

EIR

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Operation 'Oluja' foils London's Balkan plan
How Abscam was used to shut down U.S. economy
Death-knell sounds for Argentina's military

**The new role for Russia
in U.S. policy today**



BOOKS



To Lead Us Back into Space

EIRNS/Philip Ulanowsky

They Had a Dream: African-American Astronauts, by J. Phelps. Presidion Press; clothbound, 291 pages, \$25.95.

Moon Shot: The Inside Story of America's Race For The Moon, by Alan Shepard. Turner Publications; clothbound, 400 pages with 32 pages of photos. \$22.95

Mission to Deep Space, The Voyager Journey, by W. Burrows. An oversize book especially aimed at older children. Wh. Freeman; clothbound, 80 pages. \$18.95.

The Mars Project, by Werner von Braun. This classic on space travel was first published in 1953, when interplanetary space flight was considered science fiction. With an introduction by former NASA administrator Thomas O. Paine. University of Illinois Press; 91 pages paperbound. \$10.95

Space Technology and Planetary Astronomy, by Joseph Tatarewicz. As the U.S. struggled to respond to Sputnik, planners at NASA found that astronomers had turned their telescopes away from the planets and toward the stars. NASA had to create the planetary astronomers. University of Indiana; clothbound, 190 pages, illustrated with index. \$12.95.

Alice and the Space Telescope, by Malcolm Longair. The director of the Royal Observatory at Edinburgh introduces us to a wonderland of quasars, black holes, neutron stars, and other phenomena in a fact-filled book in a whimsical format. Clothbound, 198 pages, many illustrations, appendices, index. Johns Hopkins. \$36.95.

How We Got to the Moon, The Story of the German Space Pioneers, by Marsha Freeman. Not only have the accomplishments of the German space pioneers begun to fade from history, but these great men have had to suffer the indignity of having the motivations of their life's work questioned. 21st Century Science Associates; 363 pages illustrated, bibliography, index. Paperbound. \$15.00

Colonize Space! Open the Age Of Reason: Proceedings Of The Krafft A. Ehricke Conference. A 1985 conference honoring the late space scientist, with speeches by Lyndon LaRouche, Helga Zepp-LaRouche, Vice Admiral Karl Adolf Zenker, Konrad Dannenburg, and Friedwardt Winterberg, among others. New Benjamin Franklin House; 352 pages, illustrated, paperbound. \$9.95.

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From the Associate Editor

In this quite unusual, expanded edition, the pages of *EIR* have become a vehicle for a dialogue between Lyndon LaRouche, Jr. and leading economic scientists of Russia. We are pleased to present the full text of a monograph by Academician Dmitri S. Lvov, vice-director of the Central Economic-Mathematical Institute in Moscow, with an introduction by Mr. LaRouche. By looking over the shoulders of the Russian readers, *EIR*'s American audience will achieve a superior understanding of the problems Russia faces, how they might be solved, and how a new strategic combination could be put together internationally to make this possible.

In his introduction, Mr. LaRouche comments that one of the compelling features of Academician Lvov's report, is "the freshness with which it applies its special, insider's qualifications, to reexamining critically its experience with many of the once-popular, underlying assumptions of both the Soviet and Adam Smith dogmas. On that account, a dialogue with the relevant scientists of Russia is not only indispensable for shaping an effective new U.S. policy toward Moscow; it is also a way of stimulating needed, new conceptions of global economic policy, which have urgent application in the world generally, the U.S.A. not excepted."

Elsewhere in this issue, you will find important stories that are not being covered, or not being covered truthfully, in the other media. Mr. LaRouche recently made the recommendation that *EIR* intelligence officers not read the newspapers until the day's work is done. *EIR* defines its own stories, operating from the standpoint of current history; it does not rely on the pundits and liars of the press to find out "what is going on today."

The report by Michael Liebig and Dean Andromidas on their visit to the battle lines in Croatia is an outstanding example of *EIR* journalism. They evaluate the Croatian victory over the Bosnian Serbs as a development of the utmost political and military significance. The lead article in *Economics* is our first report on a very hot topic: the movement of insiders of the international financial oligarchy into speculative hoarding of food and raw materials.

Susan Welsh

EIR Contents

Departments

- 11 Report from Bonn**
Deconstruction of construction sector.
- 63 Andean Report**
Coca economy flags in Peru.
- 80 Editorial**
Death be not proud.

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Investigation

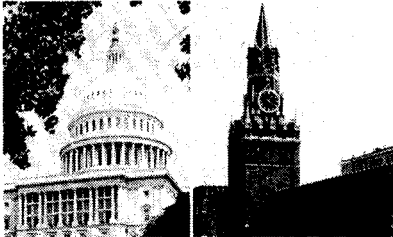
- 66 The Abscam assault helped shut down the U.S. economy**
The impotent performance of American congressmen in the just-concluded hearings into the massacre at the Branch Davidian compound in Waco, Texas, was, unfortunately, no surprise to *EIR*.
Documentation: Judge Aldisert warned of FBI tactics; Michael Raymond: profile of an FBI 'sting-man'; American leaders targeted; Justice Department hit men.

Correction: In the cover photo caption and the article on p. 31 last week, it was stated that former President Carlos Andrés Pérez of Venezuela was "convicted and later jailed." He was accused of corruption and illegal use of government funds, and sufficient evidence was found to *indict* and jail him. He currently remains under house arrest.

Economics

- 4 Flight into hoarding signals collapse of financial system**
Prompted by the recognition that a general, unstoppable collapse of the world's financial systems is in progress, the smart money of the super-wealthy families is moving out of "derivatives," and into gold bullion, prime-quality raw materials, and scarce food supplies.
- 6 Germany's water infrastructure: The plight of Kharkov is not far away**
The budget-austerity policy of Germany's finance minister, the decline in municipal capital investment, and the ever-shriller calls for privatization of the water supply systems are leading toward an eastern European-style breakdown in western Europe's richest nation.
- 10 Currency Rates**
- 12 Business Briefs**

Feature



Seats of power: Visitors gather at the U.S. Capitol in Washington, D.C., and the Kremlin Wall in Moscow. The success or failure of U.S. attempts at cooperative relations with a united China and with Russia, will determine the success or failure of U.S. global policy, deep into the coming century.

14 The new role for Russia in U.S. policy today

Lyndon H. LaRouche, Jr. proposes to remedy a pervasive, sometimes dangerously smug illiteracy, on the subject of Russia today, among most leading U.S.A. economists, think-tanks, and relevant other policy-influencing persons and institutions.

26 Toward a scientific grounding for economic reforms in Russia

The frank outline of Russia's recent and current economic situation, prepared under the Central Economic-Mathematical Institute's Vice-Director, Academician Dmitri Semyonovich Lvov, should be most helpful to relevant public and private persons and agencies in the Americas and western Europe.

International

50 Operation 'Oluja' foils London's Balkan plan

Michael Liebig and Dean Andromidas report on the military and political situation in Croatia and Bosnia-Herzegovina, after their visit to Bihac and the liberated zones of Croatia in the Dalmatian hinterland.

54 Kosova is a ticking time bomb

56 Betrayed Argentine military is being 'restructured' into oblivion

A country-by-country report on the state of the plot against the Ibero-American Armed Forces.

57 Williamsburg: Plot against military meets obstacles

58 In Brazil, some want to reopen the 1970s war against subversion

60 Colombia: NGOs mediate kidnappings to finance terrorism

61 NGOs attack the Mexican Army and defend the Zapatistas

64 International Intelligence

National

74 Do Weaver case actions portend a DOJ shakeup?

While Congress evades its oversight responsibilities, a White House-mandated housecleaning is under way at the Federal Bureau of Investigation.

76 Whitewater hearings fall flat

77 Goya and Rembrandt highlight Met season

Fall 1995 exhibits in New York will involve the public in a candid dialogue about some of the most vexing issues for museums.

78 National News

Flight into hoarding signals imminent financial collapse

by Richard Freeman

"The past several months' buildup of a stampede from financial investments into hoarding of bullion, raw materials, and scarce food-supplies, signals an imminent collapse of the world's financial system," economist Lyndon LaRouche warned on Aug. 15. During the recent several months, the smart money of the world's super-wealthy families began to move out of "derivatives," i.e., speculative financial instruments, and into gold bullion, prime-quality raw materials, and scarce world food supplies. This was prompted by the recognition that a general, unstoppable collapse of the world's financial systems is in progress.

LaRouche stated, "The failure of the governments to adopt any effective plan of action for dealing with that collapse, at the recent Halifax Group of Seven monetary conference, prompted accelerated movement into hoarding. The lunatic decision of the U.S. Federal Reserve System's Alan Greenspan, among others, to adopt the same reflationary approach as the doomed Reichsmark-system adopted in 1922-23, accelerated the stampede.

"During the past two weeks, the stampede into two areas, gold bullion and metals such as tin and aluminum, broke the equivalent of the 'sound barrier' in the Tokyo and London markets. Hoarding of increasingly scarce world food supplies proceeds more quietly, but massively, through such speculators as Archer Daniel Midland's Bush ally, and Clinton adversary, Dwayne Andreas."

Stampede into gold

On Aug. 17, the Paris daily *Le Figaro*, under the headline, "Spectacular Rise of Gold Purchases in Japan," reported that in the first half of 1995, Japanese imports of gold doubled to 165.2 metric tons, compared to 85.2 metric tons in the same period last year. In the month of June alone, the Japanese purchased 27.1 tons of gold, purchases 68.9% higher

than in June of last year. The Japanese economic journal *Nikkon Keizai Shimbun* has been running advertisements from metals traders, with headlines such as "The Times Are Favorable to Gold. . . . We Propose a Crisis Management by Turning to Gold."

A spokesman for the World Gold Council explained on Aug. 10 that the sharp increase in Japanese gold demand is "directly related to fears about the solvency of the Japanese financial system . . . and a desire for hard security protection . . . associated in crisis times with gold. A new investment vehicle, Gold Accumulation Plans, are being bought by private investors, creating the explosive demand for physical gold." Japan's banking system, with \$7 trillion in assets and, unofficially, over \$1 trillion in loan losses, is teetering.

Gold imports are exploding in the region defined as "Southeast Asia and South Korea," which includes Indonesia, the Philippines, and Thailand. Based on import figures for the first quarter of 1995—and second quarter imports undoubtedly will be higher—gold demand in this region is running at a 420 metric-ton annualized rate, 1.5 times higher than previous years' levels. Many gold importers in Asia are rich European or Asian families.

The same rush into gold is seen in the West. On Aug. 15, the head of a California-based raw materials trading firm told *EIR*, "I have been told by two sources, which I consider strongly reliable, that over the last three to four weeks, the big Swiss banks are buying gold and other precious metals." He added that other purchasers are wealthy families who buy gold for their own account.

However, during 1995, the price of gold stayed below the \$390 per ounce level. There are two reasons why. First, central banks had coordinated intervention to suppress gold's price rise to preserve the appearance of the soundness of the world banking system. During the last several years, central

banks sold gold whenever there was a supply shortfall, closing the gap. Apparently, now, they have abandoned this strategy: Worried about financial collapse, they want to keep gold in their vaults. After a lag, this change could allow gold prices to rise. Second, instead of buying gold bullion, some investors prefer buying gold mining company shares, which are cheaper and confer actual physical ownership of gold. This is at the center of the London oligarchy's strategy and deserves special examination.

Global gold reorganization

On Aug. 15, a European source told *EIR*, "quietly over the period since the 1987 stock crash, City of London interests have reorganized their control over strategic gold and mining interests as never before. Today, gold is a British-controlled game." The source stated that four companies, Barrick, Hanson Group, Rio Tinto Zinc (RTZ), and Newmont Mining, have developed low-cost mines around the world, including in the United States, and begun to undermine gold production in South Africa. He said, "because these companies have concentrated on low-cost [\$180-\$220 per ounce recovery cost] gold, significantly below present South African production costs of some \$275 per ounce, they can still make a significant profit at today's prices of near \$380 per ounce."

The wealthy are putting money into these companies' shares to make money and gain strategic control:

1) Barrick Gold Corp., based in Toronto, Canada, is the third largest gold producer in the world. The board of Barrick overlaps other key British companies and financial interests: Barrick chairman Peter Munk is an intimate of Windsor financial front-man George Soros. Canada's former prime minister, Brian Mulroney, who owes his career to Hollinger Corp. Chairman Conrad Black, is also a Barrick director. (Hollinger is spearheading the Whitewater attack against President Clinton.) Barrick's international advisory board includes former U.S. President George Bush. During 1989-94, the share price of Barrick's subsidiary, American Barrick, *multiplied six times*.

2) Newmont Mining, which owns a major part of Nevada's profitable Carlin Trend. Its shareholders include Lord Jacob Rothschild, Sir James Goldsmith, and Soros.

3) RTZ Corp. PLC, the world's largest mining company, and a core asset of the London-based Club of the Isles. RTZ's stockholders reportedly include the queen of England. RTZ's deputy chairman, Sir Martin Wakefield Jacomb, a director of the Bank of England until late last year, is a director of Hollinger's *Daily Telegraph*.

4) Hanson PLC, which owns the largest share of Renison Mining of Australia, is intimately tied to Baroness Margaret Thatcher. It was Thatcher who arranged to have Lord Hanson made a life peer. Simon Keswick of Jardine Matheson, the old-line China opium-running outfit, is also on Hanson's board. Hanson executive director Anthony G.L. Alexander is also a director of Inchcape PLC, the successor of the China

opium-running P&O Steamship Co.

As a result of this British-run global shift over 1987-94, South Africa mine production stagnated at 600 metric tons. But under control of these companies, gold production in the United States leapt from 139 metric tons to 330 metric tons; in the British Commonwealth country of Australia, it rose from 95 tons to 250 tons. Britain's strategy: If the crash inevitably comes, strategically control the key resources.

Food and other raw materials

Like gold, silver is a precious metal. Last February, silver's price was \$4.35 per troy ounce. Then, during Easter Week (April 16), an unidentified purchaser instructed Salomon Brothers' raw materials trading unit Phibro to take physical delivery of 25 million ounces of silver. This action drove the price of silver up to \$5.75 per ounce at the time. The mystery purchaser sent trucks up to the New York Commodity Exchange building to load this nearly 75 tons of silver bullion and take it to banks in Delaware.

During the week of Aug. 7, another large purchaser was in the market. Because the silver supply is tight, his purchases drove the lease rate of silver—the rate at which one can borrow the metal—from the normal 1%, to 7%, pushing up the price of the metal again.

There is also the base metal group, which includes copper, aluminum, tin, nickel, zinc, lead, and iron ore. Excluding carbon-based products, these seven base metals constitute 50-60% of the weight content of all manufactured goods in the world. Thus, controlling them gives one strategic influence over industrial production. Consider what is happening to some of these metals:

Aluminum: The price of aluminum shot up 6¢ a pound in just three days, closing Aug. 15 at 89¢ a pound. Aluminum was trading at 53.3¢ a pound in 1989, when the price of aluminum was depressed, and at 65¢ a pound in 1994. The two-year rise has been spectacular.

Copper: Copper was trading on the London Metal Exchange at 86.9¢ a pound in 1993, at 101¢ a pound in 1994, and 137¢ a pound on Aug. 15.

Tin: The week of Aug. 7, tin rose to a three-year high of over \$7,000 a ton, because of a large hoarding position in tin by Barclays Bank.

Food: The total world grain harvest forecast for 1995, at 1.728 billion tons, is below the level of recent harvests, and well below the 3 billion tons a year that *EIR* calculates is necessary to guarantee the necessary caloric and protein intake for every human being. Furthermore, next year, world grain reserves are projected to fall to 203 million tons, the lowest level since 1960. At the center of the grain hoarding is George Bush ally Dwayne Andreas's Archer Daniel Midland. Andreas is on the board of British Intelligence's Hollinger Corp.

Thus far this year, the price of wheat is up 40%, and corn's price is up 15%. A source at the World Bank reported on Aug. 15 that he expects the price of wheat to rise further, and the price of corn to zoom at least 20%.

Germany's water infrastructure: The plight of Kharkov is not far away

by Lothar Komp

The following was published in the July 26 German weekly Neue Solidarität. It was translated from the German by Ed Carl.

Whoever visits a typical western Ukraine household will be presented with a picture something like the following: Hanging beneath the ceiling is a large water bucket, out of which protrudes a hose that leads into a washbasin. With the help of a valve, a couple of times a day, it is possible to use the water collected in the pail to wash your hands or for similar purposes. All of the water faucets are always turned on and surrounded by extra water vessels, because at any time of the day, without warning, fresh water may suddenly come spurting out of the pipe. Not warm water, though, because heat in the winter is a lot more important than warm showers or baths in the summer. Housewives who go shopping nowadays, take one or two buckets along. After all, they might be able to fill them up at some source of water along the way.

The breakdown of public infrastructure resulting from the decades-long neglect by the Soviet system, has been further exacerbated by the devastating International Monetary Fund shock therapy policies imposed over the past few years. This has not merely made water scarce, but now, even the temptation to take a drink of water makes the criminal neglect of the necessary infrastructure investments more and more evident each day. In the middle of July, the million or so residents of the city of Kharkov in eastern Ukraine were urged—providing they were in a position to do so—to quit the city for up to a week. The drinking water was confirmed to have become contaminated with the cholera agent, and an outbreak of a cholera epidemic was to be feared. Two weeks previously, torrential rains had led to leakage of the Kharkov sewage system, so that sewage succeeded in fouling the rivers. Drinking water now had to be provided by neighboring cities.

In Moscow, meanwhile, emergency measures were ordered, because, in the water there, not only was the cholera agent spreading, but also those of tuberculosis and diphtheria. The plan was, that through a ban on bathing and putting strict food preparation control measures into effect, the worst might be prevented. Here, too, the breakdown of the sewage disposal system and the resulting plague of the uncontrolled

rat population is a direct result of the discontinuance of public investment.

Is the possibility of similar things happening in Germany inconceivable? Isn't it the case that the necessary investment in the German water-supply system is already several hundred billion deutschemarks in arrears? The narrow-minded, budget-austerity policy matrix approach of German Finance Minister Theo Waigel, the decline in municipal capital investment in public works, and the more and more stridently declaimed proposals for privatization of the German water supply systems are, in any case, pointing exactly in this direction.

Where does our usable water come from?

Germany is blessed throughout its extent with ample rainfall and inland waters. During 1994, the volume of precipitation bestowed on Germany was 274 billion cubic meters, which, if you calculate it out, works out to about 9,260 liters per capita per day. In addition, there is an influx of water via sources that flow into Germany from beyond its borders of 69 billion cubic meters, which amounts to 2,330 liters per capita per day. More than half of this, to be sure, evaporates, such that, ultimately, we are presented with a 164 billion cubic-meter, or 5,540 liter per-capita per-day water endowment, so to speak, at our disposal.

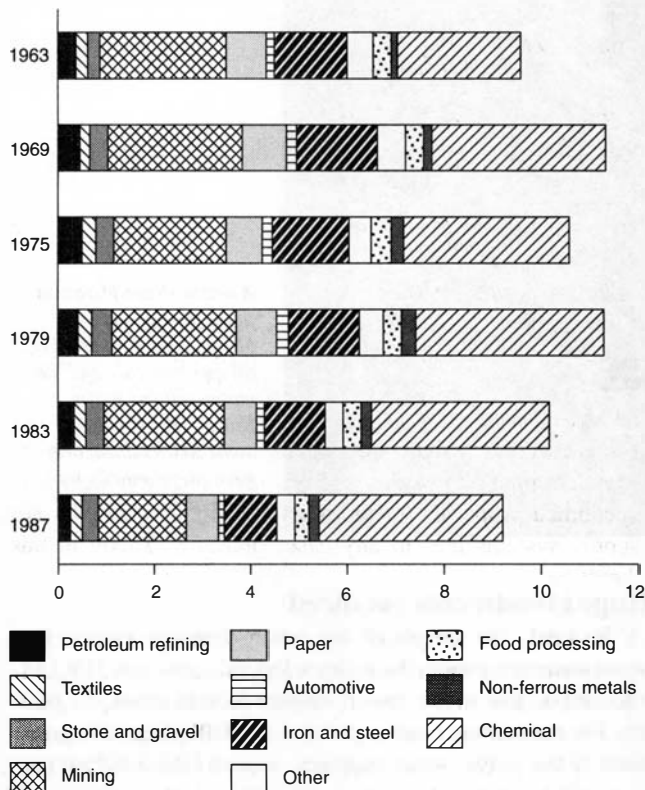
Only 30% of this quantity of water, roughly 1,600 liters, will be utilized in any way by either household or commercial consumption (see **Table 1**). The preponderant portion, namely, 950 liters, will be put to use solely as cooling water for thermal power plants. The specific types of consumption of water, such as that within industry itself (see **Figure 1**), as

TABLE 1
Yearly water requirement in Germany
(billion cubic meters)

Cooling water for thermal power plants	28.8
Public water supplies	6.5
Industry	11.0
Agriculture	1.6
Total	47.9

FIGURE 1
Water utilization in German industry

(billion cubic meters)



Source: German Federal Statistics Bureau, *EIR*.

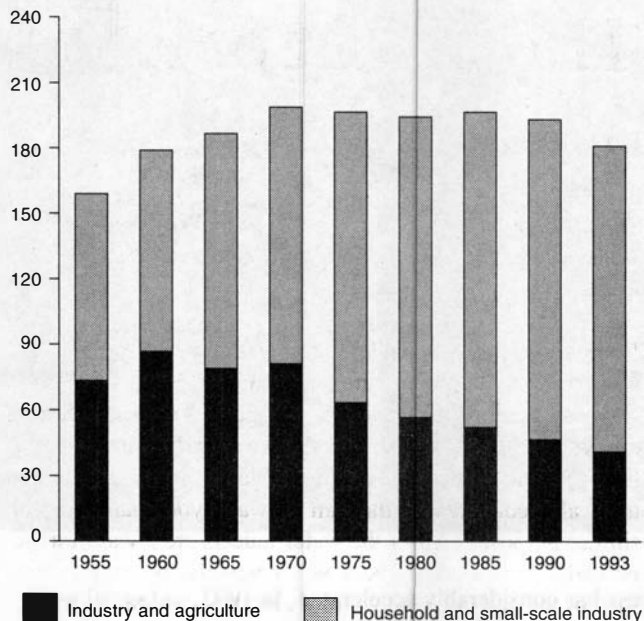
well as that of the public water supply (see **Figure 2**) and of agriculture, therefore amounts to approximately 650 liters per capita and per day, or 4% of the usable water endowment. Thus, on the basis of the natural water cycle alone, theoretically, 2 billion human beings could be plentifully supplied with water on the land-area of the Federal Republic of Germany. From the 650 liters of usable water that are consumed per day for each citizen of Germany, there are allocated 400 liters to industry, 100 liters to agriculture, and the remainder is consumed in households (see **Figure 3**).

Industry is approximately 90% self-supplied with water. Nonetheless, since the end of the 1970s, water extraction and production in the mining and manufacturing industries has been considerably retrograde. A particularly ironic subsidiary effect of the decline in mining, is that both after this happened, as well as beforehand, we note a significant growth in the overall extraction of ground- and springwater, within all sectors of the economy taken as a whole.

Even in manufacturing industry, water consumption is reverting downward, and, in the most recent years, this pro-

FIGURE 2
Water consumption from public water supply

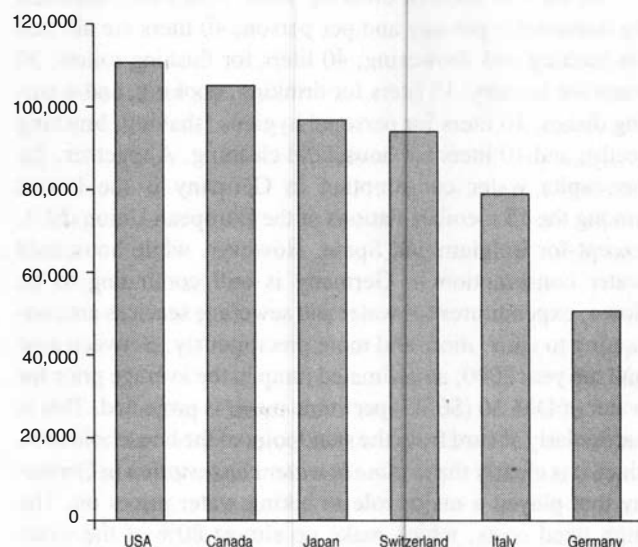
(liters per capita and per day)



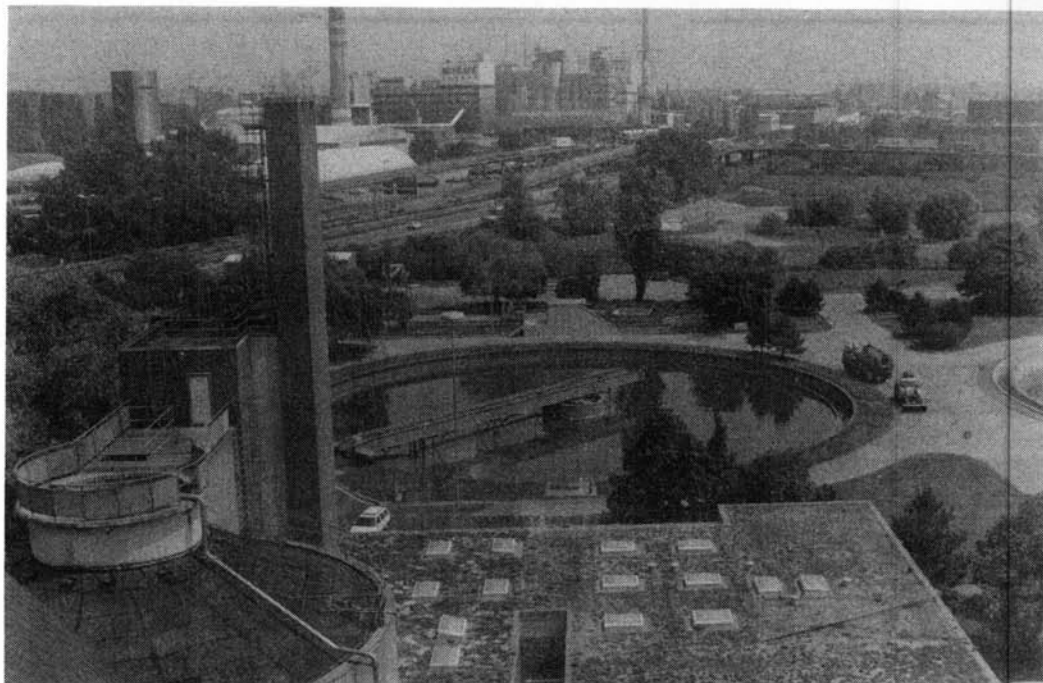
Source: United Federal Gas and Water Utilities of Germany (BGW), *EIR*.

FIGURE 3
Household drinking-water consumption

(liters per capita and per year)



Source: World Resources Institute, OECD, BGW, *EIR*.



A waste water filtration plant for the city of Mainz. The treatment is all mechanical, and the water returns to the Rhine. Investments of some \$200 billion are needed, primarily for such plants, over the next 15 years.

cess has considerably accelerated. In 1993, industrial water consumption fell about 11%, and, even in the newer federal states (those formerly East Germany), it dropped by about 19%. Compared with the level in 1990, water output of the public waterworks in the newer federal states has been nearly halved, above all, due to plant shutdowns and the curtailing of production in the industrial sector. In western Germany, industry today draws only half the amount of water from the public water mains as it did 25 years ago. Simultaneously, West German industry's own water production shrank around 20% from 1979 to 1981.

Of the 150 liters of drinking water which are consumed by households per day and per person, 40 liters are allotted for bathing and showering; 40 liters for flushing toilets; 30 liters for laundry; 15 liters for drinking, cooking, and washing dishes; 10 liters for personal hygiene (shaving, brushing teeth); and 10 liters for household cleaning. Altogether, the per-capita water consumption in Germany is the lowest among the 15 member-nations of the European Union (EU), except for Belgium and Spain. However, while household water consumption in Germany is still continuing to go down, expenditures for water and sewerage services are continuing to climb more and more precipitously. Between now and the year 2000, an estimated jump in the average price for water of DM 10 (\$6.25) per cubic meter is projected. This is particularly absurd from the standpoint of the household unit, since it is clearly the *decline in water consumption* in Germany that played a major role in hiking water prices up: The high fixed costs, which make up almost 80% of the water price, must now be apportioned out among a smaller amount of water.

Huge investments required

In 1991, the length of the sewer-drainage system for wastewater removal in the western federal states was 319,134 kilometers, and in the newer, eastern federal states, 37,960 km. For maintenance and improvement of the plant and equipment of the public water supplies, around DM 3 billion per year will be invested. Of that, the preponderant part, about 60%, goes into the sewer-drainage network. The costs incurred for extraction of water supplies scarcely comes to 10%, and water treatment just about reaches 9% on the book costs. Although in 1970 the public water utilities still reinvested 51% of their net proceeds, this proportion fell by 1985 to 32%, and has since then remained somewhat constant. During this time period, there accumulated in the older federal states an enormous catch-up requirement for investment in the sewer-drainage system and other plant and equipment of the water supply system. On top of this, is added the desolate condition of the water networks in the new federal states.

According to the estimates of the United Federal Gas and Water Utilities (BGW), there exists an investment requirement in Germany for filtration plants, sewer system construction, and rainwater drainage control over the next 15 years of up to DM 300 billion. Half of this is required in western Germany, primarily for sewer systems and filtration plants, and half in the east, primarily for complete wastewater treatment and drainage systems. (See **Table 2** for spending levels of West German states in 1990.) In these areas, therefore, DM 20 billion per year needs to be spent for water system infrastructure. The conversion and upgrading of the sewage systems within the older federal states to EU-regulated standards will by itself require DM 130 billion in investments.

TABLE 2

Construction costs for water-system and waterway improvement

(West German states in 1990, million DM)

Dams, floodwater containment basins	157
River regulation and control	262
Drinking-water supply	911
Sewer conduit systems	3,113
Filtration plants	2,444
Coastal protection	214
Inland waters flood protection	363
Other	382
Total	7,847

Source: Federal Statistical Bureau, Wiesbaden

Instead, however, in the first three quarters of 1994, the construction outlays for sewage systems were drastically cut, by 17.9% in western Germany and 20.5% in the eastern states. Considering the financial distress faced by the municipalities, which are suffering under the collapse of corporate and business tax revenue receipts and a ballooning of worsening environmental regulations, this should come as no surprise.

Through the expenditure of billions of deutschemarks by German industry for environmental protection measures, the water quality of the German rivers has been significantly improved over the past 20 years. According to a report published in *Wirtschaftswoche* (issue 25/1995), for example, the oxygen content of Rhine River water has increased from 1974 to 1994 by 50 to 96.2%, and the number of fish species in the same time increased from 23 to 55 (see **Table 3**).

However, even more quickly than the quality of the Rhine waters was improved, were the environmental protection injunctions made more stringent for the drinking-water supply. According to the opinion of many experts in Europe outside of Germany, at the same time, the German regulations had already exceeded the bounds of every reasonable criterion a long time ago. In any case, there are attempts currently ongoing within the EU to somewhat relax the drinking- and mineral-water standards, since most of the member-states do not generally see themselves as being in a position to carry out the high level of investments mandated for this otherwise. Even after such a change, the water qualities still ought to be more than adequate, insofar as there is no question about any risk to health here. In contrast, the Germans are naively running into the face of the storm presently, because, in contrast to their EC neighbors, the Germans have already invested DM 35 billion into conversion in order to meet the EU standards and the even more stringent German drinking-water regulations.

How will these necessary investments be made, given that the public debt is climbing toward the DM 2 trillion ceiling? (Under the "Maastricht criterion," the EU member-

TABLE 3

Rhine River water quality

(micrograms per liter, inland survey station)

	1974	1994
Zinc	240	23.33
Mercury	0.55	less than 0.05
Cadmium	2.4	0.08
Chromium	73	2.58
Lead	59	under 2
Copper	37	6.86
Phosphorus	800	12

nations agreed to strict ceilings limiting permissible national indebtedness.) These austerity dictates are being leveled against public infrastructure investment and within a financial situation of unprecedented desolation on the municipal level. How it is then possible that these investments can be accomplished within these circumstances, only the stars know.

Privatization: the example of England

But, of course, the Free Democratic Party (FDP) knows the way to go from here: the privatization of the German water-supply industry. Presently, it is said that the municipalities are not at all in a position to know how to competently handle the billions of deutschemarks of investments that are at issue here. Once the waterworks were to first become privatized, it would be possible to "mobilize economizing measures" (i.e., free-marketeer Newspeak for radical cost-cutting) and thereby "save many billions."

In the summer of 1995, FDP environmental expert Birgit Homburger flew all over Germany for three days, visiting one filtration plant after the other. Her message: "Far too few municipalities are making use of the opportunity to lower construction and operating costs through either privatization, or organizational forms set up along private-enterprise standards." Further, in the newer federal states, private sewage disposal systems would be a fine thing, especially now, since the municipalities won't have any money for the necessary investments anyhow. A widespread underground sewer-conduit network would be superfluous in thinly populated areas. Small, decentralized filtration pits would do the trick.

Isn't it high time for us Germans to declare "anchors aweigh" and get on with the majestic and exalted private duty of elimination of waste, by enacting a new law governing household water usage.

Those who constantly preach privatization here in Germany, ought first of all to take a look at the scrapheaps that Thatcherism has left in its wake on the other side of the Channel. According to the July 16 London *Observer*, a menacing plague of rats was then raging throughout the water

network, following wide-ranging privatization of Great Britain's water systems. This has as its main cause the cutbacks in maintenance of the water networks. The annual expenditures for pest control in Wessex have been reduced by 40% compared to the level before privatization. Indeed, if preventive measures in the sewerage system were being carried out as regularly as they still are in the health establishments, then the private water suppliers would certainly have to decide to increase the extent and frequency of such preventive maintenance activities.

An official in the health bureau of Yorkshire made the following point: Based on the continuing cutbacks in expenditures for the maintenance of the sewerage system, the private waterworks of Yorkshire were in a position to pay higher dividends to their shareholders. However, the number of rat-infested dwellings, and the number of illnesses spread by rats, are horrendously and alarmingly climbing. In the city of Leeds, rats have currently permanently established themselves in 10,000 homes. Now, for the first time, things have gotten so far out of hand that countermeasures have proven completely useless, or too expensive.

And in Germany?

In Rostock, in April 1993, the private firm Berliner Eurawasser GmbH, a daughter company of the French Lyonnaise des Eaux and Thyssen Handelsunion, contracted to run the water supply for 25 years, and since then has invested about DM 25 million. In total, close to DM 1 billion in investments in filtration and sewerage networks need to be made. It is the largest private model of water supply and wastewater disposal in Germany.

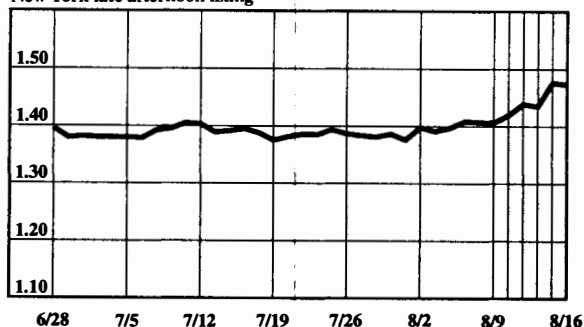
Now, the collapse of industry and the withering of purchasing-power of households is throwing all of the calculations of such enterprises out the window. In 1989, the water consumption in this area amounted to 38 million cubic meters. The calculations for the privatization of the public water supply had, as an underlying assumption, the estimate that water consumption would ultimately stabilize itself at 22 million cubic meters per year. In the meantime, however, it has already fallen to 17 million cubic meters per year, and is expected to continue to fall further. The result: The price increases are heftier than they otherwise would have been.

In some states in eastern Germany, there has even been a wave of refusals to connect to the public water networks. According to a report in the July 14 *Frankfurter Allgemeine Zeitung*, drinking water in this region is increasingly being drawn out of old wells, while fecal matter is being disposed of on dwellers' own property, for cost reasons. In the rural district of Dahme Spree, for example, in general, only 8% of drinking water supplies are connected up to water mains, and nobody is connected to the sewerage system at all. The evil mixture of eco-fundamentalism, deindustrialization, and privatization stinks to high heaven. Kharkov is not as far away from Germany as many may think.

Currency Rates

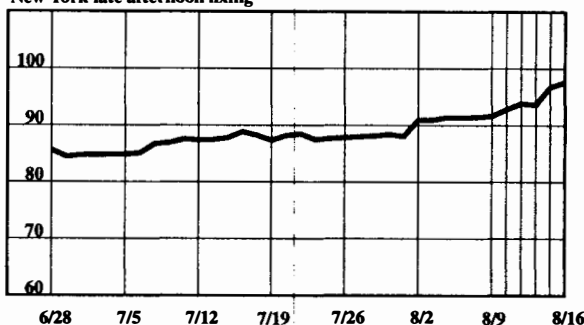
The dollar in deutschemarks

New York late afternoon fixing



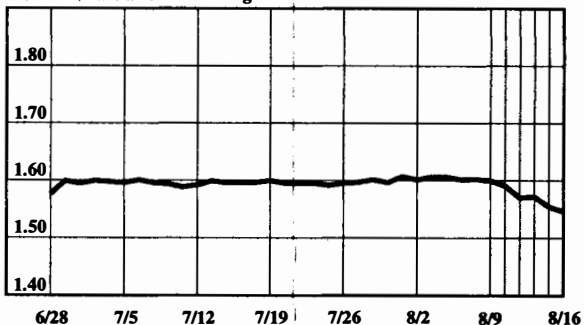
The dollar in yen

New York late afternoon fixing



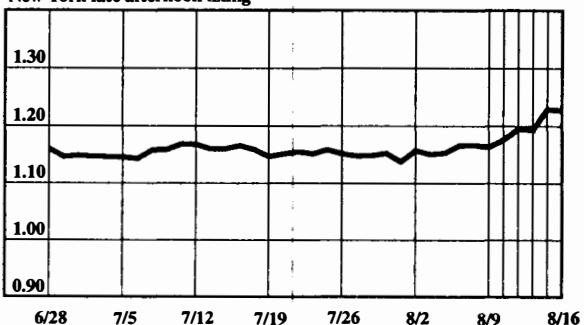
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



Deconstruction of construction sector

More and more construction firms are going bankrupt, while German banks are not lending for production.

The construction sector has always been one of the German economy's prime engines. This was especially the case during the immediate postwar reconstruction, in the late 1940s and 1950s, but it was also true for the later periods when it employed well over 1 million workers. Any crisis that looked worse than the seasonal "trend," has always been interpreted as a sign of an economic recession.

The establishment in Bonn keeps saying that although there are some problems, the economy is "just fine." But the news from the construction sector tells a different story.

For example: the collapse of the Ritter Bau group in mid-June. Once one of the fastest-growing firms in eastern Germany after unification in October 1990, its bankruptcy triggered the collapse of Erste Baugesellschaft Leipzig (EBL), the biggest construction firm in Leipzig. Some 750 employees of EBL and another 1,500 in the supply sector will lose their jobs. Numerous small and medium-sized supply firms will close, because many of these firms emerged in a "market" that was exclusively created, out of nowhere, by EBL. There is no other big contractor in the region, and no other big contracts on the horizon, at present, because of a municipal budget crisis in Leipzig.

The one factor that pushed EBL over the brink, however, was the decision of Deutsche Bank and other big banks not to grant a small bridge loan of DM 40 million (roughly \$25 million) to the ailing firm. This says something about the situation in the banking sector. It is not true that the banks don't have the money. They simply don't

want to loan it: Deutsche Bank and others have decided to walk out of production and into speculation.

Deutsche Bank has decided to transform itself into a "global player." The bank's chairman, Hilmar Kopper, recently boasted that "half of the bank is no longer German," that its branches abroad, such as the one in London, are rapidly growing, and the like.

