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EIR (ISSN 0273-6314) is published weekly (50 issues),  
by EIR News Service Inc., 912 Pennsylvania Ave., S.E.,  
Washington, DC 20003. (202) 543-8002.  
(703) 777-9451, or toll-free, 888-EIR-3258.  
World Wide Web site: <http://www.larouchepub.com>  
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**Postmaster:** Send all address changes to EIR, P.O. Box  
17390, Washington, D.C. 20041-0390.

## From the Associate Editor

This issue goes out “down to the wire” in a number of battles that will determine the course of history for years to come. Most important is the showdown in the U.S. Senate, where the Bush-Cheney lackeys in the Republican leadership are determined to carry out a coup d’état against the Constitution. See *National* for Lyndon LaRouche’s strongly worded recommendation on what must be done by the Democrats: Shut the Senate down, if Vice President Dick Cheney and Senate Majority Leader Bill Frist go ahead with the “nuclear option.” Our excerpts from the Senate debate on May 18-19 give quite an extraordinary picture of how key Democratic leaders see the situation. Correctly, they realize that the GOP moves to castrate the Senate, which has hitherto been the most effective deliberative body in history, amount to giant steps toward fascism.

Our *Feature* gives the military/strategic dimension of this same fight, showing how the lunatic Administration is quietly putting into place measures to actually use nuclear weapons against non-nuclear states. The so-called bunker-buster “mini-nukes,” as one source states, could lead to casualties of *up to a million people* among the surrounding civilian population.

LaRouche addresses the Congress on a second matter, with his article “On the Subject of Strategic Bankruptcy.” A series of bankruptcies which wipe out several entire categories of the republic’s essential industry, would constitute such a “state of strategic bankruptcy.” With the near-bankruptcy of the auto sector and the airlines sector, and the general meltdown of private pension funds (see the graphs on page 18), it is clear that we have reached the point that Congress had better listen to LaRouche.

We provide documentation of these crisis fronts, as well as the looming hedge-funds/derivatives blowout. We also report on the growing support in Europe for LaRouche’s call for a New Bretton Woods monetary-financial reorganization of the world system; and, in *National*, on a fascinating dialogue of U.S. labor activists, on how the auto industry could be retooled for LaRouche’s “Super TVA” infrastructure-buildup program.



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## U.S. Nuclear First Strike Doctrine Is Operational

by Jeffrey Steinberg

The Bush Administration has quietly put into place contingency plans for the use of nuclear weapons in pre-emptive attacks on at least two countries—Iran and North Korea. Confirmation of the new “global strike” plan appeared in the *Washington Post* on Sunday, May 15, in a column by William Arkin, a former Army Intelligence analyst. *EIR* has interviewed several senior U.S. intelligence officials, who have confirmed the essential features of Arkin’s report. They link the accelerated drive to prepare for offensive nuclear strikes against Iran and North Korea to the failure of the U.S. invasion and occupation of Iraq, and the dismal results of the use of “shock and awe” massive conventional bombings against Afghanistan and Iraq.

The Afghanistan war of 2003 provided the U.S. Air Force with the opportunity to test, under live combat conditions, the conventional “bunker buster” mega-bombs, which were supposed to penetrate and take out deep-underground hardened targets. But one senior U.S. intelligence source told *EIR* that, when U.S. troops arrived to do damage assessments, they found that the Taliban and Al Qaeda mountain bunkers were still largely intact, after being hit with the bunker busters.

The sources further emphasized that “military strategists see our vulnerabilities, especially after Iraq.” U.S. military doctrine, one source said, had previously presumed a capability to engage in two sustained conflicts in two different regions of the world. “Such engagements are no longer possible, as the Iraq occupation shows. So there is now a shift to a doctrine of quick wars. The alternative to this change was to have the U.S. status as the last global superpower exposed as a fraud.” The source, who spoke on condition of anonymity, noted: “We have 150,000 U.S. troops and thousands of spies—the biggest spy contingent globally—and we can’t identify the Iraqi insurgents. . . . There was a presumption that you could invade and occupy without engaging in any kind of nation-building. And that is an oxymoron.”

The source cautioned that the Bush Administration’s new global strike plans are premised on the “fantasy” that you can develop a limited nuclear weapons capability that will not radioactively contaminate the area and kill large numbers of people. His final indictment of the new Bush Administration pre-emptive nuclear war doctrine was that, ultimately, when you talk about targetting North Korea, which is the number one target for a possible Bush Administration pre-emptive nuclear strike, you are really talking about war with China.

### CONPLAN 8022

The Arkin story in the May 15 *Washington Post*, which has been picked up by news outlets around the world, offered a chronology of the recent steps taken by Secretary of Defense Donald Rumsfeld, on the road to pre-emptive nuclear war. This updated a *EIR* timeline of the Bush-Cheney Administration’s drive to pre-emptive nuclear war, which was published on March 7, 2003, and is reprinted below. That original story tagged John Bolton as a pivotal player in the drive to end a quarter-century American policy of no first nuclear strike against any non-nuclear power. It traced the origins of the pre-emptive nuclear war policy to the early 1990s and then-Secretary of Defense Dick Cheney, who launched a plan to include “mini-nukes” in the conventional arsenal.

Arkin’s article continues the chronology from mid-2004: “Early last summer,” Arkin wrote, “Defense Secretary Donald H. Rumsfeld approved a top secret ‘Interim Global Strike Alert Order’ directing the military to assume and maintain readiness to attack hostile countries that are developing weapons of mass destruction, specifically Iran and North Korea. . . . In the secret world of military planning, global strike has become the term of art to describe a specific pre-emptive attack. When military officials refer to global strike, they stress its conventional elements. Surprisingly, however, global strike also includes a nuclear option, which runs



*This gang of scoundrels has been gunning to end a quarter-century of U.S. strategic doctrine banning first use of nuclear weapons against any non-nuclear power. Now, contingency plans for just such a nuclear attack have been quietly put in place. Left to right: George Shultz, Dick Cheney, Donald Rumsfeld, and John Bolton.*

counter to traditional U.S. notions about the defensive role of nuclear weapons.”

Arkin traced the Global Strike schema to a January 2003 classified Presidential Directive, in which President Bush defined a “full-spectrum” global strike as “a capability to deliver rapid, extended range, precision kinetic (nuclear and conventional) and non-kinetic (elements of space and information operations) effects in support of theater and national objectives.” Along the way, the Strategic Command (Stratcom), headquartered at Offutt Air Force Base in Omaha, Nebraska, which formerly had been exclusively responsible for America’s nuclear weapons triad, was merged with the Space Command, and given responsibility for global operations involving both nuclear and conventional weapons.

Already, the September 2002 National Security Strategy of the United States, for the first time, had codified the doctrine of pre-emptive war, stating that the U.S. “must be prepared to stop rogue states and their terrorist clients before they are able to threaten or use weapons of mass destruction against the United States and our allies.” Stratcom then established an interim global strike division, to devise plans by the end of 2002.

Arkin reported that “CONPLAN 8022-22 was completed in November 2003, putting in place for the first time a pre-emptive and offensive strike capability, against Iran and North Korea. In January 2004, [Admiral James O.] Ellis certified Stratcom’s readiness for global strike to the Defense Secretary and the President.”

Arkin warned that “This blurring of the nuclear/conventional line, wittingly or unwittingly, could heighten the risk that the nuclear option will be used.” He then detailed ele-

ments of CONPLAN 8022, which could involve the use of nuclear bunker busters, to take out hardened command structures and WMD depots in Iran or North Korea. CONPLAN 8022 could be activated if the U.S. determined there was an imminent threat of a nuclear attack, or “for a more generic attack on an adversary’s WMD infrastructure.”

“The global strike plan,” Arkin wrote, “holds the nuclear option in reserve if intelligence suggests an ‘imminent’ launch of an enemy nuclear strike on the United States or if there is a need to destroy hard-to-reach targets.” CONPLAN 8022 does not envision “boots on the ground,” he said, but combines precision weapons attacks with commando-style short-term operations, thus vastly reducing the time required to stage and launch an attack.

### **Nuclear Bunker Busters Already Deployed?**

One of the most controversial issues arising from the new Bush-Cheney Global Strike plan effort surrounds the potential use of nuclear bunker busters. The Bush Administration has attempted, in every defense budget, to add funding for research and development of a new generation of mini-nuclear weapons. This year, Defense Secretary Rumsfeld has asked for more than \$8 million to continue research on Robust Nuclear Earth Penetrator (RNEP) weapons.

On April 28, Rep. Ellen Tauscher (D-Calif.) issued a press release, citing a just-released government-mandated study on RNEPs by the National Research Council. The study debunked the fundamental premise of nuclear bunker busters: that they will penetrate so deep below the Earth’s surface before detonating that there will be minimal radioactive fallout. Tauscher stated, “In this report, the National Research

Council affirmed critical warnings about the deadly effects of nuclear fallout—both in risks posed to the local population and to troops—possibly American or allied forces . . . In yesterday's study, they conclude: 'Current experience and empirical predictions indicate that earth-penetrator weapons *cannot* penetrate to depths required for *total containment* of the effects of a nuclear explosion,' a sentiment voiced earlier this year by National Nuclear Security Administration (NNSA) head Linton Brooks."

Tauscher continued, "The report finds that the majority of deeply buried targets lie only 250 meters below the surface. These findings, coupled with the 'Sedan' tests conducted decades ago at the Nevada Test Site, clearly demonstrate that exploding nuclear 'bunker busters' would pose an incredible risk to civilians on the ground and in neighboring areas [with] 'casualties ranging from *thousands to more than a million.*' "

Beyond the issue of the persistent Bush-Cheney Administration push for more money for R&D on a new generation of bunker busters, it appears that bunker busters are already an integral part of the existing U.S. nuclear weapons arsenal. According to Greg Mello, the head of the Los Alamos Study Group, which closely monitors the U.S. nuclear weapons program, the Pentagon already has a deployable stockpile of B-61 "mod 11" bunker busters. The 1,200-pound bombs, which can be carried on B-2A Stealth bombers and even F-16 fighter jets, had been developed as a "modification" of existing bunker busters, replacing the older B-53 8,900-pound, 9-megaton "City Busters." By claiming that there were no new physical principles introduced with the B-61 "mod 11," the Pentagon sidestepped the Spratt-Furce attachment to the FY 1994 Defense Appropriation Bill, which banned any R&D on low-yield nuclear weapons (under 5 kilotons). The B-61 "mod 11" can carry a nuclear bomb with a payload as small as 300 tons.

## Rumsfeld Lets It All Hang Out

So as to remove any ambiguity from the Bush-Cheney nuclear madness, on March 15, 2005, the Pentagon placed on its public website a draft version of Joint Publication 3-12, "Doctrine for Joint Nuclear Operations" (see *Documentation* on next page). This 69-page report made clear that the Bush Administration has fully integrated nuclear weapons into the conventional war-fighting. The Executive Summary stated: "For many contingencies, existing and emerging conventional capabilities will meet anticipated requirements; however, some contingencies will remain where the most appropriate response may include the use of U.S. nuclear weapons. *Integrating conventional and nuclear attacks* will ensure the most efficient use of force and provide U.S. leaders with a broader range of strike options to address immediate contingencies. Integration of conventional and nuclear forces is therefore crucial to the success of any comprehensive strategy."

Elsewhere in the Executive Summary, it was declared, "*The U.S. does not make positive statements defining the circumstances under which it would use nuclear weapons. Main-*

taining U.S. ambiguity about when it would use nuclear weapons helps create doubt in the minds of potential adversaries, deterring them from taking hostile action."

For 25 years, up to the inauguration of George W. Bush, U.S. policy was that there would be no American first-use of nuclear weapons against non-nuclear armed states. George Shultz, Dick Cheney, John Bolton and company have fulfilled their impulse to hold the world hostage to unilateral nuclear weapons use in the hands of a President who shows increasing signs of madness.

# From Deterrence to Nuclear Warfighting

by Carl Osgood

Since 2001, the Bush Administration has been promulgating a new nuclear doctrine that replaces deterrence with war fighting. The January 2002 Nuclear Posture Review broke down the wall that had previously existed between the use of nuclear forces and the use of conventional forces. It redefined nuclear weapons as just another tool in the tool kit of strategic operations by which adversaries and potential adversaries could be coerced into a position favorable to the United States.

No longer does the United States view nuclear weapons as primarily a deterrence force, the use of which would be seen as a failure. Under the Bush Administration, nuclear weapons are fully integrated, doctrinally and operationally, into the full range of military operations. The U.S. Strategic Command is being reorganized to reflect this outlook, and Secretary of Defense Donald Rumsfeld has even placed a Marine, Gen. James Cartright, as its head. Historically, the Marines have not had much to do with the strategic level of war, their primary competence being in expeditionary warfare. Cartright's appointment, however, is in line with the new outlook brought in by Rumsfeld and Vice President Dick Cheney.

Columnist William Arkin commented on this transformation at a Washington, D.C. conference of the Nuclear Policy Research Institute in January of 2004. He noted that when the Strategic Command (Stratcom) was first created in the aftermath of the fall of the Soviet Union, it was seen as the custodian of nuclear forces that would be segregated from conventional military forces. However, with the merging of Stratcom and the U.S. Space Command, and the codification of the Nuclear Posture Review and the 2003 National Strategy to Combat Weapons of Mass Destruction, Stratcom has been transformed into what Arkin described as a "super global strike command," with responsibilities that include space operations; missile defense; nodal analysis on a global scale, including effects-based operations, cyber warfare, and strate-

gic deception; directed energy weapons used on a strategic level; and global, conventional precision, and earth-penetrating capabilities; and even special operations.

In other words, Stratcom has been transformed from a custodian and advocate for strategic nuclear forces, into a global warfighting organization that includes nuclear weapons as a component of its capabilities. Arkin warned that what this leads to, even with the smaller number of nuclear warheads contemplated by the Nuclear Posture Review, is “a greater level of confidence that the U.S. could disable Russian or Chinese forces and absorb any retaliation with missile defenses.”

Speaking at the same conference in January 2004, Air Force Gen. Charles Horner (ret.) declared that, from a military standpoint, nuclear weapons have no military utility. Added to that is “the horrible political cost for the decision to use them.” He reported that during the 1991 Gulf War, the U.S. official policy towards Iraqi use of chemical or biological weapons was one of “ambiguity,” but that in reality, “I knew we had no such plans” to use nuclear weapons against Iraq.

As for the present Administration’s nuclear policy, Horner, whose last position before he retired was as commander of NORAD (the North American Air Defense), described the January 2002 Nuclear Posture Review as “a good sign,” because “it shows the desperation of the folks at Omaha [the headquarters of Stratcom] to find a job.” He said the Nuclear Posture Review “is an effort by a bureaucracy to find life after the Cold War.” He warned that the danger that is developing, as a result of the reorganization of Stratcom, and the re-engineering of existing nuclear weapons to deal with hardened and deeply buried targets, is that “we may develop young people in the military who’ll believe that nuclear weapons are acceptable,” although the costs associated with using such weapons is far greater than any victory we might achieve.

Arkin and Horner’s comments have been borne out by a document that was inadvertently—or perhaps not—posted on a publicly accessible Department of Defense website in March 2005, a draft version of a document entitled “Doctrine for Joint Nuclear Operations,” dated March 15, 2005. As a draft document, it is still subject to revision; nonetheless, it reveals the development of the policy promulgated by the Nuclear Posture Review into operational doctrine, and makes significant changes to the previous policy of deterrence. This document seeks to do what Horner argued cannot be done: Make nuclear weapons militarily usable. Whereas the earlier 1995 doctrine document, which is still posted on the Joint Chiefs of Staff’s doctrine website, emphasized deterrence and the constraints on the use of nuclear weapons, the new draft document declares, “Integrating conventional and nuclear attacks will ensure the most efficient use of force and provide U.S. leaders with a broader range of strike options to address immediate contingencies.”

Nor does the draft document limit nuclear weapons to be used only against nuclear weapons states. Combatant commanders can request approval for use of nuclear weapons, not

only in response to the threatened or actual use of weapons of mass destruction against U.S. and allied forces, but also “To counter potentially overwhelming adversary conventional forces . . . For rapid and favorable war termination on U.S. terms . . .” and “To ensure success of U.S. and multinational operations.” All of this comes under an entirely new chapter on theater use of nuclear weapons, which is also discussed in the 1995 document, but in a much more limited and constrained way.

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## Documentation

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*Here are excerpts from “Joint Publication 3-12: Doctrine for Joint Nuclear Operations: Final Coordination (2) 15 March 2005.”*

### **From Chapter 1**

#### **2. Fundamental Considerations**

##### **a) Deterrence**

1) Strategic deterrence is defined as the prevention of adversary aggression or coercion that threatens the vital interests of the United States and/or our national survival. Strategic deterrence convinces adversaries not to take grievous COAs [courses of action] by means of decisive influence over their strategic decision making.

2) Deterrence broadly represents the manifestation of a potential adversary’s decision to forego actions that he would otherwise attempt. Diplomatically, the central focus of deterrence is for one nation to exert such influence over a potential adversary’s decision-making process that the potential adversary makes a deliberate choice to refrain from a COA. The focus of U.S. deterrence efforts is therefore to influence potential adversaries to withhold actions intended to harm U.S. national interests. Such a decision is based on the adversary’s perceptions of the benefits of various COAs compared with an estimation of the likelihood and magnitude of the costs or consequences corresponding to these COAs. It is these adversary perceptions and estimations that U.S. deterrent actions seek to influence. Potential adversary decision-making in the face of U.S. deterrent actions is also influenced by their strategic culture, idiosyncrasies of decision mechanisms, and the leader’s decision style, and leadership risk tolerance.

3) The effectiveness of deterrence depends on how a potential adversary views U.S. capabilities and its will to use those capabilities. If a potential adversary is convinced that U.S. forces can deny them their goals (by damage to their military, its support, or other things of value); and if that perception leads the potential adversary to limit their actions, then deterrence is effective. Deterrence of potential adversary WMD use requires the potential adversary leadership to believe the United States has both the ability and will to preempt or retaliate promptly with responses that are credible and effective.

4) Deterrence assumes an opposing actor's leadership proceeds according to the logic of self-interest, although this self-interest is viewed from differing cultural perspectives and the dictates of given situations. This will be particularly difficult with non-state actors who employ or attempt to gain use of WMD. Here deterrence may be directed at states that support their efforts as well as the terrorist organization itself. However, the continuing proliferation of WMD along with the means to deliver them increases the probability that someday a state/nonstate actor nation/terrorist may, through miscalculation or by deliberate choice, use those systems. In such cases, deterrence, even based on the threat of massive destruction may fail and the United States must be prepared to use nuclear weapons, if necessary. A major challenge of deterrence is therefore to convincingly convey both will and capability to the opposing actor.

#### **Under "Wartime Considerations"**

1) Deterring WMD Use and Conventional Military Operations. Deterrence of a WMD attack depends on the adversary's perception of its warfighting capabilities relative to those of the United States and its allies. However, wartime circumstances may alter such perceptions. Shifts in the strategic balance may result from military action in which an adversary suffers significant destruction of its military forces and means of support. Thus, when an adversary is confronted with over-

whelming conventional force or a prolonged conventional conflict the WMD threshold may be lowered, making WMD use appear to be the only viable option for regime survival.

#### **Under "Post Wartime Considerations"**

1) War Termination. . . . In the case of a global nuclear conflict an intense exchange may limit the pool of available negotiators, especially of leaders [who] have been targeted. In many foreseeable cases, however, nuclear weapons might only be used in coordination with conventional forces, with the intent to coerce war termination from the opponent.

#### **From Chapter 2, under "Employment and Force Integration"**

2) Conventional and Nuclear Force Integration. For many contingencies, existing and emerging conventional capabilities will meet anticipated requirements; however, some contingencies will remain where the most appropriate response may include the use of U.S. nuclear weapons. Integrating conventional and nuclear attacks will ensure the most efficient use of force and provide U.S. leaders with a broader range of strike options to address immediate contingencies. Integration of conventional and nuclear forces is therefore crucial to the success of any comprehensive strategy. This integration will ensure optimal targeting, minimal collateral damage, and reduce the probability of escalation.

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# **The Ghost of Bertrand Russell Stalks Cheney-Rumsfeld Pentagon**

by Jeffrey Steinberg

*This article is reprinted from EIR, March 7, 2003.*

The United States nuclear weapons policy known as the "negative security assurance" aimed at stopping the proliferation of nuclear weapons and encouraging all nations not currently possessing nuclear weapons to sign the Non-Proliferation Treaty (NPT) and other treaties, was publicly promulgated a quarter-century ago. On June 12, 1978, Secretary of State Cyrus Vance addressed the United Nations Security Council and delivered a pledge from the U.S. government that America would never use nuclear weapons against a non-nuclear power, except under the unique circumstances of that country joining with one of the nuclear powers in an attack on the U.S.A. or its allies.

In 1995, Secretary of State Warren Christopher reaffirmed Washington's commitment to the negative security assur-

ance, and on April 11, 1995, the other four permanent members of the UN Security Council (China, Russia, Great Britain, and France), all nuclear powers, ratified a Security Council resolution embracing the same principle.

But on Feb. 22, 2002, John Bolton, the senior arms control and disarmament official at the State Department, and a leading neo-conservative hawk, repudiated the negative security assurance as "an unrealistic view of the international situation," in the aftermath of Sept. 11. Bolton's announcement that the Bush Administration was abandoning a 24-year U.S. policy that had been endorsed by all of the UN Security Council Permanent Five, was no isolated act of utopian hubris on his part. A month earlier, the Administration had provided the Congress with its Nuclear Posture Review, which had openly discussed the use of nuclear weapons against seven countries—Russia, China, Iraq, Iran,



North Korea, Libya and Syria—only two of which provably had nuclear weapons.

An in-depth review by *EIR* has turned up chilling evidence that a group of utopian war planners, who now hold critical posts in the Pentagon civilian bureaucracy and in the Office of the Vice President, have been promoting a new U.S. imperial doctrine of offensive nuclear war against Third World targets for a dozen years, and are now well on the way to putting their mad scheme into practice. As bad as the Dr. Strangelove Cold War doctrine of Mutually Assured Destruction (MAD) was, these utopians are now promoting a doctrine of “Unilateral Assured Destruction,” to literally terrorize the world into submitting to a new, mini-nuke-armed Pax Americana.

Russian Academician and former Defense Minister official Gen. Leonid Ivashov was correct, in early 2002, in denouncing the new utopian “mini-nuke” scheme as a form of Malthusian warfare. Such madness has not been seen since Lord Bertrand Russell, at the close of World War II, called for the U.S.A. to use its monopoly on nuclear weapons to pre-emptively attack the Soviet Union and establish an Anglo-American-run world government.

### ‘Nukes in the New World Order’

The corpse of the Soviet empire had not yet been interred when the Russellite idea of pre-emptive nuclear war began to be revived. According to Canadian arms control activist Dr. Fred Knelman, the March 1990 Joint Chiefs of Staff “Military Net Assessment” focused on “increasingly capable Third World threats” of developing weapons of mass destruction (WMD), and demanded that the United States retain and modernize a wide range of nuclear weapons.

Immediately after Operation Desert Storm, Secretary of the Air Force Donald Rice told Congress that the United States must “deter emerging regional nuclear capabilities.” In response, then-Secretary of Defense Dick Cheney issued a top-secret “Nuclear Weapons Employment Policy” (NUWEP), formally tasking military planning for the use of nuclear weapons against Third World nations thought to be capable of developing WMDs. In April 1991, Los Alamos National Laboratory issued the first written proposal for the development of a new generation of mini-nukes, for possible use against the Third World.

According to a retired senior military source familiar with these events, nuclear weapons designers and strategists at America’s leading government laboratories, fearing serious “peace dividend” budget cuts in the wake of the collapse of the Soviet Union, began aggressively promoting the need for such a new generation of mini-nukes, to provide a credible deterrent to Third World states, developing biological, chemical, and nuclear WMDs. The United States could never use strategic nuclear weapons against Third World targets, their argument went. Therefore, it needed to invest research and development dollars in the new generation of nuclear weapons that could credibly be used against Third World “rogue state” targets.



*The famous one-world Malthusian “pacifist” Bertrand Russell’s public demands for pre-emptive nuclear attacks on the Soviet Union, from 1946-50, are echoing in the halls of the Pentagon now.*

In the Summer of 1991, a team of Los Alamos nuclear weapons scientists delivered a briefing to the Defense Science Board, provocatively titled “Potential Uses for Low-Yield Nuclear Weapons in the New World Order.” Gen. Lee Butler, who headed the Strategic Air Command (soon to be reinvented as the Strategic Command, StratCom), created a Deterrent Study Group, which reported its recommendations to the SAC in Autumn of 1991. The panel was chaired by former Air Force Secretary Thomas Reed, and co-chaired by Col. Michael Wheeler. While Reed and Wheeler were the principal authors of the study, a curious list of advisors were tapped for their input, among them: John Deutch, future Deputy Defense Secretary and CIA Director; Fred Iklé, former Deputy Defense Secretary, co-chair of the Wohlstetter Commission, and suspected member of the “X Committee” of Israeli spies who ran Jonathan Pollard; current National Security Advisor Condoleezza Rice; and future CIA Director R. James Woolsey.

The Reed Report recommended that U.S. nuclear weapons be retargeted at “every reasonable adversary around the globe,” and called for the creation of nuclear armed strike forces to counter “nuclear weapons states [that] are likely to emerge.” It also recommended “first use” of nuclear weapons, where U.S. forces faced conventional “impending annihilation . . . at remote places around the globe,” according to William M. Arkin and Robert S. Norris, who wrote a scathing critique of the Reed Report in the April 1992 issue of *Bulletin of the Atomic Scientists* (“Tiny Nukes for Mini-Minds”).

Perhaps the most explicit statement to appear in the Reed Report promoting a new generation of exotic nuclear weapons was the following: “The technology is now in hand to develop power projection weapons and very low yield nuclear weap-

ons in earth penetrators with precision guidance.”

Simultaneous to the Reed Report, two Los Alamos nuclear weapons scientists who had participated in the July 1991 Defense Science Board briefing, Thomas Dowler and Joseph Howard, published a provocative piece in the Autumn 1991 issue of *Strategic Review*, titled “Countering the Threat of the Well-Armed Tyrant: A Modest Proposal for Smaller Nuclear Weapons.” They argued, “The existing U.S. nuclear arsenal had no deterrent effect on Saddam and is unlikely to deter a future tyrant.” They argued for “the development of new nuclear weapons of very low yields, with destructive power proportional to the risks we will face in the new world environment,” and they specifically called for the development and deployment of “micro-nukes” (with explosive yield of 10 tons), “mini-nukes” (100 tons), and “tiny-nukes” (1 kiloton).

Dowler and Howard concluded: “We doubt that any President would authorize the use of the nuclear weapons in our present arsenal against Third World nations. It is precisely this doubt that leads us to argue for the development of sub-kiloton weapons.”

### ‘Bush 41’ Rebuffs the Madmen

At this time, the U.S. Air Force launched “Project PLYWD” (“Precision Low-Yield Weapons Design,” pronounced “Project Plywood”) to investigate “a credible option to counter the employment of nuclear weapons by Third World nations.” PLYWD was the outgrowth of a Dec. 17, 1991 briefing by lab scientists and nuclear planners to a joint session of the Defense Science Board and the Defense Policy Board, on “potential NSNF (non-strategic nuclear forces) weapons concepts for the 21st Century,” according to a January 1993 *Bulletin of the Atomic Scientists* exposé by Arkin (“Nuclear Junkies: Those Lovable Little Bombs”).

In January 1992 testimony before the Congress, Reed let it all hang out: “It is not difficult to entertain a nightmarish vision, in which a future Saddam Hussein threatens American forces abroad, U.S. allies or friends, and perhaps even the U.S. itself, with nuclear, biological, or chemical weapons,” he railed. “If that were to happen, U.S. nuclear weapons may well be a resource for seeking to deter execution of the threat.” Reed then launched into a direct attack on the negative security assurance of 1978, telling the Congress, “We are not comfortable with the . . . suggestion that a nation can engage in any level of chemical or biological aggression and still be shielded by an American non-nuclear pledge.”

Defense Secretary Cheney had opened the first-use Pandora’s Box with his Nuclear Weapons Employment Policy secret mandate, right after Desert Storm. But it appears that President George H.W. Bush was not swayed. On Sept. 27, 1991, Bush declared that the U.S. would eliminate all of its ground-based tactical nuclear weapons. In his Jan. 1992 State of the Union message, he announced plans to reduce the entire U.S. arsenal of non-strategic nuclear weapons. And on Oct. 2, 1992, Bush the Elder approved a moratorium on nuclear weapons testing, a serious blow to those advocat-

ing the development of a new generation of mini-nukes, “bunker busters,” and other exotic nuclear weapons that would all require live-fire testing.

Bush’s stance was at odds with the Pentagon and weapons lab utopians, who continued to peddle the idea of integrating offensive nuclear weapons into the new post-Cold War doctrine of pre-emptive imperial wars. After several false starts and behind-the-scenes policy brawls, Cheney and his utopian aides got in the final word—after Bush lost his 1992 re-election campaign. The January 1993 “Defense Strategy for the 1990s,” in only slightly Aesopian language, peddled the idea of offensive nukes against Third World targets. The principal author of the “Defense Strategy” was I. Lewis Libby, then a deputy to Assistant Secretary of Defense Paul Wolfowitz, and currently chief of staff and chief national security advisor to Vice President Cheney. Libby is also notorious as the longtime attorney for Israeli-Russian Mafiya “Godfather” and Ariel Sharon-booster, Marc Rich.

### Laying Low But Moving Ahead

Shortly after Bill Clinton entered the White House, Representatives John Spratt (D-S.C.) and Elizabeth Furse (D-Ore.) introduced an attachment to the FY 1994 defense authorization bill, prohibiting U.S. weapons labs from conducting any research and development on low-yield nuclear weapons. The measure, which was passed and signed into law by President Clinton, defined low-yield nukes as having a yield of five kilotons or less. All the micro-, mini- and tiny-nukes envisioned by Dowler and Howard were, in effect, placed in the deep freeze.

Or were they? In his prescient January 1993 *Bulletin of the Atomic Scientists* piece, “Nuclear Junkies,” Arkin had warned, “The programs are far from dead. Support for [mini-nukes] has spread like a virus, infecting the nuclear laboratories, the Air Force and the Navy, Strategic Command (formerly SAC), the Defense Nuclear Agency, and the Central and European Commands. . . . Nuclear enthusiasts publicly describe continued nuclear testing and research as a way for the labs to maintain ‘nuclear competence’ and to prevent technological surprise in the future—with the side-benefit of improving weapons safety. They say they have no hidden agenda. . . . But behind the traditional ‘safety’ advocates hide a new, post-Gulf War constituent—nuclear zealots intent on developing a new generation of small nuclear weapons designed for waging wars in the Third World.”

Indeed, buried deep within the vast Pentagon bureaucracy, at least one mini-nuke program was carried all the way through, from research and development to field deployment, during the Clinton era. Greg Mello, director of the Los Alamos Study Group, penned a most revealing article in the June 1, 1997 *Washington Post*, under the headline, “The Birth of a New Bomb—Shades of Dr. Strangelove: Will We Learn to Love the B61-11?”

According to Mello, in October 1993, Harold Smith, Assistant to the Secretary of Defense for Atomic Energy, sought

Stockpile Stewardship Conference Planning Meeting Minutes

10 January 2003

Pentagon, Room 3C912

0930-1200

1. Mr. Fred Celec (ATSD(NCB/NM)) opened the meeting on behalf of Dr. Dale Klein (ATSD(NCB)). A list of attendees is at attachment 1.
2. Mr. Celec began by discussing the background leading to the Stockpile Stewardship Conference. The genesis of the conference is the October 2002 memo from the NWC Chairman, Mr. Pete Aldridge (USD(AT&L)), to the NWC on risk in the stockpile stewardship program; specifically, the risk associated with not testing our nuclear weapons. Ambassador Linton Brooks (NWC member and Acting Administrator, NNSA) and General Peter Pace (NWC member and Vice Chairman, Joint Chiefs of Staff) replied to the memo, expressing their support for the conference and offering comments on its expected content. The scope of the conference then evolved to include additional topics associated with the nuclear deterrent in a post-Nuclear Posture Review environment. The Stockpile Stewardship Conference will be used to present the results of the work of four panels to the NWC, and others as appropriate, and to establish recommendations for the way-ahead. Although the conference will consider issues related to nuclear testing, it is not the policy of the Administration to return to nuclear testing.

3. **ACTION:** The Executive Committee members agreed to revise the draft purpose statement.

*Purpose:* In concert with the NPR, evaluate the issues of maintaining confidence in the nuclear deterrent; evaluate the risks in our current assessment process and ways to reduce those risks, and the current and planned infrastructure capacity and capability.

4. The organization of the conference was discussed. Mr. Aldridge, the NWC Chairman, will chair the conference and Admiral Ellis (STRATCOM) will host it. The preparatory work will be performed by four panels. An Executive Committee (ExCom), chaired by Dr. Dale Klein, will provide oversight, assure that the work of the panels is in alignment throughout the process, integrate the findings of the panels, and plan the conference. To assure alignment of the panels, it was agreed that the ExCom would meet several times during the process to review the progress of the panels. It was agreed that the four panel chairs will be part of the ExCom. The members are:

ATSD(NCB) – Dr. Klein, Chairman

STRATCOM - RADM Byrd

Joint Staff – RDML Walsh

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*The leaked announcement of a Jan. 10, 2003 meeting in the Pentagon which aimed to begin a period of operational studies and trials of mini-nuclear weapons for use against “rogue states.”*

approval to develop an alternative to the B53 high-yield nuclear bomb, which was the principal “bunker buster” weapon in the U.S. arsenal. The B53 was also the heaviest payload nuke in use, weighing 8,900 pounds, and only deployable from B-52 bombers.

Under the guise of “weapons modernization,” Smith was pushing the development of the first mini-nuke, the B61-Mod 11.

By November 1993, despite Spratt-Furce, the Nuclear Weapons Command Standing Safety Committee had approved the B61-11 proposal. On Feb. 6, 1995, Deputy Secretary of Defense John Deutch, a veteran of the Reed Panel advisory board, signed off on the plan. The project was placed on a fast track: On April 18, 1995, the Department of Energy made a classified request to six Congressmen to get funding for the B61-11. The money was flowing by July 1995. On Nov. 15, 1995 Smith pressed for the weapons labs to accelerate the R&D timetable, so the first B61-11 could be delivered to the military before the end of 1996.

The new nuclear weapon that replaced the B53 weighed 1,200 pounds, and could carry a nuclear payload ranging from 300 tons to 340 kilotons.

Even before the first B61-11 was delivered, Smith was threatening its use. He told a group of Pentagon correspondents in Spring 1996 that the United States would soon have

a nuclear bunker-buster that could destroy an alleged underground Libyan chemical weapons plant at Tarhunah, 40 miles southeast of the capital, Tripoli, which the United States considered a serious threat. On May 7, 1996, Defense Department spokesman Ken Bacon scrambled to repudiate Smith’s threat, telling reporters at a regular Pentagon briefing, “There is no consideration of using nuclear weapons, and any implication we would use nuclear weapons against this plant pre-emptively is just wrong.”

