EIR

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Vote in Russian Duma saves Yeltsin's regime
Strategic realignment takes shape in Eurasia
LaRouche wins 63,500 votes in Ohio primary

The battle for the soul of the Democratic Party

THERE IS GOING TO BE A RUDE AWAKENING!

Russia's future: dictatorship, chaos, or reconstruction?

"There exists no possible solution to this crisis, either for Russia or for the world within the bounds of the previously accepted terms of dominant international economic and financial institutions."

—**Lyndon LaRouche**
in "Prospects for Russian Economic Revival," prepared for Feb. 20, 1995 hearings at the Russian State Duma.

What is LaRouche's authority on Russia?

- **On Oct. 12, 1988,** in Berlin, LaRouche issued his famous Food for Peace proposal, which included collaboration between the Soviet Union and a free, reunited Germany to overcome the growing economic crisis.
- **In November 1989,** LaRouche enunciated his Paris-Berlin-Vienna Productive Triangle, an infrastructure program for the economic reconstruction of post-communist Eurasia.
- **In October 1993,** LaRouche was elected to the Universal Ecological Academy for his contributions to the science of physical economy. The Academy was founded in May 1989 by a group of scientists many of them veterans of the Soviet space program
- **In April 1994,** LaRouche, paroled in January after five years in prison, made his first visit to Russia, at the invitation of the Universal Ecological Academy.

WHY YOU NEED THIS REPORT: *EIR*'s Special Report, issued in August 1994, includes **"Russia's Future: The Three Alternatives":** Lyndon LaRouche's account of his six-day trip to Russia. **"A Reconstruction Strategy for Russia—And the World Economy"** by Lyndon H. LaRouche, Jr. **"Whither Russia: A Situation Report,"** by Brig. Gen. Paul-Albert Scherer (ret.) **"The Military in Post-Bolshevik Russia,"** by Konstantin George **"Have We Already Lost Eastern Europe and Russia?"** by William Engdahl

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EIR

From the Associate Editor

The photograph on our cover captures something of the process now going on in America, characterized in this week's *Feature* as "the battle for the soul of the Democratic Party." President Clinton is shown at a White House ceremony on July 20, 1994, with Apollo 11 astronauts Neil Armstrong, Buzz Aldrin, and Michael Collins, commemorating the 25th anniversary of man's first landing on the Moon. The Apollo program was the legacy of President John F. Kennedy, whose assassination marked the end of the era of "American System" economics, and the onset of the "post-industrial society."

In the current debates within the Democratic Party on economic policy, President Kennedy's words are being quoted, again and again: "A rising tide lifts all boats." But, as the President's brother Sen. Edward Kennedy pointed out in a speech on Feb. 8, "For the golden decades after World War II, that was true. But today's rising tide is lifting only some of the boats—primarily the yachts." The fact that the U.S. economy is not in a "recession," but a deep, and deepening, depression, is now being recognized by some within the Democratic Party leadership, even as the "Gingrich Democrats" fight to silence any discussion of these vital issues.

Our *Feature* analyzes the recent programmatic statements by Democratic leaders, showing how they reflect the same political earthquake that has given Lyndon LaRouche double-digit and nearly double-digit figures in primary elections across the country, despite a scandalous media blackout of his campaign and electoral results (in many states, the very fact that there *is* a Democratic primary, is a closely guarded secret).

Richard Freeman analyzes the historical role of U.S. corporations, demonstrating how these have been transformed into financial holding companies, run for the sole benefit of stockholders, without regard to the public welfare. This violates the purpose for which the corporate structure was invented, as an instrument for the development of the nation-state. This is the issue that was raised in the General Motors strike. The time has come to change our tax and credit policies, to benefit those corporations which serve the public good, and to penalize the Michael Milkens, the Frank Lorenzos, and their clientele.

Susan Welsh

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Photo and graphic credits: Cover, pages 41, 63, EIRNS/Stuart Lewis. Page 5, EIRNS/Christopher Lewis. Page 19, EIRNS/Philip Ulanowsky. Pages 37-38, EIRNS/John Sigerson.

Correction: In our interview last week with Dr. Abdul Alim Muhammad of the National of Islam (p. 66), we misspelled the name of Chief E.A. Opia of Nigeria, former history professor at the University of California. Chief Opia was interviewed in *EIR,* Jan. 6, 1995.

Economics

Volume 23, Number 14, March 29, 1996

Feature

President Clinton at the White House ceremony honoring the 25th anniversary of the Apollo 11 landing on the Moon, July 20, 1994. Left to right: Vice President Albert Gore, President Clinton, astronauts Neil Armstrong, Buzz Aldrin, and Michael Collins.

International

National

Crisis in Germany's pension fund, as unemployment rises

by William Engdahl

A just completed, detailed *EIR* study of Germany's pension system reveals that the present economic and fiscal policy of the German federal government is not only flawed; it is on a catastrophic course, one blindly based on economic axioms of the postwar Bretton Woods liberal "free market" world, whose basis in economic reality has collapsed. The results of the *EIR* study demand the attention of policymakers well beyond Germany, not only because analogous patterns of misuse of the labor force are confronting other industrialized countries, even those with a very different pension structure; but also, and above all, because the strength of the German economy is the keystone to any hope for a European, and hence, worldwide industrial recovery. If Germany—the natural trading partner for Russia and other nations emerging out of the old Soviet bloc—sinks further into depression, every nation will soon find itself in economic and strategic quicksand.

On March 6, the German Federal Labor Agency announced the highest unemployment since 1945: As of the end of February, 4.3 million Germans were officially unemployed. This was a jump of 443,000 over the previous year, representing an alarming 11.1% level of unemployment.

What no one in Bonn dared to say, was that this itself represents a gross falsification of the reality. In actuality, German unemployment today stands at nearly 5.8 million citizens. This does not count those working short weeks or in job training, as a form of hidden unemployment. (A 6 million jobless level was last seen just before the Nazi seizure of power in 1933.)

The difference, 1,505,062 jobs, represents what the Bonn government has willfully chosen to hide from the public statistics, by pushing people into early retirement, in order to minimize the cost to the State budget, as well as to politically understate the actual dimension of the present jobs crisis. Since 1990, to conceal this unemployment reality from the public, the unemployed have been increasingly pushed onto what is officially termed "Old Age Pension Due to Unemployment."

The consequences of shifting 1.5 million working people out of the productive workforce and onto the State pension system, have been deliberately ignored until recently, as the entire fabric of the once-esteemed German social welfare model is ripped apart by the demands of the European Union's Maastricht Treaty, and by political actions which are arguably, if not strictly a criminal violation, at the very least, a violation of the German Federal Constitution.

Yet, as *EIR*'s investigation shows, the present debate on the future of the German social system, especially of the future financing of the German pension system, is being conducted by the Bonn government on a fundamentally dishonest basis.

Pressure points in the pension system

Germany has traditionally been proud to point out that it was the first industrial nation in the world to establish a State pension system. The present State Retirement Insurance System (GRV) has been reformed only three times since it was created under Otto von Bismarck in 1891.

The last reform, the Pension Reform Law of 1992, was undertaken in the midst of the process of German reunification. The essence of the German State pension system is what is called "pay-as-you-go," often referred to in the public debate as based on a *Generationsvertrag,* a contract between the generation reaching retirement age and the generation now working. In "pay-as-you-go," a tax on the working people insured in one year, goes to pay the pension of those retired that year. The idea is that when those now working retire in, say, 20-30 years, they will get a similar benefit.

There are several pressure points in the system. If the total number of people employed falls, or their average income falls, the social security payments of those remaining employed must be raised to maintain the same pension benefits, or yet a new group not yet insured must be compelled to join the system and pay their social security tax. Under pay-as-you-go, if the population and young workforce are growing relative to the number of retirees, the burden of financing the pension tax is relatively light and can even fall. In the opposite case, declining working-age population, the relative burden increases. Today the German pension system is under pressure from all these aspects.

Various politicians are prone to talk about the "demographic crisis," in which the number of retirees by the year 2010 will increase dramatically, as the number of people in the workforce will shrink. Projections prepared by various demographers indeed support this, on the surface. But the present crisis of the State Pension Insurance System in Germany is, surprisingly, not this demographic crisis.

The present form of the retirement insurance model took place in the "Pension Reform of 1957," during the administration of Chancellor Konrad Adenauer. Its original concept was based on a study, "Social Security in Industrial Society," by economist Wilfrid Schreiber. Schreiber argued that modern industrial society had changed the family structure such that no longer could young working parents provide for the permanent care of older citizens, as well as their own growing family, and that a social or State concern was legitimate. Schreiber's plan, however, called for public support, not only to the elderly no longer working, but to young people not yet able to work, his so-called "Three Generation" contract.

The idea was to encourage stable family formation via income support to families having children as well as supporting pensioners, to foster healthy demographic growth. The 1957 reform, though, took only one part, perhaps on the reasoning that the growing number of retirees could be won permanently to Adenauer's party, the Christian Democratic Union. The "dynamic pension," which overnight raised the pension from earlier tiny sums of 25% of average income to 70%, was begun on Jan. 1, 1957. Adenauer's comment upon dropping the third part, that of the young generation—"people always have babies"—proved drastically wrong after 1966, for a complex of reasons. But the economic factor of growing costs on young families, increasingly forcing both spouses to work full-time to meet their expenses, was not reckoned in the boom years of the late 1950s. Family formation began a steady decline since the late 1960s, with serious implications for the solvency of the pay-as-you-go pension fund system.

Ironically, one reason it took until the late 1980s for the demographic problem to become the basis of a thorough reform debate, was the fortunate fact that during the 1950s and

A homeless man in Augsburg, Germany. Germany's pension system has, since the postwar years of Chancellor Adenauer, provided the elderly with a secure retirement; this is now in jeopardy, because of the Maastricht Treaty's vicious austerity demands.

1960s, the inflow of millions of young families, often with high skill levels, into the West German labor force from the East, gave a huge "demographic" boost to the pension fund. Again, today, when demagogic politicians are trying to win votes by calling for a ban on refugees, claiming the social costs are too much for the State, this ignores the reality that since 1990, the inflow of some 1.5 million such refugees from the former Soviet Union and elsewhere, has consisted mostly of young families, whose active participation in the workforce, often in difficult-to-fill jobs, makes a significant compensation for demographic pressures on the pension system. Indeed, Germany should hang a sign, "Young Immigrants Welcome!" on its borders.

In 1992, the reform which was passed, after years of discussion, basically corrected for the alarming decline of birth rates which began around 1966. Under the 1992 reform, the pension fund system shifted from a calculation based on "gross wages," over to "net wages after tax." That is, after 1992, the pension paid when one retired would be calculated on a person's after-tax or net income. But the calculation of what tax he should pay into the system would be calculated on his gross wage. Today, net income is only about half the gross sum, so the difference is significant. This change was based on the argument that it would relieve the demographic pressure until 2030 or so.

Last year, a follow-up study to evaluate the 1992 reform was commissioned by the Association of German Retirement Insurers (VDR), from Prognos AG of Basel, the institute which prepared the actuarial and demographic studies used in the 1992 reform. The 1995 Prognos study "reaffirmed the policy of the 1992 Reform. The system's demographic problem is solvable, without having to go in the direction of a minimum pension." The report found "no acute need for new measures in the State Pension Insurance System." It pointed out that the total population figure is far less important than the number of persons employed, for the future solvency of the retirement insurance system.

Maastricht, a job killer

Yet, less than one year after Prognos issued its report, the solvency of the German pension system has become "issue no. 1" in a debate over costs. Why?

Because of disastrously wrong economic and monetary policies of the federal government and the Bundesbank, there has been a catastrophic change in the solvency of the State Pension Insurance System. One of the least appreciated factors in this has been the poorly understood "Maastricht process."

Since early 1992, the Bonn government, together with the Bundesbank, have begun a strict policy of budget or spending reduction, tax increases, and severely restrictive monetary policies, all aimed to meet the four "convergence criteria" defined in the December 1991 Maastricht Treaty on European Monetary Union.

Never in the history of Europe have 15 nations simultaneously and willingly undertaken to impose such drastic fiscal and monetary austerity. The result has been a vastly inflated deutschemark, which has penalized German export companies harshly. To maintain market share, large companies have been forced to slash costs to the bone, by dumping workers in the hundreds of thousands onto unemployment or "early pension." DASA, Bremer Vulkan, and other companies are only the beginning. To cut the deficit and public debt to Maastricht targets by 1997, the federal, state, and local governments are all laying off employees in the thousands, aggravating the crisis of the pension system along with it. The city of Stuttgart alone just cancelled public infrastructure projects which cost 20,000 skilled jobs.

German companies are fleeing Germany, building new plants in the east, in France, in the United Kingdom, in cheap-wage areas of Asia, or even in the United States. In 1995, German companies invested a record DM 52 billion (about $35 billion) abroad in new workplaces that formerly would have been built inside Germany, double the record level of 1994. This wholesale permanent export of jobs brings a permanent loss to the pension fund system of economically active premium contributors.

One of the major effects of this "globalization" of German companies in the past 4-5 years, has been the effort to hide the real level of unemployment through a back-door device called Old-Age Pension Due to Unemployment, or the so-called forced pension. Companies save the cost of paying their 50% share of the mandatory contribution for nursing home care for each worker or employee he can put into early retirement. The combined costs of the three, for both employer and employed today, are 40.2% of gross salary.

As the Maastricht-imposed austerity has forced the German economy into deeper crisis in the past three years, the number of those on early retirement has exploded. It remained at some 55,000 yearly in 1990-92. Beginning in 1993, it doubled to 112,000; in 1994, it doubled again to 203,000; and in 1995, a 50% further rise to 290,000. According to estimates of the VDR, by the end of this year, another 736,000 new early retirees, who had filed before the proposed law changes of this past month, will be entered in the pension system.

But these 1,505,062 formerly employed are now no longer supporting the pension and other State insurance funds with their contributions, but rather are taking from the fund. This is an immense new burden which was not evident when the Prognos calculations were made.

Other 'obligations'

This brings in the highly complex and poorly understood subject of so-called Non-Insurance-Related Benefits, obligations not related to the State insurance, but paid by the various insurance funds. This is above all a political problem, which has deliberately been obscured by the government, for reasons which shall become obvious. A recent study by the VDR on the problem, calculated a combined retirement, health, and unemployment insurance sum of DM 170 billion in 1995, of so-called non-insurance obligations. This amount must be compensated outside the income flow of the present State insurance system. Of the sum, the federal government, whose budget tricks created the gaping deficit, only repaid DM 70 billion via "Federal Contribution" transfers from the general budget. What about the remaining DM 100 billion?

This must be paid by increasing the contribution burden on the economically active, through higher contributions for employer and employed. The largest part of the combined Non-Insurance-Related Benefits, some DM 48 billion in 1995, comes from the State Pension Fund.

The State Pension Insurance System has no independent supervisory body to oversee how it is run; it comes under the "custodial" oversight of Theo Waigel's Finance Ministry. Responding to the growing pressures to meet Maastricht deficit quotas, amid a collapsing tax revenue base and economic depression, the federal government has quietly allowed the "non-insurance obligations" not covered by federal budget contribution, to explode. Its consequences are "off-budget," and not thus part of Maastricht. It hits, instead, employers and employed.

What are these "obligations"? Today, on average, 33-35% of the total annual pension contributions of DM 320 (1995) went to non-insurance obligations. Of that, at least 15% remained to be covered in future employer and employed contribution increases.

Some of the obligations, it can be argued, are indirectly aiding the future solvency of the pension system, by providing contribution payment for an employed mother's "baby years," or time spent in education after age 16 to learn a trade or profession. But payment from the State Pension Fund also goes to compensate military and alternative civilian service time. A large share of payment costs put on the Pension Fund go to compensate for the large number of citizens from the former East Germany, who had paid into the bankrupt State Pension System there, and whose obligation was assumed by Bonn after July 1990.

The list of the non-insurance obligations is long and debatable. But since 1990, a growing portion of them have been directly related to forced early retirement, as a form of hidden unemployment, where an early pensioner has not paid his full working years into the system before drawing from it. Or where so-called "unemployable" persons are forced into retirement, years before retirement age. They do not count as "officially unemployed."

Each 100,000 new early retirees adds a cost to the Pension Fund of DM 12.7 billion. The pending 736,000 new early pension applicants will increase the future costs to the Pension Fund by an added DM 94 billion. This exploding cost factor, not demographic miscalculations, is why, sometime later this year, Bonn will announce the "urgent" need to raise the Pension Insurance Contribution to well above 20% of gross salary, from today's 19.2%.

Many of the so-called non-insurance obligations are indeed things the State is obligated by law to support, and should. But the sly practice of hiding these from the State budget, by dumping them onto the Pension Fund, has increased drastically since 1990. From 1980 to 1990, a decade of recession and growing unemployment, a total of some DM 389 billion non-insurance obligations was put onto the burden of employers and employees to be covered from the pension system. More than one employer has termed this a "job-killer."

Since 1990 and German unification, during which time Bonn has concealed significant costs of unification in this "clever" way, another DM 194 billion has been added, creating a combined non-insurance obligation not covered by any Federal Budget Contribution, of DM 583 billion from 1980 to 1995. Not surprisingly, the earlier practice of maintaining an emergency retirement minimum reserve of two years' Pension Insurance Contribution, to provide a buffer against economic recession periods, has disappeared. First it was quietly cut to one year's reserve, then to two months, then one month, and today it is zero!

A way out

Now, politicians desperate to cover the crisis of years of fundamentally wrong economic policy and jobs policy, have begun to call for eliminating these non-insurance obligations, raising income taxes to cover their costs, and shifting the various items onto the regular budget. On March 8, the government was forced to deny a charge by Social Democratic social expert Rudolf Dressler, who charged that the Bonn government had already finalized plans for drastic austerity in the State Pension Insurance System (to be made public after the March 24 elections, of course). The austerity package reportedly includes severe cuts in payment of non-insurance obligations, such as payment for job training from the current seven years to three years; cuts in paid on-the-job-training time; cuts in allowed health treatments for pensioners; and a raising of the age limit for women and severely handicapped from the current 60 years to 65. As well, a cut in benefits to widows from now DM 1,220 monthly, to DM 600.

If this is accurate, it represents a further step on the road to catastrophe, every bit as destructive as the 1931 austerity program of the Brüning government. The only way short of such economic catastrophe, is to change the axioms of the entire postwar liberal free market, to return to a concept of productive credit generation by the State for real job creation. This could be done, in building, initially, the desperately needed economic infrastructure of Europe and Eurasia, east to China.

Today, each added 100,000 unemployed adds a direct State cost of DM 5 billion (in the 1980s it had been estimated at DM 3 billion). Were the federal government to issue long-term "development bonds," say, in an annual sum of DM 100 billion, earmarked for specific high-speed rail, port, canal, and energy infrastructure development of the underdeveloped eastern part of Eurasia, far from being an added "cost" of DM 100 billion on the deficit, it would lay the basis for the greatest sustained economic boom of this century into the next.

Studies by North American Rockwell Co. during the 1970s showed that for every dollar of government spending on high-technology infrastructure, the State was repaid at least $4.50 in increased tax revenue from a wealth of new employment and industry which came, as a result of the space exploration effort. So, too, with advanced transport infrastructure. Instead of German policy under today's Maastricht straitjacket being a force for job killing, with such a productive credit strategy by the federal government, spending of DM 100 billion could bring the federal budget an added tax income of at least DM 450 billion annually! This is the only solution to the present catastrophe of the German retirement insurance system, short of a willful return to the policies of the early 1930s.

Caldera tells IMF 'no' once again

by David Ramonet

Despite intense pressures, both at home and abroad—including the threat of a coup d'état—Venezuelan President Rafael Caldera once again defied the expectations of the international financial elites. In his Second Message to Congress March 12, he did not announce the austerity "shock treatment" that has been demanded, in the name of the International Monetary Fund (IMF), by opposition forces ranging from neo-liberal to neo-communist, which have recently formed a pact to control Congress. Caldera reiterated that his government is committed to the "Venezuela Agenda," as he has dubbed his economic adjustment plan, which will be carried out "whether or not there is an agreement with the International Monetary Fund." He said that exchange controls would be kept in place as long as needed to avoid capital flight, and that the price of gasoline will increase only to keep pace with inflation, but not to the international price demanded by the IMF. He also called on the opposition-dominated Congress to approve the fiscal measures necessary to implement his plan.

Two days later, awaited changes in the ministerial cabinet were announced. Eight posts were changed, producing a much more cohesive team backing the President. One Caracas daily emphasized that the new appointments produced "few surprises, but were decisive." For example, the new interior minister, José Guillermo Andueza, is a nationalist closely identified with the social doctrine of the Catholic Church. Confirmed in his post as finance minister was Luis Raúl Matos Azocar, who has repeatedly resisted IMF blackmail.

The international financial oligarchy, based in London and Wall Street, want to do away with Caldera because he is an anti-IMF reference point for the rest of Ibero-America, in the wake of the collapse of such neo-liberal "economic miracles" as Mexico, Brazil, and Argentina. Caldera is well aware of this. In his message, he used a very Venezuelan term to emphasize his commitment: "I am an old hand in the fight for Venezuela, which is also a fight for the ideals which have sustained Latin America in its difficult march toward economic development with social justice. . . . Venezuela is for many a reference point today in our continent."

Alberto Quiroz Corradi, a long-standing British agent in Venezuela and member of the pro-drug legalization Inter-American Dialogue, had given Caldera an ultimatum in the week just prior to his Message to Congress. According to Quiroz, Venezuela must submit to the IMF's prescriptions and resume the path laid out by Carlos Andrés Pérez. This must be announced by Caldera on March 12, insisted Quiroz. If the President does not do so, warned Quiroz, the Congress under its new leadership should demand Caldera's resignation and proceed to carry out an IMF economic plan. In fact, the outline for precisely such a scenario was issued earlier this year by a British intelligence mouthpiece, the *Economist Intelligence Unit,* and republished as a "prediction" by the anti-Caldera newspaper *El Nacional* on Jan. 29.

Wailing and grinding of teeth

Other mouthpieces of the opposition, such as 1993 Presidential candidates Oswaldo Alvarez Paz of Copei and Andrés Velásquez of Causa R, joined forces to call on the new opposition alliance in Congress to overthrow President Caldera. Commentators linked to the media outlets of magnate Gustavo Cisneros (whose brother Ricardo is currently a fugitive from justice, along with other bankers accused of fraud and other crimes), such as José Vicente Rangel, Jorge Olavarría, and Alfredo Peña, also are demanding Caldera's resignation.

These same forces tried to trigger a "social explosion" last October, which was frustrated largely by the denunciation of these provocateurs by Venezuelan Labor Party Secretary General Alejandro Peña, in a widely distributed pamphlet, "Who Wants to Overthrow Caldera, and Why?" President Caldera referred to these provocateurs in his message, when he said that "well-identified groups have sought to use [social unrest] to detonate a supposed social outburst."

The international campaign against Caldera has gone so far as to claim that the entire Venezuelan population wants Caldera to resign. A classic example of this "Big Lie" was the international coverage of a major labor demonstration on March 13. The rally of workers from the country's four major labor federations, was scheduled to follow Caldera's Message to Congress, specifically in order to counteract the campaign of the Chambers of Commerce and Industry rejecting the recent wage increases and demanding instead a Chilean-style privatization of social security.

The march was also to support President Caldera in his negotiations with the IMF, and to reject the shock economic measures. Speaking to 30,000 workers waving anti-IMF signs, rally organizer Federico Ramírez emphasized: "This demonstration is not against anyone in particular; President Caldera must hear the voices of the workers. . . . President Caldera must understand that a change of direction is required, but one that is in favor of the Venezuelan workers." CNN television, as well as the international wire services, nonetheless chose to present the march as a "protest against Caldera's message to Congress." To prove this, they broadcast the demands of Causa R party leaders such as Andrés Velásquez, who called, on cue, for Caldera's resignation.

Conference Report

No aerospace future in 'virtual reality'

by Frank Hahn and Rainer Apel

Are Germany's elites fit enough for the 21st century? Hearings held in Lower Saxony's state parliament in Hanover on March 6-7, organized by Daimler Benz Aerospace (DASA) on the theme "Air and Space Industry as a Motor for Future Technological Development," raise serious doubts on that score. It is even doubtful whether German high-technology industry will manage to survive to the end of this century, given the kinds of scenarios presented at these hearings.

The first presentation was given by a DASA technology consultant and former German Defense Ministry official named Ambros, who spouted profound cultural pessimism, of the type typical for Conservative Revolution supporters, setting the tone for the conference. He began by saying the future was not only totally unknown, but that the world was heading toward increasing chaos. This tendency, he said, started in 1973, with the combined oil-price explosion and the destruction of the dollar gold standard. We now have an explosion of public-sector debt, and debt service already is the second-largest category in the German federal budget for FY 1996: Therefore, currency reform is inevitable, and all the debts will be written off.

If the father of a family were to find himself in such a dilemma, he would shoot himself, Ambros said, and proffered his own "solution": Germany must orient itself toward the "information society." The United States, Ambros claimed, has already successfully accomplished this; 70% of all working people there are employed in the information sector, whereas in Germany, that figure is only 40% (German industry does still produce something, at least).

Disorientation

Corporations must develop their "capability potentials," despite the "obstacle" of the social welfare system, Ambros recommended, blaming the German population for not understanding what the situation was: They are still building large office complexes, which is nonsensical, according to Ambros, since very soon all these offices are going to be empty, and everyone will be working at home, with their own personal computer; the most dynamic young businessmen use the new technologies to do everything themselves, such as bookkeeping, so they no longer need to hire anyone else.

This, Ambros said, also has implications for the German aerospace industry, for were it not to adapt to the American information-age structures, in five years, there would no longer be a German aerospace industry. Since we are in a transition period toward the information society, all those who are unwilling to understand or to go along with this new era, will simply be "phased out," because in such transition periods as this, it is quite "normal" to have high unemployment.

Those who don't want to adapt to the new era, should stop complaining, Ambros declared, adding a duplicitous reference to the fact that in Japan and France, the elites are not waiting for the free market forces to open the door to the new information era, but are launching State-sector interventions favorable to "strategic industries." This refers not to dirigistic, actually strategic projects, such as a Moon-Mars project, which could provide the technology for leaps in production-oriented productivity, but rather to preparation for the information society.

Ambros was not the only "Third Wave" fanatic at the hearings. Rolf Arnim, of DASA's Business Development division, began his speech with a scathing attack on "hostility against technology," and especially space technologies, in Germany—which, he correctly pointed out, is completely different than in France. But what kind of new technologies does Arnim propose instead? The two "revolutions" (as he puts it) over the next four years will be 1) "Globalstar," in which everybody can be reached by telephone by everyone else from anywhere on the globe; and 2) "Mediastar," a system of digital television, which will be implemented in the year 2000. Both "revolutions" require orbital space satellites, and this is to be the new, main orientation for the space industry, he predicted.

Such information-age propaganda continued throughout the hearings. When, on the second day, a correspondent from this magazine asked a question about the necessity of a Moon-Mars project, as a science-driver for the economy, Dr. Albert von Mueller of the EUCIS think-tank replied: "We do not need science fiction; we have structural problems" here on Earth.

Political degeneration

So much for the "scientific" side of the hearings. The "political" side was no less shocking. For example, Dr. Tacke, assistant minister of economics in the state government of Lower Saxony and a former trade unionist, put out the basic message: Cut living standards, cut social welfare costs, be ruthless enough to "tell the truth" to people.

What "truth"? According to Tacke, deep cuts in the social welfare system are necessary, or even more mass unemployment will result. He demanded that Germany reorient to the "downsized" wage levels of the United States today, and then to the levels of Southeast Asia 4-5 years from now! Labor unions, he said, have to adapt to this reality, instead of trying to "preach healthfulness." The Germans are naive, if they think that what counts today, is still innovation and high quality of products made in Germany; today, everybody in the world can provide quality and innovation; the essential question, is how to reduce the costs of production.

Tacke praised South Korea and Japan for their "strategic orientation" toward getting larger shares of the world market and toward becoming "global players." If the Germans want to continue to be global players, they will have to eliminate the bureaucratization of industry, lower the costs of labor and production, and so forth. Only under those conditions, would the northern German region have a chance, Tacke claimed, because, as of now, the three northern states of Lower Saxony, Hamburg, and Bremen are totally dependent on the automobile assembly and aerospace industries, which are concentrated there.

Apart from the "information age" designs, the aerospace sector also has a military aspect, and for that reason, one might have expected something more grounded in reality to appear during the debate in Hanover. Ernst Mannherz, of the German Economics Ministry, reported on the uncertainties over the "Euro-fighter" project—the design for a new jet fighter to be jointly produced by several European Union countries. So far, Germany has been willing to shoulder 30% of the jet fighter's development costs, on condition that the rest be taken on by the other project partners. But recently, the French government decided that, because of its own staggering fiscal problems, it could no longer contribute any funding. Since the German side has ruled out any increase of its share, the French decision means that the project is already as good as dead.

The "solution" proposed by Mannherz, was a significant lowering of development outlays, and a general streamlining of the armaments industry in Europe.

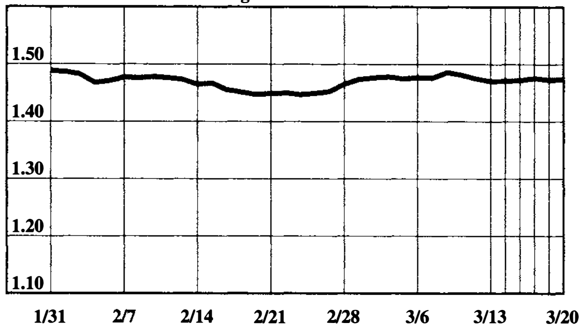
A warning ignored

Dr. Stuessel, of DASA Airbus, then gave a very gloomy picture of the future of the commercial aircraft industry in Europe. With the Americans holding a 75% share of the world market, Europe has to develop a larger capacity, or it will be wiped out within five years, he warned. He vigorously attacked the deregulation of the American airline industry, which, he said, "helped them to improve their competitive position."

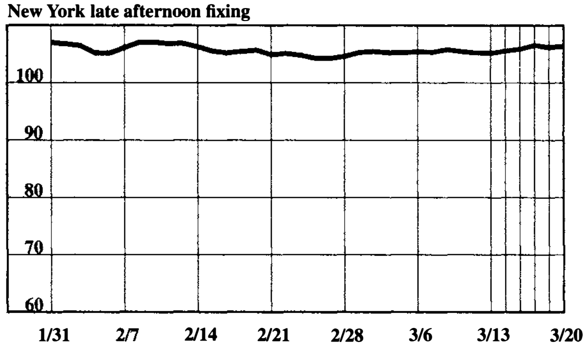
Stuessel voiced concern that, once the Europeans (as many at the hearings were advocating) were to adopt U.S.-style deregulation methods, what remains of traditional industrial capacities in Europe would be ruined; any hope of this being compensated for by information technologies, he called an illusion. But Stuessel was a lone voice in the wilderness, whose warnings went largely unheeded.

Currency Rates

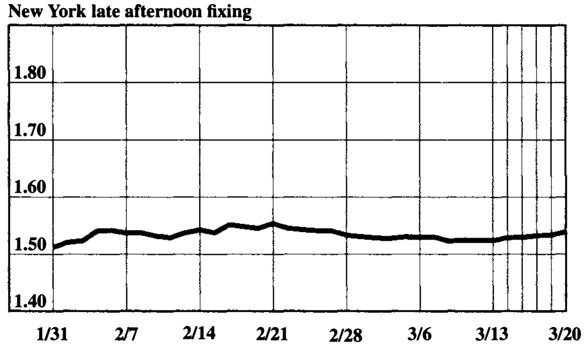
The dollar in deutschemarks
New York late afternoon fixing



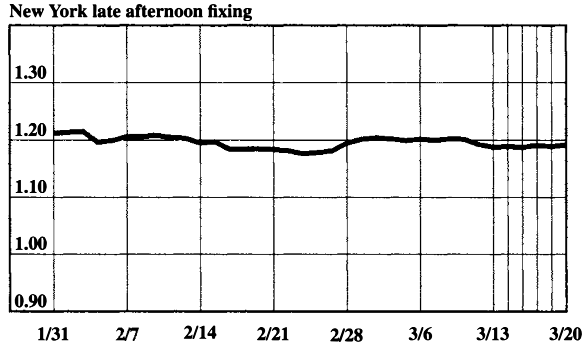
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Health officials sound the alarm

Public health experts are worried about the wide spread of epidemics as a result of health infrastructure collapse, reports Carol Hugunin.

Over the past six months, public health and epidemiological experts have been sounding the alarm over the gradual global decay in public health infrastructure, now reaching humanity-threatening proportions, in a series of conferences covering every aspect of public health monitoring. The most recent of these focused on Ebola virus, which can cause a highly fatal hemorrhagic illness. The virus, originating in the tropical rainforests, is contracted by an unknown species and periodically transmitted to humans. Although Ebola may not be any immediate threat to Americans, it is paradigmatic of other zoonotic diseases which threaten man. Its presence in sub-Saharan Africa, where public health infrastructure has been destroyed, epitomizes the general gutting of mankind's disease-fighting capacity that has occurred over the past few decades. Ebola is endemic to some unknown animal, or perhaps even transmitted by an insect species. It cannot readily be wiped out. This means that in order to fight it, and other zoonotic diseases like it, successfully, considerable public health and related types of infrastructure must be maintained both to research and monitor disease outbreaks in both human and animal populations, and to form the basis for a successful fight against epidemics whenever and wherever they occur.

At a three-day international conference on Ebola, which began on March 5, health officials focused on organizing international cooperation to create that public health infrastructure for the fight against Ebola. According to a Reuters wire dated March 7, World Health Organization (WHO) Director General Hiroshi Nakajima, speaking from the WHO-sponsored conference in Kinshasa, Zaire, said: "We must train epidemiologists. We need community-based epidemiologists. This is the responsibility of national governments as well as the international community." WHO African director Ebrahim Samaba elaborated: "In the past few days we have already contacted partners in order to implement the proposal."

Dr. Samaba said that both the WHO and the federal Centers for Disease Control and Prevention in Atlanta, Georgia had already discussed the issue of training epidemiologists. "We have put money aside to train epidemiologists at the community level, primary health care, at the district level, nurses, medical assistants, paramedicals, as well as doctors at the highest level."

Broader measures required

The fight to develop medical infrastructure in Africa to control the very deadly Ebola virus is only part of a much broader international medical and related infrastructure package that is required to keep mankind from being decimated by a hellish specter of emerging and re-emerging pandemics. This was the message conveyed by countless health professionals in a series of health conferences starting with the Oct. 16, 1995 Institute of Medicine conference on "Emerging and Re-Emerging Infections," (see *EIR,* Nov. 24, 1995).

At that conference, Dr. Donald Henderson of the Johns Hopkins School of Hygiene and Public Health warned his colleagues about precisely this point. "Surveillance systems are between fragile to nonexistent throughout the world," after three decades of neglect, especially in developing countries, home of 75% of humanity. If such a network of international medical centers, focused in developing countries, with well-equipped hospitals, with laboratories, and with a cadre of trained epidemiologists are not developed soon, "there will be hell to pay," Dr. Henderson said.

This conference was followed by a conference on "Remote Sensing and Vector-Borne Disease Monitoring and Control," over Nov. 28-30, sponsored by NASA and the Third World Foundation. The issue again was made clear: The technology exists, but without the commitment to funding and global infrastructural development, previously well-controlled zoonotic diseases (diseases that animals can contract and are often transmitted to man by vectors such as mosquitoes or ticks) will continue to re-emerge as a major threat to mankind.

On Dec. 11-13 experts met to deliberate on "Pandemic Influenza: Confronting a Re-Emerging Threat." In this conference, experts elaborated the conditions that were crucial to the emergence of the deadly 1918 influenza pandemic—infrastructural collapse, a crumbling economic system, global food shortages, increasingly untreatable bacterial infections—all of which are remarkably similar to conditions today. The implications of their conclusions are that, without a drastic change in economic policies, including policy toward international health and other forms of infrastructure, mankind might be facing, in the near future, the same, abrupt mass deaths among the world's 20- to 40-year-old citizens—i.e., the bulk of the skilled workforce in their child-bearing and -rearing years, as occurred in 1918. Already the effect on nations of mass deaths from AIDS in this age range, can be seen in the economies of many countries in Africa.

Tale of two Ebola outbreaks

It is somewhat ironic that Ebola, which has caused far fewer deaths globally than the many more classical microbial threats, has caught the public's attention in a way that the latter never could. But even the juxtaposition of the recent, mid-February outbreak of Ebola in Gabon, with the 1995 outbreak of Ebola in Kikwit, Zaire, gives one a better handle on why supporting international public health infrastructure, even for remote areas such as those that are plagued by Ebola, needs to be an immediate financial priority.

