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REPORT**

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European Headquarters: Executive Intelligence Review Nachrichtenagentur GmbH, Postfach 2308, D-65013 Wiesbaden, Otto von Guericke Ring 3, D-65205 Wiesbaden, Federal Republic of Germany Tel: (6122) 9160. Homepage: <http://www.eirma.com> E-mail: eirma@eirma.com Executive Directors: Anno Hellenbroich, Michael Liebig

In Denmark: EIR, Post Box 2613, 2100 Copenhagen ØE, Tel. 35-43 60 40

In Mexico: EIR, Río Tiber No. 87, 5o piso, Colonia Cuauhtémoc, México, DF, CP 06500. Tel: 208-3016 y 533-26-43.

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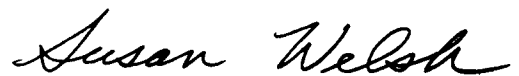
From the Associate Editor

The moment comes, at some point in every Classical tragedy, at which the hero is faced with a fateful choice, a *punctum saliens*: He has the opportunity to escape a tragic fate, if only he will act according to Reason and natural law, putting behind him the fears and obsessions which have hitherto held him in their grip.

Our *Special Report* tells the story of such a *punctum saliens*: the historical turning point of 1989-90, during which Germany was reunited. Secret documents recently released by the German Chancellor's Office tell part of the story: how the "former" occupying powers, steered by Britain's Margaret Thatcher, blackmailed Germany's Helmut Kohl to agree to give up national sovereignty, as the price for reunification. But, there was much more to it than that. Our report tells the story that only *EIR* is able to tell: the real battle over policy issues, with Lyndon LaRouche at the center.

Following a conceptual overview and analysis of the newly released documents, by Helga Zepp-LaRouche, our report proceeds in roughly chronological order, starting with Lyndon LaRouche's historic press conference in Bonn in 1975, where he proposed an International Development Bank, to replace the increasingly bankrupt world monetary system. At the Colombo conference of the Non-Aligned Movement in 1976, this approach was endorsed—until Henry Kissinger deployed with brass knuckles to prevent it from being implemented. Then came new initiatives from LaRouche: the Strategic Defense Initiative; the October 1988 forecast of the early reunification of Germany; the Productive Triangle; the Eurasian Land-Bridge. At each step, the British-run financial oligarchy countered, with wars, assassinations, destabilizations, and human rights violations.

Today, we find ourselves again at a *punctum saliens*, as the worldwide financial crisis builds toward a crescendo. In this context, the battle in the U.S. Congress over the McDade-Murtha bill (see p. 82) assumes the greatest importance. Newt Gingrich and the Justice Department's permanent bureaucracy have been dealt a powerful blow, thanks to the efforts of the LaRouche movement. If we follow through on the victory so far achieved, and place the need for LaRouche's exoneration on the agenda, we can still turn the course of history away from the tragic outcome that otherwise looms.



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Special Report



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Germany's missed historic chance of 1989

by Helga Zepp-LaRouche

On July 7, 1998, the German Federal Government published *Documents on Germany Policy*, 1,398 pages of confidential and secret documents, which reveal the pre-history of German reunification. According to the Bundesarchiv-Gesetz (Law on Federal Archives), there is normally a 30-year period in which such documents on affairs of state are to be kept from public view. That the Federal Chancellor, Helmut Kohl, made the unusual decision to release such internal memoranda, protocols of discussions, and telephone notes, probably has less to do with what the weekly *Der Spiegel* suspected — i.e., that the Chancellor was working on building a monument to himself — than with the fact that Kohl knows that the catastrophic effects of the systemic global financial crash might well explode during the federal election campaign in September, and the government might be required to take some sovereign decisions to defend the German nation, decisions which, according to the Treaty of Maastricht and the provisions for the agreement on the euro currency, Germany should no longer be permitted to make. The Chancellor could then refer to these documents, with the argument: “You see, I never agreed to the euro voluntarily; international pressures were so massive, that reunification was only to be achieved at the price of surrendering the D-mark!”

Not only do the newly released papers throw light upon the unrepentant Germanophobia of Britain's Margaret Thatcher, but — and this was not previously known publicly to the same extent — the uncompromising way that France's François Mitterrand operated, in order to destroy the strong deutschemark and to break the power of the hated Bundesbank (the German central bank). Even more astonishing is the brutality, however, with which the proof comes to light about what was the “best kept open secret of NATO” up to 1989: that the Federal Republic of Germany was as good as a totally occupied country, in which the three Western powers behaved, in political practice, like the postwar Allied Control Council, and considered the preemptive obedience of the German government to be self-evident.

Particularly if one recalls the stormy events at the end of 1989 and beginning



Lyndon H. LaRouche, Jr. and Helga Zepp-LaRouche at Berlin's Brandenburg Gate, Oct. 11, 1988. The following day, in a West Berlin press conference, Mr. LaRouche outlined the prospects for the early reunification of Germany. At the time, his forecast was greeted with widespread skepticism; but just one year later, the ugly Berlin Wall came down, and on Oct. 3, 1990, Germany became a united nation once again.

of 1990, the protocols are well suited to stimulate patriotic impulses in every German citizen, provided that he is not utterly without a soul or ideologically twisted, and presumably it is just that effect at which Chancellor Kohl is aiming with this publication. Kohl and his team probably assume that they will urgently need such patriotic support in the immediate future.

But, if we today, almost nine years after the fall of the Berlin Wall, consider the strategic situation—the international financial system teetering at the brink of a chain-reaction collapse; Russia confronting national bankruptcy, with the alternatives between chaos or brutal military dictatorship; Japan and Southeast Asia in a severe depression, just to cite a few elements—then the question is indeed appropriate: What has become of the “great historic opportunity of 1989”?

Was it a miscalculation when many people thought, as Federal President Richard von Weizsäcker did, when he addressed the Bundestag (Parliament) in May 1990, about the “great historic opportunity of Europe”? Did this opportunity never exist, or was it missed?

Pressure on Chancellor Kohl

Admittedly, the situation in which Kohl had to operate was extremely complex. Great Britain attempted to prevent reunification by any and all means, and then to delay it; it then fell into the same geopolitical manipulations against Germany as it had practiced before World War I, manipulations

which included the “Fourth Reich campaign,” initiated by Thatcher, as well as the assassination of the chairman of Deutsche Bank, Alfred Herrhausen, supposedly by the Third Generation of the Red Army Faction, or RAF (which is actually nonexistent). All this poses the question of “*cui bono?*” Mitterand’s tactics, to link agreement on reunification to the surrender of the deutschemark, can only be called blackmail. U.S. President George Bush was listening to Lawrence Eagleburger and Brent Scowcroft, as well as Vernon Walters, who insisted that the Germans, since German unity could not be prevented, had to be induced to contain themselves by integration and self-control.

It was unclear how the various forces in the Soviet Union would react to German unification, even if President Mikhail Gorbachov might respond favorably; and the possibility that the East German regime of Erich Honecker, or even Honecker’s successor, Egon Krenz, would rely upon repression, could not be ruled out. But also Holland, Italy, Poland, and Israel expressed their opposition to reunification.

Under these circumstances, the 10-point program which Kohl presented on Nov. 28, 1989, in his courageous step (by Bonn political standards), without previous consultations with the Western powers, was the right initiative (see box). Kohl, for a decisive moment, took the law of action into his own hands, and took the initiative, and for that, he deserves respect. The problem was, that the government had no viable concept beyond that, for how to continue the initiative in the future: “There were no preparatory plans for the Federal

Chancellor's Office to fall back on."¹ Events unfolded, and what happened in those days can only be called the material for a Classical tragedy. Three days later, on Dec. 1, Alfred Herrhausen was assassinated, a man in a leading position, who not only played a role in shaping Kohl's 10-point program, but also wanted to present an independent perspective for the development of Eastern Europe outside of the conditionalities of the International Monetary Fund (IMF).² With the assassination of Kohl's adviser three days after the very first sovereign baby-step of the much-touted German "solo initiative," the announcement of the 10-point program, an unmistakable signal had been delivered to the West German elite: If you dare to move outside of the Yalta framework of the postwar period, you will end up exactly like this.³

Then, only a few days after Herrhausen's assassination, Bush and Gorbachov met in Malta, and, contrary to all assurances that nobody was talking about a new version of Yalta, in this case media such as *Le Figaro* and *Libération* were not far off the mark, when they warned that in Malta, the intent was a new grand alliance of the superpowers, which would attempt to control developments in Europe. These French newspapers naturally remained silent about Mitterrand's own ambitions in this respect. But, the Anglo-American-Soviet condominium was a reality at that point in time: Henry Kissinger, co-thinker of Eagleburger and Scowcroft, warned about the "new German danger" and called for close consultations on policy toward Germany between Bush and Gorbachov. At the subsequent meeting with West German Foreign Minister Hans-Dietrich Genscher, Soviet Foreign Minister Eduard Shevardnadze saw Kohl's 10-point program as "fraught with dangerous consequences," and claimed that it impinged upon "the vital interests of the Soviet Union." Obviously, it was against this background of a potential external, and even personal, threat, that Kohl saw himself compelled to capitulate to Mitterrand's ultimatum, and to agree to the European monetary union, and thus the end of the deutsche-mark, already at the Strasbourg summit of the Council of Europe.

The now-released protocols report, referring to Kohl's confidential discussion with U.S. Secretary of State James Baker on Dec. 12, 1989, on joining the European economic and monetary union: "This decision he would have made contrary to German interests." According to *Der Spiegel*, Kohl admitted in early summer of 1997, to a small group of people: At that time, "I went through some of the darkest hours of my life."

1. Introduction to the *Documents*, p. 59.

2. Herrhausen, in a speech he intended to deliver in December 1989 in New York City, said that the Kreditanstalt für Wiederaufbau of the postwar period was supposed to be the model for the development of Poland. See article, p. 37.

3. Comment by a member of the board of a large German firm at the Leipzig Fair, to a representative of the Schiller Institute.

Just as in a great historical tragedy of Shakespeare or Schiller on the stage, the circumstances here were also dramatic, even monstrous, but, just as in real life, it was the tragic flaw in the personality of the chief protagonist, which ultimately decided that the tragedy would "take its course." Of course, the circumstances were intricate, but Kohl's subjective problem and that of the inner circle of associates who conducted the negotiations in those days with the Western powers, Gorbachov or Krenz, and then Hans Modrow, consisted in the fact that they themselves thought in the same terms as the victorious powers. Although Kohl's 10-point program was a step in the right direction, even this concept was rooted in the geopolitical matrix of the victorious powers. It would have been necessary for Kohl to free himself from these mental constrictions, and, with a grand vision, to shape history on a completely different level.

The LaRouche alternative

Although there had been no preparatory plans made by the government that the Chancellor could fall back on, there was indeed a concept which would have made it possible to put the East-West relationship on a completely new basis, different from that which, with Versailles, Yalta, and finally Maastricht, had characterized the political order of the twenti-

Chancellor Kohl's program

In a speech to the West German Bundestag on Nov. 28, 1989, Chancellor Helmut Kohl laid out a 10-point program for reunification of his divided nation. He presented a cautious outline for a federated state, initiated through confederative structures that would help the two German states grow together smoothly. Kohl declared that "the special character of the relations between both German states requires an increasingly tight network of agreements in all sectors and at all levels.

"This cooperation will also increasingly require common institutions," he said. "Existing joint commissions can assume new tasks, further commissions can be created. I am thinking especially of the economy, transport, environmental protection, science and technology, health and culture. It is self-evident that Berlin will be fully included in this cooperation.

"I urge all social groups and institutions to participate in the formation of such a community.

"We are also prepared to take a further decisive step, namely, to develop confederative structures between the two states in Germany in order to create a federation. A legitimate democratic government in East Germany is a prerequisite.

eth century. This was the programmatic concept which American economist Lyndon LaRouche had developed through a series of proposals: first for the reconstruction of Poland, then for the Paris-Berlin-Vienna Productive Triangle, and finally for the Eurasian Land-Bridge.

Had Kohl moved along this path after the fall of the Berlin Wall, up to Oct. 3, 1990, and taken up these ideas and made them his own, then not only would his promises of a blossoming landscape in the new federal states of Germany have become a reality, but the hopes of the people of the countries in the former Soviet Union and the Comecon, to turn to the West and become part of the so-called First World, would have been fulfilled. Despite all of Mitterrand's, Thatcher's, and actually also Bush's geopolitical intrigues, Kohl at that time had historical momentum behind him; if, for example, he had made televised speeches to the people of Europe and especially in the East, offering the grand design of the "Productive Triangle," and thus showing a perspective for how a new economic miracle in the East could not only overcome unemployment in western Europe, but also be the beginning of the end of underdevelopment in the Southern Hemisphere, then he would have been assured of the overwhelming support of people in the East, the West, and the South. The realization of the LaRouche plan for the economic development and

modernization of the East would have created the basis for an order of peace in all of Europe, for the first time in this century.

Instead, Kohl acted *against* German interests, and, as is now a matter of published record, he knew quite well that he was doing so. The entirety of the so-called "IMF reform policy" for the republics of the former Soviet Union was willfully aimed, by the international financial oligarchy, at eliminating Russia as a potential future competitor on the world market—i.e., the policy was to deliberately deindustrialize Russia and return it to the status of a raw-materials supplier. This intent was declared in a CIA study which became public in September 1991.⁴ We see the results of this policy today: Russia is on the brink of chaos and possibly a not-so-friendly military dictatorship. Following the assassination of Detlev Rohwedder (the head of Germany's Treuhand, the agency overseeing former East Germany's state-owned enterprises), which was fed by motives similar to those in the Herrhausen assassination, supposedly by the non-existent Third Generation of the RAF, the economic hatchet descended on the head of the new federal states of Germany. The results of the election in Saxony-Anhalt in April 1998, in which Kohl's Chris-

4. Peter Schröder, *Wiesbadener Kurier*, Sept. 4, 1991, on the CIA study during the Bush administration.

"We could imagine the following institutions coming about soon after free elections [in East Germany]:

- "a common governmental committee for permanent consultation and political harmonization;
- "common technical committees;
- "a common parliamentary committee.

"Previous policy toward East Germany," the chancellor went on to say, "essentially had to concentrate on small steps that strove to alleviate the results of our division and uphold and sharpen the consciousness for the unity of the nation. If in the future a democratically legitimized, that is, a freely elected government, becomes our partner, totally new perspectives open up.

"New forms of institutional cooperation can emerge and develop in stages. Such a growing-together is part of the continuity of German history. Now we can again make use of these historical experiences.

"Nobody knows what a reunified Germany will look like. But I am sure that unity will come, if it is wanted by the German nation.

"The development of intra-German relations remains embedded in the pan-European process and in East-West relations. The future structure of Germany must fit into the whole architecture of Europe as a whole. The West has to provide peacemaking aid here with its concept for a permanent and just European order of peace."

Point two of Kohl's address dealt with the issue of East-West transportation. Here, the Chancellor significantly departed from his written text and presented a design for continental development, including high-speed rail.

The trans-European rail grid

"There are," Kohl said, "currently negotiations taking place on the modernization of the rail route leading from Hanover to Berlin. I do hold the view, however, that this is not enough, and that in the context of recent political developments we should discuss the transport and rail connections between the G.D.R. [East Germany] and the Federal Republic in a more fundamental approach.

"Forty years of being divided also mean that the transport routes have taken on, in part, a quite different structure. This is not only true for the border crossing points, but also for the traditional routing of transport connections in Central Europe, for the connections between East and West.

"Why, therefore, aren't we considering the classic route from Moscow via Warsaw and Berlin to Paris, which always ran through Cologne and had great importance at all times, to have a role in the era of high-speed trains, on the eve of the extension of the respective future trans-European transportation grid?"



French President François Mitterrand (left) and German Chancellor Helmut Kohl in Bonn, 1990. The newly released German government documents show Mitterrand's fanatical efforts, in league with Britain's Margaret Thatcher, to destroy the power of Germany.

tian Democrats were badly defeated, and the fact that 22% of all children in the new federal states are living below the poverty level, show a predominantly desolate picture, despite the billions of deutschemarks that have flowed into the new states.

So, once more: Was the great historic opportunity of 1989 an illusion? Did it never exist, or was it missed?

Franklin Roosevelt versus Churchill

The conceptual problem with which the Kohl team was beset, becomes clear in the reply which Federal Minister Rudolf Seiters gave on Oct. 24, 1989, in discussion with the ambassadors of the three Western powers to the question of the British Ambassador, Sir Christopher Mallaby, as to what the allies should expect in view of the statements of the Chancellor, that the German question was on the agenda. Seiters emphasized the legitimate demand for freedom and self-determination for all Germans, but he also emphasized: "Now would not be a time for plans, but a time for processes and developments, which one observes and prudently promotes."

It was, however, quite possible to recognize at that time, that much more was opening up than just the "German question." This leads us immediately to the issue of the oligarchical dictatorship of the Versailles Treaty, and thus to the real pre-history of the First World War,⁵ the motives for the inter-

national support for Hitler⁶ between 1932 and 1938, and the Yalta partitioning of the world.

In this century, which has been principally dominated by oligarchical, imperialist, and colonial forces, merely with shifting centers of focus, there was a single moment in which it would have been possible to implement a totally different order of the world. In the spring of 1945, when the conflict between President Franklin Delano Roosevelt and Prime Minister Winston Churchill erupted openly, the United States was definitely in a position to implement a new order in the world, based upon a community of principles. As Roosevelt's son, in his book *As He Saw It*,⁷ reported on the conflict between his father and Churchill, Roosevelt had said: "We've got to make clear to all the British from the very outset, that we don't intend to be simply a good-time Charly who is to be used to help the British Empire out of a tight spot, and then be forgotten forever." "Churchill told me," Roosevelt said, "that he was not His Majesty's Prime Minister for the purpose of presiding over the dissolution of the British Empire [Churchill later repeated this in a radio address]. I think I speak as America's President when I say that America won't help England in this now simply so that she will be able to continue to ride roughshod over colonial peoples."

That put the subject on the table which had been the issue

5. See Webster G. Tarpley, "London Sets the Stage for a New Triple Entente" and "King Edward VII: Evil Demiurge of the Triple Entente and World War I," *EIR*, March 24, 1995.

6. Webster Tarpley and Anton Chaitkin, *George Bush: The Unauthorized Biography* (Washington, D.C.: Executive Intelligence Review, 1992).

7. Elliott Roosevelt, *As He Saw It*, 1st ed. (New York: Duell, Sloan and Pearce, 1946).

of America's War of Independence against the attempt of the British Empire to maintain the North American continent as its colony, and in which America successfully insisted upon its right to freedom and independent industrial development. President John Quincy Adams subsequently explicitly extended this right to defend the inalienable rights of all their citizens to other nations with which the United States wanted to live in a "community of principle."⁸ With the assassination of President William McKinley in 1901, and the seizure of power by President Teddy Roosevelt, the foreign policy of the United States slipped back under the skirts of the British Empire.

The United States became the "American brawn" which followed the "British brains" in imperialist and colonialist policy.

This was the policy with which F.D. Roosevelt wanted to break. Even if his anti-Nazi attitude escalated unfortunately into a profound anti-German attitude,⁹ and this naturally represents an epistemological weakness on the part of Roosevelt, the decisive point remains, that at the end of World War II he wanted to put an end to the colonialist policy of the British Empire. In the spring of 1945, there was a great opportunity to end the British-dominated oligarchical control over the world. The U.S.A. was in a unique situation: There was no country from which it had anything to fear. It was essentially up to the United States to determine the rules of the game of the postwar order in the world, as far as financial, monetary, and economic policy was concerned. The regrettable fact that Roosevelt died just at that moment, and was replaced by the totally Anglophile and not very intelligent Harry Truman, signified that Churchill was the one who provided the essential parameters of influence to the postwar order.

Such moments of brilliance occur in history now and again, in which it is possible to influence the course of developments. It is at such moments that it is decided whether those in positions of responsibility are politicians or statesmen, whether they are pragmatically pursuing a "policy of what is feasible," and thus, in view of oligarchic control of especially international financial and currency affairs, subjugating themselves to the given structures of financial and monetary policy, or whether they are acting on the basis of a fundamental philosophical commitment, that the oligarchical control of

8. John Quincy Adams's Monroe Doctrine of Dec. 2, 1823 reads: "The American continents by the free and independent condition which they have assumed and maintain, are henceforth not to be considered a subject for future colonization by any European power. . . . It is impossible that the Allied powers should extend their political system to any portion of either continent [North and South America — ed.] without endangering our peace and happiness; nor can anyone believe that our southern brethren, if left to themselves, would adopt it of their own accord." Adams had earlier declared that "the whole system of modern colonization was an abuse of government, and it was time that it should come to an end." See Lyndon H. LaRouche, Jr., "Renew and Expand the Monroe Doctrine of John Quincy Adams," *EIR*, Dec. 11, 1984.

9. Introduction to the *Documents*.

the world should one day be overcome and the common good within sovereign nation-states should rule.

For Germany in 1945, for the reasons indicated here, there was not a real new beginning, and many of the structures of power that had gone into force with Versailles and Yalta, continued to hold sway. It was only in 1989-90 that an opportunity was offered to Germany — and, on account of the complexity of the issue, also for history — to break with the oligarchical order, and to make the reunification of Germany the lever for the realization of a new, just world economic order. Paradoxically, despite the problems that Roosevelt had with respect to Germany, German policy would have had to link up with Roosevelt's dirigistic economic policy and his anti-colonialist perspective, if the favorable moment were to lead to a fruitful result.

New opportunities

When Pope Paul VI published the encyclical *Populorum Progressio* in 1967, he was already battling against the paradigm shift which the international financial circles had set into motion worldwide, following the Cuban missile crisis of 1962 and the assassination of President John F. Kennedy in 1963. The encyclical was a powerful argumentation, based on natural law, for the right of all people on this earth to create the conditions for every individual to be able to lead a life in human dignity, which corresponds to his identity as in the image of God. The Non-Aligned Movement fought under the leadership of Jawaharlal Nehru, Sukarno, Gamal Abdel Nasser, and others, also for a new, just world economic order, but the Non-Aligned Movement was ultimately neutralized by several critical operations, to the point that it became virtually the mirror-image of the United Nations, in which most nations looked after "their" interests, which made it extremely easy for the leading colonial powers to play them off against each other. Too few took the more noble standpoint of the interests of mankind as a whole.

But, while the "Second UN Development Decade" was still spoken of under UN Secretary General U Thant, and thus the idea was sustained that the "developing countries" would, indeed, gradually "develop," still, preparations were under way to eliminate this idea, and instead to capture the industrialized North into promoting the idea of "overpopulation" against the underdeveloped South. The result of 30 years of such brainwashing has been that the idea, that the so-called Third World must urgently develop, is utterly foreign to many representatives of the younger generation.

When, for that reason, in 1975 Lyndon LaRouche made the proposal at press conferences in Bonn and Milan, to replace the already morally bankrupt IMF with an International Development Bank (IDB), the impact was immense. Although nearly 100 media representatives attended the press conferences, and had scratched, with hysterical attention, meticulous notes on every word LaRouche uttered, *not one single article appeared* on this comprehensive proposal for a new world financial system, which would have the function of

financing technology transfer, in grand style, from the North to the South, as well as a multiplicity of well-defined infrastructure programs.

In the following months, associates of LaRouche in many countries in Europe, the United States, and Ibero-America circulated the IDB proposal in all of the developing countries, and among industrial representatives, trade unions, and politicians in the industrialized world.

Several central banks, among them one European central bank, conducted "feasibility" studies on the IDB, and their conclusion was, that the IDB would indeed function quite excellently. "But, we do not want the political result," said one Swiss private banker. In other words, the political result would be that the countries of the so-called Third World could develop into modern nations, with living standards worthy of human dignity.

The developing countries, by contrast, completely agreed with LaRouche's proposal. At the summit of the Non-Aligned Movement in Colombo, Sri Lanka, in August 1976, many aspects of the IDB proposal were reflected in the final resolution. Eighty-five nations, representing the absolute majority of mankind, spoke in favor of realizing a just, new world economic order. Yet again, the media of the U.S.A. and Europe reported not a single word! This author called the station chief of Germany's DPA news agency, and asked impatiently when they would report the text of the Colombo final resolution. The laconic reply was: "That is not newsworthy." What? A declaration of 85 nations is not worth reporting? This is how one learns more about the reality of politics, than a whole course of political science studies at the university.

In September 1976, a good friend of Lyndon LaRouche, the Foreign Minister of Guyana, Frederick Wills, presented LaRouche's ideas for a new world economic order to the United Nations General Assembly in New York. That caused a political earthquake. The fact that it was Henry Kissinger who played a leading role in the ensuing destabilization of a number of countries of the Non-Aligned Movement, should not be surprising, if one knows that the notorious National Security Study Memorandum 200, defining population growth in Third World countries as a security threat to the United States, was commissioned and signed by him when he was U.S. National Security Adviser under President Ford.¹⁰ After the destabilization of India's Indira Gandhi, the assassination of Pakistan's Zulfikar Ali Bhutto, the removal of Mrs. Sirimavo Bandaranaike as Prime Minister in Sri Lanka, the assassination of Italy's Aldo Moro, and a number of other operations, the movement for a just, new world economic order was destroyed for the time being. The oligarchic control over the financial institutions of the world was consolidated, which expressed itself, among other things, in the fact that the notorious conditionalities of the IMF against the Third

World were greatly escalated in this period.

The next chance for humanity, to replace the oligarchical control of the world which had existed since Versailles and Yalta, by a community of sovereign nations, was the grand design which Lyndon LaRouche developed at the end of the 1970s, and which later became known as the Strategic Defense Initiative (SDI). The fact that NATO and the Warsaw Pact had incompatible military doctrines dangerously escalated the crisis at that time. It was clear that work was being assiduously pursued in the Soviet Union, directed toward creating an antiballistic-missile defense system. With the stationing of the Pershing II and SS-20 missiles, the warning time in case of war had shortened to the point that required a "launch on warning" strategy, and thus the danger of an "accidental" global nuclear war was very great.

LaRouche elaborated a comprehensive strategic concept to replace the NATO doctrine of Mutually Assured Destruction (MAD) by a doctrine of defense for both sides, Mutually Assured Survival. Both sides would initially develop together a system of several layers of defensive beam weapons, and then station these in a coordinated fashion. In this way, a situation would be avoided in which one of the superpowers, virtually at the last minute, could attempt to use its arsenal of nuclear weapons if the other side had begun to install such an anti-missile system. Nuclear weapons would not only become obsolete and mankind be freed of the Damocles sword of nuclear terror, but LaRouche also proposed cooperation between the United States and the Soviet Union in the employment of these technologies, based on new physical principles, in the civilian economy. The productivity of the economy of all participating states would have been enhanced through the "science-driver effect," and the efficiency of human beings in the physical universe would have been improved by an order of magnitude.

LaRouche's proposal was much more than a military strategy; it was a concept to overcome the partitioning of the world into blocs, to no longer exploit the Third World for proxy wars and conflicts, and instead to help overcome their underdevelopment by means of a massive technology transfer from the North to the South. LaRouche outlined the principles for such a new order of peace in his "Protocol for the Superpowers." Dr. Edward Teller at that time spoke of the "common goals of mankind."

Over one entire year, from the beginning of 1982 until February 1983, LaRouche conducted back-channel discussions with Soviet representatives, with the expressed agreement of the U.S. National Security Council, on such a change of military doctrine. In February 1983, Moscow announced its definitive refusal, with the argument that the West would obtain greater advantages in the civilian sector than would the Soviet Union. In addition, the Soviets claimed that they had assurances from the highest levels of the U.S. Democratic Party, that LaRouche's ideas would never become American policy.

10. "Kissinger's NSSM-200 Policy of Genocide," *EIR*, June 9, 1995.

On March 23, 1983, that is exactly what happened. President Reagan announced, in a televised address, that the United States was officially adopting the policy that later became known as the SDI. A part of this new policy was Reagan's offer, that the United States would help the Soviet Union in the modernization of industry and overcoming bottlenecks. Reagan held to this policy up to the time of a letter on this issue, dated August 1983. Once the forces around Bush, Baker, Kissinger, et al. in the Republican Party had assembled for a counter-strike against the SDI, initially by watering the proposal down, so that only "off-the-shelf" technologies would be used, the American opportunity was lost.

LaRouche was the only Western politician in 1983 who not only had the range of vision to see that the Soviet Union would collapse in about five years, because of its negative attitude to the SDI and the neglected modernization of the economy, but he also published this prognosis.¹¹ Precisely five years later, on Oct. 12, 1988, when the increasing supply problems in the Comecon mounted, LaRouche was the only Western politician to develop a usable perspective, which he presented at a press conference in Berlin's Kempinski Bristol Hotel. This was the program, which ought to have helped reunified Germany to develop Poland as the model for all of Europe.

Where we go from here

Once the events of 1989 had led to the end of the Yalta order, and the issue of a new policy for Eastern Europe was on the agenda, Deutsche Bank Chairman Herrhausen formulated a program for Poland which went in a similar direction, i.e., a dirigistic economic policy on the model of the reconstruction after World War II. In the decisive phase of 1989-90, the Kohl government attempted to integrate such ideas into its policy for the East.

The *Documents on German Policy* illustrate that Germany and Kohl were prevented from carrying this through by a concert of powers, the main ones being the former occupation powers. Our own additional knowledge about this period of time complements the picture which the *Documents* provide, and is an integral component of the events. The overall picture of this history makes it clear to anyone who is interested in the truth, what the consequences are for the current strategic situation, and how solutions for the highly dramatic crisis today can be found. The documentation contained in this report proves that we, as an organization, have consistently worked for the implementation of a just, new world economic system for the past 25 years.

The present global financial crisis is the direct result of the fact, that the former occupation powers have forced Germany—contrary to German interests—to play a certain role

11. See for example, *Global Showdown: The Russian Imperial War Plan for 1988*, *EIR Special Report*, July 24, 1985.

in the destruction of the world economy. It is this policy of Thatcher, Mitterrand, and Bush, which is also responsible for the catastrophic situation in the former Soviet Union and Eastern Europe.

We have now reached the end of this road. If the policies of globalization, free market economics, and Maastricht, are continued, the imminent collapse and disintegration of the world financial system is a certainty; civilization will collapse into a new Dark Age.

The only way out is to put an end to the entire British, American, Canadian, Japanese system of globalization, dominated by speculation, and everything connected with it. Only if a coalition of sovereign nation-states once again stimulates the world economy by means of radically protectionist and dirigist measures, can the catastrophe of global collapse and chaos be prevented.

The peaceful revolution of 1989 and the opportunities which could have resulted from the reunification of Germany, were in fact the great opportunity of this century; and it was missed. Today, as we are at the brink of Armageddon, we would do well to learn the lessons of the failure of 1989-90, because it will be the same forces who today will oppose the realization of a new, just world economic order. This time, they have to be vanquished, and nothing less depends upon that, than the survival of our civilization.

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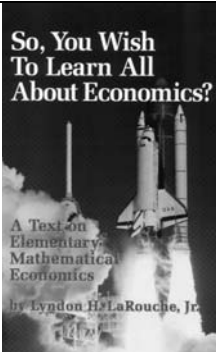
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Secret documents on German reunification

by Helga Zepp-LaRouche

The *Documents on German Policy, Special Edition from the Archives of the Chancellor's Office 1989/90 (Dokumente zur Deutschlandpolitik, Sonderedition aus den Akten des Bundeskanzleramtes 1989/90)* provide, in first approximation, a useful overview of the conditions under which the fall of the Berlin Wall and German unification occurred. Even these meager files demonstrate the arrogance with which Margaret Thatcher, François Mitterrand, George Bush, and, in his own way, Mikhail Gorbachov, assumed it to be self-evident, that the rights of the allied forces over Germany had been set for eternity. These files also shed light upon how tight the corset was, in which the close circle of people around the German Chancellor, Helmut Kohl, felt themselves constrained during the stormy events of that year.

The documents, which consist simply of transcripts of meetings at the Chancellor's Office, letters and notes about discussions and telephone calls, either completely ignore, or, at best, mention in a fragmentary aside, those developments in this period which did indeed have a decisive influence upon Kohl's behavior and the outcome of events, but which are all situated ultimately in the domain of the affairs of intelligence services. These include the campaign led by Thatcher's Minister of Trade and Industry, Nicholas Ridley, against Germany as the "Fourth Reich,"¹ as well as the assassination of Deutsche Bank Chairman Alfred Herrhausen² and the massive purchase of Stasi agents and material by the British, American, French, and Israeli intelligence services, along with the resulting susceptibility of German politicians to blackmail.³

Unfortunately, the very first sentence of the introduction to the *Documents* begins with a falsehood. "No one in the spring of 1989 foresaw that German unity would soon be reestablished." As documented in this report, Lyndon LaRouche presented the prognosis that Germany would soon be reunited, and with Berlin as its capital, on Oct. 12, 1988, at a press conference in the Kempinski Bristol Hotel in Berlin. This occurred at a point in time when nearly all West German

politicians were speaking in various ways about the "lie of the century: German reunification." LaRouche proposed, in addition, an emergency program for the economic development of Poland, to be undertaken by reunified Germany. Had Kohl had this proposal in his baggage when he travelled through Poland one year later, it would have been the most appropriate proposal with which to allay Polish reservations about the unification of Germany.

'International contacts'

The attitude of the three Western powers toward events in Germany is characterized in one segment of the introduction to the documentation. The description of Thatcher's position is itself an exercise in British understatement: "The Chancellor is unable to discover any understanding of German problems on the part of the British Prime Minister Thatcher," and, "Kohl thinks she is a very committed, but also very critical head of state, who thinks in anachronistic, insular categories of security, and has difficulty adapting to modern social developments."

In view of the nearly racist features of Thatcher's pathological animosity ("Thus, Germany is in its essence more a destabilizing than a stabilizing factor in Europe," Thatcher writes in *Downing Street Years*), which were elevated to the rank of a theory in the discussions which Thatcher conducted at her Chequers country residence on the "German crisis," such formulations are unfortunately the expression of a fatal blindness with respect to "the British problem." Not only was Thatcher in full accord with Ridley's "Fourth Reich" campaign, but her difficulty "to adapt to modern social developments" was only the personified expression of the fact, that for the British geopolitical establishment, Germany, a country which had to be destabilized, lied to, and contained, in British interests, has been looked upon as the enemy for nearly 300 years.⁴ As will become clear, Mitterrand also pursued a policy which, despite Kohl's many contacts with him, was aimed at weakening Germany in a surprising way.

One of the myths which has come to surround reunification, is that it would not have been possible without Bush, that Bush was the only one who really reacted positively, and so on. On closer inspection, Bush had no other choice, if he wanted to avoid a "meltdown" in American policy toward Europe. If the United States had insisted on continuing the partition of Germany despite the peaceful revolution in East Germany, the United States' image of itself as the "agent of providence and progress," which is to promote the "proliferation of freedom and democracy,"⁵ would have suffered irreparable damage.

Prof. Detlef Junker, director of the German Historical

1. Mark Burdman, "The British Establishment's 'Ridley Affair,'" *EIR*, July 27, 1990, p. 38.

2. "Moscow and the Trust Retaliate in Germany," *EIR*, Dec. 8, 1989, p. 34.

3. A controversy has raged between Bonn and Washington over the release of Stasi files on more than 20,000 Stasi associates in the West.

4. Margaret Thatcher, *The Downing Street Years* (New York: HarperCollins, 1993).

5. Prof. Detlef Junker: "Deutschlands Einheit, Eindämmung und Integration," *Frankfurter Allgemeine Zeitung*, March 13, 1997.

Institute in Washington, wrote a noteworthy article on that subject in the *Frankfurter Allgemeine Zeitung* on March 13, 1997, in which he said that Bush, Secretary of State James Baker, and a small group of associates had formulated “for this time the classical triad of American policy toward Germany in the twentieth century” at the time of the fall of the Berlin Wall: “Unity of Germany, containment, and integration.” Junker pointed to the incontestable fact, that the leitmotif of America’s policy toward Germany, from Woodrow Wilson down to George Bush, was to contain the power of the German state, whether that was in the age of imperialism, during the Weimar Republic, the Federal Republic from 1949 onward, or reunified Germany from 1990 onward.

Professor Junker puts his finger on the sore point when he writes: “The cooperation with Federal Chancellor Kohl, Foreign Minister [Hans-Dietrich] Genscher, and a limited number of advisers functioned so excellently just because the Federal Republic, since the ‘Ten Point Program for German Unity,’ of the Federal Chancellor on Nov. 28, 1989, pursued parallel goals: the unity of Germany and its self-containment through integration.” This evaluation, unfortunately, corresponds to the truth.

If one considers more closely the advisers of Bush mentioned in the documentation, it becomes clear how problematic this parallelism of goals was, i.e., Germany’s self-integration into existing parameters of policy. Brent Scowcroft, for example, who was the chief discussion partner for Ministerial Director Horst Teltschik in this period, not only comes out of the stall of Henry Kissinger, but, as his successor as National Security Adviser under President Ford, he implemented the policy outlined in National Security Study Memorandum 200,⁶ and thus pursued a policy which is fundamentally contrary to the interests of Germany as well as the real interests of America.

Chronology

Late May 1989: Official visit of President George Bush to Germany. Kohl makes the prognosis that there will be three regional centers of power; Japan, Korea, South Asia; the United States of America, and Canada; and Europe (apparently China was not at that time in the Chancellor’s field of vision, and the Southern Hemisphere was also not envisioned to play a role). Kohl assures Bush that the European Community would not be protectionist.

June 12-15, 1989: Gorbachov visits Bonn, which unleashes a Gorbomania in the Federal Republic, which is utterly incomprehensible to the Russian population. In a joint declaration, Gorbachov agrees to the right of every nation to self-determination, which in the evaluation of

Washington does not represent a decisive concession. The documentation⁷ notes, with reference to the issue of what divided Germany’s future will be: “In the spring of 1989, there is as yet no sign of how fast the German question will become the central issue.”

Late June 1989: The leadership of the German Democratic Republic (G.D.R., or East Germany) comes under increasing pressure. “Supply problems, long queues in front of shops to buy consumer goods, lack of infrastructure in transportation and communications, unaltered monitoring and repression by the state. The feeling of desperation and frustration among people in the G.D.R. increases. The basic depressive mood leads to an increased pressure in the demands of people desiring to leave the G.D.R.”

July 3-4, 1989: Chief of the Chancellor’s Office, Rudolph Seiters, visits East Berlin, and conducts various discussions “at the fringe of official meetings.” That and other signs “point to an imminent bankruptcy. From discrete remarks of individual high officers of the Ministry for State Security [Stasi], it is gathered that the thinking about German-German developments is changing.” At this point, at the latest, the “preparatory work” for the Chancellory should have begun, particularly in view of the supply problems in the Soviet Union, and its known dependency on production in the G.D.R. within the enforced division of labor in the Comecon. LaRouche’s proposal to make the development of Poland by reunified Germany into the model for the development of all East European countries, had been on the table in all the capitals of the West and East since October 1988.

Late July-early August 1989: Suddenly, there is a rapidly growing flood of people seeking to leave the G.D.R., who occupy the West German Embassy in Budapest and the Permanent Representation of the Federal Republic in East Berlin, in which 130 persons take up residence on Aug. 7. “The office of the Federal Chancellor is compelled to close the Permanent Representation to the public,” which the leadership of the G.D.R. does not want to accept. When the embassy of the Federal Republic in Budapest issues passports to G.D.R. citizens, the First Deputy Foreign Minister of the G.D.R. condemns the act as contrary to international law. One hundred and fifteen people who want to leave the G.D.R. put the Federal Chancellor under pressure, by directly writing to him.

Aug. 25, 1989: A secret German-Hungarian meeting is convened at Schloss Gymnich, in the vicinity of Bonn. With assurances that Gorbachov will agree, and that the plan will have the active support of the West, Hungarian Prime Minister Nemeth agrees on Sept. 11, shortly before the party convention of the West German Christian Democrats in Bremen, to allow Germans from the G.D.R. to leave the East via Austria. More than 500 refugees move into the embassy of the

6. “Kissinger’s NSSM-200 Policy of Genocide,” *EIR*, June 9, 1995.

7. Quoted material, unless otherwise identified, is from *Documents on German Policy*.

Federal Republic in Prague, and 100 in Warsaw, but it is uncertain whether the Hungarian solution can be carried through in Warsaw as well.

Sept. 19, 1989: The opposition group “Neues Forum” constitutes itself in the Gethsemane Church in East Berlin, with the civil rights politician Baerbel Bohley at its head.

Sept. 21, 1989: NATO Secretary General Manfred Wörner reflects on the discussions in NATO to Federal Minister Seiters: In the case of a change in East-West relations, NATO would have to gain greater significance as a political alliance.

Oct. 6, 1989: Celebration of the 40th anniversary of the founding of the G.D.R.

Oct. 7, 1989: Gorbachov speaks with Erich Honecker, chairman of the East German ruling Socialist Unity Party (SED), during the anniversary celebrations, and “once again experiences that the SED General Secretary is incapable of reform, a change of leadership in unavoidable.”

Oct. 16, 1989: Intensive discussions about the strategic situation between Helga Zepp-LaRouche and Lyndon LaRouche, continuing through October 1990, lead to formulation of the idea of the “Productive Triangle.”

Secretary of State Baker delivers a speech in which he says that the striving of Germans for self-determination in peace and freedom is the country’s legitimate right. He does

not speak of reunification, however, but only a “reconciliation” (Versöhnung). “Behind this is the idea that the G.D.R. could continue to exist as an independent state, if the communist system is swept away.”⁸ This reflected the belief of the U.S. administration, that the reform of socialism was less probable than its collapse, a suspicion addressed in the introduction to the documentation. Bush, Baker, et al. are interested in sustaining the partition of Germany as a key element of the post-war order in the world.

Oct. 18, 1989: Honecker is overthrown in a meeting of the Politburo of the Central Committee of the SED. Egon Krenz is named as his successor. Krenz is considered uncompromising, someone who will be relentless in pursuit of the SED’s claims to power and will use all means at his disposal to that end, if necessary. (No. 63, draft of Ministerial Director Duisburg to Chancellor Kohl, Oct. 19, 1989.)

November 1989: At a meeting with Seiters, Stasi-linked arms trader Alexander Schalck-Golodkowski states: “The G.D.R. is on the brink of imminent bankruptcy.” The demonstrations during the Monday peace-prayers grow to 200,000 people.

During German-French consultations, Kohl turns explicitly against a plan for Germany’s future. The priorities for him are his visit to Poland, the coming summit meeting in Malta between Gorbachov and Bush, and the German-French relationship. For the discussions in the European Council, he wants to link the decision on an economic and monetary union of Europe with the initiation of discussions about a political union of Europe, while Mitterrand, in light of the intensification of the crisis in Eastern Europe, wants to force through the economic and monetary union.

Nov. 8, 1989: *Neue Solidarität*, the newspaper of the LaRouche movement in Germany, publishes a “Five-Step Emergency Program for the Reconstruction of Poland,” proposed by Helga Zepp-LaRouche. This program is an explicit alternative to the “shock program” proposed by Harvard Prof. Jeffrey Sachs, and it foresees the creation of an internal market by developing a productive layer of medium-sized businesses and modernization of industry and infrastructure, for which especially German, French, and Italian businesses should contribute their knowledge. Point 4 states:

“On the basis of the economic theory of Leibniz’s concept of physical economy, of the cameralism of Alexander Hamilton and Friedrich List, a general economic program must be elaborated for Poland, which defines the priorities, such that a maximum increase of productivity in the economy and labor power is achieved through technological progress. The economic reconstruction of the Federal Republic of Germany after World War II, or the industrial revolution in Japan, could serve for orientation.”

At the same time, in a declaration on German-French

8. Zelikov, Roce, *Germany Unified and Europe Transformed*, p. 96.

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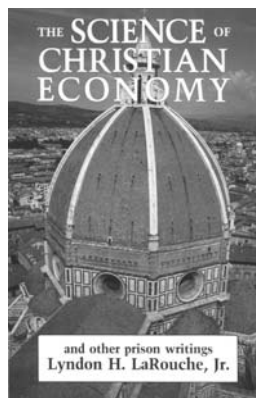
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cooperation in policy toward eastern countries, Helga Zepp-LaRouche calls for the proposal of the former French ambassador in Bonn, Fremont Maurice, to be acted upon: Kohl should visit Moscow with Mitterrand and tell Gorbachov: "The Soviet economy is collapsing, the people of the Soviet empire are starving! We Germans and French are willing to help on a grand scale with food and other economic commodities, and we will make our influence felt in the West to accomplish this end.

"But the Soviet leadership must guarantee the Germans and Poles freedom and self-determination in exchange. . . . Germany and France must take up the great issue of the survival of humanity in common: a new and just world economic order, thus the solution of the debt question for the Third World and project-linked economic aid."

Nov. 9, 1989: Kohl visits Warsaw with an 80-man delegation of top-ranking political and economic leaders. The discussions with Prime Minister Tadeusz Mazowiecki and President Lech Walesa focus on the mass demonstrations of 600-700,000 people in Leipzig and East Berlin. Kohl does not yet see the situation as dramatically as does Walesa, who doubts whether the Wall "will still be standing in one to two weeks."

