 158,912 bridges, 26.9% of the nation’s total, which are rated either “structurally deficient or functionally obsolete,” and an increased density of bridge collapse is pre-ordained.

Another key element in the collapse of bridges should be noted: From the mid-1960s onward, a significant number of bridges were not built with sufficient redundancy. Consider, by contrast, the Brooklyn Bridge, designed by John A. Roebling, and completed in 1883. The great suspension bridge was constructed on classical principles, six times stronger than required, to ensure it would support whatever traffic it might have to bear, far into the future. It has now lasted for a century and a quarter (see box).

## The Solution: Rail Electrification

To solve this crisis requires the urgent building of high-speed-rail corridors—at travelling speeds for passengers of 150 mph (240 kph) and freight at 90-110 mph (145-175 kph)—and as soon as possible, maglev trains systems. This will produce an enormous upshift in the scientific-intensity and power of the economy as a whole, imparting leaps of productivity, through electrification of America’s rail network (high-speed rail and maglev run on electricity, which is externally generated and transmitted).

Even the best repair and upgrade of bridges—which must be undertaken as a preliminary step—cannot protect them against the inherent destructive effects of increasingly heavy truck-load-volume. And the number of truck ton-miles *will increase by 50-100% over the next two decades*, if highways remain America’s dominant mode of non-coal goods transport. This would intensify the rate of bridge collapse and other problems. The mode must be changed.

The United States has 141,000 route-miles of railroads. In 2005, *EIR* published a study which asserted that the U.S.A. should electrify its rail system in two phases: first, electrifying 26,000 route-miles, and then up to a total of 42,000 route-miles (“Congress’s Mission for Bankrupt Auto: Build U.S.A. Electrified Rail Network,” by Richard Freeman and Hal Cooper, *EIR*, June 10, 2005). While these 42,000 route-miles constitute only 29% of America’s total rail-route mileage, they represent the heart of the system, carrying 65% of America’s freight, and more than 70% of the intercity rail traffic.

The implementation of this would require an all-out mo-

bilization of the economy. According to the study, it requires a tremendous bill of materials, including tens of millions of tons of steel; iron reinforcing bar; cement; vast quantities of wood, and copper, and other metals. Thousands of locomotives and train sets, and a vast number of machine tools. To power this system would require adding new generating capacity of 50,000 megawatts that would generate 383 trillion

kilowatt-hours of electricity per year. As well, tens of thousands of miles of transmission lines would have to be built. The project's construction would employ tens of thousands of workers in new, productive jobs.

To build this would require the adoption of LaRouche's Economic Recovery Act, and its National Infrastructure Bank (see article, this section).

## Brooklyn Bridge: Built for the Ages

The Brooklyn Bridge, whose construction began less than five years after the end of the Civil War, stands today in happy rebuke to those who oppose great public infrastructure projects.

At the time of its celebratory opening, on May 24, 1883, the structure, then the longest suspension bridge in the world, was deemed the "Eighth Wonder of the World." Mayor Abram Hewitt declared it be "a monument to the moral qualities of the human soul." It was designed by John A. Roebling, a German immigrant, schooled in the tradition of the Humboldt education reforms, to withstand whatever forces of man or nature would be thrown at it, including storms and hurricanes. Roebling accomplished this by employing classical principles, namely the catenary (the principle used as well in the construction of Brunelleschi's great dome that crowns Florence Cathedral), and the stability of the triangle. The unique feature of Roebling's suspension bridges, including an earlier railroad suspension bridge over Niagra Falls, was the use of diagonal "stays" which were fixed to the towers at one end, and to the roadway, at a right angle, at the other. Its huge towers, with their double gothic arches, were designed to suggest the great cathedrals of Europe.

As today, the budget hawks, austerity mongers, environmental pessimists, et al., were livid. The *New York Times*, on opening day, complained that "the progress that was defined in terms of public works also had its price. It often enriched the corrupt, exploited the weak, and disrupted urban life in unforeseen and undesirable ways."