## Don’t Forget Israel

The current Bush Administration, top-heavy with mini-nuke proponents from the “Bush 41” Pentagon, has put the issue of pre-emptive nuclear war back on the front burner. The *Los Angeles Times* reported on Jan. 25, 2003, in an article by Paul Richter, “As the Pentagon continues a highly visible buildup of troops and weapons in the Persian Gulf, it is also quietly preparing for the possible use of nuclear weapons in a war against Iraq. . . . Military officials have been focusing their planning on the use of tactical nuclear arms in retaliation for a strike by the Iraqis with chemical or biological

weapons, or to pre-empt one.” Richter reported that one plan under consideration would include “the possible use of so-called bunker-buster nuclear weapons against deep buried military targets.”

A senior retired U.S. military intelligence official, close to the Bush White House, told *EIR* that President Bush has not signed off on these nuclear weapons schemes, and that, beyond the B61-11, no other mini-nukes presently exist in the U.S. arsenal. Furthermore, he emphasized that even the untested B61-11 is a most dubious proposition, with a majority of nuclear experts contending that the idea that such bunker-busters would have limited radioactive spread, was pure nonsense.

Nevertheless, the utopian gang in the Bush civilian Pentagon bureaucracy and the Office of the Vice President have thrown their weight behind the idea of pre-emptive nuclear war against Third World “rogue” targets. This poses one of the most profound threats to global peace and stability in a generation. While there are undoubtedly sane voices in the U.S. military and intelligence establishment who would counter this new generation of Dr. Strangeloves, were the Utopians to reach for the nuclear button, who can vouch for Ariel Sharon’s nuclear-armed Israel, which plays a perverse game of “monkey see, monkey do,” with Washington’s war party?

CONGRESS FACES NEW TURN

## On the Subject of Strategic Bankruptcy

by Lyndon H. LaRouche, Jr.

May 14, 2005

A rising series of political earthquakes is now shaking the world.

Now, the financial collapse of the air-passenger-transport industry, hitting the Pension Benefit Guaranty Corporation from United Airlines today, and perhaps Delta and American Airlines next, intersects the efforts of GM/GMAC to dump the auto-workers' pensions, and the threatened collapse of GM, Ford, and others, threatening to set off a global hedge-funds panic. At the same time, the planet as a whole has already been seized during past days, by a panic-ridden hedge-fund crisis which is orders of magnitude worse than that of August-October 1998.

Now, what will happen, very soon, will stagger your imagination.

The world as you thought you knew it, the day before yesterday, is no longer the same world today. Things you had thought would work, no longer work.

That is already the way you must see how the world is changing. Now, already, you witness the converging impact of, on the one side, pensions hit by spreading bankruptcies of major airlines, with, on the other side, the onrushing threats from the financial collapse in the auto industry. These, and related developments, create a specter of already global, epidemic bankruptcy with which existing U.S. government practices are essentially incompetent to deal. This situation requires the immediate institution of new governmental mechanisms for managing what must be fairly described as a condition of *strategic bankruptcies*, bankruptcies with

which presently existing mechanisms of government are essentially incompetent to deal.

In the financial world, it is as if someone had suddenly turned on the light in the kitchen, and floods of hedge-fund cockroaches are swarming in all directions. The existing world financial system can do nothing to stop this panic! It can only rage, scream, and smash things, all of which would only make everything worse than the moment before.

The world needs the calming voice which says, "It's only money!" It would be a very good thing if that voice were to be the voice of the U.S. Senate.

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### 1. What Is 'Strategic Bankruptcy'?

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A series of bankruptcies which virtually wiped out several categories of the republic's essential industry, would have to be classified by a term of no less impact than "a state of strategic bankruptcy." The threatened collapse of most of the U.S. domestic production capacity of principal manufacturers Ford and General Motors, would mean not only the loss of the production of automobiles, but the loss of a crucial, major portion of the essential machine-tool capacity on which the viability of the U.S. economy as a whole, not only automobile manufacturing, depends. That would be implicitly a more severe long-term defeat for the U.S. economy than Germany's industrial potential actually suffered after the close of World War II.

The present plight of the passenger airlines is also a strategic issue. The case of the airlines has two strategic implica-

tions which require emphasis here. The first such implication is the effects of airline deregulation, which was one of the key items on the agenda of practice of the 1977-1981 Carter Administration's submission to the Trilateral Commission's ruinous, multi-faceted program of deregulation. The second, is the blow-back effect of this deregulation program on the section of the machine-tool capacity associated with the aircraft and related sectors of industry.

The combined effect of the chain-reaction financial collapse of the national automobile manufacturing and air-transport sectors, is the presently accelerating threat of dumping of pension obligations of both the airlines and automobile industries, suddenly, on the Federal Pension Benefit Guaranty Corporation. Without novel measures of government intervention, this presently threatened development would mean a wrecking of the present, non-private system of private pensions, leaving the completely Federal Social Security System as virtually the only pension system for the lower eighty percentile, or more, of the population as a whole. The implication of such a set of combined and related developments would also have to be classed as a case of "strategic bankruptcy."

Bankruptcies, or comparable collapses of the general class typified by these cases, can not be absorbed safely within the private sector as presently constituted. The Federal government must create the institution, the mechanism of re-regulation, and applicable formulas through which strategic problems of this general magnitude and importance are addressed.

## 2. 'It's Only Money!'

The following kind of discussion is essential for defining the action appropriate for this class of cases.

The essential distinction of, and superiority of the original U.S. Federal constitutional system over the monetary-financial systems of Europe, is typified by the constitutional monopoly of the Federal government in the matter of the utterance of currency and related forms of credit. In contrast, the economic systems of Europe have been, generally, based upon the subordination of the authority of government to what are called "independent central banking systems." To the extent that the U.S. has been subjected to overreaching and intruding influence of the financial-monetary systems of Europe into the internal business and political affairs of the



*The desperate financial straits of United Airlines and other vital firms require immediate action. "The world needs the calming voice which says, 'It's only money!'" says LaRouche. "It would be a very good thing if that voice were to be the voice of the U.S. Senate."*

U.S.A., U.S. national economic policy-shaping has been a battlefield of contention between our national-constitutional and foreign financier-monetary systems.

The only construction on this issue which could be derived from our Federal Constitution, is the notion of national banking famously associated with Treasury Secretary Alexander Hamilton and the leading Nineteenth-Century national economists of our republic Henry C. Carey and the German-American Friedrich List. Typical opponents of this national-banking policy have been the Bank of Manhattan's Aaron Burr, land-bank scammer and Andrew Jackson sponsor, President Martin van Buren, August Belmont, and so on. During much of this period, U.S. policies were subjected to the overreaching imperial influence of the Bank of England's position as the dominant figure in the world's system of international loans. This British imperial influence dominated world markets, and penetrated deeply into the internal affairs of our nation and its government.

Against this historical background, President Franklin Roosevelt's program of economic recovery from the deep depression bequeathed by the combined effect of the Bank of England's and the Coolidge and Hoover Administrations' economic policies, was the product of President Roosevelt's philosophical orientation toward the legacy of national banking which is implicit in the original design and composition of our Federal Constitution. The design of the original, 1944-1945 design of the Bretton Woods fixed-exchange-rate system, employed the uniqueness of the U.S. dollar's value for the successful, 1945-1964 growth of both the U.S.A. and many other nations of the world, including those of war-

torn Europe.

The general background which must be taken into account to understand this crucial, axiomatic difference in economic policy between the constitutional tradition of the U.S.A. and the prevalent parliamentary systems of Europe, is the fact that the deadly conflict between the English-speaking states of North America and the British monarch and parliament, dated from the February 1763 Treaty of Paris which, in effect, established the British East India Company's emergence as the principal imperial power of this planet. It was the attempted subjugation of the American colonies to the rapacious policies of a parliament controlled by the agents of Lord Shelburne's British East India Company, which prompted the 1776 Declaration of Independence, and defined the circumstances under which our unique design of Federal Constitution was composed and adopted.

During 1782-1783, the assumption among many of our leading patriots had been that the vast support for the American cause in Europe would mean reforms in Europe reflecting the same principles which the struggle for American Independence had signified in the opinions of those European sympathizers and supporters of our cause. The effects of the French revolution and Bonapartist regime of 1789-1815 spoiled that prospect. From 1815 through 1848, the leading forces of the world, the rival British and Habsburg interests, were equally committed to our destruction. With the developments of 1848, the British Empire and its far-flung monetary-financial power was the dominant world system within which our republic was enveloped.

It was only through the U.S. events of 1863-1876, when the U.S. emerged as a leading world economic power, that many rivals of the British Empire, such as Bismarck's Germany and Alexander II's Russia, like Meiji Restoration Japan, adopted the American System of political-economy, as defined by Henry C. Carey, for the industrial self-development of the continent of Eurasia.

The relevance of this history to the U.S. economy's present strategic situation is, briefly, as follows.

The Eighteenth-Century British system was known within Europe under the alternate names of "The Enlightenment," and "The Venetian Party." This name was premised on the fact that systems of the Dutch and English India companies were based on the earlier Venetian model of financier-oligarchy. Under that system, as under the influence of the British monarchy from 1763 to the present time, financier power has usually reigned over the governments of nations. The Twentieth-Century and present world systems of financier-oligarchical rule through "independent central banking systems," is the modern expression of that Venetian-style financier-oligarchical system of financial tyranny.

It is not accidental for us in examining this subject here today, that President Franklin Roosevelt was a descendant of New York banker Isaac Roosevelt, who was an ally of Alexander Hamilton, and, like Hamilton, an opponent of Brit-

ish Foreign Office official Jeremy Bentham's asset Aaron Burr and Burr's Bank of Manhattan. Moreover, this character of Franklin Roosevelt's outlook was shown in writings as a Harvard University student, and in his direction in crafting those policies which enabled the U.S. to rise to immense economic and other power in making possible the defeat of the Adolf Hitler who would have otherwise triumphed as a new Caesar for the world at large.<sup>1</sup>

The relevance of these bare historical considerations to the present strategic-economic threat to our republic, is the following.

### **Currency Has No Intrinsic Value**

No truly sane and civilized adult would object to the statement that paper money, obviously, has no intrinsic value. This was clear to the Massachusetts Bay Colony which made the first use of a paper currency, quite successfully, up to the point the British monarchy and parliament, in 1688-1689, suppressed what had been the highly successful Massachusetts currency used to promote high rates of net physical growth in that commonwealth. The defense of the revival of such a paper-currency policy by Benjamin Franklin, is one of the leading influences on which the U.S. Constitution's provisions respecting national currency were premised. Money in a civilized modern republic has no greater nor lesser value than might be attributed to it as an instrument of credit, just as it was so used by the Massachusetts Bay Colony, and as our Federal Constitution defines its proper creation.

Under our Federal constitutional system, it is the Federal government which holds a monopoly over this use and regulation of the national currency. This constitutional intention was built into the original design for the Bretton Woods monetary system. Several factors, which I have addressed in other published locations, but which need not be discussed in this location, weakened the effectiveness of use of the original design. The crucial change for the worse, which must be emphasized here, was the effects of the first Prime Ministry of the United Kingdom's Harold Wilson, which, in 1967-1968, undermined the position of the U.S. dollar, and pushed President Lyndon Johnson into a concession which was the first step toward the formal break-up of the Bretton Woods system by the U.S. Administration of Richard Nixon.

The succession of the Nixon Administration's August 1971 repudiation of the defense of the U.S. Bretton Woods dollar, the Azores Conference, and the later Rambouillet conference, thoroughly destroyed the Bretton Woods system of fixed exchange rates. The Trilateral Commission's destruction of the essential protectionist and related regulatory fea-

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1. The defeat of the Axis alliance at Midway and at Stalingrad, were the crucial turning-points of 1942-1943 in that war. Without the economic might generated by President Roosevelt's national economic-recovery program, those victories would not have been possible. Otherwise, Hitler would surely have become the new Caesar of the world.

tures of the U.S. recovery from the 1930s Depression, had already created, by 1981-1982, under Federal Reserve Chairman Paul Volcker, the mess of physical economic and monetary-financial wreckage which grips the U.S.A. and the world at large today.

The seismic economic rumblings within the U.S. economy and world today, are the outcome of, chiefly, those changes from the Bretton Woods system which have occurred during the 1971-2005 interval. The crises so created can be overcome only through attacking the cause of our present, global catastrophe at its original source. We must act to establish the new system of long-term credit under which a stable dollar, within a fixed-exchange-rate system, reigns once again.

Any efforts to attack the problem by lesser methods will assuredly produce nothing other than a disaster of incalculable dimensions.

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### 3. The Role of U.S. Credit

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The immediate danger is, that postponing certain urgently needed U.S. reforms would ensure a chaotic collapse of the present world monetary system. Since that system, all other considerations properly put aside, is the basis for the present world system, only immediate action to stabilize the dollar-denominated world monetary system could prevent a rather immediate, extremely deep, chain-reaction collapse of the economies of all nations of the planet. The degree of wild-eyed financial inflation built into the financial-derivatives aspect of the present world system would, if honored, assure such a deep, deep collapse were that not prevented by appropriate remedial action.

To the extent that presently outstanding financial obligations are stated in terms of currently scheduled obligations, no escape from the worst imaginable disaster were possible. To avoid the worst, two preconditions must be satisfied. First, financial derivatives must be treated for what they are, "gamblers' side-bets," and erased from the calculations. It is traditional forms of sovereign obligations of nations which must command our attention, above all else.

The available remedy is to be found along the following lines.

On the condition that we commit ourselves to high rates of gain in investments in basic economic infrastructure, agriculture, and industry, and that we use a long-term, fixed-exchange-rate system for this mission, our option lies in commitments to converting the largest portion of the principal debt of governments into long-range, low-interest credit of between a quarter-century and a half-century maturities.

To illustrate the point, consider the spectacle of the U.S. auto industry today. The industry has attempted to flood the retail market with product whose residual value after depreciation would become quickly less than the amount of the debt

outstanding as implied security against that depreciated product. This is what occurred, leading into the deep 1957 U.S. recession; a similar pattern, of far worse implications, prevails today.

The industry must be reorganized, so as to reduce the quantity of vehicles sold, by shifting the composition of the industry's product to the markets for other classes of products, products which utilize the crucial machine-tool capability currently associated with the auto industry. Much of the needed diversification of product-line falls into relatively high-technology categories of product required for basic economic infrastructure.

Similarly, the general fault in the composition of U.S. national product today, is a result of a generally accelerating shift toward a so-called "post-industrial" economy since approximately the 1967-1968 interval. The result has been a collapse of the ratio of productive employment to labor-force, combined with a decline in physical productivity of the labor force per capita and per square kilometer of relevant area of habitation and production.

Any recovery of the U.S. economy (in particular) will depend upon a reversal of the post-industrial trends since the mid-1960s, or else no recovery would be possible. This means a shift back toward what used to be called "blue collar" employment, with an initial heavy emphasis on repairing our nation's present dilapidated and rotting basic economic infrastructure, while using this reorientation to upgrade the productive skills and conditions of life of a relatively enormous ration of unskilled and marginalized strata of the population.

A large ration of the total employment, financed by long-term government-organized credit for infrastructure and related investments, will be associated with long-term investments in basic economic infrastructure. Thus, the credit created by government for the purpose of such projects will be secured against long-term investments in building up essential basic economic infrastructure.

In addition to domestic investment, there will be a vast, growing investment in international development, as typified by the growing trade between western and central Europe and China.

The greater portion of this combined public and international investment will be associated with long-term credit at low simple-interest rates, reaching into the quarter-century and longer maturities. This emphasis on long-term credit generated for use in such modes means that the net composition of debt carried from the present, into the future, will shift the balance of debt-obligations, to bring financially teetering governments and private banking systems into stable long-term configurations at basically low interest rates.

In such a setting, on condition that high rates of technological progress are the prevalent condition, long-term pension and health-care systems can be secured by a more than suitable rate of growth of assets in the economy.

Thus, under such conditions, we are able to make pledges to the future which have the effect of being well-secured savings built into the accounts of today.

There have been many foolish errors in the shifts in patterns of behavior by government and the population during the recent half-century or so. The most significant error, from the standpoint of physical economy, has been the shift to what is called the “post-industrial” policy of a “deregulated economy.” Of all the mistakes we have made, this has been the greatest single contribution to the cataclysm descending upon our economy today. Unless we are willing to change that, to return to the proven policies of the infrastructure-based agro-industrial development of the U.S. economy during earlier times, there is no hope for this nation, no matter what we choose to do otherwise. If we do learn the lesson from the error of our “post-industrial” ways, the powers of government under our Constitution could once again rescue us, as such a policy succeeded under President Franklin Roosevelt’s leadership.

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## 4. If, Then, We Wish To Survive

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If we decide on the re-industrialization, re-regulation route to national survival, the task of the Congress is to create the authorization for special agencies dedicated to managing the transition for otherwise doomed entities fallen into bankruptcy. In general, this creation of such agencies should be limited to cases which, firstly, have the character of vital strategic institutions, and, secondly, for which a clear option for a successful, medium- to long-term recovery is foreseeable.

The essential authority for this kind of remedy lies in a central provision of the Preamble of our Federal Constitution, the promotion of the general welfare.

This provision, known to students of Classical Greek and Christians otherwise as that principle of *agapē* which is central to *I Corinthians* 13, is the foundation of the creation of the modern sovereign nation-state, which has been otherwise described as a commonwealth. It is also the central principle which brought approximately to an end the reign of religious warfare which polluted modern Europe from the 1492 expulsion of the persecuted Jews from Spain until the signing of the 1648 Treaty of Westphalia, a treaty based precisely upon this principle of natural and constitutional law.

This is also the principle which the founders of the 1776 U.S. Declaration of Independence adopted, from Leibniz’s refutation of John Locke, “the pursuit of happiness.”

A promise to deliver depends upon the efficient motive to perform as promised. The Congress, the Senate, as the responsible, continuously reflective body of the Congress, must limit itself to adopted means which accomplish necessary ends by means whose feasibility is foreseeable. Such are the solutions for the strategic challenges to which I have given attention here.

# United Case Warns: All U.S. Pensions Bankrupt

by Anita Gallagher

A U.S. Bankruptcy Court’s May 10 decision to allow United Airlines to dump its pensions onto the Pension Benefit Guaranty Corporation (PBGC)—termed “a political earthquake” by Democratic economist Lyndon LaRouche—shows that the “defined benefit” pensions of 44 million American workers still fortunate enough to have one, can and will disappear, unless LaRouche’s measures are enacted by the U.S. Congress.

The airline sector’s pensions are \$31 billion underfunded on a termination basis, \$9 billion of which has already been dumped on a PBGC which is \$23 billion in deficit, largely from the collapse of the nation’s steel manufacturing sector. The looming bankruptcy of the entire auto sector if Congress fails to act, will dump several times more debt on the PBGC. This will end any private pension security in America. It was said that retirement security had three legs: Social Security, private savings and pensions. The disappearance of savings and pensions shows Americans would be insane to allow Bush to destroy Social Security—the only leg still solid.

The pension funding deficit of General Motors alone, in the event of (bankruptcy) termination, was about \$47 billion at the end of its 2003 fiscal year, according to the assumptions of the PBGC; and of Ford Motor Company, \$22 billion, by the same worst-case assumptions. Many auto suppliers, like Visteon, Delphi, and others, would add to that their own hugely underfunded plans. To prevent this catastrophe, LaRouche drafted an emergency memo to the U.S. Congress on May 14: “Congress Faces New Turn: On the Subject of Strategic Bankruptcy.” It sets out guidelines of action now, to deal with bankruptcies which have wiped out whole categories of the republic’s essential industry, which he terms “a state of strategic bankruptcy.” The U.S. Congress must take these steps, because the American Presidency is currently occupied by an idiot, LaRouche emphasized.

## ***EIR* Told You Six Months Ago**

This news service, founded by LaRouche, the world’s leading economist, reported the headline stories of this looming disaster mid-May, more than six months ago. The Dec. 10, 2004 *EIR* published, “Vanishing American Pension Foretells Bush Social Security Gameplan.” Pension solvency had been wrecked in the stock market from 2000-2002, the article reported, and George Bush was pushing the same plan for Social Security, privatization. *EIR* reported in December that the PBGC could never handle the coming air and auto pension



defaults—only reindustrialization of the U.S. could. On Feb. 4, 2005, in “Private Pensions Crisis Warns, ‘Don’t Privatize Social Security,’ ” *EIR* warned again that the airline sector was going under, and would dump its pensions on the PBGC. LaRouche’s August 2004 campaign pamphlet, *It’s the Physical Economy, Stupid!* was the only solution on the table.

There are two “strategic bankruptcy” issues posed by the bankruptcy of United and U.S. Airways, and their pension defaults onto the PBGC. The first is the two-years-plus bankruptcy of those two of the nation’s six major, non-budget airlines, and the near-bankruptcy of the other four—Delta, Northwest, American, and Continental. There is no possibility that United and U.S. Airways can exit bankruptcy through cost-cutting alone, nor is there any possibility the other airlines, near-bankrupt and still paying pensions, can avoid it through more “cost-saving.” But the routes of these six non-budget airlines comprise the essential part of the nation’s air transportation grid, and the sector whose demand anchors the machine-tool capacity associated with the aircraft and related sectors of industry. LaRouche calls the looming loss of air transport, a “strategic bankruptcy.”

What has caused the airline bankruptcies? Above all, LaRouche has stressed, the “effects of airline deregulation, which was one of the key items on the agenda of practice of the 1977-1981 Carter Administration’s submission to the Trilateral Commission’s ruinous, multi-faceted program of deregulation.” An average airline ticket today costs half as much, in real dollars, as it did in 1978! It is a measure of today’s prevailing economic illiteracy, that only LaRouche has called for the re-regulation of the airline industry.

Since 2001, add in record-high fuel prices; matching record-low fares from flying “Wal-Marts” like Southwest and Jet Blue; and higher security costs. Airline fuel costs are now between 67-75% higher than in 2003, and budget airlines have produced the lowest air fares ever. Delta reported, along with its \$1.1 billion first-quarter loss, that if it can’t restructure its loans, it will be forced to file for Chapter 11. Delta lost \$5.2 billion in 2004, seven times its 2003 loss of \$773 million; its pension underfunding is huge. Northwest lost \$878 million in 2004, nearly four times its 2003 loss of \$236 million. Continental lost \$363 million in 2004, compared to a \$38 million profit in 2003. And American Airlines, the world’s largest since taking over TWA after its bankruptcy, lost \$761 million in 2004, after its whopping \$1.2 billion loss of 2003.

The second issue posed: “The combined effect of the chain-reaction financial collapse of the national automobile manufacturing and air-transport sectors, is the presently accelerating threat of dumping of pension obligations of both the airlines and automobile industries, suddenly, on the Federal Pension Benefit Guaranty Corporation. Without novel measures of government intervention, this presently threatened development would mean a wrecking of . . . private pensions, leaving the completely Federal Social Security system as virtually the only pension system for the lower eighty per-centiles, or more, of the population as a whole. The implica-

TABLE 1

### Employees’ Pension Losses in United Airlines Pension Takeover by PBGC

Active Employees	Average Loss of Benefits	Retired Employees	Average Loss of Benefits
Pilots	36%	Pilots	34%
Flight Attendants	39%	Flight Attendants	1%
Mechanics	48%	Mechanics	20%
Ramp Workers	59%	Ramp Workers	19%
Public Contact Employees	55%	Public Contact Employees	2%

Source: Rep. George Miller’s website.

tion of such a set of combined and related developments would also have to be classed as a case of ‘strategic bankruptcy.’ ”

### Pension Panic

After the May 10 United Airlines default, the largest ever in the PBGC’s history, press, political and labor leaders were all, as the *Wall Street Journal* put it, “[A]sking the question of paramount importance to anyone with a retirement plan: Could this happen to me? The short answer is yes.” At May 13 hearings held by the Senate Democratic Policy Committee, expert witness Prof. J. Bradford DeLong said the UAL default “means the end of the employer-sponsored defined benefit pension plans.”

The American labor movement established private pensions by using President Franklin Roosevelt’s 1935 Social Security legislation as a beachhead, to win contracts which included private, employer-funded pensions for unionized workers. These pensions, with defined benefits specified in advance, became generalized among Americans after World War II. Before that, most Americans worked from childhood to grave, and the elderly were the poorest segment of the population.

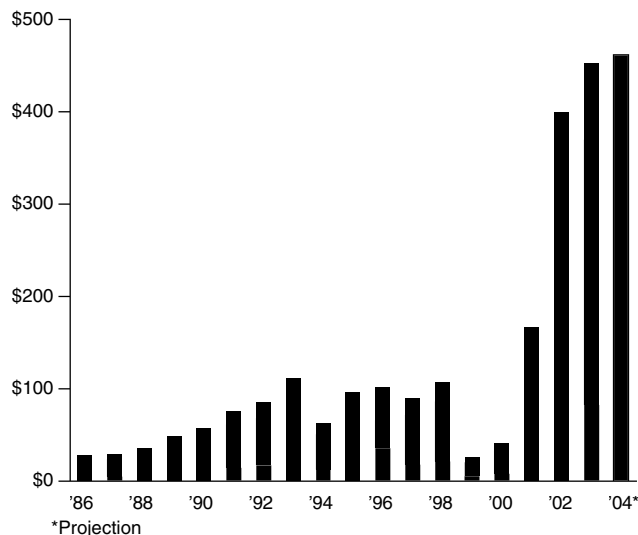
Today, only 50% of America’s private-sector workforce is covered by any kind of savings plan. And the number of private employers who offer “defined-benefit” pensions—the superior type which guarantees a monthly benefit from retirement to the end of the retiree’s life, or even the life of a spouse—has fallen from 112,000 in the mid-1980s, to only 31,000 today; the U.S. is losing about 1,000 of these plans a year. And according to the 2003 Retirement Study of Towers Perrin consultants, 25% of the existing plans were “frozen” by 2003; that is, either closed to new employees, or allowing no further benefit accruals.

Over the past 20 years of “prosperity,” private employers have exited defined-benefit plans *en masse* to cut costs, or converted them to the less valuable “cash balance” type, where workers’ pensions are calculated on a wage period

FIGURE 1

## Total Underfunding of Federally Insured Employer Pension Plans

(\$ Billions)



Source: PBGC presentation.

which does not represent their top earnings. The trend out of defined-benefit plans turned to a stampede after the 2000-2002 implosion of the telecom bubble, with the Greenspan Fed's stupid policy of low short-term interest rates. Employers turned to the less valuable "defined-contribution" plans, such as 401(k) plans, where the employee takes all the risk of generating future earnings.

How have holders of personal IRA investment accounts fared in recent years? A full one-third of the employees surveyed by Towers Perrin in 2003 said they now plan to work years longer than they had intended, because of investment losses.

### Who Will Save the PBGC?

The PBGC dropped a bombshell six months ago, announcing a net loss of \$12.1 billion for Fiscal Year 2004, which more than doubled its deficit to \$23.2 billion. Although Executive Director Brad Belt said at the time, "The PBGC is committed to protecting pension benefits, and with \$39 billion in assets, we can continue to meet our obligations for a number of years," Belt testified to the Senate Committee on Health, Education and the Workforce on April 26, about a "reasonably possible" PBGC exposure to \$96 billion in underfunded pensions from "troubled industries"—more than double its assets.

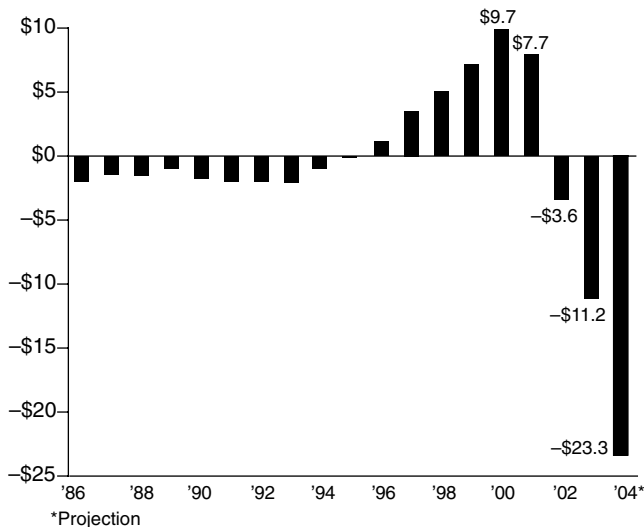
The magnitude of the deficits these corporate pension plans have fallen into, is determined above all by assumptions—and policy actions—on the future of the U.S. economy. A company's accountants try to determine how the

FIGURE 2

## Net Position of the Pension Benefit Guaranty Corporation

(Assets Minus Liabilities)

(\$ Billions)



Source: PBGC presentation.

assets in its pension funds stack up now, against pension payments that will be made to thousands of employees over 40-50 future years. The biggest factor is what they assume will be the long-term rate of return—on those assets and on the year-by-year additions the company is supposed to make to those assets. Through the 1990s, big employers ignored the productive economy's decline and assumed, in their reports to the Department of Labor, fantasy rates of return of 9-10% and more for the future, although they weren't making those returns in the present. They even counted these imaginary pension-fund super-returns in their corporate profits!

The 1998 and 2000-02 stock market collapses, combined with Greenspan's incompetent policy of virtual-zero interest rates on bonds, ended that. The funds lost money and shrank; the PBGC itself had shifted "exuberantly" from bonds to stocks, and lost money. The companies stopped counting imaginary *present* returns of their pension funds. But for the future, they're still assuming 6-8% rates of return over the long run—as if the U.S. economy were not sinking—right up until they go bankrupt. The PBGC, however, assumes a pessimistic 4% long-term rate of return (including inflation) when taking over any bankrupt employer's pension obligations. That "termination basis" assumption is a direct result of the Greenspan Fed's failed low-interest-rate policies, and it produces a PBGC calculation of a very large, multi-billion-dollar deficit of that pension fund. Unions and members of Congress object to that calculation: But changing it, is really a matter of fundamentally dumping free-trade, globalization economic policy, and putting real productive value behind

the pension fund investments.

In 2004, the PBGC was paying benefits to 1.1 million people, which totalled \$3 billion. It was created by the Employee Retirement Income Security Act of 1974 (ERISA), to insure defined-benefit pension plans up to a limit. The current maximum payment is \$45,613/year. The PBGC receives no tax revenues; its funds come from insurance premiums paid by employers offering "defined benefit" plans, and investment returns from those premiums.

The Bush Administration's planned legislative "reform" of the pension system, with much higher PBGC premiums and accelerated "catch-up" on underfunding, have been denounced by both corporations struggling to stave off bankruptcy, and labor. Even the pro-Bush National Association of Manufacturers panned the Bush plan, as one designed to save the PBGC from a taxpayer bailout rather than save the pensions.

"The PBGC was never set up to absorb the collapse of the entire U.S. industrial sector," said one Congressional pension expert. But the industrial collapse and the pension crisis can be solved by Congress, LaRouche says: "If we decide on the re-industrialization, re-regulation route to national survival, the task of the Congress is to create the authorization for special agencies dedicated to managing the transition for otherwise doomed entities fallen into bankruptcy."

The United "earthquake" has made pensions a live issue on Capitol Hill. On May 10, Rep. George Miller (D-Calif.), ranking Democrat on the Committee on Education and the Workforce, introduced legislation to stop bankrupt companies from dumping their pensions on the PBGC for a six-month period starting May 1—that is, including the United case. Miller said, "The stakes for 120,000 United Airlines employees and retirees are very high"—they face an average 25-50% cut in their benefits, if PBGC simply drops \$3.2 billion out of United's \$9.8 billion in pension obligations, because they exceed the amount guaranteed by the PBGC. Rep. Miller has also released a May 18 letter to PBGC Executive Director Belt questioning why the PBGC took over the United Flight Attendants' pension plan, when Belt himself on April 5 opposed terminating it, because it appeared solvent. Miller warned that the PBGC's takeover of a solvent plan, "could very well spark an industry-wide rush" to dump all plans.

"Congress is not going to stand by while United employees lose \$3.2 billion of their contracted retirement pensions," said a Congressional aide. "The purpose of the six-month moratorium in this bill is to put a stop to that, while Congress deliberates on what can be done to solve the overall problem. We think that otherwise it's going to spread to the other airlines, and to the auto companies." The bill applies to any company with \$1 billion or more of pension underfunding. Miller has also introduced a companion bill that links executive pensions to employee pensions, as a matter of equity. The legislation for a six-month moratorium on PBGC pension takeovers, H.R. 2327, already has 49 Democratic and Republican sponsors in the House.

## 'Hedge Fund' Blowout Threatens World Markets

by Lothar Komp

Decades of insane economic policies, and the stubbornness of central banks papering over the symptoms of a systemic crisis by providing ever more liquidity, have produced an impossible situation as of late May, after the GM/Ford credit shocks.

One of the effects of this unprecedented liquidity pumping has been the biggest explosion in mortgage and other private debt titles in history, as well as the emergence of new financial bubbles in the bond, housing, and commodity markets. All of these financial assets are again just the basis for financial bets of even larger proportions: "derivatives." As most of the derivatives bets are traded outside of official exchanges, in the form of private deals between two counterparties, nobody really knows the actual dimensions. A substantial amount of derivatives betting is done by "hedge funds," which are not subject to any kind of regulation or supervision. According to the Bank for International Settlements (BIS), the outstanding volume of OTC ("over-the-counter") derivatives alone amounts to \$248 trillion, while the annual turnover of exchange-traded derivatives is close to \$900 trillion. It's a conservative guess to estimate the current rate of derivatives trading at \$2 quadrillion per year; that is, 50 times more than the annual economic activity, measured by the gross domestic product (GDP), of all countries on the planet.

On May 5, a big shoe dropped into this giant financial minefield. Standard & Poor's downgraded \$453 billion in outstanding debt of General Motors and Ford Motor Corporation to junk. On May 8, Lyndon LaRouche indicated that the General Motors crisis is not only a "national disaster" for the United States, but could actually detonate the world financial-monetary system. Two days after LaRouche's statement, markets were shaken by the fear of an imminent repeat of the Long-Term Capital Management (LTCM) disaster, which almost destroyed the entire system in Autumn 1998. Stock and corporate bond markets suffered massive losses on May 10, after traders pointed to evidence of severe problems at several large hedge funds, as a direct consequence of GM's and Ford's downgrading. The hedge funds mentioned in this respect included Highbridge Capital, GLG Partners, Asam Capital Management, and Sovereign Capital. The London-based GLG Partners has \$13 billion under management, and lists as the largest hedge fund in Europe and the second-largest in the world.

GLG issued a statement on May 10: "All the funds are fine and we have no concern." Highbridge Capital, that same

day, wrote a letter to investors, noting: "It is our understanding that recent volatility in the structured credit markets is apparently related to the unwinding of an unprofitable CDO [collateralized debt obligation] tranche correlation trade by one or more parties. . . . The purpose of this letter is to inform our investors that Highbridge has no exposure to the trades." Highbridge was bought up last year by U.S. megabank JP Morgan Chase. Sovereign Capital, a British hedge fund, is closely linked to Lazard Brothers. The fund is heavily involved in East Asian markets, and news of the possibility of its collapse had caused panic among Asian bankers. Sovereign Capital's chairman, John Nash, formerly worked for Lazard. Since May 10, the "LTCM-word" is in everybody's mouth. Asam Capital Management is based in Singapore and reportedly has lost most of its investors' money.

### Top Banks Involved

The stocks of the same large banks that participated in the 1998 LTCM bailout, and which are known for their giant derivatives portfolios—including Citigroup, JP Morgan Chase, Goldman Sachs, and Deutsche Bank—were hit by panic selling on May 10. Behind this panic was the knowledge that not only have these banks engaged in dangerous deriva-

tives speculation on their own accounts, but, ever desperate for cash to cover their own deteriorating positions, they also turned to the even more speculative hedge funds, placing money with existing funds, or even setting up their own, to engage in activities they didn't care to put on their own books. The combination of financial desperation, the Fed's liquidity binge, and the usury-limiting effects of low interest rates, triggered an explosion in the number of hedge funds in recent years, as everyone chased higher, and riskier, returns.