A few minutes following this discussion, Günter Shabowski, SED Central Committee member in East Berlin, informs the international press about the new regulations for people who wish to leave the G.D.R., a declaration which is understood to mean opening the Wall. When Kohl learns of the opening some hours later from Ackermann, his initial reaction is skeptical.⁹

"He simply cannot believe, that the Wall is really to be opened, an inner joy he hardly feels. It is more the uncertainty about how developments will unfold, which prevails." Kohl interrupts his visit to Poland for one and a half days in order to participate in an SPD-initiated demonstration in Berlin in front of the Schöneberger Rathaus, and to conduct a number of important telephone calls and discussions in Bonn. West Berlin Mayor Walter Momper speaks of history now being written "by the people of the G.D.R."; thus, he assumes still that two states of Germany will persist. But people in East and West are exhilarated.

Nov. 13, 1989: Soviet Ambassador Kvizinsky demands from the German Federal government that it treat the G.D.R. as a sovereign state. In view of the precarious supply situation in the Soviet Union, negative effects from the events in the G.D.R. are feared; imports from the G.D.R. constitute 20% of Soviet foreign trade.

Mid-November 1989: Kohl receives reports about the mood in East Germany. Anger against corruption is growing, but hopelessness and paralysis are spreading also; a shift toward a depressive mood is observed among the opposition

groups. "Surprisingly, 40 years after the founding of the two German states, the Day-X of the opening of the border has come, and the Federal government has no practicable plan for what to do. Nothing has been prepared, no scenarios, no crisis scenarios, for the eventuality of imminent unification, which the Federal chancellery could fall back upon. No considerations are devoted by governments and planning staffs for events which they do not foresee. Who knows what conditions will ultimately determine the concrete situation. Furthermore, there have been no advanced warnings from the Bundesnachrichtendienst (BND) [Federal Intelligence Service]."

In fact, LaRouche's proposal for a soon-to-be-reunified Germany to help with the development of Poland with Western technology, had been on the table since October 1988. Already in 1983, LaRouche had forecast the collapse of the Soviet Union in about five years, when the Soviet Union rejected Reagan's offer for cooperation on the SDI. The preparations, in other words, had indeed been made, albeit not by an obviously inefficient government bureaucracy, but by LaRouche and his associates.

Nov. 15, 1989: Kohl speaks with Bush in favor of the necessary food aid for Poland, and calls for a credit support from the American government in the amount of \$250 million. "Bush admonishes to be cautious. He fears having to make concessions to the euphoric mood of the Europeans." Gorbachov should not be offered a pretext for an intervention with military means. "Bush blocks exaggerated demands for support."

LaRouche calls for setting a policy of "real economic development" into motion, in the tradition of the German national economist Friedrich List. "The beginning should be made with the development of industrial infrastructure. The G.D.R. would take on the role of a hinge in the development of Poland," he says.

Nov. 17, 1989: Kohl telephones Bush, who emphasizes that the United States intends, irrespective of remarks in the U.S. Congress, to support the reforms. "In the U.S.A. there would be a euphoria on account of the changes in these countries. This would be a certain risk. One would have to avoid unforeseen reactions in the G.D.R. and the Soviet Union. For that reason, one would have to abstain from grand rhetoric. One must also abstain from speaking about reunification or a timetable for tearing down the Wall. It must not be permitted that the President of the United States be put in a situation in which he must make concessions to the euphoric mood." In the discussion, Bush refuses to see Kohl for one or two hours in Spain before his meeting with Gorbachov.

Nov. 21, 1989: Zepp-LaRouche writes, in a personal letter to Kohl: "It seems all the more urgent that continental Europe, under the leadership of the Federal Republic and France, sets a clear agenda, in which the major orientation must be European support for Poland. As correct as it is to link economic aid to the G.D.R. with clear political concessions, in view of the entire complexity of the desperate situation of

9. Ackermann, *Mit feinem Gehör*, p. 309.

the Communist countries, this must not lead to continental Europe's losing momentum. The situation in Poland requires immediate stabilization, but the dimension of hope for economic development is also necessary for the people in the G.D.R.

"It does no harm if the 'five wise men' were to work out a plan by next spring, for how the economy of the G.D.R. can best be developed. But until that time, events may well have passed us by. The best way to generate short-term hope and momentum would be to announce the construction of a rapid railway system from Paris through Berlin to Warsaw, as the indispensable precondition for the development of productive medium-sized industries, at first in Poland and then in the G.D.R., as well as eventually in Hungary and the Czechoslovakia."

Soviet envoy Nikolai Portugalov meets Teltschik. "In commission from [Valentin] Falin, Portugalov should find out what the Bonn government thinks about reunification. He does not suspect what an avalanche he inadvertently causes in the Chancellor's office, which causes the Soviet leadership considerable problems in the coming weeks." Two documents couriered by Portugalov reflect the fear of the Soviets that developments could go out of control, and how the "Occupation Statute," as Portugalov calls the Four Powers' rights, can be sustained also from London and Paris. "Teltschik reacts 'as if electrified.'" It is suddenly clear to him: The thinking in the Soviet leadership about German unity has already gone further than officials of the Chancellor's office suspect. Teltschik proposes a meeting to occur as soon as possible between the Federal Chancellor and General Secretary Gorbachov. "For Teltschik, 'the sheerly incredible' has come into motion."

Nov. 22, 1989: Zepp-LaRouche authors a leaflet, distributed in hundreds of thousands of copies, entitled "Beloved Germany, Keep Going — With Confidence," in which the idea of the economic development of Poland is presented as a perspective for how the peaceful revolution can become the turning point for the development of the East and the developing countries.

Nov. 23, 1989: Kohl meets with his public relations staff. Teltschik proposes that the Chancellor should lay out a realistic path toward reunification during the debate on the federal budget in the coming week. Seiters and Duisberg doubt whether, in view of the reactions of Western countries and the possible effects on the population of the G.D.R., it is tactically prudent to allow the Chancellor to go public now with a reunification plan. In the end, a plan is worked out and presented to Kohl.¹⁰

Contrary to usual practice, neither the other partners of

10. Facsimile excerpt of the "original draft" of the ten-point program for German unity, not made available for this edition of the documents, with the handwritten notes of Chancellor Kohl, "Ich wollte Deutschlands Einheit" ("I wanted Germany's unity"), p. 162.

the governing coalition nor the Western powers are informed in advance. Only Bush receives the text in Washington, by cable, one hour before Kohl delivers the speech.

Nov. 27, 1989: Kohl writes to President Mitterrand, proposing a working calendar for further steps through to 1993, which makes it clear that Kohl wants to postpone the end of the role of the German *deutschmark* as long as possible. The European Council should establish that "at the latest in December 1992," the "Community has made institutional preparations in order to begin the next steps toward an economic and monetary union, and then political union, in the coming years, in accord with the actually achieved convergence of economic and monetary policies."

A 50-person delegation, the "Franklin Brigade" of the Schiller Institute in the United States, visits the "old and future capital of Berlin" and demonstrates in front of the Brandenburg Gate and Checkpoint Charlie for freedom and German unity.

Nov. 28, 1989: Kohl issues a ten-point program, presenting a concept for the long-term unification of Germany, which is buffered on all sides: embedding Germany in the European process of integration, support for the G.D.R. with its economic difficulties; opening toward eastern Europe; and reassurance with respect to the West that there will be no unilateral action on reunification.

The Bush administration sees the ten-point program chiefly as "an instigation to unification." There is agreement with that judgment: With this plan, the German Chancellor has taken the initiative. The American side must put on the brakes, in order not to provoke Gorbachov to ill-conceived reactions.¹¹ "Thatcher and Mitterrand are extremely upset about Kohl's pressing ahead alone. The Western powers have not been accustomed to such a sovereign act of the German side for a long time."

Nov. 29, 1989: Zepp-LaRouche issues a leaflet, entitled "What Good 80 Million People Can Cause in the World: For a Christian Europe of the Fatherlands!" The leaflet proposes linking the European industrial centers from West to East, and that this territory, the size of Japan, become the locomotive for the world economy. *Neue Solidarität* publishes her proposal of October 1989 for extending the European Monetary System for the economic development of the East and the South.

Nov. 30, 1989: Alfred Herrhausen is assassinated.

Dec. 2, 1989: Zepp-LaRouche issues a statement upon Herrhausen's assassination in which she assures Kohl of her full support, and indicates the geopolitical reasons for the assassination.

Dec. 2-3, 1989: At a summit meeting between Bush and Gorbachov on the cruiser *Maxim Gorki* near Malta, the American President signals to Gorbachov that he will undertake no steps to accelerate consideration of the German issue.

11. Zelikov, Roce, *Germany Unified and Europe Transformed*, p. 118-121.

Kohl's adviser Joachim Bitterlich prepares a memorandum for the Chancellor, in which he puts forward his view that Mitterrand thinks Kohl's demand for more rights for the European Parliament is "a maneuver to distract from the monetary union, and the French President dispenses with Kohl's reservations with respect to stability in a suspicious way with platitudes."

Mitterrand's reply makes clear that he links his agreement to a "confederation" (not reunification), to the monetary union, and to the condition that Germany agree to abandon the deutschemark and speed up the timetable for the realization of the economic and currency union, and that this decision be taken already at the Strasbourg summit of the European Council on Dec. 8 and 9.

Dec. 3, 1989: Kohl and Bush meet in Laeken near Brussels. Bush demands three concessions from Kohl, among them that there is no alternative to European integration, and Germany's membership in NATO.

Dec. 4, 1989: Lyndon LaRouche publishes an article "Mittelstand as a Locomotive for Eastern Europe," in which he emphasizes the significance of small and medium-sized industry as the centerpiece for the economies of the G.D.R., Poland, Czechoslovakia, and Hungary.

Dec. 6, 1989: In a letter to Kohl, Zepp-LaRouche writes: "The Strasbourg summit meeting must establish a clear alternative to the concept of a superpower condominium. That would be best achieved if representatives of continental Europe were to obligate themselves to develop the Europe of national sovereign fatherlands into a bastion of economic and technological progress.

"Precisely if the two superpowers want to maintain a monetarist, or collectivist, economic conception, it is of the greatest importance that western Europe point toward the 'third way' in economic policy, which has always led to successful industrial revolutions, i.e., an economic policy in the tradition of Jean-Baptiste Colbert and Friedrich List. The salvation of Poland has to be one central core of this policy, and there would be no better way to announce this intent than by announcing the immediate construction of a two-lane high-speed railway from Paris to Berlin to Warsaw, as the indispensable precondition for the development of a productive medium-sized industrial sector in Poland.

"The intent should be clearly stated at Strasbourg, to develop continental Europe into a superpower of economic progress and peace, in which all of those countries of the East bloc which are willing to reform, are invited to participate. In light of the coming harsh winter in the East bloc, it is urgently necessary to portray a perspective of cultural optimism, which also shows an alternative to military solutions for the Soviet military."

Dec. 8-9, 1989: Summit of the European Council in Strasbourg. Never before did the German Chancellor "experience an EC summit in such an icy atmosphere." He has to submit to an almost "tribunal-like interrogation" about his

intentions with the ten-point program. He agrees to the date demanded by Mitterrand for the monetary union. Kohl is well aware: "A future renunciation of the deutschemark is a sacrifice of German interests." The self-containment is a success.

Dec. 12, 1989: Baker emphasizes to Kohl in a discussion that the German government should not further force developments.

The ambassadors of the four victorious powers, after 20 years, meet in Berlin in the building of the Allied Control Council, for the Four-Power Discussions, in the style of old occupation powers, which is perceived by the German government to be an act of diplomatic degradation. There is great suspicion that there will be "a four-power conspiracy."¹²

Dec. 14, 1989: During a visit in Budapest, Kohl says to Nemeth about the situation in the G.D.R.: "The smell of vengeance is in the air; and indeed from the top down to the local level. The loss of authority and discreditation of the party and the state security apparatus, including the entire administration, are the main problems."

Dec. 19, 1989: Kohl's makes his first official visit to East Germany. "As the Chancellor experiences the joyous masses of people when he was received at the airport in Dresden, he became suddenly aware of his responsibility for the people in the G.D.R. Dresden became for him the key experience on the way to unity."

Year's end 1989-90: The government entertains various ideas about how it should proceed; a new foreign policy strategy is needed. "With its defensive unification strategy, the government will not go very far." Kohl decides to push developments ahead, but in such a way that "the pressure comes from the people on the street."

In his New Year's speech, Kohl says: "The year 1989 has brought Germans much closer" to reunification, and the next decade could consummate it, and become, at least for Germans, "the most happy of this century." But Kohl is in a dilemma. He neither wants to stabilize the communist regime of the G.D.R., nor does he want to bring about a political collapse. He places his hopes in the elections to the Popular Chamber (Volkskammer) in the G.D.R. and a change of power with as little friction as possible, which would offer the opportunity to move from a confederation to a federation. But what should the form of German reunification be? And, how can the Soviet Union be brought to agree to it?

Kohl could have retained the initiative in this period, from the fall of the Wall up to Oct. 3, 1990 and beyond, had he used television to address not only the population of the G.D.R., which later became the new federal states of Germany, but the population of the West as well, and outlined LaRouche's plan for the development of Poland and the "Productive Triangle," in order to give the population a perspective. The enthusiasm and the support of the people in the East would have

12. Hans-Dietrich Genscher, *Erinnerungen*, p. 667.

been assured. The program of the “Productive Triangle,” as well as that of the Eurasian Land-Bridge, which LaRouche proposed after the collapse of the Soviet Union, would have put the East-West relationship on a foundation of reason, and contributed to freeing these populations from the geopolitical relics of the nineteenth and twentieth centuries.

Jan. 15, 1990: The state institutions of the G.D.R. have completely lost their credibility, as the population storms the central office of the Ministry for State Security in the Normanstrasse in East Berlin, without being hindered.

Mid-January 1990: The program of the “Productive Triangle, Paris-Berlin-Vienna: Locomotive for the World Economy” is published. Elaborated by a working group of the Schiller Institute, the plan elaborates in detail proposals advanced by LaRouche. The program is sent to all heads of state in Europe, and is distributed in many hundreds of thousands of copies. An international campaign to implement the program begins, and this continues in the coming months and years in all countries in eastern Europe.

Late January 1990: Thatcher escalates the “Fourth Reich” campaign, and is clearly panicked that she may not be able to prevent German unification. The power in these weeks is in the streets of East Germany. Without the help of the Federal Republic, the G.D.R. threatens to collapse into chaos. (The hour for the “Productive Triangle” had struck, and at that moment Poland would have agreed to it immediately.)

Feb. 6, 1990: The discussion about a “direct transition from planned economy to market economy,” was based on false economic theories. Instead, productive credit creation in the context of the “Productive Triangle” would have meant a real program for economic growth. “If the union permits it,” Kohl declared at the federal executive of the CDU on the evening of Feb. 8, “that our country draws back from unification out of financial fears in this fateful hour, then the Federal Republic of Germany will have retired itself from world history.” The “Productive Triangle” was on Kohl’s desk at this time.

Feb. 7, 1990: In a letter to Chancellor Kohl, Zepp-LaRouche writes:

“Dear Mr. Chancellor,

“I would like to recommend the enclosed brochure of the Schiller Institute, ‘The Productive Triangle Paris-Berlin-Vienna, Locomotive of the World Economy,’ to your kind attention. I do think it is very urgent that western Europe demonstrate such a clear programmatic perspective in the present, turbulent strategic situation, one with which peace can be secured.”

Feb. 14, 1990: Zepp-LaRouche publishes ideas on an educational program for Germany, in which she emphasizes the necessity of linking the economic development of the East with the perspective of a cultural Renaissance, which is based upon the Weimar classics and the period of Schiller.

Feb. 19, 1990: Representatives of the heirs of the American Martin Luther King Movement support the peaceful revo-

lution in the G.D.R. and address the Monday demonstrations in Leipzig.

March 7, 1990: In a letter to Chancellor Kohl, Zepp-LaRouche writes, among other things:

“It would therefore be very important for you to take up, in your next speeches, the ideals and points of reference, which are most easily understood by people in the G.D.R., and also to point out the highlights of German Classical culture, i.e., the Weimar Classics. That is what people can be proud of, and can identify with. It is that pride which they now need.

“I have heard how you, Mr. Chancellor, have made reference occasionally to Freiherr vom Stein. A broad study of these ideas seems to me to be very important in view of the newly inflamed debate about the relevance of the Congress of Vienna as a concept against German unification.

“I deeply believe that people need something to sustain them in times of crisis, and I also believe that you are in a unique position to communicate hope to people.”

July 1990: German currency union.

Aug. 21, 1990: In a letter to Chancellor Kohl, Zepp-LaRouche writes:

“Dear Mr. Chancellor,

“I recommend the enclosed study to your attention. It contains a proposal for a comprehensive European infrastructure program as the precondition for the economic development of East Europe. This concept was elaborated in a proposal of my husband, Lyndon LaRouche, and is based on the idea that only such an economic development program, which also includes the Soviet Union, shaken by a severe economic crisis as it is, can be an effective policy for maintaining peace. . . .

“The rapid realization of this program is all the more urgent for strategic reasons, since there are irrefutable indications that the Gulf crisis is a scenario manipulated by Anglo-American interests, which is inspired by the same spirit as the remarks of former Minister Ridley. A number of things indicate that the beginning of this crisis is to be seen in various events in February of this year, and thus as a reaction to the beginning German-Soviet rapprochement.”

The study mentioned in this letter was also sent to all members of the cabinet. The following were the replies:

Aug. 29, 1990: Federal Minister of Finance

“Dear Mrs. Zepp-LaRouche,

“I thank you in the name of the Federal Minister of Finance for sending the study on the development of a comprehensive European infrastructure program. I have taken the liberty of forwarding the study to the relevant department of the Ministry of Finance.

“With Friendly Greetings,

“Wolfgang Solzbacher”

Sept. 3, 1990: Federal Minister for Post and Telecommunications

“Dear Mrs. Helga Zepp-LaRouche,

"I thank you in the name of Mr. Federal Minister Dr. Schwarz-Schilling for your letter and the included EIRNA study, 'The Productive Triangle Paris-Berlin-Vienna.'" The Minister has asked me to reply to you. Your study will be reviewed in the Federal Ministry for Post and Telecommunications and included in our deliberations.

"With Friendly Greetings,
"Klaus Reischmann"

Feb. 13, 1990: Federal Ministry for Labor and Social Order

"Dear Mrs. Zepp-LaRouche,

"I thank you for the brochure, 'The Productive Triangle Paris-Berlin-Vienna, Locomotive for the World Economy,' which you sent me on Feb. 7, 1990. I have forwarded the study to the responsible Federal Minister for Economy.

"With Friendly Greetings,
"i.A. (Dr. Fendrich)"

Nov. 5, 1991: In a letter to Federal President Dr. Richard von Weizsäcker, Zepp-LaRouche writes:

"Dear Mr. President,

"Included with this letter I am sending you the invitation to the Berlin conference of the Schiller Institute. . . .

"A full year after achieving formal sovereignty, Germany has allowed the political initiative to be taken out of its hands. Under massive pressure by the U.S.A. and Great Britain, the German government has capitulated on crucial issues and is currently pursuing a policy which is contrary to German interests. . . .

"Is it really not understood in Bonn, that it will lead to assured catastrophe if the bankrupt Anglo-American model of the IMF is extended to the republics of the former Soviet Union? If we want to prevent all of Europe from being drawn into a war soon, then the IMF [International Monetary Fund] and GATT [General Agreement on Tariffs and Trade] have to go, and [be] replaced with a reasonable economic policy. . . .

"Germany must itself steer the course of the world economy in a different direction and draw the conclusion from the knowledge that the financial crash will be the worse, the longer it is postponed. In particular, all greed must disappear from economic policy, which managers and bankers from the West have so often practiced, and thus caused much bitterness. An end must be put to what the Pope just denounced as 'savage capitalism' in Brazil, 'whose prevailing characteristic is unbridled striving for profit, with the incurred disregard for the original value of labor and the dignity of the laborer.' . . .

"The program for an integrated all-European infrastructure program has been on the table for two years. It is the proposal of my husband, Lyndon LaRouche, to integrate the so-called 'Productive Triangle Paris-Berlin-Vienna,' by means of a high-speed railway system and to realize, on that basis, 'development corridors' in the direction of Warsaw, through the Baltic states, to St. Petersburg, to Moscow, Kiev, up into Siberia, into the Transcaucasus, the Balkans, and to



Schiller Institute founder Helga Zepp-LaRouche, July 25, 1998.

Sicily and over Spain to Gibraltar, as the bridgehead to Africa. . . .

"The financing for such a grand project can of course not come from the private sector alone. We therefore require a return to a national banking system, as this was most elaborately described by the first Secretary of the Treasury of the U.S.A., Alexander Hamilton, applied by him, and always imitated since then, whenever the issue was to set a successful industrial revolution into motion. Friedrich List and the German Customs Union were in this tradition, as well as the government of Lincoln in the U.S.A., the Meiji Restoration in Japan, and MITI [Japanese Ministry of International Trade and Industry] of today. . . .

"If the program of the 'Productive Triangle' is realized, then Europe can become the locomotive of the world economy and set the urgent development of the Southern Hemisphere into motion. We need similar infrastructure programs in Africa, Asia, and Ibero-America, as the precondition for the development of industry and agriculture there. . . .

"If the political initiative for a just economic order were to proceed from Germany, that would be anything but a 'German solo-initiative.' If Germany gives a signal, all of the nations of the East—perhaps with very few exceptions—and of the South, and also of continental Europe, would immediately follow. The majority of mankind would then be on the side of Germany."

1975: LaRouche calls for Int'l Development Bank

In a speech to a press conference in Bonn, West Germany, on April 24, 1975, excerpted below, Lyndon LaRouche laid out his plan for an International Development Bank. The proposal was elaborated in a pamphlet titled "IDB: How the International Development Bank Will Work."

The press conference was attended by 20 reporters, including from Reuters, the New York Times, CBS, UPI, AFP, and Corriere della Sera. But, due in part to a heavy-handed campaign of libel by the U.S. State Department, there was absolutely no press coverage of the event. Even so, the idea of the IDB received wide international circulation, through the efforts of LaRouche and his associates.

We propose the immediate establishment of an International Development Bank as a three-way agreement among the three principal world sectors, the industrialized capitalist sector, the so-called developing sector, and socialist countries. The Bank would discount letters of credit and bills of exchange authorized by treaty agreement among nations and self-constituted groups of nations, and would thus act as a rediscount bank for those other letters of credit and bills of exchange generated in the course of supplying needs of final commodities producers producing for bookings issued under relevant international development bank treaty agreements.

For example, several key developing sector nations have demanded that the industrialized sector negotiate interlocking agreements concerning three items: energy, raw materials, and food. Our essential criticism of this agenda is that it included only three principal items, instead of the necessary four. The fourth item should be "development." Our remarks concerning this example are not conjectural; provided that suitable initiative proposals are generated by significant forces of the industrialized sector, key forces within the so-called "Third World" will be prepared to immediately begin working negotiations along the lines of such a four-point form of general treaty agreement with the industrialized sector.

On the basis of our own organization's studies, and our discussions of these studies with governments and leading political forces within the "Third World," we have determined to the point of certainty that the activities of an International Development Bank in connection with present wishes and consumption capabilities of the developing sector, would be sufficient to generate a higher rate of industrial

expansion in the advanced sector than has been seen during the most prosperous intervals of the past quarter century.

The feasibility of this proposed program demands understanding of certain often neglected ABC's of Political Economy. Without understanding those principles, we should all be hopelessly caught in the worst disaster of human history.

The basic fact on which all political economy depends is the characteristic feature of economy. That is, that a proper use of means of production and means of personal consumption generates levels of output in excess of the prime costs incurred. The second basic fact, essential to this solution, is that all general development, including industrial development, depends upon creating a basis for growth in an abundant supply of adequate nutrition at relatively low social cost. To the extent that these two principles are observed in practice, and advancing technology emphasized to that end, it is feasible to generate very large amounts of long-term credit without inflationary effects.

We emphasize that a combined concentration on both industrial development and expanded food production are the absolute imperatives for this period. To the extent that long-term development credit to the developing sector places priority emphasis on rapidly increasing the amount and social productivity of world food production, any amount of credit can be issued over a 10- to 15-year term ultimately payable in expanded food, in increased masses of productive labor, and in the social productivity of human labor generally.

The immediate problem the new bank will face is this. In addition to the immediate potential for substantially increasing agricultural output and productivity generally, there are three regions of the developing sector which represent massive opportunities for increases in agricultural output. One of these, the Rio de la Plata region of South America, offers short-term major benefits for development as an agro-industrial region. The other two, the Sahel, and the India-Bangladesh-Pakistan region, represent potentially major world food-producing regions, but will require 10 to 15 years of massive engineering efforts and development to approach their enormous surplus potentials. Therefore, our problem is to provide a level of development equivalent to approximately a quarter trillion current transferable rubles annually, concentrated on low-interest loans and grants with a typical maturity in the order of 10 to 15 years required for loans.

The apparent difficulty of conducting such programs is only apparent and not actual. To the extent that the industrialized sectors can generate large surpluses in excess of immediate reinvestment requirements within that sector, that portion of surplus can be issued as credits and grants without adverse economic effects. The only real problem involved is that of raising the gross level of industrial outputs to the scale the indicated undertaking requires. . . .

Victory at Colombo for the Non-Aligned

by Hartmut Cramer

Some 15 months after Lyndon LaRouche had sparked a worldwide discussion around his proposal for an International Development Bank (IDB), for the reorganization of the bankrupt monetary system and the immediate establishment of a new, just world economic order, the first major breakthrough came at the Fifth Conference of the Non-Aligned Movement in Colombo, Sri Lanka: Eighty-five nations, representing approximately 2 billion people, officially demanded a “new world economic order,” in the concluding resolution on Aug. 19, 1976, with its “essential component” being a “new, universal finance and currency system.” In order to effectively exert pressure to realize this far-reaching demand, the heads of state gathered in Colombo agreed (without explicitly mentioning the fact in the final resolution) to declare a moratorium on the developing sector’s foreign debt, should the industrial countries not take up the historic offer of Colombo at their “North-South Conference” in Paris.

This ground-breaking event was preceded by an international mobilization by the LaRouche movement on all continents. Not only were there intense discussions with nearly all leading representatives from the developing sector, but the LaRouche movement itself experienced explosive growth throughout Ibero-America, opened offices in Asia, and intensified political contacts at the United Nations in New York and at the North-South Conference in Paris. The dialogue was carried “into every pore of society”; this was especially true of the United States and western Europe, where LaRouche, with his movement, were already a political institution.

Even the most tightly controlled media in the industrial countries, which had staked everything up to then on suppressing LaRouche’s programmatic proposals (and continue to do so), had to concede that LaRouche, with his “illusionary” proposals in August 1976, had been right, across the board.

The specific demands of the developing sector, as articulated by Prime Minister Indira Gandhi of India, were:

1. Immediate suspension of the foreign debt payment “of the poorest countries and those countries subjected to imperialist pressures.”

2. A “new universal monetary system,” which should replace the bankrupt World Bank and International Monetary Fund.

3. The creation of new liquidity, which should be automatically coupled to the needs for worldwide development.

4. The world community of nations should be included in this “universal system” by means of triangular trade agreements among the developing sector, the socialist countries, and the developed countries of the Organization for Economic Cooperation and Development (OECD).

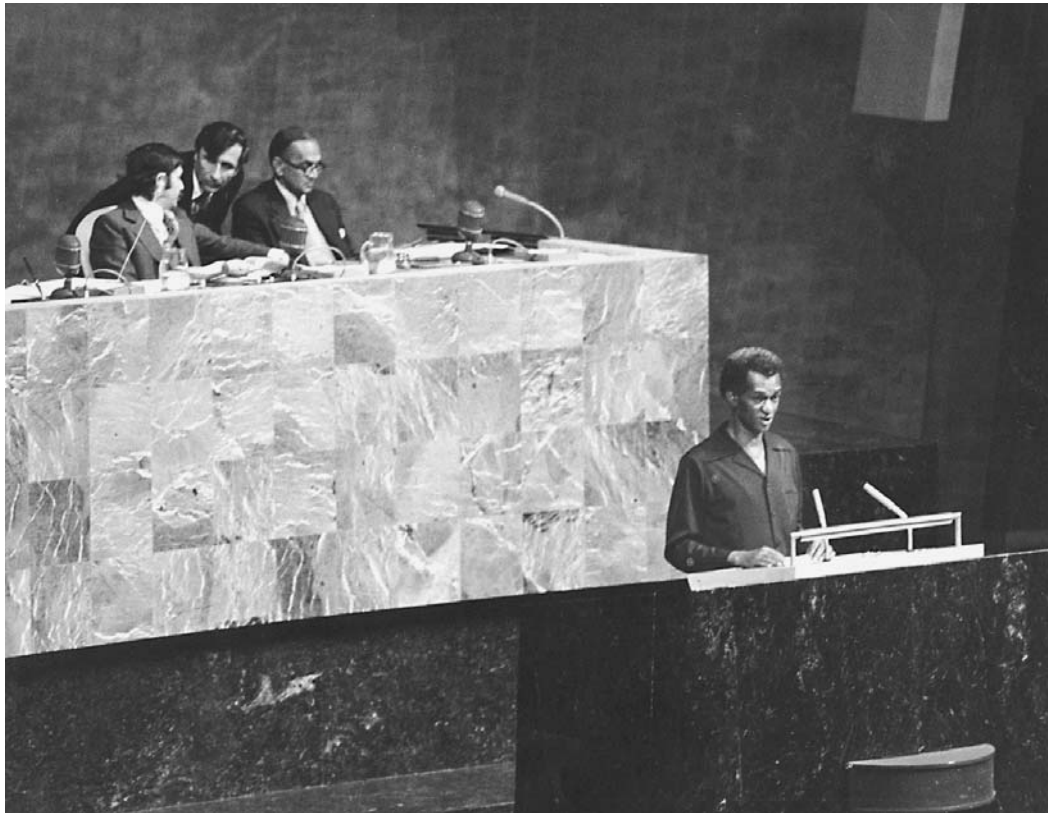
The final resolution of the summit meeting also included the idea of Vietnamese Prime Minister Pham Van Dong, to coordinate all plans for the creation of a “Third World economic bloc,” and thereby, to work out a common standpoint for “negotiations with the capitalist industrial countries and the Comecon countries.” Pham’s idea corresponded with the first step toward creating an International Development Bank, as Lyndon LaRouche had proposed in April 1975. How far these types of ideas had spread internationally can be gleaned from the fact that the political committee of the Non-Aligned Movement officially proposed to have Italy’s Prime Minister Giulio Andreotti as the coordinator between the developing sector and western Europe; Andreotti eagerly accepted that proposal.

Even U.S. President Gerald Ford—in contrast to his Secretary of State Henry Kissinger, who brazenly threatened the developing countries with a trade and food embargo—was initially not at all opposed. No sooner had the Colombo summit ended, than the White House issued the evaluation of the Ford administration that a Third World declaration of debt moratorium on public and private dollar debts, was “strictly a matter of the private sector.” Unofficially, the word was that the White House would take no retaliatory steps of any kind against countries that refused to pay their debts.

Clearly the international private banks feared for their bare existence, expressed (if privately) by an adviser to Ford, who said straightforwardly: “The government is not going to put its hand into the fire for the banks. I would be very surprised if there were a trade embargo. Grain supplies which are financed with government credits will, in all probability, be continued.” To underscore Washington’s standpoint, President Ford declared at the Republican Party Convention in Kansas City—which convened during the Colombo Summit, and where Ford was nominated as his party’s standard-bearer—that his government would under no circumstances propose a trade embargo.

Organizing the advanced nations

While the United States initially abstained from any blackmail against the developing sector, the Non-Aligned nations pushed for rapid acceptance of their program among a number of OECD countries. In western Europe, their efforts concentrated on Italy, which, on the basis of its own interest in survival—the country wanted to be rid of the oppressive burden of \$19 billion of foreign debt—was very open to these ideas. On Aug. 20, 1976, Italian Foreign Minister Forlani



Guyana's Foreign Minister Frederick R. Wills addresses the UN General Assembly, Sept. 8, 1975: "We cannot afford to mortgage the future of unborn generations to the obligations of burdensome capital repayments and crushing debt servicing. The time has come for a debt moratorium."

announced the formation of an "Organization for Technical Cooperation with the Developing Countries," which was relatively solidly financed, and was seen as the first step toward acceptance of the Colombo positions. Moreover, the government of Japan's Prime Minister Takeo Miki, which represented the country's traditional export interests, was also very interested in the Colombo resolutions.

LaRouche sought to shift the political weight of the United States—which then, as today, would play a key role in establishing a new international monetary system—in favor of the IDB, and to move Washington toward official acceptance of the final resolution of Colombo. LaRouche, who had declared his "greatest satisfaction" over the results of the Colombo summit, directed a message to President Ford, urging immediate steps to prevent an avoidable panic over the prospect of a developing sector declaration of debt moratoria. He proposed that Ford should address the nation on television and explain the importance of the program which had been resolved at the Colombo conference. On that occasion, he said, Ford should emphasize that the U.S. government was prepared "to negotiate on a rational basis on the necessary measures with the developing sector, in the sense of the real national interests of the U.S.A. as the leading industrial power in the world."

The coming weeks were characterized by intense and even hectic activities, the latter particularly on the part of

Kissinger and those who directed him at the highest levels of the financial oligarchy. On the one side, the Non-Aligned nations, under the leadership of India, Algeria, and tiny Guyana, pushed to exploit the breakthrough at Colombo in order to get down to business, i.e., the actual declaration of a moratorium on the \$200 billion in developing sector foreign debt, in order to collapse the old, bankrupt International Monetary Fund (IMF) system, and to force negotiations on a new world monetary system. On the other, the financial oligarchy staked everything on softening up the "front" which had formed at Colombo, while also moving to isolate or destabilize those OECD countries, such as Italy, Japan, France, and even some circles in Switzerland, which had shown interest in establishing a new, just world economic order.

It was perfectly obvious that Kissinger was playing for time, and, he intended, with his demand for "case-by-case decisions," and a drawn-out "series of negotiations," to prevent the developing sector from proceeding en bloc at the final discussions at the mid-September North-South Conference in Paris. At the same time, Kissinger and his controllers in the City of London did everything they could to dissuade President Ford from issuing a public positive statement on the Colombo Resolution; and, in the back of their minds, they were already conjuring up the next U.S. President to come from the circles of the powerful Trilateral Commission: Jimmy Carter.

'The time has come for debt moratorium'

The 31st General Assembly of the United Nations, which began at the end of September 1976 in New York, shows how close the world came to a new political beginning for mankind with the establishment of a new, just world economic order. On Sept. 27, 1976, Foreign Minister of Guyana Dr. Frederick Wills did the "unthinkable": He publicly demanded the replacement of the IMF system by the IDB, based on the arguments made by Lyndon LaRouche.

Wills told the entire General Assembly, "Mr. President, the security of developing states is inextricably linked with their economic survival and their economic advance. My delegation feels that there can be no meaningful economic advance without the implementation of the New International Economic Order as adopted at the Sixth Special Session. . . .

"The crippling problem of debt and the servicing of debt has assumed a special urgency. Developing countries cannot afford to depart from their basic and fundamental demand made in Manila and Colombo earlier this year calling for measures of cancellation, rescheduling, and the declaration of moratoria. We must eschew all attempts to deal with this problem by the divisive tactics of a case-by-case approach. We cannot afford to mortgage the future of unborn generations to the obligations of burdensome capital repayments and crushing debt servicing. The time has come for a debt moratorium. . . ."

The fact that the developing sector, with its clear position, was not alone, and that it had allies among the industrial countries, is amply expressed in the UN General Assembly address by Italian Foreign Minister Forlani on Oct. 1, 1976. Forlani officially expressed "the spirit of openness and coordination of Italy with the developing countries." He continued, "Italy is persuaded of the necessity, also emphasized at Colombo, to establish a new international economic order, which will open to each country the way to development. . . . This goal can only be achieved in an economic system, which has solved the fundamental problems of raw materials, trade, the debt of developing countries and technology transfer. . . . Italy intends, within the European Community, but also independently, to undertake every possible effort to achieve progress in this direction."

Breakthrough in Paris

The final breakthrough was within grasp at the concluding discussion of the North-South Conference in Paris in mid-September. The developing sector came forward—as agreed upon at Colombo—with one voice, and it was determined also to apply the pressure of debt moratoria if necessary. The eight industrial countries that were representing the developed sector in Paris, had, by contrast, no unified strategy, since Italy, in particular, but also Japan and the host country, France, were willing to enter serious negotiations on a new monetary system on the basis of the Colombo Final Resolution, while U.S. Secretary of State Kissinger and Great Britain

represented the uncompromising position of the international financial concerns.

Up until Sept. 13, it seemed as though a breakthrough was imminent. But, on that day, Great Britain broke the agreement which had held until then, that the industrial and developing sector would not speak "at a later time" about "particular cases," but rather would "immediately" address the question of a "total solution package" for the debt problem. Great Britain's action gave the green light for the sabotage policy of its avowed agent, Kissinger, who imposed his "divide and conquer" tactics of "case-by-case negotiations at the earliest in December" upon the other industrial nations.

The negotiations in Paris collapsed. Instead of celebrating an historic breakthrough into a new era, the delegations had to pack their bags and move to more negotiations at the UN headquarters in New York.

There, despite the heroic actions of leading representatives of the developing sector—and Guyana's Dr. Wills, who was later driven from office and out of his country by the personal vendetta of Henry Kissinger, was one of the most prominent among them—as well as efforts by some industrial countries, such as Italy, those circles won out who set their stakes on a return to imperial gunboat diplomacy. Brutal violence by the controllers of the IMF system, vacillation and cowardice on the part of continental Europe and Japan, and a catastrophic mixture of irresoluteness, subjugation, and betrayal among too many developing countries, destroyed a great historic opportunity in the decisive summer and fall months of 1976, and brought immense suffering to mankind.

The Colombo resolution of the Non-Aligned

The following is excerpted from the final resolution of the conference of Non-Aligned nations, held in Colombo, Sri Lanka, Aug. 19, 1976:

Introduction

. . . The heads of state of the Non-Aligned countries consider that economic problems have become the most grave in international relations. . . . The developing countries are victims of this world crisis. . . . It becomes more and more evident that the present system cannot promote the development of the developing countries nor hasten the elimination of hunger, disease, and illiteracy. . . . Also, the institution of the new international economic order is of the highest political importance. . . . The developing countries have as their primary task to break the resistance of those who oppose themselves to the struggle for the economies of the developing countries. . . .

The New World Economic Order

1. The heads of state . . . are strongly convinced that alone a complete restructuring of international economic relations will bring a solution to the world's economic problems. The weaknesses and repeated failures of the extant economic order have been demonstrated by the recent series of crises in the market economy countries: collapse of the monetary system, the appearance of restrictive and protectionist policies, recession, inflation, unemployment, etc. . . . Notably, this state of crisis has also dramatically emphasized the fundamentally interdependent nature of the elements constituent of the world economy, and provided the necessary impetus leading towards conceiving a new world economic order.

2. The heads of state . . . demand the establishment of a new world economic order, which begs bold initiatives, demands concrete innovative and global solutions, and is not compatible with the fragmentary and improvised reforms designed to keep the current economic difficulties in check. . . .

3. The heads of state denounce the unacceptable policy and practice of the transnational corporations. . . .

4. They reiterate the right of every country to exert its sovereignty. . . .

5. They reaffirm that alone such a complete restructuring

of international economic relations will provide a durable solution. . . . They reaffirm their resolute determination to obtain by collective action the establishment and implementation of a new world economic order, which is envisioned and enunciated in various resolutions. This order must, among other things, include:

a) Fundamental restructuring of the whole apparatus of international trade so as to achieve an indexation, improve the terms of trade. . . .

b) Deep restructuring of world production on the basis of a new international division of labor through the following means: improvement of the access of developing countries' manufactured products, transfer of technology. . . .

c) A radical overhaul of international monetary arrangements in vigor, which are characterized by the lack of a rational equitable and universal system, the anarchy of floating, the growth of liquidity . . . inflation. . . . The new system should abolish the dominant role of international currencies in decision-making, and forge a link between liquidity creation and development finance.

d) Guarantee an adequate transfer of resources.

e) Urgently determine a satisfactory solution to the problem of public debt, especially for the least developed and most affected countries.

f) Input, at favorable conditions, of the desired resources and appropriate technology to permit investments ensuring growth of food production and means of agricultural production in the developing countries. . . .

LAROCHE ON THE NEW BRETTON WOODS

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. . . International cooperation has today become an imperious necessity. . . .

The heads of state recognize that the introduction of a new era of fair and balanced relations is the responsibility of all, but falls more particularly upon those who retain economic power. Furthermore, the creation of a new world economic order implies, on the part of the developed countries, resolute and efficient measures in all the main domains of international economic relations. The developed world as a whole cannot any longer escape their responsibility under any pretext whatsoever, and can no more afford to misinterpret the fundamentally indivisible nature of the world's prosperity.

The heads of state . . . therefore invite the developed world to convincingly express their faith in the principle of interdependence of the world, by adopting a series of measures that, alone, will permit them to conduct authentic international cooperation and the creation of the new world economic order. . . .

Conclusion

[This] announces a new step for the establishment of the new world economic order, and in particular, this essential element of such a new order, a new monetary and financial system. . . .

The history of LaRouche's comprehensive SDI policy

by Michael Liebig and Jonathan Tennenbaum

Within the United States and maybe more so outside it, Lyndon LaRouche's name is being associated with SDI, the Strategic Defense Initiative. That goes for his friends, and equally so for his foes. The question of the SDI has uniquely encapsulated fundamental strategic issues not only for the United States' national security, but for global security as well.

The Soviet Union has disintegrated, and gone is the "global nuclear showdown" between the Warsaw Pact and NATO. But today's Russia faces an existential economic and political crisis, in which effective control over Russia's more than 10,000 nuclear weapons is no longer assured. The international, post-1968 nuclear non-proliferation regime is collapsing, as indicated by the recent series of nuclear tests by India and Pakistan.

Those two nations on the South Asian subcontinent do not represent a threat of nuclear aggression; they are merely asserting their sovereign right to do whatever they deem necessary for their national security and for the fullest development of advanced technologies. On what basis could one legitimately deny India, a nation of almost a billion people with a steadily advancing economy, a right that the five states of the "nuclear club"—the United States, China, Russia, France, and Britain—claim for themselves?

The nuclear non-proliferation regime—based on the 1968 Nuclear Non-Proliferation Treaty (NPT) and, later, the Comprehensive Test Ban Treaty (CTBT)—is not only discriminatory, but simply does not work. In spite of the NPT, Israel does have a powerful nuclear weapons arsenal, and some 13 other states have an immediate nuclear weapons capability. While it is senseless to try to prevent the spread of nuclear weapon technologies—they simply cannot be "forbidden"—it would be equally irresponsible not to develop effective means of defense against weapons of mass destruction and their delivery systems. No one can rule out, that criminal regimes might one day employ nuclear weapons for blackmail and confrontation, or even use them in wars of aggression. But nuclear weapons are not "ultimate weapons"; there do exist means of effective defense against them, capable of rendering them "impotent and obsolete," as President Ronald Reagan termed it in his famous March 23, 1983 speech inaugurating the SDI. So, today, 15 years later, the strategic approach of the SDI is more "up to date," appropriate, and necessary than ever.

The strategic background of the SDI revolution

To appreciate the strategic revolution which LaRouche aimed to bring about with the SDI policy, it is necessary to understand the nature and origin of the opposing policies.

During the late 1970s, LaRouche had warned of a potential disastrous discrepancy between Western and Soviet military strategic doctrines. Increasingly from the 1960s on, and especially with the advent of so-called "utopian" military doctrines in the late 1960s and 1970s, the predominant current in Western strategic thinking came to regard an all-out thermonuclear war with the Soviet Union as "unthinkable"—the losses would be so gigantic as to be absolutely unacceptable to either side. Consequently, the emphasis in military doctrine should be to ensure an adequate "nuclear deterrence," while at the same time preparing to conduct armed conflicts "below the threshold" of full-scale nuclear war.

The Soviet side had a fundamentally different military doctrine, however. While seeking to achieve its strategic goals without an all-out thermonuclear war with the United States, the Soviet leadership regarded such a war as a very real possibility, and placed highest priority on exhaustive preparation and planning for that eventuality. Accordingly, Soviet military policy was to build up the industrial, technological, logistical, and global political-strategic base for fighting and *winning* an all-out nuclear war if necessary.