Led by Deutsche Bank, banking elites have strongly resisted investing substantial sums in industrial entities in eastern Germany, and made investments only when, after a long debate, the banks finally were able to collect the so-called "bankers' billion" for such investments three years ago. The EBL was one of the firms which they reluctantly helped to create. To those obstructionists in the banks, the EBL collapse is a welcome pretext to launch renewed propaganda against "interference with the market forces." And the "market," they keep saying, simply does not exist in eastern Germany.

It has been the nasty practice of the banks in eastern Germany from 1990 on, to grant loans to small enterprises only on condition that they could name a big "name" in western Germany, or a subcontractor in the eastern states, as a guarantee for the banks. The EBL was such a guarantee, and now it is gone.

Already, Hallesche Mitteldeutsche Bau AG, another case of the same dimensions as EBL, is close to collapse and will fire 700 of its workers by the end of the year.

Bruno Köbele, chairman of the German construction workers union, warned on Aug. 8 that an estimated

1,500 firms in eastern Germany's construction sector may have to file bankruptcy before the end of this year. Indeed, 380 firms have already gone bankrupt, 71 in the Leipzig region alone, with a concomitant loss of 1,750 jobs. The construction sector in the east will lose 30,000 jobs, Köbele said.

A more explosive situation exists in Berlin, and the neighboring Brandenburg region. The post-unification speculative boom in real estate there has led to excessive construction of office buildings—of which Berlin already has 4 million square meters that simply cannot be rented. Projects for the completion of yet another 4 million square meters are still under construction, or are in preparation. Recently, the Interhotel group, with a debt burden of DM 5.2 billion, collapsed, of which only a minor portion can be compensated through emergency sales. Plans for new projects have been slowed down visibly in recent weeks.

Rolf Sterzel, head of the regional Berlin-Brandenburg construction association, said on Aug. 7 that contracts for the firms in his branch dropped by one-third in April compared to April 1994, and contracts for commercial and industrial construction by 45%.

Many smaller firms are faced with bankruptcy. Fewer contracts have been signed in recent weeks, because of their high indebtedness, and because many "developers" in Berlin's over-specified real estate sector have not paid the firms for work that has already been done. About 10% of the 2,000 construction firms in Berlin will be wiped out by the end of 1995, Sterzel predicted, "an alarming situation," because the jobless rate among construction workers, which is now at 17.7% (10,400 out of work), will double.

Business Briefs

Trade

China sets deals with Botswana

The visit of Chinese Vice Prime Minister Zhu Rongji to Botswana in southern Africa in July, resulted in several economic deals, according to Botswana radio reports on July 31.

The two governments signed a preferential credit agreement for approximately \$25 million, to be used mainly for the rehabilitation of the Serule to Mahalapye railway line. Zhu Rongji said that the credit will be used for the procurement of technical assistance, materials, spare parts, and machinery and equipment. Several sections of the line have already been rehabilitated with Chinese support.

China will also lend Botswana \$20 million to aid in the development of manufacturing industries. Few details were released, but Zhu Rongji noted that "China is skilled in the textile industry and other light industries, particularly in the manufacture of electrical goods. . . . One possible venture would be to undertake the intensive processing of the by-products from Botswana's beef export animals and establish a leather industry." There are also plans to develop agriculture to make Botswana less dependent on imported fresh produce; it now imports 80% of all fresh produce from South Africa.

Banking

Taiwan official sees 'opportunity' in crisis

Taiwan Central Bank of China chief Sheu Yuan-dong said on Aug. 8 that the recent spate of bank runs and market slides could be turned "into an opportunity" to improve the banking system, the Aug. 10 *International Herald Tribune* reported. Unfortunately, his proposals are far short of the bankruptcy reorganization of the international financial system that is required.

In recent weeks, the Central Bank injected almost \$3 billion into the banking system, the largest amount in five years. "We can recheck,

we can review, we can improve our system before this market becomes more internationalized and more liberalized," Sheu said. Since less than half of Taiwan's savings institutions even have deposit insurance, "I would like to force them all to join," he said. "I keep asking those government-owned banks also to join the insurance scheme even though they are government-owned and there is no problem. As a social responsibility I urge them to join. If we can revise the law, we can force them."

Sheu also advocated hiring more bank examiners and holding an extensive review of existing financial regulations. Sheu, who has been calling for the institution of general deposit insurance for some time, said: "I have been serving in banking and financial institutions for more than 40 years. I have more experience than anyone in the Ministry of Finance or SEC [Securities and Exchange Commission]. Now they can see that I was right."

He even claimed that the banking sector is sound. "There was some overbuilding, and some property and construction companies are having difficulties, [but] most companies are sound," he said. However, yet another credit union, the Fengyuan Credit Union, is now in trouble.

Germany

Invest in infrastructure to create jobs, says pol

Uwe Jens, the economic policy spokesman of the German Social Democratic Party, called for investments in European Union (EU) infrastructure projects in order to fight unemployment, in a press conference in Bonn, according to Aug. 11 press reports. Jens warned that after the termination of the "shortest recovery in German economic history," even radical interest rate cuts by the Bundesbank would not be enough to stop unemployment from rising. Look at Japan, he added, in this respect. If the government doesn't act, unemployment could soon "reach dimensions which threaten the national consensus on social questions, and could lead to a financial crisis of the state, in combination with a deflationary downward spiral."

Jens's proposed job package includes the establishment of a new EU fund for financing trans-European infrastructure nets, which would support these projects with low-interest credits.

Meanwhile, the Association of the German Construction Industry has sent a memorandum to Chancellor Helmut Kohl, warning that Finance Minister Theodore Waigel's budget cuts in road and railway projects are threatening 50,000 jobs in the construction sector. In eastern Germany alone, another 20,000 workers will lose their jobs this year.

Russia

Witte's economics lectures publicized

Writing in the July-August issue of *Profsoyuz i Ekonomika*, Prof. Taras Muranivsky credits Lyndon LaRouche with prompting the availability to Russian readers of a new edition of Sergei Witte's *Outline of Lectures on National and State Economy*. Copies of the original edition are so rare in Russia, that the version now circulating had to be prepared from a copy held in the U.S. Library of Congress.

Muranivsky's notice about the Witte work is entitled, "If Only Our Politicians Had Read Him!" The *Lectures* were originally given by Witte to the brother and heir of Czar Nicholas, the Grand Duke Mikhail Aleksandrovich, in 1902-03. They contain some of Witte's most blistering polemics against the British "free trade" system, and elaboration of the concepts of national economic development, which Witte shared with Germany's Friedrich List and the other economists of the American System of Political Economy. Muranivsky calls the *Lectures* "a real textbook of political economy and the national economy of Russia, which remains of scientific and practical value for our time."

Highlighting some of Witte's themes, Muranivsky writes about "the significance for the state, of railroads." Witte proved "that private companies pursue their own ideas and interests, not those of the state." Witte's protective tariff, developed together with the scientist Dmitri Mendeleev, is also reviewed.

Muranivsky summarizes Witte's criticisms of Karl Marx, as well as Marx's predecessors: "Witte considers the views of the physiocrats and Adam Smith to be one-sided in their exaggeration of the role of the economic freedom of individuals and belittling of the role of the state in the national economy. In S. Yu. Witte's opinion, Adam Smith's theory took state leaders down the path of free trade, which, for countries with an underdeveloped national economy, meant a consolidation of the dependence of those countries on England." As against Smith, Muranivsky quotes Witte: "The wealth of a country lies not so much in the totality of valuables, as in the work and variety of productive forces, which create those goods, which is why it is necessary to strive comprehensively to develop those productive forces."

Profsoyuz i Ekonomika, published by the largest Russian trade union federation, comes out in 40,000 copies.

Environmentalism

CFCs shortage threatens chiller-based buildings

Building owners are facing a major crisis because of a shortfall of chlorofluorocarbons (CFCs) stocks as a result of the ban on the production of CFCs, imposed because of ungrounded fears of an ozone hole. About half of all chiller-based commercial buildings have spent millions to tens of millions of dollars each to change over to chillers using "ozone-friendly" replacements. However, the remainder, about 63,000 buildings, are still using the CFC-based equipment. Because maximum production capacity for "ozone-friendly" chillers is 7,000 units per year, and with standard leak rates of 10-20% per year, many of these buildings may be forced to close.

The July 31 issue of *Air Conditioning, Heating and Refrigeration News* reported that "with only five months left for production of CFC-11 and -12, it is certain that tens of thousands of chillers will be 'orphaned' for [lack of] refrigerants to service them by the end of the year."

Worse, buildings that have switched to the

"ozone-friendly" refrigerants may not be better off. The main replacements are HFC-134a and HCFC-123. The first rapidly breaks down the chiller systems, while the second turns into poison gas when exposed to an open flame. In addition, there are 4.8 million non-residential buildings that must change over to equipment using "ozone-friendly" refrigerants.

Corporate

Chrysler downgrades model of U.S. economy

In July, Chrysler Corp. adjusted its model of the U.S. economy, revising downward its assumption of how many vehicles will be sold in a "normal" year, the Aug. 7 *Wall Street Journal* reported. Ford Motor Co. is reportedly considering a similar revision to its model of the U.S. economy. General Motors spokesmen refused comment.

Automakers "are concluding that this year's auto-sales decline is no fluke but rather a sign that the number of new cars and light trucks that the U.S. economy can absorb is on a permanent downward path," the paper said. Chrysler's model now assumes that 14.6 million vehicles will be sold each year, 500,000 cars less than previously assumed. The reduction is "equivalent to slightly more than the annual output of two car factories." Chrysler's model now assumes that new vehicle sales will increase only 0.5% a year, half the 1% assumed previously.

Paul Bellow, chief economist of J.D. Power and Co., and former senior economist of the Detroit branch of the Federal Reserve Bank of Chicago, said the revision "raises questions about how important the auto industry is to the economy."

George Maglono, director of automotive research at WEFA Group, said that the rate at which used vehicles are scrapped has declined from around 10% of all vehicles on the road in the 1960s, to 6% today. According to the Commerce Department, the average cost of a new car in June 1995 was \$19,852, compared to \$12,025 in 1985.

● **SOUTH AFRICA** will store 15 million barrels of oil for Iran for \$208 million, the Aug. 7 *New York Times* reported. In addition, South Africa could also get up to 50% of the proceeds from the oil's eventual sale, said Kobus Van Zyl, general manager of Central Energy Fund, the government's fuel holding company.

● **FRANCE** surpassed the United States in arms sales to the Third World. The Congressional Research Service reports that French sales reached \$11.4 billion in 1994, compared to \$3.8 billion in 1993, while U.S. sales dipped to \$6.1 billion, from \$15.4 billion in 1993. France rejects the U.S. classification of Gulf Arab states as Third World nations.

● **THE FIRST** Pan-Chinese Conference on Physics held in Shantou, China, called on authorities on both sides of the Taiwan Strait for more funds for research and education, the Chinese daily *World Journal* reported, according to the Aug. 6 *China News Digest*.

● **CHINA** is sending a trade delegation to Russia, Ukraine, and Belarus, *China Daily* reported on Aug. 10. Cooperation will focus on "energy, motive power, science and technology, agriculture, construction, and machinery," said Vice Minister for Trade Sun Zhenyu.

● **SAUDI ARABIA'S** cut in subsidies for planting grain in the desert (from \$1.87 billion to \$850 million), will reduce this year's harvest to 1.3-1.4 million tons, down from 4 million tons in 1992, the German daily *Die Welt* reported on Aug. 9, barely meeting domestic needs.

● **THE FEDERAL** Deposit Insurance Corp. voted on Aug. 9 to drop the premiums which 92% of banks pay on domestic deposits to 4.4¢ per \$100, down from 23.2¢ per \$100 currently paid by all banks, saving them \$4.4 billion a year. The weakest-rated institutions would see their rate increased to 31¢ per \$100.

The new role for Russia in U.S. policy today

by Lyndon H. LaRouche, Jr.

In the pages following this introduction, **EIR** republishes, for a U.S. audience, an important 1995 report of Russia's Central Economic-Mathematical Institute: **Toward a Scientific Grounding for Economic Reforms in Russia**. The included purpose in publishing a report of that length here, is to remedy a pervasive, sometimes dangerously smug illiteracy, on the subject of Russia today, among most leading U.S.A. economists, think-tanks, and relevant other policy-influencing persons and institutions. The frank outline of Russia's recent and current economic situation, prepared under the Institute's Vice-Director, Academician Dmitri Semyonovich Lvov, should be most helpful to relevant public and private persons and agencies in the Americas and western Europe.

The institute's report does not pretend to answer all questions, but it provides most readers, including U.S. specialists on Russia, with a much-needed, fresh, and relatively comprehensive overview of the nature of the problems which must be addressed, if the U.S.A. or any other nation is to discover an appropriate policy toward the emerging, new Russia of today.

Since our implied topic here is a U.S.A. policy toward a Russia arising from the ashes of the Thatcher-Bush-dictated conditionalities, we introduce Academician Lvov's report, by situating the discussion in the context of U.S. strategic interest in finding a new quality of relations with both Russia and China. For an appropriate point of reference, return to April 12, 1945, the day of President Franklin Delano Roosevelt's most untimely death.

Elliott Roosevelt's account¹ of his father's anti-Churchill policy is corroborated by relevant sources. Throughout the war, it had been a leading concern of the President, that the new post-war world not be a repetition of that species of disaster which Britain, and its dupe Woodrow Wilson, had created at Versailles. On that

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



Lyndon LaRouche (at table, second from right) in a dialogue with Russian economists at the Economics Academy of the Russian Ministry of Economics, Moscow, April 25, 1994. Writes LaRouche, "Nations are saved solely because outstanding personalities act with pungency and force, to implement those desperately necessary measures which the mediocrity of prevailing opinion regards as unnecessarily radical, or even absurd."

account, the axes of Roosevelt's post-war perspective, were his constant search for agreements with a united China, and with Moscow, which might ensure that Prime Minister Winston Churchill's wicked designs for the post-war world would be prevented. The untimely death of the President, left the presidency in the hands of a poorly prepared successor, who proved himself the suggestible victim of such Churchillian "Svengalis" as Secretary of War Henry Stimson, Secretary of State Jimmy Byrnes, and Stimson's young protégé, and later Kissinger patron, McGeorge Bundy. So, the post-war world, to date, became a strategic disaster for all concerned, including her Majesty's common British and Commonwealth subjects.

The post-war world, which Churchill and Truman launched, has ended. The Soviet system crashed during 1989-91. In Russia today, the Thatcher-Bush-IMF "shock therapy" is virtually a corpse, which, lacking the price of a Moscow taxi, must stagger from house to house, begging the services of a funeral director. Meanwhile, the entirety of the IMF-pivoted, global monetary and financial system, is in a systemic crisis of collapse, even threatened disintegration. The ruling collection of establishment families, of Britain, North America, and much of Western Europe, is, like the British monarchy—old *anglichanka nagadila*² herself—desperately decadent, clinging fatally to a doomed tradition: like

2. Popular old Russian folk-saying, an uncomplimentary reference to the British monarchy.

Shakespeare's swashbuckler, Hamlet, in flight forward to the past, from a future it could not control.

Summarily: Since the late Nineteenth Century, Russia and China are the keys to the future, the keys to all Eurasia, and, thus, to the world as a whole. So, today's world has been turned back, with a vengeance, to the primary reality of April 12, 1945: The success or failure of U.S. attempts at cooperative relations with a united China and Moscow, will determine the success or failure of U.S. global policy, deep into the coming century.

Economics and strategy

The United States could not achieve any durable agreements with China or Moscow, if those agreements were not consistent with the physical survival, and social and political stability of those states. In Russia, like some other nations today, the economic crisis is immediately, systemically existential. In China, the crisis is not yet so immediately apparent, but the issues of economic policy for the future are not much less pressing. Unless and until the United States, and some other nations, come to their senses on current economic realities, no durable policy of relations with those two states (in particular) is possible. The most immediate issue, of course, is the precarious internal economic situation: short-term for Russia, medium-term for China.

The principal intellectual difficulty which impedes Washington's efforts to arrive at a competent understanding of the situation *inside* Russia and China, is that, to date,

most among the influential U.S. institutions, are hysterically unwilling to face the reality of the economic situation *outside* the former Soviet Union and China: both in the world at large, and, especially, inside the United States itself.

The crucial strategic fact which most in official Washington have so far refused to face, is the certainty that the existing world monetary and financial system—the IMF system, the U.S. Federal Reserve System included—is doomed, not eventually, but within the immediate future. A systemic collapse of those institutions is already fully in progress. Already, any among an array of probable early incidents could set off an immediate chain-reaction form of financial collapse throughout the planet. Such a crisis threatens to erupt as early as during the next dozen weeks, almost certainly before 1997.

Nothing could be done to stop that collapse, excepting a momentarily unlikely action by the United States government, to put the existing monetary system into government-controlled financial-bankruptcy reorganization. The leading circles of the world financier oligarchy manifestly agree with this estimate: Witness the ongoing stampede of insider investments, out of financial markets, into hoarding of gold coins and bullion, petroleum reserves, valuable metals, and food commodities. The well-informed rich are rushing to get out of the way of the oncoming financial hurricane, into the storm-cellars of hoarded gold bullion, raw materials, and increasingly scarce food-supplies.

Forceful initiatives for government-controlled reorganization of the world's already bankrupt financial systems, will probably occur eventually, probably some time during the coming eighteen months. Unfortunately, that action will probably wait until the publicly-perceived situation is one of such immediate desperation, that governments, then, believe they have the political support wanted to take such dramatic actions. What is certain, is that, come what may, the present international monetary and financial system is doomed to extinction during the short term.

We should not forget, that it is the nature of all leadership worthy of the name, that nations are saved solely because outstanding personalities act with pungency and force, to implement those desperately necessary measures which the mediocrity of prevailing opinion regards as unnecessarily radical, or even absurd. In the age in which not only mediocrity, but even "political correctness" prevails in virtually all influential circles, last-minute, hazardously imperfect action, is the best we might expect. Very many have already suffered and died recently, in Africa, in the Balkans, inside the United States, and elsewhere, all unnecessarily, because of the murderous combination of the pragmatic mediocrity and "political correctness" of both official Washington, D.C., and prevailing popular opinion among U.S. television's devotees.

To improve the old folk-saying, *It is an ill wind which does not blow some good*: Today's Russian scientific thinker

has the specific, if perverse advantage of an extremely rude and cruel experience: living through, in rapid succession, both the collapse of the Bolshevik system, and, after that, the more disastrous and rapid collapse of the, hastily imported, "free trade model" of Professor Milton Friedman, Prime Minister Margaret Thatcher, Ambassador Robert Strauss, Newt Gingrich, and George Soros. As reflected in Academician Lvov's report, among Russians, this double experience has fostered hostile suspicion toward those economic superstitions which are hysterically defended, until now, by the quackademics and most among the governments, of western Europe and the Americas.

Thus, one of the compelling features of Academician Lvov's report, is the freshness with which it applies its special, insider's qualifications, to reexamining critically its experience with many of the once-popular, underlying assumptions of both the Soviet and Adam Smith dogmas. On that account, a dialogue with the relevant scientists of Russia is not only indispensable for shaping an effective new U.S. policy toward Moscow; it is also a way of stimulating needed, new conceptions of global economic policy, which have urgent application in the world generally, the U.S.A. not excepted. It is in that spirit, and to that purpose, that we present the report of the Central Economic-Mathematical Institute.

Twice, during this century, most of the U.S. population was seduced into a Hollywood-style, fairy-tale delusion concerning America's relations with "our closest, British ally." This delusion became widespread during the terms of the two overt Confederacy-buffs among Twentieth-Century U.S. Presidents: Theodore Roosevelt and Ku Klux Klan-booster Woodrow Wilson. The cult of Anglophilia was also predominant under Presidents Truman, Henry Kissinger's President Nixon, the Trilateral Commission's Carter, and Mrs. Thatcher's Bush. It was, admittedly, a prevailing sentimental trend under the Eisenhower and Reagan administrations.

Contrary to Hollywood Anglophilia, the true character of relations between the United States and Britain, is clearly demonstrated in the anti-monarchy policies of George Washington, James Monroe, John Quincy Adams, Abraham Lincoln, William McKinley, and Franklin Roosevelt. The same truth is highly visible today, as London's remembered hatred of Franklin Roosevelt is reflected in brutish attacks upon President Clinton by Conrad Black's, Dwayne Andreas's, and former Ambassador Robert Strauss's Hollinger Corporation. Essentially, claims for an alleged community of principled interest between the United States and the British monarchy were always hoaxes; that point was emphasized most clearly by then-U.S. Secretary of State John Quincy Adams, in putting forward the draft of the anti-British Monroe Doctrine. The content of Adams's message on that subject, applies today.

From its beginnings, the vital interests of the United States of America have always been at irreconcilable odds with the British monarchy, from King George III, through

Prime Minister Winston Churchill's day, and under Queen Elizabeth II today. There can be no competent U. S. strategic doctrine or foreign policy, which does not proceed from understanding of the nature of, and reasons for the irreconcilable, principled difference in moral character between the British monarchy and the constitutional Federal republic of the United States.

It is a corollary of that same point, that there can be no competent understanding of the United States by any nation, unless that nation recognizes that the very national identity of the United States, and its most vital interests, are rooted, since no later than Royal Governor Andros's pranks of 1688-89, in a fundamental conflict of interest between the British monarchy and the continued existence of the United States. At issue is nothing less fundamental, than *two, mutually exclusive conceptions of man and nature*. The self-proclaimed British foreign-service agent of influence, Sir Henry Kissinger, has acknowledged that continuing conflict, albeit in his own, disgusting terms of reference.³ Kissinger has acted accordingly, as a British agent, during his 1969-77 "White House incarnation," and to the present day. Other nations, such as China and Russia, must also understand that; they would misjudge us foolishly, if they saw the United States, or Kissinger in different terms than have been set forth here.

The nations of the world should be forewarned. Conceded, that, from time to time, the people and government of the United States, appear to have forgotten that conflict with our traditional enemy, Britain's monarchy, upon which the continued existence of this Federal constitutional republic depends. That historic conflict will persist for as long as that monarchy continues, as it does still today, in the parasitical, oligarchical tradition of Venice, William of Orange, George III, Lord Palmerston, Edward VII, Winston Churchill, Bertrand Russell, and Margaret Thatcher. Nonetheless, whether, at any time, that conflict appears to be acknowledged or not, it will assert itself repeatedly, sometimes very violently, when it has been too long neglected. Never forget, as many veterans of World War II may recall discovering this historic fact within themselves: that historic conflict with *perfidious Albion* is always present, thus, beneath the surface of transient moods in our national public opinion; it is there, that

3. See Henry A. Kissinger, "Reflections on a Partnership: British and American Attitudes to Postwar Foreign Policy," keynote address of May 10, 1982, commemorating the 200th anniversary of the founding of the modern British foreign service by Jeremy Bentham: delivered at British foreign intelligence's Chatham House (Royal Institute for International Affairs). Official transcript supplied by Kissinger cronies at the Georgetown University-based Center for Strategic and International Studies. Kissinger entered the British foreign-intelligence service, under Professor William Yandell Elliott, in the Harvard University branch of Chatham House's Wilton Park arm, forty-five years ago. However, he first became a British asset within the U.S. intelligence service five years earlier, under General Julius Klein and Fritz Kraemer, in the Oberammergau unit of the U.S. occupation of Germany.

the true, historical character of our nation resides: that is the key to defining competently the strategic interest of these United States.

We of the United States, must once again adopt this conscious view of the British monarchy and our relations with it. Otherwise, we would be ruined by our own foreign policy, if nothing else. As, we, of the United States, must understand this crucial difference with the global, Anglo-Dutch financier oligarchy, so, the treaty partners of the United States must also face that reality, abandoning all popularized delusions to the contrary. This is the present global strategic reality, much more so now than at any time during the past seventy-odd years.

The Russia with whose heritage we must deal, is the Russia of Catherine II, which saved the imperilled United States: by leading in the crucial defeat of our British enemy by the 1780-83 League of Armed Neutrality. It was the Russia assisted by the U.S. naval commander John Paul Jones. It was the Russia of Alexander II which saved the United States: by threatening war against England and England's puppet, France, should Lords Russell and Palmerston, and Napoleon III, proceed with their intent to deploy naval forces against the United States, on behalf of the London-sponsored, Confederate slaveholders' rebellion. It is the Russia which British asset President Theodore Roosevelt betrayed to Edward VII's geopolitical game. Russia must emphasize that historic connection, as we must also understand the deep roots of the new Russia now struggling to express itself.

This point is key for understanding, more narrowly, the specifics of the present, global economic crisis, both as it is reflected inside Russia, and inside the United States.

Strategy and economics

As Academician Lvov emphasizes, one of the notable economic features of Russia, is that it possesses a high ratio of primary raw materials per capita. However, we are not Miniver Cheevys,⁴ not scornable, parasitical Physiocrats; to understand the hopeful future of Russia's economy, we must place emphasis, as Academician Lvov's report shows, upon the productive potential of its people. A comparison with Ukraine is instructive on this point.

Excepting its agricultural potential, its rivers, its coastline, the land-area of Ukraine has virtually no natural resources for industrial development, excepting the superior productive potential represented by its scientists and its educated population in general. Ukraine must subsist upon the margin of Value Added with which its competitive science and productivity of labor endow its products.

In the last analysis, that is also the key to the economic recovery of the new Russia. This is the economic potential,

4. "Miniver Cheevy . . . child of scorn," is the most popular of the poems of the banal U.S. writer, Edward Arlington Robinson (1869-1935), who had the misfortune to be patronized by President Theodore Roosevelt.

of both Russia and Ukraine, which Prime Minister Margaret Thatcher and President George Bush aimed to destroy: as stipulated by a contemptible preachment known as “the Webster doctrine,” as applied to Russia (and, Ukraine) under the terms of the IMF and Bush’s Ambassador Robert Strauss. As in Ukraine, the economic potential carried over into post-Soviet Russia, is concentrated in both the scientific establishment and the relative superior productive technological quality of programs of universal education.⁵

To this proposition, the present writer, for his part, brings a competence which is both traditional and also includes relevant scientific achievements which are unique. The tradition is that of modern European civilization since the Fifteenth-Century establishment of the first modern nation-state, the Commonwealth of Louis XI’s France. It is also the scientific and economic tradition of France’s Jean-Baptiste Colbert and Europe’s Gottfried Leibniz, as expressed in U.S. Treasury Secretary Alexander Hamilton’s anti-Adam Smith “American System of political-economy” and the influence of Friedrich List; it is met in Russian history in the influence of Gottfried Leibniz’s design for Peter I, and in the direct and indirect influence of List upon the economic practice and policies of the chemist Dmitri Mendeleev and Count Sergei Witte. The unique, additional consideration, is the present writer’s discovery of a scientific principle of physical economy, a principle of crucial relevance for understanding the way in which Russia’s scientific and educational potential must be applied, to overcome the disaster threatening that economy today.

The present writer’s televised Berlin address of Oct. 12, 1988, signalled this proposed application to the new Russia

5. Judge William Webster: President Jimmy Carter appointed him head of the Federal Bureau of Investigation; was CIA head for a time, under President George Bush. His name is attached to a doctrine which asserts, that, with the end of the “Cold War,” new strategic adversaries must be sought chiefly among those of our allies who might be construed a “competitive threat” to U.S. national economic security. This was complementary to the British Thatcher government’s launching, during October-November 1989, of the so-called “Fourth Reich” doctrine, under which the economies of former Comecon nations and Germany have been wrecked, for reason of London’s “geopolitical” fears of the economic potential of Germany-Russia economic cooperation in the post-Soviet era. The literary pretext for the application of the “Webster doctrine” to Russia (and, Ukraine) was premised upon the perception that the superiority of Russia’s scientists and superior education of the labor-force would permit post-Communist Russia to out-class the “post-industrialized” U.S.A. It is of implicit relevance to the publication of this report, that Webster, as head of the FBI, collaborated closely, beginning Summer 1982, with former U.S. Secretary of State Henry A. Kissinger and the London-directed Angleton-Lovestone-Cherne CIA network, in setting up a covert intelligence operation against Kissinger’s designated target, Lyndon H. LaRouche, Jr. Notably, during 1983-87, that U.S. covert operation reached out to involve the Soviet government at the highest level, first under General Secretary Andropov, and later under Gorbachov. Six years later, that operation, probably the most extensive ever run against any political target of covert operations in the U.S.A., resulted in a fraudulently secured indictment and conviction of LaRouche.

of the tradition of American System political-economy. In that address, which was broadcast to a national U.S. television audience that same month, the imminent collapse of the Soviet system and reunification of Germany was announced, and a policy of reconstructive cooperation toward eastern Europe was identified.⁶ That policy of reconstruction was later elaborated in significant detail, beginning November-December 1989, in policy statements and prospectuses issued under the rubric of “the European Productive Triangle.”⁷

This Productive-Triangle policy anticipated all the principal features, and more, of the later “Delors Plan” (see **Figure 1**). It proposed that the emergent world-center of economic progress, since Charlemagne, the approximate spherical triangle whose apices are Paris, Vienna, and Berlin, be mobilized as the pivotal technology-driver for all Eurasia, and that this triangle be the hub of a network of railway-spined developmental corridors, extending eastward and southward, across Eurasia, through such routes as Berlin-Warsaw-Moscow, Kiev, and so on, to the Pacific and to the Indian Ocean. Although the principles embodied in the Productive-Triangle proposal are either unknown or unfashionable in the classrooms and professional journals of the past quarter-century’s west European and North American academia, there is nothing in that proposal which is not implicit in established American System traditional doctrine and practice.⁸ This is readily within the established competence of Russia’s Central Economic-Mathematical Institute. The relevance of this for the present economic situation of Russia, is typified by the present writer’s special report of Feb. 20, 1995, to a committee of Russia’s State Duma.⁹

What is relatively new to Russia’s scientists, but indispensable nonetheless, is the author’s original discovery respecting the nature, and the problems of mathematical representation of, the causal relationship between a science-driver orientation in education and investment, on the one side, and consequent increases in the “macro-economic,” physical

6. “LaRouche Offers New Policy for Reunification in Berlin,” **EIR**, Oct. 21, 1988, pp. 40-42.

7. “Paris-Berlin-Vienna Triangle: Locomotive of the World Economy,” **EIR**, Feb. 2, 1990, pp. 26-35.

8. See Lyndon H. LaRouche, Jr., **So, You Wish to Learn All About Economics?: A Text on Elementary Mathematical Economics** (New York: New Benjamin Franklin House, 1984). This has been published in a number of languages, including a Russia edition: **Vy na samom delye khoteli by znat’ vsyo ob ekonomike?** (Moscow: Schiller Institute-Ukrainian University in Moscow, 1992). The nature of the sets of inequalities required to represent a modern physical economy is identified in this introductory text.

9. Lyndon H. LaRouche, Jr., “Prospects for Russian Economic Revival,” **EIR**, March 17, 1995. Also published in a Moscow pamphlet edition: **Memorandum: Perspektivy vozrozhdeniya narodnogo khozyaystva Rossii** (Moscow: 1995), Bulletin No. 5, Schiller Institute of Science and Culture.

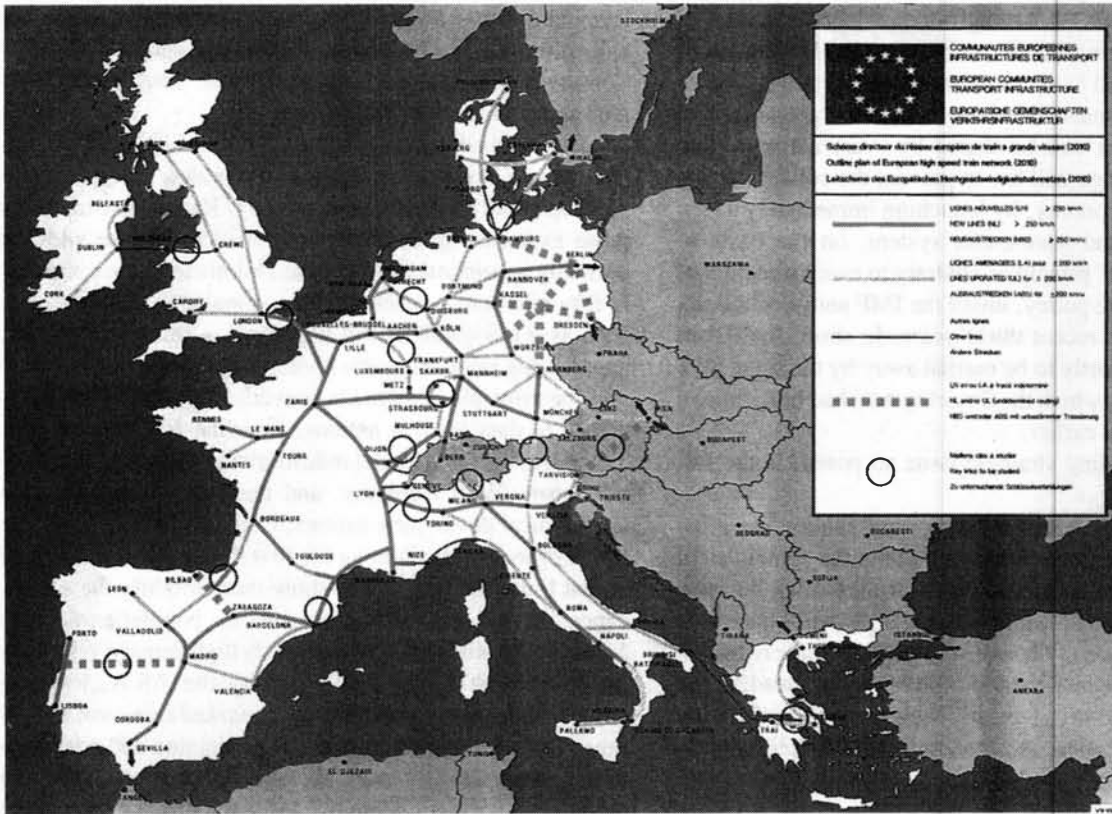
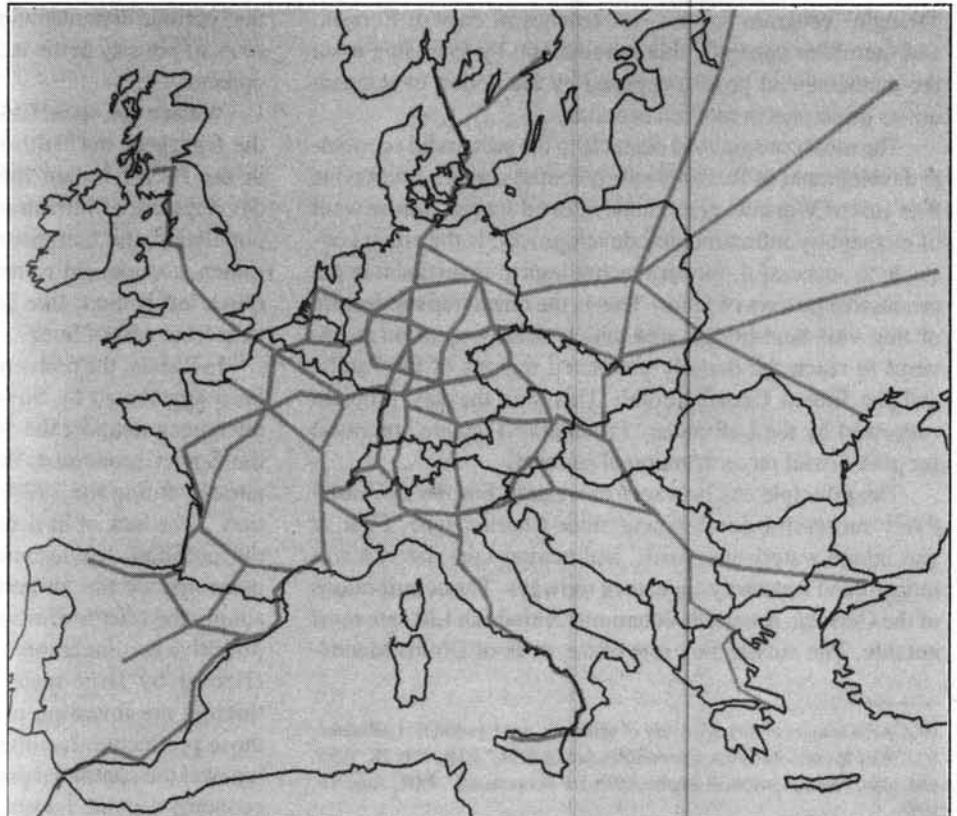


FIGURE 1
The Delors Plan and the
LaRouche 'Productive
Triangle'

The top map shows the 14 transport infrastructure projects that the European Union approved on Dec. 10, 1994. These were based on a White Paper that had been circulated by then-European Commission President Jacques Delors during the previous year. Construction is currently under way on several segments.

The rail networks of the Delors Plan bear a striking resemblance to those on the map below, the Paris-Berlin-Vienna "Productive Triangle" proposal of Lyndon LaRouche. The lower map was first circulated in August 1990—before Germany was reunified—in a German-language report published by EIR Nachrichtenagentur in Wiesbaden.



productive powers of labor of agro-industrial operatives.¹⁰

During the coming months, as the present, IMF-centered, global monetary and financial system disintegrates in a holocaust of reversed financial leverage, Russia's present, most crucial predicament will be shared by every nation of this planet. The challenge will be, to prevent the collapse of the Earth's physical economy, by launching immediately a new world monetary and state-credit system, on the basis of "American System" principles contrary to every direction of change in economic policy, under the IMF and World Bank system, during the recent thirty years. In short, the Adam Smith system is shortly to be carried away by the same Styx of dead history into which the Soviet system had been thrown an historical instant earlier.

The corresponding strategic issue so posed, is the following.

The discussion of Russia's economic reality and prospects, today, is the basis for laying down the principles of international cooperation among a strategically decisive combination of states, whose cooperation will shape that global reconstruction of the world's monetary and credit system, which must be launched as soon as weeks ahead, or not less that a year or so, at most. The future of civilization depends upon this; thus, are economics and strategy rightly conjoined.

Infrastructure policy

Let us summarize the implications of the "Productive Triangle" program for the vast reaches of eastern Eurasia, and thereafter conclude this introduction by focussing upon the mathematical problems posed by the notion of science-driver principles in modern economy.

The most conspicuous obstacle to the successful economic development of Russia's vast potentials, greets one as one flies east of Warsaw: great, undeveloped spaces, whose want of elementary infrastructural development, is the crucial obstacle to successful, modern technological investment in the productive powers of labor. This is the characteristic feature of that vast land-bridge area which development must traverse to reach the densely-populated regions of the Pacific and the Indian Ocean littoral. This was the key problem addressed by the LaRouche "Productive Triangle" proposal for post-Soviet reconstruction of Eurasia.

The principle can be traced in western Europe's cumulatively successful development since Charlemagne. First, it was inland waterways, roads, and market-fairs; later, it was more inland waterways, and then railways. The contributions of the German-American economist, Friedrich List, are most notable. The outstanding role of the work of Dmitri Mende-

leyev and Count Sergei Witte, in developing the industries and railways of late Nineteenth-Century and early Twentieth-Century Russia, prefigured the LaRouche "Productive Triangle" and later "Delors Plan" proposals.

The upshot of that successful economic history of western Europe and North America, is that one does not attempt to develop broad expanses economically. Rather, one traverses those expanses by development corridors, whose width is normally approximately a hundred kilometers, approximately fifty kilometers either side of a spinal artery of transport, such as a navigable inland waterway, a trunk railway, or, superseding rails, magnetic levitation transport.