There can be no doubt that some of these banks, not only their hedge fund offspring, are in trouble right now. And the top banks are starting to point fingers at each other. Particular attention has been paid to Deutsche Bank. On May 17, Merrill Lynch issued a report noting that Deutsche Bank probably has suffered significant derivatives losses following the GM and Ford downgrading. The report states that Deutsche Bank will not be able to maintain its rosy performance, culminating in a pre-tax return on equity of 30% in the last quarter. Not only has the volume of bond emissions managed by Deutsche Bank dramatically declined during the second quarter, but the bank may have suffered reduced business from hedge funds because of the "recent turbulence" in the credit derivatives market, as well as losses in its own trading positions. "Deu-

## Glossary of the Global Financial Casino

**Hedge Fund:** A form of mutual fund used by wealthy individuals and institutions to engage in aggressive speculative activities prohibited to ordinary mutual funds. Hedge funds are restricted by law to no more than 100 investors per fund, and these investors are presumed to be sufficiently knowledgeable to understand the risks. Most hedge funds have extremely high minimum investment amounts ranging from \$250,000 to well over \$1 million.

**Derivative:** A financial contract whose value is derived from the performance of assets, interest rates, currency exchange rates, or indexes. Derivative transactions include a wide assortment of financial contracts including structured debt obligations and deposits, swaps, futures, options, caps, floors, collars, forwards, and various combinations thereof.

**Credit Derivative:** A contract between two parties which uses a derivative to transfer credit risk from one party to another, in exchange for a fee. For example, an investor who owns bonds issued by General Motors might buy a credit derivative from his investment bank, which will pay off should General Motors default on the bonds. In return, the investor pays the investment bank a fee,

which the bank considers sufficient to run the risk that it will have to pay. If there is no default, the bank makes a tidy profit.

**Collateralized Debt Obligation:** CDOs are securities backed by pools of assets, mainly non-mortgage loans or bonds. In exchange for interest charges, buyers of the CDOs bear the credit risk of the collateral, which means that if any of the loans or bonds in the pool are not repaid, the holders of the CDOs take the loss. CDOs are made up of tranches, with various maturities and risk characteristics, with the equity tranches carrying the most risk, and therefore paying the highest interest rate to the buyer.

**Capital Structure Arbitrage:** A form of arbitrage which exploits differences in the pricing of a company's stock price and its debt. These bets are growing rapidly because of the development of the credit derivatives market.

**Over-the-Counter Derivative Contracts:** Privately negotiated derivative contracts that are transacted outside of organized exchanges.

**Exchange-Traded Derivative Contracts:** Standardized derivative contracts transacted on an organized exchange, and which usually have margin requirements.

**Off-Balance Sheet Derivative Contracts:** Derivative contracts that generally do not involve booking assets or liabilities (for example, swaps, futures, forwards, and options).

tsche must be taking some pain at present,” concludes the report, which appeared just one day before Deutsche Bank’s annual shareholder meeting in Frankfurt. According to Merrill Lynch, about 17% of Deutsche Bank’s clients in its debt sales and trading business are hedge funds.

When it was named as one of the victims of the GM/Ford fall-out, Deutsche Bank chief financial officer Clemens Börsig was forced to claim at a New York conference on May 11, that the bank “has no cash lending exposure to hedge funds.” Deutsche Bank’s “exposure is fully collateralized.” Börsig said that the bank’s global markets unit “has no investments in hedge funds.” The bank has a “conservative” approach to its business with the funds and “very strict criteria” for choosing clients, he added. Nevertheless, according to its own 2004 annual report, Deutsche Bank at the end of that year held derivatives positions, mostly interest rate derivatives, of a nominal volume of \$21.5 trillion. That is about ten times the GDP of the German economy.

### ‘Hedging’ to Death

The unprecedented downgrading to junk of almost half a trillion dollars in corporate debt, which doubled the total volume of U.S. junk bond debt, had devastating consequences

**Swap:** A deal in which two counterparties agree to swap the cash flows from different financial instruments, such as securities paying fixed and variable interest rates. A Credit Default Swap is a form of credit derivative in which the buyer pays the seller in exchange for an agreed-upon payment should the specified “credit event,” such as a default or the breaking of a loan covenant, occur.

The reader is advised that the technical descriptions above do not begin to do justice to the insanity of the processes they describe. Credit derivatives, for example, do not really provide protection against a default, since the institutions which issue them are often in precarious financial positions themselves, and sell the derivatives because they are desperate for the cash flow. In the current environment, a credit derivative is mainly used to provide the accounting fiction that certain mostly worthless assets on a company’s books still have value. The derivatives market, overall, is designed to *hide* the bankruptcy of the system by providing virtual assets to paper over gaping holes in the system, as well as garnering cash flow from selling mafia-like protection to companies ravaged by market manipulations. One of the chief agencies of such manipulations are the hedge funds, which act as front men for the Anglo-American central banks and their sibling financial institutions. George Soros is a prime example of this phenomenon.—*John Hoefle*

for different kinds of derivatives bets. In particular, the downgrading hit the credit derivatives market, which provides insurance against bond defaults. In the recent period, hedge funds have sharply increased their exposure to a form of credit derivative known as a collateral debt obligation (CDO). CDOs are pools of loans, bonds, and other debt titles from hundreds of different corporations which are bundled and sold to investors in much the same way as mortgages are turned into mortgage-backed securities. In exchange for hefty fees, many hedge funds have taken to selling insurance against corporate defaults. If there is no default during the life of the contract, the seller pockets a lucrative fee, but in the event of a default, the seller must pay out the face value of the contract. To raise that money, the hedge fund must often sell its most liquid assets, and that, often, in the face of a falling market. Such “distress selling” by several hedge funds was actually observed on May 10 and subsequent days. Europe is extremely vulnerable to the current crisis in the credit derivatives market, as 50% of all CDOs are euro-denominated. The same kind of financial instruments led to the Parmalat collapse in Italy last year.

A related kind of derivatives scheme is the so-called capital structure arbitrage (CSA). It’s one of the latest inventions in the derivatives casino. CSAs also involve bets on corporate debt titles, or the derivatives on that debt, such as CDOs. But the overall bet is made more complex by adding another element: the stock price of the respective corporation. Usually, when the prices of corporate bonds or their derivatives falls, the stock price of the respective corporation goes down as well. By combining the bond or credit derivative with a bet on a falling stock price, the CSA investor can try to “hedge” against potential losses. More convincing for hedge funds than the limiting of risks, is the empirical discovery that once a corporation runs into trouble, the stock price often plunges much more violently than the bond price of the same corporation. And that is exactly the condition under which a CDA contract generates profit.

Now comes the problem: By the very combination—in the same week—of Kirk Kerkorian’s announcement for a partial General Motors takeover, boosting the GM stock price by almost 20%, and the downgrading of GM debt to junk by Standard & Poor’s, crashing the GM bond price, the arbitrage traders suffered the worst of all possible disasters.

Nobody knows how many hedge funds have already gone under in May. Further complicating matters is the fact that many hedge fund investors, faced with all the news and rumors circulating about derivatives losses, are panicking, and are right now pulling out their money—if they can. Hedge funds often allow withdrawals of funds just once a quarter. The next date is July 1. But how to pay out investors, when cash reserves are gone and every dollar of capital is tied up in highly leveraged derivatives bets? To be able to meet redemption demands, hedge funds are forced to liquidate contracts under the present, extremely distressed, market conditions.

## Derivatives: 'Ticking Time Bombs'

In an article headlined "Ticking Time Bomb in Structured Credit Products," Switzerland's conservative financial daily *Neue Zürcher Zeitung* on May 19 pointed to the precarious situation in the so-called "structured credit" market. This includes the use of capital structure arbitrage (CSA) contracts, combined bets on the stock price and debt titles of the same corporation. The daily states that the purchase of GM stocks by Kerkorian caused a "brush fire" on the bond market, which then, in particular, hit funds specialized in CDAs. The funds faced "painful" losses when the risk premiums on GM bonds "exploded" and the prices of related derivatives plunged, while GM stocks, because of the Kerkorian move, jumped by 20%. Overall, the downgrading of GM, in spite of "the fact that it didn't come as a full surprise, triggered a chain reaction on the bond market," centered around collateralized debt obligations (CDO). These CDOs fueled the "sudden explosion" of the GM risk premium. Trying to escape from their CDO adventure, investors "at some point engaged in panic selling, which then derailed the credit derivatives market."

—Lothar Komp

This means piling up even more losses, which in turn—once investors recognize it—will further intensify withdrawals.

One indicator for the ongoing "distress selling" is the average price of credit-default swaps (CDS), which on May 18 hit the highest level since records started one year ago. For every outstanding corporate bond, an investor can buy a CDS contract, by which the default risk is transferred to the counterparty of the contract. In exchange for this kind of protection, the investor pays a certain fee to his counterparty, which works like an interest rate deduction on the nominal return of the bond. Within ten days leading to May 18, the average CDS rate has jumped up by one third, from 42 to 60 basis points (from .42% to .6%). The sharp increase reflects not only the rising fear for corporate bond defaults, but even more, a sudden drop in the number of hedge funds that are willing, or able, to take over additional default risks. The surprising rise of the U.S. dollar and the fall of commodity prices, including oil, are also being attributed to hedge fund emergency sales.

### Beyond LTCM

Andrew Large, the deputy governor of the Bank of England, issued a strong warning on credit derivatives on May

18. Speaking at an international conference of financial regulators in Turkey, he noted, "Credit risk transfer has introduced new holders of credit risk, such as hedge funds and insurance companies, at a time when market depth is untested." Large said the growth of derivative instruments has "added to the risk of instability arising through leverage, volatility, and opacity." Regulators should therefore act and, in particular, search for credit concentrations.

Among the many voices warning against a repeat of the LTCM debacle or worse, is none other than Gerard Gennotte, former senior strategist at LTCM, and now working for another hedge fund called QuantMetrics Capital Management. In statements picked up by London's *Financial Times* on May 18, Gennotte pointed to the rising risk of a liquidity crisis triggered by hedge fund blowouts, which then could lead to a 1998-style collapse. He emphasized: "You could expect something similar to 1998, with people starting to liquidate their positions. It starts with one position, but then they are afraid of getting withdrawals, and it spreads across strategies."

In private discussions with *EIR*, an international financier confirmed LaRouche's notion, that the downgrading of General Motors and Ford debt was just the beginning of a much larger crisis hitting the grossly over-extended global financial bubble—in particular the derivatives scam. The financier said that the international financial system is, in fact, facing a derivatives crisis "orders of magnitude beyond LTCM." He observed that one can be certain that the Federal Reserve, the President's Commission on Financial Markets (the so-called "plunge protection team"), and the relevant departments of major central banks around the world, are all on "emergency red-alert mobilization."

Hedge funds and banks are, of course, all publicly denying reports of a major derivatives blow-out. Any bank or hedge fund that admitted such losses without first working a bail-out scheme, would instantly collapse. Such implausible protestations of solvency are another source of instability. The source further said that there is no doubt that the Fed and other central banks are pouring liquidity into the system, covertly. This would not become public until early April, at which point the Fed and other central banks will have to report on the money supply.

### Regulating Hedge Funds

In response to the GM and hedge funds crises, Lyndon LaRouche issued a statement May 14, "On the Subject of Strategic Bankruptcy," in which he called for "new governmental mechanisms" for dealing with these "strategic bankruptcies, bankruptcies with which existing mechanisms of governments are essentially incompetent to deal." LaRouche also renewed his call, from the early 1990s, for a transaction tax on all derivatives trades, to regulate hedge funds. By such a transaction tax, government authorities, for the first time, could get an insight into the hedge fund activity. Currently,

there exist about 8,000 hedge funds worldwide, managing about \$1 trillion in capital, compared to 4,500 hedge funds and \$600 billion in capital just two years ago. When LTCM was going under in 1998, for every dollar of its capital, it had borrowed \$30 from banks at was running at least \$400 in derivatives bets.

Allegedly, the average leverage of hedge funds today is much lower than in the case of LTCM. At least one in ten existing hedge funds, in most cases the smaller ones, are quietly being closed down every year, while at the same time many more are being set up new.

A public debate on the regulation of hedge funds has already erupted both in Britain and Germany. On top of the fears for a systemic breakdown, there is the imminent concern that private equity funds and hedge funds are, right now, taking over or manipulating the stock prices of thousands of corporations in both countries. John Sunderland, the President of the Confederation of British Industry (CBI) came out with an attack on such funds, sounding similar to German Social Democratic Party chairman Franz Müntefering's famous earlier "swarm of locusts" statements. CBI Director General Digby Jones raised the alarm bells concerning certain derivatives—"contracts for differences" (CFD)—by which hedge funds are able to secretly build up stakes in corporations.

In Germany, the chief executive officer of Commerzbank, Klaus-Peter Müller, who also heads the German banking association, raised the question: Why are we regulating small banks, while hedge funds, moving much larger capital, are not being regulated at all? Bundesbank board member Edgar Meister described hedge funds as the "white spots on the map of supervisors," which are growing at alarming speed. Even Rolf E. Breuer, who just resigned as supervisory board chairman of the Frankfurt stock exchange (Deutsche Börse) after losing a power fight with the British hedge fund TCI, has now astonished the banking scene with a surprising conversion. The same person who, as head of Deutsche Bank, had praised derivatives trading as the shortest way to paradise on Earth, and become known in some circles as Germany's "Mr. Derivatives," is suddenly denouncing the short-term speculative investments of hedge funds, that are colliding with the need for long-term productive investments and therefore could "devastate the German economy."

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## EIR Testimony Scored Scorched-Earth Looters

by John Hoefle

*This article originally appeared in EIR on Sept. 17, 1993, reporting on testimony to the House Banking Committee.*

A warning of the impending collapse of the international derivatives market, triggering the biggest financial blowout in centuries, was delivered by this writer to the House Banking Committee on Sept. 8, 1993, in testimony on the impact of the North American Free Trade Agreement (NAFTA) upon the U.S. banking system.

My appearance before the banking committee was requested by committee chairman Henry B. Gonzalez (D-Tex.), one of the few men in Washington with the courage to take on the international bankers and their scorched-earth looting policies.

"NAFTA is fundamentally a financial agreement, and to understand it, one must understand the systemic crisis facing the banking system today," I testified.

"Since 1978, the financial community has repeatedly insisted upon the deregulation of banks and other financial institutions, while demanding austerity and cutbacks everywhere else. Every time we have done this, it has led to disaster, as the destruction of the airlines and the S&Ls, and of the U.S. work force attest.

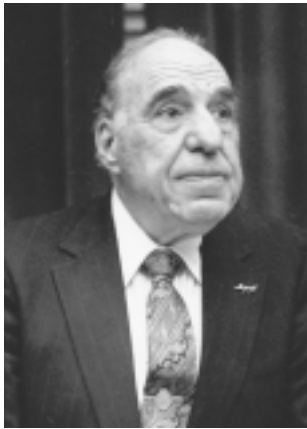
"In response to these disasters, the bankers demand further deregulation and deeper cuts.

"Now, with NAFTA, the bankers are demanding that the United States deregulate its international political and financial relations the same way we've deregulated internally. The purpose of NAFTA is to open up Mexico and eventually all of Latin America for unbridled speculation and looting, of the sort that has already devastated the American economy and bankrupted our banking system.

"When are we ever going to learn that the answer lies not in more deregulation, but rather in the abandonment of the policy of deregulation, and the return to rational rules and regulation?

### Deregulation Killed Citicorp

"Take Citicorp, for example. Here's a bank that jumped with both feet into every harebrained, quick-buck scheme they could find. Citicorp made a killing in the 1980s, growing almost as much in 10 years as it had in the previous 168. This



*The late Rep. Henry Gonzalez (left), as chairman of the House Banking, Finance, and Urban Affairs Committee, invited EIR economist John Hoefle (right) to testify on the derivatives danger in September 1993. "I've been reading Mr. Hoefle's articles for two and one-half years," Gonzalez said. "He gets information I have been unable to get."*

growth came, not from real economic activity, but from the growth of a huge speculative bubble, in real estate, junk bonds, derivatives, and other paper transactions which looked good until the bills came due.

"Citicorp's great deals of the 1980s have become the spectacular financial disasters of the 1990s. The list, which includes blowouts such as Olympia & York and Citicorp's humiliation in London after the Big Bang [the Oct. 27, 1986 deregulation of the British stock market], keeps on growing as the real economy dies. Citicorp has demonstrated an astonishing knack for losing money. It's the ambulance-chaser of banks: Every time you find a disaster, Citicorp is there.

"Citicorp made a killing all right—it killed itself.

"If Citicorp were headquartered in San Antonio, Mr. Chairman, it would have already been closed and its officers publicly humiliated and thrown in jail. But Citicorp is not headquartered in San Antonio. It's in New York, where a far different set of rules apply.

"So instead, the government—or rather, the Federal Reserve, which acts like it's the government, but is really owned by the banks—launched the biggest bailout in U.S. history.

"Three years ago, the Federal Reserve Bank of New York took the bankrupt Citicorp over, putting it into de facto receivership. Naturally, this was a secret action, since were the banks' depositors to know just how damaged their bank was, they would have run for the hills.

"Citicorp lied about its financial condition, and published phony financial reports. When Rep. John Dingell [D-Mich.] revealed that Citicorp was technically insolvent, Citicorp angrily denied it. And so did the banking regulators, who are supposed to serve the public, but who clearly serve the banks instead.

"When the Texas S&Ls hid their losses, and the Federal

Home Loan Bank Board [FHLBB] looked the other way, the Justice Department created a task force to investigate, and poor [former FHLBB head] Danny Wall's career was ruined. But now, with Citicorp and the other big banks doing the lying, the attack dogs of the Justice Department and the press are silent. Executives of the Texas S&Ls were denounced as the symbols of greed and excess, but nobody says a word about Citicorp and John Reed.

## Derivatives Bubble Ready To Pop

"We are on the verge of the biggest financial blowout in centuries, bigger than the Great Depression, bigger than the South Sea bubble, bigger than the Tulip bubble. The derivatives bubble, in which Citicorp, Morgan, and the other big New York banks are unsalvageably overexposed, is about to pop. The currency warfare operations of the Fed, George Soros, and Citicorp have generated billions of dollars in profits, but have destroyed the financial system in the process. The fleas have killed the dog, and thus they have killed themselves.

"What is required, as *EIR* founder Lyndon LaRouche has repeatedly stated, is a restructuring of the U.S. banking system, including the nationalization of the Federal Reserve, taking it out of the hands of the bankers and putting it back into the hands of the Congress as mandated by the Constitution. It is the welfare of the people which is paramount, not the maintenance of the speculative financial system. It's high time we put the speculators out of business, instead of surrendering to them even further by passing NAFTA.

"That's the issue. We'd better deal with it, and fast, while we still have a chance."

At the conclusion of this testimony, the silence was deafening: One could have heard a pin drop. Clearly, few of the committee members, staff personnel, or journalists present were accustomed to such forthright language, especially in contrast to the snake oil delivered earlier in the hearing by Citibank's Jack Guenther, vice president and senior international affairs officer. Guenther, in true banker doublespeak, insisted that NAFTA would create jobs in both the United States and Mexico.

The authority of my testimony was then underscored by Gonzalez, who put his respect for *EIR*'s analyses on the record. "I've been reading Mr. Hoefle's articles for two and one-half years," Gonzalez said. "He gets information I have been unable to get. For example, statistics of the off-balance-sheet liabilities of U.S. banks: We've been looking for those statistics and couldn't get them."

## Speculators Running NAFTA Negotiations

The Banking Committee chairman then levelled his own broadside against the derivatives speculators.

"How can we sit here comfortably when bank profits, about half of them, come from the gambling known as the derivatives market?" Gonzalez asked. "Derivatives are not



so complicated. It's just a mega-Las Vegas. There are great dangers here. If NAFTA is passed, we'll be promoting the second-largest mega-Las Vegas."

Earlier in the hearing, Gonzalez announced his intention to hold further hearings on NAFTA, to question the negotiators about who was involved, and how.

"I have found it very difficult since President Bush announced the agreement last December, to find out exactly what are the procedures, and who participated in what were really secret negotiations," Gonzalez said.

The difficulty of getting straight answers was exemplified by the elusive Guenther.

"Mr. Guenther, were you or any other Citibank personnel involved directly or indirectly in negotiations; that is, in these processes involving the financial services chapter of NAFTA?" Gonzalez asked. "Did you advise negotiators or did anyone from your bank? Did you review drafts of the agreement? And if so, would you be able to share with us the substance of your comments and advice, and to whom they were given? See . . . we in the Congress don't have the names of the individuals participating in these negotiations. We don't even know who is in there, and I think that that's a very important factor, and that's the only reason why we're going to have the second hearing."

"I don't think I could give you the answer that should really be the definitive answer on that," Guenther weaseled; he then admitted, "All through the past year or so, I've been attending weekly meetings" on the subject. "Mr. McDonough from the Fed would be there. . . . Our Washington office here has been working on this throughout . . . and I'm sure the answer is, yes, we participated in some indirect way. But I think I should undertake to get you a more precise description than that."

The financial community is also worried about a blowout of the derivatives market, which was made evident in an opinion column in the *Wall Street Journal* by Wendy Lee Gramm, entitled "In Defense of Derivatives," which appeared the same day as the Banking Committee's hearing. From 1988-93, Wendy Lee Gramm was chairman of the Commodity Futures Trading Commission, and promoted the burgeoning market in derivatives by exempting them from regulatory procedures. Her husband is Texas Republican, Sen. Phil Gramm, whose free market nostrums for the economy give cover to the "mega-Las Vegas" that Gonzalez referred to.

Wendy Lee Gramm's article complained that derivatives have been unfairly "characterized as purely speculative instruments" that "pose grave risks with potentially dire consequences for the whole financial system." But her article reads more like a plea not to blame *her* for the coming catastrophe. "Most important," she concluded, "if another major default or market shock occurs, we must all resist the urge to find scapegoats, or to over-regulate what we just do not understand."

## The Time Has Come for A New Bretton Woods

The dramatic collapse of the mainstays of U.S. productive capability, General Motors and Ford, and the looming monster crash of the financial markets leave no doubt that the time is now for a New Bretton Woods architecture. One nation's lawmakers have collectively voted up a resolution calling for an international meeting of heads of state "to create a new and more just global monetary and financial system." Italy's resolution, crafted in collaboration with the LaRouche political movement in Italy, emphasizes the problem of the huge speculative and predatory bubble economy crushing millions of people, while the real productive economy lies in ruins.

Now the call for a New Bretton Woods, re-issued by Schiller Institute president Helga Zepp-LaRouche in April, has already gathered top-level signatories from around the world, including many parliamentarians and government officials (see below).

The fight for a New Bretton Woods was launched eight years ago, on Jan. 4, 1997, when economist-statesman Lyndon LaRouche addressed a political forum in Washington, D.C., and laid out a policy orientation for the second Clinton Administration. LaRouche made two proposals: first that the U.S. President convene an international conference to establish a New Bretton Woods system, to put the world economy through bankruptcy proceedings and to reorganize it for productive development; and second, that the United States join in global projects of benefit to all mankind, with a special focus on the Eurasian Land-Bridge project.

Within a month, Italian Sen. Publio Fiori, a leader of the opposition National Alliance party and former Transport Minister, took up the fight, and introduced a parliamentary question to the government, asking whether, in view of the ongoing disintegration of the international monetary and financial system, Italy should take emergency measures, such as a New Bretton Woods conference, and a tax on derivatives speculation.

In February 1997, Helga Zepp-LaRouche, along with Ukrainian economist Natalia Vitrenko, a member of the Ukrainian Parliament, initiated an "Urgent Appeal to President Clinton to Convoke a New Bretton Woods Conference," which was circulated around the world and endorsed by public figures. Both LaRouches addressed meetings in Rome on the New Bretton Woods in April 1997, attended by members of Parliament, economists, journalists, and diplomats. A year later, in April 1998, the issue had become so prominent, that

when *EIR* asked Italian Prime Minister Romano Prodi a question on the economy, he answered, "I personally believe that we must move toward a New Bretton Woods."

Italian parliamentarians continued to push forward the call for a New Bretton Woods, introducing a resolution in the European Parliament in Strasbourg in March 2000. A new call for an Ad Hoc Committee for a New Bretton Woods was issued by the Schiller Institute, which included the text of the European Parliament resolution, and an introduction that stated, "We the signators, refer to Lyndon LaRouche, as the economist, worldwide, who has analyzed the causes of the systemic crisis in greatest depth, and over the longest time, and who, at the same time has elaborated a comprehensive package of measures to be taken to overcome it; the anti-crisis program for a New Bretton Woods."

Over the next year, the statement was signed by more than 500 parliamentarians from 40 countries, and several hundred civil rights leaders, trade unionists, industrialists, and representatives of social organizations. The signers included two former Presidents, José López Portillo of Mexico and João Baptista Figueiredo of Brazil.

The battle for a New Bretton Woods continued in Italy, and the Chamber of Deputies passed a resolution in 2002, calling for "a new financial architecture." There was a motion in both houses in 2004, but this effort did not reach the floor for debate. This year, however, the fight was successful, and the resolution drafted by Deputy Mario Lettieri, and introduced in February 2004 (in the midst of the Parmalat scandal), was debated and passed the House of Deputies with support from almost all parties.

The latest New Bretton Woods call, issued by Helga Zepp-LaRouche is being circulated worldwide, and will appear, with the signatories' names, both on Internet sites and in newspapers. It reads in part:

"The paradigm shift of the last four decades, a period in which the world economy increasingly abandoned manufacturing and gave itself over to untrammelled speculation, is now drawing to an end. The world financial system is about to implode. Gross production worldwide stands at a mere \$40 trillion, over which looms a gigantic debt bubble 50 times that size, *viz.*, \$2,000 trillion worth of financial liabilities. . . .

"The following measures must be implemented if we are to alter the mistaken course that we have followed since President Nixon did away with fixed exchange-rates in 1971, a course that has led to the present upsurge of a grotesque and predatory form of capitalism, thanks to unchecked 'globalization,' after the fall of the U.S.S.R. The New Bretton Woods Conference shall decide as follows.

"1. There shall immediately be re-established fixed exchange rates.

"2. A treaty shall be enacted between governments, forbidding speculation in derivative products.

"3. The debt shall either be cancelled, or reorganized.

"4. New credit lines shall be opened by the State, to create full employment by investing in critical infrastructure and technological innovation.

"5. The building of the Eurasian Land-Bridge, as the key-stone for rebuilding the world economy, is the vision that will bring about not only a new *Wirtschaftswunder* [economic miracle], but peace in the 21st Century.

"6. A new Peace of Westphalia will ensure that for no less than the coming half-century, raw materials shall be extracted and processed for the benefit of every nation on this planet.

"We, the undersigned, believe that so-called 'globalization,' this predatory form of capitalism, has shown itself beyond all doubt to be bankrupt on every front. . . . It is Man who must stand at the center of the economy, and accordingly, the economy must serve the common weal. The purpose of a new world economic order is to guarantee the inalienable rights of Man."

Among the signers to date are: Hon. Mario Lettieri, Member of the Italian House of Deputies and Secretary of the House Finance Committee; Hon. Alfonso Gianni, Member of the Italian House of Deputies, (opposition party "Rifondazione Comunista"), member of the Committee of Labor Affairs; Hon. Sando Delmastro Delle Vedove, member of the Italian House of Deputies (Alleanza Nazionale), Member of the Committees of Culture, and of Transport in the House of Deputies; Sen. Oscar Peterlini, South Tyrol People's Party (Italy), Member of the Committee of Labor Affairs in the Italian Senate; Dr. Claus Noéa, economist, former German Deputy Finance Minister, Berlin; Dr. Nino Galloni, economist, General Director of the Italian Welfare Ministry, official auditor of INPDAP (public employees pension fund); Hon. Antonio Parlato, former Undersecretary in the Italian Budget Ministry, former member of the Italian House of Deputies (Alleanza Nazionale); Prof. Sam Aluko, former chief economic advisor to the Nigerian President, Akure (Nigeria); Jean Gahururu, advisor on foreign policy for the Rwandan opposition in exile, Germany; Dr. Giovannino Santilli, Department Director for the Far East, Italian Ministry of the Productive Activities; Wolfgang Hoderlein, member of state parliament (SPD-MdL) in Bavaria, Germany; Heidi Lueck, member of state parliament (SPD-MdL) in Bavaria, Germany; Avv. Giuseppe de Gori, lawyer (representing the Christian Democrats in the historic Moro-Red Brigades trial), Rome; Dr. Jacopo Venier, Member of the National Secretariat of the Partito dei Comunisti Italiani, Rome; Fritz Hermann, president of the Danish United Farm Organization (LFO), Karup (Denmark); Erling Svendsen, president of the Danish Wheat Growers, Hvalsoe; (Denmark); and Dr. Tibor Kovats, economist, former president of the Hungarian Association of Political Refugees, Budapest.

*The full call and the daily growing list of signators can be found at [www.bueso.de](http://www.bueso.de).*

## Control Speculation And Start Production

*Hon. Mario Lettieri is a member of the Italian Chamber of Deputies, and sits on the Finance Committee. He was elected in the southern region of Lucania on the slate of La Margherita, the second-largest party in the coalition opposing Silvio Berlusconi's government. La Margherita includes mostly former Christian Democratic party members, who are inspired by the teachings of the Social Doctrine of the Catholic Church, and by other progressive and democratic forces. This is Lettieri's second term in the Parliament. Before entering national politics, he was a professor of literature and served as a regional representative in the Lucania parliament for 15 years.*



*On Feb. 13, 2004, Lettieri was the first signer of a motion calling for a New Bretton Woods conference, which had the support of 50 other deputies from parties in both the opposition and the majority. In opening the parliamentary debate on March 14, 2005, Lettieri referred to the "important American economist and Democratic politician Lyndon LaRouche, who has promoted an international campaign called 'For a New Bretton Woods: the alternative to the global financial crash—large-scale Eurasian infrastructure projects.'" After an intense debate, the motion was approved by a majority vote on April 6.*

*This interview was conducted in early May by Paolo Raimondi of the EIR bureau in Rome. Raimondi is also president of the LaRouche movement in Italy, the Movimento Internazionale per i Diritti Civili—Solidarietà, which had collaborated with Lettieri in preparing and presenting the motion.*

**EIR:** You introduced a motion for a New Bretton Woods in the Italian Parliament, which was approved on April 6. What are your expectations now? What are the next steps we can take, both in Italy, and at the international level? What is your general evaluation of what has taken place?

**Lettieri:** It is important and very significant that the Italian

Parliament, and specifically the Chamber of Deputies, has debated a problem of such great importance for the first time during one of its sessions. Effectively, the vote, although it was a majority vote—and those who opposed it in the government parties abstained rather than vote against it—was very important. With this motion, the government was called on to act in all international venues to bring about a specific conference on these matters at the international level. We will see if it could be in the context of the G-7 group, or in the enlarged G-8.

Until now, these organizations have underestimated the need to review the criteria which were at the base of the old Bretton Woods agreement, including considering the experiences of the International Monetary Fund and the World Bank. You know that the World Bank has made large investments, but clearly these investments have not produced the results expected. These considerations come from the fact that there are too many imbalances in the world, which particularly affect the countries of the developing sector. In particular, the effects on the continents of Africa and Asia are intolerable, if one has the idea of living in a world which is peaceful, but also balanced, in its economic and social development.

I am not speaking of preaching charity, but of initiating a serious policy of support, with a spirit of solidarity, in the belief that all countries and human beings have the right to live with dignity, in every part of the world. These statements of principle which are often proffered verbally by everyone, in practice are not followed up with concrete and coherent actions in political choices and decisions at the level of international relations, or in international institutions like the IMF or the World Bank.

We need to return to the original spirit which led to the creation of the World Bank. For example, there was a good dose of healthy utopianism among the founders of the institution at that time. Over time though, this process was not continued and did not take steps forward. Rather, we have seen an increase of selfishness by the so-called rich and strong countries of the Western world. The lack of a coherent policy in support of development has often been followed by situations of war inside individual countries, with the "complicity" and indifference of Western countries—the United States of America, in particular, but not exclusively.

Why has this happened? Because instead of thinking of the development of these countries, their internal peace, and their economic and cultural growth, Western countries put their selfish interests first, through the control of the natural resources present in the developing countries. This also produced indifference with respect to authoritarian regimes, coups d'état, famine, and epidemics which have devastated the populations, and in particular the children and weakest members of the society.

**EIR:** In your intervention in the Parliamentary debate, and also in the text of the motion, there are very specific ideas and

proposals to be carried forward in the context of a general reorganization of the collapsing international monetary and financial system, such as the questions of exchange rates and the speculative bubble.

**Lettieri:** I have to immediately emphasize that in the world markets and economies, there has been a process of excessive “financial transformation” of the economy, a process which has penalized and reduced all productive activities, and thus the development of many countries, including Western countries.

I will explain with an example: In Italy, we have entrepreneurs who have become real estate speculators, and this has created a real speculative bubble in Italy. The money drained by this speculation has been used to purchase shares in the banking system. And we got into a real distortion, an unclear relationship between banks and companies, including the concentration of economic and financial power in the hands of the few, while the real and productive economy needed a monetary and financial system that was more directed towards the development of production and research and development, and thus less towards purely speculative activity.

Unfortunately, this has happened not only in Italy with the case of Parmalat, Giacomelli, and so on, but also in the United States, with the bankruptcies of WorldCom and Enron, for example, in which pension funds and small investors were basically defrauded through the enrichment, including through accounting fraud, of various managers. It is a generalized tendency in all countries, and it creates serious damage for the real economy and citizens everywhere.

What we need, is a series of measures to control speculation, along with policies in support of real production, infrastructure, and useful and productive services. I do not want to be seen as a total Keynesian, but large-scale infrastructure is an absolute necessity. If we do not build such projects on certain continents, they will not be able to develop their economies.

Then there is the problem of the market for goods and merchandise; we need an agreement in the context of the international trade organizations such that goods produced in the so-called underdeveloped countries are not stolen at low prices. This arrangement keeps those countries in a continuous situation of underdevelopment, destroying any chance and possibility for growth. If adopted, these new rules could also lead to positive effects in the economies of the industrialized countries.

An example: In Italy, we talk a lot about the Chinese danger. The textile and clothing products from China are invading the European continent, and Italy, in particular, because we have a long tradition in the textile sector, is the first victim. As I said recently, while speaking in the Parliament, during the debate on the government’s competitiveness measures, if, in the context of the World Trade Organization, we can come to an agreement that convinces the Chinese

authorities to adopt minimal standards of security, living conditions, the prohibition of employing children in production, and a minimum wage, we can provoke positive effects for Chinese workers. And at the same time, by increasing the cost of production in China, their goods will become less competitive with our products, and thus we would have a more balanced market, allowing us to overcome the distortions we have seen and continue to see—instead of imposing tariffs, which is illogical and not possible to do today.

There are other measures we can adopt, such as a sort of “Tobin Tax,” or let us call it whatever we want. I believe the Belgian Parliament has recently adopted similar legislative measures: a small tax on financial transactions, in which the proceeds are used to support trade with developing countries.