In few areas did the fundamental divergence between the two strategic outlooks become so extreme, as in the domain of civil defense and especially in anti-missile defense. While the Soviet military leadership regarded the need for development of anti-missile technologies as self-evident, the Western utopians were violently opposed to breakthroughs in the technology of anti-missile defense, arguing that such breakthroughs would threaten the "balance of nuclear terror" between the two sides, which the utopians claimed provided the foundation for global stability and security. Utopian policy was typified by the role of Henry Kissinger in promoting the 1972 ABM Treaty between the United States and the Soviet Union, whose purpose was to prevent, or, at least greatly slow down, the development of operational anti-missile weapons. Naturally—as LaRouche and his collaborators repeatedly emphasized—given Soviet commitment to a nuclear war-winning strategy, the ABM Treaty, just like the SALT and



Fusion Energy Foundation Executive Director Paul Gallagher briefs a CBS interviewer on the Strategic Defense Initiative, one day after President Reagan's historic March 23, 1983 announcement of the policy. Anyone who wanted to know what was going on at that time, had to turn to LaRouche and his associates.

related “arms control” agreements which were to follow, was a wishful delusion on the Western side, fraught with the danger of a catastrophic strategic miscalculation.

As investigations by LaRouche’s collaborators revealed ever more clearly, this gross discrepancy between Eastern and Western military doctrines was ultimately the product of the same British-led geopolitical manipulations, which had promoted and shaped the postwar division of the world into adversary blocs of East and West in the first place. Above and beyond the adversary relationship between the United States and the Soviet Union, there stood a “third party”—the British-centered oligarchical grouping exemplified by Bertrand Russell—which played the East-West conflict *on both sides* as a method of global geopolitical control, and a means to achieve the ultimate elimination of the nation-state and transition to some form of “world government.” The aura of Hiroshima and Nagasaki, fear of the terrifying destructive power of the nuclear bomb, as supposedly an “ultimate weapon” against which no defense would be possible, provided the means to intimidate populations and governments into acceding to the control of supranational institutions and the imposition of neo-Malthusian policies of population control and suppression of technological progress.

A key feature of this policy for a supranational world order was the massive promotion of a “cultural paradigm shift” in Western populations, beginning in the 1960s—deploying the “rock-drug-sex counterculture” and “green” anti-technology movements (starting with Russell’s own “Ban the Bomb” movement) against the traditional values of indus-

trial-oriented national economy. The very acceptance of the strategic doctrine of Mutually Assured Destruction (MAD), which meant living under an ever-present threat of nuclear annihilation at the push of a button, was a prime locomotive for the mass spread of cultural pessimism among the younger generation.

These brief indications make clear, that in putting forward a new strategic doctrine based on “crash program” development of strategic anti-missile defense, LaRouche was doing much more than merely remedying a crucial weakness in Western military policy vis-à-vis the Soviet Union. More than a mere weapons program, LaRouche’s SDI meant a return to nation-state policies of promoting rapid scientific and technological progress and industrial growth, while striking at the very heart of British geopolitical manipulation in the postwar period.

Significantly, the background for LaRouche’s elaboration of the SDI policy included an extended dialogue with high-level representatives of the Soviet government, exploring the possibilities for a way out of the increasingly unstable regime of nuclear deterrence, via joint development and deployment of anti-missile defenses based on new physical principles. LaRouche connected this with the offer, that such a joint policy for rapid technological development might provide the context for addressing long-standing problems within the Soviet economy itself. Ironically, it was the Russians’ violent rejection of this offer, following U.S. President Reagan’s announcement of the SDI policy in March 1983, which sealed the doom of the Soviet empire.

The SDI's pre-history

As early as 1955, the United States began to develop anti-missile rockets. In the early '60s, the United States had precise plans for a nationwide ballistic missile defense (BMD) system-called Sentinel — with nuclear-tipped Spartan and Sprint anti-missile-missiles. Already in 1958, the German aerospace scientist Eugen Sänger published a study, in which he discussed the shortfalls of kinetic missile defense and advocated the development of weapons using directed-energy beams against ballistic missiles. Soviet plans to develop such directed-energy weapons were made public in Marshal V.D. Sokolovsky's book, *Soviet Military Strategy*, in 1963. The 1972 Soviet-American Anti-Ballistic Missile Treaty (ABM) had effectively quashed the deployment of kinetic BMD systems (i.e., interceptor missiles), but did not cover BMD systems based on "new physical principles."

Both the United States and the Soviet Union engaged in R&D work on BMD systems based on new physical principles—beam weapons or directed-energy systems. And, the Soviet efforts were especially intense. The politico-military officialdom in Washington under Kissinger-Ford and Brzezinski-Carter attempted to keep these Soviet BMD advances out of the strategic discussion in the United States and in NATO. When U.S. Air Force Maj. Gen. George Keegan publicly voiced concern over Soviet directed-energy work in 1977, he was strongly rebuffed by his military and political superiors.

LaRouche's 'Sputnik of the Seventies' campaign

LaRouche's passionate interest in advanced physics had led him and a group of acquaintances with a background in physics to initiate the Fusion Energy Foundation (FEF) in 1974. The accumulating reports concerning Soviet advances in the field of plasma physics and directed-energy technologies were intensively discussed among LaRouche and his friends. LaRouche concluded that the scientific, technological, and military implications of these Russian advances represented such a formidable challenge to the United States, that a new "Sputnik shock" was in the making. On May 31, 1977, the U.S. Labor Party, which LaRouche had founded, drew on the foundation's research to issue a brochure, "Sputnik of the Seventies: The Science Behind the Soviets' Beam Weapon," on the Soviet breakthroughs in advanced physics. LaRouche demanded that the United States stand up to the Russian challenge and engage in a major national effort in the frontier areas of advanced physics, not the least because the *military* implications of Russia's scientific advances were enormous.

LaRouche wanted such a national effort for scientific, technological, and military reasons, but he wanted it for cultural reasons as well. He wanted to counter the cultural pessimism associated with the strategic regime of Mutually Assured Destruction and the nuclear "balance of terror." He

wanted to defeat the Malthusianism and the hysteria against nuclear energy which had become virulent in the Carter era, both in the United States, and, even more so, in Europe. That is why LaRouche did not want to merely circulate some confidential memoranda among political and military officials in Washington and elsewhere, alerting them on the Soviet challenge. LaRouche wanted the American people to know; he wanted the understanding and backing of the American people for a national effort on the frontiers of science and technology. The people must be informed and educated about the "great affairs" in national and international politics, while operational and technical specifics, of course, must remain secret. That is why tens of thousands of copies of the "Sputnik of the Seventies" brochure were circulated.

On the other side, LaRouche can be a man of great discretion. The reader would be most astounded were the names made public of all the political and military officials, internationally, with whom LaRouche met and discussed the strategic complex—known after 1983 as the Strategic Defense Initiative—during 1977-85.

Standing up to the challenge of Soviet scientific breakthroughs and their military ramifications, became a central political issue for LaRouche's 1980 Presidential campaign. His campaign program prominently featured a national program for a *beam-weapon missile defense system*. On Aug. 15, 1979, LaRouche published a Presidential campaign statement on military policy, which says, "A LaRouche administration will have two leading points in military policy: first, a commitment to the development of advanced-technology weapons able to 'kill' incoming missiles in the stratosphere." Please note, that this was stated 44 months before President Reagan's March 23, 1983 televised address on the SDI.

LaRouche's fight against 'MAD'

In order to understand how LaRouche was able to conceptualize the SDI, it is necessary to look at his work since the mid-1970s on statecraft and military strategy. LaRouche had grasped that advances in physics and applied technologies had matured to a level which provided a solid scientific-technological foundation for BMD systems based on directed energy. But beyond the scientific-technological dimension, LaRouche had, for years, systematically and ruthlessly dissected the U.S. military strategy of Mutually Assured Destruction, or "nuclear deterrence," and its offspring, the NATO doctrine of "flexible response." The twin sister of MAD/nuclear deterrence is, of course, the political and strategic edifice of "arms control," with its various ABM, SALT, INF/Euro-missile, and START treaty complexes.

LaRouche had become the principal conceptual antipode to the "nuclear deterrence/arms control" school of McGeorge Bundy, Henry Kissinger, Robert McNamara, Zbigniew Brzezinski, James Schlesinger, or Cyrus Vance. The strategic system of nuclear deterrence intentionally made the nuclear-tipped offensive missile of whatever range into an "absolute



The LaRouche movement had been organizing support for a beam-weapon defense policy since the mid-1970s. Shown here: the U.S. Labor Party's pamphlet "Sputnik of the Seventies" (1977) and a Fusion magazine special report on beam weapons (1982).



weapon.” That strategic system was technologically refined by increments (MIRVing, cruise missiles, Stealth). But, under the regime of nuclear deterrence, qualitative *technological attrition*, creating defensive or offensive weapon systems that would neutralize and supersede the offensive nuclear missile, was literally forbidden. Instead, the states with nuclear arsenals would engage in some sort of “community of fate,” based on the capacity for mutual nuclear destruction. The “balance of nuclear terror” would ensure the integrity of the superpowers’ sanctuaries, but not necessarily that of non-nuclear allies or other friendly third parties. The quantity of nuclear weapons may be reduced through arms control agreements, but the axiomatic quality of mutually assured nuclear destruction must be upheld. The Anti-Ballistic Missile Treaty of 1972 was designed to cement the system of nuclear deterrence against technological attrition, while the SALT I and II treaties were meant to quantitatively restructure the superpowers’ nuclear offensive arsenals.

LaRouche rejected the system of nuclear deterrence by first pointing to the fact that the Soviet politico-military command had never truly subscribed to deterrence, but pursued a *war-winning* military strategy. Victory was to be achieved by nuclear means, if necessary, but preferably by non- or *post-nuclear* means. LaRouche gave much attention to Marshal Sokolovsky’s book *Soviet Military Strategy* and the then-emerging, next-generation Soviet military doctrine shaped decisively by Marshal Nikolai Ogarkov. LaRouche pointed to the steadily progressing marginal superiority in Soviet offensive nuclear capabilities, the Soviet strategic defense effort, their space warfare capacity, their civil defense program,

and their ruthless “conventional” arms buildup. In the so-called “conventional” field, Ogarkov increasingly emphasized post-nuclear, advanced weaponry based on new physical principles, and corresponding post-nuclear operational concepts focussed on airborne and special forces.

Secondly, LaRouche pointed to a demotivation and demoralization trend in the American military, strongly radiating into NATO as a whole: If, under the regime of MAD, deterrence failed, the only prospect would be a suicidal, nuclear holocaust of total, global destruction. In his writings and in speeches, LaRouche explained “how ‘MADness’ ruined the Pentagon,” as demonstrated by the sequence of political-strategic disasters, like the B-1 bomber cancellation, the neutron weapon cancellation, the bungling over the intermediate-range nuclear forces (INF) in Europe, Carter’s Nicaragua policy, the fall of the Shah of Iran, and the hostage rescue fiasco.

LaRouche warned that *America’s logistical depth*, its industrial-technological foundations, the very basis for the capability of fighting a war, were *eroding*. He denounced the reorientation of U.S. military strategy toward “limited” wars, “cabinet” wars, or “surrogate” wars in Europe and/or the Third World. The conduct of the wars in Afghanistan, Nicaragua, the Persian Gulf, and the Balkans since, has validated LaRouche’s warnings.

Thirdly, LaRouche knew, and said so, that under the rigidly stagnant system of nuclear deterrence, not only the military, but also the people in the United States and, even more so, in the other NATO countries, would necessarily become increasingly demoralized. The perverse logic of threatening a nuclear holocaust as the only means of avoiding war, had to

materialize into *cultural pessimism* and a growing sentiment toward *appeasement*. “Peace movements” of all sorts flourished during the 1970s and 1980s in almost all NATO countries, attracting mass support, while being firmly controlled by Soviet and East bloc intelligence services. Their psychological warfare experts most cleverly exploited the very real dilemma posed by MAD: the prospect of a mutual nuclear holocaust, if deterrence were to fail. That made appeasement look rather acceptable and even fashionable.

LaRouche’s way out of MAD in a positive direction was a military strategy based on the military-technological revolution associated primarily with directed-energy systems. In terms of fire power (the energy density of the beam) and mobility (speed of light or approximations of that), beam weapons go orders of magnitude beyond the fastest nuclear missiles. In March 1982, LaRouche wrote a military policy paper, which was based on a lecture to an *EIR* seminar in Washington a month earlier, which bore the title, “Only Beam Weapons Could Bring to an End the Kissingerian Age of Mutual Thermonuclear Terror.”

What is grand strategy?

A directed-energy BMD system means the strategic rehabilitation of defense. Such a system eliminates the alleged omnipotence of nuclear offense. Military strategy and genuine war avoidance are again founded on the dynamism of technological attrition and logistical depth. LaRouche’s conceptual design of a military strategy for the United States based on a directed-energy BMD system evolved out of work on the history of military science that he had pursued since the mid-1970s. There is a real wealth of lectures and essays by LaRouche on military science. LaRouche’s strategic conceptions are based on intense intellectual labor with, especially, the works of Carnot, Scharnhorst, and Schlieffen. LaRouche intensely studied the American War of Independence, the history of West Point, especially concerning the first half of the nineteenth century, and the American Civil War. He dissected the degenerated, bloody incompetence of military leadership on all sides in the conduct of World War I. And, LaRouche worked hard on Soviet Russian military thought, from Tukhachevsky, to the World War II commanders, to Sokolovsky and Ogarkov. On the American conduct of war during World War II, LaRouche’s studies focussed on Gen. Douglas MacArthur, the towering strategist and military leader of that war.

LaRouche’s military thinking is probably most strongly influenced by Lazare Carnot, about whom he wrote, “In sum, Carnot’s reforms were based on the two central republican principles: the mobilization of the citizenry to arms, and reliance on deploying the science and technology of rapid economic progress to increase mobility and firepower in warfare.”

From the vantage point of systematic study of the history of military science, LaRouche was able to conceptually rip

apart the utopian, anti-MacArthur school of Anglo-American military thinking which got codified in the system of MAD/nuclear deterrence. LaRouche traced the intellectual history of the post-World War II deterrence school back to the oligarchical “cabinet warfare.” The strategic assumptions underlying cabinet warfare are stagnation, limitations, and rigid regulations in the conduct of war, with the people and the armed forces in a state of passivity and fatalism. In other words, the exact opposite of Carnot’s way of war. While McGeorge Bundy, McNamara, or Kissinger have been more on the political “marketing” side of MAD, the originator of the deterrence school was Bertrand Russell, as mentioned above. A man of evil talents, the arch-Malthusian Russell institutionalized the deterrence school in the Pugwash Conferences. Russell and the Pugwash organization formulated, in the late 1940s and early 1950s, the central features of the MAD/nuclear deterrence regime.

LaRouche’s concept of strategy is obviously not a narrow, military-technical one. Instead, for LaRouche, “war is not the sum-total of the results of individual battles; battles are but singularities of that total war which is the interdependent political, economic, cultural, and military policies and capabilities of the opposing military forces in depth.” LaRouche’s concept of strategy is one of *grand strategy*: Politics, economic performance, and culture make up “90% of strategy,” while in modern warfare no more than 10% of the total effort goes into actual fighting as such. Whether war breaks out or not, and once war has broken out, its course into victory or defeat, is fundamentally determined by politics, economic performance, and culture.

His “holistic” notion of strategy is equally important for grasping LaRouche’s unique capacity to generate innovative concepts in the fields of military strategy and intelligence affairs. Many military and intelligence experts, who respect and admire LaRouche, remain deeply puzzled about his—in their view—“improper mixing” of seemingly separate matters, such as culture and the economy with military and intelligence affairs. But they are even more puzzled about LaRouche’s ability to create new ideas on military and intelligence matters, something that “experts” with extensive, specialized professional knowledge in these areas are mostly not capable of.

In a presentation to an *EIR* seminar on “Beam Weapons: The Strategic Implications for Western Europe,” in Rome on Nov. 9, 1983, LaRouche stated that matters of strategy, warfare, statecraft, and intelligence are indeed matters of life and death. War is a brutish crime, utterly unjust, if it is not fought to defend the higher purpose of human life, the unique dignity of man as the *imago viva Dei*, the living image of God. How can there be a great strategist or a great military leader, if he or she has no morality, no soul, no higher purpose? A notion of strategy that is not anchored in morality thus defined must necessarily degenerate into crimes against humanity and ultimate defeat. World history, based on natural law, has been the judge, over and over again, on that score.

In LaRouche's notion of grand strategy, there is no place for slogans like "my country, right or wrong." Instead, for him, a nation's grand strategy must be based on a moral purpose, a mission for that nation. For LaRouche, a nation cannot just exist in and for itself, cannot be content with the material well-being of its population and otherwise stay away from internal or external trouble. A nation must not look the other way, when there is injustice within the nation, or beyond its boundaries. A nation with a moral purpose cannot but fight and overcome tyrannies, unjust wars, hunger, and the lack of culture and economic progress.

This powerful concept of moral purpose, of national mission as the basis for grand strategy, must be understood as the framework in which LaRouche has situated his military policy in general and his directed-energy BMD policy specifically. LaRouche saw in a beam defense strategy not just the undoing of nuclear deterrence and the Soviet nuclear threat. For LaRouche, a beam defense strategy meant an opening up of new scientific frontiers, especially space exploration. It meant also the undoing of Malthusian cultural pessimism, and it meant the industrial rejuvenation of the eroding physical economy of the United States, by introducing new production methods of the "Third Industrial Revolution."

Occasionally there were some echoes of LaRouche's ideas regarding the linkage of morality and strategy from official or semi-official quarters. Among interesting examples were Edward Teller's October 1982 remarks about a beam-defense strategy as a stepping stone toward realizing the "common aims of mankind."

LaRouche's campaign for strategic defense, 1981-83

After Jimmy Carter was out and Ronald Reagan had become President, LaRouche intensified his political campaign for a beam-defense strategy to be adopted by the U.S. government. On July 20, 1981, LaRouche published another military policy paper, which discussed the specific requirements of a space-based beam defense system, namely the directed-energy device as such, the power source, sensors for tracking and target acquisition, battle management, and space platforms. LaRouche's political friends and his supporters from the FEF organized a growing number of public events in the United States, which featured the beam-defense system and which demanded that the Reagan administration adopt a military strategy based on such a BMD system.

The most important of these events was an *EIR* seminar in Washington, D.C. in February 1982, which was attended by a large number of political and military officials, as well as representatives of foreign embassies. LaRouche gave an outstanding lecture on a beam-weapon-centered strategy, which was published a month later, as the policy paper, "Only Beam Weapons Could Bring to an End the Kissingerian Age of Mutual Thermonuclear Terror: A Proposed Modern Military Policy of the United States."

LaRouche's beam-defense campaign coincided with the steady escalation of political tension around the stationing of NATO's intermediate nuclear forces (INF), or "Euro-missiles." The "nuclear freeze" and "no first use" campaigns in the United States and the mass activities of the Western European "peace movements" flourished. In late 1982, LaRouche travelled to Europe, where he and his associates addressed well-attended seminars on beam weapons in Bonn, Munich, Paris, Strasbourg, Milan, Brussels, Madrid, and Stockholm. Senior West European military and political figures requested briefings on beam defense by LaRouche and his associates.

When these events in the United States and Europe took place, we were still months away from March 1983. When President Reagan then made his TV address of March 23, 1983, in which he directed American scientists to develop the means to render nuclear missiles threatening the United States and its allies "impotent and obsolete," most of the political and military officialdom in Washington (just as elsewhere in the West and East) was profoundly shocked. Washington's governmental, Congressional, and military apparatus was utterly unprepared for a Presidential directive that, in effect, rendered the MAD regime of nuclear deterrence obsolete. We know now, that in the hours preceding the airing of Reagan's speech, frantic efforts were made, including by Secretary of State George Shultz, to remove the SDI section from Reagan's already-prepared TV speech.

The media, in and outside the United States, did not know where to turn on the subject of the SDI. They had to turn to the associates of LaRouche, because hardly anyone else could provide them with competent information on the subject. Specialists from *EIR* and FEF were interviewed by many TV and radio stations, written material from *EIR* and the FEF on the SDI circulated in large runs in the United States and in Europe. Between 1983 and 1985, books on the subject appeared in English, German, and Italian. Prestigious strategic journals in several NATO countries published articles on the SDI by *EIR* and FEF writers.

However, soon thereafter, the High Frontier operation of Air Force intelligence Lt. Gen. Danny Graham (ret.) was launched, in an attempt to deform and discredit the SDI approach. Graham postulated a revival of obsolete anti-missile rocket technologies, so-called "kinetic" systems, which for inherent physical-technical reasons cannot effectively defend against a massed nuclear missile attack. Years later, during the Gulf War, the miserable record of the Patriot system demonstrated that anti-missile rockets were not even effective against a small number of obsolete Iraqi Scuds. Graham denounced beam-weapon/directed-energy systems as unaffordable "music of the future."

LaRouche knew immediately that Reagan's March 23, 1983 speech had the potential of a strategic *punctum saliens*. LaRouche knew that a beam-defense system, as a comprehensive policy package with its scientific, technological, military, political, and cultural components, could signify a qualitative

phase-change in the overall national policy direction of the United States and the West as a whole.

On March 23, 1983, the American liberal foreign policy establishment had been caught off guard. Moscow was caught off guard. In confidential consultation with the U.S. government, LaRouche had been conducting private exchanges with Soviet government representatives from the winter of 1982 into spring 1983. These discussions prominently featured LaRouche's beam defense package. The Soviet side had readily conceded the strategic validity of LaRouche's beam-defense strategy, but excluded the possibility that it would ever be adopted by the U.S. government. After March 1983, the Soviets no longer regarded LaRouche as a nuisance with stimulating ideas, but a deadly enemy to be neutralized.

The Anglo-American establishment's and the Soviets' mobilization against the SDI

Already on March 27, 1983, four days after Reagan's TV address, Yuri Andropov, Secretary General of the Communist Party of the Soviet Union (CPSU), violently attacked Reagan's SDI speech as "insane." By April 1983, the Soviet politico-military command under Andropov had its response to the SDI ready: Under no circumstances would the Soviet Union accept a transition to a strategic relationship with the United States in which the SDI played any major role. American proposals in the direction of "parallel deployment" of strategic defense on both sides or even the sharing of knowledge on beam technologies between the United States and Russia were categorically rejected. The Soviets knew perfectly well, that beyond the field of military technology as such, the SDI would have a major impact in terms of U.S. politics and the U.S. economy. They knew the SDI could shatter the grip of the "liberal" establishment over U.S. foreign and security policy.

Henry Kissinger himself, at the Trilateral Commission meeting in Rome, on April 20, 1983, deplored the outflanking of the Anglo-American establishment through the SDI. He and his faction realized, that LaRouche had gained potentially decisive influence in the Reagan administration, which threatened to undo the established regime of MAD/nuclear deterrence. We now know, that Prime Minister Margaret Thatcher had a wild shouting match with President Reagan some days after his TV address, accusing him of trying to destroy Britain's nuclear deterrent. Also, French President François Mitterrand violently denounced the SDI.

Senior representatives of the U.S. Department of State told inquiring foreign governments that they "should not take seriously" President Reagan's SDI speech. Vice President George Bush appeared to be loyally backing Reagan on the SDI, but we now know, that he did what he could to "whittle down" the SDI within the administration, as Kissinger had recommended.

The Russian command was determined to use every means of political and diplomatic pressure as well as military

coercion. Every Soviet intelligence asset, media contact, "useful idiot," or appeaser in the United States and the West was activated against the backers of the SDI. Even more than outside political and military pressure, the Soviet command calculated on an "inside operation," making an arrangement with their traditional partners within the Anglo-American establishment. Such an "understanding," they hoped, might strangle the SDI in the cradle and lead to a reconsolidation of the MAD/nuclear deterrence regime.

We do not know what secret encounters took place in the April-May 1983 period between the Soviets and U.S. establishment figures. What we do know is, that on April 27, 1983, Georgi Arbatov, head of the influential U.S.A.-Canada Institute in Moscow, met with then-vice chairman of Kissinger Associates, Brent Scowcroft, in Denver, Colorado. On May 26, 1983, Averell Harriman flew to Moscow to meet with Andropov. During May 24-28, a high-level Soviet-U.S. conference took place in Minnesota, where the SDI was discussed.

On April 24, 1983, Andropov had given an interview to *Der Spiegel*, in which he outlined the basic features of his proposal for an anti-SDI arrangement with the Anglo-American establishment against the SDI, which he called "dangerous adventurism." In exchange for suffocating the SDI, the Soviet Union would offer new, far-reaching nuclear arms control agreements. Soviet-American relations would be upgraded toward a new type of geopolitical condominium arrangement, including regional crisis management. After all, said Andropov, the Soviet Union was a "continental power," which had different strategic interests toward Western Europe and West Asia than the "sea power" United States. On the other side, Andropov expressed "understanding" that the United States could not be "indifferent" to the "kind of government that exists in Nicaragua." Along these lines, said Andropov, the Soviet Union was searching for a "common language with the American side."

The Anglo-American establishment went to work and delivered: The "Central American monkey trap," as LaRouche put it, was to become the crucial flanking move of the Soviet command in collusion with the Anglo-American establishment in their common war against the SDI. Nicaragua became an obsession for the Reagan administration, draining its energies. In that, Vice President Bush, with special responsibility for covert intelligence operations, played a leading role. On Oct. 13, 1983, National Security Adviser William Clark, a leading backer of the SDI in the Reagan administration, resigned. On Dec. 8, 1983, Lord Carrington was named NATO Secretary General. A senior figure in the British oligarchical establishment and a member of Kissinger Associates, he was a bitter enemy of the SDI.

The combined Soviet and Anglo-American establishment efforts to "whittle down" the SDI had surely gained momentum by late 1983. That year saw an escalation of all sorts of terrorism, destabilizations, and operations to inflame tensions and conflicts: the assassination of Palestine Liberation Orga-

nization leader Issam Sartawi; the bombing of the U.S. Embassy and the Marines barracks in Beirut; increased Soviet weapons deliveries to Nicaragua; the events in Grenada; the Soviet shoot-down of Korean Airlines Flight 007; and a North Korean commando killing of four South Korean cabinet members in Rangoon, Burma. In October 1983, the largest-ever peace demonstration against NATO's INF deployment took place in Bonn. In November, the Soviet Union broke off all arms control talks, and deployed submarine-launched ballistic missiles off the U.S. coasts.

Still, in spite of the massive, concerted sabotage efforts, the enemies of SDI faced a real problem: *The SDI was a most popular policy in the U.S. population*, and LaRouche continued to play a crucial role in that. Also, all the efforts to sabotage the SDI did not succeed in preventing the creation of a basic SDI research and development infrastructure. Through Gen. James Abrahamson's Strategic Defense Initiative Organization (SDIO), significant technological breakthroughs were achieved.

Targetting the SDI, targetting LaRouche

On Oct. 26, 1983, the Soviet weekly *Literaturnaya Gazeta* carried an article by KGB operative Fyodor Burlatsky, who wrote that the SDI—which he labelled “Star Wars”—might become a *casus belli* for the Soviet Union. Burlatsky viciously lashed out against LaRouche for propagandizing for the SDI.

In the autumn of 1983 and the spring of 1984, LaRouche addressed three important seminars on “Beam Weapons—The Strategic Implications for Western Europe” in Bonn, Rome, and Paris. The seminars had high-level attendance of senior officers and defense officials, industry representatives, political figures, and media. In all three lectures, LaRouche presented his designs for the future of the Atlantic Alliance: The offspring of NATO's MAD/nuclear deterrence, known as “flexible response,” must be replaced by a strategy, based on beam-weapon systems, that defends Western Europe—especially Germany—without defense equating self-destruction. This could only be done through a European Tactical Defense Initiative (TDI) program complementing the American SDI program.

The Soviet response to LaRouche was swift. At the Nov. 9, 1983 *EIR* conference on SDI in Rome, addressed by LaRouche, no fewer than ten Soviet intelligence operatives showed up. On Nov. 15, 1983, the Soviet government daily *Izvestia* published a lengthy, vitriolic article against LaRouche, titled “Witches' Sabbath at the Hotel Majestic.” The conference participants were described as “troglydytes,” who came to listen to LaRouche's “criminal” propaganda for “filling near-space with lasers and other types of ‘total weaponry.’” LaRouche, said *Izvestia*, was organizing “witches' sabbaths” in Rome and other Western Europe cities in order to lure the Europeans into participating in the “militarization of space.”

On March 12, 1984, *Izvestia* carried an article on the “scandalous ties of the Reagan administration with LaRouche.” When confronted by NBC-TV, “their proofs were so weighty that the White House did not even try to deny them,” exclaimed the Soviet paper. “Servant of the ruling class” and “agent of big capital” were the labels *Izvestia* chose for LaRouche.

On April 2, 1984, *Pravda* covered a conference on the SDI in Paris, addressed by LaRouche, by calling it “A Colloquium of Murderers.” Over two days, in a “business-like” atmosphere, the Paris event had discussed “what are the most effective methods of genocide.” LaRouche and his “CIA-controlled” associates debated how “at one stroke to annihilate countries, whose political systems do not please their masters, while preserving the mecca of capitalism—the United States,” shrieked the CPSU central organ.

This barrage of wild Soviet attacks against LaRouche continued into the late 1980s, and was increasingly complemented by slanders in “left” and “liberal” establishment media in both the United States and in Europe. The Soviet obsession with the SDI again became evident at the October 1986 Reykjavik summit between President Reagan and CPSU General Secretary Mikhail Gorbachov, who pushed the summit to an acrimonious conclusion, because Reagan remained unwilling to bury the SDI.

However, by that time, the Anglo-American establishment had indeed managed to “whittle down” the SDI. Funds for the program were scaled down, and the direction of the SDIO's R&D work was shifted increasingly in the direction of kinetic systems (anti-missile interceptors) and away from revolutionary laser, particle-beam, and other weapons based on new physical principles. Planning for BMD systems under development shifted increasingly from the strategic realm, to much more limited theater defense tasks. At the tenth anniversary of Reagan's March 23 speech, Adm. James Watkins, former Chief of Naval Operations and Energy Secretary, said that the SDI “faded,” because “*we never set a policy after 1985. . . . It is typical in this country of getting near the top, near the peak of Mount Everest, and then backing off.*”

Ironically, ten days later, in April 1993, the effectiveness of beam weapons as a defense from nuclear weapons—hysterically demonized in the 1980s by the Soviet leadership—and their contribution to global strategic stability, were acknowledged by Russian President Boris Yeltsin during his summit meeting with President Bill Clinton in Vancouver, Canada.

After the Iran-Contra scandal broke in October 1986, President Reagan became a “lame duck,” while the real power center within the administration shifted to Vice President Bush. Most of the responsibility for the truly criminal, murderous activities that occurred within the Iran-Contra complex, lies with George Bush, who since 1981 had supervisory control over U.S. covert intelligence operations in the White House. But Bush escaped the Iran-Contra scandal almost un-

scathed, and became President on Jan. 20, 1989. During the Bush years, the SDI was pushed to the fringe of military-strategic affairs, which centered on Bush's "new world order." And, during the Bush years, LaRouche was incarcerated as the result of one of the most outrageous political prosecutions in American legal history.

But, neither the SDI program — currently labelled the Ballistic Missile Defense program — nor LaRouche went away.

A new beginning?

LaRouche has always emphasized that nuclear weapons, other weapons of mass destruction, and their delivery systems cannot be forbidden. They will not only stay around, but will inevitably proliferate. The American nuclear physicist and military expert Edward Teller, who contributed decisively to the development of the first American hydrogen bomb, and, together with LaRouche, belonged to those very few who convinced President Reagan to announce his SDI directive on March 23, 1983, said, following the recent Indian nuclear tests: "It now seems that the governments that are responsible for roughly half the population of the world already have nuclear explosives. Therefore *proliferation is an accomplished fact*. We should look for ways to live with that. We should start thinking, not in terms of what we wish, but in terms of what is reality."

The initiative for a new beginning in proliferation policy, must certainly come from the United States. Only the U.S.A. has the weight to launch a new beginning in shaping the strategic world order, as well as the new world financial system. And only the United States is economically and technologically in a position to rapidly produce effective SDI systems, in order to counter the undeniable "remaining risk" inherent in the spread of weapons of mass destruction. For example, in the United States the Airborne Laser system (ABL) is in an advanced stage of development. The ABL is a chemical laser and an adaptive optics fire control system, keeping the laser beam focussed in the atmosphere, which are installed on a Boeing 747. The ABL can destroy missiles in the boost phase at a height of 12 kilometers and a distance of 500 km or more.

The ABL is a good illustration that there are quick and effective possibilities to counter dangerous situations which can evolve from the spread of weapons of mass destruction. As said above, the United States must take the first step, although Russia, in spite of the horrendous crisis it is in, still possesses a broad array of blueprints and prototypes for beam-weapons missile defense. But, there are also other states, in various stages of economic development, that have the potential to protect themselves through beam weapons, from the dangers to national security posed by weapons of mass destruction.

SDI defense systems also offer two essential economic advantages: Not only are beam weapons technically superior on physical grounds, but they are also cheaper than the "slow"

anti-missile interceptors. Using pulses of concentrated energy, beam weapons can destroy offensive missiles with a "cost per kill" much lower than what it took to produce the missiles. Directed-energy beams represent a key technology for industry: Already today, machine tools which work with high-energy beams, are progressing very rapidly. The tremendous economic significance of high-energy-based technologies was, even in the early 1980s, a central feature of LaRouche's SDI strategy. Despite all the blather about the post-industrial "information society," in reality, more than ever, the growth of the world economy and a higher living standard for the world's population, depend on the expansion of industrial production, infrastructure, and energy production. The coming Third Industrial Revolution will encompass the full utilization of the electromagnetic spectrum—for example, laser machine tools, nuclear and fusion energy, magnetic levitation railways (as in the Eurasian Land-Bridge concept), and space travel. How often in history, have new technologies produced great changes initially in the military sector, and then dramatically changed and advanced the economy as a whole.

To sum things up: As LaRouche has stated repeatedly in recent years, more than ever, directed-energy-based defense systems against weapons of mass destruction and their delivery systems are technologically feasible, strategically necessary, and morally imperative.

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LaRouche's 1988 forecast of German reunification

Lyndon H. LaRouche, Jr. gave the following speech at a press conference at West Berlin's Kempinski Bristol Hotel on the morning of Oct. 12, 1988. He was at the time an independent candidate for the Presidency of the United States.

I am here today, to report to you on the subject of U.S. policy for the prospects of reunification of Germany. What I present to you now, will be a featured topic in a half-hour U.S. television broadcast, nationwide, prior to next month's Presidential election. I could think of no more appropriate place to unveil this new proposal, than here in Berlin.

I am the third of the leading candidates for election as the next President of the United States. Although I shall not win that election, my campaign will almost certainly have a significant influence in shaping some of the policies of the next President.

Although we can not know with certainty who will be the winner of a close contest between Vice President George Bush and Massachusetts Gov. Michael Dukakis, it is the best estimate in the United States today, that Mr. Bush will win the largest electoral vote. Obviously, I am not supporting Mr. Bush's candidacy, and I am not what is called a "spoiler" candidate, working secretly on Mr. Bush's behalf. Nonetheless, should Mr. Bush win, it would be likely that I would have some significant, if indirect influence on certain of the policies of the next administration. How this result would affect the destiny of Germany and Central Europe generally, is the subject of my report here today.

By profession, I am an economist in the tradition of Gottfried Wilhelm Leibniz and Friedrich List in Germany, and of Alexander Hamilton and Mathew and Henry Carey in the United States. My political principles are those of Leibniz, List, and Hamilton, and are also consistent with those of Friedrich Schiller and Wilhelm von Humboldt. Like the founders of my republic, I have an uncompromising belief in the principle of absolutely sovereign nation-states, and I am therefore opposed to all supranational authorities which might undermine the sovereignty of any nation. However, like Schiller, I believe that every person who aspires to become a beautiful soul, must be at the same time a true patriot of his own nation, and also a world-citizen.

For these reasons, during the past fifteen years I have become a specialist in my country's foreign affairs. As a result of this work, I have gained increasing, significant influence among some circles around my own government on the inter-related subjects of U.S. foreign policy and strategy. My role

during 1982 and 1983 in working with the U.S. National Security Council to shape the adoption of the policy known as the Strategic Defense Initiative, or SDI, is an example of this. Although the details are confidential, I can report to you that my views on the current strategic situation are more influential in the United States today than at any time during the past.

Therefore, I can assure you that what I present to you now, on the subject of prospects for the reunification of Germany, is a proposal which will be studied most seriously among the relevant establishment circles inside the United States.

Under the proper conditions, many today will agree, that the time has come for early steps toward the reunification of Germany, with the obvious prospect that Berlin might resume its role as the capital.

For the United States, for Germans, and for Europe generally, the question is, will this be brought about by assimilating the Federal Republic of Germany and West Berlin into the East bloc's economic sphere of influence, or can it be arranged differently? In other words, is a united Germany to become part of a Europe from the Atlantic to the Urals, as President de Gaulle proposed, or, as Mr. Gorbachov desires, a Europe from the Urals to the Atlantic?

The reality of the worldwide food crisis

I see a possibility, that the process of reunification could develop as de Gaulle proposed. I base this possibility upon the reality of a terrible worldwide food crisis which has erupted during the past several months, and will dominate the world's politics for at least two years to come.

The economy of the Soviet bloc is a terrible, and worsening failure. In Western European culture, we have demonstrated that the successes of nations of big industries depend upon the technologically progressive independent farmer, and what you call in Germany the *Mittelstand* [Germany's small and medium-sized entrepreneurs]. Soviet culture in its present form is not capable of applying this lesson. Despite all attempts at structural reforms, and despite any amount of credits supplied from the West, the Soviet bloc economy as a whole has reached the critical point, that, in its present form, it will continue to slide downhill from here on, even if the present worldwide food crisis had not erupted.

I do not foresee the possibility of genuine peace between the United States and Soviet Union earlier than thirty or forty years still to come. The best we can do in the name of peace, is to avoid a new general war between the powers. This war-avoidance must be based partly on our armed strength, and our political will. It must be based also, on rebuilding the strength of our economies.

At the same time that we discourage Moscow from dangerous military and similar adventures, we must heed the lesson taught us by a great military scientist nearly four centuries ago, Niccolò Machiavelli: we must also provide an adversary with a safe route of escape. We must rebuild our economies to the level at which we can provide the nations of



Lyndon LaRouche speaks at Berlin's Kempinski Bristol Hotel, Oct. 12, 1988: "I can assure you that what I present to you now, on the subject of prospects for the reunification of Germany, is a proposal which will be studied most seriously among the relevant establishment circles inside the United States."

the Soviet bloc an escape from the terrible effects of their economic suffering.

I give a concrete example.

Recently, in response to the food crisis, I sponsored the formation of an international association, called Food For Peace. This association has just recently held its founding conference in Chicago Sept. 3-4, and since then has been growing rapidly inside the United States and in other nations represented by delegates attending that conference.

One of the points I have stressed, in supporting this Food For Peace effort, is that the Soviet bloc will require the import of about 80 million tons of grain next year, as a bare minimum for the pressing needs of its population. China is experiencing a terrible food crisis, too. As of now, the food reserves are exhausted. There are no more food reserves in the United States, and the actions of the European Commission in Brussels have brought the food reserves of Western Europe to very low levels. Next year, the United States and Western Europe will be cut off from the large and growing amount of food imports during recent years, because of the collapse of food production in developing nations throughout most of the world.

During 1988, the world will have produced between 1.6 and 1.7 billion tons of grains, already a disastrous shortage. To ensure conditions of political, and strategic stability during 1989 and 1990, we shall require approximately 2.4 to 2.5 billion tons of grain each year. At those levels, we would be able to meet minimal Soviet needs; without something approaching those levels, we could not.

If the nations of the West would adopt an emergency agricultural policy, those nations, working together, could ensure that we reach the level of food supply corresponding to about 2.4 billion tons of grains. It would be a major effort, and would mean scrapping the present agricultural policies of many governments and supranational institutions, but it could be accomplished. If we are serious about avoiding the danger of war during the coming two years, we will do just that.

By adopting these kinds of policies, in food supplies and other crucial economic matters, the West can foster the kind of conditions under which the desirable approach to reunification of Germany can proceed on the basis a majority of Germans on both sides of the Wall desire it should. I propose that the next government of the United States should adopt that as part of its foreign policy toward Central Europe.

Rebuild the economies of Eastern Europe

I shall propose the following concrete perspective to my government. We say to Moscow: We will help you. We shall act to establish Food For Peace agreements among the international community, with the included goal that neither the people of the Soviet bloc nor developing nations shall go hungry. In response to our good faith in doing that for you, let us do something which will set an example of what can be done to help solve the economic crisis throughout the Soviet bloc generally.

Let us say that the United States and Western Europe

will cooperate to accomplish the successful rebuilding of the economy of Poland. There will be no interference in the political system of government, but only a kind of Marshall Plan aid to rebuild Poland's industry and agriculture. If Germany agrees to this, let a process aimed at the reunification of the economies of Germany begin, and let this be the *punctum saliens* for Western cooperation in assisting the rebuilding of the economy of Poland.

We, in the United States and Germany, should say to the Soviet bloc, let us show what we can do for the peoples of Eastern Europe, by this test, which costs you really nothing. Then, you judge by the results, whether this is a lesson you wish to try in other cases.

I am now approaching the conclusion of my report. I have two more points to identify.

All of us who are members of that stratum called world-class politicians, know that the world has now entered into what most agree is the end of an era. The state of the world as we have known it during the postwar period is ended. The only question is, whether the new era will be better or worse than the era we are now departing?

The next two years, especially, will be the most dangerous period in modern European history, and that worldwide. Already, in Africa, entire nations, such as Uganda, are in the process of vanishing from the map, biologically. Madness on a mass scale, of a sort which Central Europe has not known since the New Dark Age of the fourteenth century, has already destroyed Cambodia, is threatening to take over the Middle East as a whole, and is on the march, to one degree or another, in every part of the world. As a result of these conditions of crisis, the world has never been closer to a new world war than the conditions which threaten us during the next four years ahead. What governments do during the coming two years will decide the fate of all humanity for a century or more to come.

There have been similar, if not identical periods of crisis in history before this, but, never, to our best knowledge, on a global scale, all at once.

I recall the famous case of a certain German gentleman of the Weimar period. This gentleman was persuaded that a second world war was inevitable. He searched the world for a place to which he might move his family, to be out of the areas in which the next war would be fought. So, when the war erupted, he and his family were living in the remote Solomon Islands, on the island of Guadalcanal.

In this period of crisis, there is no place in which any man or woman can safely hide in a crisis-ridden world without food. One can not duck politics, with the idea of taking care of one's career and family, until this storm blows over. There is no place, for any man or woman to hide. There is no room for today's political pragmatists in the leadership of governments now. If we are to survive, we must make boldly imaginative decisions, on the condition that they are good choices, as well as bold ones.

The time has come for a bold decision on U.S. policy toward Central Europe.

If there is no Soviet representative here in this audience at the moment, we may be certain that the entire content of my report to you now will be in Moscow, and will be examined at high levels there, before many hours have passed. The Soviet leadership has said in its newspapers and elsewhere, many times, that it considers me its leading adversary among leading individual public figures today. Nonetheless, Moscow regards me with a curious sort of fascination, and, since President Reagan first announced the Strategic Defense Initiative, considers everything I say on policy matters to be influential, and very credible.

Moscow will read the report I deliver here today. It will wait, as Soviet political leaders do, to see what other circles around the U.S. establishment and government might echo the kind of proposal I have identified. Once they see such a signal from those quarters, Moscow will treat my proposal very seriously, and will begin exploring U.S. and European thinking on this.

Germany's sovereign choice

As far as I am concerned, it is Germans who must make the sovereign decision on their choice of fate for their nation. My function is to expand the range of choices available to them. So, I have come to Berlin, where the delivery of this report will have the maximum impact in Moscow, as well as other places.

I conclude my remarks with the following observation.

Moscow hates me, but in their peculiar way, the Soviets trust me to act on my word. Moscow will believe, quite rightly, that my intentions toward them are exactly what I described to you today. I would therefore hope, that what I am setting into motion here today, will be a helpful contribution to establishing Germany's sovereign right to choose its own destiny.

For reasons you can readily recognize from the evidence in view, I know my German friends and acquaintances rather well, and share the passions of those who think of Germany with loving memory of Leibniz, Schiller, Beethoven, Humboldt, and that great statesman of freedom, Freiherr vom Stein. If I can not predict Germany's decisions in this matter exactly, I believe that if what I have set afoot here today is brought to success, the included result will be that the Reichstag building over there, will be the seat of Germany's future parliament, and the beautiful Charlottenburger Schloss, the future seat of government.

If the conditions arise, in which that occurs, President de Gaulle's dream of a Europe from the Atlantic to the Urals will be the peaceful outcome of thirty years or so of patient statecraft, and that durable peace will come to Europe and the world within the lifetime of those graduating from universities today.

Heute, bin ich auch ein Berliner.

