

# EIR

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British minerals grab targets S. America  
Civil war destroys Algeria as world looks on  
Pennsylvanians take lead to defend welfare

## Return to the Machine-Tool Principle

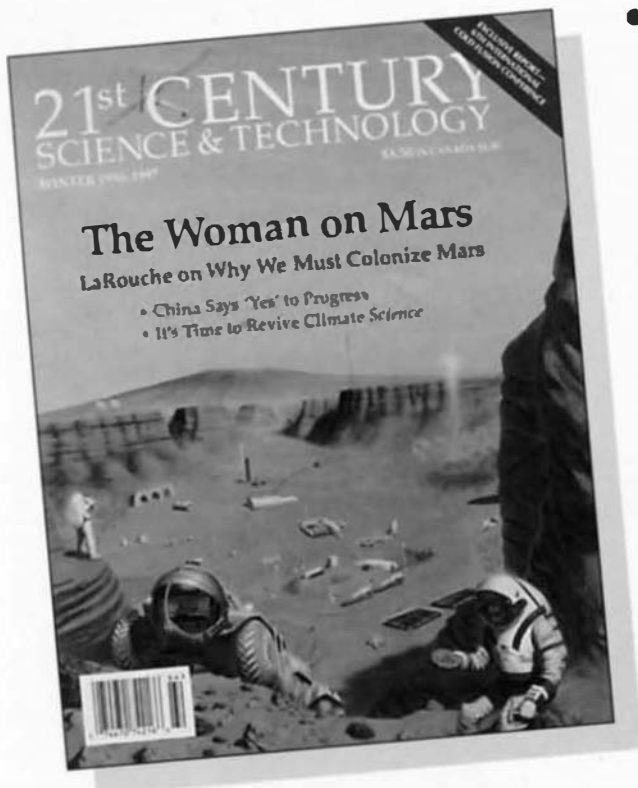


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## From the Managing Editor

**O**ur *Feature* this week, on the Machine-Tool Principle, underscores the urgency for the exoneration of Lyndon LaRouche, the author of the introduction to the package. Every day, more and more, it is recognized that the world financial system is, at any given time, only moments away from systemic collapse. Under such circumstances, a new “Bretton Woods” system must be organized, along with key projects, such as the Eurasian land-bridge, to pull the United States and the world out of economic depression. In this context, there is no one, except LaRouche, who has the scientific and historical mastery, who knows how to organize a sustained economic recovery. And, if the White House decides to act, he must play a hands-on role in organizing a recovery. The British-led oligarchy, using its minions such as George Bush, railroaded LaRouche to prison precisely to prevent this.

As LaRouche has made clear, a return to “better times,” such as during the 1960s, is not enough. The poison of the Enlightenment, and its corruption of Classical, scientific method, must be rooted out if the human race is to achieve the creative breakthroughs needed for continued increase in potential relative population density.

The process of how discoveries are translated into economic advances, through the design and construction of machine tools, and the importance of machine tools for production, are outlined, in this, the first of *EIR*'s packages on machine tools. Understanding the role of this economic sector is indispensable for bringing the world out of the threat of a New Dark Age.

Let me also call your attention to a resolution passed by the German parliament (p. 65), which defends the territorial integrity of Sudan, and says that peace in Sudan's civil war is possible, because all the sides want peace. This is an important political development, which will help derail the British game plan for recolonizing Africa. As we documented in our *Feature* stories in the last two issues, Sudan is the victim of British-instigated foreign invasions. Our *Editorial*, authored by Lyndon LaRouche, poses what is at stake for the United States, the disastrous quagmire which awaits, if it accedes to British policy.

*Ronald Kokinda*

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The genocide visited on Africa, on behalf of the Empire's strategic minerals cartel—including the Barrick Gold Corp. of "Sir" George Bush—is the dagger being pointed at Ibero-America.

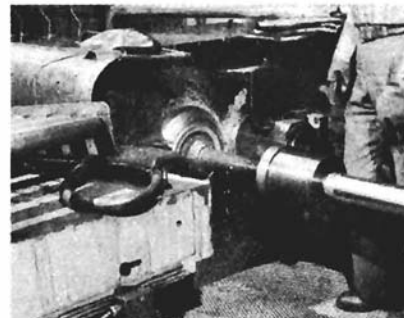
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**Correction:** In our Jan. 24, 1997 *Feature* on Sudan, the caption to the picture on page 25 shows Lyndon and Helga LaRouche (left) being received by Dr. Ghazi Salahuddin Attabani (center), the secretary general of the National Congress. We apologize for the error.

In that same issue, due to a transcription error, on p. 39 we mistakenly misspelled the name of the head of Sudan's SSIM. It should be Riak Machar.

## Feature



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## British minerals grab targets South America

by Cynthia Rush and Gonzalo Huertas

Those in this hemisphere who look at the genocide now occurring in Central Africa and think it has little to do with them, had better think again. The bloodbath taking place in Zaire and the surrounding region, is the face of the future for the rest of the world, particularly the developing world—if the elite oligarchical families, banks, and corporations belonging to the London-centered Club of the Isles have their way.

Driving the genocide is London's global offensive to seize raw materials, on the assumption that possession of these strategic assets will shield its prominent usurers and speculators from an imploding international financial system. To grab these resources, the British Crown intends to dismember nation-states and replace them with privately owned enclaves or mini-states from which mineral wealth can be extracted. The slave labor force to work these regions will come from those not killed off by war, starvation, or disease.

This is the British Empire revisited. As *EIR* documented in its Jan. 3 issue, Canada's Barrick Gold Corp., on whose International Advisory Board sits "senior honorary adviser" Sir George Bush, is at the center of the horrific events unfolding in Zaire. Bush claims to be only a retired U.S. President with "no interest" in business deals. In fact, he is up to his eyeballs, not only in African genocide, but in using his well-known thuggery and dirty intelligence operations to open up other parts of the world on behalf of the British Crown.

Indonesia is a case in point.

Last November, Bush personally wrote to Indonesian President Suharto, "recommending" Barrick as a partner for Bre-X Minerals, the company which discovered what could be the biggest gold find of the century, the Busang mine in Indonesia's East Kalimantan. Bush's arm-twisting paid off: Soon afterwards, the Jakarta government ordered the two companies to reach an agreement, whereby Barrick would

take a 67.5% stake, Bre-X 22.5%, and the Indonesian government 10%.

Resistance to this deal from inside Indonesia is causing headaches for Barrick CEO Peter Munk, however. As the Jan. 18 London *Financial Times* pointed out, Munk is increasingly nervous because, since the proposal was filed in mid-December, "the silence from Jakarta has been deafening." Moreover, one of President Suharto's oldest and closest associates, timber baron Mohamad "Bob" Hasan, has warned of the dangerous precedent set by Indonesia ordering a forced marriage between Barrick and Bre-X. Amien Rais, chairman of the 25 million-member Muhammadiyah Islamic Organization in Indonesia, criticized foreign mining companies for extracting wealth with little return benefit to the nation. Amien Rais is also associated with the Indonesian Association of Muslim Intellectuals, headed by top Suharto associate B.J. Habibie, Indonesian Minister of Science and Technology.

Also worrisome to Barrick is the fact that its rival, the Canadian mining company Placer Dome, has offered an "equal partners" merger to Bre-X Minerals to develop Busang, while giving Indonesia a 40% stake in the mine. The *Financial Times* reports that it's "only a matter of time" before a full-scale bidding war breaks out, with other firms jumping into the fray. The environment is such that in a Jan. 17 letter to Munk and Bre-X Vice Chairman Peter Flederhof, Indonesia Energy Minister Ida Bagus Sudjana warned that, failing a resolution in 30 days, the government would assume full rights over the richest parts of the finds, Busang II and III.

### Menem to Barrick: 'Take me, I'm yours'

In its 1994 annual report, Barrick stated that "close to two-thirds of the exploration and development drilling budget [for 1995] will be spent in South America where the Company



*Argentine President Carlos Menem (left) at the White House with President George Bush in 1989. Today, he's telling Bush's Barrick Gold Corp.: "Take me, I'm yours."*

has decided to focus its efforts." The company emphasizes that its "aggressive expansion" plans have brought it into Peru, Bolivia, Brazil, Argentina, and Chile. Brazil is a choice target because of the Amazon region's extraordinary wealth of strategic minerals, long greedily eyed by foreign interests. The Oppenheimer family's Anglo American Corp. is rumored to be the purchaser of the Amazon-based Companhia Vale do Rio Doce (CVRD), the gigantic state-owned industrial and mining complex which the Cardoso government intends to privatize.

But in Brazil there is strong resistance, especially from the Armed Forces, to the giveaway of national assets to foreign users.

Argentina is a different story. Blessed with enormous agricultural and mineral resources, Argentina today is an occupied nation. Its economic, political, and territorial sovereignty have been handed over to its historical enemy, the British, or their stalking horses. The government of President Carlos Menem has overseen the destruction of the Armed Forces, and the sale of treasured national assets at fire-sale prices, allowing speculators such as George Soros to become one of the country's most powerful landowners. The International Monetary Fund's (IMF) financial dictates have fragmented the country. Many provincial governments have created their own currencies and conduct their own foreign policy. Some of those bordering Brazil on the east or Chile on the west have even spoken of seceding from Argentina to become part

of those countries.

President Carlos Menem, who says that Argentina's future lies in mining, is George Bush's close friend. When Bush waltzed into the country last November on the arm of Korean mafioso and pervert Sun Myung Moon, he stayed at the Presidential residence of Olivos at Menem's invitation. Bush played down the fact that he had travelled to speak at the dinner inaugurating Moon's new newspaper, *Tiempos del Mundo*, telling the media instead that the event happened to coincide with "a business trip." Interestingly, former Canadian prime minister Brian Mulroney, another member of Barrick's International Advisory Board, was also present at the Moon event.

*EIR* has learned that while in Buenos Aires, Bush met privately with executives from Argentina's mining sector. Was his "business trip" on Barrick's behalf? No further details are available on his meetings. What is known is that Barrick is getting special treatment from both the Argentine and the Chilean governments, for its activities in the strategically important border region.

Sources at the Mining Secretariat in Buenos Aires confirmed to *EIR* that two mining protocols between Argentina and Chile, had been signed on Jan. 9—at Barrick's request! The protocols will allow two of the company's mining projects in San Juan, the El Pachón copper deposit and the Pascua-Lama gold deposit (see no. 5 on map), to proceed immediately, without waiting for the expected April signing of the

## Argentine and Chilean border mining areas



Source: *La Nación* of Argentina.

Mining Integration and Complementarity Treaty between the two nations.

Barrick has operated in Argentina since 1991 under the name Barrick Exploraciones Argentina, S.A. Headquartered in the province of San Juan, on the Chilean border, the company has exploration projects located in San Juan, Salta, Catamarca, and Santa Cruz. The latter province, according to one mining expert, "is filled with gold." The two projects covered by the protocols are binational deposits, but Barrick owns them on both sides of the border. Pascua-Lama on the Argentine side is still in the feasibility-study stage, but is more advanced on the Chilean side. El Pachón, on both sides of the border, is owned by Canada's Cambior Inc. and its subsidiary, Minera San José, S.A. Canada's LAC Minerals, which owns Cambior, was bought by Barrick Gold in September 1994.

### Carving up the nation

Mining experts predict that once exploitation begins, El Pachón could become the world's largest copper mine. It is

also estimated to have sizable gold deposits. The Argentine Industry, Commerce, and Mining Secretariat reports that there are proven and probable reserves of 834 million tons of copper at El Pachón, and that in the first year of exploitation, production could reach an average of 15.3 million tons of copper. By the seventh year, this figure could go as high as 23.8 million tons.

The two protocols signed Jan. 9 allow Barrick to proceed as if the Mining Integration Treaty were already in effect. That means that the border region effectively becomes a buffer zone, an area carved out of each nation which will really belong to no one—except Barrick or the other predominantly British Commonwealth mining firms which have invaded both countries, but particularly Argentina, over the past five years. In effect, this is the reincarnation of the old British trading companies—the British East India Co. and others—which were the backbone of the Empire's brutal colonial looting practices. One mining official told *EIR* that South Africa's Rio Tinto Zinc, another of the Club of the Isles' corporate members, doesn't allow Argentine government officials to inspect its mines, and refuses to submit production statistics to the relevant government agency.

The protocols, copies of which *EIR* has obtained, define these zones as "Operations Areas, located on the border between the Republic of Argentina and the Republic of Chile, extending to both sides of same." Personnel, vehicles, machinery, inputs and other goods "may circulate freely in the Chilean or Argentine sectors," the Pascua-Lama protocol states, and a "special border crossing" will be set up, to allow for this.

These documents also stipulate that the parties "shall fully apply the rules of the free market in the development of all activities pertaining to the project, and shall not place restrictions beyond those contemplated in their own legislation for the free utilization of the goods and services these activities demand." This won't be a problem for either government, given their slavish commitment to the free market.

Any infrastructure needed to transport mineral wealth out of the region for export, will be built and paid for by Barrick. The San Juan daily *Diario del Cuyo* reports that 60% of the copper concentrates produced by Pachón will be exported through ports on Chile's Pacific coast, while 40% will be exported to Europe via Argentina. Under discussion is the construction of a 145-kilometer pipeline from El Pachón to Los Vilos in Chile.

On paper, the protocols state that Chilean and Argentine authorities will be zealously enforcing their nations' laws and protecting their sovereignty, even in the binational Operations Areas. But in comments to the Buenos Aires daily *La Nación* last December, Argentina's Undersecretary of Industry, Commerce, and Mining, Daniel Meilán, gave quite a different impression. The beauty of the Mining Integration Treaty, he said, is that it will *eliminate borders* at those mining zones shared by Argentina and Chile. After all, he said, "geology



came before borders.”

In additional comments reported in *La Nación* Jan. 15, after the protocols were signed, Meilán insisted that Chilean and Argentine miners working at these projects will not require special immigration status or paperwork. He further elaborated that the treaty removes all previously existing restrictions on individuals from either country wishing to invest in the other country’s border region. Foreign companies, Meilán said, “will be treated on either side of the Andes as if they were national firms.”

### A Chilean ally?

As the map shows, there are eight mining regions along the 5,300 kilometer Chile-Argentine border identified as being of “common interest” to both nations. Many of the 46 foreign mining companies from British Commonwealth countries which operate in Argentina, are involved in the border region.

To facilitate their operations, Argentina has already begun shutting down its military installations along the border, located there originally to defend the nation’s sovereignty. Chile, which has historically served British geopolitical interests in the region and, coincidentally, has bought up many of Argentina’s privatized companies, especially in the strategically important energy sector, will now be Argentina’s “friend.” The presence of Chilean billionaire Adronico Luksic Avaroa on Barrick’s International Advisory Board is of interest here. The Luksic Group has bought up banking, agricultural, and industrial entities throughout Ibero-America. One of its most recent projects was to set up a continent-wide banking consortium together with Dope, Inc.’s Hongkong and Shanghai Bank and Spain’s Banco Central Hispanoamericano.

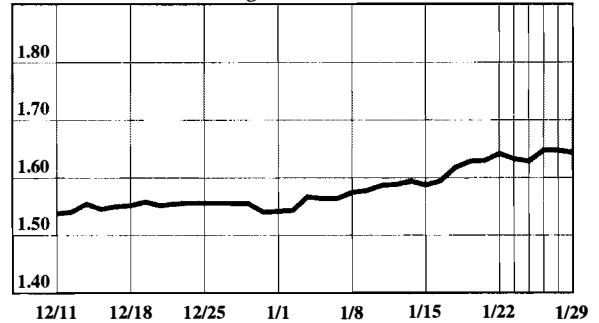
Given Chile’s role as a stalking horse for the British, and the history of relations between the two countries, few Argentines swallow the Chilean “friendship” line. A columnist for the La Plata daily *Hoy* charged last December that Chile’s involvement in these deals had more to do with the fact that its own mineral resources were exhausted, and that the richest and closest veins “are in Argentine territory.”

President Menem is nonetheless frenetically organizing to cement this alliance via passage of the controversial Continental Glaciers Treaty, which will presumably resolve a territorial dispute with Chile on the border of the Patagonian province of Neuquén. Menem claims the treaty is necessary to assure foreign investors that there is no possibility of a military conflict between the two. The treaty is viable, he adds, because the two nations are now “democracies,” and those who oppose it want to return to the days of “arms races” and militarism. Reportedly, \$2.5 billion in foreign mining investment is contingent on the treaty’s approval. According to a former Argentine ambassador to Chile, beginning in Neuquén and going north, “there are immense mineral reserves, especially gold.”

## Currency Rates

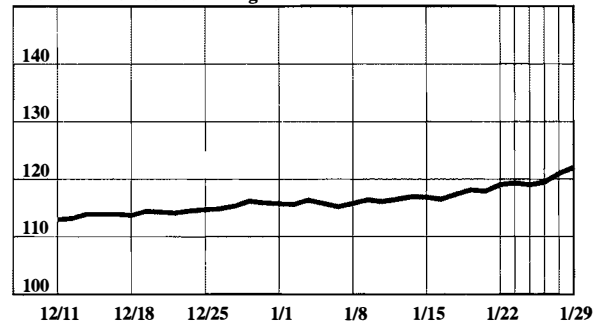
### The dollar in deutschemarks

New York late afternoon fixing



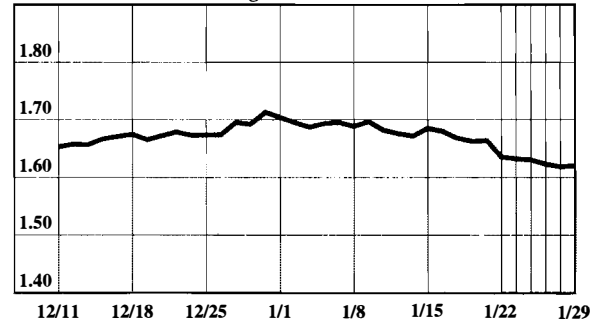
### The dollar in yen

New York late afternoon fixing



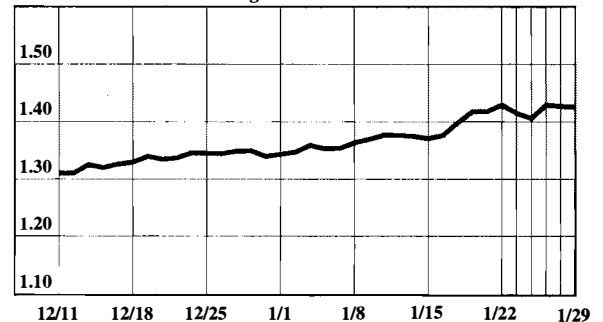
### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



# Business Briefs

## Great Britain

### Child labor found to be widespread

More than 2 million British children under the age of 13 are employed illegally, often in hard physical labor, according to a new study by the British Trade Union Council, the German Deutschland Funk radio reported Jan. 20. In one out of every five British households, none of the adult members has work, so the income of children is often a major part of the family budget.

In Britain, there is no official minimum wage, and children are often employed at construction sites and other physical work, for wages of \$1 to \$1.50 an hour. The extent of illegal child labor was revealed in the context of a major political discussion in Britain, on how to improve the quality of education. It turned out, that many children do not learn properly in school, because they are physically exhausted from their work outside school.

## Economic Policy

### French have succumbed to Malthus, says editor

Thomas Malthus is the "secret master of the French society elites, a kind of hidden Imam of France's unique ideology" currently dominating the country, Laurent Joffrin wrote in *Libération* on Jan. 15, in an editorial entitled "Malthus Is a French Name." Malthus "founded perhaps not a school but a mentality dedicated to austerity, pessimistic and restrictive, which has a name: malthusianism," and, even though all his predictions were wrong, Malthus "has become, today, a French specialty," he said.

"In our country," Joffrin said, "the monetary authorities who are halting growth in the name of the fight against inflation . . . are malthusians. . . . The right wing, by accepting this policy and spending more time on reducing deficits than promoting activity," is "malthusian," just as the "larger part of the left is malthusian, when it struggles more for the reduction of working time . . . than for

the creation of new riches, without which there is nothing to share. The environmentalists are malthusians, adapting themselves to the economic stagnation in the name of the protection of the planet." The company heads are "malthusian" because, worried only about their treasury, they mistrust "investment and creation of jobs." And finally, "public opinion is malthusian," when it supports retirement at 55 years of age and fights against immigration. Joffrin warned, "A nation where there is fewer and fewer young people grows less and less in the future. That nation is ours!"

## Agriculture

### Ecological farming would be slavery, says professor

"The most important ecological responsibility is, and always will be, to supply humans with food," said Prof. Wolfgang Haber, from the Institute for Ecology at the University of Weihenstephan, at the annual meeting of the German Agricultural Society in Wiesbaden on Jan. 15. It is "mandatory to have intensive, high-yield agriculture as long as the number or the preferences of people do not shrink drastically. Therefore, I warn against extreme proposals . . . to have islands of high-yield agricultural production on one side, and a complete conversion to ecological farming on the other. . . . Such proposals will result more or less in a new form of slavery."

In developing countries, "it would be neither ecologically right nor responsible to introduce low-yield agricultural techniques, that completely renounce mineral fertilizers, chemical plant protection measures, and even genetic engineering. More so, they have to be applied in a responsible manner," Hager said. Until these countries are able to feed themselves, food aid will be necessary, especially grain, donated by the industrial countries. "This puts overproduction, which everybody complained about so much in the past, in a completely different light. It even makes overproduction mandatory."

Haber said that "ecology has to be seen from the standpoint of man, and the most important question every serious ecologist

has been dealing with is how living entities feed themselves and how nature delivers it to them. . . . From an ecological standpoint, you have to demand a new green revolution."

## Russia

### Poverty grows worse, as unpaid wages mount

More than 75% of all Russians earn a monthly income of less than 650,000 rubles, equivalent to about \$118 or less per month, according to figures released on Jan. 21 by the Russian Center for Living Standards, Itar-Tass reported. Vyacheslav Bobkov, the center's director, said that "more than 25%" of all Russians live in "abject poverty," with a monthly income of less than 320,000 rubles (less than \$58 a month). Within that "abject poverty" group, Bobkov identified a group of people living in "extreme poverty," namely, 11% of all Russians. He defined "extreme poverty" as a monthly income of less than 219,000 rubles (about \$40). Bobkov said that about 50% of the population live on incomes "between 320,000 rubles a month and 650,000 rubles a month" (\$58 to \$118 a month).

Bobkov classified 6% of the population as "middle class," with monthly incomes between 650,000 and 1.9 million rubles (\$118 to \$350 a month). About 8% of the population were termed "rich," with monthly incomes of more than 1.9 million rubles.

As these figures suggest, there is more than a bit of doctoring involved to underplay the full extent of poverty. The middle- and higher-income groups add up to at most 15% of the population, while the lower groups add up to, at most, about 80%. From 5% to 10% of the population are "missing" in the compilations, but, given the formulations "more than 25%" and "about 50%," all the "missing" in fact fall into the lower-income categories.

Also on Jan. 21, the Russian State Statistics Committee released updated figures on the level of arrears in unpaid wages and pensions. These now stand at 45 trillion rubles (about \$8.5 billion), which means the poverty figure will continue to rise.

## Finance

### A blowout is near, warns French paper

The French daily *Le Monde* joined a growing chorus of voices in Europe that a financial crash is imminent, in its Jan. 21 economic supplement, entitled "Is the Financial World Going Up in Flames?"

*Le Monde* wondered, "Is the financial machine going off the deep end?" It outlined the exponential growth which has characterized the financial markets recently. "During the first nine months of the year, \$1.195 trillion of stocks and bonds have been emitted, a figure characterized as 'stupefying' by the OECD experts in a study." The daily volume of trading in the exchange markets in 1973 was close to \$20 billion, \$200 billion in 1986, and \$1.1 trillion in 1995. The derivatives market, where "the development has been even more rapid," had reached, by the end of 1995, the "astronomical sum of \$327.6 trillion, i.e., 50 times the equivalent of the yearly GNP of the United States. . . .

"How not to tremble when imagining the consequences of an eventual brutal displacement of such masses of capital? How can one ignore the risks of the creation of a virtual economy disconnected from the real economy? In front of the flight-forward growth of financial instruments, the bad omens predict a collapse of the stock markets."

## Southeast Asia

### Indonesia needs German industry, says minister

German *Mittelstand* (i.e., small and medium-sized companies) are needed in Indonesia, not only in the aerospace sector, where Indonesia is now developing its own 50- and 68-seat civilian airplanes, but "also in all the other areas such as railways, automobile technology, shipbuilding, and so on," Indonesian Minister for Research and Technology Dr. Bacharuddin Jusuf Habibie said, in an interview with the German engineering weekly *VDI-Nachrichten* during a visit to Germany in January.

Habibie said that the German people are

upset that German companies are investing more and more in foreign countries, and eliminating domestic jobs. But, he said, "you can no longer insist on only exporting finished products; you have to export ideas, and you should receive a good price for this."

While big companies such as Siemens and Daimler-Benz are active in Asia, what Indonesia needs is the engagement of small and medium-sized German companies. The big companies, for example in the aerospace sector, we have ourselves, Habibie said. But small and medium-sized supplier industries don't exist. Habibie called on the German states, "for example, North Rhine-Westphalia, to invest in the future," that is, to start aid programs for German *Mittelstand* industries, so that these companies can cooperate with countries like Indonesia.

## Germany

### Churches warn about unemployment costs

It is not the costs of the welfare state, but the costs of mass unemployment which are a threat to society, a joint declaration by the Catholic and Lutheran churches of Germany says. The final text of the document will not be released before Feb. 28, but the draft was leaked to the media on Jan. 22, in the context of battles over more cuts in the labor and welfare budgets.

The authors reportedly attack the "neoliberal view" that the social welfare system and other social costs are allegedly the main cause of protracted mass unemployment. They say that no lowering of the jobless rate has been observed, despite cuts in social programs. Mass unemployment, however, not only imposes financial burdens on society, but undermines the principle of solidarity and, thereby, the foundations of social peace and democracy.

Unless financial properties are taxed for the funding of common societal tasks, the authors say, the grave social and economic problems will not be solved.

The statement was echoed by the tabloid *Bildzeitung* on Jan. 22, which suggested that the government "tax the excessive stock market profits and create new jobs with that money."

**KAZAKHSTAN** Deputy Foreign Minister Almas Hamzaov reiterated his nation's request to join the Iran, India, Turkmenistan Transport Agreement, at a meeting with Iranian Ambassador Hasan Qashqavi, in Almaty, the Kazakh capital, on Jan. 16.

**RUSSIA** has accepted the renewal of the monopoly over its diamonds exports by the British Empire's South Africa-based DeBeers cartel, according to the *Diamantaire* newsletter. DeBeers broke off the relationship on Jan. 1 over resistance to the monopoly from Russian diamond cutters.

**GERMAN** banker Johannes Zahn, 90, one of the leading figures in post-World War II reconstruction, is warning that "international financial speculation . . . has to a far extent fallen out of control," Klaus C. Engelen, chief editor of the economic daily *Handelsblatt*, reported Jan. 20. Zahn says that central bankers as well as governments are under the dictatorship of global markets.

**THE TRANSRAPID** maglev German rail project will get backing from the Young Union of Mecklenburg, a new youth alliance of Christian Democrats, Social Democrats, and Free Democrats formed in the state on Jan. 22. It is "an entirely new technology that creates jobs and opens up new dimensions in high-speed transport," the group's chairman said.

**CHINA** has completed feasibility studies on a \$50 billion project to move water from the Yangtze to the Yellow River in the north, the *Asia Times* reported Jan. 9. China plans 6,000 water supply projects by the year 2000, costing \$2.8 billion, and aimed at bringing running water to 80% of the population.

**ITALIAN** milk producers began protests in January, against fines which individual farmers (not the state) must pay to the European Union for surpassing production quotas. Since 1982, Italy has been assigned a quota of 9.9 million tons—only 60% of internal consumption.

## Return to the Machine-Tool Principle

by Lyndon H. LaRouche, Jr.

Jan. 22, 1997

In science, and in history, the delusions of blind faith in “simply self-evident facts,” exist only in the minds of the brutishly illiterate and the sophists. True facts, like highways, do not exist in empty space; the first step toward truth may be the recognition that roads, rather than existing as “self-evident facts,” may be represented, inadequately, as situated within a well-defined physical geography. In truth, today, roads, and railroads, like shipping lanes, and all other artifacts, are selected, developed, and used, by mankind as part of a *physical-economic* geography, including the physical-economy of warfare: in truth, as parts of corridors essential, for the efficient linking of nodal points of a national, and world economy.

Similarly, machine tools come into existence, and are used, as expressions of an historically situated phase of world and national processes of economic, cultural, and demographic development. In economy, nothing, including a machine-tool, can be competently defined as a fact, without first situating its existence within that functionally historical setting in the course of which it appears, and is later superseded by a better one. This principle of scientific method was identified by Gottfried Leibniz by such rubrics as “*Analysis Situs*.”<sup>1</sup>

Nothing competent can be said about any aspect of economic, political, and cultural problems today, without first stating the following. We proceed thus here.

*Analysis Situs*: Since the middle of the 1960s, an accelerating, fundamental, downward trend in economic policy, has dominated the economies of the U.S.A., western Europe, and international relations generally. *Analysis Situs*: In the setting

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1. See “Studies in a Geometry of Situation,” in *Gottfried Wilhelm Leibniz: Philosophical Papers and Letters*, Leroy E. Loemker, ed., Second Edition (Dodrecht, Netherlands: Kluwer Academic Publishers, 1989); pp. 248-258. The Leibniz *Monadology* should also be read as a text on the subject of *Analysis Situs*.



Astronaut "Gus" Grissom demonstrates the two-man spacecraft "Gemini" to President John F. Kennedy and Vice President Lyndon Johnson in 1962. In the aftermath of the Cuban Missile Crisis and the Kennedy assassination, leading oligarchical family circles assumed that there was no longer a danger of general nuclear warfare, and "no foreseeable strategic need to continue the institution of the modern sovereign nation-state, or the form of agro-industrial policies associated with that form of nation-state."

of the new "balance of power agreements" emerging in the aftermath of the 1962 "Cuba Missiles Crisis," and of the November 1963 assassination of U.S. President John F. Kennedy, leading oligarchical family circles, in the United States and western Europe, assumed that there was no longer a danger of general nuclear warfare among the principal powers, but only diplomatically managed, "limited wars," including "international terrorism." Thus, leading circles among these wealthy oligarchical families, assumed, that, for the medium and long term, there was no foreseeable strategic need to continue the institution of the modern sovereign nation-state, or the form of agro-industrial policies associated with that form of nation-state.

Thus, again, *Analysis Situs*: The U.S.A. economy, and the world's, was shifted, at an accelerating rate, to a policy of fostering "neo-Malthusian," "post-industrial" utopianism, away from the commitment which had characterized all our republic's economic and cultural successes, from our first war against the British monarchy, 1776-1783, until the mid-1960s: increasing the productive powers of labor through *strategic* investment in scientific and technological progress.

Under this regime (*Analysis Situs*), about 1966, this shift in policy was spread from the disastrous Prime Minister Harold Wilson's United Kingdom, into the United States, and also into the western European continent. The first neo-Malthusian policy was introduced into the U.S. State Department about 1966. It arrived in the U.S., domestic, economic

policy, during 1966-1967, as the first of a series of massive cut-backs in the space program.

An accelerating contraction in the economy followed such 1966-1967 policy-shifts, leading into the Chrysler and Penn Central bankruptcies of 1970, and the "Henry A. Kissinger administration's" August 1971 take-down of the pre-existing Bretton Woods agreements. As a continuation of this plunge into "post-industrial" utopianism, we experienced the 1971-1972 shift, from a system of stable international monetary relations, into the speculators' lunacy of a "floating exchange-rate" system. President Jimmy Carter's October 1979 appointment of Paul A. Volcker as Federal Reserve chairman, completed the principal policy-changes under whose guidance we are plunging into national bankruptcy today.

Consequently, as these things must be measured in physical content of market-baskets, the income and output of the U.S. labor-force, per capita, has fallen, today, to approximately half what it was a quarter-century earlier.<sup>2</sup> Hence, as shown in earlier issues of *EIR*: commonly, a U.S. house-

2. This includes not only physical goods as such, but also those forms of education, health-care, and science services (such as fundamental research) which are essential to fostering the per-capita cognitive potential of the population for current and future levels of scientific and technological progress in designs of products and productive processes. It includes not only household consumption, but also infrastructure, agriculture, mining, and industry. See discussion of this principle of economic measurement, under the rubric of "*Analysis Situs* in econometrics," below.

hold in the lower 90% of income-ranges, requires two to three incomes today, to attempt to reach the real-income standard achieved by households with one, or one-and-a-half incomes a quarter-century earlier.<sup>3</sup> Similar results prevail in western Europe, with worse results in eastern Europe and the former Soviet Union. The collapse prevailing throughout the developing sector as a whole, has been worse. The condition of sub-Saharan Africa has been unspeakable, and no national economy of Central and South America has failed to degenerate, consistently, during the entire twenty-five year period, especially since the beginning of 1982.

In fact, as measured in physical-economic market-baskets of purchasing power, the U.S. economy has contracted by more than 2% per annum each year since 1971. The false, contrary claims, by some agencies of the U.S. Government, and other quotable authorities, have been premised chiefly upon two general classes of fallacy in reporting. First, a mixture of wishful incompetence in choice of statistical yardsticks, combined with naked, politically motivated, outright statistical frauds by the Federal Reserve and other relevant agencies. Second, failing to take into account, imputable, unpaid costs, such as unrepaid attrition in previously constructed, essential economic infrastructure, combined with attrition in capital elements, such as machine-tool capabilities.

Take the case of the recent, disastrous floods in northern California, for which the blame lies, not with the weather, but the breakdown of over-aged flood-control infrastructure. The responsibility lies with those who made the decisions, during the past thirty years, to the present day, not to maintain the flood control systems which had been designed and constructed to prevent precisely such a catastrophe. Consider the cumulative deadly, or otherwise grave implications of a collapse of the nation's power or railway systems, and deregulation-caused collapses within the U.S. airline industry.

Consider the impact of the irrational shift in U.S. national policy of practice, away from inland waterways and rails, to that greatly excessive reliance upon costly highway transport, which has been the long-term, ruinous trend in the U.S. economy throughout the 1945-1996 interval.<sup>4</sup> The U.S. Army Corps of Engineers' estimates coincide with results of independent, late 1970s, studies made by the Fusion Energy Foun-

ation. In terms of energy costs per ton of bulk freight, rail transport is only 40% as economical as inland waterways, while truck transport is merely 30% as efficient as rail. Economic efficiency depends crucially upon increasing steadily the number, and relative cheapness, of kilowatt-hours available per household, and, even more emphatically, to agriculture and industry. In production, efficiency depends upon increasing the applied energy-flux-density of power, and the relative coherence of that application, per operative.

General economic efficiency depends upon maintaining increasing percentiles, over 90%, of the total population within well-maintained cities, as opposed to the vastly wasteful correlation of growth of "suburbanization" and urban slums, during the recent forty-five-odd years. The breakdown of the cities, has driven people into suburbs, with the resulting costs in time and money to households (and costs to national, state, and local governmental agencies) incurred through commuting, and also as the social costs of breakdown in family life, including the increase in crime-rates: all caused, in large part, by the costs and other burdens of commuting-time, an affliction added to the effects of an increased number of incomes required per household. As the recent thirty years' experience demonstrates, low costs of production, low-cost quality education, and health-care, can not be provided under the combined impact of increasing suburbanization and shifts into the "neo-Malthusian, post-industrial" utopianism, and into virtual-reality fads such as "information society."

Here, we focus upon a single, characteristic feature of the recent thirty years' devolution of the world economy taken as a whole: *the crucial impact of cutting deeply into capital costs of machine-tool input, ostensibly to effect a more competitive pricing of commodities.*

These cuts have been defended, often, in the name of lowering the costs of production, through decreasing the "overhead load" attributable to research and development. Obviously, if a firm eliminates the costs associated with use of the machine-tool factor in design of product and productive processes, foolish accountants and financial managers will insist, that this is an apparent cost-saving, which renders the firm more price-competitive, and also contributes to increasing the percentile of total income distributable to shareholders.<sup>5</sup> What has been contemptuously, and fairly described as the "globaloney" of "out-sourcing," is one of the tricks by means of which this looting of the productivity of the U.S. economy is extended to about the same ultimate effect as driving a truck across a non-existent bridge.

In reality, contrary to the sophistries of such financial managers and accountants, the result of continuing such pur-

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3. See Christopher White, "NAM's 'Renaissance' of U.S. Industry: It Never Happened," *EIR*, April 14, 1995; *EIR Special Report*: "U.S. Consumer Market Basket Shrinks to the Crisis Point," *EIR*, Sept. 27, 1996.

4. The systematic destruction of the post-World War II national transportation system, was fully under way during the 1950s, marked by the looting of the New Haven Railroad and subsequent, pre-1957 recession, failure to merge the Pennsylvania and New York Central systems. Then, under President Jimmy Carter's deregulation, came the ruin of both the national trucking and airlines systems. The proper, crucial relationship between a trucking and railroad industry, which still might have been pulled off during the second half of the 1950s, will require a protectionist program of reconstruction, and coordination of functions, of both the rail and trucking-warehousing industries.

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5. Financial managers and accountants represent an essential service to the management of the productive process, a usefulness which ends, abruptly, and often disastrously, when financial executives or accountants overstep the limits of their competence, to impose the mere "virtual reality" of their crafts upon management of the productive process.

ported savings, is national economic bankruptcy. In reality, the continued profitability of any modern agro-industrial economy, taken as a whole, depends absolutely upon the technological increase in productive powers of the labor-force, a gain in efficiency derived almost entirely from the combination of education for scientific and technological progress, and the associated role of the kind of machine-tool sector which was built up in collaboration between Alexander Dallas Bache's United States and Alexander von Humboldt's Germany, during the Nineteenth Century. The key to understanding the impending doom of the U.S. economy under the axiomatic trends in policy-shaping which have reigned during the recent thirty years, is the catastrophic collapse of, combined, the quality of education supplied in the classroom, and the savage, accelerating reduction of the role of the machine-tool sector of the economy.

### Southeast Asia: tabbies, not tigers

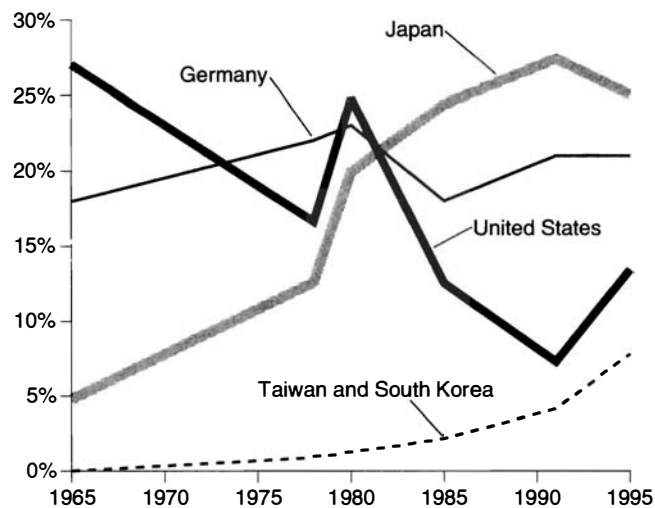
Amid today's popular gossip of the bar-rooms and the *Wall Street Journal*, there is the delusion, that the so-called "Asian Tigers" of Southeast Asia typify the glorious future of a world in which national economies have been junked, for the supposed advantages of "global economy." Let us explore that delusion, as a way of illustrating the general factual point to be made.

The term "Asian Tigers" is often applied carelessly to three axiomatically distinct species of economies in east Asia: a) The post-1949 agro-industrial economies of Japan, South Korea, and Taiwan, which are models for what could, and must be done throughout Asia generally; b) Hongkong and Singapore, those Venice-like parasites of the Orient, whose prosperity is, in large degree, a by-product of the flow of opium from the high mountain ("Golden Triangle") regions on Thailand's and China's borders; c) The presently imperilled, superficial, mayfly exuberance of Southeast Asia's Thailand, Malaysia, and Indonesia.

See **Figure 1**, "Tigers With Teeth," prepared by *EIR*'s Asia desk. This presents the evidence, that Japan, Taiwan, and South Korea's industrial economies, as measured in U.S. dollars of machine-tool output per capita, are dominated by a machine-tool sector which puts the rapidly collapsing, relatively backward U.S., apparently, into the class of an economically half-witted poor relative.<sup>6</sup> Note, in this chart, the 1979-

6. We may leave it to the Harvard University pro-racialist "Black Studies" program, which alleged, fraudulently, the genetic Africa origins of Harvard-invented "Ebonics," to say whether the economic superiority of the Japanese, Koreans, and Chiang Kai-shek's leadership, over American "Baby Boomers," should also be seen as genetic in origin. Competent researchers know that there are no genetically determined differences in cognitive potential of individuals which can be attributed to so-called "racial" origins. There is only the issue of the right to access of all persons, of whatever so-called "ethnic" origins, to whatever are the education and employment opportunities which correspond to the most advanced levels of culture on our planet. It amuses the writer, however, to throw into the face of the racialists, at Harvard and Vanderbilt Universities, and elsewhere, in today's U.S.A., the evidence

FIGURE 1  
**Tigers with teeth: percent share of world machine tool production**



Source: Association for Manufacturing Technology (formerly the U.S. National Machine Tool Builders Association).

1981 turning-point, the point at which the U.S. economy began its presently accelerated phase of collapse, out of the disastrous impact of the so-called "Volcker Measures" and Gramm-Rudman "budget-balancing" lunacies.

Do not classify Asia's blowfish among its tigers: Put to one side, the dangerously silly Mont Pelerin Society's choice of monetarist paradise, the non-comparable cases of the Venice-style, "hot-money" *entrepôts* of Asia, Hongkong and Singapore. Stick to the relevant cases; contrast the vast superiority of the real "Asian Tigers," of North Asia, with the "Potemkin Village" facade of prosperity, as featured in the Southeast Asia region: the Philippines, Vietnam, Cambodia, Laos, Malaysia, Thailand, Indonesia, et al. Consider, *seriatim*, some relevant points of distinction.