**EIR:** In your interventions in the Parliament during the discussions on the motion, you made several references to the teachings of the Social Doctrine of the Catholic Church, and the message of Pope John Paul II on the need for a New, Just World Economic Order

**Lettieri:** It is undeniable that the Papacy of John Paul II signified a shift in the overall policy of the Church, giving priority to two themes: peace as a fundamental condition for any possibility of development, and the necessity for a “third way”—if I can use this term—between the bankrupt bureaucratic communism in the East and the extreme capitalism, such as that we see in the U.S. today, for example. I recognize and endorse the importance of this indication given by the Pope, and I hope that the Catholics in government positions in various advanced countries act intelligently and follow the Pope’s indications. And I want to add that I am not a religious person, but I have great esteem and consideration for these teachings.

**EIR:** Speaking about the situation in the developing countries, and of Argentina in particular, you also dealt with the role played by the IMF.

**Lettieri:** The IMF, sometimes with the imposition of too harsh conditionalities, has not carefully evaluated the local situations of individual countries. Several times, credits were given to countries when we knew in advance that they were being misused and would not be paid back. It would be more serious and effective to extend these lines of credit, but make them directly related to specific real productive projects, with control over what projects are financed, rather than giving credits to a certain country where the government is under a dictator, or some cheating politician who wants to divert the contributions towards some tax haven.

There were no controls and interest in the real projects to be realized, such as roads, railways, phone systems, information technology networks, water management, irrigation for agriculture—everything needed for a real economic process of development.

I do not judge the IMF positively: Certainly, in the Argentine bankruptcy there were also government leaders who did not honor the name of that nation. I see, I hope, that the present leaders of Argentina are doing better, even if in the meantime 450,000 Italian small investors have paid for the bankruptcy of the Argentine bonds with very big losses.

**EIR:** As I mentioned earlier, several parliamentarians and other leaders around the world, including in the United States, have expressed interest in the Italian Parliament initiative. Many, as you have done, are now signing a call for an Ad Hoc Committee for a New Bretton Woods initiated by the President of the Schiller Institute, Helga Zepp-LaRouche. What suggestions could you make to these parliamentarians and politicians, including in the U.S.?

**Lettieri:** I believe the democratic debate in the U.S. should concentrate more on these issues, as well as on global policies, because the U.S. also has many problems; for example, the tens of millions of poor. And as part of a strong democratic debate, one can present these questions in the Congress with some motions and other initiatives aimed at committing the Presidency to collaborate with the Italian and other governments on an international conference that deals in a specific and detailed manner with questions related, for example, to the relations with developing countries, in order to accelerate their growth.

Keeping in mind that today, globalization must lead us towards a "cultural revolution"; we must think of the world as a global village, many countries together must constitute a single entity. If we consider that today the media allows us to see and experience events live, which are taking place thousands and thousands of miles away, we all feel like citizens of the same land, the same country.

**EIR:** Are you also thinking of contacts for example at the level of Parliaments and other institutions?

**Lettieri:** It would definitely be very useful for organizations that bring together representatives of different Parliaments to begin a debate on these questions. We could also conceive of a specific parliamentary session in the most important countries—one or two days—dedicated to this question of a New Bretton Woods, so as to give precise indications to each government and bring them to the table for discussion in an international conference, which was the aim and objective of the approval of the motion.

**EIR:** Let us take a brief look at the Italian situation. You were an active participant in a number of very important battles in the Chamber's Finance Committee, such as the one regarding the bankruptcy of Parmalat.

**Lettieri:** The Finance Committee has played a very positive role in the investigations of the Cirio and Parmalat cases, which are related to our discussions of the transparency of the markets, and the financial transformation of the economy.

Italian citizens bought Parmalat milk because it was a real and good product, without knowing that behind the milk bottle, there was a gigantic speculative hoax involving company president Calisto Tanzi and numerous banks—Italian, German, and American—for a total of \$20 billion. This tells us a lot about what must not be done.

To prevent such cases, it is necessary that the control authorities, the Consob [the Italian equivalent of the Securities and Exchange Commission], Bank of Italy, and the Anti-trust Authority, really control and supervise the situation. Markets today certainly do not have a national dimension, they don't respect any borders, and this is why a number of rules should be adopted at the international level.

For Italy, a number of rules are needed, at least at the European level: In the European Commission and Parliament, there are a number of directives along these lines, but we must proceed more rapidly. Currently, there are a lot of discussions in the Italian banking system, because certain Dutch and Spanish banks want to buy parts of Italian banks, and they have not found much openness on the part of the Bank of Italy. These are examples and cases which prove that the system requires more and better rules, and strong controlling authorities.

**EIR:** You and your party, La Margherita, are part of the coalition with Romano Prodi. What perspectives do you see

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for a possible Prodi government in the event of a victory in the elections next year?

**Lettieri:** I am convinced that the country is conscious of the failure of the economic and social policies of the present government coalition led by Silvio Berlusconi, despite Berlusconi's expressed optimism. Prodi is a guarantee for the country, because he is a man with a lot of experience, including in international affairs. First of all, he did well when he governed for three years in the 1990s, and above all, the fact that he was President of the European Commission put him in a situation where he was able to acquire an international vision of the dimension of economic, financial, and social problems. The role of head of the European government is extremely important.

Prodi, in the political discussions we have, supports the necessity for a greater and better equilibrium in the relations among different countries. He speaks a lot about the role China and India will have in the coming years, including because of their large populations, and he also sees the importance of Italy and Europe regarding the future movement of people and goods related to the process of development in Asia.

And in this context, I hope that the Mezzogiorno region, where I come from, can have the opportunity to benefit, because in this part of Italy, there are still areas that are very backward.

Let us take the area where I was elected: Melfi in the region of Basilicata. Melfi has a few industrial sites such as Fiat and Parmalat, and it has a great history. Here Emperor Frederick II issued the famous "Constitutiones," which are considered the basic precepts of the modern state. This region gave our country the important political leader Giustino Fortunato, a great expert on the "Mezzogiorno question," who, if he were alive today, would have discussed the same problems we are discussing here. When Fortunato spoke about the backwardness of the Mezzogiorno, at the same time, he was saying that the Mezzogiorno could represent great opportunity and fortune for the country.

This same concept can also be applied to the developing countries. They can be a great opportunity and fortune for the entire world, or a great tragedy.

Unfortunately, today we see a large tragedy, because millions of children and people die every year as a result of hunger and epidemics. The land where I come from is also the land of the Roman poet Horace. Every year in his town of Venosa, there is a global competition in Latin translation, the "Certamen Oratianum." This region was also part of "Magna Grecia," and Pythagoras worked here.

My family is a very typical Mezzogiorno family: One of my brothers has been living in Argentina for 50 years, and two of my sisters moved to cities in the north of Italy. And we represent the true expression of the growth which took place in this region: My father was an artisan farmer and his children have taken a number of different roads, thanks to the sacrifices he made. Today, we are world citizens.

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## Interview: Alfonso Gianni

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# NBW Is a First Step Toward Ending Folly

*Hon. Alfonso Gianni of the opposition party Communist Refoundation (Rifondazione Comunista) is a member of Italy's Chamber of Deputies, and of its Commission on Labor and Welfare affairs. The party belongs to the Union coalition led by Romano Prodi, who is going to be the center-left challenger to Prime Minister Silvio Berlusconi in the 2006 parliamentary elections.*



*Communist Refoundation is a democratic party—not "communist" in the sense most Americans understand that word. Even the Italian Communist Party (PCI), of which Gianni was once a member, was independent from Moscow long before the collapse of the Soviet Union. Its head, Enrico Berlinguer, was pursuing an "historical compromise" with Christian Democrat Aldo Moro, who wanted to have a policy of friendship with the United States, but not dependency. Moro was kidnapped and assassinated by terrorists, in the leading case of the "strategy of tension" run by right-wing networks in Italy, as EIR has documented.*

*Hon. Gianni was interviewed by Paolo Raimondi of EIR in Rome, who is also the president of the LaRouche movement in Italy.*

**EIR:** You were one of the sponsors, along with Hon. Mario Lettieri, of a motion for a New Bretton Woods [NBW]: a new international monetary and financial system to deal with the present systemic crisis. The motion was debated and approved in the Chamber on April 6.

**Gianni:** The debate was very interesting. However, I must be honest with you; I really doubt that this government, led by Silvio Berlusconi, will take these matters seriously, because it is at the end of its term—general elections will be held, at the latest, next year—and also because this government has a "couldn't-care-less" attitude toward parliamentary documents, if I may use this expression. But what was approved is of great value. The direct reference to Bretton Woods was taken out, because the government representative said that something that was done in 1944 cannot be re-proposed in

2005! But the idea behind this name is still there, and I insisted on this point particularly; that is, an international conference at the level of heads of state and of government which can lead to stable exchange rates, and a truly effective governance of world and international financial markets.

We achieved this significant result thanks also to the stimulus provided to us by *EIR*. During the present legislature, this subject was introduced into the overall budget bill several times; every time it was possible to attach an amendment to a budget bill or proposed law which was coherent with these themes. We did it many times, whenever possible, but without getting a concrete result. This time, on April 6, we got a vote which we can make use of on the international level. Thus the government should feel committed to organizing this conference, together with others. I see it as a first step toward avoiding the folly into which this world has pushed itself.

**EIR:** What are the other steps the Italian Parliament could take with Europe, the U.S.A., and other countries on the international level, to create the conditions to achieve a New Bretton Woods?

**Gianni:** Naturally, if we had a different government, like the one we want to form by defeating Berlusconi in the upcoming elections, we could do many things. There could be a government initiative, possibly preceded by intense diplomatic consultations; there could be an Italian initiative in the European Parliament; there could be a new attitude on the part of the Italian members of the European Commission, who could push in this direction; there should be an intervention at the United Nations. . . . It is clear that if we had the controls of the government, many things could be done, much more than what can be done when you are simply in the opposition.

**EIR:** How do you see the attitude of a possible new Prodi government on these questions of international policy?

**Gianni:** You would have to ask Prodi directly. He has also been President of the European Commission, where he did good things and also some not-so-good things, such as the Bolkestein Directive<sup>1</sup> (which allows for social dumping), even if he is not mainly responsible for it, or the excessive rigor regarding breaking the Maastricht parameters. Naturally, Prodi will have to deal with a number of political forces, including Communist Refoundation, that are explicitly calling for the revision of the Maastricht criteria,<sup>2</sup> not only to make them a bit more “elastic,” which in any case is only a negation, an objection to the absolute nature of these criteria,

but to truly revise them.

Two years ago, there was a document whose first signer was Jacques Delors, and which was later also supported by Italian political leaders, which suggested the introduction of other criteria, for example that unemployment in each country should not be more than 5%, and that illiteracy should not be greater than 3%; in other words, criteria of a social nature, different from the purely accounting-type criteria. Naturally, this does not mean promoting “easy spending” and “happy finances,” but it means recognizing that balancing the budget is not what makes people happy and better off. You can have a budget deficit, and at the same time the poorer people can be better off; or vice versa, the budget can be balanced, while the poor people are doing very badly. The question is, how to respond to the great demands and needs of the European population, which are not satisfied with policies—like those of recent years—which have created the myth and desire for monetary profit and financial speculation, above anything else.

**EIR:** I would like to have your view and analysis of so-called financial globalization in the U.S., Europe, and elsewhere.

**Gianni:** You attribute an expertise to me that I would really like to have, but which, in reality, I still have to acquire. I believe that we have reached a point of crisis in globalization. There are several aspects of this crisis. There is a financial crisis, in the sense that the famous financial bubbles have reached the limit of their capacity; and there is also a crisis in other more specific sectors. I was recently reading in the economic press that the real estate crisis in New York could have an effect on real estate markets worldwide. There is also an overall crisis of the economic system: The so-called American locomotive is not moving forward; the European one is doing even worse; there is growth in China that must be put under control, otherwise China will find itself in serious difficulty; and there is economic growth in India, but on a lesser level. Tendentially, there is a shift in the axis of the economic development from the Western countries toward the East, and this is a very complex shift which must be analyzed with the laws of *la longue durée* [long duration], with the method of Fernand Braudel; it should not be considered a short-term question.

Then, there is also a crisis in terms of political support, and for me this is crucial. Naturally, one could say I think this way because I am affected by ideology. That may be, but I continue to think that people’s subjective attitudes have an effect on the economy. . . .

I mean political support in this sense: There was a period at the end of the 1980s and in the 1990s when people really hoped that an increase of wealth would be a general increase for everybody in the world, even maintaining the economic imbalances. There were poor people who thought, “Okay, the Americans, Europeans, and Japanese will always do better than us, but if they grow, then we too can do better than before.” Then they realized that things were not working this

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1. The European Union’s “Bolkestein Directive” for radical deregulation and privatization was proposed in January 2004. Among its measures is to abandon existing guidelines for loading and unloading cargo at ports, which include strict laws for the protection of labor. The measure has come under heavy fire, and is still being revised and fought over by the European heads of state.

2. The EU’s Maastricht Treaty specifies that member countries may not have a budget deficit in excess of 3% of GDP, among other strictures.

way: The former increased their wealth, but the latter didn't; the former now have stopped growing, but the latter are doing worse than before. Additionally, the massive process of privatization of public goods, such as water for example, has made it impossible for those who have nothing, to use resources that were once available in nature, at zero cost. In reality, the gap between the developed world and the underdeveloped world has increased. Let us remember that at the beginning of the 19th Century, the gap was 1 to 3, and today it is 1 to 73. This is the last figure I remember, and in the meantime it has gotten even worse. This is a gigantic problem.

Then we have the problem of financial globalization, in which the Marxist formula "money-goods-money" is reduced to the formula "money-money." It is known that this monetary growth is actually fictitious growth, because the crisis of 1929, the Great Depression, is just around the corner. The explosion of the bubble, the big crisis, and the disintegration of the "glass empire," are here.

**EIR:** Can you give me your evaluation of Bush's policies?

**Gianni:** There are various thinkers and analysts, including on the left, who have a different view, but in my very modest opinion, I think there is a difference between Bush I and Bush II. It has gotten worse! Bush I applied the doctrine of neo-liberalism, while Bush II is carrying out a reactionary-type operation. He is "God, Country, and Family." The key to this policy is the intensification of military expenditures and a sort of "criminal Keynesianism," as it is called; that is, state intervention which seems to be a negation of liberalism, but is done in sectors like the military one, which then require an increase of military initiatives on a global scale. I read the trip of Condoleezza Rice in this sense, when she harped on North Korea and Belarus.

Now, I do not defend North Korea, a country I visited, and where I also got to know the old Kim Il-sung: I can definitely say that Kim Il-sung is different than his son [current leader Kim Jong-il]. It's the sort of difference as that between an elephant and an ant. I surely do not like family-based power structures, or the big statues. I do not much like Lukashenka of Belarus. But this insistence on being willing to bring democracy and the American model everywhere, smells strongly of preparations for new military campaigns. And these military campaigns move forward very rapidly.

It is clear that it was easy to win against the army of Saddam Hussein, an army which was as faithful to Saddam as I am to Mohammad. In reality, the strength of the Iraqi Army was exaggerated, in order to create an artificial enemy. Its power was actually mostly based on the weakness of others; it was not a real power, and thus it disintegrated rapidly. However, it's quite different to *rule* a country where there are tensions and issues lasting hundreds, if not thousands, of years—with Kurds, Shi'ites, and Sunnis—that one is not able to solve, and where we find al-Qaeda and the forces of terror-

ism organized by powers in the big Arab bourgeoisie.<sup>3</sup> . . .

Today, it is very difficult to manage the Iraqi question. A military intervention in another part of the world is seen as a breath of fresh air for certain American industries. This is why Robert Kagan has written about "the right to war"; it is a shift from the *ius in bello* [conduct of war] of Grotius to the *ius ad bellum* [right to go to war], that is, a regression of civilization. When Samuel Huntington writes of a "clash of civilizations," he should above all worry about the regression of his civilization, because it is now moving backwards compared to Renaissance legal thought.

**EIR:** Let us now look briefly at Europe. You spoke of a revision of the Maastricht Treaty.

**Gianni:** This is a complicated question. I am a fervent supporter of [unified] Europe. I believe that for the popular classes, the best way to fight for social justice is on an international, supranational level. For example, we have seen the battles of the Renault workers in France in solidarity with the Alfa Romeo workers in Italy and vice versa, or also the fight against certain multinational corporations. To think only in national terms today, means to be outside of real politics. We have to at least think in European terms, and from there, think at the global level. We have to think of a Europe based on social criteria. This is a complicated process, because to substitute the two accounting criteria of 3% and 60% [budget deficit and national debt] with social criteria, such as employment, the fight against poverty and illiteracy, is truly difficult. But, if on May 29, I tell you in advance, the French say "no" to the Maastricht Constitutional Treaty, then there will be two alternatives: a crisis of the European process of unity, as threatened by Chirac in an attempt to convince the French to vote "yes," or there will be the beginning of something I would like to see: a long period of open debate which leads to a profound sense of a way to live together; something that should later be codified in a better Constitution. I believe the Constitution is not the beginning of the process, it is the climax, the consolidation of a process which is already in the hearts and minds of the peoples. Trying to do the contrary is like putting the cart before the horse, with the result that the cart does not move, and the horse will get hurt.

**EIR:** Regarding Italy, if you, the center-left, take over the government, what are you going to do on the economy? In the discussions in the center-left parties, I notice two areas in which there is no clarity and a lot of weakness: the question of credit and that of large-scale infrastructure projects.

**Gianni:** I agree with you, but I cannot answer these questions, because the issue of the center-left coalition's program is a work-in-progress, and if I were to say certain things today, I might influence the discussion in one way or another. . . .

3. For a different perspective, see LaRouche in 2004's Special Report, *The Synarchist Resurgence Behind the Madrid Train Bombing of March 11, 2004*.



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*This time, on April 6, we got a vote which we can make use of on the international level. Thus the government should feel committed to organizing this conference, together with others. I see it as a first step toward avoiding the folly into which this world has pushed itself.*

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The financial question is certainly a very crucial point. I am not an expert in these matters, but I can tell you that we should relaunch and support the ability of entrepreneurs to take risks in investment, with the necessary level of credit for small and medium-sized industries, especially in the Mezzogiorno [Italy's south], to create a productive fabric which has the confidence to move forward. In this way, we would take some power out of the hands of the banks, and give more power to centralized planning that can influence the banks' activity.

As for large-scale infrastructure, my idea is: No to the Messina Bridge and no to high-speed rail. Why? These projects are merely symbolic. We have a country which is vertical, unlike Germany and France, which are almost squares. We cannot create infrastructure for mobility only from the inside of the country toward the outside; we have to create mobility inside the regions, the so-called territorial basins. In my view, the reconstruction of industrial basins means large-scale infrastructure; this means universities, high schools, education and job training, large and small companies, a branched railway network and not merely a vertically organized system; the wiring of big cities, and also smaller towns, and the rebuilding of cultural life. A Renaissance—this term may sound like a bit much—but we need a Renaissance of the country in the horizontal sense, with a center of gravity toward the South. The South is a great resource; Prodi is right on this point. When Prodi says that the world's biggest port is Rotterdam, but if you come from China or India you first pass through Gioia Tauro, in Calabria, and not Rotterdam, this means finding the possibility for future development within a globalized world. In reality, we have a tremendous amount of wealth in our hands, without knowing it. The next government will have to make the development of the Mezzogiorno the central point of national planning, including through the utilization of resources from the European Union for less-developed regions.

**EIR:** I believe that on large-scale infrastructure, both "light" and "heavy" infrastructure, we have to go a bit deeper in the discussion. It is crucial to understand the role of the basic infrastructure for a development policy of a healthy economy.

**Gianni:** I agree with this. I would also like to organize and participate in debates on subjects—to use Enrico Berlinguer's term—regarding "futurology." I have been in politics for 40 years; I began when I was 14 years old. When I was 16, I had

friends about ten years older than me who were working for some public institutions on the navigability of the Po River to the Adriatic Sea. This was 1966, and these projects never got off the drawing board; Leonardo da Vinci did more during his time than we have done today! Now, Italy is a country located on the sea, and if we speak of infrastructure we should immediately speak of "sea highways" for commercial transport, and not only for tourist or military transport. We could do many things: an integrated transport system with railways, seaways, and a portion on roads, which is different than just building high-speed rail or highways only for vertical transportation. If I arrive in Florence 15 minutes earlier, but I cannot move around *inside* the city, it not only just like before, but actually a little worse. This is the absurdity.

**EIR:** No, this it is not what should be considered as fundamental large-scale infrastructure and an integrated transportation system. For example, I believe that in the coming 12 months of the campaign before the elections scheduled for next year, this notion of economy and the role of Italy in the Mediterranean, Europe, and in the larger Eurasian Land-Bridge and Silk Road, and the role of state credit to support these infrastructure projects, will have to be discussed and better understood.

**Gianni:** I would like to learn more, but I think my idea is close to what you are saying. . . . I am also speaking of the idea of "betting" on entrepreneurial capabilities, including of small and very small activities, and assisting them with a network of material infrastructure, immaterial infrastructure such as communications, and credit mobility. We have to take this risk, because we cannot have a situation where money is lent only when it is absolutely certain to be paid back. Today, capitalism has negated itself. This is a forecast Marx made. He was a genius. I repeat that not everything he said came true, but it was not his duty to write history in advance. The great intuitions are those which leave a light trail on a historical journey.

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## Is the Bernard Lewis Plan On the Move in Central Asia?

by Ramtanu Maitra

By now most of the major media outlets have spelled out with a great deal of inaccuracy what “exactly” happened in the eastern Uzbek town of Andijan on May 13: How many got killed and who killed them. Led by the British Foreign Secretary Jack Straw, the world media has accused the much-maligned Uzbekistan President Islam Karimov of yet another bloody and ruthless suppression of “public dissent.” But, not much has been heard about who the players really are, and what their end objective is.

Although all the tiles of this jigsaw puzzle have not been put in place, it is evident that the answers to these questions can only be found in London, Birmingham, Bradford, and Liverpool. The old British colonial establishment, with the former intelligence officer Bernard Lewis as its mentor, seems to have activated another course of action that can bring endless bloodshed in Central Asia. The objective is to keep both China and Russia under an open threat, and no one could better serve this “Bernard Lewis Doctrine” than the Muslims controlled and nurtured in Britain—the Hizb ut-Tahrir.

Our story here concentrates on the geopolitical origins of the destabilization of the Central Asian republic of Uzbekistan, but it is crucial to note that Uzbekistan is only a small slice of the process which Lyndon LaRouche identified in the Fall of 1999 as the “Storm Over Asia.” In a lengthy video documentary at that time, LaRouche described the strategy being deployed in regions stretching from the Caucasus to the Subcontinent, to the Far East, as a deliberate attempt by British-American forces to destroy Russia and China, in particular, as foci for an emerging Eurasian bloc for economic development.

(For a quick map’s-eye overview of this deployment to-day, see page 38.)

### First, the Significance

The most significant aspect of the violent incident in Andijan is that it was located in the Fergana Valley, a confluence of three former Soviet Republics—Uzbekistan, Kyrgyzstan and Tajikistan. Andijan is located about 25 miles west of Osh, Kyrgyzstan, where the seed crystal for the March uprising against Kyrgyz President Askar Akayev was planted. Within a span of 48 hours after the uprising began in Osh, Akayev was gone.

Andijan is also about 25 miles east of Namangan, the hotbed of the Saudi-funded Wahabi-form of Islamic extremism. Juma Namangani, now dead, was the leader of the movement that began in Namangan. In other words, Andijan is in the heart of the Fergana Valley, whose 7 million inhabitants make it the most densely populated region of Central Asia.

For years, the Uzbek government has pointed out that the valley is a hotbed of Muslim extremists aiming to set up an Islamic state in the region. The valley is largely ethnically Uzbek, but is split up between Uzbekistan, Tajikistan, and Kyrgyzstan in a confused patchwork of Soviet-era borders, which leave enclaves of one country surrounded by the territory of another. In general, Uzbekistan holds the valley floor, Tajikistan holds its narrow mouth, and Kyrgyzstan holds the high ground around. Although the valley mouth is narrow, the valley land mass is vast, at 22,000 square kilometers (8,500 square miles). The Pamir and Tien Shan mountains that rise above the valley are only dimly visible, but supply the valley with water.

During the Soviet era, the valley was a major center of cotton and silk production. The hills above are covered by walnut forests, and there is also some oil and gas in the valley. That scene has not changed much. What has changed significantly since the 1990s, after the collapse of the Soviet Union,



*Bernard Lewis (center) started his career with British intelligence. He brought Zbigniew Brzezinski (left) under his wing in the late 1970s, and made Vice President Dick Cheney (right) and the U.S. neo-cons dance to his tune in 2001, in the Middle East.*



is the valley's integration with the "free world," a process that has turned Central Asia into a hot bed of transnational Islamic militants, controlled and funded by outside forces. On the ground, the new foot soldiers of colonial Britain and feudal Arabia are keen to replace the secular regimes in order to set up an Islamic Caliphate.

Recently, the Kyrgyz media reported that the country's border control services said that militants coming from Afghanistan, financed by arms and drugs trafficking, were gathering near the Kyrgyz borders, and that the illegal entry into Kyrgyzstan of foreign nationals and individuals without any citizenship, is on the rise. It is important to note that these militants were not parachuted out of airplanes, but were coming through Afghanistan and Pakistan. It could very well be a ticking time bomb for India, China, and Russia.

### **The Foot Soldiers of the U.S. Neo-Cons**

In the Fergana Valley, in addition to various Islamic preachers, there are two major Islamic groups whose common objective is to change the regimes in Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan. These are the Islamic Movement of Uzbekistan (IMU) and the Hizb ut-Tahrir (HT). While the IMU thrives on violence, the HT is strongly promoted as peaceful by the United Kingdom, where it is headquartered. But records indicate that the IMU and the HT work hand-in-hand. Most of the IMU recruits are from the HT, and according to Rohan Gunaratana, an expert on world terrorist outfits, Khaled Sheikh Muhammad, the alleged mastermind of 9/11, and Abu Musaab al-Zarqawi, the Jordanian of Chechen origin who has remained active in the Iraqi insurgency against the U.S. occupying forces, were both once members of the HT.

The IMU consists of hardcore, well-trained militants of various ethnic origins—Uzbeks, Tajiks, Kyrgyz, Kazaks, Uighurs, and Chechens, among others. These militants iden-

tify as their ancestors those who had participated in the Basmachi rebellion against the Soviet Union during the 1918-23 period, fighting along with the White Russians and the British Army. Many of the IMU members, who settled later in Afghanistan, Jordan, Saudi Arabia, and Turkey, among other places, fought against the Russian invaders in the 1980s in Afghanistan, and were put under the wings of the Pakistani Inter-Services Intelligence (ISI).

Reports indicate that there are at least 2,000 of these militants, who have been protected by the Pakistani ISI, with the nod of approval by the Americans and the British. One possible reason that they were protected is that the IMU is single-mindedly seeking revenge against the Russians and those Central Asian leaders who support Russia.

The relationship between the Taliban and IMU is as old as the IMU, going back a long way, before the attacks of 9/11 that prompted the U.S.-led campaign against the Taliban. After the Taliban had captured the Afghan capital, Kabul, in September 1996, Juma Namangani and Tahir Yuldashev—long-time adversaries of Uzbek President Karimov, and considered to be the founders of the IMU—held a press conference in the city to announce the IMU's formation. Namangani, who had served as a Soviet paratrooper in Afghanistan in the 1980s, became the group's leader (or Ameer), and Yuldashev became its military commander. Their aim was to topple Karimov and turn Uzbekistan, and ultimately the whole of Central Asia, into an Islamic state. The Taliban provided them with a place to shelter and train—and to plot against Karimov. It is also said that Yuldashev developed contact with Osama bin Laden in Afghanistan, and that they became mutually supportive.

After the U.S. invasion of Afghanistan in the winter of 2001, Namangani was one of those killed. But Yuldashev led a large number of Central Asian families over the border

## Insurgents' Destination: The Fergana Valley



into South Waziristan, a tribal area in Pakistan's Northwest Frontier Province, where the central authorities of Pakistan wield little power. Available information suggests that a large number of these IMU fighters, along with some al-Qaeda and Taliban militia, have moved up to Badakhshan province in eastern Afghanistan. A few, however, are still based in the Waziristan tribal areas of Pakistan. In March 2004, during heavy fighting in the Waziristan area, Yuldashev was reportedly wounded. The Pakistani Army intercepted radio transmissions in both Uzbek and Chechen, according to the Pakistani commander of the counter-insurgency operation, Lieutenant General Safdar Hussain.

### British Intelligence's Foot Soldiers

Although President Karimov is a target of the IMU, in recent months he has identified the Hizb ut-Tahrir as a greater threat. After the Andijan incident, Uzbek authorities again blamed the HT.

Unlike the IMU, which has concentrated its role in Central Asia with a focus on the Fergana Valley, the Hizb ut-Tahrir is an international Islamic movement. It is headquartered in London, but also has a strong organizational presence in Birmingham, Liverpool, and Bradford. The group was co-founded by Omar Bakri Mohammed, who came to the U.K. after being expelled from Saudi Arabia in 1986. HT's present leader is a communications IT professional from the Indian subcontinent, Jalaluddin Patel.

Hizb ut-Tahrir was established in 1953 in Palestine by a well-known religious figure, the judge of the appellate Shar'ia court in Jerusalem, Takiyeddin al-Nabahani al-Falastini (1909-1979). According to available reports, the group's first U.K.-based website was hosted by the London Imperial College, but after complaints to the College authorities, the site was closed down temporarily until a new host could be found. The

group now posts in their own name as Hizb ut-Tahrir, and as Khilafah.

Although portrayed as "non-violent" by the British authorities, Bakri's links to Osama bin Laden are widely known. Excerpts of a letter to Bakri by bin Laden, sent by fax from Afghanistan in the summer of 1998, were published in the *Los Angeles Times*. Bakri later released what he called bin Laden's four specific objectives for a jihad against the United States: "Bring down their airliners. Prevent the safe passage of their ships. Occupy their embassies. Force the closure of their companies and banks."

Many of those who follow the HT activities are intrigued as to why the group is not more discreet. For instance, on its web site in 2003 appeared "A Cry of the Imam from the Muslims of Uzbekistan." In that article, the "Imam" gave the call "to destroy Karimov. . . ." Similar calls have been issued to oust the Jordanian and Turkish authorities as well.

These are not empty threats. Backed by British Intelligence and funds from drugs, as well as from the coffers of Wahabi sheikhs, Hizb ut-Tahrir is a huge organization. Some claim it has at least 10,000 foot soldiers in Central Asia. A few more thousands are lurking in Pakistan and Afghanistan, and HT also has a strong presence in North Africa.

Reports from reliable Indian sources indicate that the recent demonstrations against the U.S. and against Karzai were organized by the Hizb ut-Tahrir (HT), and not by the Taliban or the Hizb-e-Islami or the al-Qaeda. Although one source was aware of some HT activities in the student community in Afghanistan, the extent of its penetration not only in the student community, but also in the Afghan security forces came as a surprise. In other words, the American occupying forces will soon be fighting the Britain-run Islamic foot soldiers!

As one Indian analyst pointed out, Osh and Jalalabad, the cities which spearheaded the regime change in Kyrgyzstan, happen to be HT strongholds. The HT is making huge gains in an entire belt, stretching from the Fergana provinces of Namangan, Andijan, and Kokand (which is contiguous to Osh and Jalalabad) to the adjacent Penjekent Valley (Uzbekistan) and Khojent (Tajikistan).

### The Bernard Lewis Doctrine

Writing for the Jamestown Foundation, Stephen Ulph, in his article "Londonistan," seemed intrigued by the fact that scores of violent Islamic movements remain anchored in London. He wrote: "It [London] is also a center for Islamist politics. You could say that London has become, for the exponents of radical Islam, the most important city in the Middle East. A framework of lenient asylum laws has allowed the development of the largest and most overt concentration of Islamist political activists since Taliban-ruled Afghanistan. Just ask the French, whose exasperation with the indulgent toleration afforded to Algerian Islamic activists led them to dub the city dismissively as *l'anté-chambre de l'Afghanistan*. They

certainly have a point. Many of bin Laden's fatwas were actually first publicized in London. In fact, the United Kingdom in general seems to differ from other European states in the degree to which it became a spiritual and communications hub for the jihad movement. . . ."

It is evident that Ulph has no clue of what the long-term British objectives are, and why it is that London remains an "Aladdin's Cave," full of Islamic dissidents.

It is to be understood that Britain is no longer a military or economic power of substance. In order to be an almost equal partner of the Atlantic Alliance, Britain has two important ingredients to offer the United States: first, its ability to undo the Middle East, North Africa, Central Asia, and parts of the Indian subcontinent through the use of creatures living in London's Aladdin's cave; and second, its control of world currency movements through the City of London. Unfortunately, these are also poison offerings that have helped to vastly undermine the U.S. credibility.

The policy of the West towards the Middle East—in other words, the policy of the Anglo-Americans, because the European Union does not have a policy worth citing—has long been formulated by Bernard Lewis. Lewis started his career as an intelligence officer, and for the rest of his life has remained in bed with British Intelligence. Avowedly anti-Russia and pro-Israel, Lewis reaped a rich harvest among U.S. academia and policymakers. He brought under his wing President Carter's virulent anti-Russia National Security Council chief, Zbigniew Brzezinski, in the 1980s and made the U.S. neo-cons, led by Vice President Dick Cheney, dance to his tune on the Middle East in 2001. In between, Lewis penned dozens of books and was taken seriously by people as a historian.

In fact, Lewis is what he always was—a British Intelligence officer. And like all old Nazis, KKKers, and what-have-you, he works for an abysmal cause: revival of the British Empire. To understand Lewis, one must read this statement he made in Canada, while discussing his article, "Freedom and Justice in the Modern Middle East." He said, "During the Second World War, Nazi Germany and the Allies had all sorts of odd friends." Lewis further said: "When Churchill was asked in the House of Commons about Britain's new ally, Russia, he replied that if Hitler would invade hell, 'I would find occasion to support the devil.' In this way, there is nothing odd about an alliance between Saddam and al-Qaeda."

In essence, what Lewis is saying is that in order to deal a crippling blow to Russia, and to all powers that would oppose his objective of reviving the Empire, he has no qualms about supporting outfits like the Hizb ut-Tahrir. In 1979, when Ayatollah Khomeini took over power in Iran and the West was in a quandary, Lewis sucked in Brzezinski with his story in *Time* magazine on "The Crescent of Crisis," which ended with the following observation:

"In the long run there may even be targets of opportunity

for the West created by ferment within the crescent. Islam is undoubtedly compatible with socialism, but it is inimical to atheistic Communism. The Soviet Union is already the world's fifth largest Muslim nation. By the year 2000, the huge Islamic populations in the border republics may outnumber Russia's now dominant Slavs. From Islamic democracies on Russia's southern tier, zealous Koranic evangelism might sweep across the border into these politically repressed Soviet states, creating problems for the Kremlin. . . . Whatever the solution, there is a clear need for the U.S. to recapture what Kissinger calls the 'geopolitical momentum.' That more than anything else will help maintain order in the crescent of crisis."

It seems the same process has been unleashed once more. This time, the objective is to weaken China, Russia, and possibly, India, using the HT to unleash the dogs of war in Central Asia. It is not difficult for those on the ground to see what Lewis and his foot soldiers are up to. Indeed, the leader of the Islamic Party of Tajikistan, Deputy Prime Minister Hoji Akbar Turajonzoda, has identified the HT as a Western-sponsored bogeyman for "remaking Central Asia." Turajonzoda said: "A more detailed analysis of HT's programmatic and ideological views and concrete examples of its activities suggests that it was created by anti-Islamic forces. One proof of this is the comfortable existence this organization enjoys in a number of Western countries, where it has large centers and offices that develop its concept of an "Islamic caliphate."