The mid-February outbreak in a remote area of northern Gabon was contained by a rapid response by the Gabonese government, backed up by considerable support from the international health community. In a press conference on Feb. 22, Gabon's Minister of Health Dr. Serge Mba Bekale, said: "As soon as the government suspected that the illness in Mayibout might be due to infection with Ebola virus, and before the exact cause was known, all appropriate measures were taken to limit the outbreak," according to the WHO release dated Feb. 23. Measures included classical quarantine against infectious diseases; and a broad public information campaign on Ebola, and its modes of transmission. Twelve of the 13 Ebola deaths in Gabon, were people who had eaten a chimpanzee found dead in the bush around Mayibout. Other dead animals found around the same time in that area include two gorillas, an antelope, and a wildcat.

The same rapid response did not occur during the Ebola outbreak around Kikwit, Zaire in May 1995. There, lack of basic medical infrastructure, including sterilized syringes, and proper equipment and electrical power to sterilize reusable syringes, spread the deadly virus among patients and medical personnel in the hospital. Lack of knowledge of the disease, and lack of a capacity to treat it, fueled panic, causing infected people to flee to more populated areas. The result was tragic: of 316 people infected, 245 died. Had Zaire's military not blocked people from leaving the Kikwit area, it is likely that the epidemic would have spread to the capital, Kinshasa, leading to much higher rates of infection and death, and the possibility of spread via jet travel to other countries. Ebola begins with a sudden fever, followed by vomiting, diarrhea, and massive bleeding, and, often, circulatory collapse and death.

Why would villagers in Gabon, in Zaire, and other sub-Saharan African areas eat meat from a chimpanzee found dead in the bush, when it is known that primates can carry Ebola? Dr. Jacques Muyembe, Zaire's top virologist explained to foreign medical experts gathered at the Ebola conference: Given the hideous economic conditions imposed on sub-Saharan Africa, meat from monkeys and apes is a significant source of protein for most Africans. Dr. Muyembe advised Africans under current economic conditions to continue eating such meat: "If it is in good health and killed by a hunter, there is minimal danger. Those who can eat well-cooked monkey meat do not run any risk." But Dr. Muyembe advised against eating raw monkey meat, or meat from a monkey or ape found dead.

With a 77% fatality rate in the 1995 Zaire epidemic, Ebola is probably the most deadly, and least understood of zoonotic diseases, which are periodically spread to humans after contact with infected animals, exposure to their meat, blood, milk products, urine or feces, or by biting insects. And it is paradigmatic of the hideous conditions of economic collapse that breed new diseases: Outbreaks occur in sub-Saharan African areas devoid of medical, and all other types of infrastructure, among people living under such terrible conditions that they continually risk death from Ebola to obtain some vital protein in their diet.

The case of plague in India

Another dramatic example of the way the international collapse in public health infrastructure fuels a panicked spread of zoonotic diseases when they do, inevitably, break out, was relayed to the author recently by Dr. Duane Gubler, CDC's director of Vector-Borne Infectious Diseases at the National Center for Infectious Diseases in Fort Collins, Colorado. In India, during the first quarter of the 20th century, 12 million people died from bubonic plague, which is endemic among the wild rodent population, just as it is endemic among the wild rodent population in the United States. Rising to meet the tragedy, the Indian government developed a very aggressive and successful plague control program. But by the 1960s, under pressure to cut the budget, the Indian government declared victory over bubonic plague, and dismantled plague and rodent control programs. Therefore, when bubonic plague broke out in the town of Surat in 1994, India, a nation of considerable educated expertise, had not one single medical expert trained in bubonic plague control or treatment, and no rat control program!

Panic ensued. During the first two weeks of October 1994, some 500,000 people, some of them in the early stages of infection, fled from Surat to surrounding cities of still greater population. Bubonic plague, a deadly old foe of mankind, was being spread both pneumonically (i.e., via person-to-person contact, by infected individuals whose disease had spread to the lungs), and via fleas from infected rodents that had crowded into population centers in the aftermath of flooding near Surat. Health officials internationally feared that plague might spread from one of India's more populated cities to become a global pneumonic plague pandemic via jet travel. Given this situation, India put out an international plea for help, knowing that the WHO maintained an international network of bubonic plague centers globally.

But, what had happened to this international network of bubonic plague control centers? Using the same penny wise and pound foolish logic, the United States had collapsed its bubonic plague control laboratories and surveillance system, arguing that the deadly bubonic plague was not a priority disease, even though it is endemic in the wildlife population throughout large parts of this country. Should it reappear, the argument goes, we have a magic bullet, antibiotics, which can treat it.

This argument, of course, conveniently ignores the unpleasant reality that many bacterial diseases are becoming resistant to antibiotic treatment, making any strategy relying primarily on antibiotics dubious, at best. The Soviet Union had maintained a bubonic plague control center in Savrapolka, Kazakhstan, but the center was rendered non-functional in the economic turmoil and political chaos caused by the savage economic liberalism imposed on the newly independent republics after the breakup of the Soviet Union.

The only laboratory that still has any capacity to produce reagents for diagnosis of bubonic plague was the CDC lab of Dr. Gubler at Fort Collins. Dr. Gubler, then working at the Calcutta School of Tropical Medicine, also pulled together an emergency international team to contain the Surat epidemic, in cooperation with the Indian government.

Worst-case assumption

Lacking any on-the-ground capacity to monitor developments, the Indian government, in cooperation with international health authorities, operated on the worst-case assumption that the primary spread of the plague was pneumonic, and distributed antibiotics widely to bring the deadly outbreak under control. As a result, there was no spread of pneumonic plague to other countries, and a rapid containment of the disease within India. By contrast, by earlier "saving" a small amount of money with the dismantling of its plague and rat control programs, India lost millions of dollars in export earnings and tourist income, during 1994.

What would have happened if Dr. Gubler had not been around to pull together the international medical expertise, reagents, and equipment to fight the Surat outbreak? And just how vulnerable is the world's population to zoonotic and vector-borne diseases, given this penny wise and pound foolish global takedown of medical, sanitation, water, and other forms of infrastructure?

In 1982, the United States closed its last field station, the Middle America field station of the National Institute of Allergies and Infectious Diseases in Panama. This center had trained generations of zoonotic epidemiologists, now heading key U.S. epidemiology institutions. Since 1982, two generations of field-competent zoonotic epidemiologists have not been trained. Of course, nothing very dramatic happened immediately after this institution was closed, because the older zoonotic epidemiologists who had been trained there were still on the job. But now, that older generation is beginning to retire. Dr. Karl Johnson, former chief of the special pathogens branch at the Centers for Disease Control, pointed to this critical gap in competence in zoonotic diseases at the conference on "Emerging and Re-Emerging Infectious Diseases" on Oct. 16, 1995. Dr. Johnson has himself retired.

Spread of food-borne disease

Zoonotic diseases include most food-borne illnesses, and many potential biological warfare agents. Can we afford to have no field-trained zoonotic disease epidemiologists today, given the general international collapse of basic infrastructure; and the rate of emerging re-emerging epidemics? During that same speech, Dr. Johnson said: "It should not be forgotten that the Japanese cult which gassed the Tokyo subways, also apparently had plans to make and release Ebola virus into those crowded tubes. . . . Should we worry? Yes!"

Food-borne illnesses are becoming an increasingly serious problem for industrialized countries, and remain a devastating problem for the Third World. The cartelization of the food industry means that food, unlike in the previous era, is grown in one part of the world, and consumed in another, allowing a greater opportunity than ever before for microbial contamination. WHO estimates that 70% of 1.3 billion cases of diarrheal disease that occur annually among children under five years old, are caused by food-borne diseases, and lead to an estimated 2 million deaths.

Environmentalists protect disease

The attack by Prince Philip's environmentalists on the safest refrigerant, freon, because it is a chlorofluorocarbon, means that refrigeration is about to become prohibitively expensive for most developing countries, which would lead to a potential further explosion of food-borne diseases. Given the cartelization of the food industry, if epidemics of food-borne diseases explode in one part of the world, isn't it likely that those fruits and vegetables imported from abroad will soon be harboring more infectious microbes than ever?

Even if you quit eating all those nice, lush fresh fruits and vegetables, you will still be increasingly at risk—thanks to the environmentalists—because the freon "alternatives" are much less efficient, making the refrigerated transportation of foods very vulnerable to increased spoilage: That means that chilled dairy products, meats, and poultry are also at risk as the ban on freon goes into effect. If you take away fresh fruits and vegetables, meats, poultry, and dairy products, what is there left to eat?

Moreover, the cold chain for transport and protection of vaccines, so desperately needed in the tropical climates of the Third World, will be devastated by the ban on CFCs, as the less efficient refrigerants allow vaccines to denature.

Nor is the United States nearly as free from Third World-type zoonotic diseases as we would like to think we are. Dr. Gregory Guriglass of the Johns Hopkins School of Medicine told the author recently that he found a rate of 160 cases of leptospirosis per 1,000 residents in inner-city Baltimore, as well as 2 to 3 cases per 1,000 residents of Korean hemorrhagic fever, some with renal failure. Both leptospirosis and Korean hemorrhagic fever are rodent borne, which initially present as a flu-like illness; both can further develop into renal failure, and leptospirosis can also lead to liver failure. How did rats that carry Korean hemorrhagic fever get to Baltimore or other U.S. cities? They simply took the ship, truck, train, or other cargo routes, much as do the microbes that arrive on fruits and vegetables grown halfway around the world. The truth is, that we cannot be complacent about diseases in seemingly remote areas of the world, because microbes are seasoned travelers.

But why are rats now a serious problem in U.S. cities? Because in the mid-1980s, budget cuts decimated most urban rodent-control programs, as federal funding was eliminated. For a city like Baltimore, which was one of the few cities to maintain a robust, competent rodent-control program, the federal cuts halved their total rodent-control program: the same penny wise and pound foolish story.

Most U.S. physicians do not test for leptospirosis, because it is considered to be a developing country disease, and because it is difficult to test for. But Dr. Guriglass did locate a study published by A.B. Thiermann in 1977 indicating that he found a greater than 30% presence of antibodies to leptospirosis among children under six years old in Detroit. Dr. Thiermann's study was designed to compare leptospirosis exposure of urban and suburban pre-schoolers. The implication is clear: Leptospirosis is an undiagnosed problem in many urban areas, where medical services, sanitation, and rat control are being closed down for "fiscal" reasons.

If better tests for leptospirosis existed, it would be easy to mobilize U.S. physicians whose practices are in inner cities to test for it. But who would develop such tests? Here we come full circle, as only field-trained zoonotic epidemiologists, who are equally at home conducting laboratory tests and operating in the field, are likely to be interested in developing such new tests. These are the zoonotic epidemiologists who are no longer being trained, at precisely the same time that a global collapse in basic infrastructure, including clean water supplies, sanitation, and pest control, make the spread of such insect- and animal-vectored diseases all the more likely.

Report from Rio by Geraldo Lino

Panic over Brazil's bank crisis

Bankers fear that an investigation into the banking system will expose the fraud of Brazil's economic model.

The March 6 decision by the Brazilian Senate to set up a congressional commission of inquiry, or CPI, to investigate the country's banking and financial system, has unleashed panic on Wall Street, as well as among banking circles here. The same day, the lower house of Congress defeated legislation which was intended to "reform" the social security system, that is, cut back pensions, as Brazil's foreign creditors demand.

Combined with the CPI's creation, this news has the backers of the radical neo-liberal (free trade) policies underlying President Fernando Henrique Cardoso's "Real Plan" (the anti-inflationary program which helped him get elected), virtually climbing the walls.

For example, on March 11, the *Wall Street Journal* complained that President Cardoso had "lost the political initiative," following the defeat of the social security reforms. Goldman Sachs executive Jorge Mariscal told the *Journal* that "Brazil might explode," and perhaps suffer a crisis of the type triggered in Mexico in December 1994. On March 7, the daily *Jornal do Brasil* expressed fear that something similar to the banking crisis which hit Venezuela in late 1994-early 1995, could occur in Brazil.

The level of hysteria unleashed is striking. Although the immediate motivation for the CPI's creation was the revelation of fraud at the Banco Nacional (where, for ten years, no one, including its British accounting firm KPMG, or the central bank, detected that its books were "cooked"), the commission's purpose is more open-ended. This is what has a lot of people, including President Cardoso, very worried.

Why? Because the issue isn't just corruption or the illegal doings of one or another bank. What the financial and banking oligarchy really fear, is that a CPI could reveal that Brazil's banking system, like the international financial and banking system, is about to blow out. Corrupt and illegal practices, including drug-money laundering, are merely the vehicles the banks have used to keep themselves afloat. In Mexico, this is how Wall Street's boy Carlos Salinas de Gortari propped up his economic "miracle," as investigators in that country are beginning to find out.

In Brazil, *EIR,* as well as other journalists, such as the respected Rubem de Azevedo Lima of *Correio Braziliense,* have already begun to expose similar operations, such as the government's plans to hand an additional chunk of the banking system over to the drug-tainted Safra family and its Banco Safra. The Safras, against whom there are multiple charges of money-laundering, already control a portion of Brazil's banking system through their ties to the Nasser brothers, chief stockholders of the Banco Excel. If Excel and its allied Union Bancaire Privée (UBP) of Switzerland succeed in purchasing the large Banco Economico, the country's sixth-largest bank, a significant part of the banking system will be in very dirty hands indeed. Aside from Safra's well-documented ties to the underworld, UBP itself is under U.S. government indictment for tax evasion and money-laundering in the state of Florida.

There is little doubt that a serious CPI investigation would unearth the scope of these dirty operations, and expose the bankruptcy of the government's neo-liberal "economic stabilization" program. It could also potentially bring down the President himself. Cardoso is personally linked to the Banco Nacional case through the fact that his son married into the Magalhães Pinto family, chief shareholders of the Banco Nacional.

Thus the panic. In response to the news that the Senate had voted to set up the CPI, Cardoso warned, "The senators have no idea how this will negatively affect Brazil's international image." Inside the Congress, pro-government legislators mobilized to either stop the CPI, or neutralize its effectiveness by stacking it with their people. The threat a CPI represents to the existence of the Real Plan was indicated by the London *Financial Times*'s March 18 report that it "would distract attention from other reforms."

Despite government attempts to sabotage the CPI, many analysts here believe it won't be easy to stop. There is tremendous popular outrage over the central bank's injection of close to $16 billion to prop up the banking system, which *Istoe* magazine described in its March 6 issue as "the biggest financial hemorrhage in the history of the Republic." Popular indignation was also reflected in the Feb. 29 statement by the National Bishops Conference, attacking the government for failing to deal with financial fraud: "It is unjust that even the minimal funds of poor pensioners, small producers, and workers in general are stolen in order to inject money into the financial system. Sacrificing lives to save economic plans should stop."

Business Briefs

Labor

Next demonstration set for Ontario on April 19

The third in a series of labor demonstrations in Ontario, Canada has been scheduled for April 19, the Toronto *Globe and Mail* reported on March 13.

The first demonstration, in December, in London, drew 15,000. The second, at the end of February, in Hamilton, drew 100,000. The next is set for the heavily working class area of Kitchener-Waterloo, where the auto parts industry, currently shut down by the General Motors strike, is concentrated. The strike will target the Conservative provincial government of Mike Harris, which wants to repeal a law that prohibits the use of non-union help during a strike. The strikers are also protesting proposed spending cuts of $8 billion over the next three years.

Gordon Wilson, president of the Ontario Federation of Labor, said that the Ontario Public Service Employees Union strike, with 55,000 picketers province-wide, is a "mini-general strike" already. Negotiations are continuing, but there is little chance of a quick settlement. Steelworkers and teachers are joining the picket lines.

Ibero-America

IMF will 'liquidate' Peruvian industry

Eduardo Farah Hayn, the president of Peru's National Society of Industries (SNI), charged that the International Monetary Fund (IMF) program for Peru will "liquidate" national industry, in a speech to the 10th Foreign Trade Convention in Lima, Peruvian press reported on March 7.

The IMF, supported by Economics Minister Jorge Camet, is demanding hikes in the price of gasoline, severe cuts in the government's health, education, and social security programs, accelerated privatizations, reductions in labor benefits, and lowering of tariffs to a flat 15%. According to the press, President Alberto Fujimori is hesitant to put the package through, and a group within his cabinet has proposed, instead, that the government institute capital controls, government intervention to set the exchange rate, and import restrictions.

Farah Hayn warned that "national industry is drowning. . . and if anyone is thinking, as the IMF says, of raising taxes in the short term, later we will see the consequences of this recipe." The proposed flat tariff "will end up liquidating the industrial sector," which is already operating at only 30-40% of capacity, he said. Industry is "the only thing that can save the country. Peru cannot live on services," he argued; the country requires a domestic market for industry, and exports of "value-added" goods.

Corporate Affairs

Anglo-Dutch firm has vast funds for buy-outs

The Anglo-Dutch giant Reed Elsevier has a $5 billion pool of funds available for acquiring other companies, and is especially interested in buying up U.S. professional and business-to-business publishing operations, the London *Financial Times* reported on March 14.

Reed, of Britain, and Elsevier, of Holland, merged a few years ago, to become one of the largest publishing and information services in the world. It dominates scientific publishing, owning some 1,100 academic journals published around the world. Academicians and scientists are outraged by the steep prices Reed Elsevier charges. *Forbes* magazine reported on Dec. 18, 1995, for example, that 114 issues a year of *Brain Research* cost $14,000. In 1994, Reed Elsevier's academic publications had revenues of $600 million, on which it made profits of $225 million.

Reed Elsevier is thus the king-maker of the science mafia. "Tenure depends on a peer group saying that a [research] product is as good or better than anyone else's. The place that happens is in the scientific journal community," Reed Co-chairman Ian Irvine gloated.

In December 1994, Reed Elsevier bought Lexis-Nexis, the second-largest U.S. legal publisher and the largest data base for publication retrieval, from Mead Corp., for $1.4 billion. Reed Elsevier also owns Congressional Information Service; Butterworths, another U.S. legal publisher; and Martindale-Hubble, the publisher of the standard U.S. legal services directory.

The largest U.S. legal publisher, West Publishing, is now being bought by Thomson Corp., a Canadian firm, for $3.4 billion. Thomson's founder was made Lord Thomson of Fleet by Queen Elizabeth in 1970. By 1992, Thomson owned 40 daily and 30 weekly newspapers in Canada, and 123 daily and 40 weekly newspapers in the United States.

Egypt

Unions offer alternate economic program

The General Federation of Labor Unions (GFLU) in Egypt has drawn up an alternative economic program, counterposed to the Egyptian government's privatization mania, said union Chairman Al-Sayyid Rashid, *Al-Arabi* reported on Feb. 26, according to the Foreign Broadcast Information Service.

"The world has started to back down on implementing the economic privatization programs which ignore the public and private economy's social role. The United States still has a public sector. It also still has the right to supervise and intervene in all industrial establishments owned by the private sector," Rashid said. He added that when even the World Bank's new management has spoken of risks of privatization plans that lack a "social dimension," it is clear that the tide is turning against such a policy. In spite of what the Mubarak government is doing, i.e., selling everything, "there is a retreat from privatization now, a reassessment. The international trend is increasingly moving to a return to a full State role in planning, guidance, and participation in the country's economy. . . . Hence I am astonished by the government's haste in putting the public sector up for sale. If the government is doing so to implement an agreement it has signed, then we say that this agreement is not holy scripture or a constitution."

The GFLU is not opposing privatization across the board, but is against privatizing the public sector and breaking up "Egypt's huge industrial citadels," a stand which President Hosni Mubarak has historically at least paid lip service to.

China

Foreign management of railroads rejected

China's State Council (the cabinet) has rejected a plan from the Ministry of Railroads which would allow foreign investors to invest in and manage China's rail system because of a lack of funds domestically, the *Ming Pao* daily reported on March 11.

Beijing disagrees with any proposal that would give up China's full control over the national rail system, first, in order to prevent State capital outflows; and second, to prevent interference in China's backbone industries, such as the transportation sector, the daily said.

China's policy encourages investment in railroads, in terms of advanced technology imports and overseas transportation expansion, but not joint-venture deals on new railroad projects.

Food Supply

FAO warns of danger of mass starvation

Jacques Diouf, the director of the U.N. Food and Agriculture Organization, warned that the world is facing the threat of mass starvation, the Mexican daily *Excélsior* reported on March 12. In a press conference in the Mexican Presidential palace, Los Pinos, given with President Ernesto Zedillo at his side, Diouf was blunt: 800 million people are already affected by the global food shortage, and by the 40-50% increase in the cost of basic grains over the recent period; if there is any climatic change in one or two of the principal food exporting countries, mass starvation could result.

Diouf told Mexico's Chamber of Deputies that world food stocks are down to the levels of 30 years ago, and "what is worst of all, is that this is not a conjunctural, but a structural, condition." For the first time in nearly 20 years, world grain reserves in the international market are 4% below the minimum level of food security, he said.

This problem cannot be resolved at the level of the ministries of agriculture, because world finance is involved, he said, pointing to the rise in the price of basic grains, which has increased food import costs of the developing countries by almost $3 trillion. "The challenge of the world food problem, is the responsibility of Heads of State and governments," he said.

Finance

Abandon nation-states, says German banker

Nation-states have to be abandoned, because they are incompatible with globalized financial markets, Helmut Hesse, president of the central bank of the three German states Lower-Saxony, Saxony-Anhalt, and Bremen, said in a speech at a Feb. 9 bankers symposium in Bayreuth, Bavaria. His speech was printed in the Bundesbank (German central bank) newsletter.

In the last quarter of the 20th century, the "political world order" and the "economic world order" have "more and more become incompatible," Hesse said. On the one hand, we have the sovereignty of nation-states, and on the other hand, "the increasingly stronger State-less forces of the market." But, rather than urging that the nation-state reassert control in the interest of productive activity, he proposed that the incompatibility be overcome by abandoning the nation-state. We have "to face the fact" that, due to globalized markets, governments "in most cases anyway have no other choice than to fulfill the orders of the markets." We have to remind people of the saying, "Governments do not solve problems, they are the problem."

Nation-states have to transfer power to "State-less representatives of supranational institutions." National governments these days are too weak to do what has to be done, i.e., impose austerity.

Briefly

PAPUA New Guinea Prime Minister Sir Julius Chan said his government had not asked a World Bank team to leave the country recently, but "if they are not able to reason, they can get out." The failure of World Bank programs had "destroyed many countries," he said.

THE BIRTH RATE in Poland in 1995 was the lowest (46,000 births) since World War II, the government Population Commission said in a March report, the daily *Rzeczpospolita* said. The data is more indication that all governments since 1989 have been lying about economic growth, which supposedly was over 5% last year.

BRITISH Chancellor of the Exchequer Kenneth Clarke began a 10-day trip to South Africa and Zimbabwe on March 15, according to a British Treasury source. The discussions were to focus on "privatization" of the economy and modifying the stock exchange, so that its practices approximate more those of the City of London.

MOZAMBIQUE Trade Union Federation General Secretary Soares Nhaca asked the World Bank to write off the nation's debt, on Feb. 28, Maputo Radio reported. Nhaca said that since the Economic Recovery Program began in 1987, its foreign debt has increased dramatically and poverty has deepened.

ROMANIAN metro workers struck for the fourth consecutive day on March 7, in defiance a Supreme Court order to return to work. They are demanding a 28% pay raise. Also, 5,000 metal workers from various cities marched in Bucharest demanding protection for jobs in heavy industry.

RUSSIA will join the Paris Club of creditor nations, a Russian official said on March 14. Russia owes the club $38 billion, but once it joins, chances will increase that nations such as Kenya, Ethiopia, Nicaragua, and Angola will pay debts they owe to the former U.S.S.R., which total nearly $130 billion.

Battle for the soul of the Democratic Party has begun

by Jeffrey Steinberg

The battle is on for the soul, and future, of the Democratic Party. On the one side is arrayed a growing coalition of forces, including Lyndon LaRouche, leading Congressional Democrats—led by Sen. Edward Kennedy (Mass.), Senate Minority Leader Thomas Daschle (S.D.), House Minority Leader Richard Gephardt (Mo.), Sen. Jeff Bingaman (N.M.), and Rep. David Obey (Wisc.)—who all, in various ways, have taken up the theme encapsulated in James Carville's now famous 1992 campaign observation, "It's the economy, stupid." From within the Clinton administration, for the time being, the principal spokesman for this viewpoint is Labor Secretary Robert Reich.

On the other side, is a deeply entrenched apparatus of "Bush-league" Democrats, especially powerful within the Democratic National Committee and sections of the President's own re-election organization, who were responsible for throwing the 1994 mid-term Congressional and gubernatorial elections to the Republicans. Left to their own devices, they will repeat that treachery again in 1996. Some of these "Republicans in Democrats' clothing" are longtime associates of Robert Strauss, the former Democratic National Committee chairman, who was George Bush's ambassador to Moscow, and is, today, part of the Dwayne Andreas and Hollinger Corp. apparatus behind the assault on the U.S. Presidency.

Andreas, the chairman of the Archer Daniels Midland grain cartel firm, the man who saved the Anti-Defamation League of B'nai B'rith, an organized crime-contaminated hate-group, from near bankruptcy in 1978, is a power behind the throne of the Republican Party's likely Presidential nominee, Sen. Robert Dole (Kan.).

Strauss, like his former boss Bush, is a product of the political machine built up by the late Averell Harriman, which has been a pernicious source of British influence inside both the Democratic and Republican parties for decades. The recent Pat Buchanan "phenomenon" inside the GOP, is but another manifestation of bipartisan uprising against the "new world order" and "world government"

Former Manhattan Borough President Hulan Jack addresses a rally in support of Lyndon LaRouche's Presidential campaign, in April 1984. LaRouche and his wife, Helga, are seated at the podium. LaRouche and Jack were, in 1980, cofounders of the National Democratic Policy Committee, a political action committee within the Democratic Party, dedicated to what Jack described as "the economic and moral recovery of our nation."

policies associated with this obsessively Anglophile Harrimanite crowd.

The LaRouche factor

At a Feb. 28 appearance at a candidates forum at The Woodlands, Texas, sponsored by the Chamber of Commerce, Lyndon LaRouche, who is the only national figure, aside from William Clinton, running in the 1996 Democratic Presidential primaries, called upon his fellow Democrats to make the 1996 elections a turning point in the fight to "deal with what may be the worst economic crisis in our national history."

In subsequent campaign speeches, LaRouche has forcefully stated that the Democratic Party must be rebuilt through a landslide victory in the 1996 Congressional elections. Otherwise, the re-election of President Clinton to a second term in office would be a pyrrhic victory, at best. Without such a Congressional landslide, President Clinton will suffer a fate similar to, or worse, than that of Richard Nixon, following his 1972 re-election. The Whitewater forces, taking their cue from such British Intelligence conduits as Lord William Rees-Mogg and the Hollinger Corp., are already prepared to descend on President Clinton, at the first politically appropriate moment. Only a Democratic Party sweep of the Congress will deny them their moment.

LaRouche's words are carrying increasing weight with a large number of Democrats. Beginning with the Delaware primary, where he won 9.6% of the vote, LaRouche has scored impressive vote totals, including: 34.5% in North Dakota, 11.1% in Colorado, 12.6% in Oklahoma, 11.7% in Louisiana, and, most recently, 8.25% in Ohio. So far, LaRouche has cumulatively received just under 200,000 votes.

These numbers are all the more impressive, given the fact that his campaign has been totally blacked out of the national media. Also, Democratic National Committee Co-chairman Donald Fowler, a leading Bush-league Democrat, has unlawfully informed every state party chairman that LaRouche delegates will be barred from attending the Democratic National Convention in Chicago in August, and has done everything in his power to blunt LaRouche's presence, including shutting down two Democratic Party primary elections altogether.

But the impact of LaRouche and his political movement extends far beyond the fact that he now commands a voter base of 10-20% of the Democratic Party activist core.

War on the Conservative Revolution

In 1994, as the Democratic National Committee was paving the way for the Republican Party's takeover of the Congress, LaRouche seized on the fact that Iran-Contra criminal Oliver North was the GOP candidate for the U.S. Senate in Virginia, against Democratic incumbent Charles Robb. With tens of millions of dollars from all across the United States pouring into North's campaign coffers, with Christian evangelical hypocrites Pat Robertson and Jerry Falwell marshalling their forces, and with the Virginia Democratic Party almost hopelessly divided, LaRouche concluded that he had to personally launch a concerted effort to defeat North.

Hulan Jack proposed to rebuild the party

The late veteran Democrat Hulan Jack, former Borough President of Manhattan, and, along with Lyndon LaRouche, a founding member of the National Democratic Policy Committee, devoted a chapter of his 1982 autobiography Fifty Years a Democrat *to "Rebuilding the Democratic Party." Excerpts follow.*

I believe that at its best the Democratic Party has traditionally functioned as a living embodiment of the principle that America's national purpose is to further the progress of its own people and the peoples of the world. I joined the party to strengthen its institutional power to fight for this idea, and I have served in the party for five decades on behalf of this idea. I am grateful to this nation for the opportunity that has been afforded me, an emigrant escaped from British domination, to enjoy the dignity of human development and to be a party to the progress of all Americans which has been gained under the banner of the Democratic Party. . . .

As leaders of the Democratic Party, we must put before the voters candidates for elected office who represent an informed and unswerving commitment to:

1. national credit and taxation policies which will revive American basic industry and permit the revival of family formation in our country;
2. research and development and credit policies which will guarantee America's energy future through investments in nuclear fission plants and the near-term development of nuclear fusion technologies;
3. monetary and foreign policies which seek to restore the role of a stable American dollar in a system of expanding world trade based on superpower cooperation for Third World development; and
4. a relentless war on drugs, the scourge of the new generation of American youth, regardless of what battles with what adversaries into which this fight may take us.

Without such a commitment from its leadership, the Democratic Party, which the voters of America have already turned out of power in Washington, will sink into irreversible disrepair. Like all other institutions in history which have lost the morality to survive, our party, now merely sick, will die.

It was from the deep conviction that the moral well-being of the Democratic Party is absolutely essential to the economic and moral recovery of our nation that I took the bold and unconventional step of endorsing Lyndon H. LaRouche for the Democratic Party's Presidential nomination in 1980. . . .

Well-known Virginia LaRouche Democrat Nancy Spannaus entered the Democratic Party primary to mobilize party support to defeat North; and after she was defeated by Robb for the Senate nomination, she formed a political action committee, the Defeat that Son-of-a-Bush Committee, and led a drive to expose the former Marine lieutenant colonel as a dope trafficker and terrorist.

In the closing days of the campaign, North, a loose cannon, made a fatal error: He boasted that, if elected, he was committed to wiping out Social Security and other benefits for the nation's elderly—policies that would later emerge as the hallmark of the Gramm-Gingrich Republican Congress, but were blacked out of the GOP's campaign rhetoric. The Defeat that SOB Committee saturated Virginia with leaflets on the eve of the election, quoting North on the end of Social Security. Senator Robb won re-election.

The defeat of North was strategic. It proved that "free market" Republicans could be defeated by mobilization of the traditional constituencies of the Democratic Party. Many of Pat Robertson's own blue collar and rural poor supporters voted *against* North following exposure of his drug ties, and his austerity policies.

At least one Democrat, aside from LaRouche, grasped the strategic significance of the North defeat.

On Jan. 11, 1995, Senator Kennedy delivered a speech at the National Press Club in Washington, D.C. Kennedy had just won a hard-fought re-election victory. He strongly chastised many of his fellow Democrats for having abandoned the principles of the party. "Democrats must be more than warmed-over Republicans. The last thing this country needs is two Republican parties. If we fall for our opponents' tactics . . . or engage in a bidding war to see who can be the most anti-government or the most laissez-faire, we will have only ourselves to blame. As Democrats we can win.

"The election last November," he continued, "was not a ratification of Republican solutions. By the narrowest of margins they gained control of Congress. But less than 40% of the eligible voters turned out on Election Day, and only slightly more than half of those—about 20%—cast ballots for Republicans."

In the speech, Kennedy picked up on a second theme—the need to restore economic justice. "We are, without apology," Kennedy stated, "the party that believes in assisting the poor and the disabled and the disadvantaged—but not to the detriment of the working class, which is justifiably frustrated and angry. They . . . know they are losing ground. They see the wealthiest Americans becoming wealthier. . . . The majority of Americans are working harder and making less."

Kennedy then raised the issue of deregulation: "We must resist our opponents mindless anti-government vendetta against regulation, a rhetoric leading to an across the board assault on government that hides a multitude of injustices and indifferences. Republicans wanted to get the government out of the savings and loan industry in the worst way in the 1980s and they did. Deregulation ran amok. The S&L mess became one of the most serious scandals in our history, costing taxpayers more than $150 billion."

LaRouche immediately sized up the significance of Senator Kennedy's remarks. In the introduction to a February 1995 *EIR Feature,* "Phil Gramm's Conservative Revolution in America," he endorsed Kennedy's assessment that "a return to (e.g., Franklin Roosevelt era) Democratic Party constituency campaigning would turn back this Conservative Revolution during the 1996 primaries and general election." The *EIR* study dissected the Gramm-Gingrich policies and profiled the Mont Pelerin Society-led apparatus of Conservative Revolution think-tanks and tax-exempt foundations behind the murderous Contract with America. In his introduction, LaRouche also rigorously defined Gramm, Gingrich, et al. as fascists.

A March 1995 *New Federalist* pamphlet, "How the Conservative Revolution Crowd Plans to Destroy America," detailed the murderous consequences, for 80% of the American people, of the Contract with America and the GOP balanced-budget plan. Five million copies of that document were printed and circulated throughout the country.

Simultaneously, more than 600 state legislators from all across America were signing an open letter to President Clinton, calling for LaRouche's exoneration from the Reagan-Bush railroad prosecution and jailing of LaRouche and a half-dozen associates.

A 'Program to Save the Nation'

In 1992, while running for the Democratic Party Presidential nomination, LaRouche issued a "Program to Save the Nation," in which he spelled out concrete steps to be taken to bring an end to the cancerous speculative bubble; to return to America's successful tradition of national banking, by federalizing the Federal Reserve; and to create 6 million new, decent-paying jobs by rebuilding the country's decimated hard and soft infrastructure.

That document epitomized policies that have been the hallmark of LaRouche's efforts since 1979, when he was first co-opted into the Democratic Party, by a group of concerned leading Democrats who saw the party collapsing into hopeless disrepair, as the consequence of the so-called 1972 "McGovern reforms," and the disastrous performance of the Carter administration on all but a handful of secondary issues.

Many of these themes have been recently taken up by others in the party, especially the idea of using the power of government to force American corporations to once again play a constructive role in rebuilding the nation and restoring decent conditions of life for all Americans.

Nevertheless, as LaRouche noted in an interview with "EIR Talks" on Feb. 15, there are still certain issues that others in the pro-growth wing of the party are not yet ready to tackle: "Now the difference, of course, among us, is my difference. That doesn't mean, necessarily, that Kennedy, Daschle, or Gephardt would dig in and have absolute opposition to what I'm saying. It means that they're not ready to go that far, or have not reached that conclusion yet. . . . Not only is our economy very sick . . . but the international monetary and financial system, including our own Federal Reserve System, is hopelessly bankrupt, is terminally ill, is on its deathbed. And the United States government, as the most powerful nation in the world today, must take leadership, both in the United States iteslf, and in cooperation with other countries which will cooperate, in creating a new monetary system and a new international credit system, to replace the bankrupt, hopelessly bankrupt, Federal Reserve System . . . and central banking institutions abroad."

Forcing corporate responsibility

Following the disastrous GOP takeover of the House and the Senate in the November 1994 elections, a number of leading Congressional Democrats joined with Senator Kennedy in attempting to develop an appropriate policy agenda through which to recapture Congress in 1996.

On Feb. 8, 1996, it was again Senator Kennedy who spoke for this Democratic Party faction, when he told an audience at the Center for National Policy, that the United States and the world had entered into a "Quiet Depression," "All is not well in the American economic house," he declared, "because all is not well in the homes of too many American workers and their families." Kennedy introduced the concept of "most-favored corporations," drawing on some of the economic policies that had brought the United States to its postwar peak of real growth, during the 1961-63 Presidency of his brother, John F. Kennedy.

On Feb. 14, the London *Guardian*'s Will Hutton reported that a draft copy of an 80-page report was circulating around Democratic Party circles in Washington, embracing the same themes struck by Kennedy. The report was a draft of a study by a "high-wage task force," under the sponsorship of Senate Minority Leader Daschle and Senator Bingaman.