The principle involved is conveniently illustrated by reference to data for five nations, from the 1967-70 interval. These are, the three model industrialized nations of that period: Japan, West Germany, and the U.S.A., and the two archetypal developing nations, China and India. Since the levels of technology among the first three, were comparable at that time, the similarities show more brightly the significance of the crucial differences in population-density: Japan's habitable territory: extremely high density, relatively speaking; West Germany: high density; the U.S.A.: low density. *High density of population is a marked economic advantage:* Transport between points of production and consumption, traverses shorter average distances, and the employment of basic economic infrastructure is greatly more efficient. In contrast, the lack of such infrastructural maintenance and development in high-density China and India of that period, demonstrates, with the force of a hammer, the roots of poverty in the lack of essential infrastructural development.

We see the same lesson, most cruelly demonstrated, in the legacy of the British and Dutch East India companies in the Pacific-Indian littoral. We see virtually no interior development of infrastructure, and, thus, a concentration of population and commerce in a relatively few, giant, slum-ridden, economically unmanageable, chiefly coastal metropolises left behind, like flotsam, by the colonial powers' retreat from east of Suez.

In Russia, the problem of late and under-development has been aggravated by Soviet economic history. The relevant phenomenon under the Soviet system, was a practice which the Soviet economist Yevgeny Preobrazhensky described, already during the 1920s, as "socialist primitive accumulation." The lack of in-depth infrastructural development, and the purblind "environmentalist" ideologues' knee-jerk lament against the alleged evils of "socialist industry," are simply the effects of what Preobrazhensky termed "socialist primitive accumulation": a one-time accumulation of capital, effected by large-scale "cost savings," savings obtained through not investing in repairing and developing much of those productive facilities and other resources upon whose renewal the continued productive and related functions of the economy depend. Looting tomorrow, to pay for today, would

10. On the subject of this discovery of principle, see Lyndon H. LaRouche, Jr., "Why Most Nobel Prize Economists Are Quacks," *EIR*, July 28, 1995, and, also, "Non-Newtonian Mathematics for Economists," *EIR*, Aug. 18, 1995.



This pipeline, built during the Soviet period, brings water from the Caspian Sea to a desalination facility in Shevchenko, Kazakhstan. A Eurasian development program must build infrastructure in the vast, undeveloped spaces east of Warsaw.

be another loose way of describing the problem.

In summary, the developmental strategy we have termed "the developmental corridor," is a way of creating the advantages of a relatively Japan-like density of population and productive activities, within a relatively small portion of a large territory. All other geographical considerations being equal, the development corridor would reach, as we have noted, typically, about fifty kilometers either side of a central transport-spine of waterways, rails, pipelines, and trunk power-lines. The development of the larger territory is accomplished somewhat as railway development opened up the western United States: by criss-crossing vast expanses with developmental corridors.

Without placing the emphasis upon infrastructural development so defined, a successful reconstruction of Russia would not be possible. Without the use of such modern forms of development corridors reaching from Berlin to the Pacific and the Indian Ocean, the required rate and degree of economic developed needed to satisfy the requirements of the populations of China and the Indian subcontinent would not be possible.

The vast absolute cost of the investment represented by such corridors' infrastructure, is no competent ground for objections. The percentile of the total labor-force of any modern nation, which ought to be employed in development and maintenance of basic economic infrastructure, is the largest component of a sane modern economy after manufacturing in general. Moreover, historically, as in principle, it is only through the mobilization of the resources of the state,

for creating credit, and supplying crucial portions of initial capital funding, that economic growth is stimulated. Since the state functions efficiently to this effect, only in its own sector of economy, basic economic infrastructure, it is large-scale infrastructure development, or related state projects, that stimulate high rates of physical growth in the private sector of the economy.

The only evolved form of successful economy, which succeeds in just that way, is what U.S. Treasury Secretary Alexander Hamilton was first to name "The American System of political-economy," the alternative to the Venice-modelled Anglo-Dutch financier oligarchy's so-called "Adam Smith" alternative, also alternative to the sundry feudal and feudalistic models of oligarchical society. The presently onrushing global monetary and financial collapse, is a catastrophe of that Anglo-Dutch financier-oligarchy system which has dominated most of this planet throughout the recent five decades, and all of it since the 1989-91 collapse of the Soviet system. This very fact clears the way for the urgent, and immediate restoration of the "American System" of national banking and state credit, as a total replacement for the collapsed international system.

Under those circumstances, one can no longer apply the presently habituated rules of thumb, employed to estimate economic success or failure of proposed economic undertakings. The characteristics of action within the world economy will have changed radically, from the rentier model of the Anglo-Dutch international financier-oligarchy, to new characteristics of action, typical of the American System.

LaRouche and Russia

On Feb. 20, 1995, representatives of Lyndon LaRouche and the Schiller Institute presented LaRouche's memorandum on "Prospects for Russian Economic Revival" to a hearing of the Committee on Economic Policy of the Russian State Duma, the lower house of Parliament (see *EIR*, March 17, 1995). "There exists no possible solution to this [economic] crisis, either for Russia or for the world," wrote LaRouche, "within the bounds of the previously accepted terms of dominant international economic and financial institutions."

A thorough treatment of the influence of LaRouche's European "Productive Triangle" proposal of 1989-90 appeared in *EIR*'s Nov. 4, 1994 issue, including a reprint of his Oct. 12, 1988 speech in Berlin, forecasting the reunification of Germany.

EIR's March 26, 1993 issue included LaRouche's report on the real history of the Strategic Defense Initiative, and his role as a back channel to the Soviets in exploring his proposal for what later became known as the SDI.

Thus, the proper choices for Russia, and the global opportunities for Russia to apply those choices successfully, converge in the upshot of the onrushing global collapse of the dying old, IMF-dominated system. Our concern should be, to build the needed monetary lifeboats as quickly as possible, to escape the doomed financial "Titanic," to reach the safe harbor of the new American System as soon as possible. We should not waste any of our precious, limited energies, and other resources, in service of any different purpose.

Creativity: the individual in history

To avoid a catastrophe within the world's present level of population, we must solve promptly the task of global economic reconstruction. The enormity of that task, imposes upon governments the prerequisite, that, within the assortments of previously taught economic doctrines, we must remedy not only clear errors, but also characteristic short-falls. We need not review such obvious academic refuse as apologies for primitive, barbaric, feudal, or Venice-style British culture. Among the economic doctrines of practice which reflect scientific qualities of thought, the most critical short-fall of virtually all of them, is the failure to address effectively the practical implications of the individual's hu-

man creativity in generating and sustaining technological and related progress. The general form of feasible solution to this specific challenge is, to date, the unique contribution of *the LaRouche-Riemann Method* in physical economy.¹¹

We now summarize the points which are crucial to the kind of international dialogue which we are supporting by publication of the report of Russia's Central Economic-Mathematical Institute.

Certain facts are promptly evident to any scientifically trained investigators who attempt to define a successful, sustainable model of economy in physical-economic, rather than monetary terms of reference. That leads directly to the notion of a pedagogical model expressed in terms of generally employed university-classroom thermodynamics; for this purpose, monetary values can not be used, since price has only a fictional value relative to any notion of economies as physical processes.

Although we have described this process of approximation in other locations, it must be summarized here.

In place of prices, one must employ the notion of physical-economic market-baskets of required levels of consumption. This must take into account consumption, per capita, per household, and per square-kilometer of relevant land-use, by households and by the process of physical production of the elements of which those market-baskets are composed. The latter includes basic economic infrastructure, agriculture and mining, manufacturing, and so on. We also include three categories of services: health-care, education, and science and technology as such, as physical components of the market-basket, since those three are crucial in defining the level of the productive potentials of the labor-force. We compare, then, the relationship between the per-capita and per-square-kilometer levels of output of these items, with those costs, measured as market-baskets of the same list of items, which society incurs in order to continue producing at that level of output.

This leads us, next, to an improved approximation: a valuation of consumption and production in terms of the rather obvious implicit functions. Think of whatever consumption is required to sustain a given level of per-capita, per-square-kilometer output—whatever that might prove to be—as analogous to "energy of the system." Thus, implicitly, any output in excess of the required energy of the system, may be regarded as analogous to "free energy." We have, thus, the general notion of a relevant ratio of "free energy" to "energy of the system," all expressed in terms of per-capita, per-household, and per-square-kilometer valuations. Think, next, of the observable effects of raising or lowering the level of the per-capita, etc., "energy of the system," upon the sustainable ratio of "free energy" to "energy of the

11. See "Non-Newtonian Mathematics for Economists," loc. cit.

system.” That expresses a notion of an implicit function.

The notion of this function must then be adjusted, to reflect the impact of the consumption of the “free energy,” as output, upon the functional ratio itself. The significant, the desirable, realization of that “free energy” output, is chiefly twofold: to extend the economy in scale, and to increase the capital- and power-intensity of that economy, thus increasing the level of “required energy of the system,” per capita, per household, and per relevant square kilometer. Consequently, the general requirement applied to the notion of the adjusted, implicit function, is that the ratio of “free energy” to “energy of the system” must not decline, despite the functionally unavoidable increase of the absolute “energy of the system” per capita, per household, and per square kilometer.

At that point, the investigator has implicitly defined all successful societies as characteristically “not-entropic.”¹² The application of the skills of the production-process engineer to the relevant economic history, results in a set of simultaneous linear inequalities, which describe the relative directions and rates of change of relations among consumption and production in “more-than,” “less-than” terms of approximation. That set of inequalities thus describes a required, and measurable *not-entropic* result.¹³

So far, so good.

In contrast to the axiomatically absurd assumptions of the late John von Neumann et al., every competent effort along those lines we have just described, has tended to produce results which are useful, but virtually all of which have failed to address the most critical of the underlying scientific problems. *The common root of each and all of those failures, is the ideologically-inspired blunder, of assuming, axiomatically, that the causal relationship underlying the economic process described, could be represented in terms not offensive to today’s generally accepted university-classroom varieties of mathematical physics.* It is on the latter point, in avoiding that academic sort of common error, that the unique significance of the LaRouche-Riemann Method appears.

This is a matter which has arisen repeatedly in Moscow, in discussions, among some scientists there, of the present writer’s discoveries in physical economy. That issue is the subject of the “Non-Newtonian Mathematics for Economists.”¹⁴ Some summary points, referencing that report, are appropriate here.

We have just referenced the most crucial methodological flaw within the practice of today’s generally accepted classroom varieties of mathematics, and mathematical physics. It is an axiomatic issue, an ontological issue fairly recognized under the rubric of *reductionism*. This error of method, may

be traced through the intrinsic incompetency of Aristotle’s method, back through such of his predecessors as Parmenides, the Eleatic. Modern neo-Aristoteleanism, better known as empiricism, is a more radical version of Aristotle’s method. As documented in earlier published locations, the embedding of the neo-Aristotelean, empiricist fallacy in the currently more popular varieties of modern mathematical physics, is to be traced, in every case, from the influence of the founder of the European “Enlightenment,” the Venetian monk and mathematician, Paolo Sarpi (1552-1623). This is traced through Sarpi’s direct influence over such of his assets as Galileo Galilei and Francis Bacon, continuing through such products of that influence as the famous protégé of Venice’s Abbot Antonio Conti, Isaac Newton.¹⁵

To understand how that problem has shipwrecked, repeatedly, recent decades’ efforts to construct a modern mathematical economics, one must understand how the same empiricist method, responsible for this recurring problem, earlier shaped the foundations of what became generally accepted choices among the older classroom varieties of economics doctrines. That problem of method has been introduced to the work of modern mathematical economics, by the following principal routes.

The systematic forms of empiricist theories of surplus value are traced entirely to the extremely influential network of salons, operating throughout Europe, established under the coordination of Venice’s Abbot Antonio Conti. Conti created this network as one organized around the Conti-created myth of Newton’s genius. Among Conti’s most relevant assets, for the case of empiricist economics, are the Physiocrat Dr. François Quesnay (of France), the hoaxster Pierre-Louis Maupertuis (one-time head of Frederick II’s Berlin Academy), and economist Giammaria Ortes (the wide-ranging Venetian monk and inventor of Malthusianism).¹⁶

Three principal, respectively distinct sub-types of empiricist economics came directly out of the “Newtonian” (i.e., empiricist) economics created by Conti’s network of salons: Quesnay’s Physiocratic dogma, the British East India Company’s Haileybury school, typified by Adam Smith and Jeremy Bentham, and Karl Marx’s **Capital**. Of these three, the first two, the Physiocratic and Free Trade dogmas, were developed explicitly, by Conti’s salon, as attacks on the previously established economic science of the Cameralists (e.g., Jean-Baptiste Colbert) and Gottfried Leibniz. Marx’s **Capital** was developed chiefly as an outgrowth of the British Haileybury school’s influence, but also under strong influence by the writings of Quesnay.

Each of these three is distinguished from the other two by an axiomatic difference in the way the origin of economic

12. Ibid.

13. E.g., *So, You Wish to Know All About Economics?* op. cit., passim.

14. Loc. cit.

15. “Why Most Nobel Prize Economists Are Quacks,” loc. cit., pp. 31-38.

16. Ibid.

“free energy” is defined.

Frondiste Quesnay attributes society’s “macro-economic” profit, solely to “the Bounty of Nature,” and thus credits profit solely to the God-given property-title, over both land and that human cattle called serfs, held by the landed feudal aristocrat. In other words, Quesnay identifies “profit” according to the method of Aristotle’s *Metaphysics*, as an *epiphenomenon* of the feudal property-title.¹⁷

Smith, the lackey of the British East India Company’s William Fitzmaurice Petty (“Shelburne,” or “Landsdowne”), parodies Physiocrats Quesnay and Turgot directly, on all points excepting the attribution of the origin of profit; Smith attributes profit, as an *epiphenomenon*, to “the Bounty of Trade,” and thus credits it to those Venetian-style Anglo-Dutch financier aristocrats, who, some might say “coincidentally,” owned Smith’s employer, the British East India Company.

Marx, following such Haileybury economists, as Smith had followed Quesnay, attributed the *epiphenomenon*, profit (surplus value), to what American anarcho-syndicalist ideologues used to apotheosize as “the horny hand of labor.”

All of these empiricist varieties of economic doctrines, and their outgrowths, were also forerunners of the modern “chaos theory” of Ilya Prigogine, et al. Quesnay’s version of “chaos theory” was called *laissez-faire*. Adam Smith parodied Quesnay’s *laissez-faire* whole, Anglicizing it as “free trade,” and apotheosizing it as a pagan god, *The Invisible Hand*. Apart from Marx’s views on the subject of a transitional form of society, which he named “the dictatorship of the proletariat,” Marx, partly at Frederick Engels’ insistence, defended “free trade” against the economists of the American System, pronouncing Smith “scientific” on this account, and the contemporary American System economists of his time, such as Henry C. Carey and Friedrich List, not.

The relevance of that bit of history for today’s problem, is located by the following comparison. In the attempt to apply the procedures of modern mathematical analysis to economics, the mathematical economist suffers a twin burden. More obvious, perhaps, is the burden of the leftover ideological baggage embedded within taught economic dogmas; less apparent to most, but more significant, is the ideological baggage lurking within the methods of today’s generally accepted mathematical physics itself. In both aspects of the matter, the erroneous axiomatic assumptions are identi-

cal; it is from the ideological baggage of Sarpi’s empiricist method in mathematical physics, that the central, epiphenomenalist features of the ideologies of Quesnay, Haileybury, and Marx—and of Norbert Wiener and John von Neumann—were derived.

Formally, the source of the problem is the plain error of assuming, that the cause of a phenomenon is implicit in the structure of the algebraic expression employed to represent a measurement of the relevant effect. The typical expression of this error, is the mechanistic notion of physical space-time, as kinematic interaction among moving bodies “floating” within the vacuum of idealized Euclidean space-time: the mathematics of Sarpi, Galileo, Hobbes, and René Descartes, as depicted, nearly two centuries later, by the gas theory of Britain’s Lord Rayleigh.

The apologies for such mechanistic schemes, presume that cause may be represented mechanistically, as an infinite, statistical chain-sequence of percussive interactions (plus analogous radiant action), and “action at a distance.” That is the method employed by Galileo, Newton, and others, in their parodies of the laws of gravitation and motion given earlier by Kepler. That is the Eighteenth-Century, so-called “Newtonian” method employed by Conti’s salon, to define empiricist economic dogmas, the Malthusian dogma of Ortes, and the radically “Newtonian” social theory of Maupeituis, Ortes, and Jeremy Bentham’s **Introduction to the Principles of Morals and Legislation**. This method, supplied to Hobbes by his mathematics teacher, Galileo Galilei, was the premise for his social theory; it was upon the basis of this model, that the central doctrine of British moral philosophy, and social theory generally, is derived.

The issue of method, summarily, is this. *Although we, can, and must, employ the indicated methods of mathematical-economics modelling to measure the not-entropic effect of “macro-economic” economic processes, it is absurd to conclude from that, that we might seek the cause of the not-entropic growth of successful economies in terms which can be represented by conventional mathematics.*

Although the causal connection can not be depicted by resort to conventional classroom mathematics, it is readily observed in other ways. The rise of the human population, from the level of several millions possible for a man-like higher ape, to hundreds of millions, and then billions, with a correlated improvement in the demographic characteristics of family households, is crucial evidence to this effect. Man is the only species which can repeatedly, willfully increase its species’ range of achievable potential relative population-density. The experience of modern European civilization, since the mid-Fifteenth Century, prompts us to refer to fundamental scientific, and derived technological progress in the productive powers of labor, as typifying the unique potential of the human species.

This latter observation points toward a solution for the

17. The Physiocrat followers of Quesnay, represented a stratum of France’s rural feudal aristocracy which had been known, during the Seventeenth Century as the *Fronde*, the pro-feudalist opponents of Henry IV’s, Cardinal Richlieu’s, Cardinal Mazarin’s, and Minister Jean-Baptiste Colbert’s efforts to continue King Louis XI’s policy of building France as a leader in establishing and developing the modern, anti-feudalist form of nation-state. The *Fronde* had been associated, deep into the Eighteenth Century, with the House of Orleans, and was, like Orleans, closely connected both to Sarpi’s Venice, and Venice’s other asset, the British financier aristocracy.

problem of identifying the cause of not-entropic economic growth. This also leads to the discovery of articulable policies, by means of which higher rates of such not-entropic progress may be realized in society's practice.

Any valid discovery of principle in science, has an effect equivalent to changing one or more among the set of axioms underlying an established formal mathematical physics. From a formal-mathematical standpoint, this has the effect of introducing an absolute discontinuity, separating the theorems of the new mathematical physics from those of the old. This is analogous to the communication of a metaphor, from the mind of the poet to the hearer, by means of poetic ironies. The idea corresponding to the metaphor, can not be explicitly represented within the poem; rather, the ironies (paradoxes) of the poem are employed to prompt the mind of the hearer to regenerate the solution to the paradox, which is the metaphor as conceived by the poet. These ideas are of the form of Platonic ideas, as distinct from sense-perceptual, or empiricist conceptions. All the essential ideas of principle in science and Classical art-forms are of this Platonic type.

This consideration leads us away from the empiricist's notion of algebraic causality, back to the Platonic notion of Reason, as that notion was employed by Johannes Kepler, and to the notion of "necessary and sufficient reason," as employed by Gottfried Leibniz. This leads us beyond con-

ventional mathematics, into the higher physical space-time geometries prefaced by Bernhard Riemann's 1854 **Hypotheses** dissertation, and the notion of the higher transfinite of Georg Cantor.¹⁸

Although this does not alter the form of the set of inequalities constructed to measure the effect of relative economic not-entropy, it enables us to locate the efficient causes of that effect, and to identify those changes in policy of practice by which that effect may be sustained and enhanced.¹⁹ In particular, it identifies the relationship between certain well-defined principles of education and related social policy, and the general principles governing the proper form of relationship to be established and maintained between man and nature. Above all, it removes that quality of irrationalist superstition which prevails in the teaching and shaping of economic policy, in both the classroom and the governments, today.

The important thing, is to put the economic-policy dialogue among the scientific communities of nations on this footing.

18. "Non-Newtonian Mathematics for Economists," loc. cit., passim.

19. Ibid.

Coming soon in EIR

The Schiller Institute, which in 1992 issued *A Manual on the Rudiments of Tuning and Registration*, Book I, is currently preparing the second volume of this two-volume series. Book I focussed on the principles of well-tempered tuning, registration, and the *bel canto* singing voice; the second volume will treat the entire array of instruments and voices which comprise the perfected Classical orchestral and choral medium.

Lyndon LaRouche, who initiated the project, met on July 30 with several collaborators to discuss how to present the crucial, thematic element of Book II: motivic thorough-composition, or *Motivführung*. His aide-memoire, written after that meeting, will be featured in an upcoming issue of *EIR*.

The first volume of the Music Manual, which presents the scientific case for a well-tempered $C = 256$ scale, created a sensation in the music world, with many leading opera singers, in particular, joining the Schiller Institute's call to return to the "Verdi tuning," from the stratospheric tuning which characterizes most performance today.



The late 'cellist Eliane Magnan, one of LaRouche's distinguished collaborators among contemporary performers of Classical music.

Toward a scientific grounding for economic reforms in Russia

by Academician D. Lvov

This report was prepared by Academician D. Lvov of the Central Economic-Mathematical Institute (CEMI), on the basis of research by CEMI staff and their collaborators from other institutions. CEMI published it in Russian as a pamphlet, earlier this year. The English translation was provided by CEMI, and edited by Rachel Douglas.

Introduction

In present-day Russia, there exist three determining factors which provide unique conditions for its effective development and joining the ranks of the leading countries of the world.

Firstly, the country has huge reserves of fuel, minerals, fertile soil, and other natural resources.

Russia's per capita resource potential exceeds that of the United States 2 to 2.5 times; Germany, 6 times; and Japan, 18 to 20 times.

Secondly, Russia boasts a unique potential of highly qualified specialists and scientists who can solve the most complex problems pertaining to science, technology, and production.

And, finally, Russia has a powerful industrial base, which, in some aspects, is on a par with technological bases of leading western countries, including the United States.

However, there is a wide gap between the huge opportunities for prosperity in Russia, and the harsh reality of life.

Deplorably, Russia's economic potential has so far been used not for the country's benefit, but to foot the bills for unsuccessful economic experiments. Why is this so? How may the critical economic situation be improved and social degradation of society prevented? In which direction should we search? Or, is it better to stop altogether, or to take up a new rehabilitation program?

Lord, how many and various programs have been worked up during the past few years! These days, only lazybones do not draw up programs. But what's really striking, is the contrast between the high tension of political debates on the essence of each program, and the quiet demise of these programs as soon as the heated discussions are over, even before they might be tested against reality.



So it was with the "500 Days" program; the same fate awaited the government's program for financial stabilization of the economy, and many other well-known programs.

This is not a mere coincidence. Many authors looked upon the preparation of their programs as a ritual, aiming to impress large audiences. They took no responsibility whatsoever, but an image of genius left unclaimed was skillfully created. Those authors sat down to chart programs, without having any clear theoretical concept of market transformations. Their criterion was political resonance, not so much in Russia as among our western patrons, rather than the truth and actual results. No wonder that from the very beginning, the ideology of those reforms was directed toward destroying reforms. Our reformers seem to have assimilated the tactics of those Bolsheviks, whose sole purpose was razing everything to the ground.

These days, as never before, we need a thoroughly verified theoretical base to ensure the success of market-oriented reforms. Some people may retort: What has theory to do with all of this? Theory is for scientists and their theses, but we are worried about reality: We have bad management, we choose bad leaders, and so forth. But it is time to understand that it was the absence of a theoretical base for reforms, that brought us an abnormal orientation of our economic decisions for decades, and, as a result, to degradation of the productive forces of society.

This report, which we bring to the attention of political circles and the Russian public at large, is an attempt to fill this gap. It contains benchmark principles for reform of the Russian economy, which take into consideration both current theoretical issues and the real state of the Russian economy. These principles can be amended and made more precise, to form the starting-point for studying concrete reform scenarios and the corresponding system of practical measures. Moreover, these principles allow us to reveal the obviously ineffective directions of the efforts already made, to define the actual possibilities for setting market mechanisms into motion, and to define the limits of a strategic policy for economic transformations.

One more observation. The present report expresses the viewpoint of the scientists of one of the country's leading economic institutes, whose studies are well known both in

Russia and abroad. The Central Economic-Mathematical Institute (CEMI) occupies a high position among major universities and economic institutes of the United States, Germany, Britain, Japan, and other countries. Many specialists from CEMI are successfully working in the West now. Unfortunately, some of today's reformers have a direct or indirect relation to CEMI as well. But they were not the ones who defined CEMI's school of science, i.e., the stock of knowledge created by the scientists of the institute even before perestroika.

For us, representatives of this institute, scientific argumentation, and conclusions ensuing from the analysis of socio-economic phenomena, rather than considerations of political advantage, have always been and continue to be our focal point. Let us hope that the contents of the present report meet the above requirements, even if not all of its conclusions can be accepted.

This factor, to some extent, provokes a vital discussion of science with those experts, economists, and scholars, who sincerely wish that reforms go in a direction good for Russia and its people.

1. Reforms and power

Admitting the need for reforms does not mean, that the authorities are actually prepared to carry them out. More importance should be attached to the essence and purposes of reforms, rather than to the wording and slogans they carry. If we are to trust the official declarations of the authorities and certain mass media backing them, a market economy has already been established. The notion that there is nothing more in store for us, that there is no alternative to the current policy, is constantly being impressed upon the people. Any deviation from this policy is regarded as surrender of the positions achieved, a betrayal of the market economy. But striking is the gap between slogans and declarations, and the harsh reality of life.

The country entered the phase of reforms, carrying a banner that read: democratization of power, liberalization of the economy, and humanization of social relations. The people were ready to pay for it. And they did pay, as usual, sparing no cost. As a result, different, burning words are now written on the walls of our common house: inflation, stagnation, degradation, and now—war. The result of the adopted policy turned out to be deplorable for the people.

Inflation is corroding the economy, production is nose-diving, enterprises are being closed, capital investments have been reduced more than twofold. We are witnessing the rapid stratification of the population into layers depending on their incomes, and the impoverishment of some groups of the population is reaching inadmissible dimensions. The people who have found themselves below the poverty line are not so-called "marginals" or persons of no use to society; they

are the most valuable specialists, the main resource of our hopes for the revival of society: students, workers in science, culture, education, and medicine, as well as highly qualified engineers and specialists. The system of social guarantees and social security has been considerably undermined.

The deterioration of socio-economic living conditions has led to a catastrophic demographic situation—a negative natural population growth. Reduction of the birthrate is accompanied by a rapid worsening of the state of health and an increase in the death rate, mostly among working-age men.

What is most troublesome, is the inadmissible corruption of morals, the rapid reassessment of values in society. The direct consequence of Russian citizens' falling dignity and morals is the discreditation of science, education, managers of State enterprises, the Army, employees of law enforcement bodies, of everything associated with the concept of Russia's statehood.

An outbreak of corruption, bribery, crime, and anarchy of management gave rise to apathy and disbelief in any policy.

All of these factors are extremely dangerous for Russia. They lead to social tension, to the conviction that the adopted policy of market transformations is erroneous; they set different layers of the population and the country's regions against each other; they weaken State power, and make our economy more criminal and highly explosive.

Currently, even some reformers are beginning to understand the pernicious influence of the present policy and the need for drastic changes in it.

A country which is in a state of such disorder is far from the best object for reforms. Genuine reforms require a uniting, consolidating idea. The postwar leaders of West Germany and Japan were well aware of this. Overcoming the remnants of the totalitarian system, under the banner of denazification and demilitarization, did not eclipse their main objective—switching over the historically conditioned readiness of the population in these countries to work for common goals, to the task of building a modern, socially oriented economy.

The socially oriented nature of the reforms introduced in the above countries immediately revealed itself. Hardly anyone would deny, that the immediate and most successful results of those reforms were the reduction of unemployment instead of its rapid growth, and an increase rather than a fall of incomes. The socially oriented nature of the reforms in those countries determined not only the rapid growth of people's well-being, but also the revival of the political influence of these countries in the world.

To achieve these results, there must be genuinely democratic State power, whose leaders favor such developments and are capable of pursuing a policy oriented not to the economic interests of certain groups, clans, and elites, but to the interests of society as a whole, at least its large creative part. This must be public power, based on the will of the people.



A crumbling residential facade in Moscow, June 1995. "The deterioration of socio-economic living conditions has led to a catastrophic demographic situation—a negative natural population growth."

What we had in our country was of quite a different nature. The rotten upper echelon of the non-democratic state headed up its "market restructuring," and thus won powerful positions and sources of enrichment for themselves and for far from the best economic management layers. For them, the most important thing was not reform, but power. As a result, there arose "failures in management," damaging the healthy elements of the planned economy. The next step was the substitution of a predatory and criminal free-for-all, for constructive market self-regulation. From this angle, the transformations of the economy and society, carried out under the banner of reforms, were the very thing the authorities were after: not to give their opponents any chance of seizing the levers of government. No change will take place, until the question of power is finally settled.

The success of reforms hinges not only on the resolution of the problem of power, but also on the institutional resolution, i.e., the transformation of State power into a properly functioning structural social mechanism, which will ensure the regular and consecutive turnover of administrations in accordance with the will of the voters, and which will protect society from attempts by any new administration, to monopolize power.

The modern market economy cannot effectively function, without well-developed mechanisms of State and public control over the authorities. The importance of such control mechanisms will become obvious, once we compare the actual functioning of the market economy system in, say, coun-

tries of Latin America or Africa and developed countries of the West. One and the same system of production relations is common for all these countries. But the results achieved are different. While corrupt officials, blackmail, violence and, in some cases, coups d'état and the struggle to get and retain power, are characteristic features of the first type of countries, western countries have adopted the line of strict limitation of possibilities for statesmen and legislators to use power to their own advantage, though they also have cases of egotistical abuse of power. This limitation becomes possible, thanks to the institutions of State and public control over business activity, which prevent unscrupulous competition and protect consumers' rights. These countries also have a no less developed system of control over power at each of its levels, from the President of a country to the leadership of a certain state or even a firm. The development of a system of such institutions lays the foundation for ethical economic relations in society which guarantee a respectful attitude toward the property of others. Of course, we shouldn't idealize the way coordinating mechanisms are formed and used in the current economic situation in the West. Western countries also have their share of criminal and other negative factors of social development. But in this context, it is important to underline the common tendency: Western democracy, while having serious drawbacks, is moving fast in the direction of the creation of public power, eliminating the boundaries between the authorities and the people, making it more "transparent" and liable to public control. Power structures,

upon passing an important decree, will, like it or not, have to bear in mind how different layers of society are going to take it. They will have to, since an official's activity will be under permanent State and public scrutiny. Officials might be glad to act otherwise, provided they were not under the threat of losing their power status. The risk of being punished or condemned is far too great in this case, for a public figure to ignore.

Russia is so far from all this! The main obstacle in the way of effective reforms turned out to be the authorities themselves. They continue to play at reforms, in order to stay in the saddle. From this standpoint, we are going to have the continuation of reforms for a long while. In any case, the present wave of reforms is neither the last nor the decisive one. Chaos and vacillation created by the reforms will last, until the question of power is finally settled. Only then we will consider reforms in a business-like manner, discussing the real objectives and tasks of the reforms.

In this connection, it will not be an exaggeration to say that the question of power should precede the question of the nature of reforms in Russia. Until now, we have been setting reforms before power. Reforms must ensue from the settlement of the problem of power. Most important, is that it be true, democratic State power, interested in and capable of conducting progressive reforms; authorities who will enjoy people's confidence and support.

This kind of State power can provide:

- the availability of any authentic information on the state of affairs in economy and society;
 - a rational pace of change, an unforced renewal of the social and economic systems;
 - prevention of a collapse of production and a decline in living standards, etc., beyond the limits of permissibility established by legislation—unless measures were found or introduced, wholly to avoid the above negative phenomena;
 - priority of public interests over personal or group ones.
- Open encroachment upon the public interest on the part of personal or private interests has always been considered a crime in any civilized society. Personal enrichment amidst public bankruptcy has been condemned everywhere.

2. On the theoretical base of reforms

Essentially, the economic crisis is a reflection of the crisis in economic science, which broke out much earlier than the active period of reforms. Prior to perestroika, scientists were deprived of the opportunity to study alternative paths of social and economic development. The principal line of the upper strata was: "We are walking along the only right path." This line made no provision for alternatives. Even attempts to substantiate the need for *departizatsia* of economic man-

agement were suppressed ["departization" refers to the reduction of Communist Party control—ed.]. As a result, for a long time we did not have any other model of the collectivist economy than that of the State planning agency (Gosplan) and the party. This fact can partly explain why the present-day reformers have so easily managed to thrust upon the scientific world their model of market changes, as the only alternative to centralized planning.

What is surprising, however, is how readily our men of science allowed themselves to be twisted round the finger by people, not one of whom was known for any scientific accomplishments. The inability to take an independent stand with respect to those in power and to restrain them from unreasonable actions by force of competent opinion, is one more illustration of the conceptual and psychological unpreparedness for reforms. Now science is reaping the fruits of its grovelling before the authorities. State power, which declared itself to be science, has no need for science and is not inclined to allot money for criticism of its own activity.

Years-long dogmatism could not help but take its toll on the quality of the scientific grounding of the reforms. The reformers limited themselves to only one trend of western economic science: liberalism in its "Chicago" (monetarist) version. Under the hypnotic influence of monetarist formulae, the reformers neglected other developing trends of western science, such as institutionalism, evolutionism, etc.

Modern institutionalist theory reveals the peculiarities of existing conceptions about the role of the State in the market economy system and in the realization of determining social objectives. This includes, above all, non-acceptance of a "free-for-all" in attainment of personal and group objectives. It is no accident, that in western countries more importance is attached to the mechanisms which force entrepreneurs to proceed from the need to observe common interests, each time they realize their own interests. Such mechanisms operate in a complex system of social relations, regulated by legislative, executive, and judicial bodies, as well as by specialized public institutions. The contemporary market system cannot function effectively without a developed system of institutions, capable of protecting the rights of producers, the people, and the State.

Directive regulation, being an alternative to market self-regulation, is not, nonetheless, the market's antipode. It is an important component and product of the market economy. No wonder, directive regulation is a widely used practice of both the State and business itself.

Disregard for our own theoretical legacy by the ideologists of the reforms led to another serious deficiency in reform of the Russian economy. This concerns, first of all, the famous System of Optimal Functioning of the Economy (SOFE), which was elaborated from the early 1960s at the Central Economic-Mathematical Institute of the Academy of Sciences of the U.S.S.R. (CEMI).

SOFE constituted an alternative to apologetics and to the

then-predominant methods of management of the national economy. Those who created SOFE immediately took up the methodology of rational economic management, an analysis of the main principles of constructing an effective system of economic relations, based on the combination of the structures of "vertical" and "horizontal" interactions between economic subjects.

The most valuable achievement of the theory of optimal functioning was the concept of the estimation data for all types of resources in the form of characteristics of their contribution to satisfaction of social needs. Not only labor, but also other factors of production—natural, capital, any other types of limited resources—are properly estimated in optimal functioning. SOFE's undoubted merit is that it overcame the limitations of the labor theory of value and put an end to the large-scale mistakes in management of the national economy caused by this theory.

On a strictly scientific basis, the role of a number of general economic characteristics was revealed, such as the discount rate for money resources, interest rates on credit, rental and other charges, and a concept of the best strategy of economic development was worked out.

Thus, in the 1970s, the theoretical preconditions for the creation of an economic mechanism of a regulated market type were already formulated. It is exactly for this reason, that the SOFE theory was incompetently and groundlessly criticized, to the point where the very term SOFE periodically disappeared from publications. The last ideological pogrom took place in 1983 to 1985, right before perestroika started. This way, SOFE's opponents managed to achieve their main goal: to expel the theoretical basis for reforms, along with CEMI itself, from the process of market transformations.

Deplorably, the Academy of Sciences and, above all, the Economic Department of the Russian Academy of Sciences, have so far failed to issue a principled evaluation of this immoral act. This is all the more important because the reformers, if they wished, could easily find in the SOFE, answers to a host of questions concerning the problem of effective reform of the Russian economy.

One more point should be underlined. Each trend of domestic and foreign economic thought does not and cannot claim to be universal. Only the joint consideration of the positive aspects each trend contains could lead to success. It is precisely the interaction of different trends that could result in an integral understanding of market economy policy.

Our unsuccessful economic experiment once again confirms, that theoretical concepts should not be taken as something abstract and distant from reality. We have paid a high price for this delusion. Drawing on the theoretical experience amassed by world science, Russian economic science included, Russian reforms could be channelled in a different way, so that we could avoid the ruinous consequences we observe nowadays.

3. Reforms from the viewpoint of modern science

3.1. Social orientation

The determining imperative of reforms ought to be an economy oriented toward man and the combination of social justice with economic effectiveness. Such requirements are not some theoretical abstraction. They are being practiced by the countries which successfully carry out their own reforms, because these imperatives reflect the actual possibilities and requirements of modern civilization.

The adopted course of reforms imposed a heavy burden on the social sphere. People were left to their own devices, bereft of any State aid for their adaptation to the new economic conditions. The greater part of the population was thrown back 20 years, in terms of current consumption and social services.

And although social policy is an obvious failure, it continues to be stressed, that State financing of social services is outdated. The proposed radical reform shifts the center of gravity of the financing of social services from the State budget to citizens' savings, collected by specialized institutional investors, i.e., pension and education funds, insurance companies, investment funds, etc. For the most part, the above institutions are private; for example, the State Pension Fund only retains the function of paying "social" pensions within the limits of the living wage (subsistence minimum). Meanwhile, it is not clear why State funds cannot be just as effective investors as private ones, and if it is really impossible, why not completely replace the State system, which redistributes the current incomes of the economically active part of the population in favor of the inactive one?

The thesis of the archaic character of the State system and its discrepancy with market economy conditions can hardly be accepted, if only because this system was introduced in countries with a highly developed market economy (in the United States, for example, it was the famous Social Security Act, the operative scale of which grew rapidly, beginning from 1937). Argumentation in favor of the State system emphasizes the lack of private savings, insurance, and charity institutions, and the need for relying on the "taxation potential of the nation." Only State social security ensures a general and guaranteed satisfaction of the inalienable human rights for a decent basis for life (social justice aspect) and for the formation of education and personnel training levels adequate for a modern economy (economic effectiveness aspect).

While analyzing references to "wage-levelling" and its destimulating consequences, it should be borne in mind that being economically active or inactive is not a permanent feature of population layers that are structurally the same, but rather alternating stages of the life cycle of practically

anyone (excluding a small percentage of invalids from childhood). Thus it would be groundless utopianism, to attempt to eliminate the dual nature (primary distribution-redistribution) of the movement of personal incomes, which are passed on to people going through their "economically inactive" phases of life (childhood, old age, illness, periodic holidays, study, qualification training, etc.). Attempts to restrict redistribution to the sphere of individual savings of each disabled person, having no resort to other people's incomes, looks just as erroneous. No matter how "de-nationalized" an economy, one cannot help but resort to the "socialization of dependence," when providing for children, educating young people, and so on, be it inner-family redistribution of income or raising loans from various credit institutions.

A rationally constructed system of State social security guarantees does not create any fundamental obstacles to the development of the institutions, effectively mobilizing and investing personal savings. Not only the utilization of these savings, but also a rational policy of taxation and maneuvering of current State expenditures, might serve as effective mechanisms for macro-economic regulation of the social sphere.

World experience confirms that western economic systems, especially during periods of depression, successfully utilize progressive taxation for the upper, most prosperous groups of the population, and redistribution of the collected money in favor of the destitute. The above measures are very effective: They stabilize the economy, promote rapid reduction of production slumps, lower inflation, etc.

The experience of western economic systems in respect to indexation of deposit rates, insuring personal savings from inflation, is also well known. Is it prohibited to use such measures on a large scale while conducting our social policy? Of course not! It is chiefly our reformers' dogmatic ideas about the factors of inflation that prevent this from being done. A one-sided view on slashing State expenditures, as the main source of inflation, is the classical corroboration of this.

The Russian economy has fundamental sources for financing the budget. These are Russia's natural resources and its "human capital." The only thing left is to make use of effective mechanisms of income accumulation and distribution, not for the benefit of certain groups, but for the whole society. But for this, we must have the appropriate type of power and a system of State institutions, able to coordinate the interests of all active market participants.