The Philippines used to enjoy a significant machine-tool potential, centered upon the U.S. naval base at Subic Bay; that potential began to be destroyed, by the U.S. government and IMF, during the "Volcker years." The Philippines economy was virtually destroyed by the U.S. coup d'état which Vice-President George Bush's, mid-1980s, "secret government" organized against President Ferdinand Marcos. Much of that economic potential was simply packed up by the U.S. Government, and shipped out, leaving only the emptied hulks of the looted buildings to haunt the victimized nation's people.

which might suggest to Harvard empiricists, that perhaps Japanese, Koreans, and Chinese are genetically superior in cognitive powers, to Harvard- or Vanderbilt-inspired economists, politicians, and literati.

Vietnam, Cambodia, and Laos, have yet to recover from the desolation left in the wake of more than eight years of the U.S.A.'s post-Kennedy "balance of power" sports on the territory of France's old Indo-China colony. Indonesia is the best case among the remaining economies of the region; Germany's Aachen University alumnus, Professor Bachruddin Jusuf Habibie, one of the most influential figures of Indonesia's economic scene today, has led in the attempt to build a high-technology skyscraper, so to speak, from the roof down. There is a semblance—if only a semblance—of a nascent, possible future machine-tool potential there, but nothing, yet, remotely comparable to Japan, Korea, and Taiwan; otherwise, there is no presently existing basis, or competent policy for the present, or future autonomous economic development in any among the other nations of that economic tragedy known as Southeast Asia.

The "out-sourcing industries" of Thailand and Malaysia, represent a present-day parody of the economic model of foreign-controlled plantations and mining enclaves, as seen in British, Dutch, and French colonies of the late Nineteenth Century. Today's manufacturing "out-source" facility in these nations, is simply a way for foreign financial powers to loot the host-nation, through exploitation of cheap labor, in the same sense that plantations and mining enclaves were characteristics of the looting practiced by such colonial powers as Britain, the Netherlands, and France, during the late Nineteenth Century. In the "cosmopolitan centers" of that former colonial world, today, as during the late Nineteenth and early Twentieth Centuries, there is a cheap veneer, of apparent cash prosperity, featuring the fabulously decadent new rich of the "Asia hot-money" social set, with shopping and tourist entertainments to match. Behind, and underneath that "Potemkin Village" facade, the economy as a whole, is rotted out with such evils of colonial-style poverty as mass prostitution, epidemics, and a cultural pessimism redolent with a looming threat, that new Pol Pot-style rampages might soon wreak vengeance upon today's decadent rich, throughout the region.

There is a way in which the patriotic aims of Indonesia's Dr. Habibie could be realized, and the other states of Southeast Asia rescued, similarly, from their recently apparent slide toward looming catastrophe; but, that success depends absolutely upon choosing a different route than the blending of "Asia hot-money" trafficking and the lunatic sort of monetarist dogmas which have been fostered by the doomed, presently reigning international monetary and financial institutions.

### Why most economists are charlatans

Behind the onrushing catastrophes of the present international monetary, financial, and economic policies, there are the bungling propagandists, those Yahoos who are called professors, those mugs who write the widely used textbooks, and who lecture the gaping-mouthed credulous students in

virtually every economics classroom of the world today. Yet, some of the world's senior economists, such as the U.S.'s John Kenneth Galbraith, or France's Maurice Allais, have occasionally trumpeted insightful defiance of the "politically correct," lunatic dogmas and practices of today's classroom and foundation-sponsored lecturers. These exceptional outbursts remind us of the little boy in the Hans Christian Andersen fairy-tale, "The Emperor's New Suit of Clothes": the emperors of today's economics textbook and classroom, "have nothing on."

Gottfried Leibniz, whose work of the 1671-1716 interval is the foundation of economic science, still today, supplies the key to the occurrence of such paradoxical flashes of competence from amid the horde of deranged hesychasts dominating today's economics classroom.<sup>7</sup> The term which Leibniz used to identify that point of difference between the, usual, academic quack, and the, rarer, insightful economic thinker, is that we cited at the outset, here: *Analysis Situs*. This references those fundamental principles of scientific method, earlier used by Plato, Leonardo da Vinci, and Johannes Kepler, which stand outside, and above the domain of all today's generally accepted classroom dogmas of deductive mathematics.

This notion of *Analysis Situs* is crucial for understanding the machine-tool principle. We now proceed with the outlining of that prerequisite conception.

In the past, the present author has, repeatedly, re-introduced two charts into sundry published locations.<sup>8</sup> The first of these, reintroduced here as **Figure 2**, is entitled "Growth of European Population, Population Density, and Life-Expectancy at Birth, Estimated for 100,000 B.C.-A.D. 1975." The second, reintroduced here as **Table 4**, is entitled "Development of Human Population, from Recent Research Estimates," covering evidence from the period 4,000,000-1,000,000 B.C. through A.D. 1970. There might be some improvement in the precision of the figures supplied by the present-day experts, but there is no possible rational objection to the representation of the orders of magnitude, and of shifts in the curve of improvement of the demographic characteristics of populations.

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7. See Lyndon H. LaRouche, Jr., *So, You Wish to Learn All About Economics?*, Second Edition (Washington, D.C.: EIR News Service, 1995). Essential features of Leibniz's 1671-1716 development of the science of physical economy were incorporated in the anti-Locke U.S. 1776 Declaration of Independence and the 1787-1789 drafting of the anti-Locke U.S. Federal Constitution. Although *the American System of political-economy* of U.S. founder Benjamin Franklin, U.S. Treasury Secretary Alexander Hamilton, Mathew Carey, Henry C. Carey, the Henry Clay Whigs, President John Quincy Adams, and Germany's Friedrich List is consistent with the anti-empiricist principles of Leibniz's science, the revival of that science itself waited until the present author's original discoveries from the period 1948-1952. The core of those 1948-1952 discoveries is explicitly referenced here.

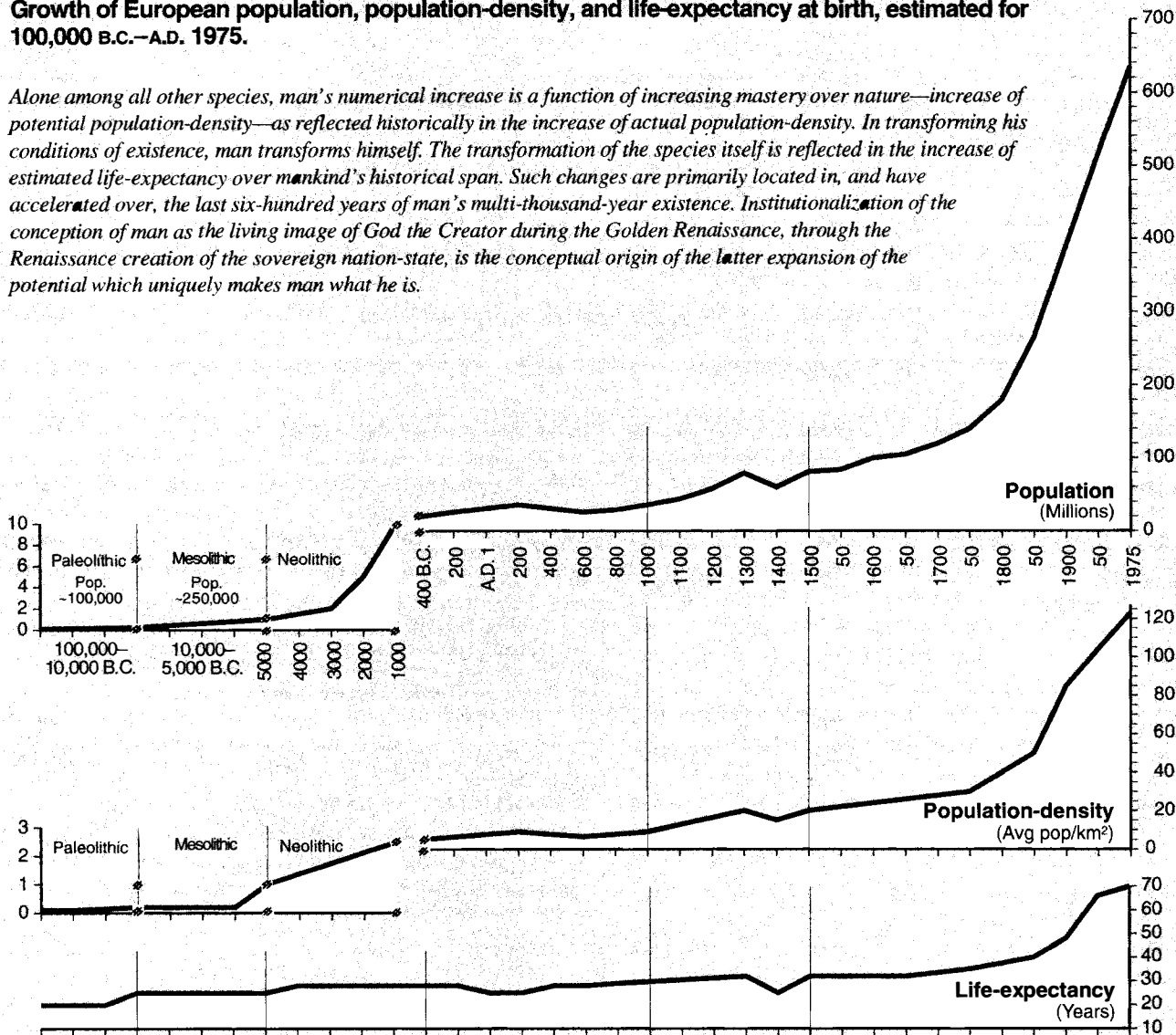
8. For example: Lyndon H. LaRouche, Jr., "Leibniz From Riemann's Standpoint," *Fidelio*, Fall 1996, pp. 37-38.



FIGURE 2

**Growth of European population, population-density, and life-expectancy at birth, estimated for 100,000 B.C.—A.D. 1975.**

*Alone among all other species, man's numerical increase is a function of increasing mastery over nature—increase of potential population-density—as reflected historically in the increase of actual population-density. In transforming his conditions of existence, man transforms himself. The transformation of the species itself is reflected in the increase of estimated life-expectancy over mankind's historical span. Such changes are primarily located in, and have accelerated over, the last six-hundred years of man's multi-thousand-year existence. Institutionalization of the conception of man as the living image of God the Creator during the Golden Renaissance, through the Renaissance creation of the sovereign nation-state, is the conceptual origin of the latter expansion of the potential which uniquely makes man what he is.*



All charts are based on standard estimates compiled by existing schools of demography. None claim any more precision than the indicative; however, the scaling flattens out what might otherwise be locally, or even temporally, significant variation, reducing all thereby to the set of changes which is significant, independent of the quality of estimates and scaling of the graphs. Sources: For population and population-density, Colin McEvedy and Richard Jones, *Atlas of World Population History*; for life-expectancy, various studies in historical demography.

Note breaks and changes in scales.

Both sets of demographic data are essential to providing clarity for the crucial point to be made here. However, that noted, the immediately relevant of the two figures, is the unprecedented rate of improvements of the demographic characteristics of the entire population of this planet, over the period which began with the 1439-1440 sessions of the Council of Florence, and the consequent establishment of the first modern nation-state, Louis XI's France, until that downturn in

conditions of life, the which began with the mid-1960s introduction of the neo-Malthusian cult of anti-scientific, "post-industrial" utopianism. It is the secret of the modern nation-state's incomparable, 1471-1966 achievements, in improvement of the demographic characteristics of life, and cultural standard of living, throughout nearly all of this planet, which generated the later role of the machine-tool principle as the dominant feature of leading instances of successful perfor-

TABLE 1

## Development of Human Population, from Recent Research Estimates

	Life expectancy at birth (years)		Population density (per km <sup>2</sup> )	Comments	World population (millions)
<b>Primate Comparison</b>					
Gorilla			1/km <sup>2</sup>		.07
Chimpanzee			3-4/km <sup>2</sup>		1+
<b>Man</b>					
<b>Australopithecines</b> B.C. 4,000,000-1,000,000	14-15		1/ 10 km <sup>2</sup>	68% die by age 14	.07-1
<b>Homo Erectus</b> B.C. 900,000-400,000	14-15				1.7
<b>Paleolithic</b> (hunter-gatherers) B.C. 100,000-15,000	18-20+		1/ 10 km <sup>2</sup>	55% die by age 14; average age 23	
<b>Mesolithic</b> (proto-agricultural) B.C. 15,000-5,000	20-27				4
<b>Neolithic</b> , B.C. 10,000-3,000	25		1/km <sup>2</sup>	"Agricultural revolution"	10
<b>Bronze Age</b> B.C. 3,000-1,000	28		10/km <sup>2</sup>	50% die by age 14 Village dry-farming, Baluchistan, 5,000 B.C.: 9.61/km <sup>2</sup> Development of cities: Sumer, 2000 B.C.: 19.16/km <sup>2</sup> Early Bronze Age: Aegean, 3,000 B.C.: 7.5-13.8/km <sup>2</sup> Late Bronze Age: Aegean, 1,000 B.C.: 12.4-31.3/km <sup>2</sup> Shang Dynasty China, 1000 B.C.: 5/km <sup>2</sup>	50
<b>Iron Age</b> , B.C. 1,000-	28				50
<b>Mediterranean Classical Period</b> B.C. 500-A.D. 500	25-28		15+/km <sup>2</sup>	Classical Greece, Peloponnese: 35/km <sup>2</sup> Roman Empire: Greece: 11/km <sup>2</sup> Italy: 24/km <sup>2</sup> Asia: 30/km <sup>2</sup> Egypt: 179/km <sup>2</sup> * Han Dynasty China, B.C. 200-A.D. 200: 19.27/km <sup>2</sup> Shanxi: 28/km <sup>2</sup> Shaanxi: 24/km <sup>2</sup> Henan: 97/km <sup>2</sup> * Shandong: 118/km <sup>2</sup> * * Irrigated river-valley intensive agriculture	100-190
<b>European Medieval Period</b> A.D. 800-1300	30+		20+/km <sup>2</sup>	40% die by age 14 Italy, 1200: 24/km <sup>2</sup> Italy, 1340: 34/km <sup>2</sup> Tuscany, 1340: 85/km <sup>2</sup> Brabant, 1374: 35/km <sup>2</sup>	220-360
<b>Europe, 17th Century</b>	32-36			Italy, 1650: 37/km <sup>2</sup> France, 1650: 38/km <sup>2</sup> Belgium, 1650: 50/km <sup>2</sup>	545
<b>Europe, 18th Century</b>	34-38		30+/km <sup>2</sup>	"Industrial Revolution" Italy, 1750: 50/km <sup>2</sup> France, 1750: 44/km <sup>2</sup> Belgium, 1750: 108/km <sup>2</sup>	720
Massachusetts, 1840 United Kingdom, 1861 Guatemala, 1893 European Russia, 1896 Czechoslovakia, 1900 Japan, 1899 United States, 1900 Sweden, 1903 France, 1946 India, 1950 Sweden, 1960	24 32	41 43 40 44 48 53 62 73	90+/km <sup>2</sup>	Life expectancies: "Industrialized," right; "Pre-industrialized," left	1,200
<b>1970</b> United States West Germany Japan China India Belgium	59 48	71 70 73	<b>1975</b> 26/km <sup>2</sup> 248/km <sup>2</sup> 297/km <sup>2</sup> <b>180/km<sup>2</sup></b> 183/km <sup>2</sup> <b>333/km<sup>2</sup></b>		3,900

mance among the Nineteenth and Twentieth Centuries' political economies.

The crux of the matter, is the inextricable interdependency among: 1) the spread of a Classical humanist mode of universal cognitive education, extended, as compulsory under the authority of the state, for all young persons;<sup>9</sup> 2) the fostering, by the same state, of both development of basic economic infrastructure and fostering of investment in increase of the productive powers of labor through capital-intensive, power-intensive modes of scientific and technological progress;<sup>10</sup> 3) the transmission of discovered principles of nature from experimental science and Classical humanist education, to the design of products and processes of production, through the mediation of what is sometimes identified as the "strategic" component of the machine-tool sector. This interdependency emerged to become a characteristic feature of the most successful national cultures, as part of the spread of the institution of the modern European mode of sovereign nation-state, since that new institution's appearance in France and elsewhere, following the A.D. 1439-1440 sessions of the "Golden Renaissance's" great ecumenical Council of Florence.

In earlier locations, the author and his associates have examined the pre-history and history of the Fifteenth-Century emergence and development of the modern, European model of sovereign nation-state. We have shown that that process of emergence reflects the central feature of human history: which earlier pre-history and history yearned toward, and by

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9. The modern type of Classical humanist education is exemplified by the program of humanist secondary education, rooted in the principles of Friedrich Schiller, which Schiller's student, Wilhelm von Humboldt, established as the Classical secondary educational program of modern Germany (before and after Hitler, until this educational program was destroyed by the so-called Brandt reforms). The distinctive functional feature of such forms of education, is emphasis upon the student's reenacting key valid discoveries of principle within the sovereign precincts of the individual mind, as opposed to so-called "textbook," or presently updated versions of the old "blab school" pedagogy. Humboldt's is also the model for the system of Classical high-school education established in the United States, by Benjamin Franklin's great-grandson, the collaborator of Carl F. Gauss and Alexander von Humboldt (Wilhelm's brother), Alexander Dallas Bache. This mode of education, is to be seen as opposed to the "blab school" tradition of Professor Newton "Eisenbart" Gingrich, which has taken over U.S. education since the mid-1960s. It takes its roots from the Platonic tradition of the medieval and modern Christian teaching orders, such as the Brothers of the Common Life.

10. On the subject of the measurement of what Leibniz and his followers, such as U.S. Treasury Secretary Alexander Hamilton, identify as "increase of the productive powers of labor," see LaRouche, op cit. Productive power of labor, is to be measured in terms of a characteristic potential relative population-density of a society at a certain level of sustained cultural development: e.g., in a sense analogous to the classroom notion of "energy of the system." This is measured, approximately, in terms of input and output 1) per capita, of labor-force, in 2) per square kilometer of relevant land-area. On Hamilton's views, see his December 1791 *Report to the U.S. Congress: On The Subject of Manufactures*; see Nancy Spannaus & Christopher White, *The Political Economy of the American Revolution*, second edition (Washington, D.C.: *Executive Intelligence Review*, 1995). pp. ix-49, 390-454.

which all present and subsequent history must be judged. The central, axiomatic feature, which sets the modern sovereign form of nation-state apart from, and above, all earlier and contrastable forms of society, is the axiomatic authority over statecraft, attributed to the Mosaic principle of *Genesis* 1, that man and woman are each made, alike, in the image of the Creator, that our species might exert domination over nature as a whole.

This axiomatic, Mosaic principle is situated, for the notions of both natural law and general practices of statecraft, within the scientific principle of "simultaneity of all."<sup>11</sup> That, although each mortal life appears within the passage of time, carrying on the work of predecessors, and building the foundation for the future, that work which the mortal individual does, during the brief passage through mortal life, must be judged for its service to the heritage of all past, present, and future humanity.

For the purposes of statecraft, and the application of natural law to statecraft, the goal of statecraft is to foster the benefit, expressible as our Constitution's notion of "general welfare . . . to ourselves and our posterity," of fostering the development and work of persons who are encouraged and assisted to become as men and women of Providence, individuals whose coming, from birth to death, is as the passage of a stranger among us, a stranger whose passing-through may be regarded as a blessing afforded by the Hand of Providence.

This potential for good, which is inborn in all human individuals, is that power of reason which sets the human species absolutely apart from, and above all beasts, a power expressed as the capacity to discover valid principles of nature, principles which each overturn all previously established opinions. Knowledge of these principles, may be passed from one individual, to another, not as intellectually sterile, linear "information," but, rather, by a cognitive process fairly described as reenactment of the original mental act of discovery.

That "non-informational," cognitive discovery and transmission, is the sole means by which mankind is enabled to increase its power over nature, as that increase is expressed in terms of the notion, that potential relative population-density is measured not only in terms of population-density, but in standard of cultural life per capita, and per household, throughout that society as a whole. It is precisely here, that we must locate the indispensable interrelationship among Classical humanist forms of education, the development of the machine-tool sector, and the production of a labor-force which is capable, generally, of assimilating, and projecting the progress mediated through the machine-tool sector.

Thus, the essence of that Fifteenth-Century founding of the modern nation-state, is, that, for the first time in all earlier political history of peoples of this planet, the generality of individual personalities was elevated from the status of sub-

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11. On the relativity of time, see Lyndon H. LaRouche, Jr., "The Essential Role of 'Time-Reversal' in Mathematical Economics," *EIR*, Oct. 11, 1996.

ject, to citizen, this according to an *axiomatic principle*. That axiom is, that society must be constituted and self-governed according to the famous principle of *Genesis* 1: that man and woman are made in the image of the Creator, set above the beasts to the effect that mankind must effect dominion over nature and the beasts, through the nurture and employment of that unique, cognitive distinction, of potential for valid, original discoveries of principle, through creative reason, which is common to newborn human individuals.

That principle is the only basis for rational use of the term “equal” respecting a universality of individual persons; that principle is a kind of “modulus,” in Gauss’s sense of that term for both common and higher arithmetic, which measures, the commonality—the congruence, of persons, as members of a species, as a quality which underlies their differences as individuals.

This commonality is the political equality of each and all persons. The right which the individual person must enjoy, is not, as the immoral empiricists argue today, the right of a passing majority to impose its capricious opinions, tyrannically, upon the minority. That perverted notion of a “democracy” of mere opinions, is the mother of all tyrannies, including those horrid dictatorships which are spawned by the characteristic excesses to which democratic arbitrariness is prone. The modern nation-state’s durability depends upon a people’s submission to those certain immutable principles of universal law, the which take into account the rights of the future generations of citizens, with even greater emphasis than those of the presently living ones. It is the kind of immutable, constitutional principle of law, in which the right granted, by such law, to the individual person, must be defended even contrary to the opinion of an overwhelming political majority. Without a nation under such law, rather than under the capriciously passing whims of accidental majorities, no person has, in fact, any rights at all.

Without the existence and enforcement of such law, the clock is turned back to the great gambling casino of law called barbarism, in which the individual is subject to the inherently capricious perversities of decisions issued for the convenience of the reigning imperial Pontifex Maximus, as conditioned only by the tyrant’s cautious concern to avoid the appearance of offending too loudly, not law, but the current opinion of mere religious and other custom among the victims of the imperial will.<sup>12</sup>

The axiomatic principle to which we have referred, thus, is not to be deprecated as “merely” some specific religious body’s arbitrary choice of ethic; it is a demonstrable principle of experimental physical science, a principle characteristic of known human pre-history and history, in the sense that Plato,

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12. For the view of the revolutionary moral impact of the modern nation-state, over morally inferior earlier forms of culture, see Friedrich von der Heydte, *Die Geburtsstunde des Souveraenen Staates* (Regensburg, Germany: Druck und Verlag Josef Habbel, 1952).

Leonardo da Vinci, Johannes Kepler, Gottfried Leibniz, Carl F. Gauss, and Bernhard Riemann, among others, understood the principle of experimental physical science. Figures 2 and 3 illustrate the nature of the physical evidence to this effect. The raw beginning of the experimental-physics argument to this effect, is, that the combination, of increases in potential relative population-density, and improvement of demographic characteristics of populations and their households, is the product of a voluntary principle of man’s willful, cognitive (not “informational”) dominion over nature, absent in all lower forms of life.

The notion of man and woman as each made in the image of the Creator, is, in short, like the legendary principle of gravity, a universal principle of natural law, to which all nations, peoples, and persons are equally subject, a principle which they may violate only at natural risk, whether they choose to recognize its authority, or not. Thus, is true law situated, as it must be located in the simultaneity of all: *Analysis Situs*, yet once more; so, the leaders in the creation of the young American republic of 1776-1789, followers of Leibniz, and adversaries of the pro-slavery John Locke on precisely these accounts, framed a Declaration of Independence which features “Life, liberty, and the pursuit of happiness,” Leibniz’s rejoinder against Locke, in preference to the slave-holder’s and Confederate sophistry of “Life, liberty, and property.” So, the Leibnizian notion of “general welfare” came to be featured as integral to the fundamental law of our Federal Republic, the Preamble of its Constitution.

To understand the causes for the inevitable, onrushing doom of the world’s present international monetary and financial institutions, we must examine the present-day issues of generally taught economics from the vantage-point just stated. It is the generally accepted philosophies of economic and related social policy, of today’s university classrooms, the which represent the axiomatic root of the galloping moral and intellectual decadence, and onrushing doom, of the U.S.A.’s and the world’s economy today.

That axiomatic issue is the irreconcilable difference between two irreconcilably opposing conceptions of the individual personality. On the one side, the notion associated with Plato and Christianity, the principle strongly affirmed by the founding of the Golden Renaissance: the principle, that man and woman are each made in the image of God, to exert increasing dominion over nature. The opposing principle, is the mechanistic notion of man, as a talking beast. This mechanistic perversion is the characteristic of all thought properly filed under the rubric “Enlightenment”: its (empiricist, materialist, logical positivist) dogmas in history, economics, political science generally, and modern empiricist and positivist teachings of anthropology, sociology, psychology, and even mathematics.<sup>13</sup> This is the dogma of the followers of the neo-

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13. On mathematics, see below.

*Smith, Marx and Euler were assets in the Venetian Party's war to destroy the work and influence of Gottfried Leibniz.*



*Adam Smith (1723-90)*



*Karl Marx (1818-83)*



*Leonhard Euler (1707-83)*

Aristoteleans William of Ockham and Pietro Pomponazzi, led by Paolo Sarpi, and such among Sarpi's lackeys and followers as Galileo Galilei, Francis Bacon, Thomas Hobbes, John Locke, Bernard Mandeville, the feudalist Dr. François Quesnay, Voltaire, Adam Smith, Leonhard Euler, Jeremy Bentham, Immanuel Kant, and so on.

In political-economy, the Enlightenment's bestialized misconception of individual human nature, is the universal characteristic of every "main stream" economics and related teaching today. *To wit:*

The crucial point of departure for the present writer's crucial, original, 1948-1952 discoveries of principle in the science of physical economy, was a simultaneous attack on the characteristic fallacy of Marx's economics as well as the "information theory" hoax of Norbert Wiener and the perversion called "systems analysis," as typified by Wiener's associate John von Neumann.

Just as Marx insists, in sundry locations within his four-volume *Capital*: in constructing his deterministic model of capitalist reproduction, he has left technological progress out of account. Marx ignores all of the then-available authorities in economic science, to follow in the footsteps of the authorities from which he, aided by British foreign intelligence's David Urquhart, selected his grounding in economics. Marx based himself on the previous arguments of Enlightenment ideologues such as François Quesnay, Giammaria Ortes, Adam Smith, and David Ricardo. Despite Marx's occasional differences with these wretched predecessors, he never departed from those crucial fallacious axiomatic assumptions of the Enlightenment, the which he shared in common with

all of them, from Hobbes through John Stuart Mill, Bertrand Russell, and John von Neumann. Thus, as relevant figures from among leading figures of both Britain's Cambridge "Systems Analysis" circles, and Soviet specialists, observed, it is quite feasible to freely substitute Marx, or Leon Walras, or John Maynard Keynes, or the mathematical constructs of von Neumann, for one another in the same recipe for servings of academic economics stew. No such model actually works, but, to whatever passes for the taste-buds of the department's relevant virtual-reality center, the computer, they all share in common the same permeating flavor of *papier-mâché*.

As Cambridge University's Piero Sraffa sums the matter up, in his 1960 *The Production of Commodities by Commodities*, all of today's generally accepted, formalist representations of academic economic dogma, can be reduced to the assumption that some correlation between the abstract inputs and outputs of a system of simultaneous linear inequalities, can be stated for either prices or some other scalar metric, without considering the possibility that some determining sort of functional relationship exists between cognitive powers of the operative's mind, and variation in the qualities of product and productive powers of labor. Just as mathematician Thomas Hobbes' model of society anticipates a crude approximation of Ludwig Boltzmann's mathematical model for any unpleasantly aromatic collection of gas-particles, so, all other generally accepted attempts at deterministic, academic models of economy, Adam Smith's concoction and others, degrade man to a mere colligation of interacting, sinful appetites.

Thus, Norbert Wiener represents societies by reference to

Boltzmann's H-theorem. So, John von Neumann constructed his economic models of systems analysis, and professed to have redesigned the human mind, by "retro-fitting" it with those qualities of "artificial intelligence" which would bring psychology into less imperfect conformity with Thomas Hobbes' perversions, and von Neumann's own.

Notably, the civilian side of the Soviet economy tended toward the entropic perfection of Marx's and von Neumann's models, of solutions for sets of simultaneous linear inequalities; as we have witnessed since *perestroika* was introduced, only the substitution of Adam Smith for Marx could produce a worse result. However, in the actual practice of the Soviet military-industrial complex, we find a far less entropic model of economic behavior, a model, densely echoing the role of the machine-tool-design sector of the pre-1966 U.S.A. and German economy. The ability of the Soviet economy to challenge the military technological capabilities of the combined force of the U.S.A. and its allies for as long as it did, is reflected in the high density of scientists and engineers in the Soviet economy's strategic "machine-tool design" sector. The contrast of the advanced technology of the Soviet military sector with the dismal performance of the more technologically stagnant civilian-goods sector, highlights the role of the machine-tool sector within the military economy.

The same pattern is found among the Soviets' former adversaries. During the Twentieth Century, most emphatically, the U.S. economy has been in either an embittering recession or depression during all periods except those of large-scale, pre-war or war-time military mobilization. A related pattern has always been characteristic of the British Empire, since about the time of the 1714 accession of William of Orange's tamed Welf, George I, to the throne. So, also, in western continental Europe.

## How to measure economic performance

As this author has elaborated his 1948-52 original discoveries in economic science in numerous earlier *EIR* and other locations,<sup>14</sup> the specific difference between human beings and apes, is the ability of the human individual to generate valid *metaphors*: ideas which have no possible existence in language as presently used, but which nonetheless represent efficient principles of our universe. Thus, any artistic work, in any medium, is not truly art except as it meets that standard of metaphor. In Classical science, since Plato's founding of his Academy at Athens, all scientific ideas come into existence as human knowledge, through this process of metaphor.

To sum up those accounts, very briefly, here: This principle of metaphor came under systematic scrutiny by Leibniz. The present author came to understand this principle during mid-adolescence, through study of Leibniz's attacks on Descartes, his writings in the Leibniz-Clarke correspondence, and

the Leibniz writing published under the title of *The Monadology*. It was chiefly through the present author's late-adolescent elaboration of a rigorous defense of Leibniz's *Monadology*, against the attack featured within I. Kant's *Critique of Pure Reason*, that this writer was prepared, a decade later, to attack the fraud of neo-Kantian Norbert Wiener's "information theory." The result of this assault against Wiener's and John von Neumann's systems-analysis hoaxes, produced the writer's 1948-1951 original discoveries concerning the relationship between the individual's metaphor-generating, sovereign cognitive processes and the gains in productive powers of labor through scientific progress. It was the subsequent, 1952, examination of relevant discoveries by mathematician Georg Cantor and Bernhard Riemann, which showed this writer the approach which must be adopted for the measurement of this effect.

We summarize here as much of those discoveries as are indispensable for defining that machine-tool principle upon which all successfully sustained (e.g., profitable) performance of agro-industrial economies depends.

The approach to measurement of economic progress depends upon the mastery of Plato's conception of hypothesis, especially as this conception applies to the distinction between Euclidean and non-Euclidean geometries. Riemann was the first to solve the crucial epistemological and formal issues of such distinctions.

Summarily, the application of the Socratic dialectical method to any mutually not-inconsistent array of propositions in geometry, leads to adducing an underlying set of definitions, axioms, and postulates. All possible propositions which are not inconsistent with each and all of the set of definitions, axioms, and postulates, constitute a *theorem-lattice*; the set of definitions, axioms, and postulates, so employed, constitutes an *hypothesis*. There is no system of mathematical, or other thought, which is not determined, so, by an efficiently determining, underlying hypothesis.

In economics, as in experimental physics generally, any fact of nature which can not be made efficiently consistent with existing generally accepted physical assumptions, constitutes a paradox: the fact exists, in stubborn defiance of pre-existing opinion's most hysterical efforts to deny the very possibility of its existence. Such paradoxes are the stuff of which valid experimental physics, and economics, is made.

In the history of experimental physics, each such paradox has the following general form. According to existing physics doctrine, the fact is an impossibility. Yet, even though the fact ridicules that aspect of existing opinion, existing opinion also contains a lot of efficient truth. Thus, physics (or economics) progresses through two most indispensable steps. The first step, is to define the principle of nature which the paradox expresses. The second step, once an experimentally valid principle has been adduced, is to create a new hypothesis, to supersede the hypothesis underlying the old scientific knowledge. We can not simply add the new principle to the old

14. e.g., Lyndon H. LaRouche, Jr., "The Essential Role of 'Time Reversal' in Mathematical Economics," *Fidelio* Winter 1996 (also, *EIR*, Oct. 11, 1996).

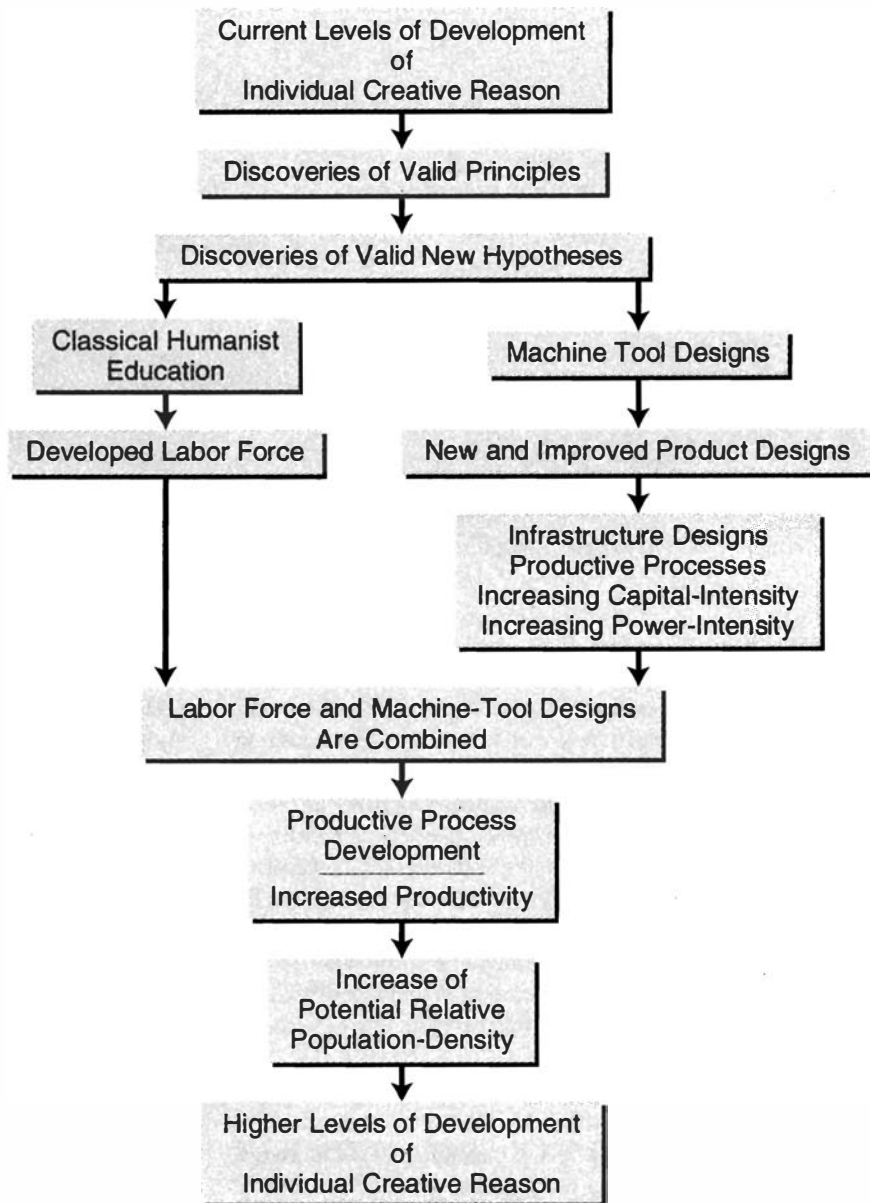
hypothesis, we must generate an entirely new hypothesis, in consideration of the way in which the newly discovered principle impacts each and every item of definition, axiom, and postulate of the superseded hypothesis.

Since Riemann's 1854 habilitation dissertation,<sup>15</sup> the difference between two successive such hypotheses of experimental physics is considered as a change in the "curvature" of physical space-time. For example, one might say, that any individual act taken upon a flat Earth's surface, would have a different characteristic result than the same apparent action taken on the surface of the ellipsoid Earth; we would also say, with Kepler, Carl Gauss, and Riemann, that the preference for elliptic, rather than circular solar orbits, references a relative difference in every action taken within the solar system. Such, roughly, are the implications of the same form of work performed by an individual in a national economy characterized by one set of technologies, and the same form of work, by the same individual, in a national economy characterized by a different set of technologies. The fact that the individual action's significance varies according to the context in which it occurs, is a notion belonging to the domain of *Analysis Situs*.

The economic requirement that every young person in modern society must enjoy a Classical humanist form of education, rather than that "textbook" education generally employed in schools today, is that knowledge of a valid principle of nature can be imparted to a person *in no other way* than the method central to such a humanist education. The student must be confronted by a paradox, which confounds what the student has believed up to that moment. The student must overcome that paradox by generating the solution to the paradox, not through receipt of "infor-

15. Bernhard Riemann, "Über die Hypothesen, welche der Geometrie zu Grunde liegen", *Bernhard Riemanns Gesammelte Mathematische Werke*, H. Weber, ed., second edition (New York: Dover Publications, 1953).

FIGURE 3  
How the Machine-Tool Principle is situated



mation," but only through reenacting a relevant original discoverer's original act of discovery within the sovereign cognitive processes of the student's own, utterly private mental processes. What a student has learned in that way, the student actually knows; what he has learned to identify by textbook methods of education, he does not actually know. In the latter case, he, or she, is merely gossiping about what they read, or heard some place.

If a student comes to know a succession of many valid conceptions of discovered principles in a Classical-humanist way, the student also knows something much more fundamental than any of those learned principles. The student whose education has been centered on privately reenacting a succession of valid solutions



*A summer-camp science class with nuclear scientist Dr. Robert Moon, who helped the students re-create some of the fundamental electrodynamic experiments of nineteenth-century French scientist André-Marie Ampère, including the making of the experimental equipment. "If a student comes to know a succession of many valid conceptions of discovered principles in a Classical-humanist way, the student also knows something much more fundamental than any of those learned principles."*

to crucial paradoxes—as if, thus, to reexperience much of the history of human knowledge, has come to master the use of that principle of his, or her own private mental life, a principle whose common quality is that it is the efficient means by which a succession of valid original discoveries of principle was reenacted. This principle is identified by Plato as *higher hypothesis*. In Riemannian physics, this *higher hypothesis* corresponds to the ordering-principle underlying a succession of valid discoveries of principle, an ordering-principle in the changing curvature of physical space-time, for example. This training of the student, is the production of the adult person capable of assimilating and generating valid principled solutions to problems with which that student has never been confronted before.<sup>16</sup>

Classical humanist education in reexperiencing many of the most important valid, original discoveries of past history, up to the present; it is the key to competence in comprehending history itself; and, it is the prerequisite for the aptitudes qualifying the matured student for employment in an environment of technologically progressive production. This is also the method for developing those moral qualities of the indi-

16. Foreexample, in a competently run classroom, no written or oral examination fails to feature demanded answers for questions in which the student has had no preparation during the relevant preceding classes, or within the textbooks and other references assigned during those classes. The question is not how much the student retains from education degraded into a mere rehearsal for filling-out multiple-choice questionnaires; the question is, how well has the student's mind been developed for solving specific classes of problems which the student has not confronted earlier? That is the difference between the student who knows, and the parrot-like drudge, who has virtually memorized the algorithms in textbook and class notes.

vidual person which reflect the fact that he, or she is made in the image of the Creator. Any other form of education, or very little education, is a cruel, very un-American cheating of the individual by the society.

This quality of education is the companion of Classical forms of scientific and artistic progress (as opposed to the grunt, sweat, screech, and howl alternatives). Such education is associated with scientific progress; from such a symbiosis of education and science, society obtains the principles which revolutionize the strategic machine-tool sector, and the labor-force which is qualified to assimilate those revolutionary changes in an efficient way.

It is those directions of change in the technological environment of education and production, which increase the net productive powers of labor, per capita, per household, and per square kilometer. Without those changes, reversing the entropy of technological attrition, the economic process would be as characteristically an "entropic zero-sum game" as the quackery of systems analysis presumes. It is those creative powers of the individual human mind, the same which define man as in the image of the Creator, which are the sole source of sustainable profit (e.g., sustainable not-entropy) in economies.

Thus, the rate of improvement in the characteristic conditions of life-in-general of entire societies, is in proportion to the extent and quality of compulsory universal education, and to the fostering of scientific and technological progress (and, also, related Classical forms of artistic progress) in development of the preconditions for increases of the productive powers of labor. Those preconditions feature basic economic infrastructure (itself chiefly the responsibility of government), the fostering of investment in capital-intensive, power-inten-



sive modes of scientific and technological progress, and the ratio of the number of persons employed in the strategic sector of the machine-tool industry, relative to the total number of well-educated operatives employed in agriculture and industry.

Those latter, summary considerations show us why the economy associated with the A.D. 1471-1966 development of the modern European form of nation-state, had, despite all contrary, negative features of European civilization, improved the demographic conditions of life of the world's population more than all forms of culture before it, each and all taken together. The core of this superiority of that form of national economy is located predominantly within the principles of: 1) universally compulsory Classical humanist education; 2) fostering of investment in capital-intensive, power-intensive modes of increase in the productive powers of labor; 3) fostering of high rates of transmission of valid new discoveries of principle into the productive process and product designs at the relatively highest rate, as through a high-density role of the strategic machine-tool design-sector in respect to per-capita productive output.

### What went awry

Since the 1471-1966 development of nation-state economy, such as the United States and Germany, and Meiji Restoration Japan, Sun Yat-sen's community of followers on Taiwan, and so on, has performed so well, why should any sane person have wished to impede the spread and acceleration of these benefits to all mankind? Briefly, the modern nation-state, as it emerged in western Europe during the Fifteenth Century, occurred within a world at large which was dominated by an incumbent set of ruling oligarchies, both landed aristocracies and financier nobilities such as those of ancient Tyre and medieval Venice. The subsequent five and a half centuries, since the Great Council of Florence, have been a bloody war, fought upon a planet-wide stage, between two irreconcilably opposing principles: the society belonging to the citizen, versus a rule over mankind by the entrenched, landed, and especially, the financier oligarchies.