On Feb. 27, House Minority Leader Gephardt delivered an address before the Economic Strategy Institute in Washington, in which he, too, took up the issue of the destruction of the conditions of life for average American working families. This was the result of economic policies driven by Wall Street's desire to "squeeze up short-term stock prices—even when that means ignoring the long-term needs of the corporation itself," he said.

The next day, Senators Daschle and Bingaman issued their "high-wage task force" report, "Scrambling to Pay the Bills: Building Allies for America's Working Families." The 57-page report picked up on some important themes from LaRouche's earlier "Program to Save the Nation," and set forward revisions in the corporate tax codes that would dry up the most egregious forms of speculative looting, including derivatives.

On March 2, LaRouche appeared on a half-hour nationwide television campaign broadcast to address the subject of "economic national security." He blasted Newt Gingrich for embracing "Nazi policies." Three days later, when LaRouche received 11.1% of the vote in the Colorado Democratic primary, the beginnings of a political earthquake were felt all the way back in Washington.

The initiatives of Kennedy, Gephardt, Daschle, Bingaman, and others are already beginning to reverberate in the state parties. Typical of the pattern of reactions was a March 10 editorial page commentary in the Newark *Sunday Star Ledger* by State Senator Gordon A. MacInnes, a Democrat from Morris County, New Jersey. MacInnes warned against over-confidence inside the Clinton-Gore re-election camp, and urged the President to begin campaigning immediately on a platform to address the "reality of stagnating standards of living for about 80% of American households, despite two-spouse employment and longer work hours."

On March 11, in a press conference by Representative Obey, the Democratic Policy Committee issued a Staff Report, "Who Is Downsizing the American Dream?" which, too, took up the themes of the earlier LaRouche, Kennedy, Gephardt, and Daschle-Bingaman studies, and named some of the oligarchical families behind the Conservative Revolution.

With a resurgence of the role of the AFL-CIO, following the ouster of Lane Kirkland and the election of John Sweeney, a close Clinton ally, as the new union president; and with last October's Million Man March spurring a voter registration drive and a renewal of political activism in the African-American community (despite DNC efforts to sabotage the effort by withholding organizing funds), the opportunity is ripe for a rebirth of the Democratic Party.

LaRouche: We'll take on the economic issue

In this short address to a Chamber of Commerce candidates' luncheon in The Woodlands, Texas on Feb. 28, LaRouche summed up his approach to the economic crisis:

We won 9.6% in the Delaware Democratic primary. We took second place with 34.5% in the North Dakota primary yesterday. This is somewhat larger than the 20-25% I expected. We will have other surprises of that sort occurring in other primaries down the line. I'm seeking, naturally, as many delegates, and votes as possible, in order to shape the Democratic convention.

As you may know—and this is a matter which is of concern to Republicans, as well as Democrats, since after the November elections we're going to have to get together, at least the majority of us—and deal with what may be the worst crisis, the worst economic crisis in our national history.

The great volatility that we see, on both the Republican side as well as the Democratic side, even though the President is not really contesting in any local areas by debating, or campaigning against other nominal competition—I'm probably the only national candidate running in the primaries, I'll probably be in about 28 primaries during the primary campaign.

The great volatility reflects the fact that the key issues which are rumbling within the population have not yet been effectively addressed in such a fashion by the candidates to get a consistent pattern of voting. Something is rumbling underneath.

In the immortal words of James Carville in 1992, "It's the economy, stupid." And that's the significance of this vacillation. You talk about other issues and don't relate them to the economy, such as the family issue, which is an extremely important issue, but you don't talk about the economics of family life, the economics of education, the economics of all these other matters, you are not really addressing the problems of the population.

This goes back, in the opinion of many Democrats, which I share, including Senator Kennedy, who stated this in January 1995, in the National Press Club presentation, which was broadcast nationally, the Republican Party did not really win the 1994 Congressional elections, the Democratic Party threw the election.

And today, there are still people in the Democratic Party, I regret, including the Democratic National Committee, who would like to throw the Congressional elections, though not necessarily the Presidential election. And the President has not yet begun to campaign, significantly, for the Democratic members of Congress.

There are reasons for this. It doesn't mean the President is a bad fellow. It doesn't mean he's insensitive to any of these issues. He's not. I know that personally.

But what I'm saying, what Ted Kennedy said in 1995, what Ted Kennedy said in a recent address, what is said by Senator Daschle in a report soon to be issued, what was said yesterday in a Washington address by House Minority leader Gephardt, these are the directions in which the Democratic Party, from underneath, is moving. And a lot of people at the top are moving in the same direction.

We're going to take on the economic issue.

Why Lyndon LaRouche praises the Bingaman-Daschle report

by Chris White and the Economics Staff

Presidential candidate Lyndon LaRouche has proposed that thorough attention must be given to the Feb. 28 report issued jointly by Democratic Senators Jeff Bingaman (D-N.M.) and Tom Daschle (D-S.D.): *Scrambling to Pay the Bills: Building Allies for America's Working Families.*

LaRouche identifies this as one of a growing number of programmatic policy utterances issued in the wake of House Speaker Newt Gingrich's tantrum-ridden shutdown of the federal government. These recent utterances have come chiefly from a group of leading Democrats, typified by Sen. Edward Kennedy (Mass.), House Minority Leader Richard Gephardt (Mo.), and LaRouche himself, who are drawn implicitly into common cause by their commitment to make the economic issues crushing those in the lower 60% of income brackets, the basis for a landslide Democratic victory in the 1996 Congressional races.

LaRouche divides these utterances into two groups: those issued in the wake of Gingrich's tantrums, but before the March 5 primaries, and the increased number of such statements during the period following the March 5 primaries. Typical of the earlier phase is Senator Kennedy's Feb. 8 "A Rising Tide Must Lift More Boats" address, at the Center for National Policy in Washington, D.C. Typical of the stepped-up campaign, since the March 5 primaries, is the release of the Democratic National Policy Committee's staff report, published March 11: "Who Is Downsizing the American Dream?" (See *Documentation* for excerpts from these reports.)

There are certain common features, and certain differences, among the Democratic policy proposals which have been made public over the weeks since Senator Kennedy's February address. The limited, but significant success of LaRouche, the only nationally significant Democratic Presidential candidate other than the President himself, has been a factor in encouraging Democrats to place increased emphasis upon the economic issues presently oppressing the vast majority of the citizens.

Especially important for Washington insiders, is that LaRouche's double-digit figures in a number of states and counties, were secured in defiance of a virtual news blackout by the national news media, and despite dirty-tricks interventions against LaRouche's campaign, into numerous state Democratic Committee organizations. For political professionals, LaRouche's otherwise modest success is viewed as advance rumblings of a political earthquake.

Although other leading Democrats have yet to take up the leading feature of LaRouche's warning of an already ongoing collapse of the world monetary and financial systems, on all other issues of domestic economic policy, there is convergence upon broad agreement among all leading Democrats putting forward the direction of policy-thinking seen in the Bingaman-Daschle report.

The Bingaman-Daschle report

Senator Bingaman's report proposes to re-create the framework in law which will again give substance to the now almost defunct "General Welfare" provisions of the U.S. Constitution, by compelling private corporations to structure their affairs in accord with principles of public benefit, rather than the effectively treasonous interests of stockholders and bondowners. The Democratic Policy Committee identifies a network of families, and family charitable foundations, which, over 25 years or so, have reshaped law and institutions in favor of the biggest asset-grab in human history. As the report says: "That is why this whole relentless policy needs to be recognized for what it is, and terminated."

The authors of the Bingaman report, and more emphatically, the authors of the Democratic Policy Committee report, document a process that has been under way in the country since, as they say, 1973. Under this policy, conditions of existence for formerly middle class households have been degraded beyond recognition, along with their employment, their hopes for the future prospects of their children, along with their plans for security in their own old age. All this is true, and is probably even worse than the authors concede.

At the same time, a minute handful, at the top of the pyramid, have gotten inordinately, actually grotesquely, richer. In the meantime, it is said, "productivity has increased." That is to say, the dollar price of per-worker output has increased. But workers have not shared in that growth. What is presented is an anti-labor, anti-living standard, anti-benefit policy, which has sought to effect a redistribution of national income from workers and their families to those at the apex of the pyramid. This policy has been carried out in the name of "free trade," and has been designed to free all markets, and anything like a market, from any action of government, or any other relatively human agency.

Not discussed per se, but known, this defines the context for measures proposed, e.g., in the Bingaman report, which will force such measures to the front of the agenda, and force the question of what policies ought then to replace what has been so brought down. Specifically, the Bingaman report proposes, in the form of the Securities Transfer Excise Tax (STET), a tax on sales transactions on securities held less than two years. The tax would be different for different types of securities, and would be levied also on the years remaining to maturity. It is calculated on the face value of the transaction, and intended to levy an amount equal to around 0.5% of the face value of the transaction.

A related proposal makes any takeover which uses the cash, or cash equivalent holdings of the target company, as collateral for the borrowing of whoever does the takeover, illegal. Between them, these two measures eliminate many of the obscenities that have bubbled to the surface in recent years. In particular, the proposed transaction tax will help eliminate markets for, and transactions in, derivative products, for the proposed level of taxation will either be larger than the profit which has hitherto been demanded of certain classes of leveraged transactions, or the carrying costs of replacing bets taken out as short-term hedges against longer-term types of movements of markets, will be made prohibitive.

The Democratic Policy Committee's report goes further, to assert, and in a way (by following ground trodden in *EIR* earlier), to prove that the ideological doctrine of "free trade" has been nothing but a cover story for an asset-grab carried out on behalf of, and by, the country's richest households. In the process it is shown that these approximately 400,000 families, (0.5% of all U.S. households), added more to their collective wealth during the six years between 1983 and 1989, than was added to the totality of the national debt; that they could have paid off the entire national debt with their 1989 asset base, while remaining 10% better off than they were in 1980. The Federal Reserve has yet to publish the latest version of the report from which such data are drawn, and has made no new data available since 1989. All of this, indeed, lends credibility to the claim that such an asset-grab was the intended purpose all along.

But, just because the numbers can make it look as if things come out that way, that doesn't mean that that is the way it was, or is, does it? After all, anyone can do anything with numbers, can't they?

LaRouche opposed the 'relentless policy'

One may better understand the fight over campaign policy within the Democratic National Committee, by noting that the "relentless policy" identified by this Bingaman-Daschle report, is a policy against which LaRouche has fought, for over 15 years, both as a Democratic candidate and as contributing editor of *EIR*.

The leading backers of the policies now condemned by the Bingaman-Daschle report, include neo-conservative intelligence-community family foundations, such as LaRouche-hater Richard Mellon-Scaife's Sarah Mellon Scaife Foundation, and the Bush family-linked Smith Richardson Foundation, both of which funded the attacks upon LaRouche directed by the right-wing, racist hate group known as the Anti-Defamation League (ADL). The Mellon-Scaife and Smith Richardson foundations sponsored and financed the ADL's deployment of left-wing hoaxster Dennis King in 1979-89 activities against LaRouche. The agency which the Policy Committee report has identified as backers of the wrongful policy include the London-directed, right-wing Heritage Foundation, which commissioned its first public attack on LaRouche back in 1978, and has been counted among his most vigorous opponents ever since. These are among the U.S.-based backers of the international political movement that LaRouche has attacked as the Conservative Revolution, who are identified, along with scores of others, in the Policy Committee's report.

One ought perhaps to ask, if these monied family interests are as they are portrayed by the Policy Committee, and implicitly, by Senator Bingaman's report, why did they rally to Henry Kissinger's launching of the most pervasive, and longest national-security operation ever run against any single U.S. citizen, Kissinger's August 1982 "Dear Bill" letter to then-FBI Director William Webster?

Go back to the summer of 1982, to the months prior to Henry Kissinger's "Dear Bill" letter, demanding, and winning, a National Security investigation of LaRouche under provisions of Executive Order 12333. What had LaRouche done to provoke that?

To find the answer, go back to the earlier year referenced by the Democratic Policy Committee's report, 1973. According to evidence fully confirmed by an official FBI document dated Oct. 29, 1973, the New York Office of the FBI, acting at all times under supervision of the Washington FBI headquarters, was working closely with the leadership of the Communist Party U.S.A. to bring about "the elimination" of LaRouche. Other agencies were involved, including official agencies of foreign governments from both the Soviet bloc and NATO members. What had LaRouche done, during, or prior to 1973, to warrant such a plot against him?

A summary of those facts helps one to understand the deeper issues behind the fight for, and against the efforts of leading Democrats to give an economics emphasis to the 1996 election campaigns.

From 1966 through spring 1973, LaRouche was a politically obscure management consultant and part-time university campus lecturer, whose one-semester introductory course in economics had attracted a significant following, and a large amount of heated opposition. Throughout the 1966-71 interval, he had forecast an imminent collapse of the Bretton Woods monetary agreements; in August 1971, that collapse occurred, just as he had forecast, just as the economic history of the world has since followed the downward-spiralling path-way into fascist-like austerity, against which he warned during the 1966-73 interval. After the August 1971 events, leading academic economists among New York universities selected the leading Keynesian economist, Prof. Abba Lerner, as their champion, to debate, and hopefully to demolish LaRouche. It was Prof. Abba Lerner who was publicly demolished in that debate.

LaRouche had no other political significance than this, and yet official agencies of several nations, both East and West, collaborated in the FBI's 1973 effort to have him eliminated through assistance from the Communist Party U.S.A. By 1973, he was already considered a highly dangerous personality, because some very powerful financier circles detested the growing influence his success in economic forecasting had won him. By 1981-82, the worst fears of LaRouche's enemies were realized; LaRouche was achieving significant and rapidly growing policy-shaping influence within the U.S.A. and many foreign governments. Self-confessed British foreign-service agent Henry A. Kissinger[1] was deployed to secure an Executive Order 12333-style covert national security operation designed to eliminate LaRouche.

What, then as now, is the issue between LaRouche and the British-centered, transatlantic interests which Henry Kissinger represents? Was it the unfair distribution of wealth between rich and poor nations? The issue was control of the future direction of financial and economic policy, on the basis of a defense of the existence of the nation-state and its population, against those who were determined to destroy both.

The broader problem

An obscene asset-grab has been in progress in the United States, increasingly, since President Jimmy Carter's October 1979 appointment of Paul Volcker to chair the Federal Reserve Board. Ask oneself: What are the assets, financial and otherwise, that the 400,000 or so households at the top of the pyramid dispose of? The answer, in brief, must be the matching liabilities that make up the other side of the balance sheet, a balance sheet which the Federal Reserve no longer makes available to the public.

For example, if the U.S. federal government issues debt, that debt is a liability of the federal government, and an asset of whoever purchased it. Ninety percent of everything that is owed in the United States, is owed to the top 10% of households, including private foundations and trusts. Ninety percent of the 90%, as of 1989, was owed to the top 0.5% of households, foundations, and trusts. You don't think the 90% of households with 10% of the assets are the ones that step up to the plate to buy federal government debt, do you?

Is that because they wanted all the wealth that could be grabbed? Ownership, and title, can be presumed to give control. It is not the money wealth per se, but disposition of the collateral which secures the liabilities which show up as the assets of the 400,000 households.

These are not to be explained simplistically, as merely rich households which wish to become monetarily richer at the expense of everyone else (even though some might). They are not to be explained with silly simplicity, as simply part of the spectrum of American politics. They are a U.S.A.-domiciled branch of an international oligarchy, which maintains the City of London and its institutions as an international reference-point.

The Democratic Policy Committee report's authors write, on p. 46: "The United States has gone through a number of cycles in which some of the wealthiest in society have sacrificed their own, and the country's long-term interest for foolish short-term gain. . . . It has taken years, even decades, to unwind from the kinds of distortions that these famous money-grabs created."

One could list several such, beginning with Aaron Burr's banking activities. The list would continue, through Andrew Jackson's "wild-cat" banking dissolution of the national credit system, into van Buren's Presidency, and, on, through the Confederate run-up to the Civil War and Emancipation, through the so-called "robber barons," Morgan and Harriman of the 1890s, all in the run-up to the assassination of President McKinley, to Coolidge and Company, and the so-called "roaring twenties." All, in a limited sense, were money-grabs, at least to the extent that money was being grabbed—and, that, by the carpet-bag full.

In each of these cases, the bankruptcy, or virtual bankruptcy, which succeeds the money-grab, was among the means adopted to attempt, or to secure the political transformation of the nation-state host—the United States—which had so laid itself open to parasitical speculation. In each such case, the hand dipping into other people's pockets inside the United States, was at the end of a (chiefly) British arm, and that hand was deployed to help bring about the overthrow of the federal Constitution-based, republican form of the nation-state, in favor of world-domination by financial oligarchism.

None of these were automatic business cycles in production of wealth, nor was this simply a matter of assets being grabbed. Each of these developments was rather part of a series of political insurgencies against the sovereign power of the United States, coordinated by the London-centered international financier oligarchy, by such U.S. agents of London interests as the Morgan and Harriman interests.

In earlier U.S. history, fortunately, each of these efforts to destroy the American System of political-economy has ended with a victory for the American cause, as with Lincoln, and with Franklin Delano Roosevelt later. As in the instance

1. Sir Henry A. Kissinger has bragged publicly of his status as an agent of the British foreign service. See Kissinger's May 10, 1982 keynote address delivered to a London conference of Chatham House (the Royal Institute for International Affairs—RIIA), just weeks prior to Kissinger's launching of the effort to create an international "get LaRouche task-force" under U.S. national-security cover. Kissinger's covert role as a treasonous agent of a foreign power (Britain's foreign service), did not begin under Presidents Nixon and Ford, but began with his training under Chatham's "Wilton Park" operations at Harvard University, during the early 1960s. Compare Kissinger's 1982 Chatham House address with his relevant book, *A World Restored.*

of Lincoln's and Roosevelt's temporary victory over the Anglophile financier-oligarchs, there was a reassertion of the sovereign power of the United States. Today's issue is the Democratic Party's duty, to ensure that that reassertion of national sovreignty occurs now.

Worse than greed

In their hysterical efforts to label LaRouche et al. as "conspiracy theorists," so-called critics challenge LaRouche and his associates, "What you people say is going on is totally incredible! What do these rich families really get out of it?" These actual, or virtual "Marxists" insist, by the manner that their objection is posed, that the rich families' motives must be purely and simply "material," as a grab for no more than an amount of money, or, perhaps, power.

EIR has frequently documented the actual motive of these families, such as the British royal house of Windsor itself. These families already have the "money." Some 60-65% of the daily $2 trillion in foreign monetary exchange turnover goes through the City of London. London controls the majority of the international trade in food supply of the world, through control over companies like Cargill and Archer Daniels Midland. London-based syndicates control the majority of international traffic in fossil fuels. They control about 65% of precious metals traffic, and the majority of trade in those strategic minerals on which every modern industry depends. Twenty-five percent of the world's land surface, still, is under one or other version of the Union Jack, and about 30% of the world's population. "They" control, directly, or indirectly, the daily lives of billions.

Yet, some stubbornly foolish people still insist on a "byte-sized," materialist's answer to the question, "But what do these super-rich families really get out of it?"

These families themselves give the true answer often enough. They say it openly. Prince Philip is a spokesman for the policy that underlies this: "There are too many people" is his favorite refrain. He has stated publicly that he wishes to be reincarnated as a deadly virus, so he can help deal with the crisis of overpopulation. Or, looney Lord William Rees-Mogg, the patron of Speaker Gingrich and Alvin Toffler and their Third Wave cult, has put himself publicly on the record for a world made up of 5% educated, and 95% not. Looney Lord Willy insists that this is because the 95% are not fit.

The Prince's and Looney Willy's is the voice of the feudal opposition to the Golden Renaissance creation of the modern nation-state under Louis XI of France. These neo-malthusians walk today in the tradition of the same eugenics dogma which the Harriman clan so much admired in the "racial purification" doctrine of the Adolf Hitler whom President George Bush's father, and Harriman official, Prescott, funded to bring to power in Germany in 1933.

On the opposite side to the Prince and Looney Willy, is the modern nation-state, based upon the principle that the individual person is created in the image of God, all endowed with that educable power of reason which sets mankind absolutely apart from and above the beasts. That is the principle upon which the U.S. Declaration of Independence and federal Constitution rest.

However far our nation may stray from the great principles on which it based its struggle against the evil of the British monarchy, our heritage defines us still as the most powerful nation on this planet, a nation whose cultural heritage is rooted in Genesis 1:26-30 and the doctrine of Christian love so beautifully presented in the Gospel of John and the Epistles of Paul. Our adversaries, centered around the British financier oligarchy, insist that mankind is mostly no different than the lower beasts of burden, the vast majority of whom are to be ruled by the rich as feudal barons might rule over the cattle and the hunted wild game on their estates.

Those brutish oligarchs, once aptly described as "the incredible in pursuit of the inedible," want the world to be run their way. The most powerful obstacle in their way, is the heritage of the most powerful nation on this planet, our United States. If those brutish oligarchs can not destroy from the outside, they will continue to attempt to destroy our nation from the inside.

Thus, the economic issue, as raised by the Bingaman-Daschle and Democratic Policy Committee reports, assumes the form of the most crucial moral issue of the 1996 campaign.

Documentation

Time to put economy on a 'high-wage road'

The following is excerpted from "Scrambling to Pay the Bills: Building Allies for America's Working Families," presented on Feb. 28, 1996 by Sen. Jeff Bingaman (D-N.M.) to Senate Minority Leader Tom Daschle (D-S.D.). The 57-page full report is subtitled, "A Set of Comprehensive, Specific Democratic Proposals to Address Wage and Income Stagnation—to Produce Long-Term, Higher Rates of Economic Growth, Shared with Working Families, in the United States." Emphasis is in the original.

It is high time to demand that the American economy put itself on a "high-wage road" back up to our historic economic growth rates. The key players must finally assume their roles to help us get there: American businesses, Wall Street and the financial community, and the federal government must all become allies of working families, self-employed workers, and small businesses. Our report consists of a comprehensive strategy to ally these forces. It proposes to align federal tax policies, spending priorities, and regulatory policies along a single trajectory toward higher economic growth:

- *By producing long-term investments* by business, Wall Street, and government in: research, development, plant, equipment, process technologies, new distribution channels, new marketing strategies, and worker training.
- *That is shared by America's working families.* A trajectory for economic growth that will value and invest in the nation's workers—equipping them with the skills they need to be the best workers in the world, giving them tools they need to embrace, and not fear, economic change, and rewarding them for world-class performance.
- *In the United States.* A trajectory for economic growth that uses both carrots and sticks to force open lucrative, growing foreign markets for American-made products and services and which prevents the undermining of the finest parts of our economic system by intolerably lax labor, environmental, and property standards elsewhere.

There are those who will say . . . that higher higher economic growth is not possible, and that we must simply leave the "invisible hand" alone to do what it will do. . . .

We reject that view categorically. . . .

We believe that stagnant wages are traceable partly to inadequate long-term investment. This view holds that long run wage *increases can only be based on improvements in labor productivity,* which in turn depends on both the degree and direction of America's investment/capital allocation activity.

A-Corp tax benefits and tax benefits for all corporations

Recent statistics indicate increases in workforce productivity, but the longer productivity trend over the last 20 years is weak and any recent gains have been in *volume* (number of units of standard product produced per worker) not *value* (units of output per unit of labor and relative prices) productivity. Increased volume productivity will not lead to higher wages if the price of a company's products falls relative to the price of its inputs. In fact, since 1981, value productivity growth has been much slower than volume productivity growth.

This trend has direct impact on America's competitive position and American living standards. If the U.S. continues down the road of stifled innovation and low-value productivity gains, foreign competitors will make greater inroads since they more easily can match efficiency improvements on standard products or compete successfully with American firms based on lower wages. In other words, American wage growth will not expand until the U.S. expands production of higher-value items. Furthermore, new products and new markets are needed to create new jobs and offset employment reduction that often accompanies productivity growth in established products and services.

The existing federal regulatory framework (most corporate governance rules, tax laws, and accounting conventions) exacerbates the problems of capital allocation and wage stagnation since much of it was developed before World War II. Since the 1950s and 1960s, revolutionary changes have swept the business world, including dramatic growth in information and communications technology, extensive globalization of production and investment, a shift in importance from large and diversified companies to smaller and more flexible organizations, and a pronounced concentration of private equity ownership in institutional agents. We believe that the federal government must update its investment, corporate governance, and tax policies to reflect these fundamental changes, to link productivity growth to wage growth, and to encourage proliferation of responsible business practices.

In our view, composition of investment matters. If the U.S. takes beneficial measures to reduce deficits and increase savings without efforts to channel these benefits into productive capacities, then it will have done little to address the root causes of income stagnation. . . .

Overall growth in the nation's net capital stock has fallen considerably over the past 20 years. A decline in fixed investment means that growth of the capital-to-labor ratio in U.S. industry—which is crucial to growth in value productivity and wages—is slow by historic and international standards. Three particular investment trends have contributed to this pattern and are of concern to us:

1. *Net investment* in fixed corporate assets in the United States has fallen substantially, by both historic and international standards. American companies now invest at lower rates in intangible assets (R&D, workforce training, new products and new markets, supplier relationships, establishment of brand names and distribution channels) than their foreign competitors.

2. *New equity issues* have been outpaced in recent years by equity retirements (e.g., from acquisitions and stock repurchases). This matters to the issue of high-wage jobs because most intangible investments (R&D and new market development) are funded by new equity, not tax-favored debt or internally generated cash flow. Most corporate investment now has to look solely to internally generated cash as a source of funds, and not a much larger pool including new, outside capital.

3. *Increased dividend payouts by firms reflect capital market pressure for current income as well as shortage of investment opportunities that meet perceived hurdle rates.* High hurdle rates (return required) in the U.S. relative to foreign competitors result in comparatively high profits and lower investment in the U.S. than elsewhere. If there is a short supply of capital and immediate returns are demanded and if certain types of investment (R&D, worker training, market share development) are less conducive to precise future cash flow projections, high hurdle rates will inefficiently skew capital away from longer-term to shorter-term or more tangible projects. As a consequence, American companies spend billions buying back [their] own stock rather than investing in new assets. . . .

Establishing the 'A-Fund'

We have concluded, along with many experts, that our current financial markets exert enormous short-term pressures on America's businesses. That pressure to produce short-term profits inevitably makes it harder for businesses to make the long-term investment in their employees that a true alliance with America's working families requires. We believe that this counter-productive phenomenon must be confronted head-on; at a minimum, we need to create a "speed-bump" against this short-termism. We believe that we must take steps to help "Wall Street become allies with Main Street."

Our bottom line? We propose creating a disincentive to the churning of securities in the form of a less-than-one-half-of-one-percent and declining tax on the sales of securities that occur within two years of purchase, and using the proceeds to pay for a huge education and training tax cut for America's working families.

The transaction tax on short-term speculation on all securities, is described in greater detail below. The proceeds from this tax would be segregated in a "Financial Markets Allied with America's Businesses and Working Families Fund" (the "A-Fund"). And the primary uses of the "A-Fund" would be to pay for tax deductions for post-secondary education and training purchased by American workers, and for tax credits to help cover the expense of raising and educating children of pre-school, elementary, and secondary school age. In other words, we propose a tiny tax on short-term trading to fund a big tax cut for long-term investment.

A-Fund sources

The tax is imposed on the short-term churning of securities. It is paid in diminishing amounts over the holding period of the security, and *is not paid at all* if the security is held just two years or more. Remember that one of the purposes of the fund is to encourage well-informed investments in corporate securities followed by sustained support of the securities over some reasonable investment time period.

Our proposal would impose a small and diminishing securities transfer excise tax (STET) on broad-based security sales made less than two years after purchase. The tax would extend to transactions by individuals, corporations, and tax-exempt pension funds and other entities and would apply to stocks, bonds, options, futures, and swaps of currency, interest rates, and other assets. This would include trades on behalf of Americans and American assets on American and foreign exchanges, whether done directly or through any intermediary investment fund. It is important to apply the STET to all securities, to avoid prejudicing investment in one securities vehicle over another. The tax would be paid by the seller (the person on whose behalf the sale was made) at the time of the transaction and would not apply to new issues.

'Who is downsizing the American Dream?'

Excerpts from the March 11 Democratic Policy Committee staff report, "Who Is Downsizing the American Dream?" commissioned by committee chairman Rep. Richard Gephardt (Mo.) and vice-chairman Rep. David Obey (Wisc.). Emphasis is in the original.

While overall economic growth has been disappointing during several extended periods in the past two decades, the American economy is nearly 50% larger today than it was at the beginning of the 1980s while average wages are lower. . . .

The advocates of laissez-faire capitalism have been fighting against the minimum wage, government regulation of business, unions and public interference with the prerogatives of corporate managers for more than a century. It is important to examine why those forces became suddenly far more effective in achieving their policy objectives in the 1980s than they had been in previous decades. . . .

The success of far-right conservatives in taking the reins of the Republican Party [after the election of Ronald Reagan], their success in translating their economic concerns into achievable legislative packages, and their ability to dominate the public debate on economic issues was to a very large degree the result of a carefully planned effort that began a quarter of a century ago. That effort involved a group of wealthy American families and a large number of the nation's bigger corporations who collaborated in the creation of a network of sophisticated and heavily financed organizations aimed at not only electing sympathetic office holders but changing the direction of media coverage and the underlying opinions of ordinary voters.

The Scaifes, Richards, and Kochs are families whose names mean little to most Americans. Other families like the Coors, Bechtels, Lillys, and Kohlers are known only because of the products or corporations that bear their names. Few individuals from any of these families have run for public office and for the most part they studiously avoid public scrutiny. But they have not only taken a great interest in influencing public policy, they can rightly claim to have forged major changes over the course of the past two decades in the way in which the government and the economy of this country function. . . .

Conclusion

This country has been grappling for decades with a choice between two types of capitalism. One type views corporations as organizations which are dependent not only on investors and managers but on the workers who make its products and the communities that provide schools to train workers, highways to get products to market, and police and military to protect commerce. This view holds that corporations cannot be viewed simply from the input of the investor and that corporations have obligations to employees and to the community as well as to their shareholders.

There has been a concerted attack on that philosophy of capitalism in recent years. The "pseudo-think-tanks," advocacy groups, and formal lobbying operations of the far right have focused on selling a different view of the corporation and society. According to that view, efficiency requires that corporations focus solely on the interests of shareholders, that enterprise achieves maximum efficiency only when left to its own devices, and that the only useful role for government is to get out of the way. . . .

But it is necessary to look no further to the left than David Packard, the billionaire corporate co-founder of Hewlett-Packard, a Republican activist who served as a Reagan political appointee, to find serious dissent to this point of view. Packard built his company around a vision that continues to be a management model discussed in business schools and among business leaders. He believes that corporations should be viewed as triangles. Management makes up one corner of the triangle, investors a second, and the workers a third. . . .

That view of the corporation stands in stark contrast with the view expressed by "Chainsaw Al" Dunlap, most recently of Scott Paper, when he spoke at a retreat for House Republican freshmen. *Roll Call* reported Dunlap's speech: " 'This nonsense about the working people,' he sneered. 'Don't ever apologize for being successful.' ". . .

A similar perception was recently expressed by an AT&T executive who commented that in the future, all employees will have to consider themselves as contingent workers.

This is a stark deviation from the vision of responsibility that many of our larger corporations practiced in previous eras. . . .

It is not that this inequality is unnoticed by those now running the Congress. It is that they view this as the desirable outcome which results from an economy unhindered by government restraint. A recent report by the Republican staff of the Joint Economic Committee put the argument this way: "All societies have unequal wealth and income dispersion, and there is no positive basis for criticizing any degree of market-determined inequality."

The irony is that this market-driven "downsizing" of America's middle class will ultimately take a big bite out of American corporate profits. Economist James Paulsen of Investors Management Group explained it to Jonathan Laing of *Barron's* in a recent interview: ". . . In other words, business can't continue to eat its own young in the name of efficiency.". . .

At the very heart of the message which the right-wing think-tanks, advocacy organizations, and corporate lobbies have tried to sell over the past 20 years is the notion that only markets (i.e., business and investors) can make the right decisions. That government is an institutional buffoon that can only make matters worse. That if we can get government (as well as labor unions and environmental lobbies) out of the way, markets can really show their stuff. . . .

But this narrow-based elite has systematically deployed the large and focused sums of money necessary to change the rules of the game and it has done so with remarkable effectiveness. Their effort, in effect, amounts to nothing other than class warfare. . . .

We should heed the advice of those who caution against "class warfare." A country divided against itself will be disadvantaged in competing against foreign producers. It will inevitably face social division and political strife. . . . We will destroy the idea of America as a model for the rest of the world.

That is why this whole relentless policy of class warfare needs to be recognized for what it is and terminated. . . .

The evolution of the modern industrial corporation

by Richard Freeman

The American corporation, whose functioning was able to flourish as a result of the ratification, in 1789, of the United States Constitution, and which helped power this nation's development for nearly 200 years, no longer exists. It has been decimated by 35 years of a "post-industrial society" policy. That post-industrial society was imposed by the British oligarchy upon the United States, after that oligarchy directed the November 1963 murder of U.S. President John F. Kennedy.

The corporation was given life, and still exists, through a charter issued by the nation-state, with an intended purpose: to serve "the general welfare of the nation." The corporation's sister institution, the patent, is specifically provided for in Article I, Section 8, of the U.S. Constitution, "To promote the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries." The history and function of the corporation and patent are intimately related, and date back to sixteenth-century England, under the Tudors, where there was an arrangement under which the king would grant certain limited liabilities and privileges to an inventor and his business associates, for conducting a certain kind of business in the public good, for some finite period of time.

The function of the corporation is best captured by the idea of the rail common carrier, which idea was in effect from the time that the Interstate Commerce Commission was created in 1887, to regulate the lawless rail industry, to the point in 1980, when the Staggers Act deregulated the railroad industry, creating disaster. Under the ICC, the railroad was treated as a public corporation, acting for the public good. The railroad had to be open, with equal access and service to all shippers, regardless of where they were located in the country, or their economic size. The ICC's enabling legislation stipulated that rates were to be set as "just and reasonable." But this triggered the actuation of a second function that is little understood: That the railroad should charge fair rates also meant that its rate should be set by an ICC-supervised regional rate bureau, composed of the rail common carriers, in such a way that they covered the operating costs of the rail company, plus a reasonable rate of profit that allowed the rail company to expand and technologically upgrade the scale of its operation. This is based on the concept of "equity" in law. It is how agricultural parity functions, and how ICC supervision of trucking and water transport, and government regulation of electric and gas utilities, also functioned. Operating under such conditions, the industries themselves, and the U.S. economy as a whole, prospered.

It must be kept in mind that the rail system is not just of concern to rail companies. The productivity of an economy, especially its manufacturing and agricultural sectors, depends on the effectiveness of the transport grid. The turnover time of bulk and non-bulk commodities and the cost of transport affect every commodity in the economy. The same principle applies to trucking and electricity.

The approach that lay behind the institution of the common carrier abruptly changed, however, with the 1963 inauguration of the post-industrial society policy and the deregulation of industries: securities and investment banking (1975), airlines (1977), trucking (June 1980), railroads (August 1980), and the banking system and savings and loan institutions (1982). Deregulation was attended by the British oligarchy's activation of an interconnected series of post-industrial society policies, such as Paul Volcker's high-interest-rate policies, starting in 1979; the Kemp-Roth Tax Act of 1981, and other measures which we shall detail in the accompanying articles.

As a result of such institutionalized changes, today's corporation bears no resemblance to its progenitor of 1789-1963. It is now the instrument for ripping off trillions of dollars, transferring the funds to a speculator elite of parasitical stockholders, consisting of corporate managers and super-wealthy families, both American and foreign. The corporation is like a funnel attached to the real physical economy, to suck it dry. It turns inward, cannibalizing the labor force, and the plant and equipment (**Table 1**).

The asset-strippers

The agency for this change is the British oligarchy. It assembled, over the past 30 years, a mob of asset-strippers, linking the financial elites with the outright gangsters. This is the case with Eastern Airlines, which was pillaged by corporate raider Frank Lorenzo, whose sponsor for 20 years was Minneapolis-based Carl Pohlad, the gangster heir of Kid Cann's Minneapolis Mob. This is the case with Drexel Burnham Lambert, which fronted drug money for the United Fruit Co. and for Meyer Lansky, which was the reason for the success of junk bonds.