Roebling, who envisioned a worldwide land-bridge



Brooklyn Bridge ca. 1900.

Library of Congress

connecting the nations of the world, of which the Brooklyn Bridge would be a part, had written earlier, in his *The Harmonies of Creation*:

"Why is this splendid domain entrusted to our care? Is it that we should enslave our brother of a darker color, or that we should employ nature's forces and make them our slaves?"

"When the miserable competition, strife and jealousy that now exist between the different nations will cease and give way to more rational pursuits which will make plenty for all, then we shall go to work with these stupendous forces at our command, and change the face of the desert of Sahara in Africa...."

"...[W]e will then go to work on a large scale and sink artesian wells of 1,000 feet deep to water the extensive forests which we are bound to plant in the great basin. This will influence our climate and seasons.

"Nature invites us to do all this and plenty more."

—Bonnie James

Among the benefits of electrified high-speed rail and maglev systems: *Goods and passengers would move two to three times faster than they currently do.*

The U.S. highway system has a series of inherent interconnected characteristics which are destroying it and the U.S. transportation system. Following the passage, in 1956, of President Dwight Eisenhower's Interstate and Defense Highways Act, which built the nation's 42,500 mile Interstate Highway System, the financiers used the highway expansion to feed real-estate speculation, the proliferation of shopping and strip malls, and general suburbanization.

## Suburban Sprawl

Over the last 40 years, financial, real-estate, and retail interests made trillions of dollars from this process, spun outward from the highway system. A process of sprawl emerged, called suburbia, instead of the well-organized, planned, and population-dense cities, with factory systems and "downtown" centers for culture and economic activity, toward which Americans had steadily migrated throughout the nation's existence, until that time. Suburbia became a radiating hub for the post-industrial economy.

As a result, today, commuting to work now often takes 1.5 to 3 hours per day (or more), and the "rush hour" has become anything but, as traffic congestion turns highways into extended parking lots.

Now, even eight-lane highways are not enough: Some "urban planners" propose building them to 12 or 14 lanes. Even if the land existed for them, which is doubtful, this makes no sense.

In a petroleum-dependent mode, motor vehicles consume 8.7 billions of gallons annually of ever-more expensive gasoline.

And 24 hours a day, without cease, now more than 9.5 million trucks tear up the top surface of America's roads and bridges, while relentlessly and violently shaking their foundations.

A high-speed rail and maglev system must remove one-third of the freight off the highways. For trucks that carry containers, the containers could be taken off trucks and put on rail. In a process that is in the experimentation phase, entire trucks—cabs and trailers—are being put on trains in one city, transported to another city, and disembarking, so that they handle only the local routes.

In examining the problems within the highway system, some have their heads only within that system, which does not allow them to see how a much better situation could be created. In dealing with bridge collapse, every bridge, without fail, must be brought up to standard. The highway system must be maintained, but for a reduced function. The superior rail system must be assigned greater weight and responsibility. Unless that mission is accomplished, with an accompanying one-third reduction in truck traffic and load, no bridge in America is safe.

# If Rohatyn Is In It, It's No Damn Good

by Marcia Merry Baker

The infamous Felix G. Rohatyn once said that his specialty is "new institutions." This euphemism refers to his decades-long interventions in government functions, industry, pensions, and the like, to undercut national interest, and give over control and looting rights to his financial cohorts. From his record of designing and heading Big MAC—Municipal Assistance Corporation—in 1975, which devastated New York City, to his role with George Shultz in promoting "privatizing the military," to his 2005-06 consulting jobs on how to dismember the U.S. auto sector, Rohatyn has consistently acted to subvert the foundations of national economies. He talks the talk of "saving" cities, infrastructure, and manufacturing, by privatizing, re-structuring, re-inventing, public/private partnering, and you-name-it, but he walks the walk of theft and subversion.