The assassination of Herrhausen: murder as a tool of (geo)politics

by Rüdiger Rumpf

Three weeks after the fall of the Berlin Wall had put Germany into a mood of joyous celebration, a terrorist bombing shook the republic, and the effects of it are still felt today. It was already apparent immediately after the assassination of Alfred Herrhausen, that one of the most important personalities in Germany and in the world of international finance, had been murdered. The background of the assassination, and the effects it was to have, remained veiled for some time, or, at least, no one spoke about it in public. Politicians seemed unaffected by the killing of an important and close adviser of the Chancellor, and everyone expected that the process toward reunification of Germany would continue, although not as rapidly as it in fact happened.

Initially, the public was sold a package of pseudo-information about the assassination, based on the ostensible claim of the “Red Army Faction” (RAF), that they had carried out the bombing. The veneer seemed plausible: The RAF, after all, had a long history of being an underground guerrilla troop of enraged, misled desperadoes. Why should this gang of terrorists, which had fought the state for two decades, not also kill the head of the largest and most important bank in Germany? Had this gang, now in its “third generation,” not proven that it could successfully regenerate itself? The first generation was completely destroyed; the second was either in prison or its members had disappeared to parts unknown, but the “third generation” seemed to be a complete unknown, even to security authorities. Former Federal Attorney General Kurt Rebmann had admitted that, since the mid-1980s, there was no proof that any deed committed by an identified person, had been in connection with terrorist acts ascribed to the “RAF.”

The fall of the Wall gives birth to monsters

The fact that the bloodless collapse of the hated East German SED dictatorship led to the revelation of some of the best-kept secrets of the West German elite, may be an irony of history. When, in the spring of 1990, the newly elected (and last) German Democratic Republic (G.D.R.) government began a series of arrests and extraditions of RAF terrorists long sought by West German authorities, it soon turned out that the people whose faces adorned the terrorist wanted posters hanging all over the walls of official buildings in West Germany (“Warning! Armed and Dangerous!!”), had not vis-



Deutsche Bank Chairman Alfred Herrhausen. His assassination on Nov. 30, 1989 was a powerful blow—and a threat—to Chancellor Kohl.

ited the G.D.R. on vacation: They had lived there as citizens of East Germany, in the grayness of everyday socialist life. After a bit of chatter in the media about whether the G.D.R. had been the real string-puller behind terrorism in the Federal Republic from the beginning, it turned out that Gen. Erich Mielke’s East German State Security (Stasi) bureaucracy had, in fact, now and then provided protection and helped the terrorists escape, but he could not be called the initiator or contracting party for the RAF first and second generations. In the trials against former RAF members, most of whom have now finished serving their sentences, the prosecuting attorney was unable to present any evidence of East German support for the terrorist group in the period before they had become “citizens of the G.D.R.”

The West German government had always denied having known that the RAF cadre were staying in East Germany. The authors of the book *RAF Phantom: What Do Politics and Business Need Terrorists For*¹ printed for the record, in the first edition (1992), the reply of the government to a question posed by Westdeutscher Rundfunk (West German Radio) on July 5, 1990: “The office of the Chancellor first learned that

1. *Das RAF—Wozu Politik und Wirtschaft Terroristen brauchen*, Gerhard Wisenewski, Wolfgang Landgrüber, and Ekkehard Sieker (Muenchen, Drömersche Verlaganstalt, Knauer, second printing, 1997).

‘RAF’ members were staying in the G.D.R. at the time of the arrests in June 1990.” The authors printed a dossier-entry of the Terrorism Department of the Federal Criminal Office (Bundeskriminalamt, BKA), dating back to 1986, demonstrating that the government’s claim could not be true. They showed (p. 383) that the West German government’s denial of having entered into an agreement with the G.D.R. was also not credible. The authors’ remark in this connection is significant: that the then-chief of the Federal Intelligence Service (Bundesnachrichtendienst, BND), Klaus Kinkel (now Foreign Minister), personally attempted to dissuade a “Stern TV team” from broadcasting a report on government agreements between the Federal Republic of Germany and the G.D.R. on former RAF members. Kinkel is reported to have said, in the course of the attempt to prevent the broadcast, that such agreements would be “de jure tantamount to support for a terrorist association.”

Kinkel’s remark cannot be dismissed easily. *RAF Phantom* also cites remarks by George A. Carver, the former CIA mission chief (1976-79) at the U.S. Embassy in Bonn (p. 381), in an interview with *Tageszeitung* on March 27, 1992. Carver left no doubt that West German authorities had known about the former RAF members in the G.D.R. as early as the beginning of the 1980s. This point, said Carver, had been the subject of discussion between American and West German intelligence services on several occasions.

If ten of the most wanted terrorists, including Inge Viett, suspected of being among the leadership of the RAF for many years, and who was indeed among the first contact points for the East German Stasi in the West German and West Berlin terrorist scene, could be proven to have had nothing to do with the spectacular terrorist attacks of a “Red Army Faction” since 1984, then the question is: Who was the legendary “third generation” of the RAF, in reality?

In fact, just recently, on July 29, 1998, the *Süddeutsche Zeitung*, in an article entitled “The ‘RAF’ Consists of Three People,” reported on a study conducted by the Cologne Office for the Protection of the Constitution (Bundesamt für Verfassungsschutz), on “The Dissolution of the RAF,” following the so-called declaration of the RAF in April 1998 that it was dissolving itself. The 38-page study reports that even some of the people highest on the wanted list since 1985 may not have even belonged to the RAF. This includes Andrea Klump, accused of involvement in the Herrhausen murder.

Who committed the assassinations, including of Herrhausen, if it was not this gang of “desperadoes,” as they were often portrayed by West German authorities? Was it possible that a terrorist organization could keep secret the identity of its membership, from 1985 to 1989, in a Federal Republic thoroughly saturated with electronic surveillance? How was it possible that this legendary terrorist gang, over the course of so many crimes, had never left a single strand of hair, not a drop of saliva, no identifiable piece of clothing, not a fragment of a fingerprint, no traces of an abandoned hideout, had successfully hid themselves from relatives, and left no

other traces of any kind, which might have been used to identify them? All of this is hardly possible.

Witnesses at the site of the Herrhausen assassination, according to authorities, reported having seen at least a dozen people around the site at that time, so that a considerable number of people were presumably involved in preparing and carrying out the bombing. But, according to their own statements, authorities do not know who these people may have been. That is all the more astonishing, since the entire area around the site of the assassination was under close surveillance by local police, the State Criminal Office, private security services, and also, on account of Herrhausen’s personal importance, officials of the Hessen Office for the Protection of the Constitution (Verfassungsschutz) and the BKA. While building superintendents and other witnesses noticed several joggers and other persons at the site, no one thought to be acting peculiar was observed by any of the official security agencies even a half-hour before the bomb exploded.

If the fact is also taken into account, that up to five persons had erected barricades at the site just before the assassination, on Nov. 30, and that they had chiseled a trench in the asphalt, into which they allegedly laid the cable with which the bomb was detonated, then the debility of official observational capabilities is indeed alarming.

One week following the assassination, Interior Minister Wolfgang Schäuble refused to provide the Interior Committee of the Bundestag (lower House of Parliament) with any information about the investigation, claiming that anything he said might interfere with the ongoing investigation. All he said, was that “the substance of the message, taking credit for the deed, contrasts with the severity and technical perfection of the hit.”

On Dec. 7, 1989, Richard Meier, the former president of the Federal Office for the Protection of the Constitution, was questioned by the Bundestag Interior Committee. He was sufficiently informed to be able to testify that “a walking tour of the immediate vicinity of the site of the attack, one-half hour prior to Herrhausen’s drive through the site, would have revealed to a schooled eye that two young men, dressed in jogging outfits, and each with an earphone, i.e., in radio contact with each other, were attending to a bicycle” (p. 113). Meier drew sharp criticism against himself personally, when he testified that the advance vehicle of Herrhausen’s convoy had been “withdrawn” (p. 112).

For whom was Herrhausen a thorn in the side?

If it seems plausible that Herrhausen was not killed by “deranged desperadoes” for “political-ideological reasons,” then the question is: Who had an interest in eliminating Herrhausen? An American expert on intelligence services, Col. Fletcher Prouty (ret.), made some interesting observations concerning this question. It was Prouty who, in the 1960s, provided the District Attorney of New Orleans, Jim Garrison, with the crucial evidence of a conspiracy in the assassination of U.S. President John F. Kennedy. Prouty explained the back-

ground of this conspiracy to film director Oliver Stone, for his movie “JFK.” Prouty was depicted in the film as “Mr. X.”

Prouty sees a parallel between the assassinations of Kennedy and Herrhausen: “His death, at that time . . . and the astonishing circumstances of his death . . . resemble the assassination of President Kennedy in 1963,” Prouty said in an interview with the Italian daily *Unità* in 1992. “Some great power center wanted for some reason to get rid of the board spokesman of Deutsche Bank on that day and in that manner, in order to teach others a lesson. So there is a message in the way he was killed.”

Prouty said: “When you consider the great importance of events in the Soviet Union, in Eastern Europe, and especially in Germany . . . then the Herrhausen assassination is tremendously significant. We must not allow it to be swept under the rug.”

Prouty points out that the key to the assassination of Herrhausen was contained in the first 11 pages of a speech which Herrhausen had intended to deliver in New York on Dec. 4, 1989. In that speech, Herrhausen outlined a revolutionary proposal to found a bank for the development of Poland, modelled on the German Kreditanstalt für Wiederaufbau, which had played a crucial role in the postwar economic reconstruction of Germany. This new bank for Poland was to be financed by funds from Western banks. Poland was to be enabled to participate in a Western-financed reconstruction, which was highly improbable at that point in time, since Poland was straining under an enormous foreign debt burden, and it could not have freed itself under its own power. The foundation for the kind of economic development which Herrhausen foresaw for Poland, would have been the renunciation by Western banks and countries of their claims to the payment of the outstanding debt: a monstrosity of a proposal—for the financiers. Clearly, this proposal went hand in hand with that which Lyndon LaRouche had made one year previously in Berlin. As Prouty emphasized, Herrhausen thus sided with a number of politicians and leading businessmen who had all been killed for the same reason, i.e., because they wanted to break the control of the “Condominium of Yalta” over the world. Among those Prouty included were John F. Kennedy, Aldo Moro, Enrico Mattei, and Olof Palme.

With this speech, Herrhausen would have put the prevailing management policy regarding the growing, catastrophic debt crisis into question. The policy of the International Monetary Fund (IMF), the World Bank, all of the commercial banks with the exception of Deutsche Bank—a policy directly contrary to that of Herrhausen and LaRouche—was clearly not to develop the overindebted countries, Poland among them. Instead, by means of so-called structural and “financial reforms,” these countries were ostensibly to be enabled to service their unpayable debt—at the cost of the lives of their citizens. In view of such a commitment, it is not at all surprising that this policy has taken its toll everywhere, and these countries have experienced no development since the debt crisis began more than 30 years ago. The last year in which

there was a net capital transfer from the financially stronger industrial countries into the wrongly termed “developing countries,” was 1964.

Two months before his assassination, at the IMF annual meeting, Herrhausen expressed his conviction that the only chance to end the debt spiral consisted of at least a partial debt moratorium, not only for Poland, and provision of financial means for the economic development of indebted countries. Herrhausen drew the fire of the world of international finance against himself, with that proposal.

Biographer Dieter Balkhausen quotes Herrhausen, who had left Washington quickly following one such meeting, as saying that the air was “full of lead.” Herrhausen hinted on other occasions as well, that he saw himself in the role of a “reformer”—about whom Machiavelli had once warned, that such a person would have as adversaries those who profitted from the old system, while those who stood to profit from the new system would support him only half-heartedly. Today, the situation has not changed from what it was 300 years ago. By those who profitted from the old system, Herrhausen surely meant the international banking world, for which writing off their claims to payment of Third World debt could have threatened their existence.

Deutsche Bank was in a rather unique position in the world of international finance, because over many years, the bank had used its profits to write off its foreign liabilities almost completely. A serious public debate would have revealed the fact that the most highly indebted countries, in Ibero-America, for example, were in fact unable to pay their debts, and other banks, the competitors of Deutsche Bank, would have inevitably had to write off their bad debts as well. That would have led to collapsed credit ratings for those banks, below the level necessary for them to continue doing business internationally.

Herrhausen was not himself the inventor of this extraordinarily progressive policy. Deutsche Bank board member Werner Blessing was known, years before Herrhausen, for his public criticism of the debt-crisis recipes of the leading banks and financial institutions. Balkhausen notes that Herrhausen was impressed with Blessing’s attitude on this issue. Blessing, who was responsible for North America on the Deutsche Bank board, had announced in 1987 that Deutsche Bank would in the future intensify its operations in the U.S. market. That would have meant that Deutsche Bank would have become the second-largest bank in the United States, after Citicorp. Blessing died of a heart attack in 1987.

Herrhausen, just before his death, demonstrated that Deutsche Bank wanted to expand its operations worldwide. For the first time in the history of the Federal Republic of Germany, Deutsche Bank had bought an internationally leading investment house, Morgan Grenfell in London, for nearly DM 3 billion, and thus demonstrated in a way which seemed almost aggressive, that it would no longer content itself with being the leading bank in Germany.

One major problem, although it was not evident initially,

was Herrhausen's relatively isolated position, which derived from the relative strength of Deutsche Bank in comparison to other, including German, banks. Although all of the large German banks saw themselves compelled to write off bad debts in high-risk countries, and to do that in a timely fashion, and although they could thus have absorbed a possible debt moratorium without severe disruption, Herrhausen had no supporters in those banks. Even Blessing's ideas about reducing debts and forgiving interest payments had been denounced in banking circles as a "crazy idea." Herrhausen's most prominent opponent, Walter Seipp, speaker of the board of Commerzbank, not only disliked Herrhausen personally, but the *Frankfurter Rundschau* went so far as to claim that Seipp hated his banker colleague. The criticism from banking circles against Herrhausen was that he did not act in "solidarity" with them (cited in *RAF Phantom*, p. 162).

Adviser to the Chancellor

Prior to his assassination, it was generally known that Herrhausen had significant influence with Chancellor Helmut Kohl, and that he had shaped the views of the Chancellor with respect to upcoming reunification, in the form Kohl presented those perspectives in his 10-point program to the German Parliament. The same influence was undoubtedly present in Kohl's views concerning an economic and monetary union, for which Kohl thought that a political union of European states was a precondition, and that this union was

still far in the future.

As recently published, secret government documents show, that on Nov. 27, 1989, Kohl described the difficulties with, and his reservations against a premature fixing of the time schedule for the economic and monetary union to an impatient French President François Mitterrand, who was also insisting on the need for the Four Powers to agree to a possible reunification of Germany. Kohl is reported to have insisted that the "large divergences in stability developments" would endanger the "actual achievement of the divergence goals in the first stage" of a monetary union. On Nov. 30, Herrhausen, who was clearly Kohl's most important adviser on European monetary union, was assassinated, while Mitterrand, on that very day—his letter arrived in Bonn on Dec. 1—demanded categorically, that "we make decisions in Strasbourg, which obligate us unmistakably to the path of economic and monetary union."

Kohl's capitulation did not take long: On Dec. 5, he retreated from his position and conceded to let the resolution pass at the upcoming meeting in Strasbourg planned for Dec. 9. There, Kohl agreed to the resolution to establish a governments' conference one year later to implement the monetary union—against the interests of Germany, as Kohl acknowledged in a discussion with U.S. Secretary of State James Baker three days later, according to the Dec. 18, 1989 *Der Spiegel* (*RAF Phantom*, p. 108). This is the background to the betrayal of German interests which Kohl has now made public.

While the criticism of the policy Herrhausen had articulated had not yet exploded at the time of his assassination, that changed radically in the spring of 1990. The sabotage launched by the British government under Thatcher against Bonn's efforts to achieve reunification, culminated in the "Fourth Reich" propaganda campaign against Germany invented in Britain, and the shameless attempt to equate Kohl's and Hitler's ambitions.

Compared with the tremendous destruction of the two world wars, "low-intensity warfare" operations, also known as terrorist warfare, cost relatively little. If one can successfully enforce one's will upon an adversary with little expenditure of force and money, then that manifests a far greater mastery of the tools of power, with which a political victory can be achieved. It is crucial in such operations that the form of the murder—of a more or less brutal execution of an adversary who plays a strategic role—contains a message, as Prouty correctly noted. The message is: From us, the perpetrators, you cannot protect yourself, because we commit our atrocities in public and we cannot be attacked. The astonishing thing is the degree to which the institutions of the Federal Republic saw it as their duty to cover up such blackmail.

The overlap in time of the largely confidential negotiations with allegedly friendly, or at least allied governments, and the publicly committed, nearly celebrated atrocity, leaves no doubt that Herrhausen's assassination was meant to deliver just such a message to the governing elite of the Federal Republic of Germany, by London- and Paris-centered forces.



WAS DIANA MURDERED?

AN EIR VIDEO

"The controversy around the murder of Princess Diana is now about to go into a new phase, with the escalating investigation in Paris and the first anniversary of her death on Aug. 31. The British population, by an overwhelming majority, is convinced that she was murdered. And this has major implications for the survival of the House of Windsor."

—Jeffrey Steinberg,
EIR Counterintelligence Editor

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A 'Productive Triangle' for Europe's integration

by Angelika Beyreuter-Raimondi

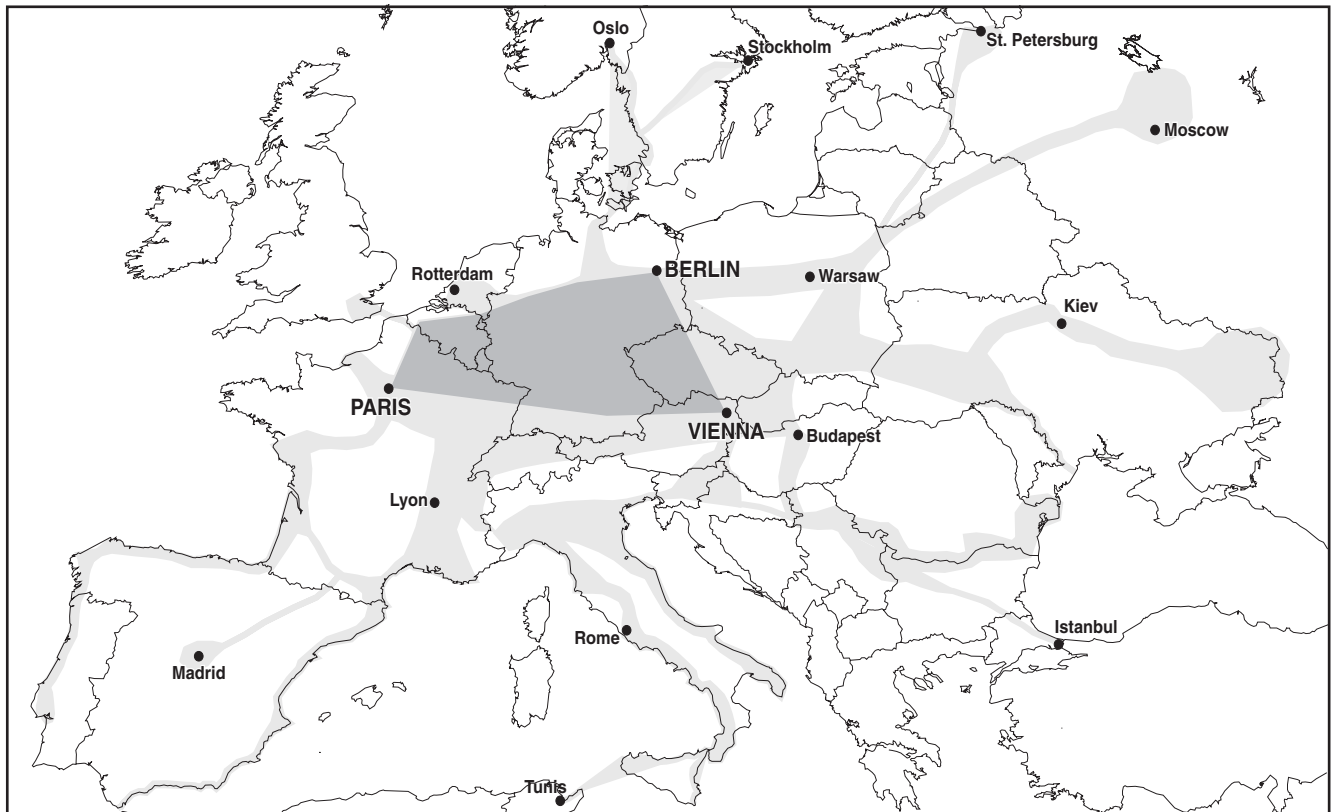
In December 1989, Lyndon LaRouche commissioned a group of scientists and other specialists to work out an economic program for Europe. The central point of the program is the Paris-Berlin-Vienna "Productive Triangle," a proposal which circulated widely, was translated into many languages (especially East European languages), and was the theme of many conferences. This geographical area, a spherical triangle approximately as large as the territory of Japan, encompassing the industrial regions of northern France, western and eastern Germany, and parts of former Czechoslovakia and Austria, was envisioned to become the center of the world economy, where there is the largest concentration of productive economic power, to serve as a locomotive to restart the collapsing world economy.

The grand design of this program aimed at stimulating the entire economy of eastern and western Europe following the fall of the "Iron Curtain," by means of immediate construction of large projects for the modernization of infrastructure in transportation, energy, water, and communications. These projects, to be financed chiefly through state credit at low rates of interest, would stimulate the demand for investment goods over the long term, secure employment, and favor the creation of modern industrial factories.

The backbone of the triangle is an integrated system of high-speed and magnetic levitation rail, to be used for transport of both passengers and freight. The transportation network is to be expanded with roads and waterways, linked by automated freight-transfer systems. The urban centers would be connected with magnetic levitation lines. Within the triangle, a computer-controlled container-transport system would allow delivery of freight door-to-door within 24 hours.

Passenger transport and freight turnover would be intensified and expanded, reestablishing and extending the east-west links which were broken by the partition of Europe. Extending outward from this core region of the Productive Triangle, spiral arms of infrastructure corridors would reach into the remaining regions of Europe and integrate a market of over a half-billion people. The "arms" of the triangle would stimu-

FIGURE 1
The Productive Triangle, and its spiral arms of development, from a 1990 EIR study



late the construction of completely new cities and industries. Modern nuclear power plants would be the chief source of energy, providing electricity and process heat.

These spiral arms would extend eastward from Warsaw, branching off to St. Petersburg and the Baltic republics, and toward Moscow through Minsk, as well as through Ukraine to Kiev and Kharkov; from Prague and Dresden through Wroclaw to Krakow; in the southwest, along the Danube and Black Sea, with a branch to Istanbul. In the south, one arm would extend through Italy and into Sicily. In the southwest, an arm would reach through Lyons and Marseilles to Spain; in the northwest, to the ports of the Netherlands and to Great Britain; and in the north, into the Scandinavian countries.

Maximizing productivity-density

The unique characteristic of LaRouche's proposal was to exploit the geographical and technological conditions for an integrated European infrastructure in such a way that a maximum of productivity-density would be achieved. This notion of productivity- or flux-density is an economic magnitude which is correlated with the increase of population density, the quantitative and qualitative increase of energy consumption per capita and per hectare, the intensity of agriculture and industrial activities, and the density of passenger and freight movement per square kilometer.

Under conditions of scientific and technological progress, the increase of productivity-density also contributes to an increase in the rates of growth of productive forces in the economy. This effects a profit which surpasses the costs of initial investments many times over. Thus, the state credits for such a program are not in any way inflationary.

Such a development of a total European infrastructure could not be feasible if its realization were left up to the "free play of market forces." A conscious political decision of participating governments would be necessary for the implementation of the Productive Triangle, and thus, a conscious political decision against the monetarist economic policy conceptions of "shock therapy," as propagated by Harvard Prof. Jeffrey Sachs and the International Monetary Fund. Instead, the decision would be in favor of an economic policy based on *principles of physical economy*, that the real wealth of a society consists in human creativity and its realization in the labor process, and not in ownership of real estate, raw materials, or money.

The European Union drew upon this conception of the Productive Triangle in its "White Book," written under then-EC president Jacques Delors. According to the plan, investments of some \$500 billion would be required by the year 2010, and 26 high-priority projects are listed, including the construction of a comprehensive Europe-wide high-speed rail network. The construction of a modern rail connection from Berlin to Warsaw would signify an important improvement of the "continental bridge" to the Asian part of Russia and on to China.

Thatcher's obsession to block German unity

by Elisabeth Hellenbroich

Since the fall of communism in Eastern Europe, and in particular since the fall of the Berlin Wall, the "German question" has moved to the center of the British "geopolitical" agenda in Europe. The British obsessively did everything in their power to prevent German reunification—to create a strategic *entente* with France, as well as playing the role of guardian for the interests of Eastern Europe. Once it became obvious that British attempts to forestall German reunification had failed, they initiated a campaign against Germany as the "Fourth Reich," while simultaneously drawing the United States and its European allies into two consecutive wars: The Persian Gulf War against Iraq and the Balkan war, whose sole purpose was to keep Germany contained and to ruin the potential for development of the East.

The credo of British foreign policy at the end of the 1980s was:

1. Do everything possible to prevent and/or undermine German reunification.
2. Never allow Germany to become a hegemonic economic power on the European continent.
3. Prevent Germany from becoming an important factor in the economic development of the Eastern European economies, which, with their skilled labor power, were seen—according to informal studies made after 1989 (e.g., Morgan Stanley)—as a potentially major source of wealth, in cooperation with Germany and France. If the fall of communism was inevitable for economic reasons, then the East—according to British strategic thinking—should be reduced to nothing more than a supplier of cheap raw materials, which, with aid of International Monetary Fund (IMF) conditionalities, could be exploited and kept in perpetual backwardness.

Historical documents which have been made public, in the context of the just-released papers on Chancellor Helmut Kohl's foreign policy over the last 15 years, prove that the British establishment—that is, Mrs. Thatcher and most of her Cabinet ministers—were hysterically obsessed with the perspective of German reunification and the strategic consequences that would follow.

Thatcher's own account

In her memoirs, *The Downing Street Years* (New York: HarperCollins, 1993), former British Prime Minister Margaret Thatcher provides a clinically interesting insight into British geopolitical manipulations.



"Iron Lady" Margaret Thatcher signs her book in Maclean, Virginia, November 1993.

In the section on "The German Problem and the Balance of Power," Thatcher writes that she firmly believes that there is something special about the German "national character," of which Germany's neighbors, such as Poland and France, should be fully aware. Wavering between "aggression" and "self-doubt" since Bismarck had unified the country, Germany, according to Thatcher, is by "nature" a destabilizing force on the European continent—one which, given its potential for taking economic leadership with respect to the East and the rest of Europe, had to be contained.

"The true origin of German *angst* is the agony of self-knowledge.

"As I have already argued, that is one reason why so many Germans genuinely—I believe wrongly—want to see Germany locked into a federal Europe. In fact, Germany is more rather than less likely to dominate within that framework; for a reunited Germany is simply too big and powerful to be just another player within Europe. Moreover, Germany has always looked east as well as west, though it is economic expansion rather than territorial aggression which is the modern manifestation of this tendency. Germany is thus by its very nature a destabilizing rather than a stabilizing force in Europe. Only the military and political engagement of the United States in Europe and close relations between the other two strongest sovereign states in Europe—Britain and France—are sufficient to balance German power: and nothing of that sort would be possible within a European super-state.

"One obstacle to achieving such a balance of power when I was in office was the refusal of France under Present Mitter-

rand to follow his and French instincts, and challenge German interests. This would have required abandoning the Franco-German axis on which he had been relying and, as I shall describe, the wrench proved just too difficult for him."

Then Thatcher describes how, in September 1989—that is, three months before the Wall came down, and amid a mass refugee wave from East Germany—she went to see Mikhail Gorbachov in Moscow. She was quite hopeful that she could convince the Soviets to act against German reunification.

"In Moscow the following morning and over lunch Mr. Gorbachov and I talked frankly about Germany. I explained to him that although NATO had traditionally made statements supporting Germany's aspiration to be reunited, in practice we were rather apprehensive. Nor was I speaking for myself alone—I had discussed it with at least one other Western leader, meaning but not mentioning President Mitterrand. Mr. Gorbachov confirmed that the Soviet Union did not want German reunification either. This reinforced me in my resolve to slow up the already heady pace of developments."

Yet to her great regret, as the historical events were unfolding in an unforeseeable, if breathtaking and revolutionary, way, it "turned out . . . the Soviets were prepared to sell reunification for a modest financial boost to their crumbling economy."

On Nov. 9, 1989, the Berlin Wall came down. The following day, in the evening of Nov. 10, 1989, Thatcher spoke to Chancellor Kohl on the phone and urged him to speak with Gorbachov, given the deeply troubling events, in which, as she writes in her book, all kinds of incidents could arise (such

as attacks on Soviet troops). Her concern had been excited by a message to her from Gorbachov, which was handed to her that same day by the Soviet ambassador.

Yet, to Thatcher's dismay, Kohl, confronted with events unfolding in East Germany, had given a speech in the Bundestag demanding that the East Germans be given the chance to determine their own future. For this, they would not need outside advice. This also would be true "for German reunification and German unity."

Panicked at the events that unfolded after the Berlin Wall fell, French President François Mitterrand hastily called for a special European Union heads-of-state conference for Paris, to take place on Nov. 18.

"This was the background to President Mitterrand's calling a special meeting of Community heads of government in Paris to consider what was happening in Germany. . . . Before I went I sent a message to President Bush reiterating my view that the priority should be to see genuine democracy established in East Germany and that German reunification was not something to be addressed at present. The President later telephoned me to thank me for my message with which he agreed and to say how much he was looking forward to the two of us 'putting our feet up at Camp David for a really good talk.' "

At the Nov. 18 meeting, Kohl stressed that it would be the right of the German people to determine their own future. Thatcher countered:

"I said that though the changes taking place were historic we must not succumb to euphoria. The changes were only just beginning and it would take several years to get genuine democracy and economic reform in eastern Europe. There must be no question of changing borders. The Helsinki Final Act must apply. Any attempt to talk about either border changes or German reunification would open up a Pandora's box of border claims right through central Europe. I said that we must keep both NATO and the Warsaw Pact intact to create a background of stability."

On Nov. 24, Thatcher met with President George Bush at Camp David, to whom she presented the same views as she had at Paris:

"I reiterated much of what I had said in Paris about borders and reunification and of the need to support the Soviet leader on whose continuance in power so much depended. The President did not challenge what I said directly but he asked me pointedly whether my line had given rise to difficulties with Chancellor Kohl and about my attitude to the European Community. It was also clear that we differed on the priority which still needed to be given to defence spending."

On Nov. 28, Kohl, to the utter surprise of everybody, and, as Thatcher remarks, "without any previous consultation with his allies and in clear breach of at least the spirit of the Paris summit," presented his famous 10-point declaration in the Bundestag, which dealt with the future development of Ger-

many. The fifth point addressed the "confederative structures between the two states—with the goal of creating a federation" in Germany. The tenth point was that the government intended to achieve "unity, reunification, the reattainment of German state unity."

U.S. policy at the time was, as Detlef Junkers reported in an article in *Frankfurter Allgemeine Zeitung* on March 13, 1997, that when the Wall fell, "President Bush's Secretary of State Baker and a small group of collaborators again formulated the three points of American foreign policy, which meant German reunification, containment, and integration." Had the United States rejected German reunification, it would have meant the end of its Europe policy. The greatest resistance, according to Junkers, was expressed by Thatcher, "that lady with the handbag, who equated Britain's interests in 1990, with the glory of the victorious powers of 1945 and the division of Germany."

The U.S. position was laid out in a press conference by Secretary of State James Baker III, in which he stressed that reunification would have to be based on four pillars:

1. German self-determination.
2. Germany to remain a member of NATO as well as part of "an increasingly integrated European Community."
3. Moves toward unity to be peaceful and step-by-step.
4. The principles of the Council on Security and Cooperation in Europe (CSCE) regarding borders to be maintained.

In December, President Bush gave a speech in Brussels in which he reemphasized the interests of the U.S. government concerning reunification, namely, to see a Germany embedded within the "federal Europe" structure. Thatcher was furious. Taking all possible options into account, she came to the conclusion that only a revived Anglo-French Entente could sabotage Germany's drive.

"If there was any hope now of stopping or slowing down reunification it would only come from an Anglo-French initiative. Yet even were President Mitterrand to try to give practical effect to what I knew were his secret fears, we would not find many ways open to us. Once it was decided that East Germany could join the European Community without detailed negotiations—and I was resisting for my own reasons treaty amendment and any European Community aid—there was little we could do to slow down reunification via the Community's institutions. I placed some hopes in the framework offered by the 'Four Powers'—Britain, France, the United States and the Soviet Union—which were responsible for the security of Berlin. But with the United States—and soon the Soviets too—ceasing to regard this as anything other than a talking shop for discussion of the details of reunification, this framework too was of limited use. The CSCE—on which I was to develop my ideas the following year—would provide a basis for restricting any unwelcome attempts to change borders in eastern Europe as a whole, but it would not stand in the way of German

reunification. So the last and best hope seemed the creation of a solid Anglo-French political axis which would ensure that at each stage of reunification—and in future economic and political developments—the Germans did not have things all their own way.”

In December 1989, the Council of Europe met in Strasbourg, which Kohl regarded as one his darkest hours. In the framework of that meeting, as Kohl said in his speech on April 30, 1998 before the Conference of Leipzig Savings Banks, Thatcher came up to him, and said, “We beat you twice, and now you are here again.”

Thatcher reports that she met President Mitterrand twice unofficially during the conference, to discuss the German question. “He was still more concerned than I was. He was very critical of Chancellor Kohl’s ‘ten-point’ plan. He observed that in history the Germans were a people in constant movement and flux. At this I produced from my handbag a map showing the various configurations of Germany in the past, which were not altogether reassuring about the future. We talked through what precisely we might do. I said that at the meeting he had chaired in Paris we had come up with the right answer on borders and reunification. But President Mitterrand observed that Chancellor Kohl had already gone far beyond that. He said that at moments of great danger in the past France had always established special relations with Britain and he felt that such a time had come again. We must draw together and stay in touch. It seemed to me that although we had not discovered the means, at least we both had the will to check the German juggernaut. That was a start.”

Beginning in January 1990, Thatcher had another meeting with Mitterrand at the President’s Elysée Palace. She had ordered a working group to work out how the Anglo-French Entente could be enforced. Dismayed by his earlier public remarks in East Berlin that “he was not ‘one of those who were putting on the brakes,’ ” she continued: “I hoped that my forthcoming meeting with him might overcome this tendency to schizophrenia.

“Almost all the discussion I had with President Mitterrand at the Elysée Palace on Saturday 20 January concerned Germany. Picking up the President’s remarks in the margins of Strasbourg I said that it was very important for Britain and France to work out jointly how to handle what was happening in Germany. East Germany seemed close to collapse and it was by no means impossible that we would be confronted in the course of this year with the decision in principle in favour of reunification. The President was clearly irked by German attitudes and behaviour. He accepted that the Germans had the right to self-determination but they did not have the right to upset the political realities of Europe; nor could he accept that German reunification should take priority over everything else. He complained that the Germans treated any talk of caution as criticism of themselves. Unless you were wholeheartedly for reunification, you were described as an enemy

of Germany. The trouble was that in reality there was no force in Europe which could stop reunification happening. He agreed with my analysis of the problems but he said he was at a loss as to what we could do. I was not so pessimistic. I argued that we should at least make use of all the means available to slow down reunification. The trouble was that other governments were not ready to speak up openly—nor, I might have added but did not, were the French. President Mitterrand went on to say that he shared my worries about the Germans’ so-called ‘mission’ in central Europe. The Czechs, Poles and Hungarians would not want to be under Germany’s exclusive influence, but they would need German aid and investment. I said that we must not just accept that the Germans had a particular hold over these countries, but rather do everything possible to expand our own links there. At the end of the meeting we agreed that our Foreign and Defence Ministers should get together to talk over the issue of reunification and also examine the scope for closer Franco-British defence co-operation.”

Thatcher then commented that Mitterrand did little in any practical manner, to radically change his foreign policy toward Germany. He had two choices, she said: “Essentially, he had a choice between moving ahead faster towards a federal Europe in order to tie down the German giant or to abandon this approach and return to that associated with General de Gaulle—the defence of French sovereignty and the striking up of alliances to secure French interests. He made the wrong decision for France. Moreover, his failure to match private words with public deeds also increased my difficulties. But it must be said that his judgement that there was nothing we could do to halt German reunification turned out to be right.”

It was Kohl’s visit to the Caucasus—which, again, to Thatcher’s dismay, was not planned in consultation with the Allies—that sealed the German reunification question: “In February Chancellor Kohl—again without any consultation with his allies—went to Moscow and won from Mr. Gorbachov agreement that ‘the unity of the German nation must be decided by the Germans themselves.’ (The *quid pro quo* would soon become clear. In July at a meeting in the Crimea the West German Chancellor agreed to provide what must have seemed to the Soviets a huge sum, though they could in fact have extracted much more, to cover the costs of providing for the Soviet troops who would be withdrawn from East Germany. . .).”

As result of her having been unable to stall German reunification, she recounts, the problems now coming to the fore in Europe resembled the Europe of 1914 and 1939. “The Europe that has emerged from behind the Iron Curtain has many of the features of the Europes of 1914 and 1939: ethnic strife, contested borders, political extremism, nationalist passions and economic backwardness. And there is another familiar bogey from the past—the German Question. . . .

“West Germany’s absorption of its next-door relations

has been economically disastrous, and that disaster has spread to the rest of the European Community via the Bundesbank's high interest rates and the ERM. We have all paid the price in unemployment and recession. East German political immaturity has affected the whole country in the form of a revived (though containable) neo-Nazi and xenophobic extremism. Internationally, it has created a German state so large and dominant that it cannot be easily fitted into the new architecture of Europe. . . .

"I will not reiterate here all the reasons I have given earlier for believing these developments to be damaging. But I will hazard the forecast that a federal Europe would be both unstable internally and an obstacle to harmonious arrangements — in trade, politics and defence — with America externally; that the Franco-German bloc would increasingly mean a German bloc (in economics, a deutschemark bloc) with France as very much a junior partner; and that as a result America would, first bring its legions home, and subsequently find itself at odds with the new European player in world politics.

"These developments are not inevitable. One revelation that emerged from the failure of Britain's Germany policy was the evident anxiety of France in relation to German power and ambition. It should not be beyond the capacity of a future British prime minister to rebuild an Anglo-French entente as a counter-balance to German influence."

Keep in mind that Thatcher wrote this at the height of the Balkan war (1993), which was initiated by the Anglo-French Entente, as a way of keeping Germany from developing the East.

British press launches 'Fourth Reich' campaign

Like every other leader in Europe (including Gorbachov, who admits it in his memoirs), Thatcher had been taken by surprise by the pace of events unfolding in East Germany. If Germany were reunified, it would constitute a grave danger to British imperial and strategic interests, especially in the economic arena. So, a major "Fourth Reich" campaign was unleashed by the Hollinger Corp. press, to depict a Germany that was reviving Hitlerism. The line was: If Germany should become a strong economic power in Europe, it might feel tempted to develop the East — which would translate into Hitler's *Drang nach Osten* (Drive to the East).

- On Oct. 31, 1989, even before the Wall was brought down, London *Times* editor Conor Cruise O'Brien wrote a signal piece headlined "Beware a Reich Resurgent." O'Brien identified two interacting historical events as forming the lead item at the close of the century: the dissolution of the Soviet empire and German reunification.

"We are on the road to the Fourth Reich," O'Brien wrote, "a pan-German entity commanding the full allegiance of German nationalists and constituting a focus for national pride. The First Reich was that founded in A.D. 800 by Karl der Grosse, known to the West as Charlemagne. It was dissolved

in 1806, at the behest of Napoleon. Germany then remained a state in dissolution until the advent of the Second Reich, that of the Hohenzollerns, in 1871. The Second Reich was destroyed in 1918 and the Weimar Republic was substituted for it, by the victorious foreigners. And when the Third Reich was destroyed in 1945, new political institutions were once more imposed on the Germans by victorious foreigners. . . . In the new and proud united Germany, the nationalists will proclaim the Fourth Reich, for while the term Reich is associated with victory and periods of German ascendancy; Republik is associated with defeat and ascendancy of alien values. I would expect a reunited Germany to bring back the black-white-red flag of the Hohenzollerns and possibly a Hohenzollern Kaiser to go with it."

O'Brien warned in his conclusion, that the Germans would rise from their knees and revive race science, and that "nationalist intellectuals will explain that true Germans should feel not guilt, but pride about the Holocaust, that great, courageous and salutary act. . . . I fear that the Fourth Reich, if it comes will, have a natural tendency to resemble its predecessor."

- On Nov. 12, 1989 an editorial appeared in the *Sunday Times* of London under the headline "The Fourth German Reich." "The events broadcast live from Berlin this week are the first step towards the creation of an 80 million strong Fourth German Reich," the editorial states. "We do not know exactly how it will come about but, *de jure* or *de facto*, it will happen and sooner than most people think. The result will be a German economy twice as big as any other. . . . A united Germany will then become the locomotive in the rebuilding of the newly free market economies of Eastern Europe, for Germany is preeminent in the capital, industrial know-how, and management skills that these countries need. The Fourth Reich is set to boom, becoming Europe's economic superpower in the process. . . . That leaves one question nobody here has yet dared to ask: Where does that leave Britain?"

The Fourth Reich campaign became even more aggressive, when it became clearer that German reunification would go its own way and could not be sabotaged, as was originally intended by Thatcher. Following the Group of Seven summit in Houston, in July 1990, the Anglo-Americans were pushing the confrontationist line, insisting that IMF conditionalities had to be imposed upon the Soviet Union as well as on the rest of Eastern Europe, while Kohl and Mitterrand argued in favor of immediate aid to the Soviet Union without conditionalities attached (see *EIR* July 27, 1990).

- On the eve of the summit, the confrontation with Germany was launched in the British press, with a column in the July 8, 1990 issue of the *Sunday Correspondent*, by Dominic Lawson, son of the former British Chancellor of the Exchequer Nigel Lawson. Lawson bemoaned the lack of British press coverage of the "German threat" to the finances and currencies of Europe.

As editor of the Hollinger-owned weekly *The Spectator*,

THE 1990s will be dominated by two events so enormous in their significance that they will change the shape of world politics as we have known it these past 40 years. The breakup of the Soviet Empire and the reunification of Germany will have consequences that to grasp the ends which divided Europe into two superpowers, Warsaw Pact, military presence in the East, and the end of superpower and German Reich power.

There is a good world to be a millennium; nuclear Britain, totalitarian democracy, are fraught with talking about sobering the weekend of Wall's disintegration was from 30 years ago today's for the



ate the next decade, the breakup of the Soviet Empire is the more important, for there could be no reunification of Europe at stake for Moscow and its European partners. The whole is more than 100 nations, the Russian Empire fell apart yesterday. The whole is ruled by the East Germans, pride and by the British London. The East Germans and the British Empire together is a failure at the end of the century as the British decline, and this will not be clear to the peoples to see. The East German is even steeper c

The Fourth German Reich

THE SUNDAY TIMES

economic decline, and this will encourage its subject peoples to dash for freedom, too. But the collapse of the world's imperial power...

Thatcher hits at German domination Former PM goes on the attack as Major heads for summit in Bonn

By John Cassidy
Washington and Andrew Grico

It is said, or it ought to have been said, that every Conservative Cabinet Minister who appears in the Daily Telegraph, Nicholas Ridley, the Secretary of State for Industry, is in for a bit of a smack by the matter of Germany. It happened when he was writing the article on the community, working closely with our partners.

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Beware a Reich resurgent

President Bush has worked of a German economic he... The British and French... Europe generally an ought to feel deep disgust at the report... Mr Kohl's comments, publicly... that the US would support... British and French... in the West... British and French... British and French... British and French...

that the Soviet Union will not intervene because it cannot. It is in the midst of an existential crisis which extends to every aspect of Soviet life, including its nuclear forces. In more ways than one, the East German people are not the Soviet Union's citizens. They are a distinct people, with their own history and their own future. They are a people who have been oppressed and who are now seeking freedom. They are a people who are not afraid of the future. They are a people who are not afraid of the future.

Reich a new German Empire... The First Reich was founded in AD 900 by Karl der Große... The Second Reich was founded in 1871... The Third Reich was founded in 1933... The Fourth Reich is now being founded by Helmut Kohl...

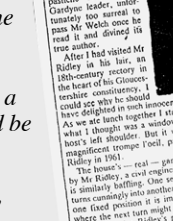
and management skills that these countries need. The Fourth German Reich is set to boom, becoming Europe's economic superpower in the process. The prospect of a united and resurgent Germany will send shivers through the Kremlin. But the Soviet Union will be too absorbed with its own problems to do much about it. It will, however, exact a price: German neutrality. It is a price Germany will pay for a united Germany and a disunited Soviet Union will make most Germans feel secure enough to dispense with the Atlantic Alliance. The mood in the United States will also accommodate German neutrality. America will not want to stay where it is not wanted. Americans feel they spend too much on Europe's defence.