During the Seventeenth and Eighteenth Centuries, the emerging center of oligarchical power was shifted from Venice and the Habsburgs, to the maritime financier oligarchies of William of Orange's Netherlands and London. This latter, oligarchical faction was known throughout Europe of those centuries, as "the Venetian Party."

Exemplary of the war which the Venetian Party fought in the attempt to destroy the work of Leibniz, is the Europe-wide network of salons, known as the Enlightenment, established under the direction of Venice's Paris-based spy-master Antonio Conti. Voltaire is exemplary of Conti's assets. One of the key centers of the Conti network's efforts to eradicate the influence of its leading adversary of the time, Gottfried Leibniz, was an institution established by Leibniz himself, the Academy of Science in Frederick the Great's Berlin. From the arrival of the Swiss mathematician and fanatical Newton-

cultist, Leonhard Euler, at this Academy, in 1741, through the death of Frederick and the 1787 departure of Euler's successor, Joseph Lagrange, this Academy was the center of production of a series of gigantic hoaxes, mostly directed against Leibniz and Leibniz's co-thinkers. Through a hoax perpetrated against Leibniz's *Monadology*, and against science, by Euler himself, Euler's *Letters to a German Princess*, all modern science was set back since, through a doctrine enshrined in Lagrange's dogma respecting analytical functions, the fraudulent presumption that physics is mathematically linear in the very small.

The influence of Euler on the doctrine of his contemporary, Immanuel Kant, was enormous. The entirety of the famous four *Critiques* of Immanuel Kant, is derived from the tautological fraud at the center of Euler's *Letters to a German Princess*. Thus, it was the writer's adolescent battling against Kant which provided the training for attacking the neo-Kantian frauds at the center of the hoaxes of Norbert Wiener and John von Neumann.

The essential, common fraud of Euler, Lagrange, Kant, Bertrand Russell, and Russell's students Wiener and von Neumann, is the assumption, that any valid discovery in physical science might be derived from the kind of mathematical formalism consistent with the assumptions of Eulerian infinite series: linearization in the very small. In this kind of mathematics, the real world of Carl F. Gauss and Bernhard Riemann is presumed to be non-existent. No principle of hypothesis is allowed. In short, the kind of mathematics associated with the Conti-Euler-Kant tradition substitutes for the real universe, a fictitious, mathematical universe, a mere *virtual reality*. For these empiricists, as for Thomas Hobbes before them, metaphor is not permitted; valid cognitive discoveries of principles of nature, are denied, as Kant denies them.

The included outcome is the absurdity which passes for economic theory in the classroom and boardroom today, a virtual-reality economic process, in which the role of the cognitive powers of the individual person is allowed no efficient functional expression in the account given.

The centuries-long issue is simply this. To have a progressing form of modern nation-state economy, it is indispensable to provide compulsory and universal, Classical humanist forms of education, and to provide the vocations and circumstances in society suited to the needs of those young and matured persons who are products of such education. In such a society a parasitical oligarchy of the "Venetian Party" type ruling London and Wall Street today, would not be tolerated. The leading oligarchical intelligentsia are not so ignorant as to believe, themselves, what they would have our Congress, and you, to believe. They know that our form of economy has worked brilliantly, and would do so again; they know that their neo-Malthusian model is an economic catastrophe; but, they also know, that under a successful society, the power of parasitical oligarchies to rule the nation and world would soon come to an end. They would prefer "to reign in Hell, than be a mere citizen in Heaven."

# The era of deindustrialization has now reached its dead end

by Lothar Komp

*The following is edited from Lothar Komp's presentation to the Dec. 14-15, 1996, conference of the International Caucus of Labor Committees and Schiller Institute, held in Kierdrich, Germany.*

Once we have established a new financial system, in which national bank credit is being used for large-scale investments in infrastructure and new production facilities, and where the destructive impacts of financial bubbles are no longer tolerated, we will have institutions in every country along the Eurasian land-bridge, which will define all the details of the reconstruction process "on the ground" (see **Figure 1**).

I want to address some issues, which, in the development of the Eurasian land-bridge, are of critical importance, in particular for the western part of Eurasia, and are not well understood among those people who, for some strange reasons, happen to be our economic and political leaders.

## Requirements for the land-bridge

This means, that there are certain requirements for rapid technological changes in western Europe—changes, that had been a characteristic of economic policies in most of the Western countries up to early 1970s, but had been stopped afterwards.

Remember, in the 1960s we had the Apollo program in the United States, we had de Gaulle's commitment to bring France into the nuclear age, we had a prosperous German economy, where to have 1 million unemployed people was considered as an unbearable situation. We had a sound physical infrastructure, health and education systems, and there were no problems with paying pensions, because of high investments in the productive powers of labor.

Then, in the late 1960s, we learned from the Club of Rome and other operational departments of the British oligarchy, that we had to turn around. So, the U.S. efforts to go to Mars, scheduled by Wernher von Braun for the late 1970s, were stopped. The development of nuclear technologies was blocked, quotas on steel production were introduced in Western Europe, whole industrial areas were turned into wasteland.

Today, we see the consequences of technological stagnation and deindustrialization, where, it seems that we no longer can afford to have a health system, high living standards, pensions, infrastructure investments, and so on.

Let's start with some very simple considerations on the implications of the Eurasian land-bridge development, which will already make obvious that, no matter what the 1968-generation of politicians in the Western countries might think, the era of deindustrialization has now reached its dead end.

We have 4.5 billion people in Eurasia—500 million in Europe and 4 billion in Asia. Those countries in the Far East, at least, are not willing to accept a second- or third-rate status as economies, that are based upon raw material exports, with low rates of energy consumption per capita, low industrial output per capita, and low life-expectancies. They will not tolerate the racist arguments of organizations such as Greenpeace, which say that there is no problem with world food supply as long as the Chinese don't start to eat like Europeans—that is, consume meat—and there is no need for increasing the world energy production as long as people in Asia don't try to "imitate" European standards of living.

The development corridors will be built, and they will not just be routes of transport, but will include oil pipelines, electricity networks, water systems, and telecommunications infrastructure, thereby initiating the industrial development of the whole area in a range of 50 kilometers on each side of the central railway line.

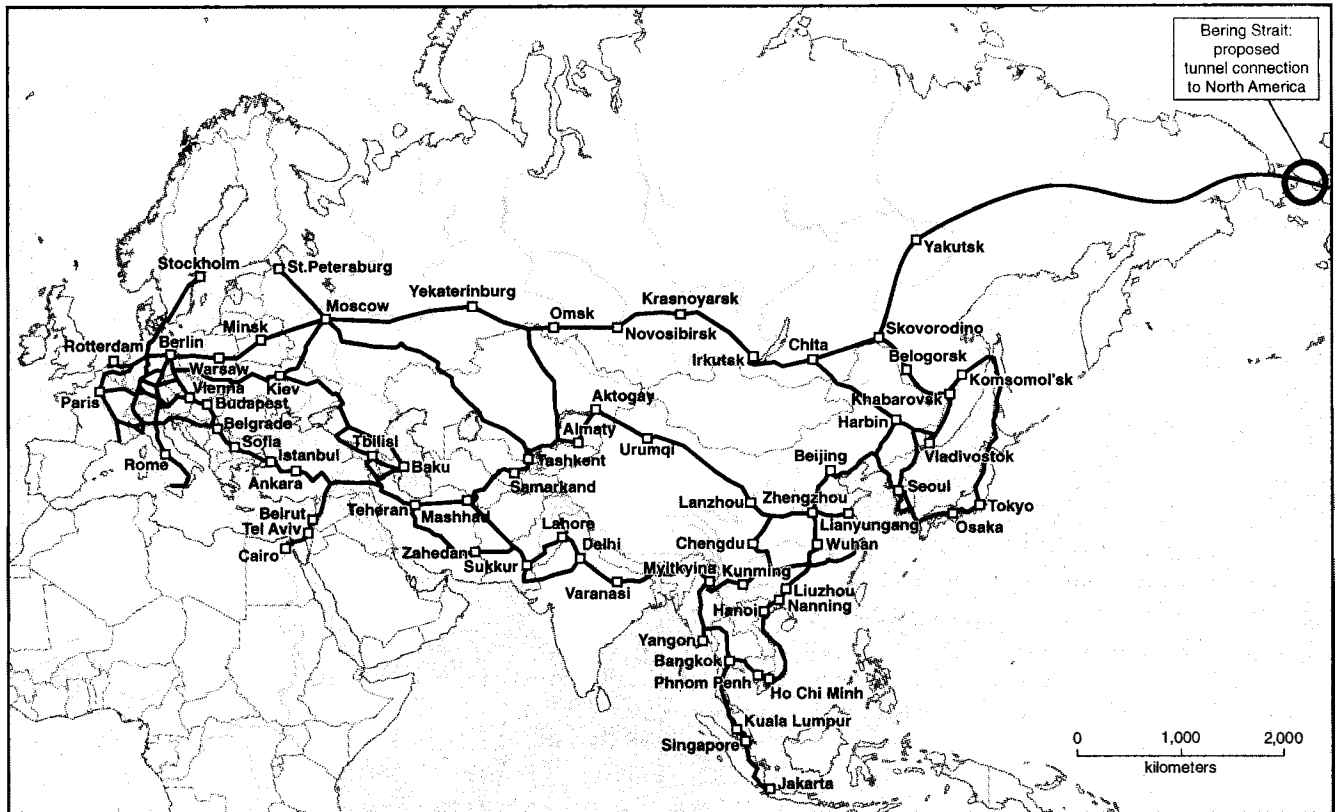
If we just take here the primary Eurasian development corridors, which connect the majority of the larger metropolitan areas, we get a length of something like 60,000 kilometers. For 100-km-wide corridors, this means an area of 6 million square kilometers, 1,500 times the size of the Ruhr region. So, we are talking about many hundreds of new Ruhr regions to be developed along the Eurasian land-bridge corridors. Not that we would have coal mining and steel industry everywhere, but in terms of the density of railways, canals, medium-sized industrial companies, and, in density of productive labor, we have to achieve dimensions comparable to the 1960s Ruhr region.

If somebody is frightened by this perspective for ecological reasons, I just want to stress, that in the state of North Rhine-Westphalia, where the Ruhr region is located, more than half of the area is still used by agriculture, another quarter is forested, then there are rivers and lakes, and, all in all, only 19% of the area is taken up by housing, industry, or transportation.

Let us assume, as one of the backbones of the Eurasian

FIGURE 1

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



land-bridge, we would build maglev transportation lines along the primary development corridors. In the early 1980s, the German Aerospace Research Center (DVFLR) elaborated a concept for a 5,300-km European Transrapid network, connecting 26 cities or regions in eight countries, encompassing altogether 230 million people (Figure 2).

In 1991, the Berlin-based Institute for Railway Technology (IFB) studied the construction of a 450 km Hamburg-Berlin-Dresden Transrapid route, based on the assumption of 1991 eastern German productivity. Over a five-year period, this approach would have created 250,000 jobs in various sectors of the economy, in particular in the construction sector, building materials, steel processing, and automobiles (see Tables 1 and 2).

Now, using this data, we can estimate that the construction of a 60,000 km maglev route, let us say, not in five, but in ten years, would require a workforce of more than 16 million people. With present Western European productivity standards, it would still be about 10 million jobs. Of course, most of the construction work, the delivery of steel and building materials, could be done by local industries that are simultaneously being built up, given the skilled workforce of some countries, such as Russia and India in particular.

However, even the several million new jobs needed in Western Europe to produce all the high-quality capital goods involved in the project, would require a drastic expansion of production facilities here.

As one other example, let's take a short look at requirements for steel production (see Table 3).

Here we have a list of different construction projects and how much steel they require. If we just take apartments: We have, in Germany today, 2.9 billion square meters of living space for 80 million people, about 35 square meters per person, on average. Of course, the average includes people, such as Princess Gloria von Thurn und Taxis, and also there is a large proportion of living space in the cities belonging to single-person households, so that working households with several children, on average, have much less living space per person than this 35 square meters.

However, if we want to transfer this standard to Asia, this would require 140 billion square meters of living space, equivalent to 10 billion tons of steel. This is 13 times the present world production per year.

Of course, we would not only build up a great number of new steel plants along the corridors; it would also be necessary to expand the production in Western Europe, because

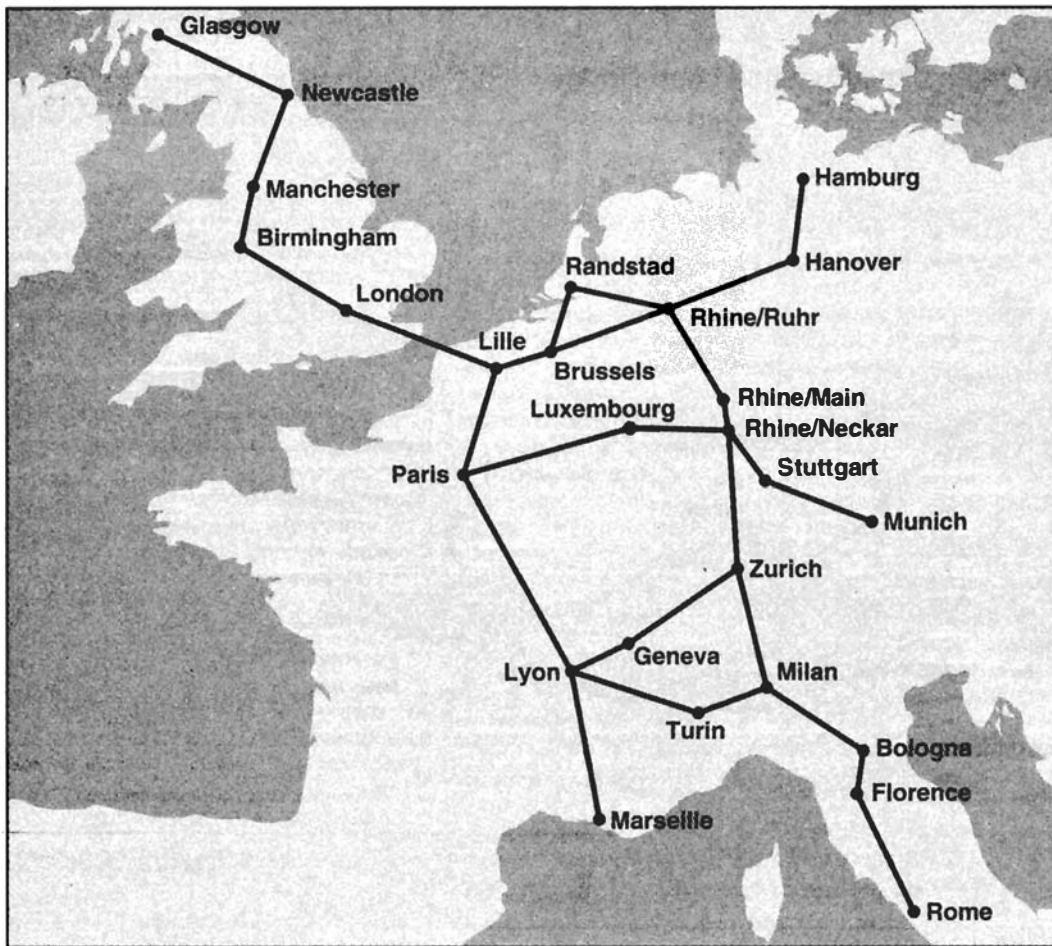


FIGURE 2  
**The German Aerospace Research Center's concept for European Transrapid routes**

TABLE 1  
**Participation in maglev construction, by sector and type**  
 (percent of total maglev investment)

	Construction	Steel construction	Electrical engineering	Metals	Automobiles, machines	Others
Railway construction	14.9 %	8.94%	—	—	—	5.96%
Tunnels, bridges	3.85	2.31	—	—	—	1.54
Railway equipment	—	—	—	10.14%	—	0.76
Energy systems	—	—	10.24%	1.28	—	1.28
Transportable factory	2.9	0.83	0.84	—	2.9 %	0.83
Buildings	3.42	0.57	0.57	—	0.57	0.57
Vehicles	—	—	—	—	8.9	—
Others	1.96	1.54	3.35	0.09	—	8.54

Sources: Thyssen Henschel, EIR.

certain classes of high-quality steels can only be made, so far, by a few producers worldwide.

Similar considerations can be made for energy, water, and other categories.

### Conveyors of new technologies

What does this mean for the Western European economies? Of course, there will be a huge demand for high-quality capital goods, which will have a very healthy effect on the

TABLE 2

### Jobs that will be created by constructing the Hamburg-Berlin-Dresden maglev (450 km)

Sector	Jobs created
Machines, automobiles, steel construction	53,000
Construction	53,000
Electrical engineering	39,000
Light industry	19,000
Services	18,000
Transport, communication	18,000
Building materials	17,000
Metals	10,000
Chemicals	6,000
Others	17,000
<b>Total</b>	<b>250,000</b>

Sources: IFB, EIR.

TABLE 3

### Specific steel consumption comparisons

Pipeline (400 mm diameter)	60 tons per km
Rails (single-track)	120 tons per km
Rail cars	20 tons each
Electricity net (380 kV)	50 tons each
Steel bridges	10 tons per meter
Industrial sites	450 kg per m <sup>2</sup>
Office buildings	170 kg per m <sup>2</sup>
Apartment buildings	70 kg per m <sup>2</sup>

export sectors of France, Germany, Italy, and other European countries. In general, as can be seen from **Figure 3**, the more industrialized our trading partners are, the more they will import from us.

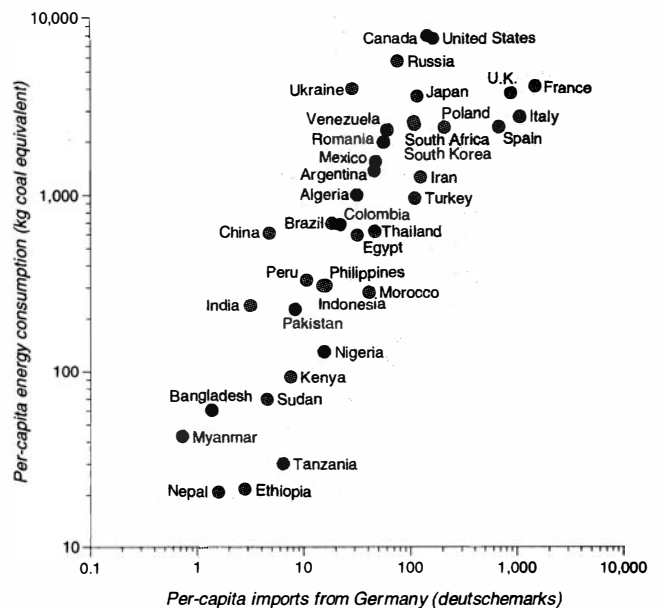
However, commodities do not produce commodities. Therefore, for Western Europe to become a producer of high-tech capital goods for the Eurasian land-bridge, certain pre-conditions have to be fulfilled. And the outlook for these is not really optimistic these days.

Here we come to a crucial point: In order to really function as development corridors, the corridors not only have to be instruments for transporting goods, but, much more important, they have to be active transmitters of technology and productive potential. But, how can we spread new technologies along the development corridors, if, on their western end, here in Europe, the supposed origin of that technology transfer, technological advance is no longer taking place? Therefore, Western Europe has to be rapidly reestablished as a source of scientific discoveries and technological change. A quantum jump is

FIGURE 3

### Energy consumption of selected nations, compared to their per-capita imports from Germany

(as of 1992)



Sources: Human Development Report 1995, German Federal Statistical Office; EIR.

needed in Western Europe, to achieve a reindustrialization of the economies at a higher technological level.

By doing this, we will have to revive all the concepts that were seriously discussed in the 1960s and 1970s for advanced, energy-intensive, industrial processes. Concepts, that had been developed to overcome all the potential obstacles of a world with 6 billion people or more.

For example, look at nuclear technologies. There can be no question, that the high-temperature nuclear reactor, the HTR, will play a major role in electricity generation worldwide in the early twenty-first century. If Germany and other Western countries are not doing it, China will do it. Apart from the proven advantage of being an inherently safe producer of nuclear electricity, the HTR promises a revolution in the generation and distribution of heat energy, both for industry and private households, because the coolant for the HTR (typically this is helium) operates at the high temperature of about 1,000°C.

In the first half of the twenty-first century, tens of thousands of such HTR modules could be operating worldwide. Plans were made, back in the mid-1980s, to mass produce small HTR modules, at shipyards, of about 200 megawatts each, which could then be transported overseas and could

even be permanently stationed along the coast of the receiving country.

The mass production of HTRs to supply heat energy, would also result in much greater impetus to create new kinds of temperature-resistant materials, such as ceramics. Estimates that were done recently, came to the conclusion that there is a so-called technical market potential of 2,000 HTR modules (400 GW) in the chemistry and related sectors alone, another 8,000 HTR modules (1,600 GW) for other non-power applications, and 30,000 HTRs (6,000 GW) for intensive, worldwide coal refining efforts.

Some of these technologies were especially aimed at expanding the availability of certain raw materials for a rapidly growing and developing mankind.

As an example, coal gasification with HTR: Instead of just burning coal to produce heat, we could use the heat from the HTR coolant to produce steam, water vapor, and thereby transform coal into the gases hydrogen and carbon monoxide, which are the bases for the production of a wide range of chemicals. This would also drastically reduce the CO<sub>2</sub> pollution from coal power plants and certain chemical plants.

In 1973, the company Mannesmann-Anlagenbau had developed a generator for HTR-based coal gasification. Between 1984 and 1987, an engineering study on nuclear coal gasification was undertaken by four companies—Mannesmann, Didier, Uhde, and Ruhrkohle. It all worked fine, but because of the prevailing economic policies, the files on this matter were closed.

Another application is heavy oil production by HTR steam flooding: With present technologies, only one-third of the world's oil fields are accessible. In Canada, Russia, and Venezuela alone, there are several hundred billion tons of heavy oil, that would require such steam-flooding methods. Also, oil fields in China, the United States, and Indonesia are interesting in this respect. In the case of steam flooding, 200-300°C heat is driven into the oil reservoir, thereby sharply reducing the oil's viscosity. The oil can then be accessed by normal pumping. A single 400 MW HTR could produce 250 tons of injection steam per hour, thereby generating a half-million tons of oil per year.

### **Desalinating seawater with HTR**

Extremely important for many areas in the world, such as the Middle East, Northern Africa, and California, is the capability of HTR reactors to turn seawater into freshwater. This not only concerns coastal regions, because seawater can be transported by pipelines or canals over long distances. A complex of six small HTR modules could produce enough water and electricity for a city of 1 million people: I mean, there *are* certain inalienable human rights. And, having been in places in eastern Europe, where you can turn on the tap for 23 hours a day, and not a drop of water comes out; the same with flushing the toilet, or taking a shower—hot water only for a single hour every day. So, I ask myself, why are these

politicians in the German parliament, who seem to be so eager to fight for human rights in some exotic places deep in the Himalayan mountains, why are they not sometimes concerned with that sort of human rights violation caused by the lack of industry and infrastructure? Anyway, HTR-powered freshwater production could help.

What happened to all the nuclear container ships, that were developed in the late 1950s and the 1960s? Nuclear-powered container ships can move around the globe many times without having to stop for refueling. In the case of non-nuclear container ships, the sea routes are pretty much determined by indispensable fuel stops. From a certain level of speed and transport weight onward, traditionally powered ships no longer make sense, because the volume of consumed fuel approaches the volume of transported goods. You need

## **Industrial applications for HTR process heat**

### **Process: hydrogenation**

1. District heat (cogeneration)
2. Drinking water from seawater
3. Process steam (cogeneration)
4. Refinery products from crude oil
5. Extraction of heavy oil
6. Oil products from oil shale

### **Process: methane re-forming**

7. Methanol CH<sub>3</sub>OH from natural gas and CO<sub>2</sub>

### **Process: Methane cracking and methane synthesis (EVA-ADAM) reversible cycle**

8. Long-distance energy transport

### **Process: methane cracking**

9. Ammonia NH<sub>3</sub> from natural gas

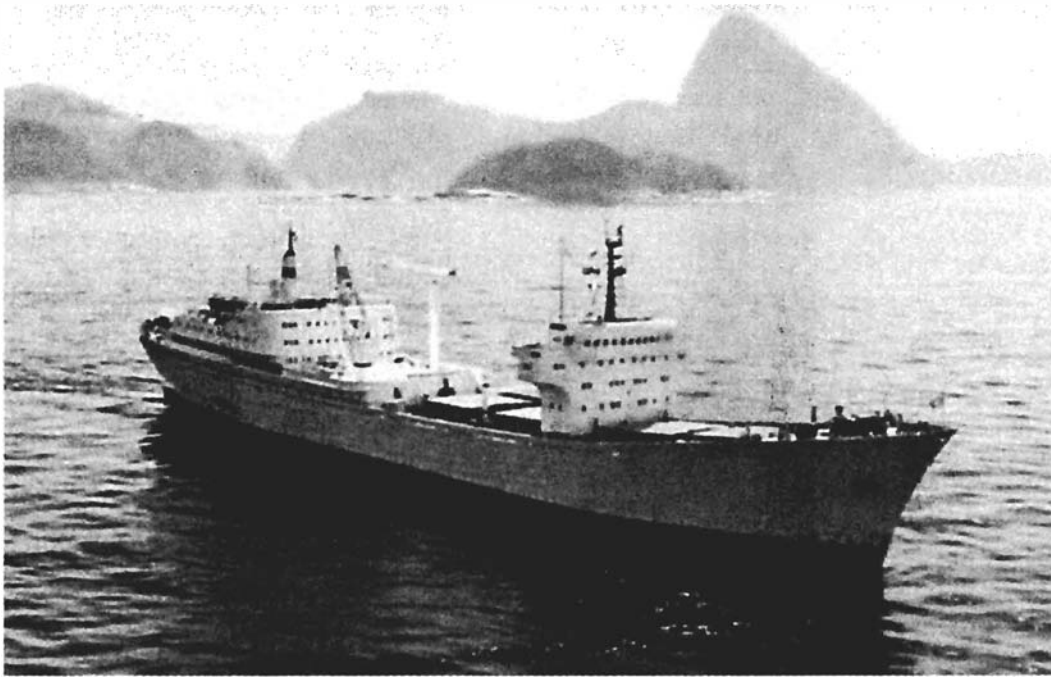
### **Process: hydrogenating coal-gasification**

10. Aluminum-oxide from bauxite
  11. Synthetic natural gas or hydrogen from lignite
- ### **Process: steam-coal-gasification**
12. Hydrogen or methanol and coke from anthracite; partial gasification and its multiple applications were developed and proven.
  13. Methanol and pig iron in integrated complex from anthracite coal.
  14. Synthetic natural gas, hydrogen or methanol from anthracite coal (reduction of CO<sub>2</sub> emission).

### **Process: thermochemical process**

15. Hydrogen and oxygen from water

Source: *Advances in Energy Technology*, Kugeler Publishing, Neis, Ballensiefen, KFA-Jülich, 1993.



*The nuclear-powered cargo vessel Otto Hahn, built at the HDW shipyard in Kiel during 1963-68, sailed 250,000 nautical miles (i.e., 10 times around the globe) before it had to refuel. Whenever the Otto Hahn would put into a harbor in the early 1970s, a boom of demand for German goods would be created in that country.*

a higher degree of energy intensity. It's a similar situation in space flight, where tasks such as reaching Mars in a few days, can only be accomplished by nuclear technologies, but are in principle impossible if we rely on lower forms of energy density, such as chemical energy.

As for the Vulkan shipyard in Bremen, it has to be noted that, only four days ago, it was decided on behalf of the European Commission, that the Vulkan shipyard is not allowed to build any more container ships and therefore will be essentially shut down in July 1997. This was part of the European Commission's conditionalities to permit the state to subsidize Vulkan in order to prevent immediate bankruptcy. Between 1963 and 1968, the German nuclear-powered ship *Otto Hahn* was built at the HDW shipyard in Kiel, using a 38 MW (thermal) nuclear reactor. The *Otto Hahn* was the first nuclear ship in the world to use the advanced concept of an integrated pressurized water reactor. Between October 1968 and September 1972, the ship would sail 250,000 nautical miles, that is, something like 10 times around the globe, before it had to refuel. There were never any problems with the reactor. In effect, the operation of the nuclear reactor turned out to be much simpler than conventional power sources. It was a common saying in the early 1970s, that the *Otto Hahn* was the most successful promotional campaign for the German export industry. Whenever the *Otto Hahn* would put into a harbor, a boom of demand for German goods would be created in that country. In 15 years, the *Otto Hahn* had travelled a total of 600,000 nautical miles, while consuming only 55 grams of uranium fuel, the equivalent of less than three liters in volume.

What happened to the plans for building fully reusable hyper-sonic rocket-planes, such as the Sanger project. Many

countries had started efforts in this direction. In Germany, the program was shut down shortly after reunification.

In general, what we need in order to increase the productive powers of labor here in Western Europe, is to develop and introduce the next higher order of energy-dense technologies.

To demonstrate this, look at chemistry today: not only are we still relying on using up biomass, such as coal, oil, and gas, in energy production, but these substances are also the basis for most of the chemicals we use. There are about 10 million different chemical substances known today, and 98% of them are derived from carbon. Somehow, the characteristics of the chemical element carbon allow the synthesis of an extremely rich family of carbon-related substances—all the plastics, most of ceramics, and so on.

But, if we look at the Periodic Table of chemical elements, we see that carbon is followed by the element silicon, indicating that carbon and silicon belong to the same family, and have certain properties in common (**Figure 4**). In effect, it is expected that, based on silicon, another extremely rich array of new artificial materials could be produced. As an example, silicon carbide, used in HTRs due to its extreme heat resistance, belongs to this group. And, in this case, we do not have only a relatively tiny layer of fossils as reserves, but a silicon reservoir a billion times greater.

All our stones and sand are made out of silicon-derived substances. The only problem is: to break up stones, in order to get our new basis for chemical synthesis, we need much higher energy per volume than in processing oil or coal: That is, the jump from a carbon-based chemistry toward a silicon-based chemistry requires a higher energy density of our industrial technology. We will also need higher energy densities in

FIGURE 4  
The Periodic Table of Elements

1A																	8A							
1	1																	2						
	H																	He						
	Hydrogen																	Helium						
2	3	4																	5	6	7	8	9	10
	Li	Be																	B	C	N	O	F	Ne
	Lithium	Beryllium																	Boron	Carbon	Nitrogen	Oxygen	Fluorine	Neon
3	11	12																	13	14	15	16	17	18
	Na	Mg																	Al	Si	P	S	Cl	Ar
	Sodium	Magnesium																	Aluminum	Silicon	Phosphorus	Sulfur	Chlorine	Argon
4	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36						
	K	Ca	Sc	Ti	V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As	Se	Br	Kr						
	Potassium	Calcium	Scandium	Titanium	Vanadium	Chromium	Manganese	Iron	Cobalt	Nickel	Copper	Zinc	Gallium	Germanium	Arsenic	Selenium	Bromine	Krypton						
5	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54						
	Rb	Sr	Y	Zr	Nb	Mo	Tc	Ru	Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe						
	Rubidium	Strontium	Yttrium	Zirconium	Niobium	Molybdenum	Technetium	Ruthenium	Rhodium	Palladium	Silver	Cadmium	Indium	Tin	Antimony	Tellurium	Iodine	Xenon						
6	55	56	57	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86						
	Cs	Ba	La	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg	Tl	Pb	Bi	Po	At	Rn						
	Cesium	Barium	Lanthanum	Hafnium	Tantalum	Tungsten	Rhenium	Osmium	Iridium	Platinum	Gold	Mercury	Thallium	Lead	Bismuth	Polonium	Astatine	Radon						
7	87	88	89	104	105	106																		
	Fr	Ra	Ac	Unq	Unp	Unh																		
	Francium	Radium	Actinium	Unnilquadium	Unnilpentium	Unnilhexium																		

58	59	60	61	62	63	64	65	66	67	68	69	70	71
Ce	Pr	Nd	Pm	Sm	Eu	Gd	Tb	Dy	Ho	Er	Tm	Yb	Lu
Cerium	Praseodymium	Neodymium	Promethium	Samarium	Europium	Gadolinium	Terbium	Dysprosium	Holmium	Erbium	Thulium	Ytterbium	Lutetium
90	91	92	93	94	95	96	97	98	99	100	101	102	103
Th	Pa	U	Np	Pu	Am	Cm	Bk	Cf	Es	Fm	Md	No	Lw
Thorium	Protactinium	Uranium	Neptunium	Plutonium	Americium	Curium	Berkelium	Californium	Einsteinium	Fermium	Mendelevium	Nobelium	Lawrencium

order to transform places that today are hostile to most living beings, such as deserts or huge northern stretches of Siberia, or to build cities on the Moon and Mars, or, if we choose to colonize the oceans.

In general, we have to reestablish in Western Europe, something we still had in the 1960s: a culture of solving the problems of the world economy by generating scientific discoveries and introducing completely new forms of technology.

### Machine-building and the 'Mittelstand'

Now we come to the last, very important, requirement in the Eurasian land-bridge buildup, perhaps the most serious bottleneck: In order to generate the necessary level of permanent technological improvement, we have to revive an institution that, in Germany, is called the *Mittelstand*. These are technology-oriented, medium-sized companies, with a highly skilled workforce, in particular, in the machine-building sector.

Figure 5 shows that in the case of shipbuilding or aerospace, the 10 largest companies alone account for 70% of the number of people employed in that sector. In the machine-building sector, this is completely different. There, we have about 6,000 companies in Germany, employing 1 million people, and almost all of them are medium-sized companies.

The reason for this dominance of small and medium-sized companies in sectors such as machine-building, is a special quality of the *Mittelstand* companies, that we can see all over Western Europe, but in its most elaborated form in Germany, northern Italy, and Switzerland. In the United States, such a structure existed during the Apollo space program. In Figures 6 and 7, you see that a small number of relatively small countries—Japan, Germany, Italy, and Switzerland—in total not more than 5% of the world population, export 70% of all machine tools worldwide.

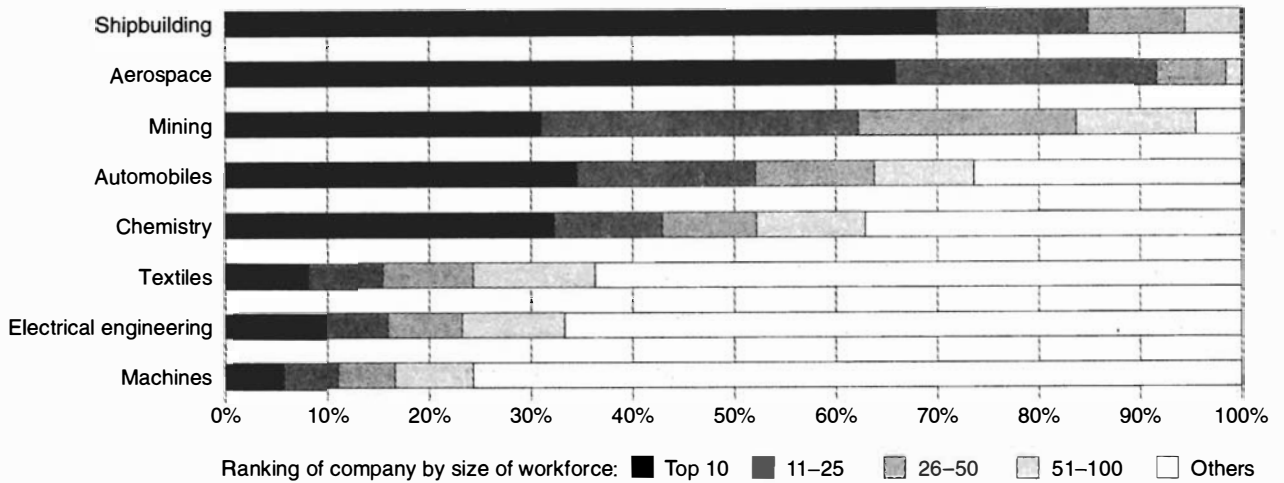
There are many hundreds of such *Mittelstand* companies in Germany, most of them having between 200 and 500 employees, which by themselves control the world market in their particular area. A large part of these companies are in the machine-building sector. And, it is important to note that they achieved a share in the world market of 30%, 50%, or even 80%, not by outsourcing of jobs, or by otherwise cutting costs, but, quite the contrary, by paying the highest wages to their employees, and by paying strong attention to the education and training of their workforce. Actually, a recent review of the German machine-building sector revealed that all those firms which cut costs by outsourcing labor, completely failed, and they lost their long-standing customers, because they were no longer able to keep up their flexibility and rate of technological innovation.



FIGURE 5

**Share of top companies in employment, by sector, in West Germany, 1990**

(percent of total workforce)

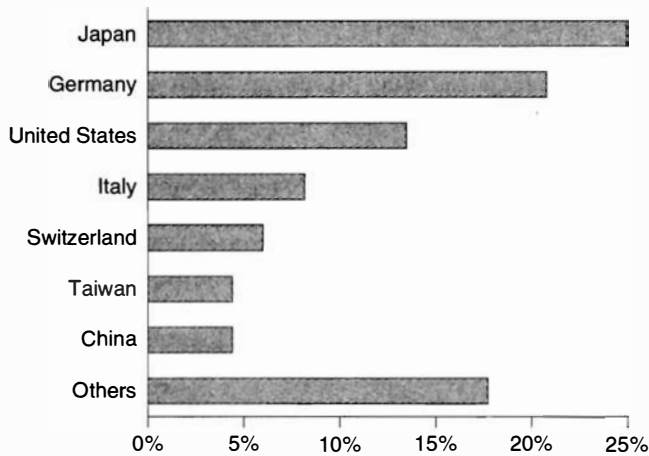


Sources: Federal Statistical Office, EIR.

FIGURE 6

**World machine tool production in 1995**

(share of total world machine tool production)

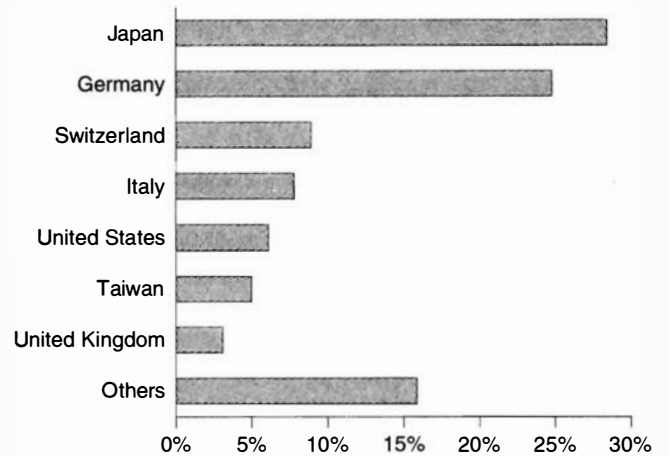


Sources: VDW, EIR.

FIGURE 7

**World machine tool exports in 1995**

(share of total world machine tool exports)



Sources: VDW, EIR.

**A quality of leadership**

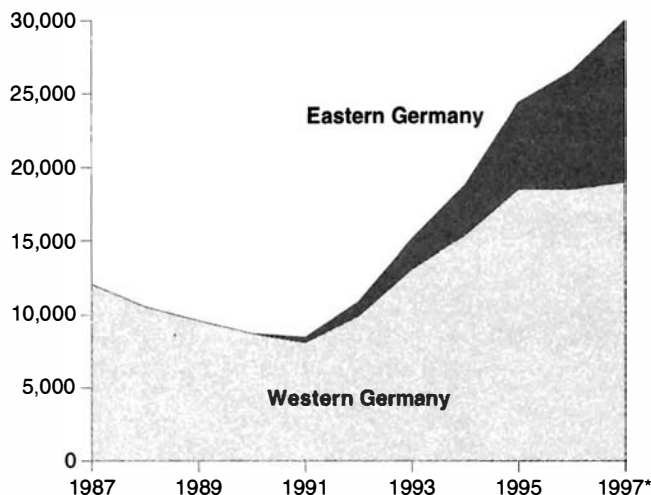
Now the problem is, that this quality of the *Mittelstand* companies cannot be achieved by cutting up a big company into small pieces of 200 employees or so. This, by itself, doesn't work, because the quality doesn't come about as a function of company size; rather, it is a result of individual traits—that of the company leadership.

If you look at a typical *Mittelstand* company in the German machine-building sector, you have a one-man leadership, where the person who runs the company, at the same time owns it, and thereby ties the fate of his family entirely with the long-term success of the company. There are no "shareholders," who are just interested in next quarter's profits. In most cases, the head of a *Mittelstand* company is

FIGURE 8

**German corporate bankruptcies**

(number of bankruptcies)



\* Estimated

Sources: German Federal Statistical Office, Hermes, EIR.

an engineer, or has a scientific education. Often, he himself, or his father or grandfather, has contributed crucial improvements to the production process, by which the specialty of that company was transformed on a world scale.

However, there is no way of learning how to become the successful head of a *Mittelstand* company by attending a special university course. It is more a kind of cultural achievement, which is transmitted from father to son, or from company head to one of his employees, by experiencing a successive chain of technological changes. The flexibility of the *Mittelstand* companies, allowing a very specialized basket of consumer and capital goods, and their ability to introduce technological advances into the production process at a high frequency, is a crucial factor for every advanced economy.

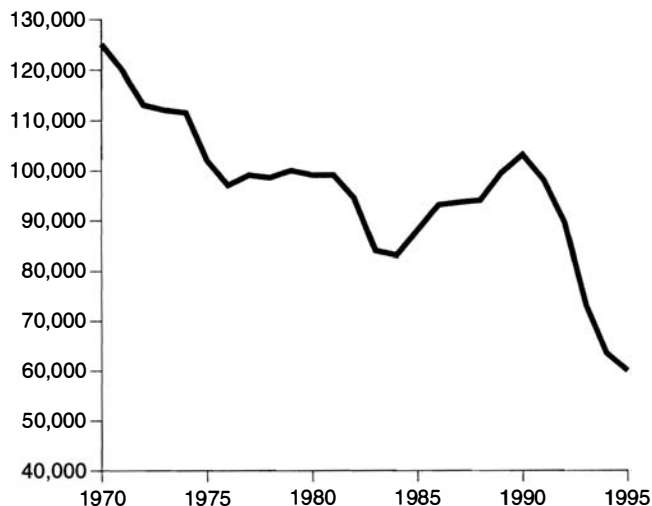
In the 1970s, we still had companies in Germany, such as AEG, MBB, or Krauss-Maffei, which acted as permanent generators of new technologies. Different maglev concepts were studied by MBB and Krauss-Maffei. MBB was developing the Sanger project, while AEG was developing all sorts of nuclear technologies. Today, these companies no longer exist as independent units. They were bought up, and then either drastically scaled down or even completely shut down, as in the case of AEG. Those high-tech producers closely collaborated with a wide range of small and medium-sized machine-tool shops, that were able to find a workable solution to any technical problem that occurred.