The most recent instance of Rohatyn flim-flam, is the introduction into Congress this month, of his "new institution" proposal for a "National Infrastructure Bank Act of 2007." It is basically a national version of the Big MAC that raped New York City.

Beware: Felix Rohatyn is a sex maniac.

On bridges, in particular, New York City researchers are right now diving back into the 1970s Big MAC archives, to get the names, dates, and signatures on Rohatyn's Financial Control Board decrees that cut the maintenance on City-operated bridges. As the Aug. 3 *New York Post* pointed out, the repair negligence that started in the 1970s, is today evident in deteriorated, dangerous spans throughout the boroughs. A 2006 City report found that 84% of the largest crossings remain in poor or fair condition. But Rohatyn calls his Big MAC a success.

Beware: If Rohatyn's name is on it, it's no damn good.

With eerie timing, the "National Infrastructure Bank of 2007 Act" was filed in the Senate (S. 1926) on Aug. 1, the same day as the Twin Cities I-35W bridge collapsed into the Mississippi River during rush hour. The next day, the bill's co-sponsors, Sens. Chris Dodd (D-Conn.), and Chuck Hagel (R-Neb.) were in the media, repeatedly claiming that their proposal would fix such bridges and other decayed infrastructure. Dodd followed the Rohatyn script to the letter, saying that: 1) the FDR-era funding model is outmoded; 2) the post-World War II infrastructure Federal financing model is history; 3) today, neither states nor the Federal government has any money, so therefore, there must be the new, Rohatyn public/private model of financing.

The bill would set up a Federal bank, to sell bonds, especially to pension funds, private buyers, and government entities, and it would constitute a control board to decide on what projects get approved or rejected. The bill's language speaks of "a preference for projects which leverage private financing, including public-private partnerships..." (from the House version).

The bill results from a Rohatyn campaign, beginning in 2004, at the Center for Strategic and International Studies, called Commission on Public Infrastructure. Commission members included Dodd and Hagel, as well as California Gov. Arnold Schwarzenegger (R), former Iowa Gov. Tom Vilsack (D), and officials from banks involved in public/private takeovers of government functions, such as Morgan Stanley.

### Rohatyn: 'No' to FDR-Type Funding

On March 27, 2006, Rohatyn and his co-chair of the Commission on Public Infrastructure held a National Press Club event, along with 12 signatories of a "Guiding Principles" document for public/private infrastructure funding. When confronted by the LaRouche Youth Movement, and *EIR*'s Paul Gallagher, on whether Rohatyn and the Commission would support the successful model of the FDR years of infrastructure-building, Rohatyn said, "We are not going to do what FDR did. Government and financing have come a long way since Roosevelt; we have state or local financing; we have pension funds; we have the securities markets, the bond markets. We're far away from the methods of the RFC" (FDR's Reconstruction Finance Corporation).

Now the Rohatyn anti-FDR model has finally reached Congress, just as the financial blowout, and infrastructure breakdown have become acute. On Aug. 1, Rohatyn issued a letter of support to Dodd and Hagel, for introducing the new "National Infrastructure Bank Act of 2007." Rohatyn eschewed the terminology of public/private partnerships (PPPs or P3s), since they have gotten such a bad name from the notorious rip-off cases of sale of public assets such as the Chicago Skyway, the Indiana Toll Road, and others, to private profiteers. Rohatyn wrote, with co-author former New Hampshire Sen. Warren Rudman, that the Dodd/Hagel bill will "help re-structure the federal role by allocating costs and financing more fairly and rationally.... The proposed Infrastructure Bank Act also will increase the ability of the private sector to play a central role in infrastructure provision...."