SAYING THE UNSAYABLE ABOUT THE GERMANS

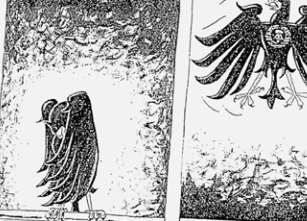
Dominic Lawson meets Nicholas Ridley and hears an impassioned denunciation of a country he accuses of trying to take over Europe

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Nigel Lawson published an interview with Minister of Trade and Industry Nicholas Ridley, the Cabinet minister closest to Thatcher, in which Ridley compared Kohl to Hitler. The interview (which appeared on July 12) was illustrated by a cartoon of a terrified Thatcher staring at a poster of Kohl with a Hitler mustache. The interview bore the title: "Saying the Unsayable about the Germans."

In the interview, Lawson mentioned that Bundesbank head Karl Otto Poehl was coming to London to preach the joys of a united European monetary policy.

Ridley: "This is all a German racket designed to take over the whole of Europe. It has to be thwarted. This rushed takeover by the Germans on the worst possible basis, with the French behaving like poodles to the Germans, is absolutely intolerable."

Lawson: "Excuse me, but in what way are moves toward monetary union, the Germans trying to take over the whole of Europe?"

Ridley: "The deutschemark is always going to be the strongest currency, because of their habits."

Lawson: "But Mr. Ridley, it's surely not axiomatic, that the German currency will always be the strongest? ..."

Ridley: "It's because of the Germans."

Lawson: "But the European Community is not just the Germans."

Ridley: "When I look at the institutions to which it is proposed that sovereignty is to be handed over, I'm agnostic. ... I'm not against giving up sovereignty in principle, but not to this lot. You might just as well give it to Adolf Hitler, frankly."

Lawson: "But Hitler was elected."

Ridley: "Well he was, at least, he was. ..."

Lawson: "But surely Herr Kohl is preferable to Herr Hitler. He's not going to bomb us after all."

Ridley: "I'm not sure I wouldn't rather have the shelters and the chance to fight back, than simply being taken over by ... economics" (emphasis original).

Lawson remarked that during his interview with Ridley, he was reminded of a story he once heard from a former adviser to Maggie Thatcher, who had told him how he arrived

for a meeting with Mrs. Thatcher in a German car: “‘What is that *foreign* car?’ Thatcher glowered. ‘It’s a Volkswagen,’ he replied, helpful as ever. ‘Don’t *ever* park something like that here again.’”

“Mr. Ridley’s confidence in expressing his views on the German threat,” commented Lawson, “must owe a little something to the knowledge that they are not significantly different from those of the Prime Minister, who originally opposed German reunification, even though in public she preferred not to be so indelicate as to draw comparison between Herren Kohl and Hitler. What the Prime Minister and Mr. Ridley also have in common,” he continued, “which they do not share with any of their Cabinet colleagues, is that they are over 60.”

Lawson then asked Ridley: “How relevant to us now is what Germany did to Eastern Europe in the war?”

Ridley: “We have always played the balance of power in Europe. It had always been Britain’s role to keep these various powers balanced and never has [that] been more necessary than now, with Germany so uppity.”

Lawson: “But suppose we don’t have the balance of power; the German economy runs Europe?”

Ridley: “I don’t know about the German economy. It’s the German *people*. They’re already running most of the Community: I mean they pay half of the countries. . . . You can’t change the British people for the better by saying, ‘Herr Poehl says you can’t do that.’ They’d say: ‘You know what you can do with your bloody Herr Poehl.’ I mean you don’t understand the British people if you don’t understand this about them. They can be dared; they can be moved. But being bossed by a German—it would cause absolute mayhem in this country, and rightly I think.”

The Ridley interview wrought havoc between Germany and Britain, as well as internationally. The German government called his statements “scandalous” and warned that the interview “would discredit the whole of the European Community.” Kohl’s national security adviser Horst Teltchik, told the *Sunday Times*: “We do not normally comment on internal matters [of other nations]. It is at this stage up to Mrs. Thatcher to decide what to do with Mr. Ridley. It is up to Mrs. Thatcher to live with the consequences of what Mr. Ridley said.” On July 14, the West German newspaper *Bild Zeitung* attributed the affair to “*The Spectator*, whose publisher, Conrad Black, is a close friend of Maggie Thatcher.”

On the same day, West German Social Democrat Anne-Marie Renger, former Deputy Speaker of the Parliament, wrote in the daily *Die Welt* that Ridley’s comments were reminiscent of the anti-German remarks that British publishing magnate Robert Maxwell had made when he met with East Germany’s dictator Erich Honecker in October 1989. Referring to Maxwell as “a former British occupation officer,” she noted that he had told BBC on Oct. 3 1989, that “a

united Germany is a threat to Europe, to the Russians, the Poles, the Germans themselves, and to us. We don’t want it. It is no good, neither for us nor for the Germans, and we do wish there to be two separate German states.”

Maxwell, Renger stressed, went on to praise the “remarkable achievement” of the East German communist state, adding that “we must not do anything that could destabilize this country,” and praising Honecker as “a reformer throughout his entire life.” Renger expressed doubts that “the political blindness of this Englishman” was a “singular case,” given that Ridley had said the same thing. Such comments, she warned, are a “dramatic sign of political miseducation, which documents a lack of standards in the very motherland of democracy that all Europeans must feel ashamed of.”

But very indicative, also, were reactions by residents from Coventry, which was destroyed by the German Luftwaffe during World War II. Interviewed by the London *Independent*, on July 14, Coventry residents, reflecting on the city’s collapsed economy and infrastructure, offered comments: “Maggie Thatcher has caused more damage here than the Luftwaffe,” said one. “If the Germans want to take over here, mate, they’re bloody welcome,” said another. “Ridley is a bigger threat than the Germans,” offered a third. One person argued, “Both of my parents were in Coventry during the war. That was all about the Nazis. Is Ridley saying the Germans are Nazis again? If you ask around this place, you’ll find a lot of people who think Thatcher’s more of a danger than the Germans.”

With such pressure—including sharp condemnation Ridley’s statements by the European Parliament—Ridley had to resign, although it was not lost on observers that Thatcher refused to fire him.

The Chequers minutes

Meanwhile, the “German crisis” deepened over the July 14-15 weekend, when the July 15 issue of *Der Spiegel* magazine leaked the minutes of a meeting that had occurred in March at the Prime Minister’s country estate, Chequers, involving the Prime Minister, Cabinet members, and six British and American “experts” on Germany: George Urban, Gordon Craig, Timothy Garton Ash, Fritz Stern, Norman Stone, and Lord Dacre (Hugh Trevor-Roper) on the German question.

The minutes compiled by Thatcher’s personal secretary, Charles Powell, warned darkly of the potential reemergence of an expansionist, chauvinist Germany and spoke of the Germans’ ostensible negative character traits, including, in alphabetical order, aggressivity, *angst*, bullying, egotism, inferiority complex, and sentimentality. (One Briton, upon seeing the list, commented: “They must have talked about Margaret Thatcher.”)

Under the heading, “**What are the Germans?**” the Chequers group asked what lessons should be drawn from the

past to apply to the future. The minutes, as translated from the *Spiegel* exposé, report that the participants concluded that “like other peoples [Germans] have certain characteristics which one can derive from their past and can project [as holding good] also for the future. The participants thought it would be more adequate and suited to the discussion to think about the less agreeable characteristics of the Germany, such as: insensitivity toward the feelings of others (most clearly this is demonstrated in the attitude concerning the border question with Poland), their self-centeredness, a strong penchant to self-pity and the longing to be liked. . . .

“Two other aspects of the German character were mentioned as reason for concern in the future: On the one side, the tendency of the Germans to exaggerate things, to run riot. On the other, their tendency to overestimate their own capacity and strength. One example would be the conviction of the Germans that their victory over France in 1871 was the result of a deep moral and cultural superiority and not—as was really the case—the consequence of a minor advantage in the military technology. . . .

“Did the Germans change?”

“. . . Reservations concerning Germany had not only to do with the Hitler era but referred to the period before, the whole era after Bismarck. The way in which the Germans currently used their elbows and threw their weight around in the European Community suggested that much had not changed. Nobody, it was agreed, would have serious concerns now about Germany, but what about the political situation in 15 or 20 years? Could some of the unhappy consequences of the past reemerge with just as destructive consequences? . . .

“What are the consequences of reunification?”

“Even optimists had concerns with respect to the possible impact. One should not expect that Germany would act as it has up to now. . . . There was already a kind of triumphalism in German thinking and attitudes which would be uncomfortable for the rest of us. There could be a growing tendency to revive the concept of Central Europe in which Germany would play the role of the broker between East and West.

“Would a reunified Germany strive for dominance in Eastern Europe?”

“. . . For the near future, there would be no reason to assume, that Germany would have any territorial claims. Yet it would be probable that Germany would dominate East and Central Europe economically, which does not necessarily mean one should be led to think that Germany is doing with economic means what Hitler did with military ones.”

The Chequers group further agreed that “we want Germany to be constrained within a security framework which has the best chance of avoiding a resurgence of German militarism.”

“Some perceived in the German attitude of, ‘we pay and so we have the say,’ nothing but a striving for economic hegemony in Western Europe. There were differing opinions

on whether the Germans are serious about their promises, that they would want, parallel to German reunification, a politically unified Europe—whether this were all a tactic, to calm down the others, or the real desire to integrate the latently nationalist potential of Germany into a bigger thing [structure].”

“There were no formal conclusions at the end of the meeting,” the protocol stated. The overriding theme was, however, unmistakably clear: Be nice to the Germans. Yet this did not exclude remaining wary. They were not so much concerned with the near-term behavior of the Germans, “as with the long term, concerning which we have no insight.”

• On July 22, 1990, Peregrine Worsthorne wrote a signed editorial page commentary in the *Sunday Telegraph*, on “The Good German Problem.” Worsthorne, whose stepfather was Bank of England Governor Montagu Norman during the 1930s, wrote that his stepfather was right when he said “that the burden of Germany’s virtues might bear down on Britain even more heavily than the burden of Germany’s vices. That is the question Mrs. Thatcher should have posed at Chequers, instead of discussing Germany’s past with a bunch of historians. . . . How on earth can any effective defence be put up against a united Germany that intends to win by obeying the rules? Germany is going to be very powerful . . . only the unrealistic, however, can suppose that this great role will be achieved without putting such strains on NATO and the EEC that they will become so transformed as to be unrecognizable. . . .

“Germany now enjoys alternatives which are available to no other European state and . . . is exploiting strength which has suddenly been unbound by unification and this new relationship with the Soviet Union. . . . In the not-so-far-distant future, there are going to be lots of European countries, East and West, looking for a shoulder to cry on as a result of grievances against a do-gooding Germany. Perhaps Britain’s role should be to preserve enough independence to be free, at the right moment, to make use of these grievances. In the course of doing good, Germany will make as many enemies as ever it did in the course of doing harm, and America may well be one of the enemies, as might be Russia. Sooner or later, it is going to be balance-of-power politics all over again. This could be an opportunity for Britain, which knows about the balance of power, if only all those Euro-enthusiasts could forget about Monnet and mug up on Talleyrand instead.”

Britain’s assets inside Germany

In its Aug. 4-5 issue, the *Sunday Correspondent* took note that British diatribes against a unified Germany shared something in common with the statements put out by the Baader Meinhof/Red Army Faction (RAF) terrorists, taking credit for a bomb attack that nearly killed Assistant Interior Minister Hans Neusel on July 27. “Last week,” wrote the *Correspon-*

dent, "the RAF let it be known that the Neusel attack marked the start of a long period of struggle against the newly emerging Greater German/West European superpower. 'West Germany and the new political elite in the G.D.R. [East Germany] are pursuing the same aims and political plans as Nazi fascism,' it said in a letter. 'The third invasion of Europe by German capital this century will not be carried out militarily, but economically and politically.'

"A year ago such views were seen as absurd. Today they are equally so, but more people may be ready to listen. After all, the content of the remarks of the British Trade Secretary in the *Spectator* last month was not so different."

But even leading figures of the German Social Democrats (SPD), such as Peter Glotz, Oskar Lafontaine, and Grass, were part of the Fourth Reich campaign, as is mentioned in a book by historian Hans Peter Schwarz, *Die Zentralmacht Europas. Deutschlands Rueckkehr auf die Weltbuehne* (Siedler Verlag).

According to Schwarz, many leading SPD politicians were directly involved in the Fourth Reich campaign. Thus, Peter Glotz was one of the first in Germany who sounded the alarm. On Aug. 2, 1989, before the refugee flood started to pour into Hungary, Glotz warned in the *Frankfurter Rundschau*: "At the present time, no European architecture is thinkable, in which the economically strongest state of the EC would be united with the economically strongest state of the CMEA [the Comecon]. Please, at least in this century, no more plans for a 'Fourth Reich.'"

In the Sept. 25, 1989 issue of *Der Spiegel*, just as the East German regime was about to crumble, Lafontaine told an interviewer: "The specter of a strong Fourth German Reich frightens our western neighbors no less than our eastern ones."

On March 30, 1990, after local elections in the East Germany, the SPD's Jürgen Habermas wrote an article in *Die Zeit*, under the headline: "Deutschemark Nationalism Extends Itself." This sparked a series of articles and books, among them, *The Fourth Reich*, by a Spanish leftist (and East German Stasi agent) journalist Heleno Sana, which appeared in late 1989/early 1990. Sana, who since 1959 had been living in Germany, is typical of the left: "The Fourth Reich will not be a mechanical copy of either the Third or those that came before it, but a colorful mixture of all of them." According to the author, the ideological orientation of the Fourth Reich will be "late capitalist." Its political system: a controlled pseudo-democracy with slogans about freedom, rule by law, and self-determination. The Germans will not, however, want to use only these concepts "to adorn German history with new brilliance"; they will exploit and subjugate other peoples without scruple, either by "political manipulation" or, if necessary, "by open repression." The new system of Germany hegemony would be "a Europe whose ideological foundation is a mixture of instrumental reason, utilitarian power and avarice, and racist pathology."

British, French launch Balkan war vs. Germany

by Elke Fimmen

In June 1991, four months after the end of the Persian Gulf War, the "Greater Serbia" war of aggression by Slobodan Milosevic and his minions began, and the war is not over yet. It has brought unspeakable misery for millions of victims in Croatia and Bosnia-Herzegovina. The same *modus operandi* is being repeated today in Kosova, and threatens to begin a new round of regional war.

From the outset, this war had a purpose quite different from the unbridled great-power aspirations of a Milosevic, although Milosevic is very close to realizing his aims. The geopolitical background of the war and the string-pullers who made it possible, are to be found at a different level: The aim was to undermine a grand design for the economic development of Europe, after the end of communism, and the Versailles and Yalta orders. The economic potential of Germany could have played a significant role in that development, which was the vision against which England and France formed the Entente Cordiale before World War I.

British politics under Prime Ministers Margaret Thatcher and John Major, and French politics under President François Mitterrand, looked upon Milosevic's "Greater Serbia" ambitions as one of their most effective tools to destabilize Europe. Traditionally, the Balkans has functioned as an important bridge to the Mideast, and it is therefore of strategic importance in the realization of a Eurasian development program. At the time of the construction of the Berlin-Baghdad Railway earlier this century (a *casus belli* for British foreign policy), Serbia was the trigger for the conflict that led into World War I, and destroyed the opportunity for a continental alliance for development.

In 1991, when Germany promoted the diplomatic recognition of Slovenia and Croatia, once it had become clear with what brutality Milosevic was attacking these countries, there was a cascade of British, French, and Serbian denunciations of Germany as the "Fourth Reich." Germany, it was claimed, wanted to reestablish its old sphere of influence in the Balkans, and it was entering an alliance with the "Ustashi" (fascists) in Croatia to that end.

Germany's official recognition of Croatia and Slovenia on Jan. 15, 1992, over the resistance of other European Community (EC) countries, the United States under George Bush, and Russia, marked the end of an independent German policy for the Balkans. From that point onward, Germany subordinated itself to the British-French line. When a new interna-

FIGURE 1

The Republic of Bosnia and Hercegovina



tional constellation emerged with the inauguration of President Bill Clinton in 1993, Bonn failed to encourage the United States to take a tougher stand against Milosevic and Bosnian Serb war criminal Radovan Karadzic, which could have quickly put an end to the war. Instead, Bonn preferred to play tactical games with the European “allies” and Russia.

The aim of destabilizing any plans for economic development was achieved with this war: Not a trace of development and reconstruction has occurred in Europe, and, instead, hunger and destruction prevail, attended by the danger of renewed escalation of fighting. The southeastern corridor of what Lyndon LaRouche proposed to be the “Productive Triangle” has been blocked for seven years. The potential of the Rhine-Main-Danube Canal, completed just before the Balkan war broke out, has yet to be realized. The reconstruction of Bosnia has been blocked by the inherent defects of the Dayton Agreement, and the conditionalities imposed by the World Bank and the European Union; the economic situation in Croatia and Slovenia is largely paralyzed by International Monetary Fund (IMF)-dictated policies. Hundreds of thousands of refugees from Bosnia-Hercegovina and Kosova are still seeking asylum in Germany, because other EC countries, especially France and England, have all but closed their borders to refugees from the war.

Here, we examine the British and French policies, and U.S. policy under Anglophile George Bush, which led to the outbreak of this horrible war. We do not overlook the fact that the war was also intended to counter the justified demands for

FIGURE 2

The Kosova crisis region



national self-determination, following the collapse of Yugoslavia, artificially created at Versailles. These changes could have taken a peaceful course, as they did in Czechoslovakia, for example, had Milosevic’s “Greater Serbia” policy not been energetically encouraged from the outside, and had the IMF shock therapy not escalated the crisis, as it did throughout eastern Europe, in its beginning phase.

IMF shock therapy in Yugoslavia

Brutal shock therapy has been implemented by the Milosevic government, on the advice of Harvard Prof. Jeffrey Sachs, since 1989. The economy was thrown into a deep depression, with mass unemployment and hyperinflation. The standard of living was set back several years, and state development programs were halted. Gross National Product fell 10% in 1990, foreign debt climbed to \$16 billion by mid-1991, and Yugoslavia faced insolvency on the payment of debt service in the fall of 1991. Savings deposits in foreign currencies in the amount of some \$10.5 billion were officially “blocked,” but in reality they had already been spent by the state. A social explosion was imminent because of the inability to pay wages, especially in Serbia, in the fall of 1991.

The disastrous economic developments, as well as the Greater Serbia provocations of Milosevic and his clique following the first free multi-party elections in the summer of 1990, in which non-communist parties won in Slovenia and Croatia, made it impossible for the republics of Slovenia and Croatia to continue to accept this situation. Milosevic had already annulled the autonomy of Kosova and Vojvodina with violence in 1989, and he attempted to force his policies through in the State Presidium against the other republics. In the winter of 1990, Slovenia and Croatia approved a new

Constitution. There were proposals to transform Yugoslavia into a loose confederation of states with a common market and customs union, and, in case of foreign aggression, coordination of defense efforts. Serbia rejected these plans. On May 15, after repeated military threats and provocations, including by Serbian separatists in Knin, Croatia, the Serbian power clique sabotaged the election of the Croatian representative, Stjepan Mesic, who was supposed to become the new President of Yugoslavia in the revolving Presidency. The blockage of this institution of the Constitution, and the ensuing installation of a Serbian-controlled emergency cabinet, left Slovenia and Croatia with no other choice than to proclaim their complete independence on June 25, 1991. Two days later, the tanks of the Serbian federal army rolled against Slovenia and then against Croatia. The war had begun. Bosnia-Herzegovina was the next victim, beginning in April 1992. Today, the victim is Kosova.

The friends of Milosevic

On the British side, political support for Milosevic came from EC mediator and former British Foreign Secretary Lord Peter Carrington (1991-92), and Lord David Owen (1992-95), who replaced Carrington. UN mediator and former U.S. Secretary of State Cyrus Vance, together with Owen, worked out the notorious "Vance-Owen Plan" in 1992, which was intended to partition Bosnia-Herzegovina into ten ethnic enclaves. The basic outline of this plan, the ethnic partitioning of the country, has remained a constant feature of policy to the present day. In addition, there was the British-dominated UN bureaucracy, under UN Secretary General Boutros Boutros-Ghali and his emissary, Yasushi Akashi, as well as the British and French commanders of the UN Protection Forces (Unprofor) in Bosnia-Herzegovina. The "friendship among men" between Unprofor commander, British SAS Gen. Sir Michael Rose, and the genocidal Serb war criminal Gen. Ratko Mladic, cost tens of thousands of Bosnians their lives.

The Anglophile government of President Bush was also on the side of Greater Serbia aggression in 1991-92. U.S. Secretary of State James Baker III had assured Milosevic publicly in June 1991, that the United States would commit itself to the "territorial integrity of Yugoslavia," and that assurance was delivered during a whirlwind visit to Belgrade two days before the official declaration of independence of Slovenia and Croatia. With that assurance, Baker gave Milosevic the green light for the aggression which began a few days later. It was especially the clique around Deputy Secretary of State Lawrence Eagleburger and National Security Adviser Brent Scowcroft, including Henry Kissinger, that was behind this policy. This "Belgrade Connection" in Washington was committed to a pro-Milosevic policy, and it blocked the recognition of Croatia and Slovenia. Both Eagleburger and Scowcroft had close personal ties to Milosevic, a Harvard-educated banker who was, for a time, director of the Belgrade bank, Beobanka.

Eagleburger, who in 1957 worked in Yugoslavia as an official of the State Department, was U.S. Ambassador in Belgrade during 1977-80, and, on the recommendation of Kissinger, was named Deputy Secretary of State. In December 1989, he became Bush's personal coordinator for East European affairs. In the closing phases of the U.S. election campaign in 1992, he was also briefly Secretary of State. Of particular interest are his connections to Yugoslavia: During 1986-88, Eagleburger was one of the directors of the LBS Bank, 100% owned by the Yugoslav Ljubljanska Banka. In 1988, investigations were launched against leading representatives of the LBS Bank in New York, on suspicion of money-laundering for organized crime. Eagleburger was also director of Global Motors, Inc., the U.S. sales firm for the "Yugo" automobile, as well as chairman of the U.S. branch, Yugo-America Ltd. The Yugoslavian producer of the Yugo, Zavodni Crevna Zastava, was at the core of the Yugoslav arms industry.

More than economic interests were at stake. Eagleburger was also chairman of the consulting firm Kissinger Associates (1982-88), and on the board of directors of its branch, Kent Associates. Scowcroft was the first stockholder at Kissinger Associates and, during 1982-89, he worked for Bush as National Security Adviser. During the war in Yugoslavia, Scowcroft and Eagleburger worked together closely, and at government meetings they often spoke with each other in Serbian, which both speak fluently, according to the London *Times*.

A third director of Kissinger Associates was Lord Carrington.

The decisive first phase of the war

Following the declaration of independence by Slovenia and Croatia on June 25, 1991, troops of the Yugoslav National Army, under Milosevic's orders, first attacked Slovenia, and then Croatia. Hostilities ended quickly in Slovenia, and soon thereafter, in October 1991, some 250,000 people in Croatia fled from the Greater Serbia terrorist militias. Thousands were killed or wounded.

In September 1991, the UN passed a weapons embargo against all the republics, negotiated under the chairmanship of Lord Carrington in The Hague.

The east Slavonian city of Vukovar, Croatia fell into the hands of the Serbian army on Nov. 19, after a siege of 86 days, and was nearly completely destroyed by Serbian artillery. (In 1998, mass graves with thousands of corpses were found there.) Under the eyes of the International Red Cross, 246 patients and care-takers were dragged from the city hospital. They, too, were killed. Vance, who visited Vukovar a short time later, said that there was another side to the story besides the Croatian victims. The Serbs, he said, had fought so bitterly only because the barracks of the Yugoslav Army in Croatia had been encircled by Croatian forces.

When the Serbian troops withdrew, they were allowed to take their heavy weapons with them, because of the interna-

tional pressure on the Croatian government.

On Nov. 27, the UN Security Council declared its full support for Vance as UN negotiator, whose plan was to deploy peace-keeping troops into the demilitarized zones in Croatia, modelled on UN operations in Cyprus and southern Lebanon. Vance negotiated a cease-fire, which was immediately violated by the Serbs once Vukovar had fallen. The Serb forces then launched new assaults on Osijek, and consolidated their conquests in Slavonia and Baranja.

Also on Nov. 27, German Chancellor Helmut Kohl spoke about "the possibility of recognizing" Croatia, which occasioned angry diatribes against the German position.

On Nov. 29, 1991, French President Mitterrand defended the Serbian aggression, in an interview with the German daily *Frankfurter Allgemeine Zeitung*: "All I know is that the history of Serbia and Croatia is full of such dramas. During the last war, especially, many Serbs were killed in Croatian camps. As you know, Croatia was part of the Nazi bloc, and Serbia was not. . . . Since Tito's death, it was inevitable that the latent conflict between Serbia and Croatia would break out again. The time for that has now arrived. I do not believe that Serbia intends to go to war in order to keep Croatia, but only to draw new borders and to achieve a kind of direct or indirect control of Serbian minorities."

On Dec. 10, UN Secretary General Javier Pérez de Cuellar wrote a letter to the German government, in which he claimed that a "premature German recognition" of Croatia would encourage an escalation of hostilities on the part of the Yugoslav National Army. He demanded that Germany show restraint. Russian Foreign Minister Yuri Vorontsov stated that he hoped that Germany would not go through with its recognition. President Bush and Prime Minister Major pressured Kohl to abstain from recognition of Croatia. U.S. Deputy Secretary of State Eagleburger wrote threatening letters to all European governments, warning against "premature recognition," because, as he claimed, it would "inevitably lead to more bloodshed."

Germany was put under immense pressure again at the ten-hour marathon meeting of the EC foreign ministers on Dec. 16 in Brussels. In the end, the EC magnanimously proclaimed its willingness to review the requests for recognition of the republics by Dec. 23. On Jan. 15, 1992, Germany, the Vatican, Austria, and Iceland officially recognized Croatia. Other countries followed, but the U.S. government continued to withhold recognition. The word which circulated through diplomatic channels was that the U.S. government was "shocked" that Germany had so abused its "new power position." This was to be the last time that Germany would run a solo political initiative in the Balkans.

At that point, as the *Frankfurter Allgemeine Zeitung* reported on Jan. 7, British-controlled newspapers were writing that the real issue behind the recognition of Slovenia and Croatia was "preventing a German zone of power in the Balkans."

Genocide in Bosnia-Herzegovina

The recognition of Croatia did not imply that this country was to regain its national sovereignty, nor did the EC and UN recognition of Bosnia-Herzegovina in the spring of 1992 protect that country from Serbian genocide. Serbian aggression continued unabated.

By early 1992, some 30% of Croatian national territory had been occupied, 10,000 people had been killed or reported missing, and a half-million were driven out as refugees. Lord Carrington insisted in February 1992, that it was out of the question that Vukovar would be taken away from the Serbs. The cease-fire which Vance had negotiated in January 1992, and the subsequent deployment of UN troops into the so-called "pink zones" on the lines of demarcation between Serbian and Croatian forces, consolidated the gains of the Serbs. According to UN reports, at least 500 more Croats were killed in these areas up to 1993, and 2,000 more driven to flight. Nothing was said about a return of the refugees or the Croatian administration, let alone the disarming of Serb militias. Quite the opposite: UN areas were used as bases from which to launch assaults against Bosnia over the entire course of the war, which began in April 1992. Yugoslav National Army units were allowed to transport heavy weaponry from this secured hinterland without the slightest interference.

Under the threat of massive sanctions, in early summer 1992 Croatia was forced by the international community to stop its support for Bosnian forces in Posavina, the border area adjacent to Croatia. This proved to be of decisive importance for the outcome of the war, because subsequent developments established this area as the corridor through which Serbian forces resupplied themselves in northern Bosnia.

At the beginning of July 1992, joint operations of Croatian and Bosnian military units had severed the lines of communication between Serb-controlled northern Bosnian and Croatian areas under Serbian control. Under international pressure, Croatia withdrew its forces from Bosnian territory, and Bosnian resistance in the north collapsed. Tens of thousands of refugees flowed into Croatia, and from there into Western countries, especially Germany and Austria. The route for the transfer of Serb heavy weaponry to Banja Luka, another Serb power-center, was open.

In Bihac in northwestern Bosnia, on the border with Croatia, 300,000 people were already enveloped by the Serb army. The UN, which controlled access to Serbian-occupied territories in Croatia, permitted only the most meager humanitarian aid to pass through. The UN allowed Serb military transports of the Yugoslav Army from Belgrade into Serb-controlled Knin, Croatia and into Banja Luka, Bosnia, although the Croatian government protested and demanded that the flights termed "humanitarian" be brought under control.

On June 28, 1992, a carefully selected, symbolic date, Mitterrand visited Sarajevo, where 450,000 people were encircled. This was the anniversary of the 1914 assassination of the successor to the Austrian throne, Franz Ferdinand, by

Greater Serbian terrorists, and also the anniversary of the signing of the Versailles Treaty in 1919, which had given birth to Yugoslavia as an artificial, Serb-controlled state. Mitterrand's visit signalled one thing in particular: There would be no sanctions against Yugoslavia, or military action against the Serb aggressor. There was to be only humanitarian aid.

Up to the convening of the international peace conference in London on Aug. 26, in which great expectations were invested, Serb troops were thus free to create a *fait accompli*. In October 1992, some 70% of the national territory of Bosnia-Herzegovina was under the occupation of "Greater Serbia" Chetnik troops. At least 150,000 people had been killed and a half-million had already fled for Germany. Lord Carrington, who gave up his position as EC negotiator, which he had held also for Bosnia since the spring, claimed that the recognition of Bosnia-Herzegovina had provoked the Serbs to launch this "civil war." His successor, Lord David Owen, who was trained as a psychiatrist at the Tavistock Institute, continued this line of apology for Serbian genocide; he negotiated with Milosevic and Karadzic for the EC up to 1995.

Mounting reports about Serb concentration camps and a systematic policy of genocide by the Serb Chetniks were increasingly difficult to silence, although on Aug. 17, President George Bush claimed, in *U.S. News and World Report*, "There is no proof that what has happened in Serb concentration camps, is genocide." Negotiators Vance and Owen effectively organized the "orderly wave of refugees" for the Chetniks, by demanding, at the end of September 1992, that the refugee convoys should be protected, "even if this promotes the evacuation."

Eagleburger said in September that a commission for war crimes should be established under the UN, if "the upsetting reports should be confirmed." In the meantime, Milan Panic, an American multi-millionaire in the immediate orbit of Eagleburger and Scowcroft, was named Prime Minister in Belgrade; he proceeded to buy time for a number of months for "Greater Serbia" to consolidate its conquests in Bosnia.

The non-recognition of Macedonia by the EC, under the pretext of a "name conflict" with Greece, permitted the unhindered transport of fuel, weapons, and other supplies to Serbia. Smuggling from Greece, Bulgaria, and Romania to Serbia bloomed. No one moved against the violations of the embargoes, while the weapons embargo against Croatia and Bosnia-Herzegovina was strictly monitored and enforced.

At the beginning of 1993, the EC and the UN attempted to implement the "Vance-Owen Plan," which gave the official green light for partitioning Bosnia-Herzegovina. The Vance-Owen Plan created the climate in which the vicious dynamic developed, of battles within the Armed Forces of Bosnia-Herzegovina between Croats and Muslims; those battles ended only in February 1994, under the pressure of the new Clinton administration, in the "Washington Agreement." Concrete evidence continued to mount that British SAS soldiers had been involved as provocateurs on both sides in the

massacres of the Muslim and Croatian civilian populations. The aim had been achieved: The British and French governments, especially, could claim that there were many aggressors. "All sides are guilty," was the line. Lifting the weapons embargo would only escalate the "civil war," they said.

The continuous propaganda against Germany from Great Britain and Serbia, alleging that Germany wanted to build up a sphere of influence in southeastern Europe, had its effect. The image of the threat of a "Greater Germany" spread more and more. It was necessary to contain "German predominance over Europe," said former French President Valéry Giscard d'Estaing, on the eve of the French referendum on the Treaty of Maastricht in the fall of 1992. (Maastricht was a scheme designed to emasculate the economic power of Germany, and nation-states generally.) The German government thereupon rejected a German military intervention against Serbia, and supported the continuation of the weapons embargo against Croatia and Bosnia.

U.S. Balkans policy shifted slowly following the inauguration of President Clinton. Amidst an ongoing battle with the British lobby within the Clinton administration, and under the pressure and sabotage by the Europeans, in which Germany shifted its position back and forth, it took three years until, with the Dayton Agreement in the winter of 1995, the hostilities were at last ended and the genocide in Bosnia-Herzegovina halted. However, a just peace, in which past injustices were punished and restitution brought about, did not occur. Another two years passed until Croatia, in 1998, finally reestablished its sovereignty over its national territory, with the peaceful reintegration of eastern Slavonia. The Croatian Army had liberated western Slavonia and the Krajina region from Serbian occupation in 1995.

British and French policy played a crucial role again and again in sabotaging the efforts of the United States to contain the Serbian aggression.

The London *Guardian* reported, on May 20 and 21, 1996, on the problems which confronted American policy from the start: "When Clinton took office in January 1993, the Bosnia crisis went out of control. His government urged him to intervene. But his bureaucrats saw themselves immediately facing the monolithic power of the British Foreign Ministry. . . . The chief proponent of this policy was the Foreign Minister, Douglas Hurd, but it essentially derived from Lady Pauline Neville-Jones, the political director of the Foreign Office, who has a background in the intelligence services. . . . The British opposed nearly all of the American initiatives: even the parachuting of food packages, not to speak of air assaults. One of the advisers of Mrs. Albright claimed, that England was pursuing its foreign policy via the UN."

Of the several cases, we examine here the role of British Gen. Sir Michael Rose, who took command of the UN troops stationed in Bosnia-Herzegovina for one year, starting in January 1993. His especially good relationship with Serbian General Mladic became legendary. It was with Mladic that Rose

concluded an endless series of cease-fires, which the Serbian side repeatedly exploited to improve their positions and launch new assaults. In October 1997, under U.S. pressure, Rose's close associate, the translator Milos Stankovic (alias Mike Stanley), was arrested and accused of having betrayed highly sensitive information to the Mladic clique. Stanley was among the first British soldiers sent to Bosnia-Herzegovina in 1992, and he had access to political and secret military information.

When British SAS Special Forces were commissioned by the UN to transmit the coordinates of Serb artillery positions around the besieged city of Bihac to NATO aircraft in the fall and winter of 1994, their orders were countermanded by General Rose. NATO aircraft had to turn around without accomplishing their mission to dislodge the artillery. The discussions were monitored by the American side. The American government ceased its intelligence cooperation with Great Britain in the Balkans.

The French Unprofor commander, Gen. Bertrand Janvier, was not much better. He permitted the massacre of several thousand people by Mladic's troops in Srebrenica, which had been declared a "UN protected zone." In May 1995, he issued written orders to his subordinate, British General Rupert, not to ask for any NATO air support. Meanwhile, a clause was forced through the UN Security Council by British UN Ambassador Sir David Hannay, that Unprofor and NATO were to react only if NATO troops, not the people in the "protected zones," became the targets of Serbian attacks.

Economic sabotage

Even after hostilities had ended in Bosnia-Herzegovina, British policy continued to play a decisive role. The British representative at the negotiations, Lady Pauline Neville-Jones, who was the guiding hand in British policy in the Balkans, argued for partitioning the country and lifting the sanctions against Milosevic.

The reconstruction of the destroyed country was placed in the hands of the World Bank and the IMF, institutions under British policy control. The commissioning of reconstruction contracts was given to two organizations delegated by the EC, among them the British firm Crown Agents, a known international front for British secret services operations. At the beginning of 1996, the commission for the two organizations was withdrawn, because of protests from Germany and other EC countries, against unfair business methods. The World Bank imposed the precondition for issuance of credit, that \$3 billion in old debts of Yugoslavia be taken over by Bosnia, and that what was left of the country's industrial potential, be privatized.

The political positions of the contending countries were also evident in the way that war crimes were prosecuted. The UN tribunal in The Hague complained that the French Stabilization Forces (SFOR) allowed individuals who were sought for war crimes to move freely in their zone of responsi-

bility. In 1998, the accusation was made, that French Maj. Hervé Gourmillon had prevented the planned arrest of Serb leader Karadzic by betraying information to the Serb side.

The Federal Republic of Germany again came under domestic and foreign pressure over the issue of the participation of German SFOR troops in Bosnia-Herzegovina. Even more momentous was the issue of the return of Bosnian refugees, of whom 360,000 were still in Germany in 1996, the largest number of any EC country. Since there is no real reconstruction going on in Bosnia, and the majority of refugees, despite promises made at Dayton, cannot return to their homes in Serb-controlled parts of the country, German political initiatives are at a dead end. The long-overdue effort by a Bosnia staff, under former Baden-Württemberg Interior Minister Dietmar Schlee (Christian Democratic Union), to institute a more effective German policy for Bosnia development and refugee repatriation, has been strangled by the conditions in the country and the usual tactical maneuvering of German politicians. The European Union bureaucracy has played an especially insidious role in this process, continually blocking German funds already allocated for reconstruction.

'Greater Serbia' aggression continues

Instead of being removed by the West after the war, Milosevic, the butcher of the Balkans, today enjoys an uncontested position of power. Serbia functions blatantly as the revolving door for dirty money from Russia, the Caucasus, Israel, Cyprus, Great Britain, Ibero-America, and European countries.

Exemplary in this connection, is that the British chief negotiator at Dayton, Lady Neville-Jones, after the conclusion of the negotiations, at which she argued vehemently for suspension of the sanctions against Milosevic, went to work in 1996 for the British NatWest Markets Bank. This bank receives royalties for the privatization of the Serbia's telecommunications and the electricity utilities. Her former boss, Douglas Hurd, was already serving on the bank's board of directors. They were both involved in concluding a most interesting deal for NatWest: the administration of Serbia's national debt. That continued the close collaboration of criminal Western elements with the Milosevic regime, which made the bloody beginning of the Balkan tragedy possible, with its relations to the Eagleburger-Carrington clique and their partners in Kissinger Associates.

Peace and development will be possible in the Balkans only when Milosevic is politically removed. All of the tactical maneuvering among the "allies" leads to ever new and worse atrocities and a new phase of expansion of the war. The chief question is: Will the United States, and also Germany, finally shoulder their responsibilities and live up to the confidence the people in the war areas still place in them? If that does not happen, not only southern Europe will go up in flames this time. The slim remaining chance for a Eurasian development and peace policy, may also be destroyed.

How IMF shock therapy was imposed on Russia

by Konstantin George

The fateful decision to enforce an International Monetary Fund (IMF) shock therapy regime on Russia was put on the agenda of the Houston Group of Seven summit, on July 11, 1990, by U.S. President George Bush and British Prime Minister Margaret Thatcher. A window of opportunity had existed leading into that summer, for Western support of a genuine Soviet move for reform, through large-scale economic assistance and cooperation. But, at the Houston summit, Bush and Thatcher categorically rejected any such approach.

Instead, the G-7 commissioned a special IMF study on the Soviet economy, and announced that they would reach a final decision after the study's publication. From July to December, teams from the IMF, World Bank, and related institutions descended on Moscow, where they were given the "run of the shop," meeting with top officials of every major Russian financial and banking institution, as well as the State Statistical Committee. The IMF study was released on Dec. 19, 1990, by the IMF, the World Bank, the Organization for Economic Cooperation and Development, and the European Bank for Reconstruction and Development.

At this point, the U.S.S.R. had not yet capitulated to the IMF shock therapy program. There was an intense faction fight within the Russian elites over this question, as the IMF report hints: "The authorities discussed the various reform proposals that have been tabled in recent months and their implications; they also released much information that had hitherto been unavailable outside the U.S.S.R., *but have not provided information on gold and foreign exchange reserves*" (emphasis added).

In the report which follows, we show how the resistance to the IMF's demands was broken, paving the way for the calamitous breakdown of Russia's physical economy which we see today.

IMF rejects 'gradual reform'

The IMF report was absolutely clear concerning the brutal program it had in store for the Soviet Union. They rejected outright any alternative program to their own, as is documented in Section II: "*Ideally, a path of gradual reform could be laid out which would minimize economic disturbance and lead to an early harvesting of the fruits of increased economic efficiency. But we know of no such path.* . . . Indeed we doubt that a return to central control is a viable option, and would urge the authorities to move rapidly to give substance to their

commitment to a market economy" (emphasis added). The stated idea was to impose abrupt shocks with extreme rapidity and depth, slashing production and causing a steep rise in unemployment: "These changes cannot be made in a matter of weeks. But the imperative is to make sufficient progress at the beginning so that reform is seen as an irreversible break with the past and the process gains an unstoppable momentum. The necessary economic reform program cannot be implemented without an initial decline in output and employment."

Under Section V: "Alternative Approaches to Reform," the study continues: "The initial phase of the transition will involve considerable dislocation, and a shift to market prices will hurt those with low incomes. . . ."

"The prospect of a sharp fall in output and rapid increase in prices in the early stages of a radical reform is daunting. The key question is whether hesitancy, of the kind implied by the conservative scenario, could mitigate the initial loss of output and still permit the transition to an operational market economy with sustained growth. In our judgment, the conservative approach would almost certainly fail on both counts." The IMF's argument against an alternative program is, "This would delay the inevitable elimination of wasteful and unwanted production and the shedding of excess labor."

The study recognized that certain key aspects of shock therapy would have to wait, in order to prevent a social explosion. Thus, while most consumer prices are decontrolled, "we recommend that controls be kept temporarily on the prices of public utilities and housing rents."

The Soviet breakdown crisis

The U.S.S.R. had entered the late 1980s with a staggering economic crisis, making the country highly vulnerable to the IMF assault.

During 1989-91, Communist rule in East Germany and eastern Europe collapsed, and the Council for Mutual Economic Assistance (CMEA, known in the West as Comecon) unravelled, causing immense economic dislocations; production within the U.S.S.R. was collapsing; shortages were the greatest since World War II. Strike waves, mass protests, and ethnic conflicts in regions like the Caucasus, and the movements in the republics for independence, were all the order of the day.

The collapse of production was the lawful result of decades of disinvestment in much of the civilian sector of the economy—a disinvestment pattern that was accelerated during the 1980s, due to the Soviet decision to engage in a linear conventional and nuclear military buildup, in response to the American Strategic Defense Initiative (SDI). The disinvestment policy resulted, first, from the early 1970s "oil for grain" policy, which was the decision to focus investments in the oil and gas production sector, to make the Soviet Union a major

exporter, to earn foreign exchange. Because of the seemingly huge foreign exchange dividend, dollars were allocated for the import of Western grain, instead of investing in domestic agricultural production.

Agriculture had always been the Achilles' heel of the Soviet economy, ever since Stalin's forced collectivization of the late 1920s and early 1930s. The system of state and collective farms had been a failure, but with the disinvestment that began in the early 1970s, it was to become a calamity. Every year, about 25-30% of the harvest was lost. The greater the harvest, the worse the strain on the weak infrastructure, and thus the higher the losses, both in percent and absolute terms.

The disinvestment pattern plagued almost the entire Soviet civilian industry, which had always lagged behind its Western counterparts. By 1990, Soviet industry and infrastructure were becoming a hopelessly obsolete junkpile. The effects of years of little or no investment had struck the vital energy and transportation sectors as well. The food-processing industry was weakened too, causing a new vicious cycle of higher food imports, on top of the "normal" grain and feed-grain imports, requiring more energy exports to pay for them.

The Russian elite recognized that a policy shift had to be undertaken. One grouping, centered around the U.S.S.R.'s last Prime Minister, Valentin Pavlov, wanted a program of rapid, forced investment in industry, agriculture, and infrastructure, of new technologies, to begin a real economic recovery. The other grouping opted for a pact with the devil, thinking that by "integrating" themselves with the IMF, they could become the ruling caste of post-Bolshevik Russia.

Oil and debt

The U.S.S.R.'s "oil for grain" policy was seen as a clever move, taking advantage of the big oil price rises of the early 1970s. Many a Soviet leader surely thought that high oil prices would last forever, and this was one reason behind their arrogant rejection of the U.S. offer for SDI cooperation in 1983. Starting in 1986, oil prices began to plummet, and Moscow learned that not it, but London, controls world commodity prices. The U.S.S.R. trade and payments balances collapsed.

A consequence of this was a rapid increase in Soviet debt in the late 1980s, reaching \$54 billion by the end of 1989, with most of the increase in the form of short-term debt. There was a sharp drop in imports from the West, especially imports of capital goods—machinery and equipment, the very thing the U.S.S.R. could least afford to forsake, given its growing industrial obsolescence.

The Soviet Union took advantage of CMEA pricing rules, where the price of its oil exports to Eastern Europe was the average of the past five years, to heavily increase imports from Eastern Europe, in return for oil. This spree of looting of Eastern Europe, including East Germany, created the economic basis for the movements for independence and German reunification within what had been the Soviet sphere.