New scientific principles were introduced into the economy as new technologies, by the efforts of such machine tool

FIGURE 9

**Employment in western Germany's machine tool sector**

(number of employees)



Sources: VDW, EIR.

companies. The problem today is that our economies are no longer dominated by technological change, which is a precondition for the fostering of *Mittelstand* companies. In periods of technological stagnation, they are no longer needed. When the economy is spiralling downward, when primitive cost-cutting measures, rather than the efforts to improve the productive powers of labor, are the decisive factors for so-called economic success, *Mittelstand* companies will not survive (Figure 8).

This is even worse in the machine tool sector. As a result of the prevailing economic policies worldwide, we saw during 1991-93 the biggest drop in global machine tool production since World War II. In only five years, employment in the German machine tool sector was cut by 40% (Figure 9).

Therefore, the reindustrialization of Western Europe, by introducing the most advanced concepts of industrial technologies, as well as spreading this principle into the East, is an urgent task, for which we must keep this highly valuable cultural achievement, the *Mittelstand*, alive. The Western European economies were built up by focussing on the improvement of the productive powers of labor and by maintaining a high rate of technological change. The most promising task, to revive this type of successful economic policy today, would be to develop all the technologies needed to conquer the solar system, starting with the Moon and Mars. If we choose the other alternative, that is, a downward cost-cutting spiral—cutting budgets, and cutting jobs—then Europe as we know it will disappear.

# The 'Asian Tigers' and the end of full-set industry

by Kathy Wolfe

As "globalization" and "outsourcing" one's national industries to death have grown fashionable, the buzzwords "Asian tiger" and "East Asia model," as used in the 1990s, have come to convey nonsense. The original reference, however, to Taiwan and South Korea's growth since 1970, a true industrialization similar to that of Japan in the nineteenth-century Meiji Era, is worth study. All three nations based themselves on the American System of Alexander Hamilton and Friedrich List, as Tokyo, Seoul, and Taipei officials will freely attest.

In particular, Taiwan and South Korea enraged London and Wall Street, as had Japan earlier, by developing their own machine-tool sectors and the small-business/engineering complexes, similar to the high-density Tokyo-Yokohama corridor, which design and produce such tools. By 1991, Taiwan and South Korea, with a combined population of 63 million people, began to rival the United States (population 250 million) for its share of world machine-tool output (Figure 1). By 1995, Taiwan and Korea combined, with 7.8% of world output, had surpassed the U.S. level in 1991, of 7.3%. In 1995, Taiwan and Korea were in the top eight of world machine-tool-producing nations, ahead of Her Majesty's Great Britain, and France.

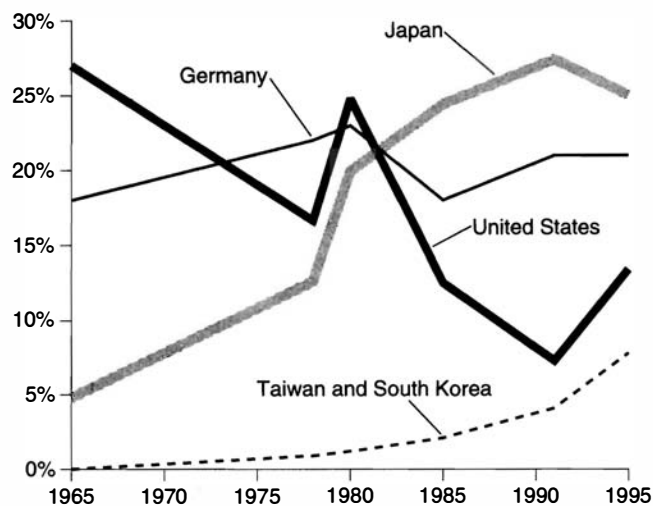
Japan, a more familiar case, since 1983 has been the world's largest machine-tool producer, surpassing the United States and Germany (Figure 1 combines the output of East Germany and West Germany before 1989).

As Taiwan President Chiang Kai-shek is said to have announced in the mid-1960s: "We're not going to produce toys anymore. We're going to produce the real thing," referring to the difference between producing a supertanker, and producing plastic toy ships.

Japanese followers of List referred to this as a "full-set industrial structure," in which one nation "possessed within its borders all industrial sectors, at a reasonably high level of development," necessary for national sovereignty, as did the nineteenth-century United States. They contrasted it to the "comparative costs" model of David Ricardo, imposed by the British Empire in Europe, in which Germany produced fine steel the most cheaply for others, but depended on Britain for shipbuilding, or upon France and Italy for textiles, and so on.<sup>1</sup>

1. Mitsuhiro Seki, *Beyond the Full-set Industrial Structure* (Tokyo: Long-Term Credit Bank, 1994), p. 35-6.

FIGURE 1  
Percent share of world machine tool production



Source: Association for Manufacturing Technology (formerly the U.S. National Machine Tool Builders Association).

Since 1985, when former Merrill Lynch chief and then-U.S. Treasury Secretary Donald Regan demanded the Plaza Accord with Tokyo, however, globalization has imposed increasing deindustrialization upon Japan. The free traders at the Bank of England and the Bank for International Settlements (BIS), in particular, have focussed heavy pressure in an attempt to force Japanese banks to abandon their long-standing policy of providing cheap loans for their affiliated industrial corporations. It is through these *keiretsu* ties between Sumitomo Bank and Sumitomo Heavy Industry, for example, that Japanese industry has gotten plentiful investment credit to develop new technologies.

Speaking of the resultant Japanese bank crisis, Japanese Prime Minister Ryutaro Hashimoto told the Japanese Diet on Jan. 22: "The current world monetary system is a danger to the existence of the physical economy of the entire world."

With recent "deregulation," Taiwan and South Korea are threatening to follow Japan downhill.

## The 'Four Tigers' is an Orwellian label

Meanwhile, the British have permuted the label "Asian tiger" to mean the opposite of the original, in an effort to stop nations in Africa and elsewhere from studying industrial history. Today's Anglophile media use "tigers" to denote the British model of free-trade sweatshops in Hongkong and Singapore. Neither of these two, however, nor their followers in Malaysia, Thailand, and the rest of Southeast Asia, has ever produced even a half-set industrial base, or a *sovereign nation-state*.

Indonesia and Singapore have some small machine-tool production, but their combined 1995 output (0.4% of world output) would not be visible on the scale of Figure 1. Nor would that of Hongkong, or of the rest of Southeast Asia.

Rather, the Hongkong-Singapore model relies upon London-style "financial invisibles," such as real estate, banking, and insurance, and production of what Chiang Kai-shek called "toys," i.e., low-wage consumer goods and electronics, made of cheap materials, or of parts produced in the West and assembled in sweatshops.

Indeed, lumping Hongkong and Singapore together with Korea and Taiwan, as the "Four Tigers," was the Orwellian work of a 1993 report issued by the World Bank, entitled *The East Asian Miracle*. This 389-page tome is a typical British attempt to squash a process—to stop other nations from understanding the real engine of growth in Korea and Taiwan—by officially announcing a twisted definition of it. The World Bank classifies the four together as "tigers," based on similarities of monetary Gross National Product (GNP) per capita. It never asks whether the monetary GNP comes from machinery production, or casino gambling<sup>2</sup> (see p. 39).

## The 'full-set' and the nation-state

The "full-set" concept was a direct product of the American Revolution, specifically the 1791 *Report on Manufactures* by America's first treasury secretary, Alexander Hamilton. He wrote that it is impossible to found a lasting and free nation-state, without government protection and fostering of industry, and especially of new scientific invention. The German-American economist Friedrich List elaborated this in his 1841 book, *The National System of Political Economy*. Returning to Germany after 1830, List was instrumental in founding the German state and industrial economy.

The writings of Hamilton, List, and their collaborators were fully adopted by Japanese founding father Ōkubo Toshimichi, and Japan's first finance minister, Ōkuma Shigenobu, during the 1870s, and, after World War II, by Taiwan's first economics minister, Yin Chung-yung (a.k.a. K.Y. Yin), and by South Korea's early finance ministers, such as Dr. Chang Ki-young.

2. John Page et al., *East Asian Miracle* (New York: World Bank, Oxford University Press, 1993), p. xvi.

After World War II and the Korean War, instead of allowing foreigners to buy them up, the Japanese, Korean, and Taiwanese mobilized government credit, which they called "policy credit," to invest in the most advanced new technologies. They founded government development banks (such as the Japan Development Bank and the Korea Development Bank), which were directed to create a backbone of modern infrastructure from the rubble. Their central banks used "window guidance" to direct commercial banks to loan specifically to these projects, and to private companies set up to create entire new industries, into which the private sector could not afford to invest alone.

As each new industry, such as Japan's high-speed bullet trains, came on line, the government sold its share to a private firm to develop. This partnership, which has nothing to do with either Adam Smith's laissez-faire or Marx's equally debilitating communism, has been described as a public sector skeleton, made complete by private sector flesh and blood. It has created some of the largest and most vibrant private companies in the world.

Japan, Taiwan, and Korea are all cut off from the mainland, poor in raw materials, and dependent on foreign fossil fuels. They chose to meet their postwar security needs by developing industrial independence.

## Indicators of industrialization

There are several basic measures which show that Taiwan and Korea were joining Japan by the 1990s as full-set industrial nations (**Table 1**). These indicators show the *labor-power* level of the economy—in G.W. Leibniz's term, the extent to which "one man may do the work of a hundred" by use of powered machinery.

In 1992, in percentage of workforce employed in manufacturing (Table 1, line a), Taiwan, at 32%, had surpassed Japan (24%); and, the United States at its height in the 1960s, when the U.S. ratio was 27%. Taiwan's figure compares with Germany (31%). South Korea, at 22% by 1992, had surpassed the United States that year (18%), and reached the general level of Japan.

Non-industrialized countries typically exhibit single-digit or only slightly higher manufacturing employment ratios, such as Indonesia (8%) and Thailand (6%).

Production of electricity per capita (Table 1, line b) is another indicator, showing the power available to the average individual in the economy. In 1992, Taiwan, at 5,000 kilowatt-hours per capita, was already at German and Japanese levels; Korea, at 2,600 kwh, was at the same level reached by Germany in the 1970s. Non-industrial countries such as Indonesia and Thailand exhibit lower levels, of 200 and 1,000 kwh, respectively.

Figures on nuclear electricity generation give a more precise sense of the *technological* level of manufacturing labor skills, and of labor power more generally. Korea, Taiwan,

TABLE 1

**Industrial indicators, 1992**

	Japan	Taiwan	South Korea	United States	Germany	Indonesia	Thailand
a. Percent of employed in manufacturing	24%	32%	22%	18%	31%	8%	6%
b. Electricity production (thousand kwh per capita)	7.4	5	2.6	11	5.7	0.2	1
c. Nuclear-generated electricity as percent of total electricity generation	29%	36%	44%	10%	15%	0%	0%
d. Ship production (dwt per thousand population)	81	62	91	0.8	20	0	0
e. Automobile production (units per thousand population)	81	24	46	24	62	-	-

Sources: National embassies, U.S. Department of Energy, IAEA, Shipbuilders Council of America, MITI.

and Japan have some of the highest percentages of electricity generated by nuclear plants in the world (Table 1, line c), exceeded only by France, Belgium, and Hungary, and far higher than that of Germany and the United States, thanks to the disease of environmentalism in those two nations. Indonesia and Thailand have no nuclear electricity, although plants are planned for the year 2003.

Other indicators of the development of full-set heavy industry are shipbuilding and machinery production. South Korea and Taiwan are now the world's leading shipbuilding nations, producing 91 deadweight tons per 1,000 people and 62 dwt per 1,000, respectively (Table 1, line d), compared to Japan at 81 dwt per 1,000. The United States has almost completely shut down shipbuilding.

After World War II, Japan depended heavily on shipbuilding to rebuild the market for its postwar machinery industries and raise worker skills. In the 1970s, Japan was the world leader, producing in 1975 as much as 136 dwt per 1,000, before Britain's manufactured "oil shock" induced Tokyo to phase out shipbuilding. Investment by relocating Japanese builders played a large part in Korea and Taiwan's development of this sector.

Despite their major ports, Hongkong, Singapore, Indonesia, and other Southeast Asian "toothless tigers" do not have shipbuilding industries, but do only repairs.

Similarly, machinery production in Korea and Taiwan has been led by demand from the shipbuilding and automobile industries. Taiwan's per-capita auto production, at 24 units per 1,000 people, has now equalled that of the United States, and Korea is on its way to overtaking Japan (Table 1, line e). While Indonesia is now developing a national automobile model, up to this point, Southeast Asian nations have negligible production, consisting largely of labor-intensive assembly of parts produced elsewhere.

Taiwan and Korea are also fast becoming exporters of general heavy machinery, such as turbines for power plants, construction machinery, and electrical machinery, such as

computers and advanced microprocessors. Korean construction firms are involved in hundreds of billions of dollars of large construction projects around the world, using Korean equipment.

South Korea is already self-sufficient in the production of all components and machinery for nuclear power plants. There are six new nuclear plants now under construction in South Korea, using entirely domestic technology, and South Korean industry will be building the lion's share of the two large nuclear plants planned by the U.S.-led international consortium in North Korea.

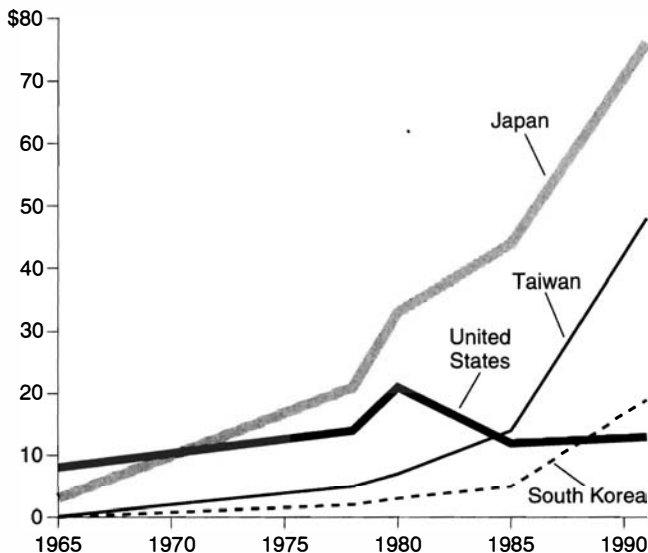
### Machine tools and the 'Mittelstand'

Without the machine tools to feed them, Japan, Korea, and Taiwan could never have built world-class shipbuilding and construction industries. **Figure 2** shows production of machine tools in dollars per capita of population, which indicates the relative labor power of the individual to produce, in each economy. By 1985, Japan's output, of \$44 of machine tools per capita, was almost four times U.S. output (\$12). Taiwan, at \$14 per capita, had surpassed the United States. By 1991, South Korea, at \$19 output per capita, had also surpassed the United States.

Japan's data in Figure 2 have been deflated to remove the speculative rise in the number of dollars a Japanese yen will buy since the 1985 Plaza Accords, or Japan's figures would have been even higher. (Taiwan and Korea's currencies are loosely tied to the dollar and have not fluctuated enough to affect Figure 2.)

How was this possible? At its height around 1990, the Tokyo-Yokohama machine tool district in Ota, Shinagawa, and a few other wards, was described as very similar in character to the *Mittelstand* areas of Germany, where the world's finest machine tools are produced. As discussed by Lothar Komp, the *Mittelstand*, or mid-sized industrial firms, are small businesses run by innovative entrepreneurs who design and build machines which have never existed before.

FIGURE 2  
**Per-capita machine tool production**  
 (U.S. dollar equivalent\* per capita)



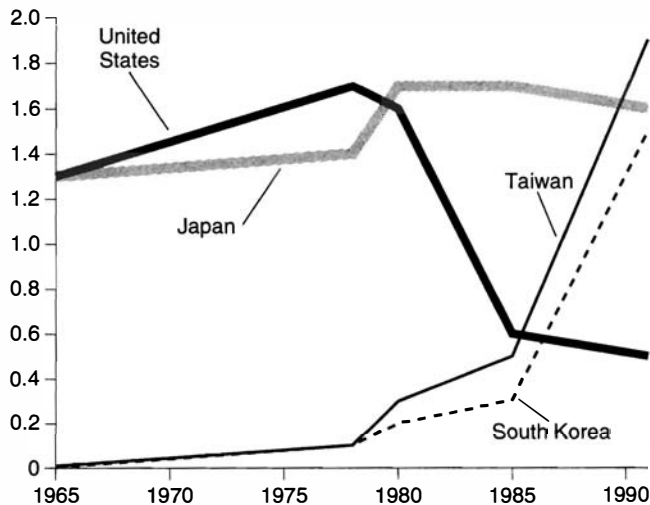
\* Deflated for foreign exchange speculation in Asian currencies.  
 Source: Association for Manufacturing Technology.

Japan's giants, such as Mitsubishi Heavy Industries, located their "mother plants," those charged with developing new production processes for their dozens of plants around the world, in Tokyo's southern wards, to take advantage of the city's many research institutes, government agencies, and newly graduated engineers. These "mother plants," as Mitsuhiro Seki describes it in *Beyond the Full-Set Industrial Structure*, "intent on creating new businesses and technologies, must maintain basic research, production research, and also trial mass production facilities. . . . The equipment required for experimenting and testing is unique and varied, and vast combinations of work processes are required to build ever-newer prototypes. . . ."

"It is unrealistic to expect even the biggest firms to equip mother plants or research institutes with all which is needed. . . . The cost would be staggering. The further technology advances, the truer this becomes."

In response, there grew up in Ota Ward, one of Tokyo's southern suburbs on the Tama River, a dense concentration of small machine tool shops, each usually owned by one family, dedicated to meeting the demand for ever-newer machinery. In 1990, Ota Ward was home to 7,860 small plants, employing 77,367 workers, an average of 10 per plant. The typical shop founder was a blue-collar worker in Japan's World War I or World War II munitions machining industries, who left to start his own business, manned primarily by members of the family.

FIGURE 3  
**Machine tool production,\* units per capita**  
 (units per 1,000 population)



\* Not including parts and reassembly.  
 Source: Association for Manufacturing Technology.

While a large percentage of shops have some 20 workers, Ota has over 2,000 highly specialized shops with only two to four operatives, each operating machinery not found anywhere else in Tokyo, and providing services to a very large number of bigger companies. These mini-shops share larger orders with each other, delivering parts among themselves by bicycle, all within a two-kilometer radius.

Yet, in 1990, Ota Ward's shipments were valued at nearly \$10 billion—7.6% of total industrial shipments in Tokyo. "It is said," Seki writes, "that any kind of industrial process can be undertaken in Ota Ward. . . ."

"Many tenants of the high-rise condominiums which have appeared in the center of Ota Ward are small systems planning and design firms," Seki points out. " 'Within the radius of one and a half hours travel from here are located all the development divisions of Japan's leading companies,' says one systems designer. 'I can make a paper airplane of my blueprint, toss it out the window, and in a few days the finished product will be ready.' "3

### Taiwan and Korea expand

Another aspect, of Taiwan and South Korea's machine tool sectors, is seen by viewing production in terms of *physical units*, instead of in monetary terms. In **Figure 3**, Taiwanese and Korean production have skyrocketed to 1.5 machine

3. Mitsuhiro Seki, op. cit., p. 55-67.

tool units produced per 1,000 population, and almost 2 units per 1,000, respectively. Japan's production of units per capita, however, has remained almost flat.

There are two sides to this. One is that Taiwan and Korea have heavily targetted their machine tool sectors, not only for expansion for domestic consumption, but also to export to less-developed countries. These days, that includes Southeast Asia, and also the United States.

Taiwan, especially since 1989, has had a large excess of exports of machine tools over its internal consumption of machine tools. In 1995, Taiwan produced \$1.6 billion of machine tools, and exported \$1.1 billion worth. Taiwan's consumption came from \$636 million of more sophisticated imported machine tools, which it cannot yet produce but which it wants to replicate, plus \$500 million from domestic production.

The other side is that Japan, since 1980, has gone from making larger numbers of basic machine tools, such as Taiwan and Korea now make, to become a world leader, second only to Germany, in production of "high end" numerically controlled (NC) computerized machine tools, robotics, and other extremely sophisticated devices. Since 1990, some 30% of Japan's units have been of this quality.

The highly skilled operator of each of these is a computer specialist, doing the work formerly done by several hundred. The leading edge of the industry is in NC machine tools; those countries producing large numbers of NC and robotics tools, such as Germany and Japan, are those which are designing *new* machine tools.

An NC lathe may multiply the labor of one operator by an order of magnitude over an ordinary lathe, which is a nineteenth-century technology. It may also cost ten times as much. The multiplication of labor power, however, is the important factor, which is reflected in the fact that a smaller number of sophisticated units bring a higher monetary price. It is this, and not inflation, overhead, or other negative effects of monetary figures which explains Japan's higher output in dollar terms (see Figure 2).

The most sophisticated NC machine tools are produced not for shipbuilding or other basic heavy industry, where a part may be several feet across, but for higher-end industries requiring high-precision tolerances for parts which may be smaller in size by a factor of ten, such in as the aerospace, military, auto, or computer industries.

While arming heavily, Taiwan and Korea did not, until the 1990s, produce more than 10% of their own military goods. They bought most of these from the United States. Their machine tool sectors were geared rather to basic heavy industry, and only recently reached the high tolerances needed for sophisticated aerospace and weapons systems.

### **'No new Japans'**

The British have always hated the industrial potential of the United States, Germany, Japan, Taiwan, and South Korea.



*Former Merrill Lynch chief and U.S. Treasury Secretary Donald Regan. Since 1985, when Regan demanded the Plaza Accord with Tokyo, globalization has imposed increasing deindustrialization upon Japan.*

However, as long as the nuclear balance of power between Moscow and NATO persisted, the industrial potential of our Asian allies was tolerated, for strategic reasons. But, since the dissolution of the Warsaw Pact, London has had no further use for industry in Asia, or in the United States or Germany, for that matter.

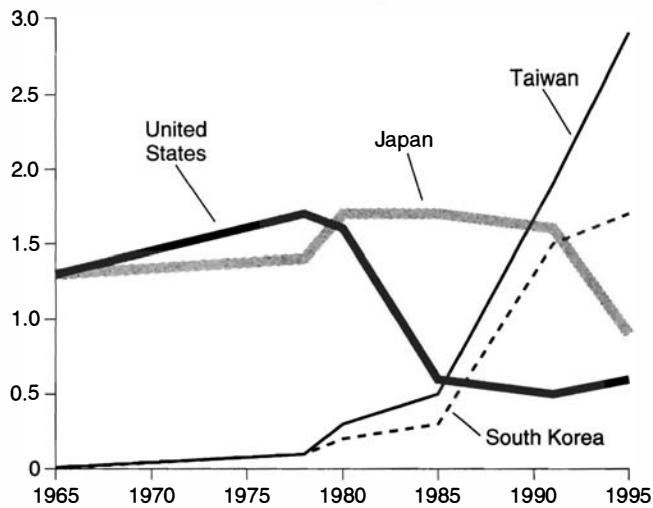
Korea and Taiwan, the "tigers with teeth," in particular committed the sin against which London-trained U.S. National Security Adviser Zbigniew Brzezinski warned in 1978, when he told Tokyo officials, "We will permit no new Japans." The meaning was clear: The racist bankers of London and the BIS would allow no more non-white nations to achieve industrialization.

The British increased the pressure with the 1985 Plaza Accord, under which U.S. and BIS monetary authorities deliberately created a huge speculative bubble in Japan, by driving the price of the yen up, in order to knock Japan's physical economy for a loop. Japan's exports collapsed, and prices, led by land prices (the "Tokyo bubble") went sky high. Banks, meanwhile, shifted from lending to the production sector, to lending to the speculative real estate sector, which, like today's U.S. stock market, looked like a sure bet for the infinite doubling of your money (see *EIR*, Nov. 24, 1995, "How London, Kissinger, and Don Regan Caused Japan's Bank Crisis").

The result was that industrial firms went out of business

FIGURE 4  
**After the Plaza Accords: machine tool production,\* units per capita**

(units per 1,000 population)



\* Not including parts and reassembly.

Source: Association for Manufacturing Technology.

or relocated overseas in droves. Japan's machine tool industry was dealt a vital blow (Figure 4). Starting especially in 1991, the number of machine tools produced in Japan began to collapse, the first fall since the end of World War II.

"Japan's economy entered a recession induced by the Plaza Accord of 1985," Seki writes. "The accompanying abnormal spiral in land prices affected Ota, Kawasaki, and other wards profoundly. Larger factories were replaced by high-rise apartment buildings, parking lots, and office buildings, causing the industrial fabric of the areas to disintegrate."

Japan's consumption of machine tools also collapsed during this period, indicating a serious weakening of investment in its industrial base. Japan's annual machine tool consumption (that is, its annual investment in the most critical part of heavy industry), has fallen steadily every year since 1991, from a peak of \$6.7 billion in 1991, to under \$2 billion in 1995 (after foreign exchange speculation is discounted).

Since 1991, "Immense concentrations of small factories responsible for the fundamental technologies are gradually disappearing," Seki writes. "The casting, forging, plating, and machinery sectors are thought of as three-K industries (*kitsui*, *kiken*, *kitanai* [difficult, dangerous, and dirty]), so young people eschew working in them, and many shops have workforces averaging over 50 years of age. The work done cannot be completely mechanized, and is heavily dependent upon skilled workmanship. . . . Japan's industry is

losing its most precious asset, the veteran craftsman who, holding a finished component in hand, states with pride: 'We're the only ones who can do a job like this!'"<sup>4</sup>

This is why the title of Seki's book includes the word "beyond" in *Beyond the Full-Set Industrial Structure*. Despite decades of work in the machine tool industry, Seki, like many Japanese, has with heavy heart, accepted the overwhelming Anglo-American propaganda which daily repeats its mantra: "Globalization" makes the end of Japan's industrial economy inevitable. Japan, he says, will be "hollowed out," and must somehow go "beyond" industry. Most of his book describes the need to relocate Japanese machine tool plants overseas, to China and elsewhere in Asia.

Korea and Taiwan were not subject to the Plaza Accord per se; Figure 4 shows that, as of 1995, they had not yet reduced their rapid rate of machine tool output. Indeed, their consumption of machine tools also continued to rise rapidly, especially in Korea, whose annual consumption rose from \$1.6 billion in 1991, to \$2.3 billion in 1995, surpassing Japan's consumption investment.

Yet, today, Korea and Taiwan are being induced by the International Monetary Fund, BIS, and the international globalist mafia to follow the same route to globalization as Japan, and become "toothless tigers." This is the significance of Korean President Kim Young-sam's Dec. 26 labor and national security laws, which were demanded by economists of the IMF and Paris-based Organization for Economic Cooperation and Development, specifically to force Korean unions and industry into layoffs and relocation of large parts of industry overseas, at Hongkong-style slave-labor wages.

*EIR* Founding Editor Lyndon H. LaRouche made clear recently,<sup>5</sup> what Japan, and, indeed, Korea and Taiwan, must do instead, if they wish to survive as nations. "Japan can survive only by concentrating on the frontiers of scientific and related progress in productive technologies," he wrote, "and on a growing role as a 'knowledge-industry' exporter: a supplier of highest technology machine-tools and related goods to a vast and expanding market for such goods, especially to the actual, and potential future markets throughout Asia. . . .

"Thus, Japan has no sane alternative, but to reorient to producing for a knowledge-intensive export program. Therefore, Japan has no true friends anywhere in the world, but those nations which are committed to return the world, away from the suicidal delusions of 'post-industrial' utopianism, to a policy of fostering general increase of the physical productive powers of labor, a development which can occur only through the combination of large-scale development of basic economic infrastructure, and protectionist policies for fostering high rates of investment in scientific and technological progress for agriculture and industry."

4. Mitsuhiro Seki, *Ibid.*

5. Lyndon LaRouche, "Ring Around China: Britain Seeks War" (*EIR*, Nov. 22, 1996).



# London sells a killer 'tiger' tonic to Southeast Asia

by Michael Billington and Gail Billington

Before December 1994, leading Western bankers and financial officials praised the "Mexican miracle" as the model for developing sector nations. Deregulation, privatization, financial "liberalization," and cheap-labor, low-technology export industries were the secrets of Mexico's magic. When the bubble burst in December 1994, the same people howled for Washington to bail them out, to the tune of \$50 billion, while entire sectors of the Mexican economy lay critically wounded, and the population suffered mass unemployment, food shortages, political destabilization, and narco-terrorism.

The International Monetary Fund (IMF) didn't flinch. Its recommendations did not change one whit—only the "sound-bite" wrapping it came in. The new "Asian Tigers" leapt on the scene, and what a curious litter they were. To this day, the London *Economist* magazine lumps under this tag a combination of South Korea, Taiwan, Hongkong, and Singapore. This odd grouping combines South Korea and Taiwan, each of which has significant populations and significant infrastructural and industrial capacity, with Singapore and Hongkong, the jewels in the crown of the London financial oligarchy's principal Commonwealth outposts in Asia—cities, whose survival depends on financial speculation of all types and for-export assembly manufactures. Indonesia, Malaysia, and Thailand are now counted as "emerging" tigers, while the Philippines is frantically trying to earn its stripes through "entigermant."

The Southeast Asian "tigers" are being fed the same bait that Mexico fell for earlier. Since January 1995, the London-centered financial oligarchy has moved with head-spinning speed to draw the principal countries of the Association of Southeast Asian Nations (ASEAN) into a new "sphere of influence," drawing them ever deeper into the thrall of global financial speculation, while methodically laying claim to essential strategic minerals and other resources.

Increasingly in the 1980s and 1990s, these Southeast Asian nations have been diverted from initially serious and promising commitments to development—based on infrastructure, heavy industry, and expanding education—into parodies of the Hongkong-Singapore model, creating jobs at artificially depressed wages in order to capture the "outsourcing" of low-skill assembly and process industries, as Western

nations deconstruct their own industrial economies. Increasingly volatile capital flows, seeking ever faster, higher rates of return have created ever greater vulnerabilities, further undermining the necessary long-term commitment to serious economic development in depth.

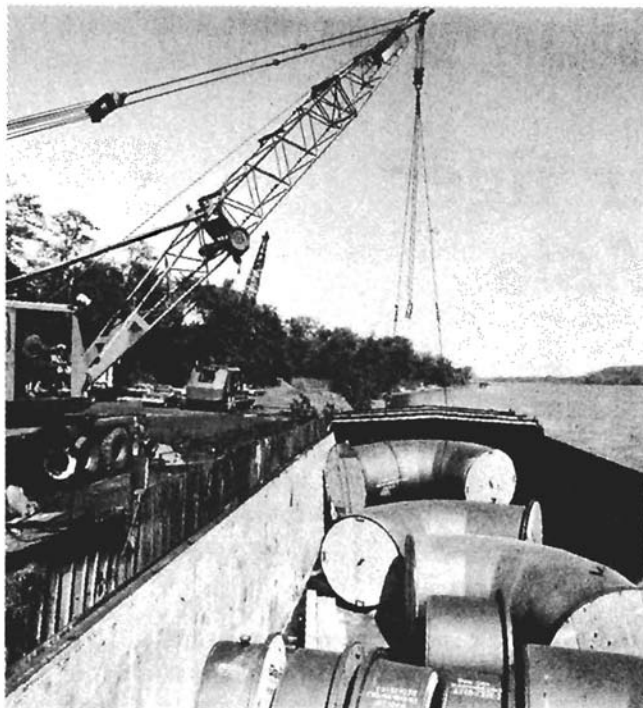
## Globalization means re-colonization

And the sources of that capital are shown to be dirtier than ever: The financial AIDS that has become epidemic in the global monetary system is a major driving force behind the disease AIDS, which by the year 2000 will have created a demographic nightmare in Asia.

At any other time in history, "globalization" would have been recognized immediately for what it is: a recipe for re-colonization; only this time, the governments of Southeast Asia will pay the political and social penalty, while the London-centered financial elites hope to use the loot to shore themselves up against the near-term blowout of the financial bubble.

These nations, with the possible exception of Indonesia, are confronted with collapsing export markets; declining productivity of the workforce; continuing underdeveloped infrastructure, both physical and social; rapidly growing foreign debts, particularly, short-term debt; and the ballooning of financial and real estate bubbles. The gaping disparity in income separating the lowest percentile of income earners from the top is the clearest evidence of where the economic Achilles' heel is to be found in these countries. Outside of Indonesia, there is no "middle ground" in these economies, no intermediary machine tool sector of small to medium-size entrepreneurs functioning as the transmission belt for the transformation of a largely agriculture-based population into an industrial workforce—a workforce capable of assimilating the technological advances that lead to constant improvement in quality of product and skills, and thus participating in increasing national self-sufficiency.

A brief sketch of the economic history of Thailand, Malaysia, Indonesia, and the Philippines, from the late 1970s to the present, shows a common pattern, beginning with serious, initial attempts at national industrial development, to the takeover by the IMF and its local technocratic, monetarist assets



*The Philippines was the first Southeast Asian nation to have a nuclear plant. Here, U.S.-manufactured pipe on its way to Manila in 1980 for use in the nuclear plant. Under International Monetary Fund “free trade” policies, economic development was aborted.*

in the mid-1980s, to the explosion of “financial AIDS” in the 1990s, coupled with attempts to parody the Hongkong-Singapore model. Throughout, the *global* financial context set the parameters in which efforts at industrial development were first stalled, then stymied, and, finally, largely abandoned.

Singapore is a special case, which will not be dealt with here, except to note that it, too, is suffering the worst crisis in a decade, because of declining exports in electronics and declining labor productivity. But Singapore is an island city of approximately 3 million people, whose requirements are a far cry from the other four ASEAN countries. Malaysia has approximately 20 million people, three-quarters of them in peninsular Malaysia; Thailand, 60-plus million, a largely rural population outside of bloated Bangkok; the Philippines, almost 70 million, are spread across an archipelagic nation. Indonesia, with nearly 200 million people, is the fourth largest country in the world. Nearly 120 million Indonesians are located on the island of Java, while the nation as a whole comprises 17,000 islands.

Even to suggest Hongkong or Singapore as a model for nations of this size is genocidal lunacy. There is no short-term, “get rich quick” scheme that can make up for the structural weaknesses in these economies. To overcome those vulnerabilities requires an overhaul in how nations view development, and a new global financial system to make it happen.

## **False starts toward national development**

The late 1970s and early 1980s were a period of optimism and great potential in Southeast Asia. Several portentous developments gave hope to the region: China pulled itself out of the nightmare of the Cultural Revolution under Deng Xiaoping’s reform policies, while Japan launched a drive to industrialize the nations of Southeast Asia (and Ibero-America), viewing this as a basis for creating prosperous markets for their own products in exchange for the raw materials in the region.

In Indonesia, President Suharto recognized that these circumstances, combined with the oil bonanza caused by the enormous oil price increases on the world market, presented a unique opportunity to build a permanent scientific and industrial infrastructure, which he understood as an essential national security requirement, for both the civilian economy and national defense. To accomplish this vision, he recalled his longtime friend, B.J. Habibie, from his career as a leading industrial technology director in Germany. Trained in aerospace engineering at the famous Technische Hochschule in Aachen, Habibie had risen to the position of vice president in charge of applied technology for Messerschmitt-Bulkow-Blöhm. Suharto gave him free rein to create new state industries, based on creation of an integrated matrix of technology production, serving both civilian and national defense requirements. Included in this “strategic industries” sector were eight firms covering aircraft production, shipbuilding, rolling stock/land transport, telecommunications and electronics, defense, machinery and engineering, and the Krakatau Steel plant. Measures were taken to upgrade and extend educational standards, which had only partially recovered from over a century of colonial occupation under the Dutch and Portuguese.

Less dramatic, but similar developments began in Malaysia, in part the result of collaboration with Habibie and his circles in Indonesia. Malaysia modelled its own oil company, Petronas, on Indonesia’s Pertamina, and planned use of the oil resources for industrialization. When Dr. Mohamad Mahathir became prime minister in 1981, he launched a “Look East Policy,” which looked to Japan and South Korea’s development of national industries as a model. He created the Heavy Industrial Corporation of Malaysia (HICOM), with several parallels to the structure created by Habibie in Indonesia to oversee the program.

The Thai situation is different. The huge U.S. presence in Thailand during the Vietnam War had provided the money and the power for a series of governments, which ran almost entirely on the largesse of the United States, together with dirty money, prostitution, and other hot-money operations. But in the late 1970s, a military faction centered around the prime minister, General Kriangsak, attempted to use the central planning body to transform the military-based economy—based on security concerns, with Bangkok as the single industrial area—into a national development policy. This in-

cluded infrastructural and industrial development in the up-country regions, the construction of a new port and industrial center along the Eastern Seaboard, and the construction of a canal across the Kra Isthmus in the south.

The Philippines, in the early 1970s, was the third largest developing economy in East Asia and the Pacific, after Indonesia and South Korea. It had the largest U.S. business presence in all of Southeast Asia, and was home to the two largest U.S. military installations outside the United States. Then-President Ferdinand Marcos had elaborated a series of 11 “major industrial projects,” including a network of transportation infrastructure to link the principal islands in this archipelagic nation. The Philippines was the first Southeast Asian nation to *have* a nuclear power plant, despite subsequent events.

The global economic recession, beginning in the early 1980s, and the collapse of the price of oil, struck each of these nations. The IMF moved quickly, demanding the dismantling of the nationalists’ dirigistic institutions, and the implementation of “free trade” policies as conditions for desperately needed credit. Beginning with Carter administration official Zbigniew Brzezinski, and continuing with a vengeance under Henry Kissinger, Japan’s role as a principal source of credit, physical goods, and know-how for ambitious infrastructural and industrial development for Southeast Asia was undermined and increasingly eliminated after the 1985 Plaza Accords (see p. 33).

### The ‘hot money’ carrot

The carrot offered by the IMF was the promise of “hot money,” on the Hongkong and Singapore models. In 1984, the British grudgingly agreed to return Hongkong to China in 1997, per 100-year-old treaty agreements. A feeding frenzy ensued across Asia to see who would become the new Hongkong, as a financial hub for multinationals in Asia. What was left unsaid was that both Hongkong and Singapore, as islands with no agriculture, no heavy industry, and very small populations, *could* survive and prosper on the basis of an economy structured around low-skill, low-technology garment and assembly plants—an economy overwhelmingly based on being a financial service facilitator, feeding off the proceeds of the highly lucrative drug, speculation, and black market traffic.

The first country to falter was Thailand. Without oil, Thailand was forced to turn to the IMF in 1980 to meet the enormous oil price increases. The stillborn development ideas of the late 1970s were never implemented, as the IMF’s Structural Adjustment Program began the transformation of the nation into a drug- and AIDS-infested disaster. “Market forces” replaced the plans for up-country and Eastern Seaboard development, and the Kra Canal. Millions of peasants flooded into an already-overcrowded Bangkok, providing prostitutes for the booming “sex tours” and cheap labor for the export-oriented process industries. Infrastructure devel-

opment was scrapped, education policies stagnated, and Golden Triangle heroin flowed into the West—and into the veins of millions of desperate Thais, bringing with it the worst epidemic of AIDS in Asia.

In Malaysia and Indonesia, the oil bonanza sustained their nationalist policies until 1985-86, when the oil price dropped and the global recession struck home. Dr. Mahathir downsized the heavy industrialization program, privatized much of the state sector, welcomed foreign investors seeking cheap labor (mostly in electronics and textiles for export), and launched a highly speculative financial market. Malaysia, with about 20 million people, has managed to sustain a modicum of apparent prosperity, in terms of the standard of living, education, and basic infrastructure development. However, this has come at the expense of becoming heavily integrated into the international speculative markets; in 1992, upwards of \$10 billion of reserves were lost in derivatives speculation on the London markets, and the collapse of the derivatives bubble will find Malaysia totally exposed.

In addition, as in Thailand, there is virtually no national machine tool capacity, despite a certain civil engineering capacity, which leaves the construction and light industry sectors highly dependent on foreign imports and, thus, particularly vulnerable to the coming crunch.

The Philippines was growing up until 1982, having taken advantage of the open-spigot lending of the banks in the 1970s, but was then caught in the vise between U.S. Federal Reserve Chairman Paul Volcker’s skyrocketing “controlled disintegration” interest-rate hikes and the equally skyrocketing cost of energy imports. As *EIR* reviewed in detail in its Jan. 19, 1996 feature, beginning with brute force in 1983, the IMF made “a terrible example,” as Henry Kissinger would say, of the Philippines, triggering the worst economic depression in the country since World War II—a depression from which the Philippines has yet to recover. The 11 “major industrial projects” were shelved, and up to now, the Philippines has largely lived off the infrastructural development achieved up to 1982.

To the extent that the Philippines *had* a machine-tool capability up to 1991, its strongest center was concentrated in the U.S. military facilities at Clark Field and Subic Bay. The naval base at Subic Bay was a complete dry dock facility, with full ship repair and machine shop capability, and the Filipino workers, who participated in this work, were “true craftsmen.” But, after the Filipino Senate’s vote not to renew the basing agreement with the United States in 1991, the Bush administration, as a last vindictive gesture, ordered the complete dismantling of that machine-tool capability and its relocation *outside* the Philippines. What wasn’t dismantled was looted after the U.S. withdrawal from Subic, even down to ripping the toilets out of their fixtures. Some remnants were found in the wreckage, including the molds for the bodies of a Jeep-like utility vehicle, which is now produced in the Philippines, with Japanese engines, at a cost

of 200,000 pesos.