Here is an example of how this mob's asset-stripping

TABLE 1
Corporate downsizing: firings and layoffs from late 1980s to 1996*

Company	Jobs cut	Share of company's workforce (%)
AT&T	123,000	30
IBM	122,000	35
General Motors	99,400	29
Boeing	61,000	37
Sears, Roebuck	50,000	15
General Dynamics	42,500	69
Eastern Airlines	42,000	100
Pan American Airways	34,000	100
Digital Equipment	29,800	26
Lockheed Martin	29,100	17
Bell South	21,200	23
McDonnell Douglas	21,000	20
Pacific Telesis	19,000	19
Delta Airlines	18,800	26
GTE	18,400	14
Nynex	17,400	33
Eastman Kodak	16,800	13
Baxter Instrument	16,000	28

Sources: Challenger, Gray, and Christmas consultants; *EIR*; *New York Times*, March 13.
* actual and planned layoffs

works: In 1978-79, one of the first large leveraged buy-outs (LBOs) in America transpired. The victim: Houdaille Industries, primarily a machinery-producer, which had absorbed a number of machine-tool companies, including Burgmaster Corp. In 1965, Burgmaster had become the largest machine tool-maker west of the Mississippi, after developing a turret drill press in the late 1940s. Kohlberg Kravis Roberts (KKR), the dirty money asset-stripper tied to the George Bush machine, performed the Houdaille leveraged buy-out for $355 million, which was ten times the size of most of the LBOs that had been theretofore undertaken.

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

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

Today, this principle is pulling down the whole economy. The history of the war of two antagonistic conceptions of the corporation: the republican conception versus the oligarchical-financier conception, each rooted in a different view of economics, determines much of what is happening in America. We present the history and present-day significance of that war, with the view that this is indispensable information for those now attempting to revive the American corporation as an instrument of the public good.

Origins of the corporation: the dirigism of the nation-state

The purposeful evolution of the corporation, which began, in its earliest form, during the eleventh century, reached its highest development in America after the adoption of the Constitution, and especially during the fights during the first quarter of the nineteenth century, to firmly establish a policy of economic dirigism.

During the eleventh through fourteenth centuries, commerce between the Italian seaports and the Near East became the center of a large Mediterranean trade. Business partnerships evolved called *commenda.* One partner, the *tractator,* undertook the management of the enterprise, while the other partner, the *commendator,* supplied the capital. These partnerships often had more than one *tractator* and *commendator.* At the start, these arrangements were made for a single venture, but sometimes they were employed for long periods and more than one voyage.

The *commenda* became the model form for the joint stock company. The East India Company, to which England's Queen Elizabeth I (reigned 1558-1603) gave a royal charter in 1600, was a joint stock company. When the voyage ended, the participants got back their capital, plus a share of profit, if any was made. Frequently, investors were asked to leave their money in for several voyages. In 1617, for example, investors were asked to put in capital to cover seven voyages. Concerning the period 1550 to 1650 in England, an historian wrote:

"The granting of special economic privileges over a trading area or in the production of a certain commodity characterized this period. The corporation was frequently the vehicle for granting these exclusive monopolistic privileges. Sometimes the sovereign participated in the promotion and financing and also the profits. The crown came to regard the corporation as a creature of the state. Under James I of England [reigned 1603-25], the view of a corporation as a separate legal person, distinct from its officers and created by the authority of the state, was first clearly laid down."

A parallel process occurred for patents. During the reign of England's Elizabeth I, petitions could be made to the throne for patents. In 1623, during the reign of the Stuart James I, a statute on monopolies was passed, specifying that the first and true inventor of a new manufacture within the realm, was granted the right to be the only person exploiting that article for a period of 14 years.

However, the shape and purpose of the corporation were to be very much molded by the tendency represented by France's King Louis XI, who, during his reign of 1461-83, created the nation-state of France and the parallel idea of national economy. Louis XI's outlook arose from the 1439-40 Council of Florence, which began from the conception that man is a force of creative reason, created and acting in the image of God.

Sovereign individual man's creative discovery is the well-spring of all economic wealth. But these ideas are materialized and spread by the nation-state. By fostering the transmission of scientific ideas, the nation-state uniquely creates sustained social surplus, or profit, which is the source for growth in potential relative population density.

During the seventeenth century, that concept of economics was transmitted and enriched by Jean-Baptiste Colbert (1619-83), who was French King Louis XIV's Controller-General of Finances, and a collaborator of the founding spirit of America, the philosopher-scientist Gottfried Wilhelm Leibniz. Colbert made clear that the industrial or trading firm and/or corporation was not an abstract ethereal, but was realized only by the protectionist-dirigistic activity of the state, which gave it a charter. The corporation meant something only if the nation-state developed it as an instrument for the good. This purpose of furthering the firm and/or corporation is explicitly made in the royal declaration of Aug. 26, 1664, for which Colbert was responsible. It stated:

"[H]aving considered how much it would be useful for this kingdom [of France] to re-establish commerce both within and beyond the borders of the same, and that beyond our support and protection nothing could contribute better to the success of such a good plan, we have resolved to that end to have held and give over in its entirety every two weeks a special commercial council in which the interests of businessmen and merchants in making such a re-establishment succeed will be examined and resolved as also everything which concerns the manufacturing industry. . . . We . . . have allocated from the expense of our State 1 million livres annually for the re-establishment of manufactures and for the increase of shipping capacity. . . ."[1]

1. Christopher White, "Jean-Baptiste Colbert and the Origins of Capitalism," in *The Political Economy of the American Revolution,* by Nancy Spannaus and Christopher White (New York: Campaigner Publications, 1977). The second edition, published by EIR, will appear this spring.

The corporation in the United States

In America, the Colbertian-Leibnizian factional viewpoint of the state-chartered corporation found fertile soil and evolved, in America's fight for nation-building. The American tradition of corporate charters started with the 1629 Massachusetts Bay Colony, which operated under an English charter. In colonial America, there were only six business corporations. But there was a rapid increase in incorporations once America ratified the Constitution, thus becoming a republic. By 1800, there were were 219 turnpike, bridge, and canal companies; 36 corporations providing dock facilities, or furnishing water and fire protection; and 67 bank and insurance companies. Aside from the financial institutions, several of which were necessary, the bulk of incorporations were in infrastructure.

Frequently, it took a special legislative act to get a corporate charter. In 1795, North Carolina offered the first incorporation law. However, it was restricted to canal companies, and provided that the enterprise should ultimately become public property. Massachusetts provided a similar law for water companies. In 1811, New York State became the first state to grant general incorporation for manufacturing purposes: The law limited each charter to 20 years, and limited capital to $100,000.

Meanwhile, the Supreme Court intervened into the process to decide the character of the corporation. From the very beginning, the federal government had been involved in the development of the American economy. As early as 1806, the government had begun construction of a "National Road"—the Cumberland Road, with its eastern end at the headwaters of the Potomac River, and extending westward, eventually, as far as Vandalia, Illinois.

But still, certain traitorous, pro-British forces questioned the national government's right to issue charters, and specifically its right to incorporate the Second Bank of the United States, which was used to direct cheap credit to the development of industry and agriculture. This was a direct attack on the Bank. In *McCulloch v. Maryland* in 1819, the U.S. Supreme Court upheld the right of Congress to incorporate the Second Bank.

Also in 1819, in the Dartmouth College case, Chief Justice John Marshall ruled: "A corporation . . . being a mere creature of law, it possesses only those properties which the charter of its creation confers upon it either expressly or as incidental to its very existence." This is important in the debate today on the nature of the corporation prompted by Sen. Thomas Daschle (D-S.D.), Rep. Jeff Bingaman (D-N.M.), and others. Since it is the state that grants a corporate charter, it can insist on certain criteria being present in that charter.

In 1823, the Supreme Court made a ruling of very far-ranging import. Robert R. Livingston, of the powerful New York Livingston family, had secured from the New York State legislature in 1807, a five-year monopoly on the patent and use of Robert Fulton's steamboat. The monopoly was extendable for 30 years, and proscribed other people from using this promising new technology. Livingston succeeded in having New York State pass, and enforce, legislation that authorized the government to seize any steamboat used by any shipping line of any other state, under the forfeiture clause. In the case of *Gibbons v. Ogden,* Gibbons challenged this monopoly as a restriction of trade.

In rendering the opinion for the court in this case, Chief Justice Marshall delineated the power of the United States to regulate interstate commerce, and thus voided a ruling by New York State that contravened that power. Second, he ruled against a monopoly construed in such a manner that it would deny basic science which could benefit the country. Marshall found against a New York State ruling which upheld the monopoly. Marshall's finding read in part that such "exclusive privilege . . . [is] repugnant to the Constitution and laws of the United States." He continued:

"They are said to be repugnant—

"1. To that clause in the Constitution which authorizes Congress to regulate commerce.

"2. To that which authorizes Congress to promote the progress of science and useful arts. . . ."

With this nationalist ruling, the Supreme Court made it clear that corporate charters could not be established, such as the Livingston one, even if backed by individual states, if they gave powers to corporations which contravened the common good of the United States.

Regulating the railroads

In 1887, the U.S. Congress passed the law creating the Interstate Commerce Commission. The nationalist forces had built the American rail system, through every form of government assistance: state bonds; city/county issuance of railroad stock; state purchase of railroad stock; state guarantee of railroad corporate bonds; state loans; state and federal subsidies; federal grants of lands, including all mineral rights within a certain distance of the railroad; and so forth. By 1860, there were 30,000 miles of railroad track, but the Lincoln rail acts of 1862-64 gave an impetus so that total U.S. track mileage increased to more than 190,000 miles by the 1890s.

However, the monetarist forces of J.P. Morgan, James Hill, Edward Harriman, Cornelius Vanderbilt, Jacob Schiff, and Jay Gould took most of the rail lines away from the nationalist forces who had built them, and then the monetarists pillaged them. During the 1870s and 1880s, twenty percent of the railroads were permanently in bankruptcy. Rail owners cut wages by 20-30%, which set off violent strikes.

In 1887, the Congress passed "An Act to Regulate Commerce," introduced by Sen. Shelby Cullom (R-Ill.). It set up the ICC to regulate the rail industry; stated that rail rates must be "just and reasonable"; prohibited discrimination, so that rates and services must be accessible and the same for everyone, regardless of whether they are a large or small shipper, and regardless of where they are located in the country; forbade rebates, which the rail companies gave to favorite customers; outlawed collusive pooling agreements, etc.

A few subsequent acts over the years were necessary to give the ICC teeth in enforcement.

Regulatory commissions already existed in states for everything from railroads to water to public utilities, and they would soon extend to communications, telephones, and electricity.

In 1935, ICC economic regulatory authority was extended over the trucking industry. In 1940, it was extended over interstate water-borne commerce (which had already been under some form of government regulation since 1916).

In 1938, the Civil Aeronautics Authority (later Board), was created to "regulate rates and service, mergers, accounts and finance" of the airline industry.

On April 10, 1981, before the Oklahoma Grain and Feed Association convention, Thomas R. McFarland, speaking in opposition to the 1980 Staggers Act, which was deregulating the railroad industry, presented the concept involved: "Before the Staggers Act, the regulated common carrier concept prevailed. . . . Under that concept, railroads were treated as common carriers. They had to serve all shippers on fair terms. Rail rates had to be published. Unjustified discrimination was prohibited in rates and service. In short, railroads were treated as 'quasi-public' corporations, with a special duty to serve the public."

Daschle proposes to bring back the entrepreneur

by Richard Freeman

Whether he fully realizes it or not, Senate Minority Leader Tom Daschle (D-S.D.), in tackling the issue of the role that corporate America must play in the revival of the dying U.S. agro-industrial economy, is directly taking on the far broader issue of the post-industrial paradigm shift imposed upon the United States by the City of London and its Wall Street allies and dupes over 30 years ago.

The character of the corporation changed dramatically for the worse, with British introduction of the post-industrial society policy in 1963. This fostered speculation over productive investment, and unleashed the rock-sex-drug counterculture. America's paradigm was shifted, replacing optimism with pessimism. The change began in the 1960s, with the growth of the offshore unregulated Euro-dollar market. It grew with the decoupling of the dollar from the gold standard in August 1971. But it was a series of ordered changes in the 1975-82 period, spanning Henry Kissinger's last years as secretary of state in the Ford administration, through the Presidency of Jimmy Carter, and then through the George Bush-influenced economic policy of the Reagan administration, which eradicated the corporation as we knew it.

Changes in the corporation and in the economy run in parallel: Every change that worsens the economy, does the same for the corporation.

As the 1970s deregulation of financial markets, the transportation grid, and so forth, proceeded, normal economic and business relations were deliberately broken up. What the followers of Sen. Phil Gramm (R-Tex.) and Rep. Newt Gingrich (R-Ga.) like to call the "laws of the market"—or the "laws of the jungle"—ensued. Nineteenth-century American System of Economics methods were ridiculed, as chaos took over. Riotous free-for-all markets, governed by huge flows of hot money, became the norm. Into this environment, the British unleashed their asset-strippers, the alliance of top financiers and outright organized-crime members. The biggest criminals, such as Michael Milken of Drexel Burnham Lambert, Henry Kravis of Kravis Kohlberg Roberts, and Alan "Ace" Greenberg of Bears Stearns, became the business leaders.

By 1984-85, at the very moment that the Burgmaster machine-tool company was being destroyed through a leveraged buy-out (see preceding article), these forces began to gain the upper hand. The financial media anointed Milken as America's best businessman. In 1984, *Forbes* magazine featured a cover story entitled, "A One-Man Revolution." *Business Week* magazine, with Milken on its cover, quoted Harvard business professor Samuel Hayes comparing Milken to J.P. Morgan, and ran an editorial headlined, "Junk Bonds Deserve a Little Respect." For the London-run *Institutional Investor* magazine, the headline said it all: "Milken the Magnificent."

Over the next ten years, things became worse.

Within this setting, the corporation became the slave to a policy of looting itself, for two main objectives: 1) making expensive debt-service payments on mountains of piled up leveraged buy-out (LBO) debt; and 2) keeping up the artificially inflated price of the company's stock. If the company did not continue this looting policy, then Wall Street and the City of London would whack its stock price.

We briefly examine three phases of this process: the deregulation of the financial markets, deregulation of the transportation grid, and deregulation of the tax system.

Deregulating the financial markets

On Aug. 15, 1971, President Richard Nixon took the dollar, the world's reserve currency, off the gold standard, which had been adopted by the 1944 Bretton Woods conference. The international fixed exchange-rate currency system, in which all currencies were pegged to gold, and backed by a combination of gold and dollars, made it possible for imbalances in trade among nations to be settled in gold. Nixon's actions shattered this system. A floating exchange rate system was introduced, which bolstered the offshore, unregulated Euro-dollar market to almost $1 trillion by the mid-1980s. This became a source of hot money to destabilize governments.

Moreover, whereas up through 1971, the value of U.S. hard commodity merchandise trade equalled 80% of the dollar volume of all dollars traded on the international foreign exchange markets, by 1995, it constituted less than one-half of one percent. The dollar financial market was delinked from the U.S. physical economy. By the time this process reached maturity in the early 1990s, speculators like George Soros often had more say about the fate of the dollar, than did America's elected government.

Next, on June 4, 1975, America's brokerage house/securities "industry" was officially deregulated, as bill S.249 was signed into law. Fixed rates and fixed rate commissions were ended between both the broker-dealer and the small investor, and between the broker-dealer and the corporate client. Business was now thrown into a free-for-all. The import of this critical legislation is explained elsewhere in this *Feature*. It made it possible for firms with strong supplies of organized crime funds, such as Drexel Burnham Lambert and or Kohlberg Kravis Roberts, to dominate Wall Street. They started making junk bonds, leveraged buy-outs, and other exotic instruments the dominant financial instruments of the late 1970s, the 1980s, and the 1990s.

Third, and most important, is the Depository Institutions Act, which was signed into law on Oct. 12, 1982. It perhaps caused the most far-reaching damage of the three. The act was sponsored by Sen. Jake Garn (R-Utah), and Rep. Fernand St Germain (D-R.I.), and hence came to be called the Garn-St Germain Act. The act deregulated the entire banking system: the commercial banks and the savings and loans institutions. Vice President George Bush had been the head of a White House financial regulatory reform task force, which studied, recommended, and oversaw the banking deregulation.

The provisions of the act are detailed in the article on p. 47. It allowed S&Ls to invest up to 40% of their assets into commercial real estate, and another 30% into consumer loans. Moreover, since Federal Reserve Board Chairman Paul Volcker had sent interest rates into the stratosphere, S&Ls which were earning only 5% on their home mortgage loans, but paying 15-18% on deposit accounts, were strong-armed to invest in high-return real estate deals to recoup what they were losing on deposits. A regulated banking system became a thing of the past.

With the proliferation of LBO financings, thanks in part to the 1975 deregulation of the securities industry; with the increase in real estate partnerships, thanks in part to the liberal provisions for these partnerships provided for in the Kemp-Roth Tax Act of 1981; and with the ability to rig the fake appreciation of stocks, thanks to the legislation that cut capital gains tax rates; the S&Ls and commercial banks were enticed and/or threw themselves into an orgy of speculative investment.

Of course, there were predictable consequences. Since deregulation in 1982, more than 700 thrift institutions folded, and the cost to the taxpayers to bail them out was $400 billion, one of the costs that "free enterprisers" from the Mont Pelerin Society are always mum about, when they talk about "utilizing the invisible hand of the free market." The bailout to the commercial banks, from 1989 through 1994, disguised as a policy by Fed chairman Alan Greenspan to allow banks to borrow through the discount window at 3.5% and then buy U.S. government treasuries paying 6.5% with the borrowed money, easily totaled $100 billion. Since 1982, the number of local and regional banks that serve communities and industry has shrunk by 30%. America is being forced toward adopting the model of Britain's banking system, where the top four clearing house banks control 60% of the banking system's assets.

Even worse, the banking system, addicted to derivatives and other exotic instruments, is now entirely geared toward speculation: In 1982, the commercial banking system made 38% of its loans to the category "commerce and industry," that is the real economy; today, the corresponding figure is only 21.8%, a collapse by almost half.

Deregulating transportation and taxes

The second big phase of destruction was the deregulation of the transport grid. Details of this are presented in the case studies below.

The net effect of the deregulation was to sharply contract the size of the grid, leaving entire regions unprovided for, while increasing the cost to the economy for moving goods. Simultaneously, because of a commitment to cost-cutting, safety features and maintenance were cut, increasing the density of deadly accidents.

As for the deregulation of taxes, deregulation began with the Steiger Act of 1978 (which took effect in 1979), which cut the top capital gains tax rate from 49 to 28%. Since 1979, quite to the contrary of what tax-resisters say, the federal tax rate has been repeatedly cut. The sharpest cuts were for the most speculative activities of a handful of blue-blood wealthy families and parasites.

For example, in 1981, the Economic Recovery Tax Act (ERTA), often called the Kemp-Roth Act, was passed. Among its provisions, it:

- reduced the top tax rate on capital gains further to 20%;
- reduced the maximum tax rate on investment, or "unearned" income—income from interest and dividends—from what was then a rate of 70% to 50%;
- increased, gradually, from $175,625 to $600,000 (by 1987), the total amount of reported estate and gift earnings that would be exempt from estate and gift taxes. *By 1987, less than 1% of all estates would be taxed*;
- created a bonanza for "investment partnerships." "Passive investment partnerships" were set up, whereby, one could invest $1 in it, and get back $2 to $4 in tax losses to apply against one's taxes;
- reduced taxes for leasing;
- reduced overall income taxes by 23% over three years.

With the exception of the last-mentioned tax cut, all tax cuts benefitted primarily the rich speculators, and even the last cut helped the wealthy the most. The tax system was being deregulated, so that speculative arrangements came out on top.

Driving this process forward, was the continuation of Volcker's high-interest-rate policy by Alan Greenspan, who replaced Volcker as Federal Reserve chairman in 1985. Between 1979 and 1990, the U.S. bank prime lending rate averaged 11.9%. Speculation prospered; production collapsed.

The asset-stripper mob

This string of initiatives by the Executive branch, the Congress, and the Fed, opened the door for the asset-strippers, and decimated whatever was left of the American industrial corporate sector. For example, during 1975-90, Drexel Burnham Lambert, floated nearly 60% of the almost $200 billion in junk bonds floated. Junk bonds were high-risk, high-yield bonds that were floated to raise funds for corporate takeovers.

Here is a typical case of a Drexel Burnham-funded hostile takeover: In 1987, Drexel floated $50 million in junk bonds for Doskocil, a midwestern meat producer, to complete a hostile takeover of Wilson Foods, an Oklahoma City meat packer six times larger than Doskocil. Doskocil had annual sales of $215 million; Wilson had sales of $1.3 billion; Doskocil had 900 employees, Wilson Foods had 5,500; Doskocil had 5 plants, compared with Wilson's 12.

In January 1989, Doskocil formally took control of Wilson Foods, firing the president, chief executive officer, and more than 100 salaried employees. The huge, high-interest debt that Doskocil incurred to buy Wilson Foods, proved too large for Doskocil. It fired workers, closed plants, and cut wages. Ultimately, on March 5, 1990, it filed for bankruptcy protection.

By 1985, Michael Milken was helping corporate raider Carl Icahn make an $8.1 billion bid for Oklahoma-based Phillips Petroleum, an oil company ten times the size of Icahn's holding company. Milken asserted, with no backup documentation, that he could mobilize the entire $8.1 billion from his pool of "offshore investors" in 96 hours, to secure a hostile takeover. Corporate managers were given the choice: Either cave in to Milken's "friendly" takeover offer, or lose everything via the hostile takeover route.

But who, or what, was Drexel Burnham Lambert? Everybody was told that it was an investment bank run by Michael Milken, but that was a fairy story: Drexel was run by the highest levels of City of London finance, and their own extensive apparatus of organized crime.

In the 1960s, the biggest money-laundering machine in the world was the Geneva, Switzerland-based Investors Overseas Services, whose president was Bernie Cornfeld. IOS was actually owned and run by Baron Edmond de Rothschild, a billionaire, from his Geneva-based Banque Privée. IOS ran hundreds of millions of dollars worth of flight capital weekly, and laundered casino and drug money for National Crime Syndicate boss Meyer Lansky, a patron of the Anti-Defamation League of B'nai B'rith (ADL). During the 1960s and early 1970s, IOS was also the largest single investor in the U.S. stock market.

During this period, IOS's lead investment bank was none other than Drexel investment bank, which was called at the

General Dynamics downsized as stock price soared

In 1991, William Anders assumed the chairmanship of General Dynamics, a Fortune 100 company, and America's second largest aerospace-defense firm. General Dynamics possessed sophisticated technological assets, which could be used either for defense production or conversion to high-technology industries that America desperately needs. Immediately, Anders began asset-stripping the company. His goal: to force up its stock price, and to pay out the cash inflows from the sale of its divisions as huge lump sum dividends to stockholders and himself.

Anders started tearing the company apart in September 1991, when he sold General Dynamics' computer division to Computer Sciences Corp. In 1992, in quick succession, he sold, in January, its Cessna unit to Textron, Inc.; in May, its missile division to Hughes Aircraft Co.; and in September 1992, its electronic division to the Carlyle Group of Frank Carlucci. In January 1993, he sold its jet fighter division, which is anchored by its Fort Worth, Texas factory, which manufactures the radar-evading F-22 and the F-16 fighters, to Lockheed Corp. for $1.525 billion.

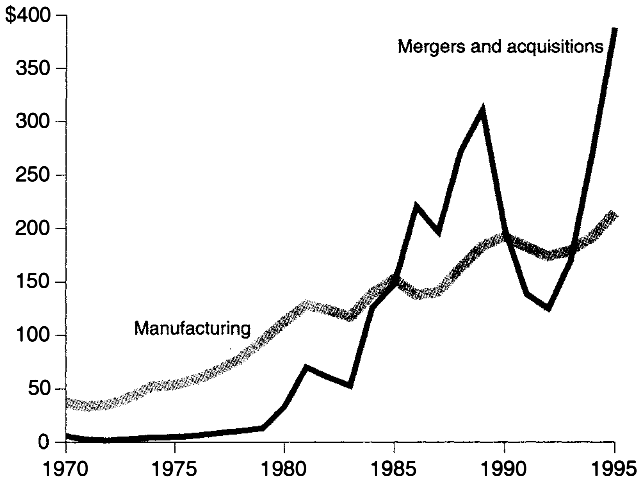
In two years, Anders had sold off so many assets, that had he reduced sales revenues from $10 billion to $3.5 billion, a cut of 65%, and reduced its labor force from 55,550 to 20,100, a cut of 64%. One might think that Wall Street would have been horrified.

Quite the opposite. In 1991, when he took over the company, General Dynamics's stock hovered at $25 per share. With each sale, the price went higher. As rewards to himself and company stockholders, Anders paid out huge special dividends, including a one-time payment of $75, tax-free, for each share of General Dynamics stock. No wonder Wall Street wanted to get aboard this ride. General Dynamics stock peaked at $118 per share, a nearly fivefold increase.

Anders was given stock options, some of which would be worth something to him, only if he kept General Dynamics's stock price above a certain level. He did that. Over two years, he pocketed $44 million in base pay salary, and benefits from exercising his options, special share payouts, etc. Two dozen other senior officers benefitted to the tune of $15 million. An additional nearly $700 million was siphoned from the company and paid to stockholders. In early 1993, Anders stepped down as the chief executive officer of General Dynamics, having downsized the company to a nub. Many of the divisions that Anders sold, when merged with the company that purchased them, were faced with the shutting down of capacity, the firing of workers, and other rationalization.

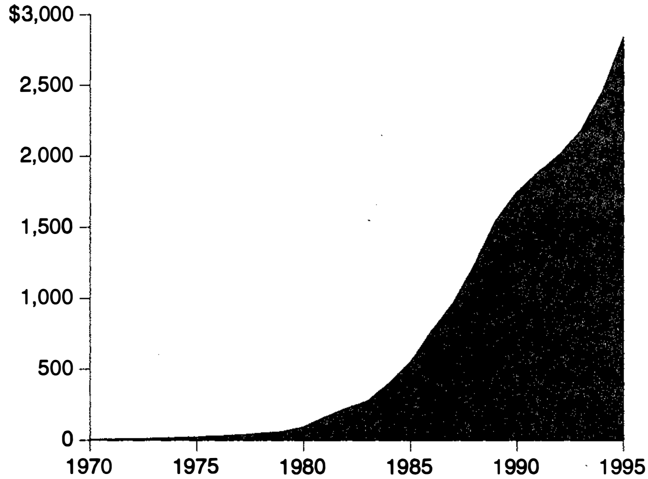
Anders earned the name of "Terminator" while at General Dynamics, but Wall Street rallied to his cause. One executive stated, "If I was a stockholder of Westinghouse and Anders showed up as CEO, I'd buy [more stock]."

FIGURE 1
Mergers and acquisitions versus new manufacturing plant and equipment
(billions $)



Sources: *M&A Almanac,* published by IDD Enterprises; U.S. Department of Commerce, Bureau of the Census.

FIGURE 2
Cumulative volume of mergers and acquisitions activity, 1970-95
(billions $)



Source: *M&A Alamanc.*

time, Drexel Harriman Ripley. Drexel epitomized the alliance of two of the most powerful British assets in the United States: the House of Morgan, which in 1871 had merged with Drexel; and the Harriman family, which made its initial fortune as the personal brokers for the takeover by Prince Edward Albert (later, King Edward VII) of some of the American railroads.

Eventually, IOS was scrapped, courtesy of a $260 million ripoff, nominally executed by Dope, Inc. financier Robert Vesco, but, actually orchestrated from behind the scenes by Wall Street lawyer, and then-ADL national chairman, Kenneth Bialkin. Key assets and personnel of the old IOS were transferred directly to Drexel.

Once the junk bond frenzy got under way in the mid-1970s, Drexel turned again to Anglo-American financial circles, to recruit a clientele for its risky paper. The money was anted up by the United Fruit Company, America's biggest illegal narcotics importer. "Milken's Monsters," as they came to be known, included: Saul Steinberg, Carl Lindner, Meshulam Riklis, and Max Fisher. These front-men for offshore, unregulated, hot money—i.e., United Fruit and the Lansky crime syndicate—provided Milken with the capital for his assault on America's eroding industrial base. And, in effect, the looting of the American corporate sector served as a vehicle for laundering tens of billions of dollars in dirty money through the American economy.

It was a devastating one-two punch: First, City of London and Wall Street assets and dupes within the government deregulated the U.S. economy; and then, frontmen for Dope, Inc. moved in and asset-stripped corporate America nearly out of existence, building up the biggest financial bubble in history.

Demolishing the corporation and the economy

Figures 1 and **2** show, for the period 1970 through 1995, the level of American mergers and acquisitions. In 1970, the total annual volume of M&As was $6 billion. The level did not break $10 billion M&As per year until 1976; it did not break $50 billion until 1981. But after that, it went straight up. It crashed in 1990, after Milken was arrested, and Drexel Burnham Lambert was liquidated. But, with KKR, Bear Stearns, and others picking up the slack, using the private placement market to float the debt, rather than junk bonds, M&As surged to an all-time record level of $388 billion in 1995.

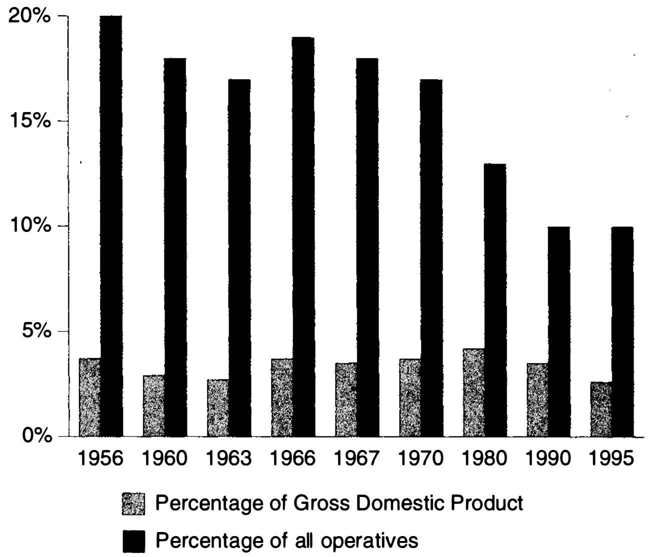
Figure 1 also compares, on an annual basis, the dollar value of M&A activity, and the spending by America's entire manufacturing sector for new plant and equipment. The change in the relative ratio accurately reflects the change in America's priorities since 1970. In 1970, America spent six times as much for new manufacturing plant and equipment as for mergers. In 1986, the roles started to switch. By 1995, M&A activity was nearly twice that of spending for plant and equipment.

Figure 2 shows cumulative merger and acquisition activity over the period 1950 through 1995. By 1995, the cumulative 25-year total for M&As had absorbed a breath-taking $2.85 trillion. During this time, America was not building new nuclear power plants, or developing magnetically levitated trains, but *did* complete 55,000 buy-outs, which brought no economic benefit.

The debt service would bleed America dry. For comparison, during the period 1970 to 1995, according to the Flow of Funds Accounts of the Federal Reserve Board of Governors, the total debt of all nonfinancial business—that is all companies that are not banks, insurance companies, etc.—rose from $670.3 billion to $4.459 trillion, representing an increase of $3.789 trillion. Not all financing of mergers and acquisitions was financed by debt—some financing involved cash and stock—but a considerable portion of all M&A activity was financed by debt. Thus, between 1970 and 1995, a very sizeable percentage of the increase in the debt of nonfinancial businesses, $3.789 trillion, was accounted for solely by the increase of M&As by $2.85 trillion.

In 1995, on total nonfinancial business debt outstanding of $4.459 trillion, the interest debt service reached roughly $356 billion. On the basis of this, every three years, more than $1 trillion will be siphoned from nonfinancial businesses to meet the debt service. Half that amount or more is due to the interest cost of leveraged buy-outs.

FIGURE 3
Manufacturing investment and employment



Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

Artificial stock market boom

During the same period, especially since 1980, an artificial stock market boom, having no relation to the shrinking real economy, was created (see box on General Dynamics). The same post-industrial society policy changes, and the same asset-stripper mafia, that manipulated the LBO boom, rigged this boom.

Mergers and acquisitions have a second function, in addition to the one described above: They artificially "bull up" the value of stock. When a takeover occurs, it not only raises the stock price of the targeted company, but of all the stocks in the company's industry group.

The employment of stock index options, like the Standard and Poor 300, or the Money Market Index, traded on the Chicago exchanges, were created expressly to artificially updraft the stock market.

The 1978 Steiger Act, reducing the capital gains top tax rate from 49% to 28% also added to the stock market binge. Capital gains tax rate cuts have historically not only reduced the capital gains tax that someone pays, but have also raised the value of stock markets.

The boom is underscored by the Dow Jones Industrial Average of 30 stocks, which rose from 847 on June 1, 1980, to 5,585 today. Even more telling, the Wiltshire 5000 Index measures the market capitalization for all stock exchanges in the United States. In 1971, the value of total stock market capitalization was $949 billion. As of March 15 of this year, it was $6.32 trillion, a more than sixfold increase. But this is only a paper appreciation, not something that represents real wealth. Yet, once a corporation's stock is fictitiously appreciated, it is expected to maintain its price range, and make dividend payouts, special share offerings, etc., even if that means wiping out the corporation by firing its workers and idling its plant and equipment. If the dividend yield is maintained at the same ratio, the higher the stock price goes, the more in dividends has to be sucked out from the corporate treasury.

Most companies, driven by officers drawn from the nation's business schools, whose compensation is tied to the stock price, are obsessed with maintaining a high stock price.

In January 1996, Robert Allen, chief executive officer of AT&T, announced 40,000 layoffs, the latest installment in 123,000 worker firings, actual and planned, that his company will have carried out since 1990. This represents a whopping 30% of AT&T's 1990 workforce. AT&T is still paying off $7.5 billion in LBO debt connected with its 1991 takeover of NCR Corp. After AT&T announced the firings, the value of AT&T stock soared. CEO Allen earns an annual salary of $3,362,000. He then made more than $5 million from the resulting increased value of his stock and options.

A similar story can be told for hundreds of companies, and by millions of workers across the country. They are fired and then rehired—maybe at the same company, maybe at another—at two-thirds the pay, with half or less of their previous health and other benefits.

As the firings escalate, the manufacturing sector starts to disappear: **Figure 3** shows that in 1990, the ratio of the manufacturing workforce to the total labor force, at 10%, was one-half of what it had been in 1956, while the investment in new plant and equipment as a percent of Gross Domestic Product—a measure of the capital intensity of manufacturing—plunged 33%.

The higher purpose of the corporation, to build the American economy in the service of the nation's "general welfare," has been lost. The republican corporation, which built this nation, has been obliterated. It can only be restored by eradicating the post-industrial society. This is the challenge that Sen. Tom Daschle, and others in the Democratic Party leadership, must be prepared to accept, if their plans to revive the American Dream are to succeed.

Case Study No. 1

Lorenzo, deregulation decimate the airlines

by Richard Freeman

In 1983, corporate raider Frank Lorenzo placed Continental Airlines, which he had purchased only two years earlier, into bankruptcy. He justified his action, saying that this "was deregulation at work." His assessment was absolutely correct. But Lorenzo did not stop there.

In 1986, Lorenzo's holding company, Texas Air, purchased America's third largest air carrier, Eastern Airlines. The resulting airline became America's biggest, carrying one-sixth of all U.S. passenger air traffic. Over the next four years, Lorenzo, joined by Drexel Burnham Lambert's Michael Milken and Minnesota mobster Carl Pohlad, asset-stripped Eastern. By March 1989, Eastern was placed into bankruptcy. In 1990, a bankruptcy judge deposed Lorenzo as Eastern's owner. On Jan. 18, 1991, a hemorrhaging Eastern, having lost more than $1 billion, and having been shrunk by 80%, was liquidated and permanently closed.

Three days later, a separate bankruptcy court liquidated Pan American Airways. Eastern and Pan Am, which were founded in 1929 and 1927, respectively, along with United, American, and Trans World Airlines, were the five pioneer airlines which opened up the United States to commercial air travel. Shortly thereafter, two mid-sized U.S. air carriers, Braniff and Midway airlines, were likewise liquidated. America's air system was being taken apart.

These liquidations are the tragic outcome of the 1979 implementation of deregulation, whose purpose was to take-down the U.S. air grid. British oligarchy-linked speculators turned airlines into toys, purchasing and trading them back and forth, at escalating levels of debt. They loaded debilitating levels of debt onto the back of an airline that they bought in a leveraged buy-out (LBO), and then, in order to pay the interest on the debt, pillaged the airline's plant and equipment, fired its labor force, and sold off its assets—all the while justifying such actions in the name of competition and "cost-saving." Today, leaders of this takeover crowd still hold on to some of America's battered airlines: TWA is owned by gangster-linked green-mailer Carl Ichan; NorthWest Airlines is owned by takeover artists Al Chechy and Gary Wilson; and USAir is owned by a joint partnership of British Airways and Warren Buffett. Buffett loots USAir by forcing it to pay an 11% dividend-yield on preferred stock which he owns. USAir has the highest level of accidents of the majors in the U.S. airline industry.