By 1988, when the CMEA oil price had come down somewhat, although it was still higher than the world price, Moscow switched to promoting oil exports to the West, even at the lower price, to scramble for foreign exchange, as its balance of payments and debt situation grew worse. Eastern Europe was hit by this in two ways: Because of the CMEA pricing policy, it still had to pay exorbitantly (in goods) for oil from the U.S.S.R., and also had to allocate foreign exchange for world market oil, to make up for the Soviet shortfall.

Starting in July 1990, the crisis in the Persian Gulf caused a sharp rise in world oil prices. However, CMEA prices for Soviet oil, because of the five-year average rule, could not take advantage of the new price; yet, precisely because world prices were rising, Soviet exports to the West increased, increasing the strength of the double blow against Eastern Europe.

The lower oil export income after 1986, coupled with growing indebtedness, compounded the already severe lack of investment in the U.S.S.R., including in the oil industry. After 1989, Soviet oil production began falling, and, in 1990, the volume of Soviet oil exports fell by 20%. In 1990, a shift was being implemented in CMEA trading relations to convertible currency settlements at world prices. The result was a collapse in U.S.S.R.-CMEA trade.

1991: The crisis peaks

By early 1991, an open fight inside the Russian elites had broken out on the question of adopting a competent economic recovery alternative, or submitting to the dictates of the IMF.

Soviet Prime Minister Pavlov, in the Feb. 13 edition of the trade union newspaper *Trud*, asserted that there was a "plot" by Western banks to "destroy" the Soviet economy, by imposing the "Polish model" on the U.S.S.R., flooding the country with ruble notes, causing hyperinflation, and overthrowing the Gorbachov government. Pavlov declared: "It is well known that for some time a huge inflow of money into our country was being prepared" through the buying up of "50 and 100 ruble banknotes. Banking institutions in our country and a number of private banks in Austria, Switzerland, and Canada joined in the operation." The plot was directly linked to a purge of officials in the Russian Federation government, with the goal of ensuring that Boris Yeltsin, President of the Russian Federation, would be surrounded by cronies vetted by the IMF.

Speaking directly against the IMF policy, Pavlov called for the "forced mobilization of industry" to create a modern infrastructure to make the U.S.S.R. an industrial superpower as well as a military one. The interview also marked the open, honest admission that the U.S.S.R. was facing nothing less than a breakdown crisis. Noting the sharp fall in production, Pavlov said: "If we do not deal with this effectively by March, we will have such a slump in production that society will find itself on the verge of collapse. This is not a political trick. It is an economic forecast. Our radicals are calling us back to

the market of the late nineteenth century. They want to drag society through shocks and traumas. We are categorically against that. We have had enough traumas. The market is a means to reaching an end, not an end in itself; apart from the market the country needs a program [for] forced modernization of industry."

"The situation in our country is deteriorating sharply," Pavlov said. "Our exhausted industry, our semi-destroyed railroads and our telephone networks are on the verge of complete breakdown, and our water and heating systems are on their last legs. . . . We must tighten our belts, . . . use our resources to modernize production, which provides the very foundation of life." Arguing against the IMF's planned de-industrialization, Pavlov demanded, "What kind of improvement in public health can there be, when we essentially have no modern industry?"

During that period, evidence was mounting that the IMF was grooming a Russian Federation alternative—meaning

Yeltsin and company—to come into power and do the job that the Soviet government was not willing to do. In February 1991, Pavlov and KGB head Gen. Vladimir Kryuchkov declared that officials in Yeltsin's Russian Federation government were plotting to destabilize the Soviet economy.

It would be wrong to say that the fight was between the U.S.S.R. and the Russian Federation, however. In both entities, both factions—pro- and anti-IMF—were represented. In the Russian Federation, this could be seen through the heavy resistance faced by Yeltsin in the Federation's Supreme Soviet, where his command of a paper-thin majority was held only through direct interventions by President Mikhail Gorbachov. Likewise, on the Soviet level, Pavlov and his cabinet never had real backing from Gorbachov, who always vacillated.

Gorbachov's vacillation was seen in his Feb. 25, 1991 speech in Minsk, where he castigated Yeltsin's policy of "loose confederation," and accused Yeltsin of "forging an

Russian 'reform' cadre trained by London

On Aug. 23, 1991, the "Diary" column in the London *Times* provided a handy preview of the forced march of a rotten economic idea, which was about to assail the soon-to-be former Soviet Union, opening the war for title to the wealth of post-Soviet Russia and the other newly independent states. "The free market gurus and think-tanks that helped redraw the economic map of Britain during the 1980s," wrote the *Times*, "are planning an ideological invasion of the Soviet Union, in the belief that the failed coup [of Aug. 21-22, 1991] has rendered the empire ripe for a dose of Thatcherism. Although their influence may have diminished at home, the Thatcherites believe that the events of the last few days have created the perfect new laboratory to test their ideas."

Interviewed about the monthly luncheons he would be hosting for "free-marketeers and Soviet economists," Lord Harris of High Cross told the *Times*, "We criticized Gorbachov in the past for not reforming fast enough. Now the pace will be accelerated and our think-tanks can play a key role."

Lord Harris heads the Institute for Economic Affairs (IEA), the chief London think-tank of the Mont Pelerin Society. The latter was founded in 1947 by London School of Economics professor Friedrich von Hayek, for the purpose of attacking the nation-states which had been strengthened during the mobilization for World War II, with the free-trade "liberalism" of eighteenth- and nine-

teenth-century Britain as the bludgeon.

Harris's project, and the parallel patronage of George Soros, shaped the group of "young reformers," who have run economic policy under Russian President Boris Yeltsin.

The London Mont Pelerinites trained their sights on Russia already in 1983, the year of the Strategic Defense Initiative. That year, the Centre for Research into Communist Economies (CRCE) was organized in London, out of Lord Harris's IEA. CRCE representatives began to go into eastern Europe in the mid-1980s. In Hungary, they met a young Russian economist named Anatoli Chubais, a member of a loose grouping that included Yegor Gaidar, then an economics writer for publications of the Communist Party of the Soviet Union. There were similar contacts of the CRCE with people from Poland and Czechoslovakia, including the future prime ministers of those countries, Leszek Balcerowicz and Vaclav Klaus. Before long, Gaidar and other Russians were travelling to London as guests of the CRCE, or convening with students of the Mont Pelerin agenda from throughout eastern Europe, at seminars held in Hungary, Vienna, and the United States. To this day, Lord Harris refers to Gaidar and his associates as "our men."

Ljubo Sirc, director of the CRCE, recalled the recruitment process, in a 1996 interview: "The reforms really started in 1989. Initially the contacts were with what were then called 'dissidents,' who, it so happens, all became important persons in their own countries. Balcerowicz was the Minister of Finance [Poland], Vaclav Klaus is still going strong [in the Czech Republic, as of 1996], the Russians have all been minister and prime ministers and dep-

alliance with separatist and nationalist movements, to plot the overthrow” of the Soviet government. Gorbachov cited “extensive plans, which in some cases have been worked out by foreign centers.” He added, “These democrats are allying with separatists and nationalist groups. They have a common goal, to weaken the Union, and where possible to destroy it.” Gorbachov also said that the opposition around Yeltsin was promoting “chaos, disintegration, and instability, and conducting a most intensive power struggle, which could lead to civil war.”

Here were extremely strong words, and all basically true. However, throughout that spring, Gorbachov never acted to stop it.

Yeltsin was confident that his position was unassailable, and, in a March 9 radio interview, he called for a rebellion against the regime of the U.S.S.R. “Let us declare war on the leadership of the country,” he said. “We’ve wasted many months. It is time to go on the attack. Democracy is in danger.

March will be decisive. Either the democrats will be strangled or they will not only survive but will win this year.”

This interview inaugurated the mass disorder phase of the 1991 destabilization of the Soviet Union, leading to the ruinous nationwide coal strikes of March and April.

Meanwhile, the economic projections were getting bleaker and bleaker. On March 16, Gorbachov admitted that 1991 oil production would end up between “500 million tons and 528 million tons,” down from 589 million tons in 1989. More important, he added that oil exports, the U.S.S.R.’s main source for foreign exchange, would drop from 125 million tons, to a mere 60 million tons.

How critical and strategic the oil situation was, was shown by the fact that, on March 18, West German Foreign Minister Hans-Dietrich Genscher said in Moscow that Germany was ready to help the U.S.S.R. rebuild and modernize its oil and gas production. Then, Japanese Prime Minister Toshiki Kaifu visited Moscow on March 25-26, for talks on extending Japa-

uty prime ministers. . . . So that made life quite interesting. We had all this contact before they took over.”

Lord Harris co-founded the Moscow-based International Center for Research into Economic Transformation (ICRET), in 1990. It began to work closely with the (Russian) Institute for the Economy in Transition, launched under the auspices of Academician Abel Aganbegyan and subsequently headed by Gaidar and Vladimir Mau.

As the Soviet bloc splintered under the political pressures generated by its economic crisis, the Mont Pelerin Society-groomed economists seized an opportunity to push a radical break in policy. Their first ideological substantiation was the notorious 500 Days Plan for a leap to the “free market,” drafted in 1990 under the direction of Academician Stanislav Shatalin, a dabbler in astrology, by young economists like Grigori Yavlinsky and the intense student of Thatcherism, Boris Fyodorov. Soros assisted this project, paying the way of Yavlinsky, Fyodorov, and four other members of the Shatalin group, to attend the September 1990 International Monetary Fund (IMF) conference in Washington.

At the end of 1991, the Russian institute of Gaidar and Mau nearly folded, because most of its staff entered the government. Yeltsin chose Gaidar as the first Prime Minister of independent Russia.

How the London-Moscow interaction worked

Mau has recounted how the London-Moscow interaction worked: “An exchange of ideas, not restricted with personal censorship. . . . They met in Budapest, in western Europe, mostly in Britain, more in advanced eastern Euro-

pean, central European countries, in St. Petersburg. There were seminars with an exchange of ideas. The most part of our government of 1992, met at these seminars. All of us knew each other. And probably we did meet there for the first time. . . . Ljubo [Sirc] was doing very important—sometimes I think he didn’t even understand what he was doing. It was impossible to understand at that time. . . . Since my institute contributed the most to the government, when it was formed in November 1991, because a good part of the government was from the institute, the institute was almost exhausted when the government was formed.”

From the Mont Pelerin-trained group, Gaidar became Prime Minister; Mau was his assistant for economic policy; Andrei Nechayev was minister of economics; Leonid Grigoryev (later at the World Bank) was chairman of the Committee on Foreign Investment; 500 Days Plan co-author V. Mashchits headed the committee for economic relations with Community of Independent States countries; Pyotr Aven was minister of foreign trade; Sergei Vasilyev was head of the government’s Center for Economic Reforms. Konstantin Kagalovsky, the first executive director of Lord Harris’s ICRET, was assigned by the Russian government to handle its negotiations with the IMF! Above all of them, Anatoli Chubais spread his wings as privatization czar—officially, as chairman of the State Committee for the Management of State Property.

(The story of how the Russian reforms were patronized by the London Thatcherites and the Bush-era International Republican Institute (IRI), was told by Roman Bessonov in Parts 1 and 2 of his series, “IRI’s Friends in Russia: The Anti-Utopia in Power,” *EIR*, Sept. 6 and Oct. 4, 1996.)

—Rachel Douglas

nese aid and credits, to open up new Soviet oil and gas fields in Siberia and Sakhalin. But right before Kaifu left for Moscow, President Bush requested, on sudden notice, a meeting with him on April 4 in Los Angeles. Nothing came of these German and Japanese initiatives.

Inside the U.S.S.R., especially in Russia, the domestic crisis was intensifying. Through the coal miners' strike, the Yeltsin forces scored their first successful mini-coup. The strikes, hitting Russia and Ukraine, went on throughout March and most of April, causing enormous economic damage. The inability of the Pavlov government to implement an economic recovery program led to an added problem. During the first quarter of 1991, the perennial shortage of most goods in shops became even worse. Popular savings and holdings of ruble cash ballooned, but there was little to buy. The government then decided to adopt across-the-board price increases, averaging some 55% for food and consumer goods, which took effect on April 2. This was demagogically exploited by the Yeltsin camp in their next manipulations of the "masses" against the Pavlov regime.

The strikes caused the loss of 1,169,000 working days in March, and a higher toll in April. The nearly two-month coal strike and related strikes resulted, for the first time, in the Soviet regime giving in to the idea, backed by the Yeltsin camp, of a rapid transition to a market economy. This was seen, at the height of the coal strike, in an "anti-crisis program" submitted by Gorbachov on April 9. Here, for the first time, the U.S.S.R. President promised to reach a "full market pricing system" by Oct. 1, 1992. Gorbachov also agreed to end the monopoly of state trade organizations, and thus decentralize foreign trade, and begin the privatization of "loss-making enterprises."

The public evidence of a Gorbachov "turn" toward capitulation to the Yeltsin camp, and thus to the IMF, caused a rapid radicalization of the opposition to that policy. For example, the Communist Party "Soyuz" group convened on April 20-21, and called on Gorbachov to institute a six-month state of emergency. Gorbachov refused, and from that time on, the dynamic was to lead to the failed coup of Aug. 19.

However, this anti-IMF opposition was always too slow to respond to the fast-changing situation. An example was the April 23 agreement to have the nine republics sign a new Union Treaty in August, brokered by Yeltsin and Gorbachov. The agreement ended the strike wave, and thus lessened the planned impact of the ban just on strikes ordered by Prime Minister Pavlov.

The agreement endorsed Pavlov's proposal to create a "special regime" to run most of the vital sectors of the economy: transport, communications, energy, metallurgy, basic goods production and distribution, and so on. It all sounded good on paper, but never amounted to anything. Its only effect was to stall any effective consolidation of the political forces around Pavlov, by lulling them to sleep for a while.

The agreement signified that the U.S.S.R. had entered a

short-lived "Gorbachov-Yeltsin duumvirate." Its main beneficiary was clearly Yeltsin, and therefore the IMF forces. Yeltsin's prestige had been raised to an all-time high, right on the eve of the Russian Federation elections, scheduled for June 12. A Yeltsin landslide victory allowed him to consolidate his position in Russia, and launch a coup against the Pavlov government.

London and the Bush administration were out to "get" Pavlov and his circle, as shown by the response to a feeler Pavlov put out on May 9, to the London *Financial Times*, calling for the West to abandon its "wait and see" attitude, and extend large-scale economic aid to the Soviet Union. Pavlov said that Gorbachov was ready to come, "if invited," to the July London G-7 summit and present a Soviet aid request. But, all of Pavlov's appeals fell on deaf ears.

Throughout May, the Bush administration insisted that the U.S.S.R. had to accept a "Polish model," with IMF-imposed austerity. Gorbachov issued a statement that month, which may have sealed his fate, in the sense that the Bush-London camp could no longer be 100% certain of using him as an asset. He said: "Let us not force models on each other and not dictate to each other." Gorbachov, in Oslo on June 4-5, repeated his rejection of conditions. He said that Moscow would not accept financial aid tied to stringent conditions mandating Soviet economic policy changes. "It is also futile and dangerous to set conditions," he added.

Similarly, in the ongoing Russian Federation Presidential election campaign, a leading anti-Yeltsin candidate, former Prime Minister Nikolai Ryzhkov, was giving a resounding "nyet" to IMF shock therapy. Yeltsin himself was totally silent on the issue.

Final stages of the breakdown crisis

On June 10, Prime Minister Pavlov declared that the Soviet Union had "two to three months" to prevent the real economy from declining to the point at which it "will pass out of anyone's control." Industrial production had fallen by 5% in the first quarter of 1991, compared to the first quarter of 1990. Though the rate for the first five months had settled to a 3% decline, the fall in industrial investments was 16% below the 1990 level.

Pavlov warned that time was running out: "We have kept ourselves above water, with great difficulty, mainly by having slashed imports by 45%," a move required because of the fall in exports and the huge credit crunch and debt repayment load. He said that there had been "too few foreign credits" even to merely finance badly needed foreign imports. In the first five months of 1991, exports of oil and natural gas fell by 49%, and similar drops occurred in exports of timber and non-ferrous metals.

In a speech to the U.S.S.R. Supreme Soviet on June 17, Pavlov tore into the Harvard economists and their recipes for shock therapy: "I know certain gentleman at Harvard. They do not know our life, or our views on life." On June 18, KGB

head Kryuchkov, on Leningrad TV, denounced the “ultimata” being handed down as conditions for receiving economic aid. Pavlov’s position, however, was gravely weakened by the fact that Gorbachov was not backing his anti-IMF efforts. This was reflected during June in the eruption of an open clash between Gorbachov and Pavlov.

In July, Pavlov came out with a plan for emergency rule over the economy till the end of the year. It was duly approved by the U.S.S.R. Parliament and the Parliaments of Russia and Ukraine. However, it never had time to get off the ground. As for Gorbachov, he went off to huddle with George Bush in Kiev on July 7, a preview to their Moscow meeting of July 30-31.

The Yeltsin counter-coup and IMF victory

The summitry between Bush and Gorbachov, after Gorbachov was awarded the Nobel Peace Prize in the first week of June, reinforced Gorbachov’s false sense of security. He made the tactical error of breaking with the policy of “his” government team under Prime Minister Pavlov, paying lip service to their attempts to launch some form of production-based economic recovery, while in reality, the cabinet issued meaningless “orders,” and little or nothing happened.

During these final months leading up to the Aug. 19 coup and then the counter-coup, the breakdown crisis intensified. Many people, out of ignorance and desperation, argued that a rapidly implemented “free market” was the solution. Equally incorrect, was the nearly universal sense that “things could not get worse.”

But they could, and did. Today, in retrospect, after having witnessed years of IMF shock therapy, the figures for 1991 are perhaps not so terrible. But from the standpoint of Soviet leaders and the population, what happened in 1991 was a disaster. Industrial production in 1991 fell by 8%, and GDP fell by 17% in real terms. Of 237 state-financed construction sites scheduled for completion in 1991, only 3 were finished during the course of the year.

The CMEA fell apart during that year, as Soviet imports from CMEA members fell 63% compared to 1990, and Soviet exports to CMEA members fell 57%.

There was no possibility for a real improvement solely through mobilization of Soviet domestic resources, because the disinvestment process had gone too far. This problem was worsening throughout 1990 and 1991, because of the halt in non-food Western imports, in order to save foreign exchange and prevent a default on the nation’s foreign debt. In 1991, total Soviet imports from non-CMEA countries fell by 32%. This meant, for the most part, that the critical flow of Western machinery and equipment into the U.S.S.R. had stopped.

The U.S.S.R. needed an international recovery effort of Marshall Plan dimensions, linked to dirigist domestic economic policies. The Pavlov government realized that real international assistance was indispensable, and, as shown above, made repeated public appeals to this effect. These

proposals were last repeated in the public domain in a June 27, 1991 *Der Spiegel* interview by Soviet Vice President Gennadi Yanayev. He stated that the Soviet government had given proposals to the G-7 for Western investment in infrastructure, especially transportation and energy, and agriculture infrastructure. Because of the lack of adequate agriculture infrastructure, he said, “we lose up to 40% of each harvest,” and “our roads and railroads are dilapidated.”

The G-7 summit was held July, in London, and the Soviets’ final pleas for aid were received with ice cold silence by Bush and British Prime Minister John Major.

In this setting, Soviet dependency on the IMF vultures reached a peak. The U.S.S.R. was confronted with a mountain of \$12 billion foreign debt due, from September till the end of the year. “Accept the shock therapy program, and the debt will be rolled over, no default will occur,” was the siren song of the international financial institutions.

In August, real power shifted to Yeltsin. This did not mean, yet, that the U.S.S.R., or its successor states, would inevitably adopt shock therapy. However, the Bush administration and London were confident that the continued withholding of credit would crack any remaining resistance.

Bush, in the last week of August, declared several times that there would be no aid to the U.S.S.R., unless “radical free market reforms” were adopted. Secretary of State James Baker said on U.S. TV on Aug. 25, following the Yeltsin coup of Aug. 19: “We have seen democracy take over in the Soviet Union this week. Hopefully, free market reform will take over. We shouldn’t make the same mistake we did in the 1970s [in Poland], where we poured a lot of money down a rat hole. What is needed is a concrete specific program and plan that everyone signs on to before there can be meaningful Western investment.”

Following the Yeltsin coup, the newly created Thatcher Foundation opened an office in Moscow, and the monetarist Adam Smith Institute began establishing contacts with the Yeltsin circle, and the already independent Baltic republics. The blackmail message was reinforced in visits to Moscow on Sept. 6 by British Prime Minister Major, and on Sept. 10 by Secretary Baker.

One must recall that not all of those who had followed Yeltsin that August were committed to following the IMF. As with the Gorbachov regime, the center of anti-IMF resistance was in the cabinet, under Russia’s new Prime Minister, Ivan Silayev. Silayev had come from the defense industry, was Deputy Minister of the Aircraft Industry, and in 1985-90, was a Deputy Prime Minister. Up to June 1990, he had been head of the Soviet-West German and Soviet-East German Joint Economic Commissions. Silayev had become Russian Federation Prime Minister in June, and was kept on by Yeltsin after the August coup.

On Aug. 30, a week before Major came to Moscow, he and Bush huddled together in Kennebunkport, Maine, and both declared that “radical reform” in Russia must precede

any aid. Bush stated that he was not sure that Yeltsin was willing to go far enough in imposing austerity on Russia, and, echoing the IMF itself, he declared: "Mass unemployment and social dislocation necessarily have to accompany radical reforms."

On Sept. 3, Silayev said that a "shock therapy approach," to bring the republics of the former Soviet Union into the market economy, was "out of the question." He called for barter among the republics, to prevent the breakdown of trade as had happened within the CMEA in 1991, when barter trade was abolished. Silayev, to rectify that error, also called for the reimposition of barter within the CMEA. This was followed by a joint appeal to Europe, issued by Yeltsin and Silayev, for a Marshall Plan to develop Russia and the other republics, so they could join the new Europe. The appeal was presented by Russian Foreign Minister Andrei Kozyrev, at the Friedrich Ebert Foundation in Bonn on Sept. 6: "We need an integrated plan for all of Russia, a reform plan with the participation of Western countries. We need a program, almost like a Marshall Plan, for the sovereign republics." Kozyrev's sincerity is highly doubtful, given his later performances, but his speech did reflect that, at that time, there were anti-IMF forces in the broad "Yeltsin" camp.

One example was Yeltsin's Vice President, Gen. Maj. Aleksandr Rutskoy, who was ultimately to fall from power as a victim of Yeltsin's second coup, in October 1993. On Sept. 19, 1991, for example, Rutskoy gave a speech, saying, "It is in the defense sector where the economic miracle will take place."

By October 1991, it was clear that Yeltsin was plotting to get rid of Silayev when the time was ripe. On Oct. 10, Yeltsin accused Silayev of favoring "Moscow Center" interests over those of Russia. A day before, Rutskoy had decried "the complete absence of power in Russia. Laws are passed, but nobody observes them."

The breakdown was proceeding apace, that was true. On top of everything else, the extent of the 1991 harvest disaster was now known. Total U.S.S.R. harvested grain was at 154.7 million tons, compared to 211 million tons the year before. The decline of production was worsening—11% during the fourth quarter.

In this setting, the IMF held its annual fall meeting in Bangkok, and voted to withhold effective aid for any former Soviet republics, unless rigid conditions were met. The IMF declared that it would stick to enforcing repayment of the entire old Soviet debt, and insisted that U.S.S.R. republics had to eliminate all subsidies for industry and agriculture, and make deep cuts in the defense budget.

Yeltsin exploited the economic crisis and political anarchy, to impose himself as the "strongman" to bring back order. He called an emergency session of the Russian Parliament on Oct. 28, and used the occasion to declare a state of emergency. He proclaimed himself both President and Prime Minister, thus removing Silayev and paving the way for Yegor Gaidar to become Prime Minister.

Before that, on Oct. 17, Yeltsin had lifted price controls, accompanied by so-called "social indexing." These measures were to give Russians the first taste of what was to come, under Gaidar's total price liberalization the following January. As a result of Yeltsin's move, inflation reached an annual rate of 140%, with the great bulk of that huge inflation occurring in the last two months of the year. The Yeltsin decrees on prices further aggravated the horrendous shortages, because everyone, now anticipating skyrocketing inflation, went on a hoarding spree.

On Oct. 17, Yeltsin spoke of the need for a "rapid transition to a market economy." In early November, panic-buying elicited an official government promise that no further price liberalizations would occur that year (the next price rise occurred exactly 48 hours into the New Year). In November and December, food rationing was imposed in many parts of Russia.

During this period, a person who had hitherto been an unknown, began to move into the limelight: Yegor Gaidar, named by Yeltsin that autumn as economics super-minister. His first unilateral declaration, that nearly all price controls would be lifted on Dec. 16, created havoc. Food was still available in private markets, albeit at higher prices, but with Gaidar's declaration, even the private markets stopped selling food, anticipating an enormous price increase after Dec. 16. Vice President Rutskoy called Gaidar and his circle of shock therapy promoters, "young boys in pink shorts, red shirts, and yellow boots," and furiously demanded Gaidar's ouster. Yeltsin refused.

On Dec. 8, in the midst of all this, the Union of Soviet Socialist Republics was officially buried at a summit meeting in the Belarus capital of Minsk; Russia, Ukraine, and Belarus created a new entity, the Commonwealth of Independent States (CIS).

With Yeltsin solidly lined up behind Gaidar, resistance to the IMF cracked in due course. Shortly before Christmas, Gaidar declared that the military budget and military-industrial budget would be cut "to the bare minimum." He openly admitted that he was doing this on behalf of the IMF: "Defense spending we plan to cut to the minimum. . . . If we manage to hang on and adhere to tough budget guidelines, then by April, we should be able to mobilize a hard currency stabilization fund [from the IMF] based on cooperation with international financial organizations." There were screams, including from Vice President Rutskoy, but, nothing happened.

In the meantime, the Gaidar group had been joined by a swarm of Western radical free market advisers, including Harvard's Prof. Jeffrey Sachs, Anders Åslund of the Stockholm School of Economics, and London School of Economics Professor Layard.

So, with that, and the assurance that once the Gaidar program was launched, the foreign debt would be rescheduled, the real insanity commenced. On Jan. 2, 1992, came Gaidar's total price liberalization, and Russia officially entered the shock-therapy era.

Let us finally win the war for the Eurasian Land-Bridge

by Mary Burdman

When, on Oct. 12, 1988, Lyndon LaRouche gave a speech in Berlin, forecasting the economic collapse of the East bloc economies unless there were external intervention, and calling for the reunification of Germany, to build an economic bridge into Eastern Europe, the government of China was beginning construction of what was to become the “Second Eurasian Continental Bridge.” In 1985, China’s eminent economist Ma Hong, had proposed the extension of the rail line being built in northern Xinjiang, China’s westernmost province, to connect it to the railroad in Kazakstan, then part of the Soviet Union. This construction would finally complete a rail connection, delayed for decades because of the Sino-Soviet political split of the early 1960s.

China was re-opening the ancient “Silk Road” between Asia and Europe.

In November 1989, with the reunification of Germany imminent, LaRouche, then already a political prisoner of the George Bush administration in the United States, proposed launching a massive reconstruction and development program for Europe, based on the Paris-Berlin-Vienna “Productive Triangle.” This policy was to create the economic powerhouse, which could support the construction of the transport, energy, and other infrastructure which was essential to solve the economic problems of the nations of the former Soviet Union. LaRouche’s Productive Triangle, like the “Fifty-Year Development Policy for the Indian-Pacific Oceans’ Basin,” published in August 1983, outlined the economic “corridor” development concept, which became the core of *EIR*’s unique “Eurasian Land-Bridge” policy.

Less than one year later, in September 1990, the rail connection between China and Kazakstan was completed, and, in June 1992, it became possible for the first time to travel the 11,000 kilometers, from China’s east coast port of Lianyungang on the Yellow Sea, through Central Asia, to Rotterdam, Europe’s biggest Atlantic port.

This new Silk Road had the potential to revolutionize the world economic and political situation. The greatest political battle of the twentieth century, has been that between the national leaders committed to developing the Eurasian landmass, the greatest concentration of land, humanity, history, and culture on Earth, and the “divide and conquer” policies of those, led by the British Empire, whose policy has been to exploit these great resources in the interests of a world financial oligarchy which, as national governments fail to take

essential measures in their own defense, still remains the single most powerful entity in the world.

At the end of the twentieth century, the political, economic, and geographic challenges to uniting Eurasia, have still not been overcome. This project could have been made possible, by the development of the rail “land-bridge” already in the mid-nineteenth century, an economic breakthrough on the level of space travel today. Yet, 150 years later, China is only now constructing rail links to Russia and Central and Southeast Asia; Central Asia has only two outlets, to the south and east, and the Indian subcontinent has no rail connections whatsoever, either to West Asia and Europe, or to Southeast Asia.

While Eurasia’s mountains, deserts, and great distances are certainly on a scale as nowhere else on earth, the real challenge to development has been political. To keep Eurasia divided, is the key policy of geopolitics, the basis of the British Empire.

Divide and conquer

In a speech read to a Schiller Institute conference in Berlin in March 1991, LaRouche identified the political battle of the last century, of European and Asian leaders attempting to unite Eurasia as “a sphere of cooperation for mutual benefit among sovereign states,” which could have ended the British domination of the world. Then, as now, the British and their allies launched a twofold attack, using balance-of-power methods, playing off potential national collaborators among France, Germany, Russia, Japan, and so on, against each other, and of cultural warfare for the internal destruction of European civilization.

The current geopolitical crew has openly stated their intent to, once again, keep Eurasia divided. In July 1996, a leading British military strategist, whose specialty is “classical geopolitics,” summed up the views of his ilk, saying: “This Euro-Asian railroad project, involving China, Iran, and other countries, requires us to revive Halford Mackinder and basic geopolitics. This has enormous geopolitical and strategic potential, and is a real danger, because, as you can see, it is not accessible to the Anglo-American maritime powers. . . . What worries me, is the economic *multiplier* effects of building railways. . . .

“We’ve come full circle, now in the twentieth century. It began with a Eurasian geopolitical threat, and is ending with one. Go back to why Mackinder wrote his *Geographical Pivot*

FIGURE 1

Eurasia: future main routes of the Eurasian Land-Bridge



of Political History. . . . It was not accidental that this was written in 1904, just as the Russo-Japanese War was beginning. What motivated him to write it, was the building of the Trans-Siberian Railway. . . .

“Go back to the works of Haushofer, Adolf Hitler’s adviser. He had one of the great geopolitical designs, the so-called ‘inner line,’ free of Anglo-Saxon influence. It was a great design, but Hitler blew it, with Operation Barbarossa. When I hear about China linking up with Iran, and building a railway, and Russia becoming interested, I see this as the re-creation of that ‘inner line’ design, in a new form.”

In the summer of 1993, the “manifesto” of modern geopoliticians was launched, with the publication of Harvard Prof. Samuel Huntington’s “The Clash of Civilizations,” as the lead article in the New York Council on Foreign Relations magazine *Foreign Affairs*. While that article has gained notoriety throughout the world, it is nothing more than a classic, imperial divide-and-conquer intelligence operation, incorporating all the classic disinformation, lies, stupidities, and distortions about history, culture, and economics, on which such intelligence operations are always based.

Huntington had even lifted the term “clash of civilizations” from a September 1990 article in *Atlantic Monthly* magazine, by the high-level British intelligence operative,

Princeton University Prof. Bernard Lewis, the author of a plan earlier named after him for splitting up the nations of the Middle East into mutually feuding tribal and ethnic domains.

Lewis and Huntington both follow in the footsteps of their mentor, Arnold Toynbee, who for 30 years, was director of research at London’s Royal Institute of International Affairs, and the historian of British imperial intelligence.

In order to combat this intelligence operation, LaRouche commissioned a series of groundbreaking studies on the true history of the battle for Eurasia, which were published in *EIR* during 1994-96. These *Special Reports* included “London Sets the Stage for a New Triple Entente,” on how Britain launched World War I, probably the most destructive event in modern Western history (*EIR*, March 24, 1995); “Britain’s Pacific Warfare Against the United States,” on the political battle between U.S. President Franklin Roosevelt and British imperialist Prime Minister Winston Churchill (*EIR*, May 12, 1995); and “The Coming Fall of the House of Windsor,” (*EIR*, Oct. 28, 1994).

China takes warning

The reunification of east and west Europe in 1989-90, was a political upheaval which could have changed this situation, by breaking the power of “geopoliticians.” But, as Helga

Zepp-LaRouche describes elsewhere in this report, this potential was aborted by the operations of the new Entente Cordiale of French President François Mitterrand, British Prime Minister Margaret Thatcher, and U.S. President George Bush, to launch first the Persian Gulf War against Iraq in 1990-91, followed by five years of brutal warfare in the Balkans. Simultaneously, Russia and eastern Europe were wrecked through economic “shock therapy.” Since then, there have been only brief, but unsustainable, revivals of the Productive Triangle perspective in Europe, especially with the 1993 European Union White Paper known as the “Jacques Delors Plan” to build a Trans-European Network of transport links.

However, the operations of Thatcher and company had a different impact in other regions of Eurasia. The government of China, especially, while shaken by the Gulf War, and its economic impact on the developing nations, took warning. From the beginning of the 1990s, the Beijing government began a series of policy moves to prevent the possibility of “shock therapy” wreaking the same havoc in China as it had in Russia and eastern Europe, and to expand its orientation toward its Eurasian neighbors.

While China, the only nation which has actually been building its economy in the past decades, has been at the core of the Eurasian Land-Bridge, many other nations, including India, Iran, Thailand, Indonesia, Turkmenistan, Kazakstan, and Russia, had turned in this same direction during the early 1990s.

The nations of Eurasia have made heroic efforts over the past decade, to overcome the difficulties and construct the Eurasian Land-Bridge. These vital transport connections, which have great political importance but were never built, have been made between China and Kazakstan, between Iran and Turkmenistan, and in southwest China, toward Southeast Asia. Iran is working to close the gaps in its rail network, which would mean that, for the first time in history, the Indian subcontinent, home of 1 billion people, would have a rail connection to Europe.

Now, many of these nations have been laid waste by the modern holocaust—that of “the markets.”

Moves toward Eurasian construction

Already in the late 1980s, political and economic steps which could have built a “cooperative sphere” in Eurasia, were being taken, amid the growing ties among China, Russia, and India, an effort to overcome the deep divisions created by the events of the early 1960s, including the Sino-Soviet split and the Indo-Chinese border war.

Already in December 1988, Indian Prime Minister Rajiv Gandhi visited Beijing. In their discussions, Chinese leader Deng Xiaoping said to Gandhi, that the “North-South question . . . is only a question of development. . . . We should look at this problem in terms of the development of mankind as a whole.” There can be no “Asia-Pacific century,” unless Asia’s two Third World giants, India and China, are developed, Deng said. “Two things have to be done at the same

time. One is to establish a new international political order; the other is to establish a new international economic order.”

The Gulf War made it clear how urgent it was to create such a genuine, new international order. In the first months of 1991, Beijing, although it officially maintained a neutral position in the Gulf conflict, began attacking the Thatcher-Bush-Mitterrand “new world order.” Chinese leaders made repeated warnings, to Mikhail Gorbachov in Moscow and to the governments of Eastern Europe, of the dangers inherent in crash “market reform.” In December 1990, *éminence grise* Bo Yibo published an important policy article in the *People’s Daily*, warning of the dangers of too radical market reform, and emphasizing the maintenance of core industries. China’s central leadership, more and more concerned about the threat to national stability, by 1992-93 had turned the huge Chinese economy toward its current perspective of development for the twenty-first century. The show of high-technology force by the U.S. military in the Gulf War was also closely heeded in China.

Chinese-Soviet rapprochement, outlined in Gorbachov’s “Eurasian” policy speech in 1986 in Vladivostok, grew. One former Soviet official, then-Deputy General Secretary of the Soviet Communist Party Central Committee Vladimir Ivashko, who visited Beijing in early 1992 to prepare the state visit of Chinese Communist Party General Secretary Jiang Zemin to Moscow that May, returned saying that the Soviet and Chinese people have a “traditionally close friendship,” and that Russia “should take a closer look at China, at its experiences, including its economic experiences both positive and negative, and not at the West, as some of our economists mistakenly believed.” The Soviet press outlined the importance of the Kazakstan-Xinjiang rail link, and “combining market relations with state economic regulation.” Russia would have done well, to have heeded such warnings.

In May, Jiang Zemin, accompanied by military and other leaders, went to the U.S.S.R. for the first Sino-Soviet Party summit in Moscow in 34 years. The issue of this summit was mutual support for each other’s stability, peaceful coexistence, and economic cooperation in a tumultuous world. Both sides emphasized that their renewed friendship was not aimed at anyone. These views were echoed more strongly, when Jiang Zemin, by that time also President of China, returned to Moscow in April 1997. But, by that time, shock therapy had totally destroyed the Russian economy.

In 1992, while mutual trade was still very low, both sides were discussing the potential for Soviet exports of machinery and equipment, including transport and machinery-building technology, which had no market in the West, to China. On the eve of Jiang’s visit, the Soviet paper *Independent Gazette* stressed the “importance of our joint efforts to develop infrastructure along a vast zone, including the Soviet Far East, Manchuria, and Mongolia.”

Germany, India, and Indonesia

There were many more such proposals for cooperation among Eurasian nations during this time. Throughout Eastern

Europe, long-standing relations to Asian nations were seen as a real advantage over the Western economies.

In contrast to the unholy trio of Bush's "new world order," key nations of Asia responded immediately and positively to the reunification of Germany. In 1991, visits among the leaders of Germany, India, and Indonesia demonstrated what could have been achieved.

When German President Richard von Weizsäcker made a state visit to India on Feb. 28-March 6, 1991, both nations emphasized the importance of German-Indian cooperation for North-South relations. India gave unqualified support to German reunification, and the united Germany's strong and positive role in Europe. Von Weizsäcker's visit was seen in India as "nothing short of an offer to make India Germany's principal interlocutor in the Third World," as the March 11 *Hindustan Times* reported. Many collaborative projects were discussed, including in science and engineering, key strengths of both nations.

The closeness of the political atmosphere was shown when von Weizsäcker took the political risk to state in New Delhi, immediately in the wake of the Gulf War, that, "in the concert of nations involved, we Germans have shown a little more restraint than France or England, for instance, and I feel for good reason." This certainly struck a chord in India, where former Prime Minister Rajiv Gandhi (who was assassinated just weeks later, on May 21) had publicly expressed his dismay over the UN's role in promoting the Gulf War and called for reinstating the UN according to the spirit of San Francisco after World War II.

Von Weizsäcker also called on India to develop its "traditionally good relations with the Soviet Union," in order to strengthen the international role of the Soviets in respect to "the future shaping of the relations between North and South." A concrete form of German-Indian-Soviet collaboration was proposed by Indian Foreign Secretary Munchkund Dubey, who said on March 4 that a group was being set up to explore possible joint Indo-German projects in third countries, including a DM 8 billion project to build more than 60,000 houses in the U.S.S.R. for Soviet soldiers returning from eastern Europe.

Six months later, the newly elected Indian Prime Minister P.V. Narasimha Rao visited Germany. But, despite the tragic circumstances of this visit, after the assassination of Rajiv Gandhi, the great potential for the Indian-German "bridge" remained. Rao's statement at his press conference in Bonn on Sept. 7, which this author attended, was very moving. This was, Rao said, a "very important moment," with "momentous changes" taking place in Europe. India had just come out of the very "traumatic experience," of the Gandhi assassination. In addition, India, hit hard by the International Monetary Fund in the wake of the Gulf War, was facing a "very grave economic situation" as his minority Congress Party government took office. For the first time since independence, New Delhi had been in danger of defaulting on its foreign debt.

But now, Rao said, India's leaders wanted "to assure our

friends abroad," that India is now back on a "normal course of development and back to playing her rightful role in international affairs."

Most notable was that this visit, Rao's first as Prime Minister, broke the tradition, that Indian Prime Ministers' first foreign trip was invariably to either Washington or Moscow. Rao did *not* visit either of India's close allies, the Soviet Union, or the other superpower, the United States, but Germany. Rao made it clear at his press conference, that by choosing Bonn over Moscow and Washington, he was sending a message. He affirmed that the perspective, of India as Germany's key partner and "bridge" to the nations of the South, had been again discussed in Bonn. Every aspect of international relations, including the unsettling situation in the U.S.S.R., had also been discussed, and, among other economic arrangements, Bonn confirmed that previous East German-Indian trade deals, primarily in chemicals, fertilizer, and machinery, would go ahead, with 90% export guarantees from the German government. India's trade ties with East Germany, built up since the 1970s, were proposed as the basis of new connections, and India had repeatedly proposed participating in the development of the new German states with the affiliate of the development bank in Berlin.

In the same period, in early July 1991, Indonesia's President Suharto became the first non-European head of state to visit Germany since its unification. Indonesian Foreign Minister Ali Alatas said that, coming at this "unique moment," the visit had "special meaning." The government of Indonesia was proposing, that relations among eastern and western Europe and Southeast Asia be transformed for their mutual benefit. Indonesia is "very sympathetic" to Germany's commitment to eastern Europe, including the Soviet Union, Alatas said. Germany's relations to the developing sector overall must also change, away from the industrialized sector draining the developing nations. It is "not just saying 'do not diminish cooperation with the rest of the world.' We must think how to utilize this new situation" to the benefit of all, he said. Among proposals put forward by President Suharto, was that urgently needed passenger ships and dredges, which Indonesia was ordering from Germany, be produced in the eastern states, to "keep its industry alive."

President Suharto also proposed that many of the materials needed for the economic development of Eastern Europe, could be produced far more cheaply in Southeast Asia than in western Germany. "What we are proposing is a triangular kind of agreement," among western Germany, Indonesia, and Eastern Europe, Alatas said, that could enhance development of both Asia and Eastern Europe.

But, by 1993-94, this potential was fading rapidly. Mutual visits between German Chancellor Helmut Kohl and Prime Minister Rao focussed not on what German technology and science could do for India, but on the deregulation and liberalization of the Indian economy and, especially, cooperation for the "successful conclusion of GATT," the General Agreements on Tariffs and Trade.



Helga Zepp-LaRouche, known as “the Silk Road Lady,” addresses professors and students during a visit to China, May 1996. She also attended a conference in Beijing on the Eurasian Land-Bridge.

The southern and central tiers

Throughout the early 1990s, intense discussions on cooperation were going on throughout Eurasia. The 14,000 kilometer Trans-Asia railway project, to link Indonesia in Southeast Asia, via Thailand and Myanmar, with the Indian subcontinent, and then to Istanbul on the border of Europe, which had been under discussion and planning since the 1960s, was again revived. In the early 1990s, work began on filling in the strategic “missing links” between Southeast and South Asia, Southeast Asia and China, and South and West Asia. China has now completed its Nanning-Kunming railroad, which could be linked to northern Myanmar. Iran, although under serious economic pressure, remains committed to finishing the short, vital 600 km rail line necessary to link Pakistan, and thus the Indian subcontinent, with West Asia and Europe.

In 1992, the Economic Cooperation Organization, of Turkey, Iran, and Pakistan, expanded to incorporate the Central Asian republics, which had declared their independence from the Soviet Union in 1991. The ECO held a series of summits, some including China, to plan Eurasian rail development, and outlined a modern transportation network running from “Istanbul to China.” These nations also discussed the construction of oil and gas pipelines to link Kazakhstan and Turkmenistan to Iran and to China. By May 1996, Iran and Turkmenistan were able to proudly announce the opening of the Mashhad-Ashkhabad rail line, which they had constructed without outside aid, for the first time linking Central Asia to the Persian Gulf.

Intensive diplomacy between India and Iran developed beginning in 1992, with one key issue being that Iran would provide India with a bridge to Central Asia via Turkmenistan. In 1993, Indian Prime Minister Rao visited not only Iran, but also China.

Up through the first half of 1997, there were many efforts

throughout Southeast Asia, with Thailand playing a pivotal role, to change the course of developments by expanding the “southern tier” of the Eurasian Land-Bridge, in collaboration with China, India, and Bangladesh. Just one example was that, on July 23, 1997, Myanmar, along with Laos, became a member of the Association of Southeast Asian Nations. This event was greeted in a commentary by China’s official Xinhua news agency, which said: “Burma’s [Myanmar’s] entry into ASEAN contributes not only to the development of the country but also to peace, stability, and development of the region. . . .

“Burma’s joining of ASEAN would also contribute to the transport sector of the Southeast Asian region. The eventual establishment of regional highway and railway networks would in turn promote the economic development of the region.”

Just one year later, the global financial crisis has devastated the economies of Southeast Asia.

‘The Renaissance ahead of us’

In autumn 1993, China officially announced its policy to develop the “regions along the Eurasian Continental Bridge,” an idea very close to LaRouche’s “development corridor” concept. With Russia, in the grip of Western “shock therapy,” plunged into economic disaster, the Beijing leadership announced a policy to bridge the growing economic gulf between China’s fast-developing coastal regions and the huge, backward hinterland.