3.2. Social and psychological factors

The crisis this country has encountered is of both an economic and a social and psychological nature. Such phenomena as apathy, cynicism, disappointment, and skepticism about the policy of reforms, and the population's passivity during election campaigns are no less precise and direct indicators of the crisis than inflation and the collapse of pro-



A poultry shop in Moscow: Low wages place its wares beyond the reach of a growing percentage of Muscovites. Writes Academician Lvov, "The wages workers receive now depend on factors which they can control to a smaller extent than before. This and other losses must be compensated. Otherwise, an increase of social tension and sometimes even direct conflicts with the authorities are inevitable."

duction.

The psychological aspect plays a fundamental role in the complex of measures aimed at overcoming the crisis. It is necessary to restructure not only reality itself, that is, the national economy and political institutions, but also people's subjective attitude toward this reality, or the image of the social world our fellow citizens share.

Sweeping changes are impossible without due regard for the psychological factor. Reforms, especially those effected in Russia, entail great hardships for many people. Benefits, if any, will come later, while troubles are inevitable now. It is not only a question of losses suffered from inflation, the collapse of production, etc.

New social conditions confront people with problems which the existing system of their education and their entire previous life-style did not prepare them to solve. For example, the wages workers receive now depend on factors which they can control to a smaller extent than before. This and other losses must be compensated. Otherwise, an increase of social tension and sometimes even direct conflicts with the authorities are inevitable.

The possibilities for "material" compensation are very small at present. Thus more attention must be attached to the factors performing the role of "psychological" compensation. The most important of such factors are honesty on the part of the authorities when solving different problems, and maximal openness of decision-making procedures at all levels. The population at least must be aware of which steps the authorities are taking to fight corruption and eradicate it in the future. The population wants and ought to know how

much money is being spent on the salaries of the President and his entourage, on outfitting offices and dwellings of the Executive branch, on maintaining legislative deputies, on all types of representations, business trips, and pompous visits abroad.

Why are the organs combatting economic sabotage satisfied with reporting isolated examples of abuses uncovered, without revealing the true picture of squandering of the national property and looting, such as occurred during voucher privatization?

But it would seem that neither those in power nor their competitors are interested in exposing the real state of the economy and social relations. The majority of the population, being the principal victim of the troubles of perestroika, have still obtained no access to strategic social and economic decision-making. The same power structures, with no provision for feedback, are still directing social and economic life. It is a dictatorship of the ruling layers. All this cannot but separate the authorities from the people. The people lose what remains of their faith in the reforms, and start looking for means to make up for the unfavorable changes that have occurred.

Time is being wasted. Meanwhile, the question of the rate of reform is one of the most vital, since it deals with the processes of acceptance or rejection, by various groups of the population, of the changes under way. All types of "crash innovations" are very dangerous. Even if they ultimately turn out to be beneficial, their being too rapidly pressed on the population, makes it impossible for the latter to appreciate their plusses and accept them at a new value, while the rapid destruction of accustomed forms is accompanied by excessive losses and degradation of social life. That is why it is important in the reform policy to find an optimal rate of change, where the new co-exists with the old long enough for the population to appreciate its advantages and choose it consciously, rather than adapting to the new, as if it were some uncontrollable and inexorable natural process, a sort of social catastrophe.

The principle here should be, not to subject to rapid destruction those qualities of the pre-reform system, which various groups of the population consider important and valuable elements of their way of life.

When innovations are of a crash or shock character, the improvements for one group of the population are far from covering the losses suffered by other groups, whose social life is reduced to mere survival, owing to the deterioration of their material conditions and loss of social status. They become the victim, the price society pays for the changes implemented. Such groups of the population automatically become a nutrient medium for totalitarian movements.

In respect of Russia, this principle works in the following way. Whereas the full employment system (which sometimes camouflaged labor conscription), a certain guaranteed level of income, and the ensuing stable standard of living were the

customary and socially formative characteristics of the way of life of the vast majority, the reform policy should avoid measures that significantly undermine these characteristics. The people would not approve of strategies undermining their stable employment and incomes, without prompt and effective compensation for these losses. Disregard for this side of the reforms in Russia leads to mounting social degradation and joining the ranks of the homeless, for a considerable number of citizens. It should be noted that the unemployed are not simply some superfluous resource, but people who have lost their social status, in a sense "non-citizens," inclined to unpredictable and anti-social forms of behavior. When their number reaches a critical level, there might occur irreversible changes toward general degradation of society, resulting in either the disintegration of society or the establishment of a totalitarian regime.

3.3. On the correlation of 'old' and 'new' structures

The problem of backwardness and rational combination of the new and the old in the economy has many aspects. One of them is the phenomenon of coexistence of different technical and economic structures in each branch of industry, caused by the general limitation of national economic resources and the impossibility of removing temporary lags, in the course of modernization of production. A detailed analysis of this aspect of the problem is given in economic evolution theory, in SOFE studies and in modern micro-economic theories. It is obviously impossible to make all producers "equally advanced" overnight, just as it is absurd to liquidate all of them except for "the most advanced." SOFE proved that the most rational solution will be that distribution of a production program among existing suppliers, which balances the total demand for a certain product with the available sources of supplies of resources, by means of equalization of the marginal (closing) expenditures, which in the end will determine the price of the product. This procedure does not have to mean the liquidation of enterprises, especially if we take into account that each of them, depending on its scale of production, displays a variable function of closing expenditures. The equalization of closing expenditures accomplished by means of shifting mobile resources between existing enterprises, has very little in common with a sweeping notion about the so-called inevitable collapse of mass production, increase of unemployment, and liquidation of whole branches of the economy "in the interests of effectiveness."

Another aspect of the same problem is the reformers' conviction that there is no point in maintaining and developing what they call backward industries. Under the rubric of backwardness, they often can unjustly include instances of abnormally high resource-consumption (reduced productivity) of a given production factor, caused by the unequal provision of concrete economies with this factor, and, as a result, the predominance of "extensive" or "intensive" methods of its utili-

zation. However, it is hard to say whether the primarily extensive agriculture of the United States is “backward” or “advanced” (with reduced productivity and valuation of land area, and an abnormally high labor factor), or that of western Europe (abnormally high labor-consumption with a smaller labor index and high prices for land), before it is revealed that the “overdraft” by one factor is covered by economies in the use of others. There is an analogous situation, for example, with power generating and other raw materials, when it is impossible to judge whether they are being used “wastefully” or not, without estimation of the economy of labor and other factors in, say, power-consuming branches of the economy, etc. To establish such correlations, it is sufficient to have simple computations of internal prices for each country, as long as a single methodology of calculation is observed (for example, it must include the rent component). Otherwise, a statement about the cheapness of raw materials and energy in a given country might turn out to be false.

Evidently the most realistic solution is a relatively long coexistence of “old” and “new” economic structures during the transitional period. Today even our own practice confirms how ruinous are precipitous actions with respect to old enterprises, accompanied by a catastrophic drop in production, increase of unemployment, and other negative phenomena. This situation calls for another, more flexible economic policy, based on strict prescriptions drawn from economic theory, instead of the naive ideas of the reformers.

3.4. Openness of the economy

To overcome the closed nature of the former Soviet economy, within the small circle of the former Soviet republics; to occupy a worthy place in the world system of division of labor; and to derive from this considerable profit, conducive to the success of reforms—these are the most important objectives of economic reform.

In this general sense, the thesis of transition to an “open economy” does not evoke objections. All countries that have undergone more or less successful modernization of their institutional and functional systems at different stages of their development (usually connected with overcoming postwar, post-revolution, or post-crisis devastation, or internal economic, social, and political crises), were able, already at early stages of the process, to rapidly increase their influence on world markets for goods, services, and capital, which was the best manifestation of the advances achieved. Nowadays, for example, this movement is characteristic of the young Asiatic “dragons.” International organizations striving to regulate world economic links (for example, the LINK system), encounter a predominant inclination in the majority of developed and actually developing countries, to increase exports, and they face the necessity of coordinating their policies so as to restrain such inclinations. All this testifies to the high economic effectiveness of countries’ active participation in the world system of division of labor and of deriving

benefits from the intensive exchange of products, technologies, and capital.

It does not, however, follow from the general statement of this principle, that all such exchange is necessarily economically and politically effective, and that its terms are inconsequential. For example, we should not identify the concept of “open economy,” as it was characterized above, with a regime of low customs barriers or, in the extreme case, even their absence; or the participation of the State in fixing quotas, licensing, taxation, and control over export-import operations—with deviation from the principle of free trade.

The creation of the General Agreement on Tariffs and Trade system about 20 years ago (the World Trade Organization since 1995) was intended to be conducive to liberalization of world trade by seeking reductions of export-import duties, liquidation of bans, quotas, and licenses through professional arbitration of the relevant conflicts, which have usually accompanied such liberalization of foreign trade exchange. The average level of customs barriers has actually declined almost threefold during this period.

Even now, however, the abolition of these barriers and of State regulation of foreign economic activity sounds like a distant prospect, which countries are striving to reach by establishing more or less large-scale regional markets and international bodies, whose main objective will be the tedious and years-long elaboration of gradual liberalization of their foreign economic relations. Of the three continental markets formed so far—the European, the North American, and the Asiatic-Pacific—only the first one, after years-long preparation, has approached a regime of duty-free trade and practically unlimited exchange of investments. As for the Asiatic-Pacific regional market, the transition to an analogous regime for its most highly developed or actively developing countries is scheduled only for 2010; not earlier than 2020, will this system encompass all the participating nations.

At the same time, the relations between the countries not included in a given regional market, are still subject to strict State regulation, and periodically undergo “trade wars,” mutual “taking of measures” against what this or that country deems to be excessive foreign economic expansion by others.

All of this indicates that transition to the complete liberalization of foreign economic activity, even on a limited regional scale, should be thoroughly weighed and carefully considered in terms of the concrete advantages and dangers inherent in each step in this direction.

The theory of foreign economic interactions shows, that the difference between export-import and internal prices, as well as the dynamics of the various countries’ currency exchange rates, are determined by conditions of the foreign trade balance of the interacting countries, provided each of them is seeking to derive a maximal effect from its foreign economic activity.

The level of export and import duties should not exceed

the above differences, and the degree of its deviation from them is to be determined by the foreign trade policy of the relevant countries, their aspiration to centralize currency revenues and use them for State investments and the corresponding import of equipment, or, on the contrary, to stimulate certain exporters and establish for them a base for internal investments and the diversification of production. Under current conditions, the first way seems to have substantial advantages.

3.5. On problems of privatization

Property is a central question of economic reform. However, in the current situation, it is far, not only from being solved, but even from being correctly formulated.

The country entered the phase of reforms, carrying a banner that read: democratization of power, liberalization of the economy, and humanization of social relations. The people were ready to pay for it. And they did pay, sparing no cost. As a result, different, burning words are now written on the walls of our common house: inflation, stagnation, degradation, and now—war.

The officially proclaimed policy in this sphere is no more than a veil, hiding real events. The defenders of the “restoration of private ownership” doctrine are carrying out large-scale re-allotment of property, on the ruins of the State economy. No number of possible victims, abuses, and social collisions can shake their faith in the transfer of control over resources and the results of their economic utilization to individuals. For them, this is supposedly the alpha and omega of the property problem, the decisive condition for the renewal of the system of economic motivations, and the revival of business enterprise, free from State diktat.

An analysis of historical development of the institution of private property, however, and especially of modern processes of its transformation in the countries with a highly developed market economy, puts this problem in another light, and leads to different conclusions, in contrast to the notions of Russian privatizers.

The historical process of social development testifies to the fact that the institution of private ownership arose and developed as one of the most important instruments of particularization of the economy, or of production in a broad sense, out of a universal social system, which was initially indivisi-

ble in terms of the nature of its functions. The institution played an ancillary role in the establishment of an independent economy, more and more protected from the tyranny of power and the chains of personal dependence. Thus it also acquired ever more autonomy. And this factor, in turn, opened the way for a broader division of labor and cooperation, for a greater scale of technical and organizational improvements in production.

Isn't it strange to ascribe the benefits derived by society from the autonomous existence of the economy, not to this primary source of that development, but to just a single one of the factors that made it possible—the institution of property?

In analyzing the function performed by the institutions of private ownership in its “protecting” role, cited above, we can formulate the following two fundamental conclusions.

Firstly, in the course of the evolution of the economy and society, the method of realization of this function can change (and is actually changing); thus there are no advantages, fixed for all time and “consecrated” by history, of one form of private ownership over the others.

Secondly, insofar as specialization and autonomization of the economic subsystem is an accomplished fact in modern industrial and even post-industrial society, the surviving constructs of the old institution of private property are more and more rudimentary in nature, like the ruins of fortresses in modern cities. In this connection, the passion of the struggle of social forces for and against such limitations has lost its actual significance and become a bugaboo, used by political parties and the pressure groups backing them, in their rivalry for a slice of the State pie.

These conclusions are confirmed by the real tendencies toward separation of property from management, and dismemberment of the system of property rights into separate components, combined into even more various configurations among the participants in the economic process. A classic example of this is the evolution of the enterprise management function.

In the course of social division of labor, the production function of management is increasingly supplemented with the function of strategic development of the enterprises. Investment and innovation policy are subordinated to this aim, as is everything connected with so-called marketing or business activity. World experience shows that the maturing and organizational formation of the business functions at an enterprise is a complex and prolonged process of selection and evolution. The general course here is to the following effect. Business functions are being gradually separated from ownership. These functions proceed as if having no connection with property rights, and in some cases even run counter to them. A fruitful structural and organizational restructuring of the economy cannot be effected without an understanding of the need to create conditions conducive to this process.

In pre-privatization times, these functions were not included in the sphere of action of Soviet enterprises, i.e., they were allocated to a higher level of economic management.

After privatization, enterprises were cut off from these functions and, as a rule, were unable to perform them. That is why the level of management at privatized enterprises has turned out to be, predictably, inadequate to the new conditions and incapable of ensuring the enterprises' independent survival and development.

Therefore, the objective need arises in our national economy, for the establishment of a special type of structure which could perform even just part of the business functions at enterprises.

But even if we could solve this problem quickly, for instance in the framework of the financial and industrial groups (FIG) which have been intensively formed recently, it is important that the current ideology and practice of privatization not hinder the establishment of the new middle element of the economy.

Proceeding from the fact that initially firms were a kind of symbiosis of the organizational form of economic activity and the objects of private property, which was facilitated by the combination of property owner and business executive in one person, a seemingly incontestable conclusion was drawn, that the interests of the firm, as a mode of economic activity, were identical to the interests of the owner of the firm as property object. Indeed, when access to economic activity depended on the ownership of property, the actual difference between these interests was insignificant, and public consciousness assimilated the false ideological stereotype, which later grew into a popular prejudice, that the interests of the property owner and his firm are one and the same. Or, to be more precise, that the firm's activity is a way of realizing the personal interests of its owner or owners. As a result, it was considered to be a sound opinion that an analysis of the property owner's interests explains the behavior of his firm, since his interests are behind the latter.

But, with technical and organizational progress, the qualitative difference between the interests of productive activity (and economic activity in general) and the property interests of industrial enterprises' owners, became increasingly significant in the activity of the firms. It became clear that firms in their developed state have their own interests and dynamics of development, as industrial and economic objects, and their ownership as property had become an impeding factor.

The situation arises, where the interests and benefits of the firm's development as a production organization, begin to dictate the necessity of limiting the influence of the property interests of the owners on the firm's management. *The joint-stock-corporate form is an institutional way of separating management from ownership, which enabled the administrative and business management functions to become an independent and active factor of production development. In this situation, we may speak of the compatibility, not the identity, of the interests of the firm and those of its formal owner-shareholders. Strictly speaking, the shareholders are not really owners of the firm. Application to an enterprise, especially a large one, of the dominating aspiration, characteris-*

tic of the present-day reform ideology, to create the largest scope for the realization of the notorious "feeling of ownership," can scarcely be justified and is, ultimately, fatal. The true sphere of realization of this feeling is a family business, in which the owner is the absolute and undoubted property manager. But even in this case, he must observe the interests and rights of the members of his family. A big enterprise, by definition, cannot be the object of personal or family ownership. In a contract economy, i.e., an economy functioning on the basis of contract agreements (in our view, this is a more precise term than market economy, which is just as much a utopia as "the highest phase of communism"), large enterprises are possible only because of the division of property rights into property-holding rights and rights of obligation (liabilities), which are the basis of the corporate form. The property-holding right, that is, the right to assets, is enjoyed by the corporation itself, while the liabilities are spread among the shareholders. Therefore, every individual shareholder is by no means an owner of the corporation, but merely a person who has invested his own money into it. In respect of the corporation, he exercises only the rights of obligation: liabilities.

In case any person (official or private) gets an opportunity to manage the property of the enterprise in his own personal interests, no matter how profitable such management might be, it will inevitably cause a loss for the enterprise. And such management performed on a large scale, being nothing else than the personal appropriation of property of the enterprise, condemns the enterprise to ruin. Thus, enterprises cannot accept such personal "management." But this practice has been adopted on a threatening scale at Russian enterprises. This circumstance must be considered as the main cause of the pitiful state of our enterprises. If we continue in this way, they are destined never to become business enterprises in a western sense, though this has always been presented as a principal objective of the reforms.

Should the present-day economy nevertheless be allowed to move in the direction of a contract economy, the most important objective will be the creation of institutional conditions for the emergence of independent economic units, whose property rights are protected against encroachment by private interests, no matter what free enterprise slogans the latter might employ for cover.

The tangled interconnection and interdependence of individual firms in today's market, are conducive to the transformation of the "title" owner, as compared with, say, a leaseholder, into a symbolic figure in property rights turnover. This figure's connection to a private person (a natural person or legal entity) really acts as an inevitable burden on the economy, which has to pay for the fictitious "service" provided by the owner (provision of his name) in the form of the property rent. One need not be an inveterate utopian, to predict a gradual replacement of private persons—in their symbolic function of title proprietors—by the State, whose "name" is considerably less expensive for society (as was the

case with the replacement of specie by paper money, issued by the State).

Thus the State seems to be the preferable subject, to act in the role of title proprietor. As for other "roles" or their combinations (management, utilization of property, etc.), the question here must be resolved in accordance with the aims and circumstances of a concrete branch of the economy, enterprise, or project. The only requirement will be that the system of functioning economic institutions must allow for the possibility of flexible redistribution of property rights among various subjects, including, of course, the State, as an agent of national circulation, working on a par with all other subjects.

The above-mentioned theoretical concepts and the analysis of the essence of various aspects of the functioning of enterprises in the system of market relations, will make possible new approaches to the problem of privatization.

In fairness, it should be said that the movement toward the current scheme of privatization was initiated by the Law on Enterprises and Entrepreneurial Activity. That is when there occurred the estrangement of our State enterprises from the centralized management structures, whose duty was to perform the functions of economic development, analogous to the so-called business functions performed by the enterprises themselves in a true market economy. No wonder that that is precisely when an accelerated decline commenced, in the quantitative and qualitative indicators of the functioning of both individual enterprises and the national economy as a whole. As a result, by the beginning of privatization, our enterprises were essentially fragments of the former system, in which they had served as executive bodies, in the form of industrial and technological objects. Instead of the former system of centralized paternalist management, these enterprises faced the necessity to conduct independent economic activity, relying only on their own reduced resources and financial assets, without even strategic management bodies of their own. Losing their production characteristics and the ability to develop independently, the enterprises underwent a rapid transformation into loads of dead property, which their former managers could not use effectively. Just at that time, the program of voucher privatization arrived, and completed the estrangement of enterprises from their functions in the former system, and consolidated their status as mere held property.

The proclaimed objectives and mechanisms of the second stage of privatization continue the same line, aimed at the destruction of the country's industrial and intellectual potential. And that is no accident, since the adopted conception of privatization is of a depraved nature. *The most important thing the reformers failed to grasp, is that privatization must provide the right to derive income from the enterprises' economic activity, not the right to individual possession and management of their property.*

In our opinion, in order to correct the mistakes that have been allowed, we must return to our economic state before

voucher privatization. This could be done on the grounds of the now-exposed serious abuses, which completely perverted any good intentions that these measures might have had. The aim of such a return could not be the revival of what we used to call State property, but the creation of a system of *national property*. The national character of this property could be certified by appropriate inscribed shares, which would become income-earning securities, producing income for the population from the national property, of which they would be the collective owners.

It would be best to effect the actual utilization of this property, especially industrial objects, by means of so-called *national leasing*. Under this system, the producer collectives could rent their enterprises from society (the population) through its representative bodies, pledging themselves to ensure their profitable utilization both in the interests of the public and their own interests. Thanks to the system of national leasing, there might be created conditions for the preservation of enterprises, which at present have been reduced to pure property objects stripped of their production and economic functions. A transition to a national leasing system could be helpful in the reconstruction of many, if not most, enterprises ruined by privatization.

A good reason for securing the release of enterprises from the property claims of the new "proprietors" might be the fact, that the overwhelming majority of privatized enterprises are close joint stock companies. By definition, this gives the capital owners unlimited liability for enterprise debts. Making use of this circumstance, it will be easy and smooth, under current conditions, to make the possession of the share capital of such enterprises economically ruinous for its holders, and thereby to force them to give up "their" enterprises.

The system of national leasing protects the enterprise assets from clearance sale, physical elimination, and devaluation. In addition, it creates more favorable conditions for the development of business functions at the enterprises. With the current privatization policy, there was no one to deal with questions of economic development (especially long-term). New owners of enterprises show no interest in this problem and prefer to derive income from clearance sales of property or leasing it.

In the system of national leasing, the enterprise collectives, being responsible for the preservation and growth of assets, will be much more interested in the development of an entrepreneurial approach and productive economic activity. With this aim, they can resort to the services provided by consulting firms. Simultaneously, the need for the development of business functions will have to increase interest in the establishment of financial and industrial groups.

3.6. A modern view of inflation

One of the main contradictions of the adopted reform policy is its stubborn view of the nature of inflation. It is accepted that its main source is excessive money demand, and that the means to combat this evil are the methods of

macro-economic stabilization through considerable cuts in State allocations for science; support to enterprises that carry out a high degree of processing; education; medicine; the social sphere; and, through the increase of revenues by means of a forced tax increase, receipt of additional credits from international monetary organizations and the expansion of the State securities market.

Macro-economic studies carried out at the CEMI of the Russian Academy of Sciences in recent years, refute this official version. In present-day Russia, the real locomotive of inflation is not excessive money demand, but the economic behavior of technologically backward and monopolized producers, who cannot help but raise prices in order to survive. It is extremely difficult to oppose this powerful tendency by limiting total demand, because producers prefer to reduce production, rather than to allow a decrease of prices. Recent years' practice is ample demonstration of that. It required the sacrifice of half the previously produced output, to reduce the inflation rate to 10% per month. The policy of limiting total demand deals a severe blow to the national economy, exacting monstrously high payments for each percent won back from inflation. *Macroeconomic calculations show, that for each percent reduction of inflation, the national economy pays with a 3 to 5% collapse in production.* So, to "beat down" the inflation rate from 10% to zero per month, it is required to reduce production almost to zero as well. On the other hand, if we accept an increase of inflation up to the 15% per month mark, the same calculations show, that it will be possible to achieve a level of production of 70% as compared with the 1991 level. And that is not bad at all.

Mathematical/economic modelling of the inflation process has shown fundamentally different ways of fighting inflation, which have nothing in common with the limitation of total demand.

They proceed from an understanding of the difficulties which our producers confront during the transition to an open market economy. The main sources of the inflation explosion, beginning in 1992, have their roots in the peculiarities of the reproductive structure of the previous economic regime, where the technological parameters of inter-branch relations were formed under the influence of a very specific mechanism of production financing—the price-budget mechanism, according to which one part of the costs of production was reimbursed in the price of product, and the other, by grants and subsidies. These facts seem to be known, but a key circumstance remains in the shadows, namely, that the technological parameters of inter-branch relations, being naturally "selected" by this mechanism of financing and having adapted to it, did not, in turn, admit any other possibility for the macro-balancing of financial flows, than the existing mechanism of large-scale redistribution of financial resources. And when prices were set loose, in expectation of achieving market financial equilibrium, i.e., in expectation of a spontaneous search process for "self-financing prices," the result was predictable: *There began a cumulative increase*

of both expenditures and prices, as the macro-economic reflection of the absence of an equilibrium solution, which was "blocked" from the outset by the technological structure of the economy. Even if this sort of danger was anticipated beforehand, the way out was seen in simultaneous changes in both price proportions and the technological matrix of the economy itself (restructuring expenditures, elimination of loss-making enterprises, etc.).

First of all, however, the time lag between these two processes was inevitable, and in the meantime, the inflation mechanism had picked up momentum and become able to wind itself up, just like any large-scale inflation.

Second, our hopes for technological breakthroughs have not been realized to date, for reasons related to an array of other fundamental peculiarities of the pre-reform economy.

Technological backwardness and monopolism must be compensated in some other way. *The main role here might be played by a mechanism to limit the growth of production expenditures (cost of production), and consequently of the product's market price.* How could this be done? First of all, as analysis shows, by excluding inflationary taxes from the costs of production of intermediate and final products; these taxes now often comprise as much as one-third or more of the production expenditures. Then the price could be lowered at least one-quarter, and provide an acceptable profit for the producer. Then we could compete on the world market, with our lower than world prices. In this case, the stimulus for the constant increase of prices would be weakened, or disappear altogether. There would be a simultaneous decrease in inflation and growth of production.

4. Strategy

4.1. Rent—a strategic weapon for Russia

Taxes are a pivotal factor for the renewal of the economy and society. They are the most serious of all State-imposed limitations that influence people's striving to work efficiently and to invest money in the development of production. New democratic leaders of the country should renounce the use of a tax system that does not stimulate production and the accumulation of capital. The existing tax system is a classic example of how to make people not work and not invest their money in the development of production, but rather export it abroad. By putting the working population into a disadvantageous position and making products expensive, this system limits people's participation in the production of material and spiritual values. In such an economy, there will never be sufficient resources for its restructuring.

Only if Russia solves the fundamental problem of sources of income for society, will it be able to find its own path to revival.

Unlike many countries, Russia has a major source of income which remains almost untapped. This is rent charged

for the use of natural resources. Estimates confirm that the fuel/energy sector and other nature-exploiting industries account for more than 60% of the profit earned in the national economy today. Given normal economic conditions, oil and natural gas alone could bring Russia some \$30 billion per year in income, which exceeds Russia's budget deficit for 1995. Russia could also derive large revenues from the rental of urban land, forests, and farmland.

Rental income could help Russia cover its top priority expenses on defense, the defense industries conversion program, science, education, culture, health care, and the State apparatus.

Russia could even stop imposing taxes on labor and capital, rescind the value-added tax, cut the tax on profits, and exempt enterprises from deductions to the pension fund and the majority of working people from the payment of income tax.

As a result, expenditures on production in the processing industries could be radically reduced, while the competitiveness of their products could sharply increase. The abolition of a number of traditional taxes would improve the investment climate in the country and stimulate foreign investment and an influx of hard currency into the country. It would also help reduce inflation and stabilize the ruble.

The transition to a predominantly rental taxation system has social advantages, as well as these economic ones. Shifting the center of gravity of taxation onto the natural-resource potential will make it possible to organize a system of financial transfers between profitable and unprofitable, although promising, sectors of the economy, and between rich and poor regions, to provide strong social support for the population and to create a system of supplemental payments for wage-earners and pensioners. *The Russian economy could thus gradually turn into a socially oriented economy, turning its face toward the people, toward their needs and aspirations. The very basis for society's criminalization would disappear.*

Opponents of predominantly rental taxation usually cite the experience of countries with a developed market economy, where taxes on (payments for) the use of land and other natural resources account for a very modest portion of all tax revenues, while direct income taxes on natural and juridical persons, as well as indirect taxes, are the main source of financing for State expenditures. Russia's tax system, which has been in effect since 1992, essentially replicates the modern western system of neutral taxation, which attempts to disturb as little as possible the established ratios of income distribution in society. *But neutral taxation is aimed at conserving the established socio-economic structure, not at reforming it.*

The economic and social advantages of deriving taxes primarily from that wealth which is given to us from on high, rather than made by human hands, are well known. The prominent U.S. public figure Henry George first drew

society's attention to them at the end of last century. His ideas and arguments in favor of a single land tax were supported by Leo Tolstoy. A description of the economic advantages of natural-resource taxation can be found in almost every serious textbook on the market economy. Only a handful of countries, however, use such taxation. This is not because of the organizational or technical difficulties of transition to this kind of taxation (although they do exist). Low taxes on wealth (land and other natural resources are a major element of wealth) remain a "sacred cow" in modern market economies, and those in power dare not encroach on them. If we really want to reform our economy, we must first of all renounce the merely symbolic taxation of our natural-resource potential, which runs counter, not only to the immediate tasks of Russia's economic recovery, but also to the strategy of a transition to ecologically stable economic management.

What stands in the way of such efforts? First of all, the interests of all those who have amassed large capital, by appropriating rent from natural resources. These people comprise a relatively small stratum of society, but one that has obtained access to the upper echelons of State power. It is difficult and dangerous to ignore their interests. But today, Russia has no other way out.

Realizing the need for a new tax policy is, ultimately, a matter of self-preservation for everyone, and it should unite Russians to oppose the squandering of Russia's natural resources with their common will, and to put an end to corruption and extortion. The rental system of taxation is intended to play a decisive role in the struggle against this evil.

4.2. Policy guidelines

A unique situation has now taken shape in Russia, where there has still not been a transfer of the land to private owners. We must avail ourselves of this situation and decide for ourselves, once and for all, the fundamental issue: Are we for private ownership, or for private tenure (use) of land? *We advocate the second, because only such a path leads us to a society, in which social justice will be combined with high efficiency of production, and where freedom and morality will flourish.*

The peoples of Russia have a special emotional and historical attachment to the land; they regard it as national property. But precisely because land in Russia is national property, each user of the land is obliged to pay into the public (State) coffers, in accordance with the quantity and quality (natural properties) of the land they use. This obligation for the annual payment of land rent must be the same for all land users—State-owned enterprises and organizations, collective and individual private holders of land, and land leaseholders.

The right to private land tenure must be protected by law against any encroachment on the part of State bodies. No one

should be allowed to encroach on the right to privately hold land, and to transfer it by inheritance or to another holder. At the same time, the *free* purchase and sale of land must be ruled out.

Before launching land privatization, the government and the Federal Assembly must weigh everything carefully. The currently proposed program pursues the short-term goal, of immediately gathering a certain amount of money to cover budget expenditures. This means, however, that future governments will be deprived of the possibility of having a much greater income stream from land rents. They will face an inevitable growth in social tensions in society, and insurmountable obstacles to the struggle against corruption and the criminalization of the economy.

It is no less important, to reorient credit policy accordingly. In most countries, land is regarded as one of the most attractive kinds of collateral for receiving bank credits. This makes things simpler for the banks. In this case, they do not need to assess the real solvency of a borrower, to analyze the validity of the designated purpose of a credit, or to exercise bank control over the effective use of the funds received. But another side of the problem, which may have very dangerous consequences, is overlooked here. *Bank credits on mortgage stimulate speculation in land* and lead to an unjustified enrichment of creditors. Many of those who receive credits on such terms rapidly go bankrupt. The experience of western countries, above all Britain in the mid-1980s, confirms this. *This is why crediting on mortgage should not become the main form of investment credits in Russia.* The credit system in Russia should be built on other principles, more civilized than those in the West and corresponding to the nature of economic relations that would preclude social conflicts and crises, and the very basis for the emergence of economic inequality. The following two examples show that such a way is possible.

Example One. Hongkong: All land in the country is national property and is leased to all those interested, via auctions. Nevertheless, banks eagerly give credits to business people even without mortgages.

Example Two. Germany: Banks extend credits to business people on terms that differ from those accepted in other western countries. Credits are given to those who, in the banks' view, invest their funds wisely, with the prospect of receiving good profits from the marketing of products that are in demand on the consumer market. Such an approach makes it possible to create new jobs and helps capital formation, without speculation on land.

4.3. Anti-inflation efforts

Another advantage of taxes on natural resources is that budget revenues from the use of land and other natural resources will inevitably increase, as the tax base constantly grows. These future budget revenues can be used already now, to cover current budget expenditures. To use them, the

government will not have to resort to the printing press, which would increase that heaviest of all taxes: inflation. The government should issue land (oil, forest, and other) loans, whose voluntarily distributed bonds should become the core of the State securities market, now being formed in Russia. The issue of such bonds, backed up by Russia's enormous natural-resource potential, can become an important factor in efforts to curb inflation and, in the more distant future, for the growth of the purchasing power of the ruble, with respect to hard currencies. The domestic State debt on natural-re-

Russian reformers failed to use a scientifically grounded theory. Of the whole rich theoretical heritage accumulated by world economic science, Russian reformers used only a small number of logically unconnected fragments. They emphasized monetarism—the Chicago variety, which is not even the best monetarism. We now have to pay, for their disregard of economic science.

source loans should be covered, first of all, from budget revenues from the corresponding natural-resource taxes, a fixed part of which should be used to cover State obligations on natural-resource loans. The greater the role of natural-resource taxes in budget revenues, the broader will be the possibilities for the country's financial system to recover.

4.4. Fiscal federalism

Russia is seeking to build a pluralistic society. To achieve the best social and economic results, political power in the country must be redistributed in favor of those levels of administration, where they are most efficiently achieved. Principles must be worked out for dividing rental incomes between these administrative levels, excluding any encouragement of separatist tendencies on the part of members of the Russian Federation. The experience of other natural resource-rich territories, such as Alaska, shows that policies based on the use of land rent provide examples of a possible objective approach to the division of rental incomes. Part of these incomes can be channeled into social funds, which can partially fund expenditures on efforts to overcome the difficulties of the transitional period and partially be used to obtain an income stream for the generations to come.

4.5. Ecological taxes

In today's world, and especially tomorrow's, oil, diamonds, or fertile land cease to be the main natural wealth. The assimilation potential of the natural environment—its ability to "resist" human intervention and to restore itself after inevitable such interference—becomes the main condition for the further existence of mankind.

Russia has moved ahead of other countries in the practical use of a new economic instrument of environmental protection—*payment for environmental pollution*. Over the past three years, the Russian Federation has accumulated experience in establishing and levying such taxes in most of its regions. But the existing types of payment, largely in the nature of fines, do not at all correspond to the rental incomes that the still-enormous assimilation potential of Russia's ecosystems could provide. Russia still has a chance to restore and save this national property, and to become an example for other countries in the practical economic protection of nature. To this end, *it must introduce an ecological tax on the exploitation of the assimilation potential of the environment*. Like other natural-resource taxes, this tax will not require a general increase in the tax burden on the national economy, but will lead to its redistribution in the interests of environmentally friendly and nature-preserving types of activities.

Russia could also become a pioneer in the creation of a system of compulsory ecological insurance, which would make polluter industries and insurance companies share the economic responsibility for catastrophic instances of environmental pollution. This would make it possible to attract the financial resources and as well as the monitoring and inspection capabilities of such companies, for solving urgent ecological problems.

4.6. The transitional period

A "shock" transition to predominantly natural-resource taxation is impermissible. It could only lead to a further aggravation of social tensions and discredit the very concept of natural-resource taxation. Launching a radical tax reform—and this is what is at issue—can be compared to working with a bare, live electric wire.

Taxpayers must have time to prepare for a sweeping "re-assessment of values," dictated by new taxation conditions. The government must ensure thorough political and institutional support for the new tax system and solve numerous organizational, legal, methodological, and technical problems. A stage-by-stage strategy is needed to gradually shift the tax burden onto nature utilization. Such a strategy should be formulated in a *programmatic document, adopted by the supreme organs of State power in Russia*. This document should indicate long-term basic tax rates and provide for measures to ensure a gradual adaptation of taxpayers to the new conditions. These measures include the development of tax crediting; the provision of tax breaks for certain categories of natural-resource taxpayers; a shift of the center of

gravity in real estate taxation from buildings and other structures, to the land component of the real estate; and reductions in direct and indirect subsidies for nature-consuming and environmentally unfriendly types of economic activity. Reforms of the taxation and natural-resource "branches" of legislation, regulation, and control must be preceded by thorough scientific preparations and be conducted as a unit, in a comprehensive way.

Estimates, made on the basis of 1993 figures, show that if the tax on profits (paid to the budgets of Russian Federation members) alone were transformed into taxes on the use of natural resources (land, mineral deposits, the assimilation potential of the environment), the share of these taxes in Russia's gross domestic product would increase from 1% to 9%. The taxable value of the natural-resource potential, in this case, would amount to 600 trillion rubles, including 100 trillion rubles value for the assimilation potential of the country's air space and water resources. (In 1993, the gross domestic product of Russia was 162 trillion rubles.) The tax burden on enterprises would remain unchanged, since the increase in natural-resource taxation would be accompanied by at least a 60% decrease in the tax on profits.

The government should study the expediency of giving members of the federation and local (district and city) authorities the right to raise natural-resource and lower other types of taxes on their territories, *provided these territories fulfill their obligations with respect to the amount and terms of tax and other payments into the higher-level budgets and extra-budgetary funds.*

The authorities in many Russian cities have already begun to create the institutional prerequisites for the implementation of a tax reform, using land rent as its basis. These prerequisites include the creation of land cadastres, the training of specialists in property evaluation, the conclusion of leasehold agreements, the holding of land auctions, and so on.

In order to achieve the best results as soon as possible, a mechanism should be created which would allow representatives of the public at large to take an active part in the formation of the new tax system. This system must be open for all strata of the population. We have little time left to carry out this work. But, considering the experience of Russian and foreign specialists in natural-resource taxation, and the absence of any other promising ways to reform the Russian economy, we all must pool efforts to resolutely and quickly translate the new tax system into life. The President, the Federal Assembly, and the Cabinet of Ministers of Russia should have a decisive say in this respect.

5. Immediate tasks of economic policy

These tasks should be viewed as a single whole. Attempts to single out some of them and tackle them separately, "at

any cost," will yield no results and will not help to overcome Russia's economic crisis, raise industrial production, promote people's welfare, and achieve the social and political stabilization of society.

5.1. Tax reform

Under present conditions, the most important taxes for us are those that do not cause price rises. Such taxes do not cause a mechanical increase in production costs, and thus do not shift the burden of additional expenditures onto others and, ultimately, to the consumer. Only with such taxes will we be able to curb inflation. Macroeconomic models provide some clues to how to tackle this fundamental problem. *In a technologically backward economy characterized by a high degree of monopolization, VAT and various wage taxes artificially push prices higher, and thus promote inflation and the further decline in industrial production. The same models show that taxation of profits or introduction of a rent system of taxation do not lead to a significant increase in prices and inflation.* This is because such taxes do not increase production costs and are levied only on profit-making businesses.

This shows that a new tax system is what Russia now needs most. The new system should be quite different from the one Russia now has. *Taxes like VAT and various wage taxes should be abolished* and should not be re-introduced, at least during Russia's transitional period. As mentioned above, the rent system must be at the base of Russia's new taxation system. Taking into account that a gradual adjustment to new conditions will be less painful for Russian companies, we suggest that the new system be introduced in stages. At the first stage, various forms of the tax on profits should become the main form of taxation for producers. According to estimates, the most appropriate rate for the tax on profits will be 45 to 55%, provided that VAT and wage taxes are abolished.

Later, more effective forms of profit taxation can be introduced. At first, this might be the deduction of fixed amounts from corporate profits into the budget, regardless of the actual output of manufacturing companies. These sorts of payments do not undermine incentives for producers to increase profits and, at the same time, they make it possible to distribute the tax burden on manufacturers in accordance with their actual capabilities. This is particularly important for primary industries, which now operate under idiosyncratic conditions.

Deduction of fixed amounts will create conditions for a transition to rent-based taxation. Rent for natural resources will then become the main source for meeting government revenue requirements. At this stage, processing industries and agro-businesses would find themselves practically in "tax heaven." This will be extremely important for their survival and further development, as well as for raising the competitiveness of Russian goods.