But the key to the change for the worse in the airline industry, was the series of maneuvers taken in 1971-90 by Lorenzo, who served as the instrument of the British oligarchy to demolish the airline system. Lorenzo spearheaded price-cutting wars, LBOs, and hostile takeovers. Because of his City of London-Wall Street backing, and the fact that, by the mid-1980s, he owned the largest U.S. airline empire, many competitor airlines either had to imitate his predatory asset-stripping actions, or find themselves out of existence. Several of Lorenzo's "competitors" had similar dispositions.

Lorenzo, who was mentally unbalanced, presented himself as a model "Wall Street tough guy," "a bottom-line sort of guy." Once dubbed the "most hated man in America" because of his union-busting and destruction, at the height of his power he was nonetheless the poster boy of the *Wall Street Journal* and *BusinessWeek* and *Fortune* magazines, as well as of the Bush wing of the Republican Party. They lauded him as the embodiment of the "modern" corporate chief. Lorenzo's history unlocks the story of the demolition of America's air transportation grid.

Deregulation slows airline growth

In 1929, Eastern Airlines's predecessor began, as did many other U.S. airlines, as an entity to deliver the U.S. mail. For a while, it was owned by General Motors. Eventually transformed into a passenger airline, it established a route along the East Coast of the United States. Another pioneering U.S. airline was Pan Am, which travelled between Florida and Cuba, and branched out into other areas. Its founder and guiding spirit, Juan Trippe, called Pan Am the "chosen instrument" of the U.S. government, and wanted it to be treated and regulated like the Postal Service, the telephone system, or a public utility.

In 1938, the Civil Aeronautics Board (CAB) was created to regulate the airline industry; it was modeled on the Interstate Commerce Commission, which had been created in 1887, and which regulated the railroads, the trucking industry, and shipping. But there were some important differences. During this period, the airline industry was a struggling infant industry. The CAB had a dual mission. Many of the airlines were principally concerned with carrying mail. The CAB either channeled monies to airlines, in return for service deliver-ing the U.S. mail, or else directly subsidized the airlines. Its second mission was to regulate airlines: especially as commercial airline traffic became a going concern after World War II, the CAB made sure that carriers extended routes to as many cities as possible across the United States, at fair prices.

The CAB served the nation well. One side of this is evident from the explosive rate of growth of the commercial airline industry before deregulation. A key measure of the airline industry is the "revenue passenger-miles flown," taken on a *per-capita* basis, in order to take into account a growing population. During the 1950s, the compounded rate of growth in increase of revenue passenger-miles flown per capita, was 11.2% per year. But the airline industry was still in its infancy, so one might expect a high rate of growth. Over 1960-78, the last year before the airline industry was deregulated, this measure still increased at a compounded rate of 8.5% per year. This contrasts sharply with the shrunken 3.4% annual compounded rate the airline industry has registered since deregulation, in 1979, through 1995. Even the supposed 3.4% growth rate is deceptive, because it is based on heavy price discounting to selected passengers. Without the selective discounting, the rate would be lower.

During the late 1970s, before deregulation, some of the airlines had financial difficulties. But what many so-called authorities deliberately refuse to look at is the cost of fuel, which, depending on price, ranges from one-tenth to one-fifth the cost of operating an airline. The first oil hoax, in 1973, quadrupled the price of oil, from $3, to $12 per barrel; the second oil hoax of 1978-79 tripled it again, to $36 per barrel. However, the price of jet fuel, at the producers' level, has fallen over 1980-81 through 1995, by 56%, giving the airline owners an unearned windfall.

Harvard's concept of 'business management'

In 1940, Frank Lorenzo was born in Queens, New York City. He graduated from Columbia University, and then from Harvard University with a master's degree in business administration, and he expresses Harvard's concept of "business management." In 1969, Lorenzo formed a consulting-leasing firm, called Jet Capital Corporation, which served as his prized vehicle for taking over and looting airline companies.

Lorenzo's first break came in 1971, when Chase Manhattan Bank contracted him to reorganize a small Texas airline. The airline was pompously called Texas International Airlines, Inc. (TXI). Its routes were largely confined to southwest Texas, but it did travel to Veracruz and Tampico, Mexico; thus "international" was added to its name. Most people who were familiar with it, called it "Tree Tops Airline."

However, Chase Manhattan knew to whom it was referring Lorenzo. TXI was owned by Carl Pohlad of Minneapolis, one of the dirtiest mobsters in America, and an inheritor of the organized crime-linked Kid Cann Minneapolis mob. Pohlad, who is the second largest stockholder of the Minneapolis-based First Bank Systems, over the years has speculatively snapped up ownership or significant shares in 30 banks across the United States. He is also close to the drug-linked Anti-Defamation League of B'nai B'rith.

Lorenzo and his Jet Capital organized a $35 million recapitalization of TXI, with Jet Capital taking over TXI, its first airline purchase. In turn, Pohlad became the second largest stockholder in Lorenzo's takeover vehicle, Jet Capital, and would be a major force behind Lorenzo for the next 20 years. Eventually, the giant, Morgan-linked Equitable Life Insurance Corp. also became a Jet Capital stockholder.

In 1974-75, Lorenzo broke TXI's unions. Then, in 1977, he received approval from the CAB (several of the CAB board members had gotten cozy with the airline financiers) to introduce half-price fares, which were called "peanut fares." Thus, two years before airline deregulation took effect, Lorenzo was already implementing the model for deregulation: cutthroat fares based on busting the union and asset-stripping the company. This was done not with regard to keeping fares permanently low, but, rather, introducing the maximum amount of chaos in the air transport grid.

The takeover of Continental

In 1978, the airline industry was deregulated, which took effect in 1979. The deregulation allowed easy entry for upstart airlines, even with minimal capitalization. It also allowed fares to be lowered. No longer would fares be set to cover the cost of production and provide something extra as a fair rate of profit to reinvest in expanding and technologically upgrading the level of production.

Lorenzo was the pioneer of deregulation. In 1980, he launched New York Air. It offered low fares based on two practices: first, it was the first major, explicitly non-union airline; second, it held investment to a minimum, buying mostly aged planes. It traveled the Boston-to-Washington, D.C. corridor, offering fares low enough to take away business from Eastern Airlines, its competitor, which was already established on this route.

In 1981, Lorenzo, backed by Pohlad, launched a no-holds-barred, hostile bid for Continental Airlines. Lorenzo's TXI was tiny compared to Continental, then America's eighth-largest passenger carrier. But Lorenzo was helped by Wall Street bankers, who hammered down the value of Continental's stock, to the point that the total value of Continental's stock was worth less than its fleet of planes, a near-impossible situation. Continental offered very good service, and was staffed with dedicated, loyal employees. But the downturn of Texas's economy, where Continental did most of its business, had put Continental in tight financial straits.

In the face of Lorenzo's onslaught, which included many dirty tricks, Continental finally conceded defeat. On Aug. 9, 1981, in his office at the Los Angeles Airport, Alvin Feldman, Continental's chief executive officer, put a gun to his head and shot himself.

Eastern Airlines employees on strike against Frank Lorenzo's union-busting policies, March 1989. Lorenzo joined with Drexel Burnham Lambert's Michael Milken (inset), and Minnesota mobster Carl Pohlad, to asset-strip Eastern, which was eventually placed in bankruptcy.

Continental put into bankruptcy

In August 1983, Lorenzo moved to make Continental a non-union airline. Backed by a favorable ruling by a compliant judge, Lorenzo put Continental Airlines into Chapter 11 bankruptcy, under the U.S. Bankruptcy Code. The purpose of the move became clear: Continental declared that bankruptcy voided a binding contract that it had signed with its three unions. In response, the workers struck, but, by hiring scabs, Lorenzo broke the unions. When the workers came back to work, their wages were cut in half. Lorenzo said that this was "deregulation at work." (In 1984, Congress rewrote the law to remove the bankruptcy loophole that Lorenzo used, but this provision is still abused.)

Right after Lorenzo acquired Continental, his prized takeover vehicle, Jet Capital, set up a "ponzi scheme" holding company, Texas Air. Jet Capital obtained an issue of stock with special voting rights, which enabled it to always control Texas Air, even though Jet Capital would eventually own only 3% of Texas Air common stock. Continental and New York Air were folded into Texas Air, and other purchased airlines would likewise be folded in.

Texas Air began borrowing heavily. While Continental was still in bankruptcy, Texas Air, which was not in bankruptcy, borrowed $1 billion to buy 38 planes for Continental.

Then, in 1985, Texas Air decided to borrow more. It had already been working with Drexel Burnham Lambert, the drug-linked investment bank that was leading the mergers and acquisitions boom that was asset-stripping corporate America. In 1985, Drexel's Milken, who championed Lorenzo, floated a blizzard of high-risk bonds and financial paper to the tune of $1 billion, to enable Lorenzo to take over the airline industry. Immediately, Lorenzo picked up People's Express and Frontier Airlines, two deregulation, low-cost, start-up airlines. He then made a bid for Eastern Airlines, which startled everyone: Eastern was America's third largest airline, which, with more than 40,000 employees to Continental's 12,000, was more than three times Continental's size. Continental was the mainstay of Lorenzo's air empire.

But, by 1986, Lorenzo acquired Eastern. This involved significant shenanigans by Wall Street, which squeezed Eastern's admittedly stupid board of directors, led by its then-chairman, Frank Borman. The purchase price for Eastern was an unbelievably cheap $615 million. Compare this to the fact that Eastern's plant and equipment, including planes, terminal facilities, reservation system, etc., was worth more than $2.5 billion. On top of this, Lorenzo only paid $256 million of the $615 million purchase price for Eastern out of his own money; the rest came from Eastern itself, in payments it paid over to Lorenzo, which was then applied to the purchase.

Lorenzo lost no time in integrating People's Express, Frontier, and Eastern as divisions within his ponzi scheme holding company, Texas Air. When the dust had settled, through hostile takeovers financed by Milken, et al., Texas Air had catapulted to become America's biggest, and the world's second largest airline, after Russia's State-owned Aeroflot. It handled one-sixth of all U.S. passenger traffic. It now employed over 50,000 workers, with 451 planes, and was earning $7 billion in annual revenues.

But Texas Air paid dearly for its high-roller hostile takeover game. By 1986, its debt exceeded $4.5 billion; by 1988, it would exceed $5.5 billion. It had a very high interest rate. For example, in May 1988, when Lorenzo's subsidiary, Eastern Airlines, was desperate for cash, and he was already starting to lose his sheen on Wall Street, Texas Air borrowed $200 million in a private placement, but was forced to pay a 17.25% rate of interest.

Lorenzo's airline empire began imploding in upon itself. Lorenzo wanted to get a quarter-billion dollars per year in wage give-backs from his labor unions, but he could not get it, because, from 1987 until early 1989, he could not provoke his unions into a strike. He resorted to several asset-stripping operations.

However, other British-linked takeover artists were simultaneously applying the same techniques to their airlines. With Lorenzo's airline desperately intensifying the deregulation price wars in an attempt to stay afloat, it created destruction for everyone. The airline industry as a whole was pushed, starting 1985, and for nearly a decade afterward, into an impossible situation.

Bloodletting hits the industry

Holding companies normally take money from a subsidiary, through dividends that the subsidiary pays on stock to the holding company. But the banks that loaned money to Lorenzo's Eastern put a restriction on such payments, as a way of ensuring that Lorenzo would not take all the profits out of the company and then put it into bankruptcy, leaving Eastern's creditors holding the bag. To get around this restriction, Lorenzo resorted to asset-switching. He carried out bloodletting against Eastern, in the form of pillaging its resources and selling off assets. A few examples portray this.

- In March 1987, Texas Air stripped out Eastern's computerized reservation system, called System One Direct Access (SODA), a bank of computers which gave more than 5,000 travel agents worldwide instant access to Eastern's flights and fares. This was one of Eastern's biggest moneymakers, a major tool to pull in passengers and profits. Texas Air set up a subsidiary, called System One Holdings, Inc., and Eastern was forced to sell its SODA system to it for only $100 million, even though outside investment bankers and consultants estimated the true worth of SODA to be $250-450 million. Texas Air then charged Eastern $10 million per month in fees for a computer reservation system that was once its own. The looted money was used to hold up Lorenzo's empire.
- Lorenzo unloaded mountains of worthless paper onto Eastern. According to writer Aaron Bernstein, "When Texas Air bought People Express in late 1986, it picked up $100 million in notes from the nearly bankrupt carrier. The notes, which carried no rating from Standard & Poor, a company that rates bonds, were so risky that they probably would have fetched much less [perhaps one-fifth of their face value] if sold on the open market. Texas Air, however, sold $30 million of them to Eastern for $25 million, even though it had paid less than $21 million to buy this set of notes in the first place. Texas Air walked off with a $4.4 million profit. Eastern was left $25 million poorer, holding a piece of paper of dubious value."
- Eastern was forced by Texas Air to sell six A-300 jets to Continental. Continental, which was in terrible financial shape, paid $162 million for the planes, though it paid only $95 million of this in cash. The remaining $67 million was in the form of a Continental promissory note. Continental then sold the jets to someone else for $169 million in hard cash. On the deal, Eastern lost $7 million, and was left holding $67 million in promissory notes of doubtful value.
- Texas Air created a new company called Texas Air Fuel Management, Inc., to buy fuel for all its airlines. Eastern paid on the order of $1 million a month just for the service—not the fuel—which brought Eastern no benefit. This siphoned off approximately $12 million per year.
- In early 1987, Lorenzo's chief hatchet man, Philip Bakes, announced that he would institute a 30% cut in Eastern's total labor bill of $1.7 billion—a wage cut of $510 million per year. According to an internal company memo, baggage handlers, who were earning $16 per hour, would have their wages cut to $3.85 per hour at Orlando, Florida's airport, and $5 per hour at New York's LaGuardia Airport.
- Between late 1986 and 1987, with Texas Air stock trading near an all-time high of $50 per share, Lorenzo unloaded his Texas Air stock, raking in $7 million. Even though he would eventually own less than 200 shares of Texas Air stock, through rigging special voting rights, he would still control the company.
- Texas Air began stripping down Eastern by selling off its airport gates, at ridiculously low prices, just to get cash to hold Texas Air and its bankrupt divisions afloat. On July 22, 1988, Texas Air ordered Eastern to close its Kansas City hub, one of its major sub-hubs, and eliminate flights to 14 cities. The move wiped out 4,000 jobs, 12% of Eastern's workforce at that time.
- Lorenzo even tried selling Eastern's East Coast Shuttle, its most profitable operation, for a pittance, but was blocked by a federal district judge. He still charged Eastern $5 million in fees for his attempt to sell the shuttle.
- According to the estimate of Farrell Kupersmith, an accountant working for Touche Ross, a major accounting firm, Lorenzo successfully made off with $750 million of Eastern's assets.
- In the course of a lawsuit, Eastern's unions uncovered a

four-page confidential memo, entitled "Chunks," which listed eight additional Eastern assets that could be sold off.

When Lorenzo took over Eastern, it alone had a 260-plane fleet, 42,000 employees, and 1,500 daily flights. As a result of his asset-stripping, firings, etc., by the end of 1988, after only two full years, it had a 200-plane fleet, 29,000 employees, and 1,000 daily flights, a reduction of 23%, 31%, and 33%, respectively.

Lorenzo funneled proceeds from asset sales to prop up remaining operations. And, as a result, *debt and expenses grew larger relative to the shrinking asset base.* As one source put it, "Lorenzo was burning up the furniture just to heat the house."

The two dogmas of the takeover binge, which transformed the American corporation, were to: 1) use debt liberally to take over other companies; and 2) use draconian cost-accounting measures, including budget-cutting, to keep the company operating. This was usually done by calculating out "per unit costs," and then reducing unit costs, without regard to what effect this would have on the total industrial enterprise. Lorenzo's operations refuted the worth of that Harvard Business School dogma.

Analysts use a measure called available-seat miles (ASMs) to judge an airline's costs on a unit basis. This measures the total number of miles an airline's planes could fly, multiplied by the total number of seats it has available to be sold. In 1986, Eastern's capacity was nearly 15 billion ASMs, and its cost per ASM was 7.4¢. Through 1987 and 1988, Lorezno's steady sale and closure of assets slashed ASMs to 11 billion. This downsizing produced a relentless upsurge in costs, which reached 9.6¢ per ASM by the end of 1988.

The more capacity that Lorenzo slashed, the higher Eastern's unit costs rose. It became a self-feeding cycle. The axioms and postulates of Frank Lorenzo were sending Eastern straight to destruction.

In March 1989, Lorenzo entered bankruptcy court with Eastern Airlines. He fully expected a bankruptcy judge to allow him to walk out on his debts and to allow him to cut wages further and sell off more assets. On April 18, 1990, Bankruptcy Court Judge Burton Lifland ruled, "The time has come to replace the pilot to captain Eastern's crew. . . . Eastern's owner/manager as personified by the chairman of the board of both the parent and the debtor [Frank Lorenzo] is not competent to reorganize the estate." Lorenzo was deposed.

Eastern was put into receivership to be administered by a court-appointed trustee. But it could only survive over the next nine months by selling off more of its profitable routes. By Jan. 18, 1991, when Eastern finally was liquidated, it had run more than $1 billion in losses, and its share of the U.S. airline market had shrunk from 16% down to 3%.

Because Lorenzo's Texas Air combine, which included Eastern, Continental, People's Express, Frontier, and New York Air, had been the biggest in the United States, it set the rules and terms for the rest of the airline industry. Even if an airline chief were not inclined to imitate Lorenzo's Texas Air example—and many airline owners were not so inclined—they were forced to adopt many of Lorenzo's tactics to stay competitive.

By 1992, airline deregulation had forced 117 U.S. airlines to file for bankruptcy.

Whereas, before deregulation, there were often direct routes between cities, and usually, at most, one stop-over, after deregulation, with the development of airline hubs, a traveller could have three or four plane-changes before reaching his or her final destination. Trips might now take twice as long. The time lost in extra travel cost the American economy tens of billions of dollars annually. And many cities are now excluded from the air grid.

Over 1990-94, the airline industry lost $13.1 billion. This loss equalled the cumulative amount of profits that the airline industry had earned from 1920 until 1978. The losses meant that the industry, on balance, paid no taxes for these years, and, because of loss carry-forwards, may not pay them for a few more years.

Meanwhile, over 1979-95, the average age of the airline fleet has skyrocketed, from 9 years, to 14 years, an increase of 56%, representing deregulation's steadfast policy of disinvestment. The number of mechanics per plane for maintenance has been cut, contributing to the continuing saga of deadly air disasters.

Case Study No. 2

Destruction of the rail grid leads to accidents

by Richard Freeman

On March 4, thirty-seven cars of an 89-car Wisconsin Central Ltd. freight train derailed inside the town of Weyanwega, Wisconsin. The train was carrying 15 propane tank cars, containing 1 million pounds of propane, shipped liquefied and under pressure. One of the propane tank cars ignited and exploded into flames, destroying a nearby feed mill and creating a huge fireball. In rapid succession, three more propane tank cars caught fire, setting fire to buildings along the path of the train. The town's 1,700 residents were asked to abandon their homes, originally for five to seven days. But more than one week later, the wreck was still ablaze. Highly trained fire-fighting crews brought in from Texas painstakingly built an earthen pit, in which to siphon off and burn non-ignited fuel. Residents have now been told it may be a month before they are allowed back to their homes.

This was the seventh major train disaster in the United States since Feb. 1, involving both freight and passenger trains. On Feb. 17, after the fourth crash, investigators for the Department of Transportation's National Transportation Safety Board reported that they could find no conceivable link among the four accidents. Such a patently incompetent statement rests not so much on the credibility of the individual investigator, but on the employment of the faulty Sherlock Holmes-style, empiricist methodology of investigation. Going through all the nitpicking details is necessary, but it should not prevent the investigator from looking at the fundamental reason for the accidents, which is painfully manifest: the British oligarchy-linked financiers' systemic pillaging of the rail system and its infrastructure over the past 30 years.

This looting included the rape of the New Haven Railroad and the Penn Central. Toward the end of the 1960s, the Penn Central, which represented the merger of the Pennsylvania Railroad and the New York Central, was both America's largest passenger and freight railroad. Wall Street speculators picked the line clean, and threw it into the lap of the U.S. government to bail out in 1970, at huge expense. Eventually, the government spun off its freight division into Conrail, and maintains the passenger service as Amtrak. While such depredations went on, they were limited, to some extent, in scope.

The Staggers Act

But in 1980, President Jimmy Carter pushed through a plan to deregulate the railroads introduced by Rep. Harley Staggers (D-W.V.), and thus rail deregulation came to be known as the Staggers Act. It lifted all restraints to unbridled speculation. After all, the London-linked rail speculators, including prominently the Morgans and Harrimans, could now say, "It's the law, we're entitled to do it, we're supposed to have unrestrained free competition."

During the 1980s and 1990s, year by year the amount of track in operation was shrunk. Tens of thousands of miles were ripped up, and many of these rail lines would never be operative again. Rail workers were fired in droves. One didn't have to be a super investigator—one could read about the carnage in the newspapers. In just the operations of the Class I rail carriers, which are the major railroads which operate 75-80% of all of America's rail service: over 1980-95, roughly 59% of Class I rail carriers' workforce has been laid off, 34% of its track shut down, and 34% of its locomotives and 45% of its freight cars abandoned.

On balance, the members of America's rail cartel, which control the rail grid—Union Pacific, Southern Pacific, CSX, Norfolk Southern, Burlington Northern Santa Fe, Consolidated Rail (Con Rail, now a private operation)—have not built net a single mile of new track. America's rail network was built through the dirigistic use of the resources of the State, by Abraham Lincoln, and using the Leibnizian "American System" of economics. Today's rail barons only know how to tear down. The accidents are a lawful result of this process.

Destroying the ICC

The most significant change wrought by the Staggers Act, is that it allowed the rail industry to disregard procedures which had been in effect for 83 years, since the 1887 creation of the Interstate Commerce Commission (ICC), which gave the rail service a mission of building the nation. It introduced a concept which the financiers had been pushing for, to make the railroad a super-profit-earning instrument, to enrich a few stock and bond holders.

Before deregulation, railroad rate-setting bureaus, in which railroads participated under the supervision of the ICC, set rail rates at levels that allowed a rate of return that covered capital and operating costs, including a fair wage to labor, and some profit, for technological improvement and expansion. The railroads had to agree on a rate for a particular zone of the country, and get the ICC's approval. After deregulation, a railroad company could raise its rate up to 180% of its operating cost, without getting prior ICC approval. It only needed approval, if it went above that level. A spokesman for the Association of American Railroads (AAR), which represents the Class I carriers, explained on Feb. 28, that 130% of operating costs is breakeven. So, 180% is more than 38% above breakeven.

But deregulation allowed, not only the freedom to set rates, but the freedom to seek whatever rate of return on investment one wanted, free from ICC scrutiny and oversight.

An AAR spokesman explained on March 3 that, prior to 1980, no specific rate of return was aimed for, but records show that an average annual return on net investment of 5-7% was realized in years which did not have significant economic downturns. He said that today, the industry is shooting to get an industry-wide 12.2% rate of return, double the level of the 1970s. In 1995, the rail industry was the favorite of Wall Street, as rail stock prices rose 20%. Thus, the purpose of the higher rate of return is not to improve the railroad, as is readily seen, but rather, to give out bigger dividends, to get the stock price higher, and to make rail stocks a better investment play for speculators and derivatives dealers, who will suck wealth out of the railroad.

Deregulation brought other changes. The ICC had established for the rail industry a series of necessary procedures, such as preventing preferential rates for large shippers (which is something the Morgan and Harriman interests had so badly abused during the nineteenth century), setting fair rates for both the railroad and the shipper, guaranteeing that enough rail cars were allocated to small communities, etc. With the Staggers Act, all of that went out the window. For example, railroads began signing preferential agreements with large customers. Using preferential agreements, the rail industry went, for example, from hauling 40% of all autos transported, to 70%. At the same time, the railroads freely abandoned less profitable lines.

The rail industry sought to generate more revenue ton-miles, not by expanding the rail net, but rather by employing objectionable policies within a shrinking rail net. Key in this is increasing the number of trips. The frequency of trips of a single freight train increased from 15.8 trips per year in 1980, to 22.3 trips per year in 1994. The rail industry made more trips serving its bigger customers, but traveled fewer routes, and left out some customers altogether. Second, is going longer distances. In 1980, the average length of rail haul was 615.8 miles; in 1994, it was 816.8 miles, an increase of 33%. Even if everything else remained the same, this greater distance per trip would increase a rail company's revenue ton-miles by 33%.

But, perhaps the biggest reason for the longer hauls is that, because of Environmental Protection Agency proscriptions against high-sulfur coal, found predominantly on the East Coast of the United States, the rail industry now hauls more low-sulfur coal, for example, from Powder Basin, Wyoming. This increases average length of haul, revenue ton-miles, and revenues. Yet, this is absurd. This is a profits-driven, EPA-driven policy. It is a wasted use of the railroad.

Moreover, costs were further driven down by slashing labor and capital formation costs, and reducing safety expenditures to the bone. The rail system was being operated at below the "energy of the system," that is, below the basic labor and capital input costs needed for reproduction of the enterprise as a whole. It was just a matter of time before an avalanche of accidents occurred.

The Silver Spring crash

The rail disaster on Feb. 16, in Silver Spring, Maryland, was the most deadly crash of the recent wave of accidents, and best illustrates the points involved. The accident involved five infrastructural breakdowns, any one of which, had investment been made to correct it in advance, would have averted the accident, or at least the deaths. These breakdowns are not accidental: *They are the result of deliberate policy decisions.*

In this accident, a Maryland Rail Commuter Service (MARC) train, pushing three carloads of commuters, rammed into an Amtrak train, the Capitol Limited, which was heading toward Chicago. The accident killed 11 people and injured 26 (all the casualties, three crew members and eight passengers, were on the lighter MARC train). On this rail line, there was a parallel set of tracks. The Amtrak Capitol Limited was crossing from one set of tracks to the other. The MARC train was moving forward on that other set of tracks. Key points highlight the causes of the crash:

• It appears that in snow conditions, with impaired visibility, the engineer of the MARC train, which it is claimed was travelling at 63 miles per hour, went through a yellow warning-light signal to "slow down." However, it is not clear that the signal was functioning.

Furthermore, there exists a technology from the 1920s, the "automatic train stop system," which brings a train to a halt if it has passed a restrictive signal. The system will automatically trigger a mechanism that will override the train's manual controls and cause the train to brake.

In 1920, in response to a series of deadly train wrecks, the U.S. Congress passed the Signal Inspection Act. This gave the ICC authority to require railroads to install automatic stop systems. In 1947, the ICC ruled that such systems had to be in place on all railroads that wanted their trains to travel faster than 80 mph.

The MARC and Amtrak systems do not own the track over which they travel. That track is owned, administered, and maintained by the CSX rail system (formerly the Chesapeake and Ohio Railroad). MARC and Amtrak lease the track from CSX. But the Richmond, Virginia-based CSX is an asset-stripper. It steadfastly refused to spend the money to install an automatic train stop system on this line.

• The Amtrak train into which the MARC train rammed, had two locomotives. Its lead locomotive, an older General Motors model, had tanks containing thousands of gallons of diesel fuel mounted beneath the locomotive *in an exposed fashion.* When the crash occurred, the exposed fuel tanks ruptured, drenching and incinerating the lead passenger car of the MARC train. The eight passengers who died did not die from the impact, but rather, of smoke inhalation and from the intense fire.

The second locomotive was a newer General Electric model which had fuel tanks mounted behind a special protective panel. Had Amtrak spent the money to ensure that its first locomotive was also of the newer model, it is likely that those passengers would be alive today.

• Once the MARC train (apparently) ran the yellow signal, it could still have been stopped by a second, red stop signal. But the MARC engineers could not see the red signal until after the MARC train came around a sharp bend—and by that point there was only 1,800 feet in which to stop the train. Originally, there had been a signal at the bend in the road, but it had been torn down—and CSX never replaced it, because it cost too much money.

• At the moment the crash was taking place, the MARC headquarters' computers falsely showed the MARC train safely parked far from the site of the accident.

• A third and fourth set of tracks are desperately needed in the immediate vicinity of the Washington, D.C.-Northern Virginia-Eastern Maryland corridor. CSX refused to build them.

CSX has aggressively built itself up, however, through mergers, cost-cutting, and speculation. During the 1970s and 1980s, CSX was a high flyer, investing in North Sea oil, Caribbean resorts, and Washington Beltway real estate. It also bought up and stripped other rail systems, so that today it owns and operates 18,779 miles of trackage in 20 states, and has nearly $5 billion in annual rail revenues, making it America's second biggest railroad. CSX's board includes three bankers from top banks in the eastern United States, and Sir Denis Thatcher, the husband of former British Prime Minister Margaret Thatcher. He is there because he can get CSX contracts in Europe and Asia, according to a CSX spokesman. He also delivers one lecture per year to the top executives of CSX, which one CSX executive called "breathtaking."

The media have blamed the accident on the MARC train's crew, all of whom died, and so cannot defend themselves. While one cannot completely exonerate them at present, what is known is that no alcohol was found in their bodies, each of them had more than 25 years experience, and none of them had a blemish on their safety records.

In February, four other rail crashes also occurred:

• On Feb. 1, a freight train with a cargo of dangerous chemicals derailed in a mountain pass near Devore, California, and erupted into flames, killing two crew members and closing the main highway between Los Angeles and Las Vegas, Nevada.

• On Feb. 9, two New Jersey Transit commuter trains collided, killing two crew members and one passenger.

• On Feb. 15, a Burlington Northern freight train slammed into a Canadian Pacific railroad office building in a rail yard in East St. Paul, Minnesota, derailing 6 locomotives and 44 freight cars, and injuring nine people.

• On Feb. 21, a Southern Pacific freight train carrying sulfuric acid down a steep Colorado mountainside, derailed near the city of Aspen. The engineer and student engineer died; 27,000 gallons of the poisonous acid spilled out.

In March, in addition to the March 4 train derailment in Weyanwega, Wisconsin there occurred:

• On March 1, six locomotives and five rail cars of a 29-car Southern Pacific freight train derailed in an industrial section of Los Angeles.

All of these other accidents can likewise be traced to a collapse of infrastructure.

Safety ignored

These accidents reflect a policy decision to neglect safety. Take the Feb. 15 Burlington Northern crash. Several experts stated that this accident would have been averted had the train company installed a piece of equipment known as two-way end of train (EOT) devices. But the British-run "Big Six" rail companies have run a so far successful, 10-year campaign to block the use of EOTs.

EOTs are installed at the back of trains. If the brake line or some other feature of the train's braking system is blocked or inoperative (for example, because of improper air pressure, on which most train brakes work), then the train engineer can activate the EOT and still stop the train. (EOTs are separate from, but complementary to "automatic train stop systems.") But the rail companies, which have been stripping down the rail system, said EOTs cost too much money. After one particular nasty train wreck, the Federal Railway Administration (FRA) of the Department of Transportation said in a report that for the cost of this wreck, the company could have paid for 500 EOT devices for its trains.

Leroy Jones, national legislative representative and vice president of the Brotherhood of Locomotive Engineers, and who has fought to have rail companies install EOTs, pointed out in a Feb. 29 interview that it took more serious train accidents, and constant petitioning of the FRA by his union, before Congress passed the Rail Safety Enforcement and Review Act in September 1992. That act mandated that by Dec. 31, 1993, the FRA would come forward with guidelines to be promulgated for rail companies to adopt EOT. "It is now 1996, and the FRA has not come forward with those guidelines," he said.

Jones reported that FRA guidelines do not even require that all train radio systems work. "In response to the recent accidents, the FRA said that all engineers must report aloud the color of every signal they come to. But the radios on which they are to report may not work. Every 16-year-old has a cellular phone, or radio, but the trains don't guarantee that theirs will work," he said.

As to the relationship between the sharp reduction in the railway workforce (slashed by 59% from 1980 until 1994) and safety, Jones asserted: "When you remove workers, you remove an extra set of eyes on the train. When you travel, that becomes extremely important, because often an engineer can't see everything because of all he has to do." Moreover, he said, to compensate for the firing of so many workers, the remaining workers are worked long hours, at irregular schedules. They could be told to work 60- to 70-hour weeks, back-to-back double shifts, and irregular hours. "You can be called to work one day at noon, then the next day at 9 a.m., and the following day at 9 p.m., to work through the night. Your body gets messed up. It's like having constant jet lag."

Asset-stripping

Because of asset-stripping, the American rail grid over the last 70 years has witnessed the tearing up, literally, of the system that the American System of economics built. Among the major Class I rail carriers, which control 75-80% of all American rail track: In 1929, there were 229,530 route miles of track in operation. This was reduced to 164,822 miles by 1980; but today there are only 109,332 miles of track left, which is a contraction of 34% since 1980 (and 52% since 1929).

In 1980, there were 458,000 railroad workers employed; by 1994, there were only 190,000, a drop of 59%. Many of the workers forced into early retirement were 50-65 years old; most were skilled, such as engineers or trainmen, with 30-40 years experience. In an insane drive to squeeze out profits, rail crews per train, which were manned by four workers, have been reduced to three and even two workers. All of this contributes to accidents. In 1980, in the United States, there were 28,094 locomotives in operation; in 1994, the figure was 18,505, a plunge of 34%. In 1980, there were 1,068,114 Class I carrier-owned freight cars in operation; by 1994, that was down to 590,930, a collapse of 45%.

By 1995, after years of relentless mergers, six giant rail lines, all dominated by the British and each with annual revenues greater than $1 billion, monopolize the rail grid: the Union Pacific, CSX, Burlington Northern Santa Fe, Southern Pacific, Consolidated Rail (Con Rail), and Norfolk Southern. They dominate 91% of the revenue and 87% of the track-miles of the Class I rail carriers, which in turn run the lion's share of the rail industry. But it does not end there. The Union Pacific is pressuring the U.S. government to allow it to buy out the Southern Pacific, which would make Union Pacific America's biggest rail line, 60% bigger than its nearest competitor.

In the 1890s, the Union Pacific was taken over by the Harriman family, working at the behest of England's Prince Albert, later King Edward VII. During the late 1920s and early 1930s, Averell Harriman helped finance Adolph Hitler's rise to power. Today, seated on Union Pacific's board are British agent of influence and former U.S. Secretary of State Henry Kissinger, who has been knighted by Queen Elizabeth II; and James Robinson III, former chairman of the alleged money-laundering American Express Company.

The demolition of the national rail grid has created bottlenecks across the country. Due to rail downsizing, thousands of cities and towns in the United States have no rail service, and many farmers have only one rail line on which to transport their grain. During the winter of 1994, entire rail transport systems broke down because of the cold, and during the summer and winter of 1995, grain piled up in the Midwest, and could not be delivered because there was not sufficient rail tanker and hopper car carrying capacity to move it.

The seven rail catastrophes since Feb. 1 are a warning, that the rail grid is so pulverized that it has reached the point that deadly accidents, which are preventible, are instead happening with increasing frequency.

A history of the push for deregulation

by Richard Freeman

This chronology documents the disastrous deregulation of the U.S. economy, focusing on five areas: securities-brokerage firms (1975), airlines (1978), trucking (July 1980), railroads (October 1980), and commercial banking and the savings and loan institutions (1982). This covers the principal forms of transportation and finance for the nation.

1. Brokerage-securities firms

On June 4, 1975, America's brokerage house-securities firms were officially deregulated, as S. 249 was signed into law. Key provisions included:

• Fixed rates and fixed-rate commissions were ended between both the broker-dealer and the small investor, and between the broker-dealer and the corporate client. Business was now thrown into a free-for-all. This allowed a spate of "discount" brokerage houses, working on the margin, through offering lower fees, to emerge and take over business that major investment houses had previously had on a fixed-fee basis. At the same time, the institutional relationship between broker-dealers and corporate clients, some of which had gone back decades, was ended, or at least put up for competitive bidding.

Many moderately upper-tier, medium-tier, and lower-tier investment firms/brokers-dealers collapsed. A wave of bankruptcies of brokerage firms-investment banks ensued, which led, over 1975-82, to the disappearance, through merger or failure, of 15-20% of the brokerage firms-investment banks on Wall Street. This resulted, first, in the creation of giant firms, such as Shearson Hayden Stone-Loeb Rhodes-Lehman Brothers-Kuhn Loeb-E.F. Hutton-American Express, which became known as Shearson Lehman Hutton. Second, into this environment of extreme chaos, second-tier investment banks, such as Drexel Burnham Lambert, with access to sizable drug- and dirty-money funds, could suddenly introduce new product lines, such as junk bonds, and shape the geometry of the investment banking world toward speculation.