Rohatyn's mentioning of "fairness" and "rationality" is a



EIRNS/Dan Sturman

*Felix Rohatyn's latest infrastructure-looting project, the National Infrastructure Bank Act of 2007, would impose corporatist control on the underpinning of the nation, as Mussolini did.*

calculated diversion, to attribute today's U.S. infrastructure breakdown to the charge that funds would have been available to prevent this all along, if they had not been unfairly squandered in pork-barrel, earmarked pet projects. This line was followed to a tee by President Bush at his Aug. 8 press conference. The implication is, that a fair, tough, infrastructure-control bank is needed nationally, just like Rohatyn's Big MAC Emergency Financial Control Board, *that axed New York City's vital infrastructure.*

On Aug. 3, the House version of "The National Infrastructure Bank Act," was introduced as H.R. 3401, by Reps. Keith Ellison (D-Minn.) and Barney Frank (D-Mass.), chairman of the House Financial Services Committee. Rohatyn testified to Frank's committee March 23, 2007, saying, "Senator Warren Rudman and I co-chair a commission at the Center for Strategic and International Studies that has been working with members of the House and Senate from both parties on these ideas in which Senators Dodd and

Hagel are heavily involved. We are hopeful that we will see some movement in this Congress." Using the buzz words, "public sector investment," Rohatyn said, "Private capital should be an integral part of the program. Tight outside controls should be applied to the operations of the fund, and it should be subject to the federal debt limit."

### Private Funding? There's No Money!

The big, bad joke about the Rohatyn model of "private capital" is that, there is no money! Anyone who is gullible enough, or blackmailed enough, or just stupid enough, to take Rohatyn at his word about how private funding will save the day for public infrastructure, is a goner. The many-splendored bubbles of the financial system are now all blowing out at once, from the mortgage securities bubble, to the yen carry trade, to the leveraged takeover games. Major banks that loaned money for this stuff, are now swallowing billions in bad loans and unsaleable debt. Where's the "private sector" money to come from? It ain't there!

In reality, Rohatyn's talk of funding, and of benefitting private and public interests was, all along, just so much pretense for a grab of control over public assets. The best thing Congress can do now, is to consider the Rohatyn record, and don't be taken in.

Rohatyn's political and financial lineage traces back to the cartels and financial powers of the 1920s and '30s corporatists in Europe. His biographical timeline begins with his training at Lazard, under André Meyer, who was identified explicitly


If the foregoing correctly sets forth the understanding and agreement among the Advisors and the Company, please so indicate by signing the enclosed copy of this letter, whereupon it shall become a binding agreement between the parties hereto as of the date first above written.

Very truly yours,

ROTHSCHILD INC.

By: \_\_\_\_\_  
David L. Resnick  
Managing Director

ROHATYN ASSOCIATES LLC

By:   
Name: FELIX ROHATYN  
Title: PRESIDENT

Accepted and Agreed to as of  
The date first written above:

DELPHI CORPORATION

*Rohatyn's signature on the May 1, 2005 letter of agreement on the pre-bankruptcy strategy for the looted auto-parts maker Delphi.*

by U.S. intelligence in the 1940s, as part of the Hitler-backing financial crowd, called “Synarchists.” (See “Rohatyn’s Fascist Roots Are Showing,” *EIR*, June 30, 2006).

Over the 1960s through 1990s, Rohatyn was a senior officer at Lazard. From 1999 through 2001, he was U.S. Ambassador to France. After that, he resumed at Lazard, then moved to his own Rohatyn Associates, and thence in 2006 to Lehman Bros. His entire career is marked by service to special financial interests, and undermining national economic sovereignty.

The 1975 Big MAC episode reveals his character and intent. Keep in mind that in 2005, at its 30th anniversary, Rohatyn said that Big MAC was, “the most rewarding experience of my professional life. . . .” (“The Fiscal Crisis After 30 Years,” *Gotham Gazette*, Oct. 10, 2005).

During the early 1970s, New York City, like many other major urban areas, was plunged into a revenue crisis, due to the downshift in the physical economy, from a production base towards a “services” base. With the right policy shift, an economic growth course could have been reinstated. Lyndon LaRouche and some others internationally, had proposals for this.