Indonesia, alone, sustained the nationalist industrialization policies begun by, and still directed by, B.J. Habibie. With the 1986 oil price collapse, the IMF-linked technocrats moved in to curtail Habibie's institutions. But President Suharto would not allow their complete abandonment. While free trade financial reforms were implemented, leading to similar kinds of speculation, cheap-labor process industries, and burgeoning external debt as in Thailand and Malaysia, the state industries were kept intact as a protected enclave. A 1989 effort by the technocrats to bankrupt or privatize the state sector industries provoked a nationalist revival. Habibie and his associates insisted that the IMF demands were no different from the Dutch colonial policies, aimed at preventing technological independence. They pointed out that the "competitive advantage" so valued by the IMF would never grow if based on cheap labor and raw materials, but only by increasing the *productivity* of labor through assimilation of technological advances and improved education. However, the state sector, while still alive, remains too small and too contained, to have the requisite "technology driver" effect to secure economic stability and national sovereignty in economic and financial affairs.

A survey of the 200 top firms in Asia, published in the Jan. 1-7, 1997 issue of the Dow Jones-owned *Far Eastern Economic Review*, based in Hongkong, drives home this point. By comparison with Japan, South Korea, India, and Taiwan, whose lists of "top 10 firms" are dominated by "heavy industries," in engineering, iron and steel, and electronics, there is not a single *heavy industrial* firm listed for any of the four Southeast Asian countries under discussion. Their lists of "top 10 firms" are overwhelmingly dominated by banks, property development, service sector (such as hotels), retailers, communications, or diversified conglomerates, which have some industrial capacity, such as auto assembly.

Topping the list for Indonesia is Astra International, a diversified group involved in auto assembly, agri-business, and finance. Malaysia's number-one firm is Genting Berhad, 73% of whose revenues are derived from gambling operations at the Genting Highlands casino, which overlooks Kuala Lumpur, and which casino is off limits to the country's majority Muslim population. A major foreign exchange earner for Malaysia, Genting's other principal activity is construction of theme parks and golf courses. The Philippines' number-one firm is San Miguel Brewery. Thailand's list, which includes a more proto-industrial mix of firms, is headed by C.P. Group, another diversified company involved in manufacturing animal feed, motorcycles, and cosmetics. But C.P. Group's principal focus these days is *not* Thailand, but the 130 joint venture projects it is operating in all but two of China's provinces! C.P. Group, according to *Far Eastern Economic Review*, "ranks as the largest individual foreign investor" in China!

## London's hard sell for many Hongkongs

Immediately on the heels of Mexico's January 1995 financial meltdown, the London-centered financial elites launched an all-out offensive in Southeast Asia, starting with the early January 1995 tour of Chancellor of the Exchequer Sir Kenneth Clarke to Malaysia, Thailand, and Vietnam. Flanked by seven senior British finance and banking officials, including the head of the London Stock Exchange, Clarke ticked off a list of targets: liberalize the financial sector, including increased foreign participation in stockbroking, leasing, and reinsurance; dismantle restrictions on foreign ownership in the financial sector; privatize the state sector, especially power generation, telecommunications, and roads; encourage Southeast Asian firms to enter the shark-infested waters of the London Stock Exchange. In Bangkok, Clarke was even more adamant about getting government out of essential public utilities, citing as success stories the privatization of British Steel, British Telecom, and British Airways.

Already in 1993, Thailand had set up an offshore financial center, Bangkok International Banking Facilities, to capture funds fleeing from Hongkong and a greater share of the illicit drug, prostitution, and other black market monies endemic in the region. By 1999, Thailand aims to have full-service financial speculation operations up and running, including futures trading, options, and derivatives. In 1996, eighty top Thais were sent to the United States to learn the ropes of derivatives trading.

In April 1995, Malaysia's Prime Minister Mahathir Mohamad promised to turn Labuan Island, off the coast of Sabah, a northeast state, into the biggest international offshore financial center in the world. Twenty international banks had already signed onto the project even before construction of physical facilities was launched, he said. The Malaysian Finance Ministry plans an international stock exchange and monetary exchange on Labuan as well.

These offshore havens, bringing in billions in drug money and other illegal money flows, have facilitated a short-term lending spree, which has created serious current account deficits and real estate bubbles in both nations.

President Fidel Ramos of the Philippines, backed by a strong IMF-trained team of financial advisers, has raced to catch up with its ASEAN neighbors in putting the Philippines up for sale. Between 1992 and 1995, almost all state assets have been privatized, including former military land and much of the country's power-generating system. The 1994-95 budget surpluses were largely the result of one-time sales of public assets, including the state oil refinery, Petron, to Saudi Arabia's Aramco, and the sale of Ft. Bonifacio to Hongkong investors.

The "Philippines 2000" program made the peso fully convertible, eliminated trade and tariff barriers, opened the banking sector to foreign investment, and set the Central Bank up as an independent body. Implementation of the plan, as outlined in the Medium-Term Philippine Development Plan,

created a network of special free-trade economic zones to serve as regional industrial centers (RICs), complemented by key production areas (KPA) in the agricultural sector to maximize "comparative advantage" of crops based on "best use" of land, where high-value export crops will be developed in each region. Extensive perquisites have been given to foreign investors in the RICs, including duty-free import of machinery, four- to eight-year tax breaks, and up to 75-year lease agreements.

### **Privatization, Hongkongization, casino-ization**

In December 1995, the Philippines announced a sweeping privatization program, including, explicitly, Chile's example in privatizing the social security system. Put up for sale were the Philippine National Railways, Manila Waterworks and Sewerage System, National Power Corp., Local Waterworks Utilization Authority, and the Philippine Ports Authority. A new mining code was also passed, allowing 100% foreign ownership and repatriation of all profits in joint ventures. At year's end, Finance Secretary Roberto de Ocampo circulated a memo to the cabinet, calling for the "Hongkongization" of the financial sector. The Philippines Stock Exchange is moving to set up a derivatives trading operation.

Indonesia has played a balancing act between the IMF technocrats and Habibie's nationalists, but it is not at all immune to the pressures to "privatize, liberalize, globalize." In June 1994, a series of deregulation measures went into effect, scrapping prohibitions on 100% foreign ownership of a range of industries and reducing tariffs on more than 700 items. In December 1995, the government imposed restrictions on derivatives trading, after two firms in the pulp and paper sector lost \$66 million. While the country has enormous debt problems and vulnerabilities in the securities markets, Indonesia has at least kept a rein on speculation, while holding onto some higher-tech heavy industrial and some machine tool capacity.

Thailand, Malaysia, and the Philippines are now actively spreading the "casino-ization" of the regional economy. In November 1995, the Malaysian firm Ariston Sdn Bhd announced agreement on the single largest "infrastructure" project in Cambodia, a \$1.3 billion project for construction of a five-star hotel casino resort on an island offshore of Sihanoukville, for which Ariston would build the necessary power plants, roads, and airport. Following the signing of a peace agreement between the Philippines government and the Moro National Liberation Front in the southern Philippines' island of Mindanao, in August 1996, another Malaysian firm, Ekran, announced plans to build a similar casino project offshore of Davao City, as part of Manila's program to secure the peace through "economic development."

In June 1996, plans were announced in the Philippines to turn the former U.S. Air Force base at Clark Field into the "Las Vegas of Asia," including five casino resorts, while, in August, Subic Bay Metropolitan Authority Chairman Rich-

ard Gordon, is reported to have floated the idea of turning part of the former naval base into a Filipino offshore money-laundering center, modelled on the Cayman Islands. One month later, in September, the *Bangkok Post* reported the mid-1997 opening of a casino resort, built with Thai funding, in the Tachilek district of northern Myanmar, smack in the middle of the Golden Triangle drug region.

The success of the British campaign in Southeast Asia is most graphically shown in published reports, which show that for Southeast Asia as a whole, foreigners account for 25% of commercial banking, 70% of life insurance, and 40% of the financial system's capital. The British have scored even higher, emerging as the leading European investor in Thailand and the top investor in the Philippines in 1994 and 1995. Britain has emerged as the second largest investor in Indonesia, after Japan. Close behind Britain in both the Philippines and Indonesia, are Commonwealth "hot money" centers, Singapore and Hongkong; and in Thailand, these two are the top sources of portfolio funds.

The composition of that capital puts the lie to any idea that "globalization" has anything to do with development. In 1995, highly unreliable foreign portfolio investment accounted for 84.4% of all foreign investment in the Philippines, 91.6% of it British. Direct foreign investment to local industries declined. In early 1997, the Bank for International Settlements reported that "hot money" flows rose dramatically in Asia in the first half of 1996: "Banking debt with a maturity of less than one year accounted for well over half of the total in Taiwan (86%), South Korea (71%), Thailand (69%), and Indonesia (60%)."

In January 1996, the British offensive scored a stunning success when a team constituting the senior financial and economic leadership of Thailand travelled to London for a week of private meetings with representatives of SBC Warburg, Morgan Grenfell, Hongkong and Shanghai Banking Corp., Standard and Chartered, Lloyds, and Exchequer Kenneth Clarke to set the agenda for the founding of the Asia-Europe Meeting (ASEM), in Bangkok in March 1996. ASEM has become the institutional forum for pushing "globalization" within Southeast Asia, in particular, the promotion of "private sector" responsibility for infrastructure development. But it was the Philippines' President Ramos who succeeded in establishing the "private sector" as a "dialogue partner" with government in choosing investment priorities and targets, with his sponsorship of the APEC Business Advisory Council, preparatory to the APEC summit at Subic Bay in November 1996.

There are ominous signs that several major infrastructural projects, which are critical for the success of the larger Eurasian land-bridge project, may increasingly be in jeopardy as a result of this institutional push to leave such expensive, long-term commitments up to "market forces." For the first time, discussion of the Mekong River Commission has bogged down on this issue. Malaysia's extraordinary Bakun

Dam project is running into trouble because of reluctance from the private sector to commit on a long-term basis. Southeast Asia's hopes of ever having nuclear energy have been challenged in Thailand and Indonesia, specifically on the grounds that it is not "cost effective."

### **Financial AIDS spreads disease**

A report, prepared by a team at Thailand's Chulalongkorn University last summer, establishes a clear connection between the spread of financial AIDS throughout Southeast Asia and the spread of the deadly acquired immune deficiency syndrome itself. The report documented that annual illegal money flows surpassed the 1995 total annual budget by \$1.4 billion (30 billion baht). Thailand's "black economy" equalled approximately \$43.3 to \$87.7 billion in 1995, or 30% to 58% of Thailand's 1995 GDP. The breakdown of sources of that very dirty money was reported in August 1996 in the *Bangkok Post*, as follows: prostitution, \$17.7 to \$20 billion; narcotics, \$3.9 billion; labor export brokerage fees—a euphemism for trafficking in human beings, \$2.4 to \$3.2 billion; weapons trafficking, \$512 million to \$2.4 billion; black-market oil smuggling, \$334 million; casinos, \$3.9 to \$39.4 billion; underground lotteries, \$11.81 billion; soccer gambling, \$2 billion.

A senior member of the research team, Prof. Sungsidh Pirivarangan, warned that this enormous illegal money laundering has thoroughly undermined the productive economy, leading to a generalized lowering of productivity and a total distortion of available resources, including manpower, to service the insatiable needs of this black market economy.

This report underscores the broader problem wherein human labor is treated as a commodity to be bought and sold, particularly, to be "bought cheap, and sold dear." In the Philippines, human labor as a commodity shows up in a somewhat different way. Since 1982, the Philippines has exported its labor as overseas contract workers (OCWs), whose remittances to their families have become such a significant source of foreign exchange earnings that without the estimated \$6 billion received from 4.5 million OCWs, President Ramos's economic miracle of the last two years would go up in smoke. The London *Economist* reported in its May 11, 1996, survey of the Philippines that, since the Aquino revolution of 1986, an increasing number of OCWs are younger women who work abroad as domestics, nurses, or entertainers. One-third of all Filipina maids in Hongkong, the *Economist* reports, have some level of college education. Also included among the OCWs is a layer of qualified technicians, engineers, and others, who represent a layer essential to rebuilding the Philippines.

The "Singapore" model has been replicated throughout Southeast Asia, so far, by heavily discounting the cost of labor, and giving guarantees of a "no-strike" policy in the for-export processing industries, such as garments, textiles, and electronics. Organized labor is a very low percentage of the

workforce: less than 3% in Indonesia; less than 5% in Thailand, where foreign workers do not have to be paid minimum wage; 10% in Malaysia; and 20% in Singapore.

But the biggest penalty to be paid in the entire region for treating human labor as a mere commodity will be exacted by the looming demographic nightmare caused by the AIDS disease. At the Third International Conference on AIDS in Asia and the Pacific, in Chiang Mai, Thailand, Sept. 16-21, 1995, it was announced that by the year 2000 Asia will overtake Africa as the epicenter of the global epidemic, led by India, Myanmar, and Thailand. As of January 1995, some 4.5 million people in Southeast Asia were reported infected with the human immunodeficiency virus (HIV). At the Chiang Mai conference, one report stated that by the year 2000, almost 1 million children, or 1 in 15 Thai children, will be indirectly affected by the infection of one or the other parent with HIV. Another expert at the same conference compared the epidemic to the equivalent of wiping out an entire decade of development, and a corresponding collapse of life expectancy by 30 years by the year 2010.

Desperately poor parents selling their children into the "commercial sex industry," have raised the number of prostitutes in Thailand to anywhere from 150,000 to 200,000, up to 500,000 to 700,000. Of 15,000 prostitutes in Phnom Penh, Cambodia, according to a survey completed last year, 31% were under age 18, and have contributed to a crisis where 1 in 83 Cambodians is infected. An Indonesian Social Services Ministry official has said 60% of all prostitutes were between 15 and 20 years old.

A report submitted to an ASEAN task force in October 1996 made clear that *no country* in Southeast Asia is immune to this epidemic. The outgoing head of the ASEAN task force on AIDS reported the following estimates of HIV infection by the year 2000: Thailand, 1 million; Indonesia, 750,000; Vietnam, 300,000; Philippines, 90,000; Malaysia, 20,000. Singapore has reported 500 AIDS cases, comparable to the number reported in the Sultanate of Brunei.

In Malaysia, Vietnam, and China, particularly Yunnan Province, bordering on the Golden Triangle, the sharp rise in AIDS infection has been linked to rapid increase in intravenous drug use, particularly among young adults.

The country report submitted by Indonesia to this ASEAN conference stated, "If HIV transmission cannot be slowed before the year 2000, many development sectors . . . will be severely affected because the majority of AIDS victims or infected individuals would be people in the sexually active and productive age group."

If the disease AIDS *is* to be stopped, the countries of Southeast Asia must act now to stop the spread of the London-centered financial elites' "financial AIDS," which is consuming the wholly inadequate development reserves of these countries. If Southeast Asia joins with other nations to put this sick monetary system out of its misery now, more of us just might live to celebrate the millennium.

# America's machine tool design sector has shrunk by two-thirds

by Richard Freeman

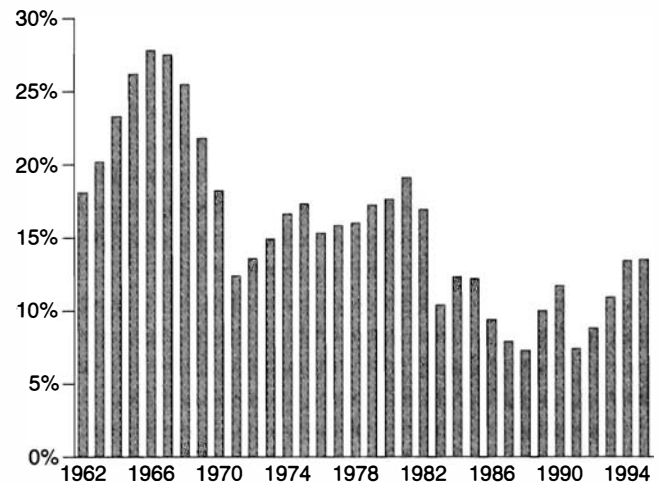
At a moment when the U.S. and world economies urgently require the capability of the U.S. machine tool industry, to provide for the Eurasian land-bridge and a world economic boom, that industry is unable to respond. The machine tool sector is in a shrunken state, a victim of the post-industrial society, pro-speculation economic policies that the British financier oligarchy unleashed in America in the mid-1960s. The machine tool industry was the energizer of the American System of dirigistic economics for 200 years, through the mid-1960s. Today, it produces only one-third of what it produced per capita in 1967. Its share today of world machine tool production is half what it was 30 years ago (see **Figure 1**).

The breaking point came in October 1979, when Paul Volcker, then Federal Reserve board chairman, jacked up interest rates, as part of a policy that he and the New York Council on Foreign Relations called "controlled disintegration." By February 1980, the prime lending rate reached a post-World War II record of 21.5%. Under Volcker's high-interest rate regime, orders dried up and the companies became starved for cash. Over the next eight years, more than half the companies disappeared from the Northeast and Midwest, which together account for more than three-quarters of the country's machine tool output, and much of its scientific drive.

The American machine tool-producing companies were—and are—overwhelmingly of the character of what is called in Germany, the *Mittelstand*. They are small, often family-owned, oriented not toward short-term or speculative profit, but toward making profit from constant scientific and technological advance in machine tool design. They are concerned about improved product and skilled workforce, not the parameters that concern Wall Street. Because of what they do, the *Mittelstand* are the most important component of an economy, but they have a very tiny capital base. America's trashing of its commitment to advancing science in manufacturing—typified by the virtual shutdown of the space program, nuclear power construction, and infrastructure building—killed off capital spending, leaving machine tool production in a depressed state.

If this state of affairs is not reversed, the United States will descend into a new dark age. The machine tool design sector is the key to the modern economy and the source of all real profit. It is the transmission belt for fundamental scientific

FIGURE 1  
**U.S. share of world machine tool production falls**



Source: "Economic Handbook of the Machine Tool Industry," various years, published by Association for Manufacturing Technology (formerly the National Machine Tool Builders Association).

discoveries into the entire economy. In the strictest sense, the machine tool design sector *physically impresses* this advanced technology into machinery, such as textile machinery, food-processing machinery, construction equipment, mining equipment, aerospace craft-building gantries, electric generators, wood-working equipment, and so forth, which, in turn, produce all the products of an economy, including new technologies of product design, product performance, and of productivity.

Therefore, the *rate* at which a nation inserts these more advanced technologies into increased productivity, and increased product quality, is the measure of performance in a physical economy.

America has always understood the importance of the machine tool sector. This has been true since Benjamin Franklin and his republican scientific network helped organize the Industrial Revolution in England, by developing the heat-

powered engine of James Watt and Matthew Boulton in the 1770s. The history of America's economy is that of the interrelation among creative scientific discoveries; the development of capital-intensive, energy-intensive modes of manufacturing; and the machine tool design sector. This concept developed out of the work of Eli Whitney (1765-1825), who created one of the first milling machines, and continued through the nineteenth century, to the work of Henry Ford (1863-1947), who developed his design for an automobile while working as the chief engineer at the Edison Illuminating Company in Detroit. Ford intentionally developed the car so that its carriage and engine could be used as a *universal farm machine*: It could take people on a Sunday drive, but it could also take farm produce to market, haul hay, pull a plough, grind grain, and run a sawmill.

During the twentieth century, the machine tool, and much of engineering in general, was advanced through wartime economic mobilizations.

### **Machine tools make other machines**

There are two types of machine tools: metal-cutting and metal-forming. (There are also jigs, fixtures, and so on, which hold the workpiece in place). A metal-cutting machine tool is a power-driven machine that performs operations, including boring, broaching, drilling, gear-cutting, grinding, turning, and milling, each of which primarily cuts metal (but also plastics and ceramics), by the distinctive action of a blade or tool attached to a rotating spindle (see box p. 52).

Rotational action is critical in machine tools, and in fact, in the development of all machines. The lathe is also classified as a metal-cutting machine, but its mode of operation is different from other metal-cutting devices: In the lathe, the machine tool piece is held stationary, and it is the workpiece itself—that is, the material being worked on—which rotates on a rotating platform.

A metal-forming machine tool is a power-driven machine that performs operations including forging, die-forming, bending, pressing, shearing, and punching.

Dozens of parameters indicate a machine tool's functioning. Just to mention one, which shows the advances over the last 200 years, is the increase in spindle speed. An increase in the rate of rotation of the spindle, to which the blade or tool-piece is attached, increases the work that can be done. During the nineteenth century, spindle speeds of 100 to 750 revolutions per minute were common. Today, spindles can rotate at 8-15,000 rpms. Speeds of 30-40,000 rpms may soon be routine.

This increase in spindle speed necessitated an increase in the hardness and tensile strength of the material that comprises the cutting tool piece: The tool piece has been advanced from tempered alloyed steel, to tools with cubic boron nitrate diamond coatings. Each advance in one area sets the stage for an advance in another.

Through the development of the machine tool, mankind

has increased its power over nature, during the last 200 years, by three orders of magnitude.

Today, various advanced machine tools use lasers, controlled electron beams, or plasma sources, especially for cutting and welding. There are further advances through the use of numerically controlled machine tools, which use tapes, punched cards, pressed switches, or computers to program and run the machine.

The power of the machine tooling sector comes not from an individual machine tool per se—although there are many remarkable machines, like the five-sided machine tool—but from an ordered configuration of machine tools. This author recently had the opportunity to tour a manufacturing and assembly plant that uses 1,450 machine tools. The tour made it clear that it is the ordering of groups of machine tools into a series of configurations that accomplishes work, and utilizes the full power of any one machine tool. Thus, one can see that an inventor would collaborate with a machine tool builder to decide what kind of new machines would be needed to make a new product, and which new or redesigned machine tools would be needed to make the new machines that make the new product. It is the back and forth traversing, in the mind, of this entire integrated process in making new machines, starting with the human mind that creates the new idea, that is the power of the machine tooling process **Figure 2**.

Our report here first looks at highlights in America's history that show the relation of scientific breakthroughs, universal machines, and the development of the machine tool, and shows the central role the machine tool has played in the U.S. economy. It examines the aspect played by wartime mobilizations during the twentieth century, and the *Mittelstand* character of the American machine tool firm. Second, we look at the condition of the machine tool design sector today, starting with its breakdown and contraction, beginning with the mid-1960s introduction of the financiers' post-industrial society policy into America.

### **American dirigism and machine tool design**

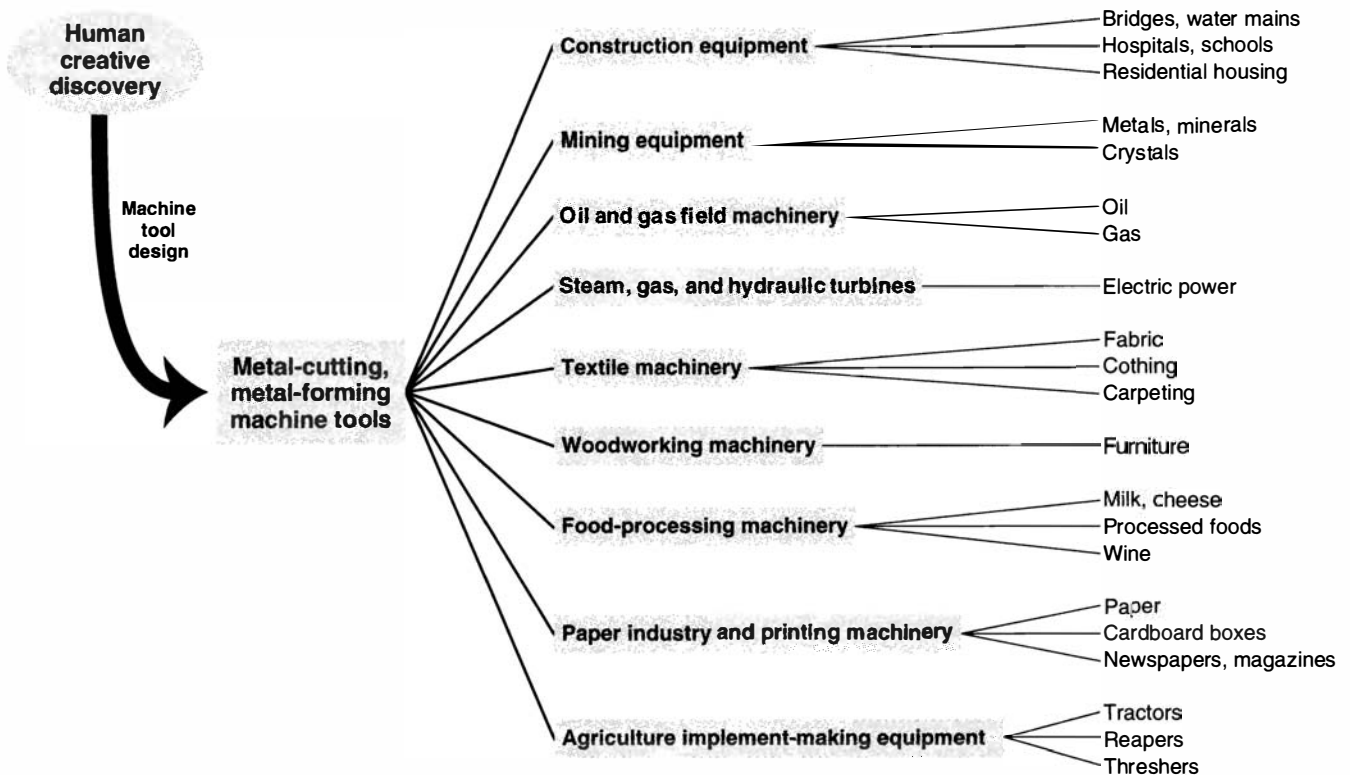
The development of the machine tool design sector in America is inseparable from the development of republican networks, on the one hand, and general scientific advance, on the other. It was America's commitment to what came to be expressed as the General Welfare clause in the U.S. Constitution of 1787, which guided the unfolding of the machine tool sector. That clause states that it is the nation-state's commitment to its posterity, by giving its citizenry a Classical education, and dirigistically fostering scientific advancement in capital-intensive and energy-intensive modes of manufacturing, agriculture, and infrastructure, that leads to the well-being of its citizens.

That is the concept that guided that genius of the eighteenth century, Benjamin Franklin, in his work with the worldwide network of the followers of Gottfried Wilhelm Leibniz, to foster the Industrial Revolution in England, and



FIGURE 2

**The central role of the machine tool in the economy**



nearly every important advance in machine tool design since then. In many cases, the government directly financed or gave subsidies for railroad building, armaments, energy production, aerospace, and so forth, that provided the impetus for machine design improvement.

A strict statistical account would not capture the creative development and qualitative changes effected in the 200-year history of the U.S. machine tool industry. Instead, we highlight certain events to make the point.

**Franklin and the Watt-Boulton steam engine**

In 1757, Benjamin Franklin set sail for England, and over 1758-75, he helped organize and direct England’s first canal-building, the invention of steam power, modern chemistry, and steel-making, which collectively provided the impetus for the development of what is called the Industrial Revolution. This exciting story is presented by Anton Chaitkin in “Leibniz, Gauss Shaped America’s Science Successes,” which appeared in the Feb. 9, 1996 issue of *EIR*.

We focus here on the steam engine. In February 1766, Matthew Boulton wrote to Franklin, soliciting his comments about Boulton’s blueprints for a steam engine. Boulton was to build England’s first great manufacturing plant, the Soho

Works outside Birmingham. In March 1766, Franklin responded, addressing the central question of the steam engine: the fact that only a tiny proportion of the energy in the fuel was being translated into delivered power.

The Scottish mechanic-engineer James Watt was also working on experiments with the steam engine. In 1767, Watt visited Boulton’s Soho Works, and there met the manager of the plant, Dr. William Small, a native Scot who had emigrated to Virginia in 1758. It was Franklin who secured for Small the position of plant manager for Boulton’s Soho Works. In 1768, Dr. Small wrote to Watt, suggesting that Watt join him and Boulton in a new partnership in Birmingham that would develop the steam engine. This was all occurring under Franklin’s guidance. Watt moved to Birmingham in 1774.

One of the knottiest problems that had to be solved to make the steam engine practicable, was to plug leaks in the engine’s cylinder wall. At first, the piston was packed with stuffing material to close the gap with the cylinder wall and prevent the loss of steam pressure and force. However, the cast iron cylinder could never be shaped evenly for a tight fit around the piston. Here, the inventors turned to John Wilkinson, an ironmaster, who had further developed the boring mill, one of the earliest forms of machine tool, to make cast

iron cannon. Wilkinson was also very close to his brother-in-law Joseph Priestley, a Franklin protégé, whom Franklin turned into a scientist.

On Jan 27, 1774, Wilkinson obtained a patent for a “New Method of Casting and Boring Iron Guns or Cannon.” In *A Short History of Machine Tools*, author Lionel Rolt says that Wilkinson’s boring machine: “consisted of a machine in which the solid cannon casting was rotated horizontally between bearings and the stationary boring head was advanced by a toothed rack on the boring bar, the feed being applied by a handwheel through suitable gearing. The bar advanced through guides on a supporting table.” Like any skilled machine tool builder, Wilkinson was able to modify this original boring machine to the specifications required by Watt and Boulton to precisely and evenly bore the cylinder required for the steam engine. In April 1776, an ecstatic Watt wrote of Wilkinson’s work, “Mr. Wilkinson has improved the art of boring cylinders so that I promise upon a 72-inch cylinder being not further from absolute truth [that is, tolerance] than the thickness of thin sixpence in the worst part.” This enabled a workable steam engine to be made, with the promise it held for fostering all future industrial development. In turn, Wilkinson became the first industrial user of the Watt steam engine.

### **Eli Whitney and the arsenal system**

The son of a Massachusetts farmer, Eli Whitney exhibited a wide-ranging mind at an early age. He outfitted a small metal-working shop on his family farm to make nails. In those days, nails were not purchased at the local hardware store, and if one didn’t devise a method to machine them, one had to file them by hand. In 1789, at age 23, Whitney entered Yale University.

In 1792, Whitney went to Georgia to tutor, and he stayed at the residence of the widow of Gen. Nathaniel Greene, one of George Washington’s most trusted generals. At the Greene estate, Whitney solved the problem of how to remove the seeds from green-seed, short staple cotton with his invention of the cotton gin (“gin” is an abbreviation of engine). The task of removing the seeds by hand was so arduous, that it rendered the crop a commercial failure. The cotton gin consisted of a wooden cylinder, bearing rows of slender spikes set half an inch apart. The spikes extended between the bars of a grid set so closely that only the cotton lint—and not the seeds—could pass through. A revolving brush cleaned the cotton off the spikes, and the seeds fell into another compartment.

Whitney wrote, “This machine may be turned by water or with a horse, with the greatest ease, and one man and a horse will do more than 50 men with the old machines. It makes the labour 50 times less, without throwing any class of People out of business.” As a result of this machine, U.S. production of cotton rose from 2 million pounds per year in 1795, to 1.17 billion pounds by 1845—the fact that cotton was then grown by slavery cannot be blamed on Whitney—and helped foster

the textile industry.

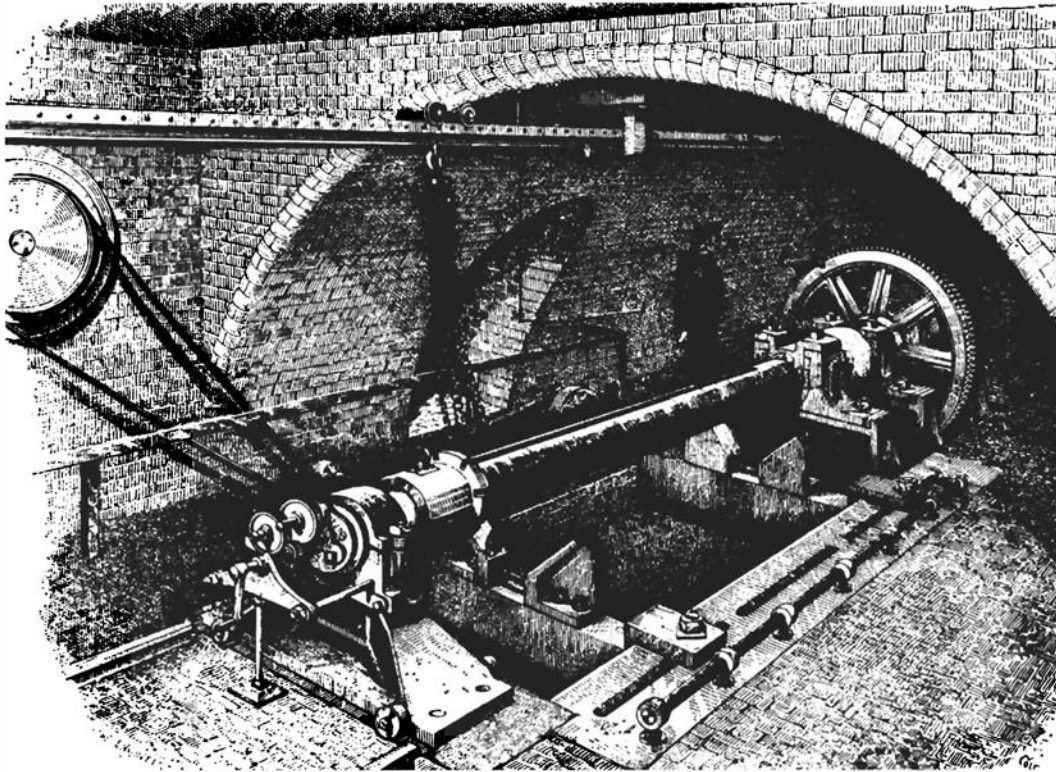
In 1798, Whitney secured a government contract for making 12,000 muskets. This was part of the U.S. arsenal or armory system, which gave contracts for products for war. Although the military products themselves have no productive value, their manufacture generates new technologies, which can be assimilated into the civilian economy, raising overall productivity. In his 1791 *Report on Manufactures*, Alexander Hamilton had argued for a national arsenal system to make and store weapons. To fulfill the rifle contract, Whitney built a factory in New Haven, Connecticut, and devised or further refined several machine tools.

In his letter applying for the musket contract, Whitney wrote: “I am persuaded that machinery moved by water, adapted to this business would greatly facilitate the manufacture of this article. Machines for forging, rolling, floating, boring, grinding, polishing, etc. may all be made use of to advantage.” A working model of an Eli Whitney milling machine, built around 1820, still exists, though most of the other machine tools have been lost. Whitney’s milling machine, which was not the first, represented a clear advance, anticipating the knee-and-column type of horizontal milling machine that came into common use during the late nineteenth century.

Whitney helped advance the process, begun in France during the late eighteenth century, of making “interchangeable parts”—that is, standardization. With standardization, the parts for 100 rifles, such as 100 locks, or 100 barrels, would always fit together precisely regardless of when or where they were made. This was the start of mass manufacturing. It replaced the costly and time-consuming method of customizing each rifle, the only known production method at that time.

Although some foolish, pro-British writers wrongly equate the interchangeable parts system with the essence of the American System of economics—conveniently leaving out protective tariffs, dirigist direction of credit, attempts to crush speculation, and so on—the most important scientific facet of standardization is, that advancement of machine tool technology made it possible.

In preparation for war with the British, in 1812, the U.S. government awarded Whitney’s advanced factory a contract to make 30,000 muskets. Whitney’s New Haven factory continued to improve machine tool design. It became the education center for other engineers and inventors, and a crucial spawning ground for the northeast machine tool industry. For example, Horace Smith was a workman at Whitney’s New Haven armory before he founded the Smith & Wesson Company to build guns at Norwich, Conn. Col. Samuel Colt, the inventor of the revolver, went to the Whitney Arms Factory to have his revolver produced. Colt also studied and copied the armory’s machines, before he built his plant at Hartford, Conn. Francis Pratt and Amos Whitney (the latter not directly related to Eli Whitney) worked and were educated at the Colt Armory. Later, they worked together for 10 years as foremen



*A cylinder-boring mill from the Soho Foundry near Birmingham, England. In the 1770s, at this Soho Foundry, James Watt and Thomas Boulton developed the working steam engine.*

at the Phoenix Ironworks in Hartford, which made many of the machine tools for the Colt Armory and other weapons companies.

After the Civil War, Pratt and Whitney went out on their own, setting up shop in Hartford, and becoming one of the first exporters of machine tools. The company developed a range of pipe threads, and eventually sired a whole line of advanced machines, including, in the twentieth century, the jet engine, which Pratt and Whitney produces today. This tradition accounts for the fact that Connecticut was the leading machine tool producing state in the Northeast region, until Paul Volcker destroyed it.

### **Advances during the Civil War**

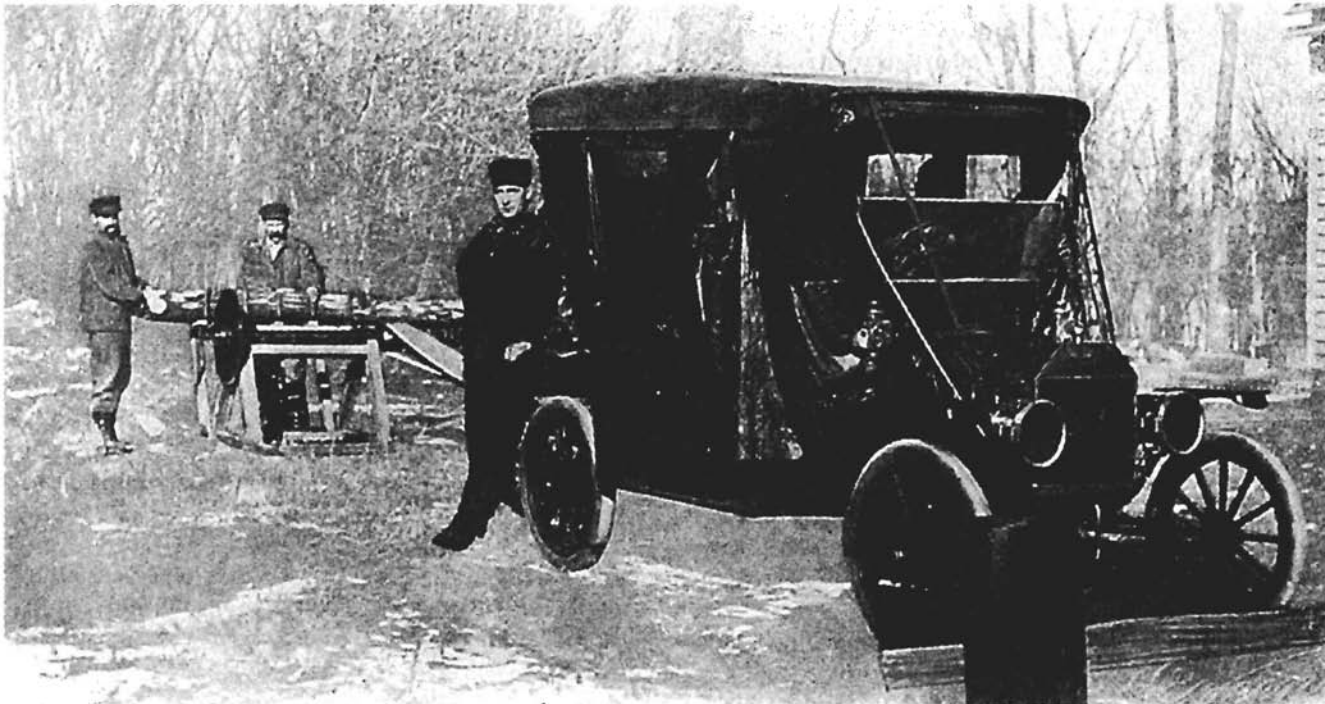
President Abraham Lincoln's need to mobilize the U.S. economy to defeat the Confederate insurrection during 1861-65, led to the first full-scale factory production of military uniforms and clothing, as well as the rapid expansion of locomotive and rail track production. More and more factories replaced water power with steam power, and new machine tools for the textile and locomotive and rail industry were developed. During the Civil War, the tolerance limit, i.e., margin of accuracy, of machine tooling improved to 0.01 inch. By World War I, it would improve to 0.001 inch.

In the 30 years after the Civil War, new machine tools were developed and old ones improved for the wood-working industry, agriculture implements industry (to make reapers and harvesters), shipbuilding, and the transmission and power

industry. Machine tools were designed for sewing machines, typewriters, and bicycles. New inventions were made constantly, each of which increased, by 25% to 100%, the efficiency and power of a particular kind of machine tool.

To cite one example: during the 1880s, Frederick W. Taylor and his associates in Philadelphia—a major machine tooling center at this time—developed a type of steel that permitted machine tool bits to run at much higher speeds. Victor S. Clark writes in his *History of Manufactures in the United States, 1607-1860*, that this “made possible much heavier cuts at higher speeds in machining metals, *that more than doubled the output of a machine*” (emphasis added). At the same time, Clark says, “the station type of tools was introduced, enabling a succession of operations to be performed simultaneously upon the same piece of metal.” Because this dramatically reduced set-up time, which is the largest block of time in any machine tooling operation, it resulted in additional increases of productivity of 50% to 100%.

The cumulative effects of more and more fundamental improvements began to cascade, offering the ability not only to increase spindle speed, but to have adjustable, rather than permanent spindle speed during the same tooling operation; or the ability to have more rigid jigs and fixtures, and so on. This increased capability radiated to the general metal-working and machinery industry, making it more powerful by a factor of 25 to 50 than it had been at the dawn of the nineteenth century. This was a tangible increase in man's power over nature.



*The Ford Model-T could be rapidly changed into a traveling saw-mill. Henry Ford conceived the Model-T to be used as a universal farm machine.*

During the Civil War period and the subsequent 40 years, Cincinnati emerged as a center of machine tool design. It was heavily settled by German craftsmen, so much so that a neighborhood not far from the Ohio River became known as Over-the-Rhine. A company founded in 1884 as the Cincinnati Screw and Tap Company, has been run for more than a century by the Geier family, originally from Bavaria, Germany. Today, it is known as Cincinnati Milacron. Cincinnati machine tool makers produced for the shipbuilding and repair industry, whose ships plied the waters of the Ohio River, and for textiles, but soon spread out to many areas. By 1900, Cincinnati produced one-eighth of all U.S. machine tools, and the machine tool center of gravity had shifted to the Midwest.

### **Henry Ford and the universal farm machine**

Born at Springwells, Michigan, in July 1863, Henry Ford was raised on a farm. He developed the car as a universal farm machine. In his autobiography, *My Life and Work*, Ford writes that he took no pleasure in endless farm drudgery: "My earliest recollection is that, considering the results, there was too much work on the place. . . . Even when very young I suspected that much might be done in a better way. That is what took me to mechanics—although my mother always said that I was a born mechanic. I had a kind of workshop with odds and ends of metal for tools before I had anything else. In those days we did not have the toys of today; what we had were home made. My toys were all tools—they still are!"

Ford adds: "I have followed many a weary mile behind a

plow and I know the drudgery of it. What a waste it is for a human being to spend hours and days behind a slowly moving team of horses when in the same time a tractor could do six times as much work."