Drexel Burnham Lambert and Kohlberg Kravis Roberts (KKR), the takeover specialist investment bank which was formed in 1976, joined by Bear Stearns, Morgan Stanley, Crédit Suisse First Boston, and others, introduced the junk bond-centered leveraged buy-out (LBO), which became the dominant activity on Wall Street. This was accompanied by heavy debt financing of company takeovers, the stealing of corporate treasuries of targeted companies, and asset-stripping. A brokerage firm-investment bank either adapted to this reality, or was likely to disappear.

• The law also directed the Securities and Exchange Commission to review within 90 days "stock exchange rules that limited a member's ability to transact business in another market." If it found such a rule "inconsistent with industry competition," the SEC could start proceedings to "revoke the rule within another 90 days." Firms were no longer restricted to one market.

2. Airlines

In 1976, Georgia Gov. Jimmy Carter's campaign for President was backed by Trilateral Commission moneybags David Rockefeller, of Chase Manhattan Bank, and by the New York Council on Foreign Relations. Carter adopted the CFR's "controlled disintegration of the economy" as the motif of his administration. According to *Congress and the Nation, Vol. V*, "Some of President Carter's biggest legislative victories [1977-80], as well as some significant unfinished business, were in the . . . transportation field. The President's major transportation victories were deregulation of the airline, trucking, and railroad industries. The new laws pared away years of federal regulations."

On Oct. 24, 1978, Carter signed S. 2493 into law, which deregulated the airline industry. The law:

• mandated that, by 1985, the Civil Aeronautics Board (CAB), which had been established in 1935 to regulate the airline industry, through preserving routes and setting fares, be abolished;

• for the 1979-85 interim, it instructed the CAB to place "maximum reliance on competition";

• with respect to the start-up of new airlines, instead of the airline having to prove to the CAB that its service was "consistent with the public convenience and necessity," the CAB was instructed to presume the new service was in the public interest, unless an opponent of the application could prove it was not;

• provided for an automatic market entry program whereby airlines could begin service on one additional route each year in 1979-81 without formal CAB approval;

• required CAB approval of airline consolidations, mergers, purchases, leases, operating contracts, and acquisitions. This proved that, contrary to the deregulators' duplicitous rhetoric that "competition" would spur individual enterprise, they knew all along that the competition was to be used to shake out the industry, and facilitate a wave of mergers and acquisitions, including hostile takeovers and leveraged buyouts of the airlines.

Many of the start-up airlines, as well as the existing airlines, crowded into the routes which had the highest density of travel, and presumably the quickest profit, while routes to more remote parts of the country were abandoned. Fare wars in the most traveled routes led to bankruptcies, pillaging of wage and labor conditions, and the overuse and under-maintenance of engines and airline physical plant and equipment. Deregulators argued that, under regulation, servicing more out-of-the-way routes meant that the more profitable routes had to subsidize the less profitable, even money-losing routes. But this was the advantage of a regulated air system: so that all citizens, regardless of where they lived, had equal access to air service, in the public interest.

Today, for example, if a traveler wants to go from Grand Rapids, Michigan to Ashville, North Carolina, instead of one or two planes, the traveler must spend the greater part of a day changing planes and waiting in air terminals to reach his destination. Even if the quoted fare is less (and most of the time it is more) the cost of travel, counting time lost, is more expensive to the economy overall.

3. Trucking

Trucking deregulation was signed into law on July 1, 1980 by President Carter. There was intense opposition to the bill by the American Trucking Association, representing the trucking industry, the International Brotherhood of Teamsters, and *EIR*. Opponents cited the positive role regulation had played in keeping up the movement of goods and, thus, the productivity of the entire economy. They also stressed the need for every shipper to have equal access to truck shipments and the need not to undermine safety levels which deregulation would, and inevitably did, cause.

Prior to deregulation, under the supervision of the Interstate Commerce Commission (ICC), the trucking industry would set, through regional rate bureaus, the collective rates that they would charge customers in a region. The bureaus set rates using the "parity" concept, that the rates should return to each trucking company enough to cover production costs, including plant and equipment, fuel, and labor, and to leave a 4-7% profit left over for investment in expanding and technologically upgrading the scale of operations. Deregulation ended that. It:

• denuded the ICC of most of its regulatory power over trucking;

• reduced the power of the rate-setting bureaus: After deregulation, while the rate bureaus would meet, their discussion of rates was pro forma, since the rates had already been unilaterally decided on by the trucking firms in the so-called "free market";

• allowed trucking carriers, after the second year of the new legislation, to raise rates up to 10%, plus an additional amount to account for inflation;

• directed the ICC to issue an operating permit to an individual trucker if the ICC found the individual to be "fit, willing, and able" to provide trucking service; shifted the burden of proof from the applicant, and instead, required the objecting party to show that the service was "inconsistent with the public convenience and necessity";

• loosened restrictions on hauling food; eased entry requirements substantially for independent truckers carrying food, agricultural limestone, and agricultural fertilizer; exempted from ICC economic regulation livestock and poultry feed, and agricultural seeds and plants, if such products were transported to a farm or to a market for agricultural producers.

The effect of these and other rule changes was to open the trucking market to independent truckers. One needed only a trucking rig to gain entry. These independent truckers would often work 60- to 70-hour weeks, take amphetamines to keep awake, accepting wage levels below that of Teamsters and normal trucking firms, and would cut back on repairs and capital expenditures on their trucks to save on money. At the same time, during the 1980s and early 1990s, parts of the Interstate Highway System and other highways which had been built in the 1950s and early 1960s, were becoming badly in need of repair. The result of the mix of deregulation and highway disrepair, was increased highway accidents and deaths.

At the same time, the yo-yo effect of cutthroat competition—plunging, then suddenly rising prices—caused a violent shakeout in the industry. In 1993, for example, St. Johnsbury of Holliston, Massachusetts went bankrupt. Founded in 1923, it was then the nation's tenth largest trucking firm (and New England's biggest), handling 12,000 shipments per day, and employing 4,000 workers. All the workers were fired. By

1993, of the top 50 trucking firms operating in 1980 when deregulation started, all but nine had either failed or merged.

4. Railroads

In 1980, the rail industry was still reeling from the two decades of Wall Street pillaging of the New Haven and Penn Central railroads, and other freight and passenger rail carriers. The 1970-71 bankruptcy of Penn Central led to the reorganization of the company into two rail lines: Amtrak took over the passenger service; Conrail took over the freight service. Still, Carter administration officials were predicting that the failing health of the industry could cost the government $13-16 billion in subsidies over the next five years. Carter argued that more rail bankruptcies would occur if the Staggers Act for rail deregulation, named after Interstate and Foreign Commerce Committee Chairman Harley Staggers (D-W.V.), were not adopted. The Staggers Act was signed into law on Oct. 14, 1980.

An Association of American Railroads official told *EIR* on Feb. 29, 1996 that, before the Staggers Act, "the rail carrier had to obtain prior approval from the ICC before it could raise or lower rates, sell or abandon rail lines, pursue new marketing strategies, or even on how the rail carrier could allocate freight cars." The Staggers Act substituted a "free market" concept:

- It declared it national policy to "minimize regulations and to allow, to the extent possible, competition and the demand for services to determine reasonable rail rates."
- Rates could be raised unilaterally as long as they did not exceed 1.8 times the variable cost of the railroad. Thus, the ICC's functions became ceremonial.

British-linked financiers were now free to go on a takeover spree, while looting and shrinking the rail grid. In December 1995, a Conservative Revolution-sponsored bill became law. It abolished the ICC altogether, and replaced it with the Surface Transportation Board. The STB is not a free-standing agency, as was the ICC, but a smaller, semi-independent agency within the Department of Transportation.

5. Banking

One year after the Kemp-Roth Act passed, the Garn-St Germain Depository Institutions Act, sponsored by Sen. Jake Garn (R-Utah) and Rep. Fernand St Germain (D-R.I.), was signed into law, on Oct. 12, 1982. The act deregulated the entire banking system: the commercial banks and the savings and loans institutions. Previously, S&Ls had been restricted by law from lending-investing more than 20% of their assets into commercial real estate, although they usually never invested more than 5%. Now that restriction was lifted: They could invest up to 40% of their assets into commercial real estate. This freed up the liquidity to invest in the real estate partnerships and trusts set up under the Kemp-Roth Act, which, thanks to Federal Reserve Board Chairman Paul Volcker forcing up interest rates, set rates of return in real estate at 20% and above per annum.

The S&Ls were also permitted to invest-lend up to 30% of their assets into consumer loans.

Moreover, from the provisions of the Garn-St Germain Act, coupled to the Volcker high-interest-rate regime, can be traced the bankruptcy failures of the S&Ls during the 1980s. During the 1970s, S&Ls made 20- to 30-year mortgage loans at interest rates of 3-5%—the maximum annual interest they could earn on those loans for the next 20 to 30 years. But when the prime lending rate averaged nearly 19% in 1981, the S&Ls had to be prepared to offer 15-16% on interest-paying savings accounts and certificates of deposit. They had to pay 16% short-term, but were only earning 3-5% long-term, a formula for bankruptcy. Originally, many S&Ls fought the Volcker high interest rates politically. But, the Garn-St Germain Act enlisted the S&Ls to recoup their money in quick-buck, high-yield commercial real estate deals, which Garn-St Germain made permissible, when, previously, they had been off-limits.

Garn-St Germain also created the basis for S&Ls to shovel money into the stock market LBO fever, which the Steiger Act had helped create. Above all, U.S. control of its sovereign credit flows was blown apart. Other features included:

- The usury ceiling on what banks could charge on loans, set in most states at 10%, was repealed.
- Regulation Q was repealed. It had allowed S&Ls to pay 0.25% higher interest on deposits than commercial banks could offer, thus guaranteeing the S&Ls a steady stream of deposits, but at a relatively fair, low rate of interest. Regulation Q compensated S&Ls for other regulations that mandated them to make 80% of their loans to the housing industry.
- The lending limits for unsecured loans by banks to one borrower were increased, thus increasing the amount of unsecured loans in the banking system.
- Commercial banks were allowed (mostly because of Federal Reserve and other regulatory agencies turning their heads the other way) to buy banks out of state, thus taking a step to create super-banks, in violation of the Glass-Steagall Act of 1934.
- Commercial banks were also permitted to create a category of loans and investments called "off-balance-sheet liabilities," which allowed them to earn up-front, on-the-books fees for all sorts of activities that were conducted off the books, and against which no reserve requirements were set.
- It also permitted the forced merger of S&Ls that were failing, thanks to the Volcker measures. If the Federal Savings and Loan Insurance Corp. determined that an S&L had net worth of less than 0.5% of its assets, the FSLIC could merge this institution, without its permission, into a "sound institution." Commercial banks, such as Chase Manhattan, exploited this to the hilt: They picked up failing S&Ls. The federal government often picked up the tab for a large share, if not all of the S&Ls' bad debts, while the commercial bank got to keep the S&Ls' valuable deposit base.

The choice in Eurasia: infrastructure or geopolitics

by Mark and Mary Burdman

While international attention has been focussed on the Chinese military maneuvers near Taiwan, a series of highly significant events in the Eurasian-Asian region is tending to be overlooked. With increasing momentum since early March, a strategic realignment has been taking shape in Eurasia, involving a new complex of relations among the three major powers in the region, Russia, China, and India, as well as Iran and the Central Asian republics.

Should the question of infrastructure development assume a prominent place on the agenda of diplomatic discussions there, this emerging geometry of relations could give an impetus to realizing Eurasian-wide projects, along corridors of infrastructure development, as recommended by U.S. Democratic Presidential candidate Lyndon LaRouche, in his program for a so-called "Eurasian land-bridge." This positive potential can be weakened, however, by two closely interrelated problems.

On the one hand, there is the tendency of the architects of this strategic realignment, particularly in Moscow and Beijing, to conceptualize it, to a significant extent, in "geopolitical," anti-United States or anti-NATO terms. This proclivity is being played upon, and fostered, by geopoliticians on the London side, including the circles of former Secretary of State Henry Kissinger and former President George Bush in the United States. They are endeavoring to engineer a geopolitical confrontation between the United States and China and/or Russia, to deliver a major blow to the reelection chances of President William Clinton. Beyond this more immediate domestic aim, the London-Kissinger group is forwarding the British Empire's traditional "geopolitical" policy. As enunciated by the British inventor of "geopolitics," Sir Halford Mackinder, earlier in this century, the British view any trends toward cooperation and development in the "Eurasian heartland," as a mortal threat to the Empire.

Yeltsin to China

The central feature in the "Eurasian" dynamic, is the qualitative upgrading of Russian-Chinese relations. Barring unforeseen developments either with his health or on the Russian domestic front in the lead-up to Russia's June Presidential elections, or incalculable developments on the Chinese-Taiwan front, Russian President Boris Yeltsin is scheduled to make a highly significant State visit to China. On March 18, the Russian Itar-Tass news agency announced that the visit would take place on April 24-26. The visit is to be Yeltsin's third to China since December 1992. It will be his first trip abroad since recovering his health. His last trip, was to the United States, where he held a summit meeting with President Clinton, at the late President Franklin D. Roosevelt's Hyde Park, New York estate.

Yeltsin is scheduled to travel to the Chinese capital Beijing, and to Shanghai. He and his Chinese hosts will sign what Itar-Tass describes as a "declaration on major international questions and the situation in the Asian-Pacific region." In Shanghai, Yeltsin and the Chinese leadership are to be joined by three leaders of Central Asia, President Nursultan Nazarbayev of Kazakhstan, President Imomali Rakhmonov of Tajikistan, and President Askar Akayev of Kyrgyzstan. Agreements on outstanding border issues, security cooperation, and other issues of regional importance are to be discussed. In September 1995, when it was anticipated that Yeltsin would be going to China in November (it was rescheduled because of his poor health), Itar-Tass had announced that the five countries would sign "a very important military and political document." That dispatch said the document "has no precedents in Asian history," involving "military confidence-building measures in the border area along the entire former Soviet-Chinese frontier." Itar-Tass noted, then, that approximately 20 documents had been prepared, to be signed at the summit.

A possible precedent

A possible precedent for the upcoming Eurasian summit was set in October 1994, when leaders from the railway and transport ministries of Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan met in Beijing, to discuss increasing cooperation on the Eurasian Railway. This vast rail network, which links China's Yellow Sea coast with Rotterdam in Europe, had been beset with problems since the final link between western China and Kazakhstan was completed in 1992. In the first intergovermental cooperation agreement signed in the region, the participating nations agreed to "fully utilize the Eurasian Railway which links their countries," and to coordinate their transportation plans.

Leading up to the April diplomacy, the Russians have, in recent days, through the mouths of various Foreign Ministry spokesmen, repeatedly stressed their support for the official Chinese view that "Taiwan is an integral part of China." Anti-Chinese propaganda, which had been rampant in certain of the Russian media on such issues as clandestine Chinese immigration into the Russian Far East, or alleged Chinese designs on parts of Siberia, have been toned down. The Chinese have returned the compliment, emphasizing that Russian actions in Chechnya are "legitimate." There is also an expanded array of Russian-Chinese arms deals.

The past months have witnessed other important developments. The Sino-Russian agreement on the western section of their mutual border went into force on Oct. 15, 1995. Chinese Foreign Ministry spokesman Chen Jian announced that the fact that most of the border questions between China and Russia have been settled via law, is "a great event in the relations between the two countries." A treaty on the eastern section of the border has already long been in effect. Chen said that the new Sino-Russian agreement is "conducive to the maintenance of stability and economic development in the border areas, and is of positive significance to the promotion of peace and stability in the Asia-Pacific region."

Early in the year, as the details of Yeltsin's visit to China were being worked out, Igor Rogachev, Russian ambassador to China, stated: "A solid basis of stable relations is being laid down for many years to come." On Jan. 25, Oleg Davydov, Russian vice prime minister in charge of foreign trade, announced in Singapore that "orientation toward the East is a strategic choice for Moscow for the next ten years." He said that a closer relationship with China could turn into "the most powerful economic alliance, which will call the shots on Asian-Pacific markets." Russian-Chinese trade, which fell sharply in 1994, began to rise again last year.

Russia and China have regained mutual trust after a long "zig-zag" of bilateral relations, Russian First Deputy Prime Minister Oleg Soskovets told Chinese Gen. Liu Huaqing, chairman of the Central Military Commission, during a one-week visit to Russia in December 1995. Soskovets referred to Chinese-Russian relations as a "constructive partnership," which is becoming more concrete.

Whatever specific *content* develops in bilateral relations, remains to be seen. Problematically, Russian experts have told *EIR* that a key concern, on both the Russian and Chinese side, is to "counter-balance NATO extension," or "counter the U.S."

It is to be hoped, that that thrust will not become predominant, and that the Clinton administration will reaffirm its commitment to "constructive engagement" or "partnership" with Russia and China. The announced April 21 meeting between U.S. Secretary of State Warren Christopher and Chinese Foreign Minister Qian Qichen, must be watched closely in this light. As LaRouche has repeatedly stated, in recent campaign speeches, the United States, Russia, and China are the three major powers in the world (the British Empire being the fourth), and positive relations among the three, are of the utmost importance for the coming period of world history.

A visit from the Indian chief of staff

As for India, on March 8, the day the Chinese maneuvers began near Taiwan, the chairman of the Indian Joint Chiefs of Staff, Adm. Vijai Singh Shekhawat, arrived in China for a nine-day visit, including stopovers at numerous military facilities. Although the visit was planned months ago, the Indian government took the occasion to stress its belief that "Taiwan is an integral part of China." More or less simultaneously, there has been a huge Russian-Indian arms deal, in the several-hundred-million-dollar range. Russian Foreign Minister Yevgeny Primakov, who has made the "Eurasian" orientation the centerpiece of his foreign policy, will visit India on March 29-30. Some Russian planners herald the dawn of a new "Russia-China-India triangle" of relations in Eurasia.

As for Iran, in the first week of March, Iranian Foreign Minister Ali Akbar Velayati visited Moscow, where he was given red-carpet treatment. Prior to his Russian stopover, Velayati made an extensive tour of all the countries of Central Asia, and sources report that the Iranians have been doing diplomatic "favors" for the Russians in Tajikistan, where Iranian influence is great, and on the Armenia-Azerbaijan front.

While Iran is notorious for mischief-making, there may be efforts to make it a somewhat more reliable player in international relations. At Russian inspiration, an initiative has been launched to create an "Asian Foundation of Thermonuclear Studies," involving the nuclear research centers of Russia, China, India, and Iran. This will conduct research in peaceful applications of nuclear energy, with emphasis on thermonuclear fusion. Some Russian planners see it as possibly linking up with an existing international fusion project involving the United States, Russia, Japan, and European nations.

The British counter-offensive

The British are frantic to impede such developments. As we have reported, the British have been involved in an all-points diplomatic wrecker effort across Asia, including shaping the newly formed Asia-European Meeting (ASEM) forum, to their specifications (see *EIR,* March 22, "Britain's 'New Empire' Strategy Invades Asia," and Jan. 19, p. 28).

A well-informed Russian strategist has informed *EIR* that former British Prime Minister Margaret Thatcher, Bush, and Kissinger are super-active, including vis-à-vis Moscow and Beijing directly, to exacerbate whatever tensions may exist with the Clinton administration, in order, as he put it, "to topple Bill Clinton, and kill his chances for reelection."

This is reflected in the British media. The first shot was fired, by leading anti-Clinton poison pen Ambrose Evans-Pritchard, Washington correspondent for the Hollinger Corp.-owned London *Sunday Telegraph.* On March 10, he charged that the President had neglected the "great power diplomacy that upholds the international system," and that now, "everything is in ruins." Beyond the problems in the Middle East and Northern Ireland, and likely upcoming anti-American terrorism in the Balkans, the real problem is "the profound double crisis in U.S. relations with China and Russia." China's action in the Taiwan Straits is "precipitating the most serious foreign policy crisis of the Clinton Presidency," all of which is the President's own fault. Peter Rodman, a close associate of Kissinger, is quoted: "Bill Clinton has done serious damage to the international system, he's compounded instabilities all over the world. It is like termites eating away at your house: You do not notice the structural damage, and then one day the whole house falls down."

New York Council on Foreign Relations-linked writer Jim Hoagland, reflected what seemed to be a Kissinger line being circulated among policy circles, in an article on on March 12. Hoagland claimed that he had received special information from a Chinese source, that the Chinese are acting provocatively vis-à-vis Taiwan, because "they are prepared to see, and may even welcome, the defeat of President Bill Clinton in the coming U.S. election," and to bring "a conservative, anti-Moscow Republican administration" into power. Stated Hoagland: "The President will argue during this election year that he kept his eye on the economy and avoided disaster abroad. The Republicans at this point must depend on the world's bad actors to act bad along the way, and ruin Mr. Clinton's applause lines, and help the Republicans regain the foreign policy edge. China, Fidel Castro, and the others have recently shown why that is far from a forlorn Republican hope."

Duma vote saves Yeltsin's regime

by Konstantin George

The floundering Yeltsin Presidency has been given a new lease on life by a Russian Duma Resolution, passed March 15. The resolution, initiated by the Communist Party of the Russian Federation (CPRF), and supported by the Liberal Democratic Party of Russia (LDPR) of the regime's in-house extremist, Vladimir Zhirinovsky, declared the December 1991 Belovezhoye accords that had terminated the U.S.S.R. "null and void," and thereby amounted to a parliamentary vote "reconstituting" the Soviet Union.

The Duma vote marked a stunning turning point in the internal Russian situation. Whether some of the CPRF leaders involved in this stunt intended it or not, the effect of the Duma vote was to hand the Yeltsin regime a full-blown constitutional crisis, which was the only remaining real option they had to cancel the June 16 Presidential elections, and thus prevent a certain defeat for President Boris Yeltsin. All attempts by the Yeltsin regime to create or exploit crises, such as the escalating war in Chechnya, as pretexts to force a postponement or cancellation of the elections, had failed.

As U.S. Democratic Presidential candidate Lyndon LaRouche observed in a March 20 interview: "This resolution in the Duma . . . is the one thing that might save Yeltsin's butt. Yeltsin was more or less doomed to be replaced by . . . the dynamic of events. And the Communist Party, the revised or neo-Communist Party's candidate [Gennadi Zyuganov] was likely to win."

Within Russia's immediate neighbors, which they term the "Near Abroad," the Duma resolution caused a stampede of all the other Community of Independent States (CIS) governments into supporting the continuation of the Yeltsin-Chernomyrdin regime past June, and thus of the damaging International Monetary Fund (IMF) dictated "reforms." The Duma vote unleashed another stampede among the nations of eastern Europe into wanting to accelerate their admission into NATO. The effects of these two trends on the already-obsessed minds of the CPRF and other neo-imperial currents in Russia is incalculably dangerous. It will tend to heighten an irrational view of many of their CIS neighbors and eastern Europe as a new belt of hostile countries encircling a besieged Mother Russia.

Along with this, a surge in undifferentiated anti-Western and above all anti-American rage is inevitable. This was not helped by the appearance in Moscow of NATO General Secretary Javier Solana, on March 20, at the height of the storm over the Duma resolution. Solana used the occasion to bluntly declare that NATO extension is "irreversible" and will occur.

In tandem, U.S. Secretary of State Warren Christopher appeared in the Ukrainian capital of Kiev, denouncing the Duma resolution as "totally irresponsible" and declared: "NATO extension is under way and will be realized." He restated the U.S. support for Ukraine's right to exist as a sovereign nation, but did not say anything about a prospective membership of Ukraine in NATO. Verbally, his declarations in support of Ukrainian independence were all fine and good; but U.S. deeds, namely, support for IMF looting policies, are systematically destroying the national fabric of both Russia and Ukraine, and creating the conditions for the emergence of the Russian security threat to Ukraine that Washington verbally condemns.

Christopher went from Kiev to preside over a meeting of the foreign ministers of 12 former East bloc states in Prague, where he declared: "NATO must not and will not leave the new democracies standing in a waiting room." The 12 states were all from eastern Europe, including the three Baltic republics, i.e., what NATO might consider a "sop" to Moscow, inviting no participation by CIS members.

Election annulment drive amid a split CPRF

Regarding the political crisis launched within Russia, an additional problem lies within the CPRF itself. Our stress at the beginning of this report regarding only "some" of the CPRF leaders, reflects the fact that the Communist Party of today, in contrast to the ruling Soviet party, is not centrally run, top-down. The CPRF's strength lies in its control through a communist cadre machinery of many of Russia's regions. Its national weight and power are based on the agglomeration of these varied regional "baronies." A further reflection of this lies in its factionalization, which openly manifested itself in the build-up to and aftermath of the Duma vote.

LaRouche, in the same interview, warned that the Duma vote "might be used by various people to postpone the Russian Presidential elections, which is something we've been afraid might happen. It's very tricky and reflects the instability of the situation."

The regime's drive to annul the elections is already in motion. As the French daily *Les Echos* commented on March 21, reporting on a March 20 Kremlin meeting of Yeltsin and his political advisers: "It was noted that the Duma vote puts in doubt the holding of the Presidential elections." Moreover, CPRF Presidential candidate Gennadi Zyuganov, at a Moscow press conference on March 19, accurately reported on election postponement maneuvers initiated that same day in the Russian Parliament's Upper House, the Federation Council—up-front initiatives that are coordinated with covert moves by the Yeltsin regime.

Zyuganov declared that as a result of the Duma move, "the Federation Council will be discussing a two-year extension of Yeltsin's term in office," and that this idea "came from above." Zyuganov also announced that he would offer "no resistance" should the extension of Yeltsin's term in office "actually appear on the agenda." It was clear from this Zyuganov statement that the CPRF and other opposition forces, do not currently have the raw power in Moscow required to openly confront the Yeltsin-Chernomyrdin *ancien régime* over the June election timetable.

On the same day as Zyuganov's press conference, the Russian press was filled with leaks from "sources in the Presidential apparatus," declaring that the Kremlin is considering "dissolving the Duma" because of its "unconstitutional" March 15 resolution.

Zyuganov has anything but a united CPRF backing him. At the higher levels this was clear from the conduct of the CPRF member who presides over the Duma, Gennadi Seleznyov. While Zyuganov was denouncing the Yeltsin plot to annul the elections, Seleznyov was telling journalists the "conditions" on which he would support an extension—even an indefinite one—of the Yeltsin Presidency. Seleznyov said that, provided Boris Yeltsin agrees to change the Russian Constitution to abolish the Presidency, which would take effect after Yeltsin decides to step down, "x" number of years into the future, then, he, Seleznyov, would support the indefinite extension of a Yeltsin Presidency.

It should be noted that while Zyuganov and the entire CPRF leadership support the re-creation of the U.S.S.R. ideologically, it was Seleznyov who played the key role in the decision to go ahead with such an initiative in the Duma, three months before the elections, when a near-certain Zyuganov victory was developing. This made no sense, even within the ideologically colored "logic" of Soviet-nostalgia permeating the Communists. They could simply have waited three months, and then proceeded, from a position of strength, having the Presidency, with their neo-empire "crusade."

As Zyuganov hinted in references to the Federation Council at his press conference, the Yeltsin team is guiding the annulment process and letting the Federation Council spearhead the drive. Already on March 19, regional heads of administration who sit in the Federation Council got up to demand postponement. The head of the region of Samara on the Volga, Titov, said: "We have to say it very clearly. Either the Duma revokes its resolution or we'll set a new date for the Presidential elections."

The events of March 20 closed with Yeltsin making his next move. He called on the Duma to pass a law confirming the validity of the dissolution of the U.S.S.R., and the creation of the CIS. A Presidential spokesman told the news agency Interfax that Yeltsin was giving the Duma a "face-saving way" of "correcting" their March 15 unconstitutional resolution. It was clearly implied that should the Duma not comply with this "face-saving" retreat, Yeltsin could order its dissolution.

Colombia

Strike call issued to topple Samper regime

by Andrea Olivieri

Following hard on the heels of the U.S. decertification of the Samper regime in Colombia because of its manifest collusion with that country's drug cartels, patriotic forces within the Colombian business community are attempting to organize a nationwide "civic strike" that would force President Ernesto Samper Pizano and his corrupt cronies from power. Germán Holguín, president of the Permanent Business Council of Valle department, has issued a call to the Catholic Church, the business community, and "to all honest citizens" to join him in what he has dubbed a "crusade" to remove Samper from power and to "recover the country's ethical and moral values."

Holguín stressed that Colombians need to achieve "a profound political reform which will enable the country to rescue its three wrecked institutions: We need a government that is credible and able to rule; a congress made up in its majority of honest people; and a judiciary with the ability to sentence, punish, and defeat impunity."

Endorsing Holguín's call was Presidential aspirant Noemi Sanín, Samper's former ambassador to London and a powerful political figure within the opposition Conservative Party. Sanín sent Holguín an open letter praising his courage and leadership, and urging that the strike also include students, women, the media, and the church. "The fight against drugs and corruption," Sanín emphasized, "is not a class issue."

Holguín has told the press that he is receiving many calls in support of his stand from business and civil leaders. He urged those Colombians who only voice their complaints in private, to finally take a public stand: "It is time to act openly, because all this diplomacy is hurting us." As to when the strike will occur, he said: "We will strike when our patience is at an end. No government can survive a strike" of this kind.

Narco-dictatorship

Before the strike mobilization has a chance to go into high gear, Samper and his allies are trying to silence opposition leaders by using the terror and intimidation tactics that have become the hallmark of this corrupt regime. Samper's congressional allies have demanded that Holguín, Sanín, and other anti-Samper forces appear before Congress to explain why they should not be charged with sedition, for trying to overthrow the government. These are, not surprisingly, the same congressmen who are writing legislation for a blanket amnesty, that would prevent themselves, Samper, and his cartel cronies from doing any prison time.

Samper has accused Holguín and other strike organizers of being "subversives" out to "cause economic panic," and he has ominously warned that their organizing against his regime is "unforgiveable." Holguín himself reports receiving anonymous death threats in response to his strike call.

At the same time, *EIR,* which has been in the forefront of exposing Samper's drug connections, continues to come under attack. It received official notification on March 18 that a "judicial investigation" of its Bogotá offices would be conducted by search warrant on March 20, pursuant to an unidentified legal case. *EIR* immediately sent out an international news release demanding to know why the Samper regime, which has been unable to find the resources to provide police protection for *EIR* staffers who have been receiving constant death threats for over a year, was suddenly able to come up with the resources to launch an investigation—of *EIR* itself! When representatives of the investigative police, SIJIN, the Attorney General's office, and the Prosecutor General's office showed up at *EIR*'s offices, they limited their actions—thus far—to compiling a list of employees. They were concerned at the international attention that *EIR*'s press release had drawn, and insisted that they were merely pursuing *EIR*'s request for security protection. That protection, of course, has yet to be provided.

On Samper's side of the fence, however, is the Colombian Communist Party, which editorialized March 13 in its weekly newspaper *Voz* that a civic strike along the lines that Holguín is promoting could pave the way for "undemocratic" alternatives to Samper, such as "a civil-military junta run from the White House." A similar line is being promoted by the communists within the trade union movement. The CUT labor federation, a Communist Party front, issued a statement March 11 charging that the civic strike was a U.S. maneuver, through its "Colombian puppets," to create chaos in the country, and warning that any companies or factories shut down in a businessmen's strike would be seized and occupied by "the masses."

Samper's troubles grew again, when the Supreme Court announced the opening of criminal investigations into three more of Samper's cabinet ministers: Interior Minister Horacio Serpa Uribe, Foreign Minister Rodrigo Pardo, and Communications Minister Juan Manuel Turbay. All three held senior positions in Samper's 1994 Presidential campaign and are charged with conspiring, with Samper, to cover up the infiltration of up to $6 million in drug money into his campaign. Already, Pardo has asked for a "temporary" leave of absence, until his legal situation is "cleared up." Serpa, less sanguine, told a journalist he expects to end up behind bars. This, of course, tightens the prosecutorial noose around Samper's own neck.

Arafat, Israel expose terrorist operations

by EIR Staff

Palestinian National Authority President Yasser Arafat, in an interview with the German weekly *Der Spiegel* published on March 18, presented evidence of collusion between leaders of the Jewish terrorist underground, and the Palestinian terrorist groups Hamas and Islamic Jihad. At the same time, the Israeli government is putting pressure on the British government of John Major, to shut down the extensive Palestinian terrorist networks that are run out of London.

"I can demonstrate," Arafat said, "that Israeli and Palestinian conspirators are cooperating together, to bring the peace process to an end." When asked for more details, Arafat answered: "Avishai Raviv, leader of the Eyal Israeli underground organization, out of which came [Prime Minister Yitzhak] Rabin's assassin Yigal Amir, has publicly admitted to have met five times in Gaza with the leaders of Hamas and of the Islamic Jihad, in proximity of the Hotel Philistine. He also admitted that the two sides kept contacts through a liaison officer and decided to undertake common actions." Arafat added that Abu Warda, one of the persons arrested for the recent bombings in Jerusalem, "has confessed to the Palestinian officials and declared: 'It is our aim to overthrow the Peres government and bring a Likud government in power.' " Arafat said that the Palestinian National Authority will "publish everything at the right moment."

"Elements on both sides receive support from abroad," Arafat continued. "Look for instance at Avishai Raviv: He flew to the United States. How could he make it, to settle himself unnoticed in Brooklyn? Where do these people receive their money? . . . Here it works this way: Extremist organizations here receive money from Iran and the Arab countries, including some Gulf states." Arafat added, "I had warned Rabin, at a meeting in Amman, about the Eyal organization, in the presence of King Hussein of Jordan, U.S. Secretary of State Christopher, and others."

With respect to the collusion of Palestinian and Jewish terrorist elements, Arafat pointed out that Israeli extremists knew the authors of certain recent terrorist bombings before the police did. Rechavam Zeevi, head of the Molodet Jewish radical organization, "just 50 minutes after the [Ashkelon] terrorist attack, made public the names and the origin of the perpetrators. . . . The Israeli government communicated to us first at noon, and told us that the suicide-killer came from Gaza. However, we found out that the young man who allegedly was the kamikaze/murderer was alive and still in Gaza. Only 48 hours later, Israeli officials gave us the names of two suspects who came from Hebron and were supposed to have participated in the attack. Do I not have the right to ask, why did the Israeli government need 48 hours to find out what Rechavam Zeevi seemingly already knew after 50 minutes? My conclusion is: Either he knew in advance about the attack, and kept it secret, or he himself participated in it."

The London connection

The Israeli government is meanwhile demanding that Britain shut down the support apparatus for Hamas and Islamic Jihad in London. The London *Sunday Telegraph* on March 17, under the headline "Israelis to Put Major on Spot over Terrorists," wrote that the British government "will come under renewed pressure from Israel this week, to act against Islamic fanatics who use Britain as a base to plan and support terrorist actions. . . . U.K. officials have, so far, declined to take actions, arguing that Israel has not provided enough evidence. The Israelis intend to remedy that deficiency, by putting together a detailed dossier of Hamas's operations in Britain, which they believe have a key part in assisting the recent wave of terror attacks. They will highlight the activities of Hamas publications, and of fundraising charities that are accused of actively supporting suicide bombings and other outrages."

According to author Con Coughlin, "the latest edition, for example, of *Filisteen al-Muslima* (*Islamic Palestine*), Hamas's monthly magazine published in London, calls on young Palestinians to avenge the death of a terrorist killed by a booby trap bomb in Gaza last January. 'This is your time,' says the magazine, 'the time for heroism, and to merit dying a martyr's death. This is the time for holy war, and martyrdom. You must take your place of honor in martyrdom, and not among the weak regime of Yasser Arafat.' This article was published just a few weeks before the latest suicide bombings. Israeli officials claim the magazine was able to predict the resumption of terrorist activities by Hamas, because of its close links to the organization's leadership. . . .

"The Israelis will be providing details of charities and institutions, based in London and the North, that they accuse of financing terrorism."

The *Sunday Times*'s David Leppard and Tim Kelsey focus on the "London Haven of Hamas," reporting on a number of cases of top militants who are Afghan mujahideen veterans, now active with Hamas and the terrorist Islamic Armed Group (GIA) of Algeria, among others. One of these militants, Abu Koutada, wrote the week before in *Al-Ansar,* a mouthpiece of Algerian radicals, praising "the miracle of the martyrdom of our brothers in their suicide operations in Algeria, Palestine, and Libya and everywhere." The article makes a scandal about the fact that these operatives are collecting welfare benefits in Britain, while openly espousing terrorism.