The new system should provide for a higher property tax

on juridical entities and natural persons. Raising the property tax will undoubtedly be a more effective measure than raising taxes on current consumption, as proponents of the existing tax system propose to do.

The tax on revenues from privatization of State property should account for a significant share of government revenues. The opinion that revenues from privatization should be left at the disposal of the privatized companies, in order to enable them to finance modernization, does not stand up to criticism, since this would be equivalent to transferring State property free-of-charge to new owners, on the sole basis that they have enough money to pay for it, and then, as owners of those enterprises, take the money right back. Modernization of privatized companies can be accomplished in a competent manner only if it is financed with funds raised through share issues by the privatized companies themselves.

Exploiting the entire potential, inherent in the further improvement of Russia's tax system, would make it possible to reduce Russia's inflation and the collapse of production, each by about 50%.

The implementation of a new tariff policy must become an immediate task for the near future. Its main purpose should be to reduce inflation and increase the volume of domestic production. Russia's new import tariffs can be determined in accordance with the following very simple rule, suggested by our models: Imports competing with domestic goods should not amount to more than 5% of domestic output. If total imports of certain goods amount to less than 5% of their domestic output, import tariffs should be reduced. If imports amount to more than 5% of domestic output of similar goods, import tariffs should be raised.

It is quite possible that domestic prices will sharply rise, immediately after the introduction of new import tariffs. They will decline later, however, as a result of a significant decrease in inflation. It must be understood that the immediate effect of these measures may be quite different from the results they produce in the long run. In choosing an export and import policy, the long-term policy is to be preferred. Only such a policy can be regarded as a true anti-inflation policy for Russia.

As evident from the foregoing, a wide range of anti-inflationary measures can be applied in Russia. *Introduction of a new tax system alone, can reduce inflation and the decline of production by 50%.*

5.2. State subsidies

In addition to taxes, the anti-inflationary macroeconomic measures should include State subsidies. *The idea that State subsidies are a drain on the budget and always lead to higher inflation is fundamentally wrong.* The effect of subsidies depends on how, when, and for what purpose they are provided. Computations confirm, that only a specific combination of rent-based taxation and State subsidies can overcome monopoly inflation and the decline in production. *This can be*

achieved in a market economy framework, without introduction of price and income controls.

There exist many mechanisms for regulation by subsidies.

Macroeconomic analysis shows that direct subsidization of goods sold by manufacturers, is the most appropriate way to support manufactures, combat inflation, and reduce the decline in industrial production. The State extends manufacturers additional funds, proportional to their sales volume. These subsidies will allow manufacturers to receive higher

It will be necessary to revise our views on the role of government spending. What is generally taken into account, is only that cutting government spending lowers inflation. Unfortunately, it is usually overlooked, that reduction of government spending also damages industrial production. Low pensions and wages in the State sector and the contraction of housing and road construction hit not only individual people, but above all, the economy as a whole. A reasonable level of government spending can help overcome our economic crisis.

prices for their goods, while consumers will pay the same or even lower prices for them.

This mechanism ensures that manufacturing companies operate at fuller capacity and helps Russia approach a balanced budget. *The fact is, that highly profitable businesses are usually good taxpayers.* They pay rent, whose total amount is usually large enough, calculations show, to cover all items of budget expenditures, including subsidies.

In this case, however, huge amounts, exceeding usual government spending, will pass through the budget. This makes everything much more complicated, and it can be avoided. The actual mechanism of subsidizing companies could be more simple. For instance, transfers to or from the budget can be made on the basis of annual performance results. This means that manufacturers would have to pay or receive the difference between taxes and subsidies. What matters is that all manufacturers know, *that subsidies vary in direct proportion to their sales, while amounts to be paid in taxes are fixed. This will compel manufacturing companies*

to think not only about profits, but also about sales. Under such conditions, it will simply be unprofitable to raise prices.

It would probably be expedient to consider the possibilities of subsidizing wages and renovation.

Computations show that such a specific mechanism of taxing and subsidizing companies is the most effective way of combatting monopoly price rises (at least in primary industries), and creating favorable economic conditions during the transitional period.

5.3. Fiscal policy

First of all, it will be necessary to revise our views on the role of government spending. What is generally taken into account, is only that cutting government spending lowers inflation. Unfortunately, it is usually overlooked, that reduction of government spending also damages industrial production. Low pensions and wages in the State sector and the contraction of housing and road construction hit not only individual people, but above all, the economy as a whole. *A reasonable level of government spending can help overcome our economic crisis.*

Macroeconomic studies show that fighting inflation through reduction of government spending is ineffective. *In this case, the price to be paid for a 1% decrease in inflation will be a 3% decline in industrial production. Cutting government spending by 50% will reduce the budget deficit by five percentage points.* The absence of correlation is accounted for by the significant decline in industrial production, which accompanies such a decrease in State spending. This nullifies nearly all the advantages from economizing on State funds.

On the contrary, a slight increase in government spending may produce a most favorable effect. It will allow the utilization of greater production capacity, an increase in industrial production, and improvement of living standards, at the cost of only an insignificant increase in inflation.

In principle, we should revise the assumptions underlying government spending plans. The essential thing here is to observe social and economic constraints, without which no economic reform can be carried out.

It is also important to finance spending on the priority needs of society and key economic restructuring programs, irrespective of government revenue collection. In the event of a shortfall, such spending should be financed by Central Bank credit, to be repaid with government revenues that will be collected later.

It is extremely difficult to plan government spending under conditions of runaway inflation. To reduce possibilities of arbitrary decisions in this important area of State regulation to a minimum, the spending portion of the budget should be adopted in constant prices and then indexed for inflation quarterly.

As for budget revenues, the procedures for defining this part of the budget should be revised, too. Rent, revenues from privatization and the use of State property, as well as

revenues from foreign economic activity, should become the major revenue earners for the budget.

In order to achieve better social and economic results, political power in the country should be redistributed in favor of those levels of government that deal with particular problems most effectively.

When a new tax system is in place, it will be necessary to fix the shares of various government levels in budget revenues (rent, environmental and property taxes, and revenues from privatization and foreign economic activity), in order to prevent the development of secessionist trends in the Russian Federation and to make regional and local governments more interested in economic development. As noted above, the experience of territories rich in natural resources (such as Alaska) shows that a policy based on rent collection makes it possible to work out a more or less objective approach to distribution of the rent collected. It is possible to transfer part of the rent collected to local funds, used to finance measures to overcome difficulties of the transitional period and to produce income for future generations.

The general approach to the distribution of revenues could be as follows:

The federal level:

- rent for commercial use of strategic natural resources specified on a list, approved by federal legislative bodies (oil, natural gas, precious metals, ores, etc.);
- revenues from the use of federal property (dividends on stocks and bonds, revenues from privatization, etc.);
- revenues from the use of major pipelines, the unified electricity grid, etc.;
- revenues from the Central Bank's currency reserves kept abroad;
- revenues from granting rights to use Russia's air space;
- tax on the transfer of capital out of Russia;
- revenues from government securities issue;
- profits of State-owned companies;
- revenues from the use and sale of Russia's property abroad;
- part of the environmental tax revenues.

The regional level:

- revenues from tax on the profits of companies under regional jurisdiction;
- revenues from use of the property of regional governments;
- land tax;
- tax on securities transactions;
- part of the rent collected for use of city territory;
- part of the environmental tax revenues.

The local level:

- revenues from legal entities' and natural persons' property;
- revenues from leasing plots of land in the cities;
- tax on securities transactions;
- revenues from municipal property privatization;
- part of rent collected;

- corporate profit tax on businesses and organizations under local jurisdiction;

- road and other local taxes.

In order to support and develop depressed regions, it is necessary to set up a reserve fund at the federal level, to which will be transferred part of the rent collected, environmental taxes, tax on capital transfer out of Russia, and revenues from the Central Bank's assets abroad.

5.4. Anti-monopoly regulations

Two major problems arise in connection with anti-monopoly regulations. One of them is the establishment of a mechanism to reduce monopolization, while the other is the promotion of vertical integration.

A. Mechanism to reduce monopolization

It is necessary to distinguish between the following two types of monopolies:

- organized monopolies;
- natural monopolies (transportation grid and telecommunications networks, etc.).

Organized monopolies. We believe that the most effective way to break up organized monopolies, is to employ certain economic mechanisms. The most important of them will be the following:

1. Imposition of a progressive property tax, depending on the market value of the production facilities at each particular moment of time. This approach means the following:

Title to property should not allow the property-owner to earn excessive profits. Rent charged and any above-norm income should be divided between the State or society, and the owner. The property-owner, as a rule, should not receive income exceeding the rate of interest on long-term bank loans.

Under such conditions, forms of ownership will not matter so much. The socialization of rental income will reduce the possibilities of making money from what should belong to everyone. At the same time, income deriving from the modernization of production and business activities ought to belong to those who engage in such entrepreneurial activities.

2. Introduction of mechanism of price competition. This means introduction of price controls, but through economic and organizational, rather than administrative measures. World prices for competing goods can be regarded as natural price limits. Domestic consumers should have an opportunity to choose between domestic goods and competing imports, sold at market equilibrium prices. This, however, will be possible only in an open market space. Consequently, those sectors of the economy that suffer most from monopolization should be selectively opened to foreign competition. Russia's Committee for Anti-Monopoly Policy could be responsible for this.

At the same time, the government should implement certain protectionist measures, aimed at supporting industries capable of supplying competitive goods to domestic and international markets and needing temporary support.

Natural monopolies. Natural monopolies are those that should not be broken up, for purely economic reasons. Natural monopolies make it possible to reduce total production costs, while expanding the scale of output of certain products. Breaking natural monopolies is undesirable for society, because it increases production costs. If natural monopolies are left to their own devices, however, they soon begin to behave like organized monopolies. Therefore an appropriate mechanism for regulating natural monopolies should be introduced at the outset, before their degeneration begins. Such mechanisms are well known and widely used in many countries, including the United States.

Insofar as the competition of goods cannot be arranged, it is still possible instead, to obtain more information about natural monopolies' operations. For instance, there could be open hearings, similar to open court hearings.

The issues discussed at such hearings should include new construction projects, price setting and determination of a fair profit, environmental protection, and others. Like testimony given in courts, all information and statements should be given under oath. The openness of such hearings will help achieve what market mechanisms usually do.

The open hearings will be organized by a public examination institution, responsible for independent examination and assessment of the natural monopolies' efficiency. Examination shall be conducted at several levels, including federal, regional, and local. At each level, a different range of problems will be tackled and different-level monopolies will be examined.

Examination bodies will be extra-departmental, democratic agencies, acting in accordance with legally established norms and procedures.

The experience of the United States' public energy commissions shows that open hearings can yield significant results. They compel monopoly businesses to find strategies that are beneficial to the consumers of their products, as well as to producers. These become a good basis for compromises.

5.5. Monetary and credit policy

The malfunction of Russia's monetary and credit system is a significant element of the growing economic crisis. The major reason behind this failure is the extension of the Central Bank's credit to commercial banks and the government of the Russian Federation.

To resolve this problem, the Central Bank must cease its expanded reproduction of credit-creation for financing the national economy. Nonetheless, in extreme cases, the Central Bank could still extend credit to commercial banks, charging higher interest rates than the free market rates. Taking into account the danger of a wave of commercial bank failures, the Central Bank's action should be carried out gradually. In the first stage, Russia's Central Bank could limit the amount of new credit, to the amount of credit repaid in the

previous month. It would also be expedient to improve the efficiency of the use of credits loaned, either through competitive bidding, or using the principle of earmarked credits, to finance investment projects. Only a limited number of commercial banks should be allowed to participate in the competitive bidding, those that meet certain requirements concerning their capital to liability ratio and some other ratios, such as the Central Bank loan to liability ratio and the bad loan to assets ratio.

It is quite possible, that a concerted policy of reducing Central Bank credits will lead to numerous bank failures. In this case, it will be necessary to nationalize failing banks or to implement certain other measures for the State to support them.

To improve payment discipline and enhance the Central Bank's responsibility for money turnover, it seems expedient to introduce indexation of amounts delayed during the settlement of transactions, at the expense of the Central Bank. This will make it less attractive for juridical entities to settle transactions in cash.

Nonetheless, these measures alone are insufficient to significantly improve transaction settlement services for participants in the process of economic reproduction. An array of special measures must be implemented simultaneously.

First, restrictions must be imposed on the use of depreciation deductions, which must be used only for financing capital investment. Depreciation deductions taken by enterprises should be transferred to special bank accounts. The amounts accumulated in these accounts must be spent only for capital investment.

At the same time, temporary amendments should be considered for the procedures for accumulation of depreciation deductions. During the transitional stage, it would be appropriate to exclude depreciation deductions from the production cost. This is all the more important, in view of the periodic indexation of depreciation accounts. Deductions for depreciation should be made from an extra portion of profits, retained by the manufacturers for this purpose. In certain cases, direct government investment in the modernization of industrial production can be justified. These amounts can be allotted in connection with implementation of certain federal programs. A special spending item should be included in the Russian Federation budget for this purpose.

Second, restrictions should be removed on the purchase by banks and investment funds of real assets, including controlling stakes in manufacturing companies.

Simultaneously, tight control must be established over the observance of currency legislation, which should forbid buying foreign currency, except for import purposes, and allow the total repatriation of profits.

Third, additional incentives should be created to promote industrial production and sales. This can be achieved through measures to promote investment and improve the system of government orders.



A branch of the Russian Federation Savings Bank (Sberbank), with sign advertising currency exchange. "The one-sided involvement of ordinary Russians in the credit system reduced possibilities for macroeconomic development, increases inflation, and impedes the course of market reforms."

The possibilities for stabilizing Russia's monetary system will depend on exchange rate behavior. Sharp, unpredictable exchange-rate fluctuations not only hit financial markets, but also lead to sharp changes in the profitability of export and import transactions. This, in turn, leads to significant changes in foreign trade volume and, consequently, supply and demand fluctuations on the domestic market. That is why regulation of the ruble's exchange rate must be a priority of Russia's economic policy. This is a major task, both from the viewpoint of raising the effectiveness of foreign trade and creating better conditions for foreign investors, and from the viewpoint of anti-inflationary regulation. To solve this problem, it will be necessary:

- to create a reliable ruble rate-control system and to intervene on the foreign exchange market, in order to prevent sharp exchange-rate fluctuations that raise inflationary expectations and undermine the exchange efficiency of foreign trade. These measures should be aimed at maintaining exchange rates that make the greatest part of domestic industrial output competitive;
- to ensure convertibility of the ruble for current transactions of non-residents, in order to promote demand in domestic markets, increase foreign trade turnover, strengthen the ruble, and create better conditions for foreign companies operating in Russia;
- to establish tight exchange controls, to prevent capital outflow from Russia.

The attraction of capital kept in bank accounts abroad (amounts stashed abroad are now estimated at more than \$20 billion) into domestic economic circulation will be a

significant result of the above stabilization measures. These sums were accumulated as a result of the Central Bank's extension of credit to commercial banks, which lent the money to various intermediaries who converted it into hard currency and used it for foreign-exchange speculations. Obligated to repay the Central Bank's credit, commercial banks will have to reduce lending to trading operations. This will compel trading businesses to use money kept in bank accounts abroad, and transfer it to Russia. In view of this, it will be necessary to impose restrictions on the term during which sums of hard currency, received as a result of current transactions, can be kept in hard currency bank accounts. This term should be cut to six and then to three months. This will make it possible to gradually close hard currency accounts and to shift to the 100% sale of hard currency. It will be important during the transitional period, to introduce identical account-maintenance regimes for both ruble and hard currency accounts. The amounts kept in hard currency accounts should be easily convertible into rubles for covering operating expenses.

The implementation of more effective macroeconomic regulation of monetary circulation and credit extension will be of great importance for the recovery of Russia's financial system.

Our ideas about the macroeconomic function of credit are still primitive. Most considerations do not extend further than the traditional theme, that State extension of credit leads to higher inflation. And indeed, what more is there to say, if the lion's share of our credit operations are a smokescreen to conceal the old Soviet system of State financing for indus-



A recent cartoon from the Russian magazine *Ogonyok* illustrates a would-be financial and industrial group executive confronting a sea of decrees and regulations.

tries, only in a much more wasteful form? Development of the whole range of types and functions of credit is now retarded by the sluggishness of institutional changes in this area. The absence of procedures for using real estate as collateral in mortgage lending poses significant problems. Here, the macroeconomic problem of *the economy's clearly underdeveloped credit potential* intersects the problem of efficient property management. Another aspect of credit policy is the public debt. The population's financial assets (deposits in the Russian Federation Savings Bank and other banks, and government bonds) are now discussed only as an essential component of public savings, in the context of the macroeconomic conditions of the economy's investment potential. Meanwhile, these assets (which are liabilities of the government and banks) have no counterbalance in the form of indebtedness to the population, created through installment sale of consumer goods, provision of loans to finance housing construction on a turnkey basis, etc. This one-sided involvement of ordinary Russians in the credit system reduces possibilities for macroeconomic development, increases inflation, and impedes the course of market reforms in the economy.

5.6. Industrial policy

The last few years have shown that economic reform, not backed up by an active economic-restructuring policy, can lead only to the country's losing the technological positions it had in the world.

This shows that industrial policy must be regarded as a priority of any reform program.

There are now some 30,000 small and medium-sized businesses in Russia, while the number of large companies is minuscule. The latter now account for only 12% of Russia's industrial output. In the United States, some 300 to 400 large industrial corporations now account for about 50% of industrial output.

The emergence of large corporations was a major factor behind the stability which is so important in a market economy. Monetarism is not responsible for this, but rather quite a different mechanism, which roamed into the capitalist economy from ours: planned methods of economic management.

But unlike here, capitalist economics confined the plan to the middle level, barring it from either the top (macroeconomic) or bottom (microeconomic) levels of management. As a result, a rather efficient structure has been created. Corporations accumulating a significant amount of resources and products, transmit macroeconomic signals to small and medium-sized businesses.

The middle layer of industry began to emerge in Russia in the late 1980s. Unfortunately, the process of its formation was halted by spontaneous liberalization and privatization. The reformers failed to understand its role in the overall economic management system. They regarded corporations exclusively in the light of their primitive notions about monopolization, and therefore, they missed the chance to create large industrial structures, capable of taking on the task of reconciling market mechanisms with elements of planning in a market economy.

As a result, the privatization program adopted for big industry was aimed only at creating competition in the domestic market. Large companies were broken up into smaller units, production ties were broken, and production efficiency decreased significantly, as a result.

We should not forever ignore international experience and base an industrial policy for Russia on nineteenth-century notions of the market economy. We must create a modern market economy. This means we must stress the creation of our economy's missing middle link. It is epitomized by large industrial corporations or financial and industrial groups (FIG). Financial and industrial groups could give Russia production complexes, able to withstand western competition and create conditions for the transition to an open economy.

Financial and industrial groups can exert a multi-faceted positive influence on the development of competition in Russia. The establishment of several competitors in each previously monopolized industry, will mark the transition from pure monopoly to oligopoly. This will reverse the current trend to establishing holding companies and associations, which collect several similar companies under their roof and thus re-create the old-style monopolization of industries.

Financial and industrial groups will help create the mechanisms we lack, for redistribution of resources among various branches of industry. This will enhance competition among industries, while competition between financial and industri-

al groups will compel them to provide financial and technical support to small and medium-sized manufacturing businesses cooperating with them. As a result, competition among small and medium-sized businesses will receive a powerful stimulus.

Large financial and industrial groups will be able to implement various government programs. This will allow the placement of State orders on a truly competitive basis, while the regulated opening of the Russian economy to foreign investors will assist the creation of market mechanisms.

Unification of up- and downstream production and research and development institutions in the framework of the FIGs will create better conditions for the implementation of consistent technical and investment policies. Financial and industrial groups will be able significantly to improve the investment climate in Russia and reduce investment risks. The inclusion of a bank in each group will make it possible to respond quickly to changes in market conditions and to redistribute financial resources. Financial and industrial groups can become real economic planning centers.

The establishment of financial and industrial groups is currently impeded by a number of organizational, legal, conjunctural, and conceptual factors.

First, mechanisms ensuring cooperation between financial and industrial groups and the federal and local authorities are not yet in place. State support for financial and production groups and measures compelling government ministries and agencies to coordinate this support are not yet in place, either, while uniform procedures for supporting financial and industrial groups in accordance with industrial policy targets and other clearly defined criteria have not yet been adopted.

Second, a legal base for the operation of financial and industrial groups has not yet been created. The further development of competitive financial and industrial groups is impeded by the following factors:

- drawbacks in the legal base for further economic integration. Russia needs laws regulating the activities of holding companies, investment banks, and trust companies;
- certain unjustified restrictions on capital relationships among corporate entities, which hinder the industrial and banking capital around large investment projects, and make it difficult to reconcile the interests of prospective participants in these projects.

Third, Russia's economic situation has a two-sided effect on the establishment of financial and industrial groups. On the one hand, the disruption of previous production ties and loose contract-fulfillment discipline compel manufacturers to seek more effective forms of vertical and horizontal integration, to replace both the ties existing in the Soviet economy and the excessive economic chaos, created by the too rapid privatization of the economy and disruption of old production ties. On the other hand, the unfinished redistribution of property during privatization and the involvement of economic managers in primitive accumulation of capital amplify centrifugal tendencies in the interaction of companies. Mean-

while, the profitability of banks' financing of trade and intermediary operations, impedes the integration of industrial and banking capital.

Fourth, there is now a felt need at various levels of economic management for some theoretical grounding for the grouping of companies. Government agencies need such orienting points in order to determine the extent of their participation in financial and industrial groups and to evaluate various FIG-creation projects, from the standpoint of the national economy, while companies need recommendations on the composition and organizational structure of financial and industrial groups, mechanisms of intergroup cooperation, and substantiation of their claims on State support for their activity.

A number of factors now impede the attraction of foreign investment to manufacturing industries. The continuing high inflation is just one of them. It is necessary to reconceptualize the legal bases of the interaction of industrial and bank capital. The approach currently implemented in Russia aims, on the United States model, to limit ties between manufacturing industries and banks.

The further involvement of banks in the creation of financial and industrial groups is thus impeded by a number of provisions of the Regulations for Financial and Industrial Groups and Procedures for Their Establishment. The Regulations forbid, during the creation of financial and industrial groups, either voluntarily or through consolidation:

- the participation in FIGs of companies established in accordance with Article 13 of the Russian Federation Law on Businesses and Enterprise, as well as holding companies whose real capital accounts for less than 50% of their capital;
- the holding of stakes in each other, by members of financial and industrial groups;
- any lending institution or investment company which is a member of a financial and industrial group, from acquiring more than 10% of the shares in other members of the group.

Given this approach, it is difficult for banks to become architects of the unification of companies capable of creating an ownership structure that will ensure close business relations among members. In Russia, contractual relations matter less than in older market economies, and thus can hardly be a reliable guarantee of fulfillment of obligations. Insofar as most large investment projects require the establishment of such relations, the implementation of such projects and their financing by banks becomes questionable.

In order to change the situation in Russia's industry and attract financial capital to restructure it, the cooperation of banks with manufacturing businesses in carrying out investment projects will have to entail an acceptable distribution of risks, and a corresponding participation in the profits from these projects. Under present conditions, the chief means to satisfy these requirements is the expansion of banks' participation in industrial share capital. Financial and industrial groups can help achieve this.

Skeptics fear that bankruptcies of companies whose shares have been purchased by banks, will inevitably result in the bankruptcies of those banks. This, in turn, could bankrupt companies with money on deposit there. Such views single out only one side of the situation. The other is that banks' involvement in the management of capital flows in manufacturing, will make it possible to reduce the number of bad loans and thus will improve the financial position of the banks.

Banks' involvement in activities other than deposit-taking and lending, and their participation in the mobilization, redistribution, and management of capital flows will help reduce the amount of bad loans and, consequently, risk of long-term investment. This would seem especially true, in view of the fact that commercial banks now possess detailed information about the condition of manufacturing companies.

Nonetheless, banks' financing of industries (through stake ownership and long-term lending) is impeded by fears about possible losses resulting from the unpredictable behavior of shareholders in industrial firms, who are oriented mainly to portfolio investments. The larger the stake of stable shareholders (strategic owners), the easier it is for banks to stabilize shareholders' decisions and the smaller a bank's stake in a company has to be, to ensure itself an acceptable level of risk.

Conclusions

It is time to sum up, and draw conclusions:

1) It must be admitted that the price paid by Russians for the economic reform has been unjustifiably high. This is not only a result of our past, which predetermined the historical necessity for radical changes in Russia, but to a very great extent, it is a consequence of errors in the economic reform course chosen, especially after 1991. The leadership's assumption that we were taking the only right course, to which there was no alternative, was only a populist vagary. The economic reform course implemented has not only led the country's economy to chaos and destruction; it has also discredited the idea of market transformations, in the eyes of millions of our compatriots. This is because Russian reformers failed to use a scientifically grounded theory. Of the whole rich theoretical heritage accumulated by world economic science, Russian reformers used only a small number of logically unconnected fragments. They emphasized monetarism—the Chicago variety, which is not even the best monetarism. We now have to pay, for their disregard of economic science.

2) The success of economic reform depends on the democratization of State power. Of course, the stereotype that only dictatorship can save Russia, which a certain part of the population now endorses, is profoundly wrong. The failures

of the reform policy are a nutrient medium for such notions. What really impedes the cause of reform in Russia, is the unresolved problem of power. For the authorities in Russia, reform is less important, than their possibilities of retaining power.

For reforms to be carried out in earnest, a mechanism is required for the democratization of power, which will put an end to the estrangement of the authorities from the people, make them bear full responsibility for the results of their decisions, and ensure public control over their activity. This mechanism should be based on a Law on the Democratization of State Power. This should have been the starting point for reforms. It is the alpha and omega of their success.

3) The social orientation of the reforms should be the defining principle. The attributes of a market economy are secondary. It would be appropriate to study the alignment of social forces and define acceptable policies (those that do not threaten to cause a catastrophe) for social and economic transformations. The minimum obligation is to ensure that the decline in industrial production and living standards and the growth of social tension will stay within acceptable limits. These minimum requirements should be applied, only if it has been proven that there exist no alternative courses, free of these negative results. Financial and budget policy should be subordinated to this goal. Only as it is achieved, should the question of eliminating the budget deficit or reducing inflation to zero be posed.

4) Special attention should be paid to the social and psychological aspects of economic reform. Without these aspects, economic transformations are impossible. It should be understood, that most of the Russian population was accustomed to full employment, a certain guaranteed income level, and the resulting stability of life and confidence in the future. Those qualities of the economic system should not be quickly destroyed. Otherwise, there will be an inevitable increase of social and psychological tension in society, and favorable conditions for revolutionary and totalitarian movements.

To avoid such developments, it is necessary to implement changes in sensible doses at an unforced pace, thus ensuring a nonviolent renovation of the social and economic system.

5) From the very beginning, the reforms should have been aimed at creating the middle level of economic management, which world experience shows is uniquely capable of performing the entrepreneurial functions required for the implementation of long-term production development programs. In the Soviet era, these functions were concentrated at the level of government ministries and agencies, while manufacturing companies did not have to deal with such problems. As a result, they were not prepared to function independently under market conditions. It was with such inadequate property-owners, that we launched across-the-board privatization. As a result, companies were not really privatized—only their property was. This created favorable conditions for the total destruction of industrial production and for speculation in

ownership rights. The substitution of a change in ownership for strategic planning tasks was the reformers' greatest mistake.

6) Another mistake was to regard macroeconomic financial stabilization measures, including reduction of government spending, higher taxes, loans from international financial organizations and the sale of government securities, as the only means to combat inflation. Of course, such measures are important and necessary. Nonetheless, they failed to eliminate the sources of inflation in Russia, which included the technological backwardness of production (high levels of raw materials, labor and energy consumption, and low quality of production) and the high level of monopolization in the economy. These are the causes of the collapse of production and the rise of prices.

As a result, each 1% reduction of inflation costs the Russian economy a 3 to 5% decline in production. This, in turn, makes it necessary to provide at least partial compensation for the losses, which increases the budget deficit and pushes inflation higher. It is impossible to break this vicious circle by monetarist methods alone. A new approach is required, which does not entail the restriction of total demand. Technological backwardness and a high level of monopolization of industry can be compensated, by shifting the center of gravity of tax policy from the manufacturing to the nature-exploiting sectors of the economy. This would make it possible to reduce manufacturing industries' prices by at least 25% and thus make them more competitive. At the same time, manufacturing companies would no longer lose much or all of their incentives for constantly raising prices. Inflation would decrease, while industrial production began to grow.

7) A new tax reform must become a major tool for revitalizing the Russian economy. It should be based on rent charged for the use of Russia's natural resources. The rent collected could cover most of Russia's budget expenditures. This would make it possible to abolish taxation of labor and capital. The elimination of several traditional taxes (wage taxes and VAT) would improve the investment climate in Russia, attract foreign investors, and make it possible to organize a system of social transfers.

8) It should be taken into account, that Russia has a unique situation, in that land has not yet been transferred to private owners. This situation should be exploited. It should be remembered that private landowners obtain an unlimited right to appropriate rent, which never belonged to them and should be regarded as public property. The private appropriation of rent is a major cause of social injustice and inequality. To eliminate this evil, it is necessary to ensure that land users receive income proportionate to their contribution to development of production. Income resulting from use of the productive power of nature, from what God created, should belong to all. We should all take a "State" approach to dealing with this issue, or else we will never be able to achieve social justice and create effective labor incentives. In view of this,

we oppose private ownership of land and advocate the principle of private land tenure, on the basis of long-term leases.

9) Russia has a unique chance to set an example for other countries, by shifting to a system of environmental protection. This requires a gradual restructuring of the tax system, so as to use the assimilation potential of the environment. This tax will not increase the overall tax burden, but will redistribute it in favor of ecologically harmless types of activity.

Russia could also pioneer a system of obligatory environmental insurance.

10) As mentioned, it is necessary to revise our views on the role of government spending. A reasonable level of spending by the State can help to overcome the crisis. In principle, we should change the assumptions underlying government spending plans. It is essential to observe the social and economic constraints, without which no economic reform can be carried out. The volume of government spending should not directly depend on the amount of budget revenues collected.

11) Rent charged for use of strategic natural resources (natural gas, oil, precious metals, etc.), as well as payments for the use of Russia's trunk pipelines, power grid, and air space, should be the main major revenue earners for the federal budget.

Regional and local budget revenues should be based on the land tax, leasing of plots of land in cities, and other property, to juridical entities and natural persons, etc.

In order to support and develop depressed regions, it is necessary to set up a reserve fund to which, at the federal level, part of the rent collected, environmental taxes, income from the Central Bank's assets abroad and other revenues will be transferred.

12) Restructuring of the public debt is another pressing problem. The government's debts to the population must be converted into assets of the largest banks such as Sberbank (the Russian Federation Savings Bank), State-owned companies and companies with mixed State and private ownership, as well as used as the basis for agreements on long-term leasing of plots of land for gardening and dachas, housing construction, etc.

The population's assets on deposit in savings banks must have a tangible counterbalance in the form of liabilities created through the installment sale of consumer goods, construction loans, etc.

* * *

The above principles make no claim to be comprehensive, nor to provide concrete ways of implementing the measures suggested. This is a conceptual formulation of how to define a strategic course for reforms in Russia. We thought it necessary to focus attention on this aspect of fundamental premises, which will serve as a deposit on the solution of new practical tasks of economic reform.

'Operation Oluja' foils London's Balkans policy

by Dean Andromidas and Michael Liebig

The Croatian blitzkrieg "Operation Oluja," aimed at re-conquering of the Serbian-occupied areas in the country's south, has extraordinary political and military significance, reaching far beyond the Balkans region itself. In only three days—Aug. 4-6—the myth of the allegedly invincible Serbian military power was shattered, once and for all. That characterization remains true, even though the remainder of former Yugoslavia under Slobodan Milosevic did not intervene directly into the fighting in "Krajina"; but it certainly did intervene indirectly. The Chetnik units were numerically superior to the Croats, but they were on an equal footing with respect to artillery and armored vehicles.

The fact that the Croatian campaign was able to be brought so quickly to a successful conclusion, reveals Croatia's superiority in planning, leading, and executing military operations. The behavior of the leadership in Belgrade, on the other hand, has nothing to do with Milosevic's ostensible "readiness for peace," nor with any "secret agreements" with Croatian President Franjo Tudjman. The Milosevic regime most likely did not intervene directly, because the Serbian Army's hands were largely tied: Strong military units of "rump Yugoslavia" are tied down in Kosova at the Albanian border, in Sandjak in Vojvodina next to Hungary, on the Serbian border with Macedonia, and on the Bulgarian border to the east. On top of that, the personnel and material support being provided to the Bosnian Serbs under Ratko Mladic, is reducing Serbia's available military resources. Finally, Serbia's domestic situation is so tense, that an open Serbian attack against Croatia would pose unforeseeable domestic and foreign-policy risks for the Milosevic regime. Thus, the Croatian leadership based their decision to put an end to the Serbian occupation of Croatian national territory, upon a sober, and by no means "adventurous," evaluation.

Why it succeeded

The success of "Operation Oluja" was based on a large number of *flanking and encirclement actions* carried out by the Croatian Army over the entire "Krajina" battle area (see map p. 52). The operationally significant Serbian positions were rapidly surrounded and cut off. The Serbian forces, however, were mostly not completely boxed in or obliterated, but rather, the way was left open for them—along with the Serb civilian population—to flee toward Bosnia.

The Croatian General Staff's planning for "Operation Oluja," which had already been essentially agreed upon in 1994, demonstrates a high degree of military expertise. The Croatian Army leadership is "young," the majority consisting of generals and colonels who are around 40 years of age. This leadership core had been forged through the bitter defensive battles against the "Yugoslavian People's Army" in the second half of 1991. That was the time when—almost out of "nothing"—defense was organized against the Serbian assault on Croatia. Since then, systematic efforts have been made to organize, train, and properly equip the Croatian Army.

It is a historical irony, that weapons systems formerly belonging to the Warsaw Pact—especially to the "Western Group" of the Soviet Army stationed in East Germany—have played a significant part in equipping the Croatian Army. Today the Croatian Army possesses an adequate, though not optimal, arsenal of armored and artillery systems. These include T-72 tanks, BMP1/2 artillery tanks, and reliable Russian-made artillery. The Croatian Army's successful penetrations in "Operation Oluja," however, are *not* primarily based on superior fire-power to blast open breaches in enemy front lines; Croatia lacks the necessary masses of artillery and armored vehicles to carry out such "break-

through operations” with massive fire. Massed deployment of artillery by the Croatian Army played a significant role only during assaults on dug-in Serbian positions in cities such as Knin and Petrinja.

Special units played a crucial role

According to the (albeit preliminary) information available to the authors, it was the special commando units that played the crucial role in the important Croatian assault operations. These special units mostly belong to one of the Croatian Army’s four “guard brigades,” or else are Interior Ministry troops under Gen. Mladen Markac. The special units are the product of a strict selection process and very strenuous training, with an emphasis on nighttime and hand-to-hand combat.

According to our available information, during “Operation Oluja,” special units quietly moved *at night* along the most important lines of attack, and filtered behind the enemy fronts. These were not only small groups, but also units of platoon, company, or all the way to battalion strength. The arms used in these assaults were, of course, infantry weapons, the “heaviest” of which were machine guns and light grenade launchers. By daybreak, the special units were mostly positioned *at the back and flanks* of the Serbian enemy, who were then assaulted from many sides at once. The special units also seem to have played an important role in the (mostly nighttime) neutralization of Serbian artillery positions. This tactical-operational approach had a devastating effect on the Chetnik troops: The Serbian troops suffered heavy losses, and morale quickly collapsed. On the morning of the second day of “Operation Oluja,” the campaign already seemed to be sure of victory.

Other armed forces outside of Croatia ought to look carefully at this form of combat, since it demonstrated the efficiency of special units against numerically superior, larger forces; whereas, in NATO, special units are mostly only deployed in very small groups for single commando actions. The Croatian Army has proven that special units do not have to occupy a “niche.” It is also worth pointing out, that the Croatian Army suffered relatively low losses during the campaign.

The on-the-spot observer is left in no doubt, that the motivation and fighting spirit of the Croatian Army is extremely high. Moreover, the Croatian population is almost 100% behind the Army and the policy of military re-establishment of the country’s territorial integrity. To the observer from Germany, the national enthusiasm of the Croatian youth and their support for the Army, is quite remarkable. The role of the Catholic Church cannot be forgotten in this regard. Cardinal Franjo Kuharic of Zagreb has declared that “Operation Oluja” meets the criteria for a *just war*. This, he explained, is not only justifiable, but indeed obligatory, whenever 1) the damage caused by an act of aggression, is serious, lasting, and beyond doubt; 2) non-military efforts to end the



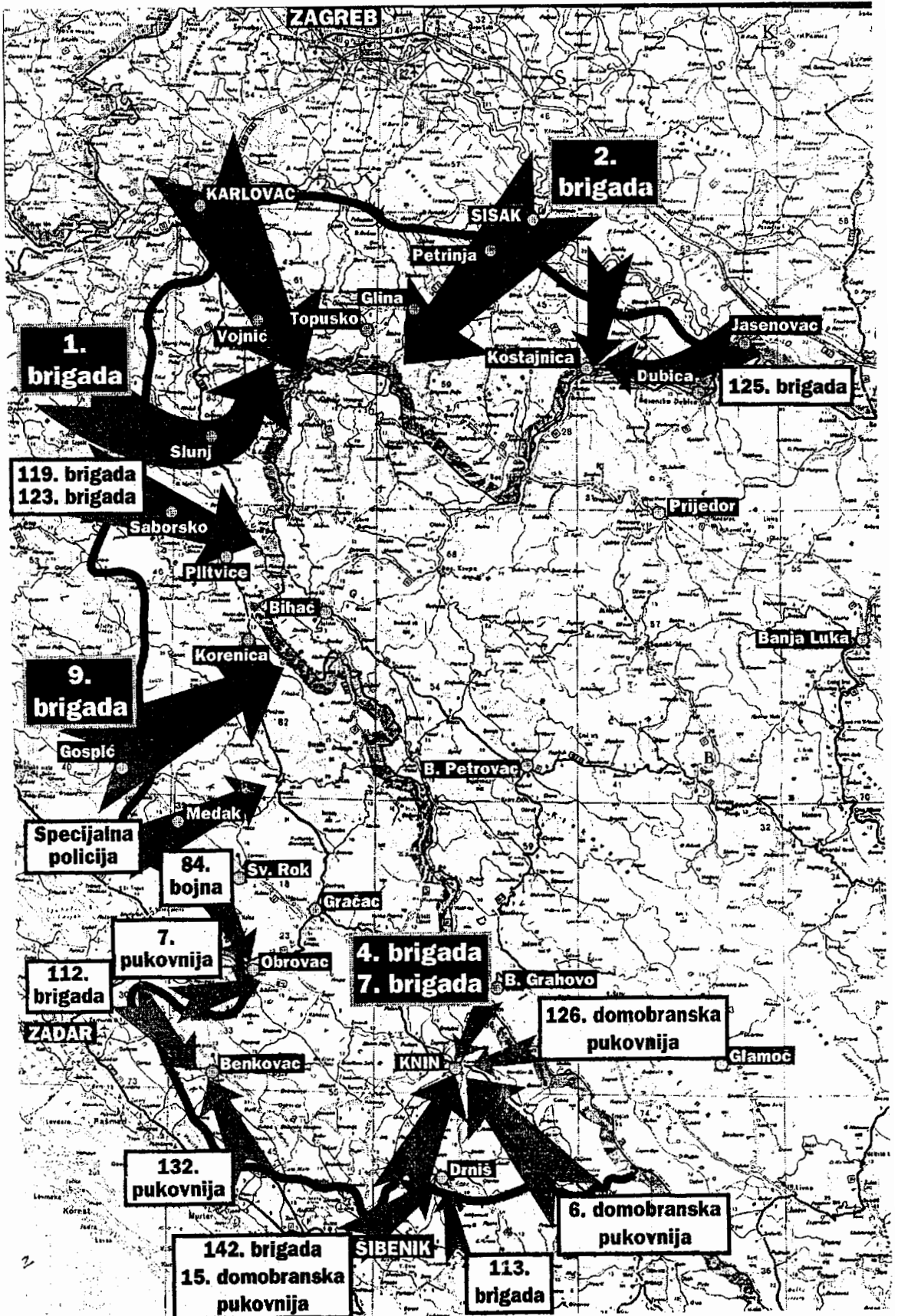
These children, victims of the three-year Serbian siege of Bihac, were taken to Zagreb by Croatian troops.

aggression have been either fruitless, or impossible to pursue; 3) the war against the aggressor has prospects of success; and 4) military force against the aggression does not only merely lead to evils greater than those already caused by the aggression itself.