This policy culminated in the international symposium, representing 34 nations, on the Eurasian Continental Bridge, held in Beijing in May 1996, where Schiller Institute founder Helga Zepp-LaRouche presented the concept of “the Renaissance ahead of us,” which could transform Eurasia, and finally defeat the insane, engineered “clash of civilizations.”

That potential remains, but only if nations finally decide they must *win* this decisive war of the twentieth century.

1992-97: The global financial mudslide becomes unstoppable

by Jonathan Tennenbaum

Following the sabotage of Lyndon LaRouche's proposed Paris-Berlin-Vienna Productive Triangle by British Prime Minister Margaret Thatcher, French President François Mitterrand, and President George Bush during 1989-92, the world economy began its decisive plunge into what LaRouche has called "the worst financial and monetary collapse in history." Throughout 1992, LaRouche and *EIR* repeatedly sounded the warning, that an irreversible "mudslide" had begun in the world's financial markets. Since LaRouche's warning was issued, that mudslide has indeed never stopped, but has picked up more and more momentum, wiping out every vestige of prosperity and economic stability.

By early 1992, there was no lack of signs, that a financial mudslide had in fact begun. The crisis of Lloyd's of London, which broke into public view in February, signalled that the world was no longer the same. In March came the insolvency of Olympia and York, the largest real estate company in North America, followed in May by its official bankruptcy. In fall 1992, the European Monetary System was shaken by the first of a series of violent speculative attacks, in which the Italian lira fell 30%, and the lira and the British pound were forced out of the system of relative parities.

In September 1992, LaRouche wrote, "As of this point, the world has officially entered into the second and greatest worldwide depression of the 20th century." In spring 1993, Europe was shaken by one of the largest corporate bankruptcies in history: the derivatives-linked collapse of Italy's second-largest industrial group, Feruzzi. In spring, a second wave of speculative attacks hit the European Monetary System, once again breaking up the bloc of currencies and forcing the French Central Bank to massively deplete its currency reserves. This was followed at the end of 1993 by the crisis of Germany's Metallgesellschaft and the collapse of Spain's fourth-largest bank, Banco Español de Crédito (Banesto).

By fall 1993, other voices joined LaRouche in warning that a world financial crisis was under way. In a series of newspaper articles, French Nobel Prize economist Maurice Allais declared that "the entire West is now in a fundamentally unstable financial situation. Poorly considered decisions could bring the whole world into a collapse, compared

to which the stock market crisis of 1987 will seem negligible."

Unfortunately, the key decisions had already been made, which made financial catastrophe virtually inevitable. The Maastricht Treaty, a direct product of the Thatcher-Mitterrand-Bush policy to destroy the German industrial economy and the possibility of economic reconstruction in eastern Europe, was signed in February 1992. The ultra-monetarist "conditionalities" demanded by Maastricht in the name of preparation for a common European currency, imposed a regime of drastic austerity on the European countries which resulted in the highest rates of unemployment since World War II. Parallel with this, the successors of the late Alfred Herrhausen, the head of Germany's largest bank, Deutsche Bank, assassinated in November 1989, proclaimed a radical shift in German banking, away from its traditional industrial orientation, to embrace the British model of investment banking. The radical de-industrialization of East Germany was accelerated, while in the western part of Germany a gigantic downsizing of employment in key machine-building and related sectors occurred. Together with a Japan ravaged by the "bubble economy," the last relatively strong industrial economy in the West went into precipitous decline. By the end of 1997, more than 5 million industrial jobs had been eliminated in Germany, half of them in the formerly prosperous western part.

The results of shock therapy

Meanwhile, the disaster of International Monetary Fund (IMF) shock therapy in the former Soviet Union was displayed for the world to see by October 1993, as Russian Interior Ministry troops opened fire on the Russian Parliament building, de facto ending that country's experiment in parliamentary democracy. Although the conflict between the President and the Duma had strong political overtones, the underlying reality was a precipitous collapse of production and living standards. During the first six months of 1993 alone, consumer prices rose in Russia by 344%, while industrial production plunged by 18%. By 1996, Russia's physical production and investment had fallen to 30-40% of pre-"reform" levels, and the country was importing 60% of its food.

The worldwide financial mudslide accelerated greatly during 1994, leading up to the explosion of the Mexican crisis at the end of that year. In January, Venezuela's second-largest bank was closed down by the government. In March, French authorities had to intervene with guarantees of 40 billion francs to prevent the insolvency of the giant state-owned bank Crédit Lyonnais, connected with the collapse of France's real estate bubble. In early spring, world financial markets experienced a wave of turbulence, which included drops of 30-40% in stock market values in Mexico and Venezuela. In mid-May 1994, LaRouche stated: "What Maurice Allais is saying about the financial bubble and the 'casino' type of economy, is absolutely accurate, as far as he goes. What Allais failed to address, and what must be dealt with more than anything, is something that the average person does not want to realize, could occur. . . . What is inevitable is a complete breakdown of the entire IMF-dominated, Federal Reserve Bank-dominated, global financial and monetary system. There is nothing that can be done to stop that system from collapsing, unless we shut it down first. When the breakdown comes, we are going to have to start from the beginning again and build a new monetary system, a new banking system and a new credit system generally."

On June 24, 1994, LaRouche's "Ninth Forecast" was published in *EIR* ("The Coming Disintegration of the Financial Markets"), warning that "the presently existing global financial and monetary system will disintegrate. . . . The collapse is inevitable because it could not be stopped now by anything, except a politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

Half a year later, only a fool would have denied that LaRouche was right. On June 24, 1994, the London government bond market suffered its sharpest decline since 1914. Roland Leuschel, the chief economist of Banque Bruxelles Lambert, commented in a British newspaper, "The countdown to the crash has begun." In August 1994, the MMM company, Russia's biggest private investment firm, collapsed, leaving millions of small investors with the losses. In late fall, the financial markets were hit with another round of turbulence. Then, on Dec. 6, a bombshell hit: the bankruptcy of Orange County, California, the richest county in the United States, as a result of an estimated \$3 billion in losses on financial derivatives contracts.

Two weeks later, the Mexican peso collapsed precipitously, bringing Mexico to the brink of default on its foreign debt, and triggering currency and stock market plunges throughout Ibero-America. A chain reaction of defaults, which could have spread around the world, was prevented at the last moment by a record \$40 billion of credit guarantees pledged to Mexico by the U.S. government and IMF. Justifying the unprecedented scale of the Mexican bailout package, IMF Managing Director Michel Camdessus stated, "Mexico was in imminent danger of having to resort to exchange con-

trols. Had that happened, it would have triggered a true world catastrophe."

While the world had its eyes focussed on the ongoing Ibero-American crisis, another bombshell struck: the bankruptcy of the Asia-centered British bank Barings on Feb. 25-26, 1995, as the result of losses of \$1 billion in derivatives in Asia. While dismissed by many as an "isolated event," the Barings collapse pointed to the rapidly nearing end of the Asian financial bubble.

In an April 18, 1995 press release circulated internationally, LaRouche warned that Japan was being pushed toward the point of breakdown, by the refusal of the U.S. government to acknowledge the severity of the global financial crisis. LaRouche added: "Although many economists, such as France's Maurice Allais, have warned of the danger inhering in the ballooning bubble of the derivatives speculation . . . I am the only known economist internationally who has accurately described the process of cancer-like inevitability of the ongoing systemic collapse of the international monetary and financial system as a whole."

At the beginning of June 1995, Japan's Finance Ministry admitted that bad loans in the Japanese banking system exceeded \$471 billion. Leading international financial experts put the real figure at more than \$1,000 billion. While in the course of 1995 more and more signs were pointing toward a coming "meltdown" of the Japanese financial system, a secret agreement was reportedly reached between the Japanese and U.S. governments, for the United States to provide up to \$500 billion in emergency credit lines, if necessary, in case of a threatened chain reaction of bank failures.

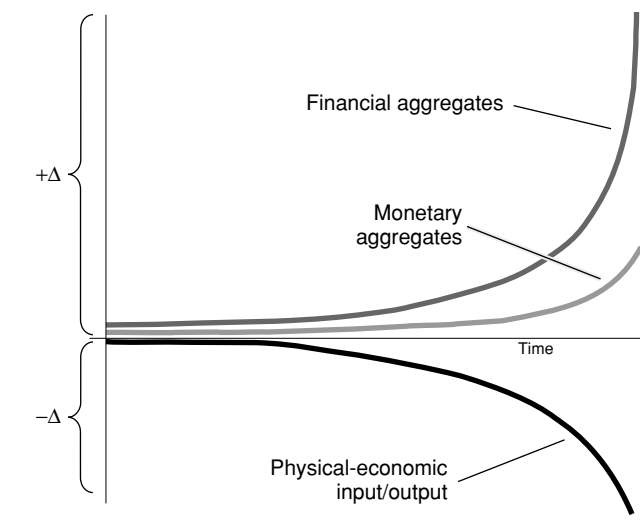
Halifax: Prop up the bubble at all costs

In mid-June, the Group of Seven economic summit, in Halifax, Canada, rather than initiate an urgent bankruptcy reorganization of the world financial system along the lines called for by LaRouche, *made the very opposite decision*: to prop up the global financial bubble at all costs, through a policy of deliberate reflation of the financial markets. After Halifax, central banks, led by Japan, began to pump cheap liquidity into the financial system at record rates, launching (among other things) a spectacular rise of stock market values in Asia, Europe, and the United States.

Starting December 1995, LaRouche introduced his "Triple Curve," a mathematical-pedagogical device for explaining the process leading to the disintegration of the world financial system (**Figure 1**). The Typical Collapse Function characterizes how a "hyperbolic" expansion of the nominal value of financial aggregates is inseparably linked to an accelerating collapse of the real physical output of the world economy relative to levels required for mere maintenance of the economic base, while the size of monetary aggregates increases at a slower rate. A hysterical reaction to LaRouche's analysis was published in February 1996 in *Foreign Affairs*, the magazine of the New York Council on Foreign Relations,

FIGURE 1

A typical collapse function



a mouthpiece of the Anglo-American financiers' "Eastern Establishment." Entitled "Shockproof: The End of Financial Crisis," author Ethan Capstein put forward the insane claim, "We have found a way to contain crisis. . . . Over the last 20 years, the leading economic powers have created a regulatory structure that has permitted financial markets to continue toward globalization without the threat of systemic collapse. . . . The financial difficulties of 1995 point to the strength, not the weakness, of the international regulatory structure."

But, the Asian financial crisis was already well on its way. August 1995 saw the bankruptcies of Japan's second-largest credit union, Kizu Shinyo Kumai, and of Hyugo bank, the first bank failure in postwar Japanese history. Panic spread throughout the Japanese population, who began to withdraw funds from the private banking system, placing them instead in the government-owned Postal Bank. In June 1996 came the announcement of gigantic losses, in the \$2-4 billion range, incurred by Japan's Sumitomo Corp., in connection with trading in financial derivatives.

The Southeast Asian crisis

By March 1997, at the latest, the first tremors of the Southeast Asia crisis were already being felt. At a time when the New York stock market and other major stock markets were soaring on a wave of euphoria, Thailand was shaken by the bankruptcy of its largest financial company, Finance One Plc. In mid-May 1997, the value of the Thai baht began to plunge under a barrage of speculative attacks. On June 27, Thailand suspended operation of 16 banks. Just a couple of weeks later came the first devastating wave of collapse of Southeast Asian currencies, including the Malaysian ringgit, the Philippines peso, and the Hong Kong dollar. At the same time, in Japan,

emergency measures were taken to avert the collapse of several major banks, such as the Nippon Credit Bank and the Hokkaido Takushoko Bank.

By August, the Southeast Asia crisis was threatening to trigger a worldwide collapse, as stock market declines circled the globe. On Aug. 15, the Dow Jones average fell 247 points, and the London stock market experienced the biggest collapse since 1987. The IMF rushed in with the announcement of a \$17.2 billion aid package for Thailand. Meanwhile, the situation in Indonesia and South Korea deteriorated rapidly. In October 1997, the entire Southeast Asian financial system exploded: In four days, the Hong Kong stock market lost nearly one-quarter of its value; the Indonesian currency plunged in free fall. At the end of October, the New York stock market collapsed by 550 points in a single day. A total panic was prevented only by massive manipulations by the Federal Reserve and large U.S. companies, which bought up blocks of their own stocks in a temporarily successful effort to prop up the market.

In the middle of this rapidly developing crisis, LaRouche delivered a speech at an *EIR*-sponsored conference in Bonn, Germany, on creating a "New Bretton Woods System." LaRouche stressed the fundamental differences between the financial collapse and depression of the 1930s, and the present process of global financial disintegration: The latter is a crisis of civilization as a whole, which can only be overcome by a radical change in the basic axioms of policy.

As LaRouche spoke, it was clear that leading institutions and governments were by no means ready to undertake such action. Instead, the hopelessly inadequate approach of "crisis management" was continued. In October 1997, the IMF pledged \$12 billion in emergency assistance to Indonesia, and then in December 1997, some \$57 billion to South Korea. Not only did these pledges do nothing to address the basic global causes of the crisis, but the conditionalities imposed by the IMF—besides being tantamount to the elimination of national sovereignty—ensured that no real recovery could possibly take place.

Meanwhile, the Japanese financial crisis continued to deepen. In November 1997, the Japanese government was forced to take emergency measures to reorganize the bankrupt Hokkaido Takushoko Bank, the tenth-largest in the country. On Nov. 23, Yamaichi Securities, the fourth-largest securities company in Japan, went officially bankrupt.

As 1998 began, it was clear that the Southeast Asia crisis had not ended, but had actually just begun. On Jan. 12, the bankruptcy of the Hong Kong financial company Peregrine Investment triggered a new worldwide round of stock market collapses. LaRouche repeatedly attacked the insane delusion, that the crisis in Southeast Asia is the result of local causes. In February, LaRouche forecast that a second crisis is going to explode, which will include not only Japan, but also Russia and parts of South America, and which is bound to finally hit the United States "with terrifying force."

The global financial crisis during 1998

by William Engdahl

Jan. 29: The committee of foreign creditor banks, led by New York's J.P. Morgan, together with the South Korean government, announce an agreement on rescheduling \$24 billion of Korea's short-term debt for a period up to five years (this is 14% of Korea's \$170 billion foreign currency debt). The announcement is timed to be made public during the Davos, Switzerland World Economic Forum. Representatives of the Group of Seven and central bankers proclaim that the "worst is over in Asia." Privately, the same officials admit that the "Asia crisis has only begun," citing alarming signs about the collapse of the International Monetary Fund (IMF) talks with the Indonesian government of President Suharto, and the deteriorating condition of the banking and economic state of Asia's largest economy, Japan.

Feb. 2: U.S. First Lady Hillary Clinton, addressing the plenary at the Davos World Economic Forum, suggests that governments might discuss "what could be done to create more of a global regulator atmosphere along the lines perhaps of a New Bretton Woods." Lyndon H. LaRouche had been calling for a New Bretton Woods system since January 1997. Some days before, U.S. Treasury Secretary Robert Rubin, at Washington's Georgetown University, had spoken of the need for a "new architecture" in international monetary affairs.

Feb. 14: Food riots in Indonesia spread across Java to the capital, Jakarta. The Suharto regime places 25,000 troops on standby. Several people are killed in the rioting. Suharto issues a statement warning of an "international plot to destroy our economic foundation. . . . There are signs that this monetary crisis has been engineered to smash our economic development of the past 30 years." At the same time, in defiance of IMF demands, Suharto announces his decision to set up a currency board in consultation with Prof. Steve Hanke. The decision brings an IMF threat to cut off a promised \$40 billion emergency bailout fund package.

Feb. 17: The Japanese government of Ryutaro Hashimoto proposes to the Diet (Parliament) a record 30 trillion yen (\$223 billion) fund to be used by the Deposit Insurance Corp. to deal with the seven-year-old crisis involving bank bad loans and the deepening recession being fuelled by banks cutting back on loans. The depressed Nikkei stock market fails to recover from the dangerous low of 16,200 on the news,

as Japan's March 31 fiscal year end nears. At that level, the hidden stock reserves of 6 of Japan's 19 largest banks would disappear.

Feb. 23: China's Chen Jinhua, chairman of the State Planning Commission, announces that the government is launching a three-year infrastructure housing and industry investment program of 8 trillion yuan (\$963 billion) as a response to the worsening global financial crisis. The project is said to be modelled on the 1930s U.S. infrastructure program of the Roosevelt administration's New Deal.

March 2: Japanese Deputy Minister of Finance Eisuke Sakakibara, in an interview with the Japanese daily *Mainichi Shimbun*, states, "I believe that many world leaders may well be starting to contemplate the idea of a financial agreement along the lines of the Bretton Woods agreement" of 1944. He adds that in view of the "current crisis of international capitalism . . . many people may now be realizing that both the International Monetary Fund's checks, and its solutions, are insufficient." Criticism of the IMF policies and their lack of positive effect in Asia grows internationally. Sakakibara's call, widely seen as a "trial balloon," is endorsed by an official of the Bank of Thailand.

March 9: The Bank for International Settlements in Basel, Switzerland, the organization of the world's leading central banks, for the first time admits the systemic threat of the Asia crisis. In a press release, the BIS states, "At the turn of the year the financial turmoil in Asia had reached systemic dimensions, requiring an immediate injection of cash and the rolling-over of maturing debts." The BIS comment followed March 3 testimony by U.S. Treasury Secretary Rubin in the U.S. Senate, in which he stated, "In Korea the situation deteriorated very rapidly and by Christmas the Korean banking sector was on the verge of systematic default." On March 12, the London *Financial Times* runs a commentary by Prof. Judy Shelton, who calls for discussion of a new Bretton Woods system with fixed exchange rates.

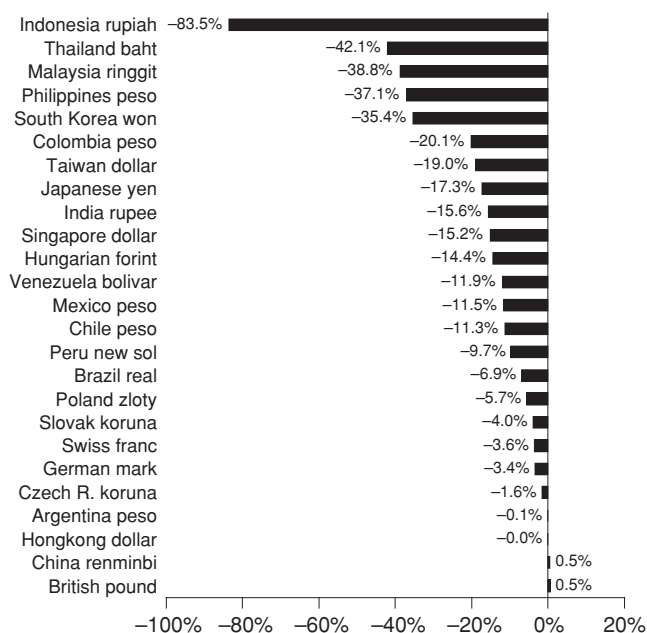
March 18: LaRouche, at a policy seminar in Washington on the need for a New Bretton Woods, attended by some 170 diplomats, government officials, political activists, and businessmen, calls on the Clinton administration to take the lead in proposing a new system based on a) periodically fixed exchange values of national currencies; b) limited convertibility, as may be required; c) exchange controls and capital controls; d) adoption of necessary protectionist measures respecting tariffs and trade; and e) prohibitions against markets which speculate against targeted currencies. The financial crisis in Japan assumes a worsening dimension as Japanese government 10-year bond yields fall to an unheard-of low of 1.5%, and the Nikkei falls to lows near 16,500, despite repeated government postal savings and state pension stock-buying "PKO" operations.

March 26: Japan's ruling Liberal Democratic Party (LDP) proposes a record 16 trillion yen (\$114 billion) "economic stimulus" to try to revive the economy amid the worst

FIGURE 1

World currencies versus U.S. dollar

(percent change from July 1, 1997 to June 30, 1998)



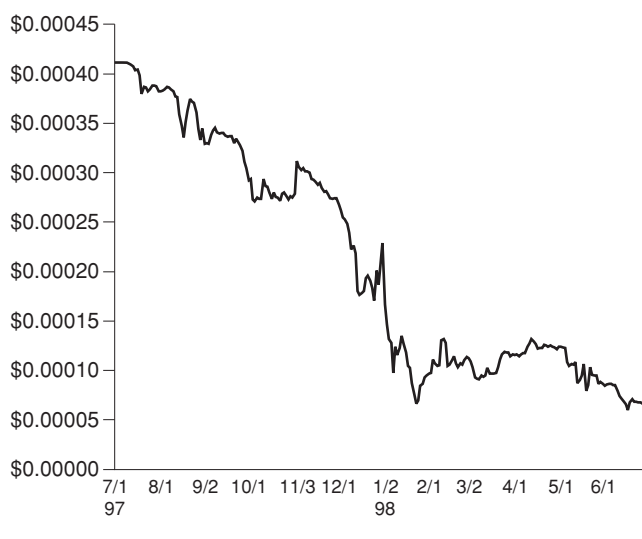
downturn of the postwar period. The package is subject to harsh criticism for its short-term effect and lack of genuine new funds. The Nikkei stock market continues to fall and the yen to weaken. On March 31, in a speech at Tufts University, U.S. Deputy Treasury Secretary Lawrence Summers admits publicly for the first time the gravity of the crisis. He says that events in Asia “pose real threats to our wages, savings, and security,” and warns that “weaker Asian stock markets would also hurt our financial markets and therefore diminish our savings.”

April 1-6: Stock and currency values across Asia plunge in what is admitted to be the start of “phase two” of the Asia crisis. On April 1, the Japanese government begins a series of financial deregulation measures dubbed the “Big Bang,” including easing rules for licensing securities trading companies and removing controls on investment abroad in offshore accounts by Japanese citizens, something which greatly accelerates the flight of capital out of Japan and the weakening of the yen. The chairman of Japan’s Sony Corp., Norio Ohga, warns that Japan’s economy is “on the brink of collapse.” Tokyo Shoko Research Co. releases a report warning that Japan stands on the “brink of a domino-style series of bankruptcies,” after reporting the highest number of company failures since World War II for the fiscal year ended March 31. The Bank of Japan *Tankan Quarterly* business survey shows every economic indicator as being bad. Moody’s Investors Service warns of a potential future downgrade of Japan’s sovereign debt to negative, the only G-7 country facing such a warning.

FIGURE 2

Indonesia’s currency

(U.S. dollars per rupiah)



Moody’s cites the sheer size of Japan’s \$3.7 trillion public debt, second only to that of the United States, and in per-capita terms the highest in the world. On April 3, President Clinton, in a highly unusual step, cites a “raging battle” in Japan over economic policy, urging Japan to “take a bold course.”

April 2: LaRouche addresses a Rome meeting of members of the Italian Parliament and diplomats, where he outlines his proposal to create a New Bretton Woods monetary order. Several days later, while visiting Argentina, Italian Prime Minister Romano Prodi tells an *EIR* reporter, “I personally believe that we must move toward a New Bretton Woods. And this has to be analyzed very carefully, because the risk level in the international monetary system has greatly increased in the recent period.”

April 17: The newly formed Group of 22 government finance ministers and central bank governors meets in Washington, hosted by U.S. Treasury Secretary Rubin and Federal Reserve Chairman Alan Greenspan. No public declarations result, and the talks are characterized as “informal.”

April 18: The G-7 finance ministers and central bankers meet in Washington during the Interim Committee Meeting of the IMF, where unprecedented public pressure is placed by IMF Managing Director Camdessus on Japan to take decisive measures to revive its economy, clean up its estimated \$1 trillion in bad loans, and help in the recovery of the rest of Asia.

The U.S. Congress refuses to pass the request for an added \$18 billion quota increase for the IMF, in effect blocking the entire \$90 billion increase, as political criticism of the IMF’s role in Asia grows.

April 29: At the annual meeting of the Asian Development Bank, ADB Vice President Bong-Suh Lee declares,

“The worst is still to come this year for South Korea, Indonesia, and Thailand. The actual repercussions are yet to happen in 1998.”

May 2-3: The heads of state of the 11 founding member-states of the European Monetary Union meet in Brussels to formalize the selection of the 11 and to vote in the first council of the new European Central Bank; Dutch National Bank head Wim Duisenberg is selected to head the new ECB, which will manage the euro beginning January 1999.

May 7-21: The social crisis in Indonesia spreads, with riots in Medan. Angry mobs rampage through Jakarta and student protesters demand Suharto’s resignation. On May 21, Suharto steps down after 32 years, swearing in his Vice President, B.J. Habibie, as President. Days later, a panic run on deposits at the Suharto-tied Bank Central Asia PT forces the Bank of Indonesia to take over the bank. The collapse of prices in stock markets across Asia continues to gather momentum, with Korea’s KOSPI index falling 7% on May 26, followed by declines in the rest of the region. Since mid-April, the Indonesia stock market has fallen 30%, and Korea’s 40%. The Japanese yen hits a seven-year low, at 139 to the dollar, as Japan’s official unemployment hits a postwar high of 4.1%. Economic data for Asia show most economies officially in recession or severe depression.

May 19: The Russian Central Bank suddenly raises its benchmark repo refinancing rate from 30% to 50%, triggering a 12% collapse of the Moscow stock index in one day. Russian interest rates had been kept extremely high since the crisis on Russian bond markets in October, in a desperate effort to defend the ruble, on the assumption that Asia would soon calm, easing Russian rates with it. The failure of the Asian crisis to abate, forces the Russian government into a desperate “debt trap” of short-term refinancing which reaches its apparent limits by the end of May. A national strike of unpaid Russian miners had blockaded the economically vital Trans-Siberian Railway. In private discussion with *EIR*, a prominent European central banker expresses alarm that Russia’s short-term GKO government debt problem is “out of control.” By mid-May, the Moscow stock index has fallen 50% since October, 14% in just three days, as the Central Bank is forced to hike interest rates to prevent foreign bond sell-off. In testimony before the U.S. House Agriculture Committee, Federal Reserve Chairman Greenspan admits, “We do not as yet fully understand the new financial system’s dynamics. . . . We have tried to confront the current crisis with the institutions and techniques that we have.”

May 22: Auto production data released by the Japanese Automobile Manufacturers’ Association reveal a 19.3% year-on-year drop in output for April. Japanese steel production is down sharply, with estimates of a fall of at least 10% likely for 1998, as steel exports across Asia continue to collapse. Statistics on Japanese trade with Asia are equally grim. Overall exports were down year-on-year by 18.1% in April. Exports to select countries were even more damaged: to Indonesia down 53%, Thailand 43%, and Korea 41%. In turn,

imports by Japan from those Asian economies were down more than 14%, further delaying any prospect of stabilizing Asian economies, let alone starting a recovery.

For first quarter 1998, the Bank of Korea announces the first decline in Gross Domestic Product since 1980, an annualized fall of 3.8%. Korean new machinery investment is off 41%, and total investment in plant and equipment is down 23%, the worst decline in the postwar period. Construction is down 39%, and official unemployment, at 6.7%, reaches a 12-year high.

May 31: The London *Economist* writes that the Union Bank of Switzerland’s Singapore branch is reported to have incurred financial losses across Asia over the previous 12 months, including in South Korea, “in the billions of dollars.” According to the *Economist*, the losses are so great “that there is a danger that the regulatory approval of the planned fusion of UBS with the Swiss BankCorp might be in danger.” The report of losses comes on top of admitted UBS derivatives losses in London and Hong Kong of “at least \$1 billion.”

June 2: In an economic symposium in Tokyo sponsored by Japan’s Institute for International Monetary Affairs, Malaysian Prime Minister Mahathir bin Mohamad articulates the thoughts of many Asian governments in issuing a call for global financial system reform: “Our task is to focus on the remedies . . . if we are to ensure the revitalization of Asia,” he states. “The present system, if there is a system at all, is messy, unreliable, and destructive. . . . I believe the time has come to deal with the entire issue of reform of the international financial system to ensure currency stability and contain the activities of those who buy and sell money for no other purpose than to make profits. . . . We feel threatened. We are told if we don’t do those things, then our currency would be depreciated further. . . . And so we try to follow the IMF, and it is very damaging to us. When you raise interest rates and squeeze credit and increase taxes, which is the standard formula for all countries having problems like that, the only result is that companies go bankrupt. And when companies go bankrupt, governments eventually go bankrupt. I think there is some basis for fearing the medicine being doled out by the IMF.”

June 8-9: The world’s leading central bankers and finance ministers meet in emergency session to discuss the global unravelling crisis. On June 8, central bankers of the Organization for Economic Cooperation and Development assemble in Basel for the BIS annual meeting. No public statements are issued, beyond the admission by BIS Managing Director Andrew Crockett that “the Asian crisis is not yet definitively over,” confirming the failure of the months-long efforts at “crisis management.” Crockett states, “This was the first crisis in the postwar period featuring the combination of banks as the principal creditors and private sector entities as the principal debtors. Principles of how to manage and resolve a crisis of this sort were not known in advance and, indeed, are still under discussion.”

The lack of any visible consensus on June 9, in the emer-

agency G-7 finance ministers meeting in Paris, further underscores the policy disarray among leading governments. Unconfirmed reports are that the growing Russian crisis and the Japanese banking and yen crises were the major topics discussed in Paris. Germany's *Der Spiegel* reveals that Russian President Boris Yeltsin had just telephoned his "friend Bill Clinton" to discuss the Russian debt crisis.

June 10: The Japanese yen falls to a seven-year low at 140 to the dollar, a drop of 8% since April 1. Global attention is drawn to the probability of a yen free-fall, triggering possible devaluation of the Chinese yuan and Hong Kong dollar and competitive further currency devaluations across Asia. Official Japanese government data reveal the effect of a new law which has allowed Japanese capital flight abroad since April 1 without restriction: For the first time, the amount of Japanese savings being invested abroad exceeds that invested in domestic savings. The stock price of a major Japanese bank, the Long-Term Credit Bank, plunges, amid a report in a Japanese magazine, *Gendai*, that the LTCB faces a "liquidity crisis." The Japan Ministry of Finance pressures Sumitomo Bank to agree to a merger with LTCB. The Japanese government releases first-quarter data which reveal an annualized GDP decline of 5.3%, far worse than predicted, and confirming that the economy is in deep recession, the first since 1974-75. The Hashimoto government avoids using the term "recession" to describe the crisis, however, and predicts that by the second half of the year Japan will return to positive growth.

June 11: The government of China makes an unprecedented public call on Japan to show "courage and wisdom" to stop the falling yen. Foreign Ministry spokesman Zhu Bangzao declares, "We hope Japan and the relevant countries can face the reality and use courage and wisdom in taking effective measures to stop the further devaluation of the yen to create necessary conditions for the recovery of the economy." The previous day, stock prices on the Hong Kong exchange had fallen to three-year lows because of growing fears that China and Hong Kong would be forced to devalue, in response to the cheaper Japan and Asia rival currencies. China reveals that first-quarter exports to Association of Southeast Asian Nation member-nations are down 10%, and to South Korea 24.5%. Hong Kong's official interest rates of more than 11%, needed to defend the fixed dollar peg, are cited as the major cause for the continuing fall of the HangSeng stock prices and Hong Kong real estate, the two pillars of the island economy's credit system. On the same day, the Taiwan Central Bank calls an emergency meeting to discuss the continuing fall of its currency.

June 16: A senior World Bank economist uses the word "depression" to describe the effects of the Asian crisis. At a conference of the UN Economic and Social Committee for Asia and the Pacific, in Melbourne, Australia, World Bank Asia/Pacific Vice President Jean-Michel Severino declares, "We are probably at the end of the first cycle of the Asian

crisis, and we are entering into a deep recession, or you could even use the term, 'depression.' This depression may be very long-lasting if one does not manage it very, very carefully." He adds, "Since the beginning of this crisis, about \$115 billion has fled out of the five major crisis countries—Korea, Thailand, Indonesia, Malaysia, the Philippines, about 10% of the GDP of these countries. In addition, banking credits have also been reduced by about \$88 billion, which is about another 8% of GDP." Severino points out that 40% of all credit to the five Asia countries had come from Japanese banks, as well as being the market for more than 20% of all Japan exports. "The depression thus is being communicated from one country to the other."

June 18: A surprise, concerted intervention by the Bank of Japan together with the New York Federal Reserve, acting on behalf of the U.S. Treasury Department, succeeds temporarily in halting the yen free-fall, which had reached 147 yen to the dollar. The yen rises to 137. The intervention is timed with the arrival in Tokyo of a high-level Clinton administration delegation consisting of Deputy Treasury Secretary Summers, New York Federal Reserve President William McDonough, Federal Reserve Board member Roger Ferguson, and, little-publicized, a Special Presidential Envoy, former Federal Deposit Insurance Corp. head William Seidman, to discuss details of the early-1990s U.S. bank rescue operations. The surprise U.S. action to support the yen reportedly is taken after telephone assurance to Clinton by Prime Minister Hashimoto that Japan will now take aggressive action to clean up its bank bad loan problems and to restart the Japanese economy. The Chinese pressure on Washington to intervene to support the yen, coming one week before a planned Presidential visit to Beijing, is reported to have been a major factor in the surprise U.S. intervention.

The United States reports that the April trade deficit increased 9.5% over March, as exports to Asia dropped sharply and imports rose. Mexico announces it expects a trade deficit of \$7 billion for 1998, because of the Asian crisis and falling oil export earnings.

Russian debt negotiator Anatoli Chubais announces that Russia needs \$15 billion from the IMF in order to stabilize its financial crisis. On June 22, an IMF team arrives in Moscow for talks.

June 20: In an article in the *Minneapolis Tribune*, "Falling Yen Raises Questions about Floating Currency," researchers at the Minneapolis Federal Reserve District are quoted arguing that "fluctuations in international currencies are a cost that governments, businesses, and consumers should not have to bear. They think they have a better way, a path that was tried and abandoned earlier this century: fixed currency exchange rates." The article quotes Catherine Mann, an economist at the Washington Institute for International Economics. "We need something on the order of a new Bretton Woods, a top-down serious reassessment of what the exchange rate system should look like," she says.

June 22: Ministers from the Organization of Petroleum Exporting Countries (OPEC) convene an emergency meeting in Geneva, in the third attempt this year to slash output to try to stabilize falling world oil prices. As OPEC met, average prices for crude oil were down 49% since October 1997. Despite formal agreement for large additional output cuts, oil prices fail to rise, owing to expectations of weakening demand from Asia and the rest of the world, combined with record-high inventory.

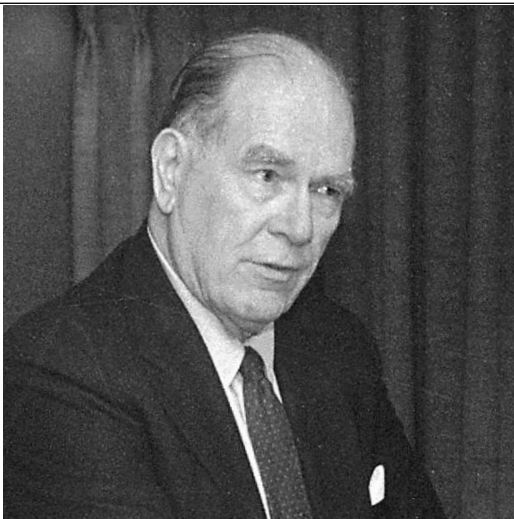
June 24: President Clinton departs for a nine-day trip to China, the first by a U.S. President since the 1989 Tiananmen Square massacre. Clinton is joined by Treasury Secretary Rubin and some 1,000 U.S. business leaders. Despite extensive talks with the Beijing leadership, no public announcement regarding the need for a new monetary order is issued during the visit, confirming reports of Washington's desire, for the present, to adhere to crisis management.

July 2: The ruling Japanese LDP issues its long-awaited proposal to clean up Japan's banking sector and its estimated \$1 trillion in bad loans. The "Bridge Bank" plan is unveiled by the Hashimoto government, which will present it to the Diet for ultimate passage following the July 12 Upper House elections. The financial markets react negatively, with the yen again falling below 140 to the dollar, as the fine print of the proposal leaves most critical questions unclear. Among other items, it is revealed that finances to fund the Bridge Bank are

to come from the March vote by the Diet of 13 trillion yen (\$93 billion) for the Deposit Insurance Corp., far less than the \$500 billion or so deemed necessary. There are no indications that the LDP is prepared to go for a Chapter 11 reorganization of the financial system, and liquidation of the bank bad debts which are paralyzing the Japanese economy and most of Asia.

July 13: Japanese Prime Minister Hashimoto resigns following disastrous results for his party in the July 12 Upper House elections. Intense back-room political faction fights over who will succeed Hashimoto as LDP leader and, thus, as Prime Minister, fail to resolve the financial and political crisis. All attention focusses on the July 24 announcement by the LDP of the new leadership choice.

On the same day that Hashimoto resigns, the IMF and the Russian government announce a record \$22.6 billion two-year debt restructuring package to ease the Russian crisis. In order to raise its \$11.2 billion share for this year, the IMF announces that it must resort to provisions of its General Agreement to Borrow, a procedure last used by the IMF in 1978, when the Carter administration used it in a vain effort to stabilize the falling dollar. With stock markets in Europe and the United States inflated to historic highs, largely from the inflow of flight capital out of Japan and Asia, Morgan Stanley's chief investment strategist, Barton Biggs, predicts a 20-30% fall in the U.S. stock market in the coming months, which would spread to Europe.



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A larger stock market 'correction' is under way

by John Hoefle

With the 299-point drop in the Dow Jones Industrial Average on Aug. 4, the Dow had dropped 9.1% since its all-time peak on July 17, sparking much discussion among the Wall Street analysts and media pundits about whether a "correction" was under way, or whether the Great Bull Market has finally given way to the bear.

The comments of these pundits can be useful, if one puts them in a petri dish for pathological study, but they do very little to explain the forces which are controlling events—one is unlikely to forecast a storm moving into the forest, by a microscopic study of the trees.

There is indeed a correction under way, but it is a correction in a much broader sense, in which 30 years of economic policies and institutions which have defied natural law, are being swept away by forces beyond the comprehension of the financial markets.

"In the coming several months, August, September, October, there will be such changes in the world as none of you living has ever seen before," economist Lyndon LaRouche told a meeting of the Schiller Institute in Oberwesel, Germany, on July 26. "The next months and years will see the end of every financial and monetary institution, as institutionalized forms, on this planet. They will all go."

Global stock decline

As an economic indicator, the Dow Jones Industrial Average is a hoax. The 30 stocks which make up the Dow reflect neither the stock market as a whole, nor even the U.S. industrial base. Over the years, this so-called "industrial" average has been packed with decidedly non-industrial companies; industrials such as Westinghouse and Bethlehem Steel have been pushed out, to make way for companies such as J.P. Morgan, American Express, Travelers Group, Wal-Mart, and McDonald's. While one might make a case, after close inspec-

tion of its fare, that McDonald's could qualify as a manufacturer, the Dow is now dominated by financial and other services; many of the remaining industrials, such as General Electric and General Motors, now make much of their profits through financing.

The Dow is actually an instrument of perception management, more than a measure of economic vitality—and what it hides, is more important than what it reveals. While the Dow was rising into July, the smaller stocks were declining. The Russell 2000 index, for example, peaked in April, and had declined 18% by Aug. 4. On the S&P 500, the 50 largest stocks were up about 20% for the year on that date, while the remaining 450 were up only about 5%. And on the Dow itself, 11 of the 30 stocks were down for the year, led by a 25% decline at Boeing.

Since the July 17 peak, the decline has accelerated. According to a study by Salomon Smith Barney, the average stock on the New York Stock Exchange fell 24% between July 17 and July 28, while the average NASDAQ stock fell 35% (with more than half down at least 30%), and the stocks of U.S. companies with market capitalizations of under \$250 million fell 43%.

This U.S. decline is part of a drop in stock markets worldwide, since the outbreak of the so-called "Asian" crisis last year. Many of the Asian markets remain at or near their lows of the past year, and stocks in Ibero-America and Russia are down sharply. Even the European markets, which along with the United States benefitted from billions of dollars of capital fleeing Asia, have turned sharply downward, from record highs. All across the globe, the trend is down.

Economic collapse

Driving this global market decline, is a worldwide economic breakdown, in which problems in Southeast Asia and

the former Soviet bloc are merely the more obvious.

The problems in Asia continue to escalate, prompting many of those who until recently had declared the Asian problems “solved,” to eat their words.

Indonesia continues to disintegrate, facing 100% inflation, 25% unemployment, and a 30% contraction in economic output, according to U.S. and Asian studies. A U.S. government report predicts that serious malnutrition and starvation could appear in the next two months. “No nation has been hit harder by the financial crisis than Indonesia, traditionally a source of stability and growth within the region,” U.S. Secretary of State Madeleine Albright observed on July 30.

Albright made her statement in the Philippines, where on July 27, in his State of the Nation address, Philippines President Joseph Estrada had declared: “Our economy is in bad shape, and the national coffers are almost empty. The government cannot fill the needs of the economy. In short, the government is bankrupt.” Estrada pointed to the nation’s record \$51 billion in foreign debt and \$2.1 billion budget deficit, saying, “I thought we had a lot of money. They were saying we were economically stable, the new economic tiger of Asia. It turned out we’re not a tiger, but a puppy.”

Overall, Southeast Asia lost \$1 trillion as a result of the “Asian contagion,” Malaysian Prime Minister Dr. Mahathir bin Mohamad said on July 20, during a state visit to Mozambique. The result: Many banks and businesses have gone bankrupt, 30 million workers have lost their jobs, and there are shortages of food and medicine.

Standard & Poor’s, the rating agency-cum-economic-warfare unit of McGraw-Hill, recently issued a new report (“Asian Depression, World Recession”) through its DRI subsidiary, which warned that the “Asian” crisis could lead to a “global recession by 1999.” “We are forecasting a one-in-four chance that Asia’s problems will continue to worsen over the coming months, bringing about a 1930s-style depression that will significantly impact the world’s economies,” said S&P DRI chief economist Nariman Behraves. “We have taken a consistently pessimistic view — particularly for Japan. . . . The economic fundamentals point to a country in deep economic crisis, which is potentially disastrous for the other economies in the region, and beyond. . . . The recessionary tidal wave that swept over Japan, Thailand, South Korea, and Indonesia a year ago is now engulfing other parts of Asia, with the waters now lapping onto the shores of the United States, Europe, and other G-7 countries.”

The S&P report predicted that the Asian crisis could cause the yen to drop to 200 to the dollar, trigger 40% devaluations of the Chinese yuan and Hong Kong dollar, and cost U.S. auto makers some \$11 billion between now and 2002. “In fact,” Behraves said, “our current worst-case projections indicate a potential 25% drop in the overall value of [U.S.] stocks by 1999.”

“We’ve tried not to engage in scare-mongering. . . . People can say that if they want, but the reality is that every time

we think we see a light at the end of the tunnel in Asia, it has turned out to be another train coming at us,” Behraves admitted to the *Washington Post*.

That train is also bearing down on Ukraine, which reached a \$2.2 billion deal with the International Monetary Fund on July 31, to enable that nation to meet its August debt payments; and on Russia, which faces \$40 billion in payments during the remainder of the year.

Meanwhile, Mexico, whose financial crisis was supposedly solved in 1994, faces the disintegration of its banking system, unless the government bails out the \$65 billion Fund for Bank Savings Protection (Fobaproa) market. The Fobaproa bonds make up 30% of the assets of the Mexican banking system.

Above the law

While the world crashes around them, the central bankers and finance ministers remain committed to saving the bubble, no matter what the cost.

Exemplary are the moves in the United States to protect the over-the-counter (OTC) derivatives market. In May, the Commodity Futures Trading Commission (CFTC) issued what it termed a concept release, in which it suggested that, given the rapid growth of the OTC derivatives market, a study of that market was in order.

That relatively mild suggestion triggered a torrent of protest from both the big derivatives dealers and the major financial regulators. The Federal Reserve, U.S. Treasury Department, and Securities and Exchange Commission not only opposed the CFTC’s suggestion, but submitted a joint letter to Congress, demanding that Congress enact legislation to prohibit any CFTC review of the OTC derivatives market. To make sure Congress got it right, they attached a proposed bill, which House Banking Committee Chairman Jim Leach (R-Iowa) promptly introduced as H.R. 4062, the “Financial Derivatives Supervisory Improvement Act of 1998.”

The essence of the objection to the CFTC’s proposal was clearly stated on July 17, in a hearing before the House Banking Committee. Chase Manhattan Bank director of global markets Dennis Oakley testified that “the Commodity Exchange Act requires that all commodity futures contracts be traded on a board of trade, and that since 1974, financial products have been considered commodity futures, unless they fall within the exception of the Treasury Amendment. If a product is deemed to be a future, and is not traded on a board of trade, it is null and void.” The problem, he continued, “is that some of our fastest-growing products, such as equity and credit derivatives, are not covered by the exemption.”