Commentary: Lyndon LaRouche

Why a summit against terrorism must fail

In an interview conducted with the radio program "EIR Talks" on March 13, Lyndon LaRouche was asked for his view of the "Summit of Peacemakers" jointly sponsored by the United States and Egypt then taking place in Sharm el-Sheikh, Egypt, which brought together the Heads of State of 28 nations to discuss how to combat terrorism in the Mideast. Here is his reply:

There are two aspects to it. The fact that the President is going into the area to meet with other leaders to bolster the peace process, is, in itself, a very good idea. The problem is the idea that you can get an agreement against terrorism.

Now, this view of terrorism is utter nonsense. Obviously, there are things which, by their nature, are rightly called "terrorist acts." And there are people who perpetrate these acts, who can be rightly, for descriptive purposes, be described as terrorists. Obviously, it's necessary to defend populations against terrorists and terrorist acts. So far, so good.

But when someone tries to come up with the report, which is either a fool's credulousness, or a deliberate lie, to say there's a problem called international terrorism, then—and if you try to have a conference to resolve on measures to deal with international terrorism, then you're barking up the wrong tree, and you may actually create a disaster, as well as indulging in an act of clownish public incompetence.

The problem here is of a different nature. The development in the post-World War II period of nuclear weapons, even before the Soviet Union actually developed its first nuclear weapons at the end of the '40s, was based on—particularly after the firing of MacArthur by Truman, which ended all classical military policy in the United States and in other principal powers. We went into a period of what was called strategic conflict below the threshold of nuclear warfare. This was listed under so-called "limited warfare," and, also, "special warfare," later put under the rubric of "special operations."

This also involved the use of surrogate devices, that is, to use a small nation to conduct a war against a large nation, a limited war against a large nation. An example of that, was the United States trapped the Soviet Union into Afghanistan in a precalculated way; then ran a mercenary war against the Soviet Union in Afghanistan, using Pakistan-based drug-runners such as Hekmatyar as the vehicle; and used contributions from places like the Saudis, and also the recruitment of a large number of anti-communist Islamic people into what was called the mujahideen based in Pakistan, against the Soviet forces in Afghanistan.

Now, these people are now turned loose on the world as unemployed or largely unemployed mercenaries, still operating on the basis of the Golden Crescent and other drug-trafficking, to fund them.

For example, the terrorists in Algeria used by the Algerian government, and deployed, in part, into France recently for the terrorist operations which occurred in Paris, were mujahideen recruited from a Pakistan operation, deployed by the British from London into Paris, as well as in the operations in Algeria itself, where they were used as a foil, like a counter-Mau-Mau, against the Islamic opposition to the incumbent government.

Deployed from London

So the problem here is, in the Middle East: The terrorist operations against the peace process in the Middle East *are run from London.* They are run through the London-directed, two London-directed forces principally. One, is the section of Israeli politics and U.S. politics identified with the Anti-Defamation League, for example, as a political ally of this crowd, and Ariel Sharon in Israel; and Netanyahu. They are running terrorism for the purpose of trying to bring down the Peres government, to destroy the peace process.

Behind this, is London. The Hamas was created by London as a countergang, political countergang, against the PLO. And the Palestinian Authority has identified some of these things and their London connection. This group is supported by Sharon; and it was allowed to do things by Sharon's crowd in Israel, the government forces, for political purposes. But the control was, and is, from London.

For example, the military arm of Hamas is *not* based in the Middle East, it's based outside the Middle East. And what we're looking at *usually,* in what might be called Hamas military arm terrorism, will often be directed through the apparatus of the mujahideen, out of Pakistan; the same way that funny operation against Mubarak in Addis Ababa was run. It was run from Pakistan, by the same people that Lord Bethell and George Bush and so forth were using back in the 1980s. And to whom, I think, George is probably still connected in some way, if he can find his connection. But that's the nature of the thing.

So, the idea of having a summit to lend moral support and other support to the peace process in the Middle East, is a very good idea. But in the sense that somebody's trying to come up with a convention against international terrorism, this is a piece of dangerous idiocy, and should not be attempted or supported.

Einaudi's 'peace' talks are a trap

by Gretchen Small

Under the personal direction of senior U.S. State Department adviser Luigi Einaudi, border conflicts, and supranational mediation to resolve them, are quietly being made into the centerpiece of regional diplomacy in the Western Hemisphere. The pretext for this dangerous turn of events, is the asserted need to "permanently" settle the Peru-Ecuador border dispute, as the precedent for settling all border conflicts in the Americas.

For more than two centuries, border disputes have been used as a primary instrument of British geopolitical warfare against the region. This time is no different.

With the international financial system tottering at the brink of disintegration, the central strategic issue facing every nation in the Americas is *not* how to settle, once and for all, their long-standing border disputes, but, rather, how to replace the bankrupt International Monetary Fund (IMF) system with one fostering physical-economic development, and how to defeat the drive toward United Nations-centered world government.

The border agenda, a recipe for renewed conflict, is an attempt to ensure that no serious threat to the IMF and the U.N. ever emerges.

'Mr. Plot'

In mid-1995, Einaudi was put in charge of the Peru-Ecuador border conflict, as his full-time job at the State Department. Ecuadorans, and others, who believe Einaudi is looking out for their interests, had better look again. Einaudi has been one of Henry Kissinger's top globalist strategists within the State Department permanent bureaucracy for more than 20 years, rightfully known as "Kissinger's Kissinger" for Ibero-America.

Sir Henry Kissinger, a self-professed agent of the British Empire, was knighted by Queen Elizabeth in 1995, in recognition of his long years of service to the British Crown.

Like Kissinger, a utopian one-worlder in outlook and training, Einaudi's single-minded focus throughout his work has been the destruction of the institutions which form the backbone of the nation-state in Ibero-America: the military and the Catholic Church. In the late 1960s, Einaudi directed the RAND Corp.'s two seminal studies on the Catholic Church and the Peruvian and Brazilian militaries.

His 1971 RAND Corp. report, "Latin American Institutional Development: Changing Military Perspectives in Peru and Brazil," examined how and why the militaries of those two countries had allegedly deviated from "professionalism," when they elaborated national security doctrines premised on the military's responsibility to assure "the attainment of national potential and well-being" in their countries, and the right to lead "movements for technology and industrialization."

In 1986, as head of the State Department's Latin American Office of Policy Planning, Einaudi set up and ran the project (which is still ongoing) for the demilitarization of Ibero-America, which produced the infamous book, *The Military and Democracy: The Future of Civil-Military Relations in Latin America.* In Ibero-America, that book is now better known as the *Bush Manual,* the name it was given in *EIR*'s widely circulated exposé, *The Plot to Annihilate the Armed Forces and Nations of Ibero-America,* which detailed how Einaudi's *Bush Manual* project is targeting the institution of the military in Ibero-America, as a leading obstacle to globalization, and International Monetary Fund rule.

LaRouche warned you

The imposition of the border-resolution agenda, is an escalation of the *Bush Manual* project. The strategy was outlined in the September 1995 Pentagon report, *U.S. Security Strategy for the Americas,* which detailed the existing series of border conflicts, and called for the United States to adopt "a variety of mechanisms" to resolve them.

In November 1995, the State Department's Arms Control and Disarmament Agency (ACDA, a nest of globalist nuts) used a Regional Conference on Confidence- and Security-Building Measures, sponsored by the Organization of American States in Santiago, Chile, to get governments of the Americas to sign a statement that long-standing border disputes should be settled "as soon as possible." An ACDA spokesman stated after the meeting, that they considered the border discussion at the meeting "historic," because, for the first time, nations in the region had accepted the idea of imposing a timetable upon resolving these conflicts, even if initially non-specific.

U.S. Democratic Party Presidential candidate Lyndon LaRouche had warned of the strategic madness of adopting the border agenda, in his October 1995 campaign document, "The Blunder in U.S. National Security Policy," issued as a rebuttal to the strategic premises which underlie the Pentagon's *Security Strategy for the Americas* document.

The Pentagon report "not only fails to grasp the intrinsic connection of the new international terrorism to border disputes, but proposes Hobbesian 'conflict resolution' approaches both to terrorists such as [Mexico's Zapatista National Liberation Army] EZLN and to border disputes which can have no effect but to accelerate the destruction of the sovereignty and national security of every nation affected, including the United States itself," LaRouche wrote. This Pentagon bungling will lead to the spread of international terrorism, because, "if the resolution of a border dispute is taken out of the sovreign hands of the nation-state parties, the disputed area becomes a region of 'extra-territoriality,' in which terrorist/separatist operations thrive."

Each against all

Einaudi's work has entered a new phase. According to diplomats in the region, one of the primary items on the agenda of Secretary of State Warren Christopher during his early March visit to Ibero-America, was to present a scheme, cooked up by Einaudi, for U.S.-sponsored negotiations for a "final" settlement of the dispute, to Argentina, Brazil, and Chile, the three other nations which, along with the United States, are guarantors of the Rio Protocol of 1942, the international treaty signed after the 1941 war between Peru and Ecuador.

On March 6, after months of behind-the-scenes diplomacy, representatives of Ecuador and Peru presented, at a meeting in Brasilia with the guarantor nations, a list of issues each government considers must be resolved for a final peace settlement to be reached. Reportedly with Einaudi's direct encouragement, the Ecuadoran government presented two obstacles: its belief that the Rio Protocol is partially "not executable," and the need for "free and sovereign Ecuadoran access to the Marañón-Amazon" rivers. The latter would require Peru to yield territory beyond the 78 kilometers now in dispute, which both sides agree has not yet been demarcated.

Whatever the immediate self-interest which the Ecuadorans perceive they might gain from this, the strategic question raised is, what is it that the Einaudi-Bush Manual crew seek?

Under current conditions, no Peruvian government could yield *sovereign* access to the Marañón-Amazon without being toppled—as Einaudi knows full well. In a recent U.S. Army War College study, *War and Peace in the Amazon,* Einaudi associate Gabriel Marcella stated that any acceptance of this demand "would be political suicide for a government in Lima." Yet, Marcella urges that Peru-Ecuador conflict be taken up by the Inter-American community as a "case study of conflict resolution."

The authors acknowledge that their demands are unacceptable. Is "peace," then, their objective, or, perhaps, renewed fratricide in Ibero-America?

In addition, were the Peru-Ecuador conflict to be resolved through the negotiation of new borders, under the aegis of some supranational forum outside the Rio Protocol Treaty, the precedent would be set, that *all* borders of the Amazon can be renegotiated under international mediation, thus reviving one of Great Britain's most long-standing geopolitical designs.

New prime minister of Sweden: a 'lion tamer'

by Ulf Sandmark

The new leader of the Swedish governing Social Democratic Party (SAP), Göran Persson, has been hailed by the London *Financial Times* as a "lion tamer." He is the former finance minister, who is to continue to deliver the austerity demanded by "the markets," now as the chairman of the party and prime minister of Sweden.

The party congress that elected Persson on March 15-17, was the culmination of a long and dirty selection process that started when then-chairman Ingvar Carlsson, during the kickoff of the election campaign for the Sept. 17, 1995 election of Swedish members of the European Parliament, for unknown reasons, announced his resignation. Carlsson's choice for his replacement was his vice prime minister, the "punk woman" and party secretary Mona Sahlin. She was discredited in a credit-card scandal, mainly fueled by leaks from Social Democrats in the government bureaucracy. The trade unions mobilized an open revolt against Sahlin. The national trade-union federation, LO, had a banner headline in its newspaper, which read: "Mona, You Are Not Good Enough!"

With Sahlin and other possible candidates out of the way, Persson was "talked into" taking the job as chairman, even though he had "absolutely" refused the offer before.

The trade union revolt continued, first in the form of tough wage demands. Then, the unions made an open challenge to the party leadership, trying to "take over" the party congress by electing only their own people as delegates. With this prelude, the SAP extra party congress became the center of Swedish domestic political life, a dominating affair reminiscent of the former one-party systems in the East bloc. The SAP, even though in power, defused the revolt, and succeeded, just like those old communist parties, in making a comeback, shooting upwards in the opinion polls.

By resigning, Carlsson succeeded, first, in winning the election, and, then, in coopting the revolt against austerity. (He is an example of how today's politicians can become popular only by resigning.) Carlsson's resignation marks the end of the Olof Palme-era of Swedish high-flying international stunts to promote the U.N. system, and various flanking maneuvers in the Third World, on behalf of British world domination. The election of Persson has been characterized as bringing the SAP into a situation that would have prevailed, if Palme had not been elected as SAP party leader in 1969. It has also been characterized as bringing the SAP back to the pre-war and wartime Prime Minister Per Albin Hansson's more domestic-oriented policy, called *folkhemmet* (the home of the people).

United Nations never mentioned

In his policy declarations at the congress, Persson did not mention the U.N. once. The only foreign countries he mentioned were the Baltic countries, for which he made one of the strongest declarations of support, so far, from a Swedish government official. He put a priority on developing good relations with Baltic Sea nations.

If this foreign-policy orientation were to be fulfilled, it would mean a victory for the forces associated with Lyndon LaRouche in Sweden, whose main political activity has been to fight the hypocritical foreign policy of Sweden. The hypocrisy was shown most clearly when Sweden, on the one side, "supported" the Third World, and, on the other, supported the U.N. system and the International Monetary Fund destruction of the Third World.

Those who protested against the government austerity policies, up through the SAP party congress, have become part of the accepted political landscape. They were given the name of "traditionalists" in the press, because they wanted to turn back the clock to regain the former levels of social and unemployment benefits, which have been cut down as part of many austerity packages. Their counterparts were named "renewers" (it could be translated "reformers," just like in eastern Europe). The renewers are based in the government, with Sahlin as their main spokesman, and among other yuppie strata in SAP.

This fight against austerity, as well as vocal protests from all kinds of groups around the country, has opened up the debate in Sweden. There is now an open faction-fight over what is called "the description of reality." The "renewers" say that the reality is that there is no money, there is a budget deficit, etc. The "traditionalists" say that there is too much austerity for people to survive.

Efforts to control and contain the debate have been massive, with the media selecting who is supposed to represent each "side."

The fight for nuclear energy is revived

However, the cat is out of the bag, and a climate of civil disobedience is spreading. It takes many forms. On the same day that the SAP congress started, the main private nuclear power plant operator in Sweden, Sydkraft, held a seminar presenting what has so far been taboo in public debate; a plan to renovate their three reactors, one of which the government plans to shut down within the next few years. The nuclear issue has become a focus for the rebellion against the government. But also directly outside the SAP congress, there were, for the first time, many protest groups, among them mine workers from the mines more than 1,000 kilometers north of Stockholm. In this atmosphere, the friends of LaRouche in the European Labor Party were received with interest, and discussions were held with many delegates.

The SAP congress itself represented an overwhelming operation of control against all the "rebels." With all the tricks in the book, including tremendous group pressure, the party leadership muddled through with only very minor defeats in the decisions by the congress.

The main attraction of the party leadership was, of course, the new chairman. Persson skillfully took the lead in bringing together all the factions—mainly by making promises in all directions, thereby buying himself time. He succeeded in unifying the congress around defeating mass unemployment as the main priority. In this way, the image was created that there was a common goal and common value system, even though there were differences on how to analyze the reality. Persson himself works totally within the realm of the market forces. His way of "solving" unemployment is the standard reduction of the budget deficit, which supposedly would lead to lower interest rates and thereby new investments in the private sector, creating new jobs.

This approach is an empty shell, especially because Persson won't even have electricity for employing more people in the country. He pushed through a decision, by a vote of 219-114, to close one of Sweden's 12 nuclear reactors during his current term (the next election is in 1999). This is part of an ecological profile, which he is cultivating in order to organize a majority in the anti-nuclear-dominated Parliament. With the sacrifice of one reactor, like a pawn in a chess game, he expects to get the environmentalist, leftist, and center parties behind him for three years.

At the same time, Persson promised that this shutdown would not hurt the raw-materials-processing industry, whose managers and unions are demanding the continued operation of all reactors. He also promised to preserve the social welfare system of Sweden, a country that had to import electricity last winter, including from Finland, which in turn imported it from Russian nuclear power plants.

Persson will have to muster all his reputed strong-arm abilities, a reputation he earned while a local city administrator, where he made his political career. His main accomplishment there, was in the domain of environmentalism, as his advocates claim. There, he tore down the city center in the most barbaric, modernistic way, to make way for his party-affiliated, box-like department store, Konsum.

Persson's clash with the trade unions on the nuclear issue is part of a long-term policy to decouple them from the SAP, with the party following a path of deindustrialization, ecologism, and austerity. Persson had his own fight with the trade unions when he was education minister, and smashed the teacher trade union strike. This is what the markets and the *Financial Times* refer to, when they call Persson the "lion tamer," even though he was just buying time with his contradictory policies.

International Intelligence

Prince Charles has an odd notion of ecology

"Prince Charles faced renewed controversy last night," wrote the London *Financial Times* of March 16, "as it emerged that his main overseas organization has awarded an environmental prize to the manufacturers of the plastic explosive Semtex. The Prince of Wales Business Leaders' Forum confirmed, last night, that the Czech chemical company Synthesia had been given its annual Czech prize, because the installation of cleaning devices in its plant had contributed to a 'significant improvement in the environment.' Semtex has been used worldwide by terrorist organizations including the Irish Republican Army. . . . The award to Synthesia was given by the forum's Czech office, on the advice of a panel of local experts which included the British ambassador, Sir Michael Bruton and officials of the British Council, which promotes cultural, scientific, and educational links on behalf of the British government. . . .

"Major John Wyatt, a British bomb disposal expert, said yesterday that Synthesia was widely known by western security officials, as the company which sold Semtex to Libya in the 1980s, before it was sold on to the IRA. . . ."

Maastricht foes hit by judicial attacks

In a surprise move in France, the judges of the Rennes Court of Appeals decided to increase the sentences for the group of Socialist Party officials accused of having participated in secret funding of the Socialist Party in a case known as URBA/SAGES. Among those officials is Henri Emanuelli, the head of the Socialist Party until a few months ago, when Lionel Jospin took it over.

Emanuelli is close to the anti-Maastricht current within the Socialist Party, the "Socialist Left."

Emanuelli was given an 18 month suspended sentence and two years of deprivation of civil rights, which means he cannot run for office during that period. This is quite outrageous, since it has been proven that he in no way benefitted personally from any money transfers, and that the entire affair took place when there were no laws governing the financing of political parties in France, forcing all the political parties into all kinds of maneuvers to finance themselves.

Meanwhile, one of the leaders of the "Citizens' Movement" led by the former defense minister and outspoken critic of the Maastricht Treaty, Jean-Pierre Chevènement, has been indicted for alleged corruption. Chevènement is the president of the General Council of the Territory of Belfort, which he serves as mayor and as a deputy in the National Assembly.

Shubeilat sentenced to three years in Jordan

On March 17, former member of Parliament Laith Shubeilat was sentenced by a military court to three years in prison in Amman, Jordan. The trial was characterized by gross irregularities, as his defense lawyer Jawad Younis detailed in a press conference held at the headquarters of the Jordanian Engineers Association (JEA), of which Shubeilat is the president. Only one of the 59 witnesses presented by the defense was allowed to testify, and he was threatened with arrest, as soon as it became clear that he was a witness favorable to the accused. Even in the final session of the trial, not all the lawyers were allowed into the courtroom. Shubeilat has a group of 150 lawyers, of whom 14 were allowed in. Busloads of people from his hometown, Tafila, were denied entry.

Shubeilat's wife, Rima, protested the court's decision, outside, where a large crowd of supporters demonstrated for Shubeilat. Authorities seized cameras from Reuters and Dubai-TV, the cameramen said. At a press conference attended by well over 100 people, the vice president of the JEA was joined by chairmen of eight other professional associations to protest the conviction.

The Schiller Institute had organized an international campaign for Shubeilat, culminating in a demonstration March 7 in front of the U.S. State Department, when Jordan's King Hussein was meeting with Secretary of State Warren Christopher.

Shubeilat will appeal the decision within 30 days, and will run for Parliament in a by-election April 15, for a seat vacated in Balqa Province. It is expected that, if he is allowed to run, he will win. Shubeilat, a leading figure in the Islamic movement and an ardent critic of the International Monetary Fund, has denounced in particular the damage which IMF policies—imposed in the name of peace—have wrought on Jordanian living standards.

French police help Spain to combat ETA terrorism

French police are alarmed about the fact that the Basque separatist terrorists, ETA, which has been waging violent war against the Spanish State, is receiving hospitality in the French region of Brittany, the Spanish newspaper *El País* reported on March 10.

As *EIR* reported in its *Special Report* on terrorism in Ibero-America, ETA is the "mother" and model of terrorist movements not only through Europe, but throughout Ibero-America.

"ETA has been able to create very solid networks in Brittany. But as we showed with our legal procedures last November, we are determined to really finish this off," declared Patrick Riou, coordinator of the actions against ETA for the French police. He cited the example of the effective police measures to clean out ETA's major sanctuary in France's own Basque country back in 1984.

"With extraditions, expulsions, assigned residences, and the order to disperse into distinct zones in France, part of the executive of ETA moved into Brittany. It was the police prefecture of Bayonne which asked us in 1994 to look for lodging for Basque citizens," said Michel Herjean of the 100-member Breton nationalist organization Skoazell Vreizh. "To give haven to Basque refugees is Breton hospitality—and among them there can be terrorists, but there are many that are simply Basques or just relatives of ETA or old activists who want to start a new life. We are against indiscriminate repression."

ETA was, according to *El País,* able to recreate its bases in Brittany under the leadership of Faustino Estanislao Villanueva Herrera, (Txapu). The first measures against ETA in Brittany were taken 1992 with the arrest of ETA treasurer Sabino Euba (Pleopinxto), who sought refuge in Brittany and went from there to Mexico. Police had arrested 100 people in Brittany by November 1995, of whom 71 were later convicted for terrorism-related crimes, but most received suspended sentences.

This unsatisfactory result has led to new actions since November, in which 32 people have been arrested, among them seven Spanish citizens, and 18 remain in prison. Riou cited among the recent arrests in Brittany, three armed people who ran an explosives cache in Rennes.

Turkish-Israeli relations upgraded

Turkey and Israel have dramatically upgraded relations, including military relations, in the recent period. The process is quite complex, and has a potentially positive side, but it also has several ominous implications.

This improvement of Turkish-Israeli relations was the subject of a security seminar held at the annual meeting of the U.S.-Turkish Council in Washington on March 7. David Malkowsky, formerly of the State Department, and now at American-Israeli Public Affairs Committee, claimed that the improved relationship would be in the U.S. interest. Malkowsky emphasized the importance of Turkish Deputy Chief of Staff Gen. Cevik Bir's trip to Israel in January, where an agreement on military cooperation, only some of which has been made public, was finalized.

Turkish President Suleyman Demirel traveled to Israel in mid-March following the Egyptian terror summit, to sign this, and other, treaties. This was the first Turkish head of state visit to Israel.

According to Malkowsky, the Israeli-Turkish military treaty is part of a broader effort to create an Israeli-Turkish-Jordanian pact against Syria. A key feature of this pact is water warfare. Now that Ataturk Dam has been completed (in itself a very useful project which will increase Turkish food production by 300%), Turkey also has the ability to cut off the flow of the Euphrates River to Syria. The Euphrates supplies virtually all of Syria's water, and half of Iraq's. With this new weapon, and with the growing Israeli-Turkish military alliance, Syria will be forced to end its support of the Kurdish Workers Party (PKK), Malkowsky reported.

In a related development, Shaul Eisenberg, the former head of the Mossad Asian division, and top figure in the international narcotics trade, has begun huge investments in the Ataturk Dam region, complementing his massive investments in Kazakhstan's opium cultivation region. Eisenberg typifies the Israeli faction now working to destabilize the Caucasus and Central Asia, in alliance with British-linked co-thinkers in Turkey.

Germans seek arrest of Iranian spy service

An international arrest warrant against Iran's foreign intelligence head was issued by Federal German Prosecutor, Kay Nehm, on March 14, naming Ali Falahian as a key suspect behind the cold-blooded execution of four leading Iranian-Kurdish exiles in a Berlin restaurant in 1992. The four exiled politicians were machine-gunned by a gang of killers, who are believed to have acted upon directives coming from Falahian's office in Teheran.

The arrest warrant poses delicate problems for the German government, as Falahian has also been, for the last few years, a key partner of Chancellor Helmut Kohl's secret intelligence coordinator, Bernd Schmidbauer, in secret talks on intelligence matters, including missions for the release of Western hostages being held under arrest in Iran.

Briefly

A FRENCH MAGNATE, Ambroise Roux, claims in his newly published memoirs that only 30 or 40 people actually rule France. Roux, head of the giant Alcatel-Alsthom conglomerate, revealed that he used to meet the late President François Mitterrand twice a year, in secret, to coordinate economic policies.

THE TAIWAN-CHINA fight is spilling into the Caribbean, an Inter-Press report of March 12 said. Both sides have poured millions of dollars in aid and technical assistance into the area, in hopes of earning the votes of these economically poor countries in the United Nations. The 14 member-states of the Caribbean Community are split in their support between China and Taiwan.

MAHATHIR Mohamad, the prime minister of Malaysia, announced that he would briefly stop in Australia on March 25 and March 29 en route to and from New Zealand. This would be the first visit in 12 years; the thaw in the icy relations between the two countries, fits into the context of closing ranks among former colonies under London's "new Commonwealth" policy.

THE DUTCH ultraliberal approach to illegal drugs, which has been criticized in Bonn and Paris, was defended on March 13 by German five states governed by the Social Democracy. In a joint endorsement of the Dutch policy, the states "warned" against setting the clock back in Europe to what they called "repressive" methods in the struggle against drugs.

ORTHODOX churches in Ukraine and other ex-Soviet republics will follow Estonia's lead and seek to be under the jurisdiction of the Constantinople Patriarchy in order to gain independence from the Moscow Patriarchy, Father Gleb Yakunin predicted, as reported in the *Christian Science Monitor* March 12. The Estonian move, vehemently resisted by the Russian Church, had restored the rights of a church "suppressed by the Soviet occupation," he said.

British stooges sabotage Clinton foreign policy

by William Jones

The opponents of U.S. President Bill Clinton are exhibiting a good deal of desperation as the November elections approach, and the dwindling line-up of Republican candidates virtually assures the nomination of Sen. Bob Dole (Kan.) as the Republican candidate. In spite of sabotage of the President's campaign by the Democratic National Committee, there seems to be good reason to assume that Clinton will get four more years. Since he has spent much of his first term in office dismantling the Anglo-American "special relationship," the bane of U.S. foreign policy during most of this century, there has been a good deal of pow-wowing in London over what to do.

Not since Franklin Roosevelt read the "Riot Act" to Winston Churchill have the British been so concerned about their dwindling influence over U.S. policy, placing the United States, as Lyndon LaRouche has put it, in a virtual "war and a half" with the British Empire. The British have therefore embarked on a campaign to create an "arc of crisis" around all of the major Clinton foreign policy initiatives—in the Mideast, in Bosnia, in Northern Ireland, and in Asia. Most sinister are their attempts to create a U.S.-Russian and U.S.-Chinese conflict.

These British efforts in the domain of foreign policy are being supported at every turn by a group of Republican "Tories" in the Senate and House, who are also trying to breathe new life into the Whitewater scandal.

British oligarchs galore

The gearing up of the election campaign has seen a flurry of visits to the United States by British oligarchs. In mid-March, Prince Philip came to Washington, ostensibly fund-raising for his favorite charity, the Duke of Edinburgh Award International Foundation, as *EIR* reported last week. The prince was fêted at a gala event by the Congressional Awards Foundation on March 12, which included Republican Sen. Larry Craig (Id.), and Reps. Bill Clinger (Pa.), Bill Livingston (La.), Tom Bliley (Va.), and House Whip Tom DeLay (Tex.).

Meanwhile, Baroness Margaret Thatcher, elevated to the nobility for her achievements in leading American Presidents around by the nose, gave a lecture on March 11 at Westminster College in Fulton, Missouri, commemorating the anniversary of Winston Churchill's "Iron Curtain" speech there 50 years ago. She used the opportunity to attack Clinton's foreign policy, and called for a rapid expansion of NATO into Poland, the Czech Republic, Slovakia, and Hungary—a move clearly aimed at undermining the carefully constructed partnership between President Bill Clinton and Russian President Boris Yeltsin.

Ever an accurate barometer for the intentions of his masters in London, *Sunday Telegraph* scribbler Ambrose Evans-Pritchard wrote an article on March 10 entitled "Statesmanship Turns to Dust for Clinton," gloating that "everything is in ruins" for the President's foreign policy.

Irish peace agreement in jeopardy

Nothing has more clearly distinguished the break of the Clinton administration with the Anglo-American special relationship, than the administration's attempts to achieve a permanent cease-fire in British-controlled Northern Ireland and a peace agreement between the parties. The White House and the National Security Council had taken a hand in bringing about that agreement, bypassing the State Department, a traditional hot-bed of Anglophilia. When the Clinton administra-

Every positive initiative by President Clinton in foreign policy is now under assault by the British and their GOP friends in Congress. The "Tory" faction includes (left to right): Sen. Alfonse D'Amato (N.Y.), Sen. Connie Mack (Fla.), and Rep. Peter King (N.Y.), shown here at a news conference on Feb. 14, 1995.

tion decided to issue a visa to Sinn Fein's Gerry Adams—a real turning point in the stalemated situation in Northern Ireland—numerous voices in the State Department were raised against it. They were overruled. The United States then turned up the heat on British Prime Minister John Major, to get him to bring the Unionist parties to the negotiating table. The visit of the U.S. President to Ireland at the beginning of December 1995 helped to firmly establish confidence in the U.S. role as an "honest broker" in the conflict.

The defection of some Tory members from the Major parliamentary faction earlier this year, however, gave Major a pretext for giving more leeway to the Unionists, allowing them to "up the ante" in the peace negotiations. Major's failure to set a date for all-party talks and his support for the Unionist call for elections in Northern Ireland prior to talks, led to a number of bombings in London, allegedly by the IRA. Again under U.S. pressure, Major agreed to set a date of June 10 for the beginning of all-party talks. If a cease-fire were to be restored by that time, Sinn Fein would be able to participate in the talks. Without Sinn Fein participation, however, any talks would be a sham.

The Republican "Tories" started beating the drums about President Clinton's "consorting with terrorists," meaning Sinn Fein's Gerry Adams. Speaking on the floor of the House on March 6, Rep. Steve Buyer (Ind.) complained about how "many people in the United Kingdom are extremely upset with the United States, in particular, the President of the United States, with a coddling of Gerry Adams of the IRA, now that they have broken away from the peace process and have continued the indiscriminate use of terror."

Republican demands to shut down the Commerce Department entirely, also threaten to throw a monkey wrench into the reconstruction plans of the Clinton administration in Northern Ireland. Without an improvement in the conditions of life for those living in Northern Ireland, support for the peace process would quickly wane. Republicans are now threatening to investigate Commerce Secretary Ron Brown for inordinate travel expenses—when most of his travel was to try to secure the economic basis for peace agreements in Northern Ireland and the Middle East.

Blocking aid to the Palestinians

In the Middle East, GOP hotheads are trying to block the prerequisite for success of the peace settlement: economic assistance for the Palestinians. Congressional Republicans, led by Rep. Benjamin Gilman (N.Y.) and Sen. Mitch McConnell (Ky.), said on March 4 that they would continue to block $10 million in funds for the Palestinian Authority which the Clinton administration has requested, on the grounds that Yasser Arafat "must take decisive action against Hamas and other terrorists." These moves are clearly aimed at aggravating social unrest in the Palestinian-controlled areas in Gaza and the West Bank, and fanning the insecurity of the Israeli public.

Then on March 12, a hearing was called on the issue by the House International Relations Committee, chaired by Rep. Benjamin Gilman (N.Y.). State Department official Robert Pelletreau testified that the Palestinian Authority has been and will continue to cooperate vigorously in the effort to halt the terrorist bombings.

The small group of congressmen present all attacked the PLO and accused Arafat of being soft on terrorism, saying that he "talks one way in Arabic and another in English."

Hassan Rahman, the Washington representative of the Palestine Liberation Organization, answered these allegations very forcefully, pointing out that the insinuation that the PLO's inability to stop terror bombers is proof that the PLO is complicit with Hamas military operations, is a specious lie.

When asked by Rep. Michael Forbes (R-N.Y.) whether the "U.S. taxpayer should be handing money over" to the Palestinian Authority, Rahman bluntly told the committee that only 1% of the promised aid had been delivered, and it is that failure, to alleviate "poverty and hopelessness," which is creating sanctuary for Hamas terrorists.

The committee had no answer to his testimony, and all left the room after putting in a brief appearance. Only Representative Gilman remained to hear testimony from Stephen Spiegel, of the Center for International Relations at the University of California at Los Angeles, who backed up Pelletreau's testimony, and pointed out that in all areas where the PLO was required to meet some standard as an effective ruling party, it had either complied, or was attempting to comply in all respects.

According to *Ha'aretz* newspaper in Israel, the Israeli government prevented Deputy Chief of Intelligence Brig. Gen. Ya'acov Amidror from testifying to the committee, because the Israeli government felt that his testimony would be used by those who want to stop the delivery of desperately needed aid for financial reconstruction in areas under the Palestinian Authority. An official of the Israeli embassy was listed as a speaker at the hearing, but, according to committee staff, the embassy refused to allow any testimony before the committee.

Wrecking the Bosnia accord

As for Bosnia, the Senate voted March 13 to approve Bob Dole's proposal withholding $200 million for construction projects in that war-devastated country. The Dole legislation stops construction aid until President Clinton certifies that the Bosnian government has made all Iranian military instructors leave Bosnia; it forces Clinton to certify that other countries' aid to Bosnia has matched the $532 million in total U.S. aid; and it outlaws aid to repair housing wherever refugees were not allowed to return, for ethnic reasons or because of political affiliation.

Sen. Mitch McConnell (R-Ky.) worked with Dole on the aid cutoff, which Dole justified by posturing that Iranians' presence in Bosnia "jeopardizes Bosnia's future as a pluralistic democratic State in Europe." Dole said that Bosnia had to choose whether or not it wanted to be part of the West.

President Clinton had announced in December at the signing of the Dayton Peace Accords, the issuance of a "quick impact assistance package" of $85.6 million for some 36 projects, including funds for emergency food and clothing, home heating, electricity, and infrastructure repairs. Four months later, much more is needed. The Pentagon has meanwhile issued a report for the Senate Intelligence Committee, warning that chances of peace are "dim," unless substantial progress were made in rebuilding the civilian economy.

On March 12, NATO Commander Adm. Leighton Smith warned that the problems of getting money into Bosnia for reconstruction was the great threat to peace, that things are under control militarily, but that "if the civilian side goes belly-up, the possibility of peace in here diminishes dramatically."

Playing the 'China card'

The British and their neo-con "Tories" are orchestrating a U.S. conflict with China, a development that Evans-Pritchard calls "the most serious foreign policy crisis of the Clinton Presidency." Under pressure from Sen. Jesse Helms's (R-N.C.) Foreign Relations Committee, the administration had issued a visa last October to Taiwan's President, Lee Teng-hui, allowing him to attend, in a private capacity, a reunion at his alma mater, Cornell University. Helms and his friends did their best to turn the "private" visit into something equivalent to a State visit, in order to send the Beijing leaders up the wall. Beijing, quite predictably, reacted strongly to the visit.

Shortly before the elections in Taiwan, the Chinese started to conduct military exercises off the coast of Taiwan, firing missiles in the vicinity of the island. Helms and his cohorts began demanding strong action by the administration against Chinese "threats" to Taiwan. On March 19, the House of Representatives passed a Sense of the Congress Motion calling on the the United States to assist in defending Taiwan "against invasion, missile attack, or blockade" by China. Senator Dole said that China should be isolated for its behavior.

Beating the drum, the April issue of the *American Spectator,* one of the Hollinger Corp. and London's favorite conduits for propaganda attacks on the Clinton Presidency, has a cover story, attacking Defense Secretary William Perry for allegedly corrupt business ties to the Chinese People's Liberation Army (PLA). The story is written by neo-con Kenneth Timmerman, and accuses Perry of being "soft on Beijing" due to lucrative contracts with the PLA by several companies he formerly worked for, and whose executives he has brought onto several Pentagon advisory boards. Rep. Floyd Spence (R-S.C.), chairman of the National Security Committee, is probing these Perry-PLA links, according to the report.