However, Rohatyn and key financial circles moved to create the scare story that New York City was hopelessly on the verge of bankruptcy, the Federal government would not be prepared to act, and so, Felix Rohatyn, called by New Yorkers, Felix-the-Rat, intervened. In June, he and his backers forced Mayor Abe Beame to acquiesce to a state-legislated Municipal Assistance Board, giving it emergency powers outside the control of the City Council. Almost overnight, deep

cuts were announced in the city workforce, and their wages, in the name of “saving” the city budget and credit ratings, by paying down old bank debt, and newly issued “MAC” debt to bondholders.

Then, Rohatyn wrote a 111-page report demanding still greater, ongoing “emergency powers” for the private banking community to dictate city finances. On Sept. 6, 1975, the “Financial Emergency Act” was rammed through Albany, creating the Emergency Financial Control Board, which exists to the present day. Deeper cuts were made to government functions of all kinds—firefighting, hospital, sanitation, police, roadway and bridge maintenance, anti-drug treatment, and so on.

Felix Rohatyn was the driving force, and headed the Control Board for years. The principle involved was that the private investment in Big MAC bonds, and private control over the city’s infrastructure and expenditures, was considered a “public/private” partnership—the calling card of Rohatyn to this day.

In reality, the devastation in the city became manifest even in the soaring disease statistics. During a 15-year, post-Big MAC period, 1979-

93, while the *city population decreased*, the number of deaths attributable to five measured diseases (AIDS, TB, drugs, hepatitis, and syphilis) increased tenfold. These diseases were responsible for 1% of all deaths in 1979; by 1993, it was 10.5%. The death and morbidity rate went up as a direct result of Big MAC’s infrastructure-cutting.

A study documenting this was published in March 2006, in the *American Journal of Public Health*, titled, “Impact of NYC’s 1975 Fiscal Crisis on TB, HIV, and Homicide.” (See *EIR*, Aug. 25, 2006, pp. 40-48, “NYC’s Big MAC: Rohatyn’s Model for Destroying Gov’t.”) The health specialists wrote a warning for today’s lawmakers on infrastructure: “As city, state, and federal governments again face deficits and propose deep cuts in services, it seems particularly urgent to avoid a repetition of the 1975 decisions that so damaged New York City’s health.” They singled out Rohatyn by name, writing, “Felix Rohatyn, an investment banker and a chief architect of the Emergency Financial Control Board, noted that as a consequence of the cuts in municipal services, ‘the direction and philosophy of a large unit of government were fundamentally and permanently changed as a result of the involvement (some would say intrusion) of the private sector in government.’”

Over the 1980s and 1990s, Rohatyn, at Lazard, was involved in the merger-and-aquisition mania that characterized the downgrading of industry and business under deregulation, outsourcing, and other practices of globalization.

But during the late 1990s, Rohatyn used his position as Ambassador to France, and then post-ambassadorship, to

take his Big MAC model on the road, to try to herd mayors of desperate cities, into selling assets through public/private rip-offs. In January 1999, and then again in April 2002, he addressed the U.S. Conference of Mayors. In April 2000 in Lyon, France, he hosted the “Transatlantic Mayors Initiative,” along with John Kornblum, then U.S. Ambassador to Germany, and subsequently Lazard director there. Rohatyn told the mayors to look to the “European investment” as the solution, namely his Synarchist banking cronies. He threatened that mayors must learn to work in partnership with the private and voluntary sector, and to “compete internationally in new ways,” to find funds for their cities to stay alive. Sell your museums, airports, waterworks, toll roads, housing, etc.

### ‘Mussolini Infrastructure Grab’

Over the 2000s, Lazard, and the whole swarm of big-name financial houses, moved into making a killing off infrastructure. Joint ventures of all kinds included Macquarie Bank/Macquarie Infrastructure Group—a leading Anglo-Dutch player, Morgan Stanley, Goldman Sachs, and others. The asset-grab was called privatization, or PPIs—public/private initiatives, or other euphemisms.