In the 1880s, Ford worked on the maintenance, repair, and development of steam engines. During this time, he operated a Westinghouse portable steam engine for 83 days one fall, doing the threshing for the farmers in his Michigan neighborhood. It's important to remember that Ford was a farm engineer, one of a breed that sought to bring power to agricultural America. The steam engine was key. In 1880, a total of 1,200,000 steam-horsepower served agricultural purposes, while in 1910, the figure reached 3,600,000 horsepower, an amount equal to the strength of 7 million horses.

In the mid-1880s, Ford went to work for Westinghouse, and in 1891, he went to work for Edison Illuminating Company in Detroit, as an engineer. In 1893, he was made chief operational engineer, and he began his serious work on a gasoline-powered automobile. By 1899, Ford had produced an operable car, and he left Edison Illuminating to become superintendent of the Detroit Automobile Company, which he had formed with others to manufacture motor cars. First, he produced Model-N cars, but in 1908, he began to produce the Model-T; in the next 19 years, he sold 15 million cars. He also built one of the first tractors and marketed them in numbers to farmers.

While other car companies went in for changes in the style of their autos, to "market them better," Ford kept the style of

the Model-T basically the same, and concentrated on quality. He also kept reducing the price. The Model-T cost \$950 in 1909 and \$490 in 1913. Then, on Jan. 5, 1914, Ford shocked the world, by raising the wages of his workforce from \$2.34 per day to \$5 per day, based on the idea that well-paid skilled workman produce better. While the \$5 figure was reached through a profit-sharing bonus, which required six months' service and some other conditions, it was a stunning affirmation that labor power was valued.

The most remarkable feature about the Ford Model-T, and the later Model-A, however, is that it was designed to be a universal farm machine: It replaced the horse, and pulled haywagons and wagonloads of farm produce, milk, or pelts for animal breeders. Its engine could be turned into a portable power source; hooked up to a belt—turning the engine into a belt drive—it was used to power the grinding of grain and the operation of a thresher. In the same manner, the engine powered a sawmill to cut wood (see picture). Most important, the Model-T had another converter kit which allowed it to pull a plow or reaper. The Model-T was also outfitted with an accessory converter kit, in which the front wheels were replaced by ski-like contraptions, and the car was turned into a snowmobile to travel over the snow!

The improvement in the machine tool was critical in mass production and improvement of the Model-T; as a result, in the mid-1910s, the assembly time per Model-T was reduced from 12.5 man hours to just 1.5 man hours. This involved creating a moving assembly line, where each function had to be made by a variety of machine tools, some of which were greatly redesigned or invented. For better or worse, the auto industry became the market for approximately 25% to 30% of America's machine tools, a ratio that still holds today. (The aircraft-aerospace-defense sector, both directly and through subcontractors, accounts for another quarter of all machine tool orders today.)

One example of machine tool technology is the development of the centerless grinder. One auto company using the centerless grinder increased the production of car valve tappets from 90 an hour in 1920, to 1,350 in 1929, a 15-fold increase in productivity within one decade.

### The twentieth century war mobilizations

During the twentieth century, the mobilization for war and national defense during World War I, World War II, and the Korean War accounted for a good part of the forward drive and sustenance of the machine tool industry. In his book, *Arsenal of Democracy*, Donald Nelson writes that without the machine tool capacity, the economic mobilization for World War II could not have been waged, nor the war won. Nelson states:

"Long before the war, the Army and Navy Departments realized that machine tools would be the keystone of the industrial effort during the war. . . .

"By April 30, 1941, President Roosevelt had become

aroused over the machine tool shortage. He wrote to [former General Motors president and Chief of Production for the U.S. Army] Bill Knudsen and [labor leader] Sidney Hillman urging the necessity of speeding up the manufacture of machine tools. A 24-hour day and a seven-day week schedule was recommended by the President, but although the machine tool bottleneck showed some improvement, it always remained narrow. This equipment was necessary to gear the whole production process, but the craftsmanship needed to build was a scarce article, and there were not many areas in the whole country where such craftsmen could be found. The United States undoubtedly had more machine tools than any other nation, but no shortage confounded our defense production as much as this one."

Indeed, during 1940 and 1941, the machine tool sector was like a throttle on the engine of war production. Because machine tools are the machines that make other machines, little else could be produced, and civilian plants, such as auto plants, could not be converted to war production, unless the machine tools were made first. During the economic mobilization for the war, the entire, indispensable, driving role of the machine tool industry for the industrial growth of the economy, throughout the entire post-1770 period, was condensed into a single moment.

This type of mobilization had occurred during World War I, such that, from 1914 through 1919, U.S. machine tool output rose from approximately 40,000 units to 150,000 units (using sketchy figures). Many scientific and technological advances were achieved. As **Figure 3** shows, after the end of World War I, machine tool production fell to a level of 50,000 or fewer machine tools produced per year. This level prevailed from 1921 until 1938, and reached fewer than 10,000 machine tools produced per year for 1931 through 1934.

The economic mobilization for World War II, which converged on the use of Hamiltonian methods of dirigistically running the economy, changed all that. With the government directly and indirectly funding machine tool plant refurbishing and enlargement, and worker training feverishly going on, machine tool production for the aircraft and other industrial sectors rose from 34,000 in 1938, to 307,000 in 1942, a nearly 10-fold leap in only four years (see Figure 3).

Technological development was necessary. For example, the building of a single airplane engine, such as the Wright Cyclone, required 80,000 machining operations. Writing in the Oct. 1, 1942 issue of *Automotive and Aviation Industries* magazine, George H. Johnson, then president of the National Association of Machine Tool Builders, provides an example of the improvements that had to be made:

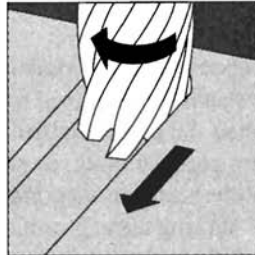
"One of the most difficult and important assignments given the machine tool industry was the design and building of hundreds of special-purpose machines, needed to convert the aircraft engine industry from small-lot to mass production. At the right is [a picture of] a specially designed machine

# Characteristic action of major metal-cutting tools

Here are the characteristic work actions performed by some of the more important metal-cutting machine tools.

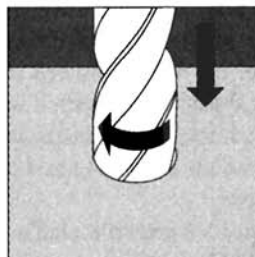
## MILLING

Milling involves bringing a rotating cutter, with many teeth, into contact with the piece of metal material one is doing work on (the workpiece). The cutter rotates on a spindle which is horizontal or vertical. A milling machine tool would be used, for example, to cut a 2-inch groove across the face of a piece of metal.



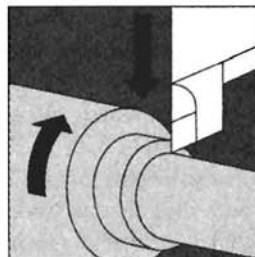
## DRILLING

Drilling makes or enlarges holes in a workpiece. The machine usually holds the workpiece stationary, while the drill, on a rotating spindle, is fed into it. The drill's cutting edges are on the tip, and the spiral flutes carry the chips of cut metal away from the cutting edges. Reaming, tapping, and boring are processes used to enlarge and finish a drilled hole.



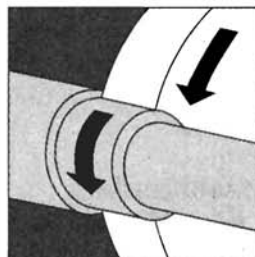
## TURNING

Turning is used to machine pieces whose finished shape is concentric about a common centerline, such as cylinders, discs, shafts, and rings. With turning machines, also known as "lathes," the workpiece, held at one or both ends, rotates. A single-point cutting tool, fed into the work surface, peels the metal away.



## GRINDING

Grinding is for bringing a part surface to an exact dimension or finish. An abrasive wheel is moved into or across the workpiece. The surface of the abrasive wheel contains thousands of hard particles, each capable of removing tiny chips of metal. Grinding machines can grind shafts, gears, flat surfaces, inside diameters, and so on.



## BROACHING

Broaching is a high production process that moves a many-toothed tool, like a giant file, across the workpiece, machining it in a single pass. The teeth are graded; each successive row of teeth is higher than the one before it, so each makes a slightly deeper cut.

Source: Courtesy of Cincinnati Milacron Co.

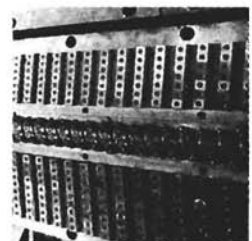
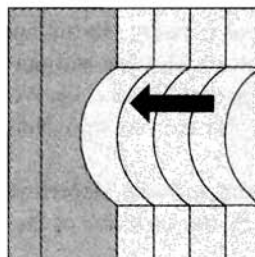
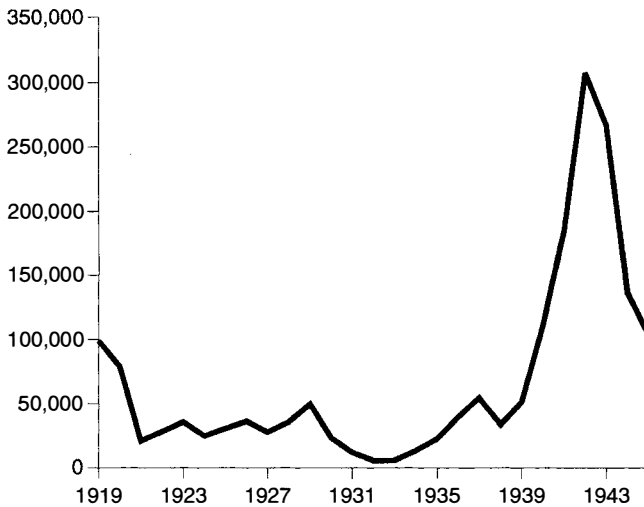


FIGURE 3

### U.S. machine tool production surges under Roosevelt 1939-43 mobilization

(units produced)



Source: "A Study of the Machine Tool with Emphasis on the Problem of Stability," 1962 Doctoral Thesis at American University by Robert Stanley Himes.

which drills, countersinks and spotfaces 22 identical three-eighth-inch holes in an aluminum airplane engine crankcase. It works simultaneously on 32 holes from two different directions. These operations previously took two hours 12 minutes. This one machine now completes the job in 23 minutes."

Thus, the new machine did the job in one-sixth the time; or, to put it another way, this single improvement made the machining operation six times more powerful. This emphasizes an important point: As a long wave over history, when the American economy was growing, America always simultaneously increased the productivity and power of the machine tool, and the number of machine tools produced. It was never a matter of doing one or the other. Today, some alleged machine tool experts attempt to cover up the collapse in production by saying that some machines are more powerful than those of 30 years ago. But technological improvement was always a feature of U.S. machine tool design, at the same time that it increased output.

After World War II, as a result of the fundamental failure of the United States to effect mass conversion of industry to peace-time production, machine tool production dropped precipitously, lasting until the Korean War began. The economic mobilization for the Korean War was like an extension of the World War II mobilization. The U.S. Director of Defense Mobilization pinpoints the role of the machine tool design sector in the Korean mobilization, in his "Fourth Quarterly Report to the President," released Jan. 1, 1952: "An

industry so small that most employers know all their workers by their first names holds the key to success or failure for the nation's military preparedness effort.

"Despite everything that may have been or can be done to increase production, machine tools will remain the most important factor limiting military production for many months to come."

But once military-driven production stopped, the yo-yo effect of the machine tool industry continued. With the end of the Korean War, machine tool orders and production collapsed.

### America's 'Mittelstand'

We jump ahead a little to situate the *Mittelstand's* role in the U.S. machine tool sector. As the report of the Director of Defense Mobilization found, most of the machine tool companies were small enough that the owner knew his employees by their first names. In 1958, according to the 1958 Census of Manufacturing, published by the Commerce Department's Census Bureau, more than 95% of all machine tool establishments employed fewer than 500 persons each, were in most cases independently owned, and produced 49% by value of the industry's shipments.

This *Mittelstand* characteristic of the machine tool industry remains today, despite all the changes—many of them bad—that have occurred in the industry. **Figure 4** shows that in 1992, only 10% of all machine tool employees worked in machine tool establishments of 1,000 persons or more, and 65.9% worked in establishments employing fewer than 500 persons each. As the figure shows, this contrasts sharply with the shipbuilding, aerospace, automobile, and other industries.

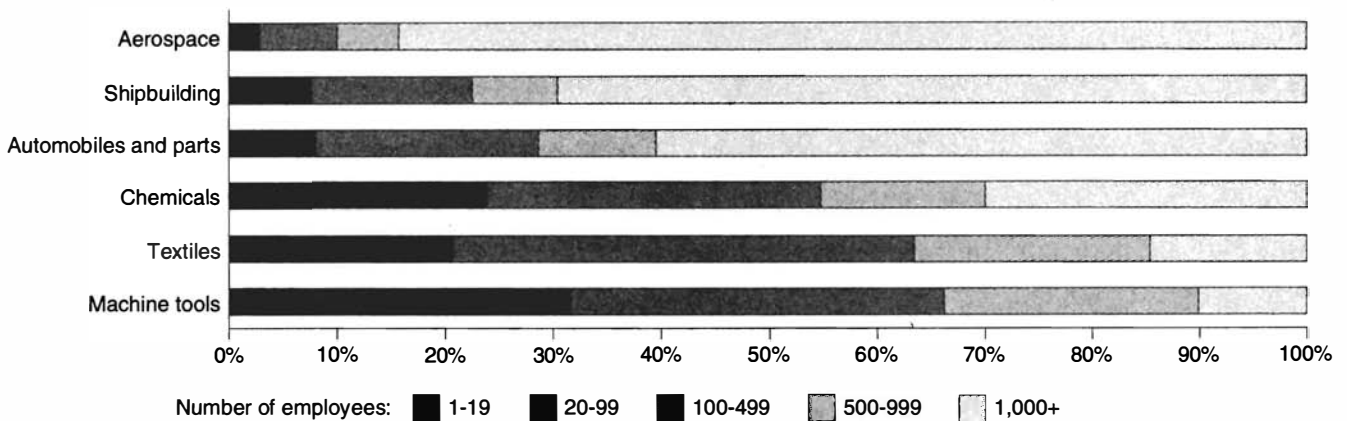
The erroneous policies of the Eisenhower administration plunged the U.S. economy into a recession-depression in 1957-58, which continued in force in the machine tool industry until 1960.

Then, the positive policies of President John F. Kennedy began to reverse the decline. The Apollo Moon mission was a science-driver for the entire economy. Every \$1 invested in the space program, returned between \$10 to \$13 in technological spin-offs. Various machine tool makers invented tools and processes specifically for the space program, and expanded their facilities or opened new shops to become part of the space program, or of other, derived, cutting-edge scientific industries. Kennedy's 7% investment tax credit, enacted in late 1961 for implementation on Jan. 1, 1962, further abetted the process. This credit became available to industrial companies as accelerated write-offs for engaging in capital spending and buying new industrial equipment; in particular, this meant the purchase of machine tools. From the depths of the Eisenhower depression, when America produced only 170,982 machine tools in 1960, production surged to 311,472 in 1967, a near doubling. (Orders also increased, to some extent, because of purchases for weapons production for the Vietnam War.)

FIGURE 4

**Percent of employment, of establishments in leading industries, by number of workers in the establishment**

(percent of all establishments in the industry)



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Earnings" for various years.

**Paul Volcker and the post-industrial society**

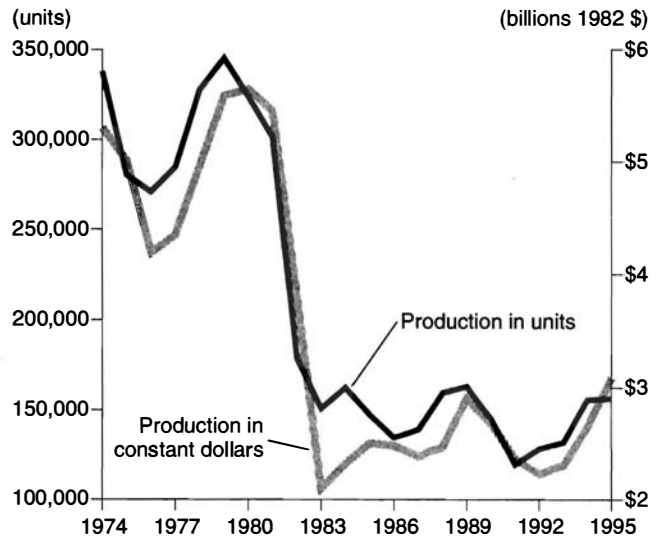
City of London bankers, through Paul Volcker, brought the positive effects of the Kennedy program to a sharp halt.

During the mid-1960s, the British financier oligarchy instituted the post-industrial society. This policy emphasized speculation over production, and began shutting down high-technology development, including killing the space program in the late 1960s. There were huge implications for the machine tool industry. In August 1971, the U.S. dollar was severed from the gold reserve standard, delinking foreign-exchange trading and financial flows from industrial production. In 1973-75, and 1978-79, came the first and second oil hoaxes, together increasing the price of oil 12-fold. While this crippled industry, including the machine tool sector, it also created a temporary reprieve for the machine tool industry: As the auto industry moved to build fuel-efficient cars, it needed a whole array of new machine tools. But the re-tooling of the auto industry extended only through the end of the 1970s.

In October 1979, Paul A. Volcker, chairman of the Federal Reserve Board of Governors, raised interest rates skyward. The prime lending rate reached 21.5% in February 1980, and stayed at double-digits for the next 10 years. While Volcker gave as the excuse for his actions that he was "wringing inflation out of the economy," in fact, he was a team member for the Council on Foreign Relations project that had been ongoing since the early 1970s, known as "Project 1980s." One of the project's 33 book-length studies, *Alternatives to Monetary Disorder*, forecast bringing the economy to zero and then negative growth, through a series of oil price shocks, credit crunches, and so on, which it termed the "controlled disintegration" of the economy. In November 1978, speaking

FIGURE 5

**U.S. machine tool production, in units and 1982 constant dollars**



Source: Economic Handbook of Machine Tool Builders, various years.

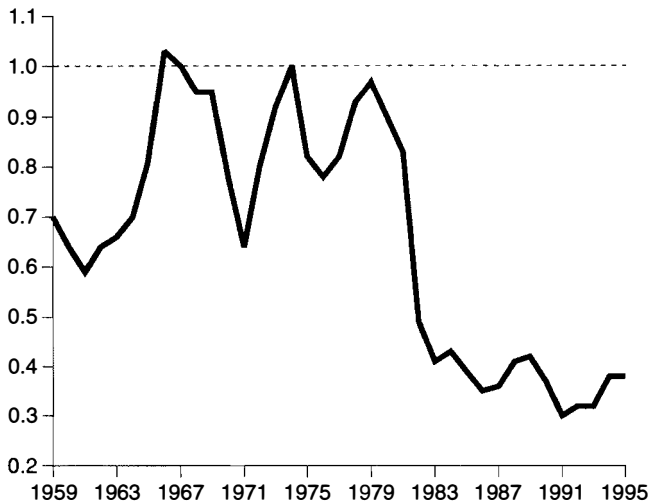
in Leeds, England, Volcker proclaimed his allegiance to this policy, stating bluntly, "controlled disintegration is a legitimate objective of the 1980s."

Volcker did more damage to America's machine tool sector than any previous assault in American history. At one



FIGURE 6

**U.S. machine tool output per capita collapses**  
(index 1967=1)



Source: Economic Handbook of Machine Tool Builders, various years.

point, dozens of machine tool shops were closing up every week. The take-down of U.S. scientific capabilities and the enforced contraction of capital formation, combined with other post-industrial policies, such as the 1982 deregulation of the banking system, compounded the damage. There was a two-year delay before the policy demonstrated its full effect.

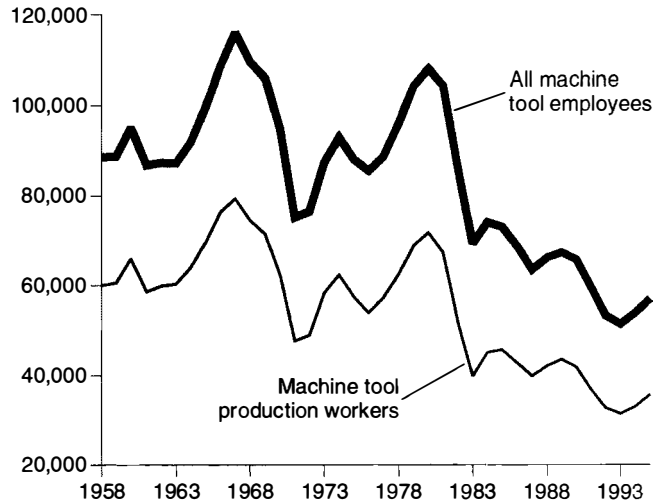
Figure 5 shows that in 1981, U.S. machine tool makers produced 301,313 machines. By 1983, output had plunged to 150,837 units, a fall of 49.9%. Between 1983 and 1995, output would not again reach the level of 170,000 units. Machine tool makers felt the impact in dollar sales. Figure 5 also shows that machine tool sales plummeted from \$5.46 billion in 1981 to \$2.10 billion in 1983, a drop of 60.1% (stated in 1982 constant dollars).

The fall was even deeper on a physical output per-capita basis. If for 1967, the annual machine tool output is divided by the population (in 1967 there were 158.4 machine tools produced per 100,000 Americans), and if that figure is set equal to an index level of 1, we can express all subsequent years' output per capita relative to 1967. Representing this on a per-capita basis, as in Figure 6, presents the power of the individual member of the economy over the entire industrial process: 1995's index level, at 37.6, had fallen to a level almost two-thirds below that of 1967.

Figure 7 depicts the decrease in employment. In reality, the number of workers employed in the machine tool industry—in 1967, 116,000 employees, of whom 80,000 were production workers—was pitifully small to start with. By 1995, the number of employees and production workers fell by half,

FIGURE 7

**Number of U.S. machine tool employees and production workers halved since 1967**



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Employment and Earnings" for various years.

relative to 1967.

Figure 8 shows the number of machine tools in operational use by metal-working industries; that is, by the textile machinery industry, the automobile sector, aerospace-defense sector, and so on. Thus, whereas there was a steady increase in machine tools in use by U.S. industry, from 1939 up through 1973, reaching 3.067 million machines in use, by 1995, that level had plunged by 25%, and an increasing share of the machines in use were imports. Moreover, as Figure 8 shows, in 1945, some 62% of all machine tools in use were under 10 years of age, while only 38% were 10 years or older. That has completely reversed, so that in 1989, 38% of machine tools in use were under 10 years old, while 62% were 10 years or older. Many industrialists emphasize that because of technological attrition, 10 years is the age at which a machine tool should be replaced.

**Permanent restructuring**

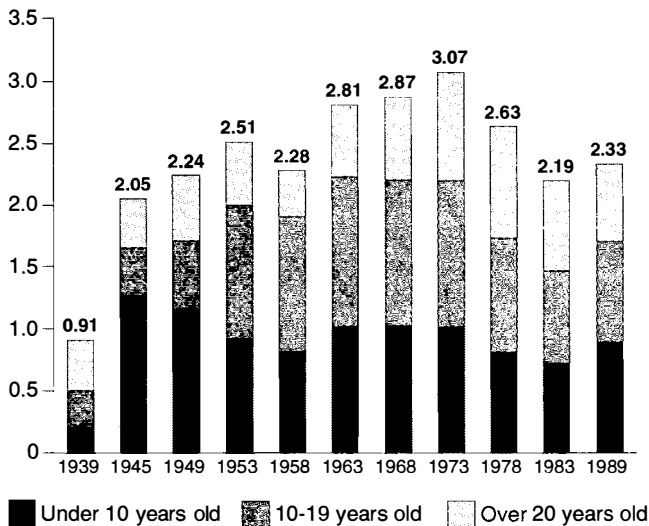
To fully understand what happened, we must look at the permanent restructuring. That is, it was not just a steady, but perhaps temporary, fall in production. The deeper problem is that America lost production capacity facilities *permanently*. If America were to decide to gear up machine tool production tomorrow, the capacity would not be there.

Figure 9 and its accompanying table, show the two predominant machine tool producing regions of the United States: the Northeast (Region I) and the Midwest (Region II). These two regions historically, down to the present, produce

FIGURE 8

## Machine tools in use in U.S. metal-working industries, 1945-89

(millions of units)



Source: Economic Handbook of Machine Tool Builders, various years.

three-quarters of all American machine tools. In other words, very few machine tools are produced south of the Mason-Dixon line, or west of the Mississippi River. The U.S. Census performs a Census of Manufacture once every five years; in the table, 1977 was chosen as the starting year, because it is the closest year to 1979, and 1992 was selected because it brings us up to date, although most of the damage had been done by 1987.

Examine for a moment the destruction in Connecticut, for Region I, and Ohio, which is America's largest machine tool-producing state, for Region II. Connecticut, one of the cradles of the machine tool industry, went from 70 establishments, employing 6,400 workers in 1977, to 32 establishments, employing 1,900 workers in 1992. The establishments fell to less than half the 1977 figure, while the 1992 employment was only one-third of what it had been in 1977. As for Ohio, between 1977 and 1992, the number of its establishments fell by half, and the number of workers fell by 60%. The largest number of establishments that closed were those with 20 employees or less.

The damage is not just the loss of these machine tool producers, as injurious as that is; there is additional damage through the loss of the network of associated high-skilled, high-technology industries—sub-contractors, small machining-shops where machine tools are used to do small jobs, bearing plants, industrial electronic firms, and so on—which also went out of existence. This associated infrastructure

would frequently cross-fertilize with the machine-tool-producing companies to develop new ideas. Thus, an infrastructure, representing a potential, was lost.

### The leveraged buy-out mania

In this environment, in which the small, cash-starved machine tool companies were scorched by the Volcker high interest rates, the Wall Street leveraged buy-out mob moved in.

We give an example of how this asset-stripping worked.

In 1978-79, one of the first really large leveraged buy-outs (LBO) was Houdaille Industries, primarily a machinery-producer, which had absorbed a number of machine tool companies, including the Burgmaster Corp. In 1965, Burgmaster had become the largest machine tool maker west of the Mississippi, after developing a turret drill press in the late 1940s. Kohlberg Kravis Roberts, the dirty money asset-stripper tied to the George Bush apparatus, undertook the Houdaille LBO for \$355 million, which was 10 times the size of most of the LBOs up to that time.

"Wall Street recognized immediately that the rules were no longer the same. . . . There was virtually no limits on how large a buy-out could be," Max Holland writes in his 1989 book, *When the Machine Stopped*. The financiers made a killing, but Houdaille was devastated. Recounting an interview with Allan Folger, then president of Burgmaster, Holland writes, "After the buyout, Houdaille per se changed," Folger recalled. "It seemed to lose its equilibrium." Financial expertise became the single most-valued resource, and understandably so. "Accounting hires grew faster than manufacturing hires," because managing for cash flow "to service the debt became the whole end," said Folger. Corporate headquarters now demanded so many extensive financial reports that even Folger, with his capacity for numbers, came to believe that it interfered with attempts to improve Burgmaster's product and defend its market."

By 1983, Burgmaster's backlog of orders was quite modest, only 2 to 3 months, compared to the 18 months that were common before the Kohlberg Kravis Roberts-arranged LBO. As money was being siphoned from production to pay pyramided debt service, Burgmaster's machines were becoming less reliable, but still they were being shoved out the front door. On Oct. 1, 1985, a bankrupted and destroyed Burgmaster machine tool company was shut down permanently.

### Loss of skills and capital investment

The shutdown of many machine tool shops, and displacement of skilled workers, plus the natural aging of machine tool workers has meant a much-less-skilled workforce than existed 25 years or ago—or than exists today in Germany and Japan. (The average age of America's machine tool production worker is 50-55 years old, near retirement age.) A 1994 RAND Corp. study, entitled "The Decline of the U.S. Machine Tool Industry," documents the educational-skill loss in the machine tool sector. The report states, the U.S. "machine

FIGURE 9

**Collapse of machine tool establishments and employment, 1977 to 1992**



	1977			1992		
	Establishments	Establishments with 20 or more employees	Number of employees	Establishments	Establishments with 20 or more employees	Number of employees
<b>Region I</b>						
Connecticut	70	28	6,400	32	12	1,900
Massachusetts	37	10	2,200	22	7	700
New York	81	27	6,900	26	15	3,700
Pennsylvania	61	18	2,800	28	16	1,300
Rhode Island	20	7	2,400	3	3	100
Vermont	6	4	2,800	4	4	n.a.
<i>Total Region I</i>	<i>275</i>	<i>94</i>	<i>23,500</i>	<i>115</i>	<i>57</i>	<i>7,700</i>
<b>Region II</b>						
Illinois	118	64	12,900	73	42	5,800
Indiana	36	15	2,000	16	8	700
Michigan	248	96	11,100	127	74	5,900
Ohio	129	59	18,500	67	40	7,600
Wisconsin	36	18	3,700	34	23	2,700
<i>Total Region II</i>	<i>567</i>	<i>252</i>	<i>48,200</i>	<i>317</i>	<i>187</i>	<i>22,700</i>

Source: U.S. Commerce Department, Census Bureau, reports MC77-I-35C, MC92-I-35C, Table 2.

tool industry representatives consistently rated the lack of basic skills and the perceived anti-manufacturing bias of students leaving the U.S. public education system as the most pressing human resource problems facing their industry. This contrasts with Japan and Germany, where manufacturing continues to be held in high prestige and where machine tool makers and users can recruit from a pool of young people who have, in many cases, mastered two languages and advanced math and science.”

This lack of skill and education in the U.S. machine tool workforce can be seen in two ways.

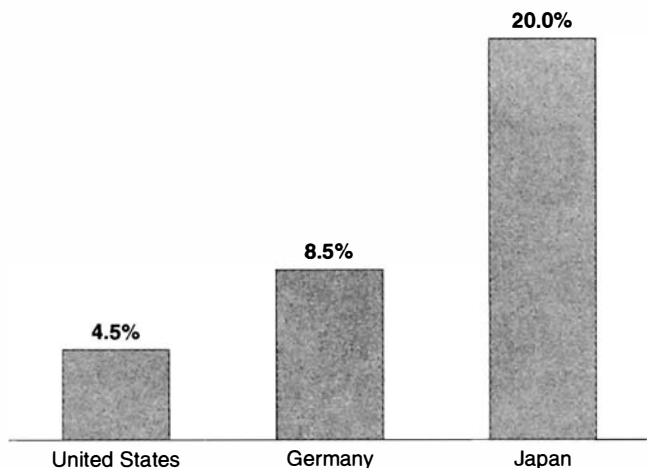
First, Germany has an excellent apprenticeship program, where the cost of administering the program is shared through a compulsory dues system of all Germany industry. Because

the German machine tool sector has relied on maintaining high levels of quality and innovation, this training is seen as something that cannot be abandoned. In Japan, both the lifetime job guarantee, plus the fact that the Japanese Ministry of Labor subsidizes companies that have been hard hit by recession to retain their workers, gives Japanese industry the knowledge that these workers will be there permanently, not just passing through. In addition, Japan depends on high-technology production.

In contrast, in the United States, until the 1970s, Cincinnati Milacron, one of the largest companies, had a highly respected machinist apprentice program. But, because many of the apprentices got hired away by other companies after their training was completed, Cincinnati Milacron suspended

FIGURE 10

**Percentage of machine tool workforce employed as engineers**



Source: RAND/Critical Studies Institute.

the program. In a recent tour of a U.S. manufacturing plant that employed 1,450 machine tools, one of the plant's chief manufacturing engineers, who has worked there for 35 years, told this author, "When they lose me and others who know the whole process, the company may have real problems." This engineer said that he had been trained at a technical school program at a community college, where he studied for five years while working; that program has been shut down.

Second, American companies have a low-skill approach in introducing their employees to advanced technology, such as numerically controlled machine tools. A leading distributor of both U.S. and Japanese machine tools reported: "The Japanese will purchase the latest million-dollar flexible manufacturing cell and put an engineer on it for the first few weeks to ensure that it is operating properly and to search for any ways of improving its performance. A typical U.S. firm will stick an operator on it whose only skill is knowing the difference between the red and green buttons. Then they wonder why they don't get the expected return on their capital investment."

This is reflected, as **Figure 10** shows, in the difference in the percentage of the machine tool workforce who are engineers in the United States, Germany, and Japan. Japan has four times the level of engineers than the United States has. This is often reflected in the kind of capital spending investment for high technology—or lack of it—within the machine tool sector itself. **Table 1** shows a ratio between Japan and the United States on the use of certain advanced manufacturing technology. The Japanese have an overwhelming lead.

Ironically, even though the U.S. Air Force and others

TABLE 1

**Japanese firms employ more advanced manufacturing technology than the U.S.**

(Japan/U.S. ratio)

New manufacturing technique	Small and medium-size establishments (SMEs)	Large establishments
	NC/CNC machine tools	1.4
Flexible manufacturing cells	4.3	1.9
Computer assisted design	1.1	0.9
Automatic inspection	2.9	1.5
Handling robots	4.1	1.4
Automatic warehouse equipment	5.8	1.8
Assembly robots	2.1	1.2

Source: RAND/Critical Technologies Institute.

developed numerical control for machine tools in the 1950s, forty years later, only 10% of the U.S. machine tool stock in use by industry consists of numerical control units. As for the production of computer numerical control machine tools, in 1990, the U.S. produced just 7% of the world's production of computer numerical control machine tools; the Germans produced 19%, and the Japanese 24%.

The scientific and quality level that the United States used to pride itself on, from the Civil War until 1967, is no longer there.

**U.S. machine tool imports**

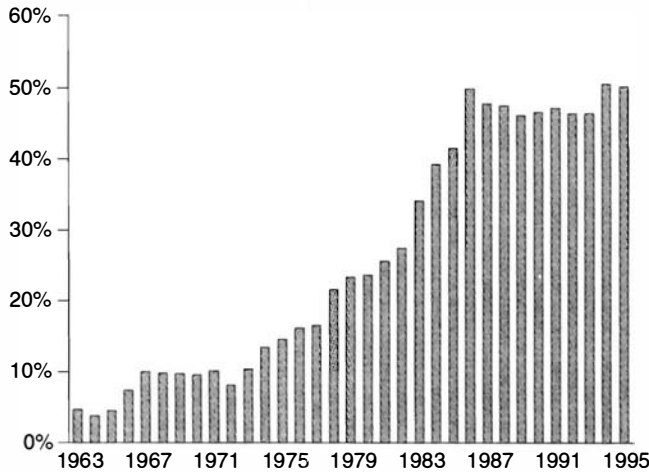
It is only in the above context, that one can consider the issue of imports. **Figure 11** shows the percentage that imports constitute annually of the new machine tools purchased by U.S. industry. **Table 2** breaks down the level of imported annual consumption by key types of machine, for selected years between 1982 and 1995.

It can be seen that imports constituted less than 10% of the U.S. market for all machine tools until 1972. Then imports rose to a level of 22% by 1978. It should be stressed that from 1900 up through 1976, the United States still exported more machine tools than it imported. Then, in the period 1978 through 1986, the entire import profile of the machine tool industry changed. Largely as a result of London's post-industrial policies (although there were some other contributing circumstances), foreign machine tool imports went from 22% to 50% of annual U.S. consumption. With that fundamental change completed by 1986, it has remained within the 50% range ever since.

This import situation must be changed; but to blame it primarily on the Japanese, Germans, Taiwanese, or whoever misses the boat. The problem fundamentally lies within

FIGURE 11

**Imports as a percentage of U.S. machine tool consumption**



Source: Economic Handbook of the Machine Tool Industry, various years.

TABLE 2

**Import share, by type of machine tool, of U.S. machine tool markets, 1982-95**

(percent of total U.S. machine tool consumption)

	1982	1985	1991	1995
All machine tools	26.4%	41.4%	45.1%	50.1%
Metal cutting	27.4	43.3	51.5	51.2
Metal forming	22.5	35.8	43.0	47.0
All NC machines	35.4	54.5	53.4	58.3
Boring and drilling	26.9	44.5	51.2	39.6
Gear cutting	27.1	39.5	48.9	34.7
Grinding	22.6	29.8	39.4	46.8
Horizontal NC lathes	48.2	57.1	70.2	68.2
Vertical NC lathes	27.7	52.0	34.0	53.4
Milling	26.6	45.4	28.4	35.4
Machining centers	36.9	63.0	49.4	53.0
Station type	1.1	4.9	35.2	15.3
Other metal cutting	35.0	54.9	74.3	70.7
Punching and shearing	34.6	40.0	30.8	34.1
Bending and framing	20.7	35.2	41.9	53.8
Presses	12.4	28.5	40.4	40.2
Other metal forming	35.4	42.3	46.6	40.5

Sources: Economic Handbook of the Machine Tool Industry, 1996-7; Rand Corporation report, "Decline of the U.S. Machine Tool Industry," Part I, p. 16.

America. It is our stupidity, by tolerating insane economic policies, that is the principal cause for this situation. When George Bush's friend Henry Kravis decided to destroy Houdaille-Burgmaster, can the Japanese be blamed? When

TABLE 3

**U.S. share of combined six-major-nation machine tool production,\* by type of machine**

(percent of world total, in 1995)

Boring and drilling	28.3%
Gear cutting	27.5
Grinding	23.5
Station type/transfer	21.2
Milling	18.8
Machining centers	16.8

\*Percentage of production of combined output of following nations: Japan, Germany, United States, Italy, Taiwan, South Korea.

Source: Economic Handbook of the Machine Tool Industry, 1996-97.

Paul Volcker launched a scorched earth attack against American manufacturing, and most machine tool makers sat on their hands, can the Germans be blamed?

Still, there are the free-traders who rant that whether America imports its machine tools—the policy of outsourcing—or buys them from domestic producers, makes no difference. What they fail to comprehend is that economics is not a matter of cheap price; it is a matter of scientific and productive potential. The machine tool sector, with its skilled workforce, is not optional; it is the key to the future of America and of the world.

**Can the machine tool industry be saved?**

Despite the dramatic downsizing of the machine tool industry, there is a chance for revival.

Table 3 shows the U.S. share of the combined production by six of the world's largest machine tool producers for certain key types of machine tool machines in which America is still a leader. (These six countries, Japan, Germany, the United States, Italy, Taiwan, and South Korea, account for 75% of world machine tool production. One could not give percentages for the U.S. share of total world production of these types of machine tools because world figures were not available.) Further, U.S. machine tool builders still have research leadership or co-leadership in layered manufacturing, net shape manufacturing, flexible machining systems, laser welding and cutting, waterjet machining, and a few other areas, according to a 1994 RAND Corp. study.

Some U.S. machine tool companies are committed to excellence, where technological innovation—including building laser machine tools, five-sided machine tools, and so on—still goes on. But this is true for only a part of the sector, which is in a vastly shrunken condition. If the United States dumps the geometry of the bankrupt world financial system, in favor of a new Bretton Woods reorganization, combined with the Eurasian land-bridge project, it will need these machine tool companies as the core for future world economic growth.

## Civil war destroys Algeria, while the world looks on

by Muriel Mirak Weissbach

The Algerian civil war has reached a point of no return. Escalating in waves since January 1992, when a military junta took power in a coup, to prevent the predictable electoral victory of the Islamic Salvation Front (FIS), the civil war has now gone utterly out of control, and threatens to dismantle what is left of the social fabric. This is the stark reality which policymakers in Bonn, Paris, and Washington, have been refusing to face, keeping their heads firmly buried in the sand, since the dramatic events of five years ago. It is to be hoped that, although the hour is late, an international initiative can still be shaped, to intervene in Algeria, stop the bloodshed, and steer the country toward a political solution. If not, the repercussions will be felt immediately throughout North Africa, and across the Mediterranean, in southern Europe.

The recent escalation was timed to coincide with Ramadan, the Muslim fasting month, which is usually characterized by a spirit of brotherliness and charity. The Armed Islamic Group (GIA), who have been presented as "Islamist fundamentalist terrorists," declared open season on all citizens during the holy month, which began Jan. 10, and proceeded to slaughter women, children, and elderly, in ritual fashion. Striking in the heart of the country's capital, Algiers, the GIA set car-bombs which exploded in crowded streets, particularly just after sundown, when citizens, breaking their day-long fast, would leave their homes to socialize with friends in cafés. At the same time, the GIA organized sweeps through rural villages, slaughtering entire families. They slit throats and beheaded people.

According to reports carried in the French press, the GIA

circulated a communiqué, announcing that "the war will continue and will intensify during the month of Ramadan. We have the means and the men to punish all those who are not on our side." A poster, "signed" by GIA chief Antar Zouabri, was pasted up on the walls of some mosques in the capital, with the grim message: "With the exception of those who are with us, all the others are apostates and deserve death." Yet another GIA "chief," Farid Hamami, alias Abou Semane, claimed that he had 50 bombs in his possession, "ready to be used." The gruesome toll, at the end of the first two weeks of Ramadan, was 250 dead, and hundreds wounded.

The official position of the government, nominally run by President Liamine Zeroual, was to ignore the killings, and indeed, prevent any coverage of them from creeping into the media. The military junta has maintained, that its hard-line tactics have met with success, and that there is only "residual terrorism" left. The press was muzzled in order to protect the fraud. For obvious reasons, such a cover-up could not be maintained while bombs kept exploding daily in the center of the city, and, after a few Algerian papers raised questions about the junta's ability to preserve law and order, the President addressed the nation. In his nationwide television broadcast on Jan. 24, Zeroual could do no more than to repeat his commitment to "exterminate" or "eradicate" the terrorists, and attribute the country's troubles to "foreign forces" plotting against Algeria, with the participation of "Algerian personalities" linked to the FIS. The foreign conspirators, he charged, were "bands of criminals, traitors, and mercenaries manipulated by external circles who are exploiting their savagery to serve foreign interests."

## More questions raised

Zeroual's tough talk made no impression whatsoever, neither on the opposition parties, which had hoped for some sign of dialogue, nor on the junta's supporters, who expected new measures against terror. Instead, the regime's behavior served only to multiply the questions being raised, especially abroad, about what really is going on in the country.