It is evident that Turajonzoda has seen through Lewis's game. However, he has little capability to stop the juggernaut now unleashed.

On the other hand, it is not the lack of understanding on behalf of American neo-cons associated with the Bush Administration, but their keenness to use the Lewis Doctrine to achieve what they believe is justified, that promises an untold danger. How important a brain-trust is Lewis to the neo-cons? Read the following: "Bernard Lewis has been the single most important intellectual influence countering the conventional wisdom on managing the conflict between radical Islam and the West," says neo-con Richard Perle, who remains a close adviser to Defense Secretary Donald Rumsfeld. "The idea that a big part of the problem is failed societies on the Arab side is very important," says Perle. "That is not the point of view of the diplomatic establishment."

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## Strategic Map

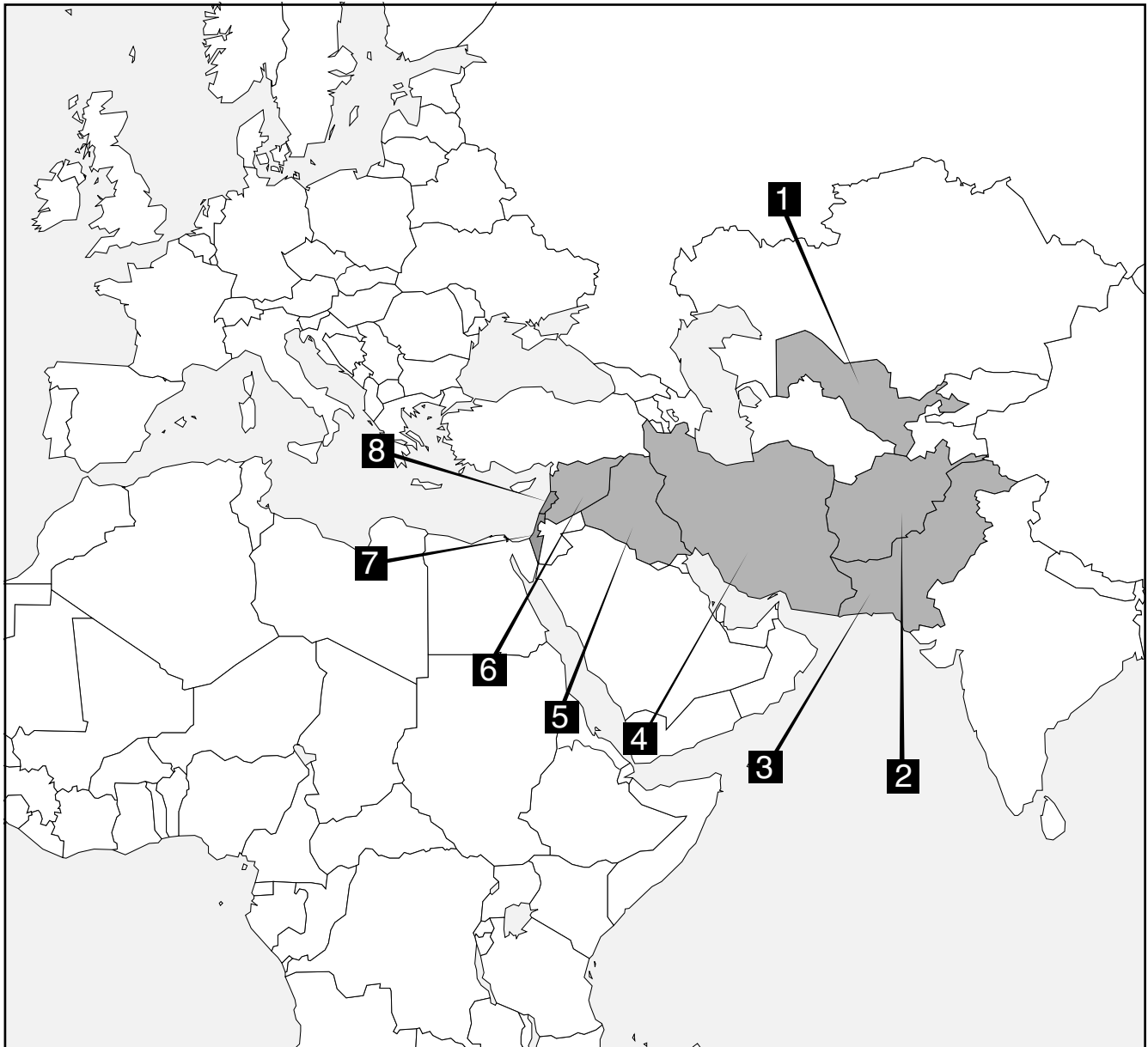
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# Storms of Chaos Gather Over Asia

As Lyndon LaRouche warned in his near-prophetic “Storm over Asia” video in the Fall of 1999, the response of the international financial oligarchy to the monetary breakdown

crisis would be to detonate firestorms of destabilization, especially in nations around the former Soviet Union. The geopolitical intent can be described as twofold: 1) breaking up the power, and even the nations, of major powers like Russia and China, in hopes of removing any blockage to consolidation of global empire; and 2) preventing the process of cooperation among Eurasian nations, which is establishing the political basis for a new world monetary system which would end the current system of globalized looting.

From this standpoint, it is a mistake to look at any particular point of strategic confrontation, such as Iran or Lebanon, as a crisis in itself. These blow-ups can only be seen as the product of a deliberate geopolitical provocation, by a Bush Administration gone mad, and acting on the script printed out



by the global financial oligarchy.

In his 1999 show, LaRouche pointed out that the agents of much of this destabilization were deliberately created by British and U.S. intelligence, in the form of de facto mercenary armies, often funded through drug monies. With sponsors such as Zbigniew Brzezinski, Samuel P. Huntington, and Margaret Thatcher, they have created everything from terrorist groups, to “democracy movements,” all of which have been used to try to subvert sovereign nation-states which the financial oligarchy believes to be threats to their rights to dictate policy to the planet. The object, however, has not been to put other regimes in place, so much as to create chaos, so that the global ruling elite can maintain its power.

LaRouche also stressed in his “Storm Over Asia” tape that one should not forget that this strategy is challenging the world’s second greatest nuclear power, Russia, which might not always sit back and acquiesce.

We highlight recent major points of confrontation on the accompanying map, some of which you will find discussed in more detail in accompanying articles:

**1. Uzbekistan:** The outbreak of bloody violence can be traced directly to assets of the British geopolitical mafia. Its ramifications affect both Russia and China.

**2. Afghanistan:** Rioting against the U.S. was detonated by rumors of U.S. officials desecrating the Koran, but reflects a deeper growing resentment against the U.S. occupation, and may have been organized by the same British-based group that detonated unrest in Uzbekistan.

**3. Pakistan:** Rioting against reported desecration of the Koran spread into border areas close to Afghanistan.

**4. Iran:** The U.S.-led pressure, allegedly against Iran’s nuclear program, is vectored toward a showdown in June. It also targets Russia, the supplier of Iran’s nuclear reactor, and China, which depends upon Iran for a portion of its oil supplies.

**5. Iraq:** The increasingly bloody insurgency against the U.S. occupation shows no signs of abating.

**6. Syria:** Pressures on this close military ally of Russia are increasing on two pretexts: its alleged role in the insurgency in Iraq, and its alleged continued influence in Lebanon, despite its troop withdrawal.

**7. Israel-Palestine:** Between renewed threats by Zionist fanatics to detonate a crisis around the al-Aqsa mosque in Jerusalem, and Prime Minister Ariel Sharon’s moves to pull the plug on the planned Israeli military withdrawal from Gaza, this situation continues to be a powder keg.

**8. Lebanon:** The elections scheduled for May 29 could provide the setting for a renewed outbreak of violence. In the meantime, Israel has renewed overflights and shelling in Lebanon’s south.

## LaRouche: U.S. Must Withdraw From Iraq, Now

by Jeffrey Steinberg

American statesman and political economist Lyndon LaRouche has called on the Bush Administration to withdraw all American troops from Iraq immediately. Such a departure would probably require the interim establishment of an American zone, into which the U.S. forces could regroup, pending the logistical plans for the pullout.

LaRouche had earlier called for a several-year American mission, radically redefined to include accelerated training of Iraqi military and security forces, and an emphasis on U.S. Army Corp of Engineers’ projects, to rebuild Iraq’s destroyed infrastructure, but with primary emphasis on putting Iraq’s own population back to meaningful work.

However, the continuing fiasco of the U.S. military engagement prompted LaRouche to revise his proposals. There is no longer any viable basis for a continued American presence, he recently told colleagues. The continued presence of the U.S. and other international occupation forces is only making things worse, and foreclosing any prospects of a viable governing arrangement among the Iraqis themselves.

### ‘Operation Matador’ a Failure

U.S. military sources, just returned from fact-finding tours of Iraq, have reported to Pentagon officials that the situation on the ground in Iraq is hopeless for American forces. The insurgents are operating in 70% of the country; American troops have been forced to mostly remain in the barracks, to avoid politically unacceptable levels of casualties. When they go out on patrols, they must travel in larger units, to be able to counter enemy attacks, and thus, the ability to cover major portions of the country is lost.

As one senior U.S. intelligence official told *EIR*: “We have 150,000 troops on the ground in Iraq, and the largest contingent of spies anywhere in the world, and we still don’t know who the insurgents are.”

Operation Matador, the just-concluded military counter-insurgency operation in western Iraq, near the Syrian border, has been hailed by the Pentagon as a total success. However, well-informed senior U.S. military officials say that, even though insurgents were routed from several villages after intense fighting, the U.S. has no force to leave behind to secure the area, and within days or weeks, the insurgents will be back.

One official told *EIR* that in one particularly heavy fire-fight in a village in al-Anbar province, American troops were



*U.S. soldiers on patrol in Baghdad in February this year. U.S. military sources have reported to Pentagon officials that the situation on the ground in Iraq is hopeless for American forces. LaRouche is calling on the Bush Administration to withdraw all American troops from Iraq immediately.*

fired upon inside a house believed to be a rebel headquarters. Two American soldiers were killed and others injured, and the GIs could not determine where the shots were coming from. It later turned out that insurgents were hiding in the crawl space underneath the house and had special cement-piercing ammunition.

The source said the incident typified the kind of difficulties that the American forces are encountering, in dealing with an asymmetric warfare campaign, conducted by an insurgency dominated by former Iraqi military personnel, who were well-trained and combat experienced—unlike many of the U.S. Reserve and National Guard soldiers, who make up over half of the U.S. contingent in Iraq.

Gen. Barry McCaffrey (U.S. Army-ret.) has warned that the U.S. Army is near the breaking point, as the result of the Iraq war. He has harshly criticized Defense Secretary Rumsfeld for failing to provide enough troops to carry out the occupation mission in Iraq, and is now preparing an article drawing out the larger consequences of the depletion of the Army and the collapse of recruitment.

According to one senior retired U.S. Army officer, there is talk within the military about a pullout from Iraq, beginning at the end of the year. However, the source cautioned that the Bush Administration is putting out the word that one key reason that a pullout will be possible is the anticipated collapse of the Iranian regime, and its replacement by a pro-Western reform-minded government. This, the source warned, is the most dangerous kind of fantasy, the kind circulated by neo-cons at the American Enterprise Institute.

## ‘Vietnamization’ and ‘Lebanonization’

Two leading regional specialists, Col. W. Patrick Lang (U.S. Army-ret.) and Phebe Marr, recently spoke at a conference in Washington, sponsored by the Jamestown Foundation. They offered their stark assessments of the state of affairs in Iraq. Lang, the former Defense Intelligence Officer for the Near East, equated the present disaster with the “Vietnamization” scheme, that was the American cover for the pullout of Vietnam. Then, the U.S. government claimed that the South Vietnamese forces were reaching the point that they could defeat the insurgency on their own. Everyone at the time knew that this was a hoax, aimed at avoiding the admission that the United States had gotten into the wrong war, at the wrong time, in the wrong place—and could not win.

Phebe Marr, a former CIA analyst and National Defense University scholar, equated the present mess in Iraq with the 1975-91 Lebanon civil war. Iraq and Lebanon at one time had a thriving middle class, a secular government, and a sense of national identity that was pervasive. In Lebanon, as the middle class was destroyed by civil war and other sectarian strife, the sense of national identity was lost, and the country fell apart. Dr. Marr warned that this is precisely what is now happening in Iraq, with Shi’ite, Sunni, and Kurdish interests trumping what had formerly been a strong sense of Iraqi nationalism.

Put the two phenomena together—“Vietnamization” and “Lebanonization”—and you have a recipe for a failed state—courtesy of the Bush Administration’s insane obsession with the overthrow of Saddam Hussein.

## LaRouche Doctrine Revisited

One year ago, LaRouche published a “LaRouche Doctrine for Southwest Asia,” which spelled out a detailed plan for the salvation of Iraq as a sovereign state, after Saddam Hussein, through regional economic cooperation and other emergency stability operations.

LaRouche prophetically began that document, “U.S. Interest in Southwest Asia,” by warning: “Neither the cause, nor remedy for the present quagmire of boiling asymmetric warfare in Iraq can be found within the bounds of the present configuration of conflicting forces within Iraq itself. There could be no competent moral or military reason for maintaining a policy of keeping our forces within the territory of Iraq. We must, therefore, extricate our troops safely, and quickly, from Iraq itself. However, this can not be done without creating a larger strategic framework in which a workable solution could be brought into existence.”

Exactly 13 months to the day since LaRouche issued that policy guidance on April 17, 2004, the United States has dug itself deeper into the very quagmire LaRouche warned about. With rampant insanity still the order of the day at the White House and within the civilian bureaucracy at the Pentagon, any further delay in withdrawing all American forces from Iraq would only assure an even more horrific outcome.



# Kissinger Plan for Lebanon: Death by 'Democracy'

by Michele Steinberg

If Lebanon survives the upcoming May 29 election and beyond, it will be despite the George W. Bush Administration, not because of it. Bush's claim of "his" victory for democracy in Lebanon, is widely viewed with bitterness and suspicion inside Lebanon, and for good reason. It is recognized by the leaders of both the Lebanese opposition and the Lahoud government that was close to Syria, that the Bush Administration's major—and perhaps only—interest in Lebanon, is to use the country against Syria. For the neo-conservative fanatics run by Vice President Dick Cheney, Lebanon is seen as useful for either military strikes against Syria, or as a staging ground for a special operations regime-change in Syria. (See *EIR*, Feb. 25, 2005, "Lebanon's Hariri Killed To Make a 'Clean Break.' ")

When Syrian President Bashar Assad made good on his promise to pull all Syrian military troops out of Lebanon, and did so on April 29, the neo-conservative faction that is itching for a war and regime change in Syria lost its excuse for an immediate confrontation. There is now a struggle inside and around the dysfunctional Bush Administration over what to do about Lebanon. But, the one thing in common among all the factions is that they have *no respect for the sovereignty of Lebanon*. In fact, the Bush policy could be well called "democracy without sovereignty."

One view is represented by a threat—delivered twice in one week by Henry A. Kissinger, in the May 12 *International Herald Tribune*, and the May 16 *New York Times*—to have U.S. or "international forces" invade Lebanon. Kissinger wrote, "Three times since 1958 . . . foreign intervention held the ring in Lebanon to prevent collapse into violence and to arbitrate among the Christian, Sunni, Shiite, and Druze groups that constitute the Lebanese body politic. The test will be whether the United States and the international community . . . can mobilize an international presence to guarantee that the conflicting passions do not once again erupt."

The Dick Cheney view is to install a puppet leader in Lebanon, who will back a U.S. invasion of Syria. As the neo-conservative-created Syrian exile "leader," Farid Ghadry, rhetorically asked at the June 2004 founding meeting of the Committee on the Present Danger, "When is this Administration going to invade Syria?"

Ghadry, who is considered by regional experts as a "joke,"

has already been brought into the highest levels of the Condoleezza Rice State Department—the office of Assistant Secretary of State Liz Cheney, daughter of the Vice President—to discuss his plans for taking over Syria. The U.S. invasion of Syria, long planned by the Cheney-centered neo-cons again surfaced, when Rice made verbal attacks on Syria a centerpiece of her May 15 surprise visit to Iraq.

Another view, and perhaps the most dangerous, is to let the election proceed without destabilizations and ultimatums from the United States about disarming the Shi'ite group Hezbollah. Then, *after* the election, as was done in Georgia, Ukraine, and even earlier in Peru, the U.S.-British imperial forces would use their covert and semi-open "democracy" funds to unleash Jacobin mobs in the streets of Lebanon to overturn the election. The stage would be set for another tragedy.

But, given that Iraq is turning into a killing field, and that Ariel Sharon is backing off—perhaps permanently—from the Gaza "disengagement" plan, the U.S. Administration does not have the means to execute its plans of aggression. As a senior Central European source told *EIR*, "The U.S. is 'militarily stretched, diplomatically isolated, and financially eroding.' "

## A Temporary Solution

For now, reports a well-placed Washington specialist on the Middle East, the Administration has accepted a plan presented by the Saudi Arabian government to provide "stability" in Lebanon, which involves the election as Prime Minister of Saad Hariri, a 35-year-old businessman, who is the son of the slain former Prime Minister Rafiq Hariri. It was the assassination of his father, Rafiq Hariri, on Feb. 14 in Beirut, that led to mass demonstrations, the resignation of Prime Minister Omar Karami (who was not opposed to the Syrian presence), and the formation of an interim government in Lebanon.

The sudden central role of Saad Hariri—with reluctant U.S. approval—came as somewhat of a surprise. It had been largely overlooked on April 25, that Saad Hariri, who, like his father, is close to the Saudi Arabian royal family, was part of the entourage of Saudi Crown Prince Abdullah, when he met President Bush in Crawford. Young Hariri also met with

Vice President Dick Cheney, and then travelled to Washington, D.C., where he held private meetings with the top leadership of the Bush Administration's "Middle East hands," including Deputy Secretary of Defense Paul Wolfowitz.

Soon after the U.S. visit, Saad Hariri, announced that he would return to Lebanon to run for the Parliament. Heading a slate that includes a Maronite Christian, and a Shi'ite leader of Hezbollah, Hariri has been endorsed by interim Prime Minister Miqati, and his slate has already "won" 9 uncontested seats, as of May 20. (By law, the Prime Minister must be a Sunni Muslim, the President must be Christian, and the Speaker of the Parliament a Shi'ite Muslim.)

In proposing Hariri as Prime Minister of Lebanon, *EIR*'s source reported, the Saudis also indicated that loans and investments would be made available to build and reconstruct Lebanon, which is one of the most heavily indebted countries per capita in the world. The Saudis want stability and will pay for it.

"The truth is that the Bush Administration is *afraid* of democracy in the Middle East," the *EIR* source said. "That's why the Saudis could have so much sway. The Administration may not admit it, but it is understood by the U.S. institutions that if there were truly free elections in the Middle East, particularly in Egypt and Saudi Arabia, anti-American governments would win by overwhelming margins." The Administration is faced with "hostile populations," not hostile governments. Another problem is that the Bush Administration is offering no economic future for Lebanon.

### **LaRouche Offers a Real Solution**

On May 18, in a written communication to his "Lebanese friends," American statesman Lyndon LaRouche offered a solution based on the "common aims of mankind." LaRouche wrote: "The time has come to free Lebanon forever from Kissinger's evil legacy. With the Syrian army having withdrawn from Lebanon, it is also time for Israel to truly and fully withdraw—with no more incidents of overflights or artillery fire which erupt with such frequency, and disregard for Lebanon's sovereignty that they threaten the peace." LaRouche also called for all the forces in the region to apply the principles of the 1648 Peace of Westphalia, instead of falling victim to the Kissinger trap.

"As a friend of Lebanon," said LaRouche, "I must again recount my experience of April 1975, when I warned people in the region of Southwest Asia, that the policy of Henry A. Kissinger, then U.S. Secretary of State, was to plunge Lebanon into a civil war. At that time, I was in Iraq attending a joint celebration of the Syrian and Iraqi Ba'ath parties, and told a group of participants that as the direct result of Kissinger's manipulations, I anticipated the imminent outbreak of a civil war in Lebanon. The group was so struck by these warnings, that they scheduled, for the next day, a more extensive briefing to be given by me.

"The invitation to Baghdad had been extended to me, in

response to a paper I had written entitled, 'The Middle East Peace and Development Plan of 1975,' which proposed to set the foundations for Arab-Israeli peace via large-scale regional development projects, including water management, transportation, energy, education, health care, etc., utilizing the combined scientific, technological, and material resources of all the nations of the area. In that paper, I called on the Persian Gulf states, freshly awash in petrodollars, to create a Middle East Development Bank, to channel a portion of their oil revenues into long-term, low-interest development credits.

"In response to my warning about Kissinger, a large group of diplomats, government officials, academics, and other guests of the pre-Saddam Hussein Iraqi Ba'ath Party government was flown by helicopter to an oil production facility, Public Station IV, where the day-long dialogue proceeded. I identified for the participants the RAND Corporation's 'chicken game' scenario of manipulated conflict as key to comprehending Kissinger's schemes to provoke sectarian violence in Lebanon. Before the Ba'ath celebration ended, on April 13, 1975, word arrived of the outbreak of civil war in Lebanon."

LaRouche said that the person directing operations to again thrust Lebanon into chaos, today, is George Pratt Shultz, who had been in the Nixon Administration with Kissinger in 1975, and then in 1982, as Secretary of State, had blessed the Israeli and Syrian occupations.

It is Shultz who "organized the Bush Administration . . . that picked Condoleezza Rice and caused her to organize something called the 'Vulcans.' He was the one who appointed Dick Cheney, to organize a new Bush Administration under George W. Bush, Jr.," said LaRouche.

In fact, LaRouche added, the crisis in Lebanon beginning in 1975 "is a product of Shultz; who brought Kissinger into power, to create the mess, which you're now looking at in Southwest Asia. So, the crimes of Kissinger actually come from people like Shultz."

"Once again, in 2005, as Lebanon moves towards its national election, Kissinger again rears his head in the pages of the U.S. media to issue a veiled threat of a foreign invasion. . . . Fortunately, my Lebanese friends tell me that the lessons of 1975 to 1990, have been learned, and Kissinger has lost his grip," LaRouche noted.

LaRouche emphasized that "the crisis facing Lebanon is a global crisis . . . a global economic crisis that is far greater than any that has been experienced by any living person today." LaRouche also invites the Lebanese to join his movement for a new, just world economic order: "As I have emphasized since January 2005, in trying to get nations together, rather than trying to argue about bits and pieces of cultural this, and cultural that—flotsam and jetsam—why not take the most fundamental thing? The human race is in danger. We have a common interest. We have a common interest, above all, in development; in development and management of such things as the mineral resources of the planet."

# Calipari Death: Is Negroponte To Blame?

by Claudio Celani

An Italian Senator has accused U.S. Director of National Intelligence John Negroponte of having planned the context in which Italian military intelligence official Nicolà Calipari was killed in Baghdad, on March 6. Calipari was killed by a U.S. patrol while escorting a liberated hostage, Giuliana Sgrena, to the Baghdad airport. Luigi Malabarba, chairman of the Senate group of the leftist party Rifondazione Comunista (Communist Refoundation), accused Negroponte in a speech in the Senate on May 5, of having planned the setting of the incident.

The U.S. Embassy in Iraq, headed at the time by Negroponte, had tried to sabotage the hostage rescue by Calipari. By following his cell phone frequencies, his car was located, said Malabarba. At that point, it was decided to establish the checkpoint, to prevent the rescue of the hostage. Calipari's death was accidental, said Malabarba, but Negroponte is responsible for it.

Malabarba, who is a member of the Parliament Oversight Committee on Intelligence Services (Copaco), says that his belief is supported by Italian intelligence sources, and is based on knowledge of similar cases he witnessed in El Salvador. "I accuse John Dimitri Negroponte, Ambassador in Iraq until a few weeks ago (before he became chief of the 15 intelligence agencies of the U.S.A.), who was just a few hundred meters away from Checkpoint 541, at the moment of the shooting, as being responsible for the conscious planning and implementation of the context which led to the assassination of Nicolà Calipari," and the wounding of journalist Sgrena and another Italian intelligence official, Malabarba charged.

"I say in this forum what many analysts think but find it difficult to pronounce, and assume the full responsibility of political deductions," Malabarba said.

Malabarba pointed to the decision to deploy a mobile checkpoint for the planned arrival of Negroponte at the Baghdad airport, and the fact, documented in the final committee report, that the checkpoint was maintained for 55 minutes, despite the fact that Negroponte: 1) used a helicopter; 2) had landed a few minutes after the deployment of the checkpoint.

## Unanswered Questions

The Italian government report on the accident raises the question of why neither those responsible for the patrol deployment, nor the head of the airport security, who had been

informed about Calipari's arrival, ordered the patrol to lift the checkpoint.

Instead, according to the Italian witnesses, the patrol failed to warn the car, and started to shoot immediately. "Global preventive war and non-conventional action against terrorism, defined in the so-called 'Salvador Option' by Negroponte . . . as based on counterinsurgency manuals applied in Central American by Negroponte himself, does not admit ambiguities by allies," Malabarba said. "I saw personally the killer-checkpoints, without supervision, working in El Salvador, and the concrete dynamic of facts between 8:00 and 8:55 p.m. of March 5, represents a dramatic confirmation of the manual."

In articles and interviews following his Senate intervention, Malabarba accused a faction in Italy of having played the insider role in the plan to assassinate Calipari. This faction, he said, is represented by the newspaper *La Repubblica*, by police chief Gianni De Gennaro, who played a filthy role during the 2001 Genoa riots, and a group in the Carabinieri military police. This faction is supporting the preemptive war policy, and the use of the military in police functions, whereas the military intelligence agency SISMI (including SISMI head Nicolò Pollari), represents a different view.

In a conference on May 17, Malabarba repeated his allegations and added details on how U.S. forces had tried to sabotage earlier hostage rescues led by Calipari. For instance, in the case of two girls kidnapped last September, the place where the hostages were supposed to be released was bombed by U.S. helicopters. During the release of Sgrena, Calipari switched his cell phone off, in order to avoid signalling his position to the American "allies." Nevertheless, the release was delayed by two hours, as a U.S. helicopter was on the scene.

Malabarba is critical of both the U.S. and Italian official reports on the Calipari case. The U.S. report acquitted all members of the patrol, and although the Italian report dissented from this decision, neither, Malabarba said in an interview to the daily *Liberazione*, faced the real issue, that is, the checkpoint itself. "It was there because Negroponte was supposed to drive by, but Negroponte had passed through almost an hour before . . . and the checkpoint was still there. The explanation, that radio communications did not work, does not convince even Ambassador Ragolini," one of the two Italian members of the investigating committee. Negroponte is the "mastermind, in the sense that he had planned the 'special' checkpoint, which was useless for him, but was maintained until it impacted Calipari's car. Mine is a political deduction, pegged to this fact, and to two observations: Since the 1980s, Americans have used checkpoints in Salvador to eliminate people, and then say, 'It was an accident.' Negroponte . . . is the ambassador of the 'dirty war,' not accidentally termed the 'Salvador Option.' Negroponte accuses Italy of financing, through ransoms paid to kidnappers, Iraqi 'terrorism.' That is no small thing."

# Neo-Cons Light Fuse on Iran Crisis

by Muriel Mirak-Weissbach

A number of operations are converging, which indicate that the Bush Administration neo-cons have set a June 2005 timetable for confrontation with Iran. Once it is understood that the timetable has been set by a bunch of lunatics in Washington, it should be clear that a confrontation, and war, can be stopped, by effective action to neutralize the neo-con command center.

Most commonly cited as a detonator for confrontation is the anticipated failure of the ongoing talks between Iran and the Europeans on Iran's nuclear energy program. Although the timetable for the "inevitable" failure of the talks is considered to be June, there is no set deadline for reaching any conclusions, and the talks could continue for as long as the two sides want them. The "June deadline" has been asserted by U.S. officials, with the clear intent of getting a crisis that would allow the nuclear impasse to be sent to the United Nations Security Council.

One reason given for the June deadline, is that elections for President will be held in Iran that month. Some hold that by increasing pressure on the country before the late June elections, figures more open to compromise will win the day. Others explain the deadline by saying that the United States has to wait to see who comes out on top in Iran, in order to adjust policy on the nuclear issue.

Both arguments are fallacious. The fact is that no candidate for public office in Iran who were to hesitate on the issue of the right to nuclear (and other advanced) technologies, would have a prayer of being elected. This includes the current front-runner, Hashemi Rafsanjani, who served two terms as President after the Iran-Iraq War.

What may be relevant to this trigger-date, however, is that a group of Senators has begun to mobilize around S. 333, the Iran Freedom and Support Act, which calls for U.S. action to ensure "free, transparent, and democratic elections." Although it would be a wild adventure, there are reportedly a number of hotheads who are fantasizing about a "velvet revolution" in Iran in June, and planning to put a lot of money into such a project.

U.S. intelligence sources have also indicated to *EIR* that the rush to force through the confirmation of John Bolton as U.S. Ambassador to the United Nations, is connected to the intention of Cheney et al. to put the point man for the anti-Iran crusade into a key position, at the time the issue should be referred to the Security Council. The Bolton nomination,

of course, has hit a significant snag, and it is by no means clear that the other elements of this scenario will fall into place.

## The 'Iran Freedom' Act

On Feb. 9, 2005, a bill was presented by Sen. Rick Santorum (R-Pa.) which constituted a lead-up to a declaration of war on Iran. Most probably, neither the sponsors of the resolution nor the broader American public has any inkling of the implications and political consequences of this move. Unless they become cognizant of its strategic implications, they could find themselves among the crusaders for a new war.

The "Iran Freedom and Support Act of 2005" calls for imposing sanctions on the Islamic Republic of Iran, unless it desists from allegedly supporting terrorism, and halts its nuclear energy program, identified as a cover for a nuclear weapons program. Designed in part as amendments to the Iran and Libya Sanctions Act of 1996, the clauses also call for supporting, politically and financially, groups that "support democracy and the promotion of democracy in Iran"—that is, regime change. An appropriation of \$10 million is named to support "indigenous efforts in Iran calling for free, transparent, and democratic elections." The bill specifically demands a halt to cooperation related to the nuclear sector between Iran and Russia, as well as between Iran and individuals from China, Malaysia, and Pakistan.

The sponsors of the bill, or their advisors, obviously know that Iran is not going to concede to these demands. What they have in mind is the precedent of the "Iraqi Freedom Act," which served as the instrument for setting deadlines and ultimatums and which also permitted the pouring of millions of dollars into covert operations in the target country, with the not-very-secret intent of regime change.

After the bloody mess which the U.S. invasion of Iraq has created, it would seem that these Senators would think twice about launching the same kind of confrontation with Iran, which has more than twice the population, and considerably more industrial capability than the sanctions-depleted Iraq.

Not surprisingly, the American Israel Public Affairs Committee (AIPAC) is mobilizing around S. 333. One of the key drafters of a House of Representatives version, is the notorious Republican neo-con Ileana Ros-Lehtinen of Florida, who has organized more than 200 co-sponsors. AIPAC will be bringing the bill into the center of their upcoming annual meeting in Washington this month. "It will certainly, along with other things, be part of the agenda when thousands of members of AIPAC go to Capitol Hill" to lobby Congress, said Josh Block, AIPAC spokesman. Senators Evan Bayh (D-Ind.) and Rick Santorum (R-Pa.) are the sponsors of the Senate version, which has drawn 18 other Senators.

## The Bill of Indictment

The case against Iran, as detailed in the bill, has three main prongs: Iran is accused of developing weapons of mass destruction, specifically nuclear weapons; of government

support “for acts of international terrorism”; and of thwarting efforts toward a Middle East peace, through support for Hezbollah, al-Qaeda, and Hamas, and opposing U.S. “efforts to bring peace and democracy to Iraq.” Iran is also accused of having tested the Shahab-3 missiles, capable of hitting “both Israel and the United States troops throughout the Middle East and Afghanistan.”

One must point out, in response to these accusations, certain elementary facts of political reality. The Hezbollah party, as well as its militia organization, have been recognized by all political factions and figures in Lebanon, in the wake of the political crisis there, as an integral part of national institutional life, and an invaluable military defense against threatened Israeli aggression. As for al-Qaeda, it and its Afghan affiliate, the Taliban, have been historical enemies of Shi’ite Iran, having perpetrated terrorist attacks against Iranians. Offers by the Iranian government, to exchange information about al-Qaeda, and even leading members it had captured and imprisoned, with the United States, in exchange for the same regarding the U.S.-protected MKO/MEK anti-Iranian terrorist group, have gone unanswered.

The issue of Iran’s role in Iraq is not so simple. To be sure, Iran has a significant influence in post-Saddam Iraq, given that the majority Shi’ite faction which won the January elections, comprises, in large part, the Supreme Council for the Islamic Revolution in Iraq (SCIRI), a political organization and militia which spent more than a decade in exile in Iran. The supreme Shi’ite authority in Iraq, Iranian-born Ayatollah Ali Hussein al-Sistani, had insisted on the elections in the first place, and encouraged participation. He has regularly declared his opposition to the Iranian model for Iraq. The recent visit of Iranian Foreign Minister Kamal Kharrazi to Baghdad featured statements by him pledging Iran’s cooperation in border security, to prevent infiltration of militants into Iraq, and promising not to support the insurgency. Kharrazi’s expressed view is that Iran will work with the Iraq government in hopes that, after a Constitution has been drafted, passed, and elections have been held in that context, a real government can emerge which can end the occupation.

The main indictment against Iran, as formulated in the Senate bill, is that, behind the facade of a peaceful nuclear energy program, it is developing nuclear weapons. In a section of the Sense of the Congress regarding Diplomatic Assistance, the bill states: “(3) efforts to bring a halt to the nuclear weapons program of Iran, including steps to end the supply of nuclear components or fuel to Iran, should be intensified, with particular attention focussed on the cooperation regarding such program—

“(A) between the Government of Iran and the Government of the Russian federation; and

“(B) between the Government of Iran and individuals for China, Malaysia, and Pakistan. . . .”

As is well known, Secretary of State Condoleezza Rice, as well as President Bush himself, have pressured Russian President Vladimir Putin to cut off cooperation with Iran,



*Iran’s Bushehr nuclear reactor is under construction with Russian assistance, and more such projects are planned. U.S. Secretary of State Rice is pressuring Russian President Putin to cut off such cooperation, but Putin is not interested.*

which features the completion of the Bushehr nuclear plant, and plans for the construction of several more reactors.

The aim is to kill Iran’s entire nuclear program. A by-product would be the establishment of a regime of technological apartheid, whereby nations of the developing sector, whether “rogue states” or not, would be denied access to nuclear power. At the conference of the member nations of the Nuclear Non-Proliferation Treaty (NPT), held at the United Nations in early May, U.S. Assistant Secretary of State for Arms Control Stephen Rademaker demanded that the solution to “the Iranian nuclear problem . . . must include *permanent* cessation as well as *dismantlement of equipment and facilities related to such activity*” (emphasis added). Iranian Foreign Minister Kharrazi responded with a powerful defense of the right of all states, according to the NPT itself, to develop nuclear technology. (See “Bush Policy, Not Proliferation, Threatens World Security,” *EIR*, May 20, 2005.)