The situation in the liberated areas

With the exception of small, scattered Chetnik groups hiding in the woods, the formerly Serbian-occupied areas of Croatia are now fully under the control of the Croatian Army and police. The entire region has been hermetically sealed off, and only military personnel, police, technicians, and returning residents who had been forced to flee in 1991, are allowed to enter the liberated areas. This measure was absolutely necessary, not only out of general security considerations, but also in order to prevent looting. The houses, farms, and apartments of approximately 150,000 Serbian former inhabitants of the “Krajina” region were abandoned in great haste. It is true that the Croatian soldiers have been “supplying” themselves locally with alcoholic drinks, food, and other goods, but on the other hand, there has not been any “large-scale looting.” The numerous fires which continued to burn days after the Croatians moved in, mostly have a commonplace cause: Livestock, left behind in the stalls, have died and are decomposing in the summer heat, and so everything is often just set ablaze. Many houses and farms have been completely or partially destroyed by the ravages of war; but it is often the case, that this damage goes back to 1991,

Theater of
'Operation
Oluja' in
Croatia



since there was practically no reconstruction activity after the Serbs occupied the region. Beyond that, most of the villages in "Krajina" are simply ghost towns, bereft of any people.

We must again emphasize here, what every on-the-spot observer can confirm: The Serbian civilian population was *not forced to flee*. The Serb civilians became victims of their own ideology and propaganda. All that was needed was the alarm call, "The Croats are coming!" and the Serb civilians instantly fled hearth and home. And wherever there was hesitation, the Serbian administration seems to have taken special measures to ensure that practically everyone would flee. Almost all Serbs in "Krajina" remember how, in 1991, their Croatian neighbors were murdered (about 20,000) or forced to flee (about 250,000).

Many of these Serbs had personally participated in such criminal acts of violence. They therefore assumed that they would meet a similar fate at the hands of the returning Croats, and so they took flight. Most of the "Krajina" Serbs now want to settle in "rump Yugoslavia" or in Serb-occupied eastern Bosnia. Most of them think that Serbian-occupied northwest Bosnia around Banja Luka is too unsafe to resettle there. Meanwhile, since the beginning of August, and with virtually no publicity, there has been a large-scale *ejection* of Croats, and to a lesser extent, Hungarians, from the formerly autonomous region of Vojvodina, which had been incorporated into Serbia in the 1980s. A sober and unprejudiced evaluation would have conclude that the deeply rooted Serbian "national ideology" shows definite symptoms of a collective psychosis, in which sadistic and masochistic factors also play a role. In the Serbian ideology, the "outside world," the "others," are perceived not in keeping with reality, but rather manic-depressively. It seems that the Serbs' genocidal excesses in Croatia, and especially in Bosnia-Herzegovina over the past four years, represent one side of the coin, the other side now being the breakneck mass exodus from "Krajina."

This "Serbian psychosis" is also evident when one visits the areas around Gracac and Lovinac in the Dalmatian hinterland, which, up to 1991, had been almost exclusively settled by Croats. Today, this area has been "re-naturalized"! All buildings, including churches, have been razed to the ground. All Croatian residents were either killed or driven out; but no Serbs settled in their place, thus creating a completely empty "natural wilderness" of which Prince Philip would be proud. The ruins and rubble, now overgrown with bushes and grass, give one the impression that people must have stopped living here centuries ago, and not just four years before.

The end of the occupation of Bihac

One crucial result of "Operation Oluja" has been the breaking of the Serbian encirclement of the northern Bosnian enclave of Bihac. For more than three years, the city of Bihac and its suburbs has been defended by the Bosnian Army's Fifth Corps. In the spring of 1992, the defenders had a total

of 250 rifles to stave off a Serbian occupation. Ever since then, Bihac has been under constant Serbian artillery fire. In three large-scale assaults (February 1994, November 1994, and July 1995), the Serbs attempted to take Bihac. They had managed to push into the southern parts of the city, and even today, the southern front line is only 10 kilometers away from the city's center. Members of the staff of General Dudakovic told us how, during the siege years, the defenders of Bihac carried out countless commando raids in order to inflict material and psychological damage on the Serbian besiegers. Bosnian commando units of 10-20 men would repeatedly slip through enemy lines and assault Serbian artillery and supply depots. But they could only take back with them those weapons and supplies which they could carry in their hands. The military resistance was organized with with these seized weapons, and with the few supplies that reached Bihac from the outside via forest footpaths. Also, a certain minimal logistical supply line was organized for Bihac, by smuggling in funds coming from Bosnian refugees and Bosnian guest workers in Germany, Austria, Italy, and Scandinavia.

The Fifth Corps staffers emphasized to us, that the critical problem of the Fifth Corps, and of the entire Bosnian Army, is their dire lack of artillery. Without heavy weaponry, the Bosnian Army's infantry assaults must reckon on heavy losses. And if a Bosnian infantry assault is successful, it is usually extremely difficult to hold onto the conquered territory, since it will come under heavy bombardment from long-distance Serbian artillery. This lack of artillery support is also the reason why the Bosnian Army's operation in late June to break through the cordon around Sarajevo, did not succeed. Nevertheless, by breaking the siege of the Bihac region, significant Bosnian forces are now freed up in the north, west, and northeast, which can also be reinforced by the renegade Muslim units of the "local warlord" Ficaret Abdic. The Fifth Corps also counts on getting artillery support from the nearby Croatian Army, and from the Bosnian-Croatian HVO forces. While the HVO forces push out from Bosnaska Grahovo and Drvar toward the north into the Una River valley, it can be expected that the Bosnian Fifth Corps will push toward the south. And here again, it must be emphasized that in the Bihac region, a truly comradely spirit of cooperation exists between the Croatian Army and the HVO. However, the observer cannot fail to notice that the equipment—and not only the armament—of the Bosnian Army is far inferior to that of the Croatian forces. In Bihac, rage and disgust is especially strong against the criminal arms embargo that has been imposed upon Bosnia-Herzegovina, in violation of international law, by the United Nations and the "great powers."

The truly heroic accomplishments and sacrifices of the Bosnian Army Fifth Corps must also be viewed in connection with the indescribable suffering—and enormous tenacity—of the civilian population of the Bihac region. For three long years, men, women, and children lived in daily fear for their

lives, and on the edge of starvation. Wherever one goes in the city, one sees leaflet-sized death notices posted on the billboards. Bihac is a city full of "thin people"—not completely starved, but anyone you meet in Bihac is very lean. This suffering—a suffering which is practically beyond the comprehension of the outside observer—is chiseled into the faces of the residents of Bihac, and it has an intense impact on the observer who visited only six days after the lifting of the siege. Can one ever "get used to" the combination of being surrounded, fear for one's life, and hunger? One can sense a general feeling of relief over the end of the nightmare siege; but one likewise senses the dreadful psychological damage which the people of Bihac have suffered, even though they do not want to make this into a special subject right now. When, a few hours later, the Croatian military bus prepared to leave with its load of visitors, a decision was made to take two children, aged 5 and 3, back to Zagreb. Both had tiny crutches, because each had lost a leg during the siege, after being hit by Serbian grenade fragments.

Conclusions for Bosnia

Although the western media want to give the contrary impression, the soldiers and civilians in Bosnia-Herzegovina are happy, and feel encouraged, over the quick and thorough success of "Operation Oluja." For four years, Lord Carrington, Lord Owen, Cyrus Vance, Carl Bildt, Boutros Boutros-Ghali, and all the other "diplomatic" representatives, have used every conceivable means to attempt to force the Croatian government to be "realistic" and to "accept" the loss of one-third of Croatia's national territory. But then, Croatia took decisive action, and created its own "facts." Now the Unprofor "peacekeeping" troops are leaving a Croatia which insisted upon defending its national sovereignty, and which—with the exception of eastern Slavonia—has now re-established its territorial integrity. And *what goes for Croatia, goes for Bosnia-Herzegovina, too*. Once again, international powers—centered in London—are putting pressure on Bosnia to be "realistic," and to write off its claims to sovereignty and territorial integrity.

But the Bosnian leadership knows full well, that it can only rely on its own powers. Under the most difficult circumstances imaginable, Bosnia has already created some important military "facts." The Bosnian leaders know that it must quickly create new military "facts," *now*, against the Serbian aggressors and their British friends. They are thankful for any form of external support—diplomatic, material, or military—but they know what it's only what they do themselves, that counts. Bosnia-Herzegovina's military-technological and economic resources are far poorer than those of Croatia. But the readiness of the Bosnian Army and the Bosnian population to make sacrifices and keep on fighting, is so great, that it can even resist the latest diktat attempts from London and from other practitioners of *realpolitik* within the diplomatic cabinets of the "great powers."

Kosova is a ticking time bomb

by Tom and Feride Istogu Gillesberg

The Serbian and British plan for a "Greater Serbia" received a severe blow with the successful Croatian-Bosnian military offensive to regain Croatian control of the so-called "Krajina," after three years of Serbian occupation, and to break the siege of the Bihac enclave in Bosnia. But that doesn't mean that Serbian dictator Slobodan Milosevic and his British masters have given up the idea of a Greater Serbia, and of continued war and genocide in the Balkans.

On Aug. 9, the Serbian media reported that 20,000 Serbians from "Krajina" were to be resettled in Kosova. On Aug. 10, they reported that the first 500 had already been bussed to Kosova. If not stopped, this will cause an acceleration of the process of colonization and "ethnic cleansing" of Kosova, directed against the Kosova Albanians, who comprise around 90% of the 2 million inhabitants of Kosova. This has been a fundamental theme of Greater Serbia propaganda and ideology.

A target of 'Greater Serbia'

Despite the fact that Kosova was almost entirely populated by Albanians, it was involuntarily kept as a part of Serbia after World War II. After the revision of the Yugoslavian Constitution in 1974, Kosova became an independent autonomous region of the Yugoslavian Confederation, with its own constitution and rights similar to the other Yugoslavian republics, except in questions of foreign policy and defense. When Milosevic took power in Serbia in the elections in 1986, it was under the banner of establishing a Greater Serbia, beginning by revoking the independence of Kosova, and making Serbia "whole again" by annexing Kosova. In the Greater Serbia mythology, Kosova was called the cradle of Serbia, making it the sacred soil of Serbia, that had to be reconquered, and, of course, the Albanian population living there had to be gotten rid of.

The Serbian Constitution of 1989 declared Kosova to be a part of Serbia. The tanks were sent in, and the independent authorities in Kosova were replaced by a Serbian dictatorship, backed up by the Yugoslavian-Serbian Army and paramilitary groups. The Albanian-language television was closed, together with *Rilindja*, the daily Albanian-language newspaper. The Albanian University in Prishtina, the capital of Kosova, was taken over by the Serbian authorities, and all Albanian professors and teachers fired. Only Serbian-language teaching was allowed. All higher educational facili-

ties were shut down, and only a few local primary and secondary schools, in a few villages and towns, were allowed to stay open. In all-Albanian areas, the schools were continued on a private basis; in areas with any Serbians, no matter how few, Serbian-language teaching was introduced, but Albanian-language teaching continued privately, often taking place in private homes. Prishtina University classes were continued outside the campuses. These schools often fell victim to terror, with daily reports of paramilitary groups storming into classrooms, beating up teachers, and intimidating and threatening the teachers and students.

Since 1989, about 500,000 Albanians have left Kosova. Every effort is being made to terrorize the Albanian population, so they will leave Kosova in fear or anger. Part of the order of the day is that the police and paramilitary groups, under the pretext of searching for weapons, invade Albanian homes and beat up families, regardless of whether they are young or old, or men, women, or children. They are also trying to find men who can be forced into Serbian military service, or political activists and intellectuals. These brutal "weapons searches" have caused hundreds of severe injuries and even deaths.

When the intruders leave, the homes are totally vandalized. Walls, roofs, and floors are broken up, and the furniture destroyed. The number of these visits is uncountable. In just one small district, Vitia, 500 such visits were recorded in the last six months by the Kosova Information Center. There are reports every day of people being attacked, physically abused, imprisoned, and tortured. Often, the local marketplace is attacked by paramilitary groups, and merchants, customers, and passersby are plundered and intimidated.

Since 1990, all public companies and factories have been taken over. Albanian workers are presented with a declaration of loyalty to the Serbian authorities. When they don't sign, they are fired. Over 200,000 Albanian workers have been fired in this way. Some of the jobs are then given to Serbians, but in most cases, production is simply closed down. Most of the Albanians in Kosova are, by now, totally dependent on money being brought back from family members who work abroad, and humanitarian aid, much of which is financed from Albanians abroad. Jobs and productive land are offered to any Serbian who resettles in Kosova.

A 'Serbian National Consultation'

On May 20, a "Serbian National Consultation" was held in the courtyard of the Serbian Monastery at Gracanica, with the blessing of the Serbian Orthodox Church. Many SOC members attended, including two bishops, Radovic and Jevtic. Also present was the so-called Serbian Resistance Movement (created to fight against alleged "Albanian suppression" of the Serbians living in Kosova) and Serbian parties and organizations. The Albanian-language newspaper *Bujku* reported that the participants called for an immediate forced expulsion of at least 670,000 Albanians from Kosova to Al-



A March 1994 demonstration in Augsburg, Germany. Signs read: "Freedom for Kosova! Stop British Geopolitics!" and "Stop Serbian Terror in Kosova."

bania, and a stepped-up "colonization of Kosova campaign," to ensure that all refugees from Croatia and Bosnia will be resettled in Kosova.

The population of Kosova has until now stuck to a well-organized strategy of non-violence, under the leadership of their elected government under President Ibrahim Rugova. At the same time, Serbia has had its hands full with the wars against Slovenia, Croatia, and Bosnia. Since Kosova is by far the least economically developed part of former Yugoslavia, and the Serbian policy has been to destroy the economy, it has not been possible for Serbia to find the hundreds of thousands of volunteers needed to colonize Kosova. Will Serbia try to solve the problem with a forced resettlement of Serbians fleeing from "Krajina," and other areas, into Kosova?

A full-scale colonization, and its partner, the well-known Serbian ethnic cleansing, will cause Kosova and the whole southern Balkan region to explode into war. After the experience of the last five years, it is difficult to imagine how peace and prosperity can exist in Kosova and the Balkans, if Kosova is forced to remain under a Greater Serbia. Only by securing the right of self-determination for Kosova, can there be peace in the Balkans and economic and intellectual development of all the people, no matter what their nationality, race, or religion. That would also be the best signal, that the horrors of a nationalist, chauvinist, and fascist Greater Serbia has been finally defeated.

Betrayed Argentine military is being 'restructured' into oblivion

by Cynthia R. Rush

Picture this: Army soldiers grow food in gardens near their barracks, to feed themselves; the Air Force rents out its airstrips, to race car drivers to practice; the Navy rents out its docks, for use by private launches; the Naval Prefecture uses its boats to give rides to children from private daycare centers, charging a small fee; and the Gendarmerie rents its mules to tourists. At one base, youngsters who have signed up for the new volunteer army are sent home, because there is no place to house them, or funds with which to train them.

Scenes from a movie? No. This is the shocking portrait of Argentina's Armed Forces. Once one of Ibero-America's most highly skilled militaries, with a proud tradition of nation-building, they are now degraded to performing the activities described to eke out funds the defense budget no longer provides. Under President Carlos Menem's administration, which began in July 1989, Harvard-trained Finance Minister Domingo Cavallo has applied the International Monetary Fund's austerity dictates, such that, as Defense Minister Oscar Camilión recently admitted, there is no nation in Ibero-America, "except perhaps a small Caribbean country," whose defense budget is *smaller* than Argentina's. In discussing what he called the "imaginative" methods to which the Armed Forces had resorted to generate funds, Camilión told the daily *Página 12*, "but we have to be careful that the human element doesn't prostitute itself."

Over the last two years, Argentina's defense budget has fallen by one-third in absolute terms, to no more than 1.5% of Gross Domestic Product, the lowest on the continent. During 1975-83, the defense budget was at least 6% of GDP. During 1987-94, the Army's budget dropped from \$560 million to \$130 million—a 75% decline. Today, the Army's \$120 million budget is *smaller* than that of the British Army's garrison on the Malvinas Islands! Argentina is one of the largest economies in Ibero-America, yet its troop strength of 72,000 is among the smallest.

A strategic defeat

In 1982, Argentina's Armed Forces were defeated by the British in the Malvinas War, with the help of the Reagan-Bush government in the United States. Treason and betrayal

among their own high command also contributed to that defeat. But the humiliation the institution suffered in 1982, is nothing compared to what it has undergone over the past 13 years, as Anglo-American policymakers, and their collaborators inside Argentina, have systematically dismantled the Armed Forces in accord with the policy known informally as the "Bush Manual." This strategy of eliminating the continent's armed forces, under the guise of "restructuring" and "modernization," took form under the Bush administration, and remains largely intact today, as seen in the mid-July meeting of Ibero-American defense ministers in Williamsburg, Virginia.

In testimony before the Buenos Aires Federal Court in August 1991, Col. Mohamed Alí Seineldín, a hero of the 1982 war, documented the process of "de-Malvinization" of Argentina's military: its physical disintegration, and how the attack on its philosophical and ethical underpinnings succeeded in destroying it as "a fundamental institution of the nation . . . as the military arm of the Fatherland, and . . . safeguard of the highest interests of the nation." Seineldín, who was sentenced to life imprisonment because he told the truth, and because he acted to defend the Armed Forces, warned that "the Armed Forces, and police and security [forces] will continue to be weakened, because, as I have explained, this is a foreign project, by which we will enter the 'new order.'"

For years, *EIR* had been exposing the policy of which Seineldín spoke, which we elaborated in our 1993 book *The Plot to Annihilate the Armed Forces and Nations of Ibero-America*. As the articles which follow show, efforts by pro-British factions in Washington, such as those associated with the Inter-American Dialogue (IAD) think-tank, to redefine the mission of Ibero-America's armed forces away from the defense of national sovereignty, and the activities of the British-backed international human rights cartel to annul amnesties which protect military officers who fought narco-terrorism, from prosecution, are all part of this *Plot* to do away with the military institution continentally.

But Argentina's case remains the most dramatic. Camilión, a member of the IAD, which speaks for demilitarizers in

Williamsburg: Plot against military meets obstacles

The defense ministers of the democratically elected governments in the Americas met in Williamsburg, Virginia on July 24-26, convoked by the Clinton administration to further coordination on regional security matters. The agenda was dominated, however, by the program for regional demilitarization and globalism known as the "Bush Manual," drafted under the George Bush administration. That utopian, anti-national agenda met with continued resistance in Williamsburg from many of the major countries of the region.

The three themes on the agenda were: so-called "transparency" of military plans and capabilities, based on revealing all to the United Nations; promotion of international "peacekeeping" deployments; and insistence on civilians running shrunken defense capabilities.

Prior to the meeting, U.S. Defense Secretary William Perry stated that the goal of the conference was to identify measures which would make it "possible for each country in Latin America to reduce its military spending," and so "free up economic resources" which would enable Ibero-American countries to "carry the burden of peacekeeping around the world." Perry asserted that the militaries of the region have an "obligation" to assist such international missions.

The Argentine delegation, led by Defense Minister

Oscar Camilion, a member of the Inter-American Dialogue, came into the meeting proposing that Ibero-America send so many troops out under U.N. command, that the region "becomes a quarry for Blue Helmets"—even as the world watched those Blue Helmets *directing* Serb genocide and ethnic cleansing in Bosnia!

U.S. Defense Department officials announced in advance that they would not seek formal agreement on these themes from the other delegations, and, according to reports of participants, listened during the meeting to what others had to offer. But the keynote speech, delivered by Vice President Al Gore (whose views do not always match those of President Bill Clinton), insisted on the utopian idiocy that the time has come for a "major rethinking of what constitutes national security," and for nations to "look beyond the traditional concept of security to new missions," such as international peacekeeping and protecting "eco-systems."

Mexico sent the strongest signal that this agenda is unacceptable, sending only an observer delegation, led by its ambassador to the United States, not even a lower-level official sent up from Mexico. According to press accounts, Venezuela and Brazil argued strongly that military defense cannot be separated from economic defense.

Perry announced that, at the urging of other delegations, he added combatting "narco-terrorism" to his final "Williamsburg Principles." Collaboration between U.S. and Ibero-American forces in fighting drugs is one area where substantial advances have occurred, to the benefit of all.—*Gretchen Small*

Washington and London, was named defense minister in March 1993 to carry out the Dialogue's plans. He has performed well. In early August, the government announced the fourth military budget cut *this year*, cutting another \$31 million on top of the \$160 million already mandated in the 1995 budget. Military sources told the daily *Clarín* that if these went through, the result could be a situation of "ungovernability within the Armed Forces." The commanders of the Joint Chiefs of Staff sent a message to Camilión saying that "with this new cut . . . our forces are no longer in conditions to operate."

In the Aug. 4 *La Nación*, military analyst Eduardo Barcelona reported that the cuts would mean cancelling the annual U.S.-Argentine *Unitas* naval maneuvers, and closing down the Naval College and the Naval Mechanics School. The Air Force has canceled all flights until September, and all other flights in the Army and Navy will be halted as well. The new volunteer army, which the government inaugurated after obligatory military service was eliminated, will be stillborn. The young men and women volunteers will be housed and

fed, but will receive *no military training*, because there are no funds to pay for it!

Revealing of the environment within the Armed Forces is the fact that, four years after Colonel Seineldín elaborated how the *Plot* against the institution had been carried out, some military leaders are being forced to admit that he was right. A case in point is the Aug. 10 speech on Air Force Day by Brig. Gen. Juan Paulik, chief of staff of the Air Force. It is clear to the leadership of the Armed Forces, Paulik said, that "the development of defense cannot be disconnected from the global development of the State, and at the same time respond definitively to the country's concrete possibilities." In a reference to the *Plot*, he pointed to the "existence of theories which generate a strong current of opinion which encourages everything, from an arbitrary reduction of the Armed Forces to their transformation into pseudo-national guards." It would be totally "reckless, to completely rule out [the Armed Forces]," Paulik said, "or excessively minimize them, at the risk of seriously mortgaging vital interests of the Nation."

In Brazil, some want to reopen the 1970s war against subversion

by Silvia Palacios

A campaign has been touched off in Brazil to reopen the chapter of the deaths in the battle against communist terrorism which was waged by the Brazilian Armed Forces in the 1970s. The aim of this is to advance the plans to dismantle the military, following the pattern of dramatic events in Argentina under the government of President Raúl Alfonsín, who, under pressure from the Anglophile oligarchy, decided to punish the military leadership for their battle against terrorism, and the Malvinas War, by unleashing a torrent of vendettas which split the society into warring camps.

Although the Brazilian government is just acting as a receiver and mediator for international pressures exerted by self-styled human rights defenders such as Americas Watch and Amnesty International (AI, actually an arm of the British intelligence service), inside the government there are motives for stirring up this kind of fight. It starts with President Fernando Henrique Cardoso, who has never given up the idea pushed by the Inter-American Dialogue—the Wall Street bankers' think-tank of which he is a founding member—to downgrade the Armed Forces' role.

The government has just unveiled a plan, responding to these pressures, for opening up the file of the politically "disappeared persons" which had previously been treated as a closed chapter in the country's history, thanks to the amnesty decree of 1979. Such United Nations non-governmental organizations (NGOs) as AI, Americas Watch, and their Brazilian satellites, mainly entrenched in the Workers Party (PT), demanded that this law deal with three aspects: a) recognition of the number of deaths, b) payment of compensation to the families, and c) investigation of the circumstances of the deaths, which would imply a mea culpa on the part of the Armed Forces for having fought the groups which were rebelling against the constitutional State.

The Justice Ministry, in the name of the government, granted the first two demands, but the third remained excluded, albeit ambiguously. But besides this plan, the Justice Ministry is working on another which will heighten the showdown with the military. The National Congress is prepared to discuss gradually doing away with military justice, and decreasing its role to merely holding courts-martial for military crimes, removing its jurisdiction over what are consid-

ered to be public safety crimes.

In the last week of May 1995, a case occurred which illustrates the kind of motives involved in the pressure on the Armed Forces. By presidential order, Col. Armando Avolio Filho, the military attaché in the Brazilian Embassy in London, was suddenly removed from his post, accused by Amnesty International and Americas Watch of having been a torturer of political prisoners in the 1970s.

Human sacrifice offered to Britain

Without the slightest exaggeration, Colonel Avolio's head was the prize which the Cardoso government turned over to the British, to show them that this really is a government that respects human rights. In early May, AI's president, Pierre Sané, made a fact-finding tour through Brazil, at the end of which he labeled President Cardoso's attitude toward the hundreds of cases of politically disappeared persons as "extremely disappointing." And, he proclaimed, "we are not going to close this file." A few days later, in Brazil, with the group "Never Again Torture," and in London, in diplomatic and media circles, AI started mobilizing to demand that Brazil comply with the aforementioned three demands, adding the punishment of Avolio to their list.

Such a punishment and public humiliation for a high-ranking officer had never occurred before. Perhaps what was most surprising was the aggressive British diplomacy, which moved in tandem with AI and Americas Watch to demand it. The *Guardian*, a London daily, published a lying report "exposing" Colonel Avolio's activities, based on information turned over by Amnesty International, which has sponsored volumes of "exposures" of cases of political repression.

To force the desired objective, on May 15 the spokesman of the opposition Labour Party, Tony Lloyd, announced that his party was asking British Foreign Minister Douglas Hurd to undertake an investigation to clarify the charges against the colonel. This was then requested from the Brazilian Embassy in London. In a bizarre intervention into a country's internal affairs, the Foreign Office went so far as to have the British ambassador in Brazil demand from the Brazilian Foreign Ministry a rapid explanation of the events.

Nevertheless, President Fernando Henrique Cardoso proceeded at once to purge Colonel Avolio, because AI's or Americas Watch's pressures were not isolated actions. Indeed, the "human rights card" is part of the diplomatic deal made with the Anglo-American powers, especially involving the desire of the hegemonic group in the Brazilian Foreign Ministry, to revive the colonial special relationship that Brazil used to have with Britain in the last century. As one of the principal Brazilian collaborators of Americas Watch admitted in an article on May 7 in *Folha de São Paulo*: "Our embassies have stopped treating NGOs as enemies. In London, Ambassador Rubens Barbosa is a valid dialogue partner for Amnesty International and other organizations."

The globalist "human rights diplomacy" has gone to the extreme of intervening into sensitive internal affairs which are considered national security matters. One was the Avolio case. Another is the fact that the Justice Ministry signed a convention with AI to allow it to start courses in "human rights and respect for citizens" for local police, federal police, military personnel, and civilians, which will be taught by professors trained in the slanted AI vision of human rights, considered as a supranational weapon to be wielded at whim against sovereign nation-states.

Brazilian allies

These international networks have friendly folks to talk to on the Brazilian side. One of them is the secretary general of the Justice Ministry, Jose Gregori, the current negotiator in the case of the disappeared persons. He and his wife are old, intimate friends of the President and Mrs. Cardoso. Gregori is also very close to banker Marcilio Marques Moreira, the former finance minister, and he is famous for having set up the Human Rights Chair at the University of São Paulo.

He represents, within the Justice Ministry, the tie to the terrorist networks of the continent, via his long and close friendship with Cardinal Paulo Evaristo Arns, the archbishop of São Paulo, who is one of the leaders of the South American "theology of liberation," a friend of Fidel Castro, and a sort of chaplain for the terrorists who collect around the São Paulo Forum, the above-ground front for the terrorists founded by Castro. Gregori's daughter is a member of the Student Non-Violent Nucleus at the University of São Paulo, which until recently was a kind of Brazilian branch for Americas Watch. That was the sponsoring entity for campaigns like "Never Again Torture," which has consistently sought the mea culpa of the Armed Forces, and is now working on the project for getting rid of military justice.

There are other highly placed allies in the Cardoso regime in the so-called campaign for human rights. Take the Sirotsky family, influential spokesmen for the U.S.-based Anti-Defamation League of B'nai B'rith (ADL), and owners of the newspaper *Zero Hora* of Rio Grande do Sul, which

they use to propagandize for all kinds of campaigns against the military, and especially for reopening the "disappeared persons" cases. One of the Sirotsky family's agents is the mentally unbalanced Jair Kriesche, president of the Movement of Justice and Human Rights of Rio Grande, who acts in conjunction with a faction of Israeli military intelligence.

The long-cherished ideal of the demilitarizers is to be able to punish, humiliate, and finally destroy the armed forces of the countries of the South American Southern Cone, and what better opportunity than allowing the pro-terrorist inter-continental network to activate itself in coordinated fashion to achieve that objective?

Kriesche and the Workers Party are trying to use the Brazilian government's bill in favor of their causes as a lever to extend the same concerted pressure to other countries, especially Uruguay, Argentina, and Chile. They argue that since Brazil recognized, in its list of dead, the existence of foreigners, including three Argentines who were active in the Montoneros, the communist guerrillas who tried to provoke civil war in Argentina in the 1970s, "This proves the responsibility of our country in joint operations of repression in the Southern Cone," as Kriesche stated on Aug. 3.

Meanwhile, the chairman of the Human Rights Committee in the House of Deputies, Nilmario Miranda, a PT member, said he was willing to head up this coordination. On Aug. 6, he said that he is trying to create a "human rights connection" which will act as the interchange among such organizations, especially those formed by parliamentarians of South American countries, as a "Mercosul for the disappeared" (Mercosul is the name of the Southern Cone free-trade zone to encourage looting the economies).

At the moment, Nilmario Miranda is coordinating the defense, not of dead terrorists, but live ones. Together with his counterpart in Chile, he is pressuring the Brazilian government to extradite to their respective countries—where they are sure to be handled with kid gloves—the Chilean and Canadian terrorists who took part in the kidnapping of businessman Abilio Diniz in 1989. This was an action carried out by a multinational terrorist group whose activities were linked to the operations that were discovered with the famous explosion of the weapons bunker in Managua, Nicaragua.

The reopening of the issue of politically disappeared persons and the punishment against Colonel Avolio have stirred major unrest in the military ranks, with consequences that the demilitarizers may not be counting on. The June issue of the most influential military magazine, *Ombro a Ombro*, warns, in a comment on the colonel's case: "In the face of this challenge to the military institutions, any attitude of weakness by the command of the Armed Forces can lead to a painful process of breakup, as occurred in Argentina, after which their military leaders accepted as a 'condition' of the unsigned 'truce' after the undeclared war with Britain for possession of the Malvinas Islands, the virtual dismantling of their heroic Armed Forces."

Colombia: NGOs mediate kidnappings to finance terrorism

Recent evidence has come to light proving that various non-governmental organizations (NGOs) affiliated with the United Nations have not only served as mediators for hundreds of kidnappings carried out by narco-terrorist groups in Colombia, but have also directly participated in these crimes. This casts a new light on the role of these NGOs in attacking the Colombian military for purported human rights violations, given that it is the military which has primary responsibility for combatting narco-terrorist groups that engage in kidnapping, such as the National Liberation Army (ELN) and the Revolutionary Armed Forces of Colombia (FARC). It would seem that for such NGOs, the kidnapping business does not qualify as a violation of human rights.

The most outrageous case so far is that of Idelfonso Abirama Abirama, one of the most rabid defenders of the "human rights" of the Cauca Department Indigenous Committee, an NGO related to a network of continental "indigenist" organizations coordinated by Guatemalan terrorist Rigoberta Menchú, who received the Nobel Peace Prize in 1992. Abirama was captured by police on July 15, when he received a letter from the relatives of Luis Eduardo Villegas, an engineer who had been kidnapped. Abirama admitted his complicity in the kidnapping and exposed his cohorts, leading the police to where Villegas was being held captive. When the kidnappers realized they had been discovered, they killed Villegas, for whom they had been asking a ransom of \$350,000.

One of Abirama's cohorts was Ceferino Tamayo, president of the National Association of Tenant Farmers in the region, another NGO which "reports" on presumed violations of human rights.

Another case: On June 21, Teddy Tourman, a spokesman in eastern Colombia for the International Red Cross, another NGO, stated that the IRC had already negotiated the freeing of two Protestant missionaries of U.S. origin who had been in the hands of the FARC for 29 months, but that the presence of the Colombian Army in the region messed up the deal, and the FARC decided to kill the two Americans instead. Later, it was found out that the FARC had killed the missionaries on June 19 point-blank, and left the corpses at the scene of a skirmish with the Army so that it would appear that they had died in the clash. The authorities are almost certain that the ransom demanded by the terrorists had already been paid and that the IRC had turned over a large part of the money to

the terrorists, money which had been gathered from family members of the victims and from religious organizations in the United States tied to the Summer Linguistics Institute.

Currently, there are some 50 foreigners kidnapped in Colombia. The FARC and ELN, to negotiate their ransom, have agents, "ambassadors," expert in negotiating kidnappings, who, in coordination with numerous NGOs, are negotiating directly with the main foreign companies which have contracted these foreigners.

Kidnappers violating 'ethical rules'

Another case is that of two Swedish engineers, kidnapped by the FARC, half of whose \$6 million ransom was paid by the Skansa company and half by the Council of Swedish Industrialists. Luiduine Zumpolle, a director of Pax Christi, an NGO which is part of the Liberation Theology wing of the Catholic Church, came from Europe to receive the ransomed engineers. The Pax Christi delegation left with empty hands. Zumpolle stated upon leaving Colombia that the FARC's excuse for not handing over the Swedes in Montería in March 1995, as had been agreed, was the presence of military and paramilitary forces in the region. "If they were capable of capturing these Swedes within this military and paramilitary situation, they would have to be capable of handing them over in the same situation," Zumpolle complained.

Out of fear of the reaction of the NGO supranational "human rights" organizations, none of the NGO representatives have been arrested, even though under Colombian law mediation in a kidnapping is a crime.

Pax Christi has sponsored various books against the Colombian military, including *State Terrorism in Colombia* and *On the Trail of the Dirty War*, in which virtually the entire Colombian officer corps is accused of committing human rights violations, on the basis of accusations spread by the FARC and ELN. These books finger Colombian military men for potential terrorist attacks, and have already served as an excuse for various European governments to deny officers visas to enter their countries—entirely on the basis of the NGO accusations. FARC and ELN kidnapping negotiators, on the other hand, are free to run off to Europe whenever they please.

This is not the first time that Pax Christi has helped the FARC in concluding a kidnapping with a juicy ransom. What is unusual is that Pax Christi would attack the FARC for not keeping its promises. The reason is that now the terrorists are even violating the "ethical rules" for kidnapping negotiations. According to intelligence evaluations, in 1994 the terrorists got 163,000 million pesos (\$200 million) in the kidnapping business. Their total revenues, including drug trafficking, blackmail, bank robberies, and livestock theft, was around \$600 million. On many occasions, the FARC and ELN received the money but never released their hostages. On other occasions, they demanded additional sums from the families of the victims to get the corpses back.

NGOs attack the Mexican Army and defend the Zapatistas

by Carlos Méndez

On Aug. 14, Agence France Press news service reported that the Vatican has designated Bishop Raúl Vera López as coadjutor bishop, with full succession rights, to the San Cristóbal de las Casas diocese in Chiapas, Mexico. The move was to be understood, according to the account, as an "offer of help" by Pope John Paul II to Bishop Samuel Ruiz, who currently heads the diocese, to alleviate his burden of pastoral duties. With this help, the "Red Bishop" Ruiz and his terrorist hosts in the Zapatista National Liberation Army (EZLN) have been dealt a strong and timely blow.

The nomination occurs at precisely at the moment that the EZLN and Ruiz have launched a new offensive to prolong "peace talks," and to hold another national plebiscite on the EZLN's demands. Their strategy is to stall, to allow sufficient time for the consolidation of a political machine headed by Manuel Camacho, with international backing from the human rights non-governmental organizations (NGOs), which would topple the Zedillo government and install an overtly pro-Zapatista regime.

As they stall, patience is running out among various sectors, especially the military.

In statements to the July 27 issue of *Siempre!* magazine, Congressman Luis Garfias Magana, president of the Defense Commission of the Mexican House of Representatives and an Army general on leave, said that despite the willingness of the government to negotiate, the EZLN insists on "prolonging the conflict unnecessarily for propagandistic effect, both domestically and abroad. They have reached the absurd point of creating a rebel embassy in Paris, and indicate that they plan to do the same in Barcelona, Spain."

Gen. Tomás Angeles Dauahare, military adviser and member of the government-appointed negotiating body with the EZLN, declared on July 25 that if the EZLN continues its stalling tactics, there is "an option in the air" that the dialogue will rupture.

Foreign attack on the Mexican Army

In a June 29 report, Human Rights Watch-Americas Watch launched a violent attack against the Mexican Army for supposed human rights violations in Chiapas.

The timing of the campaign by Americas Watch, which has repeatedly defended the "human rights" of Peru's Shining

Path narco-terrorists, intersected a number of developments: President Ernesto Zedillo changed his government secretary; the Armed Forces, which refuse to withdraw from Chiapas, began a fierce offensive against the drug trade; and there was an outbreak of what could become a "second Chiapas" in the state of Guerrero.

In its report, Human Rights Watch-Americas Watch accused the Mexican Army of exonerating Army personnel accused of committing massacres, torture, and other human rights violations during the Zapatista uprising in January 1994 in Chiapas. Immediately, the Foreign Relations Ministry (SRE) rejected the charges, saying that "these imputations have no basis in fact, and seem more designed to garner publicity than the truth." Human Rights Watch Executive Director José Miguel Vivanco angrily responded that the SRE, "instead of basing itself on facts, attacks the messenger who brings bad tidings." He complained that "it is most unfortunate that [the response] is so personalized; it is the first time that we have met with such a response from a country in Latin America."

The Americas Watch charges—which as usual make no mention of the atrocities committed by terrorists, in this case the Zapatistas—are pathetically weak, but the publicity they received in the press was immense. On June 30, Mexico's leading pro-Zapatista daily, *La Jornada*, said that "the black shadow that hovers over the Armed Forces and over the national government in general comes from the Human Rights Watch report on the Army's behavior in Chiapas."

The British have had a direct hand in stirring things up as well. On June 17, Ambrose Evans-Pritchard, a British intelligence agent and Washington correspondent for the London *Sunday Telegraph*, published a violent attack against the government of President Zedillo, and "predicted" a new destabilization wave. Two days later, in its June 19 edition, the Mexican magazine *Epoca* published statements by Howard Davies, the director general of the Confederation of British Industry and the next deputy governor of the Bank of England, who said that British investors were concerned with Mexico's "uncertain future."

Davies specified that his visit to Mexico was because "we are seeking to establish a protection agreement for British investments in Mexico, in addition to winning guarantees for

those investors against expropriation of their properties and assets, and for the government to give them legal status to care for their investments. In addition, should unresolvable legal difficulties present themselves in the country, they would have the right to turn to international forums in search of help."

A key institution of the State

The Mexican Army is attacked for one simple reason: It is one of the three institutions upon which the Mexican state rests, and it is the key institution opposing the destabilization represented by the EZLN's irregular warfare. As Gen. Luis Garfias declared in his capacity as head of the House of Representatives National Defense Commission, "the Army has always been the most prestigious and honorable institution, in which the citizenry has confidence."