For months, the French press, in particular, has insinuated that the regime has had a hand in the terrorism all along. The use of sophisticated remote control devices to explode car-bombs in late January, pointed to capabilities which the terrorist group had not appeared to possess over the last three years. Furthermore, the apparent impunity with which the GIA succeeded in putting up posters on mosque walls, and distributing communiqués, spoke volumes about the complicity which must exist with the military security apparatus. More fundamentally, the whole *raison d'être* of the group bears scrutiny. As the Paris daily *Libération* wrote on Jan. 8, many experts "believe that maintaining a certain wave of violence, through the manipulation of armed groups by the security services, serves the interests of a discredited regime to the extent that it allows it to appear as the 'lesser of two evils.' "

## The GIA is run by intelligence networks

The nature of the GIA reveals it to be a textbook example of an operation run by intelligence networks. The group was formed by veterans of the British-sponsored Afghansi network, sent into Algeria after the 1992 coup (see *EIR*, Oct. 13, 1995, "New Terror International Targets South Asia"). Soon, its main targets began to be members of the FIS, the legitimate Islamist opposition party, which was poised to win parliamentary seats.

The GIA's publication, *Al Ansar*, is issued in Sweden and circulates in London, where several GIA operatives and apologists enjoy political asylum. The publication, which regularly takes credit for terrorist atrocities, has also carried articles denoting the GIA as a death cult. In one instance, sheiks who support the GIA offer justification for the ritual satanic murder of women and children, using Islamic rhetoric and the whole Qur'an as an ideological base. For example, *Al Ansar* wrote about the "Death Brigades" and the "Signers-with-Blood Brigades," and promoted slogans such as, "Hang the last infidel ruler from the intestines of the last (Christian) priest!" It ranted that "this spirit is enriched with the love of death," and glorified the kinds of decapitations and bodily mutilations which have become the group's gruesome trademark: "my dear brothers . . . mutilated corpses . . . skulls . . . terrorism, how beautiful these words are!" "no doubt that the crack of bullets and the glistening of knives are the best cure for chest pain"; "the greatest nations in history have been the nations that mastered the *death industry*"; "blood and corpses create glory . . . and death creates life."

Recent press coverage has documented the strong ties that exist between the GIA satanic killer cult and the British. In the Paris daily *Le Figaro* on Jan. 27 and 28, Thierry Oberle showed how GIA supporters, such as Qamareddine Kherbane, roamed freely around London, distributing leaflets, or video cassettes, issued by the GIA, showing scenes of murders. Because of its extraordinary "tolerance" for radical opponents of various Arab governments, London is running the risk of becoming "the Mecca of terrorism," Oberle said.

## Classic gang-countergang operations

What has been created on Algerian terrain, through the joint efforts of British intelligence and the Algerian military secret services, is a classic gang-countergang situation, in which proxies are set up to conduct warfare, to terrorize and control an entire population. In the initial phases of the war, it was the Algerian military which directly engaged in combat against the GIA. Over the last year, the regime has given the dirty work to popular militias. With the argument that the population needs to defend itself, the regime has distributed weapons to an estimated 300,000 civilians. Thus, the confrontation is established between them and the terrorists. If a family or a village refuses the regime's offer of weapons for their self-protection, they are suspected of harboring sympathies for the Islamists, and are killed by the regime's own forces. If the civilians accept the arms, they are targeted by the GIA. If, when approached by the GIA, they refuse to collaborate, they are massacred.

Such is the correlation of forces in the populous north of the country, where, by now, there are areas controlled by the GIA, areas controlled by militias, and areas which are no-man's-land. In the south, where the strategic sectors of industrial activity are located, the gas and oil and respective pipelines, the military has established outright occupation. Algerian citizens are not allowed to circulate freely in the south, but must carry an identification card and submit it for inspection at checkpoints. It is said that sheer military presence has protected these installations thus far, but it is more likely the case that a *modus vivendi* has been worked out between the eradicators and those they would eradicate, to thus partition the country. The oil and gas export revenues constitute the base of subsistence for the regime, so the warlords of the junta, who may fight among themselves over the percentage of the "take" each receives from exports, manage to maintain a fragile unity around the need to protect the hydrocarbons. Their calculation is that these hydrocarbon export revenues will provide them what they require to maintain stability, a claim which former Prime Minister Abdelhamid Brahimi, an economist, has shown to be absurd (see interview, p. 63).

Thus, Algeria is no longer a normal nation. According to FIS estimates, 120,000 citizens have been killed since

1992, thousands are missing, tens of thousands jailed, and 60,000 have emigrated. Algeria is rapidly being turned into a zone of chaos and anarchy, in which the population is being exterminated, while the raw materials are being exported. In this sense, Algeria is beginning to look like the Great Lakes region of Africa, where British neo-imperialist interests are committing genocide, to loot the rich minerals.

### **The search for a political solution**

It is no wonder that some political figures have raised the alarm, and urged that action be taken, from outside the hermetically sealed country. Hocine Ait-Ahmed, leader of the Socialist Forces Front (FFS), told *Le Monde* in an interview on Jan. 11, that a political solution to the Algerian tragedy could still be found, if one were to revive the Sant'Egidio (Community of St. Egidius) platform for peace talks drawn up in Rome in January 1995. The Sant'Egidio initiative, named after the Catholic lay organization which sponsored it, had succeeded in drawing together all responsible opposition forces, including the majority force of the FIS, around a principled approach to peace through negotiations (see *EIR*, Jan. 20, 1995, "Algerian War Could Be Brought to a Rapid Close").

The initiative was rejected out of hand by the junta, as a "foreign conspiracy," and, lacking adequate international support, it fell apart.

On Jan. 23, Ait-Ahmed issued a call during a Rome press conference, for U.S. President William Clinton to name a mediator, to intervene with a peace initiative in Algeria. "Why doesn't he appoint a mediator on Algeria?" he asked. "We believe that such an initiative in favor of a peace process will be likely to unblock the situation." The FFS leader condemned public opinion for ignoring the daily massacres in Algeria, saying, "A civil war is unfolding two hours from Paris by plane, and no one budges."

Ait-Ahmed criticized the policy of the French government in particular, saying that without the financial, logistical, and political support from Paris, the Zeroual regime could not survive. He reported that in discussion with representatives of the European Union and the United States, he and his colleagues had been told that France did not accept any initiatives from the outside, for Algeria. Regardless, Ait-Ahmed demanded that a public debate be opened in France, in the media, as well as in the National Assembly.

### **Annulling the elections was a great error**

On Jan. 27, Lionel Jospin, the first secretary of the French Socialist Party, appeared to respond to the Algerian's call. In an interview with *Libération*, Jospin explained the "embarrassing silence" on the part of French intellectuals and politicians, by saying that the violence was so horrible, that they were afraid they might be accused of justifying terrorism, if they called for a political solution. But, he acknowledged, "nothing will budge if the regime does not budge." Jospin

rejected the idea that France had no right to speak up on matters concerning its former colony. He himself had gone on the record, criticizing the Algerian junta's annulment of elections in 1992, and had later endorsed the Sant'Egidio initiative.

Jospin argued, that annulling the elections, on grounds that an FIS victory would have destroyed democracy, had proven to be a great error, especially considering what had transpired in the interim.

As for terrorism, Jospin said, "A democratic regime should also repress terrorism, but in other conditions and in another relationship to the people. For, what is essential in the Algerian question, is not so much the relationship between the government and terrorism—even if, in its actions, it adopts a brutality and ambiguity that create problems—but the relation to the Algerian people."

The Socialist leader then proposed, "The French government and politicians should say that they are for peace, that there is no way out of the crisis through exclusively repressive means, that a political solution is required, and that we are on the side of the democratic forces." He added that France should send out "signals" by welcoming Algerians who are threatened. "Terrorism must be fought," he reiterated. "It is not a matter of capitulating in the face of forces that one can barely identify, but we must say, that we are not ready to support the Algerian government regardless of what it may do, that we are not at its side in any and every circumstance."

Both the Ait-Ahmed proposal and the intervention by Jospin, are useful, important moves, but it will require immense political pressure, for them to yield any concrete results. The White House, in the meantime, announced that it would not name a mediator, because the "government of Algeria" had not made such a request. Jospin's view of the proposal for a mediator, was the following: "I believe in the need to wake up the international community. It would be useful for the French government to launch consultations on the European level."

Jacques Cheminade, a former candidate for the Presidency in France, and close associate of Lyndon LaRouche, commented that he thought the best approach would involve a joint French-American initiative.

Former French President Valéry Giscard d'Estaing has reportedly announced that the foreign policy commission of the National Assembly would be convoked to discuss the Algerian war, which could open serious discussion.

It will be crucial to see to what extent the leaks and innuendoes in the French press, regarding the real name of the game in Algeria, and, particularly, the role of the British in harboring the terrorists of the GIA, prompt serious investigations into the networks. As *Le Figaro's* Oberle noted, French intelligence circles suspect very strongly that the GIA networks tolerated in London are relays for terrorists planting bombs, not only in Algeria, but also in France.



## Algerians wonder why the West keeps silent

*Mr. Brahimi is the former prime minister of Algeria (1984-88) and was a founding member of the National Liberation Front (FLN). He is currently director of the Institute for Maghreb Studies. EIR's Dean Andromidas interviewed him in late January.*

**EIR:** The situation in Algeria has deteriorated considerably in the last month. It appears that Algeria will slide into open civil war even worse than we are seeing now. What is your estimate of the situation?

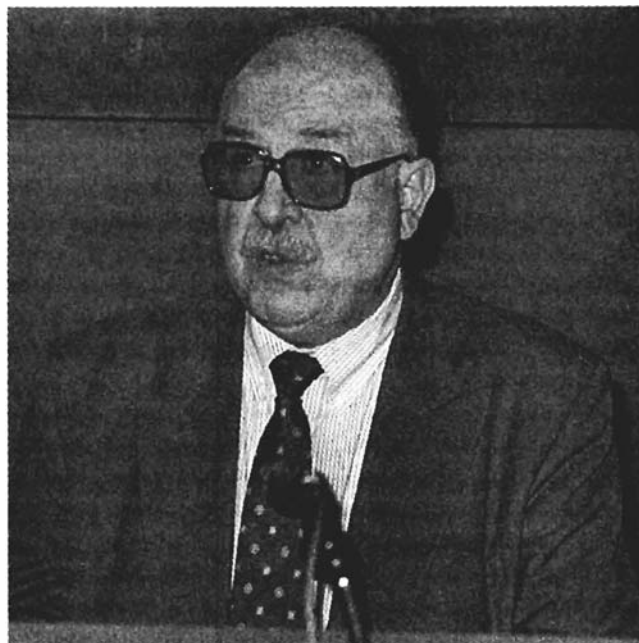
**Brahimi:** The main question to be asked is, why has the situation continuously deteriorated from a security standpoint for over five years now. Blame is mainly to be laid on the regime, which took the responsibility of carrying out a coup d'état. It then stopped the democratic process and resorted to a dramatically repressive policy, ranging from arrests of civilians upon simple administrative decision, and their imprisonment for years without being judged, to extrajudicial executions of innocent people.

Not only does the regime refuse to hold frank and sincere dialogue with the main representative parties, including the Islamic Salvation Front (FIS), but it continues to use force as a means of countering the political ideas and beliefs of people.

It is clear that all the heads of state, and all the ministers named since January 1992, have publicly taken a position for the eradication of the Islamists, falsely comparing them to terrorists, and promising to "terrorize the terrorists." The introduction and spread of terror among the Algerian population, especially those who might support the FIS, comes from a deliberate policy adopted by the authorities.

We must not forget that, since 1992, Algeria has had three heads of state and five prime ministers, and that many ministers are dismissed after only a few months in office, whereas the main military leaders responsible for repression—who are to be found in the highest echelons of the military hierarchy—are still there. The toll has certainly been heavy, since more than 100,000 innocent Algerians have been killed since that time.

This clearly indicates that the present regime does not wish to establish a democratic process, nor accept alternation of power [the opposition coming in], since they reject the popular verdict and the Algerian people's sovereignty. In our opinion, if things continue along this path, the situation can only get worse.



*Former Algerian Prime Minister Abdelhamid Brahimi*

**EIR:** Underlying the deteriorating political situation, is the economic crisis and the regime's commitment to implement the policies of the International Monetary Fund (IMF). How do you see the current economic crisis?

**Brahimi:** After five years of management by this dictatorial regime, the economic situation has continually deteriorated. What we immediately observe, is a dramatic drop in agricultural and industrial production, as well as in construction and public works. According to statements by the industry minister in August 1996, industrial production has only accomplished 2% of its goals in the first half of 1996.

According to official figures, since 1992, industrial production has regularly declined by more than 10% per year, even dropping by 15% in 1993. Outside of the hydrocarbon field, the state and private industrial sector is functioning at only 20% of its capacity. Production has broken down. Investment rates are the lowest in 30 years. Yet we find that military expenses have greatly increased: from 20% in 1994, to 144% in 1995.

Implementation of the IMF program has had a negative impact. Since 1994, inflation has reached the record level of 40% per year. In 1990, the average Algerian household spent about 65% of its budget on food. Today, even the entire salary is not enough to cover fundamental food needs. Poverty has spread throughout the country, while the middle class is disappearing. I personally know engineers, architects, and doctors who can no longer make ends meet, even when they are helped by friends.

Unemployment has gone up a lot, I have the official figures right here. Since 1995, more than 30% of the population is unemployed, especially younger people and the rural popu-

lation. Some 83% of the unemployed are between 16 and 29 years old. Another striking feature is unemployment among young university graduates. For those who do find jobs, it is only through the intervention of friends or relatives in the administration, or in some other elite position.

In 1992, there were 1.3 million unemployed. In 1996, there were more than 2.5 million, in other words, a twofold increase in four years! And the situation can only get worse, since the IMF program demands getting rid of 400,000 more workers in the public sector, whose companies are to be privatized. Thousands have already been laid off in the last few months alone.

All this shows that it is impossible to have the kind of economic recovery that the government wants, because they are only empty promises. It will also be impossible to get Algeria out of the present rut, given the worsening economic and social situation.

The ruling power, which lacks legitimacy, but wants to improve its political image, is mobilizing the major media to try and prove that the economic situation is going to improve. For that, they point to the oil contracts which the national company Sonatrach has signed with 34 multinational oil companies. They say oil revenues should go up to \$13.5 billion by the year 2003 and that in 2005, oil and gas revenues will have reached \$15 billion. The regime presents this as a diplomatic and financial success for the country.

But, this is not the first time that Algeria has collected such a sum of money. That was especially the case during 1980 and 1984, when oil revenues varied between \$13 and \$14 billion a year. At the time, our population was much less than today. Between 1992 and 2005, when it is promised that our economic problems will be solved with \$15 billion in revenues, the population will have increased by 9 million. It will be impossible for the regime to provide the basic needs of this additional population in food, lodging, schools, hospitals, and especially in job creation, given the fact that in the last five years in office, the economic situation has deteriorated.

We are at a dead end. Therefore, if the regime stays in power until there is a crash, Algeria will be bankrupt well before. My calculations indicate that by 1998-99, the country will be bankrupt.

**EIR:** Algerian opposition leader Hocine Ait-Ahmed, of the Socialist Forces Front, while denouncing French and European support for the Algiers regime, has called for President Clinton to name a U.S. mediator to deal with the situation. What role do you think the international community and the United States should play in this situation?

**Brahimi:** First of all, it is useful to bring up something that really strikes Algerians: They do not understand the silence in the United States and Europe about developments in Algeria over the past five years, which have seen elections cancelled, the democratic process stopped, barbaric repression striking innocent people, etc.

I can give you two examples. First, take China: If one Chinese out of a population of 1.2 billion is arrested, there is an uproar in the West—all the Western capitals denounce the violation of human rights. But when, only two hours by plane from major European cities, tens of thousands of innocent people are killed, there is no reaction. This is something nobody in Algeria can understand. Algerians are wondering if they are considered as subhumans.

Conversely, when the National Transitional Council passed a law generalizing use of the Arab language in Algeria two months ago, the European Parliament officially condemned it and asked the Algerian regime to annul this law. So, it is not understandable that when tens of thousands of innocent people are killed, or tortured, or imprisoned without a trial, this is considered normal, but when some kind of cultural law is passed, then, and only then, does Europe intervene. Something is obviously wrong. Not only is silence maintained around the situation in Algeria, but certain Western powers, including France, are lending political and financial support to the Algerian regime.

The recent RAND Corp. report on Algeria by Graham Fuller, in my opinion, is positive, insofar as it says that the accession to power of the FIS is inevitable. But no one in the press reported this. It is positive but insufficient, because it is limited to the RAND Corp.

As for Ait-Ahmed's intervention, I think the very least the American government, and especially President Clinton, should do, is to take a public position on two things: First, condemn the present regime's human rights policy and, more especially, the lack of freedom of speech and political expression; and, second, the Clinton administration should support guaranteeing the conditions for a return to the democratic process in Algeria, through dialogue between the regime and all other representative political parties without exception, which implies the participation of the FIS.

Ait-Ahmed's proposal was rejected, including by countries like France, which said that Algerians should solve their own problems: In other words, let them kill each other. Here, a special remark must be made: In general, almost all of the Algerian people forcefully reject the idea that Algeria is exclusively a French zone of influence, which other powers should stay out of. The position taken last week by the French Foreign Ministry at the Quai d'Orsay on this matter, shows that France is involved in Algeria. Otherwise, why would France have made such a remark in answer to a suggestion by Ait-Ahmed? It presupposes that France is Algeria's guardian, and the Algerian people emphatically do not want any guardian.

Without a sincere and genuine dialogue between the ruling power and the main representative parties, nothing will be solved. This dialogue is necessary to prepare for a democratic transition, to end the bloodshed, and to prepare the future in secure conditions. Without this, the situation will grow worse, and Algeria will sink further into destruction and ruin.

# U.S. should back German plan on Sudan

*Four U.S. legislators appealed on Jan. 30 to the U.S. Congress to support the initiative to promote peace in Sudan which passed the German Bundestag (parliament) by acclamation on Jan. 16. The four, Hon. James Mann, former U.S. Congressman from South Carolina; Rep. Benjamin McGee, Assistant Speaker Pro Tem, Arkansas State Legislature; Rep. Ben Swan, Massachusetts State Legislature; and Rep. Thomas Jackson, Alabama State Legislature, visited Sudan on Sept. 13-23, 1996, on a fact-finding mission initiated by the Schiller Institute. The resolution, "Initiatives to Produce Peace in Sudan," was presented by Count Alois von Waldburg-Zeil, Karl Lamers, and the CDU/CSU faction; Dr. R. Werner Schuster, Joachim Tappe, and the SPD faction; Dr. Uschi Eid and the Alliance 90/Greens; as well as Bundestag members Ulrich Irmer, Dr. Irmgard Schwätzer, and the FDP faction. The resolution came on the initiative of Schuster, who had travelled to Sudan in 1996 on fact-finding missions along with Tappe. The resolution reads in part:*

The Bundestag should resolve:

I. The German Bundestag asserts: In the Sudanese civil war, which has been going on since 1956, with only 11 years' respite, 3 million people have died. The war has also led to one of the greatest refugee movements at present. Five million Sudanese have been displaced inside the country, 500,000 of them in the bordering countries.

Every attempt to limit understanding of the civil war to a conflict between the predominantly Islamic fundamentalist North and the predominantly Christian South, misconstrues the multidimensional nature of the problem. The causes are also to be sought in the divergent interests of the many ethnic groups, or the different rates of economic development between North and South. . . .

Regardless of the conflicts, talks with representatives of the South (SPLA, SPLA-United, SSIM), the government in Khartoum, as well as the opposition in the North (UMMA, DUP), have yielded surprising agreement on the following points:

- Neither side can win the civil war by military means. Only a political solution can bring about peace.
- A change of government in Khartoum in the short term is improbable, and would not end the conflict.
- The population desires a peaceful solution. . . .
- All parties to the conflict agree on external mediation, in which the cooperation of the German Federal Republic is explicitly desired.

II. The German Bundestag demands that the German federal government:

1. support the peace process, especially the creation of several, interlocking "Round Tables" [with] . . .

a. the parties to the conflict in Sudan,

b. the states of the Inter-Governmental Authority on Drought and Development (IGADD) (Ethiopia, Djibouti, Eritrea, Kenya, Somalia, Sudan, Uganda), and

c. the friends of the IGADD states (U.S.A., Canada, Great Britain, Norway, the Netherlands),

d. [and should seek] a common policy in the context of the European Union, especially with France.

2. work within the United Nations, but especially within the EU, to coordinate initiatives to promote civil society (especially women's organizations) as well as civil structures in Sudan (empowerment). This support should not be in the form of great projects of financial cooperation but primarily in the form of small projects of technical and personal cooperation, carried out especially by the German development service and NGOs [non-governmental organizations].

3. lend more support to the process initiated by IGADD for a peaceful solution to the conflict. In addition, the IGADD initiative should be strengthened in its concern to carry out development in the IGADD countries. . . .

4. work within the international community to create positive incentives through foreign policy and development policy measures, for all Sudanese parties to the conflict, in order to bring about a serious dialogue process, which can be followed over time.

5. organize, with the International Monetary Fund and World Bank, for renegotiation of the repayment modalities of Sudan's foreign debt, making terms of repayment depend on progress in the peace process.

6. press for international monitoring of the peace process (and referendum).

7. work to find competent mediators, acceptable to all parties to the conflict. A significant role should be given to the Sudan Working Group of the All African Conference of Churches, in this dialogue process. Communications structures available here should be used.

8. press for continuation of the Barcelona process, begun by Unesco in September 1995.

9. invite appropriate representatives of the Sudanese government, the Parliament, and the National Islamic Front to Europe for a dialogue. . . .

10. promote the potential envisaged by Sudan to build a federal system to solve its internal problems. . . .

11. to work, on an international level, against the creeping genocide of the Nuba people in Sudan.

12. work internationally for an end to the supply of all weapons to the parties in conflict. . . .

13. finally, to initiate a continual and systematic dialogue between Islam and the Western world, in order to eliminate mutual prejudices.

# Colombia's Samper in trouble as U.S. decertification nears

by Valerie Rush

Colombian President Ernesto Samper Pizano is once again in serious political trouble, as the March 1 deadline approaches for a U.S. decision on whether his drug cartel-dominated government will again be “decertified” as failing to cooperate in the war on drugs. Despite his big claim to fame (that the leaders of the criminal Cali cocaine cartel are behind bars), it is now evident to all that they are there *by choice*, having pre-arranged the terms of their incarceration: no extradition, short sentences, and, most importantly, business as usual.

And yet, although the drug cartels have most of the government in their pocket, separate scandals are currently threatening Samper Pizano's corrupt hold on power, and their future along with it.

The relatively quiescent U.S. certification process blew up on Jan. 17, when an anonymous (“faceless”) judge in the city of Cali sentenced brothers Gilberto and Miguel Rodríguez Orejuela—kingpins of the Cali cocaine cartel—to 21 and 18 years in jail, respectively. Because of the Rodríguez brothers' so-called “confessions” to various individual counts of drug trafficking, their sentences were immediately halved under a cartel-dictated “law of submission to justice,” enacted by the previous César Gaviria government and enforced by the Samper administration. Those sentences were then halved again under a combination of work-release and other benefits, also encompassed by that law. Thus, two of the most powerful narcotics traffickers in the world, will be strolling out of jail in five years or less, their illicit fortunes—and drug-trafficking networks—intact.

The absurd sentences, which prompted the *pro forma* moderate protest from Samper and his cabinet, nonetheless fully exposes the blood pact Samper signed with the cartels when he accepted their millions of narco-dollars to finance his 1994 Presidential campaign. Samper had ample opportunity to alter the “law of submission” in 1994, his first year in office, but had refused to do so, always claiming the moment or the politics was “inopportune.”

The Clinton administration is furious, and has rightly laid the blame for this travesty at President Samper's door. White House drug policy adviser Gen. Barry McCaffrey condemned the sentences as “the result of the corrupting power of \$30 billion of drug money on the institutions of

democratic government,” and blamed the Samper government for its “inadequate support” of Colombia's law enforcement agencies. State Department spokesman Nicholas Burns warned that the sentencing “will be a factor” in the U.S. certification decision, and insisted, “As the Executive part of the Colombian government affects the judicial authorities, it is up to them to make sure that the laws are respected and . . . are consistent with international standards.”

The *Washington Post*, with unusual severity, described Samper's war on drugs as “a bad joke” and Samper himself as “an unconvincing anti-drug crusader.” Its Jan. 21 editorial even went so far as to suggest that Samper abandon the Presidency: “Colombia will be fighting the drug traffickers with one hand tied behind its back as long as its favorite candidate is still President. His tenure weakens the hand of the Colombian police and prosecutors who actually are fighting the cartels.”

But Bogotá was fully prepared for the U.S.'s anger. Exploiting the British-inspired obsession which permeates much of Washington, with putting a “democratic” face on the continent of Ibero-America, even as whole nations succumb to impoverishment and narco-terrorism, various of Samper's mouthpieces aggressively insisted that the Clinton administration has no choice but to accept a drug cartel government in Colombia, since it was duly and democratically elected.

For example, Justice Minister Carlos Medellín blustered, “Just as in the U.S., one of the principles of Colombian democracy is the doctrine of separation of powers, which establishes an independent judiciary. . . . When the *Washington Post* and Clinton administration so severely criticize the Colombian government because of these sentences, are they perhaps suggesting that the Executive can give orders to the Judiciary, contravening the principles of the Constitution? What kind of message do they want to give Latin America with respect to democratic institutions? . . . What's happening with U.S. respect for Latin American democratic processes?”

Samper's Foreign Minister María Emma Mejía went even further in a direct answer to McCaffrey, not only demanding that the United States accept the sentences “as

the only viable means to maintain democratic order,” but insisting: “In this regard, I would like to respectfully suggest that the time has come for you and the United States to accept that democratic institutions and processes in Colombia have acquitted President Samper, and that this particular chapter of his Presidency is over.”

The U.S. response to this cynical defiance has, thus far, been silence.

## The Mauss scandal

The scandal that has broken in Colombia around German “superspook” and terrorist agent Werner Mauss, has revealed that a power-sharing deal—mediated by the German government between the Samper regime and the country’s drug cartels and narco-terrorists—was well advanced at the time of Mauss’s arrest in Medellín last November. In an interview with the Bogotá daily *El Tiempo* of Jan. 19, U.S. Ambassador Myles Frechette confirmed an earlier admission by Samper’s special envoy to Germany, Carlos Villamil, that a “peace treaty” with the cartels had in fact been under discussion. Frechette declared that the United States had firmly rejected any such deal with the narcos, when the Kohl government sought its approval.

The German government has denied that such an exchange occurred, but Frechette has reaffirmed his charges.

However, Frechette went on to insist that the United States did not view Colombia’s narco-terrorists with the same antagonism as the drug cartels. Said Frechette, “A cartel is an organization [that] has the power to sell its product anywhere in the world, and whose objective is pure profit. I don’t believe that the guerrillas are simply after profit. . . . The United States government will not give Colombia any assistance to fight the guerrillas. Why? Congress, the NGOs, and our Executive are concerned about human rights. But we are going to give aid, and we are doing so, to fight the narcos.”

This, despite the fact that the interface between the narcos and their terrorists has been thoroughly documented, inclusively by this news service. The Colombian Army, for its part, recently published a book, *The FARC Cartel*, which thoroughly documents the extensive, and growing, involvement of the country’s largest “guerrilla” movement in every aspect, from protecting drug plantations and illegal airstrips, to refining the drugs, to smuggling them out of the country. It is with millions of narco-dollars that the FARC has heavily equipped its own parallel army, seized a large chunk of the national territory, taken over dozens of local and municipal governments, infiltrated the national economy, and now holds the entire country hostage to its terrorist blackmail.

Although not everyone in Washington shares Frechette’s concern for the “human rights” of Colombia’s “not-for-profit” terrorists, that false view is nonetheless widespread and fostered by the British and their allies, and is a major vulnerability that the narco-terrorists and their international

human rights apologists are fully exploiting. If it is allowed to dominate Washington, along with sophistry about defending “democratic” narco-institutions, it will help the drug cartels greatly in their goal to completely take over Colombia, not only through the front door of “independent democratic institutions,” e.g., the corrupted judiciary, legislature, and Presidency, but also through the back door of power-sharing deals between the government and “the Third Cartel.”

## ‘An unburied corpse’

Although the Mauss scandal put a temporary dent in Samper’s plans to “legalize” the cartel-guerrilla capture of Colombia through “peace negotiations,” that scenario is still alive. In fact, Foreign Minister Mejía has just announced from Europe, where she is on a tour to bolster support for Samper against U.S. pressures, that Spain is offering to mediate peace talks between the government and the FARC narco-terrorists, just as soon as the FARC releases the 60-70 soldiers it is holding captive. Mejía said that the recent installation of an office of the UN Human Rights Commission in Bogotá could greatly facilitate such a “peace process.”

There are many Colombians who are increasingly convinced that their crumbling nation would not survive such a “peace process,” and which cannot afford to wait out the 18 months of Samper’s Presidency. Speaking for these anti-Samper forces is the opposition daily *El Espectador*, whose Jan. 23 editorial calls the Samper regime “An Unburied Corpse”: “We Colombians are facing the dissolution of our political institutions and the definite coming of chaos. And the President and his ministers continue to lie to us. Social discontent is growing, on the verge of a massive explosion that will not leave a stone in place. The economy is being ripped apart. Public disorder is metastasizing to every corner of the national territory, virtually surrendered to terrorism and under the imminent threat of the methodical takeover of our cities. . . .

“The government is holding a bomb, and it is going to explode in its hands. The fuse is lit, but the government only covers its ears. And we Colombians don’t even know if our government is just a fading image of an apocryphal portrait, or of an unburied corpse. We Colombians are more convinced every day that the only patriotic solution the President has, is to resign immediately, along with his cabinet.”

*El Espectador’s* editorial has already been endorsed by several prominent figures, such as Sen. Enrique Gómez Hurtado and businessman Hernando Echavarría Olózaga, who are calling for civil resistance against the Samper regime, “if necessary.” Part of this resistance could also come in the form of an indefinite general strike planned for Feb. 11 by leading labor federations, and backed by the opposition Conservative Party. Samper’s recent decree that public sector wages will be kept to 13.5%, well below the nearly 22% inflation rate in 1996, has stoked the flames of discontent.

# Zedillo: Mexico will not allow segregation

by Carlos Méndez

On Jan. 23, Mexican President Ernesto Zedillo delivered an emphatic “No!” to blackmail by the Zapatista National Liberation Army (EZLN), that the government establish autonomous indigenous territories, or face renewed fighting by the narco-terrorists. In a speech before a group of Mexican Pame, Tenek, and Nahuatl Indians, President Zedillo said: “We will not permit segregation or exclusion; we will reject special enclaves, which would mean a return to the marginalization we already overcame.” The Mexican government’s decision is of strategic importance for the entirety of Ibero-America, and, if adhered to, constitutes a setback for the British Empire’s drive to shatter the nation-state around the world. If a state such as Mexico were to accept the division of its territory and government, the door would be flung wide for the balkanization of all of Ibero-America through ethnic separatism.

President Zedillo’s rejection of the Zapatistas’ separatist bid also shows how resistance to the global assault on the nation-state can suddenly emerge, when a country is pushed to the point that its very existence is at stake. This same phenomenon is seen in Peru, where President Alberto Fujimori bowed to foreign financial dictates, but has fought fiercely, when faced with the possible loss of all sovereignty which would result from yielding to the Zapatistas’ Peruvian partners, the Túpac Amaru Revolutionary Movement (MRTA).

The EZLN demanded passage of a bill called the “Indian Culture and Rights Act,” drawn up by the Peace and Concord Commission (Cocopa), a group of Congressmen from leading parties, which has been mediating between the government and the EZLN. The bill mandates changes in the Constitution, to grant “Indian peoples . . . the rights of self-determination, and . . . autonomy,” and specifies that autonomy must include exclusive rights over much of Mexico’s natural resources. The Cocopa-EZLN proposal would also force those Mexicans categorized as Indians, to be the sole property of the narco-terrorists, and the host of anthropologists, non-governmental organizations (NGOs), UN bodies, etc., which “ad-verse” them.

The bill was officially rejected on Jan. 12, via a Government Ministry statement that “the government cannot renounce its highest responsibilities: to guard national unity, territorial integrity, and full respect for the principles upon which the organization and functioning of the state are based. All Mexicans are equal before the law, including members of

the Indian communities.”

President Zedillo’s stance against the EZLN on this issue, is backed by the Mexican Army, and other national forces. The head of the Mexican Labor Federation (CTM), Fidel Velázquez, noted that the EZLN has survived for so long, only because of government “tolerance,” calling it “an urgent necessity to resolve the problem of insecurity in the country.” The bishop emeritus of Papantla, Veracruz, Msgr. Genaro Alamilla, charged that the Zapatistas’ aggressive demands are “the fruits of the excessive tolerance which the government has shown to this group. A complacency which has harmed the country.” The EZLN, he added, “is in no way an army, because they are only rebels who intend to segregate the Indian from the nation. . . . It is time that the Mexican authorities act with more energy and force.”

The mobilization against separatism also provoked renewed charges that the EZLN is a foreign force. It is time to end EZLN Commander Marcos’s “dream of an autonomous territory—not for the Indians, but for himself and for his foreign, mostly European, financiers,” wrote Mexican columnist Francisco Cárdenas Cruz in *El Universal* on Jan. 14. Two days later, former Chiapas Gov. Elmar Setzer stepped forward to blast former President Carlos Salinas, who, he charged, had been informed of the EZLN’s existence in 1988 in that state, but permitted them to continue to build up forces, in order to pass the North American Free Trade Accord without problems. The EZLN “has nothing to do with Chiapas; neither its principal actors, nor its students, nor its negotiators, nor its supporters . . . nor its pacifists, nor its ecologists, nor its drug-traffickers,” Setzer told Mexico’s *Excélsior*.

## OAS vs. the Mexican Army

Only days after the government rejected the Zapatista’s demands, their international supporters counterattacked on another flank: The Inter-American Human Rights Commission of the Organization of American States (OAS) launched a legal offensive against the Mexican Army, using the pretext of the case of Brig. Gen. José Francisco Gallardo Rodríguez, imprisoned by the military for such crimes as embezzlement. On Jan. 23, the commission, which refused to look into George Bush’s imprisoning of Lyndon LaRouche and his associates, declared Gallardo a “prisoner of conscience,” and ordered Mexico to free him immediately, and to pay him monetary damages.

Gallardo’s case had been brought before the commission by the Zapatista apparatus: the Washington-based Center for Justice and International Law (CEJIL), and MariClaire Acosta, director of the Mexican Commission for the Defense and Promotion of Human Rights. Acosta is a member of the EZLN’s political arm, the Zapatista National Liberation Front (FZLN), and of the Inter-American Dialogue, the leading lobby in Washington for the British drive to impose drug legalization, indigenous autonomy, demilitarization, and narco-terrorism on Ibero-America.

### Germany prepares for post-Kohl era

*The new year is beginning with political turbulence, as voters protest austerity.*

When Russian politician Aleksandr Lebed and Bavarian Gov. Edmund Stoiber met in Munich on Jan. 17, many observers interpreted this as a meeting between the future leaders of the two nations. Indeed, Stoiber is named among those who may become the next German chancellor.

But Lebed also met with the other potential new chancellor, Wolfgang Schäuble, a longtime ally of Chancellor Helmut Kohl in the Christian Democratic Union (CDU), who currently is the influential chairman of the CDU caucus in the parliament, the second most powerful position in the party, after Kohl's.

Kohl and his Bonn coalition government, comprised of the two Christian Democratic parties (CDU and Christian Socialist Union) plus the liberal Free Democratic Party (FDP), can be glad there are no national elections this year: The latest opinion polls among the electorate show that he would not receive enough votes to get re-elected. Voters are in an uproar over Kohl's austerity policy, especially over Finance Minister Theo Waigel's budget-cutting mania, which has just come up with the idea of taxing pensions, to help balance the budget.

That a wave of nationwide labor strikes has successfully undone the Kohl-Waigel project that passed a law in late September 1996 imposing a 20% cut in workers' sick pay, has hastened the erosion of support for this government. The irony is that those people in the banks and in industry who talked Kohl and Waigel into this provocation of labor interests, are now placing the blame for the political mess created by the sick-pay debacle

on the government. Not only labor, but also the neo-conservatives want to get rid of a government that they now consider expendable.

This has awakened sleeping dogs inside the CDU and CSU, who have their own reasons to call for a new chancellor and a new government, and who think that the next scheduled national elections, in autumn 1998, should not see the re-election of Kohl. There are also more and more politicians in the CDU and CSU who are convinced that important economic challenges, such as the fight against mass unemployment, and big projects, such as a long-overdue tax and banking structure reform, cannot be solved by this coalition with the neo-liberal FDP, but only in a Grand Coalition that would include the opposition Social Democrats (SPD).

The last Grand Coalition was formed at the peak of an economic recession, in late 1966. Those who are for a new Grand Coalition are also convinced that such a coalition should be formed before the end of this year, to make sure it can begin work before the election year of 1998. The other alternative would be to have early elections, also before the end of this year, which would prepare the ground for the formation of a new, Grand Coalition government.

All these scenarios for a change of government face one big problem, however: The German Constitution allows a change outside of regular elections only through the procedure of a "constructive" no-confidence vote—which means that an alternative candidate to the incumbent chancellor must announce himself, before the no-

confidence vote can be held. At this moment, there are only two candidates inside the Christian Democracy who have enough political backing to replace Chancellor Kohl: Schäuble (CDU) and Stoiber (CSU)—both of whom are keeping in close contact with influential currents in the SPD.

Developments in the first weeks of the new year show, indeed, that active preparations for a post-Kohl solution have begun in earnest.

Having consulted with Kohl, and apparently having received a green light, Schäuble brought the "succession question" into the public domain in an interview with the weekly *Stern*, on Jan. 8. He said that he "probably would not withstand the temptation" of becoming chancellor, were circumstances to arise in which the succession question were raised. He identified Stoiber as his main rival, adding that the question of Kohl's future would not materialize before 1998, anyway. However, by addressing the question, Schäuble "let the cat out of the bag."

The other development is that there is now an open revolt inside the CDU against Finance Minister Waigel—the one Bonn cabinet member who is held largely responsible for the growing disaster of financial, budget, and taxation policies. On Jan. 17, Christian Wulff, chairman of the CDU in the state of Lower Saxony, began the debate about replacing Waigel, and within three days, several other regional CDU leaders joined in. Ousting Waigel in Bonn, would also end his role as CSU chairman, however, and this, again, would benefit Stoiber, Waigel's main rival inside the CSU.

Schäuble, an old fox, sensed where this was heading: "They hit Waigel, but mean Kohl and myself," he said about Wulff's move.

The "post-Kohl era" has definitely begun.

# International Intelligence

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## **British run simulated war games series**

Britain's Ministry of Defense has been running a series of "future war simulation games," under the general title of "Year 2010," whose underlying assumption is best expressed by Samuel Huntington's "Clash of Civilizations" thesis. A senior British Trilateral Commission member told a journalist that the future scenarios, as elaborated at a series of private seminars, are based on "studies by the Army, Navy, and Air Force," combined with "political intelligence input." He said the studies "are very sobering and frightening. . . . The seminars dealing with these matters have been rather breath-taking occasions."

The speeches late last year by Defense Minister Michael Portillo, focussing on some 50 emerging war threats, are based on these studies, the source noted. "The message is: 'We've got to be prepared, we've got to be preparing for a world which may take us all by surprise. We in the democracies have got to find new ways to come together.'"

The reports discussed by the Defense Ministry included topics on "nuclear proliferation" and "fundamentalism in the Islamic world," overlapping the threats of "terrorism." The attendees are advised to think of the "Chinas, Irans, and Indonesias" as the main potential adversaries. "What we are told, is 'Don't worry about Russia, they will join us when the time comes,' " the source said.

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## **Heroin production rising in Thailand and Laos**

With supplies short and prices up, due to Myanmar's takeover of the Shan states from the narco armies, the Thailand hill tribes are again turning to opium, according to the *Nation* of Bangkok. Simultaneously, "ice" (methamphetamine) has reached epidemic proportions in Thailand, as in most of Southeast Asia, with production now extending beyond Bangkok into the provinces. There

are an estimated 200 million doses on the market in Thailand alone.

According to the *Bangkok Post*, the capital retains its attractiveness as a drug center, because "Bangkok can't be beat for its non-existent money-laundering laws, and otherwise lax and corrupt law enforcement, say the experts. Bangkok is still the center for deals lining up shipments to Hongkong, Taiwan, the U.S., and Australia."

In addition to the diversification of routes, Western narcotics officials say that other ethnic groups have moved to fill the void following the early 1996 surrender of Shan State drug lord Khun Sa to Myanmar's government. These officials say the biggest traffickers are the Wa and Kokang ethnic groups that straddle the Myanmar-China border, the Chinese Haw, and ragtag remnants of Khun Sa's Mong Thai Army. Last year's bumper crop in the Golden Triangle, the result of favorable weather, is estimated at 3,000 tons of opium. The price has stabilized at 200,000 baht per 700 grams, down from 500-600,000 baht, but still twice what it was during Khun Sa's reign.

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## **Arafat wants E. Jerusalem as Palestine's capital**

Speaking to cheering throngs in Hebron, the West Bank city from which the Israeli Defense Forces have redeployed, Palestinian Authority President Yasser Arafat said, "Hebron is a springboard for what comes after . . . so that we can establish our independent Palestinian state." Over the Jan. 18-19 weekend, Arafat had formulated a proposal for Jerusalem, which "should be divided, with East Jerusalem under Palestinian control." He explained, "A city can be the capital of two states, like the example of Rome, the capital of Italy where there is the Vatican compound."

Arafat pointed to the Israeli cabinet and Knesset (parliament) votes for the Hebron agreement, to show that the Palestinians were making peace "not only with the Labor Party, but with all Israelis."

Meanwhile, the outlawed Kach party of

the late terrorist Rabbi Meir Kahane has revived, now aiming its threats against Prime Minister Benjamin Netanyahu for signing the Hebron agreement. According to *Maariv* of Jan. 16, Kach is "alive and kicking under the guise of a new movement, Forefront of the Idea, and conducting an all-out campaign . . . under the slogan 'Netanyahu Is a Traitor.'" *Maariv* quoted a senior police officer, who said, "It is largely reminiscent of the incitement against Yitzhak Rabin. These are the same people with the same posters, images, and slogans."