In its ongoing negotiations with the “EU-3”—Great Britain, France, and Germany as representatives of the European Union—Iran has maintained this position, rejecting demands to give up its uranium enrichment capabilities. Going into the talks scheduled for May 23, Vice President Gholamreza Aghazadeh, who is also head of Iran’s Atomic Energy Organization, said his country would never renounce this technology, even if it were subjected to sanctions. One of the leading negotiators for Tehran, Hossein Mousavian, said his government would continue its temporary suspension of uranium enrichment activities, for a few more months, if the EU were

prepared to offer incentives, such as the construction of ten more nuclear plants. However, cessation of these activities, not to mention the dismantling of existing facilities, is out of the question.

These are the parameters of the current tug-of-war between the EU and Iran. Those forces committed to using the nuclear issue as a trigger for military action against Iran, like the current Bush Administration, British Foreign Secretary Jack Straw, and their partners in Israeli Prime Minister Ariel Sharon's Cabinet, are moving according to a scenario whereby the talks between Europe and Tehran will end in a deadlock, and the issue will be referred to the UN Security Council.

According to the same scenario that was followed in the case of Iraq, the accusation that Iran is developing weapons of mass destruction will be laid out, and an ultimatum formulated, along the lines of what Rademaker said. A resolution will be drafted to this effect, concluding with threats of "all necessary action" to be taken, if the ultimatum were not met.

However, this time around, it may be that not all players will read from the same script. In astonishing remarks made to *USA Today* on May 17, UN Secretary General Kofi Annan warned against taking the Iran nuclear issue to the UN Security Council. "I think," he said, "were the Iran nuclear issue to be referred to the council, the members would have to be

keenly aware that any decision they make will set a precedent. Their action or inaction will have a great impact on future cases and on our efforts to promote nuclear nonproliferation." He added, "Not everything has to come to the Security Council," as there are other means of settling problems. Annan hinted that Russia and China could use their veto powers. Other unnamed diplomats echoed his view, saying that bringing the issue to the Security Council would be an insult to the other members of the Council, and there would not be a consensus for it.

Certainly it should not be assumed that President Putin would passively submit to UN Security Council action against Iran, a country which is not only a major trading partner, but a key ally in the Persian Gulf.

## The Israeli Factor

The third charge in the legislation against Iran is also quite telling: the fact that it has a rocket that can hit Israel. It is an open secret that Israel has hundreds of nuclear warheads and the capability to deliver them, and does represent a potential threat to Iran, among others of its neighbors. Why shouldn't Iran have the capability of defending itself?

The current Sharon government has made no bones about the fact that Iran is high on its hit list. Daily, statements come out of Tel Aviv and Jerusalem calling for action against Iran, including bombing its Bushehr plant, in a repetition of what the Israeli Air Force did in 1981, against Iraq's Osirak nuclear plant. On May 12, Israeli Defense Minister Shaul Mofaz told national television that the EU-Iran talks were doomed to fail. "The dialogue with Iran today is being held with the European troika. I do not think they will manage to halt the Iranian nuclear arms effort." He went on to say that Iran posed the greatest threat to Israel's existence with its nuclear aspiration and long-range missiles. Mofaz called on the United States to play a greater role: "The U.S., as the only superpower in the world, will have to lead the efforts against the Iranians. To bring it to the Security Council, to use diplomatic methods, to implement sanctions and demand greater more effective inspections."

According to an article by Aluf Benn in the May 13 Israeli daily *Ha'aretz*, the leading figure in that superpower who handles the Iran dossier, is Vice President Dick Cheney. Benn wrote that many "Israeli experts monitoring Iran's 'nuclear diplomacy' " believe that Iran will be "careful not to cross any red lines which would propel the Iranian nuclear issue into the UN Security Council." Iran is also "reluctant to become a pariah state." Nonetheless, Ariel Sharon does not share this view, and has been asking the Europeans to bring the issue before the UN Security Council. Benn noted: "U.S. Vice President Dick Cheney, who is in charge of the Iran file, supports Sharon's proposal."

In fact, during his last U.S. visit, in April, Sharon had lengthy discussions with Cheney, specifically on the Iran issue.

### COVERUP EXPOSED!

## The Israeli Attack On the 'USS Liberty'



"The Loss of Liberty," a video by filmmaker Tito Howard, proves beyond any doubt that the June 8, 1967 Israeli attack against the *USS Liberty*, in which 34 American servicemen were killed and 171 wounded, was deliberate. The video includes testimony from Liberty survivors, many Congressional Medal of Honor winners, and from such high-ranking Americans as Adm. Thomas H. Moorer, Adm. Arleigh Burke, Gen. Ray Davis, and Secretary of State Dean Rusk.

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## North Rhine-Westphalia Election

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# LaRouche Intervention: No 'Politics As Usual'

by Rainer Apel

The outcome of the May 22 State parliament elections in North Rhine-Westphalia will be decisive for the way politics develops in all of Germany. With its almost 18 million inhabitants, this largest state of Germany is home to more than 20% of the nation's electorate.

Should incumbent Gov. Peer Steinbrück of the Social Democrats (SPD) be defeated on election day, the state will come under the control of the opposition Christian Democrats (CDU), thereby giving the CDU a two-thirds majority at the Bundesrat, the upper house of the Federal Parliament. The CDU would then be able to block most of the legislative projects planned by the SPD-led national government of Chancellor Gerhard Schröder, and Germany would be ungovernable.

One week before election day in North Rhine-Westphalia, according to polls, the SPD and its Green party coalition partner were trailing the CDU and its Free Democrat Party partner by 5%, so that a defeat of Steinbrück by CDU top candidate

Jürgen Rüttgers seemed likely, even considering the fact that three weeks earlier, the CDU was ahead by 11%. The CDU is suffering from an erosion of popularity that has two main aspects, both of which have to do with the forceful political intervention of the LaRouche movement and its Civil Rights Movement Solidarity, or BüSo, party, which ran 41 candidates for the state Parliament.

A 20-member campaign squad of the LaRouche Youth Movement (LYM) contributed decisively to the CDU's troubles. In early March, the LYM e-mailed and faxed the first "Open Letter to the Voter," written by BüSo chairman Helga Zepp-LaRouche, to many local offices of the SPD and labor unions. In follow-up phone calls, the LYM found many open to a discussion about the BüSo's proposal for the re-industrialization of North Rhine-Westphalia.

The BüSo call for strict control of derivatives speculation, and for state-guaranteed issuance of industrial loans to create productive jobs, also met an interested response from SPD and labor union officials. By mid-April, this debate triggered by the BüSo/LYM had created the political environment which allowed SPD national chairman Franz Müntefering to launch harsh attacks on speculators and hedge funds, whom he likened, in an interview April 17, to "financial locusts." Like the locusts in the biblical plagues, Müntefering said, they descend upon firms and jobs and raze everything to the ground.

The heated public debate provoked by these remarks helped to create an even more intense discussion of the principle of the Common Good as the foundation stone for a modern and just state order nationally, and internationally.

This is an essential point of the BüSo, in promoting the LaRouche proposal for a New Bretton Woods financial architecture.

In two articles published April 20 and 22, the *Frankfurter Allgemeine Zeitung* daily, the chief mouthpiece of the "City of Frankfurt" bankers and monetarists, noted that LaRouche was the key factor behind the revival of a debate, in the U.S. as well as in Germany, about Rooseveltian New Deal concepts. In particular, the daily commented that the BüSo was intervening forcefully into election campaign events of the SPD, apparently with the impact illustrated by Müntefering's remarks.

Frustration among SPD voters and members at the Schröder government's monetarist policies is, however, immense, and the Müntefering move did not remoralize the Social Democrats to the extent that they would be reactivated in large numbers during the remaining weeks of the election campaign. However, the debate has para-



*LaRouche movement organizers in Aachen, North Rhine-Westphalia, on March 14. The party sparked a nation-wide debate on the economic policy crisis.*

lyzed larger sections of the CDU, especially those that dislike the party's top candidate, Rüttgers, for his radical budget-cutting propaganda, and therefore, the CDU election campaigning was slowed down.

### The Schwarzenegger Effect

The drastic drop from a CDU lead of 11% over the SPD, to only 5%, within the last four weeks of the campaign, is generally attributed, by CDU party members and voters alike, to the increasing unpopularity of Rüttgers. And that also has to do with the second initiative launched by the BüSo/LYM concerning Rüttgers's enthusiasm for California Gov. Arnold Schwarzenegger, who is on the record for his pro-Hitler remarks. Rüttgers was the target of a cartoon that was popular, not only at campaign events of the SPD, but at those of the CDU as well. The cartoon gave the latent anti-Rüttgers sentiment among voters the right name at the right time.

The leverage which the BüSo/LYM campaign developed, was paid prominent tribute in an election special of the main state electronic media, Westdeutscher Rundfunk, which in early May portrayed the BüSo as "a small party with a seismographic capacity." The BüSo also received positive coverage in the state's leading news daily, the *Westdeutsche Allgemeine Zeitung*, which on May 13 wrote: "The Bürgerrechtsbewegung Solidarität (BüSo) is the only party in Germany that campaigns for the reindustrialization of the Ruhr Region into a powerhouse for technology."

But programs alone, good as they may be, cannot transform the political scene sufficiently in a state like North Rhine-Westphalia, the electorate of which has been forced through more than 30 years of de-industrialization. The former powerhouse of the productive German industry is now a region with more than 1 million unemployed, while 70% of those who still have a job are working in the service or entertainment/media sectors. From their state of depression and frustration, voters can be elevated only through Classical culture, through irony—which is what the LYM has done, in direct contrast to the counterculture presented by the other parties.

The LYM has played Classical music from their campaign sound cars, and has sung Classical and traditional songs with modified lyrics. For example, the miners' anthem, "Glück-auf," was used in the BüSo campaign television spot, with new words. One of the favorites is the LYM song, "Hört doch endlich auf zu jammern, sei nicht länger Untertan," which means, "Once and for all, stop that complaining, stop being the serf that you have been." American spirituals like "Oh, Freedom" also are popular in the campaign.

The outcome of the election will influence the rest of Germany through changes in the SPD-CDU national balance of power. But the debate on the essentials of economic and financial policy, which the LaRouche movement has catalyzed, is the most important achievement of the election campaign.

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## Interview: Elke Fimmen

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# LaRouche Forces Take On The Neo-Cons in Germany

*Elke Fimmen, a long-time leader of the LaRouche movement in Germany, was one of the authors of Deutschlands Neocons: Wer führt den neoliberalen Grossangriff auf den sozialen Bundesstaat? (Germany's Neo-Cons: Who is out to destroy the federal social state?), a book released in January by the Civil Rights Movement Solidarity party (the BüSo). She replied on May 18 to written questions submitted by Katherine Notley.*

**EIR:** There is a big fight in Germany now, typified by Social Democratic Party Chairman Franz Müntefering's defense of the German Basic Law articles, that make the general welfare the state's prime responsibility, even over so-called "property rights." It states that property's primary responsibility is toward the general welfare.

The BüSo's book came out quite a bit before the public fight broke out over Article 20 as the pillar of Germany's "social market economy." Tell us, what sparked the decision to write this book?

**Fimmen:** This need to defend the German Constitution, the *Grundgesetz*, and its pivotal organization around the concept that Germany is a "democratic and social Federal state" (Article 20) was exactly the key argument of our book. Back in January, we were the only ones attacking by name those financial predatory speculators, who with globalization are determined to eliminate the principle of the common good and the institutions of representative government, and go for the imposition of fascism again. In our book we expose the international financial interests behind these various neo-con and neo-liberal "reform" front organizations, and attack the supranational International Monetary Fund and European Union/Maastricht dictatorships, which are ensuring the primacy of so-called "independent central banks" and their monetarist dictates.

Most important, in the beginning of this year, the LaRouche Youth Movement (LYM) and BüSo, which is led by Mrs. Helga Zepp-LaRouche, started an election campaign in the former industrial heartland of Germany, the state of North Rhine-Westphalia, to put forward our program for productive state credit generation to reindustrialize the Ruhr area, and revive this area as a motor for an overall reindustrialization of Germany—a New Deal Policy for Germany, in the context of a New Bretton Woods financial system. We challenged the Social Democratic Party [SPD] to stop its suicidal



austerity policies, and defense of globalization. Also, the danger of bankruptcy of GM and Ford was put on the table, since both firms—Opel in Bochum and Ford in Cologne—employ thousands of German workers, and a collapse of both firms in the United States would be a tsunami for Germany, as well!

Then, in April, in the context of the intensifying financial instability around GM and Ford and the other speculative debt bubbles, SPD Chairman Müntefering finally broke the neo-liberal, monetarist dominance in Germany: He attacked the international hedge funds and mega-speculators as “locusts,” which destroy the productive capacities of nations, and he identified some of these funds by name, which obviously drew a huge outcry from the relevant people. He also put the debate on a principled level, as we had been demanding all along, by referring to the German Constitution, which says that “property obliges”—that is, whoever has property, is also obliged to serve the common good with it. Violation of this principle can even lead to expropriation. Round-tables, talk shows, the media, starting from morning radio to the late evening news, had lulled people into belief in the “inevitability” that there is “just no alternative to reforms and globalization”: that people just have to accept job and/or income losses, drastic social cuts, and so on.

It should be also mentioned, that in this situation, various politicians began to quote the social encyclicals and the late Pope John Paul II, to underline that “man belongs at the center of economics,” and that it is the “image of man” which is at stake here. It was only the BüSo up to that point that had been formulating these views in the public debate.

While all of this is very important, the real concern of the international financial synarchists, is to stop the LaRouche “New Deal” policy from being implemented. At the end of April, the mouthpiece of the Mont Pelerin Society in Germany, the *Frankfurter Allgemeine Zeitung*, launched two articles in a row, attacking Lyndon LaRouche by name for having reinvigorated the FDR New Deal concept again in the United States, and BüSo Chairwoman Helga Zepp-LaRouche for having introduced this dirigistic concept of state credit generation into Germany. The article’s author quite hysterically accused the SPD of reviving the New Deal, which he calls “polite fascism”!

This freak-out appeared in the context of reviewing a new book that equates FDR’s New Deal with Hitler’s and Mussolini’s fascism, and refers to the “fear for democracy” of FDR’s opponents in the U.S. back then. This is nothing but propaganda by Friedrich von Hayek’s fascist Mont Pelerin Society, which did everything possible to sabotage the original post-World War II Bretton Woods arrangement; and the opponents of FDR in the 1930s were the very Morgans, Mellons, Harrimans, Prescott Bush, and the infamous Dulles Brothers, who helped to install the fascist regimes in Europe.

In fact, it is quite interesting, that the key “reform” think-tank in Germany, pushing for destruction of the social state, is the international Bertelsmann media conglomerate and its



*Elke Fimmen (right) with Helga Zepp-LaRouche. The LaRouche party in Germany, the Civil Rights Movement Solidarity (BüSo), has taken off the gloves in its campaign against the German neo-conservatives.*

foundation, which for years had employed a house historian, who wrote two books attacking Roosevelt as being responsible for World War II. He also hushed up the company’s own big business during the Nazi period, which continued after World War II with a British license.

So, it is quite obvious, that the LaRouche-led fight of the Democratic Party against Bush’s privatization rip-off of Social Security, the reference to the principles of FDR’s policies, and the overall growing resistance to the fascist imperial policies of the current U.S. Administration, are the crucial factors in creating maneuvering room and optimism in Germany, as in other countries. The situation is now wide open to shift Germany, which is of strategic importance for the situation in all of Eurasia, into the direction of the LaRouche-New Bretton Woods orientation, which is what the BüSo and LYM are working on at present.

**EIR:** Tell us about the history of the German neo-cons. Who are their friends, both in Europe and the United States? How do they collaborate?

**Fimmen:** It is important to realize, that in the U.S. fight against the neo-cons and their efforts to steal Social Security on behalf of Wall Street, in Germany, we are basically dealing with the same networks. The fight is centered on the same pivotal question: Will the present systemic breakdown of the world financial and economic system be “solved” by new wars, even nuclear ones, and imposition of fascist dictatorships as in the ’30s, or will a New Bretton Woods System create the framework for a new, just world economic order? As Lyndon LaRouche demands, only an orderly reorganization of a bankrupt financial system and a dirigistic restarting

of the productive economy provide a safe way out of the crisis. Only in this way can the common good principle, which sovereign nation-states should be based upon, be re-established and defended.

Of course, there is a close connection between the U.S. neo-cons and the German neo-con crowd, which wants to topple the Schröder government as soon as possible. The chairman of the leading opposition party, the Christian Democratic Union [CDU], is Cheney admirer Angela Merkel. And Jürgen Rüttgers, the CDU leader of North Rhine-Westphalia, and Bavarian Gov. Edmund Stoiber are great fans of California Gov. Arnold Schwarzenegger. Stoiber recently visited Schwarzenegger in California, and both agreed on the need for brutal austerity policies through “balanced budgets.” Both share the same Mont Pelerinite, free-market outlook, as exemplified by Milton Friedman and von Hayek. Schwarzenegger promised to visit Germany this Summer, and also wants to come to Bavaria, where he started his body-building career decades back. Of course, there are also joint elements of control over both politicians, above all in the media and film industry. So, the quicker the LaRouche movement succeeds in sinking this George Shultz asset [Schwarzenegger], the better for Germany.

Let’s take another recent example of the dangerous alliance between U.S. neo-cons and their German followers: Recently Count Lambsdorff, European chairman of the Trilateral Commission, invited Henry Kissinger to the party congress of the German Free Democratic Party [FDP], where Lambsdorff and another prominent German neo-con, Margareta Mathiopoulous, endorsed a declaration of support for preventive wars as part of the party’s platform. At the same congress, party chairman Guido Westerwelle attacked the German trade unions as “a plague.”

Lambsdorff is a prominent member of one of the many key “reform” organizations, the Assembly for Germany (Konvent für Deutschland), headed by former German President Roman Herzog, pushing for a change of the “outdated” German Federal and social-based constitution. The chairman of the board of this organization is international management consultant Roland Berger, who, besides having advised many firms and state institutions how to “reform”—that is, lay off people and go for deregulation and privatization—also played an important role in the change from an industrial to a “service sector” economy. Berger, among other things, represents in Germany the French management and consulting firm Publicis, on whose consultative board we find key representatives of influential private financial interests such as Michael David Weill of Lazard Frères, and well-known LaRouche-hater Felix Rohatyn, formerly also with Lazard, now Rothschild & Cie. A partner of Rohatyn both in the Rothschild Bank and Publicis is Gerard Worms. Both Lazard and Banque Worms in the 1930s and ’40s played a role in what former OSS [Office of Strategic Services] agent Langer reported about in his 1947 book, *Our Vichy Gamble*, on the synarchist conglomerate of

companies, banks, and governments in Europe.

In our book we have exposed these international synarchist financial interests, including their foundations, as a Conservative Revolution, a new variant of the same financial circles, which in the ’30s wanted to preserve their control over the the bankrupt Versailles debt system by any cost. Also today, in order to protect an already bankrupt financial system, international financial sharks are destroying the institutions of the nation-state, to loot still existing productive industrial potential, and to rob the liquidity of the state social, health, and pension systems under the banner of “globalization.” In Germany, these social security systems date back to the time of Bismarck. They were implemented in the context of a shift in European nations to the Lincoln-Carey industrial perspective of the United States, to collaborate for great infrastructure projects in Eurasia and to defeat the British “free-trade” imperial policies. Also, this was the time that the first social encyclical *Rerum Novarum* provided a crucial moral backbone to these efforts. The German state social system has served as a role model for many nations during the last century.

**EIR:** The BüSo election campaigns are dragging these neo-cons’ attacks on the General Welfare principle out into the light. Can you tell us more about this?

**Fimmen:** At the beginning of 2004, at the European Party Congress of the BüSo for the European parliamentary elections, Helga Zepp-LaRouche had declared war on those foundations and private financial interests, that want to destroy the social state and abolish the responsibility of elected representative institutions of government: Meinhard Miegel of the Bürgerkonvent (Citizens Assembly), Roland Berger of Konvent für Deutschland, Hans Tietmeyer of the New Social Market-Economy Initiative (INSM) [see Elke Fimmen, “Hans Tietmeyer’s ‘New Social Market-Economy Initiative’—Cui Bono?” *EIR*, Dec. 10, 2004], among others. These organizations are comparable to the Cato Institute, Atlas Foundation, or Heritage Foundation, which are offsprings of the Mont Pelerin Society, and are used by people like George Shultz and Arnold Schwarzenegger to push through brutal austerity cuts and social deconstruction to produce income streams for Wall Street.

In Spring and Summer of 2004, an unprecedented barrage of social cuts, attacks on trade union rights, and calls for change of the supposedly outdated constitution emerged in Germany, culminating in the infamous Hartz IV labor laws, which reduced the unemployment benefit claims of millions to an absolute poverty level, forcing them to take any jobs at whatever pay, and to spend their savings before getting a penny from the state—and all of that in an ever-collapsing economy. So, Helga Zepp-LaRouche issued in June her famous call to restart the “Monday Demonstrations,” which had brought down the unjust system of the former Communist East Germany in 1989. In effect, these demonstrations, which first were organized solely by the BüSo, in the context of the

Saxony state parliamentary campaign, gained such momentum, that by Autumn, millions of people all over the East of Germany—which was hardest hit by the Hartz IV laws—but also in the West, were out in the streets protesting.

Suddenly, just when the BüSo-inspired Monday Demonstrations had reached a new peak, there was an unprecedented selling of European state obligations by Citigroup on the London EMTS platform on Aug. 2, preceded by the open threat to downgrade German state securities by the rating agency Standard & Poors, if the German government would not stay its course! Then, on the weekend of Oct. 2-3, 2004, one-page ads appeared in leading German papers which urged Chancellor Schröder not to change his suicidal “reform course” at all costs. It was signed by about 60 top managers of insurance and management firms, bankers, and journalists, who did not identify their positions, however. Ironically, the call was titled “‘We are also the people!’”<sup>1</sup> We then investigated the background of these persons, and found a hilarious “right” and “left” cross-section of financial interests, as is the essence of synarchism.

Among the signers of this ad was a leading representative of Russell Reynolds Associates, a huge international consulting firm, whose top executives include Jonathan Bush, uncle of President George W. Bush, chairman of J. Bush & Co., one of the Pioneers (top financial contributors) of the Bush campaign, and a member of the executive of Riggs Bank! Another signer was Philip Caldwell, ex-president of Ford Motor Company and former member of the executive board of Lehman Brothers, Inc. The managing director is Hobson Brown, formerly vice president of Morgan Guaranty Trust Company. And on the advisory board is Robert V. Lindsay, former president of J.P. Morgan and Co.

The research into this operation was the stepping-stone for a series of articles on these networks in our German weekly paper, *Neue Solidarität*, which were widely circulated. We developed other historical material on Hitler’s Economics Minister and Reichsbank President Hjalmar Schacht and his Anglo-American backers, such as Montagu Norman, the chairman of the Bank of England; on John Foster Dulles, who represented the House of Morgan and later the U.S. side of the Nazi cartels; the role of the Bank for International Settlements (BIS); and the synarchist background of today’s international neo-Nazi movements. And we decided we would publish this material as a book, as part of our fight to expose the ghouls behind the looming danger of fascism, and to prevent fascist “regime change” in Germany. So, seen in the context of our overall international fight, we can say, that the first 4,000 copies, which were sold in a very short period, had a catalytic effect on the change of the political debate in Germany.

**EIR:** Why would the neo-conservatives, who are constantly

1. A reference to the slogan of the freedom movement in East Germany in 1989, “*Wir sind das Volk!*” (“We are the people!”).



polemicalizing against government regulation, be such staunch defenders of the strict regulations of the Maastricht Treaty and its Stability Pact’?

**Fimmen:** The answer is quite simple: The Maastricht Treaty and the Stability Pact are both instruments created by private financial interests, which through “independent central banking” like the European Central Bank, try to exert complete control over the policy of sovereign governments. These circles, as ideologically represented by the Mont Pelerin Society of Friedrich von Hayek and Milton Friedman, are absolutely hostile to the very idea of government’s dirigistic policies to favor the real economy and the common good, let alone the idea of “national banking.” European governments do not have the same power as the U.S. government, whose Constitution gives it the right to create state credit in order to promote the General Welfare.

One of the key enforcers of the Maastricht austerity regulations has been Hans Tietmeyer, former president of the German Bundesbank. Tietmeyer ensured that the “independen-

dence” of the European Central Bank would remain untouched, when the crucial negotiations about Europe’s future took place. He also advocated the additional implementation of the so-called ‘Maastricht criteria,’ which force the nations to observe a strict austerity policy and balanced budgets. Apparently as a “thank-you” for his services, the Bank for International Settlements named Tietmeyer its vice-chairman in 2003. He was also invited to join the board of Lazard Frères Germany, whose chairman is former U.S. Ambassador John Kornblum. Lazard Frères is number one in Europe for “mergers and acquisitions,” and was also instrumental in a failed pilot project in the east German city of Stralsund, to privatize the public savings and loans banking system.

In 2000, Tietmeyer funded the Initiative New Social Market Economy (INSM), which is one of the key, extremely well-funded foundations pushing for destruction of the social welfare principle and a ruthless continuation of “reforms.” In this initiative, you find people like international management consultant Roland Berger; historian Arnulf Baring, who repeatedly expressed his regret for the present lack of Article 48 of the Weimar Constitution, which enabled rule by “emergency decree” in the Weimar Republic [thus paving the way for Hitler]; and Dr. Hans Barbier, an economic journalist of the *Frankfurter Allgemeine Zeitung*; and the president of the CDU’s Ludwig Erhard Foundation, just to name a few. You also find a member of the board of the Friedrich August von Hayek Foundation, Dr. Lüder Gerken.

Another illustrative example of how these organizations are doing the dirty work for big private banks and insurance companies, to eliminate any government regulations that would hinder their looting operations, is the Citizens Assembly of Nietzsche-admirer Meinhard Miegel. This organization is extremely well funded—6 million euro per year, without any sources of financing being published. Its advertising is run by a firm called Abels and Grey, an official partner of RAND Corporation Europe. The organization is profiled around the radical Jacobin posture of Newt Gingrich’s 1994 Conservative Revolution: against the “incurable” corruption of big government and elected parliamentary representatives, as well as against unions, which are called “special interests.”

Miegel and his friend, former CDU General Secretary and Governor of Saxony Kurt Biedenkopf (a member of the Trilateral Commission), studied with German emigré and cartel law specialist Heinrich Kronstein, who after 1937 worked for the U.S. Justice Department and played an important role in the postwar break-up and reorganization of German industry. Both are members of the Global Aging Commission of the Center for Strategic and International Studies (CSIS) at Georgetown University in Washington. This organization plays a key role internationally in pushing the “reform,” that is, privatization, of European and Asian pension systems, which they call of “strategic interest.” Speakers at their conferences include representatives of the world’s financial and insurance giants, such as Prudential, Nationwide Global,

Watson Wyatt, Citigroup, Allianz, or Deutsche Bank. In Berlin, in May 2002, the CSIS organized a conference on “Pension Reform and Its Effects for Germany and Europe.” This was sponsored by U.S. insurance giant Nationwide Global, Deutsche Bank, and the American Council of Life Insurers. Participants praised the “Riester reform” as a first, symbolic step away from the state-run pension system, but pushed for going much further. Apart from leading representatives of CSIS, John Kornblum also attended, as well as Patrick Liedtke, general secretary of the Geneva Association, which unites the largest worldwide insurance companies. He is also an executive member of the Club of Rome. The European co-chairman of this initiative is former U.K. Social Welfare Minister in the first Blair government, Frank Fields, a fervent admirer of José Piñera—the architect of the destruction of Chile’s pension system and a good friend of Wall Street banker John Train.

Lastly, just to give a flavor of the mind-set of these people: In a two-page article in the weekend edition of the *Financial Times* of Nov. 28, 2004 about Miegel and his Citizens Assembly, he “foresaw” a *Götterdämmerung* [Twilight of the Gods] coming, because neither politicians nor the people are capable any longer of solving problems rationally. There is no luxury any more of a smooth change, he declared categorically. The German “economic miracle,” according to him, was an “error of history,” which cannot be repeated. The “Europeanization” of the whole Northern Hemisphere must necessarily come to an end. And, most important, he claims that the population growth in Europe which occurred after the Peace of Westphalia in 1648 has irreversibly come to an end, and with it the existence of those state institutions, as we know them, our culture and our economic growth!

**EIR:** What else would you like to tell our readers?

**Fimmen:** In the BüSo campaigns, both in Saxony last year, and in North Rhine-Westphalia now, we succeeded in introducing the crucial element of cultural optimism, in particular about the potential to shift the situation in the United States. Now, we see the reflections of this potential, including the situation in Italy, where parliamentarians were the first to pass a resolution calling for a conference for a new world financial system, based on production and development instead of speculation, inspired by Lyndon LaRouche’s proposals. Helga Zepp-LaRouche now has initiated an Ad Hoc Committee for a New Bretton Woods, to internationalize this fight. With a revival of the American System of Economics, as represented in Germany, for example, by Friedrich List during the 19th Century, we can put the image of man as a unique creative being right back into the center of the economic and political debate, where it belongs, and defend the constitutional institutions, which have to protect this image of man. In the current escalation of the financial breakdown, let us put the ghouls of the past into the cellar of antiquity, and jointly create a new future for mankind.

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# International Intelligence

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## ***Korean Elites Turning to LaRouche As Crisis Hits***

Enveloped in a global economic crisis and a deadly strategic crisis unleashed by the Bush Administration, key sections of the South Korean political, military, and economic establishment are carefully studying the proposals and ideas of U.S. economist Lyndon LaRouche as a pathway out of the crisis.

So reports *EIR* Asian correspondent Kathy Wolfe, after a ten-day trip to Seoul in May. Her trip included meetings, seminars, press interviews, and the publication of a report on a seminar she gave in the influential *Mahl* magazine.

The *EIR* visit to Korea took place as the United States was launching a new set of provocations aimed at disrupting efforts to seek a peaceful solution to the North Korean nuclear crisis, as reports circulated of U.S. plans to strike North Korean targets in the near future. The provocations coming from Washington have created a de facto break in the decades-old alliance between the two nations, and many South Korean leaders accurately see themselves and South Korea as being as much as a target for the U.S. as North Korea.

Behind that insight is the recognition that LaRouche has been right about the collapse of the world monetary system, which is coming down around the heads of Asian nations. Top Korean banking officials reported that Korea was fed up with the policy of the U.S. Administration and Federal Reserve, and they are openly supportive of creating a new fixed-exchange-based monetary system, like the one proposed by LaRouche.

However, when they bring this up, they said, U.S. monetary officials threaten the Koreans—who hold enormous amounts of dollars and Treasury bills—with war.

Most important, in Korea, as well as in Japan, there is a wrongheaded view of the great power of the Bush Administration. *EIR*'s message was to explain how Bush is in fact already a "lame duck," although a dangerously insane one, whose political power is under attack and chal-

lenged by a Democratic Party invigorated by LaRouche. This part of *EIR*'s report to the Korean elites was eagerly greeted, giving many of them renewed hope.

In a presentation at the Korean Defense University, in a public *EIR* seminar in Seoul, and as a guest speaker before leaders of the peace movement, including members of the South Korean Congress, Wolfe laid out LaRouche's programs in his *Earth's Next 50 Years* book.

The key to peace on the Korean peninsula, she explained, lies in the "Treaty of Westphalia approach."

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## ***Argentine President Says 'Government Won't Waiver'***

Argentina has "a government and a leadership which under no circumstances will waiver in the defense of national interests, and they shall do it with dignity, strength and rationality," Argentine President Néstor Kirchner told railway maintenance workers at the EMEPA plant in Chascomus, Argentina.

Kirchner commented on the International Monetary Fund's May 18 decision to grant a one-year postponement of \$2.5 billion in debt payments. That postponement was obtained, he said, "despite all the pressure we have suffered from multilateral [lending] agencies, which we hope understand the responsibility they had in Argentina's crisis."

The Argentine President harshly attacked those opinion-makers, economists, and professional analysts "who frequently appear to ignore reality." Reality is that the Argentine people are making an extraordinary effort, as indicated by the skilled Chascomus railroad workers whose work is "a clear signal that the nation is on the move again. . . . Our objectives are absolutely clear, but difficult: Try to consolidate our faith that we can do it, and try to understand where we came from—to get beyond the hell of an Argentina that was falling apart before our eyes," Kirchner said.

In another speech, commemorating Navy Day, May 17, Kirchner said: "We are working for an Argentina in which coasts, [river] basins, ports, waterways, platforms and oceans can become productive channels of a flourishing, just and strong nation."

Commenting on the ruins and shambles of the state left by the free market: "We have the patriotic duty to rebuild, to once again create, to dream, and definitely to love what we do, to believe in ourselves. . . . If our efforts can be useful to the nation of our children, then let them not be a burden to us."

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## ***Russian President Offers Nuclear Reactors to India***

During his visit to Russia in early May, Indian Prime Minister Manmohan Singh was reportedly told by Russian President Vladimir Putin not to count Russia out as a future potential supplier of nuclear reactors. The Indian Prime Minister told Putin that India plans to respond positively to the U.S. offer of nuclear reactors put forward recently by U.S. Secretary of State Condoleezza Rice.

Putin pointed out that Russian reactors were among the top three in the world in performance and safety features.

An Indian source told *EIR* that Putin said that India's nonproliferation record ought to be held up as an example before the world. He also made it clear that while Russia has no intention of violating the Non-Proliferation Treaty by giving nuclear technology to India, it was also committed to being its partner in the area of critical application of nuclear technologies.

India has developed the full nuclear fuel cycle, and has several types of reactors in its nuclear power plan. But the overall contribution of nuclear power to India's power grid is still insignificant. The nation is developing pressurized water reactors, heavy water reactors, and fast breeder reactors. Its new advanced heavy water reactor will use thorium-232 as a fuel, which is more plentiful in India than uranium.

# LaRouche: Shut Down Senate If Cheney Goes Nuclear

by Edward Spannaus

If Dick Cheney tries to ram through a Senate rule change to cut off a filibuster, the Democrats should shut down the Senate until the next election, Lyndon LaRouche said on May 20; LaRouche was speaking as the word went out that Cheney and Senate Majority Leader Bill Frist were planning to trigger the so-called “nuclear option” on May 24. This would mean that Cheney is illegally trying to change the rules of the Senate with a simple majority vote, when the Senate rules clearly require 67 votes for such a measure.

“Cheney is out of order if he doesn’t have 67 votes,” LaRouche said. “That’s the end of the procedure. Shut down the Senate at that point.”

LaRouche said that an effort to change the rules, without the 67 votes, would be a coup d’état. “They’ve violated the Constitution, and you cannot continue business in the Senate as long as they’re doing that.” In the extreme case, the issue must be referred to the outcome of the next general election.

## Triggering the Nuclear Option

The fuse for the Cheney-Frist nuclear option was lit on May 18, when Frist brought to the floor, two of the most controversial Bush judicial nominations, Priscilla Owen of Texas, and Janice Rogers Brown of California.

As the debate opened, many Senators noted that what distinguishes the Senate from the House of Representatives, is that the Senate protects the rights of the minority, whereas the House is a majoritarian body. That the Framers of the Constitution gave the Senate, and not both houses, the responsibility of “Advice and Consent” on Presidential nominations, indicates that the Framers wanted the minority’s voice to be heard. Throughout the entire history of the Senate, one of the means by which the right of the minority has been protected, has been the right of extended debate, popularly known as the filibuster.

In his opening statement, Senate Democratic Leader Harry Reid declared that “the right to extended debate is never more important than when one party controls Congress and the White House,” adding that, “in these cases, the filibuster serves as a check on power and preserves our limited government.”