Whitewater could bring down George Bush & Co.

by Edward Spannaus

Perhaps one of the most revealing indicators of the current state of the Whitewater assault on the Presidency, is to be found in the March 17 column of Ambrose Evans-Pritchard in the London *Sunday Telegraph.* No one has beat the drums harder on Whitewater; and no one has made more predictions claiming that this or that aspect of Whitewater is about to drive Bill Clinton from office. So when this loyal mouthpiece for British Intelligence's Hollinger Corp. crowd begins to hedge his bets over the staying power of the Whitewater scandal, it's worth noting.

The inherent paradox of the Arkansas scandals now seems to be dawning on a lot of those who have been pushing the hardest. And that is that the really dirty scandals in Arkansas don't have much to do with Bill and Hillary Clinton, but they have a lot to do with George Bush and his "secret government" operations of the 1980s.

"Forget Whitewater," was the sub-headline of Ambrose Evans-Pritchard March 17 column, having now realized that "the real scandal" lies in coverup of Vincent Foster's death, and that this is what really threatens the Clinton Presidency. "Whitewater is trivial stuff. . . . Whitewater is hardly the sort of issue that should paralyze the Presidency of the most important country in the world"—even though this is what Evans-Pritchard has been pushing for well over two years.

As to the now-stalled Congressional investigation, Evans-Pritchard writes that Banking Committee chairman Sen. Al D'Amato (R-N.Y.) "appears to be spinning his wheels." And then there is the criminal investigation being run by special prosecutor Kenneth Starr, but, says Evans-Pritchard, "Starr is now hated in Arkansas, reviled as a carpetbagger from Washington, and it is doubtful whether he can secure convictions from an Arkansas jury." If Gov. Jim Guy Tucker is acquitted, "then the case against the Clintons will almost certainly collapse."

What's going on here? Another reflection can be found in Robert Novak's syndicated column, in which he reports about the problems surrounding Starr's star witness, David Hale. Novak says that the situation around Hale "has set off shock waves in Washington that Starr's multimillion-dollar operation is disintegrating." If Hale does not testify, or if he is discredited on the stand, Novak continues, Tucker and the McDougals could be acquitted. "More importantly, President Clinton will have escaped the one aspect of Whitewater that most directly threatens him."

As *EIR* has previously reported, the problems with Hale are quite significant. He has accused Clinton and Tucker of pressuring him into making a $300,000 loan to Susan McDougal, Tucker's co-defendant and Clinton's former business partner. In his opening statement at the Tucker-McDougal trial, Susan McDougal's lawyer said that local federal prosecutors had wanted to indict Hale, and Hale only escaped the indictment by cooking up the story about Clinton and Tucker, which enabled him to then cut a deal with the Whitewater special prosecutor.

The local Pulaski County prosecutor is still trying to bring charges against Hale for insurance fraud; but he has been blocked from doing so by Starr, who has hidden Hale away as a federally protected witness for the past two years.

Target: George Bush

Meanwhile, the Senate Whitewater hearings remain suspended, as Republicans led by D'Amato have been unable to muster the votes necessary to overcome a Democratic filibuster which is blocking the open-ended reauthorization of the Senate probe. The *Wall Street Journal* editorial page, which has done its best to mimic the British tabloids in anti-Clinton Whitewater agitation, disclosed some interesting background to the current impasse on March 11, when it noted that Richard Ben-Veniste, the minority counsel in the Senate Whitewater hearings, was once also an attorney for Barry Seal, the cocaine smuggler and DEA informant who operated out of Mena air strip in Arkansas.

After a long attack on Ben-Veniste, the *Journal* adds: "Mr. Ben-Veniste told us one other intriguing thing. To wit, 'I did my part by launching Barry Seal into the arms of Vice President Bush, who embraced him as an undercover operative.' And indeed, after his conviction, Mr. Seal contacted the South Florida Drug Task Force then run by Vice President Bush, and went on to become a spectacular informant for the Drug Enforcement Administration. . . . He was murdered by Medellín Cartel hitmen in 1986, leaving many questions about Mena, drugs, the CIA, and law-enforcement in Arkansas. Mr. Ben-Veniste's remark is an implicit warning that if pushed far enough Whitewater will start to implicate Republicans as well as Democrats."

A little more fuel was added to the fire on March 15, when former Congressman Bill Alexander (D-Ark.) made public his collection of documents on Mena. "Mena was a U.S. government staging area to support the Contras in Central America," running weapons out, and drugs back, Alexander told the *New York Post.* "So far, it doesn't touch Clinton. This is pre-Clinton."

This is exactly what *EIR* has been telling its readers for the past two years: that the real story of what was happening in Arkansas in the 1980s revolves around the nasty operations run by George Bush and Ollie North. Many others are now beginning to realize that Whitewater, if pumped up enough, could flush George Bush and his cronies right down the drain.

LaRouche campaigns in California, wins 63,500 votes in Ohio primary

by Mel Klenetsky

Lyndon LaRouche's 63,500 votes in the Ohio Democratic Party Presidential primary, 8.25% of the vote, continues a pattern of double-digit or near-double-digit primary returns, which is significant far beyond the statistics. LaRouche's primary efforts to date, have brought him almost 200,000 votes, with results in 7 out of 15 states bringing returns ranging from 7.6% to 34.5%. These results were returned despite a vicious slander campaign against LaRouche, conducted by the Democratic National Committee, led by its chairman Donald Fowler, on the one side, and a media blackout, led by Associated Press, on the other, which left many LaRouche supporters in many states unaware that he was even on the ballot.

Ohio is one of the states where the Fowler wing of the party attempted to destroy LaRouche's efforts. Last January, state party officials turned away LaRouche delegates, on orders from Fowler. In Ohio and elsewhere throughout the nation, the national media have refused to report, and have even lied about, the 10%-plus multi-primary returns that the LaRouche's campaign has received in primary after primary. LaRouche's election returns for North Dakota, where he received 34.5%, and on "Junior Tuesday" March 5, and "Super Tuesday" March 12, when he garnered 11.1% in Colorado, 11.69% in Louisiana, and 12.65% in Oklahoma, were never reported on national television. The evening coverage of the March 5 and 12 primaries left out LaRouche's totals, and sometimes falsely said that Clinton's candidacy was unopposed, in places where LaRouche had been on the ballot.

In 7 out of 19 Ohio Congressional Districts, LaRouche came in with vote totals ranging from 9.45% to 11.92%. In places where LaRouche supporters distributed hundreds of thousands of pamphlets, with clear indications that LaRouche was on the ballot, returns were significantly higher. In 28 out of 88 counties, LaRouche came in with more than 10%. In Putnam County, LaRouche had 19.4%. In a phone poll for Schuylkill County, published on March 12 by the *Pottsville Republican and Herald,* 32% of those polled who were Democrats favored LaRouche.

LaRouche has described Fowler and White House Deputy Chief of Staff and Clinton Campaign Chairman Harold Ickes, as the "Republican wing of the Democratic Party." He warns that their campaign strategy of trying to win back the white collar yuppies who turned to the Republican Party in 1994, while ignoring the traditional Democratic base of labor and the minorities, is a surefire strategy for disaster. Sen. Edward Kennedy (Mass.), one of the few Democrats who successfully beat back a Republican challenge in the 1994 midterm elections, told reporters at a National Press Club gathering in January 1995, "We don't need a second Republican Party." In that race, Kennedy defeated millionaire Milt Romney, a "Conservative Revolution" fanatic of the Newt Gingrich stripe, and attributed his electoral success to a simple strategy of appealing to the Democratic base of labor and minorities. Ickes's and Fowler's refusal to fund minority voter registration drives, to date, exemplifies the disastrous nature of their strategy that LaRouche is referring to.

The economy and foreign policy

LaRouche, meanwhile, on the campaign trail, from New England and the South, to the Midwest and California, has addressed the issues of the economy and foreign policy in ways significantly different from all the other candidates. Speaking at the Los Angeles First Presbyterian Church on March 17, to an audience of 600 Korean-American parishioners, LaRouche said, "This is the most dangerous financial crisis of the century. This is not being adequately discussed, either by the media or the President. Unless we address this we will not have the means to affect this problem."

While all other candidates have refused to say that the world financial system is disintegrating, LaRouche not only says it, but demands of politicians and constituents alike, that they change their axiomatic beliefs of the past 30 years. "We must change the electorate," LaRouche told a meeting of 350 campaign supporters at the Los Angeles Airport Hilton. "Politicians fail because they don't try to change people."

To the Hilton audience, LaRouche described the three generations that make up the adult electorate. These include his generation, who grew up during the Depression and World War II. The economic boom resulting from President Franklin Roosevelt's war mobilization left this group with great optimism. The next generation, who lived through a post-World War II letdown, nevertheless saw a revival of technological and scientific optimism under President John Kennedy's space program, including the Apollo program to put a man on the Moon. After the Cuban Missile Crisis and the Kennedy assassination, the next generation of baby boomers, which includes President Clinton, with declining

U.S. agro-industrial power and waning belief in scientific and technological progress, have become victims of the pessimism of the "post-industrial" society and the rock-drug-sex counter-culture.

Speaking to the Korean-American parishioners in Los Angeles, LaRouche discussed the principles upon which modern civilization stands. First, he discussed the importance of Solon of Athens, who gave civilization laws, 2,600 years ago, which were "necessary, but not adequate." After that, LaRouche said, came the principle of man in the image of God, which comes from Genesis and the Old Testament. LaRouche described the next breakthrough as coming from the doctrine of *agapē*, Christian love, found in the Epistles of Paul and the Gospel of John. The United States Constitution, LaRouche added, is an expression of these principles.

Discover qualities that ennobled mankind

LaRouche asks his audiences to dig deep inside themselves to discover the qualities that have ennobled mankind and enabled civilization to survive its darkest hours. He also paints a picture of foreign and domestic policy that no other candidate dares discuss, and places full responsibility for the global disasters that have resulted from these policies on constituents, who have allowed their leaders to often get away with murder.

"After Gorbachov was ousted," LaRouche told supporters at the Hilton, "Thatcher and Bush destroyed Russia through reform. Today, as a result of these policies, the Communists are coming back in Russia and eastern Europe. The friends of the U.S. are suffering from these policies. The U.S., which had been the most loved and admired nation on this planet, has become hated, as it joined with the British in enforcing International Monetary Fund dictatorships in eastern Europe, the former Soviet republics, and throughout Africa, Ibero-America, and Asia, eliminating national sovereignty in order to impose genocidal austerity policies."

"Why is this tolerated by the American people?" LaRouche asked. "Why do we tolerate U.N. sanctions which are killing Iraqi children or World Bank policies responsible for genocide in Bosnia?"

LaRouche had used the Bosnian example in his March 2 nationwide television address, demanding that the American population denounce the World Bank for insisting that Bosnia agree to accept the $5 billion of Serbian debt before Bosnia would qualify for $2 billion in reconstruction loans. Since Serbia conducted genocide against the Bosnian population, World Bank immorality was dramatized clearly in the LaRouche address.

Eurasia infrastructure needed

"The U.S. has the power and the responsibility to bring other nations together for common solutions," LaRouche told the Korean-American parishioners. "The greatest part of the human population lives in Asia. We need to link Europe and Asia with high-speed rail. There should be large-scale transport of goods from the West Coast of the U.S. to Asia. This would mean a great revival of the entire world economy. Members of the Asian-American community have an important role to play in this. We must act, not with fear, but with hope."

"Those of my generation have to provide leadership," LaRouche said, "so that people can overcome their fears and face this prospect with hope. . . . I'm bringing you a message of courage and hope." LaRouche chastised the United States, a great power, for not using that power properly, and invited the Korean-American community to play a larger role in improving U.S.-Korean relations, and U.S. relations with all of Asia.

The impact of LaRouche's message was reflected in the introductions that he received at a reception hosted by the Koreatown LaRouche Committee, on March 18. Abbot Doan Kim, chief Buddhist abbot of Los Angeles, gave a benediction. "It's an honor for me to greet Mr. LaRouche. America was built on a multi-racial, multi-religious basis, based on a philosophy which reflects this. We Korean-Americans would like to participate fully in politics, to participate in making the U.S. better. World peace and global security are related to what the U.S. does in the world. Korean reunification is an important issue for us. For that reason, I would like to see Mr. LaRouche elected President. Mr. LaRouche supports progressive policies for Korea, for immigrants, for justice for racial minorities, for workers rights," he said.

Samuel Lee, head of the Korea Institute for Human Rights and one of Koreatown's leading journalists, spoke next. "L.A. Koreatown is the heartland of Korean and Asian immigrants. This is where East meets West. . . . America is a country of immigrants from all over the world. Some think newcomers are not welcome. They are not right. This is racism," he said. He called LaRouche "the conscience of America, the Nelson Mandela of America. . . . We are here to express our full support for his campaign for U.S. President."

LaRouche's land-bridge policy for linking Asia and Europe had already captured the attention of Korean leaders. Dr. Soogil Young, president of the government's Korea Transport Institute, told *EIR* in an interview on Feb. 8 that LaRouche's Eurasian land-bridge program to build high-speed rail lines across Asia to spark an economic boom, is "our great vision for Korea's future" (see *EIR*, March 1). On March 1, South Korean President Kim Young Sam publicly urged Asian and European nations to build a transportation network linking the two continents.

During LaRouche's California tour, he spoke with activists representing labor, minorities, seniors, local governments, and the Bosnian, Croatian, Korean, and Palestinian communities. With LaRouche's double-digit primary results, his ability to shape policy in the Democratic Convention and the general elections in November, has been greatly enhanced.

U.S. Army specialist challenges U.N.

by Leo F. Scanlon

In a well-known fable, the citizenry of a kingdom is solemnly assembled, as the emperor parades proudly about in his newest garments. The emperor has been convinced that the garments possess magical qualities, such that their beauty can only be seen by those who are worthy. The spell of self-delusion is broken by the innocent statement of a little boy who observes that "the emperor has no clothes!"

Like the hero of the fable, Army Specialist Michael New, who is a decorated veteran with military service in Kuwait, has rocked the edifice of United Nations military operations, by asking his U.S. military superiors, "by what authority" were they ordering him to don the insignia of a foreign power—the United Nations—in violation of the Army regulations he has sworn to obey?

The question was simple (in military jargon it is "a sergeant's question," and can be answered by a non-commissioned officer), but the Army had no answer that was consistent with its own regulations. So, New stood his ground, and has been court-martialled, and faces a bad conduct discharge. In the course of the proceeding, New's attorneys have unearthed evidence that shows deep confusion within the Clinton administration about the legal technicalities which govern aspects of the U.S. deployment in the Balkans.

Before the case is over, Specialist New and his attorney, Col. Ronald Ray, could ask the questions which end the delusion, that the United Nations is a legitimate, "supra-sovereign" institution.

Disputed and undisputed facts

In August 1995, Michael New was ordered to go to Macedonia as part of a deployment of U.S. forces which had been active in that area, under U.N. jurisdiction, for some time. New had no problem with the deployment, but questioned the additional orders that required him to don U.N. insigina, and carry a U.N. identification card—the latter, an apparently unprecedented requirement, and one which opens up serious questions of international law for a combatant who is exposed to hostile forces, and potential capture. The Army stipulated that the insignia were not authorized by any existing regulation.

The trick is that nonregulation insignia may only be worn on a military uniform, if the deployment is in response to a *lawful* order by the President. From the earliest days of the United Nations, American law has recognized the inherent danger of entangling U.S. military forces in operations which derive their legitimacy from a supranational institution with parentage as dubious as the U.N.; and so, there are complex legal "hoops" that the President must jump through in order to *lawfully* deploy U.S. forces on a U.N. mission.

Up until the final briefs were filed by the attorneys in the court-martial proceeding, the administration argued that the Macedonia deployment was conducted under Chapter VI of the U.N. Charter (a regulation which governs noncombatant "observers" of signed cease-fires or peace treaties), and therefore did not require prior Congressional approval.

The problem is, that the U.N. resolutions which authorized the Macedonia deployment explicitly define it as a "Chapter VII" operation, involving combatant troops, a definition which automatically requires Congressional approval—which the administration has never sought to obtain. Technically, New was correct to question his orders.

Subsequent to the court-martial, the administration admitted that the operation is a Chapter VII action, and constructed tortured justifications as to why Congressional approval was not required.

Unfortunately, none of this was admitted in the court-martial, because New's attorneys were given the relevant documents after the court-martial was under way—the reflex action of the corrupt "permanent bureaucracy" which manages these affairs. In response, his attorneys have filed a *habeas corpus* motion in federal court in Washington, D.C., pointing to the contradictory legal interpretations of the highest administration officials, the President included, and asking that the injustice done to New by the bad conduct discharge—a sentence which prevents him from ever serving in the Armed Forces, receiving his military benefits, or being buried in a military cemetery, and which seriously impairs his future employment prospects—be remedied by a ruling which returns him to civilan status.

No need to hide behind the U.N.

The irony of this sad story is that the deployment of the small force of U.S. combatants to Macedonia during the Balkan war was one of the most successful steps taken to halt the spread of that bloody conflict. Informed observers have noted that the U.S. "trip-wire" deployment thwarted British efforts to spread the conflict throughout the entire Balkan and Near East region. It is exactly the kind of operation that U.S. forces should be carrying out, and which the population would support, if the appeal were properly made.

Neither Michael New, nor the President of the United States, has any need for the stained garments of an institution which has discredited itself at every step of this bloody tragedy.

Accepting the U.N. as 'the world government' is unconstitutional

by Lyndon H. LaRouche, Jr.

Acting in my function as a candidate for the Democratic Party's 1996 U.S. Presidential nomination, I wish to announce that I am fully in support of the principal claim by Army Specialist Michael New.

There is no allowable margin for doubt, that Army Specialist New rightly judged himself to have received an unlawful order, directly contrary to his oath to uphold the U.S. Constitution. Except in the instance of nullification of our Constitution by virtue of our republic's defeat in warfare, no branch or other agency of our government has the authority to subvert our national sovereignty by acts tantamount to accepting the United Nations Organization as "The World Government." To order any sworn officer of the United States to overthrow the sovereignty of the U.S.A. by means of such an unlawful order is a plainly impeachable act, tantamount to treason, whether actionable under the treason clause of our Constitution, or not.

Relative to these United States, there exists on this planet no higher governmental authority than the sovereignty of a nation-state republic.

Furthermore, in the cases of continuing sanctions against Iraq, and in its recent role in the Balkans, and on other counts, the Security Countil of the U.N.O. has perpetrated past and continuing violations of the Nuremberg Code prohibiting "crimes against humanity."

In respect to the U.S. Department of Defense itself, I have already noted the unconstitutional features of its September 1995 policy statement entitled *United States Security for the Americas.* My exposition on this subject is contained in a published, October 1995, policy paper of my campaign, *The Blunder in U.S. National Security Policy.* The DOD's cited paper contains numerous instances in which the authors of that policy statement proceeded in direct violation of the principle of sovereignty of nation-state republics such as our own.

Respecting the DOD, I am obliged to add the following intelligence respecting the Defense Department's continuing, ten-year record of flip-flops on the issue of international narco-terrorism.

During 1985, acting in consultation with representatives of the U.S. military, I assisted the government of Guatemala with technical advice on the matter of narco-terrorists operating within and athwart its national borders. The proximate outcome of this technical advice was one of the most successful anti-narco-terrorist operations of the 1980s, conducted entirely by sovreign forces of Guatemala, called "Operation Guatusa."

It had been my expectation, that the brilliant success of this operation would demonstrate to even hard-heads in the DOD that, with aid of proper equipment and technical assistance supplied by the U.S.A., the nations of Central and South America could combat the Colombia-centered international narco-terrorist operations within their territory. Instead, I found that, in collaboration with Vice President George Bush, and others, the DOD had suddenly adopted the policy that "narco-terrorism does not exist." During that period, the Bush-directed "Iran-Contra" "focal-point"-style operation was working with the Colombia "narcos" against the narco-trafficking Communist terrorists gangs of Colombia. Today, the latest dispatches indicate, the DOD has reversed that late-1980s policy, this time to protect Colombia's Communist terrorists from the impact of U.S. anti-drug operations, still under the fraudulent, Bush-league presumption that "narco-terrorism" does not exist.

The DOD and State Department should reflect upon their sworn commitment to uphold and defend the U.S. Constitution and the perfect sovreignty of both the United States and of the nation-states with whom our republic has presumably friendly dealings. Specifically, all actions which are tantamount to accepting the U.N.O. as "The World Government," should be considered as either unlawful, or simply nullified in other appropriate ways.

National News

British paper outlines 'vision thing' for GOP

The London *Times,* echoing former President George Bush, demanded that the Republican Party make the Conservative Revolution the basis of its "vision thing," in a March 14 editorial entitled "The Vision Thing: A Republican Agenda for 1996."

After attacking Pat Buchanan and protectionism, praising House Speaker Newt Gingrich's (R-Ga.) Contract with America as a "profoundly upbeat document," and hailing House Majority Leader Richard Armey's (R-Tex.) tax-reform proposals, the *Times* demanded that a Republican agenda "also focus on a massive roll-back of responsibilities to the states. The failure of social planning over the last 30 years strongly suggests that the United States is too large a nation to be organized from Washington."

The "third priority" must be the "underclass" and "welfare reform," for which the *Times* recommended the racist-genocidalist theories of Charles Murray, co-author of *The Bell Curve,* from whom former *Times* editor Lord William Rees-Mogg has taken his crazy theories of the "cognitive elite," and the slave labor ("free enterprise zones") proposals of Jack Kemp.

Animal rights activists call for murder

Animal rights activists called for the death of a California state senator, because he urged hunting down mountain lions in California that are stalking and killing people. The activists' message was posted on the Internet's talk.politics.animals newsgroup on March 6, and has been "reposted" to many other newsgroups, including those "moderated" by the self-professed terrorist outfit Earth First! and animal rights groups.

The message, which represents a serious escalation of eco-terrorism, read: "Instead of hunting Lions in California, let us declare open season on State Senator Tim Leslie, his family, everyone he holds near and dear, the Cattlemen's Association, and everyone else who feels that *lions* in California should be killed.

"I think it would be great to see the slimeball, a—hole, conservation moron hunted down and skinned and mounted for our viewing pleasure.

"I would rather see every right-wing nut like scumface-Leslie destroyed in the name of political sport, than lose one mountain lion whose only fault is having to live in a state with a f—king jerk like this sh—t-faced Republican and his supporters.

"Pray for his death. Pray for all their deaths.

"Lets *hunt* Senator Leslie for sport."

Private investigator Barry Clausen, who infiltrated Earth First! in the early 1990s and continues to track their activities, told *EIR* on March 12 that this open call for murder is part of an escalation of activities by animal rights and environmentalist activists. After a lull over several months, there has recently been an explosion of animal rights and eco-terrorism in the United States and Canada. Furthermore, he said, these activists are increasingly talking about killing people to save the Earth. Law enforcement agencies are reportedly investigating the threat.

Farrakhan will release audio tapes of his trip

Nation of Islam Minister Louis Farrakhan announced that he will release audios and videos of what he said and did during his recent tour to Africa and the Middle East, in order to expose the lies that major press organs have been circulating. He made his remarks in accepting the Newsmaker of the Year Award at the National Press Club in Washington, D.C. on March 14.

Minister Farrakhan said that if there were no opportunity for him to present his side of the story in the face of the witch-hunt against him, in Congress or in the media, he would "go directly to the people," starting with appearances in New York, Philadelphia, Washington, Atlanta, Miami, Houston, Chicago, Detroit, Los Angeles, San Francisco, and Oakland.

Farrakhan was asked by CNN to comment on the letter he received recently from the Justice Department. The letter stipulated that were Farrakhan to act as an agent of a foreign country, in particular Libya, he must register as such. "I am not an agent of Libya, or any foreign government, and there is no need for me ever to follow that law that I should register. . . . If the government requests that I register as an agent of God, then I shall do so," he said. He added that he can "receive aid in the program of the honorable Elijah Muhammed . . . from any quarter, without strings attached."

Minister Farrakhan said that within the next 10 days, "we will make known the audit of the Million Man March and all of the funds that were taken in." Once again, he slammed the members of the media who insinuated and "even outright said" that Farrakhan had pocketed the money.

CHADD backs down on Ritalin classification

Mary Richard, president of the board of directors of Children and Adults with Attention Deficit Disorder (CHADD), confirmed in a conversation with *EIR,* that the group withdrew its petition on March 12, to reclassify methylphenidate, the chemical name for Ritalin. CHADD and the American Academy of Neurology, the two lead petitioners, asked in the petition, which had been filed in October 1994, that this drug, a pharmacological cousin of amphetamines and cocaine, be taken off the Drug Enforcement Administration's (DEA) list of Schedule II controlled substances.

The decision is a tactical victory against the drugging of American children.

Richard said she was "surprised anyone was looking into this." She claimed that the decision was made by the board in March because there was "no longer a concern" about potential shortages of the drug, due to "administrative changes" made at the DEA, which would eliminate a layer of bureaucracy, and would speed up the decision-making process when it came time to review the annual production quota for all Schedule II medications. She insisted that "controversy," i.e., the dangers of millions of children (and adults) using such dangerous drugs, was not a factor, but that the decision was merely the "logical" outcome of this change.

Asked what her rejoinder was to many of the findings in the DEA's response to CHADD's petition, which reaffirmed the dangers of such drugs, she said, "People at the DEA are not medical doctors, not pediatricians, and not neurologists." CHADD gets a large portion of its annual operating budget from Ciba-Geigy, the manufacturers of Ritalin.

Trumka calls for united front against Gingrich

AFL-CIO Secretary-Treasurer and head of the United Mine Workers Union Richard Trumka called for a united front against House Speaker Newt Gingrich (R-Ga.) and the Republican Congress, in a speech to over 1,000 delegates at the Pennsylvania AFL-CIO state convention in Philadelphia, the Delaware County *Daily Times* reported on March 6.

Trumka vowed to "kick butt." "Newt Gingrich wanted a labor movement that would roll over and play dead," he told the crowd. "I got two messages for you, Newt. Up yours and drop dead."

In what AP called "an old-fashioned union hall scene," Trumka stripped off his jacket and shouted, "Our message is that unions are back. Get in our way and we'll knock you flat on your a—." In response, state AFL-CIO head Billie George pledged that state members would "never, ever, turn our backs" on the national cause.

Labor Secretary Robert Reich addressed the gathering, as part of a tour on which he is speaking out against corporate leaders "treating people more and more like disposable pieces of equipment," in pursuit of "just one thing—shareholders," including their own profits. Reich denounced CEOs such as former Scott Paper head Alfred J. Dunlap, who made $100 million while cutting 11,000 jobs and closing Scott's Philadelphia-area headquarters.

"Corporations don't exist in nature," Reich told the *Delaware County Times.* "They are creatures of law. Corporation executives, whether they know it or not, have a public trust. If companies are not generating benefits for society, but instead are imposing enormous social costs, then governments and societies have every reason to change the rules, laws, and tax incentives for corporations."

Court rules U.S. owns lands in Nevada

Federal Judge Lloyd D. George overturned Nye County, Nevada ordinances that had declared the U.S. government does not own the Nevada lands it has held since 1848, the March 16 *New York Times* reported. The March 14 ruling, in the U.S. District Court in Las Vegas, makes clear the illegal basis of the "county supremacy" movement. In 1994, Nye County Commissioner Richard Carver had bulldozed over a Forest Service road and threatened to arrest a ranger who tried to interfere.

After the United States shifted away from the traditional policy of development of western industry and agriculture, and toward green, zero-growth restrictions, a synthetic protest movement was engineered by Conservative Revolution agents associated with a complex of British think-tanks. Instead of fighting the anti-industrialization policy shift (with which they agree), movement spokesmen such as Wayne Hage openly bragged of a revolt in the tradition of the Confederacy's war against Abraham Lincoln's central U.S. government.

Judge George's ruling cited the 1864 law under which Nevada joined the Union, securing title to federal lands within the state. Hage has specifically rejected that law as issuing from the oppression of the Union against pro-Confederate Nevadans.

Briefly

WASHINGTON, D.C. may be forced to cancel its Presidential primary unless budget cuts ordered by the D.C. Financial Control Board in February are at least partly restored, said election board Executive Director Emmett Fremaux, Jr., the March 12 *Washington Post* reported. Mark Goldstein, a spokesman for the board, said that there would be no restoration of funds and, "If that means they have to eliminate a primary, that is their decision."

MARK WARNER, the cellular phone multimillionaire, finally announced for the Democratic Party nomination for U.S. Senate in Virginia on March 11. The March 12 *Washington Post* described him as a " 'Third Wave' high-tech candidate," who puts priority on a balanced budget, "a computer on every desk," the "technological revolution," and other futurist jargon. He has refused any debate with his opponents, former U.S. Rep. Leslie Byrne and LaRouche Democrat Nancy Spannaus.

TONY MERTEN, the head of the local Sierra Club, and whose business card reads "Earth First! Tony Merten, Special Projects," committed suicide in New Mexico on Feb. 18, after police told him that he was their prime suspect in a series of cattle killings in Luna County, the *New Mexico Courier* reported. This is the first time that a leader of a "respectable" green organization has been close to arrest for an act of eco-terrorism.

PRESIDENT CLINTON was named "Irish-American of the Year" by *Irish-American* magazine. Publisher Niall O'Dowd presented the award on March 11. "We will continue to work closely with the Irish and British governments and the parties involved to support their efforts to end the violence and to achieve a lasting peace," Clinton said.

PAT BUCHANAN continues to hint that he may lead a third-party bid. "Somebody is going to have to represent the folks who have voted for me," he said on March 14.

Editorial

Gingrich's plot for one-world government

Let no one be deceived. All those who follow the lead of Newt Gingrich in attacking "big government," are (whether wittingly or not) actually aiding and abetting treason.

The alternative to destroying the United States government is no different now than it was at the time of this nation's founding. Then, had consensus not finally been reached to create a strong, effective central government, the new nation could not have survived. Britain would surely have been the victor over the U.S. in the War of 1812, if not sooner. Similarly, today, the Conservative Revolution program to strip away the powers of the federal government will not revert power to the states, but will create the conditions for the destruction of the United States.

Many of the institutions for a bankers' dictatorship are already in place. The executive of this cabal is located within those circles which recognize Britain's Prince Philip as their leader. The enforcement arm would likely emerge from a strengthened United Nations, which has already established a brutal record for itself in its support for the outlaw Serbian regime. Fiscal policy would rest in the control of the World Bank and the International Monetary Fund.

This is the reality behind all of the populist, anti-big-government rhetoric. And, if the United States is destroyed, no other nation-state could survive either. Unless we destroy the United Nations as a world government, there will be no civilization on this planet during the next century. The principal consideration in asserting national economic security, must be to *wage war,* with battles of defiance against the idea of a world government. In such a war, the treasonous implications of the doctrine of the Conservative Revolution must be thoroughly discredited.

It is also important for Americans to understand the issue of balancing the federal budget within the context of a similar move to undermine national sovereignty which is taking place in Europe. Here the focus is the fiscal measures necessary to allow the formation of a European currency to replace national currencies, such as the French franc, the German mark, and the Italian lira. This is known as the Maastricht project, and it was run by the British through the late French President François Mitterrand, in order to destroy the nations of Europe.

The kind of fiscal austerity demanded by the bankers of the various European governments, is precisely the same as the measures being pushed in the United States by Gingrich et al. The attempt in both instances is to put in place a supranational government, with regional extensions, which will take over the world. The United Nations has become, in the mind of many officials of many governments, *the world government,* which would exist as a supranational force above a unified Europe and a disunified United States.

This same process is behind the destruction of Russia and eastern Europe. It is the reach of imperial power, typified by the International Monetary Fund, which is a major instrument of this international world government, and the World Bank, the back-door instrument of this same world government.

To understand the genesis of the project to create a one-world government, it is necessary to review the role of Bertrand Russell and H.G. Wells, from the turn of this century and during the 1920s, the period of the so-called "round-table conspiracy." It was then, and by them, that the post-Manhattan Project nuclear policy was hatched. Without *the bomb,* as Russell understood, the United Nations as an enforcer would have been no more credible than its forerunner, the infamous League of Nations.

Even so, it took almost 50 years, and the collapse of the Soviet system, before the Russell project became feasible. The collapse of the Soviet system was taken as the occasion, not for introducing the idea of globalism, but for *turning the United Nations into an instrument of world government.*

The turning point to establish world government was the operation against Iraq. After that, the U.N. conducted genocide in the Balkans. Now, fiscal, not military means, are being deployed to the same effect.

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Saturdays—6 p.m.
- BROOKHAVEN (E. Suffolk)
TCI—Ch. 1 or Ch. 99
Wednesdays—5 p.m.
- BROOKLYN
Cablevision (BCAT)—Ch. 67
Time-Warner B/Q—Ch. 34
(call station for times)
- BUFFALO—BCAM Ch. 18
Tuesdays—11 p.m.
- HUDSON VALLEY—Ch. 6
2nd Sunday monthly—1:30 p.m.
- ILION—T/W Ch. 10
Fridays—3 p.m. & 10 p.m.
- ITHACA—Pegasys—Ch. 57
Mon. & Weds.—8:05 p.m.
Saturdays—4:35 p.m. Ch. 57
- MANHATTAN—MNN Ch. 34
(call station for times)
- MONTVALE/MAHWAH—Ch. 14
Wedsnesdays—5:30 p.m.
- NASSAU—Ch. 25
Last Fri., monthly—4:30 p.m.
- OSSINING—Continental
Southern Westchester Ch. 19
Rockland County Ch. 26
1st & 3rd Sundays—4 p.m.
- POUGHKEEPSIE—Ch. 28
1st & 2nd Fridays—4:30 p.m.
- QUEENS—QPTV Ch. 56
(call station for times)
- RIVERHEAD
Peconic Bay TV—Ch. 27
Thursdays—12 Midnight
1st & 2nd Fridays—4 p.m.
- ROCHESTER—GRC Ch. 15
Fri.—11 p.m.; Sun.—11 a.m.
- ROCKLAND—P.A. Ch. 27
Wednesdays—5:30 p.m.
- SCHENECTADY—P.A. Ch. 11
Mondays—10 p.m.
- STATEN ISL.—CTV Ch. 24
Wednesdays—11 p.m.
Saturdays—8 a.m.
- SUFFOLK, L.I.—Ch. 25
2nd & 4th Mondays—10 p.m.
- SYRACUSE—Adelphia Ch. 3
Fridays—4 p.m.
- SYRACUSE (Suburbs)
Time-Warner Cable—Ch. 12
Saturdays—9 p.m.
- UTICA—Harron Ch. 3
Thursdays—6:30 p.m.
- WEBSTER—GRC Ch. 12
Wednesdays—9:30 p.m.
- YONKERS—Ch. 37
Fridays—4 p.m.
- YORKTOWN—Ch. 34
Thursdays—3 p.m.

OREGON
- PORTLAND—Access
Tuesdays—6 p.m. (Ch. 27)
Thursdays—3 p.m. (Ch. 33)

TEXAS
- AUSTIN—ACTV Ch. 10 & 16
(call station for times)
- DALLAS—Access Ch. 23-B
Sun.—8 p.m.; Thurs.—9 p.m.
- EL PASO—Paragon Ch. 15
Thursdays—10:30 p.m.
- HOUSTON—PAC
Mon.—10 p.m.; Fri.—12 Noon
Mon.—5 p.m. (starting Apr. 5)

VIRGINIA
- ARLINGTON—ACT Ch. 33
Sun.—1 pm; Mon.—6:30 pm
Tuesdays—12 Midnight
Wednesdays—12 Noon
- CHESTERFIELD COUNTY—
Comcast—Ch. 6
Tuesdays—5 p.m.
- FAIRFAX—FCAC Ch. 10
Tuesdays—12 Noon
Thurs.—7 pm; Sat.—10 am
- LOUDOUN COUNTY—Ch. 3
Saturdays—9 p.m.
- MANASSAS—Jones Ch. 64
Saturdays—12 Noon
- RICHMOND—Conti Ch. 38
(call station for times)
- ROANOKE—Cox Ch. 9
Wednesdays—2 p.m.
- YORKTOWN—Conti Ch. 38
Mondays—4 p.m

WASHINGTON
- SEATTLE—TCI Ch. 29
(call station for times)
- SNOHOMISH COUNTY
Viacom Cable—Ch. 29
Weds., Apr. 3—3 p.m.
- SPOKANE—Cox Ch. 25
Tuesdays—6 p.m.
- TRI-CITIES—TCI Ch. 13
Mon.—11:30 am; Thu.—8:30 pm

WISCONSIN
- WAUSAU—Ch. 10

If you are interested in getting these programs on your local cable TV station, please call Charles Notley at (703) 777-9451, Ext. 322.