Nor is Rohatyn just involved in taking over hard infrastructure. On Oct. 9, 2004, he teamed up with George Shultz to address a conference on privatization of national security—i.e., turning the U.S. military into a neo-feudalist mercenary force.

This is the “Mussolini model for infrastructure,” as Lyndon LaRouche called it in 2006. In the 1920s and ‘30s, the Benito Mussolini government was characterized by the most extreme privateering of bridges, ports, housing, and every kind of public works.

In February 2006, Lazard Asset Management launched its own Lazard Global Listed Infrastructure strategy, with a special focus on “North American infrastructure stocks,” that refer to buying up formerly government-owned assets. Lazard’s own description of this, in February 2006, states: “Infrastructure assets are the basic physical systems needed for the functioning of a country or community, including utilities, roads, airports, ports, railroads, and communications systems. Historically, a large component of global infrastructure has been developed and owned by governments, but there is an increasing trend to listed and unlisted public ownership. Infrastructure assets can have attractive investment characteristics, including long duration, low risk of capital loss, and inflation-linked revenues....”

In practice, several projects show what this looting opportunity has meant. Macquarie bought the 15-mile private toll road west of Washington, D.C. in 2005, and will soon charge \$4.80 for a one-way trip. Macquarie is also part of the partnership that bought the Chicago Skyway in 2005, and Indiana Toll Road in 2006, where tolls have been hiked, and staffing cut. There are similar rake-offs from highways in Mexico,

waterworks in Europe, airports, and other infrastructure internationally.

### Assault on U.S. Industry

Besides infrastructure, the very means to maintain U.S. industrial society has been raided and dismantled by the Rohatyn networks. This is the story of the U.S. auto/machine-tool sector over the past three years. As of the late 1990s, the Big Three automakers, under Wall Street decision-making, de-structured in various ways. General Motors hived off its heavy industry and parts division from its assembly lines, into a new corporate entity named Delphi; Ford did the same with Visteon. This process, and ensuing changes, shed thousands of skilled workers by outsourcing and downsizing. Then, following the February 2005 announcements of GM’s financial “troubles,” the very continuation of the auto sector was at stake.

It was at this time that Lyndon LaRouche called for Federal intervention to save and re-establish the manufacturing base embodied in the Big Three, and throughout the auto/machine-tool industrial belt. Felix Rohatyn moved personally to consult on how to stop LaRouche, and take the industry down.

On May 1, 2005, Rohatyn signed on as chief architect of the Delphi pre-bankruptcy corporate planning (see p. 24 for his letter of agreement). Rohatyn said in the agreement that he would confer on preparations for “marketing the company” to outside funds. This is the template for what happened throughout the sector. Delphi declared bankruptcy on Oct. 8, 2005.

Rohatyn Associates LLC was officially involved with many other key parts of the embattled industry. They consulted with the United Autoworkers, recommending that they accept sharp cuts in their health care from Ford Motors and GM. They consulted on the pre-bankruptcy strategy for ruining Collins & Aikman, one of the major auto-supply companies.

At the center of the mobilization to save the heavy industry base of the nation, was the LaRouche Political Action Committee (LPAC) “Economic Recovery Act of 2006.” There was an unprecedented number of resolutions from cities and states calling for Federal action, from Cleveland, in May 2005, to Detroit, and dozens of other locations, up to Fall 2006. But Rohatyn et al. strong-armed Congress, especially the Democrats, to refrain from intervening to save auto, despite intense constituency pressure. Now the nation’s manufacturing capacity, as well as its infrastructure, has to be rebuilt on an emergency basis.

Since 2000, 350,000 autoworker jobs, out of the total of 1,350,000, have been eliminated. Over the past 18 months, 110,000 of those were lost. At the time Rohatyn started his official consulting to Delphi, 64 auto plants were slated for shut-down (from the Big Three, Delphi, and Visteon), and now 20 are gone, many just bulldozed.

Rohatyn’s National Infrastructure Bank? If Rohatyn’s name is on it, it’s crap.