“Right now, the only check on President Bush is the Democrats’ ability to voice their concern in this body, the Senate,” Reid continued. “If Republicans roll back our rights in this Chamber, there will be no check on their power. The radical right wing will be free to pursue any agenda they want, and not just in judges. Their power will be unchecked on Supreme Court nominees, the President’s nominees in general, and legislation such as Social Security privatization.”

Sen. Patrick Leahy (Vt.), the ranking Democrat on the Senate Judiciary Committee, put it this way: “The Senate was intended to keep the Executive from acting like a king.” Leahy labelled the moves by the White House and Republican leadership as “an abuse of power to advance a power grab,” and he charged that this is not an isolated incident: “It is part of a sustained effort by this Administration and partisan operatives in Congress, to consolidate power in one branch, the Executive branch, and ignore our Constitutional history of three separate branches acting as checks and balances on each other.”

At a Democratic press conference the same day, Sen. Ken Salazar (Colo.), got it right, when he charged that efforts to assert absolute control over all branches of the Federal government constitute an effort “to transform our democracy . . . into essentially a dictatorship.”

## Dictatorial Rule

LaRouche has warned, from the beginning of this Administration, that under conditions of financial crisis, we would

see the Administration moving toward dictatorial, emergency rule. We saw the police-state measures—dragnets and round-ups—that followed 9/11, and the stampeding of a frightened Congress into passage of the Patriot Act.

We have seen the repeated assertions that the President can ignore Congress and U.S. treaty obligations, such as the Geneva Conventions and the Federal Anti-Torture Act, when he is acting in his capacity as Commander-in-Chief in wartime. It is well known, that Dick Cheney and his legal counsel David Addington have been the chief promoters of this doctrine within the Administration.

The issue in the current Senate fight is not the particular appellate court nominees—as undesirable as they might be. Nor is it even the larger issue of the anticipated vacancies on the U.S. Supreme Court, one or more, that will likely emerge at the conclusion of the present term this Summer. The issue is an overall fascist assault on the U.S. Constitution. The fact that the appellate court nominees who are chosen by the Administration in the showdown are all avowed fascists, who are dedicated to the dismantling of the entire New Deal legacy of FDR, is but an indication of the larger issue at stake.

On May 19, Frist announced that he would file a motion to cut off debate—known as a “cloture” motion—on May 20, and that the cloture vote would be set for May 24. Under Senate rules, 60 votes are required to cut off debate. But the presiding officer, who would probably be Vice President Cheney, is expected to “rule,” pushing the Senate Parliamentary aside, that the 60-vote requirement is “unconstitutional” with respect to judicial nominees. At that point, as many Democrats have pointed out, Cheney has to break the rules to ram through the rule-change, since a rule-change motion is itself subject to filibuster, and requires two-thirds, or 67 votes, to cut it off.

If Cheney tries to bypass the 67-vote rule, the coup is on, and Senate Democrats and honest Republicans must act accordingly.

*For background on the “nuclear option,” see EIR, May 6 and May 20, 2005. Contact the author at edspannaus@larouchepub.com.*

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## Documentation

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### Senate Debate, May 18

**Senate Minority Leader Harry Reid (D-Nev.):** Mr. President, the right to extended debate is never more important than when one party controls Congress and the White House. In these cases, the filibuster serves as a check on power and preserves our limited government.



*Sen. Harry Reid: “ “Right now, the only check on President Bush is the Democrats’ ability to voice their concern in this body, the Senate. If Republicans roll back our rights in this Chamber, there will be no check on their power.” ”*

Right now, the only check on President Bush is the Democrats’ ability to voice their concern in this body, the Senate. If Republicans roll back our rights in this Chamber, there will be no check on their power. The radical rightwing will be free to pursue any agenda they want, and not just in judges. Their power will be unchecked on Supreme Court nominees, the President’s nominees in general, and legislation such as Social Security privatization.

Of course, the President would like the power to name anybody he wants to lifetime seats on the Supreme Court and other Federal courts. . . . Basically, that is why the White House has been aggressively lobbying Senate Republicans to change Senate rules in a way that would hand dangerous new powers over to the President over two separate branches—the Congress and the judiciary—and he and his people are lobbying the Senate to break the rules to change the rules.

I am sorry to say this is part of a disturbing pattern of behavior by this White House and the Republicans in Washington, especially the leadership.

From Dick Cheney’s fight to slam the doors of the White House so the American people are kept in the dark about energy policy while the White House has the lights turned on—between the public interests or the corporate interests, it is always the corporate interests—to the President’s refusal to cooperate with the 9/11 Commission, to Senate Republicans’ attempt to destroy the last check in Washington on Republican power, to the House majority’s quest to silence the minority in the House, Republicans have sought to destroy the balance of power in our Government by grabbing power for the Presidency, silencing the minority, and weakening our democracy. . . .

For 200 years, we have had the right to extended debate. It is not some “procedural gimmick.” It is within the vision of the Founding Fathers of this country. They did it; we didn’t



*Sen. Patrick Leahy (D): "The Senate was intended to keep the Executive from acting like a king."*

do it. They established a government so that no one person and no single party could have total control. . . .

**Sen. Charles Schumer (D-N.Y.):** We are on the precipice of a crisis, a constitutional crisis. The checks and balances which have been at the core of this Republic are about to be evaporated by the nuclear option, the checks and balances which say if you get 51% of the vote, you do not get your way 100% of the time. It is amazing. It is almost a temper tantrum by those on the hard right. They want their way every single time, and they will change the rules, break the rules, misread the Constitution so they will get their way.

That is not becoming of the leadership of the Republican side of the aisle, nor is it becoming of this Republic. That is what we call abuse of power.

There is, unfortunately, a whiff of extremism in the air. In place after place, the groups that were way out of the mainstream with their disproportionate influence on the White House and the Republican leadership in this Senate seem to push people to abuse power. . . .

I make a plea. It is to the seven or eight Republicans on that side of the aisle. Every one of them has told us they know the nuclear option is wrong. It is a plea to have the courage to stand up for what is right. There are many others of our colleagues on the other side of the aisle who have already said they know the nuclear option is wrong, but they say they cannot resist the pressure. . . .

Judges are now under siege. Our Constitution is under attack. Our precious system of checks and balances is under assault. Some of my colleagues seem to have forgotten we in the Senate have a constitutional role to play, and we will. The Founding Fathers did not intend us to march lockstep like lemmings behind every Presidential appointee no matter how many times he or she is put before the Senate. . . .

What about abuse of power? . . . If there ever was some-

thing that signified an abuse of power, a changing of the rules in midstream simply because you could not get your way on every judge, it is this nuclear option. There is now a desperate attempt on the other side of the aisle not to call it the nuclear option, but it was my colleague from Mississippi, the former Majority Leader [Trent Lott], who gave it that name—with justification. You won't change the name. To call it the constitutional option is hypocrisy. There is nothing in the Constitution that talks about filibuster or majority vote when it comes to judges in the Senate.

It is a nuclear option because it will vaporize whatever is left of bipartisanship and comity in the Senate. . . .

## Senate Debate, May 19

**Senator Reid:** Mr. President, I have addressed the Senate on several occasions to do what I believe is setting the record straight about Senate history and the rules of this body. But, frankly, I would much rather address wage and health-care costs, bringing down gas prices, talk about education, spiraling deficits we have. But the Majority Leader has decided we will spend this week and next week, or at least part of next week, talking about judges who I believe, Mr. President, are not in the mainstream of American jurisprudence. . . .

The Senate is not a rubber stamp for the Executive branch. Rather, we are the one institution where the minority has the voice and ability to check the power of the majority. Today, in the face of President Bush's power grab, it is more important than ever. Republicans want one-party rule. The Senate is the last place where the President and Republicans can't have it all. Now the President wants to destroy our checks and balances to assure that he does get it all.

That check on his power is the right to extended debate. Every Senator can stand on behalf of the people who have sent them here and say their piece. . . .

The Senate is a body of moderation. While the House is the voice of a single man, single woman, and the House of Representatives is a voice of the majority, the Senate is the forum of the States. It is the saucer that cools the coffee. It is the world's greatest deliberative body. How will we call this the world's greatest deliberative body after the majority breaks the rules to silence the minority? Breaking the rules to change the rules. This vision of our government—the vision of our Founding Fathers—no longer suits President Bush and the Republicans in the Senate. They don't want consensus or compromise. They don't want advice and consent. They want absolute power.

To get it, the President and Majority Leader will do all they can to silence the minority in the Senate and remove the last check we have in Washington against this abuse of power. The White House is trying to grab



power over two separate branches of government—Congress and the judiciary.

Make no mistake. This is about more than breaking the rules of the Senate or the future of seven radical judges. At the end of day, this is about the rights and freedoms of millions of Americans. The attempt to do away with the filibuster is nothing short of clearing the trees for the confirmation of an unacceptable nominee to the Supreme Court. If the majority gets its way, President Bush and the far, far right will have the sole power to put whoever they want on the Supreme Court—Pat Robertson, Phyllis Schlafly. . . .

Here is what is really at stake: the civil rights of millions of Americans; voting rights of millions of Americans; the right to clean water to drink and safe air to breathe for millions of Americans; the right to free speech and religious beliefs for millions of Americans; the right to equality, opportunity, and justice for millions of Americans; nothing less than the individual rights and liberties of all Americans.

**Sen. Tom Harkin (D-Ia.):** Since 1790, the filibuster has been used in the Senate countless times, and nearly 100 years ago the Senate passed rule XXII, codifying the right of extended debate. We know what that rule says. It says that it takes 67 votes to change the Senate rules and 60 votes to cut off debate. Those are the rules. They are deeply conservative rules, rules that have been respected and honored for nearly a century, until now. . . .

They are going to employ a trick, a procedure, whereby the rules are overturned by one decision of the Presiding Officer backed by 51 votes. That will destroy the rules of the Senate. Now they say: Well, it only applies to judges now. It can apply to anything else down the pike. . . .

How ironic that this is being done by Senators who call themselves conservative. The truth is that resort to the nuclear option, breaking the rules, making up new rules convenient to the leadership, is a radical, unprecedented action with consequences that no one can predict. Because once the rules are broken and rules are made up as one goes along, seeds of anarchy, of chaos, are sown. . . .

Possibly what we are seeing here is an attempt to seize absolute power and unchecked control of all three branches of government. The Republicans already control the Executive branch. A majority of Supreme Court Justices are Republican nominees. So are the majority of judges on our Courts of Appeal, the circuit courts. Indeed, there is a Republican majority on 10 of the 12 circuits.

Republicans have an iron grip on the House of Representatives. They have a 55-seat majority here in the Senate. Only one barrier now stands in the way of the Republican Party seizing absolute control of every aspect of our government, all three branches, and that is the right of the minority in the Senate to filibuster. . . .

By unleashing the nuclear option, the Republican leadership would crush this last remaining check on its power. . . .

The nuclear option is a flagrant abuse of power. The mi-

nority party, the Democrats, will resist it vigorously within the rules of the Senate. We have a responsibility, an oath of office to defend our constitutional system of checks and balances. We have a responsibility to defend the Senate's unique function as the last bastion of minority rights, as the last check on an abusive, out-of-control majority. . . .

The very nature of the Senate as an institution is at stake. More than that, the very nature of how we operate as a government is at stake. As I said, when you destroy the rules by not following the rules, you invite chaos. Chaos invites tyranny.

**Sen. John Kerry (D-Mass.):** We are in a remarkable moment of confrontation. This is a great institution, or at least it always has been, and it is looked up to by people all over the world. . . . Those of us who have had the privilege of being here for some period of time—I have been here for 22 years; Senator Byrd has been here almost 50; Senator Kennedy, Senator Stevens, and others have also served for a significant period of time. . . . Never in that whole period of time I have served have I ever seen this institution behaving the way it does today.

Colleagues who came to do the same good as colleagues on the other side of the aisle, locked out of conference committees, hearings that do not take place when they ought to; oversight that does not occur as it used to. This institution is being damaged daily by the partisanship, the bitter ideological divide that is preventing good people on both sides of the aisle from doing good business for the American people; from finding real solutions to the real problems of real concern to average families all across our country, who cannot pay their health-care bills, who are losing jobs abroad, who worry about the twin deficits of the budget of our country and of our trade; who see extraordinary threats to community as kids do not get the education they ought to.

The Senate is now watching this struggle take place, countless hours consumed by an effort to change the rules by breaking the rules. If my colleagues want to change the rules, use the rules to change the rules. Do not subvert the system. Do not play a cute parliamentary game that has been untouched over 200 years.

This is a stunning moment. The problem is that words spoken in this Chamber do not even fully convey the importance of this moment. This is, in fact, one of those times the Founding Fathers and countless other statesmen of history have warned us against.

This is about George Bush and Karl Rove and the Republican leadership and their quest for absolute control over who goes to the Supreme Court and to the judgeships across this country. This is about carrying, beyond this branch of government, power into another branch of government that is supposed to be separate. This is about the gratification of immediate ideological goals and the pursuit of power, regardless of the long-term consequences to the Senate, the Congress, or the Constitution of the country. . . .

## British MP Blasts Senate Iraq Charges

*British Parliamentarian George Galloway (Labour) appeared before the U.S. Senate Homeland Security and Governmental Affairs Committee's Permanent Subcommittee on Investigations on May 17, to answer charges made against him in hearings on the United Nations Oil-for-Food Program. Galloway's statement followed opening presentations by Senators and investigators that outlined the charges against him and others, but made clear that at least 50% of the surcharge-kickbacks which were made to Saddam Hussein, were carried out by the American company Bayoil.*



*We include here the bulk of Galloway's opening statement, and some of his interchange with Subcommittee Chairman Sen. Norm Coleman (R-Minn.) and Ranking Democrat Sen. Carl Levin (Mich.). Subheads have been added.*

Senator, I am not now nor have I ever been an oil trader and neither has anyone on my behalf. I have never seen a barrel of oil, owned one, bought one, sold one, and neither has anyone on my behalf.

Now, I know that standards have slipped over the last few years in Washington, but for a lawyer, you're remarkably cavalier with any idea of justice.

I'm here today, but last week, you already found me guilty. You traduced my name around the world without ever having asked me a single question, without ever having contacted me, without ever having written to me or telephoned me, without any contact with me whatsoever. And you call that justice.

Now, I want to deal with the pages that relate to me in this dossier, and I want to point out areas where there are—let's be charitable and say "errors." And then I want to put this in the context that I believe it ought to be.

On the very first page of your document about me, you assert that I have had many meetings with Saddam Hussein.

This is false.

I have had two meetings with Saddam Hussein, once in

1994, and once in August of 2002. By no stretch of the English language can that be described as "many meetings with Saddam Hussein."

As a matter of fact, I've met Saddam Hussein exactly the same number of times as Donald Rumsfeld met him.

The difference is Donald Rumsfeld met him to sell him guns and to give him maps, the better to target those guns.

I met him to try and bring about an end to sanctions, suffering, and war. And on the second of the two occasions, I met him to try and persuade him to allow Dr. Hans Blix and the United Nations weapons inspectors back into the country; a rather better use of two meetings with Saddam Hussein than your own Secretary of State for Defense made of his.

In the same opening paragraph, you assert that I was an outspoken supporter of the Hussein regime. This is false.

I have brought along here a dossier for all the members of your committee, of statements by me, as early as the 15th of March 1990, in which I condemn the Saddam Hussein dictatorship in the most withering terms, a stance I have taken since around about the time you were an anti-Vietnam War demonstrator.

I was an opponent of Saddam Hussein when [the] British and American governments and businessmen were selling him guns and gas.

I used to demonstrate outside the Iraqi Embassy when British and American officials were going in and out doing commerce. You will see from the official parliamentary record, *Hansard*, from the 15th of March 1990 onwards, voluminous evidence that I have a rather better record of opposition to Saddam Hussein than you do, and than any members of the British or American governments do.

### **'You Have Nothing on Me, Senator'**

Now, you say in this document—you quote a source—you have the gall to quote a source without ever having asked me if the allegation from the source was true—that I am, quote, "the owner of a company which has made substantial profits from trading in Iraqi oil."

Senator, I do not own any companies beyond a small company whose entire purpose, whose sole purpose, is to receive the income from my journalistic earnings from my employer, Associated Newspapers, in London.

I do not own a company that's been trading in Iraqi oil. And you had no business to carry a quotation—utterly unsubstantiated and false—implying otherwise.

Now, you have nothing on me, Senator, except my name on lists of names from Iraq, many of which have been drawn up after the installation of your puppet government in Baghdad.

If you had any of the letters against me that you had against [Vladimir] Zhirinovskiy and even [Charles] Pasqua, they would have been up there in your slide show for the members of your committee today.

You have my name on lists provided to you by the Duelfer inquiry, provided to him by the convicted bank robber and

fraudster and con man Ahmed Chalabi, who many people—to their credit—in your country now realize played a decisive role in leading your country into the disaster in Iraq.

There were 270 names on that list originally. That has somehow been filtered down to the names you chose to deal with in this committee.

Some of the names on that committee included the former secretary to His Holiness Pope John Paul II, the former head of the African National Congress presidential office, and many others who had one defining characteristic in common: They all stood against the policy of sanctions and war which you vociferously prosecuted and which has led us to this disaster.

You quote Mr. Taha Yassin Ramadan. Well, you have something on me: I have never met Mr. Ramadan; your subcommittee apparently has.

But I do know that he is your prisoner. I believe he's in Abu Ghraib prison. I believe he's facing war crimes charges punishable by death.

In these circumstances, knowing what the world knows about how you treat prisoners in Abu Ghraib prison, in Bagram Air Base, in Guantanamo Bay—including, I may say, British citizens being held in those places—I'm not sure how much credibility anyone would put on anything you manage to get from a prisoner in those circumstances.

But you quote 13 words from Taha Yassin Ramadan, whom I have never met. If he said what he said, then he is wrong.

And if you had any evidence that I had ever engaged in any actual oil transaction, if you had any evidence that anybody ever gave me any money, it would be before the public and before this committee today, because I agreed with your Mr. Greenblatt. Your Mr. Greenblatt was absolutely correct.

What counts is not the names on the paper; what counts is: where is the money, Senator? Who paid me hundreds of thousands of dollars of money?

The answer to that is, nobody. And if you had anybody who ever paid me a penny, you would have produced them here today.

Now, you refer at length to a company named in these documents as Aredio Petroleum.

I say to you under oath here today: I have never heard of this company. I have never met anyone from this company. This company has never paid a penny to me.

And I'll tell you something else: I can assure you that Aredio Petroleum has never paid a single penny to the Mariam Appeal campaign; not a thin dime.

I don't know who Aredio Petroleum are, but I dare say, if you were to ask them, they would confirm that they have never met me, or ever paid me a penny.

Whilst I'm on that subject, who is this senior former regime official that you spoke to yesterday? Don't you think I have a right to know? Don't you think the committee and the public have a right to know who this senior former regime official you are quoting against me, interviewed yesterday, actually is?

Now, one of the most serious of the mistakes that you have made in this set of documents is, to be frank, such a schoolboy howler as to make a fool of the efforts that you have made. . . .

The existence of forged documents implicating me in commercial activities with the Iraqi regime is a proven fact. It's a proven fact that these forged documents existed and were being circulated amongst right-wing newspapers in Baghdad, and around the world, in the immediate aftermath of the fall of the Iraqi regime.

## **Smokescreen To Cover U.S. Crimes**

Now, Senator, I gave my heart and soul to oppose the policy that you promoted.

I gave my political life's blood to try to stop the mass killing of Iraqis by the sanctions on Iraq, which killed a million Iraqis, most of them children. Most of them died before they even knew that they were Iraqis, but they died for no other reason other than that they were Iraqis, with the misfortune to be born at that time.

I gave my heart and soul to stop you committing the disaster that you did commit in invading Iraq.

And I told the world that your case for the war was a pack of lies.

I told the world that Iraq, contrary to your claims, did not have weapons of mass destruction.

I told the world, contrary to your claims, that Iraq had no connection to al-Qaeda.

I told the world, contrary to your claims, that Iraq had no connection to the atrocity on 9/11/2001.

I told the world, contrary to your claims, that the Iraqi people would resist a British and American invasion of their country, and that the fall of Baghdad would not be the beginning of the end, but merely the end of the beginning.

Senator, in everything I said about Iraq, I turned out to be right and you turned out to be wrong, and 100,000 people have paid with their lives: 1,600 of them American soldiers sent to their deaths on a pack of lies; 15,000 of them wounded, many of them disabled forever, on a pack of lies.

If the world had listened to Kofi Annan, whose dismissal you demanded; if the world had listened to President Chirac, who you want to paint as some kind of corrupt traitor; if the world had listened to me and the anti-war movement in Britain, we would not be in the disaster that we are in today.

Senator, this is the mother of all smokescreens. You are trying to divert attention from the crimes that you supported, from the theft of billions of dollars of Iraq's wealth.

## **The Real Scandal in Iraq**

Have a look at the real Oil-for-Food scandal.

Have a look at the 14 months you were in charge of Baghdad—the first 14 months—when \$8.8 billion of Iraq's wealth went missing on your watch.

Have a look at Halliburton and the other American corporations that stole not only Iraq's money, but the money of the

American taxpayer.

Have a look at the oil that you didn't even meter, that you were shipping out of the country and selling, the proceeds of which went who knows where.

Have a look at the \$800 million you gave to American military commanders to hand out around the country without even counting it or weighing it.

Have a look at the real scandal breaking in the newspapers today, revealed in the earlier testimony of this committee, that the biggest sanctions busters were not me or Russian politicians or French politicians; the real sanctions busters were your own companies, with the connivance of your own government.

*During the questions and answers, Galloway had an acrimonious interchange with Senator Coleman, which centered on the role of an Iraqi businessman, Fawaz Zuraiqat, who served on Galloway's foundation. This was followed by an exchange with Senator Levin, on the question of his view about the propriety of kickbacks in the Oil-for-Food Program. The substance of his answer on the latter question follows:*

Here's my answer, and I hope it does delight you.

I opposed the Oil-for-Food Program with all my heart, not for the reasons that you are troubled by it, but because it was a program which saw the death—I'm talking about the death now, I'm talking about a mass grave—of a million people, most of them children, in Iraq.

The Oil-for-Food Program gave 30 cents per day, per Iraqi, for the period of the oil-for-food program: 30 cents for all food, all medicine, all clothes, all schools, all hospitals, all public services.

I believe that the United Nations had no right to starve Iraq's people because it had fallen out with Iraq's dictator.

David Bonior, your former colleague, Senator, whom I admired very much, a former chief whip here on the Hill, described the sanctions policy as "infanticide masquerading as politics."

Senator Coleman thinks that's funny, but I think it's the most profound description of that era that I have ever read: "infanticide masquerading as politics."

So I opposed this program with all my heart, not because Saddam was getting kickbacks from it—and I don't know when it's alleged these kickbacks started—not because some individuals were getting rich doing business with Iraq under it, but because it was a murderous policy of killing huge numbers of Iraqis. That's what troubles me. That's what troubles me.

Now, if you're asking me, is Mr. Zuraiqat in some difficulty like all the other companies that it would appear paid kickbacks to the Iraqi regime, no doubt he is. Although it would appear he's quite small deer compared to the American companies who were involved in the same thing.

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## Labor Speaks Out

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# 'Retool Auto Industry, Stop Globalization'

*On May 14, "The LaRouche Show" Internet radio program hosted a round-table discussion on the immediate crisis of General Motors and Ford, and the future of the entire auto/machine-tool sector of the United States. The guests were Sue Daniels of Tyler, Tex., former vice president of the Texas AFL-CIO, and currently on the national board of the Coalition of Labor Union Women (CLUW); Eugene Morey, president of United Autoworkers Local 849, Ypsilanti, Mich. (site of a Visteon Ford parts supplier plant); Mark Sweazy, president of United Autoworkers, Aerospace and Agriculture Implement Workers Local 969 in Columbus, Ohio (site of a Delphi GM parts supplier plant); and Heather Detweiler of the LaRouche Youth Movement in Philadelphia, Pa. The program was hosted by Harley Schlanger, Western states spokesman for Lyndon LaRouche. The guests took questions from across the nation, from railworkers in Mexicali, Mexico, and from Argentina. The following are excerpts from the 90-minute discussion, which is archived at [www.larouchepub.com/radio](http://www.larouchepub.com/radio).*

## GM/Ford Auto Capacity: A National Security Issue

**Schlanger:** People don't understand this question of national security. We did an article in *New Federalist* which had some very interesting figures in it. It went through the importance of the auto sector in World War II: that we retooled to produce tanks and planes, and it was the auto sector, that also had a section of it—the machine-tool section—that produced the rockets that were used for the Moon landing. So, I think this national security question is an important issue.

**Morey:** You're exactly right; the automotive sector retooled and took their assembly plants and started turning out tanks and that kind of stuff for the government. That's something that people don't realize.

And the other thing that I think people don't realize, or give the unions much credit for, is most of the people in the country today that have benefits and retirement and health care—these are all gains that were won by union members, fighting for the working people. And we seem to have lost that goal, to make a better place for the people in this country.

**Schlanger:** One of my associates in Los Angeles had an interesting way of putting it: He was talking to one of our



*Auto plants can easily be retooled to produce a variety of new products. Said UAW leader Mark Sweazy: "I'd love to be part of an infrastructure project such as transportation. . . . I would love to see the auto industry get on board, become productive, be part of something positive, and honestly keep people working." Here: Honda workers in Ohio.*

supporters, and he said, "Look, do you understand what it means if General Motors and Ford go under, and lose that capability?" And the person said, "Yes! It means I'll buy a Toyota." And my associate said, "Well, you realize that without Ford and General Motors, we would not have won World War II, and Toyota wouldn't have helped us!"

**Morey:** That's exactly right. . . . I'd like to dive a little deeper into that subject. Because, it's one thing to say, "Well, I'd just go out and buy a Toyota, and that would solve the problem." But, take away each 100 vehicles that are made in this country: 23 jobs are related to those 100 vehicles. Now multiply that by the hundreds of thousands of vehicles that are made, and the hundreds of thousands of jobs that are affected, and that really takes a lot of the laughter out of that little Toyota comment.

But my point is, I don't think the auto industry has portrayed how real this problem is. I don't think our government has sat up in their seats and paid attention enough. And I don't believe the people in our country realize that this affects each and every one of them.

**Schlanger:** That's part of the reason why we're having this show, to have an opportunity to get these ideas out.

**Sweazy:** You mentioned earlier about a global financial crisis: Well, this thing just doesn't stop at our borders—and Toyota knows that, as well. Because, you put General Motors and Ford on the auction block—guess what? Toyota won't be far behind either. They do have a lot of money behind them at the present time—but, how far can they continue? And, I don't want to get into their future, but it certainly will have a tremendous impact, not on just the United States, but Europe

as well. And their auto industry's faltering at the present time. So, the impact that we see today here, is just not between California and Virginia, we'll say.

## Globalization Damage Toll

**Schlanger:** Lyndon LaRouche has made precisely that point: that it's not just a question of "a couple of auto companies in the United States made a few mistakes." It's that there's a global disintegration under way. The average American has less disposable income than 25 years ago. People have more credit now, but we all know, at some point, the credit cards, and the credit capabilities, if you don't have a job, it dries up and you're left with nothing.

The global nature of this is important. I have a statistic here for you [**Figure 1**], on this question of what's happened with the workforce at General Motors: In 1978, there were 520,000 hourly workers, that is production workers, at General Motors. Today, it's 117,000! And that's a lot of jobs that paid well, that put children into school, that put tax money into communities. And many of these people, besides the ones who retired, many of them are now working two or three jobs, merely to keep a roof over their head.

**Sweazy:** And that's the reason that you see Michigan in the shape that they're in—and also Ohio. We've lost somewhere in the neighborhood of 300,000 industrial jobs in Ohio, and we're running on a credit system as well.

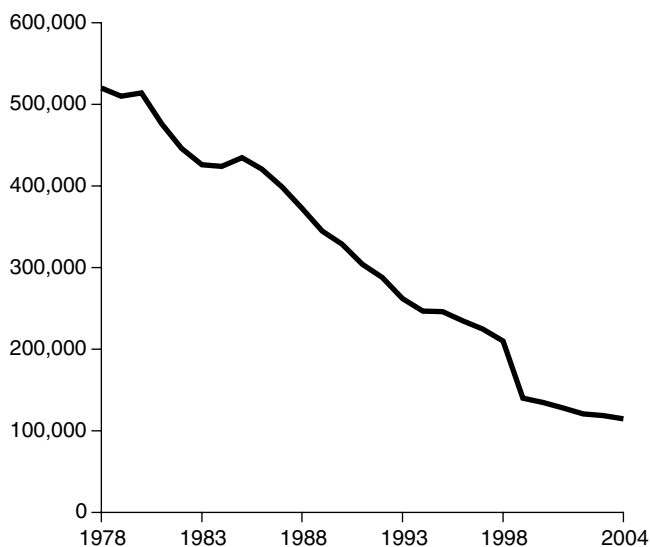
**Schlanger:** Let me bring in Sue Daniels, from Tyler, Texas, an official in the Texas AFL-CIO. Sue, what are your thoughts on this situation?

**Daniels:** I think it's just really bad. We lost 226 jobs at

FIGURE 1

## The Decimation of General Motors' Hourly Workforce in America

(Number of Workers)

Sources: General Motors; *EIR*.

one factory, right here in Tyler. And several years ago, they passed a rule that the workers had to be given a 60-day notice if they laid off more than 150 people permanently. And these people left on Friday, and were locked out on Monday when they came in; no notice whatsoever.

And the other thing is, that the government we have right now, won't back up the laws that are already in place. You were talking about labor unions, and we've lost so many people over the years, due to our jobs being shipped overseas, that we don't have anywhere close to the force that we used to have, as far as political clout and that kind of thing.

**Schlanger:** Eugene, among the members of your union, is there a clear sense now, that there's been a change since the beginning of the year, and that there must be some action taken?

**Morey:** Yes, there's definitely a lot of nervousness, I guess is the best way to put it, on the floor. We're struggling to keep our people working without them being laid off, and losing their jobs. And that's a daily struggle.

I hired on just in '77 to Ford Motor Co. My plant, since then, has lost 3,000 jobs! That's what really hits home, when people realize—you look at 3,000 jobs and \$100 million in the local economy that's gone! I'm not counting taxes, that pay for things. So, we're struggling just to keep our people working. And part of that package, in order to get new work

in, we have to outsource components.

So, you talk about the technology factor: They're really trying to take that away from us. Instead of us manufacturing everything like we used to do, they're sending in components from overseas operations and just having us assemble them.

So, losing that technology is something that's really concerning us, because once we lose that, there's no reason for them to keep us around.

**Schlanger:** Mark, I'd like to ask you, in Columbus, Ohio, in your workforce, are people beginning to get a sense of the crisis? And is it sinking in that this may be the end of the auto industry as we know it?

**Sweazy:** Certainly, Harley. We try to keep our people informed, and we try to let them know currently what's taking place. That uncertainty has become a complete uneasiness with them. One, you've got a government that's trying to rearrange Social Security. And we've got people that are coming of age, obviously, and ready to retire. The majority at our plant, probably 60% of our plant, will be eligible to retire within the next two to three years. So, there's a tremendous amount of uncertainty—

**Schlanger:** Did you say 60% within the next two to three years?

**Sweazy:** Yes, sir. So, this just puts more weight, pressure, and I guess a little more stress on their daily lives. Because, one, working together, they read the paper, they pass information amongst themselves, and this thing is a daily occurrence in our plants.

And it's not only in our plant. I happen to chair 23 Delphi plants; when we get together as a sub-council, I chair those 23 plants. And when I open that floor up for discussion, the concern is clear across this nation, believe me.

**Schlanger:** And was there a heightened concern after the events this week with United Airlines, and the whole question of dumping the pensions?

**Sweazy:** We discussed that on the floor just the other day, and people say, "Are we next?" That's the next question, "Are we next?" And Delphi announced just on Friday [May 13], that they lost \$409 million this first quarter; and their stock's plummeting.

This goes back to what Eugene said earlier: You know, we as Americans, we work our entire lives; then we get to a point where there's no guarantee. And *then*, we get a government that tells us we ought to be investing in a stock market! Well, I can't imagine putting my money in a stock market at this point, to take care of me when I'm 70 years old!

**Schlanger:** On the President's proposal, as LaRouche pointed out, the proof that the world doesn't think very much of George Bush, is that when he basically said U.S. bonds

were worthless, there wasn't a worldwide panic, because people basically figured Bush doesn't speak for anything but the puppeteer behind him. But, in fact, it *is* a real problem—

**Sweazy:** That sent a terrible message! This little country like Korea we owe \$80 billion to; \$130 billion to India; \$550 billion to China; and \$800 billion to Japan! They're going, "Well, that's not real money?"

**Schlanger:** Eugene, what do you think on this question of Social Security? Have people gotten the idea that this is just another swindle?

**Morey:** I hope so. I believe that the people are seeing through what they're trying to push. You know, it doesn't make any sense to put us \$2 trillion more in debt, with no economical way to get us out of it. I have four daughters, and my concern is, what kind of future are we leaving for our children? Putting all the debt on the next society, or the next group of people coming up, I don't think is the right thing to do, and I believe people are seeing through that.

I like the idea of taking \$2 trillion and reinvesting it into our own country, and putting people back to work.

## Retool, Re-Hire, Rebuild

**Schlanger:** Now, the auto sector—let's just take that. Instead of putting the auto sector through bankruptcy, giving it to a shark like Kirk Kerkorian, who's just going to sell off the plant and equipment and lay off the workers, if we had the money to invest the way Franklin Roosevelt invested during World War II, what could we do with the auto sector?

**Morey:** My plant's an assembly plant, a parts assembly plant. We retool all the time for new products. So, we can make anything that we need to make!

**Schlanger:** What do you mean when you say "retool"? What does that consist of in your plant?

**Morey:** Well, we can build an entirely new product: We have process people in place, engineering people in place, tool-makers in place, maintenance people, where we go out and get new equipment built to create a new process to make a new part. And I'm talking, from raw materials to a finished product, in the course of about 18 months.

So, there's a process in place already in the automotive industry, that we're very familiar with. We bid on jobs, and say, we just got awarded a new starter, at my plant. Now, the process goes into place of getting machines built to make this process; the engineering components, as far as trying to make sure that the product meets specifications. So, the automotive industry's got a lot of experience, as far as re-manufacturing different products.

**Schlanger:** Now, if we continue in the direction that it looks as though GM's management is going, Kerkorian and others, of asset-stripping, what does that do to the engineering

capability that you just described?

**Morey:** It basically destroys it, obviously, if we're sending all our technology overseas, to engineering staffs overseas. No longer do we have ideas coming off the board here, or if we do, they go overseas and they're engineered there, because it's so much cheaper. And then it comes back to us as packaged deals from foreign competition.

So, basically, what you're doing is, you're selling out—you talked about the United States being one of the leading manufacturers in the world: That's in jeopardy. If it's not already passed, it's very close to happening.

**Schlanger:** And we're losing something beyond merely the capacity to produce what we're producing now, but losing future technological advances as well.

**Morey:** Oh yes, most definitely! And that's probably the biggest concern. Corporations are looking at short-term profits, and the long-term damage isn't being talked about, or even being revealed.

**Schlanger:** Well, there are actually two General Motors. One is the General Motors as a production and manufacturing plant; the other is General Motors as a financial entity.

Eugene, let me ask you, because I know you've talked about, in discussion with Mr. LaRouche, and also with *Executive Intelligence Review* [see interview in *EIR*, March 18, 2005]: You said, as part of the retooling, your plant could produce parts for the magnetically levitated train, or high-speed rail system. This, of course, does require a government change, a commitment to high-speed, most advanced technologies in transport. But, is that part of what you could do with the retooling you were talking about before?