Accused of being "hard-liners" for defending the Constitution, the national territory, and Mexican sovereignty, the Army has been systematically attacked by the EZLN and by its accomplices both within and outside the country. As Zapatista commander Bishop Ruiz said in a Nov. 3, 1994 interview in the daily *Excelsior*, the EZLN's "war was not against the local landholders, but against the Mexican Army."

In statements published last May 18 in the daily *El Heraldo de México*, Sen. Alvaro Vallarta Ceceña, president of the Senate's National Defense Commission and a brigadier general on leave from the Army, said that the Army should continue to serve as the guarantor of a state of law in Chiapas. Implicitly alluding to the concessions that the government has been making to the EZLN, he said, "there are unheard-of things happening in this country which appear strange to us. How to explain how a few hooded ones can continue to bear arms, while the Mexican Army stands aside? Well, there is the good will of the government; this must be understood and we hope that there is also good will on the other's part."

The senator emphasized, however, that the military's withdrawal from Chiapas "is not on the agenda for discussion. In any way. For this to be a subject of negotiation would also mean withdrawal from Nayarit, Jalisco, or Chihuahua. No. The Mexican Army, throughout the country, is carrying out its constitutional function. The withdrawal of the Mexican Army from a zone of conflict is not a matter for discussion, much less for negotiation."

In statements to *Excelsior* on July 3, Sen. José Antonio Valdivia (a general on leave from the Army) referred to the Americas Watch report. He pointed out that in the early days of the uprising in Chiapas, the Army was not responding to threats, but to physical attacks, and that there had been an open declaration of war. He asked: "What does a citizen naturally do in its own legitimate defense, if there is premeditated and treacherous aggression against him? How should the Armed Forces react when they are under crafty and cow-

ardly attack? Why has the EZLN not said that 14 soldiers and 55 police officers died?"

'We could have suffocated the uprising'

One of the first slanders thrown at the Army when the EZLN appeared on the scene, was that the Army had failed to protect national security. The Army has vehemently denied this, and new information has shed light on the political aspect of these charges. Brig. Gen. Mario Arturo Acosta Chaparro, author of a book on subversion in Mexico, told *El Heraldo* on July 10 that since 1990, the Defense Ministry had warned the government that "representatives of extremist groups of known and proven aggressivity in the last decade, are working clandestinely to regroup, organically fuse, and provoke new outbreaks of violence at a moment they judge most appropriate."

On July 11, the same daily published statements by Congressman Garfias, who said that "if the President [Carlos Salinas de Gortari] did not act, it was because he didn't consider it the right moment, but it is obvious that as head of the national security cabinet, the defense secretary surely had informed the previous government of the presence of subversive groups in Mexico."

In an extensive interview in *El Universal* on July 10-11, Senator Vallarta Ceceña said, "On the night of Dec. 31, 1994, Army intelligence detected movements by the EZLN to occupy San Cristóbal de Las Casas. We could have trapped them and suffocated the uprising, but the national security cabinet ordered us confined to barracks. Since then, as after 1968, the Armed Forces have been perversely criticized."

Senator Vallarta Ceceña also said that the military believes that "there is a deliberate attack against the President of the Republic and the institutions," and that "the goal is to destabilize us so that the foreigners can take our oil, our natural wealth." He added that there are "very serious pressures from abroad," and that the Zapatistas "could be used, without their even realizing it, to divide the country."

In a July 12 interview in *El Heraldo*, Congressman Jesús Esquinca Gurrusquieta (a general on leave from the Army), and secretary of the House Defense Commission, described as "an error of the previous administration" the fact that the government had not acted when the first armed groups were detected in the country. "They would not have grown and we would have prevented their reaching the extreme of attacking the institutions—principally the Armed Forces—as they have," he said.

Esquinca indicated that "the current administration should avoid making the same mistake by allowing the Armed Forces to continue to operate in Chiapas, to guarantee the security of the peace dialogue there. . . . As I said at the beginning, the Executive must avoid any further ruptures in the state of law, and the fact that an armed group exists represents a risk that at any moment, they could once again attack the Army."

Coca economy flags in Peru

The São Paulo Forum is setting coca-growers against the State as the cocaine economy flounders.

The fall of the Cali Cartel's top drug lords, and of many of their Peruvian counterparts, could destroy the coca economy, which has trapped more than 200,000 Peruvian peasant families. Peru produces nearly 80% of the raw material for cocaine that is sold in the world, and the drug trade itself would dramatically decline if there was decisive action to sow the 200,000 hectares now producing coca, with food crops instead.

On Aug. 9, only hours after the arrest of Cali's Miguel Rodríguez Orjuela, the Peruvian press reported on the collapse in price of Peruvian coca: from \$80 to a mere \$4 per *arroba* (roughly 25 lbs.). The sale of basic cocaine paste has already fallen 60% so far this year. Since the first major arrests in Colombia, drug planes have ceased to land on the nearly 300 clandestine airstrips in the Peruvian jungle. The semi-processed cocaine already purchased by the Cali Cartel is not being shipped, and bags of coca leaf sit untouched at roadsides, because intermediaries have stopped buying them. The government has even suspended its own legal purchases of coca, and has called on coca-growers to change crops.

Playing an important part in the ongoing war on drugs in the region, which is having this dramatic impact on the Peruvian cocaine trade, has been the decision of the Clinton administration to undertake a deliberate policy reversal from the previous Bush government, and to provide genuine assistance to "producer" countries such as Colombia and Peru. Exemplary is the fact that the Pentagon is now providing radar-tracking and

other data to the interdicting aircraft of both nations' Air Forces, under the U.S. Southern Command's counter-drug operations directorate.

According to the Aug. 14 issue of *Aviation Week & Space Technology*, 17 suspected drug-smuggling aircraft have been downed in those two territories, since the United States revived its data-sharing on March 1 of this year. The 17 planes, according to *Aviation Week*, include those "tracked to a landing site and intercepted, and destroyed, as well as those that were forced to land or shot down."

According to a spokesman for the U.S. Southern Command cited by the weekly, "The fact that the 'air bridge' has been impeded is as much a result of the multi-regional approach to business down there" as it is to the revived provision of U.S. tracking data.

The narco-terrorist symbiosis is also in crisis; the military chief of Peru's Huallaga Valley has warned that Shining Path is in a "financial emergency," because the drug planes that bring them money and weapons in exchange for protection have ceased to land. On Aug. 9, the Lima daily *Expreso* reported on Shining Path's efforts to replace its partnership with the Cali Cartel with Mexican mafiosi. The Peruvian military is clear on how to handle this. Apart from continuing operations against the last redoubts of Shining Path concentrated in the Upper Huallaga Valley "[anti-drug] operations will continue daily, as the best moment to wipe out the drug traffickers has come."

Those who have taken the brunt of it are the peasants, who are forced to sow coca at gunpoint, or because of

the low prices for traditional agricultural products. The economies of Peru's coca-growing departments of Ucayali, Huanuco, San Martín, and the coca valleys of Cusco, Junín, and Ayacucho (which depend on the narco-dollars the Colombian planes no longer bring), are now languishing, and the coca-growers are facing starvation.

The pro-terrorist São Paulo Forum and pro-drug Andean Commission of Jurists (the local branch of George Soros's "human rights" outfit, Americas Watch) rushed into the breach to try to defend what they could of the narco-terrorist industry. On Aug. 10, the so-called Andean Coca Council (CAC) met in the city of Puno, on Peru's border with Bolivia, and threatened to lead desperate coca-growers in an armed uprising against the State. At the same time, the federations of Peruvian coca-growers, affiliates of the CAC, announced regional strikes in Huallaga and other areas.

Roger Rumrill and Gustavo Mohme, local mouthpieces of the São Paulo Forum, explained their strategy Aug. 11: "In the Apurímac Valley, there are 25,000 *ronderos* [members of armed self-defense groups] who fought for democracy by fighting Shining Path, and who are now abandoned. . . . This people's misery is the breeding ground for subversion. . . . It is a time bomb that could blow at any moment." Mohme blamed the government, saying, "Now the coca-growers of Cusco feel . . . defrauded, and are announcing regional strikes that could explode in violence." Mohme's newspaper, *La República*, cynically summed up the situation: "less coca, more hunger." On Aug. 13, it headlined its first page, "More than 25,000 *ronderos* on a War-Footing. They Will Defend Their Coca Crops."

International Intelligence

African leader hits 'recolonization' attempt

Nigeria and Cameroon are being targeted by certain developed countries whose goal is the "recolonization of West Africa," Nigerian head of state Gen. Sani Abacha charged on Aug. 9, Nigerian State Radio reported. African nations must ensure that these efforts aimed at undermining the governments of West Africa fail, he said. Abacha's comments came after receiving a message from Cameroon President Paul Biya, delivered by Cameroon Deputy Prime Minister Ahmadou Moustapha. Biya is quoted saying that Nigeria had been the target of what he called external aggression of a moral kind designed to interfere in its internal affairs, the radio reported.

In Cameroon, the Southern Cameroon National Council (SCNC), which is advocating secession for the Anglophone provinces of northwest and southwest Cameroon, has been busy touring the region, reporting on its recent trip to the United Nations. The British Broadcasting Company, fanning the fires, reported on Aug. 4: "The call for secession has been mounting, as President Paul Biya's government has ignored appeals for more autonomy for the Anglophone region. The SCNC delegates have been given a rapturous welcome on the tour."

Soros wears out his welcome in the East

An article in the Aug. 12-13 weekend edition of the Austrian *Die Presse* gives the impression that time is running out for the Hungarian-born, London-based financier George Soros in all of eastern Europe and the Community of Independent States. Soros has made a fortune in derivatives speculation and spends a lot of it for foundations in former communist States which sometimes support apparently desirable policies, with the aim of getting an inside track in future power lineups.

In early August, for example, Bulgarian state television cancelled three cooperation

agreements with Soros's Open Society Foundation, on grounds that there is a conflict with the "national interests" of Bulgaria. Also, in Slovakia, remarks by Soros at an international forum in Crans-Montana, Switzerland, in early July, that he viewed Slovakian Prime Minister Vladimir Meciar as made of the stuff that fascism is made of, has provoked calls from Meciar's HZDS party to declare Soros persona non grata, and by the National Party (Meciar's coalition partner) to ban the Open Society Foundation from Slovakia.

Soros's operations have been outlawed in Serbia for alleged spying and aiding the anti-Milosevic opposition; in Croatia, President Tudjman charged Soros in a recent, personal meeting with "supporting traitors." In Russia, Soros's attacks on the "dark group around [President Boris] Yeltsin" have caused him a lot of trouble; in Belarus, the authorities all of a sudden imposed a tax of 40% on all Soros activities, be they of a "philanthropic" nature or not.

Even in the Czech Republic, Soros's bridgehead in the East, the government of Prime Minister Vaclav Klaus has cancelled all commitments for co-funding Soros's "Central European University" project in Prague. It is only because President Vaclav Havel offered Soros rooms in his residence, the Hradshin, that there is a small chance for Soros to continue his operations there, *Die Presse* reported.

Chalker will push her depopulation agenda

British Overseas Development Minister Baroness Lynda Chalker is leading the British delegation to the United Nations Women's Conference in Beijing in September, and intends to use the occasion to push her fanatical programs for limiting population.

The London *Times* headline on Aug. 9 read, "Chalker Ready to Tackle Vatican on Birth Control." She is determined, says diplomatic editor Michael Binyon, not to let the Vatican "subvert" the accords reached at last year's U.N. population conference in Cairo. The Baroness, whose zeal about curbing human population has been implemented in

Rwanda with the help of such Chalker protégés as Uganda's President Yoweri Museveni, warns that the Vatican will "probably try" to subvert the agreements reached at Cairo. "But I'm a Girl Guide at heart," she exclaimed. "I will be prepared for these things."

Britain is sending 100 non-governmental organizations to Beijing, for the conference itself, and a whopping 200 NGOs to the NGOs forum outside Beijing. The British NGOs are receiving some \$20 million in funding from Chalker's ministry.

In Washington, Marjorie Margolies-Mezvinsky, deputy chairman of the U.S. delegation to the upcoming Beijing conference, gave a press briefing at the Foreign Press Center on Aug. 9. She was asked by the reporter from the French weekly *Nouvelle Solidarité*: "Lady Chalker is the leader of Britain's delegation to Beijing. Now, there are people close to her, who have said, off the record, that the main reason for this big push for what is called 'women's empowerment' is that it would reduce population growth. . . . Is this also the U.S. policy?" Mrs. Mezvinsky answered with a flat "No."

Haiti breakdown lends grist to Clinton foes

Associates of the U.S.-installed Haitian President Jean-Bertrand Aristide are murdering political opponents, as the former priest moves to extend his rule in Haiti, American newspaper columnist Robert Novak charged in the Aug. 7 *Washington Post*. Novak says that at least 80 of the killings have been traced back to Aristide's associates by U.S. military intelligence. He blames the killings on Aristide's lieutenant and potential successor, René Preval, who has organized "vigilance brigades." Working with Preval are Renaud Bernardin and Gerard Pierre Charles, "both tied to Libyan state terrorism." Novak says that U.S. Ambassador William Swing and his staff are turning a blind eye to the killings.

Giving a foretaste of the criticism that will be likely used by Clinton's rivals in the 1996 electoral campaign, Novak adds:

Briefly

"This is the outcome of the U.S. policy that sent 20,000 troops to restore Aristide at a cost of \$3 billion. Fraudulent elections are establishing one-party rule." In a second column, in the Aug. 10 *Washington Post*, Novak says that "civil war looms," and adds: "These problems belie President Clinton's claim of the Haitian intervention as his greatest foreign policy triumph. The President must now come to grips with Haiti disintegrating on his watch."

According to wire reports, a spokesman for the U.S. embassy in Port-au-Prince denied Novak's charges, saying that there is no evidence that the recent killings were political or done by Aristide's supporters. "There is no silent complicity," said the spokesman. A Pentagon official said that Novak's charges were "exaggerated" and "politically suspicious," the *Washington Times* reported on Aug. 10.

Aristide is undoubtedly moving to stay in power. Two thousand Lavalas supporters took to the streets the first week of August, demanding that his term be extended three years. They issued leaflets saying that if their demand is not met, the exodus of "boat people" to the United States would resume. On Aug. 11, two cabinet members, Minister of Social Affairs Enold Joseph and Minister of Public Administration Anthony Barbier, resigned to protest Aristide's unwillingness to negotiate a solution to the crisis stemming from the recent parliamentary and municipal elections, which were stolen by Aristide's Lavalas party.

Sainthood sought for Shining Path victims

Pope John Paul II has approved starting the process of beatification of the two Polish and one Italian priests who were slaughtered in Peru by the communist terror group Shining Path in 1991, in the province of Huara, Ancash, reported the Lima paper *La Republica* on Aug. 9. Msgr. Luis Bambarem Gastelumendi, bishop of Chimbote, announced the pope's decision to begin the process of beatifying Franciscans Michal Tomaszewski, Zbigniew Strazalkowski, and Italian Salesian father Alessandro Dordi Negrone.

The three had been told to leave the country by Shining Path but refused to do so, and were subsequently assassinated and their corpses mutilated.

Beatification is the first step in the process toward officially being declared a saint in the Catholic Church.

All three priests worked in poor areas, and, because of their evangelizing work, were condemned by the narco-terrorists as "enemies of the popular war." At the time of the killings, Shining Path spokesmen said that the killing of the Polish priests was intended as a "message" to Pope John Paul II.

Book questions funding of global green machine

A new book, *Cloak of Green*, by researcher Elaine Dewar, exposes the shady finances of the international green machine and its political operations, according to a review in the July 26 *Vancouver Sun* in British Columbia.

According to the review, Dewar "discovers in her travels (Switzerland, Brazil, Washington, D.C.) that the world of environmental groups is a small, tightly linked network of people who seem to be in charge of a much larger agenda. Tracking money through the hands of the various organizations makes money-laundering sound like an innocent task for Monday morning sing-songs. The Canadian International Development Agency, the Canadian embassy in Brazil, all sorts of unlikely sources, pay large sums of money into a number of supposedly politically neutral non-governmental organizations. These same NGOs then show up as supporters of political parties and candidates, influencing even world banking policies, all done in the name of environmental causes."

Dewar examines the multimillion-dollar fundraising campaign conducted by "environmental charities in Canada, Europe and America" on behalf of the Brazilian Kayapo tribe. This money was raised in fundraisers addressed by an Amazonian Indian, Paikan, yet, asks Dewar, "Where had all that money gone?"

● **PRINCE PHILIP**, the British queen's consort, who offended the Chinese during a 1980 visit to China by talking about "slitty eyes," implied that all Scots are drunks, during a recent visit to Scotland. Our source is an undated newspaper clipping which quotes the Royal Boor asking a driving instructor, "How do you keep them off the booze long enough to pass the test?"

● **SWEDEN'S** biggest newspaper, the evening *Expressen*, on Aug. 7 ran a full-page commentary by two associates of Lyndon LaRouche, Ulf Sandmark and Oscar Porath, titled "The U.N. Died in Bosnia." The article's sharp polemics against British policy were printed in boldface.

● **MALAYSIA** demanded the resignation of U.N. Secretary General Boutros Boutros-Ghali in a statement released by the Foreign Ministry on Aug. 14, according to a TWRA wire report. The statement blamed the Egyptian aristocrat for the continuation of the war in former Yugoslavia.

● **THE COLOMBIAN** correspondent for *EIR*, Javier Almario, vowed on a Radio Notisuper interview broadcast on Aug. 10 in Bogotá, that he will "of course" keep writing for the magazine "founded by Lyndon LaRouche," which has been a target "since its inception for exposing the high-level networks behind the international drug trade." Almario received death threats for his *EIR* articles.

● **SPAIN'S KING** Juan Carlos was the target of an apparent murder plot, for which three alleged Basque terrorists were being held in Madrid on Aug. 10. Spanish authorities say that as many as 14 members of the three royal families on holiday in Majorca could have been victims.

● **KENNETH KAUNDA**, the former President of Zambia, is on the comeback trail, urging resistance to International Monetary Fund dictates and charging a plot to assassinate him.

The Abscam assault helped shut down the U.S. economy

by Mary Jane Freeman

The pathetic performance of American congressmen in the just-concluded hearings into the massacre at the Branch Davidian compound in Waco, Texas, was, unfortunately, no surprise to *EIR*. *EIR* Founder and Contributing Editor Lyndon LaRouche had warned, weeks before the hearings commenced, that a coverup would occur should federal lawmakers fail to take up the litmus-test cases of corruption within the Department of Justice, centered primarily in the DOJ permanent bureaucracy (see *EIR*, June 30, 1995). Similarly, he had earlier forewarned of such gutlessness by any future Congress, back in September 1981, should the then-sitting Congress capitulate to the FBI's Abscam operation, which had targeted Sen. Harrison Williams (D-N.J.), among others, for removal from office (see *EIR*, Sept. 22, 1981). Abscam was the code name for a series of DOJ-FBI frame-ups which set out to unseat dozens of congressional leaders who were the backbone of the nation's business-industry-labor alliance for progress. Its success played a significant role in accelerating the destruction of the U.S. economy.

On the eve of the U.S. Senate vote in September 1981, on whether to expel Senator Williams, LaRouche wrote:

"Proven innocent of all specific crimes alleged, [Senator] Williams . . . was framed, openly and shamelessly, by the worst lot of judges and prosecutors seen in English-speaking law since the bloody assizes of the 17th century.

". . . If a United States senator can be fraudulently charged and convicted in the manner Sen. Harrison Williams has been, no private citizen is safe from even more monstrous injustice imposed by sheer caprice of judges who are corrupt.

". . . The [Senate] 'Ethics Committee' [which had recommended Williams's expulsion] has condoned a large-scale, willful effort to destroy the constitutional authority

of the Congress of the United States. It is sufficiently documented that the operation usually known as Abscam-Brilab targeted preselected members of Congress for frame-up, a virtually treasonous action launched under the auspices of former Attorney General Benjamin Civiletti to the included intent of breaking the will of Congress.

"Does Congress have the morality to exonerate Williams?"

Paving the way for the British policy

The DOJ-FBI Abscam operation was only one piece of a broader operation aimed against America's business and industry leaders and labor unions. What *EIR* readers today know as the British monarchy-headed Club of the Isles's "post-industrial" agenda to dumb-down the population with outcome-based education-type schooling, to deregulate industry and banking, and to impose depopulation programs (see *EIR*, Oct. 28, 1994, "The Coming Fall of the House of Windsor"), could not have taken root in the United States had the DOJ-FBI witch-hunts of the late-1970s and 1980s not succeeded in ousting or terrorizing the nation's political and labor leaders.

Abscam targeted Congress. Operations Pendorf and Brilab targeted labor, especially the International Brotherhood of Teamsters (IBT), the International Longshoremen's Association (ILA), and the International Laborers Union (ILU). Operation Frühmenschen ("early man") singled out African-American elected and public officials for "investigation" and prosecution. Operation Ill Wind targeted America's defense industry. The political agenda of the DOJ bureaucrats, to eliminate pro-growth constituency leaders, succeeded in making way for the quick-buck speculators, corporate takeover moguls, and deregulators of the 1980s and '90s.

Government targets were preselected

The modus operandi used in these government scams went like this: Starting with a *preselected* list of elected officials, labor leaders, and businessmen, the FBI would go to them attempting to solicit criminal activity. An FBI undercover sting-man—usually a convicted criminal from the Federal Witness Protection Program (FWPP), overseen by one of the most important of the permanent bureaucrats, Deputy Assistant Attorney General John Keeney—would pose as a representative of a wealthy Arab businessman (Abscam), or as an insurance salesman (Brilab), to lure unsuspecting legislators into accepting bribes in return for legislative favors or influence-peddling. The bait these scam artists dangled was the possibility of investments in the lawmaker's district or a better deal on insurance policies for state programs, saving the state millions of dollars. With the FBI videotapes rolling, these FWPP crooks-for-hire, who had been given immunity for their crimes (see box, below), would say anything in an effort to get a legislator to take a bribe—or at least “agree” to take one. If it was refused, then the FBI-directed sting-man was to tell the target that unless he accepted the money, the investment project was off. This, the FBI agents said, was “the Arab way.” Or, in the case of Brilab, “the company’s way of showing its appreciation.”

Aiding and abetting these scams were a bevy of “investigative reporters” whose “news” stories would appear in out-

lets such as the *New York Times*, the *Washington Post*, or NBC-TV Nightly News. The routine use of Justice Department “leaks” by these lap-dogs fostered the witch-hunt climate. If nothing else, such leaks would help convict the targets in the public eye. (One wonders whether the FBI’s adoption of an “all Arabs are sleazy” attitude to aid their scam, didn’t come from the Anti-Defamation League, because relations between the ADL and FBI were particularly close at this time.)

The abuse of the “investigative techniques” employed by the FBI’s convicted con-artists only came to light 18 months after the Abscam railroad had demolished the careers of numerous political leaders in New York, New Jersey, and Pennsylvania. Federal District Judge John P. Fullam issued a blistering attack on the Justice Department’s operations, in his opinion overturning the Abscam convictions of two Philadelphia politicians. Fullam found that the DOJ hit-men’s conduct was so overreaching and “outrageous as to amount to a violation of due process.” In particular, Fullam found the effort to lure their victims into the appearance of a crime, did not “ferret out crime,” but rather, had the undercover agents “initiat[ing] bribe offers.”

In most cases, the targets were not predisposed to commit a crime, but rather were “coached” on what to say for the FBI video camera, which fit a preexisting script devised by the prosecutors who were out to bag their quarry—no matter

Michael Raymond: profile of an FBI ‘sting-man’

On April 18, 1995, one day before the bombing of the federal building in Oklahoma City, in another federal building in Brooklyn, New York, an employee of the FBI for 22 years was quietly arraigned on murder conspiracy charges. Michael Raymond, a.k.a. Michael Burnett, was charged with ordering and bankrolling the execution of Valerie Vassell, a New York City bank teller who had been his accomplice in a counterfeit-check-cashing swindle, but who later went to the authorities and turned him in. While behind bars, Raymond successfully arranged for a hit-man to assassinate Vassell. In January 1994, two men broke into the apartment and shot her in the head.

Phone conversations between Raymond and his attorney, in which the \$100,000 payoff for the murder were discussed, were recorded by federal investigators. In short, Raymond’s charmed life is finally coming to an end.

Raymond’s career as a con-man on the federal payroll began no later than 1971, when he appeared, with a paper

bag over his head, before the Senate McClellan Committee hearings on organized crime. In return for immunity, Raymond gave the senators an insiders’ view of the “hows” and “whys” of organized crime. Sen. Charles Percy (R-Ill.) described him as “one of the most valuable and helpful witnesses this subcommittee has ever had before it.”

Once he got onto the “immunity scam,” Raymond saw the FBI as a perfect partner in crime.

Since 1973, Raymond has been in the Federal Witness Protection Program, enjoying Uncle Sam’s tax-free largess—and the protection of the FBI and the Criminal Division of the Department of Justice—all the while continuing a lucrative criminal career that began in the 1940s with the Meyer Lansky crime syndicate. For Raymond, working for the FBI targeting elected officials for frame-up and prosecution, was the deal of a lifetime. Federal prosecutors, in the mid-1980s, were so committed to nailing urban politicians that they arm-twisted state authorities in Florida into dropping four separate murder indictments against Raymond! Raymond is the prime, unindicted suspect in a total of six prior murders—people who were either business associates privy to his criminal schemes, or were targets of those schemes.

what. Star Abscam con-man Mel Weinberg, when told he should refrain from doing this, retorted, "If I can't do that, we won't make no cases." The evidence of outrageous conduct had been suppressed by the DOJ during the trials. David Margolis, who headed the Organized Crime and Racketeering section at the DOJ and is a close collaborator of key DOJ permanent bureaucrats Deputy Assistant Attorneys General Mark Richard and Keeney, "overruled" objections of two New Jersey prosecutors who wrote a memo to department headquarters exposing the outrageous entrapment techniques of Weinberg. Philip Heymann, who was then Assistant Attorney General in charge of the Criminal Division, also suppressed evidence of FBI wrongdoing in testimony to the House Judiciary Committee on March 4, 1980 when he said, "I know of no case where an agent has gone out and tried to persuade a political figure to take a bribe." Heymann and Margolis appeared at recent hearings on Whitewater, both fueling criticism of the Clinton White House.

The U.S. Senate capitulated

LaRouche's 1981 warning to the U.S. Senate queried whether the legislators had the "adequate moral fiber" to stand against the tide of "consensus" calling for dumping Williams, noting their support for policies of deindustrialization, deregulation, and population control. Such behavior, LaRouche wrote, was "merely consistent with the accelerating erosion of our nation's moral fitness to survive." Calling on their conscience, LaRouche reminded them: "Each member of Congress is morally responsible for whatever consequences ensue from each decision—personally accountable morally—and if that person is moral, must act on the basis of reason and conscience even if he or she is a minority of one in Congress or party. That is the quality of representation the citizen of a republic has a right to expect; that is the quality of representation those citizens ought to demand."

Despite the shortcomings LaRouche described of the then-sitting Congress, he hoped that, "if a majority of the Senate could muster the morality of practice to repudiate [the Williams expulsion resolution], that courage to go against the 'prevailing consensus' would mean a revolution in morality within the Congress."

In March 1982, during the five-day Senate debate on his expulsion, Williams, whose innocence gave him the courage to fight the railroad, brought into the open the dirty deeds of the DOJ witch-hunt against him. New Jersey's four-term senator challenged his colleagues to investigate the "Department of Justice and the FBI's" efforts to "instigate and foster criminal activity where none existed." He warned that if the "illegal, unconstitutional, and ethically repugnant . . . tactic goes unchallenged, tomorrow . . . it could become an Executive method to control and intimidate this sovereign branch of government."

Three senators, John Melcher (D-Mont.), Daniel Inouye (D-Hawaii), and Alan Cranston (D-Calif.) came to Wil-

liams's defense. A fourth, S.I. Hayakawa (R-Calif.), supported censure instead of expulsion. On the sixth day, March 11, 1982, Williams, seeing the cowardice of the majority of his colleagues, resigned rather than allow "the Senate to bring dishonor to itself by expelling" him.

Clearly, the "revolution in morality" that LaRouche had hoped for, didn't occur, and the abuses of Abscam were never halted.

The Senator Williams project was the pinnacle of the DOJ's "white collar crime" big-publicity cases. The will of elected officials was broken, and the citizenry capitulated to the media hype that "all politicians are corrupt." Ever since, this DOJ "plumbers unit" has had carte blanche to hunt down hundreds of elected officials, labor and business leaders, the defense industry, scientists, and average citizens for frame-ups, blackmail, and media smear-jobs.

As of 1981, nearly 18,000 Americans had been convicted of white collar crimes or racketeering, and that just as a result of operations during 1976-79. The permanent DOJ bureaucrats such as Philip Heymann, Mark Richard, David Margolis, and John Keeney (see "Justice Department hit men," p. 69), in coordination with the J. Edgar Hoover types at the FBI, had changed the priorities of our justice system from fighting crime to creating crime. For example, in 1975, the DOJ's federal convictions for drug-related crimes were 8,135 cases, but by 1978, these had been halved to 4,299. Yet, in fiscal year 1979, the DOJ opened up 81,000 "white collar crime" investigations. The next year, 23% of the FBI's investigative manpower was devoted to pursuing white-collar crime. Meanwhile, in 1980, the United States was hit with a cocaine epidemic due to increased trafficking.

By the time these and many, many other government-run scams had taken their toll, the nation's trucking industry, shipping industry, and banking industry were deregulated and our nation's commitment to the elderly, health care, and education had been eroded. Key leaders in Congress and many state legislators had been hounded out of office. For example, Senator Williams had championed the interests of the elderly and labor. At the height of the Abscam operation against him, he and Senator Melcher were preparing to introduce legislation prohibiting the astronomical interest rates imposed by Federal Reserve Board Chairman Paul Volcker. Every one of the congressional Democrats (see "American leaders targeted," p. 70) under attack had been strong opponents of deregulation, until they were put in the Abscam crosshairs. In the state of Washington, the entire Democratic Party leadership, led by key national leaders of the pro-nuclear faction of the conservative wing of the party, such as U.S. Sen. Warren Magnuson and Rep. Mike McCormack, left office in the wake of a federal-state operation aimed against the state legislative leadership. In Texas, Speaker of the House Billy Clayton, a national leader and recognized expert in water management, was a prey. Up and down the East Coast, from New York to New Jersey to Maryland, long-



Justice Department hit men

A cabal of tenured bureaucrats occupies powerful positions in the Justice Department's Criminal Division. They have preselected political opponents for prosecution, to eliminate them from the scene. Thousands of America's leaders during the late-1970s to mid-1980s were targeted in government-initiated scams such as Abscam and Brilab. Previous issues of EIR have documented the roles of these men in more recent abuses, including the frame-up of Lyndon LaRouche. Here are the key men who have perverted the American justice system.



Philip Heymann first came to the DOJ in 1961, and has been back twice: 1978-81 as the Assistant Attorney General (AAG) heading the Criminal Division, where he made headlines as the head of the Abscam probe, and

1993-94 as Deputy Attorney General in the Clinton administration—until he was fired in 1994 by Attorney General Janet Reno. Testifying recently in Congress, he said, "I shared with William Webster, then-director of the FBI, the ultimate responsibility for the Abscam investigations. . . ."

Oliver "Buck" Revell, during the Abscam-Brilab period, held the position of Assistant Director of the FBI's Criminal Investigative Division. He allowed the fast-and-loose "investigative techniques" used by both FBI agents and their FWPP con-men to go unchecked.



William Webster was director of the FBI throughout the Abscam-Brilab operations and oversaw the shift of FBI investigative manpower out of pursuing ordinary crime and into the manufacturing of "white collar" crimes.

John Keeney has been at the DOJ since 1951, and holds the position of Deputy Assistant Attorney General (DAAG) overseeing sections in the Criminal Division. He supervised, throughout the 1970s and '80s, the Office of Enforcement Operations which ran the Federal Witness Protection Program (FWPP) bevy of convicts used to frame up labor leaders and elected officials. He also oversaw the Organized Crime and Racketeering section responsible for designing the RICO (racketeering) indictments.

David Margolis has been with the DOJ since 1965. Through the 1970s and '80s he was the head of the Organized Crime and Racketeering section of the Criminal Division. He bragged in court testimony that when two prosecutors brought to his attention the abuses being perpetrated by the Abscam con-man, he "didn't disregard it. I overruled it." This decision was central to the DOJ's withholding of vast amounts of exculpatory evidence from the Abscam defendants, in particular.

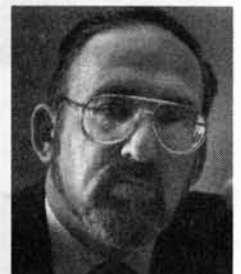
Mel Weinberg was the FBI's star Abscamrat, protected by the FWPP. He was supposed to be terminated as an informant due to his felonious activities while on the government payroll, but he wasn't, and in the course of his "service" in Abscam, a U.S. Senate Select Committee—after the trials—found that Weinberg had failed to record key conversations with targets; failed to keep a record of his contacts with targets; obtained a \$5,000 bonus from the FBI by lying about certain results; solicited and received valuable gifts from targets, which he converted to his personal use; doctored tape recordings; and committed perjury—among other things. He was best known for his "coaching" the targets in how to be a criminal. He told FBI agents if he can't put words in their mouths, "we won't make no cases."

William Weld:

When he wasn't directing the frame-up of LaRouche, Weld was occupied with shutting down the defense industry. Scion to the



White-Weld banking interests, Weld began targeting his political opponents while he was U.S. Attorney in Massachusetts. One court described his prosecutorial tactics as bordering on "Soviet guilt by analogy" in a case he manufactured against a political foe. He had also made cases against New England defense contractors. Confirmed by the U.S. Senate for the position of AAG in charge of the Criminal Division, Weld declared that his "private agenda" included "public corruption and white collar crime" cases, especially defense procurement fraud.



Mark Richard:

At the DOJ since 1967, as a Deputy Assistant Attorney General overseeing the Criminal Division, he has directed Office of Special Investigations (OSI) targeting of NASA scientists in bogus "Nazi-hunting" cases. He also supervised the Defense Procurement Fraud unit, headed by Ted Greenberg in 1987-88, which targeted the Pentagon and defense contractors in Operation Ill Wind.

American leaders targeted

Targeted in the plethora of government-spawned scams were the institutions which made America an industrial power in the world. Among those hit were: the Democratic Party, Congress, the International Brotherhood of Teamsters, the International Longshoremen's Association, the defense industry, and African-American leaders. What was lost was an alliance of business, industry and labor; also affected was the quality of education. Defenders of the American System had been attacked, demoralized, and eliminated from the scene. Below are just a few of those leaders.

Operation Abscam



Sen. Harrison Williams
(D-N.J.)



Rep. John Murphy
(D-N.Y.)



Rep. Frank Thompson
(D-N.J.)

Operations Brilab and Pendorf

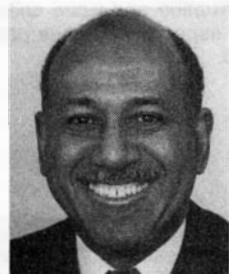


Sen. Frank Cannon
(D-Nev.)



Texas Speaker
Billy Clayton

Operation Frühmenschen



Federal Judge
Alcee Hastings



Rep. Adam Clayton
Powell (D-N.Y.)



Mayor Coleman Young
(Detroit)



International
Brotherhood of
Teamsters



International
Longshoremen's
Association

Operation Ill Wind and OSI targeting



Rep. Mervyn Dymally
(D-Calif.)



Mayor Carl Stokes
(Cleveland)



NASA Administrator
James Beggs



Dr. Arthur Rudolph

shoremen, teamsters, and laborers, i.e., the union workers who made possible the delivery of goods from our ports and factories, were left leaderless as the government created cases against the heads of these unions.

The assault on local leaders

In the late 1970s, the Senate Permanent Investigations Subcommittee (SPIS) helped the DOJ “pick their targets.” SPIS staff director William Goodwin revealed, “We identified the weak points, Teamsters and Longshoremen leaders who could be hit. . . . We had the profiles of the people who could be broken. Now the FBI goes in and sets them up. It’s like a duck shoot.” Not hiding the political agenda, Goodwin concluded, “Brilab will give credibility to the charges that parts of organized labor are in fact run by organized crime. . . . The FBI will produce some indictments. They will scare some people. Then Congress will come in and mop things up. We intend to break the power of the Teamsters, the Laborers, and the Longshoremen all over the country.”

By 1977, a handful of FWPP convicted felons were employed to “sting” or entrap hundreds of labor leaders. Among them were: Anthony Scotto, ILA general organizer, framed up and convicted in the Brilab scam; IBT President Frank Fitzsimmons, who was forced to testify before SPIS, after which the DOJ and Labor Department eventually maneuvered to take over the IBT Central States Pension Funds; and IBT vice presidents Roy Williams in Kansas City and Jackie Presser in Cleveland, a target of Operation Pendorf. By the mid-1980s, the DOJ had put the IBT into receivership, running its finances and supervising its union elections. The unions had been broken.

Simultaneously, constituency leaders of state and local governments were pursued. In each case, these civil servants were supporters of labor and were crucial to what used to be known as America’s delivery system. For example:

- Camden, N.J. Mayor Angelo Errichetti, driven from office because of an Abscam conviction, was a staunch supporter of the development of nuclear power as a means to attract new industry to the city’s port, which he sought to modernize. Federal funding fell through, and he turned to the FBI’s phony Arab sheikh for money to build the city.
- Philadelphia City Councilmen George Schwartz and Harry P. Jannotti, driven from office by an Abscam prosecution. Federal Judge John P. Fullam overturned their convictions, finding that they had been the victims of a government scheme “designed not to expose municipal corruption, but merely to ascertain whether, given enough inducement, city officials could be corrupted.” Later, the Third Circuit Court of Appeals overruled Fullam, reinstating the convictions, but not without objection from Judge Ruggiero Aldisert, who was a member of the Third Circuit court. Aldisert’s dissent was an impassioned plea for the country to reject Abscam for the police-state methods it employed (see box, p. 72).
- Texas Speaker of the House Billy Clayton beat his

Brilab frame-up, but only after having his name dragged through the mud and paying tens of thousands of dollars in legal fees.

- Washington State Senate Majority Leader Gordon Walgren and Speaker of the House John Bagnariol, who were framed up in a joint FBI-state police operation called Gamscam. The two were the state’s most outspoken supporters of labor, and opponents of banking interests which were seeking to have the usury law rewritten to allow interest charges above 12%. Upon the jury verdict of guilty, Bagnariol said, “I feel I am the victim of the government in this case. This is how the Nazi government got started.” Ten years later, having served their sentences and spent hundreds of thousands of dollars, two of the three charges against them were tossed out by the U.S. Court of Appeals for the Ninth Circuit.

Control of Congress

Senate SPIS staffer Goodwin had confidently predicted that after SPIS and the FBI had scared some people and broken the power of labor, then “Congress will come in and mop things up.” Did he know that the blackmail and entrapment schemes of the DOJ-FBI plumbers unit was to be next turned on the Congress to ensure their submission?

The Abscam victims in the Congress were predominantly labor Democrats. The DOJ-FBI were not ferreting out crime in Congress; rather, they were creating crimes to ensnare a particular group of members of Congress. One Republican was caught in the Abscam web, Rep. Richard Kelly of Florida. He made a public fight against the Gestapo tactics used by the “shady characters” behind Abscam. Rep. Bill McCollum (R-Fla.), chairman of the House Judiciary Subcommittee on Crime, took Kelly’s seat in the wake of Abscam, which speaks loudly to his protection of the DOJ permanent bureaucracy in the recent Waco hearings.