In other words, trillions of dollars of the derivatives sold by the banks are, according to U.S. law, null and void.

“We have no way to manage this new legal risk,” Oakley said. He added that unless the CFTC action were stopped, “Chase will be forced to move this business to another location, probably London.”

China opts for 'national economic security'

by Jonathan Tennenbaum

Faced with the deepening effects of the world financial crisis on the Chinese economy—aggravating the problems of the state-owned industry and debt overhang in the Chinese banking system, and now compounded by the disastrous floods along the Chang Jiang (Yangtze River)—the Chinese leadership has practically dropped its pursuit of membership in the World Trade Organization (WTO), insisting instead on China's right to adopt dirigistic and protectionist policies, as necessary, in order to defend "national economic security." Recent statements of Chinese leaders, echoed in a growing number of other countries, are sounding the death knell for the mania of free-market globalization that has brought the world to the brink of the worst financial and economic collapse in modern history.

"The Southeast Asia crisis has sounded the alarm bells for us," writes *People's Daily* in a signal piece on Aug. 1, entitled "How to Understand the Meaning of National Economic Security." "National economic security is a strategic question whose importance cannot be overestimated. Economy is the basis for society. If there is no economic security, then there is no real national security," says the government daily.

The article defines economic security in terms of "preventing national economic development and national economic interests from being destroyed or threatened. Concretely this means to safeguard the resources needed to maintain national sovereignty and independence." Noting that "Western countries have all paid much attention to overall national economic security, not hesitating to use foreign policy, military, technological, and other means to guarantee their national economic security," the *People's Daily* declares that China must place top priority on "protecting the key areas of national economic security, needed to increase our nation's power to resist and defend against dangers. . . . This year the maintenance of stability and resisting the attacks of international economic fluctuations and the financial crisis, is closely connected with promptly resolving certain elements of economic risk."

An intense policy debate

The *People's Daily* article clearly reflects an intense policy debate, triggered in China by the shock of the financial

collapse in Asia—a debate that touches on the core of the country's future strategy for economic reform. Referring to recent statements by Chinese President Jiang Zemin, *People's Daily* writes, "It is necessary to correctly deal with the relationship between opening up to the outside, and independence, self-reliance, and maintaining national economic security. . . . Following the Southeast Asia crisis, there are people who fear that the scale of foreign investment can influence our economic security. Generally speaking, our use of foreign investment and its scale is rational. However, in recent years foreign investment has gained superiority in some branches of industry, although these branches are not very many and are not the key sectors." Nevertheless, "we must be vigilant and not take the situation lightly." Referring to what are seen as unfriendly attempts of the U.S. and other Western governments to impose unacceptable liberalization policies on China as a condition for entering the WTO, *People's Daily* adds: "Some developed countries frequently exert their strength to hold back our country and exercise pressure which threatens our nation's economic security."

Evidently, the Chinese government has basically "written off" the issue of China's entry into WTO, realizing that any further concessions to "globalization" would put the very survival of the country at risk. While struggling to maintain foreign investment and export income at as high a level as possible, the government now sees that the world economy is headed in a completely different direction, than they had imagined two years or even one year ago.

Reflecting this, *People's Daily* of Aug. 2 quotes Chinese Premier Zhu Rongji, during a tour of Inner Mongolia, speaking of the "extremely complicated economic situation domestically and internationally, under which our country is making difficult achievements. . . . To carry out this year's economic development goals will be an arduous task, especially in view of the negative effects of the Asian financial crisis on our economy."

Zhu emphasized that the Chinese government is moving full speed ahead with its policy for large-scale infrastructure investments as "the most effective measure to expand domestic demand and stimulate economic growth." According to *People's Daily*, the government is taking measures against



An artist's representation of the Three Gorges Dam project. In addition to production of electrical power, the project is crucial for water management and flood control, the necessity of which has been underscored again by the devastating floods along the Yangtze River.

deflationary tendencies in the economy, easing the sources of credit and “providing more funds to increase the strength of infrastructure investment. . . . Increased investment must be channeled into highways, railroads, communication, agricultural water projects and environmental projects, urban infrastructure and construction in surrounding areas, rural electrification, construction of food storage facilities and economical residential construction, etc. New construction projects will be especially concentrated in the central and western parts of the country.”

The flood emergency

The heavy flooding along the Chang Jiang, the worst since 1954, will have major economic and also policy implications. Top Chinese officials are speaking of an “extremely severe” situation for the entire nation, which is reaching a “crucial moment” not only along the Chang Jiang, but also with respect to the danger of a potentially catastrophic flooding of other rivers including the Huang He (Yellow River) to the north. The flood disaster brutally underscores the difference between real, physical-economic development, as measured in terms of the per-capita power of man over nature, and the fictitious, monetary-based Gross Domestic Product growth which some Chinese economists have paid too much attention to in recent years. China is long familiar with the “long cycles” of flood disasters, cycles which must be taken into account in calculating the real cost of maintaining China’s physical economy. The flood disaster is a painful signal, that Zhu Rongji’s infrastructure policy, good as it is, should actually have been launched much earlier. Notably,

the State Planning Commission reportedly plans to pour billions of additional funds into water infrastructure on all of China’s main rivers and lakes, including the Huang He dike system as well as the Chang Jiang. “Planned is a new high tide of construction of rural water management infrastructure, assuring the greatest benefit to the economy and society.”

China’s fundamental economic dilemma

On the positive side, the Chinese government—unlike virtually every other government in the world—is reacting to reality, and has recognized the need for *major changes of policy-course*. Up to a year ago, Chinese planners were counting on huge injections of capital, especially via Hong Kong, and on a long-term favorable trade climate as the key supports for a speedy reform of the state-owned industry and debt-ridden banking system, and continued rapid growth of the economy as a whole. The devastating impact of the Asian crisis on Hong Kong, whose return to China from British control a year ago was expected to bring enormous financial dividends to the country, more than symbolizes the manner in which China has seen the rug pulled out from under what had earlier seemed a solid development strategy. The decline of Hong Kong, as emphasized by events of recent days, has been dramatic indeed. In all, stock market values have dropped by roughly half from the levels of one year ago, and the main “pillars” of Hong Kong’s economy—real estate, and its role as a major international trading and banking center—have been badly shaken.

China’s present dilemma also reflects the fact, that the

boom of foreign investment and trade in China—which amounted to nearly \$200 billion net foreign investment between 1992 and 1996 alone, and a trade volume of about \$300 billion in 1996—has always been a two-edged sword.

On a fundamental level, as Lyndon LaRouche has emphasized in recent discussions, China, in order to remain stable, must maintain a *high rate of social capital formation*. That, in turn, ultimately depends on the continual injection of new technology in the form which LaRouche has identified as the “machine-tool-design principle.” The “machine-tool-design principle” means, roughly, a process which begins with a new hypothesis of experimental physics and the design of a new type of laboratory apparatus which demonstrates the new physical principle; and then proceeds through the transformation of such laboratory designs into new families of machine-tool and other industrial technologies. That process is most efficiently accomplished with the help of a large network of small and medium-sized high-technology companies, run by highly qualified scientists and engineers. Since China’s own capability in this domain remains very underdeveloped, China’s future depends crucially on trade and close scientific-technological cooperation with countries such as the United States, Germany, Japan, Russia, and a few others, which possess advanced machine-tool-design capabilities.

Unfortunately, although very significant infrastructural and industrial benefits have occurred, much of the foreign investment and export earnings which China has enjoyed in the context of the “globalization” of the world economy, has been applied in directions quite different from LaRouche’s “machine-tool-design principle.” Much industrial development has been based on the import of highly specialized machinery and complete production lines, without the transfer of the in-depth know-how and R&D capability to further develop such technology in China itself. Often, also, the inputs to production include key high-technology components which must be imported from the outside, so that a significant degree of dependency, typical of Third World countries generally, is hidden under the otherwise impressive sum of China’s imports and exports.

Another weakness, much decried by Chinese economists and leaders, has been a build-up of redundant production capacities in the rush for quick profits, resulting in mountains of unsellable products, especially textiles and low-quality consumer goods. China’s cities have meanwhile seen a dizzying boom of construction of luxury hotels and apartments, shopping malls, office buildings, and other non-productive facilities, out of proportion to the development of the physical economy. Added to this, China’s population and cadre, suddenly moving from a condition of extreme poverty into *relative* abundance, lack the education and science-oriented industrial culture which characterized the United States, Germany, and other industrial nations in their best periods of

development. Hence, there is a heightened susceptibility to shallow commercialism, corruption, and a climate of “getting rich quick.” The situation is aggravated by the massive efforts of the Ford Foundation and other Western foundations to promote a profound disorientation among Chinese economics students and entrepreneurs in the name of so-called “Western free-market economics.”

These problems, of which the Chinese leadership is more or less acutely aware, mean that any attempt to stimulate growth by “pure Keynesian” methods of increased spending alone, could easily produce the opposite of the desired effect. To ensure that increased infrastructure investment will not be squandered in poorly planned, wasteful projects and purely linear, scalar expansion of production which would have little or no positive effect on the real productivity of the economy as a whole, Zhu Rongji is rightly insisting on a dirigist approach, “1) To absolutely avoid blind haste, avoid build-up of excess inventories of products; 2) to absolutely avoid superfluous duplication of projects; 3) in accelerating infrastructure investment to observe . . . quality first. New projects must be rigorously evaluated and organized in accordance with the central government’s guidelines.”

The combination of the Asian financial collapse, the decline of Hong Kong, and now the disastrous floods, is delivering a painful, but hopefully healthy shock to China’s strategic thinkers. The question now is, whether the leadership will be able to mobilize the nation around the emerging new policies, while at the same time moving to secure the international conditions under which China and other developing nations will be able to access the machine-tool-design capabilities they need to survive.

Question called on policy toward Sudan

by Linda de Hoyos

The government of Sudan announced a unilateral cease-fire Aug. 3, on the eve of the opening of new talks between the government and the Sudanese People’s Liberation Army (SPLA) of John Garang, scheduled to begin on Aug. 4 in Addis Abeba, Ethiopia, under the auspices of the Inter-Governmental Authority on Development (IGAD). The purpose of the cease-fire, as the Sudan government release stated, is first to assure full access for the United Nations’ Operation Lifeline Sudan relief operations in southern Sudan, where 2.6 million people are in grave danger of starvation due to the displacements and destruction caused by the

war in southern Sudan over the last year. In addition, the government stated, "The Sudan government reaffirms that only a negotiated settlement can put an end, once and for all, to such suffering. Thus, the government is sending to these talks a high-level and fully mandated delegation to seek peace."

The severity of the famine, combined with the lack of military progress on the part of the SPLA and the falling-out of its key allies against Khartoum—Eritrea and Ethiopia—is forcing a reassessment of the policy put forward since October by Washington for war "to bring down the Khartoum government." The war policy, strenuously pushed by various circles in London led by Deputy Speaker of the House of Lords Caroline Cox, had been rammed through as U.S. policy by Roger Winter, executive director of the U.S. Committee on Refugees, and Assistant Secretary of State for African Affairs Susan Rice, flanked by Rep. Donald Payne (D-N.J.) and his cohorts on Capitol Hill.

In hearings on July 29 of the House Subcommittee on Africa and the Subcommittee on International Operations and Human Rights, Tony Hall (D-Ohio) reiterated his and Frank Wolf's (R-Va.) call for President Clinton to appoint a high-level special envoy to bring about a negotiated settlement to end the 15-year-long war in southern Sudan. "Humanitarian aid cannot continue to be a substitute for a political solution to Sudan's war," said Hall in his opening remarks. "Without such a push for peace by the U.S. and other Western powers, Sudan's people almost surely will be condemned to another turn in the cycle of war, famine, and dependence on external aid."

In the hearings, Hall's call for a peace process was challenged weakly by star witness Susan Rice, who claimed that a special envoy would deflect from the IGAD process. However, when challenged on the fact that the United States itself ignored the IGAD process, Rice reported that the United States would send a "high-level diplomat" to the latest round in Addis Ababa. Amb. Richard Begosian is accordingly now on the scene, but with his long record of fronting for the designs of London, carried out through Ugandan President Yoweri Museveni, in the Great Lakes region, Begosian is not expected to pose a threat to war.

Payne's predictions

Along with Cynthia McKinney (D-Ga.), Payne was the most vociferous opponent of any peace process. It is impossible to talk to the Khartoum government, he averred, and impossible also to negotiate with the Lord's Resistance Army, which has been waging a 12-year war in northern Uganda—a war which, since 1994, has been bound up with the war in Sudan, as it has fought the SPLA along the Ugandan-Sudanese border and found refuge in camps south of the southern Sudanese city of Juba.

Instead of a political envoy, President Clinton should ap-

point a "humanitarian envoy," Payne said. The Aug. 3 *Philadelphia Inquirer* seconded Payne's call, stating that the mission of such a "humanitarian envoy" would be to focus the world on the evil of the Sudan government. Any political envoy will simply be "duped" by Khartoum, the *Inquirer* claimed, concluding that a special envoy "should not be bound by the neutrality of a mediator. His purpose should be to focus a global spotlight on the guilty in this crisis [presumably Khartoum]. . . . Only when the Khartoum regime falls will there be a chance to end the civil war." The fall of Khartoum, Payne claimed in the hearings, is only days away, since the SPLA is "for the first time in years" making headway, and "when they take out the Damazin Dam [which supplies Khartoum with its electricity], then it will be all over."

But, since this claim has been heard since at least 1995, when the Ugandan Army invaded Sudan full-throttle in October, Payne's predictions for victory do not hold much credibility.

In reality, the demands for a "humanitarian envoy" cover operations for more war—a war that can never bring peace, and can only plunge even southern Sudan into perpetual armed conflict, no matter what transpires in Khartoum. Payne's demands that "our government support the SPLA" were amplified at the hearing by an overwrought Daniel Eiffe of the Norwegian Peoples Aid (NPA). NPA had been "fired" by the Norwegian Foreign Ministry in May, once it was discovered that the NPA was channelling Norwegian government funds for food aid, to the top echelons of Garang's SPLA. Eiffe essentially pleaded guilty to all charges, testifying that "NPA's mandate goes beyond neutrality." Although fired by the Norwegian Foreign Ministry, Eiffe crowed that "NPA receives considerable support from USAID [U.S. Agency for International Development] for its operations."

Along with the U.S. Committee on Refugees' Winter, Eiffe made clear that they are seeking a mandate for funds to establish Garang's SPLA as a government, or, as Winter said, "to help establish at least rudimentary systems of justice, health, education, and development in rural-held areas of southern Sudan." In this case, the SPLA would be enabled by the United States, to act in direct conflict with the Coordinating Council for the Southern States of Sudan, headed by Riak Machar. This is the recipe for unending war in southern Sudan, the fragmentation of this region not only into two warring parties, but far more likely a multitude of warring factions in a huge land area in which "every man has at least two or three guns." It is a call for the extension of the Somalian morass into southern Sudan, wreaking havoc throughout the region.

The dire famine in southern Sudan and northern Uganda, in both cases caused directly by war, has called the question on such shenanigans as represented by Winter et al. Either the United States gets behind the effort for peace, or it will be, in the eyes of Africans, directly complicit in the deaths of millions.

Passage of McDade-Murtha is a stinging rebuke to Gingrich

by Debra Hanania-Freeman

At 8 p.m. on Wednesday, Aug. 5, less than 48 hours before the August recess, the U.S. House of Representatives overwhelmingly rejected, by a vote of 345-82, all attempts to remove the language of the McDade-Murtha Citizens Protection Act from the Commerce, State, Justice, and the Judiciary appropriations bill. The vote, which came after hours of intense floor debate, and months of controversy, represented a stinging defeat for House Speaker Newt Gingrich (R-Ga.), and a stunning victory for supporters of statesman Lyndon LaRouche.

The McDade-Murtha legislation, which had first been introduced as H.R. 3396 on March 5, was designed to ensure that the rules of ethics and standards of conduct applied to all other attorneys, also be applied to the Department of Justice. It not only establishes those standards, it also defines punishable conduct and penalties, and creates an independent review board to monitor compliance. Although the measure still gives the Attorney General the first right to investigate allegations of DOJ misconduct, it also guarantees a citizen the right to seek an independent review conducted by a board outside the jurisdiction of the DOJ itself.

From the beginning, the bill drew howls of protest from the permanent prosecutorial bureaucracy inside the DOJ, who, for years, have operated with impunity, without penalty or oversight, as an out-of-control "political hit-squad" against elected officials, civil rights leaders, and political activists deemed threatening to the financial establishment. Indeed, the historic measure represented Congress's first direct and explicit assault on DOJ tyranny. Acting on their behalf, Speaker Gingrich employed the full power of his position to bury the measure, even depriving it of a hearing.

Efforts to "keep a lid" on McDade-Murtha grew increasingly difficult as the LaRouche movement led a broad and powerful coalition of forces to build support for the bill and ensure that hearings not only take place, but feature the most dramatic cases of prosecutorial abuse, including the judicial railroad of LaRouche and his associates. Gingrich's own efforts to kill the bill were soon joined by an array of DOJ-related front groups; by members of Congress with long-standing ties to the DOJ permanent bureaucracy; and, finally, by Attorney General Janet Reno herself. Rep. Joe McDade (R-Pa.) was concerned enough about the efforts to sabotage the bill that, on July 16, he surprised friends and foes alike,

by inserting the bill, in its entirety, into the bill providing funding for the DOJ for the next fiscal year.

By the first week of August, the number of co-sponsors of the bill had climbed to more than 200 members of Congress from both parties, and highly placed Congressional sources reported that Gingrich was taking daily vote counts. Gingrich stalled the floor debate for more than a week, to allow more time for the DOJ apparatus to strong-arm supporters into changing their votes.

Even on Aug. 5, the day the historic debate and vote finally occurred, rumors were still flying that Gingrich would, somehow, prevent the vote. But, late that afternoon, the McDade-Murtha provisions, now Title VIII of the Commerce, State, Justice, and the Judiciary appropriations bill, were read on the floor of the House. Immediately following that reading, three Republicans, Asa Hutchinson (R-Ark.), Bob Barr (R-Ga.), and Ed Bryant (R-Tenn.), all former U.S. Attorneys, moved to amend the bill by removing the McDade-Murtha language, thus triggering the floor debate. To avoid presiding during what was sure to be a humiliating public defeat, Speaker Gingrich was nowhere to be found.

Broad bipartisan support

One feature of the McDade-Murtha bill that made it so difficult to defeat was the fact that it enjoyed broad bipartisan support, an increasingly rare commodity in today's Washington, D.C. Although bipartisanship had been a fairly common feature on Capitol Hill in the past, now, under Gingrich's rule, the environment has been dominated by bitter disputes between the two parties. So, when John Conyers (Mich.), the ranking Democrat on the House Judiciary Committee, rose to offer a surprise "perfecting amendment," broadening the McDade-Murtha provision to apply to independent counsels such as Kenneth Starr, there was a definite air of nervousness among McDade-Murtha supporters.

It was no secret that Conyers had lined up with the DOJ in opposing the bill; indeed, he had applied heavy pressure on members of the Congressional Black Caucus, an overwhelming majority of whom were co-sponsors of McDade-Murtha, to withdraw their support. And, while there was little question in the minds of at least the Democrats that independent counsels should also be covered by the provision, Conyers chose to utilize particularly divisive language in motiva-

ting his proposal. Many members later confided that they thought Conyers's motive was to split the bill's supporters along party lines, and irreparably fracture the coalition.

However, when other Democrats rose to offer passionate support of the Conyers's amendment, their appeals were based more on the universal principles of justice expressed in the U.S. Constitution, than on rancor between the parties. And, members on both sides of the aisle responded. When the vote on the Conyers's amendment was called, in a sharp rebuke to Gingrich — and to Starr — it passed 249-182. Forty-eight Republicans voted to support the measure, confirming rumors that, although they may be pleased with what they see as the likely outcome, many Republicans simply feel that Starr has gone too far.

As the debate continued, one member after another rose to express their outrage, and the outrage of the American people, at the systemic abuse of the judicial process by the permanent prosecutorial bureaucracy inside the DOJ (excerpts of the debate follow). Observers commented that many of the statements were among the most articulate presentations in Congressional history. The arguments made by McDade-Murtha opponents, many of which were transparently fraudulent, had little effect. When the roll was called, support for the measure was overwhelming. In one of the many ironies of the day, John Conyers voted *against* McDade-Murtha, despite the fact that his amendment had been accepted! Later on that night, the House of Representatives passed the Commerce, State, Justice, and the Judiciary appropriations bill in its entirety.

Washington analysts say that this fight is far from over. The overwhelming support for McDade-Murtha seems to guarantee that the public hearings Gingrich was so intent on stopping will inevitably occur, when the House returns in September. Indeed, the vast majority of the House Judiciary Committee, including Committee Chairman Henry Hyde (R-Ill.), ultimately cast votes in support of the measure. And, although Attorney General Reno announced, at her Aug. 6 press briefing, that the bill's opponents had already turned their attention to the Senate, in an effort to kill the bill there, McDade-Murtha opponents privately concede that they are in for the fight of their lives.

Documentation

Here are excerpts from the Aug. 5 floor debate on the McDade-Murtha amendment (Title VIII) of the Commerce, State, Justice, and the Judiciary appropriations bill.

Asa Hutchinson (R-Ark.): Mr. Chairman, I rise in support of the Hutchinson-Barr-Bryant amendment. . . . The title VIII, which our amendment would strike, goes far afield from

the ordinary requirements of the spending bill. It includes almost verbatim the well-intentioned, but ill-advised, Citizen Protection Act. Including this legislative title in the bill violates the normal process in this House by bypassing committee hearings and markups, but even more importantly, it is wrong on substance. The proposed title VIII, which is the subject of our amendment, would cut to the heart of our Federal system of justice. . . . I know that is why all former United States Attorneys now serving in Congress are co-sponsors of this amendment and are leading this effort.

* * *

John Murtha (D-Pa.): Mr. Chairman, I just want the Members of this House to know that I sat beside the gentleman from Pennsylvania (Mr. Joe McDade), a Member of Congress for eight years, while he was investigated for six years; the most insidious tactics that could possibly have been used against him.

The appeals process, which is supposed to make sure that the Federal prosecutors do not get out of control, the Federal appeal process ruled two to one. He went two years under indictment. The Federal jury, which came from an area that said 70% of the politicians are crooks, ruled in three hours. He was acquitted.

In the indictment they said campaign contributions are bribes. The rules of the House are clear about the legality of campaign contributions, that honorariums are legal gratuities. That is what they charged him with. They were trying to intimidate a Member of the House of Representatives.

In addition to that, in addition to trying to intimidate the House of Representatives and ignore the rules of the House, which the public saw immediately, he was re-elected three times during this period, when they leaked everything that could possibly be leaked, using those unethical tactics we are talking about during this period of time. Then, after this is all over, they tried to promote the prosecutor to judge.

Now, this is a Member of Congress who was able to raise \$1 million to defend himself. The ordinary citizen, the ordinary person, cannot raise \$1 million. The ordinary citizen cannot even raise money to defend himself. The public at one time used to think that a person was innocent until [proven] guilty. Now they get the impression, because of the leaks, the unethical leaks that come from the prosecutor, that the individual is guilty.

I cannot tell you the physical and mental distress that the gentleman from Pennsylvania [Mr. McDade] went through. Now, I see what you are talking about, and maybe we have to look in conference at some exemptions in drug cartels and things like that, but I think this is a ploy by the prosecutors to continue their unethical conduct without any kind of regard to the ordinary citizen.

We call this the Citizens Protection Act because we feel so strongly that the gentleman from Pennsylvania [Mr. McDade] is just an example. What he did for the House of

Representatives is absolutely essential to our independence. But what we are trying to do for the ordinary citizen is absolutely important to their individual protection. We believe we need an independent body to watch over them, to give them some sort of controls so that they do not go off without control and then be promoted, as somebody was after Waco, and the terrible, terrible injustice they did to the individual in Atlanta with the leaks that came out of the Justice Department.

So, I feel very strongly that we have to get some kind of control. The legislation that we drew up we hoped would

I would hope that the House would rise up and show the prosecutors who are out of control . . . that they need some sort of oversight and that this House will send a clear signal to the rest of the country that we will not stand by, [allowing] citizens to be persecuted.—John Murtha

come through the authorizing committee. We could not work it out at this late date.

I just hope that the Members—and we have almost 200 co-sponsors of this legislation. We have said to the Justice Department, if you have individual situations that you would like us to look at, we would be glad to look at that. They have not come back with anything. They just want to take this out. They want no kind of controls from the outside.

So, we believe that it is important to put some kind of controls over the unethical conduct of the Justice Department. As a matter of fact, we have 50 chief justices of the United States that have said that they believe that the Justice Department of the United States should fall under the ethical rules of each of the States.

I feel very strongly about this, and I would urge Members to vote against this amendment. If there is something that has to be adjusted, we are glad to work with them in trying to adjust this when we get to conference.

* * *

Harold Ford, Jr. (D-Tenn.): I would say that I bring a bit of personal experience to this as well. I am saddened to have heard what happened to my new friend and my father's friend over the years, the gentleman from Pennsylvania [Mr. McDade]. . . .

As a matter of fact, my father was indicted some several years back by one of the prosecutors working with counsel [Kenneth] Starr, Hickman Ewing. After five years of investigating, several years, one trial, a second trial, abuse by the

Justice Department, simply trampling the rights of an individual, another Member of Congress, I cannot tell you the pain that it exacted on my family and my father personally.

Fortunately and blessedly, we were able to survive. But plentiful and often times it seemed exhaustless resources of the Federal government—for prosecutors not to be reined in, not to have to comply with some sense of ethical conduct, Mr. Chairman, I submit to you it is un-American. I submit to my friends on the other side, no matter how noble their wanting to strike this provision might be, we have American rights, we have American liberties. And whether or not they choose to agree with the person's politics, whether it is on President Clinton's part with Ken Starr, whether it is a Republican that disagrees with a Republican or a Democrat with a Republican, it is unfair to trample people's lives.

* * *

Paul Kanjorski (D-Pa.): . . . I want to say to my colleagues on both sides of the aisle, this is not a political issue. This is an issue of fundamental fairness.

I occupy the District immediately south of the gentleman from Pennsylvania [Mr. McDade]. Members cannot imagine what this government and those prosecutors did to that Member of Congress. I do not know of any other Member of Congress who could have withstood the leaks and the poisonous spirit in which the public persecution, not prosecution, occurred. Yes, it was lucky that Joe McDade had \$1 million, or could raise \$1 million, but how many more Americans could raise that amount? That is the substantive question, here. . . .

I am sort of embarrassed to bring up another issue, but we had a prosecution in Pennsylvania, and the gentlemen from Pennsylvania, Mr. Joe McDade and Mr. Jack Murtha, will remember this. There was a Treasurer of the Commonwealth of Pennsylvania, where a prosecutor was prosecuting the improper award of a contract and brought a criminal action. The witnesses in that case testified against the contractor and the contractor was convicted of bribery.

Within one month, the prosecutors in that case had those very same witnesses change their story 180-degrees to now testify against the Treasurer of the Commonwealth of Pennsylvania, and threatened those witnesses with prosecution of their wives and their children. It is a famous story across this country. It was witnessed on television.

The only way that Treasurer could protect the future of his family and maintain his pension was to commit suicide before sentencing, and he did.

Mr. Chairman, if that is not extreme, extraordinary prosecutorial activity, I do not know what is. I have witnessed it in the case of the gentleman from Pennsylvania [Mr. McDade]. I am witnessing it with this special counsel.

There are statistics now available that, in the White House alone, the individuals working there have had to spend more than \$12 million in hiring lawyers to appear in depositions and before grand juries who are not in any way substantively

involved. We are going on and on.

What this ends up doing, and the American people know this, is destroying respect for the American judicial system, all with the idea that every now and then some prosecutor who wears a pearl-handled .45 revolver can find somebody who has a grudge against an elected official, Republican or Democrat, who can make a point to bring a charge, and substantiate that charge by just marginal testimony, sufficient to get an indictment, but not sufficient to convict.

But you can take that public official down the road to ruination, that family down the road to ruination, our system down the road to ruination. Why? Why do we sit here? Why are we so innocent? Why have we not recognized that this has been happening over and over and over again? Why are we asking for the McDade-Murtha language?

It was an understanding in the bar and in the prosecutorial field and in the defense field that there were certain standards of ethics and honor, certain things you did not do, an unwritten code. Well, the prosecutors in the United States today, whether they be special counsels or regular prosecutors, have shown us that they are going to push it to the end of the envelope and beyond. They are going to write their own definition of what standards are.

So it is incumbent upon this House, the people's House, to determine that if you are going to push it to the edge of the envelope and you are going to destroy lives and you are going to prosecute people unreasonably at high expense and at a detriment to both, the family and this democracy, then this public House should take action.

We are saying we want to codify the code of standards. We want to say what they have to do and what they do not have to do, and we want to make them subject to a review board. Why should not public officials and all Americans know that when they get taken by their government for hundreds of billions of dollars, hundreds of prosecutors, thousands of FBI agents, that they have a right not to be ruined. That is what the McDade-Murtha language and the perfecting amendment of the gentleman from Michigan is going to accomplish.

I urge my colleagues to vote for justice.

* * *

Peter King (R-N.Y.): I think it is time to put a human face on the abuses that are carried out by prosecutors in this country, prosecutors who consistently violate the rights of innocent human beings, innocent citizens and their families, friends and relatives.

By putting a human face on it, I would like to refer to a predecessor that I had here in the Congress, Angelo Roncallo, a man who a number of years ago sat in the very seat that I occupy today. And what went on in his case has happened in so many other cases over the years.

He was a man who was brought in by the United States Attorney and told he had to deliver a political leader. When he refused to do that, he was called before the grand jury.

His family was harassed. He was indicted. His friends were indicted. Everything was leaked to the newspapers. This man's career was destroyed. He was defeated here in the United States Congress.

Finally his case went to trial. The jury was out 30 minutes and he was acquitted. It came out during that case that all throughout, from day one, the prosecutors had evidence that would have completely exonerated this defendant. They knew it from day one. Throughout the trial, they had U.S. Marshals stand around the U.S. Attorney's office because they had convinced the judge that this Congressman, Angelo Roncallo, was somehow going to have them killed during the trial. The jury had to witness this, Marshals in the courtroom day in and day out.

When the trial was over, the judge said it was a disgrace. He referred it to the Justice Department to have it investigated. What was done? Nothing. That is what always happens. Nothing.

The gentleman from Georgia [Mr. Barr] said it is bizarre. He said that opposition to the Hutchinson amendment is bizarre. He said the comments of the gentleman from Pennsylvania [Mr. Murtha] were bizarre. I would say to the gentleman from Georgia, if he were targeted by a prosecutor, if they tried to destroy his reputation, he would find that bizarre.

I think it is important for all of us in this Chamber, those of us who are self-righteous, those of us who say it could never happen to us, let you be the target of an unscrupulous prosecutor, and you will see how fast you will change your tune when you see your wife harassed and your children. And I can go on and on with case after case. I remember I was once negotiating with the United States Attorney in a case and he ended the discussion, ended the negotiation by telling me that he was the United States of America, it was time that I realized it.

The fact is, no prosecutor in this country is the United States of America. The United States of America is the people. We represent the people. It is time for us to stand up and say no to these prosecutors, no matter where they are coming from.

Prosecutors are out of control. They are ruining the civil liberties of people in this country. I am a Republican. I cannot understand how Members in my party who say they support individual rights could ever allow a prosecutor to trample upon the rights of innocent people—the abuses that they are guilty of. . . .

I again urge and implore all of my colleagues to defeat the Hutchinson amendment, stand with the gentleman from Pennsylvania [Mr. McDade], stand with the Constitution and say no to this untrammled abuse of power by the prosecutors and our Justice Department today.

* * *

Maxine Waters (D-Calif.): Mr. Chairman, this debate is long overdue. It is about time we dealt with what is wrong with the Justice Department and with unethical prosecutors in this Nation.

Legislators at the state level, at the Federal level have been absolutely supportive of the criminal justice system. They have done everything to give law enforcement the ability to apprehend criminals. They have done everything to be supportive of the Justice Department.

When we look at the generosity of public policymakers on wire-tapping, no-knock, search and seizure, all of that, when we look at mandatory minimums, three-strikes-and-you-are-out conspiracy laws, we have been very generous,

I think our job might have been better if we had had hearings. In fact, I do not think we are finished. I think we must proceed and investigate even more whether there are abuses across the country.
—Sheila Jackson Lee

sending a message to the people of this nation, we want criminals locked up.

We never knew that they would take the generosity of good public policymakers and turn it on its head. We never knew that they would take out after innocent people in so many different ways.

I cannot even get into telling my colleagues how they use conspiracy laws. No evidence, no documentation. These conspiracy laws are filling up the prisons.

I do not know all of the details of the case of the gentleman from Pennsylvania [Mr. McDade]. I have heard about it. But I want to tell my colleagues, I know thousands of Mr. McDades who do not have any money, who do not have any attorneys, whose grandmothers and mothers come crying to my office for me to help them and I cannot do anything because my powerful government, prosecutors, have run amuck. . . .

I am so glad this debate is taking place. I wish we had this in our committee. It should have been in subcommittee. It should be in full committee. We should bring people in here to tell their stories about what has happened to them.

I should be able to tell my colleagues about a young woman named Kimber Smith, who is 19 years old, who is sitting in a Federal penitentiary today.

And so, I do not know all of the details about the gentleman from Pennsylvania [Mr. McDade]. I have heard some. But I want to tell my colleagues, indeed, I know many, because I have heard the stories and I have seen the devastation of unethical prosecutors.

It is time for America to believe that even though we want criminals prosecuted, indicted, and locked up, we do not

intend for them to be violated and run over and disrespected by anybody's prosecutor.

I want to tell my colleagues something. No matter what they think about the gentlewoman from California [Ms. Waters] on the left or somebody on the right, there is one thing that I hold dear that was drummed in my head as a student, and that was the Constitution of the United States of America.

I was made to believe that I would be protected. Even when things were going wrong, there would be some hope because we had a system of justice that would make sure that the average person, in the final analysis, would have an opportunity for redress. And I believed in this Constitution. They taught it to me too well. And that is why I can stand here and fight for it and feel very comfortable with it.

I do not care about some other prosecutor who is a prosecutor in a state somewhere in Georgia who gets up and defends all prosecutors. I know the reputation of some prosecutors. I know the lives that have been ruined by some state prosecutors. They are no better than these Federal ones that we are talking about.

I want criminals to be apprehended, to be investigated, to be locked up. But I want people to have a chance to have their voices heard and to have a chance to be innocent until proven guilty. . . .

* * *

Sheila Jackson Lee (D-Tex.): . . . I would say to the gentleman from Pennsylvania [Mr. McDade] that it is my view that no one deserves to be put on the trash heap of life. That sounds like a very harsh statement, harsh in that that is not your destiny. But I do believe that we have an opportunity today to maybe speak for many across this country who unfortunately were caught in the web of someone's misdirections and someone's abuse of power. I think it is appropriate for those of us who are members of the Committee on the Judiciary to say first of all that prosecutors across this nation have done good by the people of the United States of America. They have prosecuted those well deserving of being prosecuted. They are by and large officers of the court who have upheld the highest standards.

But why are we arguing against prosecutors being subject to the same state laws and rules and local court rules and state bar rules of ethics of any other series of lawyers? Why are we suggesting to our constituents that there is something wrong with requiring prosecutors, Federal prosecutors, to not seek an indictment against you with no probable cause, to fail to promptly release information that may exonerate you, to attempt to alter or misstate evidence, to attempt to influence or color a witness's testimony, to act to frustrate or impede a defendant's right to discovery. Yes, the scale of justice is balanced and blind, and that is what we are speaking of, to be able to equalize you in a court of law against a Federal prosecutor representing the United States of America.

Let me thank the prosecutors for going into the deep South

in the 1960s and raising up issues of civil rights that other local attorneys could not raise up. Let me thank them, The Department of Justice did an amazing job in dealing with those issues. So, we realize the uniqueness of the Federal prosecutor system. But, does that mean that we throw people to the trash heap of life? Do you lose all of your rights because you go into a Federal courtroom and a prosecutor says, 'I have all of the rights'? I believe that we are doing nothing here that is against the boundaries of respect for our Federal system.

Let me say as a member again of the Committee on the Judiciary, yes, I think our job might have been better if we had had hearings. In fact, I do not think we are finished. I think we must proceed and investigate even more whether there are abuses across the country. But today we are where we are. We have an opportunity not to attack but to make better. . . .

* * *

Dana Rohrabacher (R-Calif.): Mr. Chairman, I rise in strong support of the Conyers amendment as well as in opposition to the Hutchinson amendment, which would then strike the McDade-Murtha provision of this bill. In essence, McDade-Murtha codifies the long-recognized, but recently ignored principles that U.S. Attorneys must abide by the same rules of ethics as all other practicing lawyers. The Conyers amendment says that this includes special counsel as well, not just the people who are currently employed by the Department of Justice, and that makes all the sense in the world.

Limited government is the prerequisite for liberty and justice. That is what we are talking about today, limiting government power to what is a reasonable power to maintain order in our society.

Well, however, over the last three decades, because of the fear of crime, we have ended up granting enormous power with very few checks and balances to prosecutors. We have just been expanding their power, and yours truly is just as guilty as anybody else out of fear of crime to give prosecutors power without having any checks and balances. Now we are surprised to see that big government, with lots of power, people in that government tend to abuse that power.

Our Founding Fathers would not be surprised at that. The fact is, every time we expand power we have to put checks in place or there will be abuses of power. For far too many times, we have seen out-of-control prosecutors who now have all this more power to attack the bad guys, not seeking truth or not trying to protect the innocent, but instead engaging themselves in self-aggrandizing, targeted attacks, often pushing relentlessly for some kind of prosecutorial victory regardless of the cost and, at times, regardless of the cost and, at times, regardless of the actual guilt or innocence of the target.

I and other supporters of the McDade-Murtha provision, and we are advocates of law and order, take this stand today to protect freedom and liberty threatened by prosecutors who are not being held to the same standards as other people in the

legal profession. The gentleman from Indiana [Mr. Buyer] answered these charges, that there is going to be confusion, that we have different standards at the local level. The fact is that we expect our prosecutors to be at the highest level because we are protecting the rights of our citizens, the freedom of the people of the United States of America.

Far too often we have seen cases like the gentleman from Pennsylvania [Mr. McDade] where prosecutors are out of control and politically motivated. They go out and destroy public officials and public people. But what about the little guys? The little guys who have no money to defend themselves and are faced by these same abusive prosecutors?

No, putting down a code of conduct, if my colleagues will, a standard of ethics for the prosecutors, is something good. It is totally consistent with freedom in our country, with what our Founding Fathers wanted, with the concepts of limited government.

* * *

Mr. Hutchinson: I have made mention of the fact I am a former Federal prosecutor, and that is true. I was a prosecutor in the mid-'80s, but after I left that, I became a defense attorney. So I have sat in that courtroom and I have heard a jury come back with an acquittal, and I realized an acquittal does not remedy everything, because an individual defendant who has been through an enormous Federal criminal trial still suffers consequences. . . .

In addition to the reviews of the state ethics laws, you presently have the Office of Professional Responsibility. You have the inspector general that will have review over these Federal prosecutors, in addition to the Federal courts —

Mr. Rohrabacher: Mr. Chairman, will the gentleman yield?

Mr. Hutchinson: I yield to the gentleman from California.

Mr. Rohrabacher: Does the gentleman believe that if a prosecutor, for example, encourages a witness to commit perjury or breaks the law in some other way, that that prosecutor should himself or herself be prosecuted for violating the law for doing something like that?

Mr. Hutchinson: Absolutely. That is obstruction of justice.

Mr. Rohrabacher: How many prosecutors have been prosecuted? Almost none, is that right? Instead, like in the case of the gentleman from Pennsylvania [Mr. McDade], they get promotions.

* * *

William Delahunt (D-Mass.): Mr. Chairman, I think it is important, given the statements by my friend from Arkansas [Mr. Hutchison], whom I have great respect for, that if somehow you support McDade and Murtha you are somehow assisting or abetting drug cartels in the United States. That simply is not the case.

State prosecutors historically have conducted investigations that are multistate in nature, whether it be organized crime, whether it be drug trafficking, whether it be white collar crime. They adjust. As the gentleman from Arkansas indicated, Massachusetts has a very stringent standard in terms of prosecutorial ethics, but it has not caused a problem.

It is reminiscent of when the Warren Court issued the landmark cases in Mapp and Miranda. It was going to impede and be the end, in terms of law enforcement. I dare say, now we have better and more professional law enforcement that is more ethical than ever before.

* * *

Joseph McDade (R-Pa.): Mr. Chairman, let me say to my colleagues, I had not intended to speak on this aspect of the bill, but in view of the comments that were made a few moments ago, I am compelled to.

Under the current system that we heard described by my colleagues, the gentlemen from Tennessee and from Arkansas, there is a remedy for a citizen, once convicted. They can appeal to another court, a higher court. They can make a recommendation or an argument at OPR, the Office of Professional Responsibility in the Department of Justice, after they have been convicted; lives ruined, bankrupt. If they can prove something, they might get a reversal of their case.

Let me be specific. In the case of *United States v. Taylor*

about a year ago, the Department of Justice twisted the testimony of an individual and convicted him on perjurious testimony. If we read the case, we will read that the judge that tried it found the employees of the Department guilty of obstruction of justice. What a charge, corrupting the system that they are are supposed to be defending.

What did the Office of Professional Responsibility do after the judge made that finding? Mr. Chairman, they gave the people who corrupted that system a five-day suspension from their jobs, a five-day suspension for corrupting the system of justice in this country. No better example exists as to why we need to empower a citizen to have the right to have his case heard in front of the conviction and away from the OPR by an independent body.

* * *

Mr. Murtha: Mr. Chairman, if the Members think I am excited about this, they are right. If they think I am sincere and focussed on this issue, I am.

I sat beside the gentleman from Pennsylvania for eight years, eight years while he was under persecution by the Justice Department: six years investigation, two years intimidation, under indictment. I watched the gentleman decline physically, mentally, and emotionally from the strain of the Justice Department. . . .

I would hope that the House would rise up and show the prosecutors who are out of control, not all of them, just the ones out of control, that they need some sort of oversight and that this House will send a clear signal to the rest of the country that we will not stand by, [allowing] citizens to be persecuted by a prosecution.

* * *

Robert Brady (D-Pa.): . . . Mr. Chairman, very alarming information concerning alleged abuses and misconduct on the part of career prosecutors employed by the U.S. Department of Justice, has been brought to my attention by State Representative Harold James, who is chairman of the Pennsylvania Legislative Black Caucus, and Rep. Leanna Washington, secretary of the Pennsylvania Legislative Black Caucus.

Both Representative James and Representative Washington requested my support for the Citizens Protection Act, which I have subsequently co-sponsored.

They informed me of the results of independent hearings, endorsed by the National Black Caucus of State Legislators, which raised grave questions about misconduct by prosecutors. The Caucus, the Nation's largest organization of African-American elected officials, in 1995 called for Congressional Hearings to Investigate Misconduct by the U.S. Department of Justice.

Mr. Chairman, the McDade/Murtha amendment addresses every area of concern expressed by my constituents. I urge its adoption.

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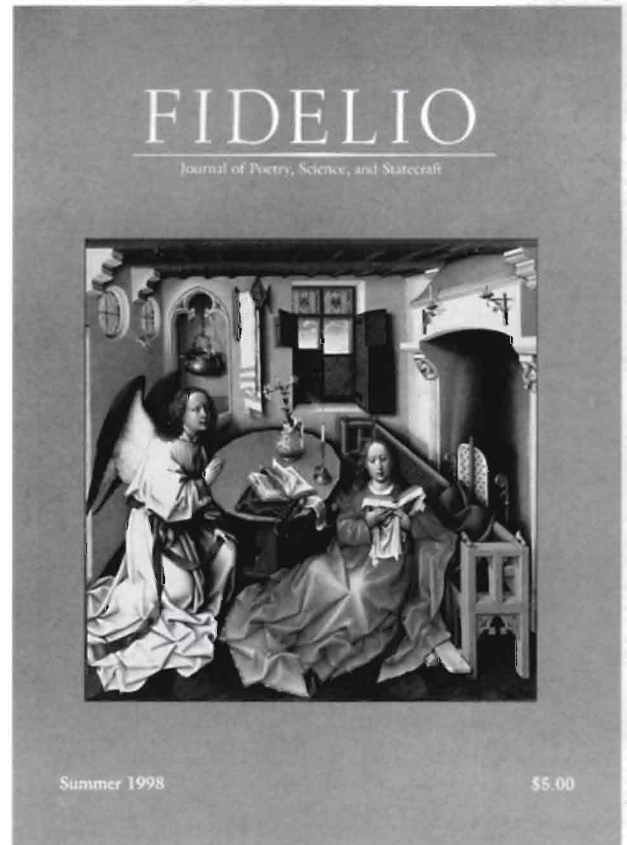
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