**Morey:** Yes, that's definitely what we're talking about. And, I think the reason we need to address this now, is, if we don't do it now, the capability's going to be gone. I think that's what Mr. LaRouche is putting front and center, is, we're losing that capability. And in investing the money back in the infrastructure of this country—as everybody knows, roads, bridges, especially in Michigan, it's coming apart! Our state's going broke, as a lot of states are going broke, because of the amount of money that has left our country. You know, look at the trade deficit, and then you talk about "fair trade." There's been no "fair trade."

You look at \$60 billion a month leaving our country, in a trade imbalance, and you wonder, "Okay, where's that money going?" It doesn't go to the workers in Argentina. It doesn't go to the workers in Mexico, to raise their standard of living, which is what originally was the plan. It goes to corporation profits. And like I said, it's going to be a short-term deal, because eventually the corporation's not going to have anybody to buy their products—which is because one of the biggest consumer-spending countries in the world is the United States. But, we're not going to keep having that ability, if we

continue to put good-paying jobs out of the country.

And no longer will we be able to do infrastructure work, high-speed rail work—my plant won't be able to do that, say, two-three years from now. Because all the technology, and the engineering, and the skills of the people that we have currently, will be leaving us.

## Ohio Valley Waterways

**Schlanger:** Eugene and Mark, you're both in states that were the original industrial belt of the country. I was actually born on the Ohio River, in Marietta, Ohio. But many people don't realize that the inland waterways are still a major portion of U.S. internal economy. And yet, just this last Summer, we saw the Ohio River shut down for a while, because of the lack of redundancy in infrastructure with the locks and dams along the river.

On the question of the potential for retooling, Mark, what's the capability from your plant in Columbus?

**Sweazy:** Well, begin with the auto industry, and as of late, we have plenty of floor space available—and with that, we would *welcome*, I'd *love* to be part of an infrastructure project such as transportation. There's the Ohio Rail Commission, that's doing a study presently of a rail system within Ohio, and would be a connector between Chicago and Toronto. I would love to see the auto industry get on board, become productive, be part of something positive, and honestly keep people working. And as Eugene says, we can't afford to lose our technologies, our people that are skilled, or trained to be skilled, in those areas. So, to me, it's a "win-win" situation.

**Morey:** I got floor space to go with you, too, Mark.

**Sweazy:** I bet you do, Brother! So, do all of our other plants.

**Schlanger:** Eugene, to go back to this question of retooling again—and I want to stick with this, so the listeners have a real sense of this: How long does it take in a plant like yours to train someone, or to give them the capability to work the machine tools? What's the learning curve?

**Morey:** Well, as far as the more technical, like the skilled trades part—I'm a machine repairman, so I'm a tradesman—you have a four-year apprentice program. Basically, it's an 8,000-hour program, where you go to school, and you are OJT [on the job training], and working with journeymen throughout the course of four years, to get the basics of your trade.

And, my father, who was also a machine repairman tradesman, he told me, right when I was coming on, he said, "You get the basics in four years, but it takes ten years to become a tradesman." And after being one for about ten years, I realized my Dad was right.

So it takes a good eight to ten years to become a very good tradesman, to know what you're doing, and to be able to handle the things we do. Just the basic apprenticeship program is a four-year program.

**Schlanger:** And that actually is an indication that, first of all, there is some skill involved; but secondly, people can learn it.

**Morey:** Oh yes—they've got to have that desire. In my particular trade, you can't be afraid of a little bit of grease and a little hard work. And there's schooling involved: You go to college for several years. So, it's an intense program. But, it's one that, when you get done, you feel very good about yourself and what you can do, to be able to work on a machine that's as big as house, and be able to go in there and figure out what's wrong when something goes wrong, and be able to fix it, that's a pretty rewarding thing. And that's the thing that we can't afford to lose.

**Schlanger:** That's a central feature of what LaRouche calls the "machine-tool principle." That it's not just that you have these machines that do something, but you have skilled workers who use their minds to constantly innovate, and figure out how to increase the power that an individual operative has, through the use of machines. And you're right: You lose that, and you might as well head back to the dark ages.

**Morey:** And so, it comes back to one of Bush's policies, where he likes to say, "Well, we don't have enough trained people in our country," so they like to import them. "We're going to import technicians from other countries." And my thought is: Why are we doing that, instead of training our own people here?

## Outsourcing Creates Suffering

**Schlanger:** We have an e-mail that just came in from Mexicali, Mexico, from someone in the rail union. It says, "Comrades of the Auto, Agricultural, and Aerospace Worker Union, we are listening to you in Mexicali, Mexico. We would like to know if they will do the same to you that they have done to us in Mexico, where they have displaced us with privatizations. What is your understanding or knowledge of what globalization has caused in Mexico and the underdeveloped countries? And do you think you are going to suffer the same way we have, if what they have already done to us, is done to you?"

Mark, you want to comment on that?

**Sweazy:** Well, it's going to be tough for me, because I'm not aware that Mexico hasn't thrived by the legislation of NAFTA—

**Daniels:** Let me comment on that, because I worked real close, when I was an officer with AFL-CIO, with the *maquila*-*dora* program, which was across the borders—they built factories down there and warehoused it in Texas. And they could get the labor down there done for pennies an hour, and they brought it back across and stored it in warehouses here, and called it a "joint effort." And that was *before* NAFTA. And, in the process, the companies that moved the factories to Mexico, found that they could go on to other countries, and get labor even cheaper! So, that's basically what has happened





*The last car rolls off the line at Ford's Mahwah, N.J. plant in 1980. In the 25 years since that plant closed, globalization has decimated the American industrial workforce.*

with NAFTA and with Mexico.

We took a tour across the border and looked at some of the factories that they had built, and they were atrocious. People lived by a dirty little creek, that was filled with chemicals—sludge and chemicals from the factories that were just running in the water system. And their little shacks were made of cardboard and whatever they could find to protect themselves.

Even when [then House Speaker Jim] Wright was in Congress, we went to Washington and talked to him, and tried to tell him what was going on—and he was a Democrat! But, he had this mentality of a businessman, that it was “going to work itself out.” In 30 years, there would be no difference in our economies: That was the mentality: that over time, it would “work itself out,” where the Mexicans would be able to come to Texas and shop; and we wondered how, with the fact that they were making \$3 and \$4 a day!

**Schlanger:** Yes, how many washing machines and refrigerators and cars can you buy in the United States, when you’re making half a dollar an hour?

**Daniels:** Yes! That’s exactly what we tried to put it across to them. But it was just one of those things that we were not successful on. And people like Jim Wright, like I said, he had this businessman mentality, where he voted with businesses more than the working people. They all thought I was crazy, because he really made me mad, when we went up there and visited—and I asked him, “How do think that the people in Mexico are going to afford to come to Texas and buy some-

thing with what you all are paying them? But you’re taking our jobs and sending them down there, and now we’re living here without any income?”

**Schlanger:** It’s hurt all the workers in all the countries.

**Daniels:** They didn’t benefit down there, because, like I said, their jobs went on to South America, where they could get it done for \$2 a day!

**Schlanger:** Well, now they’re in China, they’re in Asia. And the only ones who benefitted from free trade were the cartels, were the auto companies that got cheaper labor. Mark or Eugene, have you been hearing that they want both Visteon and Delphi to do more outsourcing to China and elsewhere? Are you getting reports on that?

**Morey:** I have. In the process of being involved in trying to get components into our plant, we have a bidding process, where we actually compete against foreign competition. And basically, Visteon’s point is: We want the cheapest part we can get from anywhere. There’s no loyalty to its employees, whatsoever.

**Daniels:** And no quality factor, either.

**Morey:** Even though we produce the best in-class starter in the world, if we’re 38¢ higher in our price, than say, a plant in China, then they’re just going to ship the work over there. And I know that the automotive industries are putting a lot of pressure on their suppliers to build plants in China, right now. And they’re saying it’s to “support the Chinese market for automobiles.” But, really, when you stop and think about,

how many Mexican auto workers down there buy the products that they build? And that always comes back to the Henry Ford philosophy, which was to pay your workers enough to buy your product—we've lost that! And obviously, the Mexican workers down south, have *really* gotten a bad deal on this whole thing—because they just got exploited.

**Schlanger:** General Motors has built, or is in the process of building seven plants now in China. So, they're planning a major shift of production over to China.

**Sweazy:** And Delphi has that many already.

**Morey:** And Visteon has plants going over there, too. Plus, Visteon has some in India, also.

**Schlanger:** Mark, I have a question for you from our conference line. Dan in Chicago wants to know if there's still denial among some people in General Motors who think that this is just a temporary crisis that can be solved pretty quickly. What do you think, from your communications both with management and in the union?

**Sweazy:** From what I've heard in talking to people—and I've talked to managers as well—the concern is real. They see a heavy shadow over General Motors—and I'm speaking of General Motors, even though I'm from Delphi; I was at General Motors, until it spun off in 1999 as Delphi. But General Motors itself—\$301 billion in debt, Harley! I don't know how to put that in other words, that would be less convincing that there's not a problem. That the problem's real; to go to the bank and borrow money, when you're at junk bond status, is going to be another problem or obstacle for them to get around.

The president of our division visited us just this week, and he said that on Friday, you'll get news of our first-quarter profit or losses (they were losses). And he said, they'll be devastating. So, they know the problem's real.

And in our particular case, 42,000 people were spun off from General Motors in 1999, and that was one way around our national agreement to eliminate more heads at General Motors. They tried the same thing at Ford, with Visteon. But, the fact is that that did take place; we accepted it. We're still working as hard as ever, to produce a part for General Motors—we've now produced a billion latches without a recall, and there's still no loyalty to us, because they're buying the same latch from Mexico, Korea, and China.

So, to me, the people at General Motors know, it's an orchestrated effort, and I would say—I'm going out on a limb; my name's Mark Sweazy; I'm not afraid to tell you what I think, because I've been studying this since January: It looks like to me, that we're going to see a leveraged buyout or some type of hostile takeover of Delphi. And it looks like to me, that Delphi would change its name, and move out of this country! Because they have the capabilities now. We've discussed competition. I can't become competitive with Third World prices, that meaning, \$0.30 to \$1.15 an hour in wages!

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## Interview: State Rep. Perry Clark

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# Kentucky Legislator: 'A Crisis Situation'

*Rep. Perry Clark (D) has been in the Kentucky Legislature for six terms, representing Jefferson County, which is the Louisville region. On May 11, Clark filed a Resolution in the House of Representatives of the General Assembly of the Commonwealth of Kentucky, "Urging Congress To Take Emergency Actions To Save the Economy and the Auto Industry" (see last week's EIR). Representative Clark was interviewed by Marcia Merry Baker on May 17.*



**EIR:** Your Legislature is out of session, but this month you pre-filed a Resolution on the need for action on the threat to the auto and heavy industry sector.

**Clark:** A lot of times you pre-file resolutions or bills, so you can bring focus and attention to specific subjects.

I think that we've got a lot of specialists, international-wise and national-wise, who are warning us that the economy is hitting the bottom. It's going in the wrong direction. I think we're in a crisis situation when we are dealing with the economy, and I wanted to bring that to attention, that we need certain stop-gap measures to make sure that we don't lose any more of the machine-tooling capability of the United States.

You see on the regular mainline news (which suppresses most of the truth, and I think they're using a very conservative number), they're talking about the *infrastructure of the United States being behind by \$1.6 trillion*, just in repairs. I think you could use a multiplying factor in that number. But that's just to maintain currently what we have.

We're losing our machine-tool capacity. We've got, as an illustration: We have locks and dams here in Kentucky. We have a major one here on the Ohio River, that they just did a stop-gap measure for repair, to replace a door on that lock and dam, and it's the last door left in the United States that fits these locks and dams, and nobody's producing them anymore!

**EIR:** So if we don't have the means to reproduce the economy, that's what's at stake. What kind of action do you want?

**Clark:** Federal action. I really want them to begin to look again at the old American System of political economy. You know, it's strange that we come from the state of Kentucky, and there's a man named Henry Clay, whom some people will be familiar with, but not know much about him. He was the father of the American System, and people don't understand what that is! That's a guiding hand in government, that develops infrastructure projects that makes the wealth of the nation, and brings all people's lives up—their economics up, their living up. And we need to get back to that kind of thinking.

**EIR:** People think of Michigan as the auto state, and rightly, but a map shows five auto assembly plants in Kentucky.

**Clark:** Kentucky is one of the biggest auto-producers in the world. We have General Motors plants in Bowling Green; we have two major Ford Motor Company plants in Louisville; we have a Toyota plant in Georgetown; and they are talking about bringing in a new hybrid car down there, even as we speak.

**EIR:** So you had a lot of capability develop, even as some of it was locally outsourced from Michigan.

**Clark:** That is true, and that's part of where people in this area get into the deception that the economy is doing better than it is. You brought in jobs from St. Louis, where you closed down factories and production, and so on. So while auto seemed to be booming in Kentucky, a lot of that was moved in from elsewhere.

**EIR:** Okay, and now, your auto-worker constituents in the Louisville area report that their workforce—once 10,000 at the two Ford plants—is now being put into short work months, three weeks per month. So this is hitting big.

**Clark:** Yes, and they're talking about two work weeks per month. So you have a lot of UAW members especially, and because of the links between unions, you have this great concern about the auto industry.

And it's not just the Ford Motor Company, and it's not just General Motors, and it's not just that their stock has been relegated to junk bond status; you have real working families out here. And the spin-off jobs off the Ford Motors Company, and the General Motors plants, go to all your Allied, Bendix and other suppliers, the urban industries, the PRWs, all the second tier suppliers. And obviously, these second tier suppliers [going under] would wipe out most of your small businesses which actually supply the second tier suppliers to the Fords and the General Motors of the world.

**EIR:** So the whole population and complex is at stake.

Over the years, you have been an advocate for making a policy shift. You met with people on the Ohio Valley; you met with Lyndon LaRouche on policy. The latest we hear, is that a resolution modelled on yours and Mr. LaRouche's call

for Senate action, has been introduced in Missouri [see Documentation, in this section]. They have four or five auto plants. Do you find more alarm at the eleventh hour, with the public and lawmakers, or is it still very up-hill to get people to see the crisis?

**Clark:** I think it's still up-hill. The crisis hasn't quite settled in with everyone yet. Obviously, we're still fighting a battle when you watch your evening news—and I don't care what channel you watch, the CBSs, ABCs, the CNNs—they are all the same and they are all funded by the same people. You have your multinational corporations that are actually doing your advertising, and they are all mainly stockbrokers and banking houses. And they're not going to break through the news, and tell you any of the truth on this. There has been a kind of a squelching of the true economic condition of our nation.

With that battle, you're getting through to the people's minds, that, "hey, we've got a problem here."

**EIR:** Sometimes people have "dollaritis." When they think of the economy, they think money.

You mentioned the junk-bond status of GM and Ford. The downgrading you mention, comes on top of speculators—hedge funds, derivative traders, and others, already being in big trouble. There are shockwaves. Mr. LaRouche has just renewed his call for taxing these transactions—that is, throwing the spotlight of regulation on these wildmen, which he first made in 1993. You have also acted on that?

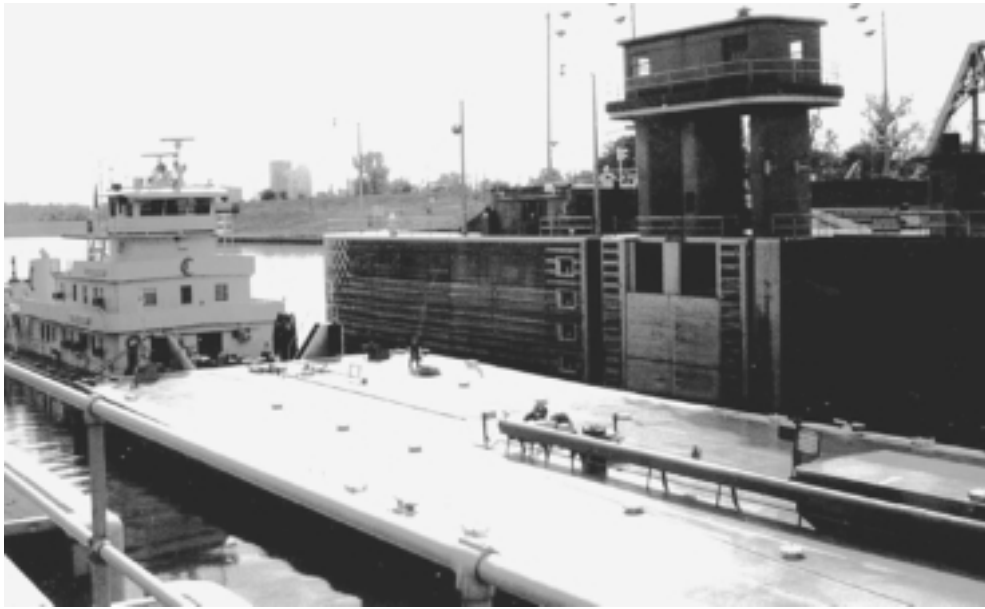
**Clark:** About six or seven years ago, I introduced a piece of legislation that would have taxed derivatives trades in the state of Kentucky, one-quarter of one percent. Now, the purpose was not to increase taxes; the purpose was to show how big the derivative market is. Obviously, I've had all kinds of people trying to stop me. And obviously, the bill never even got a hearing in committee. The governor told me that I didn't know quite what I was doing. And come to find out, that's because the state of Kentucky, through its retirement packages and things of that nature, has a lot of derivatives! And I don't think it wanted to be exposed at that time.

So, we're going to see what those derivatives do when the markets in general take a slide. They're going to go bust. There's no value in them. They're strictly speculating, gaming on a gain or loss on whatever margin of stock or item it might be. Pure gaming. No capital investment.

*Real stock, in real value, is the hard capital in tools and machinery, and the capacity to produce things. This is where value is.*

**EIR:** You were vindicated, along with LaRouche. Now we're in a crash situation.

Speaking of the political process of turning this around, what do you see ought to be built and rebuilt, if you're speaking from Henry Clay Country?



*A fuel oil tow passes through McAlpine Lock and Dam on the Ohio River at Louisville, Kentucky. The lock was closed for emergency repairs last Summer.*

**Clark:** Locks and dams all over Kentucky. On the Kentucky River alone, I believe we have nine dams that are in disrepair. Any of them could falter and go at any moment. Most of them were built right after the Civil War: big rocks thrown together, with timbers inside of them and concrete poured over top of them. It's time to replace those.

The water system that comes through the Kentucky River supplies the second largest city in our state, Lexington. For a couple hundred million dollars, you could rebuild that dam, add that dam, increase the size of that dam, and hold billions of gallons more water, because we know that a drought is going to hit central Kentucky. It always does. It's a cycle. It always catches people from behind, and they always lose money.

**EIR:** And there are people in trouble downriver, if there was a flood, and the dam wasn't kept up, and didn't hold.

**Clark:** That's true. Down in the Falmouth area.

And your whole electrical grid. We've got a problem, with just about everything we've got.

**EIR:** Passenger rail was taken out?

**Clark:** Yes. There is no passenger rail. I think you have to go to Cincinnati to get any passenger rail from here, whereas before, you could go to Chicago, southward and eastward.

**EIR:** Soft infrastructure? Medical care and public health?

**Clark:** That's a good question, and we probably need to ask someone from rural areas about how the rural health, and rural hospitals are in Kentucky, because we're from the big urban health center in Louisville. It is one of the largest centers in the United States and the world. And you can get great care. There's a lot of it available in Louisville. But there is an issue

on access to beds in rural areas.

**EIR:** What happens next with your resolution and your plans?

**Clark:** The legislature will not be back until January. In the meantime, I'll have this passed around to people, and we'll be talking about it.

And really, what we are asking, is that *the United States government, from the Federal level, has to intervene*. They have to vastly expand the funds available for infrastructure repair, for the maintenance of infrastructure, which is in a decrepit mode, and for rebuilding major infrastructure projects that bring wealth, abundance, and prosperity to the people. As the John Kennedy "great projects" would do.

Everybody that has a search engine on their computer needs to search "great projects" and look at what NAWAPA [North American Water and Power Alliance, reviewed by Congress in the 1960s, as an intercontinental plan to provide water and electricity to develop Western drylands] was, and what it could still do today.

NAWAPA could settle the Mexican-American border fights that we're having right now, by bringing prosperity into northern Mexico.

**EIR:** So Louisville, the Ohio Valley, would be reborn industrially and help provide the inputs into these big projects?

**Clark:** Absolutely. And I think that while we have lost a lot of the tooling manufacturing, you still have a lot of that last generation engineering mindpower that knows how to do big projects; that knows that these things can be done, and they are not limited to their petty thinking about day-to-day worries. I think you still have that mindset in the older generation that can still be salvaged.

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## Documentation

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### Missouri Resolution

*This resolution was filed on May 13 by State Rep. Juanita Head Walton (D) with the Missouri House of Representatives. Rep. John L. Bowman (D) and Rep. Craig C. Bland (D) are co-sponsors.*

#### **A Resolution Urging Congress To Take Emergency Actions To Save the Economy and the Auto Industry**

WHEREAS, an increasing number and variety of relevant specialists have been joining an international chorus which is warning that an ongoing, systemic economic collapse of the world's monetary system has now entered its terminal phase; and

WHEREAS, certain stop-gap actions must now be implemented to forestall the irreparable damage to our physical economy, which is typified by the presently accelerating crisis of the United States automobile industry; and

WHEREAS, any liquidation of the present structure of the physical productive capacities of the auto industry, especially its machine tool sector, would mean both the end of the United States of America as a leading physical economic power, and related kinds of chain-reaction damage to the world economy as a whole; and

WHEREAS, government must now be mustered to act in accord with the implied constitutional obligation of our modern nation state to promote the general welfare, both for our own republic and in concerted action among nations. Unless corrected, the present crisis would now become far worse than what was experienced in Europe or the Americas during the Great Depression of the 1930s; and

WHEREAS, some of the most essential immediate remedies required must be set into motion through included actions consistent with the combined explicit and implicit Constitutional powers of advice and consent of the United States Senate; since the United States Senate is presently the most appropriate instrument for setting into motion the indispensable steps of remedial action, despite manifest reluctance of some circles of the Presidency to grasp the urgency of the present national and world crisis; and

WHEREAS, our constitutional system, known as the American system of political economy, is premised implicitly on the included role of a system consistent with the notion of national banking, which provides our form of constitutional government with the power of its Executive acting in concert with the separate and distinct authorities of the House and Senate to create relatively vast masses of long-term credit for the immediate and long-term expansion of our national



*Missouri State Rep. Juanita Head Walton introduced Lyndon LaRouche at a press conference in St. Louis on Nov. 18, 2003.*

economy; and

WHEREAS, the creation of new productive capital can be accomplished, under our system, without interference by private financial interests; and

WHEREAS, under our constitutional system, this outpouring of debt-based long term capital must be used chiefly not only to create expanded productive employment, but also to create the long-term capital investment in improved basic economic infrastructure, agriculture, and manufacturing; and

WHEREAS, the principal interest and objective of the United States government in the current panic among leading North America automobile manufacturers is to ensure that the continued employment of the labor force associated with that industry remain as functioning, each and all in their present localities of employment; and

WHEREAS, the loss of the tool-making and related capabilities of that sector of the industry would be a strategic disaster of incalculable chain reaction consequences within our nation and the world; and

WHEREAS, the relationship between the machine tool and related elements, and the much larger mass of technicians and operatives employed downstream in the process is an integral relationship, creating situations whereby the employment of the one cannot be separated from employment of the other; and in which the ratio of less-skilled operatives to highly-skilled machine tool and related technicians similarly cannot be reduced; and

WHEREAS, the only remedy is diversification of the productive potential of the auto industry to a broader mixture of suitable forms of production, shifting large portions of current employment into the domain of essential capital goods of production and basic economic infrastructure; and

WHEREAS, whatever the disposition of the relevant trou-

bled financial corporations in the auto and related industries, the productive potential of the industrial labor force of the industry must be held together intact in their present locations making it necessary for the federal government to create the interim vehicle under which the continuity of physical operations can be continued; and

WHEREAS, the relevant choices of alternative markets for this purpose are chiefly in the category of basic economic infrastructure, such as the need to repair, expand, and improve our national railway systems, to maintain and improve our water management systems, and to maintain other urgently needed infrastructure projects; and

WHEREAS, these actions will result not only in saving our existing industry but also in the creation of large new areas of employment of our citizenry in infrastructure and manufacturing, comparable to the best of the New Deal programs that rescued the nation and the world from the last Depression.

NOW, THEREFORE, *be it resolved by the House of Representatives of the State of Missouri:*

**Section 1.** The Congress of the United States is urged to intervene on behalf of the national and related interests to ensure that the productive potential of the automobile industry, with its featured high technology and machine tool capability, be held together in place and intact.

**Section 2.** The United States government must intervene to vastly expand the construction and maintenance of infrastructure projects and related industries in the nation. The impact of this intervention on the State of Missouri will be to provide tens of thousands of productive jobs repairing our infrastructure. At least ten million jobs could be created nationally in these endeavors, while at the same time maintaining the auto production of the General Motors Corporation, of the Ford Motor Company and of their respective subsidiaries. This initiative will restore our tax base and increase the standard of living, in physical terms of our citizenry.

**Section 3.** The Clerk of the House of Representatives shall send a copy of this Resolution to each member of the United States Senate and the United States House of Representatives from the State of Missouri.

*Be it further resolved* that the Chief Clerk of the Missouri House of Representatives be instructed to prepare properly inscribed copies of this resolution for each member of the Missouri Congressional Delegation.

## Michigan Resolution

*This House Concurrent Resolution 0013 (2005) was filed on May 18 by Michigan State Rep. LaMar Lemmons III (D), as a concurrent resolution with the Michigan House of Representatives and the Michigan Senate. LaMar Lemmons III was joined by 19 Democratic Representatives as cosponsors.*

## House Concurrent Resolution No. 13

A concurrent resolution to urge the Congress of the United States to take every possible action to promote and diversify the automotive and machine-tool sectors of our national economy.

WHEREAS, An increasing number and variety of relevant specialists are warning that the collapse of the national economy could occur if certain stop-gap and long-term actions are not adopted and implemented to forestall the threats to our economy from the problems associated with the automotive and machine-tool sectors of our economy. Indeed, the loss of the physical capabilities of the automotive industry, and especially its machine-tool sector, could mean the end of America's leadership as a world economic power; and

WHEREAS, Government has an obligation to promote the economy through the creation of new capital investment, which will result in the expansion of employment opportunities and help jump-start long-term capital investment by private investors. We must ensure the continued viability of our automotive and machine-tool industries. The loss of these vital anchors of our economy would be a strategic disaster with incalculable chain-reaction consequences for our nation and the world; and

WHEREAS, One of the key options is Federal capital investment in diversification of the productive potential of the automotive and machine-tool industries into a broader mixture of production. Our nation needs to shift into the domain of essential capital goods and economic infrastructure, such as the repair, expansion, and improvement of our national railway systems; maintenance and improvement of water management systems; and the development of other urgently needed infrastructure projects. The result of this will be to save existing manufacturing jobs and create large new areas of employment in infrastructure and manufacturing for our citizenry in a manner comparable to the best of the New Deal programs that rescued the nation and the world from the ravages of the Great Depression;

NOW, THEREFORE, *Be it resolved by the House of Representatives (the Senate concurring), that we urge the Congress of the United States to take every possible action to promote and diversify the automotive and machine-tool sectors of our national economy; and*

**BE IT FURTHER RESOLVED,** That copies of this resolution be transmitted to the President of the United States Senate, the Speaker of the United States House of Representatives, and the members of the Michigan congressional delegation.

*Cosponsors of the concurrent resolution are: LaMar Lemmons, Jr., Frank Accavitti, Stephen Adamini, Pam Byrnes, Marsha Cheeks, Brenda Clack, George Cushingberry, Jr., John Garfield, John Gleason, Lee Gonzales, Hoon-Yung Hopgood, Alexander C Lipsey, Steve Tobocman, Mary Waters, Lisa Wojno, Ed Clemente, Michael C Murphy, Gino Polidori, and Paula Zelenko*

### GOP Splits Over Issue of Highway Spending

Yet another sign of discontent within GOP ranks over the Bush Administration's austerity policy emerged on May 11, when Senate Finance Committee chairman Charles Grassley (R-Ia.) and Budget Committee chairman Judd Gregg (R-N.H.) got into a verbal brawl on the Senate floor. At issue was the level of funding in the nearly two-years-overdue highway authorization bill. The Bush Administration is demanding that the six year bill be limited to \$285 billion, which is also the level set in the Fiscal Year 2006 budget resolution. Although it is a significant increase over last year, when the White House was threatening to veto anything over \$256 billion, a significant majority of the Senate was still not happy. The Senate voted 76 to 22, on May 11, to waive the budget resolution in order to increase the funding to \$296 billion.

The Democrats all voted for the increase, without dissent, and barely participated in the debate, leaving it to Grassley, and Environment and Public Works Committee chairman James Inhofe (R-Okla.), on the one side, and Gregg on the other, to fight it out.

Gregg charged that the bill was turned into a "budget buster" because it exceeded the amount allocated by the budget resolution, and that the revenue increases that Grassley added to the bill to offset the additional spending were "illusory," a charge which Grassley took personally.

"It is particularly troubling that this nonsense attack comes from a committee that doesn't do any of the heavy lifting to find real offsets and real savings," Grassley said, "but instead just finds reasons to complain about some other committee's work." Gregg, in turn, told the Senate that "for the chairman of the Finance Committee to come down here and say, in

terms which were most aggressive and most intense, that the Budget Committee was acting inappropriately . . . I think that is just misdirected."

The bill passed the Senate on May 17 by a vote of 89 to 11.

### Senate Panel Reports Defense Authorization Bill

On May 13, the Senate Armed Services Committee completed work on the Fiscal 2006 defense authorization bill, authorizing \$441.6 billion for the Defense Department, and, for the first time, including a \$50 billion authorization for military operations in Iraq and Afghanistan. The bill also includes, among other things, additional incentives for recruiting and retention of both active duty and reserve component troops, \$500 million to be dedicated to the task force working to develop countermeasures against roadside bombs, \$344 million for vehicle armor (which is \$120 million more than the Bush Administration is asking for), and an increase in the Army's end strength from 512,400 soldiers to 522,400.

The House has not completed work on its version of the bill yet, but is expected to approve a similar increase in end strength, which is expected to be vigorously opposed by the Secretary of Defense Donald Rumsfeld.

A related matter is also causing heartburn at the Pentagon: an amendment approved by the House Personnel subcommittee, on May 11, that would ban women from service in forward support companies, Army logistics units that provide direct support to infantry and armor units engaged in combat. Subcommittee chairman John McHugh (R-N.Y.) argued that the amendment only enforces the already

existing ban on women in combat, and would have only minimal effect on the Army, an assertion that the Army is disputing.

### Dems Propose New Ethics Rules That Target DeLay

On May 17, House Minority Leader Nancy Pelosi (D-Calif.) and Rep. George Miller (D-Calif.), the chairman of the House Democratic Policy Committee, announced a new proposal to rewrite some of the ethics rules of the House. Aside from outright banning of gifts to members of Congress by lobbyists, and lobbyist-financed travel, the package includes a provision to stop the so-called K Street project, a project of House Majority Leader Tom DeLay (R-Tex.) to populate the major Washington, D.C. lobbying firms with Republicans and make it harder for Democrats to get jobs in these firms.

Pelosi denied that the bill was aimed primarily at DeLay's alleged activities, though it is clearly intended to put a stop to some of those kinds of things. "This is designed not toward any member, but to the American people," she said. "It's about increasing their voices in the Congress instead of having it be in line behind lobbyists in Washington, D.C." She added that while she doesn't want to paint all lobbyists with the same brush, "I do see a network and a web that has been formed here, that corrodes the ethical standard, builds the skepticism of the American people as to what is going on here in Congress, and indeed paints all of us with the same brush."

Pelosi and Miller's proposal followed, by about ten days, one by Representatives Marty Meehan (D-Mass.) and Rahm Emmanuel (D-Ill.) which includes some of the same provisions.

### Once Again, the Transaction Tax

On May 15, Lyndon LaRouche reissued his call, first made in 1993, for a transaction tax on all derivatives trades. At that time, a full year before the world financial system began to blow out as a result of huge derivatives losses, the world famous economist proposed a mere 0.1% tax on the notional, or face, value of every derivatives trade.

Even at that time, the purpose was twofold. On the one hand, such a “sales tax” on this huge and growing speculative market would bring in a substantial chunk of revenue, at least at the beginning. On the other, even such a small tax would prove to be a substantial disincentive to such trades, contributing to the worthy cause of shutting down what was clearly a parasitical drain on the world economy.

In 1993, *EIR* estimated the total volume of derivatives trades to be \$80-100 trillion annually. It had to be an estimate, because the lion’s share of these trades is not reported. Even the figures available from investment houses indicated that derivatives trading dwarfed the balance sheet assets of the big U.S. banks. And the rate of growth was stupendous. A chart of the size of the derivatives holdings of J.P. Morgan Chase, in the year 2000, based on both company and Comptroller of the Currency figures, showed the derivatives holdings to be \$24 trillion, as compared to \$660 billion in assets, and a mere \$36 billion in equity.

Over the past years, the growth of derivatives, in kind and number, has continued astronomically. The latest estimate put total Over the Counter (OTC) derivatives volume at \$248 trillion a year. This puts the total derivatives volume in the range of quadrillions.

So, is this the next source of wealth for our economy, to be garnered by simply putting a small tax on each transaction? No. Such a tax will not provide the funds to bail out a hopelessly bankrupt global financial system. Rather, it will force those institutions carrying out the trades to make disclosures of their derivatives transactions, and bring a new transparency into the world financial system. Such transparency is a major step toward *re-regulation* of the system, a *sine qua non* for returning our world financial system to sanity. And once such transparency is achieved, it will demonstrate

primarily that a whole lot of theft has been going on. The so-called profits which have been claimed from these speculative accounts, are going to rapidly disappear.

So, don’t look at this transaction tax as a revenue source. Look at it as a means of imposing re-regulation, and of drying out the system. The bubble of unpayable debt is going to burst anyway. We might as well achieve that end through measures that will start the process of re-regulating the financial markets.

What next? That is the question being addressed by LaRouche in his proposals for bankruptcy reorganization, and the issuance of trillions of dollars of Federal government credit directed at those major infrastructure projects which are necessary to bring our economy back above breakeven in a true economic sense.

Drying out the speculative markets is only the first step toward actually putting our financial system back in order. What must be established again is a direct correspondence between the issuance of money, and the production of real wealth. Money must again become the servant of the physical economy, with the sovereign power of the Federal government being used to underwrite real economic growth, not the right to steal.

This idea will be very hard for many to understand. From at least 1971 on, the idea that the economy is based on money, not production, has taken over our culture. A whole generation has been raised on the idea that money is wealth, even as their physical standard of living went through the floor. They are going to have to face the fact that a lot of the money that has been created is totally worthless, and can be wiped out with absolutely no harmful consequences.

LaRouche has been proposing such a shift for more than 30 years, but most people didn’t think they had to listen. Now that the blowout is finally catching their attention, leading policy circles are finally beginning to understand that they had better pay attention to what LaRouche has been saying. Sanity begins with differentiating between speculation, and investment in physical wealth. So, let’s start with the transaction tax, and move on from there.