Among the Democrats targeted were:

- Sen. Harrison Williams, who had served 23 years in the U.S. Senate when the Abscamers went after him. He was the former chairman of the Senate Labor and Human Resources Committee and then-chairman of the Senate Subcommittee on Securities, which oversaw the regulation of securities, stocks, and bonds. Not only had he fought for labor and civil rights throughout his career, but at the time he became a mark, he was the major obstacle to banking deregulation being pushed by, respectively, Senate and House Banking Committee chairmen William Proxmire (D-Wisc.) and Henry Reuss (D-Wisc.), with the support of Federal Reserve Board Chairman Paul Volcker. Williams was also opposed to the wave of foreign takeovers of U.S. banking and industry, characterized by a December 1979 London *Economist* cover story entitled “Buy America Cheap.” The DOJ plumbers unit had to get him out of the way. Despite the FBI’s videotape showing him refusing the phony Arab sheikh’s bribe, three times, he was convicted by a cowardly jury.
- Sen. Howard Cannon (D-Nev.), who was chairman of

Judge Aldisert warned of FBI Gestapo tactics

On the eve of the U.S. Senate's vote to confirm or reject the FBI's police-state frame-up of Sen. Harrison Williams, the National Democratic Policy Committee (NDPC), the LaRouche wing of the Democratic Party, issued a mass leaflet under the headline, "U.S. Cannot Survive FBI's Abscam Gestapo." The leaflet reproduced quotes from U.S. Third Circuit Court of Appeals Judge Ruggiero Aldisert's dissenting opinion in the Philadelphia Abscam case of U.S.A. v. Harry Jannotti and George Schwartz. He compared the FBI's Abscam tactics to those of the Czarist Okhrana and the Nazi Gestapo. Here are excerpts:

. . . The Gestapo were the consummate users of the "honey pot," a technique government witness Mel Weinberg proudly described as the technique the government utilized in this case. The FBI employed the honey pot through a secret agent who, by ostentatiously flashing

and giving away wads of money, would attract both the wary and the unwary, the scrupulous and the unscrupulous. . . .

But this trap was particularly selective: The operators of this honey pot personally selected those who would share the sweet stuff. The party was by invitation only; when the guests came to the pot it was not necessary for them to ask for a sample; rather, their mouths were opened for them and the honey poured down their gullets.

To the Department of Justice, its operation was a taste of honey; to me, it emanates a fetid odor whose putrescence threatens to spoil basic concepts of fairness and justice that I hold dear. That the FBI has earned high praise for its performance in the traditional discharge of its duties should not immunize the secret police tactics employed in its Abscam operation from appropriate and vigorous condemnation. . . .

Popular opinion may not care greatly about the fates of those entrapped and convicted by the government and its agent provocateur, but federal judges must care about the sword that is plunged into the body of trust between a people and their government. That body can withstand only so many wounds before its life will be no more.

the Senate Commerce Committee when he became a quarry in Operation Pendorf. He had been an opponent of trucking deregulation, until his name surfaced in this FBI scam.

- Rep. Frank Thompson (D-N.J.), who was chairman of the House Administration Committee, the second-ranking member of the Education and Labor Committee, and chairman of the Labor-Management Relations Subcommittee when he was set up in Abscam. He was facing an uphill reelection bid, and backed down on his opposition to trucking deregulation in the face of the indictment.

- Rep. Michael O. (Ozzie) Myers (D-Pa.), who was a longshoreman by trade. He had become a member of two House committees: Education and Labor and Merchant Marine and Fisheries.

- Rep. John P. Murtha (D-Pa.), who held a seat on the Appropriations Committee, the Defense Subcommittee, and the Committee on Official Conduct when he was targeted. He made headlines when he won his seat in 1974 because he had captured the district in western-central Pennsylvania which had been held by the Republicans for 38 years. The owner of a local car wash, he was known for his ability to get things done for his economically depressed district.

- Rep. John Murphy (D-N.Y.), who was a member of the Interstate and Foreign Commerce Committee and chairman of the Merchant Marine and Fisheries Committee. After being named in Abscam, Murphy announced he would no longer oppose deregulation of the maritime industry.

With labor broken and demoralized and Congress terror-

ized, the DOJ-FBI hit-men began a new phase of assault.

America's black leaders are targeted

Showing that the backbone had been removed from Congress, when then-Rep. Mervyn Dymally (D-Calif.) placed the evidence of the scandalous FBI policy of "investigating" African-American leaders into the *Congressional Record*, Congress did nothing. The evidence? A sworn affidavit by FBI agent Hirsch Friedman describing the FBI's Operation Frühmensch. He stated, "The purpose of this policy was the routine investigation without probable cause of prominent . . . black officials." The reason for the policy, he was told, was "the assumption by the FBI that black officials were intellectually and socially incapable of governing." The FBI had truly internalized Gestapo tactics.

The most disgraceful such frame-up was that directed against federal Judge Alcee Hastings. He became Florida's first black federal judge after a 20-year career as a prominent civil rights attorney. The sting set-up used by the FBI in this case was classic. The undercover agent posed as a man who had been convicted in Hastings's courtroom and who was willing to pay a bribe if the sentence could be altered. Part of the sentence required the man to forfeit an \$845,000 asset. A friend of Judge Hastings was approached by the undercover agent to see if he could arrange for Hastings to rescind the sentence dealing with the forfeiture. In the meantime, the Fifth Circuit Court of Appeals handed down a ruling modifying the forfeiture provision Judge Hastings had used in

his sentencing, thus requiring him to rescind the forfeiture ruling. The friend took the bribe money and said he would work things out with Hastings. The Hastings ruling rescinding the forfeiture (required by law) occurred after the bribe was taken. Bingo! The FBI had its case. It didn't matter that the FBI had no direct evidence that Judge Hastings knew anything about the bribe—the indictment was handed down.

The three-week trial witnessed FBI agents and government attorneys weaving a web of relationships between the bribery scheme, the judge, and his friend. But the jury didn't buy it and voted "not guilty." After the acquittal, Hastings spoke out. He said that 101 FBI agents had spent 11 months and used illegal wiretaps trying to frame him, but it didn't work. He warned, "A whole lot of you judges and lawyers may be indicted. If we don't have some balance in this [government] system, we're all going to lose." Despite his innocence, Rep. John Conyers (D-Mich.) led an effort in Congress to impeach Hastings as a federal judge. The moral cowardice of Congress was on display when it voted to impeach Hastings. Not cowed, however, Hastings ran for Congress and is today a sitting congressman.

Dismantling the defense industry

On the morning of June 14, 1988, Americans woke up to news reports that the Pentagon was surrounded and occupied by hundreds of FBI agents. Operation Ill Wind was now public and the Pentagon had been raided. Why? Allegedly, the big-brass had been engaged in procurement fraud, i.e., the media-hyped "\$600 toilet seats" and other such stories. In an introduction to an *EIR Special Report* on the FBI raid, LaRouche wrote, "One thing is certain; Moscow has reason to be most pleased with the FBI raid on the 'military-industrial complex.' . . . It is irrelevant, whether the Defense Department and 'military-industrial complex' have been much less than paragons during recent decades. One does not burn down a house to eliminate a leaky faucet . . . ; one does not wreck a most vital department of government, Defense . . . simply to please left-leaning critics of the military arms. The Defense Department is overdue for important reforms; it is the rogue elements in the Justice Department responsible for this scandal who must be purged promptly before they do irreparable damage to our constitutional institutions" (see *EIR*, June 30, 1988 supplement, "FBI Raids Pentagon in Pro-Moscow Coup").

Who were these rogues LaRouche was referring to? Again, we find Mark Richard involved, but also a new boy on the scene, William Weld, who had just been confirmed as Assistant Attorney General in charge of the Criminal Division by the Senate Judiciary Committee. Weld bragged to the committee in his confirmation hearings, "White collar and public corruption [cases] are my private agenda items." Defense budget-cutter Sen. Charles Grassley (R-Iowa) was delighted with the nominee's position, and within days of Weld's confirmation in September 1986, the work began on Operation Ill Wind.

Under Richard's direction, the DOJ Office of Special Investigations, which specialized in so-called "Nazi-hunting," had laid the groundwork for this operation a few years earlier when it took aim at America's most prominent defense scientists. The most outrageous case was that against Dr. Arthur Rudolph. While he declared his innocence, he agreed to be deported. Once in Germany, an investigation ensued into the war-crimes charges. He was found by German authorities to be innocent of all charges. But the effect of this scheme was that the German-American scientists, who had been the backbone of America's space and defense programs, were terrified and demoralized.

The next phase in the preparations for Operation Ill Wind was the DOJ's 1985 frame-up of then-NASA head James Beggs, along with three other former or current officials of General Dynamics Corp. The charge: conspiracy to violate the Armed Services Procurement Regulations. The indictment came after one FBI agent had spent a year investigating and concluded that there was no case. But that agent was removed, and the grand jury probe was reinstated with a new agent on the job who made threats of prosecution against company employees in an effort to contrive some inculcating evidence. In 1987, the case fell apart and all charges were dropped, but the damage had been done. The defense contractor community was terrorized, and Beggs was forced to resign as NASA administrator.

In this climate, lesser-fry among defense contractors began their own "whistle-blowing" campaign to have contract employees turn in colleagues at the hint of suspicion of wrongdoing. Under the direction of Richard's close colleague Ted Greenberg, then heading the Defense Procurement Fraud unit at the DOJ, hundreds of FBI agents using countless wiretaps tried to make a case against the Pentagon brass and defense contractor companies. Failing to get what they needed, the spectacular June 1988 raid had one part of the Executive branch (DOJ) seizing the files and records of another (Defense Department). The outcome was not important. The message had been sent: doing business with the Defense Department was asking to be crucified, financially and politically.

The real objective of the various abusive government scams was the American citizen's trust in his government and the nation's commitment to advanced technologies for a growing economy. The news-media-promoted watchwords were: "all politicians are crooks," and "teamsters and long-shoremen are part of the mafia." The reader—especially if you are American—has heard (or repeated) these phrases a hundred times. Yet, the thoughtless citizen complains, "Government is too big; it doesn't work," "Why are we wasting tax dollars on space exploration?" or "Crime is taking over the streets, why can't the FBI stop these criminals?" As LaRouche warned in 1981, having tolerated the systematic assault on our institutions of Congress, labor unions, the Kennedy space program, and so forth, Americans are paying the price of their own inaction.

Do Weaver case actions portend a DOJ shakeup?

by Jeffrey Steinberg

Since Aug. 11, the day the Senate recessed for its summer vacation, the Clinton administration has taken several steps toward correcting the terrible injustice that was done to the family of former Green Beret Randy Weaver by the FBI and U.S. Marshals three years ago. And, while the actions do not in themselves represent the kind of cleanout of the criminal elements in the nation's federal law enforcement and judicial agencies that has been repeatedly called for by *EIR*, Lyndon LaRouche, and others, it does represent a possible first step toward initiating such a long overdue house-cleaning.

On Aug. 11, FBI Director Louis Freeh announced that he was suspending four senior FBI officials—including the man he briefly appointed as his deputy director, Larry Potts—pending the completion of three separate federal criminal probes. All three probes—by the Department of Justice's Office of Professional Responsibility, by the U.S. Attorney for the District of Columbia, and by the FBI's Inspector General—focus on the question of whether headquarters documents were shredded or otherwise concealed following the Aug. 22, 1992 shootout at the Weaver cabin in Ruby Creek, Idaho, which resulted in the death of Weaver's wife, Vicky, and the injuring of the Weavers' adopted son, Kevin Harris. One day earlier, U.S. Marshals had shot and killed the Weavers' 14-year-old son, Samuel, after they lured him into an ambush by shooting the family dog.

A several months-long U.S. Marshals stakeout of the Weaver cabin began after an apparent frame-up of Weaver on gun charges, after he refused to work as an undercover operative for the FBI inside white supremacist groups in the area.

Weaver's attorneys, and even the FBI Special Agent in Charge of the Ruby Creek standoff, charged that high-ranking FBI bureaucrats in Washington had issued illegal "shoot

to kill" orders to FBI sharpshooters at Ruby Creek, and had subsequently covered up their role and scapegoated lower-ranking Bureau agents. After Deputy Attorney General Jamie Gorelick last April issued censure letters to several FBI agents for the tragedy at Ruby Creek, a complaint was filed with the Justice Department's internal affairs unit, the Office of Professional Responsibility (OPR), charging a cover-up at FBI headquarters. After several months of investigation, on July 22, one senior FBI official was suspended, when it was discovered that he had shredded a document detailing Larry Potts's role and that of other FBI headquarters officials in the decision to alter the FBI's standing "rules of engagement" for the Ruby Creek siege.

On Aug. 11, Director Freeh added four other ranking officials to the list of those suspended for their possible role in the Ruby Creek decision and alleged coverup—including Potts, who had been earlier demoted from the deputy director's post to an undisclosed position at the FBI Training Academy at Quantico, Virginia.

Sources close to the Bureau have also reported that Freeh has called in a large number of senior Bureau officials for a review session. Reportedly, Freeh has been given an unambiguous mandate from the President to root out the problems, and get to the bottom of the entire incident before Congress returns after Labor Day. On Aug. 17, Freeh announced several personnel shifts. The highest-ranking Afro-American supervisor in the Bureau, Paul Phillips, has been reassigned to take charge of the critical Miami field office. Phillips headed an internal probe of racism by old Hooverites in the Bureau hierarchy several years ago, which led to some changes in FBI personnel practices.

At the same time that this White House-mandated house-cleaning is going on at the FBI, Deputy Attorney General

Gorelick has reportedly been given an even broader mandate from the White House to clean up the Department of Justice.

Congress's pathetic performance

One of the first items on the Senate Judiciary Committee's agenda following the summer recess is hearings on the Weaver case, and this has generated criticism from Gorelick, who is concerned that congressional hearings could result in grants of immunity to some key FBI officials who are simultaneously under investigation on possible criminal charges. The Senate hearings will be chaired by Sen. Arlen Specter (R-Pa.), who is an intimate of the Anti-Defamation League of B'nai B'rith and a declared GOP presidential candidate; he is already under fire for using his chairmanships of several powerful committees as bully pulpits for his campaign. Following the Oklahoma City terrorist bombing in April, he held hearings that featured testimony from leaders of the militia groups.

It seems apparent that, following the House Republicans' outrageous performance during ten days of hearings in July on the FBI and Treasury Department Bureau of Alcohol, Tobacco and Firearms (ATF) handling of the 1993 siege at the Waco, Texas compound of the Branch Davidian sect, Congress has abrogated its oversight responsibilities with respect to the FBI and, especially, with respect to the permanent bureaucracy at the Department of Justice. Absent congressional guts (see article, p. 66, for an account of Congress's cave-in to the FBI and DOJ during the Abscam/Brilab affair), even greater responsibility now falls on the White House to make sure that the cleanout is not further delayed.

\$3.1 million settlement

On Aug. 15, another important step was taken in the Weaver affair, when the Justice Department announced an out-of-court settlement of a \$200 million civil suit against the federal government by Randy Weaver and his three surviving children. The settlement will give the Weavers \$3.1 million, and, although the official statement issued by the Justice Department stipulated that the settlement was not an admission of guilt, DOJ spokesmen admitted to reporters that, had the case gone before a federal jury in Idaho, the Weavers would have been likely awarded the full \$200 million they sought.

These actions make it impossible to sweep under the rug the pattern of DOJ-FBI official corruption that was singled out in the cover story of *EIR's* June 30, 1995 issue. The ability of Deputy Attorney General Mark Richard, Deputy Attorney General John Keeney, and other career DOJ bureaucrats to bully Congress and the White House into backing off from the urgently needed crackdown, was made more difficult by the recent release of a mass pamphlet by the newspaper *New Federalist*, "It Didn't Start With Waco: Clean Out the Criminals," which pillories the House of Representatives' coverup and spells out the evidence of DOJ

criminality in the Waco and Weaver cases, in the case of John Demjanjuk, in the "Operation Frühmenschen" targeting of black elected officials, and, most of all, in the attempted murder and frameup of Lyndon LaRouche.

War against Afro-American politicians

One of the most far-reaching cases of systemic corruption in the DOJ and the FBI is the ongoing "Operation Frühmenschen" (cf. *Investigation*, p. 66), which has targeted thousands of Afro-American politicians all across the country for frameup, employing the full arsenal of unconstitutional tricks pioneered by Richard, Keeney, and David Margolis, another career prosecutor who for years ran the Justice Department's anti-racketeering unit. According to an affidavit by a former FBI official, the assumption of senior FBI officials was that Afro-Americans were incapable of serving in public office, and that, therefore, any dirty tricks required to drive them from office were justified. Now, some of this corruption by Bureau officials also appears to be under attack.

One of the potentially important signs that the DOJ clean-up is breaking beyond the bounds of the Waco and Weaver cases is the fact that, in addition to the FBI suspensions, the Justice Department announced on Aug. 16 that the OPR, following a two-and-a-half-year probe, has recommended the firing of Assistant U.S. Attorney William R. Hogan, for gross misconduct in his handling of the prosecution of leaders of the El Rukn gang in Chicago.

Hogan, a DOJ "superstar" prosecutor, was first slammed for his behavior in the El Rukn case on Sept. 20, 1993, when Federal District Court Judge Marvin Aspin overturned the convictions of seven El Rukn gang leaders on the grounds of gross prosecutorial misconduct by Hogan. Among the instances of misconduct: Hogan concealed from defense attorneys the fact that the key defector-witnesses in the El Rukn case had been allowed to obtain heroin and cocaine while in the federal Metropolitan Correctional Center in Chicago; and two key government witnesses were brought from MCC to the federal prosecutor's office to have conjugal visits with their wives and girlfriends. Hogan received 15 separate reports of drug abuse by the witnesses, yet he never informed defense attorneys.

Judge Aspin, in his ruling overturning the convictions, wrote that this was "the most painful" decision he had had to make in 14 years on the federal bench. Hogan, he wrote, "deliberately concealed" evidence that might have "destroyed his case," and, as the result, "the conviction of some of the most hardened and anti-social criminals in the history of this community must be overturned. It is tragic that the United States of America has squandered millions of taxpayers' dollars and years of difficult labor by the courts, prosecutors, and law enforcement officers in the investigation and trial of these botched prosecutions."

Deputy Attorney General Gorelick will soon decide whether to act on the OPR recommendation to fire Hogan.

Whitewater hearings fall flat

by Edward Spannaus

The four weeks of Whitewater hearings in the U.S. Congress, which concluded on Aug. 10, utterly failed to meet the expectations of the "Get Clinton" crowd, other than keeping the issue in the headlines. No new evidence was produced by congressional Republicans to link President or Mrs. Clinton to any wrongdoing, in either the House or the Senate hearings. There was much sound and fury from blowhards such as Senators Richard Shelby (R-Ala.) and Lauch Faircloth (R-N.C.), but little of substance.

Even some of the most hardline Clinton-baiters, such as the *Washington Times*, were forced to concede that the Whitewater hearings were of little interest outside the Washington Beltway. Whitewater might be a big story in Washington, it noted, but it "is dishwater everywhere else."

The Clinton-bashers are getting desperate, with many of them relying on the hope that the Whitewater special prosecutor will come up with something dramatic to nail the President. Some would like to smear President Clinton with the allegations about drug-running out of Mena, Arkansas. *EIR* has noted repeatedly that any such effort would more likely end up nailing George Bush, Oliver North, and their secret government operations from the 1980s. This was echoed by the *New York Post's* John Crudele in his Aug. 14 column, who wrote: "The Republicans must be feeling very lucky. They are about to pick up a bomb that could just as easily blow up in their own faces as well as President Clinton's. The bomb is called Mena. . . ."

During the House hearings, which concerned events around Madison Guaranty Savings and Loan and the Whitewater Development Corp. in Arkansas, the best that the House Banking Committee Republicans could produce was rehashed "revelations" of alleged efforts to obstruct investigation of Whitewater in 1992-93. The problem was, that much of this took place during the Bush administration, and indeed, it was a Bush-appointed U.S. Attorney in Little Rock who, in 1992, declined to open a grand jury investigation, on the grounds of lack of evidence.

The Senate hearings spent four weeks on the earth-shaking issue of the handling of files in the office of White House deputy counsel Vincent Foster after Foster's death in July 1993. All that these hearings disclosed were some discrepancies in recollections of the events of two years ago, and further evidence that then-White House Counsel Bernard Nussbaum was a zealous advocate on behalf of his client—

the President of the United States. It became overwhelmingly clear that Nussbaum had only done what any lawyer is obligated to do, when he refused to throw open the confidential files of the White House legal office.

There was no evidence presented that anyone in the White House had obstructed the investigation of Vincent Foster's death in order to somehow protect Whitewater documents; indeed, the key protagonists on both sides of the issue testified that Whitewater was not even on their minds at the time.

Department of Justice cynicism

The most relevant feature of the Senate hearings was something completely ignored by the major news media. Inadvertently, the Senate hearings did abundantly confirm the venality and treachery of the Justice Department permanent bureaucracy—something which a reader of *EIR's* June 30 *Special Report* would readily understand. This began with the testimony of former Deputy Attorney General Philip Heymann—a man who has been in and out of the department since 1961. It was Heymann who insisted that the White House can only maintain its "credibility" by deferring to Justice Department career professionals (see *EIR*, Aug. 11, p. 67).

Heymann's solution was to send in two long-term careerists, David Margolis and Roger Adams, to the White House to rummage through Foster's office. When Margolis took the stand on Aug. 10, as the last witness in this round of the Senate hearings, he made the preposterous statement that dealing with the Clinton White House gave him a sense of *déjà vu*, comparing it to his previous efforts to pry information out of the secretive CIA. In his testimony, Margolis—a long-time, close associate of Heymann's—literally described dealing with the White House as a battle. After his argument with Nussbaum over the examination of Foster's files, Margolis had said to Heymann: "We lost the war."

Nussbaum roundly attacked Heymann's arrogant assertion that only Justice Department lawyers, (not even other lawyers), can be trusted. "Phil Heymann's view," said Nussbaum, that "the public will only trust and accept the word of a Justice Department lawyer, and not a White House counsel or a private lawyer, is not only disappointing, it is destructive, for it feeds the very cynicism, it creates the very distrust, that he claims to be combatting."

Heymann and Margolis know something about feeding such cynicism toward the nation's elected leaders. Both played pivotal roles in the dirty Abscam operations of the late 1970s and early '80s, which set congressman and other officials up for contrived "political corruption" allegations (see *Investigation*, p. 66). It was Abscam which, in large part, is responsible for the spinelessness of the Congress today, and its unwillingness to take on the corruption of the Justice Department's permanent bureaucracy. It is therefore fitting that Heymann and Margolis should use the forum provided by these hearings to put their arrogance and perfidy on display.

Goya and Rembrandt highlight Met season

by Nora Hamerman

The Metropolitan Museum of Art in New York City will open its fall season with two major exhibitions of works by—and in some cases not by—two of the greatest figures in the history of art, Francisco de Goya and Rembrandt van Rijn. Both shows share the feature of *not* being loan exhibitions in which the attraction is bringing together related works of art from collections in many parts of the world. Instead, they will focus on the Met's own extensive holdings of these two European masters.

The shows will also depart from the norm by engaging in an unusually candid dialogue with the public on what Met director Philippe de Montebello called "some of the most vexing and seldom-aired issues confronting curators and conservators, namely authenticity, attribution, and restoration." The public will be brought into the considerations, for example, that caused the museum a few years ago to remove the Goya label from one of its most famous pictures, the "Majas on a Balcony." The painting will be one of the 15 oil paintings exhibited, a few of which have been de-attributed, and others which remain subject to controversy over authorship.

"Goya at the Metropolitan," opening on Sept. 19, will also present 54 figure drawings in ink, wash, and red chalk, including three of artist's self-portraits. Goya's monumental print cycles, *Los Caprichos*, *Los Desastres de la Guerra*, the *Disparates*, and *La Tauromaquia*—will be presented at the Met in their entirety for the first time. The significant difference among the various states of Goya's prints, and how they affect our perception of his art, will be demonstrated by rarely seen working proofs and posthumous impressions.

Goya (1746-1828) is the artist who took the etching, the favorite print medium of Rembrandt—one of the artists he most admired and emulated—to the very limits of its expressiveness and freedom. Then, as he neared his 80th birthday, in exile and in failing health, the artist mastered the brand-new mass medium of lithography.

"Rembrandt/Not Rembrandt," opening Oct. 10, will present more than 40 paintings, of which 17 are acknowledged by most scholars to be by the Dutch master (1606-69), along with another 25 works that raise questions of authorship, condition, or date, and thus invite less certain conclusions. A few years ago, a storm of controversy was

touched off in Berlin when curators and conservators consigned the famous "Man in a Golden Helmet" to a Rembrandt follower. Although this picture had long been questioned by scholars, in part because of its somewhat romantic aura, at least one critic has eloquently argued that over-radical "cleaning" had removed some of the very masterful touches that marked the painting as an authentic Rembrandt.

Not the 'last word'

One of the risks in today's museum world may be the growing authority (some say, arrogance) of the conservation community. Although modern techniques like spectroscopy, infrared photography, and other means of analysis have vastly expanded the means available for judging a picture's authenticity and state, it should always be kept in mind that these means will continue to improve in the future and that the "last word" has not been spoken. Moreover, while many conservators have a deep reverence for the art of the past, they cannot be untouched by contemporary tastes for "Walt Disney" simplicity of color and line, for example—and such tastes sometimes tend to affect the multiple subjective judgments that have to be made when pictures are restored.

Yet the last two decades' controversy over Rembrandt attributions—further whittling down a catalogue which, at the close of the 19th century, included nearly a thousand paintings—has ultimately strengthened, not diminished, our appreciation of Rembrandt, and has the potential to lead to a much more subtle appreciation of his methods and the painting culture in which he worked, on the part of the public.

Among the specific questions that the Metropolitan show will raise are, for example, whether or not one badly damaged canvas allows an attribution to Rembrandt, or whether another picture, probably by a pupil, was improved by Rembrandt himself. We know that during one period in Amsterdam, Rembrandt was running a large shop in which his pupils' work contributed to his profits. Another important facet to consider is the emergence of distinct personalities among his followers and pupils, some of whom produced works of such high quality that they have long been confused with Rembrandt's own hand. The image of Rembrandt as teacher who was able not only to create works of art, but develop new great artists, is surely no detraction from his stature, though it undermines the Romanticist notion of the "lone genius."

The Metropolitan will also host a traveling loan exhibit of 75 pictures by one of the most gifted American painters, portraitist John Singleton Copley (1738-1815), who worked in pre-Revolutionary Boston and New York. Among his famous subjects are the patriots Samuel Adams, John Hancock, and Paul Revere. The show, which opened at the Boston Museum of Fine Arts, and will be there until Aug. 27, exclusively covers works of 1753-73, after which Copley emigrated to England. It will be at the Met from Sept. 26 until Jan. 7. Then, in 1996, it will travel to the Houston Museum of Fine Arts and the Milwaukee Art Museum.

National News

New Medicare plan would double patient premiums

According to the Aug. 12 *Washington Post*, the staff of the House Ways and Means Committee has prepared a new assault on health care benefits for the elderly, aimed at slashing \$270 billion from Medicare over the next seven years. The plan would more than double the monthly premium paid for Medicare recipients, from the current \$46.10 per person to almost \$100 a month. The annual deductible for physicians' fees would also be raised from \$100 to as much as \$250.

The budget-cutting scheme would scrap provisions in existing legislation which would have reduced monthly Medicare premiums in coming years. The new version also cuts Medicare payments to hospitals for training interns and residents by more than one-third, and for hospital capital costs by 10-15%.

The plan leaked to the *Post* goes beyond House Speaker Newt Gingrich's (R-Ga.) previous proposals, by giving effective control of Medicare to the health maintenance organizations and insurance companies. They would not be required to provide the same services as the government program.

U.S. prisons now hold 1.5 million people

A comprehensive Justice Department report on the U.S. prison system puts the number of persons now in federal, state, and local jails and prisons at 1.5 million, compared to half a million in 1980. With about 3.5 million persons on probation or parole, there are nearly 5 million Americans under the control of the criminal justice system, the *New York Times* reported Aug. 10.

Last year alone, the overall number of inmates rose nationally by 8.6%, according to the Justice Department's figures. For the state of Texas, which is becoming a virtual penal colony, the total rose by 28.5%. Earlier this year, Texas officials boasted that the state's massive prison-construction pro-

gram had created the largest prison system "in the free world."

Jerome G. Miller, director of the National Center on Institutions and Alternatives, told the *Times* that "the percentage of Americans going in and out of jails is phenomenal," and that the system is turning the majority of the impoverished minorities in the inner cities into criminals. Miller said that 75% of all new admissions to prisons are now black or Hispanic, and that a "majority of all African-American males between age 18 and 40" will be "in prisons and camps" by the year 2010, if present trends continue.

Alleged suicide attempt doubted in ADM scandal

The Aug. 15 *Chicago Tribune* raised substantial doubts concerning reports that Mark Whitacre, the Archer Daniels Midland vice-president who reported the company's illegal price-fixing to the FBI, had attempted suicide the previous week. The *Wall Street Journal* alleged on Aug. 14 that Whitacre, then in a Chicago hospital, had made the attempt after ADM officials went to the Justice Department, with a claim that Whitacre had stolen perhaps \$5 million from the company.

The *Journal's* lead story, headlined "ADM Informant Faces Widening Allegations; He Attempts Suicide," also alleged that FBI agents, with whom Whitacre had worked on the price-fixing probe since December 1992, had threatened to lift his immunity as a result of ADM's charges.

According to the *Tribune*, however, ADM executive-turned-informant Whitacre had the phone service at his house cut on Aug. 1. Early the following week, moving trucks were seen loading all of the family's furniture, "leading to unconfirmed reports that the couple and their four children have been spirited from Decatur and placed in a witness-protection program. Whitacre had complained of receiving death threats."

Friends of Whitacre told the paper they strongly doubted that the 38-year-old executive would try to take his own life—despite the fact that he was under tremendous pressure from ADM, from the media, and from

the government.

Just before his alleged suicide attempt, Whitacre wrote a letter to the *Wall Street Journal* accusing ADM of setting up senior employees for possible blackmail or prosecution should they turn on the company. The letter read, in part: "Regarding overseas accounts and kick-backs; and overseas payments to some employees, Dig deep. It's there! They give it; then use it against you when you are their enemy. . . . The threats, the slandering, the defamation of character etc. are unbelievable. . . . It's terrible, especially for the wife and kids. I would have never imagined."

According to the *Tribune* story, the Sept. 4 issue of *Fortune* magazine will include a first-person account by Whitacre of his nearly three years as an undercover spy for the Justice Department and FBI. The article reportedly details how ADM executives in early 1992 initiated the creation of a "lysine producers' association"—a polite term for an industry cartel. The article also quotes Michael Andreas, son of the company's head Dwayne Andreas, as saying, "the competitor is our friend and the customer is our enemy."

N.Y. City solicits bids to 'privatize' its jails

The orgy of budget-cutting, unleashed by the nation's economic collapse, may soon turn New York City's abominable jails into absolute hell-holes. City officials are already looking for ways to turn over its 17 jails, and more than 18,000 prisoners, to one of roughly 200 companies offering brutal cost-control measures with their "privatized" services.

"It would be the biggest privatization in the country," Randy Levine, the city's Commissioner of Labor Relations, told the *New York Times* Aug. 12. Nonbinding "requests for expression of interest" were sent out Aug. 10, in the city's first effort to turn over an entire category of public operations to private enterprise.

The administration of Mayor Rudolph Giuliani claims the scheme could "save" part of the \$746.3 million the city now spends, to pay the 11,000 employees of the

Department of Corrections who run the system. Private companies would employ non-union guards at lower wages. If the entire system were privatized, the city would still own the jails and related facilities, but would no longer have to pay the guards, cooks, drivers, and other workers who staff them.

The number of inmates, in the New York City jail system, is larger than the entire prison population of 40 of the nation's states. With America's inmate population having doubled in the last 10 years, more than 20 private firms now manage prisons around the country—a phenomenon described by the *Times* as a "burgeoning, \$250-million-a-year industry." The largest private prison corporation in the world is the Corrections Corporation of America, based in Nashville, Tennessee, whose "director of strategic planning" is J. Michael Quinlan, former head of the U.S. Bureau of Prisons under President George Bush.

IBP cartel rigs polls as well as beef prices

Iowa Beef Processors (IBP), the target of a recently announced federal investigation for price-fixing, has also indulged in poll-rigging for Sen. Phil Gramm's (R-Tex.) sagging presidential campaign, the *Wall Street Journal* claimed Aug. 15. The *Journal* published an IBP internal memo, informing employees from their Iowa, Nebraska, and Illinois plants, that IBP would provide them with tickets and transportation to the Republican presidential poll event in Ames, Iowa on Aug. 19.

The photo reproduction of the IBP memo states, "IBP is encouraging its management employees to attend and participate in this grand event. Tickets and bus transportation will be provided by the Phil Gramm for President Campaign." Anyone with a \$25 ticket to the event was eligible to vote in the poll.

Mrs. Wendy Lee Gramm, as well as Phil Gramm's presidential campaign finance chairman, Alec Courtelis, serve on IBP's board of directors and compensation committee. Wendy Gramm, the former head of the Commodity Futures Trading Commis-

sion, now also heads the Natural Resources, Agriculture, and Energy Policy Council for the Republican National Policy Forum. Courtelis is a south Florida-based shopping-center developer and horse racer, who raised hefty sums for the 1988 and 1992 Bush campaigns.

Still controlled under Armand Hammer's Occidental Petroleum, IBP has given \$5,000 through its political action committee to the Gramm campaign, and supplied soft money amounting to \$31,000 to the National Republican Senatorial Committee in 1991-94, while Gramm was its chair. Controlling one-third of U.S. beef slaughter, IBP has driven down prices paid to cattle ranchers, while its workers' inflation-adjusted pay has plummeted 40% since 1981.

Trouble in paradise: Hawaii hits the skids

The myth that tourism, luxury hotels, and real estate speculation can sustain an economy took another beating earlier this month, when Hawaii Gov. Ben Cayetano announced, "Hawaii faces its worst fiscal crisis in its history."

Cayetano announced that there is a projected \$400 million shortfall in the state's current two-year budget, and called for eliminating ten state programs and 606 jobs, in order to "save" \$140 million over the next year. In the Department of Health, for example, 198 workers will be fired, and another 202 vacancies will go unfilled, wiping out a total of 400 health care positions.

Hawaii's economy is winding down, along with its tax base. According to local press reports, the state has lost jobs in each of the past three years, including nearly 10,000 non-agricultural positions since 1992. The number of commercial and residential mortgage foreclosures more than doubled between 1990 and 1994, from 680 to 1,590, and the rate is still climbing.

For states and localities nationally, soaring budget deficits and collapsing revenues have further pushed the level of total indebtedness to a staggering \$1.2 trillion. That figure is more than one-third of the total outstanding debt of the federal government (\$3.2 trillion) in 1990.

Briefly

● **THE BARBARIC** disregard among New Age Republicans, for justice and the sacredness of human life, has produced another legislative abomination—this time in a congressional bill to eliminate attorneys for indigent death-row inmates. The measure would wipe out all funding for 20 law centers across the country, which provide a chance for prisoners without financial resources to appeal their sentences to die.

● **SEN. DANIEL MOYNIHAN** (D-N.Y.) has fallen in step with the Conservative Revolution's march to break up the Union. In a new book he has co-authored, *The Federal Government and the States*, he wails about the alleged power of the small states over the large ones. The remedy, he says, is to break up the large states to multiply their influence, or to change the country's "intolerable" constitutional framework.

● **MARIANNE GINGRICH**, Newt's current wife, has intimated to *Vanity Fair* that his closet may be overstuffed with skeletons. "I don't want him to be President, and I don't think he should be. He can't do it without me. I told him, if I'm not in agreement, fine, it's easy—I just go on the air the next day, and I undermine everything."

● **NEW YORK POST** columnist John Crudele warned Aug. 14 against investigating who was behind gun-running and drug-smuggling operations out of Mena, Arkansas: "It could prove that Republicans in the White House, in their zeal during the 1980s to help Latin American rebels, were willing to break all kinds of laws." It could also prove, as *EIR* has charged, that the operation involved George Bush and Oliver North.

● **SEN. BILL BRADLEY** (D-N.J.) said Aug. 16 that he will not seek reelection in 1996. He claims he has lost faith in both major political parties, and is reportedly trying to set up a third-party presidential ticket, with former Chairman of the Joint Chiefs of Staff Colin Powell.

Editorial

Death be not proud

The end of any human life is to be mourned. When it is a child who dies, the pain is particularly acute; on the other hand, when an adult has lived out the full span of a full and useful life, there is pain but also a certain joy in the recognition of a good life, well-lived.

The death on Aug. 9 of rock star Jerry Garcia, was a truly pathetic event. Here was a man who epitomized the destruction of a generation of so-called "flower children"—the children of the 1960s whose lives were destroyed by the rock-drug-sex counterculture. Not too surprisingly, his life was cut short, at the age of 53, by a history of drug and alcohol abuse.

In any sane society, his passing would have occasioned little comment, except perhaps upon the tragedy of any life so misspent. Not so today! While it would not necessarily have been appropriate to wait until he was gone from this earth to call him to account for his culpability in promoting the counterculture, exactly the opposite occurred. He was celebrated by the mass media as a great American artist—a "great" composer and musician.

Most extraordinary were the remarks by William Weld, now governor of Massachusetts, a figure who, while in the U.S. Justice Department, played a most evil role in the frame-up of Lyndon LaRouche and his associates. A state governor is in a position of trust and responsibility, yet on Aug. 13, Weld wrote the following letter, which appeared on page one of the Political Section of the *Boston Globe*. He began, "I may have turned 50 on July 31, but it wasn't until Wednesday when Jerry Garcia died, that I realized I'm not a teenager anymore. Jerry Garcia and the Grateful Dead have been a constant in my life from the time I first heard them in the '60s, all the way through the '90s shows at Boston Garden, when I had the great fun of shaking hands with the band."

Appropriately enough, the satanic Grateful Dead originally called themselves the Warlocks.

If we look back to the 1960s and the transformation of America then, it is not irrelevant to comment on another of Garcia's verbal sleights-of-hand. The Grate-

ful Dead popularized the use of the term "space" as in "spaced-out"—a psychotic condition induced by drug abuse; by calling their free-form guitar improvisations "space." This epitomizes the paradigm shift which was begun in the 1960s and completed during the 1970s, from the America of John F. Kennedy and the Apollo Program, to the America of William Weld, in which a Jack Kevorkian can walk the streets, and a Newt Gingrich is willing to throw the poor to the wolves.

On Aug. 15, 1969, some 500,000 children came to a concert given at Woodstock. Drugs were handed out like candy, and within 24 hours, 300 of the young people were violently ill from taking LSD. Thousands more would follow. As we have documented in the pages of *EIR* over the years, Woodstock was not just a chance cultural phenomenon: The rock-drug-sex counterculture was part of a secret war against America run by British Intelligence, with support from elements within the Central Intelligence Agency, most particularly Allen Dulles. The project name for this operation was MK-Ultra, and it was initially run out of psychiatric institutions, where unwitting "volunteers" were given LSD-25.

Garcia joined the Army after he dropped out of high school when he was 15 years old. He was dishonorably discharged and wound up at the Veteran's Hospital in Palo Alto. It was through MK-Ultra that Garcia was first hooked on LSD-25. This was a center for a program which turned veterans and college students into drug users, and then selected some, like Garcia, for star roles in the new cultural matrix they were developing.

MK-Ultra was an indecent social engineering project intended to undermine the United States—socially, culturally, and economically. We see the extent to which this conspiracy has succeeded in brainwashing the political leadership of today, when even President Clinton added his voice to those celebrating Garcia as an American cultural hero. Jerry Garcia was a tragic victim of Britain's cultural warfare against this nation. If this is not understood, then this nation is through.

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March 29, 1994 *EIR Alert* headlines, "Credit Lyonnais Entering Financial Mega-Crisis," reporting that "only now have the dimensions of the problem emerged," as the huge French bank suffers from losses in real estate and derivatives.

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