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## **Disease, hunger ravages Rwandan refugees**

Despite column inches and video footage reporting happy Hutus returning to Rwanda, hundreds of thousands of refugees, many of them children under five, are dying or facing death by disease and starvation. Cholera has broken out among Rwandan Hutu refugees crowded round the Zairean forest village of Tingi-Tingi. Altogether, according to the Brussels newspaper *Le Soir*, 300,000 refugees have been located in Zaire.

Unicef official Philippe Duhamel told the daily: "Around the Walikale-Kisangani road there are two major concentrations of Rwandan refugees, plus a few Burundians from the Goma, Bukavu, and Uvira camps. . . . There are about 120,000 of them in Tingi-Tingi and 40,000 in Amisi. These refugees are in a dreadful state: They are very weak, in poor nutritional condition, and are suffering from malaria, diarrhea, and respiratory complaints. We have been recording 25 deaths a day in Tingi-Tingi, half of them children under five." There are 200 severely undernourished children in two nutrition centers, but when "they return to their families, their condition rapidly deteriorates, as they do not have enough food."

In Tanzania, over 6,000 refugees were arrested in the Ngara District, and handed over to Rwandan officials. District Commissioner Evans Balama said that the crack-down would continue until there were no illegal foreigners in Ngara District. Reflect-



ing what *EIR*'s Tanzanian sources have noted, that many Tanzanians have attempted to help the refugees, Balama stressed that it was illegal for any citizens to harbor or employ Rwandan refugees.

### **Venezuelan governor bars Playboy channel in state**

Gov. Orlando Fernández Medina of Lara, Venezuela is bucking a ruling by that country's communications minister allowing Playboy and other pornographic material to be broadcast on television, and is saying he will bar the material from airing in his state. Playboy channel in Venezuela is owned by the notorious Cisneros family. Fernández said he bases the proscription on the Constitutional provision that "one of the fundamental duties of the state is to protect morals and good habits, as well as to elevate and preserve the family unit."

The governor made the announcement on Jan. 16, two days after an estimated 1 million people took part in a religious procession and mass honoring the Virgin Mary in the state's capital Barquisimeto, where the call went out to stop the broadcast of pornography.

### **Chief Palme investigator charged with tax evasion**

Hans Ölvebro, chief investigator in the Feb. 28, 1986 murder of Swedish Prime Minister Olof Palme, was asked to take a leave of absence by the new National Police chief Lars Nylén in early January, after he was charged with tax evasion. In fact, Ölvebro has been in deep trouble since the "South African lead" into the Palme murder came to light in November 1996 (see *EIR Special Report*, "George Bush and the 12333 Serial Murder Ring"). For years, Ölvebro denied any possibility of a conspiracy behind the murder, preferring to hunt down the mythical "lone assassin." Before Christmas, Nylén announced a reorganization of the Palme murder investigation, and later indicated

that it would look again into the lead provided by Bofors' illegal arms sales.

The investigation may take even more turns. India has received secret bank documents linked to a Bofors weapons deal, which may track not only into investigations of the bribery of leading Indian politicians, but also the murders of Palme, and, in May 1991, of former Indian Prime Minister Rajiv Gandhi.

In the meantime, it has come to light that the chief criminal inspector for the Copenhagen, Denmark police, uses the Palme assassination as a model of how *not* to conduct an investigation, in his training of police cadets.

### **Serbian Supreme Court overturns local elections**

Serbia's Supreme Court has continued to overturn rulings certifying that the opposition to dictator Slobodan Milosevic won municipal elections last November. On Jan. 21, the court ruled that his Socialist Party won elections in the town of Smederevska Palanka, and on Jan. 20, the court overruled the voters in Sabac, tapping the Socialists as the winners. The Serbian independent daily *Telegraf* revealed on Jan. 20 that Milosevic plans to hold new city elections in Belgrade in March, and, to impose martial law in the capital until then.

The opposition has continued mass demonstrations in Belgrade both day and night, with upwards of 50,000 participating. The Belgian newspaper *La Libre Belgique* interviewed opposition leader Vuk Draskovic, who was highly critical of western inertia toward Milosevic. Milosevic, he said, was convinced that the West would do nothing, after he had gotten away with refusing to cooperate with the war crimes tribunal in The Hague. Draskovic continued that Milosevic must have said to himself, "Look here, I refuse cooperation to the court in The Hague, and I'm not punished. So, why should I acknowledge the election results?" In the interview, Draskovic warned again, that if the "international community" doesn't put pressure on Milosevic, there will be a "new Balkan war."

## Briefly

**PAKISTANI** Gen. Nur Khan (ret.) issued a call for peaceful and normal relations with India, in a speech in December that reflects a new turn among some sections of the military. Pakistan, he said, should stop shouting "Tiger! Tiger!" against India, because there is no reason for it to look upon India as a competing country. Khan said that instead of an arms race, peaceful economic relations should be Pakistan's policy toward India.

**CANADA'S** Gen. Lewis MacKenzie, the former UN Protection Forces commander in Sarajevo, whom Bosnia charged with participating in atrocities as a guest at Serbian rape camps, is planning to run for Canada's Parliament on the Conservative ticket, in the Ontario riding of Parry Sound-Muskoka.

**NEPAL** has become a safe haven for pedophiles, wrote the *Kathmandu Times*, after a British national, charged with child sexual abuse, was freed by police because it was his first offense and he had a good conduct sheet from his British firm operating in Nepal. Pedophiles are now seeking out Nepal, since the Philippines, Thailand, and Sri Lanka have instituted harsh laws against pedophilia, laws which don't exist in Nepal.

**BURUNDI'S** former President Jean-Baptiste Bagaza, who is of the same Tutsi tribe as military dictator Pierre Buyoya, was reported to have been arrested in mid-January. Bagaza was overthrown in 1987 by Buyoya, who ruled until 1993, when voters elected a Hutu, Sylvestre Ntibunganya, as President. He was later killed. Buyoya seized power again last July in a military coup.

**TURKEY'S** government is reported by the Islamist paper *Turkiye* of Jan. 14 to be preparing a diplomatic offensive around Greece's stationing of anti-aircraft missiles in Cyprus. Turkey will send representatives to the UN, European Union, and NATO, as well as to the United States and Britain, to argue that the Greek Cypriots are escalating tensions.

## Pennsylvanians take the lead to defend welfare

by Nancy Spannaus

A number of Pennsylvania state legislators, backed by a broad coalition of labor and civic groups, have taken the initiative to reverse the deadly, Nazi-like budget cuts against the poor in that state. Put on the table have been two pieces of legislation, one to restore Gov. Tom Ridge's cuts in medical assistance for 220,000 poor and disabled people, and the other to provide a new source of funding, by taxing securities transfers.

Pennsylvania's fight represents a model for the nation, at a time when most state legislators, and Congressional leaders as well, have been knuckling under to "balanced budget" demands for deadly budget cuts in social welfare programs.

### The press conference

Democratic State Representatives Harold James, John Myers, and Mark Cohen held a well-attended press conference in Harrisburg, Pennsylvania's state capital, on Jan. 29, to announce their legislative initiatives. They were joined by individuals representing nine other state legislative, or legislative committee offices, as well as representatives of labor and community groups, who expressed their support for one, or both, of the bills.

Representative James, who heads the Pennsylvania Black Legislative Caucus and has spearheaded the fight to reverse the medical cuts since the spring of 1996, spoke first. After noting that he had testimony and evidence from 48 witnesses and sources describing 9 deaths and 20 life-threatening situations as a direct or indirect result of the health care cuts, James called for state legislative hearings. "Currently, we are faced with a statewide emergency," he said. He urged the government to restore the cuts.

Representative James then presented his proposal for closing what he called a "massive loophole in our tax struc-

ture." He proceeded to outline the "Tax Fairness" bill, which he had introduced in 1996, and which would put a sales tax on the transfer or sale of financial securities—which transactions are now subject to no tax whatsoever. The tax would impose a tax of two-tenths of 1%, or 20¢ per \$100, on the selling of stocks, bonds, derivatives, and other such financial instruments, and had been estimated by James's staff to yield revenue of over \$1.5 billion from just the trading of securities and mutual funds.

Most shocking to the press corps was James's revelation that New York State already has a stock transfer tax on its books—although the state ceased fully collecting that tax in 1979.

Representatives Myers and Cohen both spoke after James. Representative Myers presented his bill to restore the medical assistance cuts. Representative Cohen, although not a sponsor of the tax bill, declared that he was in favor of both initiatives.

### Broad support

The broad support which these initiatives have, was clearly indicated in the messages which were sent to the press conference. This support has been growing for months, as LaRouche Democrats and others have circulated more than 1 million pamphlets documenting the way in which Governor Ridge's medical cuts represent Nazi crimes against humanity, and as the news of some of individuals murdered by the medical cuts, has spread throughout the Commonwealth.

Among the state leaders who expressed their support for full restoration of the medical assistance program, either in writing or in person, were:

- William George, president, Pennsylvania AFL-CIO;
- Sister Claire Christi Shiefer, president, Pennsylvania Catholic Health Association;

- Ed Cloonan, president, Independent State Store Union;
- Richard Benfer, president, Braddock Hospital;
- J.J. Johnston, political director, Service Employees International Union;
- Ray Webb, executive director, Pennsylvania Community Providers Association.

Ten other community and labor leaders also have endorsed the initiative to restore the medical assistance cuts using the Commonwealth's surplus revenues, as announced by the state budget director, Robert Bittenbender, last year. Those funds, as of late 1996, amounted to \$123 million.

There is also much broader support within the state legislature for both measures. When Representative James introduced his securities tax bill in June 1996, his four co-sponsors were all members of the Legislative Black Caucus from the Philadelphia area. Support among legislators has more than doubled, and is growing. One of the most significant additions is Representative Cohen, who is the Democratic caucus chairman in Harrisburg, and number three in the Democratic leadership.

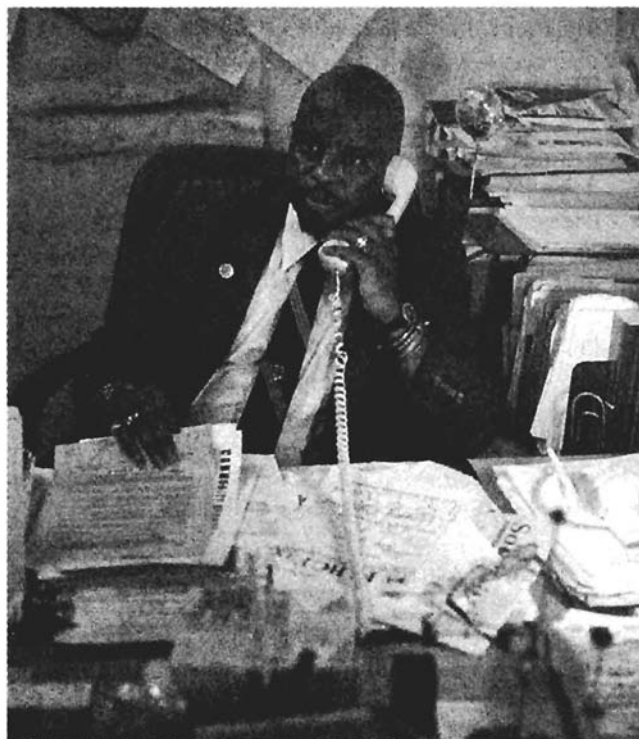
### **Building up to a threshold**

In one respect, the coalition that is building is similar to the one which originally defeated Governor Ridge's cuts in medical assistance in the spring of 1996. At that time, a mobilization of church, hospital, labor, and Democratic groups succeeded in getting more than 20 Republican legislators to break with their governor, and defeat the bill.

But, the addition of the security transfer tax brings a strong new element to the coalition's potential this time. As Representative James's statement at the press conference indicated, this new tax—which amounts to an almost nominal burden on those now untaxed—would provide monies that could do far more than restore the medical cuts. In addition to \$250 million for that, James mentioned possible allocations of \$200 million for education, \$700 million for community development and infrastructure improvements, and \$350 million for a two-tenths of 1% cut in the state personal income tax.

The concept for the securities transfer tax proposal, which is available in the mass pamphlet on Ridge's crimes being circulated by the FDR-PAC political action committee, the LaRouche wing of the Democratic Party, was originally advanced by Lyndon LaRouche in an April 4, 1996 press conference in Philadelphia. At that time, LaRouche also raised the issue of Governor Ridge's culpability by the Nuremberg Tribunal standard—for having deliberately increased the death rate when he knew, or should have known, that his medical cuts would do so. LaRouche launched a drive to impeach Ridge for these crimes against humanity.

Governor Ridge sold his budget cuts on the assertion that they were necessary to 1) balance the budget, and 2) enforce the work ethic. Over the course of the last nine months, both arguments have proven to be frauds. First, the Commonwealth did not have a budget shortfall, as the state treasurer



*Pennsylvania Rep. Harold James, in his Philadelphia office. The fight for James's bill to impose a 0.2% tax on financial transactions, and to restore health care funds cut from the state budget, is a model for the nation.*

revealed. Second, individuals who have been cut off medical assistance were indeed working, but were simply unable to pay for their necessary medical care without state aid.

No case has captured the public imagination more than that of Lolita Cunningham, a 24-year-old woman who was working for a living, but could not afford her \$600 a month anti-rejection drugs, for a heart transplant she had received as a child. Cunningham died late last year, after being denied state assistance.

So far, Governor Ridge has not shown any indication of changing his attitude. The *Philadelphia Daily News*, in covering the Jan. 29 press conference, cited Ridge's spokesman Tim Reeves saying that "the governor has no interest in reversing this policy."

### **Representative James's call**

Representative James concluded his press statement as follows:

"Slashing services for the needy does not solve the problem. We need to improve the services available to our most vulnerable citizens. We need to provide better resources that guarantee they have an opportunity to enjoy a decent life.

"As to how we can best fund the state's health care plan in the upcoming fiscal year, well, that will be the discussion during budget hearings in February and March.

“Right now, I hope the governor and his administration open their eyes—as well as their hearts—to the life-sustaining needs of the citizens of this state.

“And I hope the General Assembly is open to my legislation to bring tax fairness to Pennsylvania by taxing one of the only items of commerce that currently is not taxed.

“Everyone is paying at least a 6% sales tax in Pennsylvania. Why not impose a tax on the million-dollar deals done so casually by the rich?

“Since the resources are clearly available to avert all such forms of harm to those in need, I believe it is morally incumbent upon us as responsible public officials to act now!

“We hope Governor Ridge might change his mean-spirited health policies, because at some point, the people will demand that responsible public officials be held accountable for the deadly consequences of their actions.”

## National implications

It is no exaggeration to say that legislators, political activists, and governors all over the United States are vitally interested in the outcome of this fight in Pennsylvania. Taxation on speculation has become a major discussion point, as far away as Germany.

The upcoming battle in Pennsylvania, which will spread far beyond the legislature itself, is a key one to watch.

# NBCSL: Investigate Bush drug running

*In late January, the official text of a resolution unanimously endorsed by the National Black Caucus of State Legislators (NBCSL) on Dec. 7, 1996, was made public, which called for a Congressional investigation of allegations concerning the 1980s role of the government in aiding the flow of drugs, including crack cocaine, into the United States, as part of covert support for the Nicaraguan Contras. The NBCSL is the most significant political body so far to pass a resolution which specifically names George Bush and Oliver North. The resolution was introduced by Pennsylvania Black Caucus chairman Harold James before the Law and Justice Committee, and was passed in the plenary session on Dec. 7.*

*The NBCSL, which represents close to 600 African-American legislators from 44 states, was formed in 1977 as a way to bring together African-American lawmakers to discuss policy issues.*

*Schiller Institute organizers circulated to all conference participants copies of the September 1996 EIR Special Report on “Would a President Bob Dole Prosecute Drug Super-Kingpin George Bush?”*

*The full title of the resolution was, “Support for an Investi-*

*gation of the Role of U.S. Government Agencies Regarding the Flow of Drugs into the United States.”*

**Whereas**, a series of investigative reports published in the *San Jose Mercury News*, Aug. 18-20, 1996, contained highly credible allegations concerning the role of U.S. government agencies, including the CIA and the Department of Justice, through covert operations, in aiding and abetting the flow of drugs into the United States, including crack cocaine into the African-American communities of Los Angeles, as part of covert support for the Nicaraguan Contras in the 1980s; and

**Whereas**, these reports reaffirmed the conclusions of the Senate Foreign Relations Subcommittee on Narcotics, Terrorism and International Operations, also known as the “Kerry Committee,” whose final report of December 1988 stated: “On the basis of this evidence, it is clear that individuals who provided support for the Contras were involved in drug trafficking, the supply network of the Contras was used by drug trafficking organizations, and elements of the Contras themselves knowingly received financial and material assistance from drug traffickers”; and

**Whereas**, during the period in which drugs were allegedly brought into the country with the connivance of U.S. government agencies, then-Vice President George Bush was appointed by President Ronald Reagan to run the National Narcotics Border Interdiction System, and a series of executive orders and “national security decision directives” were signed by President Reagan, placing most covert intelligence operations of the U.S. government, including covert support for the Contras, under the direction of a Special Situation Group also headed by Vice President Bush with Oliver North functioning as one of his key lieutenants; and

**Whereas**, California Congresswoman Maxine Waters, Senators Dianne Feinstein and Barbara Boxer, and the city councils of Los Angeles, Philadelphia, Jackson, St. Louis, and others have called for Congressional and other investigations into the role of the CIA and other agencies and individuals in these operations; and

**Whereas**, such investigations must go right to the highest levels of responsibility for the devastation and violence in our communities associated with drugs and guns,

**Therefore be it resolved** by the 20th Annual Legislative Conference of the National Black Caucus of State Legislators (NBCSL), assembled in Biloxi, Mississippi, Dec. 1-7, 1996, that the National Black Caucus of State Legislators, endorses the call by Congressional Black Caucus chairwoman Waters, Senators Feinstein and Boxer, the city councils of Los Angeles, Philadelphia, Jackson, and St. Louis, and others, for a Congressional investigation, and the appointment of an independent special prosecutor, for a complete, thorough, and independent investigation of these allegations, and for vigorous prosecution of individuals, where justified by probable cause, irrespective of their current or former official status.

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## Book Reviews

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# HMOs: Robin Hoods, or profit vultures?

by Marianna Wertz

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### **Health Against Wealth: HMOs and the Breakdown of Medical Trust**

by George Anders

Houghton Mifflin Co., Boston, 1996  
299 pages, hardbound, \$24.95

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*Health Against Wealth*, an exposé of the managed-care system, which has largely taken over American medicine in the past decade, is a well-researched, competent, and moving account of the horrendous damage wrought by health maintenance organizations (HMOs) in their voracious quest for more loot, at the expense of the health and well-being of millions of Americans.

What *Health Against Wealth* is *not*, is an analysis of the deeper roots of managed care—of the growing takeover of American government and health-care policy by the fascist philosophy that places a pecuniary value on human lives and rationalizes the reduction in health care on the grounds of cost-saving. This analysis has been presented in detail exclusively by Lyndon LaRouche and *EIR*. (See, for instance, *EIR* Oct. 25, 1996.)

Because George Anders, the author, works for the *Wall Street Journal*, such an analysis is not within his universe.

However, given those limitations, the book merits reading as a comprehensive account of how managed care, behind billions of dollars in self-promotional hoopla, has served to enrich its sponsors and deprive its victims of the quality of health care for which this nation was once famous.

Anders begins his story with the history of managed care, starting with the small, altruistic companies in the 1950s, like the early Kaiser Permanente in California, which tried to offer a less expensive but still competent health-care system to groups of employees. He then shows how, beginning about 1990, with “intense economic forces pushing for medical austerity” in the face of skyrocketing costs, corporate employers began to “nudge millions of people into managed-care plans.”

What happened since then has been the subject of repeated headline stories and “60 Minutes”-style television documen-

taries: Managed care victims lose their health and, in many cases, their lives, as HMO executives such as U.S. Healthcare’s Leonard Abramson, Foundation Health’s Dan Crowley, Oxford Health Plans’ Steve Wiggins, HealthSource’s Norman Payson, and scores of others drown themselves in huge salaries, stock options, and other benefits derived from chopping off medical services to those they supposedly are serving.

Anders makes the crucial point that, while making a profit isn’t a crime, as long as you’re doing so by providing something useful or productive for society, the sole source of “profit” for managed care companies is austerity in the medical treatment of its customers—hardly a beneficial “product” in anybody’s book. “Because managed care has caught on so fast, HMO executives seldom stop to think about what gives their industry its legitimacy. . . . For the American public to tolerate and accept a major role for these companies, people have to believe that the executives in charge sincerely want each health-care dollar to stretch as far as it can. When HMO executives adopt a different code of conduct—and decide that their mission is to make as much money as possible as medical middlemen—they invite scorn and distrust from the people most intimately involved with front-line care.”

### **Managed care backs Governor Ridge**

Anders also unmasks how managed care has put its favorite politicians into office. For instance, he gives the following account of how managed care moved in to back Pennsylvania’s Gov. Tom Ridge, who has implemented one Nazi-like austerity scheme after another in the health-care area.

“Some of the nerviest maneuvers have been at the state level. In Pennsylvania, managed-care plans for years chafed at delays in getting state approval to expand into new geographic regions. The top state regulator in charge of HMOs, Steve Male, generally supported managed care but was a stickler for consumer protection. With Pennsylvania about to elect a new governor in 1994, the state’s biggest HMO, U.S. Healthcare, decided to flex its muscles. Usually the chairman, Leonard Abramson, supported Democratic candidates. But this time he switched sides and personally contributed \$25,000 to the successful campaign of Republican Tom Ridge. Another U.S. Healthcare executive, David Simon, pitched in a further \$2,600 and became chairman of Ridge’s health-care transition team after the election. In March 1995, Male was told that he would be reassigned. Pennsylvania officials denied acting at the request of U.S. Healthcare. But in a statement to local newspapers, David Simon suggested that his health plan’s interests shouldn’t be overlooked. As Simon observed, ‘It is essential that Mr. Male’s replacement understands the proper role of government in regulating the health system through this period of dynamic change.’ ”

The “dynamic change” needed now, is for the population to act on its “scorn and distrust” and overthrow managed care and its fascist hatchetmen such as Governor Ridge.

## Rubin: markets will enforce balanced budget

Treasury Secretary Robert Rubin told the Senate Judiciary Committee on Jan. 17, that a balanced budget constitutional amendment is not only not needed, but potentially dangerous. "A balanced budget amendment is a threat to our economic health, will expose our economy to unacceptable risks, and should not be adopted. I also believe that a balanced budget amendment is not necessary to achieve the critical objective of balancing the budget," he said. Rubin explained: "A new enforcing factor is at work, which is the emergence of global markets, that are highly focussed, intensely focussed on a nation's fiscal position, that I believe will severely punish nations that do not have fiscal responsibility as a central part of their economic strategy."

Rubin said that a balanced budget amendment "could turn economic slowdowns into recessions, and recessions into more severe recessions or even depressions; it could prevent us from dealing expeditiously with emergencies, such as national disasters or military threats. Third, it would seriously increase the risk of default on our national debt."

While most of the exchange among Rubin and the senators concerned protecting Social Security and whether it should be included in calculating the deficit, the most interesting exchange was on economic growth. Richard Durbin (D-Ill.) told Rubin that, not balancing the budget, but rather, "an expanding American economy creating good-paying jobs is our highest priority." Rubin replied that that "really should be our highest priority for the reason you said; because I believe it is necessary if we're going to have an expanding economy."

Rubin explained that in a recession,

a balanced budget amendment would force the government to do the opposite of what is needed to moderate the recession, "that, instead of allowing tax revenues to fall and instead of allowing unemployment insurance payments to go up, which moderates the recession, it would require that you either raise taxes or cut unemployment benefits or other expenditures" which would "exacerbate the recession."

Durbin pointed out that "our expenditures on the capital side create economic resources for future generations. . . . Since we don't parse the Federal budget into a capital and operating budget, we are really going to sacrifice, in terms of economic investments by this government, long-term infrastructure investments that might create economic growth."

## Delegation reports on trip to China

A bipartisan delegation of House members led by Jim Kolbe (R-Ariz.) reported on their trip to Hongkong, Beijing, Xian, and Shanghai, at a press conference on Jan. 16. They met with China's President Jiang Zemin, senior diplomats, business leaders, and provincial officials.

The statement released by Kolbe announcing the visit, said, "The time has come for Congress to forge a more coherent, bipartisan policy toward China." It said they would explore a range of issues, including the "transition of Hongkong to Chinese sovereignty, U.S.-China economic and trade relations, and the progress of internal civil and economic reforms."

Kolbe called for moving beyond the annual "destructive" annual fight in the United States over renewing Most Favored Nation (MFN) status for

China. During the visit, Kolbe issued a statement saying that China was unlikely to be granted permanent MFN status this year, because the move would have to be certified in June, the same month as the transfer of Hongkong. "We want to monitor Hongkong for a year before we make any change," he said.

John LaFalce (D-N.Y.), one of the members of the delegation, said on Jan. 16 that he was concerned about how the Chinese would react to the sale of F-16 fighters to Taiwan, scheduled to begin in 1998. LaFalce said that he had last visited China in 1979, and was "stunned by the changes in the country." China and the United States now have far more in common than they did before, he said. "The U.S.-China relationship is the most important bilateral relationship for at least the next 50 years, not only for the U.S., but also for the world."

## Vento reports on visit to the Balkans

At a press conference at the Capitol on Jan. 16, Rep. Bruce Vento (D-Minn.) reported on the visit of a delegation to Belgrade, Montenegro, and Croatia (they couldn't visit Bosnia because of the weather). The group delivered a letter to Serbian President Slobodan Milosevic, signed by 35 congressmen, criticizing press censorship, supporting the release of "pro-democracy" demonstrator Dejan Bulatovic, calling for the "implementation of free and fair elections," and adherence to the provisions of the Dayton peace agreement.

Vento said he had talked extensively with Serbian Foreign Minister Milan Milutinovic, pressing for freedom of the press and acceptance of the

municipal election results. He was asked if he was concerned by the support for Serbian nationalism by opposition leaders Vuk Draskovic and Zoran Djindjic. Vento replied, "We didn't pick that up in our conversations with them."

Vento said the most important discussions he had were about "freedom of the press." He said he took issue with Croatian government officials on the censorship of Radio 101 (which is supported by speculator George Soros), and had brought back Croatian journalist Zerinka Rabec Moses to meet with reporters here. Another delegation will visit the Balkans in February.

## Clinton nominations get quick action

The Senate unanimously approved the nominations of Madeleine Albright as secretary of state and former Sen. William Cohen (R-Me.) as secretary of defense on Jan. 22. The vote on Cohen was originally scheduled to take place on Jan. 23, but was moved up so that members could attend the funeral of former Sen. Paul Tsongas (D-Mass.), who died just days earlier.

No controversy was expected on either nomination, but Republicans took the opportunity to take swipes at Clinton administration foreign policy. Foreign Relations Committee Chairman Jesse Helms (R-N.C.) told the Senate, "My support for the nominee should in no way be construed as an endorsement of the administration's foreign policy." He claimed that many of the "important gains" of the Reagan-Bush years "have been neutralized by a foreign policy too often vacillating and insecure."

Cohen, during his confirmation

hearing before the Armed Services Committee, promised that U.S. forces participating in the follow-on force in Bosnia would be out by the 18-month deadline in 1998. Senators were reassured by Cohen's definition of "America's vital interests," exactly the issue that Helms had attacked the Clinton administration for failing to properly define, during the debate on Albright.

On the same day, Senate committees held hearings on the nominations of Andrew M. Cuomo, son of former New York Gov. Mario Cuomo, as secretary of housing and urban development, with a committee vote expected on Jan. 28; and William Daley, brother of Chicago Mayor Richard M. Daley, as secretary of commerce. Daley won the approval of GOPers when he promised to eliminate 100 patronage jobs in the department.

## Senate begins legislative business

On Jan. 21, the Senate began its work, with 178 bills and 14 resolutions introduced, including the lead agenda items of each party. The House remained in recess.

First on the Republican agenda is the Balanced Budget Amendment. Majority Leader Trent Lott (R-Miss.), in introducing it, said that "this needs no explaining," because everywhere in America people "realize the problems caused by excessive Federal spending." He expressed irritation at those who still oppose the amendment, because "we have not had a balanced budget in the Federal government in 28 years and it will probably be at least four more years before we get one, if then."

House Speaker Newt Gingrich (R-Ga.) announced the following day that

Feb. 26 has been set for a vote in the House on the amendment.

The remainder of the Republican agenda, though not advertised as such, looks like a continuation of the "Contract on America." It includes an education bill which gives families "consumer rights and choice in education." It includes the "Family Tax Relief Act," with the oft-promoted \$500 per family tax credit and a reduction in the inheritance tax. There is also a crime bill to "end the abuses . . . by both felons and by Federal judges" of the court system; and, the so-called "Paycheck Protection Act," which "forbids corporations and labor unions to take money from their stockholders and employees or members for political purposes without that person's expressed consent." In addition, a number of bills that were vetoed by President Clinton last year have been reintroduced, including product liability reform and the partial birth abortion ban.

The Democrats answered with 10 bills of their own, with Minority Leader Tom Daschle (D-S.D.) introducing the Democratic agenda. In his floor statement, Daschle said, "American families are asking some difficult questions" about how to pay for their children's education, the family's health care, and their own retirement. "Our challenges this year ought to be to provide the answers to those questions. As we do, we all recognize the limits of government, and we should all recognize the unlimited potential of achievement through bipartisanship."

The bills include issues such as voluntary campaign spending limits, a refundable tax credit for education, tax credits for children's health insurance, a Retirement Security Act, a crime bill that in certain respects overlaps that of the Republicans, and a bill to prohibit noncompetitive practices in the cattle industry.

# National News

## Wilson's welfare reforms a bonanza for privateers

California Gov. Pete Wilson's welfare reform plan, now pending in the state legislature, would open the door to a takeover of state welfare services by such corporate privateers as Maximus and Electronic Data Systems. Wilson's proposal is among the most sweeping in the nation, and promises billions of dollars in potential profit to any company winning state contracts to run welfare programs.

Opposition is reportedly strong from labor unions and advocates for the poor; and the legislature, where the Democrats won control in November, is unlikely to allow it to go through untouched. Wilson's proposal would also decentralize the administration of welfare, requiring counties to design their own programs to help welfare recipients find work, and to share the financial penalties if they fail. "Counties will have full responsibility for meeting all the federal requirements, with no assurance we will have the tools to succeed," said Frank Mecca, executive director of the California County Welfare Directors Association, as quoted by the Jan. 28 *Washington Post*.

## Former OMB head demands privatization

James Miller III, former director of the Office of Management and Budget (OMB) under President Reagan, brayed for a balanced-budget amendment and further privatization of government, at a forum in Washington Jan. 28. Miller boasted at the Heritage Foundation-sponsored event that his mentor was Milton Friedman, the devotee of the very British liberal economics adopted by Hitler.

Miller then rattled off his hit list of government functions to be privatized: the U.S. Weather Service, Amtrak, the Tennessee Valley Authority, the National Institutes of Health, U.S. Postal Service, Naval Petroleum Reserve, among others. Miller, a fre-

quent darling of the Conservative Revolution circuit, is associated with Citizens for a Sound Economy, and is working to impose a balanced-budget amendment on the U.S. Constitution.

Accompanying Miller on the panel was Rick May, the majority staff director of the House Budget Committee, and chief adviser to its Republican chairman, John Kasich of Ohio. "The only book I care about is my checkbook," puffed May. He explained that the strategy which will be used against the "Democrats' wasteful government programs, is 'good intentions vs. data.'" Claiming that virtually no data exist on the efficiency of government programs, May said that careful studies and precise data will ensure they can not be kept alive by good intentions. "The only way you can fight good intentions, is with the facts, to prove that these programs don't work."

## Clinton reaffirms stand vs. budget amendment

At a White House press conference Jan. 28, President Clinton emphasized his continuing opposition to a balanced-budget amendment. Conservative Revolutionaries in the 105th Congress, accompanied by heavy drumrolls from London, have again put this nation-wrecking scheme at the head of their agenda.

"When you amend the Constitution, you do it forever," the President said. "No one can foresee the circumstances that will come a generation from now, or 50 years from now, or even 10 years from now. And the way I read the amendment, it would almost certainly require, after a budget is passed, if the economic estimates turn out to be wrong, the Executive branch—the President, the Treasury Department—to impound Social Security checks, or to turn it over to courts to decide what is to be done."

In a letter the same day to Senate Minority Leader Tom Daschle (D-S.D.), the President added, "No subsequent implementing legislation could protect Social Security with certainty, because a constitutional amendment overrides statutory law. . . . In

addition, we should not lock into the Constitution a form of budgeting that simply may not be appropriate at another time. . . . We must give future generations the freedom to formulate the Federal budget in ways they deem most appropriate."

## Fla. crop damage laid to Weather Service cutbacks

The failure by the U.S. Weather Service, to forecast sufficient warning of the hard freeze which hit Florida Jan. 17-20, was a major factor in the destruction of 50% of its winter vegetable crop, according to farmers and state agricultural officials. "A \$3 million budget-cut in weather service may have cost the U.S. a \$300 million loss" in vegetables and fruits, Tom Kirby, a spokesman for the Dade County Farm Bureau, told *EIR* on Jan. 27.

Two Florida Republican Congressmen, Charles Canady and Mark Foley, have asked the National Oceanic and Atmospheric Administration, which oversees the National Weather Service, to analyze why forecasts were 10° off in south Florida, leaving farmers without adequate time to take protective measures against the crop-killing freeze. Florida Agricultural Commissioner Bob Crawford has also called for the reinstatement of the national agricultural forecast, which was eliminated last year. The cold temperatures were the worst to hit Florida since December 1989. But, at that time, there was still a warning system provided by the National Weather Service.

On Oct. 1, 1995, under pressure from Conservative Revolutionaries and Vice President Al Gore's campaign to "reinvent government," the Commerce Department eliminated the agriculture weather service. The rest of the casualty list included weather warnings of fire threats provided for non-federal agencies; the distribution of weather charts to marine radio-facsimile broadcast stations; and the National Weather Service Summary, which also freely provided the public and the media with flood and tornado warnings. Some of the services, traditionally provided for the public good, were privatized for "profit."



Florida produces between 50% and 75% of all of America's winter vegetables, including green beans, peas, yellow squash, zucchini, hot and sweet peppers, sweet corn, and eggplant. During the first week after the frost, prices shot up by as much as 33% inside Florida. Fresh produce distributors, many of them London-based cartels, figure on raising prices at the checkout by 50%. At supermarkets in the East and Midwest, some prices have already doubled.

## Deregulation won't lower rates, utilities admit

A survey of electric utility executives, conducted by the International Energy Group and released in Washington on Jan. 9, revealed that only 12% of them believed that "competition" will significantly reduce the average family's electric bill. Nearly 70% of the 537 officials surveyed believe there will be large-scale consolidation, with only 80 of the current 250 private utility companies surviving, according to some estimates.

Over the past five years, there has been an accelerating move to eliminate the regulation of private utilities, and sell off the assets of the federal power authorities. Promoted as the way to lower electric rates, deregulation has instead provided a \$200 billion per year pot of gold for financial interests to loot. House Republicans intend to push for further deregulation of utilities this year, but serious concerns are being raised about the consequences.

The stakes involved were spelled out by Franklin D. Roosevelt during the Great Depression. The January 1997 newsletter issued by a South Dakota electric-power cooperative, features an editorial by Alan H. Richardson, executive director of the American Public Power Association, invoking a speech FDR delivered in Portland, Oregon. According to Richardson, Roosevelt tore into the huge energy conglomerates which had been allowed "to get around the common law, capitalize themselves without regard to actual investment . . . pyramid capital through holding companies and . . . sell billions of dollars of securities which the public

has been falsely led into believing were properly supervised by the government."

Richardson adds, "Roosevelt would have no time for 'privatizers' who argue that restructuring the industry must include auctioning off publicly owned water-power projects to the highest bidder—a move that would raise consumer rates and provide no benefit to the U.S. Treasury." In his Portland speech, FDR said, "The water power of the states should belong to all the people. The title to this power must rest forever in the people," and should remain "forever a national yardstick to prevent extortion against the public, and to encourage the wider use of that servant of the people—electric power."

## Rep. Brown offers plan to boost economic growth

Rep. George Brown (D-Calif.), the ranking Democrat on the House Science Committee, declared Jan. 22 that "it makes no sense to provide our nation with a balanced budget, if we do it by killing the programs that create new jobs, rebuild our decaying bridges and roads, and educate the leaders and workers of tomorrow."

According to his press release, Brown's plan would place a priority on Federal investments in research and development; physical capital; and ground, air, and water transportation systems. Brown proposes, however, that the investments be offset "through changes in entitlement programs, such as adjustments in the Consumer Price Index and curbing growth in non-investment discretionary programs." He argues that overall economic growth, resulting from investment in R&D and infrastructure, will offset reductions in entitlement payments.

Brown is preparing a budget resolution, to ensure significant funding for the R&D programs of NASA, the National Science Foundation, the departments of Energy, Agriculture, and Defense, the National Institute of Standards and Technology, and the National Oceanic and Atmospheric Administration. Transportation, education, training, and employment programs would also be emphasized.

**THE AFL-CIO** has filed a class-action suit, on behalf of at least 120,000 unemployed workers in California, who have been denied a total of \$230 million in unemployment insurance. An anachronistic state law, which excludes recent earnings in calculating benefits, has led to lengthy delays or even denial of unemployment benefits. As a result, nearly 30,000 workers have been forced onto the welfare rolls.

**'DIRTY DICK' MORRIS** is at it again. During a recent tour to promote his book, *Behind the Oval Office*, Morris told reporters in Pennsylvania that Nazi-like Gov. Tom Ridge "is just the kind of candidate the Republicans should be looking for to run for President in 2000." Morris continued, "He's tremendously impressive, he's got just the right background."

**MASSACHUSETTS** Gov. William Weld is backing a plan to certify patients with some medical conditions as "legitimate users" of marijuana, under a 1996 state law. Since the federal government has refused to supply the state with medical-grade marijuana, Massachusetts is seeking permission to "grow its own." State officials expect some certified users will get the dope illegally, until the federal government agrees to become the official dealer.

**MADELEINE ALBRIGHT**, during her first press conference as secretary of state on Jan. 24, announced that "this morning my first phone call from a foreign leader was with [British Foreign Minister] Malcolm Rifkind—very appropriate given our special relationship."

**LORD REES-MOGG'S** newsletter, *Strategic Investment*, claims in its February issue that Henry Kissinger was a prime mover behind Madeleine Albright's campaign to become secretary of state. Kissinger reportedly told one senator, while lobbying him on the phone, "Madeleine and I have at least three things in common. We both were born in Europe, we both have doctorates, and we're both men."

## Editorial

### *Africa: today's 'Indo-China quagmire'*

The thing which could sink the present Democratic administration, is certainly not the Hollinger Corporation's "Paula Jones" side-show. The danger is, President Clinton's second term could be virtually sunk in an Africa quagmire that is shaping up fast to become even worse than the Johnson administration's Vietnam debacle.

Under the official direction of Overseas Development Minister Baroness Lynda Chalker and Deputy Speaker of the House of Lords, Baroness Caroline Cox, both members of the British monarchy's ruling Privy Council, the British Commonwealth continues its Uganda-based invasion and genocide in Zaire, and has organized the dictators of the current puppet-governments of Uganda, Rwanda, Ethiopia, and Eritrea, in a London-directed, raw materials-grabbing, colonial war in Sudan. The Clinton administration did not launch these ongoing crimes against humanity, the British Commonwealth did; but, unless President Clinton intervenes against "our ever-loving British imperialist ally," soon, to force a halt in the British Privy Council's invasions of Zaire and Sudan, the Clinton administration, not the British Commonwealth, will be set up to take the blame for what will become within months, or even weeks, the worst genocide of the Twentieth Century, raging throughout sub-Sahara Africa.

Already, two leading European allies of the U.S.A., France and Germany, are moving in efforts to halt London's genocide against Black Africa. An important reflection of those continental European allies' break with London on this issue, is an official, Jan. 16 resolution voted and proclaimed by the German parliament, the *Bundestag*, which has implicitly proposed a halt to the ongoing invasion of Sudan by a mercenary-reinforced, London-organized and directed alliance of the armed forces of Uganda, Ethiopia, and Eritrea. Although the German parliament's resolution does not address that additional fact, the ongoing genocide against Hutus being conducted inside invaded Zaire, is an integral part of the British Commonwealth forces' imperialist grab for valuable raw materials assets in eastern Zaire, a military invasion, from Uganda, Rwanda, and Burundi, run by present dictator of Uganda, President Yoweri Museveni.

Although President Clinton is not a co-initiator of London's war, genocide, and invasions against Zaire and

Sudan, the "usual list of suspects" among London-allied, corrupt international news media, inside and outside the U.S.A., is setting the Clinton White House up to take the blame for the carnage. The fact is, that former U.S. President (Sir) George Bush is involved, and there is support from a cabal of many from among notable U.S. Republican leaders, such as Reps. Frank Wolf (R-Va.) and Chris Smith (R-N.J.), and Senate Majority Whip Don Nickles (R-Okla.), inside the Congress, in addition to former Virginia candidate for Lieutenant-Governor, Michael Farris.

These Republicans are all supporters of an organization, called Christian Solidarity International, headed by the woman personally directing, and even openly funding the British Commonwealth's London-directed military invasion of Sudan, Baroness Cox. Chris Smith's National Christian Breakfast, for example, is a front for this British subversion against the United States, a subversion run from the British monarchy's Privy Council by Baroness Cox and Baroness Chalker.

More pathetic is the number of rent-my-mouth African-American denotables, such as Dr. Lenora Fulani, Randall Robinson, and others, who are currently deployed to supply propaganda covers for London's current genocide against Black Africa. These black-faced political vaudeville performers, are used to lull credulous liberal Democrats into tolerating London's operations in Africa, and, ultimately to put the political blame on Clinton for operations being pushed inside, and outside the Congress by leading figures of the opposing, Republican Party.

The White House's key problem is, that, presently, the U.S. government has virtually no competent intelligence window on sub-Sahara Africa. Except for *EIR* readers, officials rely heavily on lying hand-outs from British intelligence channels. What few remaining official information resources the U.S. government has on Africa, have been corrupted savagely by the deeply embedded influence of Sir Henry A. Kissinger's and Sir George Bush's stay-behind networks inside the U.S. intelligence establishment.

Thus, the genocide in Africa escalates, while nearly everyone in official Washington is even more poorly advised on Africa, than the Congress duped into passing the Tonkin Gulf resolution, over thirty years ago.

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